

## Sebi likely to relax norms for investing in insolvent firms

BY Reena Zachariah ET Bureau 4 mins read Dec 15, 2020, 07:38 AM IST : 3-4 minutes

Mumbai: The capital markets regulator is likely to ease rules on [investing](#) in insolvent companies. The Securities and Exchange Board of India (Sebi) is likely to relax the one-year lock-in requirement for incoming [investors](#) and revise rules on minimum [public holding](#) for companies emerging out of the insolvency process. These proposals, among some others, are expected to be discussed in the the [Sebi](#) board meeting scheduled on December 16.

Typically, preferential shares are issued to incoming investor under the insolvency resolution plan. Such shares are currently required to be under lock-in.

The regulator has been receiving feedbacks that this rule makes such investments illiquid as investors struggle to offload such shares within one year to comply with minimum public holding norms.

Sebi could also ask companies undergoing insolvency resolution under the Insolvency and Bankruptcy Code (IBC) to improve disclosures. These firms could be asked to disclose details of funds infused, creditors paid-off, additional liability on the incoming investors due to the transaction, source of funding and pre- and post-net worth, resolution plan and shareholding of company among others.

“Proposal of Sebi doing away with the lock-in period of one year for the resolution applicant, to the extent of complying with the MPS (minimum public shareholding) norm is a welcome measure,” said Sumit Agrawal, founder, Regstreet Law Advisors & former Sebi officer.

“In the insolvency process, resolution plan is not publicly available even though the order approving the plan is available publicly. Therefore, mandating disclosures regarding the details of funds infused, amounts paid to creditors, impact on the investors such as revised Price to Earnings ratio, Return on Net Worth, and also the resolution plan without the confidential information and commercial secrets is a good measure. However, it will bring different challenges in the IBC process,” Agrawal said.

In August, the regulator had considered three options to increase public holding after the resolution process. Sebi had proposed that companies may be mandated to achieve 10 per cent public shareholding within six months and 25 per cent within three years from the date of breach of the norm. The other two options were that companies may be required to have at least 5 per cent or 10 per cent public holding at the time of re-listing.

“Sebi has received public suggestions giving both pros and cons on all the three options. The Sebi board will take a call,” said a person with direct knowledge of the matter.

At present, all listed companies are required to maintain a minimum public shareholding of at least 25 per cent. But, companies undergoing insolvency resolution have been given certain relaxations. If the public holding for such companies falls below 10 per cent, they need to bring it to 10 per cent and 25 per cent within a period of 18 months and three years, respectively.

In case, the public holding falls below 25 per cent but it is above 10 per cent, then it has to bring it to 25 per cent within three years from the date of such fall.

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