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Proposal for Changing Promoters to Person in Control: SEBI

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Why in News

Recently, the **Securities and Exchange Board of India (SEBI)** has proposed doing away with the concept of promoters and moving to 'person in control.'

It has also suggested **reducing the minimum lock-in periods** post a public issue for promoters and pre-**Initial Public Offering (IPO)** shareholders.

SEBI

- SEBI is a statutory body **established in April, 1992** in accordance with the provisions of the **Securities and Exchange Board of India Act, 1992**.
- The basic functions of the Securities and Exchange Board of India is **to protect the interests of investors in securities and to promote and regulate the securities market**.

Key Points

- **Promoter:**

- The meaning of 'promoter' and 'promoter group' is **defined in Companies Act, 2013 and SEBI (ICDR) Regulations, 2018.**
- Generally, **a promoter conceives an idea for setting-up a particular business** at a given place and performs various formalities required for starting a company.
- **Promoter group** includes:
 - **Any body corporate** in which **a group of individuals or companies or combinations thereof acting in concert, which hold 20% or more of the equity share capital** in that body corporate **and**
 - Such a group of individuals or companies or combinations thereof **also holds 20% or more of the equity share capital of the issuer** and are also acting in concert.

An **issuer** is a legal entity that develops, registers and sells securities to finance its operations.

- **Promoter to Person in Control Concept:**

- **Need:**

- The shift is necessitated by the **changing investor landscape in India where concentration of ownership and controlling rights do not vest completely in the hands of the promoters or promoter group** because of the emergence of new shareholders such as private equity and institutional investors.
- Investor **focus on the quality of board and management has increased**, thereby reducing the relevance of the concept of promoter.
- The **current definition** focuses on capturing holdings by a common group of individuals or persons and often **results in capturing unrelated companies with common financial investors.**

- **Significance:**

- This move will **lighten the disclosure burden for firms.**
- The changes in nature of ownership could **lead to situations where the persons with no controlling rights and minority shareholding continue to be classified as a promoter.**
- By virtue of being called promoters, such persons may have influence over the listed entity disproportionate to their economic interest, which may **not be in the interests of all stakeholders.**

- **Transition Period:**

A **three-year transition period** for moving from the promoter to person in control concept has been suggested.

- **Reducing the Locking Period of IPOs:**

If the **object of the issue involves an offer for sale or financing other than for capital expenditure for a project**, then the minimum promoters' contribution of 20% should be **locked-in for one year from the date of allotment in the IPO.**

Currently, the lock-in **period is three years.**

Initial Public Offering

- IPO is the **selling of securities to the public in the primary market.**
 - Primary market **deals with new securities** being issued for the first time. It is also known as the **new issues market.**
 - It is **different from the secondary market** where existing securities are bought and sold. It is also known as the stock market or stock exchange.
- It is **when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both** for the first time to the public.
Unlisted companies are companies that are not listed on the stock exchange.
- It is **generally used by new and medium-sized firms** that are looking for funds to grow and expand their business.

IPO-Locking Period

It is a caveat outlining a **period of time after a company has gone public when major shareholders are prohibited from selling their shares.**

Offer For Sale

- Under this method, **securities are not issued directly to the public but are offered for sale through intermediaries** like issuing houses or stock brokers.
- In this case, a company sells securities enbloc at an agreed price to brokers who, in turn, resell them to the investing public.

Source: IE