Sweat Equity Rules: SEBI

Why in News

Recently, the **Securities and Exchange Board of India (SEBI)** has brought into effect the **SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.** The regulations have **widened the scope of employees who can be offered stock (equity) options.**

- SEBI has **merged** the SEBI (Share Based Employee Benefits) Regulations, 2014 (SBEB Regulations) and the SEBI (Issue of Sweat Equity) Regulations, 2002 (Sweat Equity Regulations).
- **SEBI** is a **statutory body** established in accordance with the provisions of the SEBI Act, 1992. Its basic **function** is to protect the interests of investors in securities and to regulate the securities market.

Key Points

- **Sweat Equity:**
  - **About:**
    - Sweat equity is a non-monetary contribution that the individuals or founders of a company make towards the company. **Cash-strapped startups and business owners typically use sweat equity** to fund their companies.
    - As per **Section 2(88) of the Companies Act, 2013** sweat equity shares means such **equity shares as are issued by a company to its directors or employees at a discount** or for consideration, other than cash.
  - **Issued for:**

    It will be issued for providing the **know-how or making available rights in the nature of <u>intellectual property rights</u>** or value additions.
  - **Maximum Limit:**
    - The **maximum yearly limit of sweat equity** shares that can be issued by a listed company has been **prescribed at 15% of the existing paid-up equity share capital** within the overall limit, **not exceeding 25% of the paid-up capital at any time.**
    - Further, in case of companies listed on the **Innovators Growth Platform (IGP),** the **yearly limit will be 15% and overall limit will be 50%** of the paid-up capital at any time. It will be **applicable for 10 years** from the date of the company's incorporation.

      SEBI in 2019 launched **IGP** erstwhile known as **'Institutional Trading Platform'** for listing of issuers which are in intensive use of technology, information technology, intellectual property, data analytics, **<u>biotechnology</u>** or **<u>nano-technology</u>** to provide products, services or business platforms with substantial value addition.
    - This proposal will **benefit all new start-up companies seeking listing on the IGP platform.**
- **Share-based Employee Benefits:**
  - **Eligibility:**
    - Companies will **now be allowed to provide share-based employee benefits to employees,** who are exclusively working for such a **company or any of its group companies including a subsidiary or an associate.**
    - It is expected to **not only help companies** to better use **share-based employee benefits** for retaining employees for a longer period, but also **imbibe a sense of responsibility and ownership in the employee** that will push him/her to work for the growth of the company.
  - **Locking Period:**

    To provide **immediate relief to an employee or his/her family in instances of permanent incapacity or death,** the regulations have **dispensed with the requirement of a minimum vesting period and lock-in period** (minimum 1 year) for all share benefit schemes.

- **Applicability:**
  - The new rules will be applicable **only to listed companies as these have been framed by SEBI, which only regulates listed companies.**
    - A listed company is a **stock exchange-listed company** wherein the **shares are openly tradable whereas** an unlisted company is a **company that is not listed on the stock market.**
  - **For unlisted companies,** any change needed will have to be brought into the **Companies Act 2013.**

Source: IE