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SEBI proposes norms for issuance of Differential Voting Rights shares

The Securities and Exchange Board of India ("**SEBI**"), in its Board Meeting dated June 27, 2019 approved a framework for issuance of differential voting rights shares along with amendments to the relevant SEBI Regulations to give effect to the framework. The key proposals approved are as follows:

- **Eligibility for an Initial Public Offering:** Companies with superior voting right shares shall be eligible to do a public offering of only ordinary shares on the main board subject to following conditions:

✓ Issuer company has to be a tech company i.e. intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology to provide products, services or business platforms with substantial value addition

✓ The shareholders holding superior voting right shares should be a part of promoter group whose collective net worth (excluding the value of investment in the issuer company) doesn't exceed Rs. 500 Crores.

✓ The superior voting right shares should have been issued only to the promoter / founders holding executive position in the company and have been held for a period of not less than 6 months prior to filing the red herring prospectus.

✓ Shareholders would have approved issuance of these superior voting right shares by way of a special resolution.

✓ the voting rights should be in the range of 2:1 to 10:1 compared to ordinary shares.

- Lock-In: The superior voting right shares shall also be listed after the issuer makes a public issue but they will be under lock-in till they are converted into equity shares and no transfer or pledge / lien will be permitted on such shares.

- Limit on Voting: The superior voting right shares shall be treated at par with ordinary shares in all respects including dividend. However, their voting rights post listing should not exceed 74%. Also, for certain matters these shares will also be considered as ordinary shares and will have only one vote per share. A list of the matters is available in the attached note.

- Governance: In companies with superior voting right shares, at least one-half of the board and two-third of all committees shall comprise of independent directors. The audit committee shall consist of only independent directors.

- Sunset: The superior voting right shares shall be converted into ordinary shares on the 5th anniversary of listing. This can however be extended by one more term of 5 years by shareholders (other than shareholders holding these shares) passing a special resolution. However, in certain circumstances like demise or resignation of

the shareholder holding such shares or merger / acquisition where the control will no longer be with such shareholder, these shares should compulsorily be converted into ordinary shares.

- Fractional Right: the listed companies will no more be allowed to issue shares with fractional rights.

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SEBI proposes amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for payment relating to royalty and brand usage

The Securities and Exchange Board of India ("**SEBI**"), in its Board Meeting dated June 27, 2019 has decided that the payments made to related parties towards brand usage or royalty may be considered material if the transaction(s) exceeds 5% of the annual consolidated turnover of the listed entity during a financial year and would require approval of the shareholders, with no related party having a vote to approve such resolutions. The said limit has been increased from 2% to 5%.

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SEBI reviews Risk Management Framework of Liquid Funds, Investment Norms and Valuation of Money Market and Debt Securities by Mutual Fund

The Securities and Exchange Board of India ("**SEBI**"), in its Board Meeting dated June 27, 2019 has decided to review the regulatory framework and take necessary steps to safeguard the interest of investors and maintain the orderliness and robustness of Mutual Funds.

The Board after deliberations, inter-alia, approved the following proposals:

- ✓ Liquid Schemes shall be mandated to hold at least 20% in liquid assets such as Cash, Government Securities, T-bills and Repo on Government Securities.

- ✓ The cap on sectoral limit of 25% shall be reduced to 20%. The additional exposure of 15% to HFCs shall be restructured to 10% in HFCs and 5% exposure in securitized debt based on retail housing loan and affordable housing loan portfolios.

- ✓ The valuation of debt and money market instruments based on amortization shall be dispensed with completely and shall be based on mark to market.

- ✓ Liquid and overnight schemes shall not be permitted to invest in Short Term Deposits, debt and money market instruments having structured obligations or credit enhancements.

- ✓ A graded exit load shall be levied on investors of liquid schemes who exit the scheme upto a period of 7 days.

- ✓ Mutual Fund schemes shall be mandated to invest only in listed NCDs and the same would be implemented in a phased manner. All fresh investments in Commercial Papers (CPs) shall be made only in listed CPs pursuant to issuance of guidelines by SEBI in this regard.

- ✓ Prudential limits on total investment by a Mutual Fund scheme in debt and money market instruments having credit enhancements and on investment by Mutual Fund scheme in such debt securities of a particular group, as percentage of debt portfolio of the respective scheme have been prescribed at 10% and 5% respectively.

- ✓ There should be adequate security cover of at least 4 times for investment by Mutual Fund schemes in debt securities having credit enhancements backed by equities directly or indirectly.

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MCA proposes to bring simple web based KYC verification service for directors

Ministry of Corporate Affairs ("MCA") vide circular dated June 27, 2016 has proposed that every person who has already filed DIR-3 KYC will only be required to complete his/her KYC through a simple web-based verification service, with pre-filled data based on the records in the registry, for ease of verification by the person concerned.

However, in case a person wishes to update his mobile no. or e-mail address, he would be required to file e-form, DIR-3 KYC, as this facility of updation is not being proposed in the web-based service. In case of updation in any other personal detail, e-form DIR-6 may be filed for updation of the same before completion of KYC through the web-based service

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