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## **Changes in Equity Shares with Differential Rights - Amendments to Companies (Share Capital and Debenture) Rules, 2014**

### ✓ **Rule 4 of Companies (Share Capital and Debentures) Rules, 2014 clause c of sub-rule 1**

These amendments are made with the objective of enabling promoters of Indian companies to retain control of their companies in their pursuit for growth and creation of long-term value for shareholders, even as they raise equity capital from global investors. The key amendments are:

- Earlier the shares with Differential Voting Right (DVR) couldn't have exceeded 26% of the total post issued paid up equity share capital of the issuer company. The cap has now been increased to 74% of the total voting power. In other words, the voting power shall not exceed 74% of total voting power.
- As per the erstwhile provisions, only companies with consistent track record of distributable profits for last 3 years were eligible to issue shares with DVRs without having any track record of the distributable profits.

## **Insolvency and Bankruptcy Code (Amendment Act), 2019**

### ✓ **Clarity on allowing comprehensive corporate restructuring through merger, amalgamation and demerger under a resolution plan:**

Under the Code, it was unclear whether resolution plans could include restructuring provisions such as mergers, demergers or amalgamations. The market practice was to utilize these modes of corporate restructuring in various permutations and combinations. The Amendment clarifies that a 'resolution plan' may include provisions for restructuring by way of merger, amalgamation, and demerger.

### ✓ **Time-bound disposal of the resolution application**

In order to initiate a Corporate Insolvency Resolution Processes in respect of a corporate debtor, any creditor/corporate debtor may file an application (Resolution Application) before the National Company Law Tribunal (NCLT). The Code provides a period of 14 days for the NCLT to 'ascertain the existence of default' and admit or reject a Resolution Application for initiating insolvency proceedings.

### ✓ **Timeline for completion of CIRP increased to an overall limit of 330 days**

- Prior to the Amendment, the Code required that the CIRP should be concluded within a maximum period of 180 days (with a maximum one-time extension of 90 days) from the insolvency commencement date (the Code denotes this to be the date of appointment of interim resolution professional). However, many CIRPs were exceeding this overall 270-day limit on account of legal proceedings initiated either against the corporate debtor or the Resolution Professional.
  - The Amendment provides that the CIRP must mandatorily be completed within an overall timeline of 330 days from the insolvency commencement date (including all or any extensions granted as well as any litigations and related legal proceedings). Additionally, for an ongoing CIRP, in case the 330-day overall timeline has already been breached at the time the Amendment comes into force, the Amendment provides for an additional relaxation of 90 days as a transitional measure.
- ✓ Mutual fund houses should ensure that banks where a scheme has parked funds in the lender's short-term deposits do not invest in that particular scheme, according to SEBI. The markets watchdog has issued a clarification regarding 'parking of funds in short-term deposits of scheduled commercial banks by mutual funds -- pending deployment'.
    - Trustees/ asset management companies (AMCs) shall ensure that no funds of a scheme is parked in STD (short-term deposit) of a bank which has invested in that scheme.
    - Further, it said trustees and AMCs should ensure that the banks in which a scheme has STD do not invest in the same scheme until the scheme has STD with such banks. As per regulations, a mutual fund may invest funds in short-term deposits of schedule commercial banks, subject to certain conditions.

## **Parking of Funds in Short Term Deposits of Scheduled Commercial Banks by Mutual Funds – Pending deployment**



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### **Contact details**

**Sumes Dewan**

*Managing Partner*

*Lex Favios*

Email: [sumes.dewan@lexfavios.com](mailto:sumes.dewan@lexfavios.com)

Tel: 91-11-41435188/45264524