

CONSULTATION PAPER - REVIEW OF FRAMEWORK FOR INSTITUTIONAL TRADING PLATFORM¹

1. BACKGROUND

- 1.1. The regulatory framework for Institutional Trading Platform (“ITP”) was put in place vide amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (“ICDR Regulations”) on August 14, 2015, with a view to facilitate listing of new age start-ups in sectors like e-commerce, data analytics, bio-technology and other start-ups.
- 1.2. The framework has been retained in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- 1.3. Considering that the framework failed to gain interest, SEBI came up with certain recommendations to make the platform more accessible, vide Discussion Paper dated July 29, 2016. Since, the market interest in the platform continued to be lukewarm, no amendment to the ICDR Regulations was carried out.
- 1.4. Lately, there has been a lot of activity in the start-up space in India and interest has been evinced with regard to listing on the ITP by various stakeholders and industry bodies. Thus, in view of the evolving start-up ecosystem and to make the ITP platform more accessible, SEBI discussed the issues with various stakeholders and constituted a Group on June 12, 2018 to review the ITP framework and identify the areas which require further changes.
- 1.5. The Group included representatives from the Indian Software Product Industry Round Table (iSPIRT), The Indus Entrepreneurs (TIE), the Indian Private Equity and Venture Capital Association (IVCA), law firms, merchant bankers, and stock exchanges.
- 1.6. While reviewing the ITP framework, the Group also held extensive consultations with stakeholders and conducted focused road-shows for start-ups, investors, investment bankers, wealth management outfits, etc. The Group submitted its recommendations to SEBI suggesting certain policy changes. The recommendations of the Group were discussed in the meeting of Primary Market Advisory Committee (PMAC) of SEBI as a part of larger consultative process and PMAC made certain recommendations
- 1.7. Based on the recommendations of PMAC, a revised consultation paper has been prepared containing certain proposals for changes to the ITP framework.

The same are enumerated below:

2. Proposals

2.1 NAME OF PLATFORM

Existing provision

The framework for ITP is specified under chapter X of the SEBI ICDR Regulations, 2018, which is named as ‘Institutional Trading Platform’.

Proposal

It is proposed to rename the platform as ‘Innovators Growth Platform’ (“IGP”).

¹ Available at: https://www.sebi.gov.in/reports/reports/oct-2018/consultation-paper-review-of-framework-for-institutional-trading-platform_40824.html

2.2 ELIGIBILITY

Existing provision

Regulation 283 provides:

- (1) The following issuers shall be eligible for listing on the ITP:
- a) An issuer which is 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 and at least twenty five percent of its pre-issue capital is held by qualified institutional buyer(s) as on the date of filing of draft information document or draft offer document with the Board, as the case may be; OR
 - b) Any other issuer in which at least fifty percent of the pre-issue capital is held by qualified institutional buyers as on the date of filing of draft information document or draft offer document with the Board, as the case may be.

Proposal

- A. In order to be eligible for listing on the ITP, 25% of the pre-issue capital, for at least a period of 2 years, should have been held by Qualified Institutional Buyers/other regulated entities*and/or Accredited Investors (AIs)**out of which not more than 10% should be by AIs.
- B. *other regulated entities to be as follows:
 - i. Category III Foreign Portfolio Investor;
 - ii. An entity meeting all the following criteria:
 - a. It is a pooled investment fund with minimum assets under management of USD 150 million;
 - b. It is registered with a financial sector regulator in the jurisdiction of which it is a resident;
 - c. It is resident of a country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to Bilateral Memorandum of Understanding with SEBI;
 - d. It is not resident in a country identified in the public statement of Financial Action Task Force as:
 - i. a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - ii. a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies;

Additionally, Family trust with net-worth of more than five hundred crore rupees, as per the last audited financial statements shall also be an eligible entity for the purpose of holding of the pre-issue capital in the Issuer entity.

- C. **Accredited investors for the purpose of ITP may defined as:
 - i. Any individual with total gross income of ₹50 lakhs annually and who has minimum liquid net worth of ₹5 crores or
 - ii. Any body-corporate with net worth of ₹25 crores

In order to be recognized as an accredited investor, such investor shall need to approach Exchanges/Depositories for accreditation.

D. It is proposed to delete Regulation 283(1)(b).

2.3 CAP ON HOLDING THE POST-ISSUE CAPITAL

Existing provision

Regulation 283(2) of ICDR Regulations stipulates that no person, individually or collectively with persons acting in concert, shall hold 25% or more of the post-issue capital, as an eligibility criterion for the entity to list on ITP.

Proposal

It is proposed to remove the provision and hence there will be no separate provision capping post IPO shareholding.

2.4 MINIMUM APPLICATION SIZE

Existing provision

In terms of Regulation 286 of ICDR Regulations, the minimum application size shall be INR 10 lakh.

Proposal

It is proposed that the minimum application size in secondary market shall be INR 2 lakh and in multiples thereof.

2.5 ALLOCATION TO INVESTORS

Existing provision

In terms of Regulation 287 (2) (a) & (b) of ICDR Regulations, 75 of the net offer to public shall be allocated for institutional investors and remaining 25% shall be allocated to Non Institutional Investors.

Proposal

It is proposed that there should not be any minimum reservation of allocation to any specific category of investors. Allocation is proposed to be on a proportionate basis.

2.6 DISCRETIONARY ALLOTMENT TO INSTITUTIONAL INVESTORS

Existing provision

Regulation 287(5) of ICDR Regulations prescribes that in case of discretionary allotment to institutional investors, no institutional investor shall be allotted more than 10% of the issue size.

Proposal

In view of the proposed allocation to investors on a proportionate basis, without any reservation, the provision of discretionary allotment is not required. Thus it is proposed to delete the existing provision.

2.7 MINIMUM NUMBER OF ALLOTTEES

Existing provision

Regulation 287(1) of the ICDR Regulations stipulates that the number of allottees shall be more than two hundred.

Proposal

It is proposed that minimum number of allottees should be 50.

2.8 LOCK-IN OF PRE-ISSUE CAPITAL

Existing provision

In accordance with Regulation 288(1) of ICDR Regulations, the entire pre-issue capital of the shareholders shall be locked-in for a period of 6 months from the date of allotment. However, the lock-in is subject to certain exemptions provided for shares arising out of ESOPs and shares held by VCF/AIF Category I/FVCI.

Proposal

It is proposed that the lock-in of 6 months shall apply uniformly to all the categories of pre-IPO public shareholders. Exemption from the provision shall be available for shares arising out of ESOPs.

2.9 TRADING LOT

Existing provision

In terms of Regulation 289 of ICDR Regulations, the minimum trading lot shall be INR 10 lakh.

Proposal

It is proposed that the minimum trading lot size in secondary market shall be INR 2 lakh and in multiples thereof.

2.10 MIGRATION TO THE MAIN BOARD

Existing provision

In terms of Regulation 292, an entity listed on ITP may at its option migrate to the Main Board of that after expiry of three years from the date of listing subject to compliance with the eligibility requirements of the stock platform.

Proposal

It is proposed that IGP be designated as a Main Board platform for start-ups with an option to trade under regular category after completion of one year of listing.

2.11 MINIMUM OFFER TO PUBLIC

Existing provision

Regulation 31 of ICDR Regulations provides that the minimum offer to the public shall be subject to the provisions of clause (b) of sub-rule (2) of rule 19 of Securities Contracts (Regulations) Rules, 1957.

Proposal

It is proposed that minimum net offer to public should be in compliance with Minimum Public Shareholding (MPS) norms and minimum offer size should be 10 crores.

3. Public comments

Considering the implications of the said matter on the market participants including issuers and investors, public comments are invited on the proposals contained in the discussion paper. Specific comments/suggestions as per the format given below would be highly appreciated:

Name of entity / person / intermediary/ Organization:			
Sr. No.	Pertains to serial number under paragraph (2)	Suggestion(s)	Rationale

The comments may please be e-mailed on or before November 16, 2018, to Ms. Aradhana Verma, AGM at aradhanad@sebi.gov.in or sent by post, to:

*Shri. Narendra Rawat
Deputy General Manager
Corporation Finance Department
Securities and Exchange Board of India
SEBI Bhavan Plot No. C4-A, "G" Block Bandra Kurla Complex
Bandra (East), Mumbai -400 051
Ph: +91-22--26449383*

Team ICSI

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