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# PROPOSED CHANGES TO THE FRAMEWORK FOR INSTITUTIONAL TRADING PLATFORM (ITP) FRAMEWORK BY SEBI

## Background

The Start-up industry has seen a spate of activity in relation to listing of Start-up securities by various stakeholders and industry bodies on the Institutional Trading Platform ("**ITP**"). Thus, in view of the evolving Start-up ecosystem and to make the ITP platform more accessible and robust, Security Exchange Board of India ("SEBI") has proposed to rename ITP as *Innovators Growth Platform* ("IGP") and also suggested to make changes in the startup listing eligibility.

SEBI discussed the issue with various stakeholders and constituted a group on June 12, 2018 to review the ITP framework. 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. The recommendations of the Group were discussed in the meeting of Primary Market Advisory Committee (PMAC) of SEBI and based on the final recommendations of PMAC, a revised consultation paper has been prepared containing certain proposals for changes to the ITP framework.

These proposed changes to the ITP framework vis-à-vis the existing provisions have been listed below:

| Parameter | Existing provisions | Proposed changes |
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| Eligibility | As per Regulation 283 of the ICDR Regulation states the issuers who are eligible for listing on the ITP: (1) 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 25% of its pre-issue capital is held by qualified institutional buyer(s).<br>(2) Any other issuer in which at least fifty percent of the pre- | **[A]** For listing, 25% of the pre-issue capital, for at least 2 years, should have been held by QIBs or other regulated entities.<br>**[B]** Other regulated entities include Category III FPI or an entity meeting having a pooled investment fund with minimum assets under management of USD 150 million. Such entity should be registered with a financial sector regulator. It should be resident of a country whose securities market regulator is a signatory to the IOSCO's Multilateral MoU and it must not be resident in a country identified in the public statement of FATF as jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply or a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the FATF |

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| | 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. | to address the deficiencies.<br><br>*The eligibility criteria has been broadened as entities backed by a Category III FPI or a pooled investment vehicle can also be listed on IGP*<br><br>*The proposed changes also focus a lot on investor protection as the entities have to be registered with a recognized security market regulator and must be a part of a country having a strategic anti- money laundering law;*<br><br>**[C]** It also proposes to introduce Accredited investors, who is any individual with total gross income of ? 50 lakhs annually and who has minimum liquid net worth of ? 5 crores or (ii) Anybody 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 |
| Cap on holding the post-issue capital | No person, individually or with persons acting in concert, can hold more than 25% of the post-issue capital. | It is proposed to remove the existing clause to *make it investor friendly and infusion of more capital in to startups and subject to SEBI (Listing obligation and Disclosure Requirements) Regulations 2015- Regulation 38 (Minimum Public Shareholding) read with SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10,2017 on Schemes of Arrangement by Listed Entities and relaxation of Rule 19 (7) of the Securities Contract (Regulations) Rules, 1957.* |
| Minimum application size and Minimum Trading Lot | Minimum application Size is currently INR 10 lakh and Minimum Trading Lot is INR 10 lakh | It is proposed to *reduce the Minimum application Size to INR 2 lakh and Minimum Trading Lot to INR 2 lakh. The reduction in the minimum application size and minimum amount of trading lot will attract more investors which in turn will increase the scope of startups to raise capital without having to go through the lengthy and complex IPO process and the reduction in trading lot also makes it easier for the investors to buy additional shares.* |
| Allocation to investors | 75% of net offer to public is to be allocated to institutional investors and remaining 25% is to be allocated to Non-Institutional Investors. | It is proposed to remove such minimum reservation and to allot shares on a proportionate basis.<br>*This change will help the start-ups to allocate, amongst institutional and non-institutional investors, on their own accord but such division has to be in proportionate basis.* |
| Discretionary allotment to institutional investors | Not more than 10% of the issue size. | Since, allocation on a proportionate basis has been introduced, this clause is not required and, therefore, it is proposed to delete the existing provision.<br>*Since the allocation is now on a proportionate basis, there is no need for discretionary allotment to institutional investors.* |
| Minimum number of allottees | 200 | It is proposed to reduce the minimum number of allotted to 50.<br>*The reduction in the minimum number of allottees will make it investor friendly and lead to more people investing in the start-up.* |
| Lock-In of pre-issue Capital | A period of 6 months from the date of allotment, subject to certain exemptions provided | It is proposed to remove all such exemptions and have lock-in period of 6 months for every category of investors. Exemption from the provision shall be |

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| | for shares arising out of ESOPs, shares held by VCF/AIF Category I/FVCI. | applicable to shares arising out of ESOPs.<br>*The proposed change aims in bringing uniformity amongst all category of shareholders in terms of lock-in period of pre-IPO public shareholder.* |
| Migration to the main board | Entities listed on ITP can migrate to the main board of a stock exchange after a period of 3 years and subject to certain eligibility criteria. | It is proposed to designate IGP as the main board platform for start-ups and provide an option to start-ups to trade under regular category after completion of one year of listing.<br>*This change makes it easier for entities listed on IGP to trade in the regular category as the time period to migrate to main board has been reduced to 1 year and IGP itself is the main board platform for start-ups.* |
| Minimum offer to public | It is as per clause (b) of sub-rule (2) of rule 19 of Securities Contracts (Regulations) Rules, 1957. | 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 reduced to 10 crores.<br>*This change reduces the burden on start-ups when they are raising capital as under Section 19(2)(B) the offer size has to be minimum INR 100 crores.* |

### *ARA LAW View*

The proposed framework for listing of start ups is an appealing proposal which will allow more investor categories, relax shareholding norms and will provide a lenient and wide window for start-ups to trade. The proposed changes will encourage country's proliferating entrepreneurs and will reduce the burden on the startups. Several requirements like removing the cap on holding for investors in startups post-listing, reducing the minimum investor application size, removing reservation norms for various classes of investors, relaxing the minimum required number of allottees, reducing the share lock-in norms post-listing, etc., will allow all classes of investors to pillar growth of the start-ups in the country.

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