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SEBI NOTIFIES CHANGES TO SPEED UP THE RIGHTS ISSUE PROCESS

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Background

With a view to streamline the process and reduce the time taken for rights issues undertaken by listed companies, the Securities and Exchange Board of India (SEBI) in its board meeting held on 20 November 2019, decided to amend the regulatory requirements applicable to rights issues by listed companies. On 26 December 2019, SEBI notified amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) to facilitate the revision of the rights issue process (Amendment).

One of the proposed changes in the Amendment is the introduction of credit of Rights Entitlements (REs) in the demat account, renunciation thereof and trading of REs. A detailed framework in relation to the foregoing is yet to be notified by SEBI and/or the stock exchanges.

The Amendment shall apply to draft letters of offer, letters of offer, and abridged letters of offer for rights issues of equity shares and convertible securities (Offering Documents) filed on or after 26 December 2019.

Key Amendments to ICDR Regulations

- Credit and trading of REs: Historically, REs were traded on the BSE Limited with the settlement process being concluded physically. SEBI, with a view to facilitate the trading of REs, has now made it mandatory for the issuer to electronically credit the REs in dematerialised form to the demat account of the eligible investors, prior to the commencement of the issue period. The REs will be credited under a separate ISIN, which would be temporarily suspended post the closure of the issue period and cancelled post the allotment in the rights issue.

  By mandating the use of dematerialised REs for applications by investors, whether shareholders, renouncers or renouncees, SEBI has sought to create a platform for trading of REs during the rights issue process and to facilitate the participation by renouncees in the process. Consequently, the earlier requirement for a split application form has been done away with and overprinting of the composite application form by the registrar, based on the rights ratio post the record date, shall no longer be required.

- Mandatory use of the ASBA process: Pursuant to the Amendment, all eligible investors in a rights issue are now mandatorily required to use Application Supported by Blocked Amount (ASBA) facility as a payment mechanism, with the exception of applications for reserved portions. Accordingly, the issue procedure section of the Offering Documents and the registrar agreement would need to be suitably modified to reflect this change.

- Mandatory allotment in dematerialised mode: Irrespective of whether the equity shares are held in dematerialised or physical form, all allotments under the rights issue process are now required to be made in dematerialised form only.

Other notable changes

- The timeline for issuing an advance notice to the stock exchanges, before determining the record date for the issue, has been reduced from seven (7) days to three (3) days.

- The timeline for issuing the pre-issue advertisement has been reduced from at least three (3) days to at least two (2) days prior to commencement of the issue period. Additionally, the issue advertisement is now also required to be submitted to the stock exchanges for dissemination on their respective websites.

- Further, SEBI has disallowed any withdrawal of applications in the rights issue post the closure of the issue period.

Conclusion and Analysis

The Amendments are a welcome step in the securities market regulator's endeavour to reduce the overall timeline for rights issues from approximately T+55 days to approximately T+31 days. The trading and renunciation of REs will also facilitate the establishment of an organised platform for electronic and exchange-driven trading of REs, which have been historically traded in physical form. It will be interesting to see the phasing away of manual intervention in capital market transactions as we move to extinguish physical applications and mandate ASBA for most of the fund-raising avenues.

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