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An analysis of the September 2025 amendments to the SEBI SBEB regulations and SEBI ICDR regulations

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Introduction

The Securities and Exchange Board of India (SEBI) has amended the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 (SEBI SBEB Regulations) by way of the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) (Amendment) Regulations, 2025 (SBEB Amendment), and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations) by way of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2025 (ICDR Amendment), on 8 September 2025. In this article, we will examine the key amendments introduced by SEBI through the ICDR Amendment and the SBEB Amendment.

1. Amendment to the SEBI SBEB Regulations

The SEBI SBEB Regulations set out the framework for the issuance of sweat equity and employee stock options by listed companies to their employees. This framework does not permit the issuance of employee stock options to 'promoters' or members of the 'promoter group'.

It is common for companies to issue stock options or other share-based incentives to their founders, whose shareholding in the company is often diluted through rounds of funding undertaken by the company, as a means of ensuring that founders continue to have 'skin in the game' and remain involved in the company's growth in the long-term. Share-based incentives have also become an increasingly common form of remuneration to founders, particularly in the early stages of a company's growth, to avoid straining cash flows towards salaries during the initial years, whilst allowing founders to realise returns on their investment in the company at later stages.

However, when such companies prepare for an IPO, they may be required to categorise their founders as promoters of the Company in terms of the SEBI ICDR Regulations and basis guidance from SEBI, BSE and NSE over the last few years. Since the SEBI SBEB Regulations did not permit the issuance of employee stock options to 'promoters', the founders of to-be listed companies, once identified as promoters, could no longer hold their stock options. To maintain compliance with the law, founders would have to forego the stock options that had been granted to them prior to their identification as promoters or incur significant costs and accelerate the exercise of their stock options, where possible.

Pursuant to the SBEB Amendment, SEBI has introduced Regulation 9A to the SEBI SBEB Regulations, which permits employees of a company who are identified as promoters or members of the promoter group in the company's draft offer document to continue to hold options, stock appreciation rights or any other benefits under any schemes, that were granted at least one year prior to the filing of the draft offer document.

In our view, the amendment is a welcome step that enables founders to be able to take their companies public, without having to forego their stock entitlements. The amendment pays heed to the incentive structures that many companies, particularly new-age technology companies, have in place for their founders, with share-based benefits often forming a significant portion of the remuneration that founders receive. By permitting founders to continue to hold options granted to them until one year prior to the

filing of the draft offer document even after being identified as promoters, SEBI has, in our view, removed a restriction that deterred founder-driven companies from undertaking IPOs.

2. Amendments to the SEBI ICDR Regulations

The key amendments introduced through the ICDR Amendment include changes to the disclosure requirements for listed companies undertaking a qualified institutions placement (QIP), the categories of shareholders of a to-be listed company whose shares are required to be dematerialised, and the eligibility requirements for shares forming part of the offer for sale component of an IPO and shares forming part of the minimum promoters' contribution (MPC), as detailed below. These changes came into force as of the date of the ICDR amendment, barring the changes to the requirement for the dematerialisation of shares, which will come into force on the 30th day from the publication of the ICDR Amendment.

Amendments to the disclosure requirements in a QIP: Pursuant to the ICDR Amendment, SEBI has reduced the disclosures that listed companies are required to make when undertaking a QIP. SEBI has, amongst other changes, removed the requirement for a section detailing the management's analysis of the issuer's financial condition and results of operations, required issuers to provide only a summary of certain key financial line items rather than complete financial statements for the last three financial years as was the previous requirement, elaborated upon the disclosures required to be made about the issuer's board of directors, and clarified the nature of the disclosures required to be made about material legal proceedings involving the issuer.

In our view, limiting the disclosure requirements in QIPs is a positive step, that will enhance the ease with which listed companies can raise capital and reduce the overall time frame for QIPs. QIPs are undertaken by listed companies, which are statutorily required to make public disclosures of material information about themselves, to qualified institutional buyers (QIBs), which are sophisticated institutional investors who are experienced in making investment decisions and able to assess issuers based on information made public over time. The QIP process accordingly does not warrant extensive disclosures in the placement document, unlike an IPO, which is undertaken by companies about whom there is limited information in the public domain, to all categories of investors, including retail investors. For instance, listed companies are required to publicly disclose their financial results, transcripts of calls with investors, and their annual reports, and accordingly, a section detailing the management's analysis of a listed company's financial results may not be separately required in a placement document to QIBs, as was the legal requirement prior to the ICDR Amendment.

Amendments to the requirement for the dematerialisation of shares: Previously, the SEBI ICDR Regulations required specified securities held by the promoters of a company undertaking an IPO to be dematerialised prior to the filing of its offer document. Pursuant to the ICDR Amendment, the securities held by promoters, members of the promoter group, selling shareholders, directors, key managerial personnel, senior management, qualified institutional buyers, employees (including persons designated as an employee by the issuer who are exclusively working in India and employees of the holding, subsidiary or associate company of the issuer), shareholders holding equity shares with special rights, and entities regulated by financial sector regulators are required to be dematerialised prior to the filing of the draft offer document. A similar amendment has also been made to the framework for IPOs by small and medium enterprises. This amendment introduces a new procedural requirement to the IPO process, as issuers will need to ensure that any shares held physically by each of these categories of shareholders are dematerialised ahead of the filing of the draft red herring prospectus.

Amendments to the eligibility requirements for the offer for sale component of an IPO: Regulation 8 of the SEBI ICDR Regulations requires shares proposed to be offered for sale to the public by existing shareholders of IPO-bound companies to have been held by the sellers for a period of at least one year prior to the filing of the draft offer document. Previously, this regulation exempted equity shares acquired pursuant to a scheme approved by a high court, tribunal or the central government, in lieu of business and invested capital which has been in existence for more than one year prior to the approval of the scheme, from being held for more than one year prior to the filing of the draft offer document. Pursuant to the ICDR Amendment, this exception will cover not only equity shares acquired directly pursuant to approved schemes, but equity shares arising out of the conversion of fully paid-up compulsorily convertible securities acquired pursuant to approved schemes.

Earlier, the equity shares resulting from the conversion of compulsorily convertible securities would have been eligible for sale in an IPO only if the holding period of the resultant equity shares along with the holding period of the underlying convertible securities together amounted to more than one year prior to

the date of the draft of the offer document, even where invested capital had been in existence for more than a year. The ICDR Amendment now brings the requirement for equity shares resulting from the conversion of compulsorily convertible securities acquired pursuant to approved schemes in harmony with the requirement for equity shares directly acquired pursuant to an approved scheme.

This amendment has also been introduced for the offer for sale component of further public offers (FPOs).

***Amendment to the exceptions to the eligibility requirements for the MPC**:* The SEBI ICDR Regulations state that the MPC cannot include shares that have been acquired during the preceding one year at a price lower than the IPO offer price. However, shares acquired by *promoters* pursuant to an approved scheme in lieu of business and invested capital in existence for more than one year prior to the approval of the scheme, can be contributed towards the MPC.

The SEBI ICDR Regulations allow specified categories of investors (namely alternative investment funds, foreign venture capital investors, scheduled commercial banks, public financial institutions, insurance companies registered with the Insurance Regulatory and Development Authority of India, non-individual public shareholders holding at least 5% of the post-offer capital or any individual or entity forming part of the promoter group) to contribute towards the MPC, if the promoters alone cannot fulfil the MPC. Despite these categories of investors being permitted to contribute to the MPC, the exception for shares acquired pursuant to an approved scheme was applicable only to shares contributed by the promoters. Through the ICDR Amendment, SEBI has clarified that this exception will also be applicable to shares contributed by the categories of investors that are permitted to meet shortfalls in the MPC, thereby standardising the approach for all shares that may form part of the MPC.

***Amendments to the framework for fund-raising on a social stock exchange**:* The ICDR Amendment has also made certain modifications to the framework for companies to raise funds on a social stock exchange, such as increasing the list of entities that can be considered 'not for profit organisations', modifying the eligibility criteria for social enterprises, and amending the definition of 'social impact assessment organisations'. Further, a 'not for profit organisation' could earlier register on a social stock exchange but not raise funds through it. Pursuant to the ICDR Amendment, a 'not for profit organisation' registered on a social stock exchange must raise funds through it within two years from the date of registration, and if, upon the completion of this two year period, the organisation does not have at least one listed project for which funds have been raised through the social stock exchange, the organisation will cease to be registered.

***Amendment to the definition of QIBs**:* The definition of "qualified institutional buyers" has been amended to include accredited investors as defined under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (SEBI AIF Regulations), only for the purpose of their investment in angel funds under the SEBI AIF Regulations.

Conclusions

The SBEB Amendment and ICDR Amendment are welcome steps towards increasing the ease with which companies, particularly new-age technology companies and listed companies, will be able to raise funds from the public. These amendments also bring existing provisions of the IPO and FPO framework into harmony with each other.

- *Gautham Srinivas (Partner) and Shweta Sivaram (Senior Associate)*

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