Dear Reader(s),

We have been continuously making efforts to keep our readers updated with the important events in the capital market. The month of February has seen some important steps taken by SEBI to protect interest of minority shareholders by putting in place regulatory framework in respect of “Scheme of Arrangements” proposed by any listed Company. The same is outlined in our present volume. We have also covered the briefs of other circulars relating to applicability of call auction mechanism for illiquid scrips, increase in the FII limit for debt securities and introduction of dedicated debt segment.

LISTED COMPANIES TO SEEK APPROVAL FROM SEBI FOR ANY SCHEME OF ARRANGEMENT

The present regulations allow listed companies to file proposed Scheme of Arrangement with Stock Exchanges for approval and then subsequently file it with Hon’ble High Court for the approval. On receipt of approval from Hon’ble High Court the Companies would seek exemption from SEBI for applicability of Rule 19(2)(b) of SCRR 1957 for listing of equity shares. This process is changed with the introduction of circular no. CIR/CFD/DIL/5/2013 dated 04/02/2013. Now, the draft scheme of arrangement (draft scheme) as filed with the designated stock exchange shall be required to be forwarded to SEBI by the stock exchanges for its approval. Stock Exchanges shall be required to forward their “Objection/No Objection” letter on the Draft Scheme to SEBI. This has been initiated, as in the recent past SEBI has received applications seeking exemption, from certain entities containing, inter alia, (a) inadequate disclosures, (b) convoluted schemes of arrangement, (c) exaggerated valuations, etc. which may not be in the interest of minority shareholders.

In order to avoid complications involved in the process and to protect the minority shareholders, SEBI has revised number of requirements. SEBI has classified the obligations of listed company and the Stock Exchange in regard to the Scheme before submitting the same to Hon’ble High Court. Further, SEBI shall offer its comment on the Draft Scheme to the stock exchanges. The brief process in terms of circular is:

- The **listed company shall obtain valuation report from independent chartered account** and the audit committee shall make recommendation of draft scheme considering the valuation report.
- The **listed Company shall file draft scheme under clause 24(f) of listing agreement with the designated stock exchange** for the purposes of co-ordination with SEBI.
- **Listed companies shall choose one of the stock exchanges having nation-wide trading terminals as the designated stock exchange** for the purpose of coordinating with SEBI.
- The **designated stock exchange to forward the draft scheme to SEBI within 3 working days**.
- The **stock exchanges may seek opinion from independent chartered accountant**.
- The **stock exchanges shall forward their Objection/No Objection letter to SEBI within 30 days from date of receipt of scheme or within 7 days from date of satisfactory reply from company or independent chartered accountant**.
- **SEBI shall process the draft scheme and provide its comment after receipt of objection/no objection letter from stock exchange**.
- **SEBI may also seek opinion of independent chartered accountant or seek clarification from any person relevant in this regard including the company**.
SEBI shall offer its comment on draft scheme to stock exchange within 30 days from date of receipt of satisfactory reply from company or receipt of opinion from independent chartered accountant or from the date of receipt of objection/no objection letter from Exchange.

The stock exchanges shall issue observation letter to Company after receiving comments from SEBI and this observation letter shall be valid for period of six months within which the Company is required to file scheme with Hon'ble High court.

Upon receiving approval of Scheme from Hon'ble High Court the Company shall be required to submit the documents to the Stock Exchanges as mentioned in Para 2 of Part B of Annexure I to the said circular. The documents include application seeking exemption from Rule 19(2)(b) of SCRR, 1957. The designated stock exchange shall forward its recommendations to SEBI and SEBI shall endeavour to offer its comments/approval, wherever applicable, to the designated stock exchange in 30 days.

In view of the revised requirements Corporates will have to consider the overall timeframe for the regulatory approval process.

SEBI has also made it mandatory for the listed companies to ensure that the Scheme submitted with the Hon'ble High Court for sanction, provides for obtaining shareholders’ approval through special resolution passed through postal ballot and e-voting. The Scheme shall also provide that the special resolution shall be acted upon only if the votes cast by public shareholders in favor of the proposal amount to at least two times the number of votes cast by public shareholders against it.

The revised requirements shall be applicable to listed companies which, on the date of this Circular, have not submitted the Scheme with the Hon'ble High Court. It is clarified that the revised requirements shall also be applicable in cases wherein the companies have submitted the Draft Scheme with the stock exchanges under Clause 24(f) of Listing Agreement and such schemes have not yet been submitted with the Hon'ble High Court for approval. Therefore, the companies that have submitted the Draft Scheme with the stock exchanges and have already received approval thereon but have not yet submitted to the Hon'ble High Court, shall be required to resubmit the same in accordance with the requirements of this Circular.

For other details and documentation please refer the above mentioned circular.

**SEBI INTRODUCES PERIODIC CALL AUCTION MECHANISM FOR ILLIQUID SCRIPS AND EXTENDS PRE-OPEN SESSION TO ALL SCRIPS**

SEBI has introduced call auction mechanism in pre-open session for scrips forming part of Sensex and Nifty Index. The Secondary Market Advisory Committee (SMAC) discussed the extension of call auction mechanism to all listed scrips. The SMAC also recommended introducing periodic call auction mechanism for illiquid scrip listed on the stock exchanges. Accordingly SEBI issued circular no. CIR/MRD/DP/ 6/2013 dated 14/02/2013 prescribing the criteria for illiquidity and the applicability of pre-open session for other than the illiquid scrips listed on stock exchanges. This circular shall be effective from 01/04/2013.

In terms of the reference circular any scrip whether trading in normal market or trade for trade settlement, shall be classified as illiquid on a stock exchange if (a) average daily trading volume of a scrip in a quarter is less than 1000, (b) average daily number of trades is less than 50 in a quarter (c) scrip is classified as illiquid at all the exchanges where it is traded. The scrip shall be moved from call auction mechanism to normal trading session if the scrip remains in periodic call auction for at least two quarters and it is not classified as illiquid in terms of the criteria as mentioned above. For the other procedural details of call auction such as call auction session duration, no. of auction session, price band, etc. please refer the circular.
SEBI ISSUES GUIDELINES FOR DEDICATED DEBT SEGMENT ON STOCK EXCHANGES

SEBI has been responsible for overall development of securities market including debt segment. In order to promote and strengthen the debt market SEBI has decided to craft dedicated debt segment on the stock exchanges. The debt segment shall offer separate trading, clearing, settlement, reporting facilities and membership to deal in debt securities, government securities, treasury bills, securitized debt instrument etc. An existing stock exchange or new stock exchange desirous of setting up debt segment may make an application to SEBI, providing operational, regulatory and any other necessary details. The other details can be referred in the circular no. CIR/MRD/DP/03/2013 dated 24/01/2013.

FII INVESTMENT LIMIT IN GOVERNMENT AND CORPORATE DEBT CATEGORY ENHANCED

The Reserve Bank of India vide circular RBI/2012-13/391, dated January 24, 2013, has enhanced the limit for investment by FIs in the Government Debt Long Term category by US$ 5 billion to US$ 15 billion and the Corporate non-infrastructure debt category by US$ 5 billion. In connection with this, SEBI has issued a circular IR/IMD/FLIC/3/2013 dated 08/02/2013 summarizing the changes. Please refer the circular for the details.

ANNUAL INSPECTION POLICY FOR STOCK EXCHANGES

SEBI vide circular no. CIR/MIRSD/13/2012 dated 07/12/2012 has modified provisions of Clause 2 & 3 of Part 1 of SEBI Circular no. MIRSD/Master Cir-04/2010 dated 17/03/2010 ("Master Circular") on "Oversight of Members (Stock Brokers/Trading Members/Clearing Members of any Segment of Stock Exchanges and Clearing Corporations). The modifications in the circular are:

i. Policy for Annual Inspection: Clause no. 2, Part I of the Master Circular, stock exchange or clearing corporation were required to formulate a policy for inspection of members and follow up action thereon. Now SEBI has prescribed that the policy so formulated shall be a policy for annual inspection of the members in various segments

ii. Inspection of Members and Information Sharing

Mechanism between Stock Exchanges: In terms of master circular the stock exchange or the clearing corporation, as the case may be, shall inspect all active members in various segments every year. Now the same has been modified wherein stock exchange or the clearing corporation, as the case may be, shall conduct inspection of their members in various segments and in case of members who hold multiple memberships of the stock exchanges, the stock exchanges shall establish an information sharing mechanism with one another on the important outcome of inspection

Other provisions of the Master Circular remain unchanged.