



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

Consultation Paper

Consultation paper on amendment to Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 with the objective of mandatory de-materialization of existing securities of select shareholders prior to IPO

APRIL 30, 2025



OBJECTIVE

1. This consultation paper seeks comments / views / suggestions from the public and other stakeholders on the following proposal relating to amendments to the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations"):

- 1.1 Mandatory De-materialization of existing securities of select shareholders prior to IPO.

2. **Mandatory De-materialization of existing securities of select shareholders prior to IPO:**

2.1. Background

- 2.1.1. Over the last two decades, Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs (MCA) have taken a series of steps to promote the dematerialisation of securities. The rationale behind these measures has consistently been to eliminate the inefficiencies and risks associated with physical share certificates, including loss, theft, forgery, and delays in transfer and settlement. Further, a brief information of some of the measures taken by SEBI and MCA as under :

Sr. No.	Provision	With effect from
1.	Public issues above ₹10 crore allowed only in demat mode ¹ .	December 13, 2000
2.	Shareholding of promoter / promoter group to be in dematerialized mode ² .	June 17, 2011

¹ Section 68B of Companies Act 1956

² SEBI Circular no. Cir/ISD/ 3/2011 dated June 17, 2011 "Shareholding of promoter / promoter group to be in dematerialized mode"



3.	Public issue of securities is permitted only in demat mode ³ .	September 12, 2014
4.	Issuer making an IPO required to ensure that specified securities held by the promoters be in demat form prior to filing of the offer document	ICDR Regulations
5.	Transfer of physical securities permitted only in demat mode ⁴ .	April 01, 2019
6.	Allotment of securities in a Rights issue shall be made only in the dematerialised form ⁵ .	December 26, 2019
7.	Issuance of securities in demat form in case of Investor Service Requests ⁶ .	January 25, 2022
8.	Allotment of shares in a bonus issue shall be made only in the dematerialised form ⁷ .	May 23, 2023
9.	Unlisted public companies and unlisted private companies (excluding small companies) to issue and hold securities (by all its shareholders) in demat mode. ⁸	September 10, 2018 and October 27, 2023
10.	The listed entity shall ensure that hundred percent of shareholding of promoter(s) and promoter group is in dematerialised form and the same is maintained on a continuous basis ⁹ .	

³ Section 29 of Companies Act, 2013

⁴ Regulation 40(1) of LODR Regulations, 2015

⁵ Regulation 77 A of ICDR Regulations, 2018 inserted w.e.f. December 26, 2019

⁶ Investor Service Requests involving (a) Issue of duplicate securities certificate; (b) Claim from Unclaimed Suspense Account (c) Renewal / Exchange of securities certificate (d) Endorsement; (e) Sub-division / Splitting of securities certificate; (f) Consolidation of securities certificates/folios; (g) Transmission; (h) Transposition;

⁷ Regulation 294(6) of ICDR Regulations, 2018 inserted w.e.f. May 23, 2023.

⁸ Inserted w.e.f. 2-10-2018 by the Companies (Prospectus and Allotment of Securities) Third Amendment Rules, 2018, vide GSR 853(E), dated 10-09-2018; Inserted by the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023 dated 27-10-2023 w.e.f. 27-10-2023

⁹ Regulation 31(2) of SEBI LODR Regulations, 2015

2.1.2. Despite these regulatory interventions, a good number of physical shares continues to exist, particularly among unlisted entities that are transitioning to listed status. Hence, physical shares of public shareholders of unlisted companies get carried forward and perpetuated into the listed domain, while listing, adding the volume of physical shares of listed domain.

2.2. Need for Review –

2.2.1. **Existing Regulatory Provisions** - Presently, regulations 7(1)(c) of the ICDR Regulations mandates that all specified securities held by promoters must be in dematerialised form prior to the filing of the offer document.

2.2.2. In spite of several regulatory mandates and facilitation mechanisms being in place, there remains a significant volume of holding of physical shares even among critical pre-IPO shareholders such as directors, Key Managerial Personnel (KMPs), senior management, selling shareholders, and even Qualified Institutional Buyers (QIBs). This leaves a regulatory gap that allows a good volume of physical shares to continue existing post-listing.

2.3. Suggestion received- To address the concerns highlighted above, it is proposed that the existing regulatory requirement under regulation 7(1)(c) of the SEBI ICDR Regulations be expanded. Specifically, all specified securities held by the following classes of shareholders shall be required to be in dematerialised form prior to the filing of the offer document:

2.3.1. Promoter Group

2.3.2. Selling Shareholders

2.3.3. Directors

2.3.4. Key Managerial Personnel (KMPs)

2.3.5. Senior Management

2.3.6. Qualified Institutional Buyers (QIBs)

2.3.7. Domestic Current Employees

2.3.8. Shareholders who have special rights

2.4. Additionally, it is suggested that registered stock brokers, non-systemically important Non-Banking Financial Companies (NBFCs), and any other regulated

entities that hold specified securities will also be required to have such holding in dematerialised form prior to the filing of the offer document..

2.5. Rationale

2.5.1. MCA has amended rule 9A¹⁰ and rule 9B¹¹ of the Companies (Prospectus and Allotment of Securities) Rules, 2014 wherein it has inter-alia mandated the followings:

- 2.5.1.1. Issue securities only in demat mode
- 2.5.1.2. Facilitating demating of all its existing securities
- 2.5.1.3. Issue or buyback securities, bonus shares and rights only if the entire holding of its promoters, directors and key managerial personnel (KMP) are held in demat mode.
- 2.5.1.4. allow subscription to its privately placed, bonus and right issue, only if the subscriber's existing securities all are held in demat mode
- 2.5.1.5. allow transfer of securities only it is held in demat mode

The above-mentioned provisions are applicable to both unlisted public companies and private companies and all of their shareholders.

2.5.2. In view of the above, ICDR Regulations may be amended to include suggested category of shareholders mentioned at paras 2.3 and 2.4 so as to bring more and more shareholders under the dematerialization mode and reduce the volume of physical shares from the listing space.

2.5.3. Further, dematerialisation of securities has several benefits, which include reduction of frauds and forgery, elimination of loss and damage of securities, faster and more efficient transfers, improved transparency and regulatory oversight, mitigation of legal disputes etc.

¹⁰ Inserted w.e.f. 2-10-2018 by the Companies (Prospectus and Allotment of Securities) Third Amendment Rules, 2018, vide GSR 853(E), dated 10-09-2018.

¹¹ Inserted by the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023 dated 27-10-2023 w.e.f. 27-10-2023

2.6. Proposal

2.6.1. Accordingly, in order to achieve the objective as stated at Para 1.1, it is proposed to amend regulation 7(1)(c) of SEBI ICDR Regulations as follows:

Existing Provision	Proposed Amendment
<p>7. (1) An issuer making an initial public offer shall ensure that:</p> <p>...</p> <p>c) all its specified securities held by the promoters are in dematerialised form prior to the filing of the offer document.</p>	<p>7. (1) An issuer making an initial public offer shall ensure that:</p> <p>...</p> <p>c) all its specified securities held by the promoters, promoter group, , directors, key managerial personnel, senior management, qualified institutional buyers, registered stock brokers and non-systemically important Non-Banking Financial Companies (NBFCs) [and other regulated entites as identified], domestic current employees and shareholders who have special rights are in dematerialised form prior to the filing of the offer document.</p>

2.7. Public Comments:

2.7.1. Comments/suggestions are solicited from public on the need to amend provision of SEBI ICDR Regulations as proposed at para 2.6, to further the progress towards greater dematerialisation of securities.

2.7.2. Further, apart from the above proposal, public comments/feedbacks are also sought for including any other financial sector regulated entities under the ambit of regulation 7(1)(c) of SEBI ICDR Regulations.



SUBMISSION OF PUBLIC COMMENTS

3. In order to take into consideration, the views of various stakeholders, public comments are invited on the proposal at para 2.6 above. The comments / suggestions along with rationale should be submitted no later than **May 20, 2025**, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

4. In case of any technical issue in submitting your comment through web based public comments form, you may write to consultationcfd@sebi.gov.in with the subject: *"Comments on consultation paper on an amendment to SEBI ICDR Regulations with the objective of mandatory de-materialization of existing securities of select shareholders prior to IPO"*.
