

# Sebi set to allow confidential pre-filing of IPO documents

By Reena Zachariah, ET Bureau | Last Updated: Sep 29, 2022, 10:53 AM IST

## Synopsis

The regulator's board, which will meet on September 30, will also clear a proposal to bring buying and selling by mutual funds under insider trading rules; they are currently excluded. The move comes in the wake of the Franklin Templeton episode in which some executives were accused of insider trading.



The regulator had said information about a strategic disinvestment becomes public at the time of cabinet approval and subsequent announcements are made at different stages, affecting the market price of the PSU concerned.

Mumbai: The Securities and Exchange Board of India ([Sebi](#)) is set to allow companies holding initial public offerings (IPOs) to submit confidential pre-filing of offer documents; relax open offer pricing norms for the disinvestment of public sector undertakings (PSUs); and seek enhanced disclosures from startups in offer documents on the IPO [issue price](#).

The regulator's board, which will meet on September 30, will also clear a proposal to bring buying and selling by [mutual funds](#) under insider trading rules; they are currently excluded. The move comes in the wake of the [Franklin Templeton](#) episode in which some executives were accused of insider trading.

## Pre-filing

Companies only have to make a public announcement that they have pre-filed offer documents with Sebi and exchanges. The issuer company will also have to state that pre-filing doesn't necessarily mean it will hold an IPO.

<p><b>Cos will only</b> have to make a public announcement that they have pre-filed offer documents with Sebi and exchanges</p> <p><b>If co decides</b> to go ahead with issue, it will have to later update document with Sebi observations and latest financials</p> <p><b>Currently, an issuer</b> has to file a draft offer document with Sebi with detailed disclosures, which may be beneficial to competitors</p>		<p><b>Sebi board to also clear</b> proposal to bring buying and selling by mutual funds under insider trading rules</p> <p><b>Move comes in</b> wake of Franklin Templeton episode in which some execs were accused of insider trading</p>
--	--	--

## Significant for New-age Firms?

Later, if the company decides to proceed with the offer, it will have to update the document with Sebi's observations and the latest financials before putting it in the public domain. Currently, an issuer has to file a draft offer document with Sebi with detailed disclosures, which may be beneficial to competitors. Typically, the approval process takes 30-70 days after filing of the draft offer document. An issuer may choose not to pursue an [IPO](#) after undergoing the whole process.

“The mechanism of pre-filing or confidential filing is a well-established concept in the US,” said Mehul Savla, partner, RippleWave Equity Advisors. “This was introduced by the SEC (the US Securities and Exchange Commission) in 2012 to spur IPOs by emerging growth companies. The same has been extended to all companies in 2017 and companies like AirBnB and Uber have taken advantage of this.”

Apart from the US, the UK and Canada are among those that permit the pre-filing of offer documents for review by the regulator.

“The move by Sebi is very progressive and will be particularly advantageous to new-age, high-growth companies to maintain the confidentiality of financials and operational data in a competitive environment,” Savla said. “The mechanism will be more effective if the public notice period is reduced from 21 days to two weeks.”

The few months of data confidentiality will be significant for high-growth firms compared with more mature ones that have steady state revenues and margins.

### **PSU pricing**

The regulator’s board may also approve a proposal to ease certain provisions of the takeover code for disinvestment of PSUs. It aims to scrap the need to take into account the 60-day, volume-weighted average market price for calculating the open offer price for the disinvestment of PSUs and for indirect acquisition of any other company in which the PSU has a stake.

The regulator had said information about a strategic disinvestment becomes public at the time of cabinet approval and subsequent announcements are made at different stages, affecting the market price of the PSU concerned.

“The PSU divestment process is already based on competitive bidding and hence ensures the best price for all shareholders, thus ensuring that even minority shareholders interests are adequately protected,” Savla said. “The removal of market-linked offer price criteria will spur greater participation and hence better price discovery.”

### **Startups’ Issue Price**

The Sebi board is also likely to approve the proposal on disclosure of key performance indicators (KPIs) and certain additional parameters such as valuation based on past transactions and fund raising by new-age technology companies. Currently, companies are required to disclose accounting ratios such as earnings per share, price to earnings, return on net worth and net asset value. These parameters may not help investors in taking investment decisions in the case of new-age technology companies that are generally loss making. Startups may have to disclose material KPIs made to pre-IPO investors during the three years prior to the initial share sale.

This has probably been driven by the sharp correction in the prices of such companies after listing last year, investment bankers said,

“Each investor would weigh each KPI differently and a standard measure cannot be created,” said a senior investment banker with a domestic bank. “The proposed changes of including KPIs is already captured elsewhere in the

draft offer document. Getting these reviewed or audited by an auditor could create significant compliance issues and can be avoided.”

### Mutual Funds

Sebi will also tighten insider trading rules so that it can initiate enforcement action against those who misuse sensitive information relating to mutual fund schemes directly or indirectly to which they have access by virtue of their fiduciary capacity. Insider trading rules are applicable to those dealing in the securities of listed companies or those proposed to be listed, when in possession of price-sensitive information.

“There is definitely a need to bring mutual funds within the purview of prevention of insider regulations,” said Supreme Court advocate Pratap Venugopal. “In the US, as far back as in 2005, the SEC attempted to establish a new form of insider trading, namely use of non-public information about mutual fund portfolio holdings to engage in fund arbitrage. I think this is a good step and in the long run will only strengthen the mutual fund market.”

Sebi’s move comes in the wake of the Franklin Templeton crisis of 2020, where senior executives—including Asia-Pacific head Vivek Kudva—and their immediate relatives were alleged to have indulged in practices such as withdrawing some of their investments ahead of the six debt schemes shutting for redemptions on April 23.

### Top Mutual Funds

Equity				Tax Saver	Debt	Hybrid	Others	Return Duration: 3Y
LARGE CAP					FLEXI C			
FEATURED	<b>ICICI Prudential Bluechip Fund-IDCW</b>	★★★★★	INVEST NOW	FEATURE	<b>Canar:</b>	★★★★★	INVEST NOW	3Y RETUR
3Y RETURN	↑24.77%	FUND SIZE	₹ 34198.52 Crs	CATEGORY RETURNS	+11.32%	+34.90%	3Y RETUR	↑22.35%
FEATURED	<b>ICICI Prudential Nifty 50 Index Fund-IDCW</b>	★★★★★	INVEST NOW	FEATURE	<b>Canar:</b>	★★★★★	INVEST NOW	3Y RETUR
3Y RETURN	↑23.34%	FUND SIZE	₹ 3977.09 Crs	CATEGORY RETURNS	+11.32%	+34.90%	3Y RETUR	N.A.
FEATURED	<b>ICICI Prudential BHARAT 22 FOF Direct - Growth</b>	★★★★★	INVEST NOW	FEATURE	<b>HDFC</b>	★★★★★	INVEST NOW	3Y RETUR
3Y RETURN	↑34.70%	FUND SIZE	₹ 89.17 Crs	CATEGORY RETURNS	+11.32%	+34.90%	3Y RETUR	↑32.75%
FEATURED	<b>Quant Focused Fund Direct-Growth</b>	★★★★★	INVEST NOW	FEATURE	<b>HDFC</b>	★★★★★	INVEST NOW	3Y RETUR
3Y RETURN	↑32.41%	FUND SIZE	₹ 219.53 Crs	CATEGORY RETURNS	+11.32%	+34.90%	3Y RETUR	↑32.06%
FEATURED	<b>Nippon India Large Cap Fund Direct-Growth</b>	★★★★★	INVEST NOW	FEATURE	<b>HDFC</b>	★★★★★	INVEST NOW	3Y RETUR
3Y RETURN	↑26.66%	FUND SIZE	₹ 12524.53 Crs	CATEGORY RETURNS	+11.32%	+34.90%	3Y RETUR	↑31.61%

Mutual fund investments are subject to market risks. Read all scheme related documents carefully.