

J.K. SHAH[®]

**TEST
SERIES**



SUGGESTED SOLUTION

CS PROFESSIONAL

Subject – Corporate Funding & Listing

Topic – Listing Chp-13 to 16

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Answer to Q1.A.

BdL market EU-regulated market	Euro MTF market Exchange-regulated market
The CSSF, Luxembourg's supervisory authority, is in charge of prospectus approval.	The Luxembourg Stock Exchange is in charge of prospectus approval.
Eligible for a European passport.	No European passport provided.
Entry for issuers is subject to the Prospectus and Transparency Obligation Directives	Outside the scope of the Prospectus and Transparency Obligation Directives
Issuers subject to International Financial Reporting Standards (IFRS), or an equivalent, for non-EU issuers.	Financial reporting is in line with IFRS. However, other accounting standards, such as Generally Accepted Accounting Principles (GAAP), are accepted.

(5 MARKS)**Answer to Q1.B.****Regulation 6: Compliance Officer and his Obligations**

The listed entity shall appoint a qualified Company Secretary as the Compliance Officer, who is responsible for:

- Ensuring conformity with the regulatory provisions in letter and spirit.
- Co-ordination with and reporting to SEBI, recognized stock exchange(s) and depositories.
- Monitoring email address of grievance redressal division for the purpose of registering complaint by investors.
- Ensuring correctness, authenticity and comprehensiveness of the information, statements and reports filed by listed entities.

This regulation is not applicable to listing of units of mutual funds.

It may be noted that under this regulation, great responsibility has been cost on the Company Secretary holding the position of Compliance officer in a listed entity.

(5 MARKS)**Answer to Q1.C.**

The SEBI Regulations as well as Companies Act, 2013 requires management to certify that all the relevant provisions of the Companies Act and Rules, Regulations & Guidelines issued by Government of India or by SEBI have been complied with and no statement made in the offer document is contrary to the provisions of these Acts, Rules & Regulations. The offer document also requires disclosure of contracts which are or may be deemed material & are not in its ordinary course of business. The copies of these material contracts and documents for

inspection are required to be attached to the copy of offer document delivered to ROC and said documents are also required to be made available for inspection at registered office of the Company from draft offer document stage till the closure of the IPO.

The standard material contracts & documents for inspection include following :

A. Material Contracts to the Issue

1. Offer/Issue Agreement between Company, the Merchant Banker and Selling Shareholders (if any).
2. Memorandum of Understanding or Agreement between Company and the Registrar to the Issue.
3. Bankers to the Issue Agreement between Company, Merchant Banker and the Banker to the Issue.
4. Underwriting Agreement between Company, Merchant Banker & other Underwriters (if any).
5. Market Making agreement between Company, the Lead Managers and the Marker Maker to the Issue (If applicable).
6. Syndicate Agreement between Company, Merchant Banker & Syndicate Members.
7. Copy of Tripartite agreement entered into between Company, CDSL and the Registrar to the Issue.
8. Copy of Tripartite agreement entered into between Company, NSDL and the Registrar to the Issue.

B. Material Documents

1. Certified copies of the updated Memorandum of Association and Articles of Association of Company, as amended from time to time.
2. Certificate of Incorporation of Company.
3. Certificate of commencement of business.
4. Copies of the Board and shareholders resolutions authorizing the Issue.
5. Report of the Statutory Auditors/Peer Review Auditor on Company's Restated Financial Statements (Standalone) for past 3 financial years and stub period not older than 6 months from the date of filing & opening of IPO.
6. Report of the Peer Review Auditor on Company's Restated Financial Statements (Consolidated) for past 3 financial years and stub period not older than 6 months from the date of filing & opening of IPO.
7. Statement of Tax Benefits from Chartered Accountants.
8. Copies of annual reports of Company for the past three (3) Financial Years.
9. Consents of Statutory Auditors, Peer Review Auditors, Bankers to Company, Merchant Banker, Registrar to the Issue, Legal Advisor to the Issue, Directors of Company, Company Secretary and Compliance Officer, as referred to, in their respective capacities.
10. In-principle approval from the Stock Exchanges for listing of the securities.
11. Due Diligence certificate to SEBI from the Merchant Banker.

12. Observation Letter issued by the Securities and Exchange Board of India and reply to the observation by Merchant Banker.

(5 MARKS)

Answer to Q1.D.

Documents required for listing approval for Bonus equity shares issued by the Companies :

- 1) Letter of Application (i.e. by Listed companies applying for listing of further issue) duly completed.
- 2) Certified true copy of the Board resolution in which the equity shares were allotted.
- 3) Brief particular of the new securities issued.
- 4) Shareholding Pattern as per the format prescribed under Regulation 31 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 giving details pre and post allotment of bonus shares.
- 5) Certificate from Statutory Auditors / Practicing Chartered Accountant / Practicing Company Secretary to the effect that the SEBI (ICDR) Regulations, 2018 for bonus issue has been complied with.
- 6) Confirmation by the Managing Director/ Company Secretary.
- 7) Details of further listing /processing fee remitted

(5 MARKS)

Answer to Q2.A.

Quarterly Compliances	
Regulation Reference	Timeline
Regulation 31 (1) (b) - Shareholding Pattern	Within 21 days from the end of the quarter
27(2)(a): Corporate Governance Report	Within 15 days from the end of the quarter
Regulation 33 (3) (a) - Financial Results along with Limited review report/Auditor's report	Within 45 days from the end of the quarter
Reconciliation of share capital audit report	Within 30 days from the end of the quarter
Regulation 13 (3) - Statement of Grievance Redressal Mechanism	Within 21 days from the end of the quarter
Regulation 32 (1) - Statement of deviation(s) or variation(s).	-

(5 MARKS)

Answer to Q2.B.

■ The SEBI Regulations requires a Merchant Banker, amongst other things, to exercise due diligence, ensure proper care and exercise independent professional judgment. Further, it

requires Merchant Banker to ensure that adequate disclosures are made to potential investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed investment decision. The SEBI Regulations requires Merchant Banker to maintain records and documents pertaining to due diligence exercised in pre-issue and post-issue matters. The ICDR Regulations require that Offer Documents¹ should contain all material disclosures, which are true and adequate to enable prospective investors to take an informed decision. Furthermore, the SEBI ICDR Regulations, 2018 require due diligence certificate to be issued by the Merchant Banker.

■ Whilst the regulatory framework does not specifically define what constitutes due diligence, as a matter of practice, the objective of due diligence is to collect information about the Issuer company that helps the Merchant Banker draft as well as assess disclosures that are made in the Offer Document. It is pertinent to understand that while the Merchant Banker continues to be responsible for due diligence, external expert assistance is necessary. Whilst under the applicable Code of Conduct, the Merchant Bankers are required to demonstrate that all reasonable steps were taken to exercise due diligence and ensure adequate disclosures were made to potential investors, they should have the flexibility regarding the manner in which the due diligence exercise is conducted as they may not possess the expertise with respect to certain aspects of due diligence, such as technical, legal and accounting matters.

■ In terms of the ICDR Regulations, the Merchant Bankers are required to submit due diligence certificate to SEBI and the formats for such certificate have been provided in the ICDR Regulations. An examination of the format of the due diligence certificate provides clarity of expectations from the Merchant Bankers, to a certain extent, and can act as guiding principles for the diligence to be exercised.

(5 MARKS)

Answer to Q2.C

Documents to be submitted on T+2 days (i.e. within 2 working days from the closure of the issue)

1. All due diligence certificates filed with SEBI by Merchant banker(s).
2. Observation Letter issued by SEBI pursuant to filing of draft offer document.
3. List of authorized signatories along with their specimen signatures.
4. Confirmation from Lead Managers that devolvement notices have been sent to underwriters (applicable if the issue has devolved).
5. Certificate from the BRLM(s) that the issue has received minimum subscription as specified under Regulation 45 (1) of SEBI (ICDR) Regulations, 2018.
6. Confirmation from the company regarding the email ID for Investor Grievances as per Regulation 46 of SEBI (LODR), Regulations, 2015.
7. Copies of all advertisements published in connection with the issue upto T+1 stage.

8. Confirmation from the company stating that they have obtained authentication for SCORES from SEBI as per Regulation 13 of LODR, Regulations, 2015.

(5 MARKS)

Answer to Q2.D

A company may choose to list its shares in a stock exchange of a country other than that in which the company is based. Firms may adopt International listing to obtain advantages that include lower cost of capital, expanded global shareholder base, greater liquidity in the trading of shares, prestige and publicity. Decision makers also need to be satisfied that the benefits exceed possible costs, such as listing costs, exposure to legal liabilities, taxes and various trading frictions, and reconciliation of financial statements with varying national standards.

Because of the benefits of being cross-border listed, more and more companies are getting themselves listed on stock exchange markets based outside of their home countries.

Here are more benefits of such a move.

1. Increased Market- Liquidity International listing enables companies to trade its shares in numerous time zones and multiple currencies. This increases the issuing company's liquidity and gives it more ability to raise capital.

2. Market Segmentation- Market segmentation is the practice of dividing a large market into clear segments with similar needs. International listing enables firms to divide foreign investor markets into segments which are easy to access. Companies seek to list internationally because they anticipate gaining from a lesser cost of capital. This arises because their stocks become more available to foreign investors. Their access to these stocks may otherwise be restricted due to international investment barrier.

3. Capital needs and growth opportunities- Companies in emerging markets need to use international listing to raise capital to continue to grow beyond their home market.

4. Wider shareholder base- International listing provides access to a larger pool of potential investors (both retail and institutional). Wider shareholder base are less risky.

5. Better Investor Protection- Companies need to comply with the provisions of all the regulatory aspects of the listing of those countries, where sought to be listed. Investors will therefore find themselves more protected and comfortable to invest in these companies.

6. Secure Clearing- A stock exchange provides a reliable and secure clearing mechanism. Listing on a foreign stock exchange is possible only after creating robust and advance clearing system.

7. Other benefits- Higher visibility/brand awareness, increased opportunities for mergers and acquisitions, entering markets with better investment protection reduces costs and creates bonding (a signal of corporate governance).

(5 MARKS)

Answer to Q3.A.

Regulation 31 : Holding of specified securities and Shareholding Pattern

} Submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities, in the format specified by the SEBI within the following timelines –

(a) one day prior to listing of its securities on the stock exchange(s);

(b) on a quarterly basis, within twenty one days from the end of each quarter; and, and for companies listed on SME platform, it is to be submitted on half yearly basis

(c) within ten days of any capital restructuring of the listed entity resulting in a change exceeding two per cent of the total paid-up share capital:

} Shall ensure that hundred percent of shareholding of promoter(s) and promoter group is in dematerialized form and the same is maintained on a continuous basis.

} The listed entity shall comply with circulars or directions issued by SEBI from time to time with respect to maintenance of shareholding in dematerialized form.

} All entities falling under promoter and promoter group shall be disclosed separately in the shareholding pattern appearing on the website of all stock exchanges having nationwide trading terminals

(5 MARKS)

Answer to Q3.B.

Regulation 43A : Dividend Distribution Policy

} Top 500 Listed entities based on market capitalization shall formulate a dividend distribution policy.

} Dividend Distribution Policy shall be disclosed in their annual reports and on their websites.

} The dividend distribution policy shall include the following parameters:

- a. the circumstances under which the shareholders of the listed entities may or may not expect dividend;
- b. the financial parameters that shall be considered while declaring dividend;
- c. internal and external factors that shall be considered for declaration of dividend;
- d. policy as to how the retained earnings shall be utilized; and
- e. parameters that shall be adopted with regard to various classes of shares.

} If the listed entity proposes to declare dividend on the basis of parameters in addition to clauses (a) to (e) or proposes to change such additional parameters or the dividend distribution policy contained in any of the parameters, it shall disclose such changes along with the rationale for the same in its annual report and on its website.

} Listed entities other than top 500 may disclose their dividend distribution policies on a voluntary basis in their annual reports and on their websites.

(5 MARKS)

Answer to Q3.C.

The Main Market is the flagship market for larger, more established companies, and is home to some of the world's largest and best known companies.

Underpinned by London's balanced and globally-respected standards of regulation and corporate governance, the Main Market represents a badge of quality for every company admitted and traded on it and an aspiration for many companies worldwide. It is an EU Regulated Market.

The Main Market has four segments that cater for a range of businesses and securities.

- **Premium:** Part of the FCA's (Financial Conduct Authority (FCA) is a financial regulatory body in the United Kingdom) Official List, this segment is home to some of the world's largest corporations that are subject to the highest standards of regulation and governance.
- **Standard:** Subject to EU minimum standards and part of the Official List, open to shares and debt securities.
- **Specialist Fund Segment:** Designed for highly specialised investment entities that wish to target institutional, highly knowledgeable investors or professionally advised investors only.
- **High Growth Segment:** A new addition to the Main Market offering, this segment is specifically designed for equity securities of high growth, revenue generating businesses that are over time seeking to become Premium listed companies.

(5 MARKS)

Answer to Q3.D.

Company has to finalise the basis of allotment, and submit the documents as under, within 10 days from closure of the issue:

1. Bid data of Exchanges other than the designated stock exchange.
2. All rejections application along with Summary statement (1 set photocopy to be submitted).
3. Certified copies of all Bank final certificates (ASBA & NON ASBA).
4. Minutes of Basis of allotment duly signed by all the Lead Manager, Registrar and the Company.
5. Basis of allotment sheet for each category.
6. Round summary in case of over subscription, in hard as well as soft format.
7. Copy of post issue initial monitoring report filed with SEBI (3 day monitoring report).
8. Undertaking from Lead Manager, Company and the Registrar.
9. Pre Allotment shareholding and Post proposed Allotment Shareholding pattern as per Regulation 31 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015.
10. The calculation of ex right price by the Statutory Auditor/ Practicing company secretary/ Practicing Chartered Accountant, if not available in the offer document.

(5 MARKS)