

Cos Planning IPOs told to Drop Director Nomination Rights

Regulator asks firms to seek nod from shareholders for such rights for promoters, investors after listing

Swaraj.Dhanjal
@timesgroup.com

Mumbai: The Securities and Exchange Board of India (Sebi) is asking companies planning initial public offers (IPOs) to remove director nomination rights provided to promoters and investor shareholders from the articles of association. They have to instead seek shareholder approval for such rights after listing, said sources aware of the development.

Clean Slate



All special rights held by shareholders cease to exist when a co goes public

Sebi had allowed only right to nominate director till now

Cos to put these rights to vote at first AGM or EGM after IPO

75% votes in favour will be needed to approve them

Move to give public shareholders a say in board constitution

An investor with at least **5%** stake can seek right to nominate director/s



The move is aimed at strengthening corporate governance.

While all other special rights held by shareholders cease to exist when a company goes public, the right to nominate directors to the board had thus far been allowed by Sebi.

Market experts said the move was of a piece with Sebi's recent efforts to curb misuse of board po-

sitions in listed companies. Sebi "had released a discussion paper in February where this issue of board permanency was raised after a few cases of promoters and founders enjoying board permanency were highlighted in the media," said Pranav Haldea, managing director of Prime Database group.

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"This proposal was subsequently approved by the Sebi board in March. It has been done primarily in the interest of good corporate governance that whoever sits on the board should obtain periodic approval of shareholders," said Haldea.

With the latest move, all pre-existing special rights of promoters or investor shareholders will be extinguished at the time of listing.

For instance, the draft red herring prospectus of Utkarsh Small Finance Bank Ltd, which successfully ended its IPO on Friday, had included this element at the time it was filed in

July last year.

"Any shareholder who along with its affiliates owns at least 9% or more shares on a fully diluted basis and employee shareholders, shall have the right to nominate one (1) director on the board," said the DRHP filed July 2022. "Utkarsh CoreInvest Ltd shall have the right to appoint such number of directors which is one (1) more than the total number of directors appointed by shareholders owning more than 9% or more shares."

However, when the bank filed its red herring prospectus on July 6, ahead of the IPO launch, these rights did not find a mention in the company's articles of association.