SEBI Reviews SME IPO and Delisting Rules: What Could Change for Small Companies

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Chairman Tuhin Kanta Pandey says market-making requirements are adding to the cost of small-company listings, as SEBI reviews rules governing how smaller firms enter, and exit, the stock market. None of the specific numbers now being floated are finalised.

Key Takeaways

SEBI chairman **Tuhin Kanta Pandey** said Wednesday, August 19, that the regulator is reviewing IPO rules for smaller companies and delisting regulations, pointing to market-making requirements as a cost driver for SME listings.

The review effectively spans the SME segment's **entire lifecycle** — listing costs, post-listing liquidity obligations, and how companies eventually delist.

Reported proposals under discussion include easing the compulsory **three-year market-making and 100% underwriting requirements** — none has been formally notified yet.

SEBI's own bulletin data show the SME segment **growing in average deal size** even as headline listing counts have cooled and regulatory scrutiny of pricing and fraud has intensified since 2024.

Pandey also flagged a parallel review of **portfolio manager regulations** and defended the new **closing auction session**, promising faster detection of manipulation.

Why SEBI Is Revisiting SME IPO Rules Now

SEBI is reopening the rulebook for India's small-company IPO market, and the first pressure point is cost. Speaking at an event in Mumbai on Wednesday, Pandey said market-making requirements are adding to the expense of SME listings, as the regulator simultaneously reviews the rules governing how smaller companies enter and exit the market. "A comprehensive review is underway," he said, per Reuters. The significance goes beyond one fee: SEBI is effectively examining the SME market's full lifecycle, from raising capital to maintaining post-listing liquidity to eventually delisting.

The timing follows a segment that has been growing steadily by value. SEBI's own monthly bulletins show the **average SME IPO size has risen from ₹13 crore in FY20 to ₹44 crore in FY25, and further to ₹49 crore in FY26** so far.

The SME platform mobilised **₹11,136 crore in FY26 up to February**, and in May 2026 alone, 12 SME IPOs raised ₹651 crore, with the segment recording a **peak listing-day gain of 53%** and a **peak oversubscription of 787 times**.

At the same time, headline deal counts have reportedly cooled, one industry report put 2026 SME listings at fewer than 100 by mid-August, against 267 across all of 2025. Read together, the picture isn't collapse; it looks more like **fewer, larger, better-subscribed SME IPOs**, alongside tighter scrutiny.

SEBI tightened SME oversight from late 2024 after concerns about fund diversion and price manipulation in the segment, and separately, Reuters reported in 2024 that the regulator was probing investment banks over unusually high fees on small IPOs.

Market-Making Is the First Cost Pressure Point

Under SEBI's ICDR Regulations, SME issuers currently face two compulsory obligations that don't apply to mainboard companies:

Regulation 261 requires a SEBI-registered market maker to provide continuous two-way quotes for a **minimum of three years** after listing, with initial inventory of at least **5% of the securities** being listed.

Regulation 260 requires the entire SME issue to be **100% underwritten**, with the lead merchant banker underwriting at least 15% on its own account.

Merchant-banking fees for SME IPOs have been reported to average around **5.3% of the amount raised,** more than double the roughly

2.2% typical for mainboard issues, according to data compiled by Prime Database and cited in market reports. All-in costs for an SME issue, once listing, underwriting, market-making, and advisory fees are added up, have been put as high as **7–10% of issue size**.

What Could Actually Change

Sebi's Primary Market Advisory Committee reportedly discussed SME reform proposals on August 12, ahead of an expected formal consultation paper. Proposals said to be under discussion — **not yet finalised,** include:

Dropping the mandatory market-making and underwriting requirements, or making them optional.

Raising the paid-up capital eligibility ceiling well beyond the current ₹25 crore threshold, with figures as high as ₹100 crore reportedly under discussion.

One report, citing unnamed sources, said SME platforms could eventually be opened to companies valued up to ₹4,000 crore, versus an informal ceiling of roughly ₹500 crore today.

A word of caution on that last figure: it's easy to confuse with a different, *already-enacted* rule. A March 2026 amendment to the Securities Contracts (Regulation) Rules introduced new market-cap-based public-float bands, including a ₹1,600–4,000 crore tier, governing minimum public offer requirements for **all large listings**, mainboard included. That change is unrelated to SME-platform eligibility specifically, and it’s already in force; the SME-specific ₹4,000 crore idea, by contrast, remains an unconfirmed proposal.

Why SEBI Can’t Simply Relax Everything

Lower costs are only half the equation. The SME segment has also been the site of repeated enforcement concern: promoters allegedly manipulating pricing through inflated sales figures, and high fees tied to efforts to guarantee oversubscription.

Any reduction in mandatory market-making or underwriting removes a built-in liquidity and quality backstop, which is why SEBI has paired cost-focused proposals with continued monitoring of disclosure, eligibility, and institutional-investor participation rules.

The balance SEBI is trying to strike is explicit in Pandey’s own framing of the regulator’s broader reform agenda: reduce friction and deepen markets, but not at the cost of investor protection or market integrity.

Delisting: The Other Half of the Reform

Today’s remarks build on a review Pandey first laid out at the ET NOW Market Summit in June, in an address published on SEBI’s own website.

There, he said the regulator’s LODR framework was under review and that the delisting framework would be reviewed further, adding: “A well-developed capital market must provide fair entry and fair exit.”

The same speech noted that regulations covering municipal debt and portfolio management services were also being examined in parallel, the same PMS review Pandey referenced again today.

SEBI has already changed the delisting rulebook once in recent years. In 2024, it introduced a **fixed-price delisting route** as an alternative to reverse book-building, and it later cleared a **voluntary delisting framework** for public-sector companies where the promoter holds more than 90%. A further review suggests more change could follow, particularly on price discovery and timelines for controlling shareholders looking to take companies private.

What This Means for SME IPO Investors

Cheaper market-making and underwriting rules could open the SME platform to more companies and lower the compliance drag issuers currently absorb.

But for investors, the more relevant question is what changes without weakening the safeguards that currently exist around the segment: the compulsory market-maker requirement, for instance, is also what currently guarantees a buyer of last resort for smaller, thinly-traded SME stocks.

Recent listings have shown strong demand, May’s 787x peak oversubscription is a reminder the segment isn’t short of investor appetite, which is precisely why SEBI’s balancing act between cost and protection matters.

CAS and Portfolio Managers: A Broader Reform Signal

Pandey's other two comments today fit the same pattern. On the **closing auction session (CAS)** — live since August 3 for stocks with derivatives contracts, replacing the old last-30-minutes averaging method — he said any manipulation would be detected faster under the new system, with strict action if found. The mechanism had a volatile first week that briefly pushed the hashtag #rollbackCAS to trend on social media, and brokerages including Zerodha and Jefferies published estimates of the potential hit to trading volumes and earnings; SEBI has maintained it has not observed actual manipulation.

On **portfolio manager rules**, Pandey said proposed changes would help fund managers run global strategies from India rather than offshore. That builds on a July 2026 consultation paper, SEBI's first comprehensive review of the Portfolio Managers Regulations since 2020, which proposes allowing investment in pre-IPO securities, unlisted debt, and specified foreign securities, alongside a new lower-entry "MF-PMS" category.

What Happens Next

Nothing here is finalised. The SME cost proposals, the delisting review, and the portfolio manager overhaul are all still at the discussion or consultation-paper stage, and SEBI has not committed to a timeline for formal notification. The real test will be whether the specific numbers, the ₹100 crore threshold, the ₹4,000 crore SME ceiling, the fate of compulsory market-making, survive contact with a formal draft, and whether SEBI can lower entry and exit costs for small companies without reopening the investor-protection risks it spent the last two years trying to close.

What did SEBI chairman Tuhin Kanta Pandey say about small-company IPOs?

He said SEBI is comprehensively reviewing IPO rules for smaller companies, citing market-making requirements as a cost driver, alongside a review of delisting norms, both still under discussion, not finalised.

What is the current market-making requirement for SME IPOs?

Under ICDR Regulation 261, SME issuers must appoint a market maker for a minimum of three years post-listing, with initial inventory of at least 5% of the listed securities. Regulation 260 separately requires 100% underwriting of the issue.

Is SEBI raising the SME IPO eligibility threshold?

Reports suggest SEBI is considering raising the current ₹25 crore post-issue paid-up capital ceiling, with figures as high as ₹100 crore discussed, but this has not been formally proposed or notified.

Is SEBI changing delisting rules?

Yes. SEBI is reviewing its delisting framework to ease market entry and exit, building on the 2024 fixed-price delisting route and the voluntary framework for public-sector companies.

What is SEBI’s Closing Auction Session (CAS)?

A 20-minute session, live since August 3, 2026, where exchanges auction stocks to set closing prices instead of averaging the last 30 minutes of trades. Its volatile debut drew trader criticism; SEBI has promised faster manipulation detection and strict enforcement.