



*SEBI introduces additional confirmatory  
checks for schemes involving listed entities*

3<sup>rd</sup> November, 2020

Reliance restricted

BATHIYA

## *SEBI circular for schemes involving listed entities*

The Securities and Exchange Board of India (**'SEBI'**) has on 3<sup>rd</sup> November 2020 issued a circular on schemes of arrangement by listed entities (**'Circular'**).

Listed companies proposing to enter into schemes of arrangement are required to comply with the requirements Securities Contracts (Regulation) Rules, 1957, as applicable and the provisions of SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 (**'March 2017 circular'**).

By way of this Circular, SEBI has introduced the following key changes to the March 2017 circular:

### *Enhanced vigil of the Audit Committee ...*

In accordance with the requirements of March 2017 circular Audit Committees are required to report on recommending the draft scheme. Additionally, now per the Circular, such Report of Audit Committee shall also include the following:

- a. Need for the scheme
- b. Rationale of the scheme
- c. Synergies of business of the entities
- d. Impact of the scheme on the shareholders
- e. Cost benefit analysis of the scheme

### *... Independent view from Committee of Independent Directors...*

The Circular introduces an enhanced review by a committee of Independent Directors in the form of requiring a Report from the Committee of Independent Directors recommending the draft Scheme, taking into consideration, inter alia, that the scheme is not detrimental to the shareholders of the listed entity.

### *... Additional details in relation to Transferee Entity.*

The Circular has introduced certain additional disclosure requirements in relation to securities of a transferee entity that are proposed to be listed as a part of the scheme. The said disclosures are also required to be updated on the website of the listed entity. Some of the additional disclosures that are required include:

- a. Business Model / Business Overview and Strategy
- b. Change in accounting policies in the last three years and their effect on profits and reserves
- c. Summary table of contingent liabilities as disclosed in the restated financial statements;
- d. Summary table of related party transactions in last 3 years as disclosed in the restated financial statements
- e. Regulatory Action, if any -disciplinary action taken by SEBI or Stock Exchanges against the Promoters in last 5 financial years
- f. Brief details of outstanding criminal proceedings against the Promoters

### *... Requirement of report from a Registered Valuer...*

The existing regime under the March 2017 circular required a valuation report to be obtained from an Independent Chartered Accountant. The Circular now requires the valuation report to be obtained from Registered Valuer as recognized under section 247 of the Companies Act, 2013.

The Registered Valuer framework under the Companies Act, 2013 has been adopted by various regulators including the Insolvency and Bankruptcy Board of India. This amendment by SEBI is suggestive of the wide-spread acceptance of the Registered Valuer accreditation in conducting valuations.

This Circular shall be applicable for all the schemes filed with the stock exchanges after **November 17, 2020**, except for additional details in relation to Transferee Entity, which shall be applicable from November 3<sup>rd</sup>, 2020 onwards.

Full Circular can be accessed [Here](#)