Module 4 · SEBI Laws and Regulations P13 · Section B (Economic Laws)

SM pp. 255–272: 13 pages of text + 3 of exercise. A long question in every paper from a short module, so prepare all 3 topics for 7 marks.

Topic	Law	What it covers	SM pages
4.1 Raising Finance from Capital Markets – IPO	SEBI (ICDR) Regulations, 2018	who cannot make a public issue; IPO entry tests; pricing; promoters' contribution & lock-in; book building	257–260
4.2 Insider Trading	SEBI (PIT) Regulations, 2015	insider, connected person, UPSI; ban on communicating & trading; trading plan; disclosures; two codes; institutional mechanism	261–264
4.3 Takeover Code	SEBI (SAST) Regulations, 2011	definitions; kinds of takeover; disclosures; open-offer triggers (25% / 5%); open-offer timeline; obligations; exemptions	265–269

Marks in the last 7 papers [question bank, P13 analysis 5 Oct]

Topic	Jun'23	Dec'23	Jun'24	Dec'24	Jun'25	Dec'25	Jun'26
4.1 IPO (+ SEBI basics)	–	2 + **7**	2	2	2	**7**	2
4.2 Insider trading	**8**	–	**7** case	**7**	–	–	2 + **7**
4.3 Takeover code	–	–	2	–	**7**	–	2
Module total	**8**	**9**	**11**	**9**	**9**	**7**	**13**

Bold = long question (7–8 marks): one came in **all 7 papers**, plus 1–3 MCQs of 2 marks. The law in the long question rotates: IPO (Dec'23, Dec'25), insider trading (Jun'23, Jun'24, Dec'24, Jun'26), takeover (Jun'25).

HOW THIS MODULE IS EXAMINED: THE EXAM COPIES THE STUDY MATERIAL

- **Dec'23 Q7(a)** is the first line of SM 4.1.1, word for word. **Jun'26 Q1(x)** is the SM's definition of book building. **Jun'26 Q1(xii)** is the SM's definition of conglomerate takeover.
- **Dec'24 Q1(ix) and Jun'25 Q1(ix)** are MCQ 7 of the SM's own exercise. **Jun'24 Q1(iv) and Q1(xi)** are its fill-in-the-blanks 3 and 5. **Dec'23 Q1(v)** is fill-in-the-blank 1. So **the exercise on SM 270–272 is a question bank**, and it is on the last page of this pack.
- ICMAI's own model answers (MQP and PTP Q7(a), 2026) are the SM paragraphs copied out. **Write the SM's points in the SM's order.** Lines tagged SM WORDS are worth learning word for word.

DEC'26: OUR PREDICTION (A PREDICTION, NOT A PROMISE)

Slot	Most likely	Chance
Q7(a), 7 marks	4.3 Takeover: kinds + obligations + offer price	35%
	4.1 IPO eligibility (both December papers asked it)	35%
	4.2 Insider trading (just asked in Jun'26)	20%
Q1 MCQs (x)–(xii)	IPO · Takeover · Insider	80 · 60 · 40%

How far to trust it: our P13 method covered 80% of the real Jun'26 marks in the backtest, and 86% with ICMAI's practice papers added.

STUDY ORDER AND WHAT TO LEARN

1. **4.3 Takeover** ★★★. It was in ICMAI's MQP and PTP, and was amended for Dec'26 (independent registered valuer).
2. **4.1 IPO** ★★★. Learn the 10 "cannot issue" conditions, the 3 entry tests and the numbers.
3. **4.2 Insider** ★★. Learn the definitions, the two bans and the 5-point institutional mechanism.
4. Then the **revision sheet** (numbers, plus the SM exercise and its answers) before every mock.

SEBI ITSELF: FROM THE SM EXERCISE, ASKED AS AN MCQ IN DEC'24 AND JUN'25

SM WORDS The Preamble sets up SEBI to **protect the interests of investors** in securities, **promote the development** of the securities market and **regulate** it ("all of the above"). SEBI has **three functions rolled into one body: quasi-legislative, quasi-judicial, quasi-executive**. "Quasi-official" is **not** one of them. [SM 270–271]

4.1 Raising Finance from Capital Markets – IPO (SEBI ICDR)

WHAT IT IS SEBI's ICDR rules decide who may raise money from the public and what an IPO company must prove first: profits, assets and net worth, or else selling mostly to big institutions. They also set the issue price, how much the promoters must put in and lock in, and how the shares are divided among investor groups (book building). [SM 257–260]

4.1.1 When an issuer cannot make a public or rights issue [SM 257]

SM WORDS "An issuer cannot make a public issue or rights issue of equity shares and convertible securities under the following conditions:" *(This line is Dec'23 Q7(a), word for word.)*

Group	Condition (SM order)
People	**(a)** the issuer, any promoter, promoter group, director or selling shareholder is **debarred by SEBI** from the capital market, or any company they are linked to is debarred · **(h)** for a public issue of equity: the issuer, a promoter or a director is a **wilful defaulter** [SM 257]
Paperwork	**(b)** no application to stock exchange(s) for **"in-principle" listing approval**, and no **designated stock exchange** chosen. For an IPO, at least one recognised exchange must have **nationwide trading terminals** · **(c)** no agreement with a **depository** for dematerialisation · **(d)** existing **partly paid-up shares** not yet fully paid up or forfeited · **(f)** promoters' holding not in **demat form** before the offer document is filed [SM 257]
Money & numbers	**(e)** firm arrangements of finance, through verifiable means, are not in place for **75%** of the stated means of finance. Issue money and existing internal accruals are excluded from this. · **(g)** money for **general corporate purposes** must not exceed **25%** of the amount raised · **(i)** the issue stays open for at least **3 days** and at most **10 days** · **(j) minimum subscription 90%** of the issue size, or the application money is refunded within **15 days** of closure [SM 257]

MEMORY HOOK

Three groups: **People** (debarred, wilful defaulter) · **Paperwork** (listing, depository, partly-paid, promoter demat) · **Money** (75, 25, 3–10, 90/15). In the exam, write them in the SM order (a)–(j).

4.1.2 Intermediaries the issuer must appoint [SM 257–258]

- One or more **merchant bankers**, at least one of them the **lead merchant banker**. If there are several, each one's duties are fixed beforehand and disclosed in the offer document.
- Other **SEBI-registered intermediaries**, chosen with the lead merchant banker.
- Book-built issue: **syndicate member(s)**. Any other issue: **bankers to the issue** at various centres.
- A **Registrar to the issue** registered with SEBI, with connectivity to all depositories.
- A **compliance officer**, who monitors compliance with securities laws and handles investor grievances. *SM exercise MCQ 2: at IPO the issuer must have a "designated compliance officer".*

4.1.3 Entry tests for an IPO: which route? [SM 258]

ROUTE 1: TRACK RECORD (all four tests)

1. **Net tangible assets ≥ ₹3 crore** in each of the preceding **3 years** (12 months each). Not more than **50%** may be monetary assets; if more, the excess must be firmly committed to the business. The 50% limit does not apply if the IPO is entirely an **offer for sale**. [SM 258]
2. **Average pre-tax operating profit ≥ ₹15 crore**, restated and consolidated, in the **3 most profitable of the last 5 years**. [SM 258]
3. **Net worth ≥ ₹1 crore** in each of the preceding **3 full years**. [SM 258]
4. If the name was changed within the last **1 year**: at least **50%** of the last year's revenue came from the activity the new name shows. [SM 258]

ROUTE 2: FAILS ANY TEST → QIB ROUTE

The IPO is still allowed if the issue is made **through book building** and the issuer allots **at least 75% of the net offer to qualified institutional buyers (QIBs)**. If it fails to do so, it must **refund** the full subscription. [SM 258]

Why these tests exist (Dec'25 asked "why"): only companies with real assets, a profit record and positive net worth should take money from small investors. A company without that record must sell mainly to QIBs, the informed investors who can judge the risk. This protects retail investors, which is SEBI's first purpose. (This is reasoning built on the SM rules; the SM itself gives no "why".)

Other IPO conditions [SM 258]: an IPO of **convertible debt instruments** is allowed without first listing equity, if there has been no default in principal or interest for **6 months** · there must be at least **1,000** prospective allottees · no IPO while **outstanding convertible securities** or options to receive shares exist · if the issue is above **₹100 crore**, a bank or PFI monitors the use of the money and reports **quarterly** until **95%** is used · IPO **grading** by SEBI-registered credit rating agencies is optional.

4.1.4 Pricing and differential pricing [SM 258–259]

- The price is fixed with the **lead merchant banker** or through **book building**. The offer document may give a **price or price band**; the red herring prospectus gives a **floor price**. The issue price is **never below face value**. [SM 258]
- **Differential pricing** (SM short-essay question): retail investors and reserved employees may get a lower price, but **not lower than 10%** below the net-offer price. **Anchor investors** never pay less than other applicants. Under **alternate book building**, employees may pay up to **10%** below the floor price. [SM 259]
- **Face value:** it can be below ₹10 but not below **₹1**, and only if the issue price is **₹500** or more. If the issue price is below ₹500, the face value is **₹10**. [SM 259]

4.1.5 Promoters' contribution and lock-in [SM 259]

CONTRIBUTION
IPO: promoters bring **at least 20% of the post-issue capital** [SM 259]

→

LOCK-IN: MINIMUM 20%
3 years from the date of commercial production or the date of allotment, **whichever is later** [SM 259]

→

LOCK-IN: EXCESS OVER 20%
1 year. In a further public offer, the excess is **not** locked in [SM 259]

⚠ CHECK AMENDMENT
In 2021 SEBI shortened these lock-ins (to 18 months and 6 months) for issues whose money is not for capital expenditure. The SM still says 3 years and 1 year, and its own True/False answer key says "locked in for 3 years" is True. **Write the SM figures**, and add the 2021 change in one line if you like.

4.1.6 Book building: who gets how much [SM 259–260]

SM WORDS "Book Building means a process undertaken to elicit demand and to assess the price for determination of the quantum or value of specified securities." *(This is Jun'26 Q1(x).)* [SM 259]

Category in the net offer to public	Book building: normal	Book building: QIB route (Reg 6(2))	Not book built (fixed price)
Retail individual investors	not less than **35%**	not more than **10%**	minimum **30%**
Non-institutional investors	not less than **15%**	not more than **15%**	the rest: other individuals, corporates, institutions
Qualified institutional buyers	not more than **50%** (5% of it for mutual funds)	not less than **75%** (5% of it for mutual funds)	

Book building: up to **60%** of the QIB portion may go to **anchor investors**. Mutual funds also compete for the rest of the QIB portion. Fixed price: an unsubscribed part of one category can go to the other. If retail investors are entitled to more than **50%** on a proportionate basis, they get that higher share. [SM 259–260]

DEC'26 SUPPLEMENTARY: SEBI (ICDR) (AMENDMENT) REGULATIONS, 2026 · NOTIFIED AND EFFECTIVE 21 MARCH 2026

- **Draft Abridged Prospectus:** a public issuer must prepare and file it with the **draft offer document**. The draft and final abridged prospectus are made available with their offer documents. [Supp Dec'26 p.6]
- **Pledged pre-issue securities stay locked in:** the lock-in still applies when they are pledged. [Supp Dec'26 p.6]

EXAM ANGLE: 4.1

- **Asked as long questions:** Dec'23 Q7(a) 7m, "cannot make a public issue… explain the conditions" (SM 4.1.1 (a)–(j)). Dec'25 Q7(a) 7m, "IPO eligibility: net worth, net tangible assets, operating profit… and why" (4.1.3, both routes, plus the "why" lines). ICMAI postal Q4(b) 6m, "requirements for a first public issue".
- **Asked as MCQs:** promoters' minimum contribution 20% (Dec'23) · minimum subscription 90% (Jun'24) · book building (Jun'26) · SEBI's three functions (Dec'24, Jun'25) · ICMAI MQP: net tangible assets ₹3 crore.
- **Answer frame, 7 marks:** one opening line naming the SEBI (ICDR) Regulations, 2018 → the conditions as numbered points in SM order, numbers in bold → for "why", two lines → one closing line.

4.2 Insider Trading (SEBI PIT Regulations, 2015)

WHAT IT IS Insider trading means trading in a listed company's securities, or passing on information, while holding **unpublished price sensitive information (UPSI)** that the market does not have. The SEBI (Prohibition of Insider Trading) Regulations, 2015 ban it and make every listed company keep codes, controls and disclosures in place. [SM 261]

4.2.1 Definitions: the case questions turn on these [SM 261–262]

Term	Meaning
Insider	SM WORDS any person who is (i) a **connected person**; or (ii) **in possession of or having access to** unpublished price sensitive information. [SM 262]
Connected person	anyone who **is, or during the 6 months before** the act was, associated with the company in any capacity, in a way that gives or can reasonably be expected to give access to UPSI. Examples: frequent communication with its officers; a contractual, fiduciary or employment relationship; director, officer or employee; a professional or business relationship. [SM 261]
Deemed connected (unless the contrary is shown)	immediate relatives of the above · holding, associate or subsidiary company · intermediaries under s.12 of the SEBI Act, with their employees and directors · investment company, trustee company or AMC, with their employees and directors · officials of a stock exchange or clearing house · MF trustees and AMC directors or employees · directors or employees of a public financial institution · officials of a SEBI-recognised self-regulatory organisation · the company's **banker** [SM 261]
Immediate relative	the **spouse**, plus the **parent, sibling and child** of the person or of the spouse, if they are **financially dependent** on the person or **consult** the person on trading decisions. [SM 261–262]
UPSI	SM WORDS information relating to a company or its securities, directly or indirectly, that is **not generally available**, which upon becoming generally available is **likely to materially affect the price**. Ordinarily it includes: **(i) financial results (ii) dividends (iii) change in capital structure (iv) mergers, de-mergers, acquisitions, delistings, disposals and expansion of business (v) changes in key managerial personnel**. [SM 262]
Generally available information	information **accessible to the public on a non-discriminatory basis**. [SM 261]
Compliance officer	a senior officer, **financially literate**, who reports to the board. Responsible for policies, procedures, records, preserving UPSI, monitoring trades and implementing the codes, under the board's overall supervision. [SM 261]

MEMORY HOOK: THE 5 KINDS OF UPSI

R-D-C-M-K: Results, Dividends, Capital structure, Mergers (and the rest of M&A), KMP changes.

4.2.2 The two bans: communicating and trading [SM 262]

BAN 1: NO COMMUNICATING UPSI

- No insider shall communicate, provide or allow access to UPSI about a listed (or to-be-listed) company, **except for legitimate purposes**. The board writes a **"legitimate purposes" policy** as part of the Codes of Fair Disclosure and Conduct. [SM 262]
- Insiders are given **due notice** to keep UPSI confidential. [SM 262]
- **Allowed for a transaction** that (a) requires an **open offer**, or (b) the board decides is in the **company's best interests**, provided the UPSI is made generally available at least **2 trading days** before the transaction. The receiving parties sign confidentiality and non-disclosure agreements and must not trade while they hold UPSI. [SM 262]
- **Structured digital database (SDD)** of the UPSI shared, with internal controls, kept for at least **8 years** (longer if there is an investigation). [SM 262]

BAN 2: NO TRADING WHILE HOLDING UPSI

- No insider shall trade in securities listed or proposed to be listed **when in possession of UPSI**. The insider may prove innocence through the defences in the Regulations (the SM does not list them). [SM 262]
- **Onus:** a **connected person** must prove they did **not** have UPSI. For anyone else, the onus is on **SEBI** (the SM says "the Board"). [SM 262]

Jun'26 MCQ (xi): the correct option said UPSI may be shared only for "legitimate purposes, performance of duties, or legal obligations". That is the Regulation's full wording; the SM shortens it to "legitimate purposes".

4.2.3 Trading plan [SM 263]

1 · INSIDER draws up a trading plan [SM 263] → **2 · COMPLIANCE OFFICER** approves it [SM 263] → **3 · PUBLIC DISCLOSURE** the compliance officer notifies the stock exchanges [SM 263] → **4 · WAIT** trading starts **no earlier than 6 months** after public disclosure [SM 263] → **5 · TRADE** exactly as planned; **no deviation** [SM 263]

4.2.4 Disclosures of trading [SM 263]

- These cover trades by the insider, their **immediate relatives**, and anyone for whom the insider takes trading decisions. [SM 263]
- **Initial:** a KMP or director discloses their holding **as on the date of appointment**. · **Continual:** within **2 trading days** of a trade, if the value traded in a **calendar quarter** exceeds **₹10 lakh**. [SM 263]

4.2.5 CODE OF FAIR DISCLOSURE (Schedule A): the board writes it, publishes it on the website and sends it to the stock exchanges

1. **Prompt public disclosure** of UPSI as soon as credible, concrete information exists; uniform dissemination, so that no one gets a **selective disclosure**
2. A **chief investor relations officer** (a senior officer) handles dissemination
3. A fair response to **queries on news reports** and to regulators' requests to verify **market rumours**
4. Nothing shared with **analysts or research staff** is UPSI
5. **Transcripts or records** of analyst meetings are put on the official website

[SM 263]

4.2.6 CODE OF CONDUCT (Schedule B): drawn up by the CEO or MD, for designated persons and their immediate relatives

- The board, with the compliance officer, names the **designated persons** by their role and access to UPSI [SM 263–264]
- The compliance officer reports to the board and the **Audit Committee** [SM 264]
- The **trading window** reopens **not earlier than 48 hours** after the UPSI becomes generally available [SM 264]
- While the window is open, trades above the board's threshold need **pre-clearance**. The compliance officer may ask for a declaration of "no UPSI" [SM 264]
- A pre-cleared trade must be done within **7 trading days**, or a fresh pre-clearance is needed [SM 264]
- Formats, sanctions and disciplinary action are set out. Designated persons give **names and PAN** of specified persons every year and whenever these change [SM 264]

4.2.7 Institutional mechanism to prevent insider trading [SM 264]

#	Who	Duty
1	**CEO**	puts in place **adequate and effective internal controls** for compliance [SM 264]
2	**Audit Committee**	reviews compliance **at least once in a financial year** and checks that the internal controls are adequate and working [SM 264]
3	**Listed company / board**	a board-approved **policy for inquiry into a leak or suspected leak** of UPSI; inquires on time and informs **SEBI** promptly [SM 264]
4	**Listed company**	a **whistle-blower policy**, made known to employees so they can report leaks [SM 264]
5	**Intermediaries & fiduciaries**	**co-operate** with the company's inquiry into a leak [SM 264]

EXAM ANGLE: 4.2 (4 LONG QUESTIONS IN 7 PAPERS)

- **Jun'23 Q5(a) 8m** "steps by a listed company to prevent insider trading": the 5-point mechanism + code of conduct (trading window, pre-clearance, 7 days) + code of fair disclosure + the structured digital database. **Dec'24 Q6(a) 7m** "describe insider trading + institutional mechanism": definitions, the two bans, then the 5 points. **Jun'26 Q7(a) 7m** "prohibition on communicating UPSI and trading": 4.2.2 in full.
- **Jun'24 Q5(a) 7m, case:** Ranjan, CMD of GIPL, sold GIPL shares before the termination of two shareholders' agreements was told to the NSE. His plea: the sale was part of a corporate restructuring to save the parent company, and that was found true. Asked: (1) Is he an insider? (2) What is UPSI? (3) Is SEBI's charge correct?
  Frame: provision (insider, connected person, UPSI, trading ban, onus) → facts (as CMD he is a **connected person, so an insider**; the termination was not yet public and was price-sensitive, so it was **UPSI**) → conclusion. On (3): these facts match the Supreme Court's decision in **SEBI v. Abhijit Rajan (2022)**. There the court held that a sale **forced by a genuine restructuring**, not driven by the UPSI, is not insider trading, so SEBI's charge failed. **⚠ This case is not in the SM. Check it against ICMAI's suggested answer once Hima downloads it.**

4.3 Takeover Code (SEBI SAST Regulations, 2011)

WHAT IT IS When someone (the **acquirer**) buys enough shares, voting rights or control of a listed company (the **target**), the takeover code makes them disclose it and **offer the other shareholders an exit** at a fair price (the **open offer**). It covers direct and indirect acquisitions. It does **not** apply to a company listed without a public issue on the **Innovators Growth Platform**. [SM 265]

Key definitions [SM 265–266]

Term	Meaning (short)
Acquirer	anyone who acquires, or agrees to acquire, shares, voting rights or control in a target, directly or indirectly, alone or through **persons acting in concert** [SM 265]
Control	the right to **appoint a majority of the directors** or to **control management or policy decisions**, through shareholding, management rights, shareholders' or voting agreements, or any other way [SM 265]
Persons acting in concert (PAC)	persons with a **common objective** of acquiring shares, voting rights or control, who co-operate under a formal or informal agreement. **Deemed PACs:** a company + its holding, subsidiary and same-management companies · a company + its directors + its managers · promoters + promoter group · immediate relatives · a mutual fund + its sponsor, trustees and AMC · a CIS + its management company · a VCF or AIF + its sponsor, trustees and manager · a merchant banker or portfolio manager + a client who is an acquirer [SM 265–266]
Target company	a company or body corporate set up under Central, State or Provincial law, **whose shares are listed** on a stock exchange [SM 266]
Frequently traded shares	turnover in the **12 calendar months** before the month of the public announcement is at least **10%** of the total shares of that class [SM 265]
Offer period / tendering period	offer period: from the agreement to acquire (or the public announcement) until payment or withdrawal · tendering period: the window, **10 working days**, in which shareholders tender their shares [SM 265–266]
VWAMP / VWAP	volume-weighted average **market** price (all trades on the exchange) / volume-weighted average price (shares the acquirer **bought**) [SM 266]

⚠ "IDENTIFIED DATE": THE SM AND THE REGULATION DIFFER

SM: "10 working days after closure of the offer". Regulation: the **10th working day before the tendering period starts** (it decides who gets the letter of offer). An MCQ asks the number, which is 10 either way; in a written answer use the Regulation's meaning. [SM 265]

4.3.1 KINDS OF TAKEOVER (Jun'26 MCQ, PTP Q7(a))

Friendly	promoters **sell voluntarily** at an attractive price
Hostile	promoters **resist** and defend control
Horizontal	a company in the **same industry**
Vertical	a **supplier or customer** (backward or forward integration)
Conglomerate	a company in a **totally different industry**

Hook: by attitude (Friendly / Hostile); by business link (Horizontal / Vertical / Conglomerate). [SM 266]

DISCLOSURES (PTP Q7(a))

- **Event-based:** the duty is on the **acquirer, promoters and PACs**, never the target. Acquisitions include taking shares as an encumbrance; disposals include releasing them (not for scheduled commercial banks or PFIs taking a pledge). [SM 266]
- **Continual (Reg 30):** holding as on **31 March**, filed within **7 working days** of the year-end with every stock exchange and the target's registered office. Filed by **promoters** (whatever they hold) and **non-promoters holding more than 25%** with their PACs. [SM 266–267]
- **Encumbrance (Reg 31):** a promoter discloses the creation, invocation or release of a pledge, lien or similar within **7 working days**, to the stock exchanges and the target. [SM 267]

4.3.2 When is an open offer compulsory? [SM 267]

BELOW 25%
may buy; event-based disclosures only

→

CROSSES 25%
the acquirer with PACs reaches or exceeds **25%** of voting rights → public announcement of an open offer for at least **26%** more [SM 267]

→

ALREADY 25% OR MORE (Reg 3(2))
more than **5%** in any financial year (from 1 April) → open offer for **26%** [SM 267]

→

CEILING
never above the **maximum permissible non-public shareholding**; the **25%** minimum public float stays [SM 267]

4.3.3 VOLUNTARY OPEN OFFER: PRE-CONDITIONS

a. already holds at least **25%**
b. no acquisition in the preceding **52 weeks** without an open offer (no creeping acquisition)
c. no buying during the offer period except under the offer
d. no buying for **6 months** after the offer, except by another voluntary or competing offer
e. may be made conditional on a minimum level of acceptance

[SM 267]

4.3.4 WITHDRAWAL OF OFFER (Reg 23): ONLY IF

i. statutory approvals are **refused**
ii. the acquirer, a natural person, has **died**
iii. a condition in the acquisition agreement is not met
iv. SEBI thinks the circumstances merit withdrawal

The manager to the offer announces it in the newspapers within **2 working days**, with reasons, and informs SEBI, the stock exchanges and the target. [SM 267–268]

4.3.5 The open-offer timeline [SM 268–269]

ESCROW
opened at least **2 working days** before the detailed public statement [SM 268]

→

DRAFT LETTER TO SEBI
within **5 working days** of the detailed public statement, with the fee; copy to the target and the exchanges [SM 268]

→

SEBI COMMENTS
or **15 working days** pass with none [SM 268]

→

LETTER OF OFFER DISPATCHED
within **7 working days** of the comments (or of the 15-day expiry) [SM 268]

IDs' RECOMMENDATION (4.3.8)
published at least **2 working days** before tendering, same newspapers; copy to SEBI, exchanges, manager [SM 269]

→

TENDERING PERIOD
starts within **12 working days** of SEBI's comments; open for **10 working days** [SM 268]

→

PAYMENT
completed within **10 working days** of the last tendering day [SM 268]

→

ESCROW RELEASED
not before **30 days** after payment is completed [SM 268]

Also: the offer price may be revised up to **3 days** before the offer opens (SM). [SM 265] · **Escrow forms:** cash with a scheduled commercial bank; a bank guarantee in favour of the manager to the offer; frequently traded, freely transferable shares or other securities, with a margin. [SM 268] · **Payment by:** cash; listed shares of the acquirer or its PAC; listed secured debt rated at least investment grade; convertible debt convertible into the acquirer's listed shares. [SM 268]

4.3.7 OBLIGATIONS OF THE TARGET COMPANY (MQP Q7(a), Jun'25 Q4(b))

i. during the offer period the board runs the business **in the ordinary course**, as in the past
ii. **no record date** for a corporate action from the **3rd working day** before tendering starts until tendering ends
iii. gives the acquirer the **list of shareholders** (names, addresses, holdings, folio numbers, pending transfers) within **2 working days** of the identified date
iv. during the offer period, without a **special resolution by postal ballot**, the board of the target or its subsidiaries shall not **alienate material assets** (by sale, lease, encumbrance) outside the ordinary course

[SM 268–269]

4.3.9 OBLIGATIONS OF THE ACQUIRER (MQP Q7(a))

a. **firm financial arrangements** are in place for the payment
b. is able to implement the offer, subject to statutory approvals
c. **no alienation of the target's material assets** outside the ordinary course, unless the intention was declared in the detailed public statement and the letter of offer. If not declared: a special resolution by postal ballot, with reasons
d. the acquirer and PACs **shall not sell** target shares during the offer period
e. the acquirer and PACs are **jointly and severally responsible**

[SM 269]

4.3.10 Exemptions [SM 269]: ordinary-course acquisitions by a SEBI-registered **underwriter**, a **stock broker** exercising a lien for a client, or a **merchant banker / nominated investor in market making** · a **safety-net scheme** · a merchant banker acting as a **stabilising agent** · a **disinvestment** agreement · acquisitions under court-ordered **reconstruction, merger, amalgamation or demerger** · under the **SARFAESI Act, 2002** · under the **Delisting** regulations · on **forfeiture** of shares.

DEC'26 SUPPLEMENTARY: SEBI (SAST) (AMENDMENT) REGULATIONS, 2025 · NOTIFIED 3 DEC 2025, EFFECTIVE 2 JAN 2026

- If the target's shares are **not frequently traded**, the offer price is based on the valuation parameters adopted by an **independent registered valuer**. [Supp Dec'26 p.5]
- If the prescribed parameters cannot fix the offer price, the **fair price** is set by an independent registered valuer. SEBI may also require such a valuation, with the **cost borne by the acquirer**. [Supp Dec'26 p.5]

EXAM ANGLE: 4.3

- **Jun'25 Q4(b) 7m:** obligations of the target + exemptions · **ICMAI MQP Q7(a):** obligations of the target + acquirer (ICMAI's answer = SM 4.3.7 + 4.3.9 copied) · **PTP Q7(a):** kinds + disclosures · **MCQs:** escrow (Jun'24), conglomerate (Jun'26).
- **Dec'26, prepare:** "Explain the kinds of takeover and the obligations of the target company and the acquirer. How is the open-offer price fixed when shares are not frequently traded?" (last part: the amendment above). Model answer below.

MODEL ANSWER: OUR TOP DEC'26 SEBI QUESTION (7 MARKS) · AS YOU WOULD WRITE IT IN THE ANSWER BOOK

Q. Explain the kinds of takeover and the obligations of the target company and the acquirer under the SEBI (SAST) Regulations, 2011. How is the open-offer price fixed when the shares are not frequently traded?

Introduction. The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (the Takeover Code) apply to the direct and indirect acquisition of shares or voting rights in, or control over, a listed target company. [SM 265]

1. Kinds of takeover [SM 266]

i. **Friendly takeover:** the promoters of the target voluntarily sell their shares to the acquirer at an attractive price.
ii. **Hostile takeover:** the promoters do not want to give up control and fight back.
iii. **Horizontal takeover:** of a company in the same industry.
iv. **Vertical takeover:** of a supplier or customer (backward or forward integration).
v. **Conglomerate takeover:** of a company in a totally different industry.

2. Obligations of the target company [SM 268–269]

i. During the offer period the board shall conduct the business in the **ordinary course**, consistent with past practice.
ii. No **record date** for a corporate action on or after the **third working day** before the tendering period starts, until it ends.
iii. Give the acquirer, within **two working days** from the identified date, the **list of shareholders** and of pending transfer applications.
iv. Without a **special resolution by postal ballot**, the board of the target or its subsidiaries shall not **alienate material assets** outside the ordinary course during the offer period.
v. The **independent directors' recommendation** is published at least two working days before the tendering period starts.

3. Obligations of the acquirer [SM 269]

a. Ensure **firm financial arrangements** for the payment obligations.
b. Ensure it is able to **implement the open offer**, subject to statutory approvals.
c. Not **alienate material assets** of the target unless the intention was declared in the detailed public statement and the letter of offer; otherwise a special resolution by postal ballot is needed.
d. The acquirer and PACs shall **not sell** target shares during the offer period.
e. The acquirer and PACs are **jointly and severally responsible** for the obligations.

4. Offer price when shares are not frequently traded. Under the SAST (Amendment) Regulations, 2025 (effective 2 January 2026), the price is based on the valuation parameters adopted by an **independent registered valuer**. Where the prescribed parameters cannot fix it, the fair price is set by an independent registered valuer, and SEBI may require such a valuation at the **acquirer's cost**. [Supp Dec'26 p.5]

Conclusion. The Code lets control change hands while protecting public shareholders: business as usual during the offer, assets kept intact, and a fair exit price.

Built from the SM text. ICMAI's own MQP answer to the obligations part copies the same SM lists. Spend about 12 minutes; write headings and numbered points, not paragraphs.

M4 Mind map: the whole module on one page

4.1 IPO: who cannot issue (ICDR 2018)

- **People:** debarred by SEBI · wilful defaulter
- **Paperwork:** no in-principle listing application · no depository agreement · partly paid shares · promoters not in demat
- **Money:** firm finance < 75% · GCP > 25% · open 3–10 days · minimum subscription 90% (refund in 15 days)
- **Appoint:** lead merchant banker · syndicate or bankers · Registrar · compliance officer

4.1 IPO: entry tests and money

- **Route 1** (all 4): NTA ₹3 cr ×3 yrs (≤50% monetary) · op. profit ₹15 cr (best 3 of 5) · net worth ₹1 cr ×3 · name change → 50% revenue
- **Route 2:** book building, ≥75% to QIBs, else refund
- 1,000 allottees · >₹100 cr → monitoring to 95%
- Promoters 20%; lock-in 3 yrs / 1 yr ⚠
- Book building 35/15/50 · QIB route 10/15/75 · anchor 60% · fixed price retail 30%

4.2 Insider (PIT 2015): who and what

- **Insider** = connected person OR in possession of / access to UPSI
- **Connected** = associated in the last 6 months, with access to UPSI; deemed list: relatives, group companies, intermediaries, AMCs, exchange officials, banker…
- **Immediate relative** = spouse + parent, sibling, child (dependent or consulted)
- **UPSI** = not generally available + price-sensitive: R-D-C-M-K

SEBI
Module 4 · SM 255–272

protect · develop · regulate
quasi-legislative · quasi-judicial · quasi-executive

ICDR 2018 · PIT 2015 · SAST 2011

4.2 Insider: rules

- **Ban 1:** no communicating, except for legitimate purposes · open offer, or board + public 2 trading days before · SDD 8 yrs
- **Ban 2:** no trading with UPSI · onus on the connected person
- Trading plan: 6-month gap, no deviation · disclosure: 2 trading days if > ₹10 lakh a quarter
- Codes: fair disclosure (Sch A) · conduct (Sch B): window 48 h, pre-clearance, 7 trading days
- **Mechanism:** CEO controls · Audit Committee yearly · leak inquiry · whistle-blower · intermediaries co-operate

4.3 Takeover (SAST 2011): triggers

- **Kinds:** Friendly / Hostile · Horizontal / Vertical / Conglomerate
- **Open offer:** crossing 25% → offer for 26% · already ≥ 25%: > 5% a year → offer · keep 25% public float
- **Disclosures:** event-based (acquirer, not the target) · Reg 30, 31 March, 7 WD · Reg 31 encumbrance, 7 WD
- **Voluntary offer:** holds 25% · none in 52 weeks before · none for 6 months after
- **Withdrawal (Reg 23):** approvals refused / death / condition not met / SEBI

4.3 Takeover: process and duties

- **Timeline:** escrow 2 WD before the public statement → draft letter of offer 5 WD → SEBI 15 WD → dispatch 7 WD → tendering starts within 12 WD, lasts 10 WD → payment 10 WD → escrow released after 30 days
- **Target:** ordinary course · no record date from the 3rd WD before tendering · shareholder list in 2 WD · no alienation without a special resolution by postal ballot · IDs recommend 2 WD before tendering
- **Acquirer:** firm finance · able to implement · no alienation · no selling · jointly and severally liable
- **Dec'26:** independent registered valuer for shares not frequently traded

R Revision sheet: every number in the module

4.1 IPO	Number
firm finance arranged (of the means of finance)	75%
general corporate purposes, maximum	25%
issue open: minimum – maximum	3 – 10 days
minimum subscription / refund within	90% / 15 days
net tangible assets, each of 3 years (monetary assets at most 50%)	₹3 crore
average operating profit (best 3 of 5 years)	₹15 crore
net worth, each of 3 years	₹1 crore
name change: revenue from the new activity	50%, last 1 year
convertible-debt IPO: no default for	6 months
minimum prospective allottees	1,000
monitoring if the issue is above … until … used	₹100 cr / 95%
retail / employee price discount, maximum	10%
face value below ₹10 (minimum ₹1) only if the price is at least	₹500
promoters' minimum contribution (post-issue)	20%
lock-in: minimum contribution / excess ⚠	3 yrs / 1 yr
book building: retail / NII / QIB	≥35 / ≥15 / ≤50%
QIB route: retail / NII / QIB	≤10 / ≤15 / ≥75%
mutual funds (within QIB) / anchor (of QIB)	5% / 60%
fixed price: retail minimum	30%
4.2 Insider trading	**Number**
connected person: look-back	6 months
UPSI made public before the transaction	2 trading days
structured digital database kept	≥ 8 years
trading plan: earliest trade after disclosure	6 months
continual disclosure: within / if more than	2 trading days / ₹10 lakh a quarter
trading window reopens, not earlier than	48 hours
pre-cleared trade executed within	7 trading days
Audit Committee review	once a financial year

4.3 Takeover	Number
initial trigger → offer size	25% → 26%
creeping limit a year (already ≥ 25%)	5%
minimum public float	25%
frequently traded: turnover in 12 months	≥ 10%
Reg 30 / Reg 31 disclosures within	7 working days
non-promoter continual disclosure if holding more than	25%
voluntary offer: no buying before / after	52 weeks / 6 months
withdrawal announced within	2 WD
escrow before the detailed public statement	2 WD
draft letter of offer / SEBI comments / dispatch	5 / 15 / 7 WD
tendering starts within / lasts	12 / 10 WD
payment after tendering / escrow release	10 WD / 30 days
IDs' recommendation before tendering	2 WD
no record date from … before tendering	3rd WD
shareholder list to the acquirer	2 WD
offer price revision, up to (SM)	3 days before
identified date ⚠	10 WD
Related (Module 3, Dec'26 supplementary)	**Number**
HVDLE threshold, raised from ₹1,000 cr	₹5,000 crore

WD = working days. ⚠ = see the note in the topic. Sources: SM 257–269, Dec'26 supplementary pp. 5–6.

Q The SM's own exercise: the exam has copied it 5 times

MCQs [SM 270–272]

#	Question (short)	Answer
1	maximum days an issue is kept open	**10**
2	at IPO the issuer must have a	**designated compliance officer** ⚠
3	which does not need a prospectus	**bonus issue** ⚠
4	minimum face value can be	**₹1**
5	takeover means	**acquiring shares giving control over management**
6	SEBI's Preamble: to protect / develop / regulate	**all of the above**
7	not a function of SEBI *(Dec'24, Jun'25)*	**quasi-official**
8	banking company director: prior approval of	**RBI**

⚠ The SM's printed key gives "b" for Q2 and "c" for Q3, which looks swapped. ICMAI's MCQ bank (Q144, Q145) gives the answers shown here.

True / False

SEBI regulations normally apply to public issues	**T**
promoters' contribution locked in for 3 years	**T**
only a company secretary can be the compliance officer	**F**
change in capital structure is UPSI	**T**
SEBI (SAST) regulations and the takeover code are the same	**T**

Fill in the blanks

minimum promoters' contribution in an IPO *(Dec'23)*	**20%**
promoters transfer voluntarily: … takeover	**friendly**
open-offer money is kept in an … account *(Jun'24)*	**escrow**
identified date: … working days	**10**
minimum subscription, % of issue size *(Jun'24)*	**90**

ICMAI MCQ bank, SEBI items (Q143–149 = the SM exercise)

pre-cleared trades must be executed within (Q267)	**7 trading days**
hostile takeover is (Q268)	**without the promoters' consent**
connected person: onus of proving no UPSI is on (Q269)	**the connected person**
minimum public float after acquisition (Q270)	**25%**
not an "encumbrance" (Q271)	**dividend declaration**

Essay questions in the SM: practise these

- Differential pricing (4.1.4) · lock-in period (4.1.5) · define UPSI (4.2.1)
- Book building process (4.1.6) · the three requirements for a first public issue (4.1.3) · "connected person" (4.2.1)