

## Listed Public Sector Entities get 3 years to meet criteria of Minimum 25% Public Shareholding

### Background

The Minimum Public Shareholding (MPS) requirements for listed companies have been stipulated in Regulation 38 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR'), which requires every listed entity to comply with MPS requirements as specified in Rule 19(2) and 19A of the Securities Contracts (Regulation) Rules, 1957 ('SCRR').

Rule 19(2)(b) of SCRR requires the maintenance of a minimum public shareholding of 25% at all times of each class or kind of equity shares or convertible debentures issued by a listed company as this ensures liquidity of shares and correct price discovery through regular trading.

SEBI (LODR) has conferred power on the Stock Exchange to monitor the compliance of MPS and for defaulting listed companies, Stock Exchanges have powers to levy penalties.

SEBI vide its notification dated 3 August, 2018 ('Notification') had amended sub-rule 1 of Rule 19A of the SCRR, wherein listed public sector companies which had public shareholding of less than 25% as on the date of issuance of notification, were required to increase its public shareholding to at least 25% within a period of two (2) years from the date of issuance of the notification.

In light of the current COVID-19 scenario and to ease the compliance burden of listed public sector companies with respect to attaining the MPS, SEBI vide its Notification dated 31 July, 2020, has further amended sub- rule 1 of Rule 19A of SCRR.

The existing rules as well as the amendment have been discussed below:

### Amendments

Existing Rules	Amendment
<p>Sub Rule 1 of Rule 19A of SCRR provides that every Listed Company (other than Public Sector Company) shall maintain a minimum public shareholding of 25%.</p> <p>Proviso to the Sub- Rule 1 further states that every listed public sector company which has public shareholding of less than 25% on the Commencement of Securities Contracts Regulation Rules, 2018, (i.e. issuance of notification dated 3 August, 2018) shall increase its public shareholding to a minimum of 25% <b>within a period of two years from the date of issuance of notification</b></p>	<p>As per the amendment made by the Notification dated 31 July, 2020, the time limit for attaining the minimum public shareholding by listed public sector companies has been increased from <b>'two years' to 'three years'</b></p>

## Key Takeaways:

The stipulated period for compliance with the MPS requirement in case of listed public sector undertakings was coming to an end. There are number of public sector undertakings which are yet to comply with the MPS norms and the ongoing pandemic would have made it even more difficult for them to achieve the same. Hence, the extension of two to three years for public sector companies to achieve the minimum public float is certainly a welcome move.

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