



**QAPITA**



# **Key Highlights of the Recent Amendment to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 on Stock Appreciation Rights (SARs)**

## **Key Highlights of the Recent Amendment to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 on Stock Appreciation Rights (SARs)**

The Securities and Exchange Board of India ("**SEBI**") has constituted an expert Committee aimed at streamlining business processes and enhancing clarity, with the objective of improving transparency in relation to the provisions of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("**ICDR Regulations**").

Among various recommendations made by the Committee, one significant proposal pertains to the eligibility conditions for an Initial Public Offering ("**IPO**"). Specifically, the Committee recommended that unlisted entities ("**issuers**") with outstanding Stock Appreciation Rights ("**SARs**") should (i) be permitted to file a Draft Red Herring Prospectus ("**DRHP**") and (ii) be entitled to the same exemptions that apply to equity shares arising from the exercise of employee stock options. These exemptions would similarly apply to equity shares issued upon the exercise of SARs, in accordance with the ICDR Regulations.

In light of the above recommendations, SEBI has amended the ICDR Regulations through notification No. F. No. SEBI/LAD-NRO/GN/2025/233 dated March 03, 2025.

### **Amendment to Regulation 5 of the ICDR Regulations:**

SEBI has introduced a new clause (b) after sub-regulation (2) of Regulation 5, which states:

*"(b) outstanding stock appreciation rights granted to employees pursuant to a stock appreciation right scheme, which are fully exercised for equity shares prior to the filing of the red herring prospectus (in case of book-built issues) or the prospectus (in case of fixed price issues), as the case may be, disclosures regarding such stock appreciation rights and the scheme and the total number of equity shares resulting from the exercise of such rights are made in the draft offer document and offer document."*

### **Applicability:**

These amendments shall come into effect on the date of their publication in the Official Gazette, i.e., March 03, 2025, and will apply to draft offer documents submitted after this effective date.

**Impact of the Key Amendments:**

This amendment significantly broadens the scope for issuers who have implemented a Stock Appreciation Rights Scheme ("**SAR Scheme**"), enabling them to pursue an IPO and file a DRHP. However, the following conditions must be met for the issuer to qualify:

**1. Disclosure Requirements:**

In cases where SARs have been granted to employees under the SAR Scheme and there are outstanding SARs as of the date of filing the DRHP, the issuer must include detailed disclosures regarding the SAR Scheme. These disclosures must include, but are not limited to, the total number of SARs granted and remaining outstanding, as well as the number of equity shares resulting from the exercise of such SARs, in both the draft offer document and the offer document.

**2. Full Exercise of Outstanding SARs:**

The issuer must ensure that all employees with vested SARs exercise them fully and convert the SARs into equity shares before the filing of the red herring prospectus (for book-built issues) or the prospectus (for fixed-price issues) ("**RHP**").

In essence, the amendment enables issuers with outstanding SARs under the SAR Scheme to be eligible for an IPO, provided they comply with the specified conditions. It is essential that, as of the filing date of the RHP, all outstanding SARs are fully exercised, and no SARs remain unexercised or outstanding.

## About Qapita

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Qapita is a leading provider of Equity Compensation solutions for startups, unlisted and publicly listed companies. Our service offerings cover the entire life cycle of ESOPs including Plan conceptualization, Design, Documentation, Plan management, Compliance and Reporting. We have serviced over 2000+ clients across all industries, domestic and international, listed and unlisted. Our team consists of experienced professionals specialising in conducting preliminary analysis, planning, designing, and implementing ESOPs. Each of our consulting team members is a qualified Chartered Accountant/ Company Secretary, a market leader in Equity Management and Marketplace solutions for unlisted and listed companies in India and South East Asia.

## Get in touch with us

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