



1st June, 2011

# BSE REVOCATION NORMS

## BSE'S NEW NORMS FOR SUSPENSION REVOCATION (WHERE THE SUSPENSION IS FOR A PERIOD EXCEEDING 1 YEAR) -THEIR ANALYSIS & ISSUES THAT MIGHT ARISE

**B**SE has, issued New Norms for Revocation of Suspension of Companies from the Exchange. These shall be effective from 1st July 2011. Vide these Norms, the Exchange has put in stringent conditions for Revocation, thus, making it clear that the Suspended companies and their Revocation shall no longer be an easy proposition. The Norms, their Analysis and some of the Issues that might need a further clarity or might arise during the Revocations have been presented.

S.NO.	PARTICULARS	NORMS	ANALYSIS	ISSUES THAT MIGHT NEED CLARITY
1	Issued and Paid up capital	Minimum paid up capital of Rs. 10 crores	With effect from 1st July 2011, any Company seeking Revocation will need to either have a Paid up Capital of Rs 10 Cr or a Networth of Rs 50 Cr in each of the 3 preceding F.Ys.	<p>► While meeting this condition, an issue that might arise is, how to raise the capital base of a suspended company. For instance, at present rights/ preferential/ QIP/ bonus etc might not be possible in a suspended company.</p> <p>► An option available is by way of issuance of Redeemable Preference Shares, the Paid up Capital can be increased, but here again, in the Notes to the new Norms, it has been</p>
2	Networth	OR Minimum networth of Rs. 50 crores (excluding revaluation reserves) in 3 immediately preceding financial years		

				<p>provided that entire issued capital must be listed, so, does that imply that even the Preference Shares, so allotted will have to be listed at the Exchange? If yes, even this mode of raising capital may not be feasible.</p> <p>► Further, with regard to Networth, if during the preceding 3 years, a Merger has taken place in the Company, will the Networth of the Transferor Company be taken account of, while calculating the Networth during that year.</p>
3	Profit making track record	<p>Distributable profits in terms of sec. 205 of Companies Act, 1956 for atleast 3 out of 5 immediately preceding financial years based on audited financial results with the last financial year reporting profit.</p> <p>Provided that extraordinary income shall not be considered for calculating distributable profit.</p>	<p>From 1st July 2011 onwards, only those companies will be allowed to be revoked, which have Distributable Profits for atleast 3 out of 5 immediately preceding F.Ys.</p>	<p>► Herein, the condition imposed is profit making track record, but no quantification of the same has been prescribed. The amount of profits that should be there, need a clarity.</p>

		Provided further that latest 3 Financial Years should comprise a period of atleast 12 months		
4	Public Shareholding	Meeting with the requirements of SCRA, SCRR and Listing Agreement.	The Company should be in compliance with Minimum Public Shareholding rules and provisions.	
5	No. of public shareholders	Minimum 500	Atleast 500 shareholders is now a mandatory requisite. That is to, Revocation for companies with small shareholders' base is going to be a tedious task.	There are many a companies with small paid up capitals and very few shareholders, this might pose as a difficult compliance for such companies.
6	Trading in Compulsory Demat	<p>Minimum of 50% of the public shareholding should be held in demat form.</p> <p>Provided that where the company has not signed with either/ both the depositories for dematerialization, it shall submit a letter from the relevant depository rejecting admission of the security in the depository</p>	<p>This condition has been casted pursuant to SEBI Circular.</p> <p>An exemption has been granted to a Company, which does not meet the demat conditions imposed by the Depositories, provided they submit a letter to the Exchange rejecting admission of the security in the depository.</p>	<p>► A very crucial question is that how can a company, especially the one that is suspended, compel its Public Shareholders for holding the shares in demat mode. In these companies, the shareholders might not be interested in holding the shares in demat mode, as there is no trading benefit.</p> <p>► Furthermore, there are so many suspended companies which are not able to meet the</p>

				Demat criterion of positive Networth of Rs 1 Cr, and hence are rejected by NSDL/ CDSL for Dematerialisation, so how will they manage the 50% public holding in demat mode condition, is yet to be
7	Information Memorandum	Information Memorandum as provided in Schedule II of Companies Act, 1956 to the extent applicable, as certified by the Company Secretary/ MD of the Company	Till now, there was no need of filing an Information Memorandum in case of Revocation. But from now on, it will be mandatory, as per the Schedule II of the Companies Act, 1956.	
8	Miscellaneous	<ul style="list-style-type: none"> <li>▶ Entire issued capital of the company must be listed.</li> <li>▶ No investor complaints pending against the company.</li> <li>▶ The company is in compliance with clauses of the listing agreement, filings under SEBI regulations/ circulars, SCRA and SCRR.</li> <li>▶ The shareholding of promoter and promoter group entities shall be under lock-in for a period of 6 months from the</li> </ul>	<ul style="list-style-type: none"> <li>▶ If any part of the Paid up Capital is unlisted, Revocation can be allowed only if it gets listed.</li> <li>▶ All investor complaints to be resolved.</li> <li>▶ Compliance with various Securities Laws.</li> <li>▶ Once revoked, the shareholding of promoter and promoter group entities shall be under lock-in for a period of 6 months from the date of</li> </ul>	

date of commencement of trading, post revocation of suspension.

▶ Company should have its own website.

▶ Payment of reinstatement fees as applicable.

commencement of trading.

▶ Company's website giving the information about the Company is mandatory.

▶ Along with the Listing Fee arrears, if any, the Reinstatement Fee shall also be payable.

### REVOCATION OF SUSPENSION, WHERE THE SUSPENSION IS FOR A PERIOD LESS THAN 1 YEAR (EFFECTIVE FROM JULY 1, 2011)

The companies which are seeking revocation of suspension will be required to comply with the norms as given here under:

1. Entire issued capital of the company must be listed.
2. No investor complaints pending against the company.
3. The company is in compliance with clauses of the listing agreement, filings under SEBI regulations/ circulars, SCRA and SCRR.
4. Company should have its own website.
5. Payment of reinstatement fees as applicable.

#### **Conclusion:**

The revised Norms mandate the Exchange's intent of stricter compliances and retaining good companies with strong fundamentals.

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We May be Contacted at:

Corporate Professionals  
D-28, South Extn., Part I,  
New Delhi – 110 049

T: +91 11 40622200

F: +91 11 40622201

E: [info@indiacp.com](mailto:info@indiacp.com)

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**For further details, please contact:**

**Anjali Aggarwal**  
**Asst Vice President**

**T: +91 11 40622230**

**E: [Anjali@indiacp.com](mailto:Anjali@indiacp.com)**