

Important Activities

“Book building” means a process undertaken by an issuer, through merchant bankers appointed by it, to elicit demand and to assess the price for determination of the quantum or value of specified securities. A book built public issue is required to be compulsorily underwritten by the bookrunners or their syndicate members. Further, on January 8, 2010, SEBI issued an amendment to the ICDR Regulations, to facilitate the alternative mode of book building - the auction method, further discussed below.

The issuer may mention a price or price band in the draft prospectus (in case of a fixed price issue) and floor price or price band in the red herring prospectus (in case of a book built issue) and determine the price before registering the prospectus with the Registrar of Companies: If the floor price or price band is not mentioned in the red herring prospectus, the issuer shall announce it at least two working days before bid opening (in case of an IPO) and at least one working day before bid opening (in case of an FPO), in all the newspapers in which the pre issue advertisement was released. The cap on the price band shall be less than or equal to 120% of the floor price.

In case of an IPO where an issuer is eligible to make the issuer under Regulation 26(2) of the ICDR

Regulations, where a public issue is made with at least 10% of the issuer's securities being offered to the public under rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957, at least 60% of the net offer to public is required to be compulsorily allotted to qualified institutional buyers (“**QIBs**”). In such an issue, allocation to retail individual investors and non-institutional investors shall be up to 30% and 10%, respectively.

Alternatively, where an issuer is eligible to make an IPO under Regulation 26(1) of the ICDR Regulations or in case of an FPO (where the above requirement under rule (19(2)(b) is not applicable), up to 50% of the net offer to the public may be allotted to QIBs. In such an issue, allocation to retail individual investors and non-institutional investors shall be not less than 35% and 15%, respectively. Eligibility requirements under 26(1) include the following:

- The issuer has net tangible assets of at least Rs. 3 crore in each of the preceding 3 full years (of which not more than 50% are held in monetary assets, or where the issuer has made firm commitments to utilize such excess monetary assets in its business or project);
- The issuer has a track record of distributable profits in terms of section 205 of the Companies Act, for at least 3 out of the immediately preceding 5 years;
- The issuer has a net worth of at least Rs. 1 crore in each of the preceding 3 full years;
- The aggregate of the proposed issue and all previous issues in the same

financial year does not exceed 5 times its pre-issue net worth as per the preceding financial year's audited balance sheet.

Outside of India, the issue may be offered and sold either (i) in the United States only to persons reasonably believed to be “qualified institutional buyers” (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the “Securities Act”)) (except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws); and/or (ii) outside the United States of America in offshore transactions in reliance on Regulation S of the Securities Act.

Under the ICDR Regulations, audited financial data contained in the offer documents must not be over six months old – in the case of a 144A issue, such financial data must not be over 135 days old.

Intermediaries and advisors

- Book running lead managers
- Auditors
- Legal counsel: Domestic and international
- Registrar to the issue
- Depositories (NSDL/CDSL)
- Syndicate members
- Escrow collection banks (including refund banks)
- Experts, if any
- IPO grading agency (for unlisted companies)

Transaction agreements / important documents

- Letters of engagement for advisors
- Auditors' comfort letters
- Registrar's agreement
- Issue agreement
- Syndicate agreement
- Escrow agreement
- Underwriting agreement
- Due diligence certifications and undertakings required from management and others
- Consent letters from experts and intermediaries involved in the issue, including SEBI registration certificates from intermediaries required to be so registered with SEBI

Transaction agreements / important documents

- IPO grading report (for unlisted companies)
- Legal opinions (including 10b-5 style disclosure letters)

Listing Agreement and Corporate Governance

Issues	Requirements
What is Corporate Governance?	The rights and responsibilities shared amongst the owners, managers and shareholders of a company are enshrined within certain mandatory as well as recommendatory provisions relating to corporate governance, under the standard equity listing agreement (specifically, under Clause 49) between a listed company and the stock exchange on which its shares are listed.
Appointment of independent directors	As per Clause 49, where a company has an executive chairman, at least 50% of the board should comprise independent directors and where a company has a non-executive chairman, at least 1/3 rd of the board should comprise independent directors. Further, where a company has one or more material (i.e., on the basis of turnover and/or net worth) unlisted Indian subsidiaries, it is required to appoint at least one of the independent directors on its board as an independent director on the board of such material unlisted Indian subsidiaries.
Code of Conduct for the Board of Directors and Senior Management	The board of directors of the company is required to lay down a code of conduct for all board members and senior management of the company. This code is required to be posted on the website of the company. All board members and the senior management shall affirm compliance with the code on an annual basis and the annual report of the company shall contain a declaration to this effect signed by the chief executive officer and the chief operating officer of the company.

Audit Committee	<p>Clause 49 of the Listing Agreement requires the company to constitute an Audit Committee wherein all the members should be financially literate and at least one member should have accounting/financial management expertise. The quorum is either two members or one third of the member of the Audit Committee whichever is greater, but there should be a minimum of two independent members present.</p> <p>The role of the Audit Committee includes overseeing the financial reporting of the company and disclosure of its financial information, including the review of internal controls and the whistle blower mechanism as well as the appointment of the statutory auditors. The Audit Committee is required to meet at least four times a year, and not more than four months shall elapse between two meetings.</p>
Formation of a Shareholders/ Investors Grievance Committee.	<p>Clause 49 of the Listing Agreement requires the company to form a shareholder/investor grievance committee under the chairmanship of a non-executive Director to specifically look into the redressal of the shareholders and investor complaints.</p>
Remuneration / Compensation Committee	<p>The Listing Agreement recommends the formation of a Remuneration Committee for finalizing the remuneration policies of the company. In the event the company has an employee stock option or stock purchase scheme, the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as amended, mandate the formation of a Compensation Committee to administer the scheme</p>
Whistle Blower Policy	<p>The Listing Agreement recommends that a company should establish a</p>

	mechanism for its employees to report to the management concerns about the unethical behavior, actual or suspected fraud or violation of company's code of conduct.
Insider Trading	The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended, require a listed company to formulate an insider trading code to prevent insider trading by its employees (whether directly or through their relatives or other persons). These regulations mandate the confidentiality of material unpublished price-sensitive information and also provide a model code of conduct on which a company may base its own insider trading code. The employees of a listed company are required to obtain pre-clearance for, and make appropriate disclosures of, their transactions in the securities of that company.

CPSE NOTIFICATIONS

Issues	Instructions
Participation in the issue and transactions in shares by employees	<p>The Department of Public Enterprises has issued certain office memoranda (dated June 16, July 28, and August 11, 2009, <i>inter alia</i>) applicable to the executives and employees of central public sector enterprises who are involved in the price fixation process of an IPO or FPO, and/or are otherwise in possession of unpublished price sensitive information in respect of shares.</p> <p>Briefly, an executive or employee (including a wholetime director) involved in the price fixation process of an initial public offer or follow on public offer is not permitted to, directly or through a family member or other person acting on his behalf:</p> <ul style="list-style-type: none"> • Apply for allotment of equity related instruments in such offering; or • Deal or transact in the equity related

	<p>instruments of the company making the offer while being in possession of unpublished price sensitive information; provided all employees of central public sector enterprises are required to disclose to the company any such transactions in the shares of such company of a value of Rs. 20,000 or more, indicating the quantity, price, date of transaction and nature of their interest therein.</p>
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