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भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Consultation Paper on Recommendations pursuant to Review of provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 related to Initial Public Offer by Small and Medium Enterprises

October 14, 2026

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1. Objective

The objective of this consultation paper is to seek comments / views / suggestions from the public and other stakeholders on the recommendations pursuant to review of provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations or ICDR Regulations) related to Initial Public Offer (IPO) by Small and Medium Enterprises (SME).

2. Background

Over time, the SME segment has evolved significantly, with a substantial increase in the number of issuers accessing the platform, funds raised through SME IPOs and the number of investors participating in such issues. In view of these developments, SEBI constituted a Working Group for review of the provisions relating to IPOs by SMEs under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (Working Group), with the objective of undertaking a comprehensive review of the existing SME framework, including its eligibility criteria, issue and allocation framework, trading and market-making arrangements, migration framework and other related provisions. The Working Group held deliberations on various aspects of the framework and submitted its recommendations to SEBI. The Report of the Working Group, containing its detailed recommendations and rationale, may be accessed at :-

https://www.sebi.gov.in/sebi_data/commondocs/oct-2026/WG%20Report%20for%20Review%20of%20SME%20Provisions_p.pdf

The recommendations of the Working Group were thereafter placed before the Primary Market Advisory Committee (PMAC) for its consideration and deliberation. Pursuant to the deliberations of the Working Group and PMAC, subsequent internal deliberations were undertaken by SEBI and certain aspects of the recommendations were further considered and refined. Accordingly, the proposals set out in this Consultation Paper reflect the Working Group recommendations, PMAC deliberations and subsequent internal deliberations.

3. Listing on SME Platform – At a Glance

The SME Platform has emerged as an important avenue for SMEs to access the public capital market.

Particulars	**No. or Amount (as applicable)***
Entities listed on SME Platform since Inception (including entities migrated from SME to Mainboard)	1496
Total companies migrated to Main Board	365
Total funds raised through SME IPOs since inception	Rs. 40,222 Crores

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Particulars	**No. or Amount (as applicable)***
Market capitalisation of SME Platform Listed Entities (including entities migrated from SME to Mainboard)	Rs. 4,70,984 crores

*Data as on July 31, 2026
*Source :- NSE and BSE

The above data demonstrates that the SME Platform has evolved materially from its initial role as a limited fund-raising avenue for smaller enterprises and has developed into a significant segment of the Indian primary and secondary capital markets. The increasing scale of the segment, together with the growing diversity in the size, maturity and market valuation of entities listed on SME Platforms, provides an appropriate basis for examining whether the existing regulatory framework continues to remain proportionate and fit for purpose.

4. Need for Review of the Framework

The SME regulatory framework was designed with the objective of providing smaller enterprises access to public capital while incorporating safeguards commensurate with the relatively smaller size, scale and investor base of such issuers. However, the SME Platform has undergone significant evolution since the framework was introduced. The increase in the number of issuers, capital raised, investor participation, market capitalization and migration of entities listed on SME Platform to the Main Board indicates that the segment now encompasses enterprises with a wider range of size, maturity and market profile.

In this context, certain provisions of the existing SME regulatory framework may warrant reconsideration from the perspective of proportionality, ease of compliance, cost of fund raising, investor participation and consistency with the Main Board framework. Certain SME Platform specific requirements, including those relating to minimum application and allotment, trading lots, underwriting, compulsory market making, migration and other issue-related requirements, may have acquired different relevance in light of the evolution of the market. At the same time, the review also needs to recognize that issuers accessing SME Platform may continue to have characteristics that distinguish them from issuers accessing Main Board and, therefore, requirements necessary for investor protection and orderly functioning of the SME Platform may need to be retained.

Accordingly, the present review seeks to examine the SME regulatory framework holistically, with the objective of creating a regulatory architecture that is proportionate to the nature and scale of issuers accessing SME Platform, facilitates wider access to and participation in the capital market, reduces avoidable regulatory and financial burden, and at the same time preserves appropriate safeguards for investors. The proposals set out in the subsequent sections accordingly seek to rationalise SME Platform specific requirements where warranted, align provisions with the Main Board framework where the underlying regulatory objective is similar, and introduce greater flexibility where the existing framework may

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impose unnecessary constraints, while retaining requirements that are considered necessary from the perspective of investor protection and market integrity.

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5. **Proposals**

5.1. Review of Eligibility Framework

5.1.1. Shift from Post-Issue Paid-up Capital to Post-Issue Market Capitalization

5.1.1.1. Existing Provision

Regulation 229(1) and Regulation 229(2) of the ICDR Regulations presently provides for eligibility to access the SME Platform based on the post-issue paid-up capital of the issuer. An issuer having post-issue paid-up capital of up to ₹10 crore is eligible to make an IPO under the SME framework, while an issuer having post-issue paid-up capital of more than ₹10 crore and up to ₹25 crore may also issue specified securities in accordance with Chapter IX of the ICDR Regulations.

5.1.1.2. Need for Review

The paid-up capital represents the nominal share capital of an issuer and may not adequately reflect the economic size, scale, valuation or growth potential of an enterprise. An analysis of 735 Main Board and SME IPOs undertaken during the last three financial years, where the paid-up capital at the time of IPO was more than ₹10 crore, also indicated a significant disconnect between paid-up capital and market capitalization whereby issuers with relatively low paid-up capital could have substantially higher market capitalization.

Consequently, an issuer may have post-issue paid-up capital exceeding the prescribed SME threshold and be mandatorily required to access the Main Board, even though its business operations, financial scale and overall enterprise size may be more appropriately suited to the SME Platform. Further, reliance on paid-up capital may, in certain cases, require Mainboard issuers to undertake capital restructuring, including bonus issuance through capitalization of reserves, solely to meet the prescribed paid-up capital threshold. Such restructuring may entail additional costs, taxation implications and compliance requirements, without necessarily representing any corresponding increase in the underlying economic size or scale of the enterprise.

5.1.1.3. Recommendation of the Working Group

5.1.1.3.1. An issuer having post issue market capitalization up to ₹1,000 crore shall be required to access only SME Platform;

5.1.1.3.2. An issuer having post issue market capitalization above ₹1,000 crore and up to ₹4,000 crore may also access SME Platform.

5.1.1.3.3. Eligibility determined at the stage of filing of the Pre-filed draft offer document draft offer document, as the case may be, should remain subject to the post issue market capitalization applicable at the subsequent stage of filing the Red Herring Prospectus in case of book-built issue or Prospectus in case of fixed price issue. Accordingly, where an issuer has initially filed a Pre-filed Draft Red Herring

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Prospectus/ Draft Red Herring Prospectus ("DRHP") for a Main Board IPO but, at the stage of filing the Red Herring Prospectus in case of book-built issue or Prospectus in case of fixed price issue, its estimated post issue market Capitalization falls to ₹1,000 crore or below, the issuer would be required to re-file the draft offer document under the SME framework.

5.1.1.3.4. Conversely, where an issuer has initially filed its DRHP under the SME framework and its estimated post-issue market Capitalization subsequently exceeds ₹1,000 crore at the stage of filing the Red Herring Prospectus in case of book-built issue or Prospectus in case of fixed price issue, the issuer may continue to proceed under the SME framework, subject to upper threshold of ₹4,000 crore

5.1.1.3.5. However, where an issuer has initially filed its DRHP under the SME framework and its post-issue market capitalization subsequently exceeds ₹4,000 crore at the stage of filing the Red Herring Prospectus in case of book-built issue or Prospectus in case of fixed price issue, the issuer would be required to re-file the Pre-filed DRHP/ DRHP under the Mainboard IPO Framework.

5.1.1.4. Rationale

The proposed shift seeks to ensure that the eligibility framework is based on a parameter that more closely reflects the economic scale and market value of an enterprise, rather than its nominal capital structure.

Market capitalization reflects the value attributed by investors to an enterprise and, accordingly, captures differences in scale and valuation even where enterprises may have similar levels of paid-up capital. This is particularly relevant for enterprises operating under capital-efficient or asset-light business models, where substantial economic value and growth potential may not be accompanied by a proportionate increase in paid-up capital.

The Working Group further analysed the market capitalization of entities presently listed on the SME Platform based on prevailing market prices. The analysis indicated that while a substantial proportion of SME-listed entities have market capitalization below ₹1,000 crore, there is also a meaningful segment which has attained higher market capitalization. Accordingly, ₹1,000 crore was considered an appropriate principal benchmark, with a flexibility band extending up to ₹4,000 crore.

5.1.1.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.1.1.6. Subsequent Internal Deliberation

It is proposed to accept recommendations of the Working Group at 5.1.1.3 above subject to below discussions.

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The matter was further considered internally in relation to issuers having post-issue market capitalization exceeding ₹1,000 crore and up to ₹4,000 crore which would optionally opt for listing on the SME Platform.

It was considered that, given the relatively higher size of such issuers, such issuers should be subject to enhanced financial reporting requirements. Accordingly, it is proposed that where such an issuer has not already adopted Ind AS, it shall be required to adopt Ind AS and its restated consolidated financial statements included in the draft offer document or offer document shall be prepared in accordance with Ind AS.

Rationale :- The additional Ind AS requirement is intended to ensure greater comparability, consistency and quality of financial information in respect of relatively larger issuers which voluntarily opt for the SME Platform. The requirement is proposed to be limited to issuers falling within the optional ₹1,000 crore–₹4,000 crore band, thereby maintaining a proportionate framework for other SME issuers while prescribing enhanced financial reporting requirements for relatively larger issuers.

Therefore, an issuer having post-issue market capitalization above ₹1,000 crore and up to ₹4,000 crore may also access the SME Platform. However, such issuer shall be required to present its restated consolidated financial statements prepared in accordance with Ind AS for the last three financial years and the stub period, if any

5.1.1.7. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	**Suggested Draft of the Regulation based on the proposal**
Regulation 229 (1) An issuer shall be eligible to make an initial public offer only if its post - issue paid - up capital is less than or equal to ten crore rupees.	*Regulation 229(1) An issuer, whose post-issue capital calculated at the offer price does not exceed one thousand crore rupees shall undertake initial public offer of specified securities in accordance with provisions of this Chapter.*
Regulation 229 (2) An issuer, whose post issue paid-up capital is more than ten crore rupees and upto twenty five crore rupees, may also issue specified securities in accordance with provisions of this Chapter.	*Regulation 229(2) An issuer, whose post-issue capital calculated at the offer price is more than one thousand crore rupees and up to four thousand crore rupees, may also undertake initial public offer of specified securities in accordance with provisions of this Chapter.* *Provided that such issuer shall disclose its restated consolidated financial statements prepared in accordance with Ind AS.*
-	Insertion of Clause (4) in Schedule XVI :- *Where an issuer has filed a Draft Red Herring Prospectus/Pre-Filed a Draft Red Herring Prospectus for an initial public offer on the Main Board and, at the stage of filing the Red Herring Prospectus in case of book-*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
	building issue or prospectus in case of fixed price issue, the post-issue capital calculated at the offer price is one thousand crore rupees or below, the issuer shall re-file the draft offer document in accordance with the provisions applicable to an initial public offer under Chapter IX of these regulations.
-	Insertion of Clause (5) in Schedule XVI :- *Where an issuer has filed a Draft Red Herring Prospectus for an initial public offer on the SME Platform and, at the stage of filing the Red Herring Prospectus in case of book-building issue or prospectus in case of fixed price issue, the post-issue capital calculated at the offer price is more than four thousand crore rupees, the issuer shall re-file the draft offer document in accordance with the provisions applicable to an initial public offer under Chapter II/IIA of these regulations.*

5.1.1.8. Questions for Public Comments

"1A. Do you agree with the proposal to replace the existing post-issue paid-up capital-based eligibility criterion with a post-issue market capitalization-based framework for determining the eligibility of an issuer to access the SME Platform? Please provide your comments with supporting rationale.

1B. Do you agree with prescribing ₹1,000 crore as the threshold, such that an issuer having post-issue market capitalization up to ₹1,000 crore shall be required to access only the SME Platform? Please provide your comments with supporting rationale.

1C. Do you agree with the proposal to permit an issuer having post-issue market capitalization above ₹1,000 crore and up to ₹4,000 crore to optionally access the SME Platform, subject to the requirement to present its restated consolidated financial statements prepared in accordance with Ind AS if any? Please provide your comments with supporting rationale.

1D. Do you agree with the proposal that where an issuer has initially filed a DRHP/Pre-filed DRHP for a Main Board IPO, but its estimated post-issue market capitalization calculated at the offer price falls to ₹1,000 crore or below at the stage of filing the Red Herring Prospectus in case of book-building issue or prospectus in case of fixed price issue, the issuer should be required to re-file the draft offer document under the SME framework? Please provide your comments with supporting rationale.

1E. Do you agree with the proposal that where an issuer has initially filed its DRHP under the SME framework and its estimated post-issue market capitalization subsequently exceeds ₹1,000 crore at the stage of filing the Red Herring Prospectus in case of book-building issue

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or prospectus in case of fixed price issue, the issuer may continue under the SME framework, subject to the upper threshold of ₹4,000 crore

1F. Do you agree with the proposal that where an issuer has initially filed its DRHP under the SME framework and its post-issue market capitalization subsequently exceeds ₹4,000 crore at the stage of filing the Red Herring Prospectus in case of book-building issue or prospectus in case of fixed price issue, the issuer would be required to re-file the Pre-filed DRHP or DRHP under the Mainboard IPO Framework? Please provide your comments with supporting rationale."

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5.1.2. Requirement Following Conversion or Business Reorganization

5.1.2.1. Existing Provision

Regulation 229(4) of the ICDR Regulations prescribes certain conditions for an issuer which has been formed through conversion from a proprietorship concern or partnership firm or LLP, including requirements relating to the period of existence of the issuer following such conversion and the financial track record to be demonstrated by the issuer.

The existing provision is primarily framed around conversion of an existing business into a company and requires the issuer to have completed at least one full financial year after such conversion before accessing the SME Platform.

5.1.2.2. Need for Review

The requirement of completion of one full financial year may result in materially different effective waiting periods depending upon the date of conversion. For instance, an issuer converted on April 1 may become eligible after approximately 12 months, whereas an issuer converted immediately thereafter may effectively have to wait for almost 24 months. Such variation may not necessarily be commensurate with the underlying objective of ensuring a reasonable period of operations in corporate form.

Further, the existing provision is primarily linked to statutory conversion and may not cover situations where substantially similar economic outcomes are achieved through other forms of business reorganization. An issuer may, for instance, acquire, transfer or otherwise take over a business previously carried on by a proprietorship concern, partnership firm or LLP and subsequently derive a significant portion of its revenue from such business. This may result in similarly placed business reorganizations being subject to different regulatory treatment depending upon the legal form through which the reorganization is undertaken.

5.1.2.3. Recommendations of the Working Group

5.1.2.3.1. Replace the existing requirement of completion of one full financial year with four consecutive completed quarters from the date of conversion or from the latest effective date of the qualifying business reorganization, as applicable;

5.1.2.3.2. Require such issuer to have filed at least one annual audited financial statement or part thereof prepared after the conversion or business reorganization with the Registrar of Companies, in accordance with The Companies Act, 2013, before filing the Draft Offer Document;

5.1.2.3.3. Extend the applicability of the provision beyond statutory conversion to cases where, pursuant to a business reorganization, one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer, where the issuer derives more than fifty per cent of its revenue, as disclosed for the latest financial year in the Draft Offer Document, from such business or businesses.

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5.1.2.3.4. Introduce an appropriate clarificatory Explanation defining "business reorganization", i.e. *"business reorganization" includes acquisition, transfer, vesting, succession, a scheme of arrangement or any other arrangement whereby one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer."*;

5.1.2.3.5. Permit the historical operating track record of the proprietorship concern, partnership firm or LLP to be reckoned for determining compliance with the eligibility requirements under Chapter IX in cases covered by the provision.

5.1.2.4. Rationale

The proposed framework retains the investor-protection objective of Regulation 229(4), while providing a more uniform and certain seasoning requirement. Replacing one full financial year with four consecutive completed quarters would ensure a consistent period of operation in corporate form, irrespective of the date of conversion or business reorganisation.

Extending the provision to qualifying business reorganisations would ensure consistent treatment of substantially similar transactions and address potential regulatory arbitrage. The 50% revenue threshold would ensure that the provision applies where the reorganised business constitutes a substantial part of the issuer's operations.

The requirement for post-reorganisation audited financial information, while permitting the historical operating track record of the predecessor business to be reckoned, would balance investor protection with recognition of the continuity of the underlying business.

5.1.2.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.1.2.6. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	**Suggested Draft of the Regulation based on the proposal**
Regulation 229(4) In case of an issuer, which had been a proprietorship or a partnership firm or a limited liability partnership before conversion to a company or body corporate, such issuer may make an initial public offer only if the issuer company has been in existence for at least one full financial year before filing of draft offer document: *Provided that the restated financial statements of the issuer company prepared post conversion shall be in accordance with Schedule III of the Companies Act, 2013.*	*Regulation 229(4) In case of an issuer which had been a proprietorship concern, partnership firm or limited liability partnership before conversion to a company or body corporate, or in case of an issuer which has undertaken a business reorganization pursuant to which the issuer derives more than fifty per cent of its revenue, as disclosed for the latest financial year in the Draft Offer Document, from one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership, such issuer may make an initial*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
	public offer only if: *(a) the issuer company has completed four consecutive completed financial quarters from the date of such conversion or from the latest effective date of such business reorganization, as the case may be; and* *(b) the issuer has filed at least one annual audited financial statement or part there of prepared after such conversion or business reorganization with the Registrar of Companies, in accordance with The Companies Act, 2013, before filing the Draft Offer Document.* *Explanation: For the purposes of this sub-regulation, "business reorganization" includes acquisition, transfer, vesting, succession, a scheme of arrangement or any other arrangement whereby one or more businesses previously carried on by a proprietorship concern, partnership firm or limited liability partnership are carried on by the issuer.* *Provided that the historical operating track record of the proprietorship concern, partnership firm or limited liability partnership shall be reckoned for determining compliance with the eligibility requirements under this Chapter in cases of conversion or business reorganization covered under this sub-regulation.*

5.1.2.7. Question for Public Comments

"2A. Do you agree with replacing the existing requirement of completion of one full financial year after conversion with four consecutive completed quarters from the date of conversion or from the latest effective date of the qualifying business reorganisation, as applicable? Please provide your comments with supporting rationale.

2B. Do you agree with the proposal to require such issuer to have filed at least one annual audited financial statement or part thereof prepared after the conversion or business reorganisation with the Registrar of Companies before filing the Draft Offer Document? Please provide your comments with supporting rationale.

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2C. Do you agree with the proposal to extend the applicability of Regulation 229(4) to cases where, pursuant to a business reorganisation, one or more businesses previously carried on by a proprietorship concern, partnership firm or LLP are carried on by the issuer, where the issuer derives more than 50% of its revenue from such business or businesses? Please provide your comments with supporting rationale.

2D. Do you agree with the proposed definition of "business reorganisation" to include acquisition, transfer, vesting, succession, a scheme of arrangement or any other arrangement whereby one or more businesses previously carried on by a proprietorship concern, partnership firm or LLP are carried on by the issuer? Please provide your comments with supporting rationale.

2E. Do you agree with permitting the historical operating track record of the proprietorship concern, partnership firm or LLP to be reckoned for determining compliance with the eligibility requirements under Chapter IX in cases covered by the provision? Please provide your comments with supporting rationale."

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5.1.3. Operating Profitability

5.1.3.1. Existing Provisions

The existing framework requires the issuer to have minimum operating profits (Earning Before Interest and Taxes) of ₹1 crore from operations in at least two of the three preceding financial years.

5.1.3.2. Need for Review

The existing threshold of ₹1 crore of operating profit may no longer adequately reflect the scale and financial capacity expected of an issuer accessing the public capital market.

Further, the requirement is based on achievement of the prescribed threshold in at least two individual financial years, which may not appropriately capture the issuer's overall operating performance where profitability varies across financial years.

5.1.3.3. Recommendation of the Working Group

5.1.3.3.1. Existing requirement based on achievement of a specified profit threshold in individual financial years may be replaced with a requirement that the issuer have an Average Operating Profit of not less than ₹3 crore per year during the preceding three financial years, calculated based on the restated and consolidated financial statements.

5.1.3.4. Rationale

The proposed revision would align the profitability criterion more closely with the Main Board framework and ensure that the threshold remains meaningful for issuers accessing the public capital market.

Assessing profitability on an average basis over the preceding three financial years would provide a better measure of the issuer’s overall operating performance, rather than being dependent on the profitability achieved in individual financial years.

The proposed ₹3 crore average operating profit requirement would also serve as an additional investor-protection safeguard, by ensuring that issuers accessing the SME Platform demonstrate a reasonable and sustained level of operating profitability.

5.1.3.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.1.3.6. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	Suggested Draft of the Regulation based on the proposal
Regulation 229(6) An issuer may make an initial public offer, only if the issuer had	*Regulation 229(6) An issuer may make an initial public offer, only if the issuer had an*

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minimum operating profits (earnings before interest, depreciation and tax) of ₹1 crore from operations for at least two out of the three previous financial years.	*average operating profit of not less than three crore rupees per year during the preceding three financial years, calculated based on the restated and consolidated financial statements.*

5.1.3.7. Questions for Public Comments

"3A. Do you agree with aligning the operating profitability requirement for the SME Platform with the Main Board framework by assessing profitability on an average basis over the preceding three financial years, based on the restated and consolidated financial statements? Please provide your comments with supporting rationale.

3B. Do you agree with prescribing ₹3 crore per year as the minimum average operating profit for the preceding three financial years? Please provide your comments with supporting rationale."

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5.1.4. Subsequent Internal Deliberation on Regulation 229 :

5.1.4.1. Background

The existing SME IPO framework prescribes financial eligibility requirements for issuers seeking to access the public capital market. Under the proposed framework, Regulation 229(6) requires an issuer to have an average operating profit of not less than ₹3 crore during the preceding three financial years, calculated on the basis of restated and consolidated financial statements.

The Main Board framework already recognises that failure to satisfy the prescribed financial eligibility conditions need not, by itself, constitute an absolute bar to accessing the public market. Regulation 6(2) provides an alternative eligibility route to an issuer which does not satisfy the conditions specified in Regulation 6(1), subject to the issue being undertaken through the book-building process, at least 75% of the net offer being allotted to Qualified Institutional Buyers, and refund of the entire subscription money where the prescribed QIB allocation is not achieved.

A similar policy consideration arises in the context of SME issuers. While the proposed increase and recalibration of the profitability criterion under Regulation 229(6) would ensure that issuers accessing the SME Platform demonstrate a meaningful level of operating performance, it may also exclude certain growth-oriented enterprises which have an established business and adequate operating history but have not yet achieved the prescribed level of profitability.

This issue is particularly relevant for enterprises in a growth or scale-up phase, where resources may be deployed towards technology, capacity expansion, product development, market development or geographical expansion, resulting in lower or deferred profitability despite the existence of an established and viable business.

Accordingly, the question arises whether the SME framework should similarly provide a calibrated alternative route for issuers which do not satisfy the profitability criterion, while retaining the fundamental safeguards relating to business track record, business continuity and promoter stability.

The subsequent deliberation therefore considered whether the approach under Regulation 6(2) could be adapted to the SME framework, while appropriately recognising the distinct characteristics and risk profile of SME issuers.

5.1.4.2. Proposal

It is proposed to introduce a specific alternative route under Regulation 229(7) for an issuer which does not satisfy the profitability requirement prescribed under Regulation 229(6).

Under the proposed route:

5.1.4.2.1. the issuer would continue to be required to satisfy the eligibility requirements under Regulations 229(3), 229(4) and 229(5);

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5.1.4.2.2. the relaxation would operate only in respect of the profitability criterion under Regulation 229(6);

5.1.4.2.3. the issue would necessarily be undertaken through the book-building process;

5.1.4.2.4. at least 75% of the net offer would be required to be allotted to Qualified Institutional Buyers (QIBs); and

5.1.4.2.5. if the issuer is unable to achieve the prescribed 75% QIB allocation, the entire subscription money would be required to be refunded.

Thus, Regulation 229(7) would create an alternative route within Chapter IX for issuers which have demonstrated business maturity but do not satisfy the prescribed profitability threshold.

5.1.4.3. Rationale

The proposed provision seeks to provide a calibrated alternative route for issuers which have an established business and satisfy the requirements relating to track record, business continuity and promoter continuity, but do not meet the profitability criterion under Regulation 229(6). The rationale is to distinguish business maturity from financial performance. While profitability is an important indicator of financial performance, the absence of the prescribed profitability should not, by itself, prevent an otherwise established growth-oriented enterprise from accessing the public market.

The relaxation is therefore proposed only in respect of Regulation 229(6). The requirements under Regulations 229(3), 229(4) and 229(5) would continue to apply, as these requirements are intended to ensure that an issuer has an adequate operating history and business and promoter continuity. Such requirements cannot be substituted merely through participation by QIBs.

The proposed approach is also broadly aligned with the principle underlying Regulation 6(2) of the Main Board framework, which permits an issuer not satisfying the prescribed financial eligibility conditions to access the public market subject to at least 75% of the net offer being allotted to QIBs. The higher QIB participation under Regulation 229(7) would provide an additional layer of institutional assessment and market-based validation of the issuer.

The proposal would consequently enable growth-stage enterprises which have not yet achieved significant profitability or enterprise value, but have demonstrated an established business, to access the capital market. At the same time, the continued applicability of the business maturity requirements, coupled with the 75% QIB allocation and full-refund safeguard, would ensure that such access is accompanied by appropriate investor protection.

5.1.4.4. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	Suggested Draft of the Regulation based on the proposal
-	*Regulation 229(7) An issuer which does not satisfy the eligibility requirements specified*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
	under sub-regulation (6) shall be eligible to make an initial public offer through the book-building process, subject to the condition that the issuer undertakes to allot at least seventy-five per cent of the net offer to qualified institutional buyers: *Provided that in case the issuer fails to allot at least seventy-five per cent of the net offer to qualified institutional buyers, the issuer shall refund the entire subscription money received.*

5.1.4.5. Question for Public Comments

*"4. Do you agree with the proposal to introduce **Regulation 229(7)** to permit an issuer that does not satisfy the profitability requirement under **Regulation 229(6)** to undertake an initial public offer through the book-building process, subject to at least **75% of the net offer being allotted to Qualified Institutional Buyers**, while retaining the eligibility requirements under Regulations 229(3), 229(4) and 229(5)? Please provide your comments with supporting rationale."*

5.1.5. <u>Regulation 229: Proposed Eligibility Framework</u>

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5.2. Review of Usage of Funds Towards General Corporate Purpose

5.2.1. Existing Provisions

Regulation 230(2) permits an issuer to utilize a portion of the proceeds raised through the public issue towards General Corporate Purposes ("GCP"). The amount proposed to be utilised for GCP, as disclosed in the Draft Offer Document and the Offer Document, is presently subject to a dual limitation of 15% of the amount being raised by the issuer or ₹10 crore, whichever is less.

5.2.2. Need for Review

While the 15% ceiling ensures that only a defined portion of the issue proceeds can be utilised for general corporate purposes, the additional ₹10 crore absolute cap results in the permissible amount remaining unchanged even where the size of the public issue is substantially higher.

This may disproportionately constrain issuers undertaking relatively larger SME IPOs, notwithstanding that the underlying corporate requirements for which funds may legitimately be deployed could increase with the scale of the enterprise and the size of the issue.

5.2.3. Recommendation of the Working Group

5.2.3.1. Removal of the ₹10 crore absolute ceiling prescribed for utilization of issue proceeds towards General Corporate Purposes, while retaining the existing ceiling of 15% of the amount being raised by the issuer.

5.2.4. Rationale

The proposed removal of the ₹10 crore absolute ceiling would provide greater flexibility to SME issuers while retaining the 15% ceiling as a proportionate safeguard on the use of issue proceeds towards General Corporate Purposes. At the same time, retaining the 15% limit would ensure that the SME framework continues to prescribe a stricter framework as compared to the Main Board, balancing issuer flexibility with investor protection.

5.2.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.2.6. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	Suggested Draft of the Regulation based on the proposal
Regulation 230(2) The amount for general corporate purposes, as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed fifteen per cent. of the amount being raised by the issuer or ₹10 crores, whichever is less	*Regulation 230(2) The amount for general corporate purposes, as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed fifteen per cent. of the amount being raised by the issuer.*

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5.2.7. Question for Public Comments

*"5. Do you agree with the proposal to **remove the ₹10 crore absolute ceiling** on utilisation of issue proceeds towards General Corporate Purposes while retaining the existing ceiling of **15% of the amount being raised by the issuer**? Please provide your comments with supporting rationale."*

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5.3. Review of Offer for Sale Framework

5.3.1. Existing Provisions

Regulation 230(1)(f) and Regulation 230(1)(g) prescribe that an OFS by a selling shareholder shall not exceed 20% of the total issue size, and the shares offered through OFS by the selling shareholders shall not exceed 50% of their respective pre-issue shareholding, respectively.

5.3.2. Need for Review

The existing SME framework does not provide a dedicated regulatory framework for OFS, unlike the Main Board framework, and does not prescribe a minimum holding period or corresponding exemptions for securities proposed to be offered through an OFS. The absence of a one-year holding requirement may permit securities acquired shortly before the IPO to be offered to public investors.

Further, the existing limits of 20% of the issue size and 50% of the selling shareholder's pre-issue shareholding may restrict genuine shareholders, particularly QIBs, who have invested in the issuer for a longer period and may seek to realise a portion of their investment through the IPO. The existing restriction may therefore limit the ability of genuine institutional investors to provide capital to growth-oriented enterprises at the pre-IPO stage, as the potential for an appropriate exit through the IPO is an important consideration in such investment decisions.

5.3.3. Recommendations of the Working Group

5.3.3.1. Delete the existing OFS-related provisions from Regulation 230 and introduce a separate, dedicated regulation setting out the conditions and safeguards applicable to an Offer for Sale in an SME IPO.

5.3.3.2. Align the SME OFS framework, including the one-year holding period and relevant exemptions, with the Main Board framework under Regulation 8, suitably calibrated for SME IPOs.

5.3.3.3. Provide flexibility to QIB selling shareholders to offer their securities through the OFS beyond the existing 20% ceiling, subject to the proposed one-year holding-period requirement, the individual ceiling of 50% of the selling shareholder's pre-issue shareholding on a fully diluted basis, and other applicable safeguards.

5.3.4. Rationale

A dedicated OFS framework would provide greater clarity and certainty regarding the conditions applicable to selling shareholders in an SME IPO, while aligning the framework, where appropriate, with the Main Board framework. Introducing a one-year holding period with specified exemptions would ensure that the OFS primarily facilitates exits by shareholders who have remained invested in the issuer for a meaningful period.

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Providing greater flexibility to genuine QIB selling shareholders would facilitate appropriate partial exits and support continued institutional participation in growth-stage enterprises. At the same time, retaining appropriate safeguards, including the holding-period requirement, would ensure that the OFS does not become predominantly a promoter exit mechanism and that the IPO continues to serve its primary capital-raising objective.

5.3.5. PMAC Recommendation

The recommendations of the Working Group were deliberated upon by PMAC. PMAC accepted the recommendations of the Working Group, except for the recommendation to retain the 50% ceiling on the shares offered through OFS by a QIB selling shareholder. PMAC recommended that, in addition to removal of the existing 20% ceiling on the OFS component, the 50% ceiling on the shares offered by a QIB selling shareholder, relative to its pre-issue shareholding, may also be removed.

Rationale :-

The proposed removal of the 50% ceiling for QIB selling shareholders would provide greater flexibility to genuine institutional investors to realize their investments, particularly where such investors have provided capital to the issuer at the pre-IPO stage and have held their investment for a meaningful period. As QIBs are subject to a one-year holding-period requirement, removal of the 50% ceiling would facilitate legitimate institutional exits while reducing restrictions that may otherwise affect their willingness to invest in growth-stage enterprises.

At the same time, the holding-period requirement would continue to ensure that the flexibility is not available for short-term acquisitions made with the primary objective of exiting through the IPO. The distinction between QIB selling shareholders and promoters would also ensure that the proposed flexibility does not dilute the safeguards against promoter-led exit.

5.3.6. Subsequent Internal Deliberations

The proposed Regulation 229(7) is intended to facilitate access to the SME Platform for issuers that have an established business but do not satisfy the prescribed profitability criterion, with 75% QIB participation serving as an additional safeguard. Allowing QIB selling shareholders to avail unrestricted OFS in such issues could result in a significant portion of the issue being used for secondary sale rather than capital raising by the issuer.

Therefore, It may be proposed that the exemption available to a QIB selling shareholder from the quantitative OFS limits under Regulation 230A shall not apply to an issue undertaken pursuant to Regulation 229(7).

Accordingly, QIB selling shareholders in an issue under Regulation 229(7) would remain subject to the applicable OFS limits prescribed under Regulation 230A.

Rationale :-

The proposed restriction is also in line with the approach under Regulation 8A of Chapter II, which prescribes specific limits on OFS by selling shareholders in issues undertaken

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pursuant to Regulation 6(2), notwithstanding the mandatory QIB participation. Accordingly, retaining the OFS limits for issues under Regulation 229(7) would ensure that the alternative route is primarily used to facilitate capital formation for growth-oriented issuers, while preventing it from becoming a route for substantial secondary exits by existing shareholders.

5.3.7. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	**Suggested Draft of the Regulation based on the proposal**
Regulation 230(1)(f) the size of offer for sale by selling shareholders shall not exceed twenty per cent of the total issue size; *Regulation 230(1)(g) the shares being offered for sale by selling shareholders shall not exceed fifty per cent of such selling shareholders' pre-issue shareholding on a fully diluted basis.*	*Regulation 230(1)(f) *Omitted*;* *Regulation 230(1)(g) *Omitted*.* *Regulation 230A Additional Conditions for Offer for Sale* *(1) Only such fully paid-up equity shares may be offered for sale to the public, which have been held by the sellers for a period of at least one year prior to the filing of the draft offer document:* *Provided that in case the equity shares received on conversion or exchange of fully paid-up compulsorily convertible securities including depository receipts are being offered for sale, the holding period of such convertible securities, including depository receipts, as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period referred in this sub-regulation.* *Provided further that such holding period of one year shall be required to be complied with at the time of filing of the draft offer document.* *Provided also that the requirement of holding equity shares for a period of one year shall not apply:* *(a) in case of an offer for sale of a government company or statutory authority or corporation or any special purpose vehicle set up and controlled by any one or more of them, which is engaged in the infrastructure sector;* *(b) if the equity shares or equity shares arising out of conversion of fully paid-up compulsorily convertible securities are offered for sale where such equity shares or fully paid-up compulsorily convertible securities were acquired pursuant to any scheme approved by a High Court or approved by a Tribunal or the Central*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
	Government under sections 230 to 234 of the Companies Act, 2013, as applicable, in lieu of business and invested capital, which had been in existence for a period of more than one year prior to approval of such scheme; *(c) if the equity shares offered for sale were issued under a bonus issue on securities held for a period of at least one year prior to the filing of the draft offer document and further subject to the following:* *(i) such specified securities being issued out of free reserves and share premium existing in the books of account as at the end of the financial year preceding the financial year in which the draft offer document is filed with the Board; and* *(ii) such equity shares not being issued by utilisation of revaluation reserves or unrealized profits of the issuer.* *(2) The portion of the offer for sale by the selling shareholder(s) shall not exceed twenty per cent. of the total issue size:* *Provided that the limit specified in this sub-regulation shall not apply to a selling shareholder which is a Qualified Institutional Buyer, except in case of an issue made under sub-regulation 7 of regulation 229.* *(3) The shares offered for sale by a selling shareholder shall not exceed fifty per cent. of the pre-issue shareholding of such selling shareholder on a fully diluted basis:* *Provided that the limit specified in this sub-regulation shall not apply to a selling shareholder which is a Qualified Institutional Buyer, except in case of an issue made under sub-regulation 7 of regulation 229.* *Explanation.— The limits set out in sub-regulations (2) and (3) shall be calculated with reference to the shareholding as on the date of filing of the draft offer document and shall apply cumulatively to the total number of shares offered for sale to the public and any secondary sale transactions after filing of the draft offer document but prior to the issue opening.*

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5.3.8. Questions for Public Comments

6A. Do you agree with the proposal to introduce a dedicated regulatory framework for Offer for Sale in SME IPOs, setting out the applicable conditions and safeguards? Please provide your comments with supporting rationale.

6B. Do you agree with the proposal to introduce a one-year holding period for securities offered through OFS, together with specified exemptions, in line with Regulation 8 of the ICDR Regulations ? Please provide your comments with supporting rationale.

6C. Do you agree with the proposal to remove the existing 20% ceiling on the OFS component and the 50% ceiling on the shares offered by a selling shareholder, only in respect of QIB selling shareholders, subject to the proposed one-year holding-period requirement? Please provide your comments with supporting rationale.

6D. Do you agree with the proposal to restrict the exemption available to QIB selling shareholders from the prescribed quantitative limits on Offer for Sale under Regulation 230A in respect of an issue undertaken pursuant to Regulation 229(7), in line with the approach under Regulation 8A of Chapter II? Please provide your comments with supporting rationale.

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5.4. Review of Lock-In Mechanism

5.4.1. Existing Provisions

Regulation 238 and Regulation 239 of ICDR Regulations prescribes lock-in requirements for specified securities held by promoters and persons other than promoters. In respect of minimum promoters' contribution, the securities are required to be locked in for three years from the date of allotment in the initial public offer or commencement of commercial production, whichever is later. The promoters' holding in excess of the minimum promoters' contribution is subject to a staggered lock-in, with 50% locked in for two years and the remaining 50% for one year.

For pre-issue capital held by persons other than promoters, the existing framework prescribes a one-year lock-in from the date of allotment. The framework also contains requirements relating to specified securities held by the promoter group and the manner in which lock-in is implemented through the depository mechanism.

5.4.2. Need for Review

The existing lock-in framework contains certain requirements that differ from the Main Board framework and may result in a longer or more complex lock-in period for similarly placed shareholders. In particular, the linkage of the promoters' minimum contribution lock-in to commencement of commercial production and the staggered lock-in of excess promoter holding may result in extended and variable lock-in periods.

Further, the one-year lock-in applicable to non-promoter pre-issue capital is longer than the corresponding Main Board requirement, thereby impacting liquidity. There is also a need to provide greater clarity and operational facilitation for promoter group holdings and for creation of lock-in through the depository mechanism where the securities cannot otherwise be marked as locked-in.

5.4.3. Recommendations of the Working Group

5.4.3.1. Remove the linkage of three-year lock-in applicable to the minimum promoters' contribution to the date of commencement of commercial production.

5.4.3.2. The promoters' holding in excess of the minimum promoters' contribution be locked in for one year from the date of allotment, replacing the existing staggered requirement under which 50% of such holding is locked in for two years and the remaining 50% for one year.

5.4.3.3. Reduce the lock-in applicable to pre-issue capital held by persons other than promoters from one year to six months from the date of allotment, aligning it with the Main Board framework.

5.4.3.4. Provide for a one-year lock-in from the date of allotment for specified securities held by the promoter group, to ensure continued promoter alignment and prevent circumvention of promoter lock-in requirements.

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5.4.3.5. Extend to SME issuers the Main Board mechanism whereby, in cases where lock-in cannot be created through the depository mechanism, the depositories may, upon instructions from the issuer, record such securities as "non-transferable" for the applicable lock-in period.

5.4.4. Rationale

The proposed changes seek to simplify and rationalise the lock-in framework while aligning the SME framework, where appropriate, with the Main Board framework. Reckoning the three-year lock-in for minimum promoters' contribution from the date of IPO allotment would provide certainty and remove the variability arising from linkage to commencement of commercial production. A uniform one-year lock-in for promoter holdings in excess of minimum promoters' contribution would further simplify the existing staggered mechanism.

Reducing the lock-in for non-promoter pre-issue capital to six months would align the requirement with the Main Board framework and facilitate legitimate exits by pre-IPO investors, while the proposed one-year lock-in for promoter group holdings would ensure continued promoter alignment and prevent circumvention of promoter lock-in requirements.

Extending the depository mechanism for recording locked-in securities as "non-transferable" would also provide operational clarity and facilitate effective implementation of the lock-in requirements where securities cannot otherwise be marked as locked-in.

5.4.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.4.6. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	**Suggested Draft of the Regulation based on the proposal**
Lock - in of specified securities held by the promoters *238. The specified securities held by the promoters shall not be transferable (hereinafter referred to as 'lock -in') for the periods as stipulated hereunder:* *a) minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India or any non – individual public shareholder holding at least five per cent. of the post- issue capital or any entity (individual or non - individual) forming part of promoter group other than the promoter(s),*	*Lock - in of specified securities held by the promoters* *238. The specified securities held by the promoters shall not be transferable (hereinafter referred to as 'lock-in') for the periods as stipulated hereunder:* *a) minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India or any non-individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s), as applicable, shall be locked-in*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
as applicable, shall be locked - in for a period of three years from the date of commencement of commercial production or date of allotment in the initial public offer, whichever is later; *b) promoters' holding in excess of minimum promoters' contribution shall be locked-in as follows:* *(i) fifty percent. of promoters' holding in excess of minimum promoters' contribution shall be locked in for a period of two years from the date of allotment in the initial public offer; and* *(ii) remaining fifty percent. of promoters' holding in excess of minimum promoters' contribution shall be locked in for a period of one year from the date of allotment in the initial public offer.* *Explanation: For the purposes of this clause, the expression "date of commencement of commercial production" means the last date of the month in which commercial production of the project in respect of which the funds raised are proposed to be utilised as stated in the offer document, is expected to commence.*	*for a period of three years from the date of allotment in the initial public offer;* *b) promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of one year from the date of allotment in the initial public offer.*
Lock – in of specified securities held by persons other than the promoters *239. The entire pre-issue capital held by persons other than the promoters shall be locked - in for a period of one year from the date of allotment in the initial public offer:* *Provided that nothing contained in this regulation shall apply to:* *a) equity shares allotted to employees, whether currently an employee or not, under an employee stock option or employee stock purchase scheme or a stock appreciation right scheme of the issuer prior to the initial public offer, if the issuer has made full disclosures with respect to such options or scheme in accordance with Part A of Schedule VI;* *b) equity shares held by an employee stock option trust or transferred to the employees*	*Lock-in of specified securities held by persons other than promoters* *239 (1). The entire pre-issue capital held by persons other than promoters and promoter group shall be locked-in for a period of six months from the date of allotment in the initial public offer:* *Provided that nothing contained in this regulation shall apply to:* *(a) equity shares allotted to employees, whether currently an employee or not, under an employee stock option or employee stock purchase scheme of the issuer prior to the initial public offer, if the issuer has made full disclosures with respect to such options or scheme in accordance with Part A of Schedule VI;* *(b) equity shares held by an employee stock option trust or transferred to the employees*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
by an employee stock option trust pursuant to exercise of options by the employees, whether currently employees or not, in accordance with the employee stock option plan or employee stock purchase scheme or a stock appreciation right scheme *Provided that the equity shares allotted to the employees shall be subject to the provisions of lock - in as specified under the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021* *c) equity shares held by a venture capital fund or alternative investment fund of category I or Category II or a foreign venture capital investor:* *Provided that such equity shares shall be locked in for a period of at least one year from the date of purchase by the venture capital fund or alternative investment fund or foreign venture capital investor.* *Explanation : For the purpose of clause (c), in case such equity shares have resulted pursuant to conversion of fully paid - up compulsorily convertible securities, the holding period of such convertible securities as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period and convertible securities shall be deemed to be fully paid - up, if the entire consideration payable thereon has been paid and no further consideration is payable at the time of their conversion.* *Explanation II: For the purpose of clauses (a) and (b), equity shares shall include any equity shares allotted pursuant to a bonus issue against equity shares allotted pursuant to an employee stock option or employee stock purchase scheme or a stock appreciation right scheme.*	*by an employee stock option trust pursuant to exercise of options by the employees, whether currently employees or not, in accordance with the employee stock option plan or employee stock purchase scheme:* *Provided that the equity shares allotted to the employees shall be subject to the provisions of lock-in as specified under the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021;* *(c) equity shares held by a venture capital fund or alternative investment fund of Category I or Category II or a foreign venture capital investor:* *Provided that such equity shares shall be locked in for a period of at least one year from the date of purchase by the venture capital fund or alternative investment fund or foreign venture capital investor.* *Explanation: For the purpose of clause (c), in case such equity shares have resulted pursuant to conversion of fully paid-up compulsorily convertible securities, the holding period of such convertible securities as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period and convertible securities shall be deemed to be fully paid-up, if the entire consideration payable thereon has been paid and no further consideration is payable at the time of their conversion.* *Explanation II: For the purpose of clauses (a) and (b), equity shares shall include any equity shares allotted pursuant to a bonus issue against equity shares allotted pursuant to an employee stock option or employee stock purchase scheme or a stock appreciation right scheme.* *(2) The specified securities held by the promoter group shall be locked-in for a period of one year from the date of allotment in the initial public offer.* *(3) Where the specified securities which are subject to lock-in cannot be locked-in*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
	through the depository mechanism, the depositories may, upon instructions from the issuer, record such specified securities as "non-transferable" for the duration of the applicable lock-in period.

5.4.7. Questions for Public Comments

7A. Do you agree with the proposal to remove the linkage of three-year lock-in, applicable to the minimum promoters' contribution, to the date of commencement of commercial production and reckoning the lock-in period from the date of allotment in the initial public offer, in line with Mainboard Framework? Please provide your comments with supporting rationale.

7B. Do you agree with the proposal to replace the existing staggered lock-in applicable to promoters' holding in excess of the minimum promoters' contribution, whereby 50% is locked in for two years and the remaining 50% for one year, with a uniform one-year lock-in from the date of allotment? Please provide your comments with supporting rationale.

7C. Do you agree with the proposal to prescribe a one-year lock-in for specified securities held by the promoter group from the date of allotment? Please provide your comments with supporting rationale.

7D. Do you agree with the proposal to reduce the lock-in applicable to pre-issue capital held by persons other than promoters and promoter group from one year to six months? Please provide your comments with supporting rationale.

7E. Do you agree with the proposal to extend to SME issuers the depository mechanism for recording locked-in securities as "non-transferable" where lock-in cannot otherwise be created through the depository mechanism? Please provide your comments with supporting rationale.

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5.5. Review of Application Size, Allotment Mechanism and Trading Lot

5.5.1. Review of Minimum Application Size and Allocation Framework

5.5.1.1. Existing Provisions

Regulation 267 presently prescribes a minimum application size of two lots per application, with the minimum application value being above ₹2 lakh, and requires applications to be made in multiples of the lot size. The Regulations do not expressly provide for Anchor Investor allocation under the SME framework.

Regulation 253 presently provides for allocation in the net offer category of not less than 35% to individual investors applying for the minimum application size, not less than 15% to Non-Institutional Investors and not more than 50% to Qualified Institutional Buyers, with 5% of the QIB portion being allocated to mutual funds, subject to the prescribed provisions for reallocation of unsubscribed portions.

For book-built issues, Regulation 253(2) further provides for allocation of the NII portion in the ratio of one-third and two-thirds, based on the application size, with one-third reserved for applicants applying for more than two lots and up to such lots equivalent to not more than ₹10 lakh, and two-thirds for applicants with application size exceeding ₹10 lakh.

5.5.1.2. Need for Review

The existing requirement of two lots per application with a minimum application value above ₹2 lakh may limit participation and may not appropriately balance accessibility with the objective of ensuring meaningful applications. Further, the existing investor categorisation and allocation framework differs from the Main Board framework, including the terminology used for individual investors and the basis for NII sub-categorisation.

There is also a need to provide a clear regulatory framework for Anchor Investor participation in SME IPOs, while retaining an appropriate allocation framework for different investor categories and aligning it, where appropriate, with the Main Board framework.

5.5.1.3. Recommendations of the Working Group

5.5.1.3.1. Retain the existing requirement of two lots per application, while providing for the minimum value of the lots as each lot shall have a minimum value of ₹50,000 and accordingly, the minimum application value shall be reduced to ₹1 lakh from the existing requirement of ₹2 lakhs, with subsequent applications continuing to be made in multiples of the minimum lot size.

5.5.1.3.2. Replace the existing reference to individual investors applying for the minimum application size with “Retail Individual Investors”, thereby bringing the terminology in line with the proposed RII framework and align the investor allocation framework with the Main Board framework.

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5.5.1.3.3. Expressly recognise Anchor Investor allocation in Regulation 253: In a book-built issue, the issuer may allocate up to 60% of the portion available for allocation to QIBs to Anchor Investors, subject to the conditions specified in Schedule XIII.

5.5.1.3.4. Retain the existing one-third/two-thirds allocation framework for Non-Institutional Investors, while replacing the reference to "more than two lots" with a minimum application value of ₹2 lakh for determining the respective NII sub-categories, in alignment with the Main Board framework under Regulation 32(3A).

5.5.1.4. Rationale

The proposed revision seeks to facilitate retail participation while ensuring that the investment remains meaningful, considering the nature and scale of issuers accessing the SME Platform. Retaining the requirement of two lots, while prescribing a minimum lot value of ₹50,000, would reduce the minimum application value to ₹1 lakh without resulting in very small applications.

Replacing the existing terminology with "Retail Individual Investors" and aligning the allocation framework with the Main Board framework would provide greater clarity and consistency in investor categorisation. Recognising Anchor Investor allocation would facilitate greater institutional participation, while the value-based NII sub-categorisation would provide a more appropriate and consistent basis for investor classification.

5.5.1.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.5.1.6. Subsequent Internal Deliberation

5.5.1.6.1. Pursuant to subsequent internal deliberations, it was considered appropriate to further reduce the minimum value of each lot from ₹50,000 to ₹25,000, while retaining the minimum application value of ₹1 lakh. Accordingly, an investor would be required to apply for a minimum of four lots.

Rationale :-

It may be noted that SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025, notified on March 4, 2025, increased the minimum application size for SME IPOs from ₹1 lakh to ₹2 lakh, with the objective of limiting participation by smaller retail investors in view of the higher risks associated with SME investments.

The proposed framework now incorporates a broader set of safeguards, including enhanced eligibility requirements, strengthened disclosure and due-diligence requirements, higher minimum subscription, improved investor allocation mechanisms and a proposed one-share trading lot. In this context, retaining a ₹2 lakh minimum application value may unnecessarily restrict access to the SME

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capital market, particularly when the proposed framework seeks to broaden investor access through a lower trading lot and more flexible participation mechanisms.

The proposed reduction to ₹1 lakh would therefore seek to balance investor protection with meaningful access to SME IPOs, without reverting to the earlier framework in its entirety, as the reduction would operate within a substantially strengthened regulatory framework.

It would also facilitate greater fragmentation of the investor base and capital among a wider number of investors, thereby supporting broader participation in SME IPOs.

5.5.1.6.2. It was considered whether the allocation framework for an issue undertaken pursuant to Regulation 229(7) should be aligned with the framework applicable to an issue under Regulation 6(2) of Chapter II.

It was noted that Regulation 32(2) of ICDR Regulations provides for allocation of not more than 10% of the net offer to Retail Individual Investors, not more than 15% to Non-Institutional Investors and not less than 75% to Qualified Institutional Buyers in an issue undertaken pursuant to Regulation 6(2).

Given that the proposed Regulation 229(7) is similarly intended to provide an alternative eligibility route to issuers not satisfying the prescribed profitability requirement, subject to enhanced QIB participation, it was deliberated that a similar allocation framework may be adopted for such issues.

Accordingly, it was considered appropriate to provide that, in an issue undertaken pursuant to Regulation 229(7), not more than 10% of the net offer may be allotted to RIIs, not more than 15% to NIIs and not less than 75% to QIBs, thereby maintaining consistency with the allocation framework applicable for issuers accessing Mainboard Platform.

5.5.1.7. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	**Suggested Draft of the Regulation based on the proposal**
Allocation in the net offer *253. (1) The allocation in the net offer category shall be as follows:* *a) not less than thirty-five per cent. to individual investors who applies for minimum application size;* *b) not less than fifteen per cent. to non-institutional investors;* *c) not more than fifty per cent. to qualified institutional buyers, five per cent. of which shall be allocated to mutual funds:* *Provided that the unsubscribed portion in*	*Allocation in the net offer* *253. (1) In an issue made through the book building process, except in case of an issue made under sub-regulation 7 of regulation 229, the allocation in the net offer category shall be as follows:* *(a) not less than thirty-five per cent. to Retail Individual Investors;* *(b) not less than fifteen per cent. to non-institutional investors;* *(c) not more than fifty per cent. to qualified institutional buyers, five per cent. of which*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
either of the categories specified in clauses (a) or (b) may be allocated to applicants in any other category: *Provided further that in addition to five per cent. allocation available in terms of clause (c), mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.* *(2) In an issue made through book building process, the allocation in the non-institutional investors' category shall be as follows:* *(a) one third of the portion available to non-institutional investors shall be reserved for applicants with application size of more than two lots and up to such lots equivalent to not more than ₹10 lakhs;* *(b) two third of the portion available to non-institutional investors shall be reserved for applicants with application size of more than ₹10 lakhs:* *Provided that the unsubscribed portion in either of the sub-categories specified in clauses (a) or (b), may be allocated to applicants in the other sub-category of non-institutional investors.* *(3) In an issue made other than through the book building process, the allocation in the net offer category shall be made as follows:* *(a) minimum fifty per cent. to individual investors who applies for minimum application size; and* *(b) remaining to:* *(i) individual applicants who applies for minimum application size; and* *(ii) other investors including corporate bodies or institutions, irrespective of the number of specified securities applied for;* *Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in the other category.* *Explanation. - For the purpose of sub-regulation (3), if the category of individual investors who applies for minimum application size is entitled to more than fifty per cent. of the issue size on a proportionate basis, such individual investors shall be allocated that higher percentage.*	*shall be allocated to mutual funds:* *Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in any other category:* *Provided further that in addition to five per cent. allocation available in terms of clause (c), mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.* *(1A) In an issue made through book building process under sub-regulation (7) of regulation 229, the allocation in the net offer category shall be as follows –* *(a) not more than ten per cent. to retail individual investors;* *(b) not more than fifteen per cent. to non-institutional investors;* *(c) not less than seventy five per cent. to qualified institutional buyers, five per cent. of which shall be allocated to mutual funds.* *Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in the other category:* *Provided further that in addition to five per cent. allocation available in terms of clause (c), mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.* *(1B) In an issue made through book building process, the issuer may allocate up to sixty per cent. of the portion available for allocation to qualified institutional buyers to Anchor Investors, subject to the conditions specified in Schedule XIII.* *(2) In an issue made through book building process, the allocation in the non-institutional investors' category shall be as follows:* *(a) one third of the portion available to non-institutional investors shall be reserved for applicants with application value of more than ₹2 lakhs and up to ₹10 lakhs;* *(b) two third of the portion available to non-institutional investors shall be reserved for*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
Application and minimum application value *267.(1) A person shall not make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to the public.* *Provided that the maximum application by non-institutional investors shall not exceed total number of specified securities offered in the issue less total number of specified securities offered in the issue to qualified institutional buyers.* *(2) The minimum application size shall be two lots per application* *Provided that the minimum application size shall be above ₹2 lakhs.* *(3) The issuer shall invite applications in multiples of the lot size.* *(4) The minimum sum payable on application per specified security shall at least be twenty-five per cent. of the issue price:* *Provided that in case of an offer for sale, the full issue price for each specified security shall be payable on application.* *Explanation: For the purpose of this regulation, "minimum application value" shall be with reference to the issue price of the specified securities and not with reference to the amount payable on application.*	*applicants with application value of more than ₹10 lakhs:* *Provided that the unsubscribed portion in either of the sub-categories specified in clauses (a) or (b), may be allocated to applicants in the other sub-category of non-institutional investors.* *(3) In an issue made other than through the book building process, the allocation in the net offer category shall be made as follows:* *(a) minimum fifty per cent. to Retail Individual Investors; and* *(b) remaining to:* *(i) Retail Individual Investors; and* *(ii) other investors including corporate bodies or institutions, irrespective of the number of specified securities applied for:* *Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in the other category.* *Explanation. — For the purpose of sub-regulation (3), if the category of Retail Individual Investors is entitled to more than fifty per cent. of the issue size on a proportionate basis, such Retail Individual Investors shall be allocated that higher percentage.* *Application and minimum application value* *267. (1) A person shall not make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to the public.* *Provided that the maximum application by non-institutional investors shall not exceed total number of specified securities offered in the issue less total number of specified securities offered in the issue to qualified institutional buyers.* *(2) The minimum application size shall be four lots per application, each lot having a minimum value of ₹25,000.* *(3) The issuer shall invite applications in multiples of the lot size.* *(4) The minimum sum payable on application*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
	per specified security shall at least be twenty-five per cent. of the issue price: *Provided that in case of an offer for sale, the full issue price for each specified security shall be payable on application.* *Explanation. — For the purpose of this regulation, "minimum application value" shall be with reference to the issue price of the specified securities and not with reference to the amount payable on application.*

5.5.1.8. Questions for Public Comments

8A. Do you agree with the proposal to revise the minimum application requirement to four lots per application, with each lot having a minimum value of ₹25,000, resulting in a minimum application value of ₹1 lakh, with subsequent applications continuing to be made in multiples of the minimum lot size? Please provide your comments with supporting rationale.

8B. Do you agree with the proposal to replace the reference to "individual investors applying for the minimum application size" with "Retail Individual Investors" and align the investor allocation framework with the Main Board framework? Please provide your comments with supporting rationale.

8C. Do you agree with the proposal to prescribe, for an issue undertaken pursuant to Regulation 229(7), an allocation of not more than 10% of the net offer to Retail Individual Investors, not more than 15% to Non-Institutional Investors and not less than 75% to Qualified Institutional Buyers, in line with the allocation framework for issuers accessing Mainboard Platform. Please provide your comments with supporting rationale.

8D. Do you agree with the proposal to expressly recognise Anchor Investor allocation in Regulation 253, permitting allocation of up to 60% of the portion available for allocation to QIBs to Anchor Investors in a book-built issue, subject to the conditions specified in Schedule XIII? Please provide your comments with supporting rationale.

8E. Do you agree with retaining the existing one-third/two-thirds allocation framework for NIIs, while replacing the reference to "more than two lots" with a minimum application value of ₹2 lakh for determining the respective NII sub-categories, in alignment with the Main Board framework? Please provide your comments with supporting rationale.

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5.5.2. Review of Allotment Mechanism

5.5.2.1. Existing Provision

Regulation 268 prescribes a minimum of 200 allottees for an SME IPO and provides for allotment in accordance with specified category-wise requirements. For NIIs, each applicant is required to receive at least the minimum application size, subject to availability, with the remaining shares allotted proportionately.

The basis of allotment is required to be finalised in accordance with the procedure specified in Parts A and A2 of Schedule XIV.

5.5.2.2. Need for Review

The existing SME allotment framework is closely linked to the minimum application and lot-size framework, with allotment being made in minimum lots and multiples thereof. This linkage may not be necessary where the minimum application requirement and allotment mechanism serve different objectives. The framework may therefore be reviewed to provide greater flexibility in allotment to Retail Individual Investors, while retaining the minimum application requirement.

The existing minimum requirement of 200 allottees may also be revisited in the context of the objective of wider investor participation and broader distribution of shareholding in SME-listed entities. Further, with the proposed alignment of the NII allocation framework with the Main Board framework, the SME-specific illustration in Part A2 of Schedule XIV may be rationalised to avoid duplication of procedural requirements.

5.5.2.3. Recommendations of the Working Group

5.5.2.3.1. Provide that the allotment of specified securities to each Retail Individual Investor shall not be less than one minimum lot, subject to availability of shares in the Retail Individual Investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis without linkage to the minimum lot size.

5.5.2.3.2. Increase the minimum number of allottees in an SME IPO from 200 to 500, thereby facilitating wider distribution of the issue among investors.

5.5.2.3.3. Omit Part A2 of Schedule XIV, which provides an illustration explaining the procedure for allotment to Non-Institutional Investors in an SME public issue.

5.5.2.4. Rationale

The proposed changes would delink the allotment mechanism from the minimum lot size, providing greater flexibility in allotting securities to Retail Individual Investors while ensuring that each investor receives at least one minimum lot, subject to availability. This would facilitate a more equitable and meaningful distribution of shares in case of oversubscription.

Increasing the minimum number of allottees from 200 to 500 would promote wider dissemination of shareholding and broader investor participation in SME-listed entities. Further, omission of Part A2 of Schedule XIV would simplify the regulatory framework by

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removing an SME-specific illustration where the substantive NII allotment requirements are adequately prescribed in the Regulations.

5.5.2.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.5.2.6. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	**Suggested Draft of the Regulation based on the proposal**
Allotment procedure and basis of allotment *268. (1) The issuer shall not make an allotment pursuant to a public issue if the number of allottees in an initial public offer is less than two hundred.* *(2) The issuer shall not make any allotment in excess of the specified securities offered through the offer document except in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the designated stock exchange.* *Provided that in case of oversubscription, an allotment of not more than ten per cent. of the net offer to public may be made for the purpose of making allotment in minimum lots.* *(3) The allotment of specified securities to applicants other than individual investors who applies for minimum application size, non-institutional investors and anchor investors shall be on proportionate basis within the specified investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document:* *Provided that the value of specified securities allotted to any person, except in case of employees, in pursuance of reservation made under clause (a) of sub-regulation (1) or clause (a) of sub-regulation (2) of regulation 254, shall not exceed two lakhs' rupees.* *(3A) Subject to the availability of shares in non-institutional investors' category, the*	***Allotment procedure and basis of allotment*** *268. (1) The issuer shall not make an allotment pursuant to a public issue if the number of allottees in an initial public offer is less than five hundred.* *(2) The issuer shall not make any allotment in excess of the specified securities offered through the offer document except in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the designated stock exchange.* *Provided that in case of oversubscription, an allotment of not more than ten per cent. of the net offer to public may be made for the purpose of making allotment in minimum lots.* *(2A) The allotment of specified securities to each Retail Individual Investor shall not be less than the minimum lot, subject to the availability of shares in the Retail Individual Investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis, without requiring such allotment to be in multiples of the minimum lot.* *(3) The allotment of specified securities to applicants other than Retail Individual Investors, non-institutional investors and anchor investors shall be on proportionate basis within the specified investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document:* *Provided that the value of specified*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
allotment of specified securities to each non-institutional investor shall not be less than the minimum application size in non-institutional investor category, and the remaining shares, if any, shall be allotted on a proportionate basis in accordance with the conditions specified in this regard in Schedule XIII of these regulations. *(4) The authorised employees of the stock exchange, along with the lead manager(s) and registrars to the issue, shall ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the allotment procedure as specified in Parts A and A2 of Schedule XIV.*	*securities allotted to any person, except in case of employees, in pursuance of reservation made under clause (a) of sub-regulation (1) or clause (a) of sub-regulation (2) of regulation 254, shall not exceed two lakhs rupees.* *(3A) Subject to the availability of shares in non-institutional investors' category, the allotment of specified securities to each non-institutional investor shall not be less than the minimum application size in the relevant non-institutional investor sub-category, and the remaining shares, if any, shall be allotted on a proportionate basis in accordance with the conditions specified in this regard in these regulations.* *(4) The authorized employees of the stock exchange, along with the lead manager(s) and registrars to the issue, shall ensure that the basis of allotment is finalized in a fair and proper manner in accordance with the allotment procedure as specified in Part A of Schedule XIV.*

5.5.2.7. Questions for Public Comments

9A. Do you agree with the proposal to provide that the allotment of specified securities to each Retail Individual Investor shall not be less than one minimum lot, subject to availability of shares in the RII category, with the remaining shares, if any, allotted on a proportionate basis without linkage to the minimum lot size? Please provide your comments with supporting rationale.

9B. Do you agree with the proposal to increase the minimum number of allottees in an SME IPO from 200 to 500? Please provide your comments with supporting rationale.

9C. Do you agree with the proposal to omit Part A2 of Schedule XIV, which provides an illustration of the procedure for allotment to Non-Institutional Investors in an SME public issue? Please provide your comments with supporting rationale.

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5.5.3. Review of Trading Lot Framework

5.5.3.1. Existing Provision

The trading lot for securities listed on the SME Platform is primarily governed by SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012, which prescribes a standardised lot size based on the price of the security. The prescribed lot size applies both at the IPO stage and for secondary-market trading, thereby linking the IPO lot size with the trading lot.

The Circular prescribes lot sizes ranging from 10,000 shares for securities priced up to ₹14 to 100 shares for securities priced above ₹1,000, with the applicable lot size determined based on the prescribed price bands. It also provides that the basis of allotment at the IPO stage is finalised in minimum lots and multiples thereof and that the secondary-market trading lot shall be the same as the IPO lot size.

5.5.3.2. Need for Review

The existing price-band-based trading lot framework requires investors to transact in predetermined quantities of shares and links the secondary-market trading lot to the IPO lot size. This may restrict flexibility in secondary-market transactions, particularly where the market price of the security changes materially over time.

Further, the fixed trading lot may result in odd-lot holdings that cannot be fully traded through the regular market mechanism; analysis indicates that, on average, approximately 5% of unique PAN-based shareholders held shares constituting an odd lot. The prescribed lot may also increase the entry and holding cost for institutional investors, including QIBs, thereby potentially limiting their participation in SME-listed securities.

Accordingly, there is a need to reconsider the existing trading lot framework to facilitate greater accessibility and flexibility in secondary-market transactions while supporting wider investor participation.

5.5.3.3. Recommendations of the Working Group

5.5.3.3.1. Rationalize the trading lot for securities listed on the SME Platform to one share, thereby eliminating the structural restriction arising from the prescribed trading lots and facilitating greater accessibility and flexibility in secondary-market transactions.

5.5.3.4. Rationale

Rationalising the trading lot to one share would remove the structural restriction arising from predetermined trading quantities and provide investors with greater flexibility to buy or sell securities based on their actual holdings. This would also address the issue of odd-lot holdings and enable investors to trade their entire shareholding through the regular market mechanism.

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The proposed framework would facilitate wider investor participation, including by institutional investors, by reducing the constraints associated with relatively large trading lots. It would also appropriately distinguish the objectives of the IPO application lot and secondary-market trading lot, allowing the latter to provide greater flexibility and accessibility.

5.5.3.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.5.3.6. Proposed Amendments to the SEBI ICDR Regulations

<table>
<tr><th>Existing Provisions</th><th>Suggested Draft of the Regulation based on the proposal</th></tr>
<tr><td>

SEBI Circular No. CIR/MRD/DSA/06/2012 dated February 21, 2012 titled Standardized lot size for SME Exchange / Platform

2. ….it has been decided to standardize the lot size for Initial Public Offer proposing to list on SME exchange/platform and for the secondary market trading on such exchange/platform, as given under:

<table>
<tr><td>*Price Band (in Rs)*</td><td>*Lot Size (No of shares)*</td></tr>
<tr><td>*Upto 14*</td><td>*10000*</td></tr>
<tr><td>*more than 14 upto 18*</td><td>*8000*</td></tr>
<tr><td>*more than 18 upto 25*</td><td>*6000*</td></tr>
<tr><td>*more than 25 upto 35*</td><td>*4000*</td></tr>
<tr><td>*more than 35 upto 50*</td><td>*3000*</td></tr>
<tr><td>*more than 50 upto 70*</td><td>*2000*</td></tr>
<tr><td>*more than 70 upto 90*</td><td>*1600*</td></tr>
<tr><td>*more than 90 upto 120*</td><td>*1200*</td></tr>
<tr><td>*more than 120 upto 150*</td><td>*1000*</td></tr>
<tr><td>*more than 150 upto 180*</td><td>*800*</td></tr>
<tr><td>*more than 180 upto 250*</td><td>*600*</td></tr>
<tr><td>*more than 250 upto 350*</td><td>*400*</td></tr>
<tr><td>*more than 350 upto 500*</td><td>*300*</td></tr>
<tr><td>*more than 500 upto 600*</td><td>*240*</td></tr>
<tr><td>*more than 600 upto 750*</td><td>*200*</td></tr>
<tr><td>*more than 750 upto 1000*</td><td>*160*</td></tr>
</table>

</td><td>*The said circular may be rescinded.*</td></tr>
</table>

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
above 1000 | 100 *3. At the Initial Public Offer stage the Registrar to Issue in consultation with Merchant Banker/s, Issuer and the Stock Exchange shall ensure to finalize the basis of allotment in minimum lots and in multiples of minimum lot size, as per the above given table. The secondary market trading lot size shall be the same, as shall be the IPO Lot Size at the application/allotment stage, facilitating secondary market trading.* *4. At the Initial Public Offering stage if the price band decided, falls within two different price bands than the minimum application lot size shall be decided based on the price band in which the higher price falls into. For example: if the proposed price band is at 24-28 than the Lot size shall be 4000 shares.* *5. The lot size shall not be reduced by the exchange to below the initial lot size if the trading price is below the IPO issue price.* *6. The Stock Exchanges can review the lot size once in every 6 months / wherever warranted, by giving an advance notice of at least one month to the market. However, as far as possible the stock exchange shall ensure that odd lots are not created.* *7. Further, the stock exchanges shall ensure that the lot size shall be the same for a securities traded across the Exchanges. In case of oversubscription, if the option to retain ten percent of the net offer to public for the purpose of making allotment in minimum lots is exercised, then it shall be ensured by the Issuer/Stock Exchanges/ Merchant Bankers that the post issue paid up capital of the issuer does not go beyond Rs.25 crore.*	

5.5.3.7. Questions for Public Comments

10A. Do you agree with the proposal to rationalize the trading lot for securities listed on the SME Platform to one share, thereby eliminating the restriction arising from the prescribed trading lot and facilitating greater accessibility and flexibility in secondary-market transactions? Please provide your comments with supporting rationale.

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5.6. Rationalization of Cost of Fund raising and SME Specific requirements

5.6.1. Review of Underwriting Framework

5.6.1.1. Existing Provision

Regulation 260 requires an SME IPO to be 100% underwritten, without restricting the underwriting obligation to the minimum subscription level. The Lead Manager(s) are required to underwrite at least 15% of the issue size on their own account. The issuer is also required to appoint registered merchant bankers or stock brokers as underwriters, with provision for nominated investors to subscribe to the unsubscribed portion.

The framework further requires the Lead Manager(s) to ensure fulfilment of the underwriting obligation in case of failure by other underwriters or nominated investors, and mandates disclosure of all underwriting and subscription arrangements in the offer document.

5.6.1.2. Need for Review

The existing requirement of 100% underwriting of the entire issue, along with the Lead Manager(s)' obligation to underwrite at least 15% of the issue size, entails additional underwriting-related costs for SME issuers. The analysis of prospectus disclosures indicates that underwriting fees constituted, on an average, approximately 49.52% and 38.41% of total issue expenses for SME IPOs on NSE during FY 2024-25 and FY 2025-26, respectively. For SME IPOs on BSE, the corresponding figures were 32.20% and 33.99%, respectively.

Further, requiring the entire issue to be underwritten irrespective of actual investor demand may result in underwriting costs even where adequate subscription is received. In comparison, the Main Board framework provides for underwriting of the unsubscribed portion. The existing SME framework may therefore be reviewed to rationalise the cost of fund raising while retaining adequate protection against under-subscription.

5.6.1.3. Recommendations of the Working Group

5.6.1.3.1. Remove the requirement for 100% underwriting of the issue and the additional requirement for the Lead Manager(s) to underwrite 15% of the issue on their own account. The underwriting framework applicable to Main Board issues may continue to apply to SME public issues, under which the unsubscribed portion of the issue is required to be fully underwritten by the underwriters.

5.6.1.3.2. Introduce a minimum subscription requirement for SME issues through a new regulation, aligned with the minimum subscription requirement prescribed under Regulation 45, to ensure that the IPO is concluded only upon achievement of the prescribed minimum level of actual investor subscription.

5.6.1.3.3. Omit the requirement under Regulation 264(5) relating to obtaining confirmation from the Registrar to the Issue that at least 90% of the offer has been subscribed prior to announcement of closure of the issue, as the proposed minimum

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subscription requirement under Regulation 265A would provide the substantive framework governing minimum investor subscription.

5.6.1.4. Rationale

The proposed changes would rationalise the underwriting framework and reduce the cost of fund raising for SME issuers by removing the mandatory 100% underwriting requirement and the additional 15% obligation on Lead Manager(s), while retaining adequate investor protection through the Main Board underwriting framework for the unsubscribed portion.

Introducing a minimum subscription requirement would ensure that an SME IPO proceeds only upon achievement of the prescribed level of actual investor subscription. Consequently, the separate requirement under Regulation 264(5) for confirmation of 90% subscription would become redundant and may be omitted, thereby simplifying the regulatory framework and avoiding duplication.

5.6.1.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.6.1.6. Subsequent Internal Deliberation

Pursuant to subsequent internal deliberations, it was considered appropriate to expressly provide that the portion of the net offer proposed to be compulsorily allotted to Qualified Institutional Buyers (QIBs) under Regulation 229(7) shall not be underwritten in lines of the Mainboard IPO Framework.

Rationale :- The proposed alternative eligibility route under Regulation 229(7) requires at least 75% of the net offer to be allotted to QIBs. Since this route is intended to facilitate access to the capital market for issuers that do not satisfy the prescribed profitability requirement, it was considered appropriate that the QIB portion be subscribed to by institutional investors on the basis of their own assessment of the issuer, rather than being supported through underwriting arrangements.

5.6.1.7. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	Suggested Draft of the Regulation based on the proposal
Underwriting *260. (1) The initial public offer shall be underwritten for hundred per cent of the offer and shall not be restricted upto the minimum subscription level.* *(2) The lead manager(s) shall underwrite at least fifteen per cent. of the issue size on their own account(s).* *(3) The issuer, in consultation with lead manager(s), shall appoint merchant*	***Underwriting*** *260 (1) If the issuer making an initial public offer, other than through the book building process, desires to have the issue underwritten to cover under-subscription in the issue, it shall, prior to the filing of the prospectus, enter into an underwriting agreement with the merchant bankers or stock brokers registered with the Board to act as underwriters, indicating therein the maximum number of specified securities they shall subscribe to, either by themselves*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
bankers or stock brokers, registered with the Board, to act as underwriters, and the lead manager(s) may enter into an agreement with the nominated investors indicating therein the number of specified securities which they agree to subscribe at the issue price in case of under-subscription. *(4) The lead manager(s) shall file an undertaking to the Board that the issue has been hundred per cent. underwritten along with the list of underwriters, nominated investors and sub-underwriters indicating the extent of underwriting or subscription commitment made by each of them, one day before the opening of issue.* *(5) If any of the underwriters fail to fulfill their underwriting obligations or the nominated investors fail to subscribe to the unsubscribed portion, the lead manager(s) shall fulfill the underwriting obligations.* *(6) The underwriters/ sub-underwriters, other than the lead manager(s) and the nominated investors, who have entered into an agreement for subscribing to the issue in case of under-subscription, shall not subscribe to the issue made under this Chapter in any manner except for fulfilling their obligations under their respective agreements with the lead manager(s) in this regard.* *(7) All underwriting and subscription arrangements made by the lead manager(s) shall be disclosed in the offer document.*	*or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.* *(2) The issuer making an initial public offer, other than through the book building process, shall, prior to the filing of the prospectus, enter into an underwriting agreement with the merchant bankers or stock brokers registered with the Board to act as underwriters, indicating therein the number of specified securities they shall subscribe to on account of rejection of applications, either by themselves or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.* *(3) If the issuer makes a public issue through the book building process:* *(a) the issue shall be underwritten by lead manager(s) and syndicate member(s):* *Provided that at least seventy five percent of the net offer proposed to be compulsorily allotted to qualified institutional buyers for the purpose of compliance of the eligibility conditions specified in the sub-regulation (7) of regulation 229 shall not be underwritten.* *(b) the issuer shall, prior to the filing of the red herring prospectus, enter into an underwriting agreement with the lead manager(s) and syndicate member(s), indicating therein the number of specified securities they shall subscribe to on account of rejection of bids, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.* *(c) if the issuer desires to have the issue underwritten to cover under-subscription in the issue, it shall, prior to the filing of the red herring prospectus, enter into an underwriting agreement with the lead manager(s) and syndicate member(s) to act as underwriters, indicating therein the*

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
	maximum number of specified securities they shall subscribe to, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the red herring prospectus. *(d) if the syndicate member(s) fail to fulfil their underwriting obligations, the lead manager(s) shall fulfil the underwriting obligations.* *(e) the lead manager(s) and syndicate member(s) shall not subscribe to the issue in any manner except for fulfilling their underwriting obligations.* *(f) in case of every underwritten issue, the lead manager(s) shall undertake minimum underwriting obligations as specified in the Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992.* *(g) where the issue is required to be underwritten, the underwriting obligations should be at least to the extent of minimum subscription.*
-	***Minimum Subscription*** *265A (1) The minimum subscription to be received in the issue shall be at least ninety per cent. of the offer through the offer document, except in case of an offer for sale of specified securities:* *Provided that the minimum subscription to be received shall be subject to the allotment of minimum number of specified securities, as prescribed under the Securities Contracts (Regulation) Rules, 1957.* *(2) In the event of non-receipt of minimum subscription referred to in sub-regulation (1), all application monies received shall be refunded to the applicants forthwith, but not later than four days from the closure of the issue.*
Issue – related advertisements *264 (5) (An announcement regarding closure of the issue shall be made only after the lead manager(s) is satisfied that at least ninety*	***264 (5) *Omitted****

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
per cent. of the offer has been subscribed and a certificate has been obtained to that effect from the registrar to the issue: *Provided that such an announcement shall not be made before the date on which the issue is to be closed except for issue closing advertisement made in the format prescribed in these regulations.*	

5.6.1.8. Questions for Public Comments

11A. Do you agree with the proposal to remove the requirement for 100% underwriting of the issue and the additional requirement for Lead Manager(s) to underwrite 15% of the issue on their own account, and apply the Main Board underwriting framework to SME public issues, under which the unsubscribed portion of the issue is fully underwritten? Please provide your comments with supporting rationale.

11B. Do you agree with the proposal to introduce a minimum subscription requirement for SME public issues, aligned with the minimum subscription requirement prescribed under Regulation 45? Please provide your comments with supporting rationale.

11C. Do you agree with the proposal to omit the requirement under Regulation 264(5) for obtaining confirmation from the Registrar to the Issue that at least 90% of the offer has been subscribed prior to announcement of closure of the issue, in view of the proposed minimum subscription requirement? Please provide your comments with supporting rationale.

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5.6.2. Review of Market Making Framework

5.6.2.1. Existing Provision

Regulation 261 requires compulsory market making for a minimum period of three years from the date of listing of the specified securities or migration from the Main Board. The market maker is required to maintain an inventory of at least 5% of the specified securities proposed to be listed as on the date of allotment.

The framework also prescribes various conditions governing market making, including arrangements with nominated investors, disclosure of market-making arrangements, purchase of shares held in quantities below the minimum trading lot, restrictions on purchase from promoters/promoter group, and restrictions relating to promoters' holdings during the compulsory market-making period.

5.6.2.2. Need for Review

The existing mandatory market-making framework entails additional regulatory and operational costs for SME issuers, including market-maker fees and the requirement to maintain prescribed inventory. Based on prospectus disclosures, market-making fees constituted, on an average, 1.25% and 1.58% of total issue expenses for NSE SME IPOs during FY 2024-25 and FY 2025-26, respectively, and 4.20% and 2.60% for BSE SME IPOs during the corresponding years.

Further, the data on market-maker contribution to trading activity indicates that, during August 2025 to July 2026, market-maker turnover constituted 0–10% of total turnover in 361 NSE and 268 BSE SME scrips, suggesting that the contribution of compulsory market making to actual trading activity may be limited in a substantial number of securities.

In the context of the proposed one-share trading lot, which would facilitate investors to enter and exit SME securities with greater flexibility and lower capital requirements, the continued mandatory market-making requirement may therefore merit reconsideration from the perspective of proportionality, cost reduction and reliance on broader investor participation and market-driven liquidity.

5.6.2.3. Recommendations of the Working Group

5.6.2.3.1. Remove the requirement of compulsory market making in SME securities, including the associated market-maker inventory and other mandatory arrangements.

5.6.2.4. Rationale

Removal of compulsory market making would reduce the regulatory and operational burden and associated costs for SME issuers, including the cost of maintaining market-maker inventory. In view of the proposed one-share trading lot, investors would have greater flexibility to transact in smaller quantities, thereby facilitating wider participation and allowing liquidity to develop through actual investor demand.

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The proposed approach would also avoid imposing a uniform market-making requirement on all SME securities, including those where market-maker activity contributes only marginally to overall trading activity, while retaining the possibility of liquidity being supported through normal market mechanisms.

5.6.2.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.6.2.6. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	Suggested Draft of the Regulation based on the proposal
Market making *261. (1) The lead manager(s)shall ensure compulsory market making through the stock brokers of the SME exchange(s) appointed by the issuer, in the manner specified by the Board for a minimum period of three years from the date of listing of the specified securities or from the date of migration from the Main Board in terms of regulation.* *(2) The market maker or issuer, in consultation with the lead manager(s)may enter into agreements with the nominated investors for receiving or delivering the specified securities in market making, subject to the prior approval of the SME exchange.* *(3) The issuer shall disclose the details of the market making arrangement in the offer document.* *(4) The specified securities being bought or sold in the process of market making may be transferred to or from the nominated investors with whom the lead manager(s)and the issuer have entered into an agreement for market making:* *Provided that the inventory of the market maker, as on the date of allotment of the specified securities, shall be at least five per cent. of the specified securities proposed to be listed on SME exchange.* *(5) The market maker shall buy the entire shareholding of a shareholder of the issuer in one lot, where the value of such shareholding is less than the minimum*	***Market making*** *261. *Omitted**

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
contract size allowed for trading on the SME exchange: *Provided that market maker shall not sell in lots less than the minimum contract size allowed for trading on the SME exchange.* *(6) The market maker shall not buy the shares from the promoters or persons belonging to the promoter group of the issuer or any person who has acquired shares from such promoter or person belonging to the promoter group during the compulsory market making period.* *(7) The promoters' holding shall not be eligible for offering to the market maker during the compulsory market making period: Provided that the promoters' holding which is not locked-in as per these regulations can be traded with prior permission of the SME exchange, in the manner specified by the Board.* *(8) The lead manager(s) may be represented on the board of directors of the issuer subject to the agreement between the issuer and the lead manager(s) who have the responsibility of market making.*	

5.6.2.7. Question for Public Comments

12A. Do you agree with the proposal to remove the requirement of compulsory market making for SME securities, including the associated market-maker inventory and other mandatory arrangements? Please provide your comments with supporting rationale.

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5.7. Review of Migration Framework

5.7.1. Existing Provisions

The existing framework provides for migration between the SME Exchange and the Main Board primarily based on the issuer's post-issue paid-up capital, subject to fulfilment of the eligibility criteria of the respective platform.

Under Regulation 276, a listed issuer with post-issue paid-up capital of less than ₹25 crore may migrate to the SME Exchange, subject to shareholder approval through a special resolution and fulfilment of the SME Exchange's listing eligibility criteria.

Under Regulation 277, an SME-listed issuer with post-issue paid-up capital of more than ₹10 crore and up to ₹25 crore may migrate to the Main Board, subject to shareholder approval and fulfilment of the Main Board listing eligibility criteria.

Further, Regulation 280(2) requires an SME-listed issuer to migrate to the Main Board where its post-issue paid-up capital is likely to exceed ₹25 crore pursuant to a further issue of capital, subject to specified conditions. However, the issuer may undertake such further issue without migration if it undertakes to comply with the applicable LODR requirements for Main Board-listed companies.

5.7.2. Need for Review

The existing migration framework is primarily based on post-issue paid-up capital thresholds, which may not adequately reflect the issuer's actual size, scale and maturity. In light of the proposed revision of the SME eligibility framework, including the introduction of post-issue market capitalization-based thresholds, there is a need to review the migration framework to ensure that the criteria for migration are aligned with the revised eligibility framework and appropriately reflect the issuer's size and readiness to operate on the Main Board.

5.7.3. Recommendations of the Working Group

5.7.3.1. Remove the provision for migration from the Main Board to the SME Platform, thereby retaining the SME Platform as a pathway for growth-oriented enterprises to graduate to the Main Board, rather than as a reverse migration route.

5.7.3.2. Retain the principle of optional migration from the SME Platform to the Main Board, without linking such migration to a specific paid-up capital threshold. An issuer may migrate to the Main Board where its market Capitalization is ₹1,000 crore or more but less than ₹4,000 crore, subject to the issuer fulfilling the criteria specified by the Main Board Exchange.

5.7.3.3. Considering that the issuer would, upon migration, become subject to the more stringent Main Board regulatory framework, approval of the Board of Directors may be considered sufficient for migration to the Main Board.

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5.7.3.4. Omit the existing provision requiring mandatory migration to the Main Board where the post-issue paid-up capital is likely to exceed ₹25 crore pursuant to a further issue of capital, including through rights issue, preferential issue or bonus issue, along with the related conditions for undertaking such further issue without migration.

5.7.3.5. The migration framework should instead be aligned with the proposed market-Capitalization-based threshold, with migration to the Main Board being triggered where the issuer's post-issue market Capitalization, calculated at the prevalent market price, exceeds ₹4,000 crore, subject to the issuer fulfilling the criteria specified by the Main Board Exchange.

5.7.4. Rationale

The proposed framework would establish the SME Platform as a growth and graduation platform, with migration principally being from the SME Platform to the Main Board, rather than permitting reverse migration from the Main Board.

Moving away from a fixed paid-up capital threshold and aligning migration with market capitalisation would provide a more appropriate measure of the issuer's size and scale. Optional migration at market capitalisation of ₹1,000 crore or more but below ₹4,000 crore would provide flexibility to eligible issuers, while mandatory migration beyond ₹4,000 crore would ensure that issuers of a larger scale operate under the Main Board framework.

Since migration would subject the issuer to the more stringent Main Board regulatory framework, requiring shareholder approval may be unnecessary, and Board approval may provide an efficient mechanism for optional migration. Omission of the existing mandatory migration trigger linked to further issue of capital would also align the framework with the proposed market-capitalisation-based migration thresholds and provide greater flexibility for SME-listed issuers to raise further capital.

5.7.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed ti accept these recommendations.

5.7.6. Subsequent Internal Deliberation

Pursuant to subsequent internal deliberations, it was decided that, for the purposes of determining the applicable market capitalization thresholds for migration, the market capitalization shall be calculated in the manner specified by the Board.

Rationale :- This would ensure standardization and consistency in the determination of market capitalization across issuers and avoid ambiguity in applying the prescribed migration thresholds.

5.7.6.1. Proposed Methodology for determination of Market Capitalization for Migration

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In order to ensure consistency and certainty in the application of thresholds, proposed above, it is necessary to prescribe a standardised methodology for determining the market capitalisation of an issuer. In the absence of a specified methodology, fluctuations in the market price of the securities around the relevant threshold may result in uncertainty regarding the applicability of the migration requirements.

Accordingly, it is proposed to specify the manner in which the applicable market price and the number of equity shares shall be considered for determining the market capitalisation for the purpose of migration.

5.7.6.1.1. Proposal

It is proposed that the market capitalisation of an issuer, for the purpose of determining the applicability of the ₹1,000 crore and ₹4,000 crore migration thresholds, shall be calculated as on the date of application for migration.

The market capitalisation shall be determined as follows:

Market Capitalisation = Applicable Market Price × Total number of equity shares outstanding as on the date of application for migration

For this purpose, "Applicable Market Price" means the average of (i) the average of the weekly high closing prices, and (ii) the average of the weekly low closing prices of the equity shares quoted on the SME Platform during the twelve weeks preceding the date of application for migration, adjusted for bonus issues, stock splits and consolidation of shares, as applicable.

Accordingly, the market capitalisation test shall be undertaken only as on the date of application for migration and shall not be recalculated on a continuing basis thereafter.

In case the market capitalisation determined as on the date of application exceeds ₹4,000 crore, the issuer shall be required to migrate to the Main Board, subject to fulfilment of the criteria specified by the Main Board Exchange. Any subsequent decline in the market price or market capitalisation of the issuer after the date of application shall not affect the requirement to migrate to the Main Board.

Similarly, where the market capitalisation as on the date of application is ₹1,000 crore or more but less than ₹4,000 crore, the issuer may undertake voluntary migration to the Main Board, subject to fulfilment of the applicable Main Board eligibility requirements.

5.7.6.1.2. Illustration

5.7.6.1.2.1. Illustration 1 – How to determine Applicable Market Price

Assume that an issuer applies for migration to the Main Board on 15 July 2026. The Applicable Market Price is proposed to be determined on the basis of the weekly high and low closing prices of the equity shares quoted on the SME Platform during the twelve weeks preceding the date of application.

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For this illustration, the relevant period is assumed to comprise the twelve weeks from 22 April 2026 to 14 July 2026. The prices are hypothetical and are used only to demonstrate the proposed methodology.

1. Adjustment for corporate actions

Assume that the issuer undertakes a 1:1 bonus issue, with the bonus shares becoming effective on 18 May 2026. Accordingly, the historical prices prior to the bonus issue are adjusted to reflect the bonus issue, so that prices across the reference period are comparable.

For example, a closing price of ₹240 before the bonus issue would be adjusted to ₹120 after the bonus issue, assuming the number of shares doubles and there is no other price movement. The same principle of adjustment would apply to stock splits or consolidation of shares, as applicable.

Particulars	**Price before adjustment**	**Price after adjustment**
Weekly high closing price before 18 May 2026	₹240	₹120
Weekly low closing price before 18 May 2026	₹220	₹110
Weekly high closing price on or after 18 May 2026	₹126	₹126
Weekly low closing price on or after 18 May 2026	₹114	₹114

Note: The above figures are illustrative. The prices after adjustment reflect only the mechanical impact of the bonus issue and do not represent an assumption that market prices remain unchanged following the corporate action.

2. Hypothetical weekly prices during the reference period

The following table illustrates the weekly high and low closing prices after adjusting for the bonus issue, wherever applicable.

Week	**Relevant period**	**Weekly high closing price (₹)**	**Weekly low closing price (₹)**
1	22–24 April 2026	120	110
2	27 April–1 May 2026	124	112
3	4–8 May 2026	126	114
4	11–15 May 2026	130	118
5	18–22 May 2026	128	116
6	25–29 May 2026	132	120
7	1–5 June 2026	135	123

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8	8–12 June 2026	138	125
9	15–19 June 2026	136	124
10	22–26 June 2026	140	128
11	29 June–3 July 2026	142	130
12	6–10 July 2026	139	127

3. Calculation of Applicable Market Price

For the purpose of this illustration, the Applicable Market Price is calculated as the average of the average weekly high closing price and the average weekly low closing price during the twelve-week reference period.

Particulars	**Calculation**	**Amount**
Aggregate of weekly high closing prices	Sum of 12 weekly highs	₹1,590
Average weekly high closing price	₹1,590 ÷ 12	₹132.50
Aggregate of weekly low closing prices	Sum of 12 weekly lows	₹1,447
Average weekly low closing price	₹1,447 ÷ 12	₹120.58
Applicable Market Price	(₹132.50 + ₹120.58) ÷ 2	₹126.54 per share

Accordingly, the Applicable Market Price for the purpose of determining market capitalisation for migration would be ₹126.54 per share.

The market capitalisation shall thereafter be calculated by multiplying the Applicable Market Price by the total number of equity shares outstanding as on the date of application for migration.

5.7.6.1.2.2. Illustration 2 – Market capitalisation below ₹1,000 crore

An SME-listed issuer has 2.25 crore equity shares outstanding as on the date of application for migration.

The applicable market price, determined based on the average of the weekly high and low of the closing prices during the preceding twelve weeks, is ₹400 per equity share.

Accordingly:

Market Capitalisation = ₹400 × 2.25 crore = ₹900 crore

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Since the market capitalisation is below ₹1,000 crore, the issuer would not qualify for voluntary migration to the Main Board under the proposed market capitalisation-based framework.

5.7.6.1.2.3. Illustration 3 – Optional migration

An SME-listed issuer has 3.50 crore equity shares outstanding as on the date of application. The applicable market price is ₹400 per equity share.

Accordingly:

Market Capitalisation = ₹400 × 3.50 crore = ₹1,400 crore

Since the market capitalisation is ₹1,000 crore or more but less than ₹4,000 crore, the issuer may voluntarily migrate to the Main Board, subject to fulfilment of the criteria specified by the Main Board Exchange.

5.7.6.1.2.4. Illustration 4 – Mandatory migration

An SME-listed issuer has 10.25 crore equity shares outstanding as on the date of application. The applicable market price is ₹400 per equity share.

Accordingly:

Market Capitalisation = ₹400 × 10.25 crore = ₹4,100 crore

Since the market capitalisation exceeds ₹4,000 crore, the issuer shall be required to migrate to the Main Board, subject to fulfilment of the criteria specified by the Main Board Exchange.

5.7.6.1.2.5. Illustration 5 – Subsequent decline in market price

In the above Illustration 3, assume that after the date of application, the market price of the equity shares declines from ₹400 to ₹340 per share. The market capitalisation would consequently decline to:

₹340 × 10.25 crore = ₹3,485 crore

However, since the market capitalisation had exceeded ₹4,000 crore as on the date of application, the subsequent decline in market price would not affect the requirement of the issuer to migrate to the Main Board.

This would ensure that the migration obligation, once triggered, is not reversed merely due to subsequent market volatility.

5.7.6.1.2.6. Illustration 6 – Temporary price movement

Assume that an issuer has 10 crore equity shares outstanding. During the three-month period preceding the date of application, the market price witnesses significant fluctuations, including a temporary increase to ₹450 per share. However, based on the prescribed methodology, the applicable market price is determined to be ₹380 per share.

Accordingly:

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Market Capitalisation = ₹380 × 10 crore = ₹3,800 crore

Although the market price had temporarily resulted in an implied market capitalisation exceeding ₹4,000 crore, the issuer's market capitalisation for the purpose of migration would be determined based on the prescribed applicable market price as on the date of application.

Accordingly, the mandatory migration threshold would not be triggered in this illustration.

5.7.6.1.3. Rationale

The proposed methodology seeks to provide a clear, objective and consistent basis for determining the migration thresholds. Using the average of the weekly high and low of closing prices over the twelve weeks preceding the date of application would reduce the impact of short-term price volatility on the determination of the applicable market capitalisation.

Limiting the assessment to the date of application would also provide certainty to issuers, stock exchanges and investors regarding the applicable migration requirement. In particular, where the market capitalisation exceeds ₹4,000 crore on the date of application, treating the migration requirement as continuing notwithstanding subsequent fluctuations in market price would prevent repeated re-testing of the threshold and avoid uncertainty regarding whether an issuer is required to migrate.

The proposed approach would also ensure that an issuer does not move in and out of the Main Board migration requirement merely on account of short-term movements in its market price.

5.7.7. Proposed Amendments to the SEBI ICDR Regulations

Existing Provisions	Suggested Draft of the Regulation based on the proposal
Migration to the SME Exchange *276. A listed issuer whose post-issue paid-up capital is less than twenty five crore rupees may migrate its specified securities to SME exchange if its shareholders approve such migration by passing a special resolution through postal ballot to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the SME exchange:* *Provided that the special resolution shall be acted upon if and only if the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal.*	***Migration to the SME Exchange*** ***276. *omitted****

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Existing Provisions	Suggested Draft of the Regulation based on the proposal
Migration to the main board *277. An issuer, whose specified securities are listed on a SME Exchange and whose post-issue paid-up capital is more than ten crore rupees and up to twenty five crore rupees, may migrate its specified securities to the main board of the stock exchanges if its shareholders approve such a migration by passing a special resolution through postal ballot to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the Main Board:* *Provided that the special resolution shall be acted upon if and only if the votes cast by shareholders other than promoters in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal.*	***Migration to the main board*** *277. An issuer whose specified securities are listed on an SME Exchange may migrate its specified securities to the Main Board of the stock exchanges, where the market Capitalization of the issuer is ₹1,000 crore or more but less than ₹4,000 crore, subject to the issuer fulfilling the eligibility criteria for listing laid down by the Main Board.* *Provided that the migration shall be approved by the Board of Directors of the issuer.* *Provided further that where the market Capitalization of the issuer is ₹4,000 crore or more, the issuer shall migrate its specified securities to the Main Board, subject to fulfilment of the eligibility criteria for listing laid down by the Main Board.* *Provided also that until such voluntary or mandatory migration, as the case may be, is completed, the issuer shall not undertake any further issue of capital unless it undertakes to comply with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable to entities listed on the Main Board.* *Explanation.— For the purposes of determining the applicability of the thresholds specified under this regulation, the market capitalization shall be calculated in the manner as may be specified by the Board.*

5.7.8. Question for Public Comments

13A. Do you agree with the proposal to remove migration from the Main Board to the SME Platform and retain the SME Platform as a pathway for issuers to graduate to the Main Board?

13B. Do you agree with the proposal to permit optional migration from the SME Platform to the Main Board where the issuer's market capitalisation is ₹1,000 crore or more but less than ₹4,000 crore, subject to fulfilment of the criteria specified by the Main Board Exchange?

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13C. Do you agree that, considering the issuer would become subject to the Main Board regulatory framework upon migration, approval of the Board of Directors may be considered sufficient for such migration?

13D. Do you agree with the proposal to remove the existing mandatory migration requirement linked to post-issue paid-up capital exceeding ₹25 crore pursuant to a further issue of capital?

13E. Do you agree with the proposal that mandatory migration to the Main Board may be triggered where the issuer's post-issue market capitalisation exceeds ₹4,000 crore, subject to fulfilment of the criteria specified by the Main Board Exchange?

13F. Do you agree with the proposal that, for determining the applicable market capitalisation thresholds, market capitalisation shall be calculated in the manner as may be specified by the Board?

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5.8. Alignment with Mainboard Framework and Rationalization of Compliance

5.8.1. Existing Provisions

The SME framework presently contains several SME-specific requirements that differ from or are structured differently than the corresponding Main Board provisions, including requirements relating to minimum promoters' contribution, Lead Manager responsibilities, offer document filing and updation, pricing, pre-issue advertisements and post-issue responsibilities. These provisions are prescribed separately under the SME framework in addition to the broader regulatory requirements applicable to listed issuers.

5.8.2. Need for Review

There is a need to review the SME-specific requirements and identify provisions where alignment with the Main Board framework would provide greater consistency and facilitate ease of compliance, particularly where the underlying regulatory objective is similar. At the same time, requirements that serve a distinct investor-protection objective may be retained.

5.8.3. Existing Framework, Recommendations and Suggested Draft of the Regulation based on Recommendations

S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
1.	**Minimum promoters' contribution –** *Regulation 236(2)(a) –* *(2) The minimum promoters' contribution shall be as follows:* *a) the promoters shall contribute twenty per cent. as stipulated sub-regulation (1), as the case may be, either by way of equity shares or by way of subscription to the convertible securities:* *Regulation 236(2)(a) –* *No proviso for Initial Public Offer of Partly Paid-Up Shares*	Align Regulation 236 with the corresponding provisions under Regulation 14 applicable to Main Board issuers, including the provisions relating to SR equity shares in the manner of making minimum promoters' contribution and minimum promoters' contribution exceeding ₹100 crore in case of an IPO of partly paid-up shares.	**Minimum promoters' contribution –** *Regulation 236(2)(a) –* *The minimum promoters' contribution shall be as follows:* *a) the promoters shall contribute twenty per cent. as stipulated sub-regulation (1), as the case may be, either by way of equity shares, including SR equity shares held, if any or by way of subscription to the convertible securities:* *Regulation 236(2)(a) –* *….* *Provided that….* *Provided further that where the minimum promoters' contribution is more than one hundred crore rupees and the initial public offer is for partly paid shares, the promoters shall bring in at least one hundred crore rupees before*

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S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
			the date of opening of the issue and the remaining amount may be brought on a pro - rata basis before the calls are made to the public.
2.	**Securities ineligible for minimum promoters' contribution** *Regulation 237(1)(c) –* *(1) For the computation of minimum promoters' contribution, the following specified securities shall not be eligible* *c) specified securities allotted to the promoters and alternative investment funds during the preceding one year at a price less than the issue price, against funds brought in by them during that period, in case of an issuer formed by conversion of one or more partnership firms or limited liability partnerships, where the partners of the erstwhile partnership firms or limited liability partnerships are the promoters of the issuer and there is no change in the management:* *Provided that specified securities, allotted to the promoters against the capital existing in such firms for a period of more than one year on a continuous basis, shall be eligible.*	Align Regulation 237(1)(c) with Regulation 15(1)(c) by incorporating the corresponding categories of persons covered under the Main Board framework.	**Securities ineligible for minimum promoters' contribution** *Regulation 237(1)(c) –* *(1) For the computation of minimum promoters' contribution, the following specified securities shall not be eligible* *(c) specified securities allotted to the promoters and alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India or any non-individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) during the preceding one year at a price less than the issue price, against funds brought in by them during that period, in case of an issuer formed by conversion of one or more partnership firms or limited liability partnerships, where the partners of the erstwhile partnership firms or limited liability partnerships are the promoters of the issuer and there is no change in the management:* *Provided that specified securities, allotted to the promoters against the capital existing in such firms for a*

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S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
			period of more than one year on a continuous basis, shall be eligible;
3.	**Disclosures in the draft offer document and offer document** *Regulation 245* *(1) The offer document shall contain all material disclosures which are true and adequate so as to enable the applicants to take an informed investment decision.*	Align Regulation 245(1) with Regulation 24(1) applicable to Main Board issuers, by expressly extending the requirement relating to material disclosures to both the Draft Offer Document and the Offer Document.	**Disclosures in the draft offer document and offer document** *Regulation 245* *(1) The draft offer document and offer document shall contain all material disclosures which are true and adequate so as to enable the applicants to take an informed investment decision.*
4.	***Filing of the offer document*** ***246.*** *(1) The issuer shall file a copy of the offer document with the Board through the lead manager(s), immediately upon filing of the offer document with the Registrar of Companies:* *(2) The Board shall not issue any observation on the offer document.* *(3) The lead manager(s) shall submit a due-diligence certificate as per Form A of Schedule V to which the site visit report of the issuer prepared by the lead manager(s) shall also be annexed, including additional confirmations as provided in Form G of Schedule V, and the draft abridged prospectus as per Part E of Schedule VI along with the draft offer document to the SME Exchange(s), where the specified securities are proposed to be listed.* *(4) The offer document shall be displayed from the date of filing in terms of sub-regulation (1) on the websites of the issuer, the*	Rationalise and align Regulation 246 with the corresponding regulation of Regulation 25 Main Board framework, while retaining SME-specific requirements such as the site visit report and additional confirmations under Form G. The revised provision may, inter alia, provide for the following: 1. **Updated Draft Offer Document:** Introduce a specific requirement for the issuer and lead manager(s) to submit an updated Draft Offer Document to the SME Exchange, incorporating the changes specified or observations issued by the SME Exchange, with all changes appropriately highlighted, before filing the Offer Document with the Registrar of Companies or the appropriate authority, as applicable. Where changes relate to matters specified in Schedule XVI, the updated/fresh document, as applicable, may also be required to be filed with the SME Exchange. 2. **Certificates at the time of filing of Draft Offer Document:** In addition to	***Filing of the offer document*** *246. (1) The issuer shall file a copy of the offer document with the Board through the lead manager(s), immediately upon filing of the offer document with the Registrar of Companies:* *(2) The Board shall not issue any observation on the offer document.* *(3) The lead manager(s) shall submit a due-diligence certificate as per Form A of Schedule V to which the site visit report of the issuer prepared by the lead manager(s) shall also be annexed, including additional confirmations as provided in Form G of Schedule V, and the draft abridged prospectus as per Part E of Schedule VI along with the draft offer document to the SME Exchange(s), where the specified securities are proposed to be listed.* *(3A) The lead manager(s) shall, along with the draft offer document, submit to the SME Exchange(s)—* *(a) a certificate confirming that an agreement has been entered into between the issuer and the lead*

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S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
	Board, the lead manager(s) and the SME exchange(s). *(5) The offer documents and the abridged prospectus, shall also be furnished to the Board in a soft copy.*	the existing due-diligence certificate, site visit report, Form G confirmations and draft abridged prospectus, require submission of: 2.1. a certificate confirming that an agreement has been entered into between the issuer and the lead manager(s); and 2.2. where applicable, a due-diligence certificate from the debenture trustee. 3. **Promoters' Details**: Introduce the requirement for submission of the prescribed PAN, bank account and other identification/registration details of promoters, corresponding to Regulation 25(3). 4. **Offer Document-stage requirements**: Extend the relevant requirements of Regulation 25(9) to SME issuers, so that the prescribed certificates and confirmations are also furnished by the lead manager(s) at the time of filing the Offer Document, with necessary modifications for the SME framework.	*manager(s);* *(b) where applicable, a due-diligence certificate from the debenture trustee as per Form B of Schedule V; and* *(c) the following details of the promoters:* *(i) Permanent Account Number, bank account number and passport number of the promoters, where they are individuals; and* *(ii) Permanent Account Number, bank account number, company registration number or equivalent and the address of the Registrar of Companies with which the promoter is registered, where the promoter is a body corporate.* *(3B) The SME Exchange(s) may specify changes or issue observations, if any, on the draft offer document.* *(3C) The issuer and the lead manager(s) shall carry out such changes in the draft offer document as specified or incorporate such observations as issued by the SME Exchange(s) and shall submit an updated draft offer document incorporating such changes or observations and highlighting all changes made therein to the SME Exchange(s), before filing the offer document with the Registrar of Companies or the appropriate authority, as applicable.* *(3D) Where there are any changes in the draft offer document in respect of matters specified in Schedule XVI, an updated offer document or a fresh draft offer document, as applicable, shall be filed with the SME Exchange(s):*

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S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
			Provided that no additional fee shall be payable for such filing *(4) The offer document shall be displayed from the date of filing in terms of sub-regulation (1) on the websites of the issuer, the Board, the lead manager(s) and the SME exchange(s).* *(5) The offer documents and the abridged prospectus shall also be furnished to the Board in a soft copy.* *(6) The lead manager(s) shall submit the following documents to the SME Exchange(s) after issuance of observations by the SME Exchange(s):* *a) a statement certifying that all changes, suggestions and observations made by the SME Exchange(s) have been incorporated in the offer document;* *b) a due diligence certificate as per Form C of Schedule V, at the time of filing of the offer document;* *c) a copy of the resolution passed by the board of directors of the issuer for allotting specified securities to promoter(s) towards amount received against promoters' contribution, before opening of the issue;* *d) a certificate from a statutory auditor, before opening of the issue, certifying that promoters' contribution has been received in accordance with these regulations, accompanying therewith the names and addresses of the promoters who have contributed to the promoters'*

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S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
			contribution and the amount paid and credited to the issuer's bank account by each of them towards such contribution; *e) a due diligence certificate as per Form D of Schedule V, in the event the issuer has made a disclosure of any material development by issuing a public notice pursuant to para 4 of Schedule IX.*
4.	**Price and Price Band** The SME framework prescribes that, in case of a book-built issue, the price band shall not exceed 120% of the floor price; however, it does not specifically prescribe a minimum cap of the price band at 105% of the floor price.	Insert a provision in Regulation 250(2) on similar lines as the corresponding Main Board framework, so as to provide that, in case of a book-built issue, the cap of the price band shall be at least 105% of the floor price, while retaining the existing upper limit of 120% of the floor price, thereby aligning the SME framework with Schedule XIII.	***Price and Price Band*** *250 (2) The cap on the price band, and the coupon rate in case of convertible debt instruments shall be less than or equal to one hundred and twenty per cent. of the floor price.* *Provided that the cap of the price band shall be at least one hundred and five percent of the floor price.*
5.	***Differential pricing*** *251. (1) The issuer may offer its specified securities at different prices, subject to the following:* *a) individual investors who applies for minimum application size or retail individual shareholders or employees entitled for reservation made under regulation 254 may be offered specified securities at a price not lower than by more than ten per cent. of the price at which net offer is made to other categories of applicants, excluding anchor investors.* *b) the differential pricing and the price at which net offer is proposed to*	1. **Delete the reference to "individual investors who applies for minimum application size",** as the revised minimum application framework will no longer use this category - specific formulation. 2. **Delete the SME-specific requirement** mandating uniform minimum application lot size across all applicants. The minimum application / lot requirement would be governed separately under the proposed revised minimum application framework.	***Differential pricing*** *251. (1) The issuer may offer its specified securities at different prices, subject to the following:* *a) retail individual shareholders or employees entitled for reservation made under regulation 254 may be offered specified securities at a price not lower than by more than ten per cent. of the price at which net offer is made to other categories of applicants, excluding anchor investors.* *b) *omitted** *c) in case of a book built issue, the price of the specified securities offered to the anchor investors shall not be lower than the price offered to other applicants.*

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S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
	be made to other categories of applicants shall be within the range such that the minimum application lot size shall remain uniform for all the applicants. *c) in case of a book built issue, the price of the specified securities offered to the anchor investors shall not be lower than the price offered to other applicants.* *(2) Discount, if any, shall be expressed in rupee terms in the offer document.*		*(2) Discount, if any, shall be expressed in rupee terms in the offer document.*
6.	***Issue - related advertisements*** ***264.*** *(1) Subject to the provisions of the Companies Act, 2013, the issuer shall, after filing the prospectus with the Registrar of Companies, make a pre-issue and price band advertisement in the same newspapers in which the public announcement under sub-regulation (4) of Regulation 250 was published.*	Align the provision with the nature of the issue by providing that the Red Herring Prospectus shall be referred to in case of a book-built issue and the Prospectus shall be referred to in case of a fixed-price issue.	***Issue - related advertisements*** ***264.*** *(1) Subject to the provisions of the Companies Act, 2013, the issuer shall, after filing the red herring prospectus (in case of book – built issue) and prospectus (in case of fixed-price issue) with the Registrar of Companies, make a pre-issue and price band advertisement in the same newspapers in which the public announcement under sub-regulation (4) of Regulation 250 was published.*
7.	***Post - issue responsibilities of the lead manager(s)*** *271. (1) The responsibility of the lead manager(s) shall continue until completion of the issue process and for any issue related matter thereafter.*	Align the SME framework with Regulation 52(3) of the Main Board framework by extending the lead manager's post-issue responsibility until completion of the allotment, refund and dematerialisation process and receipt of listing or trading permission, as applicable.	***Post - issue responsibilities of the lead manager(s)*** *271. (2A) The lead manager(s) shall continue to be responsible for post - issue activities till the applicants have received the securities certificates, credit to their demat account or refund of application monies and the listing agreement is entered into by the issuer with the stock exchange and listing or trading permission is obtained.*
8.	*In the Regulation 279(7), there is a reference to Chapter VII, which appears*	Correct the legacy cross-reference from "Chapter VII" to "Chapter V" to align the	*In the Regulation 279(7), the words "Chapter VII" shall be substituted with "Chapter V".*

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S. No.	Existing Framework	Recommendation	Suggested Text of the Revised Regulation or New Regulation based on the proposal
	to be a reference from the SEBI (ICDR) Regulations, 2009 and is not aligned with the chapter structure of the SEBI (ICDR) Regulations, 2018.	provision with the corresponding chapter under the ICDR Regulations, 2018.	

5.8.4. Rationale

The proposed alignment would simplify and harmonize the regulatory framework for SME issuers by reducing requirements that are materially similar to those applicable to Main Board issuers. This would facilitate ease of compliance and reduce procedural and regulatory burden, while retaining SME-specific requirements wherever they are necessary to address the distinct characteristics of SME issuers or protect investors.

5.8.5. PMAC Recommendation

The recommendation of the Working Group was deliberated upon by PMAC. It is proposed to accept these recommendations.

5.8.6. Question for Public Comments

14A. Do you agree with the proposal to amend the provisions relating to securities eligible for computation of minimum promoters' contribution, including by incorporating the corresponding requirements applicable to Main Board issues? Please provide your comments with supporting rationale.

14B. Do you agree with the proposal to amend the provisions relating to the disclosure and due-diligence responsibilities of Lead Manager(s) to incorporate the additional requirements applicable to Main Board issues? Please provide your comments with supporting rationale.

14C. Do you agree with the proposal to amend the provisions relating to updation and filing of the offer document with the SME Exchange, including incorporation of the corresponding requirements applicable to Main Board issues? Please provide your comments with supporting rationale.

14D. Do you agree with the proposal to introduce in the SME framework the requirement for submission of specified certificates at the Draft Offer Document stage, in line with the Main Board framework? Please provide your comments with supporting rationale.

14E. Do you agree with the proposal to amend the provisions relating to price bands and differential pricing to incorporate the corresponding Main Board requirements? Please provide your comments with supporting rationale.

14F. Do you agree with the proposal to amend the provisions relating to pre-issue advertisements and post-issue responsibilities to incorporate the corresponding Main Board

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requirements and rationalise the SME-specific provisions, wherever appropriate? Please provide your comments with supporting rationale.

14G. Do you agree with the proposal to the consequential amendments necessary to give effect to the proposed alignment of the SME framework with the Main Board framework? Please provide your comments with supporting rationale.

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5.9. Transition Provisions

5.9.1. Background

The proposed revisions to the SME framework involve changes across various aspects of the IPO and post-listing framework. Accordingly, upon implementation of the revised provisions, there may be issuers already listed on the SME Platform, issuers who are in the process of making a public issue, and transactions or arrangements initiated under the existing framework.

The applicability of the revised provisions to such existing or ongoing matters therefore requires appropriate transitional arrangements to provide clarity on the manner and stage from which the revised framework would apply. In the absence of such arrangements, the implementation of the revised framework may result in uncertainty or unintended retrospective application of the revised requirements.

The Working Group also recommended that SEBI may provide appropriate transition provisions for implementation of the revised SME framework.

5.9.2. Proposal

5.9.2.1. Draft Offer Documents filed after the transition period

The revised framework shall mandatorily apply to draft offer documents filed on or after the expiry of three months from the date of notification of the revised framework in the Official Gazette.

Illustration:
Where the revised framework is notified on December 31, 2026, the revised framework shall mandatorily apply to draft offer documents filed on or after April 01, 2027.

5.9.2.2. Draft Offer Documents filed during the three-month transition period

Where a draft offer document is filed during the three-month period commencing from the date of notification of the revised framework in the Official Gazette, the issuer may, at its option, elect to be governed by either the existing framework or the revised framework.

The issuer shall clearly specify in the draft offer document the framework under which the proposed issue is to be undertaken and shall thereafter comply with the eligibility, listing and other applicable requirements of the framework so opted for.

This would allow issuers to make an informed choice between the existing and revised frameworks during the transition period, particularly where the eligibility and permissible listing route may differ under the two frameworks.

Illustration:
Where the revised framework is notified on December 31, 2026, an issuer filing its draft offer document between January 01, 2027 and March 31, 2027 may elect either the existing framework or the revised framework.

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The following illustrates the possible position:

Paid-up Capital	Market Capitalisation	Existing Framework	Revised Framework
Below ₹10 crore	Below ₹1,000 crore	SME	SME
Below ₹10 crore	₹1,000 crore to < ₹4,000 crore	SME	SME / Main Board
Below ₹10 crore	₹4,000 crore or more	SME	Main Board
₹10 crore to < ₹25 crore	Below ₹1,000 crore	SME / Main Board	SME
₹10 crore to < ₹25 crore	₹1,000 crore to < ₹4,000 crore	SME / Main Board	SME / Main Board
₹10 crore to < ₹25 crore	₹4,000 crore or more	SME / Main Board	Main Board
₹25 crore or more	Below ₹1,000 crore	Main Board	SME
₹25 crore or more	₹1,000 crore to < ₹4,000 crore	Main Board	SME / Main Board
₹25 crore or more	₹4,000 crore or more	Main Board	Main Board

Thus, the choice during the transition period is a choice of framework, and not merely a choice of stock exchange. Where the revised framework permits an SME listing, an issuer may choose to proceed with an SME IPO under the revised framework, even where the existing framework would also have permitted an SME listing.

5.9.2.3. RHP/Prospectus filed prior to the date of notification

Where the RHP in case of book – building or Prospectus in case of Fixed Price Issue has been filed on or before the date of notification of the revised framework in the Official Gazette, the issue shall continue to be governed by the existing framework, and the issuer shall proceed with the issue in accordance with the provisions applicable to such issue.

Illustration:
Where the revised framework is notified on December 31, 2026, an issue for which the RHP has been filed on or before December 31, 2026 shall continue under the existing framework, even if the issue opens or the securities are listed after December 31, 2026 or after the expiry of the three-month transition period.

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5.9.2.4. Draft Offer Document filed for listing on Mainboard prior to notification

Where an issuer has filed its DRHP for a Main Board public issue prior to the date of notification of the revised framework in the Official Gazette, such issue shall continue to be governed by the existing Main Board framework.

Illustration:
Where the revised framework is notified on December 31, 2026, an issuer that has filed its Main Board DRHP on or before December 31, 2026 shall continue under the existing Main Board framework.

5.9.2.5. Draft Offer Document filed for listing on SME Platform prior to notification

Where an issuer has filed its DRHP for an SME public issue prior to the date of notification, but has not obtained in-principal approval from the SME Exchange or RHP in case of book – building or Prospectus in case of Fixed Price not filed as on the date of notification, the issuer may, at its option, elect to proceed under either the existing SME framework or the revised framework.

Where the issuer opts for the revised framework, it shall issue an addendum to the DRHP clearly specifying such election and incorporating the consequential changes arising from the revised framework, as applicable. The issuer shall thereafter comply with the applicable requirements of the revised framework.

Illustration:

Where the revised framework is notified on December 31, 2026:

Status	**Treatment**
SME DRHP filed before December 31, 2026 + in-principal approval obtained/not obtained before December 31, 2026	Option to choose existing or revised framework

Where the issuer opts for the revised framework, the addendum would clearly record the election and the issuer would undertake the necessary process under the revised framework.

5.9.2.6. Trading Lot and Market Making

The circular prescribing the existing requirements relating to the trading lot for securities listed on the SME Platform may be rescinded by the Board, in consultation with the recognised stock exchanges, through a separate circular issued subsequent to the notification of the revised framework in the Official Gazette.

With effect from the date of issuance of such circular:

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- the revised requirement of one share as the trading lot shall apply to all specified securities listed on the SME Platform; and
- the existing market-making framework shall cease to be applicable to all issuers whose specified securities are listed on the SME Platform.

It may also be noted that issuers whose specified securities are listed on the SME Platform on or after the date of notification of the revised framework but prior to the date of issuance of the circular rescinding the existing trading-lot circular shall continue to be subject to the existing market-making requirements until the date of issuance of such rescindment circular.

Accordingly, any continuing market-making arrangement, including an arrangement entered into by an issuer listed during the aforesaid intervening period, shall cease to operate from the date of issuance of the rescindment circular.

The discontinuation of the market-making framework shall thereafter apply uniformly to all issuers whose specified securities are listed on the SME Platform, irrespective of the date of their listing or the period for which market making has already been undertaken.

Illustration:
Where the revised framework is notified on **December 31, 2026**, and the circular rescinding the existing trading-lot circular is issued on **February 15, 2027**:

Event	**Treatment**
SME issuer listed on or before December 31, 2026	Existing market-making framework applies until February 15, 2027
SME issuer listed from January 1, 2027 to February 14, 2027	Existing market-making framework mandatorily applies until February 15, 2027
SME issuer listed on or after February 15, 2027	Market-making framework not applicable
From February 15, 2027 onwards	Market-making framework ceases to apply to all SME-listed issuers

5.9.2.7. Existing Lock-in

In respect of issuers already listed on the SME Platform as on the date of notification of the revised framework, the existing requirements relating to lock-in shall continue to apply until expiry of the respective applicable period.

The revised framework shall not retrospectively extinguish or modify an existing lock-in obligation that had commenced prior to the date of notification.

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Illustration:
If an SME issuer is already listed on December 31, 2026 and its applicable lock-in is due to expire subsequently, the existing requirement shall continue until the expiry of such period.

5.9.2.8. Migration to the Main Board

The migration framework shall be determined with reference to whether the issuer is already listed on the SME Platform as on the date of notification of the revised framework.

5.9.2.8.1. Existing SME-listed issuers

In respect of an issuer whose securities are listed on the SME Platform as on the date of notification, migration to the Main Board shall continue to be governed by the existing migration framework, including the existing paid-up-capital-based threshold and other applicable eligibility requirements.

5.9.2.8.2. Issuers listed after notification

In respect of an issuer whose securities are listed on the SME Platform after the date of notification, migration to the Main Board shall be governed by the revised migration framework, including the proposed market-capitalisation-based threshold and other applicable eligibility requirements.

Illustration: Assuming notification on December 31, 2026:

Issuer listed on SME Platform on or before December 31, 2026 → Existing migration framework.

Issuer listed on SME Platform after December 31, 2026 → Revised migration framework.

5.9.3. Question for Public Comments

15A. Do you agree with the proposed transition provisions for implementation of the revised SME framework, including the proposed treatment of draft offer documents, issues at different stages of the offer process, existing SME-listed issuers, trading lot, lock-in and market-making requirements, and migration to the Main Board? If not, please provide your suggestions along with the rationale thereof.

6. For ease of reference and to provide a consolidated view of the proposed regulatory architecture, **Annexure 1** to this Consultation Paper sets out a comparative overview of the key provisions applicable to Main Board and SME IPOs under the proposed framework.

7. Public Comments

7.1. The comments or suggestions, along with rationale, may be submitted latest by November 04, 2026 through the following link:

https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes

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8. In case of any technical issue in submitting your comments through web based public comments form, you may send your comments through e-mail to consultationcfd@sebi.gov.in with the subject "Consultation Paper on Recommendations pursuant to Review of provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 related to Initial Public Offer by Small and Medium Enterprises"

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Annexure 1 :- Comparative Overview of the Proposed SME IPO Framework vis-à-vis the Main Board Framework

The proposed framework seeks to clearly demarcate the circumstances in which an issuer would access the SME Platform or the Main Board, based on the proposed market-capitalisation based eligibility framework

Once the applicable platform is determined, the regulatory requirements governing the IPO would continue to reflect a combination of common requirements, where the underlying regulatory objective is similar, and differentiated requirements, where the characteristics of SME issuers warrant specific regulatory treatment.

The table below provides a bird's-eye view of the regulatory position applicable to Main Board IPOs vis-à-vis SME IPOs under the proposed framework. It highlights the key areas where the SME framework is proposed to be aligned with the Main Board framework and the areas where SME-specific requirements or safeguards are proposed to be retained or new safeguards are introduced.

Note :- This Annexure provides only a summary of key provisions of the Main Board and proposed SME IPO frameworks for ease of reference. It is not intended to be a substitute for the applicable regulatory provisions. For the complete and detailed requirements, reference may be made to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended from time to time, and the changes proposed in this Consultation Paper.

Regulatory Area	Mainboard Framework	Proposed SME Framework	Assessment
Entities not eligible to make IPO	Regulation 5 – Specifies the circumstances in which an issuer is not eligible to make an IPO, including debarment from accessing the capital market, association of promoters/directors with a debarred company, wilful	Regulation 228 – Provides the corresponding eligibility restrictions for SME issuers.	Identical requirements.

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Regulatory Area	Mainboard Framework	Proposed SME Framework	Assessment
	defaulter status and fugitive economic offender status.		
Business Track Record / Continuity	No corresponding requirement	Reg. 229(3): Track record and/or other eligibility conditions of the SME Exchange. Reg. 229(4): Four completed financial quarters after conversion / qualifying business reorganisation, with post-reorganisation audited financial information. Reg. 229(5): One-year seasoning after complete promoter change / acquisition of >50% shareholding by new promoters.	SME-specific requirements are retained to ensure business maturity, continuity and promoter stability before an issuer accesses public capital. Regulations 229(3), 229(4) and 229(5) provide safeguards relating to track record, seasoning following business reorganisation/conversion and changes in promoter control, thereby ensuring that public-market access is not sought without an adequate underlying business and ownership history.
Financial Parameters	Regulation 6(1) requires: (i) net tangible assets of at least ₹3 crore in each of the preceding 3 full financial years, subject to the prescribed monetary asset condition; (ii) average operating profit of at least ₹15 crore during the preceding 3 years, with operating profit in each year; (iii) net worth of at least ₹1 crore in each of the preceding 3 full financial years; and (iv) where the issuer has changed its name in the preceding one year, at least 50% of revenue to be derived from the activity indicated by the new name	Regulation 229(6) requires an average operating profit of at least ₹3 crore per year during the preceding 3 financial years, calculated on the basis of restated and consolidated financial statements.	Differentiated – SME framework retains a proportionate profitability requirement and does not replicate the Main Board requirements relating to net tangible assets, net worth and name-change revenue.
Alternative Eligibility	Regulation 6(2): An issuer not satisfying the	Regulation 229(7): An issuer not satisfying	Broadly aligned, but calibrated – the QIB-

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Regulatory Area	Mainboard Framework	Proposed SME Framework	Assessment
Route	conditions under Regulation 6(1) may undertake an IPO through the book-building process, subject to at least 75% of the net offer being allotted to QIBs. If the 75% QIB allocation is not achieved, the entire subscription money is required to be refunded.	the profitability requirement under Regulation 229(6) may undertake an IPO through the book-building process, subject to at least 75% of the net offer being allotted to QIBs. If the 75% QIB allocation is not achieved, the entire subscription money is required to be refunded. The requirements under Regulations 229(3), 229(4) and 229(5) continue to apply.	based alternative route is common to both frameworks; however, Regulation 229(7) provides flexibility only from the profitability requirement, while retaining the SME-specific requirements relating to business track record, reorganisation/continuity and promoter stability.
General Corporate Purpose	**Regulation 7(2):** Amount utilised towards GCP shall not exceed 25% of the amount being raised.	**Regulation 230(2):** Amount utilised towards GCP shall not exceed 15% of the amount being raised.	Differentiated – SME-specific safeguard
Offer for Sale	**Regulation 8** prescribes the general eligibility conditions for OFS, including the one-year holding period. **Regulation 8A,** applicable to issues under Regulation 6(2), places a limit on the number of shares that an individual selling shareholder can offer: a shareholder holding more than 20% can offer up to 50% of its pre-issue holding, while a shareholder holding less than 20% can offer up to 10% of its pre-issue holding. There is no prescribed overall ceiling on the OFS portion of the IPO in case issuer accessing Mainboard Platform	**Regulation 230A** provides a dedicated OFS framework. In addition to the holding-period requirement, the SME Framework provides that OFS shall not exceed 20% of the total issue size and shares offered by a selling shareholder shall not exceed 50% of its pre-issue shareholding on a fully diluted basis. These 20% and 50% limits do not apply to QIB selling shareholders, except in an issue under Regulation 229(7).	SME-specific safeguard retained to ensure that the IPO remains primarily focused on capital infusion into the issuer, rather than facilitating substantial secondary exits by existing shareholders. The relaxation for QIB selling shareholders provides flexibility for institutional exits, while the restriction under Regulation 229(7) ensures that the alternative QIB-based route remains focused on capital formation.
Promoter	**Regulation 16:**	**Regulation 238:**	SME-specific safeguard

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Regulatory Area	Mainboard Framework	Proposed SME Framework	Assessment
Lock – In	Minimum Promoters' Contribution (20% of post-issue capital) is locked in for 18 months from the date of allotment. Promoters' holding in excess of the minimum promoters' contribution is locked in for 6 months. Where the majority of issue proceeds (excluding OFS) is proposed to be utilised for capital expenditure, the corresponding periods are 3 years and 1 year, respectively	Minimum Promoters' Contribution continues to be locked in for 3 years from the date of allotment. Promoters' holding in excess of the minimum promoters' contribution is proposed to be locked in uniformly for 1 year.	retained, with rationalisation of the lock-in mechanism. The longer lock-in for Minimum Promoters' Contribution and one-year lock-in for excess promoter holding seek to ensure continued promoter commitment and alignment in the SME framework, while removing the variability arising from linkage with commencement of commercial production.
Lock – In other than Promoters	**Regulation 17:** Pre-issue capital held by persons other than promoters is generally locked in for 6 months from the date of allotment in the IPO, subject to specified exemptions**.**	**Regulation 239:** The lock-in applicable to pre-issue capital held by persons other than promoters and promoter group is proposed to be reduced from 1 year to 6 months from the date of allotment, aligning it with the Main Board framework. Further, specified securities held by the Promoter Group are proposed to be subject to a separate 1-year lock-in.	Alignment with Main Board for non-promoter pre-issue capital, while retaining an SME-specific 1-year lock-in for Promoter Group holdings to ensure continued promoter alignment and prevent circumvention of promoter lock-in requirements.
Filing of Offer Document and Filing Fees	**Regulation 25:** Draft Offer Document is filed with the **Board**, along with applicable fees under Schedule III. Where the Board issues observations, an updated Draft Offer Document incorporating such observations and highlighting all changes is required before filing the Offer Document	**Regulation 246:** Draft Offer Document is filed with the SME Exchange(s). The SME Exchange(s) may specify changes or issue observations, pursuant to which the issuer and Lead Manager(s) are required to submit an updated Draft Offer Document highlighting all	**Differentiated institutional processing:** SME issues continue to be processed at the SME Exchange level rather than through SEBI observations. The framework thereby retains the differentiated processing mechanism for SME IPOs, while incorporating greater alignment with the Main Board in documentation,

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Regulatory Area	Mainboard Framework	Proposed SME Framework	Assessment
	with the ROC. Changes relating to Schedule XVI matters require filing of an updated Offer Document or fresh Draft Offer Document with the Board along with applicable fees.	changes before filing the Offer Document with the ROC. Where changes relate to Schedule XVI matters, an updated Offer Document or fresh Draft Offer Document is required to be filed with the SME Exchange(s), with no additional fee payable for such filing. The Offer Document is subsequently filed with the Board, which does not issue observations. Further, no SEBI filing fee is prescribed for SME issues.	due diligence and updation requirements.
Application Value	**Regulation 47:** Minimum application size is determined in terms of number of specified securities such that its value falls within ₹10,000–₹15,000. Applications are made in multiples of the minimum application value.	**Regulation 267:** Minimum application proposed at four lots per application, with each lot having a minimum value of ₹25,000, resulting in a minimum application value of ₹1 lakh. Applications thereafter are made in multiples of the lot size.	The higher SME threshold recognises the relatively higher risks associated with SME investments and seeks to ensure meaningful investor participation. The requirement of making subsequent applications in multiples of the applicable lot size is retained under both frameworks.
Allocation in the net offer	**Regulation 32:** Not less than 35% to Retail Individual Investors, not less than 15% to Non-Institutional Investors and not more than 50% to QIBs. For issues under Regulation 6(2), Regulation 32(2) provides for not more than 10% to RIIs, not more than 15% to NIIs and not less than 75% to QIBs.	**Regulation 253:** Not less than 35% to RIIs, not less than 15% to NIIs and not more than 50% to QIBs. For issues under Regulation 229(7), not more than 10% to RIIs, not more than 15% to NIIs and not less than 75% to QIBs.	The proposed SME framework aligns the normal allocation framework with the Main Board framework. Further, the special allocation framework proposed for Regulation 229(7) mirrors the Regulation 6(2) QIB route, thereby linking the enhanced institutional participation requirement with the alternative eligibility route based on QIB participation.

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Regulatory Area	Mainboard Framework	Proposed SME Framework	Assessment
Allotment	**Regulation 49:** Minimum 1,000 prospective allottees. Retail Individual Investors are allotted at least the minimum bid lot, subject to availability, with remaining shares allotted proportionately; specified category-wise allotment is otherwise made on a proportionate basis.	**Regulation 268:** Minimum number of allottees proposed to be increased from 200 to 500. Each RII would receive at least one minimum lot, subject to availability, with remaining shares allotted proportionately without requiring allotment to be in multiples of the minimum lot. The existing SME-specific NII allotment framework is also proposed to be rationalised.	Differentiated in terms of minimum number of allottees; however, the allotment methodology is broadly aligned with the Main Board framework, including minimum lot allocation and proportionate allotment of the balance.
Trading	Main Board securities are generally traded in one share, subject to applicable exchange trading parameters.	Trading lot for securities listed on the SME Platform proposed to be one share, replacing the existing price-band-based lot-size framework.	**Convergence with Main Board:** Removes the structural barrier created by large SME trading lots and facilitates greater flexibility and accessibility in secondary-market transactions.
Underwriting	**Regulation 40** provides for underwriting of the issue prior to the filing of prospectus, with the 75% QIB portion in an issue under Regulation 6(2) not required to be underwritten.	Under **Regulation 260**, Main Board underwriting framework to apply. The 75% QIB portion under Regulation 229(7) would not be underwritten.	Aligned with Main Board; underwriting requirements rationalised to reduce cost of fund raising.
Minimum Subscription	**Regulation 45** prescribes 90% minimum subscription and consequential refund where the prescribed level is not achieved.	**Regulation 265A** prescribes 90% minimum subscription and consequential refund where the prescribed level is not achieved.	Aligned with Main Board; minimum subscription requirement expressly incorporated in the SME framework.
Market Making	No compulsory market-making requirement for Main Board issues.	Existing compulsory market-making requirement proposed to be omitted	Aligned with Main Board; compulsory market making proposed to be removed.
Migration to Main Board	No corresponding graduation framework,	Proposed framework provides for voluntary	SME-specific growth pathway; migration linked

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Regulatory Area	Mainboard Framework	Proposed SME Framework	Assessment
	as Main Board is the principal listing platform.	migration at market capitalisation of ₹1,000 crore or more but less than ₹4,000 crore and mandatory migration where market capitalisation exceeds ₹4,000 crore, subject to Main Board eligibility requirements.	to market capitalisation to facilitate graduation to the Main Board.
Pre-filing Draft Offer Document (PDRHP)	Provisions of PDRHP (Chapter IIA) applies only to Mainboard IPO	Does not apply to SME IPO	SME – Specific safeguard.

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