

## REGULATORY UPDATE

## SEBI Widens Demat Requirement for IPO Participants

SEBI (Issue of Capital and Disclosure Requirements) Regulations

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### Overview

SEBI has introduced a key amendment to Regulation 7(1)(c) of the ICDR Regulations (effective September 2025), expanding the list of stakeholders who must hold their securities in dematerialised form before filing a Draft Red Herring Prospectus (DRHP).

Previously, this requirement largely applied to promoters. The revised rule now covers a much broader group, including:

- Promoter group members
- Selling shareholders
- Directors
- Key Managerial Personnel (KMPs)
- Senior management personnel
- Qualified Institutional Buyers (QIBs)
- Domestic employees holding shares
- SR shareholders
- Regulated financial institutions

The same requirement has also been extended to SME IPOs. This amendment signals SEBI's intent that companies approaching the public markets must do so with a fully digitised and verifiable shareholding structure.

### Revised Framework – Why This Matters

The change aligns the IPO framework with the Companies Act dematerialisation rules (Rules 9A and 9B) and goes a step further by including additional categories of shareholders.

#### KEY BENEFITS

- Ensure IPO-bound companies maintain a fully electronic cap table
- Improve transparency and traceability of ownership
- Reduce reconciliation and compliance risks during IPO execution
- Lead to cleaner and more reliable disclosures
- Strengthen investor confidence in public issues
- Bring SME issuers under similar governance expectations as mainboard IPOs
- Encourage companies to prepare earlier for public listing
- Support SEBI's broader push toward a demat-only securities ecosystem

## Key Considerations for IPO-Bound Companies

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- **Foreign Employee Shareholding:** The regulation refers to employees working exclusively in India. However, many Indian companies maintain global ESOP pools, and dematerialising shares for foreign residents involves FEMA and custodial complexities. Companies should proactively plan how to regularise foreign employee shareholding well before the IPO timeline.
- **A Dynamic Cap Table Between DRHP and RHP:** IPO preparation is not static. New senior hires may receive equity, ESOPs may be exercised, and corporate actions may occur. This turns the demat requirement into an ongoing compliance obligation. Companies should issue all post-DRHP shares directly in demat form and monitor cap table changes continuously.

## Additional Implications

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- SEBI's framework now goes beyond Companies Act requirements, raising IPO preparedness standards.
- Fully dematerialised shareholding will help reduce regulatory queries and improve disclosure quality.

## Conclusion

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This amendment is not merely a technical change. It reinforces SEBI's expectation that companies entering the public markets must present a clear, reconciled and fully dematerialised ownership structure. For IPO-bound companies, dematerialisation must now be treated as an early-stage IPO readiness activity, not a last-minute compliance exercise.

### **BOTTOM LINE**

*SEBI's expanded demat mandate strengthens transparency and governance in the IPO process. Companies planning to go public should begin preparation early to avoid delays and ensure a smooth transition from DRHP to listing.*