Corporate Affairs Newsletter

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SEBI proposes direct arbitration of complaints in certain cases; SOP for ODR portal

Markets regulator SEBI proposed offering a direct arbitration mechanism for resolving disputes in certain cases with claims of at least 10 crore and those which are chronic and repetitive in nature.

These are part of SEBI's proposal to tweak framework for Online Dispute Resolution (ODR) in the Indian securities market in a bid to provide clarity and better implementation.

In its consultation paper, the Securities and Exchange Board of India (SEBI) proposed to include depositories formally in the ODR system and suggested market infrastructure institutions (MIIs) to jointly formulate a Standard Operating Procedure (SOP) on operational aspects of the ODR portal and functioning of ODR institutions.

Building Trust in Sustainability Assurance: Statement from the European and Global Accountancy Profession

As the European Union (EU) moves to simplify its sustainability legislation, global sustainability reporting and assurance practices are evolving to meet growing demands for transparency, credibility, and impact.

Accountancy Europe and the International Federation of Accountants (IFAC), as representatives of the European and global accountancy profession, reaffirm their commitment to high-quality and consistent sustainability assurance. Achieving this requires a collective effort by all stakeholders, robust professional standards, and regulatory consistency.

International aid falls in 2024 for first time in five years, says OECD

International aid from official donors fell in 2024 by 7.1% in real terms compared to 2023, the first drop after five years of consecutive growth, according to preliminary data collected by the OECD.

The fall in official development assistance (ODA) was due to a reduction in contributions to international organisations, as well as a decrease in aid for Ukraine, lower levels of humanitarian aid and reduced spending on hosting refugees in donor countries.

SEBI proposes extension of relaxation on physical document delivery norms for listed debt issuers

India's market regulator proposed a limited relaxation from compliance with certain disclosure norms under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR), offering relief to issuers of listed non-convertible debt securities from the obligation to send hard copies of key financial documents to investors.

In a draft circular released for public consultation, the Securities and Exchange Board of India (SEBI) has suggested extending an earlier exemption related to Regulation 58(1)(b), which mandates sending hard copies of financial statements and related documents to holders of non-convertible securities who have not registered their email addresses.

Unclaimed Dividends and Shares

Unclaimed dividends and shares have become a growing concern in the financial system. Over time, many investors either forget about their investments or are unaware that they are entitled to certain dividends and shares. In some cases, the investors may have passed away, and their legal heirs are left unsure about how to trace or claim these assets. As a result, a large amount of money remains unclaimed and sits idle.

The Investor Education and Protection Fund Authority (IEPFA), set up by the government, is responsible for collecting and managing these unclaimed amounts. While the IEPFA aims to protect investors and ensure fair handling of such funds, the current process for claiming them is not very user-friendly. It often involves a lot of paperwork, legal procedures, and long waiting periods. Many people, especially senior citizens or those without legal knowledge, find it difficult to understand and complete the process.

To address this issue, there is a need to simplify and improve the claims procedure. This includes making it easier to track unclaimed assets, providing clear guidelines, using digital platforms and offering assistance to claimants. In addition, public awareness must be increased so that more people know about their rights and the steps they need to take.

While efforts are made to return unclaimed funds to the rightful owners, there is also an opportunity to use a portion of these idle funds for social welfare activities. With proper rules and transparency, this money can support education, health, and financial literacy programs, benefiting society as a whole.

The Problem: A Growing Volume of Unclaimed Assets

The issue of unclaimed dividends and shares has become a significant concern, particularly as more investors remain unaware of their unclaimed assets. When dividends go unpaid or unclaimed for seven consecutive years, they are transferred to the IEPFA, but many shareholders, as well as their heirs, often fail to recover these funds. The current framework, established under the Companies Act, 2013, and IEPF Rules, 2016, provides a system for claiming these funds. However, it has proven insufficient in addressing the barriers faced by claimants, such as lack of awareness, cumbersome documentation requirements, and difficulties in tracking unclaimed assets. Beyond the direct impact on investors, the accumulation of unclaimed assets raises wider economic and ethical questions. These funds, left idle, represent missed opportunities both for individual financial empowerment and for national development. The challenge lies not just in recovery but in reconciling individual ownership rights with the broader public good.

A Call for Reform: Simplifying the Claims Process

To address these challenges, a set of reforms is proposed that will not only improve the claims process but also ensure that unclaimed funds serve a greater public good. These reforms focus on enhancing accessibility, leveraging technology, and providing a clearer path for both investors and legal heirs.
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- **Integration of Personal Documents for Easier Tracking**

One of the main obstacles in the current system is the difficulty of tracking unclaimed assets. By collaborating with government agencies that manage personal identification documents like PAN and Aadhaar, the process can be made more efficient. Additionally, exploring the use of blockchain technology could create a tamper-proof and transparent system for tracking unclaimed assets.

- **Periodic Reminders and Awareness Campaigns**

Many investors are unaware that their dividends or shares are unclaimed. A proactive approach is necessary to raise awareness. The IEPFA could issue periodic reminders through SMS, email, and physical mail before funds are transferred to the authority. A comprehensive communication strategy, including social media campaigns and collaborations with local community networks, can increase awareness about the claims process. Moreover, a dedicated mobile application could be developed, allowing investors to track their unclaimed assets in real-time, directly linked to the IEPFA portal.

- **Strengthening Collaboration with Market Participants**

Market infrastructure entities like the National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL) play a crucial role in ensuring that investors are notified about their unclaimed assets. By enhancing data sharing protocols between these bodies and the IEPFA, we can reduce instances of unclaimed assets and ensure that shareholders are promptly informed about unclaimed dividends or shares.

- **Simplified Claim Process for Legal Heirs**

The current process for legal heirs to claim unclaimed dividends or shares can be complex and intimidating. By simplifying the digitized platform for heirs, we can make it easier for them to submit necessary documents (e.g., death certificates and legal heirship certificates) online and track their claims in real-time. Automated notifications can keep heirs informed, and multilingual support can further ensure that the platform is accessible to a wider audience.

- **Using Unclaimed Funds for Investor Awareness and Public Welfare**

A more creative use of unclaimed funds could involve directing them to public welfare causes or investor education initiatives. Once funds have been transferred to the IEPFA and remain unclaimed for an additional seven years, the authority could use them to finance awareness campaigns that educate the public about unclaimed assets, the claims process, and financial literacy. This would help address the root cause of unclaimed assets—lack of awareness— while benefiting society at large.

- **Limiting the Claim Period and Redirecting Funds to Public Welfare**

One of the most radical suggestions in the reform proposal is the introduction of a limitation period for refund claims. After a period of seven years from when the funds are transferred to the IEPFA, if no claims are made, the unclaimed amounts could be directed to national welfare initiatives, such as the Prime Minister's National Relief Fund. This would ensure that funds not claimed by their rightful owners are still put to good use for the greater good of society.

- **Introducing a Dispute Resolution Mechanism**

The process for claiming unclaimed funds can sometimes be contentious, particularly in cases where heirs dispute the transfer of assets. Introducing a dispute resolution mechanism, such as arbitration or mediation, could provide a fair and efficient way to address these cases. This system could be fully digitized, allowing easy access to relevant documents and evidence.

Learning from Global Best Practices

Other countries, such as the UK, Australia, and Canada, have successfully implemented centralized online databases for unclaimed financial assets, backed by robust legal frameworks and ongoing public engagement campaigns. India's IEPFA can learn from these global models by investing in better technology infrastructure and adopting similar public accountability mechanisms to build trust and encourage participation.

The Way Forward: Ensuring Fairness, Transparency, and Collaboration

The proposed measures aim to improve the management of unclaimed dividends and shares in the IEPFA, ultimately benefiting both investors and society. The recommendations emphasize the need for enhanced awareness, technological integration, and streamlined processes. Collaboration with market participants and government bodies is essential to ensure that unclaimed assets are returned to their rightful owners or used for public welfare. By extending the claim period, integrating modern technologies, and directing unclaimed funds toward public welfare, these reforms will help build a more transparent and efficient system. They also reflect a commitment to safeguarding investor interests and ensuring that the financial ecosystem remains inclusive and equitable for all.

Current Procedure to Claim Unclaimed Dividends and Shares

The process to claim unclaimed dividends and shares in India—after they are transferred to the Investor Education and Protection Fund Authority (IEPFA)—is governed by the Companies Act, 2013 and IEPF Rules, 2016. Here is a simplified explanation of the current procedure:

1. Check If the Shares/Dividends Are with IEPFA

Visit the official IEPF website - www.iepf.gov.in

Use the Investor Search tool by entering:

1.Investor name
2.Company name
3.Folio number or DP ID-Client ID (for demat shares)

2. Filing a Claim with the Company

Before approaching IEPFA, you must submit a claim to the company whose shares/dividends are unclaimed.

- Submit Form IEPF-5 (online).
- Provide details like:

  a. Company name
  b. Year of dividend
  c. Number of shares
  d. Amount claimed

3. Submit Physical Documents to the Company

After filing Form IEPF-5 online, send the signed acknowledgment and required documents to the Nodal Officer of the company. Documents may include:

- Copy of IEPF-5 acknowledgment
- Indemnity bond (on non-judicial stamp paper)
- Advance stamped receipt
- Copy of Aadhaar card
- Cancelled cheque leaf
- Share certificates (if in physical form)
- Legal documents in case of heirs (death certificate, legal heir certificate, etc.)

4. Company Verifies and Forwards Claim to IEPFA

- The company reviews the claim and forwards its recommendation to the IEPFA.
- This step may take 30–60 days or more, depending on the case.

5. IEPFA Reviews and Approves/Releases the amount

- If the claim is verified, IEPFA processes the refund.
- Funds are transferred directly to the claimant's bank account.
- Shares are transferred back to the demat account (if applicable).

Challenges in the Current Process

- Lack of awareness among investors and heirs
- Lengthy documentation requirements
- Manual follow-ups with companies and IEPFA
- Delay in claim processing due to verification issues

Conclusion: A Better System for Everyone

By simplifying the claims process, increasing awareness, and putting unclaimed funds to good use, we can ensure that the system works for everyone—whether they are investors, heirs, or the wider public. These measures will foster greater trust in the financial system and encourage more active participation from investors. Ultimately, they represent a step forward in making the financial world more accessible, transparent, and beneficial for all.

India's Economic Potential Recognised by IMF & World Bank Amid Global Trade Tensions: Nirmala Sitharaman

Nirmala Sitharaman, the Union minister for finance and corporate affairs asserts that India's growth potential is acknowledged by institutions like the World Bank and International Monetary Fund and that India is a vital player for global economic growth.

While addressing the Indian diaspora, she said, "When we say India is the fastest growing economy, and when the IMF or the World Bank recognises that India, because of the growth potential, can be India, China, many other such countries, can be the engine to pull the world trade, which is in the negative or just about positive zone, they recognise the potential that exists in India."

Sitharaman underscored the government's commitment to transforming India into a developed nation, or "Viksit Bharat," by 2047. Prime Minister Modi's vision focuses on four key pillars: women, the underprivileged, youth, and farmers.

Global Solutions Must Reflect Regional Realities, Says IFAC

As economies face converging challenges, global solutions must reflect regional realities. That's the purpose of IFAC Connect, a global event series from the International Federation of Accountants (IFAC), that brings together professional accountancy organizations, regulators, businesses, investors, and other leaders to share insights and work together to drive meaningful change.

Now in its second year, IFAC Connect is a platform for engagement and action. Stakeholders share insights and develop solutions that align with global baselines, and local leaders are empowered to drive transformation.

Simpler, more streamlined and smarter regulations are required to address evolving policy challenges

Governments should renew their efforts to better design, deliver, and review regulation and regulatory processes, according to a new OECD report.

The Regulatory Policy Outlook 2025 - the OECD's flagship publication on drafting laws and regulations, their implementation and review - highlights the efforts governments are making to advance policy objectives while adapting to rapid technological change and evolving policy environments. It identifies opportunities to reduce unnecessary regulations, while ensuring regulatory frameworks are focused on better outcomes for people, and contribute to a policy environment that supports innovation and strong and sustainable growth.

Regulations are often seen as burdensome for citizens and businesses, while their weak enforcement can raise concerns about government effectiveness in protecting people and the environment. Governments must renew efforts to design and review rules and build trust, the report said.

Key strategies for businesses impacted by US trade tariffs – and how accountants will play a leading role

Leading accounting body CPA Australia has issued advice to Australian businesses feeling the effects of recently announced US trade tariffs.

The nine key strategies focus on assessing the potential business impact of the new tariffs, conducting a financial health check and building up cash reserves, as well as seeking professional advice to explore new opportunities.

Gavan Ord, CPA Australia's Business Investment and International Lead, says the accounting profession will play a leading role in supporting clients and organisations through these turbulent economic waters.

"Any shock to global trade conditions presents a wide range of consequences and challenges for businesses to overcome," he said. "During periods of instability and uncertainty, planning, flexibility and professional guidance become essential.

Seeking professional support from trusted advisors is critical in informing business leaders and decision-makers on how to adapt to the sudden shock of new trading environments."

Unlocking the Value through Demerger and Hive-off s

Corporate restructuring is a strategic necessity in today's dynamic business environment. Whether driven by regulatory, financial, or operational objectives, a well-planned restructuring can unlock significant value and operational synergies. Companies must, however, carefully assess tax implications, regulatory approvals, stamp duty exposures, and stakeholder interests before proceeding.

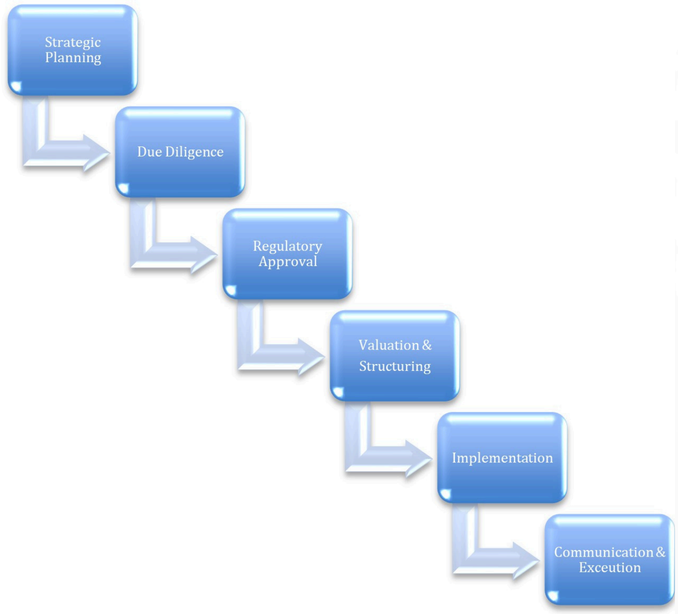
In the dynamic business environment, companies continually seek ways to unlock hidden value and enhance operational efficiency. Demergers and hiveoffs have emerged as powerful corporate restructuring strategies to achieve these goals. A demerger involves dividing a company into distinct entities, each with its own focus, while a hive-off transfers a specific business unit into a new, independent entity. These approaches can improve market perception, streamline operations, and increase shareholder value by creating more agile and specialized companies. However, successful execution requires meticulous planning, including strategic planning, due diligence, regulatory approvals, and effective communication. Challenges include navigating legal complexities, managing financial implications, and maintaining stakeholder trust. By leveraging these strategies, companies can isolate high-performing units, drive growth, and better align with market opportunities. This article explores the intricacies, benefits, and challenges of demergers and hive-offs, providing valuable insights for corporate executives and investors aiming to enhance corporate success.

Understanding Demerger

A demerger is a strategic corporate restructuring mechanism in which a company divides itself into two or more separate entities, each functioning independently with its own management and resources. This aims to enhance the focus and operational efficiency of each business unit, enabling them to better address their specific markets and achieve optimal performance.

Process of Demerger

Executing a demerger involves several critical steps, each requiring meticulous planning and execution



1. Strategic Planning: Assessing the rationale behind the demerger, defining its scope, and outlining strategic objectives.
2. Due Diligence: Conducting thorough due diligence to identify potential liabilities, assets, and operational details to be transferred to the new entity.
3. Regulatory Approval: Securing necessary approvals from relevant regulatory bodies, such as the Securities and Exchange Board of India (SEBI) or the Ministry of Corporate Affairs (MCA), in compliance with the Companies Act, 2013.
4. Valuation and Structuring: Determining the valuation of the demerged entity and structuring the transaction to ensure fairness and clarity for all stakeholders.
5. Implementation: Finalizing the demerger plan, including the transfer of assets, liabilities, and contracts, and executing the share distribution to shareholders.
6. Communication and Execution: Effectively communicating the demerger plan to all stakeholders, including employees, shareholders, and customers, to ensure a smooth transition.

Benefits of Demerger

A demerger offers several strategic advantages that can significantly enhance a company's value and operational effectiveness:

- Enhanced Focus on Core Business Areas: By separating non-core or underperforming units, the parent company and the new entity can concentrate on their primary business areas, fostering growth and innovation.
- Improved Operational Efficiency: Demergers streamline operations, reduce complexity, and enhance management focus, leading to greater efficiency and productivity in each entity.
- Better Valuation and Market Perception: A well-executed demerger can enhance the market valuation of both the parent company and the demerged entity, improving investor confidence and market perception.

Challenges in Demerger

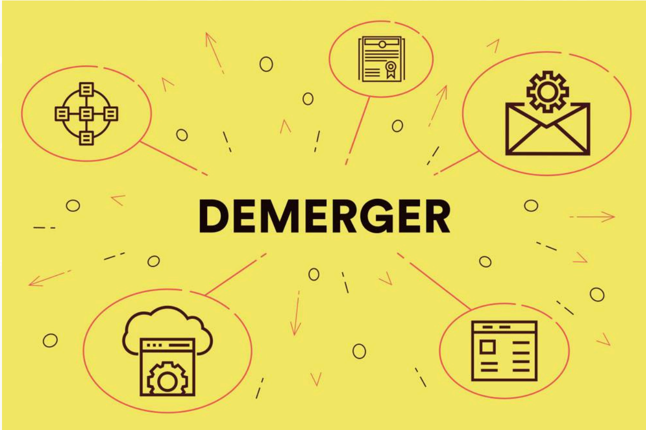
Despite its advantages, a demerger presents several challenges that must be carefully managed:

- Legal and Regulatory Hurdles: Navigating the complex legal and regulatory landscape can be challenging, requiring compliance with various laws, such as the Companies Act, 2013, and obtaining approvals from regulatory authorities.
- Financial Implications: The demerger process involves significant financial considerations, including costs related to restructuring, valuation, and transaction execution. Additionally, tax implications must be carefully analyzed to optimize financial outcomes.
- Employee and Stakeholder Management: Managing the expectations and concerns of employees, customers, and other stakeholders is critical. Effective communication and support mechanisms are essential to maintain morale, retain talent, and ensure business continuity during and after the demerger.

Understanding Hive-offs

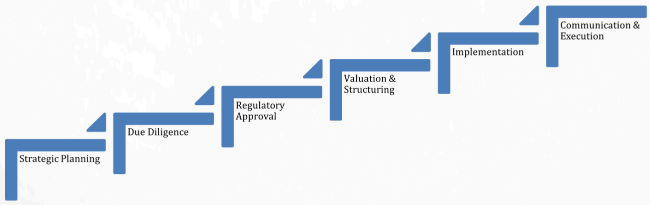
What is a Hive-off?

A hive-off is a strategic corporate restructuring mechanism whereby a specific business unit or division is separated from the parent company and transferred to a newly established, independent entity. Unlike a demerger, which typically involves the division of the entire company into multiple entities, a hive-off focuses on isolating a particular segment of the business. This process allows the parent company to streamline its operations, while the new entity can concentrate on its core activities, thereby fostering growth and innovation in a more focused environment.



Process of Hive-off

Executing a hive-off involves several critical steps, each requiring meticulous planning and adherence to regulatory guidelines:



- Strategic Planning: Identifying the business unit or division to be hive-off, assessing its strategic value, and defining the objectives of the hive-off.
- Due Diligence: Conducting comprehensive due diligence to evaluate the financial, operational, and legal aspects of the business unit, ensuring a clear understanding of its assets, liabilities, and market potential.
- Regulatory Approval: Obtaining necessary approvals from relevant regulatory bodies, such as the Securities and Exchange Board of India (SEBI) or the Ministry of Corporate Affairs (MCA), in compliance with the Companies Act, 2013. This may involve filing detailed documentation and securing the consent of shareholders and other stakeholders.
- Valuation and Structuring: Determining the fair market value of the business unit to be hive-off and structuring the transaction to ensure transparency and fairness for all parties involved. This may include appointing valuation experts and legal advisors to facilitate the process.

Implementation: Finalizing the hive-off plan, including the transfer of assets, liabilities, and contracts, and executing the share distribution or capital allocation to the new entity. This step also involves updating corporate governance structures and operational frameworks.

Communication and Transition: Effectively communicating the hive-off plan to all stakeholders, including employees, customers, suppliers, and investors, to ensure a smooth transition and maintain business continuity. This may involve stakeholder meetings, informational sessions, and detailed communication strategies.

Benefits of Hive-off

A hive-off offers several strategic advantages that can significantly enhance a company's value and operational efficiency:

- Unlocking Hidden Value: By isolating a specific business unit, a hive-off can reveal previously unrecognized value, allowing the new entity to attract targeted investments and growth opportunities.
- Streamlined Operations: Hive-offs enable the parent company to focus on its core activities, reducing complexity and enhancing operational efficiency. The new entity, free from the parent's constraints, can implement targeted strategies and achieve faster growth.
- Increased Investor Appeal: A hive-off can enhance the market appeal of both the parent company and the new entity. Investors often find the distinct focus and growth potential of the new entity appealing, potentially leading to increased investment and shareholder value.

Challenges in Hive-off

Despite its advantages, a hive-off presents several challenges that require careful consideration and management:

- Valuation Difficulties: Accurately valuing the business unit to be hive-off can be complex, requiring expertise in financial analysis and market assessment. Determining a fair value that reflects the unit's true potential and market conditions is crucial.
- Execution Risks: The hive-off process involves various execution risks, including operational disruptions, integration challenges, and potential resistance from stakeholders. Effective planning and risk management are essential to mitigate these risks.
- Market and Stakeholder Perception: Managing the perceptions of the market, employees, customers, and other stakeholders is critical. Ensuring clear communication, maintaining stakeholder confidence, and demonstrating the strategic rationale behind the hive-off are vital to its success.

Strategic Considerations

When contemplating a demerger or hive-off, it is crucial for companies to evaluate several strategic, financial, and regulatory factors. This section explores the key considerations that guide the decision-making process, including when to consider these strategies, methods for valuation and financial analysis, and the legal and regulatory framework governing these actions.

Conclusion

Unlocking value through demerger and hive-off strategies offers a strategic avenue for companies aiming to enhance operational focus, streamline business processes, and maximize shareholder value. These restructuring mechanisms provide a framework for isolating high-performing or strategically significant units, thereby fostering increased efficiency and facilitating targeted growth. The effective implementation of a demerger or hive off can deliver substantial benefits, including enhanced operational agility, improved market perception, and the creation of more specialized entities. However, the successful execution of these strategies necessitates a thorough examination of various factors, including the optimal timing for restructuring, precise valuation, comprehensive financial impact assessments, and strict adherence to legal and regulatory frameworks. Moreover, managing stakeholder relationships with diligence is crucial. Ensuring transparent communication with shareholders, engaging proactively with employees, and maintaining uninterrupted service for customers and suppliers are fundamental to navigating the complexities of these transitions. Addressing the concerns and needs of all stakeholders effectively can mitigate risks and contribute to the overall success of the restructuring process. In summary, while demergers and hive-offs present valuable opportunities for unlocking latent potential and driving strategic growth, their success is contingent upon meticulous planning, strategic execution, and robust stakeholder management.