



Sweat Equity Rules: SEBI

Why in News

Recently, the [Securities and Exchange Board of India \(SEBI\)](#) has brought into effect the **SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021**. The regulations have **widened the scope of employees who can be offered stock (equity) options**.

- SEBI has **merged** the SEBI (Share Based Employee Benefits) Regulations, 2014 (SBEB Regulations) and the SEBI (Issue of Sweat Equity) Regulations, 2002 (Sweat Equity Regulations).
- **SEBI** is a **statutory body** established in accordance with the provisions of the SEBI Act, 1992. Its basic **function** is to protect the interests of investors in securities and to regulate the securities market.

Key Points

▪ Sweat Equity:

◦ About:

- Sweat equity is a non-monetary contribution that the individuals or founders of a company make towards the company. **Cash-strapped startups and business owners typically use sweat equity** to fund their companies.
- As per **Section 2(88) of the Companies Act, 2013** sweat equity shares means such **equity shares as are issued by a company to its directors or employees at a discount** or for consideration, other than cash.

◦ Issued for:

- It will be issued for providing the **know-how or making available rights in the nature of [intellectual property rights](#)** or value additions.

◦ Maximum Limit:

- The **maximum yearly limit of sweat equity** shares that can be issued by a listed company has been **prescribed at 15% of the existing paid-up equity share capital** within the overall limit, **not exceeding 25% of the paid-up capital at any time**.
- Further, in case of companies listed on the **Innovators Growth Platform (IGP)**, the **yearly limit will be 15% and overall limit will be 50%** of the paid-up capital at any time. It will be **applicable for 10 years** from the date of the company's incorporation.

- **SEBI in 2019** launched **IGP** erstwhile known as '**Institutional Trading Platform**' for listing of issuers which are in intensive use of technology, information technology, intellectual property, data analytics, **biotechnology** or **nano-technology** to provide products, services or business platforms with substantial value addition.
- This proposal will **benefit all new start-up companies seeking listing on the IGP platform**.

▪ **Share-based Employee Benefits:**

◦ **Eligibility:**

- Companies will **now be allowed to provide share-based employee benefits to employees**, who are exclusively working for such a **company or any of its group companies including a subsidiary or an associate**.
- It is expected to **not only help companies** to better use **share-based employee benefits** for retaining employees for a longer period, but also **imbibe a sense of responsibility and ownership in the employee** that will push him/her to work for the growth of the company.

◦ **Locking Period:**

- To provide **immediate relief to an employee or his/her family in instances of permanent incapacity or death**, the regulations have **dispensed with the requirement of a minimum vesting period and lock-in period** (minimum 1 year) for all share benefit schemes.

▪ **Applicability:**

- The new rules will be applicable **only to listed companies as these have been framed by SEBI, which only regulates listed companies**.
 - A listed company is a **stock exchange-listed company** wherein the **shares are openly tradable whereas** an unlisted company is a **company that is not listed on the stock market**.
- **For unlisted companies**, any change needed will have to be brought into the [Companies Act 2013](#).

[Source: IE](#)

PDF Reference URL: <https://www.drishtias.com/printpdf/sweat-equity-rules-sebi>

