

MCA notification mandates conversion of share warrants issued under CA 1956 into demat securities

What is a share warrant, and its inherent economics

Though termed as warrants, but it is actually a written option on the company's securities. It is an option to subscribe to the Co's securities at a pre-agreed strike price.

An ESOP is also a warrant, with the difference that ESOPs are not purchased or paid for; they are granted.

Warrant subscriber pays a premium to get the right to subscribe at a pre-agreed future date, at a pre-agreed price

While an investment in equity directly exposes the holder to risk of as such as the price of the share, in case of a warrant, the risk is only that of the premium paid upfront. The returns are the same as in case of an investment in equity. Hence, a warrant is a leveraged investment in the Co's equity, with minimised at-risk investment.

Actionables on the Company

Every public company which issued share warrants prior to commencement of the CA,2013 and not converted into shares shall-

Inform the Registrar about the details of such share warrants in Form PAS-7 by 27th January 2024

Issue notice to the bearers of the share warrants to surrender their warrants and get shares dematerialized in Form PAS-8 by 27th April 2024 in following manner -

- On the website of the Company, if any and
- Publish in the newspaper in vernacular and English language

Reference to warrants in other laws

Rule 2(k) read with Schedule III of NDI Rules permits company to raise FDI by way of share warrants as the definition of equity instruments includes reference to the same.

Regulation 13 of SEBI (ICDR) Regulations permits listed co's to issue warrants in an initial public offer (IPO)

Warrants are commonly issued by start ups and other growth-phase entities

Why the idea cannot be to curb options in share capital

These warrants, like any other security, are securities issued by the company, in the name of a registered owner. These are not bearer securities.

If the warrant holder eventually subscribers for the securities, he pays the strike price. If he doesn't, the premium paid gets forfeited

These doesn't seem to be a reason to curb the issuance of such securities.

Consequence of not surrendering warrants?

Company shall convert the such warrants into dematerialised form and transfer the same to IEPF after 27th April 2024.
(Procedure yet to be rolled out)