

**GOVERNMENT OF INDIA
LAW , JUSTICE AND COMPANY AFFAIRS
LOK SABHA**

STARRED QUESTION NO:261
ANSWERED ON:21.03.2002
Abuse and Misuse of Preferential Allotment
DR. KIRIT SOMAIYA

Will the Minister of LAW , JUSTICE AND COMPANY AFFAIRS be pleased to state:

- (a) whether promoters are making preferential allotment at the lower rate and selling it in the open market when the market is high;
- (b) whether this route has been misused in the present capital market scam;
- (c) whether this route is also being misused to make preferential allotment to foreigner acquirer ;
- (d) whether the department has received the complaints and suggestions from the Members of Parliament and Investors` Association;
- (e) if so, the findings and observations of the department in this regard; and
- (f) whether the Ministry is considering amending the law to stop the abuse and misuse of preferential allotment system?

Answer

THE MINISTER OF LAW, JUSTICE AND COMPANY AFFAIRS (SHRI ARUN JAITLEY)

(a) to (c) Companies can make preferential allotment by passing a Special Resolution of shareholders u/s 81

(1A) of the Companies Act, 1956 and in compliance with conditions imposed by SEBI such as minimum pricing, disclosure to shareholders and lock in of shares allotted on preferential basis, if they desire to seek listing at Stock Exchanges. Companies have been making such preferential issue to persons including overseas entities. There are no restrictions on sale of shares by the preferential allottees in the open market other than lock-in requirements.

(d) to (f) SEBI/DCA have received queries/suggestions from Members of Parliament. SEBI has strengthened the guidelines for preferential issues in August 2000 inter-alia stipulating that preferential shares are eligible for listing only if disclosures specified in the guidelines are made, the shares are locked in and the consideration is fully paid up on allotment.