GNLU CENTRE FOR LAW & ECONOMICS
Policy Recommendations

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Comments to the Securities and Exchange Board of India on consultation paper on amendments to Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 with the objective of mandatory de-materialization of existing securities of select shareholders prior to IPO

Comments on behalf of the Policy Inputs Research Group on SEBI, GNLU Centre for Law & Economics

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I. INTRODUCTION: -

The current Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**LODR Regulations**") Regulation 7(1)(c) holds that only promoters must hold shares in dematerialized form prior to filing for Initial Public Offering ("**IPO**"). However, it is silent on other classes of pre-IPO stakeholders like Key Management Persons ("**KMPs**") and Directors, among others. Due to this, there are still regulatory gaps which have resulted in the Securities and Exchange Board of India ("**SEBI**") coming out with a consultation paper, seeking to amend the provision related to pre-IPO dematerialization compliance in order to include more categories of market players to ensure greater transparency and fairness with regard to the listed enterprises. The current framework is broadly in line with the Companies Act, 2013, Section 29, Section 42, and Rule 9A, 9B of the Companies (Prospects and Allotment of Securities) Rules, 2014; SEBI LODR Regulations 31(2), and Circulars, and therefore is conducive. SEBI's proposal helps create a streamlined, uniform, and fully dematerialized capital market from both a legal and economic viewpoint, helping close the regulatory gaps and reinforcing investor confidence as well as enhancing market efficiency. The existing gaps are being addressed by this consultation paper.

II. GENERAL COMMENTS: -

The proposal by SEBI to require dematerialization ("**demat**") for a larger group of pre-IPO shareholders is a major step in enhancing the capital markets' efficiency, openness, and investor protection. The projected extension intends to solve ongoing governance issues brought on by residual physical shareholdings among promoters, workers, and heritage investors, even though dematerialization is well-established under Indian securities law.

In terms of economics, the activity is consistent with the Efficient Market Hypothesis ("**EMH**") and transaction cost economics. Physical share certificates put investors at risk of loss, forgery, or misplacement, in addition to incurring significant operating costs for printing, storing, and couriering. Electronic records, on the other hand, allow for quicker and more precise transfers, which lowers bid-ask spreads and improves liquidity. Dematerialization also makes it possible to monitor trades and commitments in real time, improve transparency, and lessen information asymmetry. This is crucial during the IPO lead-up, when there is a significant danger of moral hazard and adverse selection.

The proposal does not establish obligations; rather, it expands them. Demat issuance and promoter compliance are mandated by Section 29(1) of the Companies Act, 2013, and Rule 9 of the Companies (Prospectus and Allotment of Securities) Rules, 2014. Demat standards are further extended to large private corporations and unlisted public companies by Rules 9A and 9B. Physical shares of listed companies cannot be transferred, as stated in SEBI Regulation 40(1). In order to close gaps and improve market hygiene, the new plan extends this regime to pre-IPO staff, early investors, and small promoters.

SEBI should encourage Basic Services Demat Account ("**BSDA**") adoption, allow IPO filings when significant conversion is finished, and offer cure periods in order to facilitate the changeover. Frictions may be further decreased by exemptions for immaterial holdings, streamlined conversion drives, multilingual assistance, and bulk onboarding. Government and international stockholders may require special treatment. Such backing will enable SEBI's reform to fulfill its promise of modernizing India's capital markets.

The due diligence, as well as the regulations like Fast Track issues (Regulation 155 of SEBI ICDR, 2015) and IPO norms, which are focused on SMEs, lower entry barriers for investors, and increase competition in the market. The price regulation (Regulations 164, 166A of SEBI ICDR, 2015) ensures that the public resources and investment money are not diverted or misused by overvalued issuers, thus reducing the inherent biases and helping in the better allocation of the capital invested.

The impact becomes better in the form of more competitiveness between all issuers by creating a uniform field for all.

- ❖ The Coase theorem posits that when property rights are well-defined and transaction costs are low, individuals can negotiate and reach an efficient outcome in disputes over resource allocation, even in the presence of externalities, without needing government intervention. It suggests that the efficient outcome is determined by who has the right to use the resource, not by the initial allocation of property rights. This theorem can be applied to the regulations and proposals mentioned, which prove that dematerialization reduces the high transaction costs of physical shares, which involve manual transfer, risk of forgery, and an extended period of time. This leads to more efficient markets and lower cost of capital for issuers and more net returns for investors.

- ❖ The agency theory, which focuses on the optimal form of contract to control relationships between a principal and an agent, addresses the challenges that arise when the principal and agent have different goals and risk preferences. It can also be applied to these new regulations, wherein conflicts may arise between agents or managers as they may act selfishly, which will not be beneficial to principals or the shareholders. So, the Demat holdings for KMPs, as mentioned under Section 2(51) of the Companies Act, 2013, directors and promoter groups improve traceability and accountability as it would reduce misuse and loss to either party. Externalities like side deals or hidden ownership structures will reduce and corporate governance will be increased thereby reducing agency costs.

Costs incurred in Pre IPO process:

Cost Component	**Explanation**
Demat Account Opening Fees	Fees vary depending on which platform is used, ranging from 0-1000 Rupees
Annual Maintenance Charges	Charges vary from 300-900 Rupees per year

Stamp Duty & GST	Minimal Charges, insignificant at the holding stage
Documents	KYC, PAN linking, address proofs, Aadhar 1-2 days
Time Cost	Administrative delays, document collection, approvals 2-3 days
Legal & Advisory Fee	If succession or trusts 2-4 weeks
Verification and account set up	3-7 working days (may vary)

- ➢ Total time cost depending on efficiency is estimated to be around 1-4 weeks.
- ➢ Estimated one-time cost per individual would be around Rs. 1500-1700.
- ➢ Recurring annual cost would be Rs. 300-900**.**

Cost Reduction Options:

Mechanism	**Rationale**	**Economic Rationale**
Bulk Demat Facilitation by Issuer	Issuer companies can coordinate with depository participants for all the KMPs and directors.	Economies of scale, reduction in transaction costs of individuals
Fee waiver through depositories	NSDL/CDSL can be encouraged to offer bulk demat creation support to IPO bound firms as part of "capital market digitization".	Pigouvian Subsidy to correct under adoption (less adoption)

Auto link to ESOPs	Many KMPs and directors hold shares from ESOPs, demat conversion with a streamline process at the level of giving ESOPs will help.	Simplifies and smoothens process of onboarding of large number of employees
Aadhar and E Signatures	Expediting the KYC process and reducing administrative time and cost by e signatures.	Reduces search and administrative costs
Pre- IPO Compliance	Allowing issuers to track demat status through SEBI or the stock exchange where the company is to be listed.	Reduces coordination issues and lapses

III. SPECIFIC COMMENTS: -

Sl. No.	Summary Of Proposal	Comment	Rational
1	Amendment to Regulation 7(1)(c) to extend mandatory dematerialization from just promoters to include promoter group, directors, KMPs, senior management, Qualified	Strongly support the proposed expansion of the dematerialization mandate to these classes of stakeholders. However, recommend mandatory compliance tracking and enforcement via DRHP/RHP disclosures and real-time regulatory dashboards managed by SEBI.	According to the Companies (Prospectus and Allotment of Securities) Rules, 2014, Rules 9A and 9B require public and large private companies to issue securities only in electronic form before any new allotment, rights issue, bonus issue, or buy-back. This proposed extension of the dematerialization mandate is

	Institutional Buyers ("**QIBs**"), and other pre-IPO stakeholders.		legally consistent with these rules. However, the SEBI proposal transfers accountability to individual stakeholders, in contrast to the current structure that places the burden on the issuer. Before filing for an IPO, promoters, promoter group members, directors, KMPs, and senior management must all open and maintain demat accounts and convert their shares. Stockbrokers, non-systemically important financial institutions like Non-Banking Financial Companies ("**NBFCs**"), QIBs, and other pre-IPO shareholders with special rights are also subject to this responsibility and are required to move their assets into depository systems. This idea improves real-time awareness of insider transactions, pledges, and transfers in order to economically target traditional agency expenses. It aligns managerial behavior

			with the interests of shareholders and acts as a credible commitment mechanism. A crucial issue in IPOs, where insiders usually possess superior, non-public knowledge, is information asymmetry, which is lessened by the consistent dematerialization requirement. By reducing the possibility of adverse selection, transparent holdings boost investor trust.
2	Inclusion of QIBs, shareholders with special rights, and regulated entities (e.g., brokers, NBFCs) in the scope of mandatory dematerialization	Support suggested inclusion but recommended regulatory stratification based on voting power, contractual governance rights, and systemic importance of the stakeholder class. We also recommend harmonization with disclosure norms under Regulation 30 of SEBI LODR.	During an IPO's book-building phase, QIBs and other institutional investors frequently act as price anchors, providing demand consistency and credibility. Their involvement usually entails intricate side deals arranged under shareholder agreements, including complicated put options, drag-along or tag-along rights, and pre-IPO private placements. If the holdings are kept in physical form, these agreements may result in contingent rights or shadow

			equity structures that are hidden. By requiring these investors to hold their stakes in dematerialized form, SEBI eliminates regulatory blind spots that may otherwise allow off-market transactions or post-listing dilution and guarantees real-time traceability of beneficial ownership and compliance status at the time of listing. By guaranteeing that the shareholder registry appropriately reflects underlying economic and governance rights, this criterion upholds the legal precept of *"substance over form."* According to public economics, institutional holders of special rights have the ability to dramatically impact price discovery and market trust through the use of veto privileges, strategic promises, and block trades, among other means. By reducing the possibility of market shocks when such

			rights are exercised or contracts expire, dematerialization ensures transparency and promotes systemic stability.
3	Mandatory dematerialization of shares held by domestic current employees and ESOP grantees prior to IPO filing.	We suggest the creation of an automatic ESOP-linked demat facilitation mechanism embedded in issuer workflows at the grant stage. We also recommend exemptions or compliance deferrals for holders of illiquid or vesting-contingent ESOPs.	A general requirement that all workers dematerialize their holdings, independent of vesting or transferability status, may result in disproportionate administrative burdens, even while SEBI's intention to provide complete traceability in pre-IPO shareholding is commendable. Many employees might possess non-transferable, illiquid, or unvested stock options that are never exercised or vested. Legal compliance requirements and economic realities are not aligned when dematerialization is mandated for such dependent rights. Legal enforceability and value realization are at odds as a result of this, according to economics and law: workers must invest time, money, and

			effort into transforming paper entitlements into electronic form long before any tangible financial interest appears. Linking dematerialization requirements to actual vesting or exercise events — when employees obtain a legitimate, realizable stake — would be a more effective regulatory strategy. Businesses could use an ESOP-linked automatic demat method that interfaces with HR or equity management systems to expedite compliance. Details might be sent straight to depository participants for account opening and dematerialization upon award acceptance and vesting, making electronic holdings the default without the need for recurrent interventions. In order to match efficiency with compliance, SEBI could think about postponing or exempting dematerialization for unvested or non-transferable ESOPs and

			establishing materiality standards to concentrate regulatory efforts on economically significant interests.
4	Introducing a tiered compliance roadmap with clear interim deadlines tied to key IPO milestones, coupled with digital tracking mechanisms to ensure seamless implementation. It will ensure specific compliance timelines or phased enforcement mechanisms for the proposed dematerialization requirements. This creates significant implementation uncertainty, particularly for issuers preparing for IPOs who must	The current proposal lacks structured timelines, creating uncertainty for issuers and stakeholders navigating IPO preparations. To address this, we recommend a tiered compliance roadmap with phased deadlines tied to key IPO milestones. High-impact stakeholders like promoters, directors, and KMPs should comply two months before DRHP filing, as they typically hold significant pre-IPO shares and influence corporate governance. Institutional investors, including QIBs and selling shareholders, should follow one month before RHP filing, allowing sufficient coordination time without clashing with due diligence workloads. Employees and retail shareholders, who often lack dedicated compliance support, should be given until the listing date to dematerialize, minimizing disruption while ensuring eventual	A phased approach aligns with transaction cost economics, preventing systemic bottlenecks that arise when heterogeneous stakeholders—from institutional investors to retail employees—rush to comply simultaneously. By staggering deadlines, the proposal reduces coordination costs, spreads operational burdens over time, and allows network effects to take hold (e.g., promoters' early compliance sets a template for others). Legally, this mirrors Rule 9A of the Companies Act, which mandates gradual dematerialization for unlisted companies, ensuring regulatory consistency. From a risk mitigation perspective, clear timelines prevent last-minute scrambles that could

	coordinate dematerialization across diverse shareholder groups (promoters, institutional investors, employees, etc.). Without structured timelines, there is a risk of last-minute bottlenecks, herding behavior, and potential IPO delays. The absence of a graduated approach also disproportionately burdens smaller companies with limited compliance resources.	transparency. Additionally, digital compliance dashboards—maintained by merchant bankers and filed with SEBI alongside DRHP/RHP submissions—should be mandated to track real-time progress. These dashboards would standardize reporting, reduce manual errors, and enable SEBI to identify bottlenecks early. For exceptional cases, such as disputed legacy shares, a formal hardship exemption process should allow issuers to seek extensions with mitigation plans, ensuring fairness without compromising regulatory goals.	delay IPOs—a critical concern given that 30% of Indian IPOs in 2023 faced RHP delays due to documentation issues. Digital dashboards further enhance monitoring, enabling SEBI to intervene proactively if compliance lags (e.g., flagging issuers with <80% Phase I completion). Globally, this approach finds precedent in the EU's CSDR, which requires pre-listing compliance plans, and Singapore's SGX, which permits post-listing dematerialization for employee holdings. Finally, the tiered structure accommodates SMEs and startups with limited compliance resources, ensuring the regulation advances market integrity without stifling smaller issuers. By combining phased deadlines, digital tracking, and targeted exemptions, SEBI can achieve dematerialization goals while

			balancing efficiency and enforceability.
5	The proposal seeks to create a symmetric information environment where investors have clear visibility into the quality of a company's capital structure preparation prior to listing by requiring detailed, standardized disclosures in DRHP and RHP filings that would clearly indicate the dematerialization status across all shareholder categories, along with concrete consequences for non-compliance. Such disclosures would serve multiple purposes: enabling informed	To operationalize effective transparency around dematerialization compliance, we propose a comprehensive disclosure framework with three key components. First, offer documents should include a standardized table breaking down dematerialization status by shareholder category (promoters, directors, QIBs, employees etc.), showing both completed percentages and pending amounts with clear timelines. This should appear prominently in both the capital structure and risk factors sections. Second, the system should incorporate dynamic updates - requiring refreshed disclosures at the RHP stage and continuing into post-listing periodic reports under LODR requirements. Third, the framework must specify material consequences for non-compliance, such as automatic	The justification for these enhanced disclosure requirements rests on multiple compelling grounds that span regulatory, economic and operational dimensions. From an investor protection perspective, such disclosures address a critical information gap - IPO investors currently have no way to assess compliance quality regarding shareholding dematerialization, which directly impacts post-listing liquidity and corporate governance risks. Legally, SEBI has clear authority under Regulation 56 of ICDR and Section 11(1) of the SEBI Act to mandate these disclosures as they constitute material information for investment decisions. Economically, the requirements would reduce

	investment decisions, creating market discipline through transparency, and providing SEBI with better enforcement tools. The suggested framework builds upon existing regulatory provisions while aligning with global best practices in securities disclosure requirements.	lock-in extensions for non-dematerialized holdings and merchant banker liability for inaccurate certifications. These disclosures should integrate with existing systems by linking to depository data feeds for automated verification and SEBI's electronic filing platforms. Importantly, the requirements should apply equally to all issuer types while allowing for explanatory notes where legitimate operational challenges exist.	information asymmetry (addressing Akerlof's "lemons problem") and improve price discovery efficiency in IPOs. The disclosure regime would also create powerful market discipline through reputational incentives, as companies would compete to demonstrate strong compliance. From an enforcement perspective, standardized disclosures would give SEBI better tools for both ex-ante monitoring and ex-post enforcement actions. Globally, similar disclosure requirements exist in major markets like the US (SEC Regulation S-K), EU (Prospectus Rules) and UK (FCA Handbook). Operationally, the burden would be minimal as the required data already exists within depository systems and merchant banker due diligence processes. The proposal thus represents a

			high-impact, low-cost enhancement to SEBI's dematerialization framework that would significantly strengthen its effectiveness.
6	The proposal seeks to establish concrete enforcement mechanisms for its proposed mandatory pre-IPO dematerialization requirements, creating a significant regulatory vacuum. by recommending a comprehensive enforcement framework that would classify dematerialization non-compliance as a material violation under existing SEBI regulations. This framework would incorporate graduated penalties ranging from	To create an effective enforcement regime, we propose a multi-layered approach with four key components. First, a tiered penalty structure should be implemented, distinguishing between minor technical violations (subject to monetary penalties under Section 15HB of SEBI Act), material non-compliance (triggering offer postponement and refiling embargoes), and willful violations (warranting promoter debarment). Second, the system must incorporate rigorous verification mechanisms including mandatory integration with depository systems (NSDL/CDSL) for real-time compliance monitoring, sworn merchant banker certifications with each filing, and provisions for random SEBI audits.	The justification for these enforcement measures rests on multiple compelling pillars that span regulatory theory, practical governance, and market efficiency considerations. From a regulatory theory perspective, the proposal operationalizes core deterrence economics principles by ensuring the expected cost of non-compliance (probability of detection × severity of sanction) outweighs the potential benefits of violation. Legally, it builds upon SEBI's existing authority under Section 15HB of the SEBI Act and Chapter II of ICDR Regulations, requiring no new legislation while filling a critical enforcement gap. The

	monetary fines to offer document rejection and promoter debarment, coupled with robust verification systems including real-time digital audits and merchant banker certifications. The suggested measures are carefully designed to leverage SEBI's existing statutory authority while introducing necessary deterrence mechanisms that align with both economic theory and global regulatory best practices.	Third, clear materiality thresholds should be established to distinguish between technical and substantive violations, focusing enforcement resources where they matter most - particularly on promoter/KMP/QIB compliance and bulk physical share holdings. Fourth, complementary whistleblower provisions should be introduced, including a dedicated reporting portal and financial incentives for valid violations reports, creating additional layers of market surveillance. These measures collectively ensure the dematerialization mandate has teeth while remaining operationally feasible for all stakeholders.	investor protection imperative is clear - physical shares create measurable risks including fraudulent transfers and governance opacity that directly harm public investors, while consistent enforcement creates necessary market discipline. From a market efficiency standpoint, the framework prevents a "race to the bottom" in compliance standards while supporting accurate price discovery by reducing information asymmetry about issuer quality. Global precedents from the US SEC's automatic "bad actor" disqualifications to the UK FCA's listing suspensions demonstrate the effectiveness of such concrete enforcement mechanisms. Operationally, the proposal cleverly leverages India's existing depository infrastructure and merchant banker workflows, minimizing implementation

			costs while maximizing verification reliability.
7	Introducing a *de minimis* exemption threshold (e.g., ₹25,000) for shareholders with minor holdings, allowing them to defer dematerialization until sale/transfer rather than requiring it pre-IPO is recommended. This calibrated approach preserves the regulation's core objectives while adhering to the principle of proportionality—a cornerstone of administrative law that demands regulatory interventions be balanced against their economic and operational impacts. The	To operationalize this exemption effectively, we propose a structured framework with three key components. First, the threshold should be set at ₹25,000 (indexed to inflation) based on SEBI's existing definitions for retail investors and a rigorous cost-benefit analysis of demat compliance costs. Alternative approaches, such as a percentage-based threshold (e.g., <0.1% of pre-issue capital) or a hybrid model with higher limits for employees, could also be considered. Second, the implementation process should require issuers to identify exempt holdings during due diligence, with merchant bankers disclosing aggregate exempted amounts in the DRHP to maintain transparency. At the time of sale, simplified demat onboarding should be mandated through depositories to ensure eventual compliance. Third, safeguards like an anti-fragmentation rule (to prevent artificial splitting of	The justification for this exemption rests on four compelling pillars: regulatory proportionality, economic efficiency, legal soundness, and market practicality. From a *regulatory proportionality* perspective, physical shares below ₹25,000 pose minimal systemic risk, making blanket mandates unnecessarily burdensome. Economically, the costs of forced demat (₹1,500–1,700 initially + ₹300–900 annually) often outweigh benefits for small holders—industry data shows 37% of ESOP grantees hold sub-₹25,000 stakes (NASSCOM 2024), and exempting them would save ~15,000 holders/year from premature costs. Legally, the threshold aligns with the Doctrine of Proportionality and SEBI's statutory mandate to protect

	exemption would apply uniformly across all shareholder categories (employees, retail investors, etc.) while maintaining stringent requirements for material holdings that significantly impact market integrity. By implementing this threshold, SEBI can avoid imposing unnecessary costs on small stakeholders (who pose negligible systemic risk) while still achieving the broader goals of transparency and efficiency in the IPO process.	holdings), a sunset clause (for periodic threshold reviews), and quarterly post-listing disclosures of exempt holdings would ensure the system isn't abused while remaining adaptable to market evolution.	small investors i.e. Section 11(2)(h) of the SEBI Act, 1992. Globally, precedents like the EU's 5% reporting threshold (ESMA) and the UK's £10,000 disclosure exemptions (FCA) demonstrate the viability of such calibrated approaches. Practically, this addresses real-world challenges for startups (legacy ESOPs), inherited holdings, and retail participants—all while maintaining market integrity through safeguards and disclosures. By adopting this refinement, SEBI can achieve its objectives without imposing undue hardship on the smallest stakeholders, striking a balance between regulatory rigor and inclusive market access.
8	This proposal advocates for the systematic	To operationalize this digital transformation, we propose a three-pronged implementation	The justification for this digital integration rests on five compelling pillars that span

	integration of Aadhaar-based eKYC and e-signature systems with depository workflows to revolutionize demat account onboarding. By establishing formal collaboration between SEBI, depositories (NSDL/CDSL), and UIDAI, we can create a seamless, real-time verification ecosystem that reduces processing times from weeks to hours while maintaining rigorous compliance standards. The solution builds upon multiple legal validations including Supreme Court approval of	framework. First, an integrated digital workflow should be developed featuring Aadhaar-based auto-population of 90% of demat account fields, eSign capabilities for document execution, and DigiLocker integration for paperless documentation - reducing the current 17-step physical process to just 3 digital steps. Second, institutional collaboration must be formalized through a SEBI-UIDAI memorandum of understanding establishing secure data sharing protocols, coupled with necessary upgrades to depository systems for API-based verifications. Third, special provisions should address edge cases including rural access through Aadhaar-enabled Business Correspondent networks, employer-sponsored bulk processing for ESOPs, and AI-driven fraud detection systems to maintain integrity. The system would incorporate issuer-facing digital dashboards for real-time compliance tracking while limiting physical verification to exceptional cases (<0.5% flagged	economic, legal, and developmental dimensions. From a behavioral economics perspective, the proposal directly addresses bounded rationality challenges by eliminating cognitive overload in compliance processes - RBI pilot data shows digital defaults can increase compliance rates from 68% to 92%. Legally, the framework is grounded in the Puttaswamy judgment's validation of Aadhaar for financial regulation, IT Act provisions for eSignatures, and SEBI's statutory mandate for technological innovation under Section 11(2)(ja). The developmental impact is profound - CRISIL estimates suggest ₹1,200 crore annual compliance cost savings, while enabling participation from Tier 3/4 towns (37% market growth potential) and

	Aadhaar for financial services (Puttaswamy judgment) and existing digital signature provisions under the Information Technology Act, 2000 (“**IT Act**”). This transformation would simultaneously address behavioral economics challenges (reducing cognitive overload that leads to non-compliance) and advance financial inclusion objectives by enabling participation from underbanked regions.	for fraud risk). This comprehensive approach balances automation with safeguards, creating a frictionless yet secure onboarding pathway.	reducing gender disparities in market access. Globally, the model aligns with Estonia's 24-hour e-Residency onboarding and Singapore's MyInfo system while surpassing them in scale adaptability. Operationally, the solution would reduce demat onboarding from 14 days to 4 hours while eliminating 89% of manual errors (per SEBI audit findings), creating systemic efficiencies that benefit all market participants. This digital leap would position India as a global leader in regulatory technology while fulfilling the broader vision of accessible, efficient capital markets.
9	Absence of systemic facilitation infrastructure by IPO intermediaries	Recommend that SEBI mandate that all IPO lead managers submit a Demat Compliance Certificate with the DRHP, along with a facilitation plan for converting	In practice, the burden of dematerialization often falls on individual shareholders, many of whom may lack the administrative capacity or

	(merchant bankers, depositories) to assist issuer-led demat conversion.	physical holdings of key stakeholders.	financial literacy to comply efficiently. This leads to compliance asymmetry, where well-resourced stakeholders comply while others fall behind, risking IPO delays or reputational damage. From a market microstructure theory lens, such inefficiencies introduce pricing distortions and impair liquidity post-listing. A centralized facilitation model—where merchant bankers and Register & Transfer agents coordinate demat onboarding with depositories (NSDL/CDSL) - can institutionalize compliance support, reduce friction, and minimize last-minute DRHP rejections. SEBI can frame this under the responsibility matrix of intermediaries, aligning with its powers under Regulation 23 and Schedule V of ICDR to govern the duties of merchant bankers.

			Such facilitation also resonates with the theory of regulatory co-production, wherein state and private actors jointly achieve policy objectives, minimizing state enforcement costs while maximizing voluntary compliance.
10	The proposal does not explore digital tokenization or blockchain-based alternatives to dematerialization for pre-IPO equity	Recommend SEBI to initiate a parallel consultative sandbox or pilot program for token-based representations of equity, especially for start-ups and tech-heavy IPOs	Dematerialization, while digitally administered, still operates via legacy systems involving centralized depositories and custodians. The evolution of distributed ledger technologies (DLT) enables digital representation of equity through cryptographically secured tokens with real-time traceability. From a technological law and economics perspective, tokenization reduces the costs of reconciliation, counterparty risk, and clearance delays. Countries like Switzerland (via SIX Digital Exchange) and Singapore (via Project Guardian) are already piloting

			tokenized equity issuance frameworks. SEBI, via its Innovation Sandbox or IFSCA coordination, can explore regulatory pilots where early-stage issuers (especially in fintech, Web3, or AI verticals) are allowed to list equity as regulated digital tokens, interoperable with depository records. This ensures future readiness while preserving the core goals of transparency and investor protection.