

Law Minister Kapil Sibal clears put and call options in M&A deals

In the second successive signal in as many days to foreign investors about India's willingness to clear hurdles in the way of investment, law minister Kapil Sibal on Wednesday cleared a Sebi regulation which permits put and call options in mergers and acquisitions.

"Yes, I have cleared it and send it to the law ministry," he told ET. He said the move would help investors.

The revised Sebi regulation is expected to be notified soon.

Reacting to the development, Tarun Gulati, partner PDS Legal, said that the move would bring down disputes involving put and call options.

"Put and call options are normal transactions in the M&A sphere, but it was just viewed with suspicion," he said. The change in the law would allay such suspicions, he said.

JSA partner Lalit Kumar described it as a progressive step that will boost M&A activity.

Earlier, market regulator Sebi used to treat such options as spot deliveries or forward contracts. In both the Diageo-United Spirits deal and the Cairn-Vedanta deal, Sebi had insisted that the option be dropped to clear the deals.

But a Bombay High Court ruling in the MCX SX case has clarified that they were not affected by spot deliveries. Then Sebi started treating them as forward contracts.

It will help both listed companies and unlisted public companies, he said.

Sebi in the United Spirits case had insisted that Diageo drop the option before the open offer went through.

Wednesday's decision makes such options enforceable under the shareholder's agreement under the FCRA, he said. "It brings to an end much uncertainty and brings about clarity in the law."

(Economic Times)