

# EY Alert

## SEBI's new measure for Startup Founders

### Executive summary

Subsequent to its Board meeting held on 18 June 2025, the Securities and Exchange Board of India (SEBI) released a Press report no. 33/2025 dated 18 June 2025 (Press Release) approving measures which aim to relax certain requirements and enhance the ease of doing business in the capital markets. One of them is particularly relevant for startup founders.

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## What has changed?

- ▶ According to the Press Release, Founders, who qualify as Promoters at the time of Initial Public Offer (IPO), will now be allowed to continue to hold their Employee Stock Options (ESOPs), which have been granted at least one year prior to filing of draft red herring prospectus (DRHP), even after their companies go public.
- ▶ Previously, Founders, who were granted ESOPs prior to listing and who were classified as 'Promoters' at the time of DRHP filing, were required to liquidate their ESOP holding before the filing, as they were not eligible for ESOPs under the current SEBI Share Based Employee Benefits and Sweat Equity Regulations, 2021 (ESOP Regulations).
- ▶ This requirement was in many cases, against the interests of startup Founders who held sizable ESOPs.
- ▶ These Founders who get classified as Promoters at the time of IPO, can now hold these ESOPs, provided they have been granted the stock options at least one year prior to the DRHP filing.

## Comments

This change is expected to create a more favorable environment for such Founders, facilitating smoother transitions during the IPO process and enhancing overall market dynamics.

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