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# Critical Analysis (M&A): Takeover Code

RITESH PANIGRAHI[1] AND SHASHWAT KUMAR DAS[2]

## ABSTRACT

*The idea of takeover arose in late nineteenth century in certain nations like US, UK and so forth when the principal wave of mergers and acquisitions began. In any case, in India it was distinctly in twentieth century that the idea of takeover born however and still, at the end of the day the idea of unfriendly takeovers was unknown to everyone. This idea arose when Swaraj Paul began endeavors to takeover Escorts Ltd. also, DCM Ltd. He was the principal antagonistic thief between the thieves of Indian securities exchange. In spite of the fact that Paul couldn't prevail in his endeavors on the grounds that the occupants fight him off by utilizing the details of rules administering non-inhabitants yet this made a requirement for the takeover code. This need was additionally complemented in 1990s when public authority started the arrangement of advancement and liberalization which brought about development of Indian economy at an expanded speed, and it's anything but an exceptionally aggressive business climate, which inspired numerous organizations to rebuild their communal techniques by including the apparatuses of mergers and takeovers. Taking into account of the then current conditions, the requirement for few law to direct takeover was emphatically felt. Also to accomplish its goals as expressed in SEBI Act, 1992, SEBI established SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1994 in utilization of forces gave under segment 30 of the Act which set out a methodology to be trailed by a claimant for obtaining larger part shares or controlling in another organization, so that cycle of takeover is completed in a reasonable and straightforward way.*

## I. INTRODUCTION

“I'm buying companies, breaking them into bits and then selling them off, and that's worth more than everything," argues Richard Gere's ruthless corporate acquirer in the famous movie Pretty Woman”. The film reveals he intended to purchase a financially ailing firm via a hostile offer and to remove its assets, totally ignoring the years of hard work that its promoters have spent in the company.[3] In this highly aggressive business environment, it’s obviously crucial

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[1] Author is a student at Student at KIIT School of Law, Bhubaneswar, India.
[2] Author is a student at Student at KIIT School of Law, Bhubaneswar, India.
[3] Somasekhar Sundaresan, "Every decision of the SEBI is appealable" available at <http://businessstandard.com /india/storypage.php?autono=261102>.

for every shareholder in a firm to safeguard its corporate interests from all types of intervention from other parties. Corporate shareholding and corporate ownership are among the most coveted commodities today and globally. States have adopted numerous laws on securities to safeguard stakeholders' interests in a firm. It is generally known that particularly the main aspects of a strong corporate governance system in any nation is the existence of effective and well-managed takeover legislation. The notion of the takeover came into being in various nations such as the United States, UK etc., around the end of the 19th century when the 1st wave of mergers and acquisitions began. The takeover laws of most countries have been adopted, providing for a methodical framework for the purchase of stakeholdings in listed businesses, therefore making sure that the shareholders' interests of listed companies are not affected by the acquisition or acquisition. A key corporate governance principle is the protection of the interests of minority shareholders, which is of further importance for public firms. The highest corporate governance norms and openness should be guaranteed in the Management and operation of enterprises. [4]Public involvement as public shareholders depends on the administration and the suppoters investing in the company. A takeover or tender is when a company or individual offers to sell the owner of another company at a set price. It can be helpful if the board of the purchasing business (the 'target company') supports such a takeover or if the board rejects but offers the shareholders directly to an acquiring company or to people. In the Indian setting, bailouts may also take place in relation to financially shaky enterprises. In the previous decade, fusions and acquisitions ("M&A") have increased by leaps and limitations.[5] There are numerous reasons why it is becoming increasingly popular. This increase is due to the numerous intensity of change that have changed the way business is done. In the previous decade, fusions and acquisitions ("M&A") have increased by leaps and limitations. There are numerous reasons why it is becoming increasingly popular. This increase is due to the numerous intensity of change that have changed the path of business is done. Different arguments for M&A have been proposed. An acquirer might gain from a purchase in several ways. However, it is questionable if M&A activities provide any value to the purchased company itself. The idea of operating synergy postulates that scale and scope economies enable companies to get efficiencies larger than the sum of the combined components. They are also seen as a fast way to handle with major forces of change.

[4] “Monetary Authority of Singapore - The Singapore Code of Take-overs and Mergers” available at <http://www.mas.gov.sg/resource/sic/The_Singapore_Code_on_Take_Overs_and_Mergers_1_April_2007.pdf>

[5] Jonathan Mukwiri “The Myth of Tactical Litigation in UK Takeovers” Journal of Corporate Law Studies Vol. 8 Part 2 p.373 (October 2008). (hereinafter “Mukwiri (2008)”)

## II. The market for corporate control and takeover control

A "corporate control market" 10 might develop in which alternate owners are competing to govern underperforming firms, and shareholders can sell their shares to the top bidders. It has been claimed that such market can lead to better corporate governance if it works successfully.[6] The threat of acquisition is seen as a solution to the "agency issue" by controlling the Management. Although substantial corporate control markets exist in the United States, the United Kingdom and other nations under common law, such is not the situation in mainstream Europe and Japan. It is a booming market in India. Furthermore, others considered this technique of assuring improved governance to be inefficient and costly. Basically, regulating takeovers, obligatory public regulations are probably more socially efficient than private corporate norms. Problems related to antitrust, shareholder interests, mismanagement etc., might arise.[7] Common law regulation aims to place authority to equity owners who carry the right to bear the biggest risk, as has been said, and hold the rights to the company's residual earnings and assets. They are the ideal people who took decision for the fate of the firm as they bear the repercussions. Recent study also shows that adoption regulations provide a social welfare role and emphasise a move from an approach of shareholder preference towards an approach of preference for parties concerned. A system to allow takeover is fundamentally advantageous as it offers management and resource redeployment discipline in the best interest of all stakeholders and society in general over the long run. The way and form of regulation are based on ever more general principles. However, the financial situation, economic rationale, institutional capability and, most all, cultural backgrounds might differ significantly.[8]

**Surveying the legality of legal Institution and validation of Mandatory offers**

Most common-law nations, including Australia, New Zealand, and Hong Kong, have adopted the United Kingdom's takeover law as their general foundation for takeover laws. It has perhaps the most expertise with takeover regulation. The City Code on Takeovers and Mergers (the "City Code") was created in 1968 as a result of the Issuing Houses Association's Notes for Amalgamations of British Businesses released in 1959.[9] Initially it was non-statutory and put forth General Principles that were to be implemented by the Panel in their spirit to achieve the underlying goal. It was administered by the Takeover Panel. The City Code has altered significantly after the European Community enacted the Takeover Directive in 2004, following

[6] P. Vaidyanathan Iyer & George Mathew," New Takeover Code: India Inc May Have To Live With Hostile Bids, (2011) available at http://www.indianexpress.com/news/newtakeover-code-india-inc-may-have-to-liv/824605/

[7] Reena Zachariah, SEBI's Proposed Changes In Takeover Rules To Alter India's M&A Scene, (2011)

[8] Amrish Shah, "Takeover Code Maintains an Even Keel", (2011)

[9] Rajiv Bhuva, "Decoding SEBI's New Takeover Code", ( 2011)

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numerous failed efforts. After several attempts to regulate takeovers, the SEBI, a statutory body created with the goal of protecting investors' interests and developing the securities market, introduced the SEBI(Substantial Acquisition of Shares and Takeover) Regulations, 1997 ("Indian Code") with the goal of protecting smalls The Rules are delegated legislation enacted by the SEBI in the exercise of its rule-making authority under Section 30 of the SEBI Act. Unlike the UK and Singapore Codes, they have a clear statutory foundation. After that, it was changed and altered several times. In Singapore, the Singapore Code on Take-Overs and Mergers ("STC") was enacted in response to Section 139's directives and the Securities & Futures Act's powers under Section 321.[10] The STC underwent significant revisions as a result of the suggestions made in the 1999 Consultation Paper.[11] It is relied on the original UK Model and maintains the non-statutory nature of the UK model. The STC is administered by the Securities Industry Council (SIC). While the rules and their underlying concepts appear to be similar at first glance, the context in which they are applied is what distinguishes them. Considering the Mandatory offers, When one business makes a broad offer to purchase all of the shares, or all of a group of shares, of other company for cash, kind, or a mixture of both of them, it is known as an offer or a bid. When a person is required by law to make such a general offer after acquiring a statutory lowest number of shares (known as the "mandated threshold"), it is referred to as an obligatory offer.[12] The distinction between de jure and de facto control is ignored in an obligatory offer. When a required threshold is exceeded, the holder of the shares is considered to have control, even if he may not. The criterion solely applies to the acquisition of shares; whether or not the acquirer gains control is immaterial. The required bid rule has various reasons, some of which are legitimate and others that are dubious. One of the most important goals is to maintain shareholder equality, ensuring that even small owners have the same chance to sell on the identical terms as dominant shareholders.[13] By market purchases or any other method of preferential allocation, the individual in question cannot acquire shares in excess of the threshold limit. The rule's guiding concept is that regulation must aim to avoid abuse of power. The theory is that a big shareholder has no exclusive right to obtain a higher price for the power he has over the other owners. The threshold for activating the required offer in India is the lowest, at 15%. Regulation 10 forbids a purchase that gives the proprieter more than 15% voting power without a public statement that the acquisition was made in conformity with the Regulations. In 1998, the threshold was raised from 10% to 15%.

[10] The STC Act, (1982), Sec.321
[11] The STC Act, (1982), Sec. 139
[12] K. Venkatasubramanian, “Non-Compete Fees”(2012)
[13] Somasekhar Sundaresan, "Every decision of the SEBI is appealable."

## III. ACQUISITION OF 'TAKEOVER' CODE BY SOME COUNTRIES

The takeover laws of most countries have been adopted, providing for a methodical framework for the purchase of stakeholdings in listed businesses, therefore ensuring that the shareholders' interests of companies listed are not affected by the acquisition or acquisition. The takeover laws guarantee that public shareholders of a business listed in the securities market are treated fairly and fairly in connection with the major purchase or acceptance of a listing firm. Furthermore, the goal of the takeover rules is to guarantee that, in case of a major acquisition or change in control of a listed business, the public shareholders of a firm are obligatorily provided with a departure from the company at the best available terms. The notion of takeover did not emerge in India until the twentieth century, and even then, no one had heard of hostile takeovers. Swaraj Paul came up with this idea after attempting to acquire Escorts Ltd. and DCM Ltd.[14] He was the 1st aggressive raider among Indian stock market raiders. Despite the fact that Paul's attempts were unsuccessful due to incumbents' exploitation of technicalities of non-residential laws to thwart him, the necessity for a takeover code arose. This requirement was heightened in the 1990s, when the government implemented a liberalisation and globalisation policy that accelerated the growth of the Indian economy and created a highly competitive business environment, prompting many companies to reshuffle their corporate strategies by incorporating mergers and acquisitions.[15] The Takeover Code originated with the SEBI Act of 1992, which required SEBI to control significant acquisitions of shares and takeovers through appropriate methods. As a result, SEBI established a legislative framework bypassing the Takeover Regulations of 1994, which took effect on November 4, 1994. Under the supervision of Justice P.N. Bhagwati (the Bhagwati Committee), SEBI formed a committee to examine the takeover laws of 1994 in November 1995. The committee's report was submitted in January 1997.[16] SEBI notified the Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (hereinafter referred to as the "1997 Code") on February 20, 1997, taking into account its suggestions and abolishing the takeover regulations of 1994. As needed, the 1997 Code was updated to reflect changes in the marketplace, regulatory and legal judgments, and developing worldwide norms. A reformed commission led by Justice P.N. Bhagwati conducted a review of the 1997 Code in 2001. In May 2002, the reconstituted Bhagwati committee delivered its report. Further modifications to the 1997 Code were adopted based on the same. It was considered essential to evaluate the 1997 Code in light of the increasing

[14] Jonathan Mukwiri "The Myth of Tactical Litigation in UK Takeovers"(1988)
[15] DAVID J. BERGER," A COMPARATIVE ANALYSIS OF TAKEOVER REGULATION IN THE EUROPEAN COMMUNITY"(1994)
[16] Holmes, "Mergers & Acquisitions"

volume of M&A activity in India, the growing sophistication of the takeover market, the 10 years regulatory experience, and numerous court declarations. As a result, SEBI established the Takeover Regulations Advisory Committee ("TRAC") on September 4, 2009, under the leadership of Mr C. Achuthan, with the mission of examining and reviewing the 1997 Code and suggesting any modifications as needed.[17] SEBI implemented the Takeover Code on October 23, 2011, upon the recommendations of the Takeover Regulations Advisory Committee. The 1997 Code was repealed. SEBI has totally revamped India's takeover system and rewritten the rules of public M&A with the adoption of the Takeover Code. The Takeover Code, in comparison to the 1997 Code, provides a considerably more straightforward, clear, and unambiguous regulatory framework. While the Takeover Code retains the core principles of the 1997 Code, TRAC has also examined worldwide best practices, jurisprudence established by courts and tribunals over time, and the evolving demands of the market to propose a new set of takeover laws. Britain has had the most active EC takeover market for a long time and a well-regarded framework for regulating transactions relating to change. Despite the recent downturn in global takeovers, which had also took place in the UK, the UK is by far the largest takeovers market in Europe.[18] In fact, a series of transactions – notably substantial offers from Hanson for Beazer, BTR for Hawker Siddeley and Abbey National for Scottish Mutual – placed Britain in the forefront of the global merger and acquisition markets throughout the Fall and Winter of 1991. The British system has been generally referred to as a "non-statutory" approach, stressing securities industry self-regulation rather than legal sanctions in particular for breaches of specific legislation. The fines are often levied on both the adventure professionals who advise and help in transactions. Analysis and disclosures before bidding Required Before the bid, Two preliminary difficulties facing a potential buyer are the provision of information on the target prior to the submission of a bid or the bid and the bidder's capacity to purchase shares in the target prior to making a bid public. [19]A considerable quantity of trustworthy financial data must be reported by a publicly listed firm in the United Kingdom as in the United States. For instance, every corporation with shared capital should submit an annual report comprising specific financial data, an annual profit and loss statement and a balance sheet, to which more comprehensive financial information shall be disclosed. The independent auditors of the firm must examine all this financial information, stating that the accounts of the company have been correctly developed and presenting a "true and fair

[17] Krishna Shorewala & Vasundhara Vasumitra, "COMPARING TAKEOVER LAWS IN UK, INDIA & SINGAPORE"
[18] Oishika Banerji, "Takeover of a listed company in India"(2021)
[19] Yogesh Gupta, "A PROJECT WORK IN CORPORATE LAWS SEBI TAKEOVER CODE"

assessment" of the Financial Position of the company. An acquirer may also buy up to 3% of the outstanding share capital of a public business holding voting rights before making disclosures.[20] Once the 3% level has been achieved, the purchaser must divulge this information and make further divulgations within two business days when the share is increased by a single percentage point. The United Kingdom additionally restricts the ability of a bidder to grow its holding of voting stocks over fifteen per cent before the time an offer is made. This limitation is laid forth in the Rules of Procedure on the Substantial Acquisition of Shares ("SARs"), issued and operated by the Takeovers and Mergers Panel, and published as part of the City Code for Takeovers and Mergers ("Takeover Code"). 15 Simply stated, if the acquisitions are added to any existing holding to give the acquirer between 15 per cent and 30 per cent of the voting securities of the company, the SARs forbid any person from claiming, in any 7 day period, shares carrying 10% or more of the voting rights of the company. Over recent years, France has established one of the EC's most active takeover markets and the European continent's largest stock exchange. As the French capital markets grew, French corporations were the leading cross-border acquisitor of EC enterprises both in 1989 and 1990, with over $13 billion in total purchases in 1990 alone. In 1990, there was a long list of significant French acquisition firms, including Renault, LVMH, Elf Aquitaine, Credit Lyonnais and Cie G~nrale des Eaux. During the same period, the Paris stock market ("Bourse") also increased substantially from less than $120 billion in 1987 to more than $190 billion by late 1988 and over $200 billion by 1990. In recent years, France has also seen a number of major modifications in its acquisition rules. The passage of the French first takeover act (law 89-531) and the accompanying rules issued by the two authorities mainly responsible for supervising the French stock markets, the Conseil des Bourses de Valeurs (CBV) and the Commission des Operations de Bourse, were the most significant ("COB").

## IV. CONCLUSION

This article has reviewed briefly the present rules on takeover in different nations and numerous provisions which have evolved in them. The United Kingdom, France, India and Singapore are the nations that have led the EC's proposed takeover directive (and have criticised it) and that are anticipated to have the most important effect on any take over directive finally approved by the EC. Finally, they also having the largest stock exchanges in the EC, and they are all now trying to establish their own as the main exchange. The Takeover Code is a difficulty since it was introduced, and SEBI's attempts to maintain the Takeover Code up to date with the current

[20] STA Law Firm, "Substantial Acquisition Of Shares And Take-Over (SEBI) Regulations 2011 Overview"(2018)

worldwide trends in the public M&A scenario seemed to bring rewards, and this legislation has given much discretion in various nations. These new guidelines are the path-breaking legislation that is changing the world's corporate scenes.

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