FROM FREEZES TO FENCES: RE-ENGINEERING COMMITMENT IN INDIA'S IPO MARKET

– Aditi Anand and Saksham Shivam

Abstract

The 2025 IPO lock-in reforms of India are a major shift in the philosophy of regulation. Traditionally, lock-ins worked as a physical freeze: shares were locked, and nothing could be done with them. This leads to a pledge deadlock, where pre-IPO investors who borrowed on their shares are forced into liquidation to comply, which is counterintuitive to the concept of lock-ins, but SEBI has provided a way to make pledged shares non-transferable, so they are not subject to public trading but could be used as collateral. This freeze-fence change reveals a void in the measurement of lock-in effectiveness, which this essay addresses. This essay contributes in two ways, firstly, it introduces the concept of Commitment Density, which is a measure that not only deals with the length of locking shares, but also with the economic productivity of the shares subjected to locking. Pledged shares indicate greater commitment than unencumbered ones since it has two restrictions; the holder is not able to sell the shares, and may lose the shares to a lender, yet is personally liable; secondly, we formulate the Distributed Commitment Thesis, which shows that the reforms disseminate lock-in commitments among the founders, lenders, and boards, creating a resilient network instead of concentrating the risks of promotion on individual promoters. A comparative analysis of the approaches adopted in France, Germany, and China underscores the distinctive character of the Indian "follow-the-interest" doctrine. The fence in France only serves to indicate bankruptcy. Germany fences nothing at all. China constructed a gateway fence--underwriters employed a share-lending platform to dispose 84.6% of their locked-in exposure in five trading days. The design of India seals these gaps: lock-ins persist when they are enforced, lenders are accidental stakeholders, and it is impossible to hedge because of the non-transferability tag. The conclusion highlights the need for vigilant

regulation of synthetic exposure, collusion, and enhanced disclosure practices.

Table of Contents

Introduction

Take the case of a founder who has mortgaged their shares to fund expansion. When they are ready to go public, they have to lock their shares not less than six months after the listing date. Nevertheless, the depository system cannot, at present, denote pledged shares as locked.[1] This means that compliance requires the loans to be repaid overnight or the shares be sold before the *IPO*. Both options force an early departure and thus, frustrating the aim of the lock-in mechanism. The so-called deadlock over the pledge has its root in a simple incongruity, as lock-ins were designed to be in a world where shares are freely traded, or completely frozen, but not both. The Securities and Exchange Board of India ***(Hereinafter, "SEBI")***, in its *November 2025* consultation paper, has proposed a carefully calibrated solution.[2] Herein, shares pledged under the proposed framework can be labelled as non-transferable ones; hence, they cannot be sold, but they can still be used as collateral. In the event a lender enforces the pledge, the shares would be moved to the account of the lender, but they would remain locked until the maturity of the pledge period.

This essay assumes that the shift between the freeze and the fence is the essential re-conceptualisation of the regulatory commitment. *Part II* of the essay is an analysis of the

[1] Sec. & Exch. Bd. of India, Master Circular for Issue of Capital and Disclosure Requirements, SEBI/HO/CFD/PoD-2/P/CIR/2024/153 (Nov. 11, 2024).
[2] Securities and Exchange Board of India. (2025). *Consultation paper on amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018*. November 13, 2025.

lock-in theory and the pledge deadlock; *Part III* builds the model of Commitment Density to encompass the duration and percentage of lock-ins, in addition to the intensity of pledges; the comparative evaluation of the "follow the interest"[3] doctrine as proposed by *SEBI* and the pledge enforcement regimes in France, Germany, and China is elaborated upon in *Part IV; Part V* discusses Distributed Commitment, bringing lock-ins to the Articles of Association; the reform makes promoters, lenders and boards co-guarantors of corporate stability; lastly, *Part VI* concludes with recommendations.

II. What Are Lock-Ins And Why Did The Old Model Break?

A. The Two Jobs of a Lock-in

There are two regulatory uses of lock-ins, and both of them must be valued to understand the importance of the proposed reform. *First*, signalling: when insiders refrain from selling, they signal belief in the company's prospects.[4] This addresses Akerlof's classic "lemon problem" wherein informed sellers distinguish themselves from low-quality issuers by bearing the cost of waiting.[5] *Second*, commitment: lock-ins reduce moral hazard by preventing promoters from inflating *IPO* prices and exiting immediately. This forced retention aligns promoter interests with long-term performance.[6] Furtermore, cross-market evidence supports these functions. Turkish firms with voluntary lock-ups receive lower valuations, reflecting investor confidence in the signal.[7] In Malaysia, regulatory changes altered how markets interpret retained ownership, with higher stakes signalling quality under the new regime.[8]

B. The Pledge Deadlock

In India, ICDR requires shareholders other than promoters to lock their stakes within six months of the *IPO*.[9] The rule is clear, but it fails to be operationalised. The depositories cannot tag pledged shares as locked-in because the share architecture was assumed to be binary, in that the shares can be free or frozen. Thereby, pledges add a third state which is

[3] *Id.*
[4] Akerlof, G. A. (1970). The market for "lemons": Quality uncertainty and the market mechanism. The Quarterly Journal of Economics, 84(3), 488-500.
[5] Akerlof, *supra* note 3, at 489-90.
[6] Leland, H. E., & Pyle, D. H. (1977). Informational Asymmetries, Financial Structure, and Financial Intermediation. *The Journal of Finance*, 32(2), 371–387.
[7] Serkan Yüksel et al., *The Impact of Lock-up Period on IPO Under-pricing: Evidence from Borsa Istanbul*, 8 Int'l J. Fin. Stud. 1, 12-14 (2020).
[8] Rashid Ameer, *The Determinants of Lock-up Provisions in Malaysian IPOs*, 16 Asian Acad. Mgmt. J. 1, 18-21 (2011).
[9] Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, Gaz. of India, pt. III sec. 4, reg. 17 (Sept. 11, 2018).

unsupported by the infrastructure. This incompatibility creates foreseeable problems as pre-*IPO* investors, particularly private-equity and venture-capital syndicates, frequently borrow against their holdings to fund their operations, maintain liquidity, and first and foremost use capital in the most efficient way.[10] With an *IPO* on the cards, these investors face a quagmire where they either have to pay back their loans and unleash the promises before the listing or sell shares before the *IPO* to raise cash. Both courses compel an abandonment of positions that they would otherwise wish to hold and, thus, are undermining the signalling and commitment benefits which lock-ins are supposedly protecting.

SEBI's proposal is deceptively simple. Instead of making lock-ins and pledges mutually exclusive, it allows them to co-exist by providing a non-transferable tag on shares. The tag excludes the possibility of trading in public, saving the useful fence, albeit it does not prohibit other economic activities. When a lender enforces a pledge, the shares are transferred to the account of the lender, but they are not transferable until the expiry of the lock-in period. Essentially, the commitment moves out of the hands of the holder onto the shares themselves, shifting a strictly physical freeze over to a selective functional barrier. The freeze is a standstill of all activity; the fence is a standstill of only that which is relevant, public trading, and leaves other forms of economic interaction unrestricted.

III. Commitment Density: A Metric for Measuring Multidimensional Lock-In Efficacy

A. Theoretical Foundations and the Limits of Unidimensional Metrics

The standard evaluation of initial public offering ***(Hereinafter, "IPO")*** lock-in clauses has long depended on two variables: on the one hand, the duration ***(Hereinafter, "D"***) and on the other, the proportion of pre-issuance stock exposed to restrictions ***(Hereinafter, "P"***).[11] Based on the signalling and agency costs, this paradigm assumes that commitment is one-dimensional, and therefore the signalling value of a share after locking is determined by time and quantity that is limited. This assumption, however, is becoming less and less viable in modern capital markets, where equity shares are treated as heterogeneous, multipurpose tools. Encouraging pledging of shares, as an additional strength, can be conceptualised as the strength of pledge ***(Hereinafter, "a"***), which is the degree to which insiders add some other economic restraints on top of the statutory lock-in.

[10] Douglas J. Cumming & Sofia A. Johan, Venture Capital and Private Equity Contracting: An International Perspective 412 (2d ed. 2013).
[11] Thomas J. Brau et al., *The Role of IPO Lockups in Concept Firms*, 33 Fin. Mgmt. 31, 33-35 (2004).

Take two promoters whose lock-ins are the same: *D=6* months, *P=60%.* Promoter *A* is free from encumbrances *(a=0).* Promoter *B* has made a commitment of *80%* of locked holdings *(a=0.8).* Existing measures consider them as being equally committed. This ignores the fact that Promoter *B* is under two restrictions, namely the regulatory sale and lender covenants. Default would also lead to enforcing the pledges, which would result in the flow of control, yet the individual responsibility would remain. This higher signal sends more confidence- a qualitative disparity that unidimensional measures are not capable of detecting. Thus, his commitment density is not qualitatively and quantitatively related to that of promoter *A*.

B. Introducing Commitment Density (CD): A Multidimensional Metric

To put this observation into action, we introduce a new and composite measure, Commitment Density ***(Hereinafter, "CD")***. This measure combines both the current measures of lock-in stringency with the new aspect of economic exposure developed through pledging. The formal specification is:

$$CD = D \times (P \times \alpha)$$

Where:

D = Lock-in duration (in months).

P = Proportion of pre-issue capital locked (ranging from 0 to 1).

α = Pledge Intensity: The share of shares, which are locked and are used as the security (between 0 and 1).

The product *(P × a)* is the ratio of the cumulative amount of pre-issue capital that is locked and pledged- the very dense nucleus of the insider stake. This time by duration *(D)* will give a scalar figure representing the time-weighted, multidimensional constraint on the economic interest of the insider.

The financial instinct is evident as the pledge intensity of an insider is high and voluntary relinquishment of a certain degree of control to a third-party monitor (the lender). The act forms an effective matching system. The lender is indirectly interested in the performance of the firm after *IPO* to value its collateral. This makes the lock-in not a waiting process in regulation but a multi-party commitment mechanism.

C. The Market Impact of Commitment Density

Commitment Density yields three testable hypotheses. First, higher *CD* should correlate with lower *IPO* under-pricing, as stronger insider confidence reduces the "lemons" premium and lowers issuers' cost of capital.[12] Second, for any given *D* and *P*, increased pledge intensity *(α)* should predict superior long-term post-*IPO* performance, higher abnormal returns, and lower volatility, because dual constraints are costlier to fake.[13] Third, jurisdictions with follow-the-interest enforcement (like India)[14] will exhibit higher average market-wide *CD* than those where enforcement terminates lock-ins (like Germany), correlating with lower aggregate post-*IPO* volatility and greater market stability.[15]

D. A Cautionary Tale: The Failure of Inconsistent Design in China's STAR Market

The dangers related to the poorly designed, arbitrageable lock-in regime are evidently explained by the example of the *STAR* Market in China. Regulators required underwriters to co-invest with a lock-in period of two years in an attempt to enhance commitment. However, the structure was internally inconsistent: even though they were supposed to be restricted, underwriters were allowed to lend out their shares under the Qualified Stock -Security Repurchase ***(Hereinafter, "QSSR")*** system, essentially hedging their position. According to Wang and He, *84.6%* of these shares were lent out in five trading days, which enabled underwriters to keep up the pretence of having skin in the game but having sold substantive risk.[16] As a result, transaction costs were reduced, but the long-term performance of the issuers did not decrease.

The moral of the story is undisputed, lock-in provisions should be non-arbitrageable. Any device, whether lending, derivatives, or synthetic, allowing the insiders to liquidate economic exposure, thus makes commitment illusory.[17] The application of a "non-transferable mark"[18] by *SEBI* directly addresses the problem because this means that pledged shares can no longer

[12]Anup Agrawal & Nasser Arshadi, *The Pricing of IPOs and Counter-Signalling by Lock-up Periods*, Fin. Rev. 1, 14(2002).
[13] Geeti Sharma, Share Pledging by Promoters in India: Causes and Consequences, 24 J. Emerging Mkt. Fin. 112, 120(2025).
[14] Sec. & Exch. Bd. of India, Master Circular for Issue of Capital and Disclosure Requirements, SEBI/HO/CFD/PoD-2/P/CIR/2024/153 (Nov. 11, 2024).
[15] Stefano Lombardo, *Regulatory Competition in Issuer Rules in the European Union*, Eur. Bus. Org. L. Rev. 1, 22-25(2013).
[16] Jiang Wang & Wei He, *Mandatory Underwriter Co-Investment and IPO Outcomes: Evidence from China's STAR Market*, 78 J. Corp. Fin. 102, 105-108 (2023).
[17] Lucian A. Bebchuk & Jesse M. Fried, *Executive Compensation as an Agency Problem*, 17 J. Econ. Persp. 71, 82-84(2003).
[18] Sec. & Exch. Bd. of India, Master Circular for Issue of Capital and Disclosure Requirements, SEBI/HO/CFD/PoD-2/P/CIR/2024/153, ¶ 14.1 (Nov. 11, 2024).

be lent out, but cannot be moved structurally, such that commitment continues to be substantive, as opposed to acting as a mere window dressing.

IV. How India Compares: A Tale of Three Countries

The above analysis shows that the *2025* reforms in India are fundamental changes in the *IPO* lock-in regulatory regime. Instead of placing the economy under a blanket freeze on physical activity, the reforms establish a selective fence that only limits public trading but no other applications of the locked shares. The question that this transformation provokes, comparatively speaking, is whether the reform is a true regulatory innovation or is it a convergence with the current global practice? This part of the essay answers this question by conducting an analysis of France, Germany, and China, each of which represents a unique combination of creditor protection and market stability. Collectively, these national models develop the lines of India's idea of "follow-the-interest" and prove the assertions of its novelty. This is followed by a description of a comparative framework, followed by an examination of each jurisdiction, and finally, providing a summary of the findings to explain why the special treatment of India is important to the Commitment Density measure developed in *Part III.*

Three questions structure the comparison: (1) When does lock-in continuity apply? (2) When creditor rights and market stability conflict, which prevails? (3) Can commitment be hedged despite formal lock-ins? These dimensions map onto the Commitment Density metric. The jurisdictions where lock-ins are abated on enforcement, where liquidity is dominated by creditors, and where hedging is available will have lower Commitment Density than a regime compared with *SEBI*'s current approach. This hypothesis is put to the test in the analysis that follows.

A. France, Germany, and China: Three Models of Pledge Enforcement

France approximates India's approach, but only in insolvency. Ordinance 2016-56 requires lenders in bankruptcy to hold pledged shares.[19] Outside of insolvency, forfeiture clauses terminate lock-ins upon default. Designed for SME lending, the regime fails *IPO* stability;

[19] Ordonnance 2016-56 du 10 février 2016 portant réforme du droit des contrats, du régime général et de la preuve des obligations [Ordinance 2016-56 of February 10, 2016 on the Reform of Contract Law], Journal Officiel de la République Française [J.O.] [Official Gazette of France], Feb. 11, 2016.

the fence operates only after collapse.[20] Whereas *Germany* is on the other extreme.[21] It may involve judicial enforcement (usually waived); however, lock-ins are not permanent. Immediately, lenders take over, and the limitations dissipate.[22] It is clear on the policy choice; liquidity by creditors takes priority over market stability. Germany thus builds no fence. Additionally, an example of divergent failure is *China*, which had mandatory lock-ins to underwriters along with QSSR lending. Underwriters maintain compliance rights and transfer the risk.[23] China, thus, builds a fence with a gate.

B. What Makes India Different: The Follow-the-Interest Doctrine

Even compared with these three, the design of India turns out to be really unique. The "follow the interest" doctrine of the consultation paper differs from every jurisdiction in all three analytical dimensions. The continuity of lock-ins in India, as opposed to France, does not rely only on insolvency. Regardless of whether the enforcement is due to bankruptcy or mere default, the shares are frozen in the account of the lender till the balance period. The clause on lock-in is clear: "Equity shares shall be locked-in in the account of the pledgee during the balance period of lock-in, in case of the invocation of the pledge."[24] As a result, the fence works in all conditions and not only in case the borrower is already in distress.

Moreover, India does not put the creditor liquidity above the market stability, unlike in Germany. Lenders get forced into long-term involuntary stakeholders and cannot liquidate at once. This balances their incentive system towards short-term recovery to medium-term preservation of value. The policy decision is evident when the market is stable, with the migration of creditor convenience taking a back seat.

Lastly, there is no hedging channel as in China. A share that is characterized as non-transferable cannot be lent out and cannot be involved in an arrangement of the kind of QSSR. The only way of shedding exposure is to hold the share till the lock-in expires. The structure foresees and thwarts the loophole that weakened the regime of China. The only thing that connects these differences is the consistent theoretical approach: commitment is not to the individual, but to the shares in his possession. In the case of locked shares, they are

[20] Pierre-Emmanuel Scherrer, The New French Law of Securities: A General Overview, 13 Eur. Co. & Fin. L. Rev. 244, 251-255 (2016).
[21] Aktiengesetz [AktG] [Stock Corporation Act], Sept. 6, 1965, BGBl. I at 1089, § 71 (Ger.).
[22] Jan-Hendrik Röver, Comparative Property Law and the CISG 184 (2007).
[23] Wang & He, *supra* note 15.
[24] *See* Sec. & Exch. Bd. of India, *supra* note 2, at 6.3.2.

locked irrespective of the possessor, as well as the mode of obtaining them. This is the spirit of the "follow the interest" doctrine. This is a compulsory obligation, and not an obligation of the shareholder.

C. Implications for Commitment Density

The comparative analysis is directly related to the Commitment Density measure wired in *Part III*. As we have seen, the Density of Commitment is computed as: $CD = D \times (P \times a)$, where *"a"* is the intensity of the pledging, that is, what percentage of the shares is in pledge. The validity of this measure lies in the fact that pledged shares result in a greater commitment as compared to the unpledged shares. The relative outcomes indicate that this assumption is correct only in jurisdictions like India, where lock-ins overcome enforcement.

Pledge intensity takes different meanings in France depending on the situation. In the case of enforcement in insolvency, the lock-in is maintained, and the lender is constrained in the same way as the creator of the pledge. On the other hand, in the event of enforcement that is not insolvent, the lock-in is lifted, and the shares are freely traded. Based on this, the correlation between a and actual commitment is contingent and unpredictable. Actual commitment is negatively related to pledge intensity in Germany. The more the percentage of locked shares pledged, the more chances that the enforcement will end the lock-in and bring the shares to the market. Pledged shares are therefore less committed than unpledged shares. In China, the intensity of pledging is unclear since the shares can be literally pledged or they can be lent out under lending agreement arrangements that have the same economic impact but are not encumbered. Pledge intensity in India directly to actual commitment only. The pledged share is more restrictive than the unpledged share due to its dual commitment to regulation lock-in and covenant of lender, and in case of enforcement, the latter do not disappear.

The relative failures clarify the relevance of the design choice by India. The metaphor is true: France builds a fence, which functions only in bankruptcy. Germany is not building any fence. China erects a fence and a gate to which the insiders know how to unlock. India builds a fence that operates everywhere and does not have a gate.

V. Distributed Commitment: Spreading Risk Across Actors

A second dimension operates at the institutional level. By requiring Article of Association amendments, *SEBI* embeds lock-in enforcement in internal governance, binding promoters, lenders, and directors.[25] This individual's network responsibility change modifies the risk profile. Before this correction, anguish in the promoter group would cause a shock in the market. The burden has now been spread amongst several stakeholders.

This burden is diffused among four distinct groups by the new regime. Promoters and founders are still under lock-ins but have the option to borrow against their locked shares, and hence they do not have the forced liquidation dynamic that they used to have. This benefit is also accrued to private equity and venture capital funds; the pre-*IPO* sales no longer need to clear pledges, and thus the signal of institutional backing on which retail investors base their trust is maintained. The lenders take on a new role: when they take a pledge, they end up with the lock-in and become unintentional stakeholders in the performance after *IPO*, having to recalculate their underwriting around medium-term, rather than short-term value conservation. Compliance with Articles of Association is an obligatory duty of boards of directors, which also makes them monitors of last resort.

Thereby, the given distribution will increase system resilience in a manner that the Chinese example highlights. In China, commitment is focused on underwriters who can dispose of it by lending it out.[26] The design of India demands that it sticks to its commitment and turn into the ideal that is impossible to shed and spread the burden among various actors. In case of default of the promoter, the lender takes over the locked shares, and the market does not suffer any abrupt supply shock. When there is liquidity pressure on a lender, the shares are still held, but this is a lender-specific issue and not a market-wide issue; the shock is intermediated before it goes to the trading floor.

In case distributed commitment works as it is described, then three empirical manifestations can be expected. To begin with, the post-*IPO* price volatility in India ought to be reduced compared to similar markets; every other actor tied by lock-ins will reduce the effects of any distress on one actor. *Second*, the promoter's financial distress must provoke smaller price declines;[27] in Germany, a lender sells right after default, in India, the lender retains, and the

[25] Sec. & Exch. Bd. of India, *supra* note 2, at 18-20.

[26] Wang & He, *supra* note 1, at 112.

[27] See Jan-Hendrik Röver, Comparative Property Law and the CISG 184 (2007)

market will be largely unconcerned. *Third*, lending on pre-*IPO* shares ought to be made more sustainable as reflected by reduced default rates and extended loan terms, since lenders must underwrite shares to hold, not to sell. This shift from individual to network commitment redefines market stability: distributed obligations, not concentrated burdens, produce resilience.

Conclusion: Recommendations for Regulators and Companies

The conventional freeze model was sufficient when the shares were only bought or sold. Modern investors use shares as collateral, sources of funds, and balance sheet instruments. A freeze that does not take this dynamic use into account compels premature exits and contradicts itself. The reforms proposed by *SEBI* are cognizant of this fact. *SEBI* transfers the freeze to a fence to establish a framework that exempts shares of the economy from the trading of those shares. There are two concepts that shed light on the importance of this change. Commitment Density shows that not every locked share is the same; pledged shares indicate more commitment as they have two constraints. Distributed Commitment captures the wisdom that the dispersal of lock-in liabilities among founders, lenders, and boards creates a more robust system in comparison to the concentration of risk among promoters. The experience of France, Germany, and China has provided examples of the pitfalls of not following these insights. The design of India can avoid all these failures.

The final success of the reform will depend on future steps. In the case of *SEBI*, it is important to track synthetic structures that bring about pledge economics without its formal encumbrance. The channels of shadow-banking can recapitulate pledge exposure, although the shares are technically free, artificially increasing commitment density. *SEBI* needs to require disclosure of any arrangement that creates economic exposure in the form of a pledge- substance over form. The regulator will also need to monitor collusion; distributed commitment networks would degenerate into cartels that would stifle price discovery instead of providing stability. The Code of Securities Markets 2025 will provide regulators with the means to identify concerted action;[28] *SEBI* must use them. The opportunity for companies goes beyond regulatory minimums. The pledge arrangements should be disclosed in the Draft Red Herring Prospectus as contained in the consultation paper.[29] Firms ought to report on the

[28] Code of Securities Markets, 2025, § 42.3.

[29] Sec. & Exch. Bd. of India, *supra* note 2, at 24-25.

intensity of pledging of their stocks;[30] that is, the percentage of stock that is encumbered, and this ought to be done as a matter of routine. This disclosure would allow investors to compute the density of commitment on their own and would reward the companies whose commitment is denser with greater valuations. The first movers will indicate confidence; others will follow suit.

The road ahead requires vigilance. Synthetic promises, colluding, over-leveraging, and regulatory arbitrage pose real threats. However, the building blocks are good. India is not only reforming the lock-ins, but it is also redefining the meaning of commitment in the open markets. The fence stands. Regulators, companies, and scholars have a duty to make sure that it is a gate-free operation.

[30] Sec. & Exch. Bd. of India, *supra* note 2, at 5.