New IPO Guidelines – Outlook

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An **initial public offering**, or **IPO**, is the first time a company issues shares to general public. Currently an investor desiring to apply for securities in an IPO needs to make a physical application along with a cheque or Application Supported by Blocked Amount (ASBA) mandate to any of the syndicate or sub-syndicate member. Further, all bids above Rs.2 Lakhs are mandatorily using ASBA. ASBA is a facility that allows the money to remain blocked in the applicant's bank account till the shares are allotted, thereby eliminating delays related to refunds of unallocated shares. The funds are transferred only after the allotment and to the extent of allotted shares.

In the existing system, the book building process is around 4-5 days and the shares are listed on the Exchanges after about 12 days of closing of the book building process. This effectively means the allotment/ listing process takes about 16-17 working days. SEBI has been continuously striving to shorten the time duration from issue closure to listing. Towards this end in 2010, the timeline was reduced from 22 days to 12 days.

With a view to to facilitate faster listing of initial public offerings (IPOs), reduction in paperwork, greater participation by small investors and reduce the costs involved in public issue of equity shares, a Group was formed by SEBI in July 2014, consisting of representatives from the Stock Exchanges, Depositories, Registrar & Share Transfer Agents, Merchant Bankers, Stock Brokers, Law firm, and SEBI, to propose a policy framework for using the secondary market infrastructure for primary issuance to achieve the following broad objectives:

- To further reduce the overall post issue timelines from T+12 days;
- To broad-base the retail investor reach across the country for submitting applications;
- To reduce the cost of public issuances

In the secondary markets, settlement takes place on T+2 basis which is facilitated by the efficiencies of the widespread trading network, sophisticated risk management, and clearing and settlement systems. It was, therefore, proposed to utilize the synergies of the secondary market infrastructure for raising capital through public issues.

Accordingly, the broad changes in the existing process flow proposed by the Group were to use the secondary market infrastructure for primary issuance. Some of these were:

- An Investor will be able to submit his application to any registered Stock Broker, DP or RTA with the option of submitting ASBA application to its bank. To start with DP and RTA shall accept only mandatory ASBA applications.
- On receipt of application, the Stock Broker / DP / RTA will have to lodge the application on the bidding platform.
- Once the bid has been entered in the bidding platform by a stock broker, clearing corporation will block 100% funds from the cash collateral of the stock broker. Stock brokers will be advised to receive upfront payment from the investor
- For bids made through Depository Participant and RTA, the application will be forwarded to SCSB for blocking of funds
- For direct ASBA applications, existing process of bidding and blocking of funds by the SCSB shall continue
- Based on the bid file and payment confirmations, Registrars will finalise the basis of allotment.

At the recent meeting of the Board of SEBI held on June 2015, SEBI has issued the norms for companies to launch their initial public offerings (IPOs) in an electronic form, a move that will reduce the time taken between the share sale and the listing, enhance the reach of retail investors in the share sale and reduce costs. The salient features of SEBI's recent guidelines are:

1. **Companies to list in only 6 days as compared to the existing practice of 12 days.** Currently, it takes companies 12 days (T+12) after the IPO is closed to get listed on stock exchanges. These are on account of sorting paper applications, weeding out ineligible applications, crediting the shares to corresponding demat accounts and issuing refunds to unsuccessful applicants. A shift to T+6 will facilitate companies to have faster access to the raised capital and investors to liquidity.
2. **ASBA will be made mandatory for all categories of investors.** ASBA enables investors to give the mandate for payment of application money in the application form itself. As the investor's ASBA account will be debited only to the extent of the amount for which shares are allotted, investors would not suffer any loss of interest and no refunds will be required. Currently most post issue complaints pertain to non-receipt of refund payments. Thus, with ASBA becoming mandatory, refund of money and its associated problems would also be obviated. Further,

it results in substantial cost saving for the company as refunds bankers need not be appointed and also does way with the costs associated with the processing, issue and reconciliation of the refunds.

3. **Depository participants and Registrar & Transfer Agents (RTAs) will also be able to accept IPO applications** both in physical form and electronic form. Right now, only brokers and exchanges can accept applications.

   Currently, all active accounts in the depository are KYC compliant. Thus, based on the demat account number the details of the BO can be prepopulated in the database while making the bid. Thus reducing the time required for manually typing the data.

   Further, both depositories have a wide network of DPs situated across the length and breadth of the country The new rules will therefore help in enhancing the reach of public issues across the country.

4. **The e-IPO norms will be effective from January 1, 2016.**

   The new guidelines will immensely benefit, both, investors and companies. Firstly, the allotted securities are credited into the designated demat account within T+6 days, which provides faster liquidity by allowing an investor to act instantly according to market conditions.

   Companies would have faster access to the capital raised and the issues and costs associated with refund of money like appointment of refund bankers, reconciliation, etc. would be obviated. Further, the reach of the depositories and RTAs will enable issuers to reach out to more investors across the country. These initiatives are expected to have a strong long-term positive impact on the further deepening of the primary market, which augurs well for the future of Indian capital markets.