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Companies may be allowed to delist via fixed price: Sebi Chief

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The Securities and Exchange Board of India (Sebi) is considering allowing companies to delist by announcing a fixed price for shares to be bought back instead of using the current reverse book building process, according to chairperson Madhabi Puri Buch. The regulator is also working on instantaneous settlement of stock market transactions and reviewing the trading plan mechanism for insiders at listed firms. Sebi will release a discussion paper on the delisting process before December.

“Because of the way... it was formulated, and because of the 90% threshold, there is a possibility of misuse,” said the Sebi chief during a press conference on Monday. “Certain operators are experts in delisting shares, we are aware of that. Their business model is to gather 10% or more among their like-minded individuals when there is an anticipation of delisting. And... when the delisting proposal is presented, they extract a higher price. However, that may not always be the fair price.”

‘Positive Development’

Sebi is not the judge of what the fair price should be, Buch clarified.

“But if a certain price has been in the market for a reasonable amount of time (and) only because of delisting, the price is raised to a very high level, that may not be the fair price,” Buch explained. “When we talk about fairness, it should be fair for all parties involved. Secondly, the power still lies with the investor. However, as a regulator, we cannot turn a blind eye if that power is misused and that is the protection we owe to the companies.”

A committee headed by Keki Mistry will review the delisting regulation. The regulator has received feedback from the industry stating that the current reverse book building mechanism has issues. Under this mechanism, shareholders can place bids to sell their shares at a specific price in the offer.

Sebi stated that companies can attempt to set a fixed price, and if that fails, they can opt for the reverse book building mechanism. If that also fails, then they will be given additional time, possibly two to three years, to delist.

The regulator believes that the new proposal will greatly assist companies that wish to delist.

“The move to a fixed price is a positive development and is in line with practices in global markets,” said Mehul Savla, partner at RippleWave Equity Advisors. “The reverse book building process often led to a higher level of speculation as the price bidding and

acceptance or rejection process could result in a significant gain or loss depending on the outcome.”

The technical nature of the mechanism may limit investor participation.

“The complexity of delisting has been a major obstacle to M&A activity in listed companies,” Savla explained. “Historically, slump sale structures have been used to overcome this, but it compromised the interests of minority investors. A simpler framework would promote a higher level of M&A and further develop financial markets.”

In addition, Sebi is considering a review of the rules for corporate disclosures related to insider trading regulations.