"Review of SEBI (DIP) Guidelines 2000- Proposals - Series VIII "

"Recommendations and Suggestions made by the Primary Market Advisory Committee (PMAC)"

[Comments on the recommendations and suggestions may be sent to the Corporation Finance Department, Division of Issues & Listing, SEBI or emailed to Ms.Usha Rangarajan, Manager at ushar@sebi.gov.in, or Ms. Neelam Bhardwaj, DGM, at neelamb@sebi.gov.in or faxed to 91-22-22045633 on or before October 14, 2004]

The PMAC had constituted a subgroup (SG) to review the book building guidelines. Among other issues, the subgroup made various recommendations pertaining to the existing framework of book building.

The subgroup report was also deliberated upon by PMAC. Pursuant to the same, the following recommendations have been approved by the PMAC.

1. Redefining allocation buckets:

At present, in a book built issue Qualified Institutional Buyers (QIBs), Non Institutional Buyers (NIBs) and Retail investors are allotted in the ratio of 50:25:25 respectively. It was observed from the analysis of book built issues done by SEBI that in most of the cases, the NIBs leverage IPO financing and are the maximum sellers in the market as soon as the issue opens for trading.. There was also a possibility of bank/ NBFC financing leading to ramping up of prices on listing.

In order to curb excessive speculation and also in a deliberate effort to increase retail participation, the subgroup recommends reduction in allocation to NIBs and increase in allocation to retail. The sub group recommends the following allocation criteria, which has also been approved by PMAC :

(I) Mandatory Book Building:

(a) where Book Building is being used to satisfy the eligibility norms in terms of DIP Guidelines

- Not less than 35% to retail investors
- Not more than 15% to NIBs
- Not less than 50% to QIBs

(b) Where Book Building is being used to satisfy Rule 19(2)(b) of SCRR 1957

- Not less than 30% to retail investors
- Not more than 10 % to NIBs
- Not less than 60% to QIBs

(II) Voluntary Book building (Where issuer is otherwise eligible in terms of DIP Guidelines and is using Book Building to discover the price)

- Not less than 35% to retail investors
- Not more than 15% to NIBs
- Not more than 50% to QIBs

The above criteria would normally apply to the issues, the exception being undersubscription. In the event of under subscription, the above allocation categories would not apply and there would be full fungibility among categories. The disclosures in the offer document should clearly specify the manner of allocation among categories in the event of undersubscription.

For issues falling under category (I)(b), the allocation to NIBs and retail would be 30% and 10% respectively

2. Redefining retail investor (RII)

The guidelines presently define the RII, in value terms as one who can apply for shares upto a maximum amount of Rs.50,000. It is observed that the said limit is too small, particularly in the context of large size book built issues. It also appears that the small limit is the prime reason for several investors to make multiple applications in order to satisfy their investment appetite. Also the transaction costs are relatively higher for the retail investment capped at Rs.50,000/-.

There is also a need to widen the retail investor base in general and particularly in view of the proposed increase in allocation to retail. In this regard, the SG recommends that a retail investor be defined as one who can apply upto Rs.1 lac in a primary issue. This recommendation has also been approved by PMAC.

3. Reduction in bidding period.

The sub group also deliberated on the issue of the hype surrounding book building. In an open book system the price/bid details received are in public. As a result, there are frequent updates in the media regarding the oversubscription lead to hype. This practice could also mislead potential investors to overbid, quote higher prices as well as induce an otherwise unwilling investor to bid. The sub group opines that while regulating the media reporting was not possible, certain measures could be taken to address the hype and related consequences. One of the recommendation of the SG, which has also been approved by PMAC, is to reduce the bidding period from current 7 – 10 days to 3-7 working days. Further to address the same issue, the SG also recommends that NSE/ BSE should bring more transparency and congruency in reporting of the bid data along with relevant details. This aspect is detailed in next point

4. Data reporting at website of stock exchanges.

The PMAC approves the recommendation of the SG that there should be uniform data display on the websites of both the stock exchanges. The Stock Exchanges should display the consolidated figures for both the exchanges and should ensure that they communicate among themselves to ensure congruency in the data displayed. The first set of data that is displayed about the book should be the consolidated figures of both these exchanges. Anyone further interested in knowing the breakup maybe given the details on clicking further.

The data pertaining to an issue should be displayed on the site for a further period of 3 days after the closure of the bids/issue.

There should be a common book between NSE & BSE. The graph should be separately showing the bids received category wise, preferably in the format as under :

Sr.No	**Category**	**No of shares bid for**	**% of total meant for the category**
1	QIBs		
2	NIBs		
3	RIs		
3 (a)	Cut off		
3 (b)	Price bids		
	All categories		

- The graph should have the title "**Graphical display of bids received**"
- A statement to the effect that the position indicated above is only bids position and does not convey in any way the subscription to the issue. The bids can be revised and/or withdrawn………"
- Clarificatory Notes like
- – QIB category is not required to pay any margins
- – NIBs and RIs have paid 100% margins while giving the bids
- – All the categories can revise the bids till closure of bids
- – QIBs are not allowed to withdraw their bids once made except for the purpose of revising the same.
- Statement as to how the multiple bids/ revision in bids etc are accounted for in the data and graph.

5. Role of discretion

The SG deliberated extensively on the role of discretion granted to the BRLMs as regards the allocation to QIBs. In this regard, the group observed that, as per existing practice, the shares are allocated to QIBs based on various parameters, like prior commitment, investor quality, price aggression, earliness of bids etc. The SG explored various options viz.,

- Doing away with discretion, in which case allocation to QIBs would be proportionate or based on some objective criteria.
- Prior disclosures of parameters in the document and reporting of the allocation done to QIBs, on the request of SEBI

The subgroup observed that the guidelines envisage price discovery by QIBs, because of which, mandatory book building provides for upto 50% reservation in allocation to QIBs. It was also informed that in case of allocation to QIBs, various factors were to be considered including quality of investor, commitment to specific sector, investment objectives, prior track record etc. These factors could vary from one issue to another. As such, exhaustive disclosures of all the parameters would be difficult. In the absence of discretion, any QIB investor, irrespective of quality, investment objectives etc. could get the shares allocated, which arguably may not be in the best interests of the issuer, the market and the investor. The SG also observed that an analysis of the recent book built issues carried out by SEBI had revealed that QIBs are the most stable holders as against NIBs, who exit immediately on listing. The SG opines that while on the one hand objective parameters for QIBs may not be practicable, on the other hand, it is essential to ensure that the discretion granted to merchant bankers, is not misused.

In view of the above, the SG recommends that the broad parameters on which allocation is made to QIBs, should be disclosed in the offer document. The PMAC has also approved the said recommendation.

6. Announcement of Price Band/ Floor Price

As regards announcement of price band, PMAC opined that disclosure of price band / floor price in the Red Herring Prospectus (RHP) / application form be retained, as a matter of price guidance to the investors. This was particularly important in case of an unlisted company in respect of whose shares, there is no secondary market price guidance.

However in case of listed companies, since price guidance is available in form of secondary market prices, the requirement of disclosing the price band in the RHP / application form may be done away with, subject to upfront disclosures in the offer document regarding the following :

i. Advising investors to be guided by the secondary market prices.
ii. Due disclosures stating that the price band / floor price would be announce by the issuer / merchant banker, one day before the bid opens
iii. Mode of announcement whether through advertisement etc.
iv. The name of the specific news papers and websites, television channels etc. wherein the said advertisement would be made.

7. Deletion of redundant provisions in the book building guidelines.

The book building guidelines provide for 75% book building and 100% book building. While 100% book building has been widely used, the 75% book building has been rarely used.

The guidelines pertaining to 75% book building, provides for issue of 75% of the net offer to the public through book building and the balance 25% at the price determined through book building. This results in extension of time, as in the first instance, there is bidding period for price discovery followed by a period of time for which the issue is open to 25% of the public to invest. There are also cost implications on account of different types of forms etc.

The subgroup recommends deletion of provisions pertaining to 75% book building as well as consequential amendments. The PMAC has approved the same.