

## **Proposed Electronic Rights Issue Process and e-trading of Rights Entitlements**

SEBI has recently reduced the timelines for a Rights Issue. SEBI is also looking at further rationalizing the disclosure requirements in the Letter of Offer for a Rights Issue.

While SEBI has taken various steps to simplify/ streamline the rights issue process, it is felt appropriate to also examine various procedures involved in the rights issue, from the perspective of making it electronic, thereby minimizing manual intervention and improving the efficiency of the process.

Right Issues also have the key feature of "rights renunciation". As on the date, there is no platform for electronic trading of rights entitlements. However, it is understood that rights entitlements are presently traded in a physical form. In view of same, a uniform and exchange driven electronic mode for trading of rights entitlement, is envisaged .

A paper outlining the procedure for a Rights Issue as envisaged, for electronic trading of rights entitlement, is placed below.

Comments / suggestions are invited on the proposed process electronic trading of rights entitlements. Comments/ suggestions may be sent to the address mentioned below to Mr Sudeep Mishra, Assistant General Manager, Division of Issues and Listing, Corporation Finance department, Securities and Exchange Board of India, **before September 25,2008:**  
SEBI Bhavan, Plot No: C – 4A, G Block,  
Bandra Kurla Complex,  
Mumbai 400 051.

Comments/suggestions may also be emailed to [sudeepm@sebi.gov.in](mailto:sudeepm@sebi.gov.in) or to **niteshb@sebi.gov.in before September 25, 2008.**

**Paper for public comments on  
Proposed Electronic Rights Issue Process and e-trading of Rights  
Entitlements**

1. SEBI has recently issued revised timelines for right issues. While SEBI has taken the step of introducing reduced timelines, it is felt appropriate to also examine various steps involved in the rights issue, from the perspective of making it electronic, thereby minimizing manual intervention and improving the efficiency of the process.
2. This paper attempts to examine the trading of rights which can be made electronic.
3. Important features of Rights Issue different from a public issue are:
  - Shares are offered to existing shareholders in the first instance as against to public at large (unknown investors) in a public issue
  - Shareholders can renounce their "rights entitlement" (REs) as against no right created in public issue, which can be renounced.
  - Allotment is made based on shareholding as on record date as against "Proportionate allotment" based on application size in public issues.
  - Rights issue application form is different from public issue application form as the former has three parts. Part A deals with application by the shareholders (including request for additional shares), Part B deals with form of renunciation to be filled in by the shareholders who desire to renounce their RE and Part C deals with application by renouncee(s). Also, shareholders can request for split application forms wherein they want to renounce only a part of their entitlement and want to apply for the rest of their entitlement or the shareholders want to renounce their entitlement in favour of more than one person.
  - All details of shareholders on a record date is available with the company, other than those who have purchased RE from the market and become eligible for rights issue subsequently.
4. Among other features, the feature of "right of renunciation" requires special mention. Therefore, any attempt to make the Rights Issue process electronic has to necessarily take into consideration the procedures pertaining to this right.

5. It is understood that the rights entitlement are presently traded in a physical form where a shareholder who does not want to subscribe to his/her RE can sell his/her RE and thereafter the RE keeps on changing hands upto the time specified for the trading.
6. After taking in to account various distinct features of rights issue, the following process of rights issue is envisaged:
  - (A) **Electronic Rights Issue Process** - This process shall apply to shareholders who have an active demat account and hold shares in demat form as on the record date for the rights issue. This process envisages renunciation/trading of RE in electronic form on the stock exchange platform and
  - (B) **Physical Rights Issue Process** - This process shall apply to shareholders who hold shares in physical form as on the record date for the rights issue. This process envisages physical renunciation/trading of RE as per the present practice.

**(A) Electronic Rights Issue Process**

- a. The issuer fixes a Record date to identify eligible shareholders. These shareholders would be entitled to subscribe to the proposed Rights Issue.
- b. The issuer dispatches a letter to each shareholder informing that the rights entitlements have been credited into their respective demat accounts and duration of trading in RE and attaching the Letter of Offer and a Blank Application Form (unlike the present form which has shareholders' name and entitlement printed on it) to all the shareholders on the record date.
- c. The blank application forms shall also be available with the stock exchanges, merchant bankers and brokers. Further, soft copy of the same shall be available on the websites of the aforesaid intermediaries.
- d. The Registrar, on the instruction of the issuer, shall through credit corporate action, credit the RE in the given ratio into the demat accounts of the eligible shareholders (as on record date).

- e. The Rights issue shall thereafter open for (a) subscription and (b) renunciation/trading of RE electronically through the stock exchange platform.
- f. Trading will happen in REs on the secondary market platform of the stock exchanges as it happens in case of ordinary shares. To separate the trading of REs from the trading of ordinary shares, a separate ISIN shall be given for the REs.
- g. Shareholders, who do not want to exercise their RE, can renounce their RE by selling their REs on the electronic trading platform of stock exchanges.
- h. The shareholders who have not renounced their RE and the renounees who don't want to renounce their RE further shall apply for shares against their RE during the issue period (which includes the trading period of RE) by submitting the application form received with the Letter of Offer/downloaded blank application form or by submitting the required information on a blank paper and submit the requisite payment instrument to Bankers to the issue (i.e as per the current practice )
- i. Trading of RE may close at least 3 working days before closure of the rights issue so as to avoid last minute rush in submitting applications and to ensure that beneficial owner of REs have sufficient time to submit an application form. Once trading of REs closes, ISIN assigned to REs shall be suspended.
- j. After the closure of trading and settlement of the trades done, the depositories shall make available the list of RE holders on the date the ISIN was suspended and the list of shareholders on the record date to the Registrar with their respective number of REs.
- k. Thereafter, the Registrar shall reconcile the application by matching the number of shares applied for with number of RE available in the respective demat accounts based on the aforesaid list.
- l. The registrar shall finalise the allotment and thereafter on the instruction of the issuer, credit the rights shares through a credit corporate action, to the respective demat accounts.

m. Thereafter, the Registrar shall through a corporate action, debit the REs from the respective demat accounts for (a) shares allotted and (b) lapsed REs.

**(B) Physical Rights Issue Process**

- a. The issuer fixes a Record date to identify eligible shareholders. These shareholders would be entitled to subscribe to the proposed Rights Issue.
- b. The issuer dispatches the Letter of Offer and Composite Application Form (CAF) with a pre-printed unique no., name of the shareholder and his/her entitlement, to all the eligible shareholders on the record date.
- c. The Rights issue shall thereafter open for (a) subscription and (b) renunciation/trading of RE physically.
- d. The shareholders who have not renounced their RE and the renounees shall apply for shares against their RE during the issue period (which includes the trading period of RE) by submitting the CAF or by submitting the required information on a blank paper and submit the requisite payment instrument to Bankers to the issue (i.e as per the current practice )
- e. Trading of RE may close at least 3 working days before closure of the rights issue so as to avoid last minute rush in submitting applications and to ensure that beneficial owner of REs have sufficient time to submit an application form.
- f. The Bankers to the Issue shall send the CAF/blank paper application to the Registrar.
- g. Thereafter, the Registrar shall reconcile the application form as per the current practice.
- h. The registrar shall finalise the basis of allotment and send the physical share certificates to the shareholders.