भारतीय प्रतिभूति और विनिमय बोर्ड

Securities and Exchange Board of India

DISCUSSION PAPER ON ISSUES PERTAINING TO OFFER FOR SALE OF SHARES (OFS) THROUGH STOCK EXCHANGE MECHANISM

Objectives:

1. To solicit the comments/views from market participants on suggestions pertaining to sale of shares using OFS through stock exchange mechanism.

Background:

2. Prior to January 03, 2012 the mechanisms available for promoters to sell shares included sale of shares in the secondary market, offer for sale of shares to public through prospectus, sale through block deal window and spot delivery under Securities Contracts (Regulation) Act, 1956. In order to provide additional method of achieving minimum level of public shareholding and to ensure transparency, wider participation and quicker settlement, SEBI Board in its meeting held on January 03, 2012 approved sale of shares through secondary market i.e. Offer for Sale through Stock Exchange mechanism as an additional method of achieving minimum level of public shareholding in listed companies. Further, the OFS mechanism was also made available to top 100 companies based on average market capitalization to facilitate sale of large quantity of shares by promoters.

3. OFS mechanism has been found to be useful by market participants and popular for offloading shares of promoters in listed companies. Till date 117 companies have utilized OFS mechanism to offload promoters shares in the market. OFS mechanism has greatly facilitated the speedy disinvestment of

Government of India (GoI) shareholding in PSUs with full transparency and market wide participation. 13 PSUs have utilized OFS mechanism for divestment of GoI shareholding in multiple times.

4. Some of the key features of Sale of shares through OFS mechanism are as follows,

4.1. Promoter and non-promoter shareholder (holding at least 10% of share capital) are eligible to offer shares through the OFS mechanism.

4.2. The OFS mechanism is available to top 200 companies by market capitalization.

4.3. Minimum 10% of the offer size is reserved for retail investors. Seller may offer discount to retail investors. Seller may give an option to retail investors to place their bid at cut-off price in addition to placing price bids.

4.4. Minimum of 25% of the shares offered are reserved for mutual funds and insurance companies subject to allocation methodology. No single bidder other than mutual funds and insurance companies is allocated more than 25% of the size of offer for sale.

<u>Suggestions received from market participants</u>:

5. Suggestions have been received by SEBI on following issues,

5.1. <u>Reduce OFS notice from T-2 days to T-1 day:</u>

- As per the present guidelines, sellers are required to give OFS notice to stock exchange latest by 5 pm on T-2 day (T day being the day of the OFS). Disclosure of floor price is not mandatory. In case seller prefers to disclose the floor price, seller is required to disclose it latest by 5 pm on T-1 day.

- SEBI vide circular dated 08/08/2014 changed the timing of OFS notice from T-1 day to T-2 days when reservation of minimum 10% for retail investors was mandated. The change in the notice was done to ensure that reasonable time of at least one trading day/banking day is available for retail investors to arrange funds to participate in OFS.

- As notice is required to be given on T-2 days, one trading day is available for trading in the stock prior to OFS day. It is pointed out that market starts anticipating OFS floor price as soon as OFS is announced. In anticipation of discount, market participants can short the stocks a day prior to OFS leading to price volatility. Such volatility may affect the price offered by the sellers. Therefore, suggestion has been received to reduce OFS notice from T-2 days to T-1 day.

- On the other hand, suggestions have also been received that notice of one trading day/banking day is insufficient for retail investors to arrange for funds as most such investors may need to liquidate existing investments to raise funds to participate in OFS. It is represented to increase the notice period to arrange for funds which may result in better retail participation.

5.2. <u>Impose price bands on T-1 day along with OFS notice on stocks going for OFS:</u>

- Presently, price bands are not applicable for stocks on which derivative products are available. Therefore there are no price bands in the derivative segment. The price band applicable for stocks which do not have any derivatives products is 20% or below as decided by stock exchange from time to time. Stock exchanges have prescribed smaller price bands of 5%, 10% and 20% based on certain parameters.

- It has been represented that as result of price volatility on T-1 day, i.e. a day prior to OFS, seller may find it difficult to arrive at an appropriate floor price for OFS and price fall on T-1 day may adversely affect sellers interest. Therefore, based on these concerns, it has been suggested that price band may be placed on such stocks the day prior to OFS.

- Generally, imposition of price bands is done to prevent excessive volatility, particularly in illiquid or thinly traded stocks. Price bands are not imposed on some of the most liquid stocks on which derivatives are also available. One of the consequences of price band imposition is halt in trading upon hitting the price band. Trading halt may lead to uncertainty regarding price of the stock.

5.3. Trading halt or suspension of trading of OFS stocks in the secondary market on the date of OFS:

- A concern has been raised that due to volatility in the prices on the OFS day, investor participation in the OFS may be affected. As result of price volatility on OFS day, there may a possibility that secondary market price may trade below OFS floor price and this may impact the sale of shares through OFS.

- In OFS involving disinvestment, quantity offered in the OFS may be substantial and in certain cases it may be higher than outstanding shares available for trading in the stock. This may creates confusion for investors on whether they should participate in the OFS or buy the stock from secondary market, what price to bid and whether they will get confirm allotment etc. Based on the above concerns, the suggestion has been received to have trading halt or suspension of trading for stock going for OFS on the date of OFS.

- In this regard, a IOSCO report dated 2010 on "Effectiveness of Market Interventions in Emerging Markets" states that trading halts can generally be classified in two categories. The most common halt is usually imposed at the request of the issuer for the dissemination of material information. The other is usually imposed by the regulator and/or exchange when there is unusual trading behavior in the market, failure of companies to comply with listing rules or disclosure obligations, or if there is suspicion of fraud or manipulative trading activity in the particular security.

- It is stated in the report that there remains an ongoing debate on the effectiveness and the costs and benefits of halts. It has been observed that trading halts give market participants the opportunity to absorb news and become more informed before trading, while circuit breakers provide investors with a cooling off period to calm fear and panic. Market interventions are also said to provide time for information flow in order to restore equilibrium between supply and demand in the market.

- Conversely, opponents argue that halts are unnecessary barriers to price discovery and do not actually reduce volatility in trading following the lifting of the halt. For example, if fundamental information arrives at the time of the trading halt, the price adjustment process is delayed. This may in turn increase price uncertainty because no information is transmitted through trading when there is a halt. In addition, by preventing investors from trading during a halt, investors may not be able to liquidate their position, if so required by them.

5.4. <u>Keeping OFS on Saturday</u>

- A suggestion has been made in media to have OFS on Saturday. It is suggested that this would obviate need for having trading halt or suspension of trading in the OFS stocks as trading does not taking place on Saturday.

5.5. <u>Option to bid at cut-off price by retail investors</u>

- The OFS mechanism presently provides that seller may give option to retail investors to place price bid or place bid at cut-off price. Recent experience with OFS has shown that some retail investors bid at high prices, on the assumption that they would get allotment at cut-off price. Therefore it is suggested to make it mandatory for sellers to provide option to retail investors to place price bid or place bid at cut off price for better retail participation.

Public Comments

6. In order to take into consideration views of various stakeholders in the OFS process, public comments are solicited on the following issues

    6.1. Appropriate notice period for OFS keeping in mind interest of investors as well as sellers.

    6.2. Need for imposing price band on stock on the day prior to OFS day.

    6.3. Need for halt / suspension of trading in concerned stocks on the date of OFS.

    6.4. Whether OFS should be held on Saturday.

    6.5. Need for providing option to retail investors to bid at cut-off price in all OFS.

7. Comments/ suggestions may be provided in the format given below:-

Name of entity / person / intermediary/ Organization			
Sr. No.	Issues	Suggestions	Rationale

Comments may please be emailed on or before April 18, 2015 to vishalp@sebi.gov.in or sent by post, to:-

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