

Update

VINOD KOTHARI & COMPANY

Listing of IPO norms– SEBI tightens it a bit more

Abhijit Nagee
abhijit@vinodkothari.com

Check at: www.india-financing.com/staffpublications.htm for more write ups.

Copyright:

This write up is the property of Vinod Kothari & Company and no part of it can be copied, reproduced or distributed in any manner.

Disclaimer:

This write up is intended to initiate academic debate on a pertinent question. It is not intended to be a professional advice and should not be relied upon for real life facts.

Update

The Securities and Exchange Board of India (“SEBI”), in order to protect the interests of the investors and to promote the development of and to regulate the securities market has issued the following Circulars:

1. Circular no. CIR/MRD/DP/ 01/2012, dated January 20, 2012¹, with regard to Call Auction in Pre-open session for Initial Public Offering (IPO) and other category of scrips.
2. Circular no. CIR/MRD/DP/ 02/2012, dated January 20, 2012², with regard to Trade controls in Normal Trading Session for Initial Public Offering (IPO) and other category of scrips.

In continuation to Circular no. CIR/MRD/DP/21/2010, dated July 15, 2010³ and Circular no. CIR/MRD/DP/32/2010, dated September 17, 2010⁴, SEBI has now decided to extend Call Auction mechanism to IPOs and scrips.

What is Call Auction?

In the securities market, call auction procedure replaces the method of continuously matching orders. Buyers set a maximum price at which they will buy the shares and sellers set a minimum price at which they are willing to sell the stock shares. Call auctions help to decrease price instability.

Eligibility norms with regard to Scrips as per the directions issued by SEBI vide Circular no. CIR/MRD/DP/ 01/2012, dated January 20, 2012 -

Session duration: 60 minutes (9.00a.m. to 10.00 a.m.)

Order entry time: 45 minutes

¹ http://www.sebi.gov.in/cms/sebi_data/attachdocs/1327052881196.pdf

² http://www.sebi.gov.in/cms/sebi_data/attachdocs/1327052990613.pdf

³ http://www.sebi.gov.in/cms/sebi_data/attachdocs/1287811646071.pdf

⁴ http://www.sebi.gov.in/cms/sebi_data/attachdocs/1287381425430.pdf

Update

Order modification and cancellation time: 10 minutes

Trade confirmation and buffer period to facilitate the transition from pre-open session to the normal trading session: Remaining 5 minutes.

[Note- SEBI had introduced the call auction mechanism in 2010 in the pre-open session on a pilot basis and allowed call auction trading to both BSE and NSE, for 15 minutes before the normal market session to prevent excessive volatility in stock prices and enable price discovery]

The table below summarizes the eligibility norms for both IPO Scrips and Re-listed scrips:

Particulars	IPO Scrips on the first day of trading	Re-listed Scrips
Price Bands	no price bands in the pre-open session	no price bands for re-listed scrips during pre-open session
Market Orders	No acceptance of market orders in pre-open session	No Acceptance of market orders shall in the pre-open session
Matched Orders	For matched orders the provisions of SEBI circulars and letter mentioned at para 1 above shall apply.	For matched orders the provisions of SEBI circulars and letter mentioned at para 1 above shall apply.
Un-matched orders	All outstanding orders will be moved to the normal trading session at their Limit Price	(i) In case equilibrium price ⁵ is discovered, all outstanding orders shall be moved to the normal trading

⁵ opening price of stock during normal trading session on the day of listing



Update

		<p>session at their limit price.</p> <p>(ii) In case equilibrium price is not discovered, all orders shall be cancelled and the scrip shall continue to trade in call auction mechanism until price is determined.</p>
--	--	--

In order to manage risk effectively, IPO scrips below Rs. 250 will have a price band after 10.00 a.m. and any IPO above Rs. 250 crores will have a 20% price band. Also, IPOs below Rs 250 crores will have to go through a 10 day period where they will be trade for trade (T2T)⁶, which means that scrips can be traded only if one has shares in his account, i.e. there wouldn't be any speculative trading in these stocks. This a big move taken by SEBI to curb the listing day volatility.

Trade controls in Normal Trading Session for Initial Public Offering (IPO) and other category of scrips.

SEBI in the backdrop of recent observations on IPO irregularities of newly listed shares has issued a framework of trade controls for IPO and Re-listed scrips vide Circular no. CIR/MRD/DP/ 02/2012, dated January 20, 2012, in order to control price manipulation and high volatility on the first day of trading.

⁶ denotes settlement of securities on a trade for trade basis and no netting off is allowed.

Update

With regard to Trade timing, it has been decided that the normal trading session for IPO and Re-listed scrips on their first day of trading shall commence only subsequent to conclusion of the Call Auction session for such scrip on BSE and NSE.

The table below summarizes the provisions with regard to Price bands for Eligible scrips:

Particulars	IPO scrips	Re-listed scrips
Price Bands	<p>For issue size up to Rs 250 crores, the applicable price bands for the first day shall be -</p> <p>i. If equilibrium price is discovered in the Call Auction - price band in the normal trading session shall be 5% of the equilibrium price otherwise the price band shall be 5% of the issue price.</p> <p>ii. On Stock exchanges, not eligible to offer Call Auction, the reference price for price bands for the first day shall be -</p> <p>A. if equilibrium price is discovered in the Call Auction at BSE/NSE - the price band in the normal trading session shall be</p>	<p>Trading shall take place in the TFT segment for first 10 days with applicable price bands, wherein for the first day -</p> <p>i If equilibrium price is discovered in the Call Auction - price band in the normal trading session shall be 5 % of the discovered price otherwise, the scrip shall continue to trade in call auction sessions until price is determined.</p>



Update

	5% discovered equilibrium price. B. if equilibrium price is not discovered in the Call Auction - price in the normal trading session band shall be 5% of the issue price.	
--	--	--

SEBI has further laid down that trading shall take place in TFT segment for first 10 days from commencement of trading with the following provisions:

For issue size greater than Rs. 250 crores, the applicable price bands for the first day shall be -

- i. If equilibrium price is discovered in the Call Auction - price band in the normal trading session shall be 20% of the equilibrium price otherwise the price band shall be 20% of the issue price.
- ii. On Stock exchanges, not eligible to offer Call Auction, the reference price for price bands for the first day shall be -
 - a. if equilibrium price is discovered in the Call Auction at BSE/NSE - the price band in the normal trading session shall be 20% discovered equilibrium price otherwise, the price band shall be 20% of the issue price.

TFT will result in lower liquidity in the counter and may result in people taking longer term calls in IPOs.

There was a strong need for such framework as it would make it tough for stock market operators to make stellar gains on the listing day of shares, and simultaneously difficult for operators and market makers to get an easy exit on the first day.