Why SEBI is reviewing delisting norms, what method it may choose

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THE SECURITIES and Exchange Board of India (SEBI) is reviewing delisting regulations for listed companies in an attempt to rein in the manipulation of shares of a company that has opted for delisting from the stock exchanges.

The capital markets regulator has said it may allow companies to delist shares at a fixed price, as against the current 'reverse book-building' process.

What does delisting of securities mean?

Delisting means removing the securities of a listed company from a stock exchange. Once delisted, the securities of that company can no longer be traded on the stock exchange.

Delisting can be either voluntary or compulsory. In voluntary delisting, a company decides to remove its securities from a stock exchange; in compulsory delisting, they are removed as a penal measure for the company not making submissions or complying with requirements set out in the listing agreement within the prescribed timeframes.

If a company wants to delist its securities, it needs to buy back 90% of the total issued shares.

What is the reverse book-building process?

Reverse book-building is the process used for price discovery. During the period for which the reverse book-building is open, offers are collected from shareholders at various prices, which are above or equal to the floor price. The buyback price is determined after the offer closing price.

So what is the problem with this process?

SEBI chairperson Madhabi Puri Buch said that certain constituents in the market, in anticipation of the delisting, acquire shares and jack up the price of shares to unsustainable levels.

"Because of the way in which it (the reverse book-building process) is formulated, and because of the 90% threshold, there is a possibility of misuse by certain operators who are specialists in the delisting of shares. We know that," she said.

"Their business model is, wherever there is an anticipation of delisting, to go and garner 10% or more (shares) amongst their own like-minded persons. And at the time the delisting proposal comes, to extract a higher price, which need not always be a fair price," she said.

Buch said that if the price of a share that has been in the market for a reasonable period of time jumps up by, say, 70% only because of delisting, it may not be a fair price. "When we talk about fairness, it has to be fair to all parties concerned. Not just to one constituent," she said.

Pranav Haldea, managing director of the Prime Database Group, said the issue in the delisting process is to balance the interests of the promoters and shareholders.

"At present, the 90 per cent threshold does pose a huge challenge," Haldea said.

What is the SEBI's review about?

SEBI has said it has been thinking of reviewing delisting regulations for some time now. The regulator has said it has received the recommendations of the committee headed by Keki Mistry, the former vice-chairman and CEO of HDFC Ltd, on delisting norms, and it would soon seek comments from various stakeholders on it.

The regulator said it may allow companies to delist shares at a fixed price instead of using the reverse book-building mechanism. "We will say that if you have a requirement for delisting, you can also have a fixed price. You can try (delisting) with a fixed price. If that doesn't work, try reverse book-building," Ashwani Bhatia, Whole Time Member of SEBI, said.

A consultation paper on delisting norms may be released before December.

But how will a fixed price method benefit shareholders?

The benefits can be assessed only after SEBI announces the methodology to arrive at the fixed price, market experts said, cautioning that the "devil is in the detail".

"While fixed price methodology can help in resolving some of the present issues, it would depend on what the formula will be to arrive at this fixed price," Haldea of Prime Database said.

According to Akila Agrawal, partner & head (merger and acquisition) at Cyril Amarchand Mangaldas, currently, apart from the price discovery, promoters have to meet other thresholds such as receipt of minority shareholder consent, and reaching 90% shareholding in order to successfully delist. And the process will become easier only if all aspects — not just the price — are reviewed holistically.

"The devil is as always in the detail. If the price discovery is replaced by a fixed price offer with a prescription on the floor price, the method should be robust enough to avoid undue challenges on the valuation / determination of the floor price," Agrawal said.