

Our Views

How a mechanism for formal trading of unlisted securities can be a gamechanger

As there is a significant non-founder capital being put into businesses before they go public, an unlisted securities trading platform could be very useful. It could potentially open a new market segment. Globally as well, there is a formal market for unlisted securities. Even Facebook, before going for an IPO, traded, and traded well in the unlisted market.

In fact, NASDAQ's Private Markets, founded in 2014, provides a way for private companies to trade shares ahead of a stock market listing. It offers a trading platform for high quality private issuers who want to remain private. It is a trading forum for their founders, private investors, and employees. Approximately 477 private companies serving 59,000 shareholders have completed transactions on the market executing more than \$30.0 bn worth of transactions.

At this platform earlier, only accredited investors could have invested in these markets, now the definition is widened to include individual investors, spouses, or investment companies can participate in private offerings if they hold certain financial professional accreditations or certifications or are a "knowledgeable" employee at a private investment fund.

The eligibility criteria for companies to trade on NASDAQ Private Markets is rather easy. These include at least \$30mm funding in the last 2 years, or enterprise value of \$50mm, or total assets \$50mm, or annual revenue \$50mm, or annual net income \$750k, or shareholders' equity of \$5mm with 2 years of operating history, or sponsorship by recognized financial investors.

NASDAQ Private Markets was initially formed as a joint venture with SharePost that enables private companies to raise capital and manage secondary transactions. Facebook had the largest volume of shares on SharePost. Facebook traded on this platform from 2008 before going public in 2012.

Recently, there was a media report that NASDAQ is spinning off its Private Market business to form a new platform for trading of unlisted shares through a joint venture. As per the news report, this new entity will have Citibank, Goldman Sachs, Morgan Stanley and SVB Financial Group as investors to establish an institutional-grade, centralized secondary trading venue for companies, brokers, and investors to trade in private company shares.

In India, though SEBI's mandate is only to deal with listed companies, a mechanism will have to be found to facilitate private trading in shares of 'to be listed companies' by the stock exchanges.

SEBI has come out with a very interesting proposition called Innovators Growth Platform (IGP) to facilitate the listing of companies intensively using technology, information technology, intellectual property, data analytics, biotechnology, or nanotechnology in their businesses. Under this scheme at least 25% of the pre-issue capital of the Issuer shall be held by a set of investors for a period of minimum 1 year. In my view, the same platform could be extended for the trading of unlisted securities of certain companies.

The criteria for selection of companies eligible for trading can be set based on nature of the business and sponsorship by the financial investors. The investors base can be restricted only to accredited investors. To start with, this facility can be offered to the companies planning to list in the public market within the next 3 years. Also, to begin with, provisions regarding shareholders' voting rights, applicability of the takeover code, corporate actions, etc. could be made applicable as per the regulations of the Companies Act for an unlisted company. For transparency, the transaction should be done on the floor of the exchange and the number of total investors in the company should be restricted to a reasonable level.

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The disclosure requirements on an ongoing basis could include audited annual financial statements; unaudited quarterly financial statements; annual disclosure of management team; detailed description of business including any significant developments, operations, competition, and risks; capital structure; and details of adoption and enforcement of an insider trading policy.

Since this mechanism will involve 'to be listed' situations and the stock exchanges will have to facilitate the trading platform, it's appropriate that SEBI be the regulator for such type of companies. A trading platform for unlisted securities will significantly augment the capital availability for businesses in their growth phase and enable a transparent market for capital providers and capital seekers, with adequate price discovery.

<https://economictimes.indiatimes.com/markets/stocks/news/how-a-mechanism-for-formal-trading-of-unlisted-securities-can-be-a-gamechanger/articleshow/85402222.cms>

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