Our Views

Freedom from Reverse Book Building – a bold step by SEBI

Over the years, capital markets have undergone substantial evolution and transformation. This evolution encompasses technological advancements, regulatory changes, as well as the expansion of market depth and engagement. The maturity of a market is exemplified by the smooth entry and exit experience it provides to investors and issuers alike. In line with this, the Securities and Exchange Board of India (SEBI) has released a Consultative Paper on Delisting Regulations. This paper aims to streamline the process of delisting a listed company from stock exchanges by proposing the implementation of a fixed price book building mechanism. While doing so care has been taken to keep the interest for both issuers and investors.

In our views of January 2020 titled "our expectations from Budget 2020", we had emphasized on removing the requirement of Reverse Book Building (RBB) process for price discovery for delisting and introducing mandatory minority squeeze out upon promoter reaching 90% of shareholding.

The existing SEBI regulations on delisting make the delisting process cumbersome as it requires RBB for price discovery. Presently, achieving the 90% threshold in the RBB process is essential for successful delisting, but concerns have been raised about potential manipulation during price discovery stating that, some operator(s) start cornering shares as the delisting is announced and collectively hold more than 10% stake in the company then to achieve 90% threshold their participation becomes inevitable, leading to a very high discovered price, which may not always be the fair price of the stock.

The SEBI consultative paper is proposing to introduce fixed price book building for price discovery which will remove any opportunity for speculation. Further, the base price of the fixed price shall be determined based on a SEBI Regulation. Also, the proposal for delisting the company must be approved by the super majority (two positive votes for a negative vote) of the shareholders. Thereby providing adequate protection for the investors. This is a welcome and bold move by SEBI to reverse the reverse book building which was introduced in 2003.

However, for determination of the fixed price, the consultative paper has introduced a layer of complexity by introducing the concept of Adjusted book value as determined by independent registered valuer (ABV). I do think that this may cause difficulties, particularly for the companies which are assets heavy. Market price is the perfect barometer for determining the fair value of a frequently traded stock therefore the addition of ABV is an unnecessary inclusion.

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Further, the consultative paper has proposed to tweak the framework for counter-offer. Just to clarify, counter-offer is used in cases of RBB situations wherein the price offered by the investors (only after crossing 90%) is not acceptable to the acquirer. Currently, counter-offer price is by and large left to the acquirer to decide. The consultative paper has proposed to change this, and it is very prescriptive for different shareholding levels at which the counter-offer can be made and the base price at which this can be made. I believe regulations should be simple, and pricing should be left to market forces/ commercial judgement. I would say that the counter-offer provision can be left unchanged rather than making it so complex.

Overall, the delisting guidelines with the Fixed price option coupled with the current counter-offer proposition is a better combination than the suggested guidelines in its proposed entirety. I would like to compliment the team at Sebi and the committee members who have worked on the Consultative Paper on Delisting Regulations, along with a small suggestion that beauty lies in simplicity! on this Independence Day Let's have freedom from complexity!

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