Three hits and one miss

Sebi closed 2005 with a bunch of policy changes. All well thought out, except one: grading IPOs

If investors get shares on the day of allotment, why should refunds take 7-10 days to reach them?

Prithvi Haldea

On the last working day of 2005, capital market regulator Sebi (Securities and Exchange Board of India) announced several policy decisions, intended to help both investors and issuers. Here, then, are my first reactions to the changes that relate to the primary market. Caveat: Sebi has so far only outlined the broad contours of the policy change, not the finer details, which will be known when the circulars are issued. Sometimes, the devil lies in the detail. For now, here are my first impressions of four policy announcements that relate to the primary market.

Refunds through ECS

So far, refunds in public issues have been sent through post. Since most issues are oversubscribed, sometimes quite heavily at that, the number of individuals/entities waiting for a refund is significantly more than the number of allottees. On the day the allotment is made, successful applicants get an instant credit of shares in their demat account, giving them instant liquidity.

However, unsuccessful applicants, in part or in full, have to face a double loss. First, there is the disappointment of either not getting an allotment or getting fewer shares than wanted. Second, they have to endure a wait to get back their application money. Assuming everything goes right, it would still take seven to 10 days -- the time taken for posting and then for clearing -- for investors to get back their money. Often, refunds take longer. For instance, in nuclear families, there might be no one at home to receive the refund letter, which then returns undelivered to the registrar. Investors have to then contact the registrar to get their money back, which can be frustrating.

That's why using the electronic clearing system (ECS) as far as possible makes so much sense. Money gets transferred quicker and it bypasses the physical postal/courier system. Dividend payments have been on the ECS for some years now. However, vested interests managed to keep it out of public issues, one of the reasons being it gave issuers more time to earn something from the excess funds they had collected.

At long last, Sebi has made ECS mandatory for public issue refunds. This will ensure faster and hassle-free refunds to investors. The ECS facility for public issue refunds will initially be available at 15 cities where clearing is done by the RBI (See table: Racy refunds) and is likely to be extended to other cities in time. It's a flying start, as over 90 per cent of investors reside in these 15 cities.

Fewer disclosures for FPOs

Companies making follow-on public offerings (FPOs) and rights issues will have to make fewer disclosures than before. At present, a listed company raising money from the public has to make as many and as intensive disclosures as a company making its maiden public issue. It's a bit of a waste. Since they are listed, they anyway make continuous disclosures to stock exchanges and their shareholders. Sebi has now said that they need make only incremental disclosures while making FPOs and right issues. Good move, which will reduce repetitive processes, encourage companies to tap the domestic market, and thus check the export of our capital market.

Single-window filing

Listed companies today are required to disclose corporate information to exchanges where they are listed and also on the EDIFAR website of Sebi. For companies listed on more than one exchange, this results in multiple filings. Sebi, in consultation with the NSE and the BSE, is now advocating a common electronic platform run by stock exchanges.

Listed companies will be required to file information only on this platform. Companies benefit, as they don't have to file with multiple entities. Investors benefit, as they will be able to access all corporate information of a listed company at one place.

Optional grading of IPOs

Giving in to a long-standing demand from some investor groups, Sebi has allowed optional 'grading' of IPOs by credit rating agencies, the idea being to help retail investors make an informed decision. If an issuer wants, it can approach a credit rating agency and get a grade, which is essentially a comment on the investment-worthiness of the issue. Sebi has suggested that the cost of IPO grading be met either by stock exchanges or out of the corpus of the Investor Education and Protection Fund. I have serious reservations about the concept of grading IPOs in the first place, which I will elaborate next week.

TABLE

Racy refunds

Soon, investors residing in these 15 cities will get their public issue refunds through the electronic clearing system (ECS). Bottomline: quicker, hassle-free refunds.

Ahmedabad
Bangalore
Bhubaneswar
Chandigarh
Chennai
Guwahati
Hyderabad
Jaipur
Kanpur
Kolkata
Mumbai
Nagpur
New Delhi
Patna
Thiruvananthapuram