

13 Dec, 2010, 08:52AM IST, ET Bureau

SEBI wants owners to come clean on off-market deals

Advertisement

MUMBAI: The Securities & Exchange Board of India, or SEBI, plans to make it mandatory for companies to provide more disclosures when they seek to place shares privately with institutional investors and also for block and bulk deals.

The securities market watchdog has started to work on changing the existing rules governing private placement of shares and off-market transactions after growing evidence that promoters and market operators are routinely exploiting loopholes in the regulations and rigging stocks. A senior regulatory official told ET that changes to the disclosure rules will be proposed to the Primary Market Advisory Committee, or PMAC, which will meet in early January. The official who declined to be named as he is not authorised to speak to the media said that for off-market transactions, the threshold for promoters and investors may be brought down and the time period for them to disclose these may be reduced.

The PMAC, which has representatives from investment banks and the industry, can recommend changes to the rules, which are then considered by the board of the regulator. If approved, the regulations or rules can then be amended.

An off-market transaction is one that is not routed through the stock exchange clearing house. It involves transfer of shares from one demat account to another at a negotiated price, and takes place at the depository level. This facility was originally intended to facilitate transfer of shares between family members as part of an asset division, at negotiated rates way off the market prices.

But over the years, promoters have been abusing this provision to transfer shares, either from their legitimate or undisclosed holding firms, to market operators, as part of a strategy to rig stock prices, said stock brokers. When the shares are transferred through an off-market trade, these do not have to be disclosed to the stock exchanges.

SEBI wants QIP investors named

The regulator also wants to make it mandatory for companies to disclose the names of all the qualified institutional investors in a private placement — a move which is not likely to go down well with these investors.

Last month, the regulator had banned four companies for rigging their stock prices in collusion with market operators, ahead of a private placement to institutional investors. The way they did this was by transferring shares to market operators through off-market trades, ramping up the stock price through circular trading, and then offloading the shares to institutional investors at inflated prices. "The regulator's concern is to address market manipulation," said Mehul Savla, Director, Ripple Wave Equity, a transaction advisory firm, adding "disclosures with regard to off-market transactions

prior to a QIP (qualified institutional placement), on bulk deals, would assist in detecting any abnormal activity before a QIP issuance”.

The regulator has been debating the usefulness of the off-market transaction facility for many years now. In 2003-04, there were complaints that some investors were getting a better price for their shares from acquirers, in violation of the Takeover Code. “It is observed that the discrimination in favour of one set of shareholders was due to the fact that acquisition was made through off-market transactions and not through the regular stock market mechanism,” said a SEBI report dated March 2004.

“The said off-market transactions avoided transparency and also did not contribute to price discovery and as a result, investors could not get the benefit of the best possible price. It was felt that, had the transactions been carried out through stock market mechanism, the other set of shareholders (not party to off-market transactions) would have got an equal opportunity to exit at a price which would have been non-discriminatory,” the report added.

The regulator also wants to tighten the norms for reporting of block and bulk deals. Brokers are required to disclose to stock exchanges all transactions for a client wherever the total quantity bought or sold is more than 0.5% of the equity shares of that company. They have to do that immediately if those many shares are bought/sold in a single trade. And if done through a series of trades, they have to report it within an hour from the closure of trading hours. Often, market operators and promoters buy/sell large chunks of shares through different holding firms to avoid disclosing the trades to the stock exchanges.

A recent SEBI investigation revealed that entities controlled by market operator Sanjay Dangi had bought 23% in Sangam India in violation of the Takeover Code, which stipulates that any entity buying in excess of 15% in a company will have to make an open offer for an additional 20%. But since the purchases were done through different investment arms, it was difficult to prove that the takeover rules had been violated.

Merchant bankers currently disclose the identities of only those investors who have bought more than 5% of the placement of shares to qualified institutional investors. There have been unconfirmed reports in the market that many of the institutional investors participating in QIPs are fronts for promoters. Technically, a promoter can subscribe to a large chunk of the issue by buying less than 4% through multiple accounts. “Increased disclosure will be detrimental to institutional investors who prefer doing their investments as discreetly as possible,” said an executive at an US-based investment bank, who added that it will take away a lot of interest from QIP.

Get a Quote

Get Quote

Browse Companies

ABCDEFGHIJKLMN OPQRSTUVWXYZ 123456789

THE ECONOMIC TIMES

[Home](#)|[News](#)|[Markets](#)|[Personal Finance](#)|[Mutual Funds](#)|[Infotech](#)|[Jobs](#)|[Opinion](#)|[Features](#)|[Videos](#)|[My Portfolio](#)

Other Times Group news sites

[Times of India](#) |
 | [Mumbai Mirror](#)
[Times Now](#) | [Indiatimes](#)
 |

Living and entertainment

[Timescity](#) | [Diva](#) | [Bollywood](#) | [Zoom](#)

Networking

[itimes](#) | [Dating & Chat](#) | [Email](#)

Hot on the Web

[Hotklix](#) | [Restaurants in Mumbai](#)
[Buy Mobiles](#) | [Katrina Kaif](#)
[Buy Nokia Mobiles](#)
[Luxury Lifestyle](#)

Services

[Book print ads](#) | [Online shopping](#) | [Business solutions](#) | [Book domains](#) | [Web hosting](#)
[Business email](#) | [Free SMS](#) | [Free email](#) | [Website design](#) | [CRM](#) | [Tenders](#) | [Remit](#)
[Cheap air tickets](#) | [Matrimonial](#) | [Ringtones](#) | [Astrology](#) | [Jobs](#) | [Property](#) | [Buy car](#)
[eGreetings](#)

