THE ECONOMIC TIMES

Sebi likely to make ASBA mandatory for IPO investors

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MUMBAI: Capital market regulator the Securities and Exchange Board of India (Sebi) is set to make Application Supported by Blocked Amount, or ASBA, mandatory for retail investors. ASBA is an arrangement where funds remain in a retail applicant's bank account till shares are allotted to him in a public offer. At present, retail investors have two payment options in public offers: One, by issuing a cheque along with the IPO application form, and second, through the ASBA facility.

According to a person familiar with the development, the proposal is likely to be discussed by theSebi board when it meets on August 16.

While ASBA reduces the pressure on fund payment and clearing mechanism in the banking system as the amount doesn't leave the retail investor's account, the applicant also benefits from interest earnings.

"Interest earnings assume importance considering that banks are now required to pay interest on daily balance basis in savings accounts as opposed to paying for minimum balance held in the account between tenth and the last day of the month," an internal note to the Sebi board had said.

Last year, Sebi made ASBA mandatory for institutional investors and high net worth individuals. Since its introduction in 2008, the ASBA facility has been used in over 90 public issues and 37 rights issues.

"In these public issues, ASBA facility has been opted for on an average in 18.42% of the total applications. Overall, ASBA applications, as a percentage of total applications, which was less than 1% when the facility commenced, is now hovering at around 25%," the Sebi note had pointed out.

Primary Benefits

- ASBA to reduce investors' fund-payment pressure and help benefit from interest earnings
- The facility will also cut delays in despatch of refund orders and also risk of losing in transit
- Sebi made ASBA mandatory for high net worth individuals last year
- ASBA facility has been used in over 90 public issues and 37 rights issues since its introduction in 2008

Prithvi Haldea, chairman & managing director of Prime Database, a company that has been tracking primary markets for over two decades, said: "Since cheque-supported applications entail huge delays both at the application as well as the refund stages, making ASBA mandatory is a very good move as it will reduce the time of listing from the date of closure of an issue as well as bring down price risks." At present, the number of days from closure to listing is more than 12 days.

In public issues, the entire application money is moved from investors' account to the escrow account maintained by bankers to the issue. After share allotment takes place, excess money is refunded to investors. But, at times there is a delay in despatch of refund orders and also loss of refund orders in transit. If ASBA is made mandatory, then investors need not worry about the delays in refund orders, Haldea said.

The regulator also plans to provide some comfort to retail investors in initial public offerings (IPOs) by making it mandatory for issuers to provide an exit window if the share price falls below a certain threshold limit.

At present, Regulation 44 of the Sebi (ICDR) Regulations gives an option to an issuer to provide for a safety-net arrangement or a buy-back arrangement under which a person offers to purchase securities from retail investors at the issue price. "Such arrangement shall provide for an offer to purchase up to a maximum of one thousand specified securities per original resident retail individual allottee at the issue price within a period of six months from the last date of despatch of security certificates or credit of demat account," Sebi norms state.

Investment bankers say the current IPO rules require an issuer to get at least 50% subscription from institutional investors. "The logic being such a high level of participation from sophisticated and professional investors would be a validation for the IPO pricing and credentials of the issuer and, hence, retail investors can subscribe to the IPO based on the institutional investors response. This is a very strong and market-driven mechanism to protect the common investor," a senior banker said.

Some bankers feel making safety net mandatory goes against the spirit of stock market investing.

"A safety-net mechanism is skewed as it protects the downside completely but gives all the upside to the retail investor. This goes against the fundamental grain of equity market, which entails rewards for risks. A safety net is like an option given to an investor free of cost," Mehul Savla, director, Ripple Wave Equity Advisors.