

Sebi proposes regulation of grey market for unlisted companies to enhance price discovery and tax revenue

SECTIONS

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Synopsis

SEBI is considering regulating the grey market for unlisted shares, aiming to improve price discovery before IPOs and boost government tax revenue. This initiative comes as India's IPO market sees significant growth despite global economic uncertainties. SEBI plans to collaborate with the corporate affairs ministry and stock exchanges to establish a regulated pre-IPO trading platform with necessary disclosures.



According to RippleWave Equity Advisors' partner Mehul Savla the pre-IPO market largely targets wealthy investors, who are aware of the risks and rewards.

Agencies

Mumbai: The Securities and Exchange Board of India (Sebi) is looking to regulate the grey or parallel market, where shares of [unlisted companies](#) such as NSE, Chennai Super Kings, Cochin International Airport and Mohan Meakins are traded unofficially.

The proposed move will facilitate [price discovery](#) for unlisted companies before their shares are officially launched for trading on the bourses and will also boost tax income for the government.

This comes at a time when India has emerged as one of the top IPO markets globally, with \$2.8 billion raised in Q1 of this year despite global economic uncertainties.

Speaking at an industry body event on Thursday, Sebi chairman [Tuhin Kanta Pandey](#) said: "Pre-listing information is often insufficient for investors to make an investment decision. Can we come up with a pilot initiative for a regulated venue where pre-IPO companies can choose to trade, subject to certain disclosures?"

Highlighting Sebi's thought process further, its whole-time member Kamlesh Varshney said: "There is a market known as the [grey market](#). Can this be regulated within the confines of law? If this market is regulated, prior to an IPO, it can help in price discovery. The government will also receive its fair share of revenue through taxes. This would benefit everyone involved. If a regulatory framework is established with checks and balances... we are working on this."

India's grey market has operated for years with no oversight from Sebi or stock exchanges. However, trading in grey market stocks is legal even though it is unofficial. The grey market price also helps in predicting listing prices.

Pandey further said: "Sebi would collaborate with the corporate affairs ministry and stock exchanges to establish a regulated platform for pre-IPO or unlisted companies so that these companies can trade with necessary disclosures."

According to RippleWave Equity Advisors' partner Mehul Savla the [pre-IPO market](#) largely targets wealthy investors, who are aware of the risks and rewards.

“Such investors have the appetite for making investments that are characterised by lack of immediate liquidity, no clear price benchmark and limited information.”

He added that such investments are allowed and undertaken by AIFs catering to high net worth individuals (HNIs) and not by mutual funds, which manage retail money.

“Such a sophisticated and restricted market may not need or desire regulatory oversight.” Savla further said:

“These transactions are usually secondary trades i.e. shares changing hands from one to another and the company often plays no part in facilitating such transactions and hence avoid any regulatory obligations.”

Investors trade in grey market stocks through their demat accounts. Brokers gather these stocks from a variety of shareholders, including employees who own company shares, early-stage investors looking to exit, and sometimes, directly from the promoters. The proposed move will facilitate price discovery for unlisted companies before their shares are officially launched for trading on the bourses and will also boost tax income for the government.

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