# Sansad TV Perspective: New Rules for IPOs

In the series Sansad TV Perspective, we bring you an analysis of the discussion featured on the insightful programme 'Perspective' on Sansad TV, on various important topics affecting India and also the world. This analysis will help you immensely for the IAS exam, especially the mains exam, where a well-rounded understanding of topics is a prerequisite for writing answers that fetch good marks.

In this article, we feature the discussion on the topic: New Rule for IPOs

Video link: https://youtu.be/gJD61-0wTJg

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**Participants:**

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**Context:** The Securities and Exchange Board of India has recently amended the rules for Initial Public Offerings (IPO) that are applicable for both investors and companies.

**Background:**

- The stock markets across the world experienced a major boost in IPO with a record amount of capital raised by companies in 2021.
- The Indian securities market witnessed robust growth during the recent past both in terms of issues and the amount raised from the equity market.
- Multiple IPOs are lined up for 2022 along with a strong pipeline of companies that include the new-age technology companies and other big names.

**The areas of the stock market that have been changed:**

- **Fundraising by companies through IPO:**

Under the new rule, the amount for General Corporate Purpose (GCP) and investment targets or any acquisition unidentified by the company, cannot exceed 35% of the total amount raised. If the acquisition target is not identified, the amount cannot exceed 25% of the total amount. Earlier the companies did not have to specify their investment and acquisition targets.

- **Anchor Investors:**

The anchor investors are now allowed to sell half their shares after a 30-day lock-in. However, the remaining shares can only be sold after 90 days from the day of allotment.

- **Non-institutional Investors (NII):**

One-third of the portion available to NIIs shall be reserved for applicants with an investment amount of more than Rs 2 lakh up to Rs 10 lakh. Earlier 35% of the IPO would be reserved for NIIs.

- **Price band for book built IPOs**

The upper price band has to be at least 105% of the lower price band. For example, if the lower price band is Rs 100, then the upper price band would be Rs 205. Earlier, it was at the will of the company to set the price band.

## What is Price Banding?

**Price band can be defined as a value setting method in which the upper and lower limits of bidding are identified by the sellers.**

- **Offer for sale**

Existing shareholders owning more than 20% of pre-issue cannot offer more than 50% of their shares in an IPO. On the other hand, those holding less than 20% of pre-issues, cannot sell more than 10% of their shares.

- **Preferential allotment pricing formula**

It was evident that there existed a quid pro quo between the companies and the investors that offered considerable opacity to public shareholders. In order to resolve this issue, SEBI introduced a new norm in the IPO. According to the new rule, the floor price will be higher than the volume-weighted average price (VWAP) of the last 90 days or 10 days which was earlier 26 weeks.

- **Utilisation of IPO**

Many companies were misusing the funds raised through IPOs for which the new rules allowed the rating agencies to monitor the use of 100% of the IPO proceeds.

- **Settlement proceedings**

Under the new norm, if a company intends to settle a dispute through consent, it shall apply for settlement within 60 days from the date of receipt of the show cause notice, whichever is later.

**Impact of the new rules:**

- The new rules will create room for better regulations enabling the companies to act in a judicious manner with respect to how much money to be invested.
- Amendments made to the anchor investors will create a more sensible environment for investment.
- IPO opportunities would be expanded for smaller investors who could not benefit much from the facilities because of the previous norms that favoured only the NIIs who borrowed heavily and made large bids.
- It will lead to more realistic pricing opening avenues for better price discovery.
- The early investors will be facilitated with some 'skin-in-the-game' resulting in better pricing of the IPO.
- Companies will now have to price their preferential issues closer to market prices.
- Some market experts believe that the new rules add to the compliance layers and might have a limited impact.
- It also ensures a meticulous roadmap to resolve the legal disputes that will help SEBI to save time and money.

**The scope of IPO in the future:**

- There are umpteen IPOs lined up for the upcoming days with a strong pipeline of companies such as LIC, Oyo, Mobiwik, Delhivery, PharmEasy to participate in a level playing platform in the realm of the sharemarket.

- The new rules are anticipated to regulate the major loopholes with respect to the losses incurred by small investors and it will provide an equitable ecosystem for all investors.
- The future scope of IPO with the amendments made will create a better understanding of investments accompanied by a shift from the traditional approach of just following the high demands for IPOs in the market.
- Experts envisage that the rules and policies must evolve with time to match the demands of the market scenario that is dynamic and needs individual homeworks before relying solely on investors and other agents.

**Read more about IPO in the linked article.**