

# **Phasing out the Stock Exchange Route**

## Why in news?

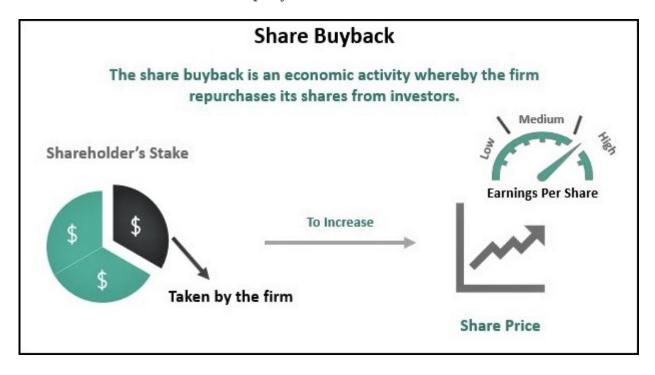
The Securities and Exchange Board of India has decided to phase out the buyback of shares of listed companies through exchange route and favoured the tender offer.

#### What is the SEBI decision about?

- The SEBI board agreed to move to a tender offer route instead of a stock exchange route.
- SEBI will phase out buyback through the stock exchange route with effect from April 1, 2025.
- The aim of this move is to make the buyback process more robust, efficient, transparent and shareholder-friendly.

## What is buyback?

- A buyback is when a company buys its own outstanding shares to reduce the number of shares available on the open market.
- It is also known as a share repurchase.
- **Reasons for buy back shares** To increase the value of remaining shares available by reducing the supply
- To prevent other shareholders from taking a controlling stake
- The maximum limit of any buyback is 25 % or less of the aggregate of paid-up capital and free reserves of a company.



#### What are the two routes?

- **Stock exchange route** Under the stock exchange route, a company can buy back shares only on the stock exchanges having nationwide trading terminals.
- The buyback of shares is made only through the order-matching mechanism.
- In this method, the promoters, or persons in control of a company are not allowed to participate.
- **Tender offer route** A tender offer means an offer by a company to buy back its own shares or other specified securities through a letter of offer from the shareholders or other specified securities.
- The buyback is done on a proportionate basis as per the buyback ratio.
- The additional shares tendered over and above the prescribed buyback ratio get accepted if there are any unaccepted shares.
- It is a fixed-price buyback offer.

## Why is SEBI against the exchange route?

- Issues with stock exchange route As per the recommendations of the Keki Mistry committee, under the stock exchange route, there is a possibility of one shareholder's entire trade getting matched with the purchase order placed by the company.
- This deprives other shareholders of availing the benefit of buyback which is contrary to the principle of equitable treatment.
- Benefits of tender route The tender route is the more equitable route for buybacks.
- The other routes are vulnerable to favouritism because only a few people may be aware of when the company is going to come in order to buyback shares and gets benefitted.
- SEBI's decision to phase out stock buyback through the exchange route will give all the shareholders an opportunity to participate.

#### References

- 1. The Indian Express | Why Sebi is phasing out the stock exchange route
- 2. Investopedia | What is a buyback?

