SEBI’s Norms for Preferential Issues

Why in news?

The Securities and Exchange Board of India has relaxed its norms for preferential issues.

What is SEBI?

- The Securities and Exchange Board of India (SEBI) is a regulatory body established under the SEBI Act, 1992.
- It monitors and regulates the Indian capital and securities market.
- It will protect the interests of the investors formulating regulations and guidelines to be adhered to.

What are the relaxed norms?

- The SEBI has announced a pricing methodology that will make it easier for companies to raise funds.
- Now, the companies have the option of pricing the preferential offer at the weekly average price over the preceding **12 weeks or 2 weeks**.
- This pricing rule will be applicable only for preferential issues made from July to December 2020.

What are the existing rules?

- The existing rules required the pricing to take into account the average price over the preceding **26 weeks**.
- This would have resulted in the offers being priced very high, thus deterring potential investors.

What is the significance of this move?

- The SEBI’s tweak to the pricing rules for preferential issue is among the preferred channel of fund raising due to its relatively easier process.

- It had also allowed distressed firms to raise funds through preferential issue considering the share price of only the preceding 2 weeks.
- Investors in distressed firms were also exempted from the need to make an open offer.

What are the other changes that SEBI has made?

- If an open offer is delayed due to omissions by the acquirer, 10% penal interest is to be paid to all shareholders who have tendered shares in it.
- This move is necessary to check bogus open offers announced with the mal-intent of manipulating the stock price.
- The Prohibition of Insider Trading Regulations has also been amended.
- This makes all companies to maintain a database of unpublished price-sensitive information and the names of persons who have shared it.

Source: Business Line

SHANKAR IAS PARLIAMENT
Information is Empowering