Govt asks Sebi to relax FPO norms

The government has asked market regulator Securities and Exchange Board of India (Sebi) to allow relaxations in rules for follow-on public offerings (FPOs), two people with knowledge of the development have said.

For the 2014-15 disinvestment programme, the Centre intends to give more weight to the FPO route than the offer-for-sale (OFS) route, to ensure better participation from retail investors.

Both FPO and OFS routes are used by listed companies for secondary share sales by promoters. The OFS route is cost- and time-effective, while FPOs are costlier and consume more time, forcing many promoters to opt for the former.

Most disinvestments done in the past two financial years have been done through the OFS route. However, the government has received market feedback suggesting retail investors are more likely to participate in issues made through the FPO route, given an advantage on factors like pricing and allocation.

OFS issues only have a floor price, while FPOs give a price band within which investors could bid. The latter offers them more certainty on pricing. The FPO route requires a fixed minimum allocation to retail investors; that is, every investor will receive a certain minimum allocation of shares, if available. OFS issues do not have any such certainty.

"Most disinvestments done through the OFS route have seen little retail participation. The new government wants retail investors to come back to the market. The FPO route is one way of meeting this objective. However, it will only be feasible if Sebi makes some relaxations. We have already initiated a dialogue with Sebi on this," said a senior finance ministry official.

For the current financial year, the government has set an ambitious target of raising around Rs 58,000 crore through disinvestment. Of this, Rs 43,000 crore is expected to come from sale of shares in public-sector undertakings.

Meanwhile, the market regulator is said to have started a dialogue with market participants for possible changes to the FPO framework.

In a significant step, Sebi was considering doing away with the requirement to file offer documents in FPOs, said sources in the know. The regulator is also mulling automatic approvals and fewer disclosures.

Experts believe there is a scope to ease the FPO norms, as it is used by companies that are already listed and have to make adequate disclosures anyway.

"FPO is a secondary offering by an already listed entity, so there is a case for reducing the disclosure requirements and also filing a prospectus," said Prime Database Chairman Prithvi Haldea.

Sebi's primary market advisory committee has been tasked with recommending new measures after market consultations.

The market regulator has made relaxations to the FPO framework in the past as well.

In 2012, it had reduced from Rs 5,000 crore to Rs 3,000 crore the threshold free-float market capitalisation for issuers to access the market through fast-track FPO and rights issues.

Sebi expedites the regulatory process for companies qualifying under the fast-track FPO route. "Sebi can further reduce the threshold for these," said Haldea.

The government is likely to kick start this year's disinvestment programme with SAIL and Coal India.

The department of disinvestment is also said to have shortlisted other disinvestment candidates like Power Finance Corp, Rural Electrification Corp, SJVN Ltd, National Hydroelectric Power Corporation and MMTC. Last financial year, the Centre had raised only Rs 15,819 crore through disinvestment, against target of Rs 40,000 crore. It had sold shares through the routes of offer for sale, follow-on public offering, block trade and exchange traded fund.

(Business Standard)