Phasing out the Stock Exchange Route

Why in news?

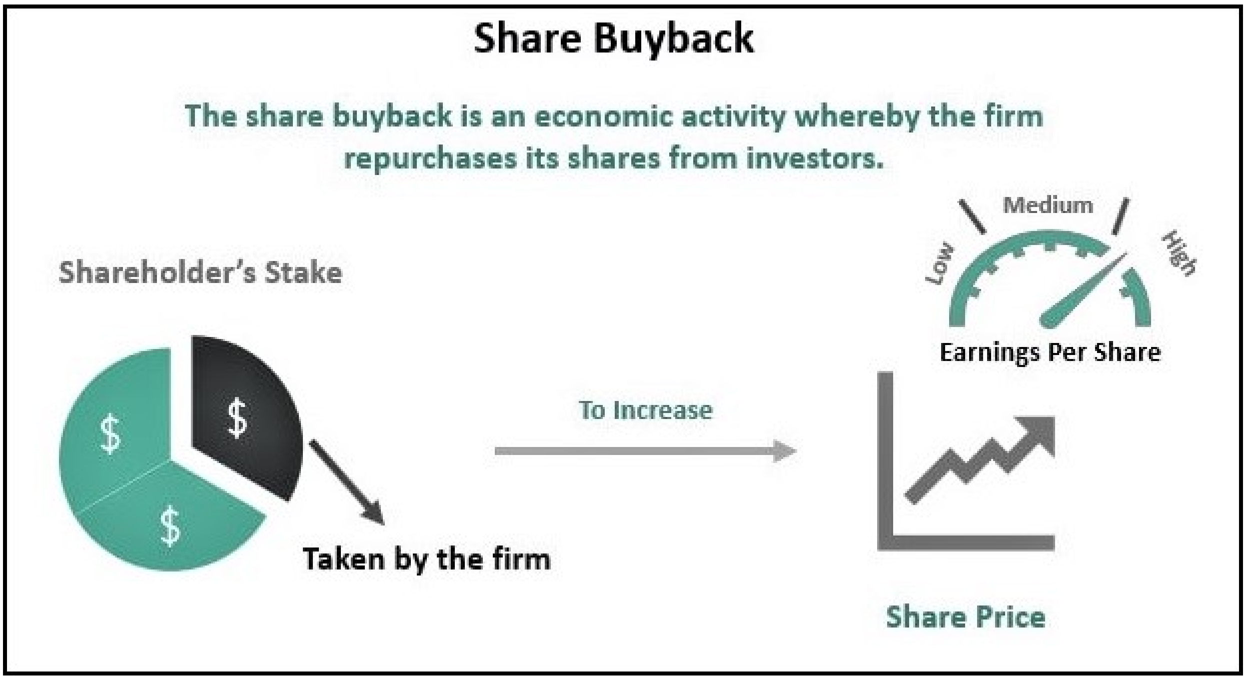
The Securities and Exchange Board of India has decided to phase out the buyback of shares of listed companies through exchange route and favoured the tender offer.

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?