

ERGO

Analysing developments impacting business

ROADMAP TO A SHORTER LISTING PERIOD

19 November 2018

In the United States, settlement of securities issued pursuant to a public issue takes place within 3 days from the issue closure. Over a period, the Securities and Exchange Board of India (SEBI) had reduced the timeline for listing from 12 working days to 6 working days from the date of issue closure (T+6 Timeline). SEBI by its recent circular dated 1 November 2018 (Circular) has laid down the roadmap for further shortening the timeline for listing to 3 working days from the date of issue closure (T+3 Timeline), which shall be implemented in a phased manner.

The key impediments in achieving shorter timeline for listing include time taken for (i) physical movement of application forms amongst the intermediaries; (ii) validation of demographic details of the investors post issue closure; and (iii) blocking of funds by application supported by block amount (ASBA) process post bidding on the electronic bidding platform (Electronic Book), and consequent need for reconciliation between the Electronic Book and fund block data provided by ASBA banks.

To overcome these impediments, the Circular provides that in addition to the existing ASBA as a payment mechanism, unified payment interface (UPI), an instant payment system developed by the National Payments Corporation of India, shall also be introduced as a payment mechanism for applications by retail individual investors (RIIs) in public issues, in a phased manner.

In the initial two phases, ASBA as a payment mechanism shall continue to be available to RIIs along with UPI and the T+6 Timeline will continue. In the third phase, T+3 Timeline will be implemented. With the introduction of UPI as a payment mechanism in public issues, significant amount of time would be saved since there would be no physical movement of application forms from intermediaries to the self-certified syndicate banks (SCSBs) for blocking of funds.

To coordinate the process of payments by RIIs in a public issue through UPI, the issuer shall be required to appoint a sponsor bank, which shall be a SEBI registered SCSB who has agreed to perform this role.

Another process introduced by SEBI towards achieving the T+3 Timeline is the real time validation of investor details, such as permanent account number, depository participant ID, client ID (Investor Details). At present, validation of Investors Details is undertaken by stock exchanges, in batches, through file sharing. The Circular mandates stock exchanges and depositories to put in place a system by 15 December 2018, to validate the Investor Details on a real time basis.

The Circular also clarifies that for making a bid in a public issue through either ASBA or UPI payment mechanism, only bank accounts owned by the investor can be utilised to block funds, else such bid shall be rejected on technical grounds.

De-coding the application process under the UPI payment system

With an objective of smooth transition, the T+3 Timeline will be introduced in a phased manner.

Phase I: The initial phase would be effective from 1 January 2019 for a period of 3 months or floating of 5 main board public issues, whichever is later. In this phase, in addition to the existing modes of payment in public issues by RIIs (i.e. submission of application to ASBA banks or other intermediaries like syndicate members, stock brokers, designated depository participants and registrar to the issue), an RII shall have the option of making an application with any of the intermediaries along with the RII's bank account linked UPI ID for the purposes of blocking funds and submit application form online through 3 in 1 account provided by stock brokers. A brief process of the same is as follows:

- Before making a bid, an RII would be required to create a UPI ID by linking a bank account. While making an application in a public issue to any of the intermediaries, the RII shall mention the UPI ID;
- Once the bid details have been uploaded on the stock exchange's bidding platform, the stock exchange shall, in coordination with the depositories, validate the Investor Details on a real time basis;
- Post confirmation of the Investor Details, the stock exchange(s) shall send an SMS on the registered mobile number of the RII confirming the application made, by the end of the day (in case of last day of bidding, confirmation may be sent on the next day)
- Stock exchange(s) shall also share the bid details with the sponsor bank and the sponsor bank shall send an electronic communication via SMS/ intimation to mobile phone/ mobile application associated with the UPI ID linked bank account to the RII to authorise blocking of funds;
- Once the blocking of fund is approved by the RII, the same would be received by the bank with which the RII's UPI ID is linked and the requisite funds would get blocked in the RII's bank account;
- The information pertaining to blocking of funds shall be shared with the sponsor bank, which would share the same with the stock exchange, which in turn will share the same with the registrar to the issue;
- The registrar to the issue shall reconcile the bid details received from the stock exchanges against the mandates of blocked funds and prepare the basis of allotment in the public issue. Depending on the basis of allotment, the sponsor bank will credit the public issue account or unblock funds, as the case may be; and
- Post receipt of fund in the public issue account, allotment of shares would be done and credited to the RIIs' demat account. Thereafter, upon issuance of final listing and trading approval by the stock exchanges, trading shall commence.

Phase II: In this phase, Syndicate ASBA as a mechanism for submission of application forms in public issues shall be discontinued. A comparative analysis between the present position, Phase I and Phase II is listed below:

PARTICULARS	PRESENT POSITION	PHASE I	PHASE II
Modes of bidding in a public issue by RIIs	A RII can make a bid through: (i) SCSBs (SCSB ASBA); or (ii) syndicate member, stock broker, depository participant and registrar to the issue by blocking funds through ASBA process (together, the Syndicate ASBA)	A RII can make a bid through: (i) SCSB ASBA; (ii) Syndicate ASBA; (iii) 3 in 1 account offered by selected stock brokers (3 in 1 Account); or (iv) syndicate members, stock brokers, depository participants and registrar to the issue for blocking funds through UPI mechanism (UPI Application)	A RII can make a bid through: (i) SCSB ASBA; (ii) 3 in 1 Account; or (iii)UPI Application
Mode of payment by RIIs	ASBA	ASBA and UPI	ASBA and UPI
Payment coordination intermediary	SCSBs	SCSBs and sponsor bank	SCSBs and sponsor bank
Fund blocking mandate by RIIs	Received along with bid in terms of ASBA process	ASBA bid: received along with bid in terms of ASBA process (for SCSB ASBA and Syndicate ASBA) UPI bids: fund blocking mandate is confirmed by the RII after receipt of request from the sponsor bank electronically	ASBA bid: received along with bid in terms of ASBA process (for SCSB ASBA) UPI bids: fund blocking mandate is confirmed by the RII after receipt of request from the sponsor bank electronically
Investor Details validation	Validation by stock exchanges, in batches, through file sharing	Real time validation by stock exchanges in coordination with the depositories	Real time validation by stock exchanges in coordination with the depositories

In both phase I and phase II, qualified institutional investors and non-institutional investors will continue to use SCSB ASBA or Syndicate ASBA for making bids in a public issue. As the UPI Application is specifically allowed only for RIIs, SCSB ASBA or

Syndicate ASBA will be used for making bids in reserved categories such as employees and shareholders of listed subsidiaries and listed promoter.

Phase III: Whilst both UPI and ASBA shall continue to be the payment mechanisms in public issues by RIs in this phase, the breakdown of timeline process flow of the third phase reducing the listing period to T+3 Timeline will be separately notified by SEBI later.

Comments

Introduction of T+3 Timeline in a phased manner is a welcome move as it gives adequate time to the market participants to put in place the requisite systems and familiarise themselves with the new process. The T+3 Timeline is an endeavour of SEBI to provide an efficient mechanism for raising funds through public issues by streamlining the associated process.

Introduction of UPI as a payment mechanism in public issues and real time validation of Investors Details will considerably reduce the timeline for listing. However, under UPI payment mechanism, acceptance of fund blocking request by bidders being solely dependent on their confirmation after the bids have already been processed, which may affect the performance of the public issue in case of non-confirmation of fund blocking by the bidders.

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