

## Corpsec Hotline

August 06, 2008

### PART WITH YOUR MONEY ONLY WHEN YOUR SHARES ARE ALLOTTED

#### Brief Snapshot of the Circular

- v Introduction of Applications Supported by Blocked Amount (“**ASBA**”) process.
- v ASBA means an application for subscribing to an issue containing an authorisation to block the application money in a bank account.
- v ASBA would be available to resident retail individual investors only.
- v The ASBA process shall be applicable to all book-built public issues, which provide for not more than one payment option to retail individual investors.
- v Initially, only investors bidding at the cut-off price would be allowed to opt for ASBA.
- v Investors opting for ASBA would not be allowed to revise their bids however they would be allowed to cancel / withdraw their bids.
- v Investors will not be eligible if they are bidding under any of the reserved categories.

#### INTRODUCTION

Capital market regulator Securities and Exchange Board of India (“**SEBI**”) vide circular dated July 30, 2008 bearing reference number SEBI/CFD/DIL/DIP/31/2008/30/7 (“**Circular**”) prescribed modalities for an additional mode of payment called ASBA for public issues through book building process.

ASBA is an application for subscribing to an issue, containing an authorization to block the application money in a bank account. The purpose of introducing the ASBA process is to enable the application money to remain in the bank account of the applicant till such period the allotment is finalized. This eliminates the refund process, unlike the present system where application money of retail investors is often blocked or is not refunded for weeks even when they are not allotted shares. ASBA is only an alternative mode of payment with the co-existing process i.e. payment by cheque.

The circular also provides the eligibility criteria for an investor for availing the ASBA process and identifies the roles and responsibilities of other intermediaries viz. registrars to an issue, merchant bankers and stock exchanges in the ASBA process.

#### BACKGROUND

In May 2008, SEBI had approved, in principle, the concept of marking lien on the bank account as an alternative mode of payment in public issue / rights issues and invited public comments for the same. Subsequently SEBI, through the Circular, finalised ASBA process and made necessary amendments in the SEBI (Disclosure and Investor Protection) Guidelines, 2000. These guidelines would come into effect once recognition of certain banks as “self-certified syndicate banks” (“**SCSB**”) is completed by SEBI.

#### SCSB

ASBA process would be supported by SCSBs. Banks that wish to be recognised as SCSBs must hold a valid registration certificate as a banker to an issue under the SEBI (Bankers to an Issue) Regulations, 1994. Further, the bank must submit a certificate to SEBI in a prescribed format for inclusion of its name in the SCSB list, which will be displayed on the SEBI Website. Once the bank is recognised, it shall then be deemed to have entered into an agreement with the issuer and shall be required to offer the ASBA facility to all its account holders for all issues to which the ASBA process is applicable.

#### PROCESS

According to the ASBA process, retail investors would have to submit bids at the cut-off price through SCSBs in which they have their bank accounts. Thereafter, the SCSBs would accept the applications, block the funds after obtaining an authorisation from the account holder, to the extent of bid payment amount and then upload the application details in the electronic bidding system of the stock exchanges. Once the basis of allotment is finalized the SCSB shall accordingly unblock the funds and transfer the amount for allotted shares, to the issuer.

#### IMPLICATIONS

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### How Cross Border M&A Will Shape

- **Makes existing public issue process more efficient:** It is a step towards reducing the gap between the opening of an issue and listing of its shares. By reducing the gap, price speculation between pricing of an issue and the day of its listing is minimized and thus it makes existing public issue process more efficient.
- **Reduce time line between the closure of the issue, allotment and listing:** The modalities as laid down in ASBA process will help in cutting down the timeline between a company's public issue and its listing. This will to an extent also reduce the vagaries associated with the capital market in case of public issue.
- **Benefits to Retail Investors:** It is a win-win situation for the retail investors as by earmarking or blocking the fund in the bank account of the investor for the public issue the funds will remain in their bank account during the entire public issue process. Further, as soon as the allotment is over, the block is removed, the amount equivalent to the shares allotted would be paid to the issuer towards the allotment of shares and the rest is made available to the investors immediately. In case of no allotment, the amount would be simply released and the investor would be able to utilize it immediately.

Source: [SEBI DIP Guidelines](#)

- **Ruchi Biyani & Sambhav Ranka**

You can direct your queries or comments to the authors

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