



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

**Consultation Paper on
“Framework for Price Discovery of Shares of
listed Investment Companies & listed
Investment Holding Companies”**



A. Objective:

- i. The objective of this consultation paper is to seek comments/ views/ suggestions from the public on the proposal to lay down a framework for price discovery of shares of listed Investment Companies (ICs)¹ & listed Investment Holding Companies (IHCs)² whose market price is at significant discount to book value.

B. Background

- i. Currently, shares of a few listed ICs or IHCs are getting traded infrequently but at a price which is significantly lower than the book value disclosed by the listed entities in their last audited financial statements. Moreover, these companies generally have no day-to-day operations and hold only investments in different asset classes including in other listed company(ies). In certain cases, it is observed that where the investments are mainly in shares of other listed companies, the market value of the IC or IHC is at significant variance from its book value, even though the market value of the investments held is very high. The valuation of such ICs or IHCs could be fairly high on account of growth in their investments in shares of other listed companies.
- ii. It has been view of a section of market that, the variance in the market price and book value of such companies is adversely affecting liquidity, fair price discovery and the overall interest of investors of such ICs or IHCs.
- iii. SEBI also received representations from a market participant proposing free price discovery in the shares of such companies citing the reason that due to the presence of circuit filters specified by SEBI and the market price of

¹ As per classification of industry provided by Stock Exchanges ICs are *Companies which earn major revenue from interest, capital appreciation from investments made. It does not include rental income which is classified under 'Diversified Commercial Services'*

² *Holding companies with holding of 51% or more in other company*



shares of such ICs or IHCs are not possible to be discovered closer to their investment value represented by the investments held and thus have huge variance from the book value with near zero liquidity.

C. Existing provisions governing the price discovery mechanisms for shares of Listed Companies:

- i. SEBI from time to time had put in place various mechanisms not only to ensure fair and transparent price discovery, but also to ensure liquidity in shares of listed companies. Further, the concept of price bands had been put in place as a risk management and surveillance measure for ensuring orderly trading, appropriate price discovery, promote market integrity, etc.
- ii. Paragraph 17 of Chapter 1 of SEBI Master Circular for Stock Exchanges and Clearing Corporations dated October 16, 2023, prescribed the call-auction session for Initial Public Offering (IPO) or relisted companies, pre-open session for listed companies and periodic call-auction for illiquid shares, subject to certain conditions.
- iii. Based on various parameters such as surveillance aspects, volatility and risk management, differential price bands of 5%, 10% and 20% were put in place for various category of shares to reduce volatility and manipulation. Further, price bands for the first day of trading pursuant to IPO, relisting, etc. in normal trading session were also prescribed.

D. Consultation

- i. Deliberations were held with Stock Exchanges and certain ICs or IHCs in order to ascertain the magnitude of the issue and ways to facilitate effective price discovery in such companies.

- ii. During deliberations, it was observed that there are a total of around 70 listed ICs or IHCs. Out of which 28 companies have 25% or more of their assets invested in shares of other listed companies. Out of these 28 companies, 16 companies have their six-month average volume weighted average price (VWAP) (for the period from October 01, 2023 to March 31, 2024) at discount to their book value (as per the latest available information as on September 30, 2023). For other thresholds the details are given as under:

Table 1: Discount to Standalone book value considering all investments

Total Assets of company invested in shares of other listed companies (A)	Total no. of Companies (B)	No. of companies with 6 month VWAP at discount to their book value (C)	Out of (C), VWAP as discount to Book Value (in %) (D)		
			>25%	>50%	>75%
25% and above	28	16	15	10	3
50% and above	25	15	14	10	3
70% and above	16	11	11	9	3
90% and above	7	5	5	4	1

Table 2: Discount to Standalone book value calculated based on pro-rata* of investments in listed companies

Total Assets of the company invested in shares of other listed companies (A)	Total no. of Companies (B)	No. of companies with 6 month VWAP at discount to their book value based on <i>pro-rata</i> * of the investments in shares of other listed companies (C)	Out of (C), VWAP as discount to Book Value (in %) based on the investments in shares of other listed companies (D)		
			>25%	>50%	>75%
25% and above	28	15	12	8	2
50% and above	25	15	11	8	2
70% and above	16	11	10	7	2
90% and above	7	5	5	3	1

**An illustration on calculation of book value based on pro-rata of the investments in shares of other listed companies:*

- a) *If the book value of the company is INR Y Cr.*



- b) *If the investments in other listed companies is X% of the total assets of the company.*
- c) *The book value of the company based on the pro-rata investments in other listed companies would be equal to = INR (Y*X%)*

E. Need for Review:

- i. In this regard, two different views have emerged (a) from the investor perspective, the fair price is not being determined due to the price band and (b) from the company perspective, the market price is being determined in the secondary market. Overall, with a view to protect the interest of investors of ICs or IHCs whose market price is at substantial discount to its book value, it is felt necessary to review the existing framework for price discovery and put in place necessary mechanisms to provide an opportunity for fair and transparent price discovery.

F. Proposal

- i. A special call-auction mechanism without price band may be enabled for listed ICs and IHCs, whose shares are trading beyond a certain discount to their book value.
- ii. Stock Exchanges shall co-ordinate amongst themselves and provide the special call-auction mechanism for such companies.
- iii. Criteria for identification of ICs or IHCs eligible for special call-auction:
 - a) The ICs or IHCs may be identified based on their existing industry classification;
 - b) The scrip should have been listed and available for trading at least for a period of 1 year and the company should have been compliant with all the LODR Regulations including submission of audited financial results;
 - c) Total assets of the company invested in shares of other listed companies may at least be 50%;



- d) The 6-month VWAP of the security may be less than 50% of the book value of such companies; or
The 6-month VWAP of the security may be less than 50% of the book value of such company based on pro-rata of their investments in shares of other listed companies;
- iv. Once the companies are identified, the stock exchanges shall initiate the process for special call-auction without price band for shares of such company(ies) with a 7-day prior notice, subject to the following:
- a) The detailed information including the latest available overall book value of the company, book value based on the investments in shares of other listed companies, investments in other listed companies, last traded price, etc. to be disclosed by the stock exchanges on their websites and appropriately bring to the notice of the investors.
- b) The special call auction session may be treated successful i.e. the discovered price shall be treated as new price only if at least 5 unique (based on PAN) buyers and sellers have participated in the call-auction session.
- c) If call auction is not a success on day 1, it will continue on the next day and till such time the price is discovered.
- d) Other aspects such as duration of session, risk management, equilibrium price, etc. of special call-auction may be same as applicable for pre-open call auction in case of IPO and relisted shares.
- v. The special call-auction mechanism may be provided for the ICs or IHCs only once in a year.

G. Public Comments:

- i. Public comments are invited on the above-detailed proposals. The comments/ suggestions should be submitted latest by May 10, 2024. through the following link:



<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

- ii. In case of any technical issue in submitting your comment through web based public comments form, you may send your comments through e-mail to sumank@sebi.gov.in, dhanushs@sebi.gov.in & mrd_pod3@sebi.gov.in with the subject "Consultation Paper on "Framework for Price Discovery of Shares of listed Investment Companies & listed Investment Holding Companies" on the proposals at Paragraph F above and also on the following:
- a. Whether any special call-auction mechanism without price band be required for ICs or IHCs whose price to book value is at significant discount, for efficient price discovery?
- Yes
 - No
- b. For identification of such ICs or IHCs what should be the appropriate % of the assets invested in shares of other listed companies?
- 25% and above
 - 50% and above
 - 70% and above
 - 90% and above
- c. What should be the book value for identifying the list of companies eligible for special call auction?
- overall book value (based on total investments including investments in other listed entities).
 - book value based on the pro-rata of their investments in shares of other listed companies.



- d. For identification of such ICs or IHCs what should be the appropriate % discount of 6-month VWAP of the scrip to the book value of such companies:
- 25% and above
 - 50% and above
 - 75% and above
- e. For identification of such companies what should be the appropriate time period for computation of VWAP?
- 1 year
 - 6 months
 - 3 months
- f. What information to be disclosed by stock exchanges along with the last traded price, prior to the special call-auction?
- latest available overall book value of the company,
 - latest book value based on the investments in shares of other listed companies,
 - percentage of investments in other listed companies,
 - last traded price
 - All
- g. Whether there should be any allowed price range applied to book value/ the base price for the special call-auction?
- Yes
 - No
- h. Whether the special call auction session shall be treated successful if at least 5 unique (based on PAN) buyers and sellers have participated in the call-auction session?
- Yes



- No

- i. Whether the participants in the special call-auction mechanism should be mandated to bring the funds and securities of the IC or IHC upfront to avoid price manipulation?
 - Yes
 - No

- j. Any other suggestion to improve the price discovery of ICs or IHCs

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