

Enhancement of limit for defining Retail Individual Investors in public issues
Discussion Paper for proposed changes to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009

1.0 Background:

1.1 Retail Individual Investor in a public issue was defined in the erstwhile SEBI (Disclosure and Investor Protection) Guidelines, 2000 (DIP Guidelines) until August 2003 as under:

(i) Fixed price issue: Retail Individual Investor is one who applies for allotment equal to or less than 10 marketable lots.

(ii) Book built issue: Retail Individual Investor is one who applies for up to 1000 securities.

1.2 The aforesaid definition of Retail Individual Investor did not differentiate between profiles of different investors. e.g. a Retail Individual Investor who applies for 1000 shares of ₹530/- each and a Retail Individual Investor who applies for 1000 shares of ₹.10/- each. It was decided to define Retail Individual Investor on the basis of amount applied for, instead of the number of shares applied for and DIP Guidelines were amended in August 2003 to provide that a Retail Individual Investor means an investor who applies or bids for securities of or for a value of not more than ₹50,000.

1.3 The aforesaid limit of ₹50,000 was found to be too low particularly in the context of large size book built issues and also resulted in higher transaction costs. In view of this, in March 2005, the DIP Guidelines were amended to enhance the aforesaid limit from ₹50,000 to ₹1,00,000.

1.4 The aforesaid stipulation of DIP Guidelines has now been incorporated in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations).

2.0 Matter for consideration :

2.1 It is more than five years since the limit of ₹1,00,000 for defining a retail individual investor was stipulated. It is felt that the aforesaid limit of ₹1,00,000 for defining a retail individual investor needs to be enhanced on account of interalia the following reasons:

- (i) It has been observed that in recent public offerings, approximately 75% of applications in the Retail Individual Investor category have come in the size of ₹80,000 to ₹1,00,000. Whereas, in the Non Institutional Investor category, the number of applications in the size of less than ₹5,00,000 is negligible. The above suggests that Retail Individual Investors who have the capacity and appetite to apply for securities worth above ₹1,00,000 were constrained from doing so because of the ₹1,00,000 limit nor do they make an application under the Non Institutional Investor category because the allocation there is limited to 15% as against 35% for Retail Individual Investor category.
- (ii) In terms of ICDR Regulations, since 35% of the public issue is to be allocated to Retail Individual Investors, in a large sized public issue e.g. for an issue size of ₹.4000 crores to ₹6000 crores, the limit of ₹1,00,000 would mean that the issue has to receive a minimum of 1,50,000 to 2,00,000 applications from Retail Individual Investors to fill in the 35% allocation. This could be a daunting task considering that in case of well oversubscribed issues, the number of applications received from Retail Individual Investors was in the range of 35,000 to 70,000.
- (iii) The rate of inflation in India has increased from about 4% in 2005 to about 12% currently, measured in terms of wholesale price index. In the same period, the BSE Sensex has risen from about 8000 points to about 18000 points. This means that the Retail Individual Investors now buy a lesser number of securities with ₹1,00,000 than they would buy with the same amount in 2005.

3.0 Proposal:

- 3.1 Having regard to the above, it is proposed to amend ICDR Regulations to enhance the limit prescribed for defining a Retail Individual Investor in a public issue from the existing ₹.1,00,000 to ₹.2,00,000.

4.0 Public comments:

- 4.1 As part of the consultative decision making process followed by SEBI in policy formulation, comments / suggestions are invited from the public on the proposed changes. Comments/ suggestions may be sent to the address mentioned below to Mr. Sudeep Mishra, Assistant General Manager, Division of Issues and Listing, Corporation Finance Department, Securities and Exchange Board of India, on or before September 3, 2010.

SEBI Bhavan, Plot No: C – 4A, G Block,
Bandra Kurla Complex,
Mumbai 400 051.

Comments/suggestions may also be emailed to sudeepm@sebi.gov.in or to sanjayp@sebi.gov.in.