

SEBI issues operational guidance in respect of buy-back regulations

Introduction

In February 2023, the Securities and Exchange Board of India (SEBI) made an amendment to the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018 ('buy-back Regulations.'). The said buy-back regulations took effect from 9 March 2023. They apply to all the buy-back offers where the Board of Directors ('BOD') of the company approves a resolution with respect to buy-back on or after 9 March 2023.

Restrictions for companies undertaking buy-back through stock exchange route

- The company shall not:
 - purchase more than 25% of the average daily trading volume (in value) of its shares/other specified securities in the 10 trading days preceding the day in which such purchases are made
 - place bids in the pre-open market, i.e., in the first 30 minutes and the last 30 minutes of the regular trading session.
- The company's purchase order price should be within the range of $\pm 1\%$ from the last traded price.

The above compliances apply to the company and its appointed brokers, non-compliance of which will attract fines and other enforcement actions.

Margin requirement for deposits in 'Escrow Account'

- The escrow account shall consist of cash and/or other than cash.
- The portion of the escrow account in the form of other than cash shall be subject to an appropriate haircut. It is advised that the merchant banker ('MB') to the buy-back offer ensures that an adequate amount after the applicable haircut is available in the escrow account till the completion of all formalities of the buy-back.

Weblink

https://www.sebi.gov.in/legal/circulars/mar-2023/operational-guidance-amendment-to-sebi-buy-back-of-securities-regulations-2018_68765.html

Therefore

SEBI has been taking various steps in protecting its investors and promoting capital market development. The recently amended buy-back regulations and the operational guidance provided by SEBI ensure that the buy-back bids are unbiased, i.e., they prohibit the buy-back from the company's promoters and the persons in control of the company. Also, the free pricing clause (within 1% range of the traded price) is allowed to ensure that the trades are unbiased. Enabling such controls in place ensures the protection of investors in the long run.