

**CIRCULAR**

**SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/86**

**June 20, 2024**

**All Recognized Stock Exchanges**

Sir/ Madam

**Subject: Introduction of a special call auction mechanism for price discovery of scrips of listed Investment Companies (ICs) and listed Investment Holding Companies (IHCs)**

1. Paragraph 17 of Chapter 1 of SEBI Master Circular No. SEBI/HO/MRD2/POD-2/CIR/P/2023/171 dated October 16, 2023 for “Stock Exchanges and Clearing Corporations” prescribed the framework for call auction session. The framework for call auction is applicable for pre-open sessions; pre-open sessions for Initial Public Offer (IPO) & relisted scrips; and illiquid Scrips.
2. It is observed that scrips of a few listed ICs and IHCs are being traded infrequently and at a price which is significantly lower than the book value disclosed by these companies in their latest audited financial statements. Moreover, these companies generally have no day-to-day operations and hold investments in different asset classes including in scrips of other listed companies.
3. The variance in the market price and book value of such ICs and IHCs is adversely affecting liquidity, fair price discovery and the overall interest of investors in scrips of such companies.
4. In order to address the above concern, based on the deliberations with various stakeholders including stock exchanges, public comments and recommendations of Secondary Market Advisory Committee of SEBI, it has been decided to put in place a framework for “special call auction with no price bands” for effective price discovery of scrips of such ICs and IHCs.

5. The operational guidelines in this regard are as under:

5.1. Criteria for identification of ICs or IHCs eligible for special call-auction:

- i. The ICs or IHCs shall be identified based on the uniform industry classifications provided by stock exchanges.
- ii. The scrip of ICs or IHCs should have been listed and available for trading for a period of at least 1 year and the said scrips are not suspended for trading.
- iii. Total assets of the company invested in scrips of other listed companies shall be at least 50%;
- iv. The 6-month Volume Weighted Average Price (VWAP) of the scrip shall be less than 50% of the book value per share of such company based on present value of their investments in shares of other listed companies. In case the scrips of such ICs or IHCs are not traded during the previous 6-months, the 6-months VWAP of the scrip shall be taken as zero.

Illustration:

- a) *The book value of the company based on investments in other listed companies is INR 10 Cr. and the total number of issued shares of company is 1 Cr. Thus, per share book value of the company based on the value of listed investments is INR 10.*
  - b) *The 6-month VWAP of the share is INR 3, which is less than 50% of the per share book value based on the value of its investments in listed companies. Thus, the company would meet this eligibility criterion for special call auction.*
- v. In case, any of the eligibility criteria is not fulfilled by the company at one of the stock exchange, the scrip would not be eligible for special call auction at any of the stock exchanges.

5.2. Procedure for Special Call Auction Mechanism:

- i. Stock exchanges shall initiate the process for special call-auction with no price bands for eligible ICs or IHCs with a 14 days' advance notice to the

market. In case the company is listed on multiple stock exchanges, stock exchanges shall co-ordinate amongst themselves and the date of special call auction session shall be uniform across the exchanges.

- ii. The notice shall be disclosed by the stock exchanges on their websites and appropriately bring to the knowledge of the investors. It shall include detailed information regarding last traded price, the latest available overall book value of the company, book value based on the investments in scrips of other listed companies, proportion of assets invested in other listed companies, price of latest buy-back or delisting, if any, offered by the company, etc.
- iii. The special call auction session shall be treated as successful, if price discovery is based on orders from at least 5 Permanent Account Number (PAN) based unique buyers and sellers. In case the scrip is listed on multiple stock exchanges and call auction is successful on any one stock exchange, the price discovered at that stock exchange will form the base for trading at other stock exchanges.
- iv. If call auction is not a success on day 1, it shall continue on the next day and till such time the price is discovered.
- v. The special call auction mechanism shall be provided only once in a year.

5.3. The provisions for other operational details regarding duration of the session, market orders, matched and unmatched orders, equilibrium price, risk management and surveillance mechanisms for the special call auction session will be same as applicable to relisted scrips as mentioned at Paragraph 17.2 of the Master Circular dated October 16, 2023 for “Stock Exchanges and Clearing Corporations” and modifications therein.

5.4. In order to avoid order spoofing and manipulative activities in the special auction session, stock exchanges shall have adequate risk management and surveillance mechanism in place before conducting such session.



**6. Applicability:**

6.1. To start with, first such special call auction shall be conducted in the month of October 2024 by stock exchanges based on the latest available audited financial statements of such companies.

6.2. The subsequent special call auctions shall be done as and when the annual audited financial statements are published by the companies.

**7. Stock Exchanges are advised to:**

7.1. take necessary steps and put in place necessary systems for implementation of the above.

7.2. make necessary amendments to the relevant bye-laws, rules and regulations, wherever required, for implementation of the above; and

7.3. bring the provisions of this circular to the notice of the market participants (including investors) and disseminate the same on their website.

8. This circular is issued in exercise of the powers conferred under section 11(1) of the Securities and Exchange Board of India Act 1992 read with regulation 51 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

9. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) at "Legal Framework - Circulars".

**Yours faithfully,**

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