

CIRCULAR

SEBI/HO/CFD/DIL2/CIR/P/2018/22

February 15, 2018

Registered Bankers to an Issue
Registered Merchant Bankers
Registered Registrars to an Issue
and Share Transfer Agents

Dear Sir/Madam,

Sub: Compensation to Retail Individual Investors (RIIs) in an IPO

1. While the process of Applications Supported By Block Amount (ASBA) has resulted in almost complete elimination of complaints pertaining to refunds, there have been instances where the applicants in an Initial Public Offering have failed to get allotment of specified securities and in the process may have suffered an opportunity loss due to the following factors:
 - a) Failure on part of the Self Certified Syndicate Banks (SCSBs) to make bids in the concerned Exchange system even after the amount has been blocked in the investors' bank account with such SCSB.
 - b) Failure on part of the SCSB to process the ASBA applications even when they have been submitted within time.
 - c) Any other failures on part of an SCSB which has resulted in the rejection of the application form.

2. A need has been felt to have a uniform policy for calculation of minimum compensation payable to investors in scenarios mentioned in Para 1. a), b) and c) of this Circular. While doing so, the following factors have been taken into account:
 - a) the opportunity loss suffered by the investor due to non-allotment of shares;
 - b) the number of times the issue was oversubscribed in the relevant category;
 - c) the probability of allotment; and
 - d) the listing gains if any on the day of listing.

3. The proposed formula for calculation of minimum fair compensation is as follows:

$$\text{Compensation} = (\text{Listing price}^* - \text{Issue Price}) \times \text{No. of shares that would have been allotted if bid was successful} \times \text{Probability of allotment of shares determined on the basis of allotment}$$

**Listing price shall be taken as the highest of the opening prices on the day of listing across the recognized stock Exchanges.*

The formula has been explained with the help of an example in the annexure to this Circular.

4. It is also proposed that in case of issues which are subscribed between 90-100%, i.e. non oversubscribed issues, the applicants would be compensated for all the shares which they would have been allotted.
5. No compensation would be payable to the applicant in case the listing price is below the issue price.
6. RTAs shall share the basis of allotment file, if sought by SCSBs, so that the SCSBs shall have access to the allotment ratio for the purpose of arriving at the compensation.
7. Any applicant whose application has not been considered for allotment, due to failure on the part of the SCSB, shall have the option to seek redressal of the same within three months of the listing date with the concerned SCSB. On receipt of such application/s, the SCSB would be required to resolve the same within 15 days, failing which it would have to pay interest at the rate of 15% per annum for any delay beyond the said period of 15 days.
8. In case the SCSBs fail to redress such grievances within the stipulated time, additionally SEBI may initiate action as deemed fit.
9. This circular shall come into force with immediate effect. SCSBs are also advised to resolve all pending issues related to non-allotment of specified securities whether on the SEBI SCORES portal or otherwise using the compensation policy outlined in this Circular.
10. This circular is being issued in exercise of the powers under section 11 read with section 11A of the Securities and Exchange Board of India Act, 1992.
11. This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework" and "Issues and Listing".

Yours faithfully,

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Reference chart for calculation of minimum compensation in case of non-allotment of specified securities to applicants (Retail Individual Investors) in an IPO

Example - Security A

Issue Price : 300

Listing Price: 325

Minimum Bid lot : 20 shares

Total No. of Applications received from RII	No. of Equity Shares applied in all valid applications	Shares Reserved for RIIs	No. of times Subscribed
(A)	(B)	(C)	(D)=B/C
2,00,000	3,28,00,000	35,00,000	9.37

*RII-Retail Individual investor

In this case maximum possible allottees is $35,00,000/20 = 1,75,000$

The basis of allotment is determined by Lead Managers in consultation with the Stock Exchanges as under:

No. of Lots	No. of Shares at each lot	No. of retail Investors applying at each lot	Total No. of Shares applied for at each lot	No. of investors who shall receive minimum bid-lot (to be selected on lottery)	Allotment Ratio Determined	No. of shares allotted per allottee (minimum lot size)
A	B	C	D=(B*C)	E	F = E:C	G
1	20	10,000	200,000	$8750=(175000/200000)*10000$	7:8	20
2	40	10,000	400,000	8,750	7:8	20
3	60	10,000	600,000	8,750	7:8	20
4	80	10,000	800,000	8,750	7:8	20
5	100	20,000	2,000,000	17,500	7:8	20
6	120	20,000	2,400,000	17,500	7:8	20
7	140	15,000	2,100,000	13,125	7:8	20
8	160	20,000	3,200,000	17,500	7:8	20
9	180	10,000	1,800,000	8,750	7:8	20
10	200	15,000	3,000,000	13,125	7:8	20
11	220	10,000	2,200,000	8,750	7:8	20
12	240	10,000	2,400,000	8,750	7:8	20
13	260	10,000	2,600,000	8,750	7:8	20
14	280	5,000	1,400,000	4,375	7:8	20
15	300	15,000	4,500,000	13,125	7:8	20
16	320	10,000	3,200,000	8,750	7:8	20
	Total	200,000	32,800,000	175,000		

In this case if the number of shares applied by an applicant whose bid was unsuccessful due to failure/error on part of SCSB is 20 shares or multiples thereof, then the minimum compensation is calculated as under:

$$\text{Compensation} = (\text{Rs.}325 - \text{Rs.}300) * 20 * (7/8) = \text{Rs.}437.50$$
