GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4046
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FIXING PREMIUM ON FACE VALUE
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Will the Minister of FINANCE be pleased to state:

(a) whether there is a provision to fix premium on face value of shares;

(b) if so, the manner in which premium is fixed on face value of shares;

(c) whether the Government has apprehensions about the possibilities of exploitation of shareholders due to this procedure;

(d) if so, the reaction of the Government thereto; and

(e) the corrective steps taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) In terms of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (SEBI (ICDR) Regulations), the issuer has the discretion to fix the issue price, in consultation with the merchant banker. Since, the issue price is calculated as face value plus premium, it automatically gives them a discretion to fix the premium on shares.

(b) In case of `fixed price issue`, the issuer at the outset decides the issue price and mentions it in the Offer Document whereas in case of `book built issue`, the issuer discloses a price band or floor price before opening of the issue of the securities offered. Regulations require an issuer to disclose and justify the basis of issue price, floor price or price band (limited to 20 per cent of the floor price), as the case may be, in the offer document based on the various accounting ratios and other qualitative factors. The freedom to fix the issue price, floor price or price band (as the case may be) rests with the issuer, in consultation with the Merchant banker.

(c) to (e) Indian securities market regulatory framework is based on disclosures. As per the SEBI (ICDR) Regulations, the offer document is required to contain all disclosures specified therein and also additional disclosures as deemed fit by the Merchant Banker to enable investors to make an informed investment decision, including the basis for issue price. The price discovered in a particular issue is the appropriate price at that moment based on the demand for the scrip under the prevailing market conditions. Post-listing price is a function of market factors, including demand and supply. When circumstances change, the market price also changes. However, equity is a risk bearing capital and investment in equity contains a certain degree of risk.