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## Phasing out the Stock Exchange Route

### Why in news?

The Securities and Exchange Board of India has decided to phase out the buyback of shares of listed companies through exchange route and favoured the tender offer.

### What is the SEBI decision about?

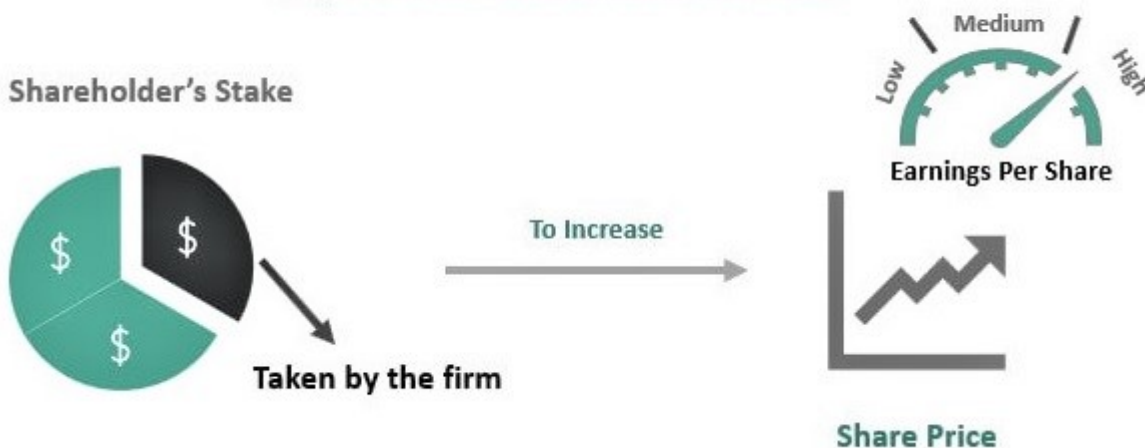
- The SEBI board agreed to move to a tender offer route instead of a stock exchange route.
- SEBI will phase out buyback through the stock exchange route with effect from April 1, 2025.
- The aim of this move is to make the buyback process more robust, efficient, transparent and shareholder-friendly.

### What is buyback?

- A buyback is when a company buys its own outstanding shares to reduce the number of shares available on the open market.
- It is also known as a share repurchase.
- **Reasons for buy back shares** - To increase the value of remaining shares available by reducing the supply
- To prevent other shareholders from taking a controlling stake
- The maximum limit of any buyback is 25 % or less of the aggregate of paid-up capital and free reserves of a company.

## Share Buyback

The share buyback is an economic activity whereby the firm repurchases its shares from investors.



### What are the two routes?

- **Stock exchange route** - Under the stock exchange route, a company can buy back shares only on the stock exchanges having nationwide trading terminals.
- The buyback of shares is made only through the order-matching mechanism.
- In this method, the promoters, or persons in control of a company are not allowed to participate.
- **Tender offer route** - A tender offer means an offer by a company to buy back its own shares or other specified securities through a letter of offer from the shareholders or other specified securities.
- The buyback is done on a proportionate basis as per the buyback ratio.
- The additional shares tendered over and above the prescribed buyback ratio get accepted if there are any unaccepted shares.
- It is a fixed-price buyback offer.

### Why is SEBI against the exchange route?

- **Issues with stock exchange route** - As per the recommendations of the **Keki Mistry committee**, under the stock exchange route, there is a possibility of one shareholder's entire trade getting matched with the purchase order placed by the company.
- This deprives other shareholders of availing the benefit of buyback which is contrary to the principle of equitable treatment.
- **Benefits of tender route** - The tender route is the more equitable route for buybacks.
- The other routes are vulnerable to favouritism because only a few people may be aware of when the company is going to come in order to buyback shares and gets benefitted.
- SEBI's decision to phase out stock buyback through the exchange route will give all the shareholders an opportunity to participate.

## References

1. [The Indian Express | Why Sebi is phasing out the stock exchange route](#)
2. [Investopedia | What is a buyback?](#)



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