

# Sebi Not to Tweak Rules for SMEs' Sake

But says in order to make SME trading platforms a reality, it's ready to make market-making attractive with additional steps

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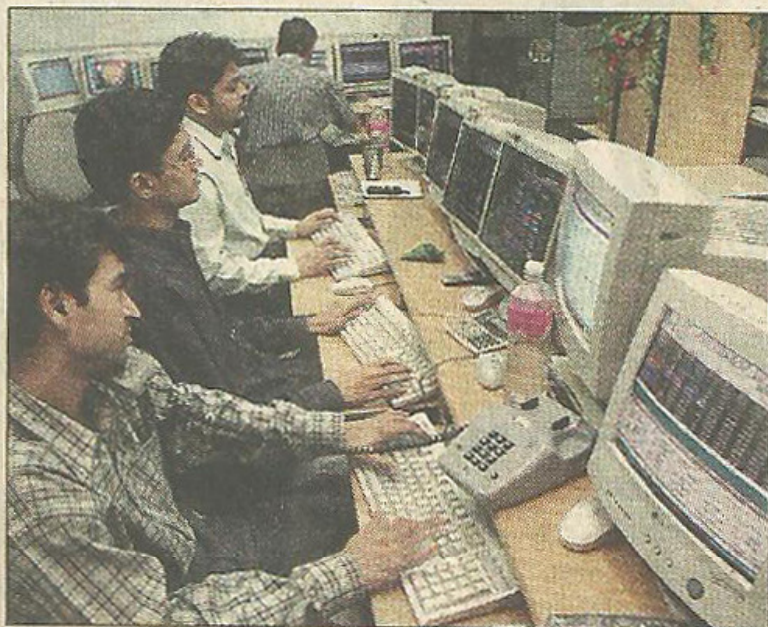
Capital market regulator Securities and Exchange Board of India, or Sebi, has told stock exchanges to firm up in a week new measures to attract merchant bankers to the planned new trading platforms for small and medium-sized enterprises (SMEs), two persons familiar with the matter said.

The launch of SME platforms on both National Stock Exchange and Bombay Stock Exchange have been delayed after merchant bankers objected to certain rules on providing market-making to SME offerings up to three years from listing.

At a meeting on Wednesday, Sebi officials told the exchanges that though the rules on market-making would not be reviewed, the regulator was open to suggestions on additional measures needed to make such issues more attractive to bankers.

"It is a timely move from the regulator as SME exchanges were stuck due to issues relating to merchant bankers. We will consult with the bankers in the coming week and submit a proposal," said a senior exchange official, requesting anonymity.

Merchant bankers are mandated to provide market-making to primary offerings of SMEs for 75% of total trading time up to three years after the listing. They had objected to this rule, citing the high cost of capital needed for market-making



and comparatively low fees from the issues of smaller size.

However, analysts said it is unlikely that merchant bankers will find any measure tempting while the market-making rule remains intact. "Tactically, there is no solution if an investment banker still has to do market-making for three years," said Saurabh Agarwal, director of Kennis Group, which advises SMEs on financing and IPOs. "Any company will want to move to the main bourse within three years of listing on the SME exchange. So, the only way to appease investment bankers would be to give companies an option to move to the main bourse within three years, although that seems like an unlikely outcome of the discussions," he said.

A senior official from a stock exchange said market-making was a safeguard meant for investors, and merchant bankers and the regulator will have to arrive at a compromise for the SME exchange to run smoothly. "The point is to make it a win-win situation, from the win-loss situation that it is right now," the person said.