

## Underwriting of Shares and Debentures

**Underwriter:** SEBI rules 1993 deals with underwriter. Underwriter is a guarantee and underwriting is an agreement with or without condition to subscribe security of a company when existing shareholders of such company or public do not subscribe to the securities offered.

As per law if subscription is not up to 90% then company has to refund all application to mitigate such risk of under subscription an underwriter is appointed.

**Underwriter commission:** the consideration payable to underwriter for underwriting issue of shares/debentures called underwriting commission. The commission paid at a specified rate on the issue price of whole shares and debentures underwritten whether or not underwriters are called upon to take up shares and debentures. Companies Act, 2013 specify the payment of such commission shall be authorized by AOA and commission may be paid out of profit of the company or both.

**The commission paid to underwriter should not exceed 5 % in case of shares and 2.5% in case of debentures.**

The prospect of company shall disclose name of the underwriter, rate and the amount of commission payable to underwriter and the number of securities, which is to be underwritten.

SECURITIES	ON AMOUNT DEVOLVED	AMT SUBSCRIBED PUBLIC
Shares	2.5%	2.5%
Debentures:		
-issue amount up to 5lac	2.5%	1.5%
-issues amount exceeding 5 lac	2%	1%

Securities requires to be purchased by underwriter is known as AMOUNT DEVOLVED.

- No underwriting commission is payable on shares taken up by promoter, employees, directors..
- Entry for underwriting commission due:
- Commission is payable on whole issue underwritten irrespective of the fact that the whole of issue is taken by public.

### **UNDERWRITERS, SUB UNDERWRITERS, BROKERS:**

**Underwriter:** is a person who engages in business of underwriting of an issue of securities of a body. He must hold certificate granted by SEBI and must have net worth of 20lac.

**Sub underwriter:** to spread the risk of under subscription the principal underwriter may appoint sub underwriter. The underwriter can arrange the sub underwriting of it's under writing obligation of its own. The principal underwriter will get commission at a rate from company and principal underwriter in turn pays commission to sub underwriter.

Sometime company can arrange to appoint sub underwriters by paying additional commission known as OVERRIDING COMMISSION.

**Brokers:** broker makes mere promise to procure the shares or debentures. They do not take responsibility. In other words, broker is not liable to take up securities not purchased by public. If broker fail he gets no brokerage. In short, broker gives service for finding subscribers.

### Types of underwriting:

1. **Open or conditional underwriting:** it is a type of agreement where underwriter agree to take up agreed proportion of shares not taken by public.
2. **Firm underwriting:** underwriter takes up specific number of shares irrespective of shares subscribed by the public. In this case even if issue is oversubscribed the underwriters are liable to subscribe agreed number of shares. Normally, underwriters liability is determined without considering the number of shares taken by him
3. **Full undertaking:** If whole of the issue of shares or debentures of a company is underwritten, it is known as full underwriting.
4. **Partial underwriting:** If only a part of the issue of shares or debentures is underwritten, it is said to be partial underwriting.
5. **Mark underwriting:** the application form stamped by the name of underwriter is known as mark underwriting. The benefit is given to concern underwriter. It is important if there are two or more underwriters or if issue has been only partially underwritten.
6. **Unmark underwriting:** Those applications, which do not bear the stamp of underwriter, is known as unmark underwriting. The benefit will be given to the company.
7. **Sole underwriting:** single underwriter does the underwriting.
8. **Joint underwriting:** many underwriters do the underwriting.

**ACCOUNTING ENTRIES:**

**Entry for shares/debentures allotted to underwriter:**

Underwriter a/c.....Dr.

To share capital a/c

To Debentures a/c

**Entry for underwriting commission due:**

Underwriting commission a/c.....Dr.

To underwriter a/c

**Entry for net amount or settlement:**

Bank a/c.....Dr.

To underwriter a/c