

Fractional Ownership of Shares Concept and Challenges in the Way in Indian Markets

Dr. Prayank Sharma

Assistant Professor, HSMS, Swami Rama Himalayan University

Abstract- The Indian financial market is growing at a very fast pace and same is happening to the stock markets too. Fractional ownership of a share is a new concept Indian financial environment is ready to accept and implement or not. What can be the challenges in implementation of the concept? This article is a view point about the positiveness and its utility of the concept of fractional shares and the amendments requirements in the concerned laws and acts to make it a practically possible.

Keywords: Fractional ownership, Shares, accessibility, Financial inclusion

1. INTRODUCTION

Fractional shares are the shares which are part of the stock of the share capital of the company. Investing through fractional shares is a permission to purchase a portion of the shares trading in markets which means the investor can purchase the portion of the share instead of buying the full one share. This is possible by purchasing stock shares via a fractional share marketplace that provides this service. A stock can be broken down into a greater number of smaller shares by applying the concept of fractional shares which can be purchased by the investors.

Fractional ownership of shares, a concept gaining traction globally, involves dividing the ownership of a single share into smaller, more affordable portions. While promising greater accessibility to investing, its adoption in Indian markets faces challenges such as regulatory complexities and technological infrastructure limitations.

2. EVENTS THROUGH WHICH FRACTIONAL SHARES ARE CREATED

Stock Splits

Stock split is a financial strategic action which results in the increase in number of shares but in this process of stock split the market capital remains same. We can say that it is the process of increasing number of shares and reduction in the value of the share. For e.g. the split of amazon split its stock in the ratio of 20:1 in the year 2022. In the pre-split period the share price was approx. \$2,785 and the split result in reduction of share price of \$139. So it is now in the reach of the small investors too and it hiked more than 4% on the day of share split.

Mergers and Acquisitions

Fractional shares may be formed as companies merge to create new stocks with a predetermined ratio. For e.g. Sohan

holds 7 shares in Company X, which is going to merge with Company Y. The companies decide to convert the shares 3-for-5 in their new company Z. After the merger, Sohan will become the owner of 4.2 shares of Company Z.

Dividend Reinvestment Plans

This plan also emerges the situation of fractional shares in this plan the company offer the reinvestment of dividend payout to purchase the shares of same companies. In foreign countries brokerage firm also allows investors to use dividend pay outs for purchase of the shares of same company but it may be possible that the pay outs are not sufficient to purchase the shares which lead to the emergence of fractional shares in foreign share markets.

3. NEED AND CHALLENGES

Table 1: Frictional training comparison with united states of America.

INDIA		UNITED STATES OF AMERICA	
Share price in (Rs.)	No. of Companies	Share Price in (USD)	No. of Companies
0-100	2483	0-10 (up to Rs750Approx)	2956
100-500	1028	10-50 (up to Rs3750Approx)	3712
500-1000	289	50-100 (up to Rs7500Approx)	752
1000-5000	278	100-500 (up to Rs37500Approx)	661
5000-10000	20	500-2000 (up to Rs150000Approx)	58

Greater than 10000	16	Greater than 2000(Greater than 150000)	8
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In table 1. Fractional trading is required in the countries where the number of companies are more having the higher share prices and the investors proportion in share market is high. In the above table the companies falling in the last two rows attract the concept of fractional trading. Which is very low in comparison with United States of America.

Firstly, we need to understand whether we require this concept or whether it is possible in the country as we are trying to adopt this concept which is prevailing in the European share markets, we should understand how it works there. In our country the brokers act as an agent of their customers who receives the orders from their customers and forward these orders to the share exchange markets these orders are compared with the prevailing market price and executed. On the other hand, in United States the brokers are allowed to act as both as a dealer and as broker as well. That's why they are known as broker dealers.

A "broker" is broadly defined in the US as any person engaged in the business of effecting transactions in securities for the account of others.

As brokers in India can act as agents of their customers and not act as principals, therefore offer of fractional investing is not possible for them. In India, brokers are the agents only who receive orders and forward these orders to the exchanges. Once an order is executed, the shares are held in the name of their customers in a Demat account with a repository like CDSL and NSDL. A lot of multifaceted regulatory changes are required if fractional investing is to be implemented in India.

It is also a matter of concern that the concept of fractional trading will be applicable to the derivative markets if yes then the strengthen governance is required to manage the issue of investor protection, co ownership, Information on costs and charges including mark-ups and mark-downs.

PATHWAY AHEAD

Indian Company Act 2013 restricts the investors to hold fractional shares. Section 4(1) (e) (i) states that:

"the amount of share capital with which the company is to be registered and the division thereof into shares of a fixed amount and the number of shares which the subscribers to the memorandum agree to subscribe, which shall not be less than one share."

But the intensions of the Indian government is very clear from the report of the company law committee which was set

up in the year 2019. It is clearly mentioned in the report regarding the proposal of the fractional shares and company act should be amended to make it possible this report was published in April 2022. By ministry of corporate. They further stated that necessary amendments should be done to hold sell and trade in fractional shares.

Advantages of fractional shares

Lower entry cost: As the investor will purchase a portion of the share so the risk which he is going to take is also will reduce proportionally.

Increased Portfolio Diversification: It will allow a budget or a small customer to diversify his portfolio with the big brands and the shares with high prices.

Flexibility in purchasing shares: will lead to the possibility of higher return. This concept will attract and add more investors in the stock markets as of now only 3 percent of the total population invests in stock market as in china this percentage is 13 percent and 55% in united states of America.

Disadvantages of fractional shares

Limited control over ownership of shares: As the shareholders are the owners of the company and enjoy ownership rights so the concept of fractional shares will also restrict the right of participation in the management decisions.

Brokerage charges: The major concern for investors is the increased brokerage charges in foreign country like the USA it is possible as the broker is working without brokerage or zero brokerage.

Voting rights: It may be possible that after the introduction of fractional shares, the voting rights of the investors/shareholders may be affected, which may result in the cancellation of voting rights.

As the fractional shares are very liquid the investors are supposed to make frequent trades which can increase higher transaction costs and may result in losses due to market fluctuations. To avoid /mitigate this risk the investor should adopt a long-term investment strategy.

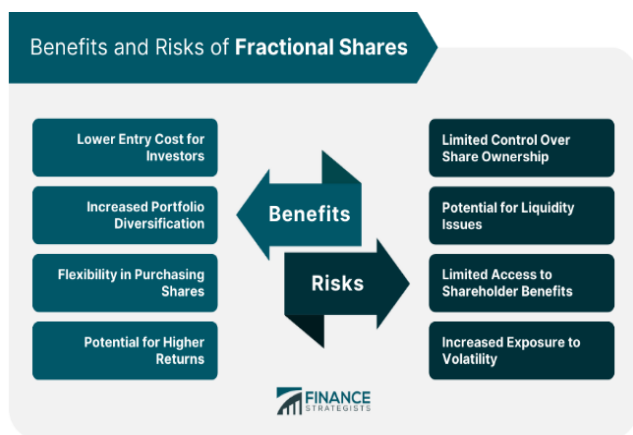


Figure 1: Benefits and Risks of Fractional Shares

In fig no. 1 Fractional shares offer accessibility to high-priced stocks and portfolio diversification. However, risks include potential liquidity issues and limited voting rights, necessitating caution and thorough understanding before investing.

4. CONCLUSION

In the Indian scenario the implementation of fractional shares is a concept and requires a lot of amendments in the laws and the governance too. The ministry of corporate affairs is working to make it possible the trading of the concept of fractional shares. It will take time to implement. fractional ownership of shares presents a promising avenue for democratizing investing in Indian markets, offering accessibility to a wider population. However, challenges such as regulatory complexities, technological infrastructure limitations, and potential liquidity issues need to be addressed for its widespread adoption. Collaborative efforts between regulatory bodies, financial institutions, and technology providers are essential to overcome these hurdles and fully unlock the potential benefits of fractional ownership, fostering inclusive participation and fostering a more robust investment landscape in India.

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