Sebi defers decision on loan default disclosure by listed companies

BY ET BUREAU | UPDATED: DEC 29, 2017, 08.13 AM IST

MUMBAI: The Securities and Exchange Board of India approved a number of proposals aimed at preserving the independence of credit rating agencies and preventing conflicts of interest among MFs, among other decisions.

The Sebi board, however, deferred a decision on public disclosure of loan defaults by listed firms as soon as they occurred.

Sebi said on Thursday that no entity can hold more than 10% stake in two competing credit rating agencies and mutual fund houses, allowed stock and commodity trading on the same exchange, permitted the listing of securities issued by asset reconstruction companies and eased rules for companies to meet the 25% public holding norm.

The board discussed loan default disclosure, Sebi chairman Ajay Tyagi said. "In August 2017, when we (initially) issued it, it was on our own volition. No one really asked us to issue it," he said. "This issue was discussed at length but it requires further discussion so it has been deferred by the board."

Sebi approved a series of stricter measures for credit rating agencies, including a 10% crossholding cap along with tighter net worth and promoter eligibility norms.

"No CRA (credit rating agency) shall, directly or indirectly, hold more than 10% of shareholding and/or voting rights in another CRA and shall not have representation on the board of the other CRA," the regulator said in a press statement after the board meeting. This rule will not apply to pension funds, insurance and mutual fund schemes.

The new rule is meant to fend off hostile takeovers. ET reported on August 14 that Sebi had sought clarification on Crisil's move to purchase an 8.9% stake in CARE Ratings in June. The regulator had asked it to explain whether the purchase represented a financial investment or had wider strategic implications such as a takeover.

"Restrictions on crossholdings between rival ratings agencies are an important step in ensuring that the independence of ratings is maintained and that the ratings business does not get concentrated in the hands of a few, leading to possible collusion in the marketplace," said CARE Ratings CEO Rajesh Mokashi. "Sebi has also preempted any possibility of rival ratings agencies gaining control over each other through the mode of crossholdings."

The regulator proposes to increase the minimum net worth requirement of a credit rating agency to Rs 25 crore fromRs5 crore now because of the rising systemic importance of such agencies. Besides, the promoter of a rating agency would have to maintain a minimum shareholding of 26% for at least three years from the date of grant of registration.

Crisil welcomed the amendments and said they will raise standards and deepen the corporate bond market. "Higher minimum net worth requirements for CRAs and increased shareholding requirements along with minimum holding period for promoters of CRAs will ensure that only serious and credible players with long-term perspective enter the field," it said. "Increasing transparency through greater disclosures by issuers of listed debt will boost investor confidence and equip them to take timely decisions."

The regulator has also allowed rating agencies to withdraw ratings subject to the instrument having been rated continuously for a stipulated period. Rating agencies are currently not allowed to withdraw a rating unless and until the instrument is paid in full.

PUBLIC HOLDING NORM

The regulator has allowed two additional routes — qualified institutional placements (QIPs) and the sale of holdings of up to 2% held by promoters or promoter groups in the open market — to meet the 25% public holding norm in listed companies.

Currently, promoters are allowed to use offers for sale (OFS) and institutional placement programmes (IPPs) to meet the public holding norm.

"QIP plus option to promoters to sell small portion of up to 2% are important alternatives now made available by Sebi as they are faster and easier to execute compared to IPP and OFS formats," said V Jayasankar, senior executive director and head of equity capital markets at Kotak Investment Banking.

"IPP is similar to QIP in several respects except that it additionally involves RoC (Registrar of Companies) filing, making it a relatively longer process. Earlier, promoters evaluated if they should offer a small portion of their holding in IPP and had to weigh the lack of availability of STT (securities transaction tax) benefits vis-a-vis OFS. Block deal of up to 2% provides such promoters a swifter option over OFS or IPP."

MUTUAL FUNDS

The regulator approved a proposal to impose a 10% crossholding cap in mutual funds, to eliminate any potential conflicts of interest.

The new rule may have an impact on the shareholding pattern of UTI Asset Management Company (AMC), requiring its promoters to pare their stake to 10% or below in the next one year. State Bank of India, Punjab National Bank, Bank of Baroda and Life Insurance Corporation are sponsors of UTI AMC and also have their own mutual funds. They hold an 18.24% stake each in UTI AMC. Besides, they are barred from having board representation on UTI AMC.

"It's an acceptable regulatory practice worldwide to not permit the sponsors and substantial owners of key financial services institutions and market infrastructure institutions to own significant stakes in the competition, as significant crossholdings increase potential conflicts, dilute confidentiality and are less desirable from the governance perspective," said Tejesh Chitlangi, partner, IC Universal Legal.

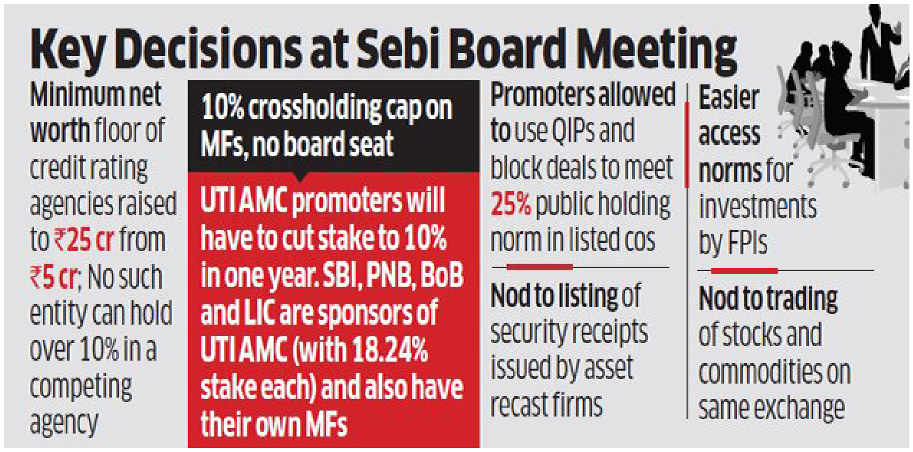
"Sebi's decision to prescribe the said norms in respect of mutual funds is a step in the right direction."

FOREIGN PORTFOLIO INVESTORS

The regulator eased access norms for investment by foreign portfolio investors by rationalisation of the fit and proper criteria, simplification of broad-based requirements and discontinuing the need for prior Sebi approval to change the local custodian, among other things.

"The new changes in FPI (foreign portfolio investor) regulations will facilitate more direct registrations and as a consequence further eradicate P-Note (participatory note) issuance," Chitlangi of IC Universal Legal said. "The liberalisation to ease the direct entry norms can also be viewed as one of the early set of measures to address the competition faced from the likes of SGX (Singapore Exchange), which is threatening the export of Indian financial markets."

SGX is reportedly planning to start derivatives trading in single stock futures (SSF) of the Nifty 50 in early 2018. "Many of the changes approved by Sebi will also ease a number of operational hassles faced by FPIs in their regular functioning," Chitlangi said. "Of particular interest is the decision to liberalise the broadbased requirement which has always been a concern area for majority of Category II FPIs."


Key Decisions at Sebi Board Meeting
Minimum net worth floor of credit rating agencies raised to ₹25 cr from ₹5 cr; No such entity can hold over 10% in a competing agency
10% crossholding cap on MFs, no board seat
UTI AMC promoters will have to cut stake to 10% in one year. SBI, PNB, BoB and LIC are sponsors of UTI AMC (with 18.24% stake each) and also have their own MFs
Promoters allowed to use QIPs and block deals to meet 25% public holding norm in listed cos
Nod to listing of security receipts issued by asset recast firms
Easier access norms for investments by FPIs
Nod to trading of stocks and commodities on same exchange