Tighter norms for default disclosure by listed firms

BY REENA ZACHARIAH, ET BUREAU | NOV 21, 2019, 09.54 AM IST

Mumbai: The Securities and Exchange Board of India said listed companies will have to inform stock exchanges about defaults on interest or loan repayments to banks and financial institutions after 30 days. At its board meeting on Wednesday, the regulator also tightened rules for portfolio management services (PMS) and shortened the timeline for rights share offers.

The disclosure on defaults must be made within 24 hours from the 30th day, the capital market regulator said.

"Right now, there is no disclosure requirement at all, so it's a betterment on that," Sebi chairman Ajay Tyagi told reporters. "The philosophy is that more information should be in public domain which guides investors and other stakeholders as to what is happening. It is an attempt to go towards openness and better disclosures."

ET had reported Wednesday that the Sebi board could tighten rules for PMS and reduce the timeline for rights offers.

Experts Welcome Disclosure Rules

Sebi had proposed in 2017 that companies should disclose loan defaults within one working day, but it was deferred following concerns raised by banks and other stakeholders.

Asked whether the Reserve Bank of India agreed with the move, Tyagi said a central bank deputy governor was part of the board meeting and had agreed to the proposal. The new rule will be applicable from January 1, 2020.

Lawyers and market watchers said the disclosure of defaults would help investors get a better idea about a company's health.

"Given the present situation of the financial markets, this should aid in their evaluation about a company's financial health much in advance before the company's loan gets categorised as NPA (nonperforming asset) by the financial institution," said Suneet Barve, partner at IC Universal Legal. "However, given the varied types of financial assistance that a company usually avails from financial institutions, it would be critical that the nature and quantum of loan thresholds are prescribed so that not every loan default warrants a disclosure."

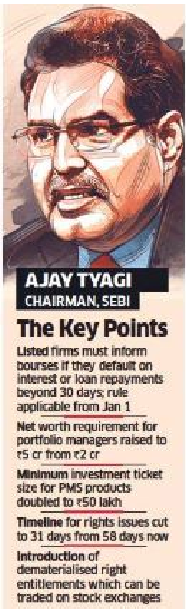
Corporate governance experts said the Sebi move could curb insider trading.

"Now it's up to the board to decide to disclose the default within one day or in 30 days," said Amit Tandon, founder and managing director, Institutional Investor Advisory Services India, a proxy advisory firm. "In my view, they should declare it immediately to stop insider trading."

The stricter norms for portfolio management services (PMS), which cater to wealthy clients, are aimed at reducing mis-selling. The board accepted an expert panel's proposals to more than double the net worth requirement for portfolio managers to Rs 5 crore from Rs 2 crore, increase the minimum investment ticket size for such products to Rs 50 lakh from Rs 25 lakh and tighten broker commissions for selling them. Existing portfolio managers have been given three years to meet the enhanced net worth requirement. Sebi has also allowed existing investments of clients to continue until the end date of the PMS agreement.

The regulator also made it mandatory for PMS providers to give the option of direct schemes to clients and also disclose the range of fees in the offer document. The regulator approved capping operational costs at 0.5 per cent, excluding brokerage charges. Sebi wholetime member Madhabi Puri Buch said the new rules on fees would be announced through circulars.

Fees on PMS products are currently flexible. Many brokers and wealth advisers have been selling more PMS products following Sebi's restrictions on mutual funds from offering upfront commissions to sell their schemes.



‘PMS NOT LIKE MUTUAL FUND’

Industry officials said PMS cannot be treated like mutual fund schemes, which are mass retail products.

“In the case of PMS and AIF (alternative investment fund) products, the investors are savvier and better informed than those in mutual funds,” said Vikaas Sachdeva, CEO, Emkay Investment Managers. “Hence, one looks forward to regulations being framed independently for this well-informed segment and the advisory ecosystem, rather than from the lens of more retail products like mutual funds.”

The regulator’s proposals to tighten regulations for the PMS industry come in the wake of its robust growth in the past five years. Since May 2014, when discretionary PMS products — excluding provident fund money — managed roughly Rs 48,000 crore, their assets have grown almost three times to Rs 1.41 lakh crore at the end of June. Portfolio managers have mushroomed, raising concerns that many may not be following best practices.

The Sebi board also approved a proposal to cut the timeline for the rights issue process to 31 days from the current 58 days and the introduction of dematerialised rights entitlements and trading of these on stock exchanges. Currently, these are settled physically because of which there is lower participation.

Tyagi said sufficient time had been given to companies on splitting the roles of chairman and managing director.

“The idea was to make people understand and plan for it. Sufficient time has been given and extending will only mean that they (corporates) don’t want to do it,” he said. “Out of top 500 companies, I believe two-thirds of companies are already meeting the requirement.”