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Investors fret over inordinate delay in listing stock exchanges

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Investors have been asking to expedite the listing of exchanges to adhere to global best practices. Photo: Paul Noronha

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The inordinate delay in listing of stock exchanges is worrying investors who say the Securities and Exchange Board of India (SEBI), the capital market regulator, should not delay the process any further as it is creating uncertainty and excuses for some exchanges not to list.

The oldest stock exchange, BSE, has already applied and is waiting for the regulator to approve its application. But the National Stock Exchange's management is yet to decide on it. MCX, a commodity exchange, is the only listed exchange in the country.

As the MCX is a listed entity, "not providing the same benefits to BSE and NSE would be unfair, especially given the fact that BSE filed its application for listing more than two years ago," said Pratibha Jain, Partner, Nishit Desai Associates, a leading law firm. However, SEBI clearly allows the listing of stock exchanges on other exchanges under the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012.

The main reason for listing is that there is need for better governance, transparency and accountability from the management of the two exchanges. Secondly, Kania Committee, in its report in 2003 on Corporatisation and Demutualisation, suggested listing of stock exchanges as the next big step post demutualisation (among other things). Compulsory corporatisation and demutualisation of stock exchanges was mandated by SEBI, and currently all the stock exchanges have a demutualised set up in India.

Foreign investors had also invested to support this corporatisation and demutualisation of stock exchanges with the implicit understanding that the two exchanges would be listed in the near future and their investment will receive a fair valuation.

Hence, on the one hand while the government is opening up FDI and creating new investment opportunities, investors are on the other hand unable to exit from 5-8 year old investments they made into the exchanges.

Last month, 17 foreign investors in the NSE and the BSE wrote to the Finance Minister, conveying their dismay over the whole affair. Together, they have 31.12 per cent and 25.30 per cent of the shareholding in NSE and BSE respectively, which translates into approximately Rs. 10,400 crore and $300 million respectively. All this money is stuck and cannot be further invested into other sectors.

They wrote: "In the evolutionary process of any stock exchange, 'listing' is the next logical step after demutualisation. Majority of the stock exchanges around the world got listed within a year from their demutualisation. Many exchanges in the emerging markets have listed (e.g., Moscow Exchange, Warsaw Stock Exchange, Bovespa) with the rationale of (a) improving transparency and governance of the listing platform, (b) completing a major milestone for the development of the country's capital markets amidst the privatisation drive by the governments, and (c) providing liquidity to existing shareholders."

"All investors, be it private equity or public sector undertakings, have been asking the exchanges to expedite the listing of exchanges to adhere to global best practices and increase transparency. BSE has passed a resolution at its annual general meeting (AGM), to proceed with the listing and has already approached SEBI for approval. The ball is now in SEBI's court," said Anil Khatod, Senior Managing Director, Argonaut Private Equity.

The demand for listing of NSE and BSE precedes the merger of the erstwhile commodity market regulator, Forward Markets Commission (FMC), with SEBI and hence that is not the reason. According to Mr. Khatod, Chairman of SEBI, U.K. Sinha had said in April 2015, that the regulator would decide whether to list bourses in six months, after completion of the merger of the commodities market regulator with capital market regulator that will enable exchanges to offer securities and commodities trading on a single platform. FMC was merged with SEBI in end-September 2015.

However, investors believe that there has been no forward movement since the merger. The regulator has to step in and accept the BSE application to list so that the exchanges, especially NSE, can no longer use regulation and regulator as an excuse.

Market capitalisation

"NSE's current market capitalisation is expected to double upon listing. This will not only benefit shareholders which also includes some of the key public sector undertakings in the country but also all participants of the financial markets and the Indian economy at large", said Sohil Chand, Managing Director, Norwest Venture Partners India, which owns 2.11 per cent stake in NSE.

"The regulation allows for listing of the exchanges and if there are any minor issues or concerns they can be resolved once there is a formal discussion with the regulator. However, for doing so NSE has to first send its application for listing," Mr. Chand added. The SECC regulations are clear in that they don't allow for self listing. Hence, said Mr. Chand, "this is not a regulatory challenge but an NSE management concern. As shareholders, we don't believe that listing should be delayed because NSE management wants SEBI to change regulations to conform to their views."

Stock exchanges in India are currently required to fulfil several compliances, such as, a stock exchange can list its securities only on other stock exchanges, stock exchanges are required to have at least 51 per cent of its paid up equity share capital held by public and no person shall hold more than 5 per cent of the paid up equity share capital in a stock exchange. Thus, said Ms. Jain, SEBI as well as the Government should together aim for listing of NSE and BSE considering the impetus it can provide to the Indian capital markets and ensure transparency and accountability of the two leading exchanges in the country, besides the benefits to all the stakeholders, in particular the unlocking of value for PSU shareholders in NSE, which hold more than 51 per cent in NSE.