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Sebi to make share trading cheaper and simpler

Reena Zachariah, ET Bureau Aug 24, 2015, 04.00AM IST

MUMBAI: The Securities and Exchange Board of India (Sebi) is considering ways to make share trading cheaper and less cumbersome for market participants. The capital market regulator will discuss, in its board meeting on Monday, the feasibility of a single clearing corporation for share trades in India or to allow interoperability between clearing corporations, and Forward Markets Commission's (FMC's) merger with it. It will also mull a proposal to grant exemption from making an open offer under the takeover code in case of forfeiture of partly-paid shares.

Sebi had formed an expert committee, headed by KV Kamath, the BRICS bank president, to examine the viability of such a model for clearing corporations. "The report will be placed before the board after which it will be put out for public comments," said a person familiar with the matter.

In India, all stock exchanges have their clearing corporations, which is a critical link in the stock trade settlement system, especially in derivatives. Clearing Corporations collect upfront margins from the brokers, enforce mark-to-market margin and ensure brokers take exposure based on their risk capabilities. Indian Clearing Corporation, National Securities Clearing Corporation and MCX-SX Clearing Corporation clear all the trades in India.

While the broker community is in favour of a single clearing system as it reduces costs, purists have been against it citing risks to the financial system.

"It's a good idea because today we keep bank guarantees in separate clearing corporations. So when it's a unified clearing corporation we need not keep it separately. Ideally, single clearing corporation is the way to go forward," said CJ George, managing director, Geojit BNP Paribas Financial Services.

Brokers said the US has a single clearing corporation though the structure is different. The flip side is it would stifle competition and risk would be concentrated. Some brokers are more in favour of the proposal on interoperability between clearing corporations. For traders executing trades on more than one stock exchange, this would help use funds better. But, if there is an issue at one clearing corporation, it could spill over to another and cause systemic risk, said sceptics.

The Sebi board will also consider a proposal to grant exemption in case of forfeiture of partly-paid shares. At present, companies with partlypaid shares issued to public have to grapple with the task of following up with such shareholders to get the balance payment for these shares to be made fully paid up and trade with the existing equity shares.

In case, shareholders are unwilling or unavailable, the firm may be left with no other option than forfeiture of such shares. Since such shares are part of the company's total issued and voting capital, any forfeiture results in reduction of equity and commensurately in a change in shareholding pattern.

"This may affect both minority public shareholders as well as substantial shareholders like promoters. As per Sebi takeover regulations, any shareholder holding more than 25% stake in a company is allowed to increase the stake by maximum of 5% in a financial year. If it exceeds this limit an open offer gets triggered," said Mehul Savla, director of RippleWave Equity Advisors.

"Also any shareholder holding less than 25% stake is required to make an open offer if its stake exceeds 25%. If forfeiture of shares results in any of these limits getting exceeded it would require an open offer to be made by the respective shareholder. Shareholders may seek exemption from sebi in such situations as their stake increase is not due to acquisition of shares but due to a corporate action by the company," Savla said.