

Delisting process from Indian stock exchanges likely to get faster, cheaper for investors

Reena Zachariah, ET Bureau Oct 14, 2014, 07.09AM IST

MUMBAI: The delisting process of companies from Indian stock exchanges is set to become a lot cheaper and less cumbersome for investors. The Securities and Exchange Board of India (Sebi) will allow investors to tender their shares during delisting offers on stock exchanges, which will help reduce their tax outgo.

While shortening the period for the delisting process, the capital market regulator will also tighten rules for companies, which intend to go private, after it found some corporates were sidestepping rules.

These proposals are likely to be finalised as part of the overhaul of the five-year old delisting rules when the Sebi board meets next month.

As per the current delisting rules, investors have to tender their bids through designated trading members after transferring the shares to the demat escrow account.

Once the delisting is successful, the settlement is done "offline". Hence, the sale of shares by investors is liable to higher level of taxation as such transactions are not covered under securities transaction tax (STT), which is imposed on all stock trades on exchanges. Trades where there are no STT deductions attract 10 per cent or 20 per cent for long-term capital gains (with or without indexation) and 30 per cent for short-term capital gains.

Once the Sebi board clears the new rules, the tax treatment for tendering shares in the delisting offer would be similar to usual share trading, making them cheaper for investors.

"Transfer of listed shares on the stock market carries preferential tax rates of zero for long-term capital gains and 15 per cent for short-term capital gains," said Gautam Mehra, executive director of PricewaterhouseCoopers. Mehra said, however, this would apply only if there is a payment of STT in such trades. "In case of a transfer of shares which are offered in the course of delisting where STT is not payable, in place of the preferential tax rates, normal capital gains tax rates would apply," he said. Stock exchanges are learnt to be working on this proposal to enable on-market transactions for delisting offers, according to two people familiar with the development.

Mehul Savla, director of **Ripple-Wave Equity** Advisors, said if the delisting process is amended to enable transaction and settlement through a stock exchange, it would encourage wider participation from investors as the tax impact can be substantial in such offers. "It's a faster, efficient and an economical way of tendering shares. The more electronic we go in our markets, the better it is for all stakeholders," said Prithvi Haldea, CMD of Prime Database, primary market database provider.

Sebi decided to revamp the existing delisting rules in May after it noticed that some of the multinational companies were side-stepping rules. The regulator had said that promoters were circumventing rules by either parking their participapawn shares by way of offer for sale or institutional placement programme (IPP) or through informal arrangements with a set of investors. The companies would acquire the shares later at a predetermined price and successfully delist at a price favorable to them. To address the concern of parking of shares with friendly investors, Sebi is likely to accept the recommendation that that a cooling-off period of six months should be provided from the date when promoters offload shares, as against the proposed period of one year.