

Sebi set to end permanent board positions

Synopsis

The Sebi board will consider a proposal to end the practice of directors occupying permanent board seats at listed companies. This will have to be subject to periodic approval by shareholders, at least once in five years, according to the proposal.



The regulator observed that SHAs are drafted in such a way that their special rights will continue even after significant dilution of holdings.

Mumbai: The Securities and Exchange **Board** of India (Sebi) is set to clear a number of proposals including putting an end to permanent board memberships, reining in special rights, introducing an ASBA-like system for stock market trades and allowing private equity funds to become sponsors of mutual funds. The **Sebi** board is scheduled to meet on March 29.

Application Supported by Blocked Amount or **ASBA** is a mechanism used in initial public offers — the **buyer's** funds are blocked in the **bank** account but only flows out once the allotment is confirmed.

PRITHVI EXCHA...

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<p>26.00</p> <p>0.25 (0.98%)</p> <p>ID ▾</p> <p>No data available</p>	<p>In-depth Reports on 4000+ Indian Stocks worth 1499 with ET Prime membership</p> <p>SUBSCRIBE NOW</p>	<p>KEY METRICS</p> <table border="1"> <tr> <td>PE Ratio (x)</td> <td>EPS - TTM</td> <td>MCap (₹ Cr.)</td> </tr> <tr> <td>9.33</td> <td>0.00</td> <td>21.24</td> </tr> <tr> <td>MCap Rank</td> <td>PB Ratio(x)</td> <td>Div Yield(%)</td> </tr> <tr> <td>314</td> <td>-</td> <td>2.91</td> </tr> <tr> <td>Face Value(₹)</td> <td>Beta</td> <td>52W H/L</td> </tr> <tr> <td>10.00</td> <td>-</td> <td>30 / 18</td> </tr> </table>	PE Ratio (x)	EPS - TTM	MCap (₹ Cr.)	9.33	0.00	21.24	MCap Rank	PB Ratio(x)	Div Yield(%)	314	-	2.91	Face Value(₹)	Beta	52W H/L	10.00	-	30 / 18
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The Sebi board will consider a proposal to end the practice of directors occupying permanent board seats at listed companies. This will have to be subject to periodic approval by shareholders, at least once in five years, according to the proposal.

Permanency gives directors an undue advantage prejudicial to the interest of public shareholders, according to the regulator, which is also taking aim at the practice of promoter-directors continuing on the board even after substantial dilution of their stake and the ceding of control.

Turn: Two Ways to Secure Permanent Seat

A permanent seat is generally secured through two ways—having a clause inserted in the Articles of Association (AoA), enabling appointment of a permanent director or by getting appointed on the board as a director not liable to “retirement by rotation” and without any defined tenure.

The issue came into focus after media reports about a startup founder having the right to a permanent seat on the board and the fight between a satellite TV company’s former promoters and a lender over a director’s not-liable-to-rotate tag.

“I am completely in agreement with the proposed changes to more firmly establish good governance norms,” said Shailesh Haribhakti, chairman of Shailesh Haribhakti & Associates. “Certainly, the shareholders must have the democratic right to approve the re-appointment of every director at an interval of five years based on an objective assessment of performance.”

Any director who hasn’t obtained shareholders’ approval on March 31, 2024, in the past five years will have to get their assent in the first general meeting to be held after April 1, 2024, according to the proposal. From April 1, 2024, shareholder approval will be needed at least once every five years.

“In companies with identifiable promoters or persons in control, the board seat should be permanent, subject to periodic shareholder approval,” said Prime Database chairman [Prithvi](#) Haldea. “In widely-held companies, no one should have a permanent seat.”

Special Rights

The regulator also proposes to review special rights conferred on certain shareholders as per the AoA of a listed entity. Such rights are offered to pre-IPO investors and promoters to attract investments prior to listing. These are included in the shareholders agreements (SHAs) executed between the company and the pre-IPO investors and promoters. These include nomination rights, veto rights, information rights, anti-dilution rights, right of first refusal, tag-along rights and divestment rights.

The regulator observed that SHAs are drafted in such a way that their special rights will continue even after significant dilution of holdings. That’s against the principle of rights being proportional to one’s holding, Sebi had said in a discussion paper. Any special right will be subject to shareholder approval once every five years from the date of grant of such special rights.

“The proposal to renew special rights every five years through shareholder approval will tackle the potential concerns relating to disproportionate rights to certain investors and empower minority shareholders to voice their approval or dissent,” said Mehul Savla, partner, RippleWave Equity Advisors.

The regulator has also proposed disclosure and approval requirements for certain types of agreements that bind listed companies.

Agreements that directly or indirectly impact management or control of a listed entity or impose any restriction or create any liability will have to be disclosed to exchanges, whether the listed entity is a party to such agreements or not.

It has also suggested tighter rules on slump sales executed outside the scheme of arrangement framework to protect the interest of minority shareholders. The regulator proposes to mandate disclosure of the objects and commercial rationale for such sale, disposal or lease to shareholders. Besides, such slump sale can be acted upon only if the votes cast by the public shareholders in favour of the proposal are more than the number of votes cast by the public shareholders against it.

ASBA-like System for Trades

The board will also discuss the proposal to introduce a settlement mechanism for stock trades that will result in investors' funds effectively leaving their bank accounts only after trades are completed. The move will result in investor money bypassing the broker in the trade-settlement chain, a move aimed at safeguarding investors' funds from misuse by stock brokers.

Under the proposed system, investors will be able to trade in the secondary market based on blocked funds in one's bank account, thereby eliminating the need to transfer funds to the stock broker. This mechanism is similar to the ASBA facility for IPOs.

The regulator proposes that Unified Payments Interface (UPI) mandates be integrated with the secondary market to provide a block mechanism. Clients will be able to block funds in their bank account for trading in the secondary market, instead of transferring them upfront to the broker. Funds will remain in the client's account but will be blocked in favour of the clearing corporation till the expiry date of the block mandate or till the block is released by the clearing corporation, whichever is earlier. Clearing corporations can deduct funds from clients' bank accounts, limited to the amount specified in the block.

SEBI BOARD ALSO LIKELY TO DISCUSS:

- A regulatory framework for ESG disclosures by listed cos; ESG ratings in securities mkt and ESG investing by MFs
- Proposal to tighten disclosure norms on fin results by newly listed companies

Tightening disclosure norms for listed cos, including mandating top 250 listed cos to confirm or deny any info reported in mainstream media that may have material effect on stocks

SECTIONS Sebi set to end permanent board positions

The Sebi board may also consider a proposal to allow private equity funds to become sponsors of mutual funds. The regulator has proposed that a PE or its manager should have a minimum of five years of experience in the capacity of fund manager and experience of investing in the financial sector. It should also have managed committed and drawn-down capital of not less than Rs 5,000 crore on the date of the application.

No off-market transactions will be permitted between the schemes of mutual funds and sponsor PEs or schemes managed by the PE fund manager and investee companies of the PE fund. The mutual fund sponsored by a PE will not be

allowed to participate as an anchor investor in the public issue of an investee company, where any of the funds managed by the sponsor PE have an investment of 10% or more or has board representation.

There will also be a lock-in period of five years for the minimum sponsor stake for private equity funds.

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