Our Views

Outcome of SEBI's Board meeting – a slew of changes!

SEBI, in its Board meeting today, approved a slew of measures to strengthen the securities market and to improve ease of doing business in India. I would think that the number of announcements emanating from this meeting, covering 17 items, has been the largest in recent times. These measures, coming amidst the backdrop of a global banking crisis and tough macro-economic conditions, will further strengthen the market and will have long-term positive impact. Some of the important measures to take note of include:

Funding of Secondary market trading could be similar to that of Primary market:

SEBI has approved a framework of ASBA-like facility for secondary market trading. This will enhance safeguarding of funds of retail investors parked with stockbrokers/ clearing members. It will also allow investors to earn interest on blocked funds in their savings account. With this facility, there will be direct settlement with clearing corporation, without passing through pool accounts of intermediaries, thereby providing client level settlement visibility to clearing corporation and avoiding the risk of co-mingling of client's funds and securities. As of now, this facility will be optional for investors as well as stockbrokers. Once implemented fully, this initiative could take our markets one step closer to a real time settlement and will have a far-reaching impact on secondary market trading and risk management.

A major strategic move for Mutual Fund sponsorship:

The SEBI Board also approved some welcome amendments to SEBI (Mutual Funds) Regulations, 1996. While strengthening the existing eligibility criteria for sponsors, it introduced an alternative route to enable a diverse set of entities, including Private Equity Funds, to become sponsors of MFs. The amendments also allow for "Self-sponsored AMCs" to continue the mutual fund business, allowing an exit route for the existing sponsor. This would give the original sponsor flexibility to voluntarily disassociate itself from the MF without needing to induct a new and eligible sponsor. This change will fulfill a pending demand by the Private Equity community to own Mutual Fund business in their own name. As we know, as per the recent change carried out by the insurance regulator, private equity can now own an insurance company as well. With this a private equity investor will be at par with other investors as far as ownership of insurance and mutual funds is concerned.

Disclosure requirements are further tightened:

SEBI also proposed several updates to the LODR Regulations. One of the key updates is regarding certain listed companies having to verify and confirm, deny, or clarify the market rumors. Earlier, the listed entities were required to provide specific and adequate replies to all rumor verification queries raised to them by stock exchange(s). While the purpose of the amendment was to ensure information symmetry, it might fuel more speculations in the market. This would further create greater debates in the corporates of confirming or denying any strategic decision at a nascent stage.

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