

Easing Listing norms - SEBI

Why in news?

\n\n

The SEBI-appointed committee to examine the listing requirements for Indian and foreign companies in various stock exchanges has submitted its report recently.

\n\n

What are the recommendations?

\n\n

\n

- Indian companies can be allowed to list on overseas exchanges without a requirement to also list in the domestic markets.

\n

- Companies that are domiciled abroad can be in turn permitted to list on Indian stock exchanges.

\n

- The committee has laid down the legislative changes required in the FEMA, Companies Act, SEBI's investor protection rules and tax laws to pave the way for this change.

\n

- To avoid round-tripping, funds from overseas exchanges will only be allowed to and from permissible jurisdictions with strong anti-money laundering laws.

\n

- Also, only 'high-quality' companies with a minimum Rs. 1,000 crore issue size may be permitted through this route.

\n

\n\n

What are the advantages?

\n\n

\n

- **For Indian companies** - The ability to list on foreign exchanges will expand the choices available to Indian companies as to where and how to list their

shares efficiently.

\n

- In particular, it will allow them to access funds at a significantly lower rate than they otherwise might have.
- Indian companies can tap under-utilised funds in other jurisdictions, command higher valuations and sharply lower their costs of capital.
- This is because, some large institutional investors are not permitted by their governing regulations to invest in companies listed outside their home economies.
- It will increase competition for Indian stock exchanges and thereby render them more efficient.
- Deeper equity markets would also allow more accurate price discovery, thereby ensuring that companies are better valued.
- **For foreign companies** – Many companies that operate in India are currently domiciled in foreign jurisdictions.
- By being listed on Indian stock exchanges, they could benefit from the pool of investors and funds that are best informed about their operations and their operating environment.
- It would also allow for the creation of a globalised financial services industry that could create the capacity to analyse and trade in companies from all over the world.
- Thus the idea of direct cross- border listing is in keeping with the spirit of liberalisation and enhances ease of doing business.

\n

\n\n

What are the concerns?

\n\n

\n

- With over 5,000 listed stocks, state-of-the-art trading platforms and a globally well-regarded regulator, India's stock market is certainly far from nascent.
- However, only one foreign company has chosen to list in India through the Indian Depository Receipts route in over a decade.

- \n
- This is mainly because of regulatory arbitrage and a high compliance burden in Indian stock markets that are leading to such skewed preferences.
- \n
- Thus, Indian regulators need to first fix this before liberalising rules for direct foreign listing.
- \n

\n\n

Source: Business Line, Business Standard

\n\n

Quick Facts

\n\n

Depository Receipts(DR)

\n\n

- \n
- A DR is a type of negotiable (transferable) financial security traded on a local stock exchange but represents a security, usually in the form of equity, issued by a foreign, publicly-listed company.
- \n
- The DR, which is a physical certificate, allows investors to hold shares in equity of other countries.
- \n
- DRs are created when a foreign company wishes to list its securities on another country's stock exchange and tap those local funds.
- \n
- Global Depository Receipts(GDR) and American Depository Receipts(ADR) are amongst the most common DRs.
- \n
- IDRs are transferable securities to be listed on Indian stock exchanges, against the underlying equity shares of the issuing company which is incorporated outside India.
- \n
- Typically, companies with significant business in India, or an India focus, may find the IDR route advantageous.
- \n
- Similarly, the foreign entities of Indian companies may find it easier to raise money through IDRs for their business requirements abroad.
- \n

\n\n

\n



SHANKAR
IAS PARLIAMENT
Information is Empowering