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Easing Listing norms – SEBI

Why in news?

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

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What are the recommendations?

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- Indian companies can be allowed to list on overseas exchanges without a requirement to also list in the domestic markets.
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- Companies that are domiciled abroad can be in turn permitted to list on Indian stock exchanges.
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- 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.
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- To avoid round-tripping, funds from overseas exchanges will only be allowed to and from permissible jurisdictions with strong anti-money laundering laws.
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- Also, only 'high-quality' companies with a minimum Rs. 1,000 crore issue size may be permitted through this route.
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What are the advantages?

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- **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.
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- In particular, it will allow them to access funds at a significantly lower rate than they otherwise might have.
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- Indian companies can tap under-utilised funds in other jurisdictions, command higher valuations and sharply lower their costs of capital.
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- This is because, some large institutional investors are not permitted by their governing regulations to invest in companies listed outside their home economies.
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- It will increase competition for Indian stock exchanges and thereby render them more efficient.
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- Deeper equity markets would also allow more accurate price discovery, thereby ensuring that companies are better valued.
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- **For foreign companies** – Many companies that operate in India are currently domiciled in foreign jurisdictions.
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- 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.
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- 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.
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- Thus the idea of direct cross- border listing is in keeping with the spirit of liberalisation and enhances ease of doing business.
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What are the concerns?

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- 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.
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- However, only one foreign company has chosen to list in India through the Indian Depository Receipts route in over a decade.

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

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Quick Facts

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Depository Receipts(DR)

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- 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.
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- The DR, which is a physical certificate, allows investors to hold shares in equity of other countries.
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- DRs are created when a foreign company wishes to list its securities on another country's stock exchange and tap those local funds.
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- Global Depository Receipts(GDR) and American Depository Receipts(ADR) are amongst the most common DRs.
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- 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.
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- Typically, companies with significant business in India, or an India focus, may find the IDR route advantageous.
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- Similarly, the foreign entities of Indian companies may find it easier to raise money through IDRs for their business requirements abroad.
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