# Sebi may impose trading curbs on cos undergoing insolvency proceedings

The announcement will likely be made at Sebi's board meeting next week

The Securities and Exchange Board of India (Sebi) may impose trading restrictions on shares of companies that are undergoing insolvency proceedings. The move, which is also a demand by industry players, is aimed at reducing volatility in stock prices and curbing manipulation or misuse of price-sensitive information.

Sources said the market regulator would lay down a compliance framework for listed companies undergoing insolvency resolution. The announcement will likely be made at Sebi's board meeting next week. The Sebi board may also announce more checks and balances on algorithmic (algo) trading, reduction of mutual fund costs and changes in buyback and takeover regulations.

Sebi is likely to propose new rules for fiduciaries, such as lawyers and chartered accountants, dealing in the securities market but who are not registered with the market regulator.

As part of the new framework for firms undergoing insolvency, Sebi is likely to provide several relaxations, including exemptions from minimum public shareholding norms and doing away with tedious reverse book building process for delisting. Sebi will allow the new promoters to breach the 75 per cent shareholding cap in order to infuse equity into the company. Such promoters will have more time to reduce their holding to the threshold of 75 per cent.

Further, Sebi could mandate higher disclosures prior to debtors moving the National Company Law Tribunal (NCLT) and ask debtors to disclose the demand notice and invoice copy involved in the bank default.

The move comes after Sebi received requests from stakeholders, especially banks, to relax certain regulations in line with the newly enacted Insolvency and Bankruptcy code. This will be the second round of relaxations for companies undergoing insolvency proceedings. Previously, Sebi had exempted buyers of insolvent companies from making an open offer to minority shareholders during a takeover.

On algo trading, Sebi may impose high transaction charges on brokers or trading members availing the co-location facility at stock exchanges. According to sources, the regulator is likely to introduce a "surge charge" for traders whose order-to-trade ratio is high. The charges could be as much as four times the normal charges, depending on certain parameters, including trading time. The provision was taken up by Sebi's expert panel on the secondary market earlier this month.

Additionally, Sebi plans to issue a draft consultation paper on role of fiduciaries in line with recommendations of the Uday Kotak expert panel on corporate governance.These fiduciaries include chartered accountants, company secretaries, cost accountants and monitoring agencies. The proposed regulation will include disclosure of conflict of interest, reporting all material discrepancies in certificates and audit reports, and compliance with all Sebi regulations.

“Penalty could include warning, adjudication proceedings, prosecution, disgorgement, suspension, and a ban from taking further fiduciary assignments,” said a person privy to the development. Sources said this would be in addition to the existing obligations of fiduciaries. This move comes in the wake of fraudulent activities at Punjab National Bank and Fortis Healthcare, where fiduciaries such as chartered accountants failed to discharge certain duties.

Sebi also plans to reduce the additional expenses that fund houses are allowed to charge on the daily net asset value of schemes. Currently, the rules allow mutual funds to charge an additional expense ratio of up to 20 basis points, which could be reduced to 5 basis points. This move will help bring down costs of investing in mutual funds. The market regulator, however, may provide fund houses some leeway by introducing a ‘green initiative’.

*(Business Standard)*