Sebi notifies norms for listing of preference shares

Market regulator Sebi has notified a new set of regulations to govern issuance and listing of non-convertible preference shares, a move expected to bring more transparency in raising of funds through such securities.

To safeguard the interest of small investors from such high-risk securities, Sebi said the listing of privately placed non-convertible redeemable preference shares would require a minimum application size of Rs 10 lakh for each investor.

Besides, the public issuance of such shares would require a minimum three-year tenure for the instruments and at least a rating of 'AA-' or equivalent investment grade.

Preference share is an equity security with properties of both an equity and a debt instrument. It usually carries no voting rights, but may carry a dividend.

There have been many instances of public investors being taken for a ride through sale of such shares, as there have been ambiguity about regulations governing them.

At the same time, a defined framework for issuance and listing of such shares would also make it easier for banks and infrastructure companies to garner funds through this route.

The new norms would provide for a "comprehensive regulatory framework for public issuance of non-convertible redeemable preference shares and also for listing of privately placed redeemable preference shares," Securities and Exchange Board of India (Sebi) said in a statement today.

Sebi said the new regulations would be applicable to issuances by banks of non-equity instruments such as 'Perpetual Non-Cumulative Preference Shares' and 'Innovative Perpetual Debt Instruments', which are in compliance with the specified criteria for inclusion in Additional Tier I Capital.

Such instruments can be issued by banks to meet Basel III norms.

In the last three years, Indian companies have raised over Rs 25,000 crore through preference share issuance.

In case of public issuance of non-convertible redeemable preference shares, Sebi said an issuer is required to make an application to a recognised stock exchange for listing of such securities and needs to obtain approval from the bourse regarding the same.

The issuer is required to disclose about last three years audited annual reports, among others, along with the listing application to the bourse.

In addition, the issuer should also disclose details of any outstanding loans, any defaults committed and other financial indebtedness including corporate guarantee given by the company in the past five years.

In case of delay in listing of such shares beyond 20 days from the deemed date of allotment, the company would have to pay penal amount of at least one per cent per annum over the dividend rate from the expiry of 30-day from the deemed date of allotment till the listing, Sebi added.

(Economic Times)