

Sebi to align private placement norms with Companies Bill

The government has asked Sebi to set up a committee to look into compatibility of market watchdog's regulations for private placement of securities with the proposed measures in this regard in the new Companies Bill.

The suggestion has been made by the Corporate Affairs Ministry amid rising instance of private placement being misused by various entities for raising funds from public.

Private placement of securities, a relatively faster way to raise funds is governed by both the Companies Act and the Sebi regulations.

While the existing Companies Act has been in place for decades, the new Companies Bill, currently awaiting Rajya Sabha nod, provides exhaustive changes in the way that future private placements can be carried out and regulated.

“The Corporate Affairs Ministry has asked Sebi to consider setting up a committee to look into the compatibility of Sebi Regulations with the provisions of Companies Bill dealing with the private placement,” sources said.

Aligning the rules under Companies Act and Sebi regulations would help in plugging regulatory loopholes and protect the interest of investors, they added.

In the new Companies Bill, issuance of securities up to 50 persons or entities would be considered as private placement while in the case of exceeding that limit, firms would be required to make a public offer.

The new bill was approved by the Lok Sabha in December last year and is likely to be taken up by the Rajya Sabha in the next Parliament session.

As per Sebi rules, a private placement is an issue of shares or of convertible securities by a company to a select group of persons, which is neither a rights issue nor a public issue.

Instances of entities misusing the private placement route to garner funds have come to light in recent times.

Sahara India Real Estate Corp Ltd (SIRECL) and Sahara Housing Investment Corp Ltd (SHICL), which together raised more than Rs. 24,000 crore through private issue of securities were found to have violated various provisions of the Companies Act and the Sebi Act.

The two companies have been asked by the Supreme Court to refund the money to investors.

Sebi recently proposed various new measures for issuance and listing of non-convertible redeemable preference shares.

Besides, the regulator is also working on re-defining a host of terms and instruments in this regard, such as Non-Convertible Redeemable Preference Shares, Perpetual Non-Cumulative Preference Shares, Innovative Perpetual Debt Instruments.

(The Hindu)