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Listing of bourses: NSE 'delay' irks PE investors

Allege delaying tactics by management; NSE says already engaged in the process

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Last week, when the Securities and Exchange Board of India (Sebi) amended the stock exchanges and clearing corporations' regulations, it had eased the listing of bourses' shares.

With this, private equity (PE) investors in the BSE exchange are certain the exchange would be listed in another eight months or so, providing them an exit opportunity. However, say PE investors in the National Stock Exchange (NSE), their long effort for an exit isn't getting over soon.

"The NSE management has proven over the years that their only goal is to delay an IPO (initial public offering of equity)," says Ravi Adusumalli, managing partner, SAIF Partners, an NSE investor. He says he's especially worried about the exchange's move to get approval for restructuring and self-listing.

TIMELINE

- 2010 Jalan committee, constituted by Sebi, submitted report on listing of exchanges
- 2012 Sebi allowed exchanges to list, which was not recommended by the committee
- 2012 BSE proposed to list and appointed merchant bankers
- 2015 Sebi-FMC merged, making MCX first listed stock exchange
- 2015 Sebi amended SECC regulations to allow listing of equity bourses

At a November 23 meeting attended by all NSE shareholders, the management of the unlisted bourse insisted on listing its shares on its own exchange, as opposed to Sebi's view that a bourse's shares be listed on a rival exchange, also called cross-listing. Its second pre-requisite ahead of listing is to create a holding company, under which the exchange business and the non-regulated businesses will be held as separate entities.

"They have told shareholders they plan to approach Sebi in January on these issues, despite the fact that they don't have shareholder approval. It requires 75 per cent approval and it is highly unlikely that they will get the required support, but that does not seem to bother the NSE management of the NSE," says

Adusumalli.

Global investors such as Norwest Venture Partners (NVP), NYSE Group, General Atlantic LLC, SAIF Partners, Goldman Sachs, Tiger Global, Morgan Stanley, Citigroup Inc and Actis LLP together hold at least 38 per cent stake in NSE. Since 2007, they have invested nearly $1 billion (Rs 6,600 crore) in the company, at various times and at different valuations.

“Restructuring is not in the interest of the company or shareholders,” says Sohil Chand, managing director, NVP India. “It is aimed at minimising regulatory oversight of NSE’s unregulated business and enabling the management to make acquisitions with the cash on NSE’s balance sheet. In addition, the restructuring will probably result in tax leakages and also impact NSE’s valuation.”

“NSE is all for listing. The board and management are already engaged in the process. Being a regulated organisation, as always, we will follow rules, guidelines as may be issued by the regulator and the government from time to time,” said an NSE spokesperson. The exchange did not respond to queries on its move to reach Sebi with self-listing and restructuring plans.

Sebi set up a seven-member panel in February 2010, headed by former Reserve Bank of India governor Bimal Jalan, to review ownership and governance norms for exchanges, depositories and clearing corporations. The panel, among other recommendations, said bourses should not be allowed to list.

However, while approving most recommendations of the panel, Sebi decided to allow exchanges to list, provided the regulatory and commercial functions were segregated, to prevent any conflict of interest. It said exchanges could list after they put in place appropriate mechanisms. One of these requires exchanges to ensure every shareholder meets the fit-and-proper criteria. Last week, Sebi relaxed this regulation. Such relaxations have enthused hope in BSE, which had applied for approval about two years earlier.

“When NSE's own shareholders have not approved of its proposals (self-listing & restructuring), even if Sebi gives the approval, how will NSE implement it?" asks Pratibha Jain, partner, Nishith Desai Associates. "NSE should complete its corporate governance procedure, before asking Sebi for this.”