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DENIAL MODE Sebi won't allow DSE stake sale to FIIs

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NEW DELHI

A Delhi Stock Exchange (DSE) proposal to sell 6% stake, in aggregate, in favour of foreign institutional investors (FIIs) has been rejected by the Securities and Exchange Board of India (Sebi).

Although Sebi did not reply to a letter mailed to it by Mint on Monday, a Mumbai-based senior lawyer clarified that FIIs are only permitted through purchases in the secondary market. That market is used for buying and selling securities of existing companies listed on the stock exchanges.

"This is as per the Reserve Bank of India (RBI) circular in connection with foreign investment in stock exchanges announced in December 2006," said Siddharth Shah of Nishith Desai Associates, a Mumbai-based law firm.

Foreign direct investment (FDI) however, is permitted either through subscription or through secondary purchases, subject to the approval of the Foreign Investment Promotion Board (FIPB) and Sebi.

Foreign investment deals, as in the case of the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), have been through placement of existing shares by members and under the FDI route.

FDI implies direct investment by foreign individuals or companies. FIIs' investments come through foreign institutions such as banks.

Bharat Bhushan Sahny, DSE's demutualization committee chairman, said the stock exchange made the proposal to Sebi believing member brokers are old shareholders of the exchange and, therefore, would be allowed to sell in the secondary market.

Sahny said its members also plan to come out with an initial public offering (IPO) in the next six to seven months.

"Although FIPB has already cleared five proposals to buy 21% stake in DSE, we have sent a few more applications to the board, including New Vernon Private Equity Fund and Passport Global Master Fund, both Mauritius-based funds," he said. For rest of the stake, DSE officials have decided to sell directly to domestic investors.

The five foreign investors are Wilmette Holdings Ltd of Mauritius, Kuwait-based Noor Financial Investment Co., Passport India Investments of Mauritius, Kuwait Privatization Projects Ltd, and NRI Bhupendra Kumar Modi.

Sebi has set a 28 August deadline for DSE's demutualization. Demutualization is a process by which exchanges reduce the holding of their member brokers to 49%.

This allows them to become independent.

Current Indian laws allow foreign entities to own a maximum of 5% in a stock exchange.

DSE plans to revamp operation soon to begin trading on the exchange.

In 2005-06, the latest period for which results are available, the exchange witnessed almost no trading activity, but registered a profit of Rs3.5 crore from listing fees, interest and rental income. The income from the value of trading on the exchange was Rs10 crore.

The comparable numbers for NSE and BSE were Rs472 crore and Rs145 crore.