NSE shareholders oppose Jalan panel's suggestions

NEW DELHI: Several domestic and foreign investors who together hold around 26% stake in the National Stock Exchange have voiced their concern against the recommendations of the Bimal Jalan committee, a stance that is at variance with that of the management of the country's largest bourse.

Beacon India Private Equity Fund, SAIF Partners, Norwest Venture Partners, Tiger Global and Actis Fund have urged Sebi that it should not accept the committee's suggestions to ban the listing of stock exchanges, restrict profits and have a dispersed shareholding for bourses as these would hurt competition, not promote transparency and give undue powers to managements.

The Jalan committee recommendations have come under criticism from most quarters, barring the NSE management led by managing director & CEO Ravi Narain and deputy managing director Chitra Ramakrishnan, who were all-praise for the report at a public event.

The Jalan committee had argued that exchanges should not be allowed to list given that their regulatory and commercial functions were intertwined. The NSE investors said that in several markets the functions of the bourses have been separated and India should draw from the experience of other countries. They suggested that the regulatory and commercial roles of the bourses should be separated in a time-bound manner in around 12 months.

Besides, the NSE investors pointed out that the global financial crisis should not be used as an excuse to ban the listing of bourses since the meltdown originated and affected the banking and financial system, and there was neither any impact on exchanges nor were there any allegations of wrongdoing against them.

The investors argued that the listing of bourses would improve transparency and disclosure and mitigate the risk of the management virtually taking control of a stock exchange, particularly in case of highly diffused ownerships.

In addition, it would result in more transparent price discovery for existing and future shareholders, which were commercial organizations, and would help boost competition as new players would be able to access capital.

The NSE investors also trashed the argument of profit regulation on the ground that stock exchanges were public utilities. "There are several utilities in India that have been deregulated, such as power, toll roads, pharmaceuticals and broadcasting, which has resulted in more competition and, consequently, lower prices. Profit regulation creates perverse incentives and would result in inflated balance sheets and higher cost structures, besides creating an anti-competitive environment as the potential new entrants would have no incentive to enter this sector," said a source.

The response also made a case for easing ownership norms, which only allow banks and finance companies to hold up to 15% as anchor investors while others can at most have a 5% stake in an exchange. The investors said that the norms minimized the incentive to invest. In addition, they sought that the eligibility criteria for anchor institutional investors must be expanded.

On the issue of remuneration of senior executives, the investors suggested that boards should be free to fix compensation based on market practice.