SEBI’s notification on default

What is the issue?

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SEBI earlier notified listed companies to disclose their default information to stock exchanges, but now this circular has been deferred.

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What are the shortfalls in SEBI’s notification?

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- SEBI notified the listed companies to treat any default in bank loans, commercial paper, foreign currency convertible bonds or External Commercial Borrowings (ECB) as material information.
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- It required the companies to disclose this information to stock exchanges within 1 working day.
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- At present, banks consider a borrower as a defaulter only if either interest or principal repayments remain unpaid for more than 90 days beyond the due date.
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- SEBI’s notification would eliminate the 90 days period used to differentiate between a temporary liquidity crisis and Insolvency problems.
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What are the concerns for the companies?

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- Financially sound companies may suffer delays of a few days in servicing loans due to temporary cash flow mismatches.
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- Requiring them to disclose information of default to the exchange within 1 working day is seen as a stringent rule.
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- Disclosing such minor delays as defaults may lead to excessive volatility in the stock-prices.
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What are the concerns for the banks?

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- Defaulting on a bank loan does not become open information instantly, and takes 90 days before being available to the public.
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- The banks believe that the decision of SEBI will further aggravate the NPA situation.
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- As the rating agencies will downgrade a loan to default grade once the company has declared itself as a defaulter.
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- This would increase the minimum capital required, which is difficult to be matched due to increased NPAs, reduced profits and government’s inability to recapitalise banks.
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Way forward

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- SEBI’s notification would raise transparency in the system and help the investor to access the risk and rewards involved.
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- However, the decision of SEBI to withhold its new rules is appreciated, as the companies are facing increased capital stress.
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- It would be healthier for SEBI to reconsider its definition of default on the

lines of RBI.
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Source: Business Line, Business Standard

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