

## **SEBI's Tweaks for Government Deals**

### **What is the issue?**

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- SEBI's regulatory clauses for acquisition of business are being repeatedly waived for government deals.

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- This could erode the credibility of SEBI and also affect investor sentiment.

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### **What is the SEBI regulation for takeovers?**

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- Recently, the central government has sealed a series of deals involving listed Public Sector Companies (PSCs), where it has given up its majority stake.

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- These have precipitated a change in management, and were carried out to meet disinvestment targets and free up budgetary resources.

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- Whenever there is a stake sale that results in a "change in management" of a listed entity, the acquirer entity will have to follow "SEBI's Takeover Code".

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- The SEBI code states that "the acquirer must make an open offer to public shareholders of the entity, to give them a fair exit".

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- In this context, the centre has been actively lobbying for its deals to be exempted from these requirements.

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### **What are the recent takeovers that have been exempted?**

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- In 2017, ONGC was persuaded to buy Centre's 51.1% equity in HPCL for over Rs. 36,000 crore in order to meet the shortfall in disinvestment proceeds.
  - Discussions are now on to offload the government's 73.4% stake in listed "Dredging Corporation of India" to three central Port Trusts.
  - The centre had managed to secured exemptions from "SEBI's Takeover Code" for both the above mentioned deals.
  - These are clear cases of a change in management control for the listed companies, with the equity stake changing hands well above 25%.
  - Therefore, it is unclear on what grounds the acquirers have been exempted from open offer requirements.
  - Further, exemption has also been sought for LIC's proposed acquisition of IDBI Bank, but the case is yet to be decided by the SEBI.
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### **Do the exemptions stand up to scrutiny?**

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- The government's argument is that as the sale is to 'government' entities, there is no trigger for an open offer.
  - But this argument is hollow, as the Centre showcases the very same deals as successes of its public sector 'disinvestment' programme.
  - SEBI is indeed empowered to grant open offer exemptions in special cases to safeguard the interests of minority investors in securities markets.
  - But in the above cases, interests of investors in the acquired firms are best served by insisting on open offers rather than waiving them.
  - Further, in the LIC-IDBI case, the whole objective of the deal is to anoint LIC as the new 'promoter' to infuse necessary capital into the ailing bank.
  - Hence, exempting that deal from open offers would be a sham.
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## What are the risks?

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  - The multiple instances of securities market laws being bent for the government, reflect poorly both on the Centre and the markets regulator.
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    - The government is also proving to be a poor role model on corporate governance for the promoters of India Inc.
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      - The government needs to recognise that it is repeatedly mistreating market investors in listed PSUs, by seeking exemptions from SEBI.
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        - Meting out high-handed treatment to shareholders can put them off government-owned entities and thereby starve PSUs of funds for development.
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          - Notably, given the persisting budgetary constraints, Centre will have to lean heavily on market investors in the next few years for capital investments.
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**Source: Business Line**

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