PSUs Exempted from Minimum Public Shareholding

Why in News

The Ministry of Finance **has amended the Securities Contracts (Regulation) Rules, 1957** to exempt listed public sector companies from the minimum public shareholding norm.

Key Points

- **The Amendment:**
  - **About:**
    - The **government can now exempt any listed public sector enterprise from the Minimum Public Shareholding (MPS) norm**, which mandates at least 25% public float for all listed entities.
  - **Rationale to the New Amendment:**
    - The framework for the MPS has been revised to **make it easier for large companies to launch IPOs** (Initial Public Offers).
    - The move comes as the **government prepares for the IPO of Life Insurance Corp (LIC) of India**, likely to be the biggest listing ever.
  - **Concerns:**
    - **Can Affect Liquidity in PSU Stocks:**
      - Investors, especially foreign ones, are wary of investing in such stocks due to absence of liquidity – because of high promoter holding.
    - **Can Impact Foreign Investment:**
      - Maintenance of minimum public float by listed companies helps attract higher foreign capital and increases India's weight in international indices like MSCI (Morgan Stanley Capital International) and FTSE (Financial Times Stock Exchange).
      - Government firms not adhering to these norms could be a drag on inflow of foreign capital.
    - **Can Impact Strategic Disinvestment Program:**
      - This can be detrimental at a time the government is planning **Strategic Sales** in various PSUs including BPCL, Shipping Corporation, and Air India.
      - Low free float is one of the reasons why PSU stocks command low valuation in the market.
    - **Non-Uniform Governance Standards:**
      - Various government expert committees have in their reports argued all listed entities, government or private, should be treated at par on governance standards.
- **Minimum Public Shareholding (MPS):**

- **About:**
    - The MPS (also called free float) rule **requires all listed companies in India to ensure that at least 25% of their equity shares are held by non-promoters, i.e. public.**
    - Public shareholders **could be individual or financial institutions** and they normally **buy shares through public offer or secondary markets.**
    - In order **to bring more transparency** in the working of listed companies, the concept of minimum public shareholding was introduced.
        - In **2010, SEBI amended the Securities Contracts Regulation Rules** to insist on this 25% public float for private sector companies.
    - The **average promoter holding in India is among the highest globally.**
        - In the 2019-20 Budget, the government had proposed to increase the minimum public float from 25% to 35%.
- **Compliance Status:**
    - While the timeline for achieving 25% MPS for listed companies was 2013, the timeline for public sector companies i.e. PSUs and public sector banks (PSBs), were extended multiple times closer to the deadline due to lack of efforts from such companies towards compliance.
        - The previous such extension granted them time till 2nd August, 2021 for compliance.
    - With the latest amendment, the Central government has empowered itself to exempt selected public sector companies from the 25% MPS norm.
- **Significance:**
    - Adequate free float in a listed company is **essential for providing sufficient liquidity in trading stocks** thereby facilitating efficient price discovery and maintaining market integrity.
    - Public float ensures that there is **lesser price manipulation in the stock.**
    - Forcing promoters to relax their grip on listed companies **can improve corporate governance** by giving public shareholders and institutions greater say in corporate actions.
        - There are very few investment opportunities in the stock market and so forcing promoters to sell shares would **improve the supply of shares.**

SEBI

- SEBI is **a statutory body** established in April, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.
- The basic functions of the Securities and Exchange Board of India is to protect the interests of investors in securities and to promote and regulate the securities market.

Listed Companies

- “Listed" is a term that describes a company that is included and on a given stock exchange (such as **NSE**, BSE) so that its stock can be traded.

Central Public Sector Enterprises

- Central Public Sector Enterprises (CPSEs) are those companies in which the **direct holding of the Central Government or other CPSEs is 51% or more**
- As on 31st March 2019, there were 348 CPSEs (excluding insurance companies). Of these, 86 enterprises were yet to commence commercial operations and 13 CPSEs are under

closure/liquidation. Remaining 249 were operating enterprises (including 180 scheduled CPSEs.

Promoter

- The meaning of ‘promoter’ and ‘promoter group’ is **defined in Companies Act, 2013 and SEBI (ICDR) Regulations, 2018.**
- Generally, a promoter conceives an idea for setting-up a particular business at a given place and performs various formalities required for starting a company.

Primary Market and Secondary Market

- The primary market is where securities are created, while the secondary market is where those securities are traded by investors.
- In the primary market, companies sell new stocks and bonds to the public for the first time, such as with an initial public offering (IPO).
- The secondary market is basically the stock market and refers to the New York Stock Exchange, the Nasdaq, and other exchanges worldwide.

Stock Liquidity

- Liquidity generally refers to **how easily or quickly a security can be bought or sold in a secondary market.** Liquid investments can be sold readily and without paying a hefty fee to get money when it is needed.

Source: IE