

Sebi Plans Buyback Via SEs Again, Easier MF Borrowing Rules

Public shareholders likely be taxed on actual capital gains from share purchases

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Mumbai: The Securities and Exchange Board of India (Sebi) is likely to approve a major revamp of the buyback framework at its June 19 board meeting that might reintroduce the stock exchange route for share repurchases, while likely waiving the current requirement of appointing merchant bankers.

The Sebi board is also expected to consider a proposal to relax curbs on intraday borrowing by mutual funds, allowing fund houses to use such facilities for a wider range of cash management purposes beyond meeting investor redemptions among other things.

Under the proposed buyback framework, Sebi is likely to restore open market buybacks through stock exchanges, a mechanism that was phased out in 2025 amid concerns over equitable treatment of shareholders. At the time, objections were raised that the price-time matching mechanism could allow a few shareholders to corner buyback benefits, leaving others without participation.

Also, under the earlier tax regime, companies bore the buyback tax while shareholders paid none, leading to uneven outcomes.

In its latest consultation paper, the regulator said the revised taxation framework has addressed issues of unequal shareholder participation and tax distortions that had led to the discontinuation of the route.

Under the new framework, public shareholders would be taxed on their actual capital gains when shares are tendered in a buyback, similar to a normal market sale.

"It will help companies to return surplus funds, in relation to those companies which are in capex light industries where the funds may not really be required, and may be negative from a return on equity perspective on an overall basis," said Ketan Dalal, MD, Katalyst Advisors.

BUYBACK VOLUMES SHRINK

Last year, 14 companies bought back



shares worth ₹19,711 crore. India had earlier seen a record ₹55,273 crore buyback by 50 companies in 2017, according to Prime Database.

The regulator also plans to introduce additional safeguards, including mandatory electronic intimation to shareholders, restrictions on promoter transactions during buyback periods and compliance requirements relating to minimum public shareholding norms.

Further, several functions currently handled by merchant bankers, may be reassigned to companies, stock exchanges, secretarial auditors and compliance officers.

"The doing away with the need to

appoint a merchant banker is also helpful particularly for small buybacks in terms of reducing cost and compliances, and simplifying the process," Dalal said.

The Sebi board may also discuss a proposal to broaden the use of intraday borrowing facilities by mutual funds, treating them as a cash management tool rather than limiting them only to redemption payouts.

BORROWING EASE

Last month, the regulator proposed asset management companies be allowed to avail intraday borrowing lines for trade settlements, foreign exchange transactions, derivative-related obligations and repayment of existing borrowings, in addition to redemption and unitholder payout requirements.

This marks a shift from the current framework, under which Sebi had carved out intraday borrowing solely to bridge timing gaps between redemption payouts and guaranteed receivables from entities such as the government, the RBI and clearing corporations.

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