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Minimum Public Shareholding Rule

Why in news?

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SEBI allowed its listed companies to use new methods of share sales through MPS rule.

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What is MPS rule?

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- The Minimum Public Shareholding (MPS) rule requires all listed companies in India to ensure that at least 25% of their equity shares are held by non-promoters (public).
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- This rule was implemented after the amendment of Securities Contracts Regulation Rules by SEBI in 2010.
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- Under this rule promoters with a strangle-hold on listed companies were asked to compulsorily sell down their stake by placing shares with institutions or issuing rights or bonus shares.
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What is the significance of the rule?

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- India has 5000 listed companies but the market depth is very low.
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- Thus stocks beyond the top 150/200 are less traded.
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- Due to this, high promoter holdings prevail and the float available for trading by the public is very limited.
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- SEBI is hoping to improve market depth and liquidity by unlocking this free float.
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- Forcing promoter to relax their grip on listed companies can improve corporate governance by giving public shareholders and institutions greater say in corporate actions.
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- There is very few investment opportunities in the stock market and so forcing promoters to sell shares would improve the supply of shares.
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- MPS rule ensures better liquidity, price discovery and governance in the stock market.
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What are the challenges with this rule?

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- Initially PSUs were allowed a 10% MPS, but have recently been asked to comply with a 25% MPS by August 2018.
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- Review by SEBI in June 2013 also found that over 105 private sector firms hadn’t fallen in line and it issued notices to them.
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- Instead of addressing the compliance issues SEBI is keen to further expand the mandatory MPS to 30 per cent or even 35 per cent.
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- SEBI also imposes penalties to the company which is non-complaint by freezing the promoter shares and barring promoters from any directorships.
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- This threatens new players in the market.
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Source: Business Line

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