MOVE FOLLOWS SEBI DIRECTIVE

Owners cut MCX-SX stake for stock debut

Our Bureau
MUMBAI

THE promoters of MCX Stock Exchange (MCX-SX) have sold a part of their holdings to a string of banks and reduced the capital of the bourse to fall in line with Sebi rules and pave the way for the launch of its stock trading platform. MCX-SX, perceived as a rival to market leader National Stock Exchange (NSE), has informed market regulator Sebi of the stake dilution.

Promoted by Financial Technologies (FT) and Multi Commodity Exchange of India (MCX), the exchange is currently awaiting Sebi's nod to offer a stock trading platform.

FT and MCX have brought down their stake in MCX-SX from a combined 70% to 10%. The capital of MCX-SX has been reduced from around Rs 170 crore to Rs 54 crore through cancellation of shares. MCX-SX, which went live in October 2008, currently offers trading in currency futures in direct competition with the market leader in the equities segment, NSE.

FALLING IN LINE

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Apart from the promoters, the current shareholders include 18 banks and two financial institutions. Besides IFCI (which holds 13.23%) and IL&FS (5%), other major shareholders in the bourse include PSU lenders such as Union Bank of India (11.5%), PNB (9.20%), Allahabad Bank, Andhra Bank, Bank of Baroda, Bank of India, Indian Bank, IOB and OBC, which hold 4.6% each.

"Due to the reduction of capital, IFCI's shareholding has gone up," said Joseph Massey, MD & CEO of MCX-SX.

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THE exchange was given time till September 2010 to achieve compliance with Sebi's shareholding guidelines for recognised exchanges. "The exchange has now completed this process through divestment and a scheme of reduction of capital as per the provisions of the Companies Act, unanimously approved by the board, (and) all shareholders in EGM, which was also duly approved by the Bombay High Court, MCX-SX said in a press release issued on Thursday evening.

The divestment comes against the backdrop of a fierce battle between the nascent exchange and market leader NSE for supremacy in the currency futures space. In November, MCX-SX filed a complaint with the Competition Commission of India (CCI) against NSE, alleging that the latter had abused its dominant position and resorted to predatory pricing in the currency futures space. The bourse contends that NSE was able to waive transaction fees for members using its currency futures platform because it charged a fee of Rs 400 per crore on the turnover in its derivatives segment. NSE's waiver means MCX-SX is also unable to levy such a fee, leading to significant losses.

Apart from this, FT, one of the joint promoters of MCX-SX, is locked in a legal battle with NSE after the exchange put it on 'watch list' citing "performance and system issues on multiple occasions".

In July last year, eyebrows were raised when the promoters divested 5% stake through a secondary sale of shares to IFCI at Rs 250 crore, valuing the exchange at Rs 5,000 crore (over $1 billion at current exchange rates). This was because MCX-SX had divested 6.48% through a primary offering to Union Bank of India and Bank of India at Rs 87.5 crore just a month ago. However, MCX-SX officials pointed out that the bourse's shareholder agreement with IFCI contained a downward revision clause which protects the FI in the case of subsequent share sales by MCX-SX taking place at a lower price to that transacted with IFCI. But according to Mr Massey, there was no occasion for this clause to be triggered.