

## **Dividend disclosure policy may be made mandatory**

### ***To cover all listed companies; Sebi might set minimum terms***

Upping the corporate governance ante, capital market regulator Securities and Exchange Board of India (Sebi) plans to make dividend disclosure policy compulsory for listed companies. The move is aimed at helping ordinary shareholders understand how much dividend they can expect from a company.

At present, it is not mandatory under any regulations for companies to declare dividends or to even have a policy, although a handful of companies have voluntarily formulated such a policy.

Sebi has no plans to force any company to pay dividends, but would set broad policy terms for companies, said sources. The regulator wants companies to disclose circumstances and financial parameters under which they can or cannot pay dividends. Also, Sebi would ask companies to state what they intend to do with their retained earnings if they don't wish to pay dividends, people with knowledge of the development said. (WHAT INDIA INC PAYS)

Domestic companies have ad-hoc rules regarding dividends. For instance, in 2014-15, Tata Motors, Reliance Power and Glenmark didn't pay any dividends to shareholders, despite making decent profits. On the other hand, Vedanta, Tata Steel and state-owned MMTC paid dividends even as they made losses.

"Declaration of dividend is the prerogative and business decision of the management. Such decision is typically dependent on a number of contingent factors. The management may have justifiable reasons for holding cash or deferring distribution," said Akila Agrawal, partner, Shardul Amarchand Mangaldas.

Although expecting a dividend is within the rights of minority shareholders, it is also justified for a company to retain cash by not paying dividend in order to re-plough it into the business or create a war chest for potential acquisitions.

Sebi, at present, mandates companies to disclose a dividend policy at the time of an initial public offering. The regulator wants such a policy to be part of companies' annual report.

Besides, companies will also have to disclose it on their websites. Initially, Sebi might restrict the rule to the top 500 companies in terms of market value.

Experts said such a policy may not meet its objective if companies make vague disclosures.

"Asking companies to have a dividend policy is a good idea, but it remains to be seen how effective it would be. A lot of companies might make generic disclosures, which may not have much significance," said Shriram Subramanian, founder and managing director, InGovern Research Services, a corporate governance and proxy advisory firm.

"Sebi requiring listed companies to mandatorily institute a dividend distribution policy will not necessarily result in enhanced investor protection. In all probability, it will just result in adoption of broadly drafted policies, wherein the management will ultimately retain its discretion to declare dividends depending on business exigencies," added Agrawal.

*(Business Standard)*