



PR No. 37 /2022

SEBI Board Meeting

The SEBI Board met in Mumbai today. Some of the Part Time Members joined the meeting through video conferencing. The Board, inter-alia, took the following decisions:

I. **Strengthening focus and governance mechanisms in Market Infrastructure Institutions (MIIs)**

Market Infrastructure Institutions (Stock Exchanges, Clearing Corporations and Depositories) are key pillars of a vibrant and resilient securities market and any instance of governance lapse in these institutions may lead to weakening of stakeholder trust in the market. Accordingly, a comprehensive review was undertaken to strengthen the focus and of the governance of MIIs.

Based on the review, various amendments to the regulations for MIIs have been approved by the Board. Some of the key decisions in this regard are as under:

Structure:

1. The functions of MII to be categorized into three verticals, viz,
 - (i) Critical Operations;
 - (ii) Regulatory, compliance and risk management, including the role of MIIs as first level regulators of intermediaries and listed entities, as well as investor grievance redressal;
 - (iii) Other functions, including business development.

The Key Management Personnel (KMPs) heading the functions under the first two verticals to be at par in hierarchy with the KMPs heading the third vertical.

2. MII shall give higher priority to the resource allocation towards the functions under the first two verticals over resource allocation towards the third vertical.

Board Governance:

3. The process of appointment of Public Interest Directors (PIDs) to be rationalized by mapping certain skill-sets/expertise to PIDs. The MIIs will be required to mandatorily appoint PIDs with background and expertise in the areas of technology, law and regulatory, finance and accounts and capital markets. In line with the extant requirement, the PIDs will continue to meet every six months, and in addition to submission of a report to the Board of the MII, they will be required to submit a report to SEBI after the meeting.
4. The internal evaluation of functioning of MIIs and their statutory committees will be done every year. In addition, an external evaluation will be done by an independent entity once in three years.
5. MIIs will set up an Investment Committee as a new statutory committee which will be responsible for evaluating investments including capital expenditure, investments into other companies and CSR activities.
6. The agenda items and minutes of the governing board of the MII pertaining to regulatory, compliance and risk management aspects to be disclosed on the website of MII.

Accountability of KMPs:

7. The definition of KMPs to be changed to cover employees based on importance of activities carried out by them and their relative hierarchy within the MII. Further, the MII will clearly delineate and segregate the roles and responsibilities of such identified KMPs within each function

(especially their responsibilities towards regulatory, compliance and risk management functions) in order to improve overall accountability.

8. The appointment and removal of KMPs will be done by Nomination and Remuneration Committee (NRC). The MIIs will appoint a separate Chief Risk Officer, who would be in-charge of handling risks associated with the MII. The performance of KMPs will be evaluated in every six months.
9. In addition to existing reporting requirements, the Chief Regulatory Officer or Compliance Officer will be required to submit a quarterly report to SEBI on non-compliances.
10. No employee of the MII will be permitted to simultaneously be an employee of a subsidiary of the MII.

Code of Conduct:

11. A sharper Code of Conduct will be applicable to the MII, the governing board, directors, KMPs and committee members.
12. Further, Board Members and KMPs will be held accountable if they are aware of wrongdoing(s) and do not appropriately report the same.

Policy on Data Sharing:

13. MIIs will be required to frame an internal policy for sharing and monitoring data which will entail means and manner of data sharing, types of data that can be shared, escalation matrix for data sharing, etc.

These regulatory changes are expected to bring in greater transparency and accountability in the functioning of MIIs. The amendments will come into effect from 180 days from the date of notification in the Official Gazette.

II. Amendment to SEBI (Buy-back of Securities) Regulations, 2018

After considering the various suggestions received from stakeholders with respect to Buy-back of shares, the Board has, *inter-alia*, approved the following amendments to the SEBI (Buy-back of Securities) Regulations, 2018-

A. Buyback through Stock Exchange Route:

1. Buy-back through stock exchange route to be phased out in a gradual manner.
2. Increasing the minimum utilization of the amount earmarked for buy-back through stock exchange route from existing 50% to 75%.
3. Creation of a separate window on stock exchanges for undertaking buy-back till the time buyback through stock exchange is permitted.

B. Buyback through Tender Offer Route:

1. Reduction in timeline for completion of Buyback by 18 days by removing the requirement of filing draft letter of offer with SEBI and its observations thereof, and reduction of the duration of the tendering period and period available for payment of consideration to the shareholders.
2. Permitting upward revision of buy-back price until one working day prior to the record date.
3. Making it mandatory to place the relevant advertisements/documents with respect to buyback, such as, copy of the public announcement, letter of offer etc. in the respective website of the stock exchange(s), merchant banker and the company for better dissemination of information to shareholders.

These amendments aim to streamline the process of buy-back, create a level playing field for investors and promote ease of doing business.

III. Introduction of framework to facilitate Execution Only Platforms for direct plans of Mutual Fund schemes

A number of entities including Investment Advisers (IAs) and Stock Brokers, offer execution services in direct plans of MF schemes, through digital mode.

Presently, there is no regulatory framework in place to facilitate the provision of such “execution only services” in direct plans of MF schemes, independent of the regulatory requirements applicable to IAs and Stock Brokers.

In this backdrop, the Board has decided to introduce a regulatory framework for “Execution Only Platforms” (EOP) for direct plans of Mutual Fund schemes, with a view to achieve the following objectives:

- (i) Convenience to investors in making investments through EOPs;
- (ii) Appropriate investor protection mechanisms; and
- (iii) Ease of doing business for the EOPs, by mandating only such appropriate regulatory compliances as is required for the EOP activity.

Under the approved framework, EOPs may be granted registration under either of the two categories - Category 1 EOP as an agent of AMCs, registered with AMFI or Category 2 EOP as an agent of Investor, registered as a stock broker.

The detailed framework and the modalities of implementation of the same, nature of services that may be offered by the EOPs, cyber security requirements, pricing of services, grievance redressal mechanisms, etc. shall be notified through Circulars.

IV. Platform for Risk Reduction Access to investors in case of disruption of trading services provided by a Stock Broker.

In the event of disruption of trading services provided by a Broker, clients face significant risk if they are unable to square off their open positions and / or cancel orders pending at the stock exchange, particularly when the markets are volatile. To provide such clients a facility to reduce the risk of open positions / pending orders during periods of disruption in services of their broker, it has been decided that stock exchanges shall introduce an Investor Risk Reduction Access Platform. A detailed framework for the platform shall be issued by way of Circular.

The Investor Risk Reduction Access Platform is expected to be available from the third quarter of FY 2023-24.

V. Enhanced risk management framework for stock brokers designated as Qualified Stock Brokers (QSBs)

Certain Stock Brokers in the market handle a very large number of clients, very large amount of client funds and very large trading volumes. Possible failure of such brokers has the potential to cause widespread impact on investors and reputational damage to the Indian securities market. To mitigate this risk, the Board approved amendments to the SEBI (Stock Brokers) Regulations, 1992 to designate such stock brokers, based on identified parameters, as Qualified Stock Brokers (QSBs). QSBs would need to comply with enhanced risk management practices/ requirements. There would also be enhanced monitoring of such QSBs by SEBI / Market Infrastructure Institutions (MIIs). A detailed framework on QSBs shall be issued separately by way of Circular.

VI. Streamlining the on-boarding process to facilitate ease of doing business and reducing the time taken for registration of Foreign Portfolio Investors (FPIs)

1. In order to further reduce the time taken for granting registration to FPIs, the Board approved the following regarding procedural requirements for on-boarding FPIs:
 - a. Granting registration on the basis of scanned copies of application forms / supporting documents and activation of trading post verification of physical documents;
 - b. Acceptance of use of digital signatures by FPIs, in accordance with the provisions of the Information Technology Act, 2000, for execution of registration related documents;

- c. Permitting use of SWIFT mechanism for certification, by authorized bank officials, of copies of original documents submitted by FPIs to DDPs. This would reduce physical movement of documents and the time taken for registration;
 - d. Permitting verification of PAN by DDPs through the Common Application Form (CAF) module available on the websites of the Depositories.
 - e. Submission of unique investor group ID by FPI applicants in lieu of complete details of group constituents.
2. The Board also approved amendments in the SEBI (Foreign Portfolio Investors) Regulations, 2019 for providing clarity on the various timelines given in the said Regulations.

VII. Amendment to SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations) to facilitate sustainable finance while safeguarding against 'greenwashing'.

In the backdrop of increasing interest in sustainable finance in India as well as around the globe, and with a view to align the extant framework for green debt securities with the updated Green Bond Principles (GBP) recognised by IOSCO, SEBI undertook a review of the regulatory framework for green debt securities.

Based on the review, it has been decided to:

1. Enhance the scope of definition of green debt security by including new modes of sustainable finance in relation to pollution prevention and control, eco-efficient products, etc.;
2. Introduce the concept of blue bonds (related to water management and marine sector), yellow bonds (related to solar energy) and transition bonds as sub categories of green debt securities;

SEBI will also specify the basic dos and don'ts relating to green debt securities, to address issuers against 'green-washing' related risks.

VIII. Facilitation of participation by AIFs in Credit Default Swaps

To provide greater investment flexibility to Managers of AIFs and to facilitate deepening of the domestic Corporate Bond market, it has been decided to permit AIFs to participate in Credit Default Swaps ('CDS'), not only as protection buyers, but also as protection sellers, subject to conditions for risk mitigation. The Board has approved the following types of transactions in CDS by AIFs:

Category I AIFs	(i) Hedging: Purchase CDS on underlying investment in debt securities
Category II AIFs	(i) Hedging: Purchase CDS on underlying investment in debt securities (ii) Sell CDS: Unencumbered Government bonds / Treasury bills equal to the amount of CDS exposure to be earmarked against the CDS.
Category III AIFs	(i) Purchase CDS: For hedging or otherwise, within permissible leverage (ii) Sell CDS: Within permissible leverage. Selling of CDS will not tantamount to undertaking leverage, so long as unencumbered G- Secs / T- Bills equal to the amount of CDS exposure are kept earmarked against the CDS.

IX. Amendment to SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations), to streamline appointment of nominee director and specify public issue timelines.

Based on comprehensive stakeholder consultations and detailed deliberations, the Board has approved certain regulatory interventions for Corporate Bond market, the details of which are given below:

1. With a view to better protect the interests of debenture holders, it has been decided that, Issuers of listed debt securities shall incorporate suitable provisions in their Articles of Association, to cast obligation on the Board of Directors of the issuer to appoint the person nominated by its Debenture Trustee (DT) as a director in the event of default. Corresponding amendments are to be made in the Debenture Trust Deed. The existing listed debt issuers are required to do the needful by September 30, 2023.
2. Presently, there are no stipulations with respect to the duration for which a public issue of debt securities or Non-Convertible Redeemable Preference Shares (NCRPS), should be kept open. With a view to address any possible inefficiencies and delays due to such lack of regulatory mandate, it has been decided that public issue of Debt Securities and NCRPS shall be kept open for subscription for a minimum period of three working days and maximum period of ten working days.

These timelines are aligned with timelines provided for specified securities under SEBI (ICDR) Regulations, 2018.

X. Introduction of governance norms for REITs and InvITs on the lines of corporate governance norms for listed companies

With the intention to introduce governance norms for REITs and InvITs in line with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, it has been decided to amend the SEBI (Real Estate Investment Trusts) Regulations, 2014, SEBI (Infrastructure Investment Trusts) Regulations, 2014

and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to provide as under:

The corporate governance norms applicable for listed companies to be applicable to REITs and InvITs, irrespective of whether any debt security was issued by them.

However, certain provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 which are not directly applicable or is already specified for REIT / InvIT under respective Regulations have been carved out.

XI. Streamlining provisions related to tenure of auditor, computation of leverage, unclaimed/unpaid distribution and other provisions for REITs and InvITs

With the intention to streamline tenure of auditor, computation of leverage, unclaimed/unpaid distribution, etc, SEBI (Real Estate Investment Trusts) Regulations, 2014 and SEBI (Infrastructure Investment Trusts) Regulations, 2014 will be amended to provide as under:

- i. Tenure of auditor to be till the conclusion of the fifth annual general meeting of unit holders;
- ii. Statutory auditor of REIT/ InvIT to undertake limited review of audit of all the entities or companies whose accounts are to be consolidated;
- iii. Investment in overnight fund to be considered as cash and cash equivalent, for the purpose of computation of leverage;
- iv. Unclaimed / unpaid distributions for REIT/ InvIT to be transferred to the 'Investor Protection and Education Fund' constituted by SEBI.

XII. Framework for Adoption of Cloud Services by SEBI Regulated Entities

The Board approved the framework for adoption of cloud services by SEBI Regulated Entities (REs). The framework is a principle-based framework containing nine broad principles which must be followed by REs for deploying cloud services. The framework highlights the following aspects associated with adoption of cloud services:

1. Risk Assessment
2. Regulatory and Legal Compliances
3. Rights, Responsibilities, and Accountabilities of RE
4. Mandatory Security Measures and Controls
5. Rights of SEBI and other government agencies

The framework will assist the REs in leveraging benefits of cloud computing as well as developing a new approach to deal with various issues related to cloud services such as safeguarding of sensitive information, country risk, disaster recovery, concentration risk, etc.

Mumbai

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