भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

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PRESS RELEASE

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PR No.1/2021

Discussion paper on Review of Ownership and Governance norms to facilitate new entrants to set up Stock Exchange / Depository

The Indian securities market has witnessed dominance in trading and depository space, raising concerns on possibility of excessive concentration and institutional tardiness in quickly responding to the changing market dynamics which may have an adverse bearing on efficiency in trading, record-keeping, supervision and risk management practices.

Another dominant trend shaping the exchange and depository landscape is the emergence of new technologies such as distributed ledger technology, artificial intelligence, machine learning etc. Several new fintech/ techfin players have emerged in trading space in various jurisdictions, who are increasingly deploying these disruptive technologies and challenging the traditional functioning of Stock Exchanges and Depositories ("Market Infrastructure Institutions"/ "MIIs").

A need is, therefore, being felt to forge a competitive landscape in MIIs' space by facilitating new players, who may like to challenge other MIIs in their already established domain, to set up MIIs or merger/ acquisition of the existing entities.

The extant framework appears to inhibit entry of new players or acquisition of existing entities due to a default precondition of dispersed shareholding at the initial stage itself, which limits the upside gains for a potential entrant arising out of entrepreneurial capital. It is, therefore, proposed to create a liberalized ownership framework by allowing higher shareholding at initial / inception stage with dilution over a period of time. The key proposals, in this regard, are as under:

In case of setting up of a new MII

- Resident promoter setting up the MII may hold up to 100% shareholding which shall be brought down to not more than (either 51% or 26%) in 10 years.

- A foreign promoter (from FATF member jurisdictions) setting up the MII may hold up to 49% shareholding (in terms of consolidated FDI Circular, 2020) which shall be brought down to not more than (either 26% or 15%) in 10 years.

- Foreign individuals / entities from other than FATF member jurisdictions, may acquire or hold up to 10% in a MII.

- Any person (domestic or foreign), other than the promoter, may acquire or hold less than 25% shareholding.

- At least 50% of ownership of the said MII, shall be represented by Individuals / Entities having experience (5 years or more) in areas of capital markets or technology related to financial services.

In case of an existing MII

- A person may, directly or indirectly, either individually or together with persons acting in concert, may acquire or hold upto 100% shareholding in a MII, which shall be brought down to not more than (either 51% or 26%) in 10 years:

  Provided that any acquisition of 25% or more shall be subject to prior approval of SEBI and compliance with provisions of SEBI Takeovers Regulations (in case of both, listed or unlisted MII).

- A foreign promoter (from FATF member jurisdictions) may hold up to 49% shareholding (in terms of consolidated FDI Circular, 2020) which shall be brought down to not more than (either 26% or 15%) in 10 years:

  Provided that any acquisition of 25% or more shall be subject to prior approval of SEBI and compliance with provisions of SEBI Takeovers Regulations (in case of both, listed or unlisted MII).

- Foreign individuals / entities from other than FATF member jurisdictions, may acquire or hold up to 10% in a MII.

Prior approval of SEBI shall be mandatory for acquisition exceeding 10%, in case of both, setting up of a new MII or an existing MII.

Changes in Governance requirements

Diversification in the composition of statutory committees at MIIs to have wider representation of stakeholder:

- Grievance Redressal Committee – to include a Public Interest Director
- Nomination and Remuneration Committee – to include Shareholder Directors (SHD) and MD & CEO as permanent invitee
- Standing Committee on Technology – to include MD & CEO and CTO as permanent invitee
- Regulatory Oversight Committee – to include SHDs (including MD & CEO)
- Risk Management Committee – to include a SHD (including MD & CEO)

The appointment of MD & CEO shall be for a maximum three terms of three years each instead of two terms of up to 5 years each.

A consultation paper proposing detailed reforms relating to ownership and governance norms has been issued by SEBI and public comments have been invited.

The consultation paper is placed on the website www.sebi.gov.in. Comments from public may be submitted to amitk@sebi.gov.in on or before February 05, 2021.

Mumbai

January 06, 2021