



PR No.38/2021

## SEBI Board Meeting

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

### I. Amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

The Board approved the proposal to amend various aspects of regulatory framework under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) and consequential amendment to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable, based on the public consultation process on the proposals recommended by Primary Market Advisory Committee (PMAC). Some of the key amendments are as follows:

1. Following shall be applicable for Draft Red Herring Prospectus (DRHP) filed on or after notification in the Official Gazette:
  - a. Conditions for Objects of the Issue:
    - i. Where the issuer company in its offer documents, set out an object for future inorganic growth but has not identified any acquisition or investment target, the amount for such objects and amount for general corporate purpose (GCP) shall not exceed 35% of the total amount being raised.

- ii. The amount so earmarked for such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer.
  - iii. Above limits shall not apply if the proposed acquisition or strategic investment object has been identified and suitable specific disclosures about such acquisitions or investments are made in the draft offer document and the offer document at the time of filing of offer documents.
- b. Conditions for offer for Sale (OFS) to public in an IPO where DRHP is filed by issuer without track record i.e. under Regulation 6(2) of ICDR Regulations, 2018:
- i. Shares offered for sale by selling shareholders, individually or with persons acting in concert, holding more than 20% of pre-issue shareholding of the issuer, shall not exceed more than 50% of their pre-issue shareholding.
  - ii. Shares offered for sale by selling shareholders, individually or with persons acting in concert, holding less than 20% of pre-issue shareholding of the issuer, shall not exceed more than 10% of pre-issue shareholding of the issuer.
- c. Monitoring Agency and reporting on utilization of issue proceeds:
- i. Credit Rating Agency (CRAs) registered with the Board, shall henceforth be permitted to act as Monitoring Agency instead of Scheduled Commercial Banks (SCBs) and Public Financial Institutions (PFI).

- ii. Such a monitoring shall continue till 100% instead of 95% utilization of issue proceeds as present.
  - iii. Amount raised for GCP shall also be brought under monitoring and utilization of same shall be disclosed in monitoring agency report.
  - iv. Monitoring agency report shall be placed before audit committee for consideration “*on a quarterly basis*” instead of “*on an annual basis*”.
- 2. Price Band: In case of book built issues, a minimum price band of be at least 105% of the floor price shall be applicable for all issues opening on or after notification in the official gazette.
- 3. Lock-in for Anchor Investors: The existing lock in of 30 days shall continue for 50% of the portion allocated to anchor investor and for the remaining portion, lock in of 90 days from the date of allotment shall be applicable for all issues opening on or after April 01, 2022.
- 4. Revised allocation methodology for Non Institutional Investors (NIIs):
  - a. For book built issues opening on or after April 01, 2022, the allocation in the NII category shall be revised as follows:
    - i. one third of the portion available to NIIs shall be reserved for applicants with application size of more than two lakh rupees and up to ten lakh rupees;
    - ii. two third of the portion available to NIIs shall be reserved for applicants with application size of more than ten lakh rupees:
  - b. Allotment of securities in case of NII category shall be on ‘draw of lots’, as is currently applicable for retail individual investors (RIIs) category

(i.e. draw of lots to allot minimum application size to applicants, in case of oversubscription and balance allotment on proportionate basis).

5. Following shall be applicable for all preferential issues where relevant date is after the notification in the official gazette:

a. Determining the floor price: Following factors shall be considered for determining the floor price for all preferential issues:

i. For frequently traded security, the floor price for preferential issue shall be higher of 90/10 trading days' volume weighted average price (VWAP) of the scrip preceding the relevant date or as per any stricter provision in the Article of Association of the issuer company.

ii. For infrequently traded security, the valuation report by a registered independent valuer shall be required.

b. An additional requirement for a valuation report from a registered independent valuer shall be required in case of change in control/ allotment of more than 5% of post issue fully diluted share capital of the issuer company to an allottee or to allottees acting in concert. The same shall be considered for determination of floor price in addition to the methodology brought out at (a) above.

c. Further, in case of change in control, a committee of independent directors shall be required to provide a reasoned recommendation along with their comments on all aspects of preferential issuance including pricing. The voting pattern of the committee shall also be disclosed to shareholders/public.

d. Lock-in Provisions for preferential issue: In line with lock-in requirements for public issues, the tenure of lock-in of shares pursuant to a preferential issue shall be reduced as follows:

i. For Promoters:

The lock-in requirement for allotment upto 20% of the post issue paid up capital shall be reduced to 18 months from the existing 3 years. The lock-in requirement for allotment exceeding 20% of the post issue paid up capital shall be reduced to 6 months from the existing 1 year.

ii. For Non-promoters

The lock-in requirement for allotments shall be reduced from requirement of 1 year to 6 months.

e. Pledge of locked-in shares:

Promoters would be permitted to pledge the shares locked-in pursuant to a preferential issue provided if pledge of such specified securities is one of the terms of sanction of the loan granted by certain financial institutions and the said loan is to be sanctioned to the issuer company or its subsidiary(ies) for the purpose of financing one or more of the objects of the preferential issue.

f. Preferential Issue for consideration other than cash:

Consideration for preferential issue, "other than cash" shall be permitted only for share swaps backed by a valuation report from an independent registered valuer.

g. Timelines for seeking in-principle approval from stock exchanges by issuer company:

Issuer company shall necessarily apply for in-principle approval from stock exchanges on the same day as the date of dispatch of notice for AGM/ EGM to shareholders.

**II. Introduction of provisions relating to appointment or re-appointment of persons who fail to get elected as directors, including as Whole-time directors or Managing Directors or Managers, at the general meeting of a listed entity**

1. The Board approved a proposal to introduce provisions in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**” / “**LODR**”) relating to appointment or re-appointment of persons who fail to get elected as directors, including as Whole-time directors or Managing Directors or Managers, at the general meeting of a listed entity.
2. Accordingly, appointment or a re-appointment of any person, including as a managing director or a whole-time director or a manager, who was earlier rejected by the shareholders at a general meeting, shall be done only with the prior approval of the shareholders.

**III. Amendment to SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations)**

1. The Board approved amendment to AIF Regulations, to introduce Special Situation Funds, a sub-category under Category I AIF, which shall invest only in ‘stressed assets’ such as:
  - Stressed loans available for acquisition in terms of Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 or as part of a resolution plan approved under Insolvency and Bankruptcy Code, 2016
  - Security receipts issued by Asset Reconstruction Companies
  - Securities of companies in distress.
  - Any other asset/security as may be prescribed by the Board from time to time

2. Other important features of the regulatory framework for Special Situation Funds include:
  - Exemptions from investment concentration norm in a single investee company
  - No restriction on investing their investible funds in unlisted or listed securities of the investee company
  - Minimum investment by an investor to be INR 10 crore and INR 5 crore in case of an accredited investor
  - Minimum corpus of INR 100 crore
  - Initial and continuous due diligence requirements mandated by RBI for ARCs' investors shall also be applicable to SSFs while acquiring stressed loans in terms of Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021

#### **IV. Amendments to SEBI (Mutual Funds) Regulations, 1996 (MF Regulations)**

1. The Board approved amendment to MF Regulations to mandate Mutual Funds schemes to follow Indian Accounting Standard (IND AS) from Financial Year 2023-24 onwards. Further, the Board approved amendments to MF Regulations with respect to accounting related regulatory provisions to remove redundant provisions and to bring more clarity.
2. The Board approved amendment to MF Regulations to mandate the Trustees to obtain the consent of the unitholders when the majority of the trustees decide to wind up a scheme or prematurely redeem the units of a close ended scheme. Further, the trustees shall obtain consent of the unitholders by simple majority of the unitholders present and voting on the basis of one vote per unit held and publish the results of voting within 45 days of the publication of notice of circumstances leading to winding up. In case the trustees fail to obtain the consent, the scheme shall open for business activities from the second business day after publication of results of voting.

## **V. Review of the role of KYC Registration Agencies (KRAs)**

1. The Board approved amendments to the SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 towards enhancing the role of KYC Registration Agencies (KRAs).
2. As per the approved amendment, KRAs have been made responsible to carry out independent validation of the KYC records uploaded onto their system by the Registered Intermediary (RI) and to maintain an audit trail of the upload / modification / download w.r.t. KYC records of client.
3. It has also been prescribed that the systems of the RIs and KRAs should be integrated to facilitate seamless movement of KYC documents to and from RIs to KRAs.

## **VI. Amendment to Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 and SEBI (Depositories and Participants) Regulations, 2018 to provide for revised Networth requirement for Trading Members (TMs), Self-Clearing Members (SCMs), Clearing Members (CMs), Professional Clearing Members (PCMs), Depository Participants (DPs) and Deposit & Fees requirement for members in Electronic Gold Receipt (EGR) segment**

1. The Board approved amendments to the SEBI (Stock Brokers) Regulations, 1992 and SEBI (Depository and Participants) Regulations, 2018, to provide for revised Networth requirement for Trading Members (TMs), Self-Clearing Members (SCMs), Clearing Members (CMs), Professional Clearing Members (PCMs), Depository Participants (DPs) and Deposit & Fees requirement for members in Electronic Gold Receipt (EGR) Segment.



2. The amendments to SEBI (Stock Brokers) Regulations, 1992 are summarized as under:
  - a. The definition of Professional Clearing Member has been prescribed.
  - b. Schedule VI has been amended to provide for revised networth requirement within prescribed timelines for Trading Members (TMs), Self-Clearing Members (SCMs), Clearing Members (CMs) and Professional Clearing Members (PCMs).
  - c. For EGR Segment, fees requirement has been prescribed in Schedule V and deposit requirement has been prescribed in schedule VI, for the members in such segment.
3. The Board has also approved the amendment to SEBI (Depositories and Participants) Regulations, 2018 to provide for revised networth requirement within prescribed timelines for stock broker depository participant.

**VII. Amendment to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 for issuance of securities in demat form in case of investor service requests**

The Board approved the proposal to amend the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 for issuance of securities in dematerialized form in case of investor requests for issue of duplicate shares etc. This move will improve ease, convenience and safety of transactions for investors.

**VIII. Amendments to SEBI (Foreign Portfolio Investors) Regulations, 2019**

The Board considered and approved the amendments to the SEBI (Foreign Portfolio Investors) Regulations, 2019 to enable SEBI to generate unique

registration numbers of FPIs on receiving the basic details of the applicants seeking FPI registration from either of SEBI registered Depositories.

#### **IX. Amendments to the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018**

The Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (Settlement Regulations) came into force with effect from January 1, 2019 and provided for the settlement of specified proceedings. Based on the experience gained in handling the settlement matters since then, after a consultative process, it was proposed to amend the Settlement Regulations.

The Board approved the following amendments to the Settlement Regulations:

1. Time-period for filing a settlement application rationalized to 60 days from the date of receipt of the show cause notice or a supplementary notice, whichever is later.
2. Clarification of certain provisions relating to the condition precedent for settlement, non-monetary terms, provisions relating to irregularity in procedure, settlement scheme and legal costs, in the settlement process.
3. Time-period for submission of Revised Settlement Terms Form, after the Internal Committee (IC), rationalized to 15 days from the date of the IC meeting.
4. Time-period for remittance of settlement amount and compliance of all the settlement terms rationalized.
5. All payments under the Settlement Regulations to be accepted only through the dedicated payment gateway.

6. The Proceeding Conversion Factor, the Base Values, the amounts in respect of disclosure violations (in Tables VII and VIII along with the Notes therein), settlement terms attributable to the nature and extent of violations (in Table X along with the Notes therein) to be rationalised.
7. Separate guidelines dealing with the procedure to be adopted for arriving at suitable terms pursuant to filing of a compounding application to be issued.
8. In order to bring uniformity in the Settlement Regulations, certain substitutions or insertions or omissions or consequential amendments to be carried out.

**Mumbai**  
**December 28, 2021**