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SEBI Board Meeting

The SEBI Board met in Mumbai today and took the following decisions:

1. Instant Access Facility (IAF) in Mutual Funds and use of e-wallet for investment in Mutual Funds

With an objective to channelize households' savings into capital market and to promote digitalization in mutual funds, SEBI Board after deliberation has decided the following:

- a) Mutual Funds / Asset Management Companies (AMCs) can offer instant access facility (through online mode) of upto INR 50,000 or 90% of folio value, whichever is lower, to resident individual investors in liquid schemes by applying lower of Previous Day NAV or Prospective NAV. For providing such facility AMCs would not be allowed to borrow. Liquidity is to be provided out of the available funds from the scheme and AMCs to put in place a mechanism to meet the liquidity demands. This facility can also be used for investment in mutual funds through tie-ups with Payments Banks provided necessary approvals are taken from RBI. Presently, any scheme providing this facility would reduce the limit to INR 50,000, immediately and other than liquid schemes providing this facility would completely stop this facility within one month from the date of circular.
- b) Investment of upto INR 50,000 per Mutual Fund per financial year can be made using e-wallets. However, redemptions of such investments can be made only to a bank account of the unit holder. E-wallet issuers must not offer any incentive such as cash back etc., directly or indirectly for investing in mutual fund scheme through them. E-wallet's balance loaded through cash or debit card or net banking, can only be used for subscription to mutual funds schemes and balance loaded through credit card, cash back, promotional scheme etc. should not be allowed for subscription to MF schemes. Further, this limit of INR 50,000 would be an umbrella limit for investment by an investor through e-wallet and/or cash, per mutual fund per financial year.

2. Amendments to Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012

While presenting the Union Budget for the FY 2016-2017, the Hon'ble Union Finance Minister, made an announcement for permitting new derivative products in the commodity derivatives market. In pursuance thereof, SEBI vide circular dated September 28, 2016, permitted launch of 'options' in commodity derivatives market. In this regard, to enable the Commodity Derivatives Exchanges to organize trading of 'options', the Board, after undertaking due public consultation process, has approved a proposal to amend the relevant provisions of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012. Detailed guidelines for trading in 'option' on commodity derivatives exchanges will be issued by SEBI.

3. Inclusion of RBI registered systemically important NBFCs in the category of QIBs

Presently institutions such as banks and insurance companies are categorised as Qualified Institutional Buyers (QIBs) by SEBI. They are eligible for participation in IPOs with specifically earmarked allocations.

Hon'ble Union Finance Minister in his Budget Speech for the FY 2017-18, proposed to allow systemically important NBFCs regulated by RBI and above a certain net worth, to be categorised as QIBs since it would strengthen the IPO market and channelize more investments.

Accordingly, the Board considered and approved the proposal for inclusion of systemically important NBFCs registered with RBI having a net worth of more than Rs. 500 crore in the category of QIBs. As NBFCs are well regulated entities, classifying such NBFCs under the definition of QIBs will give issuers access to a larger pool of funds.

4. Exemption under SEBI (ICDR) Regulations, 2009, relating to preferential allotments, to be extended to Scheduled Banks and Financial Institutions

Presently, SEBI (ICDR) Regulations prohibit the issuer from making preferential issue to any person who has sold any equity shares of the issuer during the six months preceding the relevant date. It also provides that the entire pre-preferential allotment shareholding of the allottees, if any, shall be locked-in from the relevant date upto a period of six months from the date of trading approval. Mutual Funds and Insurance Companies are, however, exempted from both the said requirements.

Recently, many instances have been there where it has been observed that the Banking sector is exposed to the risk of significantly high Non-Performing Assets (NPA) and the Banks have been advised by the Reserve Bank of India to reduce the NPA and to initiate stringent actions to recover the dues from the borrowers.

As a result, it is expected that many Banks will go aggressively for recovering their dues and in order to achieve this objective, the Banks may opt for CDR / SDR or bilateral restructuring. In order to carry out actions for recovery from a borrower which may be a listed Company, Banks or Financial Institutions have sold equity shares of the issuer during the preceding six months of the relevant date. Such Banks/ Financial Institutions may also be one of the allottees of the specified securities of the company pursuant to CDR approved scheme under preferential issue route.

The Board considered and approved the proposal for extending such relaxation to the Scheduled Banks and Public Financial Institutions as is already being extended to Mutual Funds and Insurance Companies.

5. Strengthening the Monitoring of Utilisation of Issue Proceeds

Presently, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, require mandatory appointment of 'Monitoring Agency' if the issue size of specified securities exceeds Rs. 500 Cr. The purpose for the same is to ensure adequate supervision of the utilization of the funds raised.

SEBI Board considered and approved certain proposals to further strengthen the monitoring of issue proceeds raised in IPOs/FPOs/Rights Issues. Key proposals approved by Board are as under:

- Mandatory appointment of Monitoring Agency where the issue size (excluding offer for sale component) is more than Rs. 100 crore.
- Frequency of submission of Monitoring Agency Report has been enhanced from half-yearly to quarterly.
- Introduction of maximum timeline of 45 days for submission of Monitoring Agency Report from the end of the quarter in conjunction with the submission of the quarterly results.
- Mandating the disclosure of the Monitoring Agency Report on Company's website in addition to submitting it to Stock Exchange(s) for wider dissemination.
- Introduction of new requirement, i.e., comments of Board of Directors and Management on the findings of Monitoring Agency.

6. Framework for consolidation and re-issuance of debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008

The Board considered and approved the following proposals contained in the agenda for laying down a framework for consolidation and re-issuance of debt securities, one of the ways to increase liquidity in the secondary market.

- a) Maximum of 12 ISINs maturing per financial year may be allowed for debt securities and within the bucket of these 12 ISINs, the issuer can issue both secured and unsecured Non-Convertible Debentures (NCDs)/bonds and no separate category of ISINs may be provided to them. Additionally, the issuer may issue five ISINs per financial year for structured debt instruments of a particular category (say bonds with call option or bonds with both call and put option);
- b) The above restrictions will not be applicable on debt instruments which are used for raising regulatory capital such as Tier I, Tier II bonds, bonds for affordable housing and the capital gains tax bonds issued under section 54EC of the Income Tax Act, 1961;
- c) In order to resolve the issue of bunching of liabilities, the issuer can as a one-time exercise make a choice of having bullet maturity payment or the issuer can make staggered payment of the maturity proceeds within that financial year;
- d) Active consolidation, i.e. consolidation, of existing outstanding debt securities may be made recommendatory at present, which may be reviewed at a later stage. Such active consolidation can be done through switches and conversion; and
- e) There should not be any clause prohibiting consolidation and re-issuance in the Articles of Association of the issuer/company.

7. Amendment to SEBI (Foreign Portfolio Investor) Regulations, 2014

The SEBI (Foreign Portfolio Investor) Regulations, 2014 shall be amended as follows:

- a) An express provision shall be inserted in the regulations to prevent Resident Indians/NRIs or the entities which are beneficially owned by Resident Indians/NRIs from subscribing to Offshore Derivative Instruments.

8. Amendments to the SEBI (Debenture Trustee) Regulations, 1993

A Consultative Paper was placed on the SEBI website on proposed amendments to SEBI (Debenture Trustee) Regulations, 1993 (DT Regulations) for comments.

The Board approved the amendments to the DT Regulations, 1993 after taking into consideration the public comments.

The amendments are aimed to achieve the following objectives:

- I. To streamline the existing provisions in the DT Regulations with the provisions as mentioned in the Companies Act 2013, Companies (Share Capital and Debentures) Rules, 2014 and on account of amendment to the other SEBI Regulations.
- II. To fortify the existing provisions in the DT Regulations to enable the debenture trustees to perform the task of securing the interest of the investors.

9. Integration of broking activities in Equity Markets and Commodity Derivatives Markets under single entity

Consequent to merger of FMC with SEBI, commodity derivatives brokers are also being regulated by SEBI. However, as per extant Securities Contracts (Regulation) Rules, 1957 (SCR Rules) and SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 (Stock Brokers Regulations), a stock broker / clearing member dealing in commodity derivatives cannot deal in other securities or vice versa, except by setting up of a separate entity.

In this regard, the Board approved the proposal to remove this restriction by amending Stock Brokers Regulations and also to recommend to Government of India for amending SCR Rules accordingly.

The integration of the stock brokers in equity and commodity derivative markets while having many synergies in terms of trading and settlement mechanism, risk management, redressal of investor grievances, etc. would benefit the investors, brokers, Stock Exchanges and SEBI as the same would help to:

- enhance the economic efficiency in terms of meeting the operational as well as compliance obligations at a Member level resulting in ease of doing business
- provide for efficient use of capital for the investors
- widen the market penetration leading to greater financial inclusion for participants across all market segments.
- facilitate effective regulatory oversight by Stock Exchanges and SEBI