भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

प्रेस विज्ञप्ति
PRESS RELEASE

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PR No.41/2018

SEBI Board Meeting

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

I. KYC requirement for FPIs

The proposed KYC requirements and eligibility conditions for FPIs were discussed by the Board, in the light of the circular dated April 10, 2018 and the recommendations of the Khan Working Group. The proposed draft circular and proposed amendments in SEBI (FPI) Regulations, 2014 were discussed by the Board and broadly agreed upon. The revised circular, in this regard, will be soon issued separately.

II. Review of Total Expense Ratio (TER) of Mutual Fund Schemes

The Assets Under Management (AUM) of mutual fund industry in India has grown manifold over the years. As on August 31, 2018, the AUM of the industry has crossed INR 25 lakh crore. While the AUM has grown multiple times, the benefit of economies of scale has not been fully shared with the investors. Further, the slab wise limits of TER introduced in 1996 under SEBI (Mutual Funds) Regulations, 1996 have not been changed since then. It is also observed that over a period of time, there have been varying practices in the industry with respect to charging of expenses and payment of commissions.

SEBI undertook an internal study to review the TER. The analysis along with observations of the study was placed in a meeting of the Mutual Fund Advisory Committee (MFAC). The working group constituted by MFAC deliberated on the issues and submitted a report to MFAC. Upon deliberation on the findings of working group, MFAC made several recommendations on transparency in expenses, TER for various

types of mutual fund schemes, investments through SIPs, limiting the additional incentives for B-30 cities based on inflows from retail investors, performance disclosure of Mutual Fund schemes, etc.

The Board took note of the benefits of the proposal with respect to sharing of economies of scale, lowering the cost for mutual fund investors, bringing in transparency in appropriation of expenses, and reducing mis-selling and churning. Accordingly, the Board approved the following proposals:

1. Transparency in Expenses:

   All commission and expenses, etc. shall necessarily be paid from the scheme only and not from the AMC/Associate/Sponsor/Trustee, or any other route. Further, the mutual fund industry must adopt the full trail model of commission in all schemes without payment of any upfront commission or upfronting of any trail commission. A carve out has been provided for upfronting of trail commission in case of SIPs subject to fulfilment of certain conditions.

2. TER for open ended schemes shall be as follows:

AUM Slab (INR crore)	**TER for equity oriented schemes**	**TER for other schemes (excl. Index, ETFs and Fund of Funds)**
0 - 500	2.25%	2.00%
500 - 750	2.00%	1.75%
750 - 2,000	1.75%	1.50%
2,000-5,000	1.60%	1.35%
5,000 - 10,000	1.50%	1.25%
10,000 - 50,000	TER reduction of 0.05% for every increase of 5,000 crore AUM or part thereof	TER reduction of 0.05% for every increase of 5,000 crore AUM or part thereof
>50,000	1.05%	0.80%

   Existing TER is mentioned under Regulation 52(6) of SEBI (Mutual Funds) Regulations, 1996.

3. TER for Close Ended and Interval Schemes:
   TER for equity oriented schemes shall be a maximum of 1.25% and for other than equity oriented schemes shall be a maximum of 1%.

4. TER for Index schemes, Exchange Traded Funds (ETFs) and Fund of Funds:
   a) Index Funds and ETFs: The TER shall be a maximum of 1.00%.
   b) Fund of Funds (FoFs): The TER of FoF scheme, shall be a maximum of twice the TER of the underlying funds.
      i) FoFs investing primarily in Liquid, Index and ETF schemes: Total TER (including the TER of underlying schemes) shall be maximum of 1.00%
      ii) FoFs investing primarily in active underlying schemes: Total TER (including the TER of the underlying schemes), shall be maximum of 2.25% for equity oriented schemes, and maximum of 2% for other than equity oriented schemes.

5. Additional expenses of 30 bps for penetration in B-30 cities:
   The additional expense permitted for penetration in B-30 cities, shall be based on inflows from retail investors. The definition of 'retail investors' shall be determined in consultation with the industry. Pending such clarification, the additional incentive shall be permitted for inflows from individual investors only and not on inflows from corporates and institutions. Further, the B-30 incentive shall be paid as trail only.

6. Performance Disclosure:
   Adequate disclosure of all schemes' returns (category wise) vis-à-vis its benchmark (total returns) shall be made available on the website of AMFI.

Upon implementation of the above decisions, the Trustees and AMC Boards shall monitor the implementation by the respective AMCs and shall report to SEBI periodically.

III. Reducing the time period for listing of issues

The Board has, in principle, approved the proposal of revisiting the public issue process by way of introducing the use of Unified Payment Interface (UPI) with facility of blocking

the funds (ASBA facility), as a new payment mechanism for retail investor applications submitted through intermediaries.

This is a significant process reform aimed at reducing the time period for listing of issues from T+6 days to T+3 days. The compression in post-issue timelines and the consequent early listing and trading of shares will benefit both issuers as well as investors. Issuers will have faster access to the capital raised thereby enhancing the ease of doing business and the investors will have early liquidity.

Under the new process, there will be no physical movement of retail investor application forms from intermediaries to Self-Certified Syndicate Banks (SCSBs). The modalities for implementation will be worked out in consultation with the stakeholders. The process will be implemented in a phased manner.

IV. Amendment of Regulations relating to Re-classification of promoter / public

The Board decided to revise the provisions relating to re-classification of Promoter/Public in a listed company. The amendments in Regulation 31A of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are aimed at liberalizing, streamlining and bringing greater clarity in the framework.
The revised provisions enable one of Promoters and persons related to such promoters to seek reclassification as Public shareholder subject to certain conditions and processes to be followed.

The promoter(s) seeking re-classification and persons related to them should not:

- hold more than 10% of the total voting power or exercise control over the listed entity or have special rights in the company
- be represented on the board of the listed entity or act as key managerial persons for a period of 3 years from such re-classification
- be willful defaulters

The revised process provides for application for reclassification by the promoter seeking, review by the company's Board and approval by the shareholders, with exiting promoters and related persons not allowed to vote.

The provisions have been reviewed in light of the recommendations of Kotak Committee on corporate governance, feedback from stock exchanges and representations received. The revised framework also factors in the recommendations made by the Primary Market Advisory Committee and the public comments subsequently received in response to a consultative paper issued by SEBI on July 24, 2018.

V. Amendments to SEBI (Delisting of Equity Shares) Regulations, 2009

The Board has approved the following amendments to the SEBI (Delisting of Equity Shares) Regulations, 2009 ("Delisting Regulations"):

1. In case of voluntary delisting, if the price discovered through the reverse book building process is not accepted by the promoters, a counter offer can be given by the promoters. However, the price through the counter offer should not be less than the book value and delisting will be successful only if such counter offer is accepted by such number of public shareholders that the post offer promoter shareholding reaches at least 90%.

   The amendment was earlier discussed and recommended by the Primary Advisory Committee of SEBI. Subsequently SEBI also received comments from public in response to a consultation paper issued in this regard, which have been considered.

2. As per the existing Delisting regulations, promoters of compulsorily delisted companies have to provide exit to the public shareholders. However the existing regulations do not provide for any timeline for providing this exit option. It has been decided to amend the regulations to provide that promoters will have to give the exit to public shareholders within 3 months of delisting from recognized stock exchange.

3. Further, the Board has also approved certain amendments, pursuant to a review carried out by an external expert, Sh P.K. Malhotra, former member Securities Appellate Tribunal and former Secretary, Ministry of Law and Justice. The review was aimed at simplifying the language, updating the references to the Companies Act, 2013/ other new SEBI Regulations, and incorporating the relevant circular(s), FAQs in the Delisting Regulations, without making any substantive policy change.

VI. Review of requirement of 1% security deposit-Public issues of debt securities, non-convertible redeemable preference shares (NCRPS) and securitised debt instruments (SDI)

Currently, 1% of the amount offered for subscription to the public is required to be deposited with the stock exchanges so that complaints relating to refund of application money, allotment of securities and dispatch of certificates etc. are resolved speedily.

As the requirement of 1% security deposit imposes cost on the issuer in case of public issue of debt securities and Application Supported by Blocked Amount (ASBA) has been made mandatory mode of payment for application in case of such issues, the Board considered and approved the proposal contained in the agenda for deleting the requirement of 1% security deposit from the following SEBI Regulations:

1. SEBI (Issue and Listing of Debt Securities) Regulations, 2008
2. SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 and
3. SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008

VII. Framework for Enhanced Market Borrowings by Large Corporates

The Board considered and approved the following framework for operationalizing the budget announcement as proposed in the agenda:

1. The instant framework shall come into effect from April 01, 2019.

2. Any large corporate, covered under the framework shall intimate to the stock exchange that they are covered under the framework and shall raise 25% of their incremental borrowings for that year through bond market;

3. Any corporate, other than scheduled commercial bank, which has listed its specified securities or debt securities or non-convertible redeemable preference shares, and fulfills following criteria, as on March 31st of a financial year, shall be categorized as large corporate under the instant framework:

a) outstanding borrowing of Rs 100 Crores or above; and
b) credit rating of "AA and above"; and
c) intends to finance itself with long-term borrowings (i.e. borrowings above 1 year).

4. The term "borrowings" wherever appearing in the framework shall mean the borrowings which have original maturity period of more than 1 year i.e. only long term borrowings. Further, such borrowings shall exclude external commercial borrowings, inter-corporate borrowings between a parent and subsidiaries;

5. For initial two years of implementation of the framework i.e. FY 2019-20 and FY 2020-21, a "comply or explain" approach shall be applicable. Thus, in event of non-compliance, the reasons shall be disclosed as part of the "continuous disclosure requirements" to Stock Exchanges;

6. From third year of implementation i.e. F.Y. 2021-22, the requirement of 25% of incremental borrowing through bond market shall be tested for contiguous block of two years;

7. At the end of two year block, if there is any deficiency in the requisite bond borrowing, a monetary penalty/fine of 0.2% of the shortfall shall be levied.

VIII. Reduction in payment of regulatory fee by stock exchanges on turnover from agricultural commodity derivatives segment

Government, SEBI and Exchanges are taking various steps to promote agricultural commodity derivative segment so that the benefits of agricultural commodity derivative are passed on to the farmers and Farmers Producer Organization (FPOs). Keeping in line with these efforts, Board approved that instead of levying regulatory fee at the prescribed turn-over based slab rates, a nominal regulatory fee at a flat rate of INR 1,00,000 per exchange, would be levied on turnover arising from agricultural commodity derivatives.

In order to pass on the desired benefits from reduction of regulatory fees, it is proposed that exchanges dealing with agricultural commodities derivatives shall create a separate fund earmarked for the benefit of farmers/FPOs in which the regulatory fee forgone by

SEBI shall be deposited and utilized exclusively for the benefit of and easy participation by Farmers and FPOs in the agri-derivatives market. Necessary guidelines for utilization of the proposed fund shall be issued in due course.

IX. Draft framework for participation of Eligible Foreign Entities (EFEs), having actual exposure to Indian commodity markets, in the commodity derivatives market

As a first step for opening up the commodity derivatives markets to the foreign participants, the Board has approved the regulatory framework for permitting foreign entities having actual exposure to Indian commodity markets, to participate in the domestic commodity derivatives markets. Such entities would be classified as "Eligible Foreign Entities" (EFEs). Key features of the regulatory framework are as under-

- "Eligible Foreign Entities" (EFEs) are the "Person resident outside India" as defined in Foreign Exchange Management Act, 1999, and are having actual exposure to Indian physical commodity markets.

- Minimum net worth requirement for such EFEs is US$500,000.

- EFEs would allowed to trade in all commodity derivatives traded on Indian Exchanges except those contracts having underlying commodity defined as 'Sensitive Commodity' in terms of SEBI circular dated July 25, 2017 or by any other stipulation by SEBI which are disclosed on exchange websites will be eligible for participation.

- The EFEs desirous of taking hedge positions in Indian commodity derivatives market shall approach Authorized Stock Brokers (ASBs), from amongst the Brokers which are registered under SEBI (Stock brokers and sub-brokers) Regulations, 1992 having minimum net-worth of INR 25 Crores and are authorized by the commodity derivatives exchanges for opening of such accounts, as per prescribed norms.

- The tenor of the hedge should not be greater than the tenor of underlying exposure. This may be reviewed based on experience of EFE participation.

The key benefits in enabling such international participants to trade on Indian commodity derivative market are expected to be as under:

- The discovery of current global benchmark prices for some of the key commodities which are traded only in Indian commodity derivatives exchanges would get strengthened by participation by foreign entities who have import/export business with India.

- Participation by such entities could make Indian commodity derivative markets more liquid and efficient. It may also add to the depth and liquidity in the far-month contracts.

- More liquidity of contracts in Indian commodity derivatives exchanges, may attract more domestic firms to trade on Indian exchanges conveniently and the necessity for accessing overseas exchanges for hedging their price risks may diminish over a period of time.

- Increased liquidity in commodity derivatives market may give better price signal to the market which may be helpful for farmers as well.

X. Interoperability among Clearing Corporations - Amendments to Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012

1. The Board approved the amendments to the SECC Regulations, 2012 to enable interoperability among clearing corporations (CCPs), based on the recommendations of the Secondary Market Advisory Committee.

2. Interoperability among clearing corporations provides for linking of multiple CCPs. It allows participants to consolidate their clearing and settlement functions at a single CCP, irrespective of the stock exchange on which the trade is executed. It is envisaged that the interoperability would lead to efficient allocation of capital for the market participants, thereby saving on cost as well as provide better execution of trades.

3. Some of the key proposals approved by the Board are as follows:

   a) Peer-to-peer model of interoperability has been adopted as it ensures that all recognised CCPs are on an equal footing with each other with regard to flow of collateral, margins and general risk management. In this model, a CCP maintains special arrangement with another CCP and is not subject to the normal participant (membership) rules.

   b) All the products available for trading on the stock exchanges (except commodity derivatives) would be made available under the interoperability framework. Based on experience gained, interoperability will be considered for commodity derivatives in the next phase.

4. SEBI shall carry out necessary amendments to the SECC Regulations, 2012 and issue necessary circular/guidelines, inter-alia, including Inter-CCP Margins, Inter-CCP Settlement, Inter-CCP Collateral, default handling process, dispute resolution mechanism, technology related issues, etc.

XI. Proposed Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018

1. SEBI constituted a High Level Committee under the Chairmanship of Justice A. R. Dave (retd.) to inter alia review the existing Settlement Mechanism in SEBI. Public comments were sought on the report submitted by the Committee.

2. After due consideration of the public comments and suggestions received, the Board approved the framing of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018, which *inter alia* provide for settlement of proceedings under the securities laws by issuing a settlement order which shall include monetary terms and may also include non-monetary terms.

3. The salient features of the regulations are as follows:
   a) The Board may not settle any proceeding if it is of the opinion that the alleged default has market wide impact, loss to investors or affects the integrity of the market.

b) The Board may not settle any proceeding where the applicant is a wilful defaulter, a fugitive economic offender or has defaulted in payment of any fees due or penalty imposed under securities laws.
c) A new provision dealing with “settlement with confidentiality” to any person that provides material assistance to the Board in its fact-finding process and proceedings has been specified.
d) The Board shall not consider an application for settlement, if an earlier application for the same alleged default has been rejected, or if the audit or investigation or inspection or inquiry is not complete (except in case of applications for confidentiality) or if recovery proceedings have been initiated.
e) Compounding applications shall be processed along the lines of settlement applications.
f) The Board may provide for issuance of a notice of settlement prior to issuance of a show cause notice for other defaults (other than in case of summary settlement).
g) In the event of a settlement order being revoked on account of non-compliance with the terms of the order or not making full and true disclosures, the settlement amount paid shall not be refunded to the applicant.
h) Procedure has been specified for the quorum of the meeting of the High Powered Advisory Committee.
i) In case the recommendations of the High Powered Advisory Committee are rejected, the panel of Whole Time Members shall record reasons for rejection of the recommendations.

4. The Committee also suggested that the Central Government may be requested to amend the Income Tax Act, 1961, for removing the deduction as a business expense available for monies paid in pursuance of a composition or a settlement under the securities laws.

XII. Amendments to SEBI (PFUTP) Regulations and SEBI (PIT) Regulations to implement recommendations of the Committee on Fair Market Conduct

The Board considered the recommendations of the Committee on Fair Market Conduct and the public comments received thereon. The Board approved amendments to SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as PFUTP Regulations) and SEBI

(Prohibition of Insider Trading) Regulations, 2015 (hereinafter referred to as PIT Regulations) based on the recommendations of the Committee on Fair Market Conduct.

The amendments to the PFUTP Regulations relate to definition of 'dealing in securities' expanding the scope of the regulations to include employees and agents of intermediaries and strengthening of the deeming provisions for fraud to include activities such as misleading information on digital media, front running by non-intermediaries, mis-selling of securities and services related to securities, mis-utilisation of client account and diversion of client funds, manipulating bench mark price of securities, etc.

On the issue of use of front entities or "mule accounts" for engaging in fraudulent transactions and related recommendations on affordability index, it was decided to discuss this matter further with stakeholders.

Amendments to the PIT Regulations include amendments to include bringing further clarity on sharing of unpublished price sensitive information (UPSI) for due diligence or legitimate purposes, creation of database of persons with whom UPSI is shared, additional defences when trading in possession of UPSI, additional disclosures for aiding SEBI in investigations and introduction of framework for institutional responsibility to ensure that the institution takes responsibility to formulate a code of conduct and put in place an effective system of internal controls to ensure compliance with the various requirements specified in the PIT Regulation to prevent insider trading.

On the issue of additional disclosures, considering public comments, the proposal for disclosure of name and PAN number or equivalent identification of persons residing at the same address as the designated persons for a consecutive period of more than one year and disclosure of phone / mobile /cell numbers whose billing address is residence address of the designated person was dropped.

With regard to applicability of code of conduct to designated persons as proposed to be defined, it was agreed that employees/ CEO of associate companies may be excluded from the applicability of the code of conduct.

On the recommendation that SEBI may seek direct power to intercept calls and electronic communication under the Telegraph Act, it was decided that the matter may be referred to the Government to take an appropriate view.

The Committee on Fair Market Conduct was set up in August, 2017 under the Chairmanship of Shri T.K. Viswanathan, Ex-Secretary General, Lok Sabha and Ex- Law Secretary.

The committee submitted its report to SEBI on August 08, 2018, which was placed on the SEBI website for public comments on Aug 09, 2018.

XIII. Common Application Form for Foreign Portfolio Investors (FPIs)

Hon'ble Union Finance Minister, while presenting the union budget for 2017-18 inter-alia had announced Common Application form (CAF) for FPIs.

Accordingly, SEBI in consultation with Department of Economic Affairs, Ministry of Finance, Government of India, Reserve Bank of India and Central Board of Direct Taxes has finalized a common application form for obtaining FPI Registration with SEBI, Permanent Account Number (PAN) and KYC for opening of bank and demat accounts by FPIs.

Necessary amendments to SEBI (Foreign Portfolio Investors) Regulations, 2014 will be made.

XIV. Restrictions on Fugitive Economic Offenders

Board was informed of the following restrictions imposed by SEBI on fugitive economic offenders (FEOs) in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2018 and SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011:

1. Restrictions on raising capital through initial public offers (IPOs) on main board, rights issue, further public offers, preferential issue, Qualified Institutional Placement, IPO of Indian Depository Receipts (IDRs), Rights issue of IDRs and IPO

by Small & Medium Enterprises, if any of the promoter or director of the issuer is a fugitive economic offender.

2. Restrictions on listing on ITPs and issue of bonus shares if any of the promoter or director of the issuer is a fugitive economic offender.
3. Prohibition from making an open offer, counter offer or acquiring any shares or voting rights or control in a target company.

XV. Information Technology (IT) Roadmap of SEBI

An information memorandum regarding the Information Technology (IT) Roadmap of SEBI was placed before the Board. SEBI's IT Roadmap has the following four central themes:

1. Consolidation of IT Infrastructure, Processes & Cyber Security
2. Market Protection Initiatives
3. Market Supervision & Development Initiatives
4. Market Evolution Initiatives

The Board noted that the IT roadmap will facilitate SEBI to deploy its IT resources and funds in a well-planned manner. The consolidation of IT infrastructure will usher in synergy between various IT assets within the organization. The various market protection and supervision initiatives will allow SEBI to regulate the market more effectively. Market Evolution initiatives such as FinTech/RegTech will provide opportunities for financial and technical innovations in the securities market.

XVI. Extending disclosure requirements pertaining to Sexual Harassment of Women to all listed companies

In order to strengthen disclosures relating to safety of women at corporate sector workplaces, amendments to Schedule V of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 have been approved to insert the following disclosure requirement with respect to complaints under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 in the corporate governance report as part of Annual reports of listed entities:

1. No. of complaints filed during the financial year
2. No. of complaints disposed off during the financial year
3. No. of complaints pending as at end of the financial year.

Presently the Business Responsibility Report requires similar disclosures from top 500 listed companies. The amendment approved by the Board today will extend this requirement to all listed companies.

Mumbai
September 18, 2018