

SEBI Board Meeting

December 18, 2024



Disclaimer - This document is neither a legal interpretation nor a statement of the SEBI's directive. All information is posted merely for educational and informational purposes. It is not intended as a substitute for professional advice. Should you decide to act upon any information in this document, you do so at your own risk.

Key Points of the SEBI Board Meeting

The 208th SEBI Board meeting was held in Mumbai on 18th December 2024 to discuss the following topics

1. Review of Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992

- SEBI has amended the Merchant Bankers (MB) Regulations, 1992, to streamline their operations, eligibility, and net worth criteria. MBs, except for banks, public financial institutions, and their subsidiaries, are restricted to SEBI-permitted activities. Any non-permitted activities must be shifted to a separate legal entity with a different **brand name within two years**. These entities can share resources with the MB at arm's length without legal liability on the MB.
- Valuation activities are excluded from MB registration, though ongoing assignments may continue. MBs wishing to engage in valuation must register with the relevant authority within nine months. Based on net worth, MBs are classified into two categories: **Category 1, with a minimum net worth of ₹50 crores**, can undertake all permitted activities, while **Category 2, with ₹10 crores**, is restricted from managing equity issues on the Main Board. MBs must also maintain a liquid net worth of at least **25% of the required minimum**.
- Revenue benchmarks are introduced, requiring **Category 1 MBs to earn ₹25 crores** and **Category 2 MBs ₹5 crores** cumulatively over three preceding financial years, though MBs dealing with debt or hybrid securities are exempt. Underwriting limits are set at **20 times the MB's liquid net worth**.
- To prevent conflicts of interest and ensure proper due diligence, a merchant banker (MB) is prohibited from leading the management of a public issue if its directors, key managerial personnel, compliance officer, employees, or their relatives collectively hold more than **0.1% of the issuer's paid-up share capital or shares with a nominal value exceeding ₹10,00,000**, whichever is lower. However, such an MB may participate in marketing the issue, provided appropriate disclosures are made.
- Finally, compliance officer qualifications are specified, requiring a law degree or company secretary qualification and two years' experience, with current officers allowed to continue if they **have five years** experience and relevant certifications. These measures enhance transparency, professionalism, and regulatory oversight in the merchant banking industry.

2. Amendments to SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 ('SDI Regulations')

- SEBI mandated that **all listed or to-be-listed Securitised Debt Instruments (SDIs)** must be issued and transferred exclusively in **dematerialized (demat) form**.
- The minimum ticket size for SDIs has been defined as **₹1 crore for originators regulated** by RBI during initial subscriptions, with no limit on subsequent transfers.
- For non-RBI regulated originators, **₹1 crore applies to both initial and subsequent transfers**, For SDIs backed by listed securities, the amount shall be the highest face value among such listed securities for both initial and subsequent transfers
- SEBI revised the definition of debt/receivables, providing a more detailed framework to define what can be securitized.
- Conditions for issuing SDIs now include limiting single obligors to **25%** of the asset pool, requiring asset homogeneity, ensuring SDIs are fully paid upfront, and mandating a three-year operational track record for originators and obligors (with exceptions for RBI-regulated originators).
- New provisions introduced for **Minimum Retention Requirement (MRR), Minimum Holding Period (MHP), clean-up call options, liquidity facilities, and advertisements to ensure securitization standards are robust**.
- SEBI allowed flexibility in the offer period for SDIs, setting it at a minimum of **2 working days and a maximum of 10 working days**
- Simplifying the eligibility rules for trustees of Special Purpose Distinct Entities (SPDE) linked to listed or planned SDIs, requiring them to be SEBI-registered Debenture Trustees. Also, updating the 'Duties of Trustees' and Trustee Code of Conduct to improve clarity, accountability, and transparency.
- Enhanced periodic disclosures include details about servicers, outstanding litigations, and material developments, **with e-voting introduced for SDI investors to improve governance**.
- An optional safe harbor mechanism was introduced for private securitization transactions using the depository framework, targeting non-public issuances while ensuring compliance.

3. Measures for Reforms to Debenture Trustees Regulations including towards Ease of Doing Business

- SEBI approved provisions in the DT Regulations to clearly define the rights of DTs, enabling them to perform their fiduciary duties, obligations, roles, and responsibilities effectively. Corresponding obligations were also placed on issuers under the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**, to ensure timely fulfillment of these duties.
- SEBI proposed creating standardized model Debenture Trust Deeds through an Industry Standards Forum in consultation with SEBI. Issuers can utilize these templates, and any deviations must be disclosed for investor review, ensuring transparency.
- SEBI introduced an activity-based regulatory framework requiring DTs to hive off non-regulated activities to a separate entity **within two years of notification**. This measure aims to ensure that DTs focus exclusively on regulated activities under SEBI's purview.
- DTs may share resources with the **newly hived-off entity to maintain operational efficiency**, provided there is no legal liability incurred by the regulated DT entity.
- The hived-off entity is prohibited from using the DT's brand name beyond the two-year period. If the same brand name is used during this transition, both the DT and the hived-off entity must adhere to a SEBI-specified code of conduct.

4. Review of provisions regarding corporate governance norms for High Value Debt Listed entities (HVDLEs) -amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations)

- The threshold for identifying High-Value Debt Listed Entities (HVDLEs) has been raised from **₹500 crore to ₹1,000 crore**, aligning with the threshold set for **Large Corporates**.
- A separate chapter has been introduced in the LODR Regulations for corporate governance norms specific to entities with only **debt-listed securities**. This includes a sunset clause to simplify references and enhance ease of compliance.
- HVDLEs have been granted increased flexibility in the constitution of key committees, including the **Nomination and Remuneration Committee (NRC), Risk Management Committee (RMC), and Stakeholder Relationship Committee (SRC)**.
- HVDLEs will now be included in the count of listed entities for calculating the ceiling on directorships, memberships, or chairpersonships. However, directorships arising from ex-officio positions in **Public Sector Undertakings (PSUs) or entities under the Public-Private Partnership (PPP)** mode are exempt from this ceiling.
- For debt listed entities where the shareholding is wholly/ substantially held by one or a few related party shareholders, material related party transactions shall require **No-Objection Certificate (NOC)** from the Debenture Trustee (who in turn shall obtain debenture holders' approval). The said NOC shall be obtained before seeking shareholder's approval on the same through resolution. If the NOC has been withheld, the matter shall not be taken forward for shareholders' consideration/ action; This shall be applicable for RPTs undertaken by HVDLEs from **April 01, 2025, onwards**.
- HVDLEs can voluntarily adopt the BRSR framework, promoting good governance and sustainability practices comparable to those followed by equity-listed entities.
- Relaxation to entities set up under the Public Private Partnership mode (PPP) mode from provisions relating to composition of directors under the LODR Regulations akin to PSUs or statutory entities.

5. Measures towards Ease of Doing Business and Investor Protection for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs)

- The Board approved measures such as permitting inter-se transfer of locked-in units among sponsor group entities and defining "common infrastructure" under REIT Regulations.
- REITs and InvITs are now allowed to invest in interest rate derivatives for hedging purposes, provided such investments comply with RBI guidelines.
- A three-month window has been introduced for filling director vacancies, simplifying compliance timelines for REITs and InvITs.
- REITs and InvITs can now invest in unlisted equity shares, but only in companies providing property management, maintenance, housekeeping, project management, or other incidental services for their assets, subject to specific conditions.
- Investments in liquid mutual fund schemes are restricted to those with a credit risk value of at least 12, falling under Class A-I of the potential risk class matrix, ensuring higher safety for unitholders.
- The roles and responsibilities of trustees have been expanded to strengthen governance and provide better protection for unitholders.

6. Measures towards Ease of Doing Business for Small and Medium Real Estate Investment Trusts (SM REITs)

The Board approved the following proposals to facilitate ease of doing business related to activities of SM REITs:

- (a) Standardizing the disclosures in scheme offer document including bifurcation of the scheme offer document into Key Information of the Trust (KIT) and Key Information of the Scheme (KIS), manner of filing and processing of KIT and KIS, manner of updation of KIT and preparation of scheme offer document in a manner which facilitates automated processing;
- (b) Guidelines for public issue of units by a scheme of SM REIT including allocation in public issue, subscription period, price band, allotment procedure in case of oversubscription and minimum subscription amount; and
- (c) Alignment of certain provisions pertaining to investment conditions and borrowings for SM REITs vis-à-vis REITs.

7. Review of SEBI (Custodian) Regulations, 1996

- The Board approved revisions to simplify compliance while enhancing risk management and governance among custodians.
- Custodians must maintain a net worth of **₹75 crore**. Existing custodians are given three years to meet this requirement.
- Custodians are required to implement a **Business Continuity Plan (BCP)**, Disaster Recovery mechanisms, and an orderly winding-down framework, similar to Qualified Stockbrokers.
- Activities incidental to regulated ones, like fund accounting, may be undertaken, **provided robust conflict-of-interest controls are in place**. Activities outside the purview of financial regulators must be hived off to separate **legal entities within two years**.
- The Code of Conduct for custodians will be aligned with standards applicable to other intermediaries.
- Custodians and Depositories **Standard Setting Forum (CDSSF)**, in consultation with SEBI, will categorize core and non-core activities to establish clarity.
- Custodians holding physical securities must comply with vault requirements. Specifications will be standardized through the CDSSF with full disclosure and client consent.
- **SEBI has discontinued duplicate reporting requirements, reducing redundancy in submissions by custodians to SEBI and depositories.**

8. Aligning the modes for payment of dividend, interest ,etc. for demat account holders in line with physical securityholders to promote online/digital transactions

- The Board approved the proposal for mandating any kind of payment including dividend or interest or redemption or repayment by a listed entity to its security holders in **electronic form only**.
- In case of returned dividend/interest/redemption, there will be an obligation on the Company to inform the demat account holders by way of registered post as well as by email/SMS to update their correct bank account details.
- The companies and Depositories shall engage in a sustained campaign to facilitate that investors populate their bank account details so as to receive their payments in electronic mode. The amendment will take effect from a date subsequent to such sustained campaign



Visit Beacon Research Webpage to get more updates like these

www.beacontrustee.co.in/research

Follow Us On

