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SEBI 205th Board Meeting

Dated: 30th April 2024

Background of the Board Meeting

SEBI held its 205th Board meeting in Mumbai on April 30, 2024, to discuss the following matters.

Brief of the Board Meeting

1. **Amendments to SEBI (Infrastructure Investment Trusts) Regulations, 2014 and SEBI (Real Estate Investment Trusts) Regulations, 2014 in order to provide a framework for Unit Based Employee Benefit Scheme**

   The Board approved a framework for Unit Based Employee Benefit schemes (UBEB) for employees of investment managers/managers of InvIT/REIT. They can receive units of InvIT/REIT instead of management fees for providing benefits. These units go directly to an Employee Benefit Trust for the UBEB scheme's exclusive use.

2. **Flexibility to Venture Capital Funds, registered under the erstwhile SEBI (Venture Capital Regulations), 1996 ('VCF Regulations'), to deal with unliquidated investments of their schemes upon expiry of tenure by opting to migrate into SEBI (Alternative Investment Funds) Regulations,2012 ('AIF Regulations')**

   The Board approved the migration of VCFs to AIF Regulations to tackle liquidity issues.
   - A new sub-category "Migrated VCFs" under Category I AIFs will be established.
   - VCFs can opt for migration without any fees and retain previous investment conditions.
   - Migrated VCFs can utilize AIF Regulations for extending tenure, liquidation, and dissolution periods.
   - Expired VCF schemes opting for migration get one extra year for liquidation, with no investor complaints.
   - Migration option available for 12 months after AIF Regulations amendment notification.

3. **Amendments to SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 to modify provisions relating to disclosure of financial results in the offer documents, record date, due-diligence certificate, and reduction in face value of debt securities and Non-convertible Redeemable Preference Shares**
   - Listed entities are now permitted to disclose audited financials for the last three years in offer documents by including a web-link and QR code to the stock exchange website where the financials are hosted. This measure aims to reduce the size of offer documents.
   - Issuers with listed outstanding non-convertible securities can now utilize this provision to streamline their offer documents or placement memoranda by inserting web-links and QR codes for financial disclosures.
   - The Board has standardized the record date for identifying eligible holders to address inconsistencies and bring uniformity in market practices. The record date for the payment of interest/dividend or repayment of principal on debt securities/non-convertible redeemable preference shares is set as 15 days prior to the due dates of such payment obligations.
   - In an effort to harmonize the format of due diligence certificates provided by Debenture Trustees under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, the Board has approved aligning these formats with those specified in the Master Circular for Debenture Trustees.

- To encourage greater participation of non-institutional investors in the bond market while ensuring their interests are safeguarded, issuers are now granted the option to issue privately placed debt securities (NCDs) and Non-Convertible Redeemable Preference Shares (NCRPS) with a reduced face value of Rs. 10,000. This option comes with the requirement to appoint a Merchant Banker. These instruments, though, must be plain vanilla, interest/dividend-bearing instruments, with credit enhancements permitted.

4. **Amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for providing flexibility regarding publication of financial results in newspapers for entities that have listed only Non-Convertible Securities.**
The Board approved a measure to reduce compliance costs for listed entities by allowing those with only listed non-convertible securities to provide financial results through newspaper advertisements with a QR code and website link, instead of full disclosure.
   - For outstanding non-convertible securities, prior approval from the Debenture Trustee is required.
   - For future issuances, either disclosure in the offer document or prior approval from the Debenture Trustee is necessary.

5. **Flexibility for increased participation by Non-Resident Indians ("NRIs"), Overseas Citizens of India ("OCIs") and Resident Indian ("RIs") individuals in SEBI registered Foreign Portfolio Investors (FPIs) based out of International Financial Services Centers ("IFSCs") in India and regulated by the International Financial Services Centers Authority ("IFSCA")**
   a) The Board approved a regulatory framework allowing increased contribution by NRIs, OCIs, and RI individuals in certain FPIs based in IFSCs in India and regulated by IFSCA, subject to regulatory risk management.
   - FPIs can have 100% contribution from NRIs/OCIs/RI individuals by submitting PAN cards and economic interest details of all constituents to the DDP. Alternatively, suitable declarations along with identity documents are required for constituents without PAN.

   b) Funds in IFSC regulated by IFSCA aiming for 100% aggregate contribution from NRIs/OCIs/RI individuals are exempt from document submission if they meet specific conditions:
      - Pooling: All investors' contributions are pooled into one FPI with no side-vehicles.
      - Pari-passu and Pro-rata: The fund operates as a blind pool with no segregated portfolios and equal rights for all investors.
      - Diversification of investors: Minimum 20 investors with each contributing ≤25% to the corpus.
      - Diversification of investments: Maximum 20% corpus investment in Indian listed entity equities.
      - Independent Investment Manager: Investors have no say in investment decisions; IM is independent.
      - IM criteria: IM must be an AMC of a SEBI-registered Mutual Fund sponsored by a RBI-regulated Bank or its IFSC-based subsidiary/branch.

   c) These FPIs are bound by disclosure obligations per SEBI circular if they hold more than 33% of Indian equity AUM in a single corporate group or if their equity AUM exceeds INR 25,000 crore along with their investor group.

6. **Streamlining of prudential norms for passive schemes with respect to exposure to securities of group companies of the sponsor to facilitate a level playing field for mutual funds.**

   Currently, Mutual Fund schemes are limited to investing up to **25% of their NAV** in group companies of the sponsor. This restriction hinders passive funds from replicating underlying indices effectively, especially if **sponsor group companies exceed 25% in the index**. To address this and ensure a level playing field, the Board approved an amendment to **SEBI (Mutual Funds) Regulations, 1996.** Equity passive schemes, on SEBI-specified indices, can now invest up to the weightage of constituents in the underlying index, with an overall cap of **35% investment in sponsor group companies.**

7. **AMCs to have an institutional mechanism for deterrence of potential market abuse including front running.**

   The Board approved amendments to **SEBI (Mutual Funds) Regulations, 1996**, mandating AMCs to establish structured mechanisms to combat front-running and market abuse, enhancing surveillance, internal controls, and accountability. **AMCs** must implement whistle-blower mechanisms for transparency. SEBI will provide the framework, with detailed standards by **AMFI** in consultation. Additionally, face-to-face communication during market hours need not be recorded once the institutional mechanism is implemented.

8. **Ease of Doing Business for Market Infrastructure Institutions (MIIs)**

   The Board approved measures to simplify compliance for **Market Infrastructure Institutions (MIIs)** under Securities Contracts **(Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018**. MIIs can now disclose their shareholding pattern using the format applicable to listed companies, eliminating the need for a separate format. Additionally, decisions like the easing **Consolidated Account Statements in electronic form** by default and rationalizing inspection periods for commodity warehouses will be communicated through circulars, further enhancing ease of doing business.

Impact

1. **Increased Employee Engagement**: The introduction of unit-based benefits for investment managers of InvITs and REITs encourages employee ownership and engagement, fostering a culture of long-term commitment and alignment of interests with investors.
2. **Enhanced Liquidity Management:** The flexibility for Venture Capital Funds to transition into Alternative Investment Funds enables more efficient management of unliquidated investments, reducing potential liquidity constraints and supporting the growth of the venture capital ecosystem.
3. **Boosted Foreign Investment:** The expanded access for Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) to SEBI-registered Foreign Portfolio Investors (FPIs) in International Financial Services Centers (IFSCs) is expected to attract significant foreign capital inflows, boosting India's position as an attractive destination for global investment.
4. **Streamlined Disclosure Practices:** The adoption of web-links and QR codes for financial disclosures by issuers simplifies information access for investors, reduces administrative burdens, and enhances transparency, ultimately fostering investor confidence and market integrity.
5. **Fairer Market Representation**: Amendments to mutual fund regulations ensure that passive funds accurately reflect indices, including sponsor group companies with higher stakes. This promotes fairness, transparency, and accuracy in market representation, benefiting investors and contributing to overall market stability and efficiency.

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