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# Critical Analysis of SEBI's Board Meeting

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29th March 2023



# SEBI Board Meeting

**Date: 29<sup>th</sup> March 2023**

**SEBI Board Meeting** was conducted on **29th March 2023** in Mumbai. The Board has approved several amendments to regulatory framework to improve efficiency and disclosure uniformly across the players in the market. Following are some key highlights from the meeting.

## I. Amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations including the following:

a. Disclosure of material events or information by listed entities in a more transparent manner wherein it is proposed to:

- i. introduce quantitative threshold for determining 'materiality' of events.
- ii. Stricter timelines for disclosure of material events (30 minutes for decisions which have been taken by the board in the meeting) and which are emanating from within the listed entity (within 12 hours) has been approved.
- iii. Top 100 listed entities by market capitalization will be required to verify, confirm, clarify, or deny market rumours from October 1, 2023. The same to be made applicable to top 250 companies w.e.f. April 1, 2024.
- iv. Mandating disclosures of certain agreements binding on the listed companies.

b. Strengthened Governance by empowering shareholder and enhanced disclosure requirements including:

- i. Introduction of Periodic shareholders' approval for any special rights granted to a shareholder of a listed entity ensuring no rights remain perpetual.
- ii. Likewise introducing requirement of periodic shareholders' approval for appointing of Director and eliminating the practice of permanent board seat.
- iii. Proposing to strengthen the extant mechanism of sale, lease, or disposal of undertaking other than by way of 'Scheme of Arrangement'.

c. The proposal to streamline the time for submission of first financial results for newly listed entities has also been approved to ensure there is no omission in submission of first results by the newly listed entity.

d. It is now approved that Listed entities shall be required to fill up the vacancy of Directors, Compliance Officer, Chief Executive Officer, and Chief Financial Officer within a period of three months from the date of such vacancy.

## II. Amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, with the objective of increasing transparency and streamlining certain issue processes including:

a. Disclosures regarding underwriting: Underwriting for shortfall in demand or to cover subscription risk, if opted by the issuer, shall now be required to be disclosed in the offer document prior to issue opening.

b. A listed entity can now issue bonus shares only after approval from stock exchanges for listing and trading of all pre-bonus securities in it. It is further mandated that Bonus issue shall now be made in dematerialised form only.



### III. Amendment to Alternative Investment Funds Regulations to prescribe provisions for Valuation of investments etc. including the following:

- a. With an intent to standardize the valuation approaches, the board has approved the specification of the framework to carry out valuation of investment portfolio of an AIF, along with eligibility criteria for an independent valuer of the portfolio of an AIF. It is also proposed that the valuation of Category-III in unlisted securities and listed debt securities shall also be carried by an independent valuer.
- b. all new schemes going forward and existing schemes of AIFs with corpus more than Rs. 500 Crore shall dematerialise their units by October 31, 2023. Existing schemes of AIFs with corpus less than Rs. 500 Crore shall dematerialise their units by April 30, 2024.
- c. As per the proposal approved by the Board, now the Manager of the AIF as well as its key investment team as an eligibility requirement, shall require to clear 'certification requirement' as may be prescribed. The said certification requirement is also being mandated for the compliance officer of the AIF.
- d. The Board approved a proposal to mandate obtaining approval of 75% of investors by value, for buying or selling of investments potentially involving conflict of interest. The provision would cover transactions by an AIF, from or to, associates of AIF, or schemes of AIFs managed or sponsored by the manager or sponsor or their associates, or an investor who has commitment to the extent of more than 50% of the corpus of the scheme of AIF.
- e. Also, for AIFs which are unable to sell investments due to lack of liquidity during the winding up process, they will now be able to sell such illiquid investment to a new scheme of the same AIF i.e., Liquidation Scheme or distribute such unliquidated investments to its unit holders (in-specie), in the prescribed manner and subject to approval of 75% investors by value. In the absence of investor consent for aforesaid options during liquidation period, the unliquidated investments shall be mandatorily distributed in-specie to investors. In case an investor is not willing to take in-specie distribution, such investment shall be written off. The value of sale of such investments to the Liquidation Scheme shall be determined as per SEBI norms. The proposed amendment may result in tax implication on the investors.

### IV. Balanced Framework for ESG Disclosures, Ratings and Investing

The Board approved the regulatory framework for ESG (Environmental, Social and Governance) Disclosures, Ratings and Investing and amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SEBI (Mutual Funds) Regulations, 1996 to facilitate a balanced approach to ESG.

### V. Establishing a regulatory framework for Environmental, Social and Governance (ESG) Rating Providers in Securities Market by introducing a new chapter in the SEBI (Credit Rating Agencies) Regulations, 1999.

The Board approved the proposals on introduction of a regulatory framework for ESG rating providers ("ERPs") in the Indian securities market, and related proposals on:

- enhanced transparency in ESG rating rationales,
- measures to mitigate conflict of interest by ERPs,
- facilitating augmentation of transition finance in India and facilitating ESG ratings based on assured data.



#### VI. ASBA like facility for trading in Secondary Market.

The Board has approved the broad framework for Application Supported by Blocked Amount (ASBA) like facility being made available to investors for secondary market trading. The facility is based on blocking of funds for trading in secondary market through UPI. The said facility shall be optional for investors as well as stockbrokers.

#### VII. Upstreaming of clients' fund by Stockbrokers/Clearing Members to Clearing Corporations to mitigate credit risk on intermediaries.

Under the approved framework, clients' funds shall be up streamed by SB/ non-bank CMs to CCs on End of Day basis, to ensure that clients' funds are not retained by SBs/non-bank CMs. The funds shall be up streamed only in the form of cash, lien on Fixed Deposit Receipts (subject to certain conditions), or pledge of units of Mutual Fund Overnight Schemes (MFOS). The framework is proposed to be implemented with a glide path comprising two phases. Phase I of the framework is expected to be implemented from July 01, 2023.

#### VIII. Amendments to Stockbrokers Regulations to institute a formal mechanism for prevention and detection of fraud or market abuse by stockbrokers.

Accordingly, SEBI (Stockbrokers) Regulations, 1992 will be amended to provide as under:

- Systems for surveillance of trading activities and internal controls
- Obligations of the stockbroker and its employees
- Escalation and reporting mechanisms; and Whistle blower policy.

The approved amendments will come into effect from October 01, 2023.

#### IX. Framework for "Corporate Debt Market Development Fund": Backstop Facility for specified Debt Funds during market dislocations

The Board approved the amendments to SEBI (Alternative Investment Funds) Regulations, 2012 for setting up of Corporate Debt Market Development Fund ("CDMDF") in the form of an Alternative Investment Fund to act as a Backstop Facility for purchase of investment grade corporate debt securities during times of stress to instil confidence amongst the participants in the Corporate Bond Market and to generally enhance secondary market liquidity.

Further, amendments to SEBI (Mutual Funds) Regulations, 1996 were approved to provide for enablement of contribution by the specified debt oriented mutual fund schemes and asset management companies of mutual funds towards building the initial corpus of the CDMDF. The Board also approved the framework for triggering of CDMDF's asset purchases during market dislocation.

#### X. Bringing clarity on the roles and responsibilities of Trustees and Board of Asset Management Companies of Mutual Funds with a focus on Unitholder protection.

The aforesaid amendment provided for identification of specific areas as the core responsibilities of Trustees which shall require independent evaluation and due diligence by Trustees.

#### XI. Review of Regulatory Framework for Sponsors of Mutual Funds to give greater flexibility to the industry.

The Board approved amendments to SEBI (Mutual Funds) Regulations, 1996 under which, while strengthening the existing eligibility criteria for sponsors, introduced an alternative route to enable a diverse set of entities to become sponsors of MFs. Such entities, who otherwise may not have been



eligible to be sponsors, include private equity funds, with requisite safeguards included in the proposal.

#### XII. Introduction of concept of General Information Document (GID) and Key Information Document (KID) for issuance of Bonds/ Commercial Paper and streamlining of disclosures.

A GID shall contain the information and disclosures specified in common schedule and shall be filed with the Stock Exchanges at the time of the first issuance. The GID shall have a validity period of one year. The GID shall have a validity period of one year. Thereafter, for subsequent private placements of non-convertible securities and/or Commercial Paper within the validity period, only a KID shall be required to be filed with the Stock Exchanges containing material changes. To begin with, the said concept is proposed to be made applicable on a 'comply or explain' basis till 31 March 2024, and mandatory thereafter.

#### XIII. Extension of "Comply or Explain" period for Large Corporates (LCs) to meet their financing needs from debt market through issuance of debt securities to the extent of 25% of their incremental borrowings in a contiguous block of two financial years will be extended to the contiguous block of three years in a financial year.

#### XIV. Extension of 'Comply or Explain' period for the High Value Debt Listed Entities (HVDLEs) in respect of corporate governance norms and simplification of disclosure requirements pertaining to the payment of interest/ coupon and redemption amount. The Board decided to extend the 'comply or explain' period for the HVDLEs in respect of corporate governance norms (i.e., regulation 16 to 27 of LODR Regulations) till March 31, 2024. The Board approved the proposal to consolidate the disclosure requirements under Regulation 57 of the LODR Regulations.

#### XV. Strengthening the Investor Grievance Redressal Mechanism in the Securities Market through amendments to Regulations to operationalize Online Dispute Resolution (ODR) Mechanism for investors across registered intermediaries / regulated entities.

- Extending the MII administered conciliation and arbitration mechanism to registered intermediaries / regulated entities and their investors /clients,
- Conducting proceedings in a hybrid mode,
- Expanding the capacity of the MII administered conciliation and arbitration mechanism with the aid of ODR institutions, and
- Streamlining the dispute resolution process and adoption of other measures to strengthen enforcement of awards.

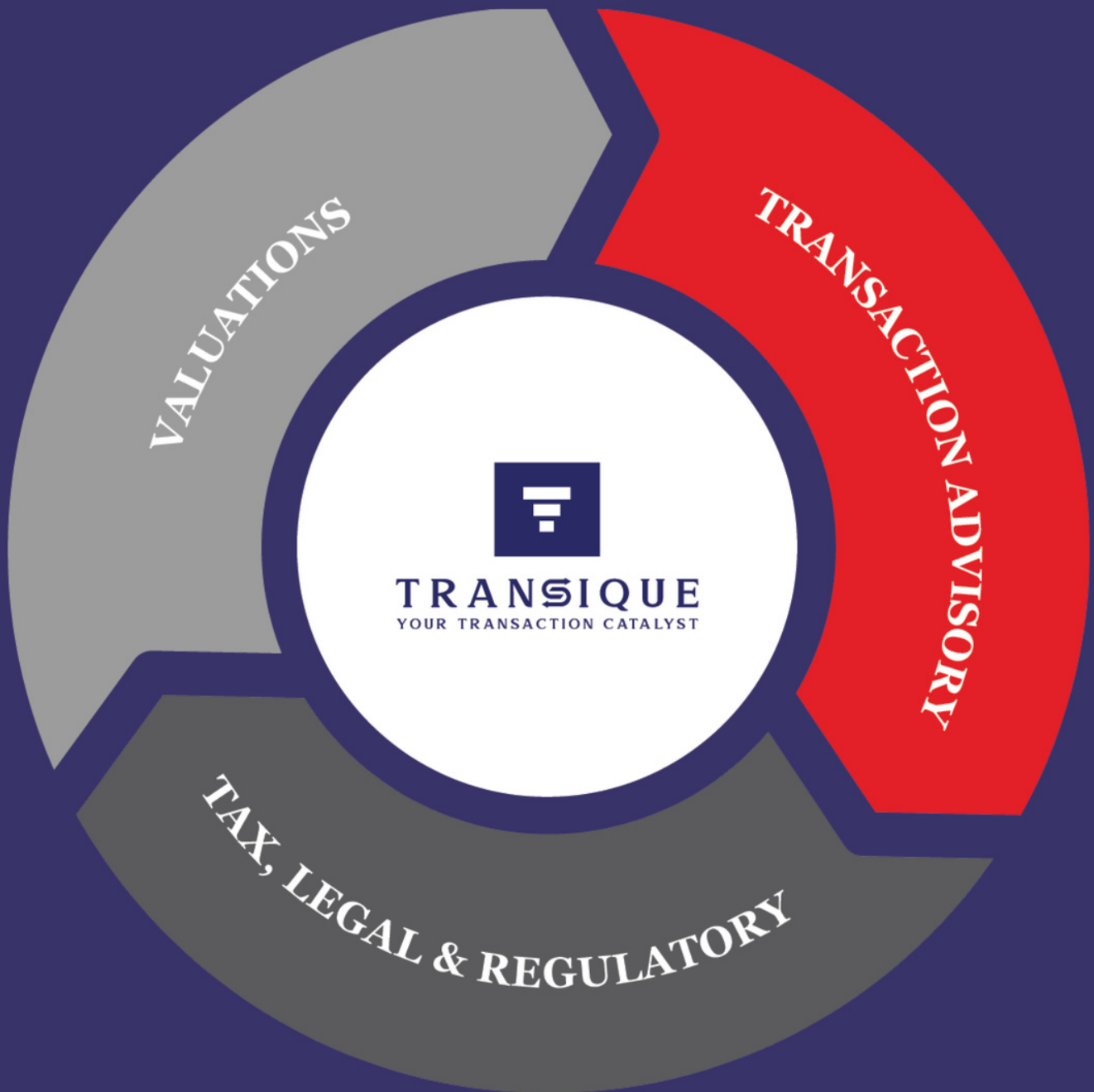
#### **Transique Corporate Advisors**

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**DELHI NCR**

DLF Cyber City,  
The Executive Centre,  
Suite No. 10 & 50,  
Level 18, Building No. 5,  
Tower A, Phase III,  
Gurugram 122002

**MUMBAI**

The Capital,  
The Executive Centre,  
Level 7, Plot No. C-70,  
G Block, Bandra Kurla Complex,  
Bandra East,  
Mumbai 400051

[info@transique.in](mailto:info@transique.in)

[www.transiqueadvisors.com](http://www.transiqueadvisors.com)

+91 124 663 7851

+91 958 701 1010

