



SEBI Board Meeting

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

1. Decision on the Recommendations of Kotak Committee on Corporate Governance

1.1. The Board considered the Kotak Committee recommendations and the public comments thereon.

1.2. The Board decided to accept several recommendations of the Committee without any modifications including the following:

- I. Reduction in the maximum number of listed entity directorships from 10 to 8 by April 01, 2019 and to 7 by April 1, 2020
- II. Expanding the eligibility criteria for independent directors
- III. Enhanced role of the Audit Committee, Nomination and Remuneration Committee and Risk Management Committee
- IV. Disclosure of utilization of funds from QIP/preferential issue
- V. Disclosures of auditor credentials, audit fee, reasons for resignation of auditors, etc.
- VI. Disclosure of expertise/skills of directors
- VII. Enhanced disclosure of related party transactions (RPTs) and related parties to be permitted to vote against RPTs
- VIII. Mandatory disclosure of consolidated quarterly results with effect from FY 2019-20
- IX. Enhanced obligations on the listed entities with respect to subsidiaries
- X. Secretarial Audit to be mandatory for listed entities and their material unlisted subsidiaries under SEBI LODR Regulations.

1.3. The Board decided to accept several recommendations with modifications which included the following:

- i. Minimum 6 directors in the top 1000 listed entities by market capitalization by April 1, 2019 and in the top 2000 listed entities, by April 1, 2020

- ii. At least one woman independent director in the top 500 listed entities by market capitalization by April 1, 2019 and in the top 1000 listed entities, by April 1, 2020
- iii. Separation of CEO/MD and Chairperson (to be initially made applicable to the top 500 listed entities by market capitalization w.e.f. April 1, 2020)
- iv. Quorum for Board meetings (1/3rd of the size of the Board or 3 members, whichever is higher) in the top 1000 listed entities by market capitalization by April 1, 2019 and in the top 2000 listed entities, by April 1, 2020
- v. Top 100 entities to hold AGMs within 5 months after the end of FY 2018-19 i.e. by August 31, 2019
- vi. Webcast of AGMs will be compulsory for top 100 entities by market capitalization w.e.f. FY 2018-19
- vii. Shareholder approval (majority of minority) for Royalty/brand payments to related party exceeding 2% of consolidated turnover (instead of the proposed 5%).

1.4. The Board decided to refer certain recommendations to various agencies (i.e. government, other regulators, professional bodies, etc.), considering that the matters involved relate to them. Such recommendations, inter-alia, include strengthening the role of ICAI, internal financial controls, adoption of Ind-AS, treasury stock, governance aspects of PSEs, etc.

SEBI had constituted the Committee in June 2017, under the Chairmanship of Shri Uday Kotak to make recommendations to SEBI for improving standards of corporate governance of listed entities in India. The Committee was represented by different stakeholders including the Government, industry, stock exchanges, academicians, proxy advisors, professional bodies, lawyers, etc. The Committee submitted its report detailing several recommendations on October 5, 2017.

The report of the Committee was placed on the SEBI website for public comments. Comments were received from a variety of stakeholders including industry, government, global associations, institutional investors, lawyers, etc.

2. Measures for Strengthening Algorithmic Trading Framework

The agenda on Measures for Strengthening Algorithmic Trading Framework was discussed. The Board, after deliberation, approved the following proposals:

- I. Stock Exchanges to introduce Shared Colocation Services, in order to reduce the cost for trading members wishing to operate from the colocation facility.

- II. Stock Exchanges to provide Tick-by-Tick Data feed (TBT Feed) to all the trading members, free of charge, subject to trading members creating the necessary infrastructure for receiving and processing it. Stock Exchanges to increase the depth of snapshot of 5 best bid and ask quotes, in consultation with trading members.
- III. Under the penalty framework for Order to Trade Ratio (OTR), penalty would be levied on Algo orders placed beyond $\pm 0.75\%$ of Last Traded price (LTP) from the current level of $\pm 1\%$ of LTP. Further, the OTR framework would also be extended to orders placed in the equity cash segment and orders placed under the Liquidity enhancement Scheme (LES).
- IV. Stock Exchanges to allot a unique identifier to each algorithm approved and each order generated by the algorithm to carry the unique identifier with it, in order to establish an audit trail and to ensure better surveillance of Algo trading.
- V. In addition to the current disclosure of latencies, Stock Exchanges to publish minimum, maximum and mean latencies and latencies at 50th and 99th percentile, observed within the exchange trading infrastructure to ensure greater transparency. Further, exchanges to also publish a reference latency between a reference rack in the co-located facility and the core router of the Exchange.
- VI. Stock Exchanges to provide a simulated market environment for testing of software including algorithms. Stock Exchanges to provide such facility over and beyond the current framework of mock trading.

3. Rationalizing and Strengthening the framework of Equity Derivatives Market

SEBI Board took note of discussion papers titled 'Growth and Development of Equity Derivatives Market in India' and 'Physical settlement in stock derivatives', public comments received thereon and also recommendations of the Secondary Market Advisory Committee (SMAC). Proposals approved by the Board to rationalize and strengthen the framework of the equity derivatives market, inter-alia, include the following:

- I. To facilitate greater alignment of the cash and derivative market, physical settlement for all stock derivatives shall be carried out in a phased and calibrated manner.

- II. To update and strengthen the existing entry criteria for introduction of stocks into the derivative segment in line with the increase in market capitalization since the last revision of the criteria in 2012. Accordingly, existing criteria like market wide position limit and median quarter-sigma order size shall be revised upward from current level of INR 300 crore and INR 10 lakh respectively to INR 500 crore and INR 25 lakh respectively. An additional criterion, of average daily 'deliverable' value in the cash market of INR 10 Crore, has also been prescribed. The enhanced criteria are to be met for a continuous period of six months.
- III. To begin with, stocks which are currently in derivatives but fail to meet any of the enhanced criteria, would be physically settled. Such stocks would exit the derivative segment if they fail to meet any of the enhanced criteria within a period of one year from the specified date or fail to meet any of the current existing criteria for a continuous period of three months.
- IV. Stocks which are currently in derivatives and meet the enhanced criteria shall be cash settled. Such stocks if they fail to meet any one of the enhanced criteria for a continuous period of three months shall move from cash settlement to physical settlement. After moving to physical settlement if such stock does not meet any of the current existing criteria for a continuous period of three months, then it would exit out of derivatives. After a period of one year from the specified date, only those stocks which meet the enhanced criteria would remain in derivatives.
- V. To reflect global initiatives on product suitability, a framework has been approved. Individual investors may freely take exposure in the market (cash and derivatives) upto a computed exposure based on their disclosed income as per their Income Tax Return(ITR) over a period of time. For exposure beyond the computed exposure, the intermediary would be required to undertake rigorous due diligence and take appropriate documentation from the investor.

4. Proposal for amendment of the regulatory provision permitting charging of additional expenses of up to 0.20% of the daily net assets of MF Schemes

Presently, mutual funds are permitted to charge additional expenses of up to 0.20% of the daily net assets of mutual fund schemes in lieu of the exit load credited to the scheme. Based on data and the recommendations of Mutual Fund Advisory Committee (MFAC), the Board approved the proposal to reduce the maximum additional expense permitted to be charged to a mutual fund scheme from 20 bps to 5 bps.

5. Go Green initiative in Mutual Funds

With electronic mode of communication being the preferred mode of communication besides being environment friendly, the Board approved certain proposals, *inter-alia*, to dispense with the requirement of publication of daily NAV, sale / repurchase prices in newspapers and of sending (i) physical copies of scheme annual reports or abridged summary to all the investors whose email addresses are not available and (ii) statement of scheme portfolios to unit holders on half-yearly basis. Instead, the aforesaid details will be placed on the websites of AMFI and Mutual Funds. Further, Mutual Funds shall publish an advertisement informing about hosting of the annual report and statement of scheme portfolios on the websites and shall provide the relevant information to investors upon request.

6. Amendments to the SEBI (Alternative Investment Funds) Regulations, 2012 regarding Angel Funds

SEBI formed a working group comprising of various angel networks, consultants and start-ups, to look into the aspect of simplifying certain provisions of SEBI (Alternative Investment Funds) Regulations, 2012 to provide ease of doing business for angel funds.

Based on the recommendations of the working group, the SEBI Board has approved following amendments to SEBI (Alternative Investment Funds) Regulations, 2012 with respect to 'Angel Funds':

- I. Increase in maximum investment amount in venture capital undertakings by an angel fund in any venture capital undertaking from five crore rupees to ten crore rupees.
- II. The requirement of minimum corpus of an angel fund reduced from ten crore rupees to five crore rupees.
- III. Increase in maximum period for accepting funds from angel investors from three years to five years.

- IV. The requirement of filing of scheme memorandum to SEBI by angel funds replaced with the requirement of filing term sheet containing material information, as specified by SEBI, within ten days of launching scheme.
- V. The provisions of the Companies Act, 2013 shall apply to the Angel fund, if it is formed as a company.

7. Revised Framework for non-compliance of the Listing Regulations

The Board has decided to revise the existing enforcement framework for non-compliance of the listing regulations by listed companies.

The revised framework has the following distinct features:

- I. It is more comprehensive and covers a wide gamut of listing regulations such as the requirements pertaining to composition of the listed company's Board and its committees, submission of corporate governance compliance report, financial results and voting results, etc. Non-compliance of these regulations will lead to imposition of fines by stock exchanges.
- II. It also empowers the stock exchanges to freeze the shareholding of the promoter and promoter group in such non-compliant entity as well as their shareholding in other securities.
- III. If non-compliance persists, it will lead to suspension.

The revised framework is expected to promote a better compliance culture apart from putting in place an appropriate system for effective enforcement of continuous compliance of requirements by listed companies and their promoter/ promoter group.

8. Distribution of cash benefits by listed companies through Depositories

Board decided to include the option of distribution of cash benefits like dividends through Depositories, in addition to the present system of distribution directly by the listed companies or through their Registrar to an issue and/or Share Transfer Agents.

The option will widen the choice for investors with its benefits such as shorter turnaround time for receiving benefits, ability to get consolidated statements of all such benefits and to receive alerts (SMS / E-mails), etc.

9. Amendment to Regulation 40 of SEBI (LODR) Regulations, 2015 for mandating transfer of securities only in demat form

The Board revised the provisions relating to transfer of listed securities and decided that requests for effecting transfer of listed securities shall not be processed unless the securities are held in the dematerialized form with a depository. The measure is aimed at curbing fraud and manipulation risk in physical transfer of securities by unscrupulous entities. Transfer of securities only in demat form will improve ease, convenience and safety of transactions for investors. Date of this amendment will be notified later.

10. Public Consultation Process for laying down a framework of compliance with SEBI Regulations by listed entities subject to Corporate Insolvency Resolution Process under the Insolvency and Bankruptcy Code, 2016

The Board, on the basis of the [discussion paper](#) placed before it, approved the proposal of undertaking a public consultation process as a part of reviewing the requirements of compliance with various SEBI Regulations by listed entities which are subject to Corporate Insolvency Resolution Process (“CIRP”) under the Insolvency and Bankruptcy Code, 2016 (“IBC”). Various issues flagged in the discussion paper include aspects relating to disclosures, trading in stock exchanges, material related party transactions, re-classification of promoters, compliance with minimum public shareholding requirement and delisting pursuant to resolution plan/ liquidation.

11. Public Consultation Process for Review of SEBI (Buy-back of Securities) Regulations, 1998 and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

The Board, on the basis of the [discussion paper](#) placed before it, approved the proposal of undertaking a public consultation process for reviewing the SEBI (Buy-back of Securities) Regulations, 1998 and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 with an objective of simplifying the language, removing redundant provisions and inconsistencies, updating the references to the Companies Act, 2013/ other new SEBI Regulations, and incorporating the relevant circulars, FAQs, informal guidance in the regulations, wherever possible.

Based on a review on these lines, as stated in the discussion paper, it is proposed to re-frame an entirely new set of Buy-back Regulations, 2018 in lieu of the extant 1998 version of the Regulations. In respect of the Takeover Regulations, amendments have been proposed in the existing set of Regulations. An important amendment proposed in Takeover Regulations is granting of additional time for upward revision of open offer price.

12. Budget estimates for the Financial Year (FY) 2018-19

The SEBI Budget for the financial year 2018-19 was considered and approved by the Board.

Mumbai

March 28, 2018
