



SEBI Board Meeting

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

I. Creation of Segregated Portfolio by Mutual Funds

The Board noted the proposal to allow Mutual Funds to create Segregated Portfolios with respect to debt and money market instruments subject to various safeguards. This facility will be available to Mutual Funds based on credit events. Creating Segregated Portfolio may be optional for mutual funds, but approval of trustees is necessary for activating such a portfolio.

In this context, the Board noted the recommendations of Mutual Fund Advisory Committee.

Creation of Segregated Portfolio is a mechanism to separate distressed, illiquid assets from other more liquid assets in a mutual fund portfolio to deal with a situation arising due to a credit event. With a Segregated Portfolio, investors who may take the hit when the credit event happens shall get the upside of future recovery, if any.

The Board also took note of the proposal to review the valuation norms applicable to mutual fund schemes investing in debt and money market instruments.

II. Review of framework for Institutional Trading Platform

The Board has, in principle, approved the proposals for amendments to the Regulations pertaining to Institutional Trading Platform (“ITP”) in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“ICDR Regulations”).

The Board, while approving the proposals, considered the recommendations of the Primary Market Advisory Committee (PMAC) and the public comments on the Consultation Paper.

The key proposals approved by the Board are as follows:

1. Platform to be renamed as Innovators Growth Platform (“IGP”).
2. In order to be eligible for listing on the IGP, the issuer shall be a company which is intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology to provide products, services or business platforms with substantial value.
3. 25% of the pre-issue capital, of the Issuer Company for at least a period of 2 years, should have been held by:
 - a. Qualified Institutional Buyers;
 - b. Family trust with net-worth of more than five hundred crore rupees;
 - c. Category III Foreign Portfolio Investor;
 - d. A pooled investment fund with minimum assets under management of USD 150 million and registered with a financial sector regulator in the jurisdictions where it is resident. The fund should be a resident of a country whose securities market regulator is a signatory to IOSCO’s MMOU (Appendix A Signatories) or a signatory to bilateral MOU with SEBI and not a resident in a country identified in the public statement of Financial Action Task Force as deficient in AML and combating financing of terrorism.
 - e. Accredited Investors (AIs) for the purpose of IGP, to include:
 - (i) Any individual with total gross income of Rs. 50 lakhs annually and who has minimum liquid net worth of Rs. 5 crores or
 - (ii) Any body corporate with net worth of Rs. 25 crores
4. Not more than 10% of the pre-issue capital may be held by Accredited Investors.
5. The existing requirement of cap on holding not more than 25% of the post issue capital by any person individually or collectively with persons acting in concert to be deleted.
6. The minimum application size and minimum trading lot to be INR Rs. 2 Lakhs and in multiples of INR Rs. 2 Lakhs thereof.
7. There would not be any requirement of minimum reservation of allocation to specific category of investors.

8. Minimum number of allottees to be 50.
9. Minimum net offer to public should be in compliance with Minimum Public Shareholding (MPS) norms and minimum offer size to be INR 10 crores.
10. IGP to be designated as a platform for start-ups with an option to trade under regular category after completion of one year of listing subject to compliance with exchange requirements.

III. Clubbing of investment limits for Foreign Portfolio Investors (FPIs)

SEBI in its press release dated September 21, 2018 had, *inter-alia*, stated that a circular on the issue of clubbing of investment limit of FPIs will be issued separately.

After considering the recommendations of SEBI working group under the Chairmanship of Shri Harun R. Khan and comments received from public, SEBI Board has decided that the clubbing of investment limit for FPIs should not be done on the basis of same set of beneficial owners as per Prevention of Money-laundering (Maintenance of Records) Rules, 2005.

The proposal that clubbing of investment limit for FPIs will be on the basis of common ownership of more than 50% or common control was approved. However, in the case of appropriately regulated public retail funds, investment limits will not be clubbed on the basis of common control.

Accordingly, SEBI shall carry out necessary amendments to SEBI (Foreign Portfolio Investors) Regulations, 2014 and issue necessary circular/guidelines to implement the aforesaid changes.

IV. Amendment to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

Under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, in case of any increase or decrease in estimated issue size by more than twenty percent, fresh filing of the offer document with the Board is required. At present, such requirement is for both fresh issues and offer for sale.

In case of an Offer For Sale (excluding fresh issue component), the Board has approved that fresh filing of offer document with the board will be required, when there is a change in either the number of shares offered for sale or the estimated issue size, by more than fifty per cent.

V. Amendment in Regulation 29(4) of Takeover Regulations, 2011

Under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (“Takeover Regulations”), shares taken by way of encumbrance are treated as an acquisition and shares given upon release of encumbrance are treated as a disposal. Such acquisition and disposal are required to be disclosed. At present, such disclosure requirement is not applied to a scheduled commercial bank or public financial institution as pledgee in connection with a pledge of shares for securing indebtedness in the ordinary course of business.

The Board has, in principle, approved that the aforesaid exception to the disclosure requirement will also apply to i) deposit taking Housing Finance Companies (HFCs) or HFCs with asset size of Rs.500 cr or more, registered with National Housing Bank and ii) systemically important Non-banking Financial Companies (NBFCs). Pursuant to the amendment, shares taken by way of encumbrance (or shares given upon release of encumbrance) by the said HFCs and NBFCs shall not be treated as acquisition (or disposal) for the purpose of disclosure requirements under Regulation 29 of Takeover Regulations.

VI. Review of framework for Offer for Sale (OFS) of shares through Stock Exchange mechanism

In order to expand the universe of companies to whom OFS mechanism is available, presently being top 200 companies by market capitalization, and to bring clarity relating to the conditions laid down for cancellation of OFS, the Board approved the following modifications to the existing OFS mechanism:

1. Expanding the list of eligible companies

OFS mechanism shall be available for shareholders of companies with market capitalization of Rs.1000 crores and above, with the threshold of market capitalization computed as the average daily market capitalization for six months prior to the month in which the OFS opens.

2. Cancellation of Offer

If the seller fails to get sufficient demand from non-retail investors at or above the floor price on T day, then the seller may choose to cancel the offer, post bidding, in full (both retail and non-retail) on T day and not proceed with offer to retail investors on T+1 day.

VII. Role of Custodians in Commodity Derivatives Market to enable institutional participation

The Board discussed the proposal for allowing custodial services in goods underlying commodity derivative contracts in order to enable participation of institutional investors in commodity derivatives market. In this regard, the Board approved the proposed amendments to the SEBI (Custodian of Securities) Regulations, 1996.

VIII. Consultation Paper on Uniform Valuation Methodology for Pricing of Corporate Bonds

The Board approved following in the matter:

- i) SEBI not to pursue the exercise for determining a uniform bond valuation methodology to be followed by all regulated entities across the financial sector. The, Department of Economic Affairs, Ministry of Finance, however, will undertake the exercise of bringing uniformity in the valuation process for corporate bonds for all regulated entities across the financial sector.
- ii) SEBI to prescribe guidelines for pricing of corporate bonds, which shall be followed uniformly across all the mutual funds.
- iii) SEBI to evolve a supervisory and regulatory framework for pricing agencies, which would provide services related to pricing of corporate bonds to Mutual Funds.

Mumbai

December 12, 2018