



## SEBI Board Meeting

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

### **A. FMC – SEBI merger – Proposals for commodity derivatives exchanges and their members**

(1) The Board approved the draft amendment to the regulations to be notified on September 28, 2015 pursuant to the proposed repealing of the Forward Contracts Regulation Act, 1952 (FCRA) making way for merger of Forward Market Commission with SEBI. These regulations will enable functioning of the commodities derivatives market and its brokers under SEBI norms and integration of commodities derivatives and securities trading in an orderly manner.

(2) The draft regulations provide for compliance of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 (SECC Regulations) which are currently required to be complied with by stock exchanges.

(3) The major compliances include norms related to net-worth, shareholding norms, composition of board, corporatisation and demutualisation and setting up of various committees, turnover, infrastructure etc. To ensure non-disruptive transition, SEBI has prescribed following timelines for aligning to the different provisions of SECC Regulations:

(i) Corporatization and demutualization of regional commodity derivatives exchanges – 3 years from the date of merger.

(ii) Availing services of a clearing corporation – 3 years from the date of merger. Till then, clearing may continue with the current arrangement. However, the Commodity Exchanges shall ensure guarantee for the settlement of trades including good delivery.

(iii) Net-worth - timeline as provided by FMC, i.e. May 05, 2017, for national commodity derivatives exchanges and within 3 years from the date of merger for regional ones.

(iv) Shareholding - timeline as provided by FMC, i.e., May 05, 2019, for national exchanges and within 3 years from the date of merger for regional exchanges.

(v) Governing board norms - within 1 year from the date of merger for national exchanges and within 3 years for regional exchanges.

(4) The proposed norms also emphasize on strengthening of risk management of the exchanges. Further, investor protection norms similar to the equity markets would be provided by strengthening the arbitration mechanism and investor grievance redressal mechanism.

(5) The Board has also approved amendments to SEBI (Stock Broker and Sub-Broker) Regulations, 1992 to provide for registration of the members of the commodity exchanges. The existing members of these exchanges

shall be required to make an application for registration with SEBI within 3 months from the date of notification in this regard. In such a case, they will be allowed to continue their activity unless their application is rejected by SEBI.

(6) The members shall be required to comply with the requirements for registration as members of exchange, as specified in Securities Contracts Regulation Rules, 1957 and SEBI (Stock Broker and Sub-Broker) Regulations, 1992 such as constitution, number of directors, experience, networth etc. within a period of one year from the date of notification by the Central Government for the transfer and vesting of rights and assets of the FMC to SEBI.

(7) For the new members, the above regulations will apply ab-initio.

## **B. Anchor investors in public issues**

The Board approved the removal of current restriction on the maximum number of anchor investors (currently 25) for anchor allocation of above Rs.250 crore public issue. While the requirement of number of anchor investors for allocation of upto Rs.250 crore remains the same, in case of allocation beyond Rs.250 crore there can be 10 additional investors for every additional allocation of Rs.250 crore, subject to minimum allotment of Rs.5 crore per anchor investor.

## **C. Amendments to the SEBI (Share Based Employee Benefits) Regulations, 2014**

The Board approved the following proposals to amend the provisions of SEBI (Share Based Employee Benefits) Regulations, 2014 ("SBEB Regulations") so as to align these with the new rule 19A(4) of the Securities Contracts (Regulation) Rules, 1957, formulated by the Government of India:

(1) Listed companies with employee benefit Trusts existing as on the date of notification of the SBEB Regulations shall have to re-classify the shareholding of Trust as 'non-promoter and non-public' category and ensure compliance with the requirement of minimum public shareholding within 3 years (as against 5 years presently) from the date of notification of the SBEB Regulations.

(2) The time period for exercise of voting rights by employee benefit Trusts, existing as on the date of notification of the SBEB Regulations, has been increased from 1 year to 3 years after considering the representations of the market participants.

(3) In line with the amendments to the Companies (Share Capital and Debentures) Rules, 2014, formulated by the Government of India, employees of 'associate company' shall not be eligible as beneficiaries of the employee benefit schemes framed under the SBEB Regulations.

(4) Pursuant to recent amendments to the SEBI Regulations on takeover, buy-back and delisting, the employee benefit Trusts will now be allowed to offer shares (under the tender offer route) through the stock exchange platform, without any requirement of minimum holding period.

## **D. Clarification on exercise of options / applicability of contra-trade norms, etc. in light of SEBI (Prohibition of Insider Trading) Regulations, 2015**

The Board was apprised of the representations received from industry bodies/ law firms and others on the above matter. The Board noted the Guidance Note under Regulation 11 of SEBI (Prohibition of Insider Trading) Regulations, 2015 (Regulations) placed before it.

The Guidance Note, inter alia, clarifies that exercise of ESOPs is not considered as 'trading' for the purpose of the Regulations, except provisions relating to disclosures. This will remove the difficulties of the designated persons with regard to exercise of ESOPs and the sale of shares so acquired.

#### **E. Review of policy relating to forfeiture of partly paid-up shares - Amendments to SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011**

The Board decided that a discussion paper shall be placed on SEBI website for seeking public comments on the proposal to provide general exemption from the open offer obligations under SEBI (SAST) Regulations, 2011 in the cases of increase in voting rights as a result of expiry of call notice period and forfeiture of shares.

#### **F. Report of the expert Committee on Clearing Corporations**

SEBI had constituted an expert committee, the 'Committee on Clearing Corporation' under the Chairmanship of Shri K V Kamath, to inter-alia examine viability of Single Clearing Corporation or interoperability between Clearing Corporations and other issues relating to Clearing Corporations (CC).

The committee submitted its final report to SEBI in July 2015 with recommendations on the following issues:

- (1) Interoperability between Clearing Corporations.
- (2) Investment by Clearing Corporation.
- (3) Review of Transfer of 25% profits every year by recognised Stock Exchanges to recognised Clearing Corporations.
- (4) Review of Transfer of 25% profits every year by Depositories to their Investor Protection Fund (IPF).
- (5) Liquid assets for the purpose of calculation of Net worth of a Clearing Corporation.

The Board recommended that public comments may be sought on the recommendations of the Committee on Clearing Corporations.

Mumbai

August 24, 2015

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