



PR No.6/2023

### SEBI Board Meeting

The SEBI Board met in Mumbai today and, inter-alia, took the following decisions:

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## 1. **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. The key decisions taken by the Board in this regard, are given below:

### 1.1 **On ESG Disclosures**

#### 1.1.1 **Introduction of BRSR Core**

- i. In order to enhance the reliability of ESG disclosures, the BRSR (Business Responsibility and Sustainability Report) Core shall be introduced, which contains a limited set of Key Performance Indicators (KPIs), for which listed entities shall need to obtain reasonable assurance.
- ii. A glide path is prescribed for applicability of BRSR Core, beginning with the top 150 listed entities (by market capitalization) from FY 2023 – 24 which shall be gradually extended to the top 1000 listed entities by FY 2026 - 27.

#### 1.1.2 **ESG disclosures for value chain of listed entities**

- i. A number of companies have significant ESG footprints in their value chain. In order to increase transparency, ESG disclosures and assurance (BRSR Core only) shall be introduced for the value chain of listed entities, with certain thresholds that shall be specified.

- ii. The above said requirements of disclosure and assurance shall be applicable to the top 250 listed entities (by market capitalization), on a comply-or-explain basis from FY 2024 - 25 and FY 2025 - 26, respectively.

### **1.2 On ESG Ratings**

- I. Considering that Emerging Markets have a different set of environmental & social challenges, ESG Rating Providers (ERPs) shall be required to consider India / Emerging Market parameters in ESG Ratings. However, there would be no constraints on their issuing other / additional ratings as required by their clients.
- II. In order to facilitate the credibility of ESG Ratings, ERPs shall offer a separate category of ESG Rating called as 'Core ESG Rating', which will be based on the assured parameters under BRSR Core.

### **1.3 On ESG Investing**

The following measures shall be introduced in order to address the risk of mis-selling and greenwashing, to enhance stewardship reporting requirements and to promote ESG investing:

- I. Mandating ESG schemes to invest at least 65% of AUM in listed entities, where assurance on BRSR Core is undertaken.
- II. Mandating third party assurance and certification by Board of AMCs on compliance with objective of the ESG scheme.
- III. Mandating enhanced disclosures on voting decisions with specific focus on environmental, social and governance factors.
- IV. Mandating disclosure of fund manager commentary and case studies which inter-alia highlight how the ESG strategy is applied on the fund / investments.
- V. Introducing a new scheme category, enabling the launch of multiple schemes on ESG related factors.

## **2. 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.

### **3. ASBA - like facility for trading in Secondary Market: Option to investors**

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 stock brokers.

The framework seeks to achieve the following benefits:

1. Client continues to earn interest on his blocked funds in his savings account till the time amount is debited.
2. Direct settlement with Clearing Corporation (CC), without passing through pool accounts of the intermediaries, thereby providing client level settlement visibility to CC and thus avoiding the risk of co-mingling of clients’ funds and securities.
3. Independent and reliable identification of ownership of cash collateral available to CCs without the need to rely on reporting/ allocation by members (Trading Member / Clearing Member), thereby eliminating risk of inadvertently erroneous or fraudulent reporting by intermediaries.
4. Elimination of custody risk of client collateral which is presently retained by the members and not transferred to CC.
5. Hassle-free and immediate unblocking of client’s funds and/or return/ release of securities in case of member default.
6. No adverse impact on client pay-out even in case of member/ fellow client default.
7. In case of member default, ease of porting of non-defaulting client to another member (as there will be no need for transfer of collateral from defaulting member to another member).

Further, it shall bring efficiency in the secondary market ecosystem by allowing usage of same blocked amount towards margin and settlement obligations and thus shall result in lower working capital requirements for the members.

Under the proposed framework stock brokers will be allowed to either directly settle the brokerage with the UPI clients or opt for CC's facility to deduct standard rate of brokerage from the UPI block of the clients.

The framework would be implemented in a phased manner to facilitate smooth transition in the market.

**4. Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs) to mitigate credit risk on intermediaries**

In order to mitigate credit risk on intermediaries/ risk of potential misuse of clients' funds, the Board approved a proposal to introduce a regulatory framework on upstreaming of clients' funds by SBs/ non-bank CMs to CCs.

Under the approved framework, clients' funds shall be upstreamed by SB/ non-bank CMs to CCs on End of Day basis, so as to ensure that clients' funds are not retained by SBs/non-bank CMs. The funds shall be upstreamed 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 shall not be applicable to Bank-CMs (including Custodians that are banks), and for proprietary funds of SBs/CMs in any segment.

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.

**5. Amendments to Stock Brokers Regulations to institute a formal mechanism for prevention and detection of fraud or market abuse by stock brokers**

The Board has approved a framework to provide for an institutional mechanism for prevention and detection of fraud or market abuse by stock

brokers. Accordingly, SEBI (Stock Brokers) Regulations, 1992 will be amended to provide as under:

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

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

#### **6. Introduction of Regulatory Framework for Index Providers**

The Board has in-principle approved a proposal to regulate Index Providers with the objective of fostering transparency and accountability in governance and administration of financial benchmarks in the securities market.

#### **7. 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. CDMDF, based on a guarantee to be provided by National Credit Guarantee Trust Company (NCGTC) may raise funds, for purchase of corporate debt securities during market dislocation. 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. Access to the fund for selling securities during market dislocation shall be to specified mutual fund schemes in proportion to the contribution made to the Fund at a mutual fund level. The Board also approved the framework for triggering of CDMDF’s asset purchases during market dislocation.

**8. 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 Board approved the amendments to SEBI (Mutual Funds) Regulations, 1996 for providing clarity on the roles and responsibilities of Trustees and Board of Asset Management Companies (AMCs) of Mutual Funds. 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. Areas of potential conflict of interest between the shareholders of the AMC and unitholders of its schemes were highlighted. The aforesaid amendment shall also explicitly make the Board of AMC responsible for protecting unitholders' interests, in addition to AMC stakeholders' interests and will provide for the constitution of a Unitholder Protection Committee by the Board of the AMC with a focus on unitholders' protection.

**9. 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. The amendments also allow for "Self Sponsored AMCs" to continue the mutual fund business, subject to the said AMCs fulfilling certain criteria. This would give the original sponsor flexibility to voluntarily disassociate itself from the MF without needing to induct a new and eligible sponsor.

**10. Amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations to facilitate more comprehensive and timely disclosure**

The Board after considering various suggestions received from stakeholders, inter-alia, approved the following amendments to LODR Regulations:

10.1 **Disclosure of material events** or information by listed entities:

In order to bring more transparency and to ensure timely disclosure of material events or information by listed entities, the Board has, inter-alia, approved the following amendments to LODR Regulations:

- i. Introduction of a quantitative threshold for determining ‘materiality’ of events / information.
- ii. Stricter timeline for disclosure of material events / information for which decision has been taken in the meeting of the board of directors (within 30 minutes) and which are emanating from within the listed entity (within 12 hours).
- iii. Market rumours to be verified and confirmed, denied or clarified, as the case may be, by top 100 listed entities by market capitalization effective from October 1, 2023 and by top 250 listed entities with effect from April 1, 2024.
- iv. Disclosure for certain types of agreements binding listed entities.

10.2 Strengthening corporate governance at listed entities by **empowering shareholders**:

The Board approved amendments to the LODR Regulations to strengthen corporate governance at listed entities by enhancing disclosure and empowering shareholders through the following mechanisms:

- i. Periodic shareholders’ approval for any special right granted to a shareholder of a listed entity to address the issue of perpetuity of special rights.
- ii. Strengthening the extant mechanism of sale, lease or disposal of an undertaking of a listed entity outside the ‘Scheme of Arrangement’ framework.
- iii. Periodic shareholders’ approval for any director serving on the board of a listed entity to do away with practice of permanent board seats.

10.3 **Streamlining timeline for submission** of first financial results by newly listed entities:

The timeline for submission of first financial results by newly-listed entities has been streamlined in order to overcome the challenges in



immediate submission of financial results post listing and to ensure that there is no omission in submission of financial results.

**10.4 Timeline to fill up vacancy of Directors** and other officials of listed entities:

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, to ensure that such critical positions are not kept vacant.

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

The Board approved amendments to the ICDR Regulations, inter alia, on the following issues:

**11.1 Disclosures regarding Underwriting**

If underwriting for shortfall in demand or to cover subscription risk is opted by the issuer, the same shall be disclosed in the offer document prior to issue opening,

**11.2 Pre-condition for announcing Bonus Issue, and issuance of bonus only in demat mode**

- a. A listed entity can announce bonus issue of shares, only after obtaining approval from the stock exchanges for listing and trading of all the pre-bonus securities issued by it.
- b. Bonus issue shall be made only in dematerialised form.

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

12.1 In order to do away with multiple filings of placement memoranda by issuers for non-convertible securities and Commercial Paper proposed to be listed and to promote ease of doing business for issuers, it has been decided to introduce the concept of General Information Document (GID) and Key Information Document (KID). 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. 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. The same shall facilitate ease of doing business for the issuers. To begin with, the said concept is proposed to be made applicable on a 'comply or explain' basis till March 31, 2024 and mandatory thereafter.

- 12.2 In order to ensure parity in disclosures required to be made in a prospectus for public issuance of debt securities/ Non-Convertible Redeemable Preference Shares and placement memorandum for private placement of non-convertible securities proposed to be listed, the Board approved the proposal to introduce a common schedule for disclosures.

**13. 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 financial year**

The Board decided that the period of compliance for Large Corporates to meet their financing needs from debt markets 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.

**14. 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.**

- 14.1 Based on industry feedback, 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.

- 14.2 To enhance ease of doing business for issuers of non-convertible securities, the disclosure requirements pertaining to the payment of

interest/ coupon and redemption amount are being streamlined and multiple filings are being eliminated. The Board approved the proposal to consolidate the disclosure requirements under Regulation 57 of the LODR Regulations.

**15. Amendment to Alternative Investment Funds Regulations to prescribe provisions for valuation of investments, dematerialisation of units, certification requirement for key employees of Investment Manager, transactions with associates, and option to sell unliquidated investments to a new scheme of Alternative Investment Funds**

- 15.1 To provide guidance to Alternative Investment Funds (AIFs) towards a consistent and standardised approach for valuation of their investment portfolios, the Board approved proposals to specify:
- (a) the framework for AIFs to carry out valuation of their investment portfolio;
  - (b) eligibility criteria of the independent valuer for valuing the investment portfolio of AIFs;
  - (c) that valuation of investment portfolio of Category III AIFs in unlisted securities and listed debt securities shall also be carried out by an independent valuer; and
  - (d) responsibility cast on managers of AIFs for true and fair valuation.
- 15.2 For ease of monitoring and administration by stakeholders and for the purpose of investor protection against operational and fraud risk, the Board approved mandating that 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.
- 15.3 To facilitate skill based approvals and to ensure objectivity in ascertaining eligibility for registration of AIFs, the Board approved a proposal to replace existing minimum experience requirement as an eligibility criterion for the key investment team of the Manager of the AIF with a comprehensive certification requirement. The said certification requirement is also being mandated for the compliance officer of the AIF.

- 15.4 To improve governance and transparency to investors with respect to transactions involving conflict of interest, 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.
- 15.5 To provide flexibility to AIFs to deal with investments which are not sold due to lack of liquidity during the winding up process, the Board approved a proposal to allow AIFs to either sell such investments to a new scheme of the same AIF i.e., Liquidation Scheme or distribute such unliquidated investments 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.
- 15.6 To ensure proper recognition and disclosure of true asset quality, liquidity, and fund performance of AIFs and their managers, the value of sale of such investments to the Liquidation Scheme or their in-specie distribution, shall be recognised as per norms specified by SEBI for capturing in the track record of the manager and for reporting to Performance Benchmarking Agencies.

**16. 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**

In the backdrop of increase in investor participation in the securities market in India, and emergence of technology aided dispute resolution frameworks, the Board approved the proposal to harness Online Dispute Resolution (ODR) mechanism by:

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

#### **17. Budget Estimates for the Financial Year (FY) 2023-24**

The SEBI Budget for the financial year 2023-24 was approved by the Board.

**Mumbai**

**March 29, 2023**