

Snapshot of SEBI Board Meeting -20th November, 2019

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SEBI in its Board Meeting held on 20th November, 2019 vide its 24th Press Release¹ has taken up certain decisions and have proposed amendments under various Regulations which shall be applicable from **1st January, 2020**.

The changes are pertaining to:

- Process of Rights Issue
- Issuance of SEBI (Portfolio Managers) Regulations, 2019
- Extension of the requirement of Business Responsibility Report to top 1000 listed entities by market capitalization
- Disclosure by listed entities of defaults on payment of interest / repayment of principal amount on loans from banks / financial institutions

A brief snapshot of the changes alongwith our comments is given below:

1. Review of the process of Rights Issue

SEBI has decided that the process for rights issue should be made easier and it is required to reduce the timeline for completion of the process of rights issue. Accordingly changes have been suggested in SEBI (ICDR) Regulations, 2018 and SEBI (LODR) Regulations, 2015. The key proposals accepted are as follows:

- Reduction in the timeline of the completion of the process from T+55 to T+31 days;
- Introducing dematerialized trading of rights entitlements on stock exchange;
- Shareholders holding physical shares to provide demat account details for the credit of right entitlements;
- Facility of Application Supported by Bank Account (ASBA) to be made applicable for all investors.

¹ https://www.sebi.gov.in/media/press-releases/nov-2019/sebi-board-meeting_45022.html

VKC Comment

The change is a welcoming change as it will lead to faster completion of the process of rights issue. Further, demat trading of the rights entitlements will promote paperless trading. The change has been made basically to align it with the amendments made in the Companies Act, 2013 and SEBI (LODR) Regulations, 2015 providing for mandatory dematerialization of shares.

2. Extension of the requirement of Business Responsibility Report (BRR) to top 1000 listed entities

Presently, as per the Regulation 34 of the SEBI (LODR) Regulations, 2015, the requirement of BRR is applicable to top 500 listed entities by market capitalization calculated as on 31st March of every year and every such company is required to prepare and annex a BRR in its annual report in the format as prescribed by SEBI.

Post the changes are made effective, the same shall extend to top 1000 listed entities.

VKC Comment

The change proposes to encapsulate the BRR requirement to top 1000 listed companies based on market capitalization. However, currently it is not clear whether the requirement of preparing a BRR will be made retrospectively applicable from the FY 2019-20 itself since the provisions will be made applicable from 1st January, 2020 or will be a prospective requirement i.e. from FY 2020-21 onwards. The same shall be made clear once the amendments are made and relevant changes are brought in the Regulations.

3. Disclosure by listed entities of defaults on payment of interest / repayment of principal amount on loans from banks / financial institutions

In order to intimate and keep the Stock Exchange informed w.r.t defaults made in the corporates, any default in the repayment of the principal or interest component of loans, a disclosure is required to be made to the Stock Exchange within 24 hours of the 30th day of default. 30 days shall be calculated from the pre-agreed payment date.

VKC Comment

The disclosure requirement by listed companies in relation with the lapses on repayment of principal / interest on loan is on similar lines as provided for disclosure under Schedule III part B (default in timely payment of interest / dividend or redemption of principal amount with respect to debt securities / Non-Convertible Redeemable Preference Shares (NCRPS) under the SEBI Listing Regulations. The time for making the disclosure is anyway different (for default in relation with debt securities /NCRPS is for continuing default for more than three months and for loan repayment defaults the time within 24 hours from the expiry of 30 days from the due date of repayment). The said amendment proposed in today's SEBI Board Meeting was already brought in by SEBI Circular dated August 4, 2017 which was made applicable on all listed entities having specified securities listed/listed NCDs/ listed NCRPS/ FCCBs. Disclosure under the said Circular was required to be made within 1 working day of the default unlike in 24 hours from the 30th day of default as proposed in the Board Meeting.

4. Issuance of SEBI (Portfolio Managers) Regulations, 2019

SEBI had created a Working Group and it was discussed that the SEBI (Portfolio Managers) Regulations, 1993 require changes with a view to safeguard public interest. Public comments were invited and after considering the recommendations, SEBI (Portfolio Managers) Regulations, 2019 have been proposed.

The salient features of the Regulations are:

- i. Enhancing the eligibility criteria and defining the role of Principal Officer clearly. The enhanced eligibility criteria to be applicable to any employee with decision making authority relating to management of the clients' portfolios.
- ii. A Portfolio Manager to mandatorily employ minimum one person with defined eligibility criteria in addition to Principal Officer and Compliance Officer.
- iii. The net-worth requirement of Portfolio Managers to be enhanced from INR 2 Crores to INR 5 Crores. Existing Portfolio Managers to meet the enhanced requirement within 36 months.
- iv. Minimum investment by clients of Portfolio Managers to be increased from INR 25 lakhs to INR 50 lakhs. Existing investments of clients may continue as such till end date of the PMS Agreement or as specified by the Board.
- v. Discretionary Portfolio Managers to invest only in listed securities, money market instruments, units of Mutual Funds and such other securities/instruments as specified by SEBI from time to time.
- vi. Non-discretionary/ Advisory Portfolio Managers to invest not more than 25% of their AUM in unlisted securities.
- vii. To make the appointment of custodian mandatory for all the Portfolio Managers except for those providing only advisory services to clients.
- viii. To restrict off market transfers from/to clients' accounts with certain exceptions to facilitate operational convenience.