

SEBI proposes to reduce listing time and strengthen settlement process

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SEBI, in its Board Meeting held on February 11, 2017 at New Delhi, deliberated on major initiatives and plan of action during Financial Year 2017 – 2018. The SEBI Board also resolved to review the Regulations relating to Stock Exchanges, Clearing Corporations, Depositories and Depository Participants, etc. In the long run, the decisions taken by SEBI Board will have significant impact on market intermediaries and investors. This article is a summary of the important and crucial decisions taken by the SEBI Board at its recently convened meeting.

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Major initiatives for FY 2017-2018

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Summary of the decision: SEBI Board ('Board') considered and approved the Budget for the Financial Year 2017-2018. The Board also cleared sanctioned the major initiatives. The initiatives includes reducing the listing time gap (from the existing requirement of T+6), allowing institutional participation in commodity derivatives markets, facilitating integration between Commodity Spot markets and Derivatives markets. The other significant initiatives also includes designing a system of risk-based supervision for commodity brokers, setting-up cyber security lab for the securities market, allowing listing and trading of securitisation receipts issued by Assets Reconstruction Companies ('ARCs'), facilitating the objective of 'ease of doing business' for Foreign Portfolio Investors ('FPIs'). The Board also approved the proposal of setting-up a facility for online registration of intermediaries, strengthening research initiatives. The Board also cleared the proposal of increasing its efforts in the areas of investor education / financial education, enhancing engagement in the social and digital media for investor awareness programmes, etc.

Analysis of decision: The decision to reduce the listing time gap from the existing requirements (T+6) is with an aim to make the primary market more efficient and increase retail shareholder's participation. By reducing the listing time gap, the Board intends to increase the liquidity of the retail investors, whereby their funds will not be blocked for few more days, which will help them to invest in primary markets (again) or secondary market. Such investment would be made by retail investors from the refund of share application money which would be received within a week's time. However, in my view, the processing of allotment of shares and refund of share application money within a week's time would be burdensome for the Issuer Company and primary market

intermediaries like Registrar and Share Transfer Agent, Bankers to the issue, Merchant Bankers, etc. The proposal of setting-up cyber security lab for the securities market is a much sought proposal and is the need of the hour. The Board decision of setting-up a facility for online registration of intermediaries would be in relation to the 'permanent registration' concept introduced early this year. The proposal of online registration and permanent registration is in line with the Government's objective of 'ease of doing business in India'.

With an intention to enhance capital flows into the securitisation industry and check banks' Non-Performing Assets, SEBI Board has allowed listing and trading of security receipts on stock exchanges issued by ARCs. The Board's decision with respect to the proposal of increasing efforts in the areas of investor education and financial education is much appreciated. However, this initiative will require substantial expenditure over infrastructure, trainers / faculties, course material etc. The initiative can be also implemented with the help of commerce and law colleges, management institutes, professional institutes and other educational institutes. In fact, such awareness initiative should be every city, town or village and in engineering colleges, medical colleges and other educational institutes which are not related to commerce or law. This, in true sense, would be the efforts in the areas of investor education and financial education. Investor awareness by enhancing engagement in the social and digital media would be for tech-savy investors and may not reach the investors in rural areas.

Offshore Derivative Instruments (ODIs)

Summary of the decision: SEBI Board was informed about the various aspects of Offshore Derivative Instruments ('ODIs') and the various steps taken by SEBI after September, 2014. The Board noted that in view of the strict norms for ODI issuance, the notional value of ODIs to the Asset Under Custody (AUC) of FPIs has declined over the years from a high of 55.7% of total AUC in June 2007 to 6.7% in December 2016. The Board observed that consistent tightening of ODI norms has not only been through increased compliances but also improved transparency. The Board noted that the simultaneous liberalization in registration process of FPIs has made ODI less attractive vis-à-vis taking direct registration as FPI.

With respect to the Market Infrastructure Institutions i.e. Stock Exchanges, Depositories and Clearing Corporations, SEBI Board noted the recommendations of Dr. Bimal Jalan Committee. SEBI Board approved the proposal to comprehensively review the regulations under securities law which includes: (i) Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 and (ii) SEBI (Depositories and Participants) Regulations, 1996. SEBI Board resolved to float a consultative paper and seek public comments on the same.

Analysis of decision: The tightening of provisions relating to ODIs is one of the important and significant decisions taken by the Govt. in its fight against 'Black Money'. SEBI Board (in its Meeting held on May 19, 2016) noted and discussed the concerns raised by the Special Investigations Team (SIT) with regard to identification of beneficial owners and transferability of P-Notes and had approved several measures for the purpose of enhancing transparency and control over issuance of ODIs. The significant decline in the notional value of ODIs to the Asset Under Custody (AUC) of FPIs was due to the amendment in Regulations, thereby restricting the money from ODIs. With an objective to further strengthen the system, SEBI Board approved the proposal to comprehensively review the regulations under securities law which includes: (i) Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 and (ii) SEBI (Depositories and Participants) Regulations, 1996. However, the amendment is based on public comments received after floating the Consultative Paper.

Complaints against NSE's co-location facility & other miscellaneous decisions

Summary of the decision: The SEBI Board noted that the information memorandum on various references received related to co-location facility of NSE and the examination carried out by SEBI under the guidance of SEBI's Technical Advisory Committee (TAC). Based on SEBI's advise, NSE's Board has also undertaken an independent forensic audit on the matter. SEBI Board noted that the steps taken to strengthen the exchange's trading infrastructure in the areas relating to fair and transparent data dissemination process, tools to monitor service quality of data feeds, mechanism to manage system load in a fair manner, direct connectivity between co-location facilities of exchanges, etc. The concerns related to systems and processes at the exchange arising out of examinations are being addressed in consultation with TAC and NSE's Board.

The SEBI Board was apprised about the actions so far taken by SEBI against some of the brokers on basis of examination of allegations received w.r.t. their role in NSEL matters. SEBI Board was also apprised of the developments w.r.t. steps taken by SEBI in connection with International Financial Service Centre, status of compulsory delisting of long suspended companies and companies on the dissemination board of National Exchanges etc. SEBI Board was also informed of the process of SEBI Settlement of Administrative and Civil Proceedings and the reasons for pendency of various applications thereon, for more than 2 years.

Analysis of decision: SEBI began probing the matter in early 2015 after it received at least 3 complaints related to some brokers allegedly getting preferential access through co-location facility, early login and 'dark fiber' — which can allow a trader a split-second faster access to data feed of an exchange. Even a split-second faster access is considered to result in huge

gains for a trader. Finance Ministry has also asked SEBI to elaborate on "the rationale of advice to NSE to conduct a forensic investigation on its lapses rather than conducting it under the supervision of SEBI". The ongoing probe is already being seen as a roadblock for NSE's proposed mega IPO, estimated to be worth about Rs. 10,000 crore, even as SEBI Chairman was non-committal on whether clearance to the public offer would be withheld till the investigation was completed but insisted that the regulator would insist on proper disclosures¹.

With an objective to streamline and strengthen the settlement process, SEBI Board has approved various amendments to existing norms for settlement of administrative and civil proceedings. By the proposed amendment, SEBI proposes to have power to charge interest in case of excessive delays in filing of applications or payment of settlement amount.

Conclusion

The decision taken by SEBI Board to reduce the listing time gap will enhance the morale and improve the investment strategies of retail investors which will, ultimately, have a positive impact on the equity market. It will be interesting to note the effective implementation of SEBI Board's decision of increasing the efforts in the areas of investor education and financial education. With an objective to streamline the settlement process, SEBI, recently, notified the provisions relating to amendments to existing Regulations for settlement of administrative and civil proceedings. The decisions taken by the SEBI Board will have an impact on the investors at large, foreign investors, SEBI registered primary market or secondary market intermediaries, listed entities, etc.

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¹ Source: http://www.business-standard.com/article/pti-stories/sebi-says-remedial-actions-underway-in-nse-co-location-case-117021100392_1.html.