SEBI Board Meeting - Key announcements for Foreign Portfolio Investors ("FPIs")

1. SEBI reiterates that NRIs/Resident Indians cannot subscribe to ODIs

It has been decided by the SEBI Board to prevent Non-Resident Indians ("NRIs") and Resident Indians, or entities beneficially owned by NRIs and Resident Indians from subscribing to Offshore Derivative Instruments ("ODIs"). Currently, Regulation 22 of SEBI (Foreign Portfolio Investors) Regulations, 2014 ("FPI Regulations") deals with issuance of ODIs. An FPI is not allowed to issue or subscribe or otherwise deal in ODI directly or indirectly unless such ODIs are issued only to person who are regulated by appropriate foreign regulatory authority and KYC conditions are satisfied. SEBI issued a circular date 22 November 2014 further tightening the rules related to issuance of ODIs by FPIs. The circular specifically required FPIs to issue ODIs to only those subscribers who meet with eligibility criteria for registration as FPIs [Regulation 4 of FPI Regulations]. The said regulation, amongst others, has a restriction on grant of FPI registration to persons resident in India and NRIs.

It has been decided that these restrictions for issuance of ODIs should be brought in the FPI Regulations itself.

In addition, it also stated that the restriction shall also apply to entities which are beneficially owned by NRIs/Resident Indians from subscribing to ODIs. In the context of KYC requirements for ODI subscribers, in its 10 June 2016 circular, SEBI has provided guidelines to identify the beneficial ownership which, among others, includes reference to Rule 9 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005.

2. Framework for consolidation and re-issuance of debt securities

In order to provide market depth in secondary market for debt securities, SEBI had issued a Consultation Paper on 2 February 2017 to seek comments on proposals relating to consolidation and re-issuance of debt securities issued under SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

The SEBI Board has now approved the following framework for consolidation and re-issuance of debt securities:

I Maximum of 12 ISINs maturing per financial year may be allowed for debt securities

II Within these 12 ISINs, the issuer can issue both secured and unsecured Non-Convertible Debentures (NCDs)/bonds and no separate category of ISINs may be provided to them

III The issuer may issue five additional ISINs per financial year for structured debt instruments of a particular category

IV These restrictions shall not be applicable to debt instruments such as Tier I and Tier II bonds, bonds for affordable housing and capital gains tax bonds issued under section 54EC of the Income-tax Act, 1961

V The issuer can as a one-time exercise make a choice of having bullet maturity payment or the issuer can make staggered payment of the maturity proceeds within that financial year to resolve this issue of concentration of liabilities which may give rise to asset-liability mismatch for the issuer

VI Consolidation of existing outstanding debt securities may be made recommendatory at present

VII There should not be any clause prohibiting consolidation and re-issuance in the Articles of Association of the issuer/company

3. Introduction of Option trading in commodity derivatives market

The Union Budget 2016 proposed the introduction of new derivative products in the commodity derivatives market. Consequently, SEBI had issued a circular on 28 September 2016 approving trading of Options in commodity derivatives markets. Recently, in January 2017, SEBI had also sought public comments to the proposed amendments in the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations)

Regulations, 2012. These proposals have now been approved by the SEBI Board. Detailed guidelines on trading in such securities shall be issued by SEBI.

4. Single license for brokers in Equity Markets and Commodity Derivatives Markets

At present, a broker or clearing member dealing in commodity derivatives market cannot deal in other securities or vice versa. A broker or clearing member operating in both markets has to set up different entities to deal in these securities. Consequent to the merger of SEBI and Forward Markets Commission (FMC), SEBI is responsible for regulation of commodity derivative brokers. Hence, SEBI Board has now approved the removal of above mentioned restriction by amendment in SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 and recommending the Government to amend the Securities Contracts (Regulation) Rules, 1957.

Please click here to access the Press Release containing the decisions taken by the SEBI Board.

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