SEBI Circular- March 2025

1. Sebi amends rules to tighten SME IPO norms

Problem:

- In 2023, over 225 SME IPOs raised ₹8,200 crore, a significant increase from ₹4,686 crore in 2022, indicating excessive fundraising.
- Concerns about market manipulation.
- Huge oversubscriptions, with demand up to 100 times the offered shares, causing massive price jumps.
- SMEs using aggressive marketing or misleading financial data to attract investors.

Need:

- To protect retail investors.
- To prevent misuse of IPO proceeds.

Key Guidelines:

1. **Profitability Requirement:** SMEs must have an operating profit of ₹1 crore in at least 2 out of the last 3 years to launch an IPO, ensuring financial stability and preventing misuse.
2. **Purpose of IPO Funds:** IPO funds cannot be used to repay promoter loans, ensuring funds are used for business growth.
3. **Offer for Sale (OFS) Limits:** SEBI caps OFS at 20% of the issue size and limits each seller to 50% of their holdings, ensuring stability and preventing sudden exits.
4. **General Corporate Purpose (GCP) Allocation:** SEBI has capped GCP allocation to 15% of the IPO size or ₹10 crore, whichever is lower.
5. **Draft Red Herring Prospectus (DRHP):** DRHP must be available for 21 days for public comments before final approval.

6. **Additional Guidelines:** 6. **Lock-in Period for Promoters' Excess Holding:** A phased lock-in system for promoters’ holdings exceeding the Minimum Promoter Contribution (MPC):
    - 50% of excess holdings will be locked for 1 year.
    - The remaining 50% will be locked for 2 years.
7. **Non-Institutional Investor (NII) Allocation:** A "draw of lots" system for NIIs, similar to retail investors.
8. **Minimum Investment Size for SME IPOs:** SEBI proposes increasing the minimum investment size to ₹2 lakh (currently ₹1 lakh), making it harder for smaller retail investors to participate.

2. Sebi's total income rises 48% to Rs 2,075 cr in 2023-24

Total Income Growth: SEBI's total income rose by 48% year-on-year, reaching ₹2,075 crore in FY 2023-24, up from ₹1,404.36 crore in the previous fiscal year.
Fee Income: SEBI earned ₹1,851.5 crore from fees, significantly higher than ₹1,213.22 crore in FY 2022-23.
Investment Income: Income from investments increased to ₹192.41 crore from ₹161.42 crore.
Other Income: Other income grew to nearly ₹18 crore from approximately ₹15 crore.
Sources of Income: The main sources of income for SEBI include:

- Annual fees and subscriptions
- Listing fees from stock exchanges
- Income from registration, renewal, and application documents filed by companies and market infrastructure institutions.

Expenditure: SEBI's total expenditure increased to ₹1,006 crore in FY 2023-24 from ₹851.33 crore in the previous fiscal year.

Establishment Expenses: These rose to ₹696.43 crore from ₹576 crore in the previous year.

Administrative Expenses: Other administrative expenses increased to ₹218 crore from ₹172.42 crore.

General Fund Balance: SEBI's general fund closed with a balance of ₹5,573 crore, including ₹1,065 crore as surplus income over expenditure for FY 2023-24.

Earmarked Funds:

- **Investor Protection & Education Fund (IPEF):** Closing balance of ₹533.17 crore, including ₹27.66 crore income from investments.
- **Disgorgement Fund:** ₹7.38 crore for FY 2024.

Investments: SEBI made total investments of ₹2,521.23 crore, with:

- ₹1,255.31 crore invested in bonds and government securities.
- ₹1,235.92 crore in deposits with scheduled banks.
- ₹30 crore as subscription to NCFE.

Earmarked Funds Investment: Funds in IPEF and the Disgorgement Fund are invested in bank deposits amounting to ₹482 crore.

3. Sebi cuts timeline to complete rights issues to just 23 days

Sebi Reduces Timeline for Rights Issues:

- The timeline for completing rights issues has been reduced from 126 days to 23 days.
- This change allows companies to raise capital faster through rights issues compared to preferential issues, which take 40 days.
- The new rule will come into effect from **April 7, 2025**.

Flexibility in Allotment for Specific Investors:

- Sebi has provided flexibility regarding the allotment to specific investors in the rights issue process.

Revised Timelines for Rights Issue Process:

- Sebi issued a circular outlining the revised timelines for completing various activities in the rights issue process.
- These activities span from the approval of the rights issue by the board of directors to the closure of the issue.

Rights Issue Subscription Period:

- Rights issues must remain open for subscription for a **minimum of 7 days** and a **maximum of 30 days**.

Validation and Finalization of Allotment:

- The stock exchanges, depositories, and registrar to the issue will handle the validation of application bids and finalization of the allotment basis.

4. SEBI partners with DigiLocker

SEBI's New Circular on Unclaimed Assets:

- **Circular Title**: "Harnessing DigiLocker as a Digital Public Infrastructure for Reducing Unclaimed Assets in the Indian Securities Market."
- **Objective**: Address the issue of unclaimed financial assets by enabling investors to store and access information related to their demat and mutual fund holdings via **DigiLocker**.
- **Benefit**: This initiative benefits both investors and their families by ensuring secure access to financial records.

Key Highlights of the Initiative:

1. **Access to Securities Holdings**: DigiLocker users can fetch and store their statement of holdings for shares and mutual fund units from their demat accounts and **Consolidated Account Statement (CAS)**.
   - Expands beyond bank account statements, insurance policies, and NPS account statements.
2. **Nomination Facility**: Users can appoint **Data Access Nominees** within the DigiLocker app.
   - In the event of the user's death, nominees will get **read-only access** to the account, ensuring easy access for legal heirs.
3. **Automated Notification to Nominees**: Upon notification of the user's death by **KYC Registration Agencies (KRAs)**, the DigiLocker system will automatically notify the appointed nominees.
   - This facilitates the initiation of the **transmission process** with relevant financial institutions.
4. **Role of KRAs**: **KRAs** will verify and trigger notifications to Data Access Nominees, ensuring smooth transition of financial information.

Collaboration Between SEBI and DigiLocker:

- SEBI and DigiLocker aim to **enhance investor protection** by providing **seamless access to financial records**.
- The initiative helps in reducing **unclaimed assets** and ensures **identification of assets** that might otherwise remain unnoticed.

5. Sebi lowers minimum investment in social stock exchange to Rs 1,000

Sebi's New Directive on ZCZP Instruments:

- **Minimum Investment Amount Reduced**: Sebi has lowered the minimum investment amount for **Zero Coupon Zero Principal (ZCZP)** instruments on the **Social Stock Exchange (SSE)** from ₹10,000 to ₹1,000.

Objective:

- The change is aimed at enhancing **retail participation** in **social impact investments** by making it easier for smaller investors to contribute.

What are ZCZP Instruments?

- ZCZP instruments are used to **donate money to non-profit organizations (NPOs)** listed on the **SSE**.

Reason for Change:

- The decision follows the **recommendations of the Social Stock Exchange Advisory Committee** and feedback from the public consultation paper.
- The aim is to **increase participation** from smaller investors, thus channeling more funds to **social enterprises** working in sectors like **education** and **healthcare**.

Circular Modifications:

- The change also modifies provisions outlined in previous circulars:
  - **September 19, 2022** circular, which was amended on **December 28, 2023**.
  - The revised circular specifies that the new **minimum investment size for ZCZP instruments is ₹1,000**.

Impact of the Change:

- **Immediate Effect**: The new recommendation is effective immediately.
- Sebi expects this move to **increase the flow of funds** to social enterprises, supporting their work in crucial sectors.

About the SSE:

- The **Social Stock Exchange** (SSE) is a new concept in India, designed to serve the **private and non-profit sectors**, channeling more capital to these sectors.
- The SSE idea was first introduced by **Finance Minister Nirmala Sitharaman** in her **Union Budget 2019-20** speech.
- SSE is a separate segment of the existing stock exchanges that brings together social enterprises and donors, facilitates funding and growth of social enterprises and enables mechanisms to ensure robust standards of impact and financial reporting.

6. SEBI raise FPI Disclosure limit

SEBI recently approved a series of regulatory reforms, including:

1. **Changes to Alternative Investment Fund (AIF) Regulations**
2. **New FPI Disclosure Norms**
3. **Revised Fee Structures for Investment Advisers (IAs) and Research Analysts (RAs)**

Key Reforms:

1. **Increased FPI Disclosure Threshold:**
   - SEBI doubled the disclosure threshold for Foreign Portfolio Investors (FPIs) from ₹25,000 crore to ₹50,000 crore.
   - **Objective**: Increase trading volumes in Indian stock markets.
   - **Impact**: Cash equity market volumes more than doubled between FY 2022-23 and FY 2024-25.
2. **Conflict of Interest Review:**
   - SEBI set up a high-level panel to review policies on conflict of interest, following past allegations involving the former SEBI Chairperson during the Adani-Hindenburg controversy.
   - **Focus**: Review disclosures on property, investments, liabilities, etc., of SEBI officials, and suggest improvements.
3. **Eased Norms for Category II AIFs:**
   - **New Flexibility**: Category II AIFs, required to allocate over 50% of their corpus to unlisted securities, now have the flexibility to invest in higher-risk listed debt instruments.
   - **New Investment Option**: AIFs can now invest in listed debt securities rated 'A' or below.

4. **Stock Brokers' Separate Business Units (SBU):**
    - SEBI allows stock brokers to conduct securities market activities through Separate Business Units (SBU) within the same company.
    - **Benefit**: Enables brokers to offer new services without forming separate companies, simplifying operations and reducing costs.
5. **MII Appointment Process:**
    - **Public Interest Directors (PIDs)**: PIDs on the boards of Market Infrastructure Institutions (MIIs) can be appointed with SEBI's approval, without needing shareholder approval.
    - **Reappointment Transparency**: If PIDs are not reappointed after their first term, MIIs must state reasons and inform SEBI.
    - **Direct Transfer**: PIDs can move between MIIs without a mandatory cooling-off period.
6. **Approval for Key Officials:**
    - The MII's governing board will approve the appointment of key officers such as:
        - **Compliance Officer** (ensures legal compliance)
        - **Chief Risk Officer** (manages financial risks)
        - **Chief Technology Officer** (handles technology systems)
7. **Fee Structure Flexibility for IAs and RAs:**
    - **New Rule**: Investment advisers (IAs) and research analysts (RAs) can charge advance fees for up to one year.
    - **Previous Limits**:
        - IAs: Could charge advance fees for up to 6 months.
        - RAs: Could charge advance fees for up to 3 months.
    - **Objective**: Provide greater flexibility in fee structuring and improve client-adviser relationships.

7. Multi asset allocation funds: Investment option in a volatile market

Multi-Asset Allocation Funds (MAAF) for Indian Retail Investors:

1. **Strategic Choice Amid Market Uncertainty:**
    - In a volatile financial landscape, MAAFs are increasingly chosen by retail investors in India for both security and growth.
    - Market fluctuations, net selling by Foreign Institutional Investors (FIIs), inflation concerns, and global geopolitical tensions are influencing investor sentiment.
2. **What Are Multi-Asset Allocation Funds (MAAFs)?**
    - MAAFs invest in at least three different asset classes, with a minimum of 10% allocated to each, as per SEBI guidelines.
    - This diversified approach reduces overall risk by spreading investments across multiple asset classes.
3. **Benefits of Investing in MAAFs:**
    - **Diversified Investment Approach:** MAAFs allocate across asset classes like equities, debt, and sometimes commodities like gold, helping balance risk and returns more effectively.
    - **Protection Against Market Volatility:** The funds offer a hedge during market downturns. Non-equity assets help cushion losses during bear markets.
    - **Professional Fund Management:** Experienced fund managers monitor economic trends and adjust the portfolio dynamically, optimizing returns by increasing equity exposure during market upswings and reducing it during downturns.

8. SEBI simplifies Nomination Rules for Investors

1. **Effective Date:**
    - The updated guidelines will come into effect from **March 1, 2025**.
    - Additional refinements will be introduced in **June 2025** and **September 2025**.
2. **Objective:**
    - Reduce **procedural delays**.
    - Prevent **disputes in asset transfer**.
    - Enhance **investor confidence**.
3. **Key Guidelines:**
    - **Nomination:**
        - Assets will be transferred to surviving joint holders without additional KYC, unless required earlier.
        - Surviving holders can update contact details and modify nominees anytime.
        - If an account has a nominee:
        - They can continue holding assets jointly with other nominees.
        - Or, open separate accounts to receive their respective shares.

- **Number of Nominees:**
  - Investors can nominate up to **10 persons** in demat accounts or MF folios.
  - Single holders can opt-out **online or offline**.
- **Documents:**
  - **Death certificate**.
  - **KYC completion/update** by nominee(s).
  - **Clearance from creditors**.
- **Transfer of Shares:**
  - Investors can specify the **percentage of assets** each nominee will receive for clear distribution.
  - In case of odd lot division, extra assets will be allocated to the **first nominee by default**.
- **Power of Attorney (POA) & Nominee Roles:**
  - A **POA holder** cannot be assigned as a nominee.
  - Investors can nominate a trusted person (not a minor) to manage investments if incapacitated but legally competent.
  - Investors can specify the percentage or exact amount of assets a nominee can access.
  - This authorization can be **modified** multiple times without restrictions.

9. Sebi permits all NBFCs, HFCs to invest in security receipts by ARCs

1. **Regulation Change:**
   - Sebi has permitted **non-banking financial companies (NBFCs)**, including **housing finance companies (HFCs)**, to invest in **security receipts (SRs)** issued by **Asset Reconstruction Companies (ARCs)**.
2. **Objective:**
   - This move aims to encourage investment in the **bad loans** space and broaden the scope of participants who can acquire SRs from ARCs.
   - The decision is expected to **boost liquidity** in the distressed asset market.
3. **Function of ARCs:**
   - ARCs acquire **bad loans** from banks and financial institutions at a discount (appropriate haircuts) and issue **security receipts (SRs)** to represent these loans.
4. **Qualified Buyers:**
   - Sebi has specified that all **NBFCs, including HFCs** regulated by the **Reserve Bank of India (RBI)**, are now **qualified buyers** for investments under the **SARFAESI Act** (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002).
5. **Safeguards to Prevent Misuse:**
   - To prevent **defaulting promoters** from reclaiming secured assets, Sebi has put in place safeguards.
   - **NBFCs and HFCs** must ensure that **defaulting promoters** or their **related parties** do not gain access to the secured assets through SRs, either directly or indirectly.
6. **Compliance with RBI Conditions:**
   - **NBFCs and HFCs** will be required to comply with additional conditions specified by the **RBI** over time.
7. **SARFAESI Act Compliance:**
   - Only **qualified buyers** can invest in security receipts as per the provisions of the **SARFAESI Act**.