



SEBI proposals - Sponsor requirement for mutual funds, segregation / ring-fencing assets, liabilities of mutual fund schemes | Exemptions vis-a-vis ICs of AIFs | Recalibration of MPS norms for CIRP companies

INSIGHTS

December 19, 2020

SEBI has taken certain major decisions in its meeting held on December 16, 2020, including the following:

- For Mutual Funds:** Relaxation of requirement for sponsoring the mutual fund, maintaining of minimum net-worth by Asset Management Companies (**AMCs**), segregation and ring-fencing of assets and liabilities of mutual fund schemes, and certain other additional proposals;
- For Alternative Investment Funds (AIFs):** Exemptions in respect of investment committee members, in relation to a requirement recently introduced by SEBI on October 19, 2020;
- For listed companies:** In case of listed companies going through corporate insolvency resolution process (**CIRP**), recalibration of minimum public shareholding (**MPS**) norms;
- For FPOs:** In case of further public offers (**FPOs**), doing away with minimum promoter contribution and subsequent lock-in requirements for the issuer;
- For Investment Advisers:** Investment Advisers (**IA**) will be required to seek membership of a body recognised by SEBI for administration and supervision of IAs under SEBI (Investment Advisers) Regulations, 2013 (**IA Regulations**);
- Rationalization of proceedings before designated authority and designated members provided under SEBI (Intermediaries) Regulations, 2008 (**Intermediaries Regulation**).

Aforesaid changes are summarized below:

<p>Mutual Funds Revised eligibility criteria for sponsors Minimum net-worth by AMCs Additional proposals</p>	<ul style="list-style-type: none"> ▪ Eligibility criteria for sponsoring a mutual fund: To facilitate innovation and enhanced reach to more investors at a faster pace including tech-enabled solutions, sponsors that are not fulfilling profitability criteria at the time of making an application will also be considered eligible to sponsor a mutual fund subject to having a net-worth of not less than INR 100 crores for the purpose of contribution towards the net-worth of the AMCs. This net-worth of the AMC has to be maintained till the time AMC makes profit for 5 consecutive years. ▪ Net-worth of the AMC: AMCs to mandatorily maintain the minimum net-worth on a continuous basis, and streamline the manner of computation of net-worth of the AMC. ▪ Segregation and ring -fencing of assets and liabilities of mutual fund schemes: All assets and liabilities of each scheme to be segregated and ring-fenced from other schemes of the mutual fund in addition to the existing requirement of segregating bank accounts and securities accounts. ▪ Further proposals: Various other proposals have been approved including dispensing with the requirement to issue physical unit certificates, reducing maximum permissible exit load, reducing the timeline for payment of dividend, permitting other modes for payment of dividend and providing clarity with respect to payment of interest and penalty in case of delay in dividend payment, etc.
<p>AIFs Exemption in respect of investment committee members</p>	<p>SEBI has approved amendment to SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations) to provide certain exemptions to AIFs in respect of Investment Committee members in terms of Regulation 20(6) of AIF Regulations, conditional upon capital commitment of at least INR 70 Crore from each investor accompanied by a suitable waiver. Regulation 20(6) was recently introduced on October 19, 2020, to bring in changes relation to formation of investment committee and liability of managers and members of investment committees.</p>

<p>Recalibration of MPS norms for listed companies under CIRP</p>	<ul style="list-style-type: none"> ▪ Such companies to have at least 5% public shareholding at the time of their admission to dealing on stock exchange, as against no minimum requirement at present; ▪ A period of 12 months to be provided to such companies to achieve public shareholding of 10% from the date such shares of the company are admitted to dealings on stock exchange and 36 months to achieve public shareholding of 25% from the said date; ▪ The lock-in on equity shares allotted to the resolution applicant under the resolution plan shall not be applicable to the extent to achieve 10% public shareholding within 12 months. ▪ Such companies will be required to make additional disclosures, such as, specific details of resolution plan including details of assets post-CIRP, details of securities continuing to be imposed on the companies' assets and other material liabilities imposed on the company, proposed steps to be taken by the incoming investor/acquirer for achieving the MPS and quarterly disclosure of the status of achieving the MPS.
<p>FPOs No minimum promoters' contribution and lock-in</p>	<p>The Minimum Promoters' Contribution and the subsequent lock in requirements will not apply on issuers making a further public offer of specified securities subject to fulfilment of the following conditions:</p> <ul style="list-style-type: none"> ▪ The equity shares of the issuer are frequently traded on a stock exchange for a period of at least three years; ▪ The issuer has been in compliance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for a period of at least three years; and ▪ The issuer has redressed at least ninety-five percent (95%) of the complaints received from the investors.
<p>Investment Advisers' membership/ fees structure</p>	<p>IAs will be required to seek membership of a body recognized by SEBI for administration and supervision of IAs under SEBI (Investment Advisers) Regulations, 2013 (IA Regulations). Modifications also approved to the structure of fees payable by IAs, while ensuring that the total cost borne by IAs towards fees remains same as that payable by IAs under the IA Regulations.</p>
<p>Intermediaries Regulations Proceeding before Designated Authority and Designated Member</p>	<ul style="list-style-type: none"> ▪ In the interest of justice, the Designated Member, if required, to remit the matter to the Designated Authority, for reasons to be recorded in writing, to enquire afresh or to further enquire and resubmit the report; ▪ The Designated Member may consider granting an opportunity of personal hearing in a case where either the Designated Authority has recommended cancellation of the certificate of registration of the Intermediary, or the Designated Member is of the prima facie view that the matter at hand is a fit case for cancellation of the certificate of the registration of the Intermediary.

Detailed changes are provided under Press Release dated December 16, 2020 ([available here](#)).