

SEBI proposes to ease the “fit and proper criteria” under SEBI (Intermediaries) Regulations, 2008 for ease of compliance and doing business

INTRODUCTION AND BACKGROUND

The Securities and Exchange Board of India (SEBI) has issued a Consultation Paper dated February 04, 2026 (**Consultation Paper**) inviting public comments and stakeholder inputs on proposed amendments to the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (**Intermediaries Regulations**). The proposed amendments aim to establish a balance between facilitating ease of compliance for market participants and strengthening regulatory safeguards to ensure that only entities and individuals fulfilling the relevant criteria and character are permitted to operate in the securities market.

Under SEBI’s regulatory framework governing market intermediaries, the respective regulations applicable to different categories of intermediaries prescribe the procedure and eligibility requirements for obtaining a certificate of registration to operate in the securities market. A key statutory condition for grant and continuance of such registration is compliance with the ‘fit and proper person’ criteria set out in Schedule II of the Intermediaries Regulations. SEBI regulations governing intermediaries require compliance with the ‘fit and proper person’ criteria under Schedule II of the Intermediaries Regulations as a condition for registration, which, pursuant to the 2021 amendments, has been harmonised with global standards and structured into principle-based and rule-based criteria to provide greater clarity and consistency in its application.

OBJECTIVE OF SCHEDULE II OF INTERMEDIARIES REGULATIONS

Schedule II of the Intermediaries Regulations establishes a comprehensive regulatory framework to ensure that only persons and entities meeting prescribed standards of competence, capability, financial soundness, integrity, and ethical conduct are permitted to operate as intermediaries, and that such standards continue throughout the period of registration. It extends the “fit and proper person” requirement beyond the intermediary itself to Key Managerial Personnel (**KMP**) and persons exercising control, empowers SEBI to assess fitness based on both principle-based attributes and specified disqualifying events, prescribes consequences including temporary ineligibility upon adverse findings, restricts consideration of registration applications where regulatory proceedings are pending, clarifies that disqualifications of group or associate entities do not automatically affect an intermediary unless linked to its own management or control, and requires timely corrective steps such as replacement of disqualified personnel or divestment of control. Overall, the Schedule seeks to protect market integrity by ensuring that intermediaries and those who manage or control them remain continuously compliant with fit and proper standards.

NEED FOR THE PROPOSED AMENDMENTS

SEBI has undertaken a review of Schedule II of the Intermediaries Regulations in light of enforcement experience over the past five years and evolving international and domestic regulatory best practices, including the principles of the International Organization of Securities Commissions (**IOSCO**), to assess the need for further refinement of the existing ‘fit and proper person’ criteria.

SEBI has received industry representations seeking a review of certain provisions of the ‘fit and proper person’ criteria under Schedule II, particularly Clause 3(b), citing concerns that certain compliance requirements are onerous. Concerns have also been raised regarding the divestment requirement under Clause 6, as such divestment may result in irreversible consequences even where the concerned person is subsequently acquitted or exonerated in related proceedings.

EXTANT PROVISIONS AND REPRESENTATION RECEIVED BY SEBI

- **Review of Clause 3(b)(i), 3(b)(ii) and 3(b)(v)**

As per Clauses 3(b)(i) and 3(b)(ii) of Schedule II to the Intermediaries Regulations, an applicant or intermediary, including its KMPs and persons in control, becomes subject to disqualification upon the initiation of specified enforcement actions, including the filing of a criminal complaint or First Information Report by SEBI, or the pendency of a charge sheet in relation to economic offences filed by an enforcement agency. Market participants have made representations to SEBI stating that mere pendency of a criminal complaint, FIR, or filing of a charge sheet ought not, in itself, to result in disqualification, as such actions constitute only preliminary steps in the initiation of criminal proceedings. It has further been contended that automatic disqualification at this stage is inconsistent with the settled principle of criminal jurisprudence that an individual is presumed innocent until proven guilty.

- **Review of “Fit and Proper Person” Criteria**

Under Regulation 20 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 (**SECC Regulations**), a person is, inter alia, disqualified from being regarded as a “fit and proper person” if such person has been convicted by a court of law for any economic offence or for an offence under securities laws, and, in the case of shareholders, KMPs and directors, such disqualification also extends to convictions involving offences of moral turpitude; a substantially similar framework is provided under Regulation 23 of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 (**DP Regulations**). Notably, unlike the position under the Intermediaries Regulations, disqualification under the SECC Regulations and the DP Regulations is not triggered merely upon the filing of an FIR, criminal complaint by SEBI, or submission of a charge sheet by any enforcement agency, but arises only upon conviction by a competent court.

- **IOSCO Principles**

In terms of internationally recognised regulatory standards, including IOSCO’s best practices relating to “fit and proper” criteria, financial regulators are vested with the authority to exercise informed judgment and discretion while determining an individual’s fitness and propriety, having due regard to all relevant considerations, including standards of honesty, integrity, fairness and ethical conduct. In this context, while assessing the honesty, integrity and reputation of an applicant or key individual, the regulator may, inter alia, take into consideration whether such person has, within the preceding ten years, been convicted, upon indictment, of offences involving dishonesty, fraud, money laundering, theft or other financial crimes.

- **Criteria followed by Other Domestic Regulators**

It is pertinent to note that the Reserve Bank of India’s (**RBI**) Master Direction on Regulation of Payment Aggregators (**PA Directions**) prescribes, under paragraph 7.a.ii.a, a *rule-based* framework for assessing the *fit and proper* status of promoters and directors, which, inter alia, treats conviction by a court of law for an offence involving moral turpitude, any economic offence, or an offence under statutes administered by the RBI as a disqualifying factor. However, the mere pendency of a criminal complaint or filing of a charge sheet does not, *ipso facto*, result in disqualification under the rule-based criteria, although such circumstances may nonetheless be taken into account under the *principle-based* assessment, including considerations relating to reputation, character, integrity and honesty.

Proposed amendments to Schedule II of Intermediaries Regulations and consultations sought by SEBI are reproduced below:

Sr. No.	Existing Provision	Proposed Amendment (additions in bold and deletions in strikethrough)	Consultations sought by SEBI
1.	(b) the person not incurring any of the following disqualifications:	the person not incurring any of the following disqualifications being subject to any of the following events:	Consultation is sought by SEBI on Proposed Amendment of Clauses 3(b)(i), 3(b)(ii), 3(b)(v) as follows: a. Whether you agree that in view of the principle-based criteria under Clause 3(a), the specific 'rule-based criteria' of pending criminal complaint or information filed under Section 154 of the Code of Criminal Procedure, 1973 by SEBI as specified in Clause 3(b)(i) of Schedule II of the Intermediaries Regulations should be done away with?
2.	(i) criminal complaint or information under section 154 of the Code of Criminal Procedure, 1973 (2 of 1974) has been filed against such person by the Board and which is pending;	criminal complaint or information under section 154 of the Code of Criminal Procedure, 1973 (2 of 1974) has been filed against such person by the Board and which is pending; [Omitted]	b. Whether you agree that in view of the principle-based criteria under Clause 3(a), the specific 'rule-based criteria' of pending charge sheet against a person by any enforcement agency in matters concerning economic offences under Clause 3(b)(ii) of Schedule II of the Intermediaries Regulations should be done away with?
3.	(ii) charge sheet has been filed against such person by any enforcement agency in matters concerning economic offences and is pending;	charge sheet has been filed against such person by any enforcement agency in matters concerning economic offences and is pending; [Omitted]	c. Whether you agree with the amendments as proposed to Clause 3(b)(v) of Schedule II of the Intermediaries Regulations to extend the disqualification criteria to include conviction by a court for any economic offence or any offence of securities laws in line with the SECC and DP Regulations?
4.	(v) an order of conviction has been passed against such person by a court for any offence involving moral turpitude;	an order of conviction has been passed against such person by a court for any economic offence or an offence of securities laws or any offence involving moral turpitude;	
5.	(vi) any winding up proceedings have been initiated or an order for winding up has been passed against such person;	any winding up proceedings have been initiated or an order for winding up has been passed against such person;	Consultation is sought by SEBI on Proposed Amendment of Clauses 3(b)(vi) as follows: a. Whether you agree with the amendments as proposed to Clause 3(b)(vi) of Schedule II of the Intermediaries Regulations to omit the words "any winding up

			<i>proceedings have been initiated or”?</i>
6.	New Provision introduced.	(3A) If any person under clause (2) is subjected to any event under sub-clause (b) of clause (3), the applicant or intermediary shall inform the Board within seven days of the occurrence of such event.	Consultation is sought by SEBI on Proposed Amendment on Insertion of Clauses 3A and 3B as follows: a. Whether you agree with the insertion of Clauses 3A and 3B in Schedule II of the Intermediaries Regulations?
7.	New Provision introduced.	(3B) A person shall be declared as not ‘fit and proper person’ by the Board, after giving such person a reasonable opportunity of being heard.	
8.	(4) Where any person has been declared as not ‘fit and proper person’ by an order of the Board, such a person shall not be eligible to apply for any registration during the period provided in the said order or for a period of five years from the date of effect of the order, if no such period is specified in the order.	Where any person has been declared as not ‘fit and proper person’ by an order of the Board, such a person shall not be eligible to apply for any registration during the period provided in the said order or for a period of five years from the date of effect of the order, if no such period is specified in the order.	Consultation is sought by SEBI on Proposed Amendment of Insertion of Clauses 4 as follows: a. Whether you agree with the amendments as proposed to Clause 4 of Schedule II of the Intermediaries Regulations to omit the words “ <i>or for a period of five years from the date of effect of the order if no such period is specified in the order</i> ”?
9.	(5) At the time of filing of an application for registration as an intermediary, if any notice to show cause has been issued for proceedings under these regulations or under section 11(4) or section 11B of the Act against the applicant or any other person referred in clause (2), then such an application shall not be considered for grant of registration for a period of one year from the date of issuance of such notice or until the conclusion of the proceedings, whichever is earlier.	At the time of filing of an application for registration as an intermediary, if any notice to show cause has been issued for proceedings under these regulations or under section 11(4) or section 11B section 11B(1) of the Act against the applicant or any other person referred in clause (2), then such an application shall not be considered for grant of registration for a period of one year six months from the date of issuance of such notice or until the conclusion of the proceedings, whichever is earlier.	Consultation is sought by SEBI on Proposed Amendment of Insertion of Clauses 5 as follows: Whether you agree with the amendments as proposed to Clause 5 of Schedule II of the Intermediaries Regulations with respect to: a. the scope of proceedings under section 11B being limited to proceedings under section 11B (1) of SEBI Act where SEBI may pass directions; and b. reduction of time period for non-consideration of registration upon issuance of SCN from 1 year to 6 months.

10.	<p>(6) Any disqualification of an associate or group entity of the applicant or intermediary of the nature as referred in sub-clause(b) of clause (3), shall not have any bearing on the 'fit and proper person' criteria of the applicant or intermediary unless the applicant or intermediary or any other person referred in clause (2), is also found to incur the same disqualification in the said matter:</p> <p>Provided that if any person as referred in sub-clause (b) of clause (2) fails to satisfy the 'fit and proper person' criteria, the intermediary shall replace such person within thirty days from the date of such disqualification failing which the 'fit and proper person' criteria may be invoked against the intermediary:</p> <p>Provided further that if any person as referred in sub-clause (c) of clause (2) fails to satisfy the 'fit and proper person' criteria, the intermediary shall ensure that such person does not exercise any voting rights and that such person divests their holding within six months from the date of such disqualification failing which the 'fit and proper person' criteria may be invoked against such intermediary.</p>	<p>Any disqualification of If an associate or group entity of the applicant or intermediary of the nature as referred in sub-clause (b) of clause (3) has been declared as not 'fit and proper person' by the Board, such declaration shall not have any bearing on the 'fit and proper person' criteria of the applicant or intermediary unless the applicant or intermediary or any other person referred in clause (2), is also found to incur the same disqualification in the said matter be subjected to the same event:</p> <p>Provided that if any person as referred in sub-clause (b) of clause (2) fails to satisfy the 'fit and proper person' criteria has been declared as not 'fit and proper person' by the Board, the intermediary shall replace such person within thirty days from the date of such disqualification declaration failing which the 'fit and proper person' criteria may be invoked against the intermediary:</p> <p>Provided further that if any person as referred in sub-clause (c) of clause (2) fails to satisfy the 'fit and proper person' criteria has been declared as not 'fit and proper person' by the Board, the intermediary shall ensure that such person does not exercise any voting rights and that such person divests their holding within six months seven days from the date of such disqualification declaration failing which the 'fit and proper person' criteria may be invoked against such intermediary.</p>	<p>Consultation is sought by SEBI on Proposed Amendment of Insertion of Clauses 6 as follows:</p> <p>a. Whether you agree with the amendments as proposed to second proviso to Clause 6 of Schedule II of the Intermediaries Regulations to omit the requirement of divestment of holding of persons declared as not 'fit and proper' person?</p>
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ELP Comments

The amendments proposed in the Consultation Paper aim to rationalize the “fit and proper person” criteria by creating a balance between compliance and regulatory safeguards thereby enhancing ease of doing business without diluting investor protection or market integrity. The proposed amendments, if accepted and notified, will shift the basis for disqualifications from mere initiation of proceedings or filing of complaints, to conclusion of the said proceedings/complaints through conviction or final adjudicatory findings. At the same time, SEBI’s discretion to assess integrity and conduct on a case-specific basis remains preserved, while the inclusion of convictions for economic and securities law offences ensures that disqualifications are grounded in definitive wrongdoing.

Procedural clarity and fairness are further strengthened through explicit disclosure requirements and the guarantee of a reasonable opportunity of hearing before a ‘not fit and proper’ determination, alongside the removal of the automatic five-year prohibition to allow proportional, case-specific regulatory outcomes. Taken together, the rationalisation of disqualification triggers, calibrated amendments to procedural provisions, and improved proportionality and certainty represent a balanced and constructive evolution of the existing framework.

The Consultation Paper dated February 04, 2026, is available [here](#).

We hope you have found this information useful. For any queries/clarifications please write to us at insights@elp-in.com or write to our authors:

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