The SEBI Board met in New Delhi today and inter-alia took the following important decisions:

I. Review of Corporate Governance norms in India for listed companies

The Board has approved the proposals to amend the Listing Agreement with respect to corporate governance norms for listed companies. The amendments, inter-alia, propose to align the provisions of Listing Agreement with the provisions of the newly enacted Companies Act, 2013 and also provide additional requirements to strengthen the corporate governance framework for listed companies in India. The amendments shall be made applicable to all listed companies with effect from October 01, 2014.

The Board approved the following proposals:

(i) Exclusion of nominee Director from the definition of Independent Director
(ii) Compulsory whistle blower mechanism
(iii) Expanded role of Audit Committee
(iv) Prohibition of stock options to Independent Directors
(v) Separate meeting of Independent Directors
(vi) Constitution of Stakeholders Relationship Committee
(vii) Enhanced disclosure of remuneration policies
(viii) Performance evaluation of Independent Directors and the Board of Directors
(ix) Prior approval of Audit Committee for all material Related Party Transactions (RPTs)
(x) Approval of all material RPTs by shareholders through special resolution with related parties abstaining from voting
(xi) Mandatory constitution of Nomination and Remuneration Committee. Chairman of the said committees shall be independent.
(xii) At least one woman director on the Board of the company
(xiii) It has been decided that the maximum number of Boards an independent director can serve on listed companies be restricted to 7 and 3 in case the person is serving as a whole time director in a listed company
(xiv) To restrict the total tenure of an Independent Director to 2 terms of 5 years. However, if a person who has already served as an Independent Director for 5 years or more in a listed company as on the date on which the amendment to Listing Agreement becomes effective, he shall be eligible for appointment for one more term of 5 years only.

(xv) The scope of the definition of RPT has been widened to include elements of Companies Act and Accounting Standards.

In addition to the above, the Board also approved the proposal to put in place principles of Corporate Governance, policy on dealing with RPTs, divestment of material subsidiaries, disclosure of letter of appointment of Independent Directors and the letter of resignation of all directors, risk management, providing training to Independent Directors, E-voting facility by top 500 companies by market capitalization for all shareholder resolutions and Boards of companies to satisfy themselves that plans are in place for orderly succession for appointments to the Board and senior management.

II. Long Term Policy for Mutual Funds in India

SEBI Board has approved a Long Term Policy for Mutual Funds in India. The long term policy includes all aspects - including enhancing the reach and promoting financial inclusion, tax treatment, obligation of various stakeholders, etc. to deal with the public policy objectives of achieving sustainable growth of the mutual fund industry and mobilisation of household savings for the growth of the economy. The recommendations of long term policy has been bifurcated in two buckets, tax incentive related proposals and non-tax related proposals.

(a) Tax related proposals:

The objective of giving tax benefits is to incentivize and channelize savings into long term investment products. Schemes offering tax benefits are a powerful approach world over that helps channelize household savings into long term investment products. The tax incentives for Mutual Fund schemes are recommended as under:

(i) A long term product such as Mutual Fund Linked Retirement Plan (MFLRP) with additional tax incentive of Rs.50,000/- under 80C of Income Tax Act may be introduced.

(ii) Alternatively, the limit of section 80C of the Income Tax Act, 1961, may be enhanced from INR 1 lakh to INR 2 lakh to make mutual funds products (ELSS, MFLRP etc.) as priority for investors among the different investment avenues. RGESS may also be brought under this enhanced limit.

(iii) Similar to merger/consolidation of companies, the merger/consolidation of equity mutual funds schemes also may not be treated as transfer and therefore, may be exempted from capital gain taxation.

(b) Non-Tax incentive proposals:

In the long run, the objective is to ensure that Mutual Funds achieve a reasonable size and play an important role in achieving the objective of financial inclusion while further enhancing the transparency so that investors can take informed decision. Towards this objective the following has been decided:

(i) Capital Adequacy i.e. minimum network of the Asset Management Companies (AMC) be increased to INR50 crore.

(ii) The concept of seed capital to be introduced i.e. 1% of the amount raised (subject to a maximum of Rs.50 lacs) to be invested by AMCs in all the open ended schemes during its life time.

(iii) EPFOs be allowed to invest upto 15% of their corpus in Equities and Mutual Funds. Further, the members of EPFOs who are earning more than INR6500 per month be offered an option for a part of their corpus to be invested in a Mutual Fund product of their choice.
Presently, Navratna and Miniratna Central Public Sector Enterprises (CPSEs) are permitted to invest in Public Sector Mutual Funds regulated by SEBI. It has been recommended that all CPSEs be allowed to choose from any of the SEBI registered Mutual Funds for investing their surplus funds.

In order to enhance transparency and improve the quality of the disclosures, it has been decided that AUM from different categories of schemes such as equity schemes, debt schemes, etc., AUM from B-15 cities, contribution of sponsor and its associates in AUM of schemes of their mutual fund, AUM garnered through sponsor group/ non-sponsor group distributors etc. are to be disclosed on monthly basis on respective website of AMCs and on consolidated basis on website of AMFI.

In order to improve transparency as well as encourage Mutual Funds to diligently participate in corporate governance of the investee companies and exercise their voting rights in the best interest of the unit holders, voting data along with rationale supporting their decision (for, against or abstain) be disclosed on quarterly basis on their website. This is to be certified by Auditor annually and reviewed by board of AMC and Trustees.

Towards achieving the goal of financial inclusion, a gradual approach to be taken such that initially the banked population of the country may be targeted with respect to Mutual Funds investing. SEBI will work towards achieving the goal that the basics of capital markets and financial planning may be introduced as core curriculum in schools and colleges. Printed literature on Mutual Funds in regional languages be mandatorily made available by Mutual Funds. Investor awareness campaign in print and electronic media on Mutual Funds in regional languages to be introduced.

In order to develop and enhance the distribution network PSU banks may be encouraged to distribute schemes of all Mutual Funds. Online investment facility need to be enhanced to tap the internet savvy users to invest in Mutual Funds. Also, the burgeoning mobile-only internet users need to be tapped for direct distribution of Mutual Funds products.

The proposals relating to tax incentives, allowing EPFO to invest in equities/mutual funds and allowing all CPSEs to invest their surplus fund in mutual funds will be sent to the Government for its decision.

III. Amendment to SEBI (KYC (Know Your Client) Registration Agency) Regulations, 2011

SEBI (KYC Registration Agency) system (‘KRA system’) has evolved and stabilized over a period of two years and with inter-operability in place, there is easy exchange of KYC data among five SEBI registered KRAs. The client who has already done the KYC with any SEBI registered intermediary need not undergo the same process again when he approaches another intermediary. The system has benefited the investors as well as the intermediaries.

However, as per existing KRA Regulations, there is an option available to the intermediary that he may access the centralised KRA system in case of a client who is already KYC compliant or carry our fresh KYC process. As the KRA system has been working well, it is felt that there may not be a need to provide this option in the Regulations.

Board has now approved the amendment to KRA Regulations and the option of taking fresh KYC has been done away with. However, as provided in the Regulations, the intermediary can undertake enhanced KYC measures commensurate with the risk profile of its clients.

This would further facilitate the KYC process for the investors.

Mumbai

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