SEBI **CA. Bhavesh Vora, CA Jayant Thakur**	

Key Updates: -

- **Introduction of Future Contracts on Corporate Bond Indices.**

In order to enhance liquidity in the bond market and also to provide opportunity to the investors to hedge their positions, SEBI vide circular dated 10th January 2023 has decided to permit Stock Exchanges to introduce derivative contract on Indices of corporate debt securities rated AA+ and above. Stock Exchanges are permitted to launch future contracts on corporate bond indices.

- **Foreign investment in Alternative Investment Funds (AIFs)**

AIFs may raise funds from any investor (Indian, Foreign, Non-Resident India) by way of issue of units. In this regard SEBI vide circular dated 9th December 2022 have specified that: -

a. At the time of on-boarding of Investors, the manager of an AIF shall ensure that: -

    1. Foreign investor of the AIF is a resident of the country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding or signatory to the bilateral Memorandum of Understanding with SEBI.

    2. The investor, or its underlying investors contributing twenty – five percent or more in the corpus of the investor or identified on the basis of control, is not the person(s) mentioned in the Sanctions List notified from time to time by the United Nations Security Council and is not a resident in the country identified in the public statement of FATF.

b. In case an investor who has been on-boarded to scheme of an AIF, subsequently does not meet the conditions specified at clause above, the manager of the AIF shall not drawdown any further capital contribution from such investor for making investment, until the investor again meets the said conditions. The same shall also apply to investors already on-boarded to existing schemes of AIFs, who do not meet conditions specified at clause above.

- **Schemes of Alternate Investment Fund (AIFs) which have adopted Priority Distribution Model.**

It has been brought to SEBI's attention that certain schemes of AIFs have adopted a distribution waterfall in such a way that one class of investor (other than sponsor manager) share loss more than pro rata to their holding in the AIF vis-à-vis other classes of investor / unit holders, since the latter has priority over distribution over former. SEBI vide circular dated 23rd November 2022 and in consultation with Alternative Investment Policy Advisory Committee, AIF industry associations and other stakeholders have decided that schemes of AIFs which have adopted aforesaid priority distribution model, shall not accept any fresh commitment or make investment in new investee company, till the view is taken by SEBI in this regard.

- **Net Settlement of Cash Segment and Futures & Options segment upon expiry of stock derivatives**

a. SEBI has now allowed combined (net) settlement of Derivatives position and Cash Position.

b. STT and Stamp Duty will continue to be computed segment wise.

c. Net settlement is enabled for non-institutional clients having same Clearing Member and Trading Member

- **Framework to address 'Technical Glitches' in Stock Brokers' Electronic Trading Systems**

a. Technical Glitch shall mean any malfunction in the system of stock broker which lasts for a contiguous period of five minutes or more.

b. SEBI has introduced a framework to ensure systems of stock brokers are sufficient to handle client requirement by ensuring: -

    1) Capacity Planning

    2) Software Testing and Change Management

    3) Monitoring Mechanism

    4) Business Continuity Planning and Disaster Recovery Site

- **Enhanced obligations and responsibilities for qualified stock brokers**

SEBI may designate a stock broker as a qualified stock broker having regard to its size and scale of operation, likely on investors and securities market, as well as governance and service standard etc.

The stock broker designated as qualified stock broker shall be required to meet enhanced obligations and discharge responsibilities to ensure: -

a) Appropriate governance structure and processes.

b) Appropriate risk management policy and processes.

c) Scalable infrastructure and appropriate technical capacity

d) Framework for orderly window

e) Robust cyber security framework and processes

f) Investor services including online complaint redressal mechanism

- **Participation of AIFs in Credit Default Swaps**

SEBI have amended and notified on 9th January 2023 to allow AIFs to participate in Credit Default Swaps (CDS) as protection buyers and sellers. Accordingly, AIF regulations have been amended and specified following conditions: -

1) Applicable to Category I, II and III AIF for buying CDS:

   Category I AIFs and Category II AIFs may buy CDS on underlying investment in debt securities, only for purpose of hedging.

   Category III AIFs may buy CDS for the purpose of hedging or otherwise, within the permissible leverage.

2) Conditions applicable to Category II and III AIFs for selling CDS:

   Category III AIFs may sell CDS, subject to the condition that effective leverage undertaken is withing the permissible limits

   Category II AIFs and Category III AIFs may sell CDS, by earmarking unencumbered Government bonds / Treasury bills equal to the amount of the said CDS exposure.

   Total exposure to an investee company, including exposure through CDS, shall be within the limit of applicable concentration norm as specified in regulations.

- **Allowing Stock Exchanges to launch multiple contracts on the same commodity in commodity derivatives segment.**

  In order to encourage broader participation of Investors in commodity derivatives market, SEBI vide circular dated 11th January 2023 have decided that stock exchanges may be allowed to launch multiple contracts in same commodity.

- **Inclusion of ETF as list of eligible securities under Margin Trading Facility (MTF)**

  Based on the feedback received from market participants, recommendation of Secondary Market Advisory Committee (SMAC) of SEBI and into account the emergence of Exchange Traded Funds (ETFs) as an investment product, SEBI has decided to allow units of Equity Exchange Traded Funds (Equity ETFs) categorized as an eligible security for Margin Trading Facility as well as an eligible collateral under MTF.