

SEBI Board Meeting: Ease of doing business

01 April 2025

Overview

The Securities and Exchange Board of India (SEBI) held its 209th board meeting on 24 March 2025, wherein several proposals pertaining to improving the ease of doing business in relation to various regulated entities in the securities market were reviewed and approved.

The present Ergo focuses on the following reforms / revisions approved by SEBI in the aforesaid board meeting -

- Relaxation of granular disclosure norms for foreign portfolio investors (FPIs);
- Investments into unlisted securities by Category II alternative investment funds (AIFs);
- Fees charged by investment advisors (IAs) and research analysts (RAs); and
- Hiving off in relation to non-regulated business activities for merchant bankers (MBs).

Relaxation of Granular Disclosure Norms for FPIs

With the intent of ensuring the orderly functioning of the Indian securities market and also to assess the flow of capital from neighbouring countries from the Press Note 3 perspective, SEBI *vide* its circular dated August 24, 2023 (FPI Circular) obligated certain FPIs meeting certain criteria to provide granular disclosure of Ultimate Beneficial Owners (UBOs) based on ownership, economic interests and control. The FPI Circular stipulated two triggers to determine whether an FPI is required to comply with such granular disclosure requirements -

1. **Concentration Threshold:** FPI holding over 50% of its Indian equity Assets Under Management (AUM) within a single Indian corporate group.
2. **AUM Threshold:** FPI, together with its investor group, has INR 25,000 crore (USD 3 billion approx.) or more of equity AUM in the Indian markets.

Please see our Ergo on '*SEBI's Enhanced UBO Disclosure Framework for Select FPIs and the Proposal to Expand Market Access for NRIs and OCIs through IFSC GIFT City*' for further information on the granular disclosures applicable to FPIs (available [here](#)).

Accounting for the exponential increases in trading volumes since the issuance of the FPI Circular and also taking into account industry representations, SEBI has now proposed relaxing the AUM Threshold to a reasonably higher number. The revised AUM Threshold for trigger of granular disclosure will only be triggered if the FPI (with its investor group) has INR 50,000 crore (USD 6 billion approx.) or more of equity AUM in the Indian markets. Although SEBI has acknowledged the stagnation of the Concentration Threshold in its Board Meeting (*as defined below*), the regulator has stated that currently no proposals to relax the Concentration Thresholds are currently being considered.

Impact

The rationalisation of the AUM Threshold for FPIs in relation to granular disclosures providing relief to FPIs should come as a significant relief for the FPIs. Firstly, it will provide relief to those FPIs who were not triggering the Concentration Threshold but were still getting caught on account of their overall India exposure into the net of granular disclosure requirements which lead to them having to undertake significant compliance burden all adding to the friction of investing in Indian markets. Secondly, it will also now provide more headroom and incentivise the existing and new large-sized FPIs to increase their India exposure without the burden of granular disclosures, which many have found to be daunting at times.

While the Concentration Threshold remains unaltered and could still continue to pose challenge for FPIs with larger exposure to certain specific stocks, one can possibly hope that the regulator may also at some point review of this trigger too with the same intent of ease of doing business by expanding the categories of FPI investors who are well regulated, enhancing the list of highly liquid and professionally managed companies exempted from the concentration threshold and possibly identify situations / circumstances where the intent of control or manipulation can clearly be differentiated.

Investments into Unlisted Securities by Category II AIFs

SEBI has recently revised the SEBI Listing Obligations and Disclosure Requirements Regulations, 2015, to require, *inter alia*, that any entity that has issued listed debt securities can issue fresh debt only in a listed form. A potential ramification of this revision is that debt that has been issued in an unlisted form, may now have to be listed. The same shall, in turn, lead to a substantial reduction in investable universe of unlisted debt securities available to investors (including Category II AIFs).

Herein, it is to be noted that in contrast to the language in SEBI's press release pertaining to the board meeting dated March 24, 2025 (Board Meeting), the extant SEBI (Alternative Investment Funds) Regulations, 2012, require Category II AIFs to primarily invest in **unlisted companies**. This discrepancy was also captured in SEBI's 'Consultation Paper on review of Regulation 17 (a) of SEBI (AIF) Regulations, 2012, with the objective of Ease of Doing Business' dated 7 February, 2025 wherein it was proposed that the requirement under the AIF Regulations be revised to state that, "Category II Alternative Investment Fund to invest more than 50% of their total investible funds in **unlisted securities**, and/or listed debt securities having credit rating 'A' or below, directly or through investment in units of other AIFs."

SEBI, *vide* the Board Meeting, has now approved the proposal under the consultation paper to ensure that AIFs are able to comply with the minimum investment norms in unlisted securities and nudge AIFs to invest in listed debt securities having credit rating 'A' or below.

Impact

The proposal to enable Category II AIFs to invest in unlisted securities and listed debt securities having credit rating 'A' or below showcases SEBI's continuous commitment to iron out irregularities between its various regulations. Further, this revision also takes advantage of AIF's ability to assume liquidity risk and credit risk to address the funding shortfall in industries that may not have access to traditional financing options or companies that are not at a stage of their lifecycle to make a public offering. This should further address the ongoing confusion for the Cat II AIFs as regards continuing to meet their 'primarily unlisted' obligations under AIF Regulations especially when many of them prefer to invest in listed NCDs for certain other benefits like better enforcement, ease around withholding tax etc.

Fees charged by IAS and RAS

SEBI's recent amendments to the SEBI (Investment Advisers) Regulations, 2013, and the SEBI (Research Analysts) Regulations, 2014, restricted collection of advance fee by IAs / RAs to a maximum of 6 months / 3 months fee respectively. This rationalisation has caused IAs / RAs to face cash flow and liquidity issues, and several industry representations were made to SEBI.

SEBI, in continuation of its collaborative approach, has revised the aforementioned fee restrictions to find a balanced solution. The fee matrix presently applicable to IAs / RAs is tabulated below.

ADVANCE FEE TERMS		
#	Type of Investor	Advance fee
1	All investors	If agreed by the client, advance fee up to a period of one year
GENERAL FEE TERMS		
#	Type of Investor	Applicability of fee-related provisions
1	Individual and Hindu Undivided Family (not being accredited investors)	Fee related provisions such as fee limit, modes of payment of fees, refund of fees, advance fee, and breakage fees continue to be applicable
2	Non-individual clients, accredited investors, and institutional investors seeking recommendation of proxy adviser	Not applicable, i.e., governed through bilaterally negotiated contractual terms.

Impact

The rationalisation of the fee structure for IAs and RAs should ease up the liquidity issues and aligns with the broader philosophy of allowing IAs / RAs to freely negotiate their fee terms with a set of informed and accredited investors rather than forcing fee caps which are more relevant for protection of retail or relatively less sophisticated investors.

Hiving-off in relation to non-regulated business activities for MBs

With a view to update the SEBI (MBs) Regulations, 1992 (MB Regulations) to reflect the realities of the present-day Indian securities market, SEBI had accorded its consent to major revisions of the MB Regulations *vide* their 208th board meeting held on 18 December 2024. The two primary proposals were-

- 1. Re-classification and capitalisation norms:** The regulator has proposed to re-classify MBs into two categories basis capitalisation viz. (i) Category I MBs which shall have a net worth of at least INR 50 crores and revenue of at least INR 25 crore over the last 3 financial years and (ii) Category II MBs which shall have a net worth of at least INR 10 crores and revenue of at least INR 10 crore over the last 3 financial years. It may be noted that Category I MBs are authorised to undertake all permitted activities whereas Category II MBs are subjected to certain restrictions such as not being allowed to participate in main board issues.
- 2. Hiving-off other regulated activities:** As opposed to the extant framework wherein MBs were permitted to undertake other regulated activities (such as portfolio management and stock broking) and other non-regulated business activities via a single entity, the SEBI proposal necessitated MBs to hive-off business activities which were not being regulated by any Indian financial regulator (including SEBI) to a separate legal entity with a separate brand name.

Pursuant to industry representation, SEBI has now deferred the implementation of hiving-off requirement for MBs and is currently evaluating alternative approaches that may be adopted.

Impact

The current proposal on reclassification of Merchant Bankers and the hiving off of non-merchant banking activities from merchant banking entity had raised several concerns from the industry. There was clearly a need felt by the industry to re-examine these proposals more comprehensively. The Board's decision to defer the implementation should provide some relief to the industry. However, the Board Meeting remains silent on whether the re-classification and capitalisation norms are also being reviewed by SEBI.

Lastly, the Board Meeting also proposes the establishment of a High-Level Committee to undertake a comprehensive review of the provisions relating to conflict of interest, disclosures pertaining to property, investments, liabilities, and related matters in respect of SEBI members / officials. This inward-facing regulatory augurs a more disciplined and structured SEBI under the leadership of Shri. Tuhin Kanta Pandey.

- *Siddarth Shah (Partner), Vivek Mimani (Partner), Shikhar Kacker (Partner), and Athul Kumar (Associate)*



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