

Changes to the “Fit and Proper Person” Criteria

28 March 2026

Background

The Securities and Exchange Board of India (SEBI), at its 213th board meeting held on 23 March 2026, approved amendments to the “fit and proper person” criteria prescribed under Schedule II of The Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (Intermediaries Regulations).

The proposed amendments (Proposed Amendments) follow SEBI’s consultation paper dated 4 February 2026, which proposed revisions to the “fit and proper person” criteria with the objective of balancing ease of compliance for market participants on the one hand and the regulatory imperative of ensuring that only persons possessing integrity, honesty, ethical behaviour, reputation, fairness and character operate in the securities market on the other hand.

Key Highlights of the Proposed Amendments

1. Rationalisation of certain automatic rule-based triggers

- The mere pendency of a criminal complaint / FIR filed by SEBI or a charge sheet concerning economic offences shall not, by itself, be grounds for automatic disqualification. SEBI vide the Proposed Amendments seeks to migrate these automatic disqualifiers to a discretionary based principle, to be applied on a case-to-case basis.
- The erstwhile automatic disqualification which applied only in relation to conviction for any offence involving moral turpitude has now been expanded to include conviction for any economic offence or any offences under securities laws.
- The scope of automatic disqualification in cases of winding up proceedings has been narrowed by omitting ‘initiation’ of winding up proceedings as a ground for disqualification. Now, automatic disqualification can only be applicable when an “order” for winding up has been passed against such person.

2. Introduction of new obligations

- A mandatory disclosure obligation has been introduced, requiring an intermediary to proactively inform SEBI within fifteen working days of the recognised stock exchanges of occurrence of any events involving itself, its KMPs or persons in control under Clause 3(b). Clause 3(b) deals with events including but not limited to filing of charge sheets, passing of an order of restraint, prohibition or debarment by SEBI or any other regulatory authority or enforcement agency in any matter concerning securities laws or financial markets and such order is in force etc.
- The Proposed Amendments formalise procedural safeguards by introducing a provision granting reasonable opportunity of being heard before a person is declared as not “fit and proper”.

3. Removal of the default five-year period bar

The Proposed Amendments remove the automatic five-year prohibition commencing from the date of an order of being declared “not fit and proper”, which prevented an applicant from applying for the relevant category of registration. The ineligibility period will now solely be governed as per the period

specified in the order. No default restriction will apply where the order is silent. This change effectively requires SEBI to specify a disqualification period in every order.

4. **Narrowing the scope of Show Cause Notices (SCNs)**

The issuance of SCNs has now been restricted to proceedings only under Sections 11B(1) and 11(4) of the SEBI Act which deal with SEBI's power to issue directions to comply with regulations. Additionally, the period of non-consideration for grant of registration has been reduced from one year to six months from the date of issuance of such SCNs.

5. **Impact on Pending Proceedings**

While the Proposed Amendments will come into force on notification of the amended Intermediaries Regulations, for pending cases, SEBI will reserve a discretionary power (and not an obligation) to withdraw pending SCNs or proceedings that were issued solely on the basis of the now-removed triggers.

Analysis and Conclusion

The Proposed Amendments mark a noteworthy shift in SEBI's regulatory approach, moving away from the erstwhile automatic disqualifications to a more principle-based framework. Introduction of mandatory disclosure obligations and the right to be heard strengthens procedural fairness. The removal of the default five-year bar and narrowing of triggers for SCNs signal SEBI's intent to reduce regulatory uncertainty and compliance burden.

By: (i) eliminating automatic disqualifiers linked to allegations such as pending FIRs / charge sheets, mere initiation of winding up proceedings; and (ii) revising the scope of automatic disqualification by including conviction for economic offence, offences under securities laws alongside moral turpitude, SEBI has aligned the 'fit and proper criteria' under the Intermediaries Regulations with other regulations such as the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 and RBI's Master Direction on Regulation of Payment Aggregators.

Overall, the Proposed Amendments are likely to contribute to an improved ease of doing business and a more process driven regulatory framework for determining the fit and proper criteria. It is yet to be seen if the International Financial Services Centres Authority (IFSCA) will also introduce similar changes in the fit and proper person criteria under the IFSCA (Capital Market Intermediaries) Regulations, 2025 and the IFSCA (Fund Management Regulations), 2025. Such alignment would be a welcome development for fund managers and investors alike, particularly if it results in greater consistency in the application of "fit and proper" criteria standards across regulators.

- Vivek Mimani (Partner), Gaurita Udiyawar (Counsel) and Garv Gupta (Associate)



About Khaitan & Co

Khaitan & Co is a top tier and full-service law firm with over 1300+ legal professionals, including 300+ leaders and presence in India and Singapore. With more than a century of experience in practicing law, we offer end-to-end legal solutions in diverse practice areas to our clients across the world. We have a team of highly motivated and dynamic professionals delivering outstanding client service and expert legal advice across a wide gamut of sectors and industries.

To know more, visit www.khaitanco.com



This document has been created for informational purposes only. Neither Khaitan & Co nor any of its partners, associates or allied professionals shall be liable for any interpretation or accuracy of the information contained herein, including any errors or incompleteness. This document is intended for non-commercial use and for the general consumption of the reader, and should not be considered as legal advice or legal opinion of any form and may not be relied upon by any person for such purpose. It may not be quoted or referred to in any public document, or shown to, or filed with any government authority, agency or other official body.

www.khaitanco.com | © Khaitan & Co 2026 | All Rights Reserved.

Ahmedabad · Bengaluru · Chennai · Delhi-NCR · Kolkata · Mumbai · Pune · Singapore