

SEBI releases discussion paper on ownership norms for stock exchanges

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In News

- The Securities and Exchange Board of India (SEBI) released a discussion paper on ownership and governance norms to facilitate new entrants to set up stock exchanges and depositories.
- The paper identified the market concentration by a single entity in both the stock exchange and depository space and the need for competition as a reason for review of ownership norms.

Key changes proposed by the paper include:

- **Resident individuals/ domestic institutions**
 - Promoters setting up a new stock exchange or depository may hold up to 100% shareholding, which should be brought down to either 51% or 26% in 10 years. Similar limits will apply for persons acquiring shareholding in an existing stock exchange or depository.
 - Acquisition of more than 25% shareholding will require SEBI approval.
 - Currently, individuals (whether resident or foreign) cannot have more than 5% shareholding.
 - While certain institutions, domestic or foreign (such as stock exchanges, banks) can hold up to 15%, other institutions cannot hold more than 5%.
- **Foreign individuals/ entities:**
 - Foreign individuals/ entities from certain jurisdictions can set up a stock exchange or

- depository with up to 49% shareholding.
- The shareholding must be brought down to either 26% or 15% in 10 years.
- Similar limits will apply for foreign persons acquiring shareholding in an existing stock exchange or depository.
- Acquisition of more than 25% shareholding will require SEBI approval.
- Combined holdings of all foreign residents cannot exceed 49%, which is in line with the existing norms.
- **Qualification of promoter:** Domestic and foreign promoters applying to set up a stock exchange or depository must ensure
 - no conflict of interest,
 - at least 50% of ownership consists of persons having five years or more experience in capital markets or technology related to financial services.

Securities and Exchange Board of India (SEBI)

- The Securities and Exchange Board of India (Sebi) is a statutory regulatory body established by the Government of India in 1992 to regulate the securities market in India and protect the interests of investors in securities.
- SEBI has the power to regulate and perform functions such as check the books of accounts of stock exchanges and call for periodical returns, approve by-laws of stock exchanges, inspect the books of financial intermediaries such as banks, compel certain companies to get listed on one or more stock exchanges, and handle the registration of brokers.
- It also regulates the functioning of the stock market, mutual funds, etc.

Objectives of SEBI

- The fundamental objective of SEBI is to safeguard the interest of all the parties involved in trading. It also regulates the functioning of the stock market.
- SEBI's objectives are:
 - To monitor the activities of the stock exchange.
 - To safeguard the rights of the investors
 - To curb fraudulent practices by maintaining a balance between statutory regulations and self-regulation.
 - To define the code of conduct for the brokers, underwriters, and other intermediaries.

Powers of SEBI

- SEBI carries out the following tasks to meet its objectives: Protective functions, Regulatory functions, and developmental functions.
- Functions that SEBI performs as a part of its protective functions are:
 - It checks price manipulation
 - It bans Insider trading
 - It prohibits unfair and fraudulent trade practices
 - It promotes a fair code of conduct in the security market
 - It takes efforts to educate the investors regarding ways to evaluate the investment options better
- As a part of its regulatory functions, SEBI performs the following role:
 - It has designed a code of conduct, rules, and regulations to regulate the brokers, underwriters, and other intermediaries.
 - SEBI also governs a company's takeover.
 - It regulates and registers the workings of share transfer agents, stockbrokers, merchant bankers, trustees, and others who are linked with the stock exchange.

- It regulates and registers the mutual funds as well.
- It conducts audits and inquiries of stock exchanges.
- As a part of its developmental functions, SEBI performs the following role:
 - It facilitates the training of the intermediaries.
 - It aims at promoting activities of the stock exchange by having an adoptable and flexible approach.