INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 4 AND ISSUE 2 OF 2024

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

https://iledu.in

SEBI'S NEW ERA: REGULATING FINFLUENCERS AND STREAMLINING FINANCIAL PROCESSES

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BEST CITATION - SAHIL BORA, SEBI'S NEW ERA: REGULATING FINFLUENCERS AND STREAMLINING FINANCIAL PROCESSES, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR),* 4 (2) OF 2024, PG. 592-594, APIS – 3920 – 0001 & ISSN - 2583-2344.

Introduction

The Securities and Exchange Board of India has recently taken major steps toward regulating financial influencers, otherwise known as finfluencers, and initiated several steps meant for rationalizing the procedures to impact the 'ease of doing business' across various categories of market participants. In the recent SEBI's board meeting, it approved a set of critical measures juxtaposing the challenges and opportunities in today's dynamic financial landscape. This blog will try to go deep into these measures, seeking insights into their implications for investors, companies, and market intermediaries.

SEBI Crackdown on Finfluencers

Understanding the New Norms

Financial influencers have gained considerable traction in recent years with a presence on all social media platforms, touting anything from stock tips to investment advice and market analysis. However, such a meteoric rise of the finfluencers has also brought in concerns pertaining to quality and accuracy of information being put out that, in turn, misconceive a lot in the investors' minds.

In view of the concern, SEBI has approved new norms which state that regulated entities are not to deal with finfluencers. This was a measure aimed at nipping in its bud the growth of unregulated advice that misguided retail investors. The regulated entities shall ensure that they or their agents are not associated with any finfluencer who is engaged in providing investment advice or making performance claim either directly or indirectly.

Exceptions to the Rule

Despite the stringent regulations, SEBI has carved out some exceptions. Restrictions will therefore not apply to any person or entity specifically engaged in investor education only. This excludes most providers of educational content who do not make any form of specific investment advice or touting of performance and who do not have to worry about registration and compliance requirements under the new regime.

Also, the specified digital platforms with a mechanism of preventing something are also exempt. Such platforms must show some ability for taking measures which are preventive and curative for SEBI's compliance.

Flexibility in terms of Voluntary Delisting

Fixed Price Process

Traditionally, the Reverse Book Building process would administer the delisting process of a listed company in which the company removes its shares from the stock exchange. However, now SEBI proposes to introduce another alternative process known as the Fixed Price process, mainly in the case of companies whose shares are frequently traded.

Now, in the new framework, the fixed price of the acquirer will have to be at least 15% more than the floor price computed based on the Delisting Regulations. This is to provide a clean and transparent route of delisting of companies,

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which would eventually result in an increase in the ease of doing business, keeping the interests of investors intact.

Investment Holding Companies ("IHC's")-Alternate Framework

SEBI has further cleared an alternate delisting framework for IHCs that are listed investment holding companies under a scheme of arrangement through selective capital reduction. This will help the listed companies to transfer underlying equity shares proportionately to the public shareholders in other listed companies by the IHCs. Additionally, proportionate cash payment by IHCs would be made to public shareholders against all other assets, mainly relating to investments in land and buildings, and unlisted companies.

According to the framework, for an IHC to be eligible for voluntary delisting, at least 75% of the fair value of an IHC, net of liabilities, should comprise direct investments in equity shares of other listed companies. The stipulation has fleshed out much-needed flexibility and clarity to allow an IHC to consider handling the process of delisting.

Ease of Doing Business for Foreign Portfolio Investors

Exemptions for University Funds and Endowments

In a step toward allowing more room for foreign investments, SEBI has provided relaxation to University Funds and University-related Endowments which are registered or eligible to be registered as Category I FPIs from the enhanced disclosure requirements. This move would provide ease of entry and operations in the Indian market.

Simplified Public Issue Process for Debt Securities

It has also smoothened the process of the public issue of debt securities and of Non-Convertible Redeemable Preference Shares. The new rules reduce the timeline for soliciting public comments on draft offer documents from 7 working days to a single day for issuers with securities that are already listed, and bring it down to 5 days in case of all other issuers. Simultaneously, the minimum subscription period has been reduced from an earlier minimum of 3 working days to 2 working days. All this is an attempt at fast-tracking the processes involved in fund-raising exercises, thereby providing easier and quicker access to capital for the issuer.

Activities of InvITs and REITs Facilitating

Infrastructure Investment Trusts and Real Estate Investment Trusts are key pooling vehicles for investment in infrastructure and real estate sectors. Considering this, SEBI approved several proposals that would facilitate the activities of InvITs and REITs, improving operational efficiency and increasing the attractiveness of these pool vehicles to investors.

Cybersecurity and Cyber Resilience Framework conservation—CSCRF

The digitised and modern world is not secure from cyberattacks. SEBI has approved a comprehensive framework of Cybersecurity and Cyber Resilience Framework (CSCRF) for persons/organisations whose activities the regulator is supervising. This framework provides one with the structured way to implement the varied cybersecurity solutions that will help the entities enhance their security postures. Its prime objective is to provide safety and security to the financial ecosystem from the looming threats of cyber-attacks, hence providing robust protection to sensitive data and transactions.

Revised criteria for derivatives segment

This enhances the market liquidity and risk-management apparatus. It is in this derivative segment that SEBI has now come up with revised eligibility criteria for entry and exit of stocks. The revised norms specify that the exit criteria would apply only to those securities that have completed a minimum period of six months in the derivative segment. This shall be in pursuit of a better assurance that only appropriate and sound stocks are admitted for trading, so the integrity and efficiency of the derivatives market are maintained.

Implications and Impact

For Investors

The recent steps taken by SEBI are primarily in the nature of protection of retail investors against misleading information and bringing more trans-parency into the market. Finfluencers have been cracked down upon to see that the advice reaches investors through regulated and credible sources only. The interests of investors have been further protected through in-troduction of a streamlined process for delisting and an enhanced cyber-security framework, that clearly spell out the modalities and bring about the security. For Companies,

The introduction of the fixed process and the alternate framework for IHCs would also bring in flexibility and clarity to the delisting efforts of firms. These changes are tailored to bring greater simplicity and transparency to the process of delisting.

For Foreign Investors

By keeping University Funds and Endowments out of the additional requirements of disclosures, SEBI has opened the Indian market to foreign investors. The swifter process for public issues of debt securities makes access to capital easier and faster; therefore, it benefits not only issuers but also investors.

For the Market

Such revised criteria around interest of derivative-based segments and measures in respect to the cybersecurity framework ensure a more stable and secure market environment. These measures help to uphold the integrity of markets, enhance investor confidence, and are overall good for the health of the markets.

Conclusion

In conclusion, SEBI's recent regulatory initiatives mark a significant stride towards enhancing transparency, investor protection, and operational efficiency within India's financial markets. From cracking down on unregulated financial influencers to introducing streamlined processes for delisting and bolstering cybersecurity measures, these reforms are poised to foster a more secure and conducive environment for investors, companies, and market participants alike. These proactive steps underscore SEBI's commitment to maintaining market integrity while facilitating easier access to capital and fostering investor confidence in India's financial ecosystem.