भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Consultation Paper on "Strengthening Governance of MIIs"

Objective

1. The objective of this Consultation paper is to seek public comments on the following proposals:

1.1. Review the existing criteria for appointment of directors on the Governing Board of a Market Infrastructure Institution (MII); and

1.2. Standard Operating Procedure (SOP) stipulating the relevant qualification, experience, skill-set, certification, etc. required for appointment of Specific KMPs such as Chief Technology Officer (CTO), Chief Information Security Officer (CISO), Compliance Officer (CO) and Chief Risk Officer (CRiO).

A. Review the existing criteria for appointment of Directors on the Governing Board of a Market Infrastructure Institution (MII)

Background

2. Post demutualization of Stock Exchanges, the representation of Trading Members (TMs) and Clearing Members (CMs) on the governing boards of stock exchanges was progressively restricted. The collective representation of TMs/CMs on the governing board of stock exchanges was initially capped at 1/3rd of the total strength of the governing board of the stock exchange, which was later reduced to 1/4th. Subsequently, the committee on *"Review of Ownership and Governance of Market Infrastructure Institutions"* under the chairmanship of Dr. Bimal Jalan recommended that no trading/ clearing member (irrespective of exchange where he operates) shall be allowed on the board of any of the stock exchanges.

3. The aforesaid recommendations of the Committee were approved by SEBI Board in its meeting held on 2nd April, 2012 and later codified into Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 (SECC Regulations, 2012). Operational clarifications to the aforesaid regulations were issued vide SEBI circular CIR/MRD/DSA/33/2012 dated December 13, 2012. Subsequently, similar provisions were codified for depositories in respect of association with Depository Participants (DPs), under Securities and Exchange

Board of India (Depositories and Participants) Regulations 2018 (D&P Regulations, 2018).

4. The existing provisions are as under:

4.1. **<u>For Stock Exchanges and Clearing Corporations</u>**: Regulation 23 (6), (7) & (9) of SECC Regulations, 2018 states the following:

"Composition of the governing board

23. (1)….

(6) No trading member or clearing member or their associates and agents, irrespective of the recognised stock exchange or recognised clearing corporation of which they are members, shall be on the governing board of any recognised stock exchange or recognised clearing corporation.

(7) For the purposes of sub-regulation (6) above, a person who is a director in an entity, that itself is a trading member or clearing member or has associate(s) as trading member(s) or clearing member(s) shall be deemed to be a clearing member or trading member:

Provided a person shall not be deemed to be clearing member and / or trading member or their associate for the purpose of sub-regulation (6), if he/she is on the board of a public financial institution or bank which is in public sector, or which either has no identifiable ultimate promoter, or the ultimate promoter is in public sector or has well diversified shareholding, and such Public Financial Institution or Bank or its associate is a clearing member and / or trading member:

Provided further that the independent directors of the associates of Public Financial Institution or Bank in public sector, who are clearing member and/or trading member and where the majority shareholding is that of such public Financial institution or bank in the public sector, shall not be deemed to be a clearing member and / or trading member for the purpose of sub-regulation (6).

(9) A recognised stock exchange and recognised clearing corporation, shall monitor and ensure the compliance of sub-regulation (6) on continuous basis, to ensure that directors appointed, on their governing board, do not get associated with trading member or clearing member after approval of appointment.
…."

4.2. **For Depositories**: Regulation 24 (9), (10) and (12) of D&P Regulations, 2018 states the following:

"Composition of the governing board
(1)…….

(9) No depository participant or their associates and agents, irrespective of the depository of which they are members, shall be on the governing board of a depository.

(10) A person who is a director in an entity, that itself is a depository participant or has associate(s) as depository participant, he/she will be deemed to be a depository participant:

Provided a person shall not be deemed to be Depository Participant or their associate for the purpose of sub-regulation 10, if he/she is on the board of a Public Financial Institution or Bank which is in public sector, or which has no identifiable ultimate promoter, or the ultimate promoter is in public sector or has well diversified shareholding, and such Public Financial Institution or Bank or its associate is a Depository Participant:

Provided further that the independent directors of associates of Public Financial Institution or Bank in public sector, who is a Depository Participant and where the majority shareholding is that of such Public Financial Institution or Bank in public sector, shall not be deemed to be Depository Participant for the purpose of sub-regulation 10.

(12) Depository shall monitor and ensure the compliance of sub-regulation 9 on continuous basis, to ensure that directors appointed, on their governing board, do not get associated with Depository Participant after approval and appointment.

……..”

Need for review

5. Based on the experience gathered from appointment of directors on the Governing Board of MIIs, it was observed that practical difficulties were being faced by the MIIs in getting suitable candidates for directors, especially for Public Interest Directors (PIDs), due to the existing provisions under Regulation 23 (6) & (7) of SECC Regulations, 2018 and Regulations 24(9) & (10) of D&P Regulations, 2018.

6. In this regard, it is stated that references have been received stating that the existing provisions are very restrictive making it ineligible for persons on the board of a company from being appointed as Directors on the Governing Board of an MII, even if they are very remotely related to the associates of the company which may be a TM/ CM/ DP. There are conglomerates or holding companies with multiple subsidiaries that operate with Chinese walls, with little or no interference in their operations from one another. Thus, director of a company in a conglomerate should not become ineligible as a director in an MII, just because the conglomerate or the holding company has a separate subsidiary in the business of TM/ CM/ DP. Therefore, there is a need to review this regulation to encourage flow of expertise/talent into the MIIs.

7. In terms of regulation 23(7) of the SECC Regulations, 2018 and regulation 24(10) of D&P Regulations, 2018 the directors of public financial institutions and banks in public sector, or which either has no identifiable ultimate promoter, or the ultimate promoter is in public sector or has well diversified shareholding, have been granted exemption while holding the post of director on the governing board of an MII, even if such bank or public financial institution has its associate as TM/CM or DP respectively.

8. In the contemporary financial arena, financial institutions are foraying into a variety of products and services. For example, a banking group may have exposure in the insurance sector as an insurance company, in the capital markets as a stock broking house or as an asset management company, etc.

Deliberations in the Secondary Market Advisory Committee of SEBI (SMAC)

9. The matter was discussed in detail in the SMAC in its meeting held during April 16-17, 2026. After detailed deliberations, the Committee agreed with the following proposals.

Proposals

10. Based on the recommendations of SMAC, the following are proposed:

10.1. SECC Regulations, 2018 and D&P Regulations, 2018 may be amended to give effect to the following proposals:

10.1.1. The existing carve-out provided to directors of public financial institution or banks which are in public sector, may be extended to directors of companies which have associates as TM/CM or DP but have well diversified shareholding.

10.1.2. Well diversified shareholding may be explicitly defined as no shareholder other than the shareholders which are in public sector, either individually or together with persons acting in concert, directly or indirectly owns more than or equal to 10% stake, or control or hold shares carrying more than or equal to 10% of the voting rights of such company.

10.2. The proposals at paragraph 10.1 above may be implemented by way of amendments to both SECC Regulations, 2018 and D&P Regulations, 2018. The draft amendments to Regulation 23(7) of SECC Regulations, 2018 may be as under:

"23(7) For the purposes of sub-regulation (6) above, a person who is a director in an entity, that itself is a trading member or clearing member or has associate(s) as trading member(s) or clearing member(s) shall be deemed to be a clearing member or trading member:

Provided that a person shall not be deemed to be trading member and / or clearing member or their associate for the purpose of sub-regulation (6), if he/she is on the board of a public financial institution or bank which is in public sector; or ~~which either has no identifiable ultimate promoter, or the ultimate promoter is in public sector or~~ a company which has well diversified shareholding i.e. no shareholder other than the shareholders which are in public sector, either individually or together with persons acting in concert, directly or indirectly own more than or equal to 10% stake or hold control or hold shares carrying more than or equal to 10% of the voting rights of such company, and such Public Financial Institution or Bank which is in the public sector or companies with well diversified shareholding or its associate is a clearing member and / or trading member:

Explanation: If the shareholder(s) individually or together with persons acting in concert hold shares more than or equal to 10% stake or carrying more than or equal to 10% of the voting rights, are in public sector, such company shall be deemed to have well diversified shareholding.

Provided further that the independent directors of the associates of Public Financial Institution or Bank in public sector, who are clearing member and/or trading member and where the majority shareholding is that of such public Financial institution or bank in the public sector, shall not be deemed to be a clearing member and / or trading member for the purpose of sub-regulation (6). "

Similar amendments may be carried out under Regulation 24(10) of D&P Regulations in the context of association with DPs.

Questions for Public Comments:

11. *Do you agree with the proposals at paragraph 10 in Part-A consultation paper?*

12. *Any other comments on Part-A of the consultation paper?*

B. <u>SOP stipulating the relevant qualification, experience, skill-set, certification, etc. required for appointment of specific KMPs such as CTO, CISO, CO and CRiO</u>

<u>Background</u>

13. SECC Regulations, 2018, D&P Regulations, 2018 and various circulars issued thereunder prescribe norms with regard to appointment, reappointment and termination of services of MD, EDs (Vertical 1 - Critical Operations & Vertical 2 - Regulatory, compliance, risk management and investor grievances) and certain KMPs viz. CTO, CISO, CO and CRiO.

14. The current appointment process of KMPs is as under:

14.1. SEBI approves the appointment, renewal of appointment and termination of services of MD and EDs of MIIs. The applications for appointment and renewal of appointment of the MD and EDs are forwarded by the Governing Board of the MII to SEBI.

14.2. The Governing Board approves the appointment, re-appointment, termination, and acceptance of resignation of specific KMPs such as CTO, CISO, CO and CRiO based on the recommendations of the Nomination and Remuneration Committee (NRC) of the MII; and

14.3. The NRC of the MII approves appointment and removal of other KMPs.

<u>Need for review</u>

15. MIIs are public infrastructure utilities for the capital markets and also function as first-line regulators. These KMPs (namely the CTO, CISO, CO and CRiO) are crucial for any MII in discharging its core public-interest mandate of according primacy to technological resilience, cyber-security, compliance and risk management over commercial considerations. Given the criticality of these functions, the qualification or skill-set of the persons appointed to these roles, and the continuity of these functions at all points of time, are of considerable importance to the integrity and orderly functioning of the securities market.

16. At present, while the Governing Board of the MII approves the appointment, re-appointment, termination and acceptance of resignation of these KMPs, there is no standardised framework prescribing the qualification, experience, skill-set and certification requisite for each of these roles.

17. The issue of qualification, experience and skill-set of CTO; CISO; and CO & CRiO was discussed in the SEBI's Technology Advisory Committee (TAC), SEBI's High Powered Steering Committee – Cyber Security (HPSC-CS), and in Secondary Market Advisory Committee (SMAC) respectively. Based on the recommendations of these committees and subsequent internal deliberations, it has been decided that a Standard Operating Procedure (SOP) for relevant qualification, experience, skill-set and certification for these KMPs may be prescribed.

<u>Proposal</u>

18. Based on the recommendations of various Committees such as TAC, HPSC-CS and SMAC, it is proposed that a Standard Operating Procedure (SOP) prescribing the relevant qualification, experience, skill-set, certification, etc. for the CTO, CISO, CO and CRiO, respectively shall be approved by the Governing Board of the MII, taking into account the inputs of the relevant Statutory Committees, as follows:

18.1. For the CTO and CISO – inputs of the Standing Committee on Technology (SCOT);

18.2. For the CO – inputs of the Regulatory Oversight Committee (ROC); and

18.3. For the CRiO – inputs of the Risk Management Committee (RMC).

Explanation: The Compliance Officer (CO) referred above, means the Compliance Officer as required under SECC Regulations, 2018 and D&P Regulations, 2018.

19. Any vacancies in these positions may be filled expeditiously. Where a vacancy is anticipated, the MII shall plan for it in advance so as to avoid any gap; in any case the position may be filled within a period of 3 months from the date of such position becoming vacant.

Questions for Public Comments:

20. *Do you agree with the proposal at paragraph 18 in Part-B of the consultation paper?*

21. *Do you agree with the proposal at paragraph 19 in Part-B of the consultation paper?*

22. *In order to ensure continuity in the positions of these KMPs i.e. CTO, CISO, CO and CRiO, should MIIs appoint deputies for these roles?*

23. *Any other comments on Part-B of the consultation paper?*

<u>Public Comments on this Consultation Paper</u>:

Public comments are invited on the proposals for strengthening governance of MIIs. The comments/ suggestions should be submitted latest by **<u>September 30, 2026</u>** through the following link:

https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes

In case of any technical issue in submitting your comment through web based public comments form, you may send your comments through e-mail to mrd_pod3@sebi.gov.in with the subject: "**Strengthening Governance of MIIs**" on the proposals at paragraphs 10, 18 & 19 of the Consultation Paper.

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