



## **SEBI SETTLEMENT SCHEME 2022**

SEBI has notified a settlement scheme in respect of transactions in illiquid options which SEBI has alleged that these transactions were carried out in a manipulated manner and hence deserving significant penalty. According to SEBI, during the period from 1st April 2014 to 30th September 2015, 21,652 entities had carried out trades in the BSE Stock Option Segment, and a total of 14,720 entities created artificial volumes by executing non-genuine/reversal trades.

SEBI had levied penalties of significant amounts on several of such entities. Some of these entities appealed against such adjudication orders of penalty. Even the adjudication process before SEBI itself was time consuming with proceeding against each party requiring servicing of show cause notices, reviewing replies, giving opportunity of personal hearing, etc. The appeals also took time of SEBI. Needless to add, it was time consuming and costly even for the entities.

SEBI had first come out with a settlement scheme in 2020. However, it appears that it did not receive significant response. The reasons were several. The scheme was introduced during peak covid when activities were slowed down. The scheme involved a mix of online and offline documentation, procedures, etc. which too was difficult. It was introduced for a short period. Importantly, the settlement charges were typically at least, if not more than the amount of penalty that could be levied and hence the incentive for parties to come forward and close the matter was less.

Following the poor response, the proceedings before SEBI and in appeal continued. It was found that these proceedings clogged up and occupied SEBI as well as the Securities Appellate Tribunal. In view of this, SEBI has introduced the SEBI Settlement Scheme 2022 ("the Scheme").

The significant differentiating point in this Scheme is that the amount of settlement charges are far lower as compared to the Scheme of 2020. The settlement charges indeed are much lesser than even the penalty that may be levied in ordinary course. Hence, the Scheme can be said to be attractive. SEBI has also simplified to an extent the procedural requirements and considering that now covid is ebbing it may be easier for entities to carry out offline procedures too.

The Scheme will be effective between 22nd August 2022 and 21st November 2022. One hopes that the last date is extended, considering that the knowledge of the Scheme and the procedural and other aspects have not fully been comprehended. SEBI has, however, issued notices in cases where the parties are clearly eligible for this Scheme. It is advisable, though, to opt for the Scheme if one so chooses, well in time without waiting for an extension.

The Scheme applies only to persons who carried out such transactions during 1st April 2014 to 30th September 2015. As in the case of the Scheme 2020, the new Scheme of 2022 also provides an online and easy facility to know the amount of settlement charges, application and other charges, etc. and even the details of the allegedly artificial transactions carried out by the party. Thereafter, applying for the Scheme online is also further simplified.

## **Social Stock Exchanges – further notifications and setting up of framework**

SEBI has been mooted the setting up of Social Stock Exchanges (SSEs) since last several years. SSEs are exchanges that enable coming together of donors that may include philanthropic persons/entities, corporates with requirement of Corporate Social Responsibility, etc. and of those organisations that actually carry out social work and who are in need of such funds.

The SSEs will create a whole ecosystem to enable meeting of such persons in an atmosphere of transparency, regulation, disclosures, audit, supervision, etc. SEBI had earlier set up working and technical groups who had provided elaborate recommendations. Thereafter, in July 2022, SEBI made necessary amendments in its regulations

to enable and permit the setting up of SSEs. Finally, recently on 19th September 2022, SEBI laid down further details of the framework in relation to such exchanges. On 13th October 2022, SEBI issued a further circular laying down composition of Governing Council of Social Stock Exchange. While some further work is needed particularly at the exchanges level, it is expected that with such framework of rules being laid, the activity of SSEs will pick up. An important component of this eco system is social auditors who will review and report on the disclosures made by organisations that have carried out such social activities. Chartered Accountants are expected to play a significant role. It is expected that soon the details of training, certification, etc. of such auditors are laid down, as well as accounting and auditing standards/requirements in relation to such audit.

New and innovative form of securities would be enabled to help making of contributions/investments by donors/investors.

If the new system of SSEs is successful and well organized, one can expect that social activities in the field of education, poverty relief, employment generation, medical relief, diversity and empowerment of the under privileged and the underserved, etc. would get a boost. More importantly, donors would be able to find, with more ease and reliability, organizations carrying out activities to which they seek to contribute. Similarly, such organizations will also be able to contact the donors in a systematic way. Even intermediaries such as information providers and Alternative Investment Funds will be active in enabling such activities. For this to really succeed, amendments to tax law, company law relating to CSRs, etc. would help particularly since presently they do not envisage such an ecosystem.