

Proposed amendments to the 'Fit and Proper Person' criteria specified under Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

1. Objective

This Memorandum seeks the approval of the Board to amend the 'fit and proper person' criteria specified under the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 ("**Intermediaries Regulations**"), with the objective of appropriately balancing the regulatory intent in ensuring only participants who have integrity, honesty, ethical behaviour, reputation, fairness and character operate in the securities market and the need to ensure ease of doing business by market participants and achieving necessary compliance.

2. Background

2.1. Under SEBI's regulatory framework, the 'fit and proper person' criteria for Market Infrastructure Institutions ("**MIIs**") is specified under the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 ("**SECC Regulations**") and Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 ("**DP Regulations**").

2.2. In so far as intermediaries are concerned, the respective regulations governing their conduct inter alia specify the procedure to be followed for grant of a certificate of registration to act as an intermediary. One of the conditions for grant of the certificate of registration is to fulfil the 'fit and proper person' criteria specified under Schedule II of the Intermediaries Regulations.

2.3. Vide the Securities and Exchange Board of India (Intermediaries) (Third Amendment) Regulations, 2021 (with effect from November 17, 2021), SEBI had amended Schedule II to harmonize the 'fit and proper person' criteria and to provide clarity on the persons / intermediaries / applicants to whom the criteria would apply. Pursuant to the same, the criteria for determining a 'fit and

proper person' under Schedule II were divided into two parts, viz. 'principle based criteria' and 'rule based criteria'.

2.4. Accordingly, in terms of the extant provisions of the Intermediaries Regulations, the Board may, at the time of considering any application for registration and while reviewing the registered status of an intermediary, apply both the 'principle based criteria' and the 'rule based criteria', in determining the 'fit and proper person' status of the applicant/intermediary; its key managerial persons i.e., the principal officer, directors or managing partners, compliance officer and key management persons (together referred as "**KMPs**"); and the promoters or persons holding controlling interest or persons exercising control over the applicant or intermediary, directly or indirectly ("**Persons in Control**").

2.5. Based on learnings from the experience gained in enforcement of the extant 'fit and proper person' criteria in the last five years and the best practices being followed internationally, including the broad principles laid down by the International Organization of Securities Commissions ("**IOSCO**"), as well as domestic regulators, a review of the provisions of Schedule II was made.

2.6. SEBI has also received representations seeking review of the 'fit and proper person' criteria highlighting onerous compliance provisions under Schedule II, in particular, certain provisions under Clause 3(b). Concerns have also been expressed in respect of issues arising from divestment in terms of the second proviso to Clause 6 of Schedule II stating that the same leads to irreparable damage and cannot be reversed if the person is later acquitted or not found guilty in the proceedings pursuant to which the disqualification was incurred earlier.

2.7. Accordingly, SEBI had issued a Consultation Paper dated February 4, 2026 (uploaded on its website) titled "Proposed amendments to Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 – 'Fit and Proper Person' Criteria" and comments of the public were solicited. The consultation period ended on February 25, 2026. The proposals contained in

the Consultation Paper were divided into six proposals. A copy of the consultation paper is placed at **Annexure A**.

3. Scope of review:

3.1. In view of the above, the 'fit and proper person' criteria under Schedule II of the Intermediaries Regulations is comprehensively reviewed. The scope of the said review along with the proposals for amendments has been discussed below.

3.1.1. Review of Clause 3(b)(i), 3(b)(ii) and 3(b)(v) – filing of criminal complaint / charge sheet as criteria for incurring disqualification and parameter relating to conviction.

3.1.1.1. Under Clause 3(b)(i) and Clause 3(b)(ii) of Schedule II, the applicant / intermediary, the KMPs and the Persons in Control incur a disqualification if there is a pending criminal complaint or first information report (FIR) filed by SEBI or a pending charge sheet concerning economic offences by an enforcement agency. Further, under Clause 3(b)(v), such disqualification is incurred if an order of conviction has been passed against such person by a court for any offence involving moral turpitude.

3.1.1.2. It has been represented that mere pendency of a criminal complaint or an FIR or a charge sheet should not disqualify a person as not 'fit and proper' as filing of such criminal complaint or FIR or charge sheet are preliminary steps that set the criminal law into motion. The same is also stated to be against the settled principle of criminal law that a person is innocent until proven guilty.

3.1.1.3. **'Fit and Proper Person' Criteria in other SEBI Regulations** – Under regulation 20 of the [SECC Regulations](#), a person is inter-alia considered not 'fit and proper person' if the said person is convicted by a court for any economic offence or any offence under securities

laws. Further, in case of shareholders, KMPs and directors, such a person is considered as not a 'fit and proper person' if he / she is convicted of an offence involving moral turpitude. An analogous provision is present under regulation 23 of the [DP Regulations](#). Notably, unlike the Intermediaries Regulations, no disqualification is incurred by a person when a criminal complaint or FIR by SEBI or a charge sheet is filed by any enforcement agency under the SECC Regulations or DP Regulations.

3.1.1.4. **IOSCO Principles** – In terms of IOSCO's best practices on 'Fit and Proper' criteria¹, the Financial Regulator exercises judgment and discretion in assessing fitness and propriety and takes into account all relevant matters including honesty, integrity, fairness, ethical behaviour. In determining the honesty, integrity and reputation of the applicant / key person, the financial regulator may consider among other things, whether the applicant/key person has been 'convicted', on indictment, of dishonesty, fraud, money laundering, theft or financial crime within the last 10 years.

3.1.1.5. **Criteria by other Domestic Regulators** – It is noted from the Reserve Bank of India's ("RBI") Master Direction on Regulation of Payment Aggregators² ("PA") that the 'rule based criteria' for determining the 'fit and proper person' status of promoters and directors (under paragraph 7.a.ii.a) includes conviction by a court for any offence involving moral turpitude or any economic offence or any offence under the laws administered by the RBI. The pendency of a criminal complaint or charge sheet ipso facto does not lead to any disqualification under the 'rule based criteria' of RBI under the aforesaid Directions, although the same may be relevant under the 'principle based criteria' such as good reputation and character or honesty. Further, the criteria for capital market intermediaries specified by the International Financial Services Centres Authority

¹ Available at: <https://www.iosco.org/library/pubdocs/pdf/ioscopd312.pdf>.

² Available at: https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12896.

("IFSCA") and insolvency professionals specified by the Insolvency and Bankruptcy Board of India ("IBBI") take into account conviction for ascertaining the fit and proper person status. Similarly, the Insurance Regulatory and Development Authority ("IRDAI") considers proceedings including convictions for determining the fit and proper status of insurers.

- 3.1.1.6. In view of the above, a rule-based formula for matters falling under Clause 3(b)(i) and Clause 3(b)(ii) may be onerous and not appropriate as it could lead to unintended consequences such as putting a person at a disadvantageous position at a preliminary stage of filing or pending criminal complaint / charge sheet, which could later result in acquittal or discharge. This may also be counterproductive to the objective of promoting ease of doing business.
- 3.1.1.7. Under Clause 3(a), SEBI may take into account the principle based criteria such as integrity, honesty, ethical behaviour, reputation, fairness and character of the person. Any serious or incriminating factor may always be taken into account by SEBI on a case to case basis in the context of the person's overall conduct and the potential risk to the interests of the investors and the securities market, and the intermediary concerned. Thus, Clause 3(a) is comprehensive enough to include in its scope the pendency of criminal proceedings of a severe nature which is to be considered as a relevant factor while determining the 'fit and proper person' status in a given case.
- 3.1.1.8. In the light of the above and existence of comprehensive principle based criteria under Clause 3(a), it is proposed that the rule based criteria mentioned in Clause 3(b)(i) and 3(b)(ii) of Schedule II may be omitted.
- 3.1.1.9. Taking cue from the SECC Regulations and the aforesaid RBI Master Directions, it is also proposed that Clause 3(b)(v), which provides for disqualification on the order of conviction by a court for any offence

involving moral turpitude may be extended to also include conviction by a court for any economic offence or any offence under securities laws in alignment with the provisions of the SECC Regulations and DP Regulations.

Public comments

3.1.1.10. The public consultation elicited a total of 63 responses on this proposal. A comprehensive table of proposal-wise responses / comments received and the remarks thereon are placed at **Annexure B**. A summary of the responses to the proposals is as under:

Proposa I No.	Proposal Title	Strongl y Agree	Agre e	Partiall y Agree	Disagre e	Strongl y Disagre e	Tota l
1	Amendment of Clauses 3(b)(i), 3(b)(ii) and 3(b)(v) of Schedule II of the Intermediaries Regulations	29	16	13	1	4	63

Analysis of public comments

3.1.1.11. Majority of the comments received are in overwhelming support of the proposal.

3.1.1.12. In terms of disagreement, some commenters have objected to the proposed omission of Clause 3(b)(i) and 3(b)(ii) of Schedule II inter alia on the ground that the omissions will permit persons facing serious

allegations of market misconduct or economic offences to occupy positions of trust over public money.

Comments of SEBI - In this regard, it is reiterated that the Board always has the discretion to consider serious or incriminating factors under the principle based criteria under Clause 3(a) on a case to case basis. Thus, the omission of Clause 3(b)(i) and 3(b)(ii) will not dilute SEBI's power to take action against errant entities. Hence, the comment on retention of Clause 3(b)(i) and 3(b)(ii) may not be accepted.

- 3.1.1.13. Some commenters have objected to the suggestion that the Board may lay down guidelines regarding cases where pendency of criminal proceedings is egregious enough to incur disqualification. The concern is that the said provisions which are proposed to be omitted should not be merely shifted from regulations to guidelines thereby undermining the rationale and intention of the proposed omission of Clause 3(b)(i) and 3(b)(ii).

Comments of SEBI - It is clarified that, if any guidelines are issued, the same will align with the intent and spirit of the amendments proposed. If laid down, the said guidelines will not create any new obligation on the entities.

- 3.1.1.14. Apart from this, some commenters have suggested that the amendments introduced to the Schedule II of the Intermediaries Regulations should operate retrospectively, with an effective date of 17 November 2021 i.e., the date on which the existing provisions were introduced into Schedule II in order to address pending cases with respect to the existing 'fit and proper person' criteria.

Comments of SEBI - In this regard, it may be noted that the amendments will come into force with effect from the date of notification in the official gazette. With respect to pending cases,

administrative steps to withdraw such SCNs / cases is proposed, if such cases would not warrant issuance of SCNs under the amended Clause 3(b) or Clause 6.

- 3.1.1.15. Some commenters have partially agreed with the proposal while providing drafting modifications and some suggestions pertaining to the terms such as economic offence, securities laws etc. The details of suggestions / comments received and our analysis is given in S. No. 1 and 2 of **Annexure B**.

Proposal

- 3.1.1.16. In view of the above, it is proposed to omit Clause 3(b)(i) and 3(b)(ii) and also to amend Clause 3(b)(v) in order to include conviction by a court for any economic offence or any offence of securities laws in line with the SECC and DP Regulations as well as the RBI Master Directions.

3.1.2. Review of Clause 3(b)(vi) – disqualification on initiation of winding up proceedings

- 3.1.2.1. Under Clause 3(b)(vi) of the Second Schedule, the applicant / intermediary, KMPs and Persons in Control incur a disqualification if any winding up proceedings have been initiated or an order for winding up has been passed against such person. Thus, any such legal entity structured as a body corporate (companies, LLPs etc.) could incur the disqualification upon initiation of winding up proceedings.

- 3.1.2.2. The framework for winding up proceedings of corporate persons is laid down under the Insolvency and Bankruptcy Code, 2016 (“**IBC**”). Under sections 7, 9 and 10 of the IBC, an application may be filed for initiating corporate insolvency resolution process (“**CIRP**”) against a corporate debtor with the Adjudicating Authority (“**NCLT**”). The CIRP can either lead to approval or rejection of a resolution plan or an order of initiation

of liquidation of the corporate debtor by the NCLT. Thus, there is a possibility that the CIRP can also result in a successful resolution and revival of the corporate debtor. Further, the Board has already specified the criteria of financial soundness, including the net worth criteria under Clause 1 of Schedule II as well as under the respective intermediary specific regulations.

3.1.2.3. On the other hand, under regulation 20 of the SECC Regulations and regulation 23 of the DP Regulations, the disqualification is incurred only if an order for winding up has been passed against such persons / entities and not at the stage of initiation of winding up proceedings.

3.1.2.4. Thus, it is felt that the thresholds of incurring disqualification across the aforesaid regulations may be aligned by amending the Intermediaries Regulations such that the disqualification for the legal entities listed under Clause 2 of Schedule II may only be attracted in cases where an order of winding up has been passed against such entity. This will provide the intermediaries with ease of compliance and also enhance the objectives with which IBC was enacted. Accordingly, the words “any winding up proceedings have been initiated or” is proposed to be omitted from Clause 3(b)(vi) of Schedule II of the Intermediaries Regulations.

Public comments

3.1.2.5. The public consultation elicited a total of 73 responses. A comprehensive table of proposal-wise responses / comments received and the remarks thereon are placed at **Annexure B**. A summary of the responses to the proposals is as under:

Proposa l No.	Proposal Title	Strongl y Agree	Agre e	Partiall y Agree	Disagre e	Strongl y Disagre	Tota l
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2	Amendment to Clause 3(b)(vi) of Schedule II of the Intermediaries Regulations	27	19	25	1	1	73

Analysis of Public Comments

- 3.1.2.6. Majority of the comments received are in support of the proposal.
- 3.1.2.7. The commenters which are in disagreement have opposed to the omission of disqualification criteria on initiation of winding up proceedings as winding up process is generally initiated when a company is in financial distress and unable to pay its debts.

Comments of SEBI - As stated earlier in paragraph 3.1.2.2, the Board has separately specified the criteria of financial soundness, including the net worth criteria under Clause 1 of Schedule II as well as under the respective intermediary specific regulations which has to be maintained by intermediaries at all times. Further, it is possible that entities in financial distress are successfully revived through the CIRP process. In view of these safeguards, the suggestion of retaining initiation of winding up proceedings under Clause 3(b)(vi) may not be accepted.

- 3.1.2.8. Some commenters have partially agreed with the proposal and provided some suggestions with respect to drafting modifications. The details of suggestions / comments received and our analysis is given in S. No. 3 of **Annexure B**.

Proposal

3.1.2.9. In view of the above, it is proposed omit the words “any winding up proceedings have been initiated or” from Clause 3(b)(vi) of Schedule II of the Intermediaries Regulations.

3.1.3. Introduction of provision to require an intermediary to disclose occurrence of an event entailing disqualification and express provision on procedure for declaring a person as not ‘fit and proper’

3.1.3.1. Obligation on intermediary to disclose occurrence of event - To streamline the enforcement process of declaring a person as not ‘fit and proper’ person, a new clause may be inserted to impose an obligation on the applicant or intermediary to disclose the occurrence of any event envisaged under Clause 3(b) in respect of itself or the KMPs / Persons in Control within seven days of the occurrence of such event. Hence, it is proposed to insert a new Clause 3A.

3.1.3.2. Upon receipt of such disclosure / information, SEBI may take into account the occurrence of the said event along with any other criteria as it deems fit to determine the ‘fit and proper person’ status of such person.

3.1.3.3. Opportunity of hearing - Under the present construct of Schedule II, incurring a disqualification under Clause 3(b) may result in certain consequences such as replacement of the KMPs, divestment of the holding of the Persons in Control under the provisos to Clause 6. Although the process of declaring a person as not ‘fit and proper person’ is done after giving such person a reasonable opportunity of being heard and by passing an order, it is felt that the same should be expressly specified in the regulations to avoid any procedural ambiguity or oversight. Hence, it is proposed to insert a new Clause 3B. Consequential amendments to Clause 3 and Clause 6 is also proposed to align the provision with new Clause 3B.

Public comments

3.1.3.4. The public consultation elicited a total of 66 responses. A comprehensive table of proposal-wise responses / comments received and the remarks thereon are placed at **Annexure B**. A summary of the responses to the proposals is as under:

Proposa I No.	Proposal Title	Strongl y Agree	Agre e	Partiall y Agree	Disagre e	Strongl y Disagre e	Tota l
3	Insertion of Clauses 3A and 3B in Schedule II of the Intermediaries Regulations	27	13	26	0	0	66

Analysis of Public Comments

3.1.3.5. Majority of the comments received are in support of the proposal.

3.1.3.6. Some commenters have partially agreed with the language of Clause 3A, i.e., the obligation on the applicant or intermediary to disclose the occurrence of any event envisaged under Clause 3(b). While commenters have agreed with intent of the provision, they have objected to the timeline of 7 days stating the said timeline is too short and should be extended to 14 days. Further, the commenters have stated that the timeline should commence only from the date on which the intermediary becomes aware of the event that has triggered the disqualification criteria.

Comments of SEBI - The concern about the timeline of 7 days being too short may be considered and could be extended to 15 days. However, the suggestion that the timeline should commence from the date on which the applicant / intermediary becomes aware of the occurrence of such event may not be tenable as it could be prone to misuse. As the applicant / intermediary is responsible for compliance of laws, it cannot plead ignorance of the occurrence of the serious events envisaged under Clause 3(b).

- 3.1.3.7. Some commenters have partially agreed with the proposal and provided some suggestions inter alia with respect to categories of disclosure, manner of disclosure and the consequences for non-disclosure. The details of suggestions / comments received and our analysis is given in S. No. 4 of **Annexure B**.

Proposal

- 3.1.3.8. In view of the above, it is proposed to insert new clauses, i.e., Clauses 3A and 3B in Schedule II of the Intermediaries Regulations with respect responsibility of the applicant / intermediary to disclose the occurrence of any event envisaged under Clause 3(b) within 15 days of the occurrence of such event and to provide an express provision for granting a reasonable opportunity of being heard before declaring a person as not 'fit and proper'. Further, consequential amendments may be made to Clause 3 and Clause 6 of Schedule II of the Intermediaries Regulations.

3.1.4. Review of Clause 4 – prohibition for a time period of 5 years from applying for fresh registration

- 3.1.4.1. Under Clause 4, if a person has been declared as not a 'fit and proper person' by an order of SEBI, such a person is not eligible to apply for any registration during the period provided for in the order. If no such

time period is specified in the order, the said prohibition applies for a period of five years from the date of effect of the order.

3.1.4.2. The deeming provision of imposing a default five-year prohibition operates automatically and could lead to inflexibility even in cases where SEBI has consciously refrained from specifying a time period. This consequence also does not factor in the nature and gravity of the underlying violation, whether subsequent developments justify reconsideration etc. As a result, this part of the clause could operate as a one-size-fits all approach and could sometimes not align with the facts or intent of the underlying order.

3.1.4.3. Accordingly, it is proposed that the default time period of five years where no period is specified in the order may be removed from Clause 4.

Public comments

3.1.4.4. The public consultation elicited a total of 63 responses. A comprehensive table of proposal-wise responses / comments received and the remarks thereon are placed at **Annexure B**. A summary of the responses to the proposals is as under:

Proposa I No.	Proposal Title	Strongl y Agree	Agre e	Partial ly Agree	Disagre e	Strongl y Disagre e	Tota l
4	Amendment to Clause 4 of Schedule II of the Intermediaries Regulations	19	32	5	5	2	63

Analysis of Public Comments

- 3.1.4.5. Majority of the comments received are in overwhelming support of the proposal.
- 3.1.4.6. Some commenters have disagreed with the proposal on the ground that if Clause 4 is amended to remove the default time period of 5 years and no time period is specified in an order passed by SEBI, it could mean that the person could remain ineligible from applying for any registration permanently. To avoid such consequences, one commenter has also suggested the reduction of the default time period from 5 years to 6 months.

Comments of SEBI - While the concern is valid, it has already been clarified above that the order declaring a person as not 'fit and proper' must mention the time period during which he / she shall not be eligible to apply for any registration.

- 3.1.4.7. Some commenters have partially agreed with the proposal and provided some suggestions with respect to the treatment of KMPs and Persons in Control under Clause 4. The details of suggestions / comments received and our analysis is given in S. No. 5 of **Annexure B**.

Proposal

- 3.1.4.8. In view of the above, it is proposed to omit the words "or for a period of five years from the date of effect of the order if no such period is specified in the order" under Clause 4 of Schedule II of the Intermediaries Regulations.

- 3.1.5. **Review of Clause 5 – time period for non-consideration of registration upon issuance of SCN and limiting the scope of such SCNs**

- 3.1.5.1. In terms of Clause 5, at the time of filing of an application for registration as an intermediary, if any notice to show cause has been issued for proceedings under the Intermediaries Regulations or section 11(4) / 11B of the SEBI Act against an applicant or any of its KMPs / Persons in Control, such an application shall not be considered for a period of one year from the date of issuance of such notice or until the conclusion of the proceedings, whichever is earlier.
- 3.1.5.2. With respect to show cause notice (SCN) for proceedings under section 11(4) and 11B, the regulatory intent is to cover those proceedings which could result in passing of directions against the applicant / intermediary, its KMPs or Persons in Control and not the monetary penalties issued under section 11(4A)/11B(2) read with Chapter VIA of the SEBI Act. Accordingly, it is proposed that Clause 5 may be amended to clarify that the restriction shall be made applicable only in respect of proceedings for directions to be passed by SEBI and not in respect of proceedings only for imposing monetary penalties.
- 3.1.5.3. Further, it is proposed that the time period of one year from the date of issuance of SCN specified in Clause 5 may be reduced to six months to rule out the uncertainty of outcome for potential applicants and to ensure that access to registration is not unduly deferred where the proceedings are prolonged without the fault of the applicant.

Public comments

- 3.1.5.4. The public consultation elicited a total of 58 responses. A comprehensive table of proposal-wise responses / comments received and the remarks thereon are placed at **Annexure B**. A summary of the responses to the proposals is as under:

Proposa I No.	Proposal Title	Strongl y Agree	Agre e	Partiall y Agree	Disagre e	Strongl y Disagre e	Tota l
5	Amendment to Clause 5 of Schedule II of the Intermediarie s Regulations	20	20	5	1	12	58

Analysis of Public Comments

- 3.1.5.5. Majority of the comments received are in support of the proposal.
- 3.1.5.6. Some commenters have strongly disagreed with the proposal as they have suggested deletion / omission of the entire provision. They have stated that the Board can instead grant a registration conditional upon the outcome of the SCN, or even cancel the registration subsequently under Clause 3(b). The commenters have also drawn a parallel and stated that a company is permitted to go ahead with its IPO despite pending SCNs, and the only requirement is that there is a proper disclosure in this regard.

Comments of SEBI - The grant of conditional registration subject to outcome of an enforcement proceeding may lead to systemic risks for SEBI and business/operational risks for the intermediary, therefore the same is not desirable. It may be noted that as per paragraph 4 of SEBI (Issuing Observations On Draft Offer Documents Pending Regulatory Actions) Order, 2020, SEBI shall keep in abeyance the issuance of observations in respect of the draft offer document for a particular time period in case of a pending SCN issued for proceedings under section 11(4) and 11B(1) of the SEBI Act. Therefore, the representation that a company is permitted to go ahead with its IPO upon mere disclosure

of a pending SCN is only partially correct and applicable only to SCNs issued in respect of adjudication proceedings. Thus, the proposed amendment to Clause 5 is in fact along similar lines as the General Order of 2020.

- 3.1.5.7. Some commenters have partially agreed with the proposal and provided some suggestions inter alia with respect to the time period and the effect of pending proceedings against KMPs / Persons in Control. The details of suggestions / comments received and our analysis is given in S. No. 6 of **Annexure B**.

Proposal

- 3.1.5.8. In view of the above, it is proposed to amend Clause 5 in order to (i) limit the category of proceeding for incurring disqualification under the said schedule to proceedings under section 11B(1); and (ii) reduce the time period for non-consideration of registration upon issuance of SCN from 1 year to 6 months.

3.1.6. Review of Clause 6 – requirement of divestment of holdings by a person in control who is declared as not ‘fit and proper’ person

- 3.1.6.1. Clause 6 stipulates that any disqualification of an associate or group entity of the applicant or intermediary under Clause 3(b) shall not have any bearing on the ‘fit and proper person’ criteria of the applicant or intermediary unless the applicant or intermediary or any KMP / Persons in Control is also found to incur the same disqualification. Under the first proviso to Clause 6, in case the KMPs fail to satisfy the ‘fit and proper person’ criteria, the intermediary shall replace such person within thirty days from the date of such disqualification.
- 3.1.6.2. Under the second proviso to Clause 6, if the Persons in Control fail to satisfy the ‘fit and proper person’ criteria, the intermediary shall ensure that such person does not exercise any voting rights and divests their

holdings within six months from the date of such disqualification. If the voting rights / holding of the Persons in Control are not restricted / divested, the 'fit and proper person' criteria may be invoked against such intermediary.

- 3.1.6.3. Concerns have been expressed stating that Clause 3(b)(i) and Clause 3(b)(ii) read with the second proviso to Clause 6 creates a scenario where a Person in Control is mandated to divest their holdings without a definite finding of guilt. This has been stated to cause irreversible financial loss if the person is later acquitted or not found guilty in the proceedings pursuant to which the disqualification was incurred under the extant Clause 3(b)(i) and Clause 3(b)(ii).
- 3.1.6.4. The second proviso to Clause 6 was brought as a protective measure aimed to ensure that a person with doubtful credentials should not be allowed to exercise control over the intermediary as it can pose a risk to the integrity of the securities market. However, given the concerns, the financial loss stated to be arising out of the mandated divestment can be mitigated by distinguishing between the economic right and the voting right of the holding.
- 3.1.6.5. Accordingly, upon being declared as not 'fit and proper person', it is proposed that only the voting rights of the Person in Control may be restricted and such person may not be required to divest such holdings in the intermediary concerned.

Public comments

- 3.1.6.6. The public consultation elicited a total of 60 responses. A comprehensive table of proposal-wise responses / comments received and the remarks thereon are placed at **Annexure B**. A summary of the responses to the proposals is as under:

Proposa I No.	Proposal Title	Strongl y Agree	Agre e	Partiall y Agree	Disagre e	Strongl y Disagre e	Tota l
6	Amendment to Clause 6 of Schedule II of the Intermediarie s Regulations	17	31	9	3	0	60

Analysis of Public Comments

- 3.1.6.7. Majority of the comments received are in overwhelming support of the proposal.
- 3.1.6.8. Some commenters have disagreed with the proposal on the ground that the proposed amendment underestimates the much greater and impactful harm that may arise if a person declared not 'fit and proper', who retains a material economic interest, is permitted to continue to control or manage an intermediary. One commenter has stated that from a proportionality lens, the individual economic hardship is outweighed by the systemic risks.

Comments of SEBI - It may be noted that the restriction of voting rights will ensure that the person declared as not 'fit and proper' will not be able to manage the affairs of the intermediary or exert any form of control or contribute to decision-making. He / she will only be entitled to economic rights such as the right to receive dividends, right to transfer the holding etc. This will ensure that the person declared not 'fit and proper' will not have a say in the affairs and management of the intermediary.

- 3.1.6.9. Some commenters have partially agreed with the proposal and provided some drafting modifications and other suggestions inter alia with respect to the timeline and procedure for restricting the voting rights. The details of suggestions / comments received and our analysis is given in S. No. 7 of **Annexure B**.

Proposal

- 3.1.6.10. In view of the above, it is proposed to amend the second proviso to Clause 6 to omit the requirement of divestment of holding of persons declared as not 'fit and proper' person.

3.1.7. Applicability of the amendments

- 3.1.7.1. The amendments will come into force with effect from the date of notification in the official gazette. With respect to pending cases, administrative steps to withdraw such SCNs / cases is proposed if such cases would not warrant issuance of SCNs under the amended Clause 3(b) or Clause 6.

4. Proposal for the consideration of the Board:

- 4.1. Considering the overwhelming positive response in public consultation and in the light of the rationale provided for the proposals, the Board is requested to consider and approve the proposed amendments to Schedule II of the Intermediaries Regulations as proposed in paragraphs 3.1.1.16, 3.1.2.9, 3.1.3.8, 3.1.4.7, 3.1.5.8, 3.1.6.10 and 3.1.7.1 as noted below-

- 4.1.1. To omit Clause 3(b)(i) and 3(b)(ii) of Schedule II of the Intermediaries Regulations;
- 4.1.2. To amend Clause 3(b)(v) of Schedule II of the Intermediaries Regulations to extend the disqualification criteria to include conviction by a court for any economic offence or any offence of securities laws in line with the SECC and DP Regulations;

- 4.1.3. To omit the words “any winding up proceedings have been initiated or” under Clause 3(b)(vi) of Schedule II of the Intermediaries Regulations;
 - 4.1.4. To insert new clauses, i.e., Clauses 3A and 3B in Schedule II of the Intermediaries Regulations with respect responsibility of the applicant / intermediary to disclose the occurrence of any event envisaged under Clause 3(b) within 15 days of the occurrence of such event and to provide an express provision for granting a reasonable opportunity of being heard before declaring a person as not ‘fit and proper’;
 - 4.1.5. To omit the words “or for a period of five years from the date of effect of the order if no such period is specified in the order” under Clause 4 of Schedule II of the Intermediaries Regulations;
 - 4.1.6. To amend Clause 5 of Schedule II of the Intermediaries Regulations to (i) limit the category of proceeding for incurring disqualification under the said schedule to proceedings under section 11B(1); and (ii) reduce the timer period for non-consideration of registration upon issuance of SCN from 1 year to 6 months;
 - 4.1.7. To amend the second proviso to Clause 6 of Schedule II of the Intermediaries Regulations to omit the requirement of divestment of holding of persons declared as not ‘fit and proper’ person;
 - 4.1.8. to make consequential amendments to Schedule II of the Intermediaries Regulations; and
 - 4.1.9. the amendments will come into force with effect from the date of notification in the official gazette. With respect to pending cases, administrative steps to withdraw such SCNs / cases may be taken if such cases would not warrant issuance of SCNs under the amended Clause 3(b) or Clause 6.
- 4.2. The proposed amendments to the Intermediaries Regulations in respect of the proposals noted at paragraph 4.1 above are placed at **Annexure C** of this Memorandum and the draft amendment notification is placed at **Annexure D**.
- 4.3. The Board is also requested to authorize the Chairman to make consequential and incidental changes and to take necessary steps to give effect to the decisions of the Board.

Encls.

- 1. Annexure A – Consultation Paper**
- 2. Annexure B – Summary of public comments and remarks thereon**
- 3. Annexure C – Table of Proposed Amendments**
- 4. Annexure D – Draft Amendment Notification**

Proposed amendments to the 'Fit and Proper Person' criteria specified under Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

1. The Board Memorandum No. 02/2026 has been circulated to amend the 'fit and proper person' criteria specified under the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 ("**Intermediaries Regulations**"). The proposal has been initiated with the objective of appropriately balancing the regulatory intent in ensuring only participants who have integrity, honesty, ethical behaviour, reputation, fairness and character operate in the securities market and the need to ensure ease of doing business by market participants and achieving necessary compliance.

2. In order to streamline the enforcement process of declaring a person as not 'fit and proper' person,-
 - 2.1. a new Clause 3A under Schedule II of the Intermediaries Regulations has been proposed in paragraphs 3.1.3.8 and 4.1.4 of the Board Memorandum to impose an obligation on the applicant or intermediary to disclose the occurrence of any event envisaged under Clause 3(b) in respect of itself or the KMPs / Persons in Control within fifteen days of the occurrence of such event;

 - 2.2. in the amendment to the second proviso to Clause 6 of Schedule II of the Intermediaries Regulations, it has been proposed that upon being declared as not 'fit and proper person', the intermediary shall ensure that the voting rights of the Person in Control may be restricted within seven days from the date of such declaration;

 - 2.3. it is clarified that the timelines in the aforesaid clauses i.e. 15 days and 7 days may be referred as working days of the recognised stock exchanges.

3. In view of the above, it is proposed that the amendment in Clause 3A and Clause 6 of Schedule II proposed in the memorandum be amended to 15 working days and 7 working days of the recognised stock exchanges respectively. Further, to give clarity to other similar provisions in the Intermediaries Regulations, the following

amendments are also proposed:

- 3.1. the first proviso to Clause 6 mandates the intermediary to replace persons referred in sub-clause (b) of clause (2) if such persons fail to satisfy the 'fit and proper person' criteria within 30 days. For the sake of uniformity, the provision may be amended to state that the said time period shall be 30 working days of the recognised stock exchanges;
- 3.2. the reference to the term 'days' has been made at various places in the Intermediaries Regulations. In view of the changes suggested above and to bring clarity, a new clause may be inserted in the definition clause of the Intermediaries Regulations to state that the term 'days' shall mean 'calendar days', unless otherwise specified in these regulations.

Proposals

4. The Board is requested to:
 - 4.1. take note of the changes in paragraph 3.1.3.8 and 4.1.4 of the Board Memorandum along with the draft text of the amendment notification as stated in paragraphs 2 and 3 above;
 - 4.2. approve the amendments proposed at paragraph 3 above.

Encl: Annexure 'E' – Revised Draft Amendment Notification

Annexure A

(Consultation paper is available on SEBI website www.sebi.gov.in at Reports & Statistics» Reports» Reports for Public Comments.)

Summary of public comments and remarks thereon

No.	Public Comments	Response of SEBI
Clause 3(b)(i), (ii)		
1.	<ul style="list-style-type: none"> i. Clause (b) (i) and (ii) be retained as the same is significant and procedurally advanced stage of the criminal process; ii. Clause 3(b)(ii) could be limited to charge sheets filed by specified central or specialised agencies or to offences notified by SEBI or could be made applicable from the stage of framing of charges as it involves substantial level of judicial scrutiny. 	<ul style="list-style-type: none"> i. No judicial application of mind is done till the stage of charge sheet, therefore the same may not be an appropriate stage for incurring disqualification; ii. The Board always retain the discretion to consider serious or incriminating factors under the principle based criteria under Clause 3(a) on a case to case basis; iii. While the stage of framing of charge involves some element of judicial application of mind, there is no certainty on the guilt of the person.
Clause 3(b) (v)		
2.	<ul style="list-style-type: none"> i. to add the words 'and such order is in force' / 'not stayed or suspended'; ii. "an offence of securities laws" is a broad and could include non-material matters such as imposition of penalty; iii. the terms "economic offence" and "offence of securities laws" should be defined with precision or by reference; iv. Most (if not all) serious economic offences or securities law violations would already fall within the ambit of "an offence involving moral turpitude. 	<ul style="list-style-type: none"> i. A stay order is not a final determination and it is possible that the conviction order is eventually upheld by the appellate forum, therefore it may be appropriate that such mitigating circumstances may be considered by SEBI while deciding on the 'fit and proper' status of that person on a case-to case basis; ii. Clause 3(b)(v) provides for consideration of 'conviction' for an 'offence', this itself makes it clear that disqualification is not triggered for non-material contraventions; iii. Given the dynamic and ever-changing nature of these offences, providing a specific definition or a comprehensive list

No.	Public Comments	Response of SEBI
		<p>of offences to be termed as ‘economic offences’ may not be possible and could be prone to loopholes;</p> <p>iv. The expression “offences involving moral turpitude” constitutes a wide range of offences which may or may not be relevant from a securities law perspective. Hence, for clarity and certainty, the proposed amendments are relevant.</p>
Clause 3(b)(vi)		
3.	<p>i. to add the words “and such order is in force”;</p> <p>ii. to add the words “by a court of competent jurisdiction”;</p> <p>iii. to not omit the disqualification ground of “initiation of winding up proceedings”</p>	<p>i. Any mitigating circumstance (including a stay granted by court/tribunal) could be dealt with by SEBI while deciding on the ‘fit and proper person’ status;</p> <p>ii. It is inherently understood that the order for winding up can only be passed by a court of competent jurisdiction and not otherwise.</p> <p>iii. The corporate insolvency resolution process can result in successful revival/resolution/settlement through a resolution plan/mutual agreement. Therefore, the initiation of winding up proceedings may be premature for triggering disqualification. However, the discretion remains with the Board to take into account any aggravating factor including the net-worth and solvency under the principle based criteria.</p>
Clause 3A and 3B		

No.	Public Comments	Response of SEBI
4.	<ul style="list-style-type: none"> i. to increase the timeline for informing the Board on occurrence of any event under Clause 3(b) from 7 days as presently proposed to 14/21 days; ii. Timeline should commence from the date on which the applicant / intermediary becomes aware of the occurrence of such event; iii. Clause 3A must independently specify the categories of events that trigger disclosure, so that the disclosure obligation does not shrink with the substantive list. At minimum, charge sheets in economic offences and SEBI criminal complaints should remain mandatory disclosure events even if removed from Clause 3(b); iv. Clause 3A does not specify any consequence for wilful non-disclosure or material delay; v. In the case of intermediaries regulated by a Market Infrastructure Institution, intimation should be made to the relevant MII. vi. The board may consider specifying the format and mode for informing the Board to ensure uniformity. 	<ul style="list-style-type: none"> i. The concern about the timeline of 7 days being too short may be considered and could be extended to 15 days; ii. the suggestion that the timeline should commence from the date on which the applicant / intermediary becomes aware of the occurrence of such event may not be tenable as it could be prone to misuse. As the applicant / intermediary is responsible for compliance of laws, it cannot plead ignorance of the occurrence of the serious events envisaged under Clause 3(b); iii. Reporting is required of any event triggering disqualification, as Clause 3(b)(i) and 3(b)(ii) are proposed to be omitted the issue of reporting such events do not arise; iv. Any wilful non-disclosure or material delay would be a violation of the code of conduct and regulations governing the intermediary; v. As the events enumerated are serious and involve the determination of the fit and proper status of the entity, the disclosure may be directly made to SEBI and not the MII. However, the MII may also be informed under any applicable provision of regulation/circular and at the discretion of the intermediary. vi. Presently, formats are not envisaged. The intermediary may use any recognised means of communication for the purpose.

No.	Public Comments	Response of SEBI
Clause 4		
5.	<ul style="list-style-type: none"> i. To provide a default time period for situations where the order does not specify any particular period; ii. The removal of default period of debarment implies that unless any finite period is specified in the SEBI order, any person can remain debarred for infinite period of time; iii. Deemed period can be reduced to 6 months from the present term of 5 years. 	<p>The order declaring a person as not 'fit and proper' must mention the time period during which he / she shall not be eligible to apply for any registration. If no time period is mentioned, the person won't be barred from applying for any fresh registration.</p>
	<ul style="list-style-type: none"> iv. Clarification may be required regarding consequences for persons other than applicants, particularly those referred to in clause (2)(b) and (2)(c). 	<p>The consequences for such persons shall be provided in the order and also under the first proviso to Clause 6.</p>
Clause 5		
6.	<ul style="list-style-type: none"> i. Clause 5 should be omitted since SEBI can grant or cancel registration subject to the final outcome of the SCN; ii. A company is permitted to go ahead with its IPO despite the fact that a show cause notice to such company or its subsidiary, group or associate company, therefore it would be irrational for SEBI to refuse to consider an application for registration of a similarly placed company; iii. Reduction of time period for non-consideration of registration upon issuance of SCN from 1 year to 3 months 	<ul style="list-style-type: none"> i. The grant of conditional registration subject to outcome of an enforcement proceeding may lead to systemic risks for SEBI and business/operational risks for the intermediary, therefore the same is not desirable; ii. As per paragraph 4 of SEBI (Issuing Observations On Draft Offer Documents Pending Regulatory Actions) Order, 2020, the observations on the draft offer document is kept in abeyance in case of a pending SCN issued for proceedings under section 11(4) and 11B(1) of the SEBI Act. Therefore, the argument is only partially correct and applicable to SCNs

No.	Public Comments	Response of SEBI
	<p>for speedy disposal of registration applications;</p> <p>iv. Distinction between proceedings against the applicant and proceedings against individuals associated with the applicant should be maintained and pending proceedings against individuals should not automatically result in non-consideration of the application.</p>	<p>issued in respect of adjudication proceedings. Further, the comparison between a company intending to get listed and a person functioning as an intermediary in the securities market is not appropriate as the role and responsibilities of both participants substantially differ;</p> <p>iii. The time period of three months is too short and not sufficient for the proceedings under the said SCN to conclude;</p> <p>iv. If the disqualified individuals are not associated with the applicant in any manner and the applicant itself is not disqualified, the application could be considered.</p>
Clause 6		
7.	<p>i. To add 'unless the declaration has been stayed by any court or tribunal' in the first proviso;</p> <p>ii. The reduction of timeline for restriction of voting rights from 6 months to 7 days is too short;</p> <p>iii. The period of 30 days for replacing the person declared as not fit and proper is not sufficient;</p> <p>iv. The individual economic hardship is outweighed by the systemic risks which may arise if a charge sheeted person is permitted to continue to control or manage an intermediary, therefore it is recommended that condition for mandatory divestment is retained.</p>	<p>i. Applicability of Clause 6 is pursuant to a determination in terms of clause 3B, therefore any mitigating circumstance such as a stay by a court/tribunal can be considered by SEBI while deciding on the 'fit and proper' status of that person;</p> <p>ii. The timeline of 6 months was provided to divest the shares/voting rights as the same was noted to be a time consuming process. Since the amendment now only provides for restricting voting rights for which only an instruction to the depository is to be given, the timeline of 7 days appears to be sufficient;</p> <p>iii. The period of 30 days for replacing the person as not fit and proper is as under the</p>

No.	Public Comments	Response of SEBI
	<p>v. Restriction of voting rights may not serve its intended objective as a person declared not 'fit and proper' who retains a material economic interest in a SEBI-regulated entity can continue to exercise informal influence over management, without casting a formal vote.</p> <p>vi. Freezing of voting rights may lead to a governance stalemate for special resolutions, harming the company's operational viability, ambiguity in ownership rights and may affect valuation;</p> <p>vii. Allow automatic restoration of voting rights if stay is granted;</p> <p>viii. SEBI may have the power to restrict voting rights of shareholders, but companies cannot impose such restrictions as the same</p>	<p>extant provision and is in force presently. Hence no modification is warranted;</p> <p>iv. In view of the rationale noted in the consultation paper, this suggestion is not considered;</p> <p>v. The freeze upon voting rights is intended to oust the material formal economic interest of the person declared as not 'fit and proper';</p> <p>vi. Under the provisions of Companies Act, the resolutions are to be passed by "present and voting" majority, therefore there may not be any governance stalemate. Further, the provisions pertaining to removal of the person declared not 'fit and proper' would aid in maintaining the operational viability and valuation of the entity;</p> <p>vii. Automatic restoration of voting rights upon granting of stay is not viable, since stay may also be granted at a preliminary stage of appeal and the same does not completely eliminate the legal fetter placed by the lower court/order;</p> <p>viii. The voting rights shall be restricted upon declaration of a person as not 'fit and proper' under the provisions of Schedule II, therefore there is no conflict with the provisions of Companies Act.</p>
Other suggestions		
Retrospective operation		
Clause 1, 2		

No.	Public Comments	Response of SEBI
8.	<p>i. Clause 1 - This Schedule operates in addition to, and not in substitution of, the eligibility and compliance requirements prescribed under the respective parent regulations governing each category of intermediary.</p> <p>ii. Clause 2 - The present drafting applies a uniform set of disqualifications to entities, managerial personnel, and persons in control without distinguishing between matters applicable to juristic entities and those applicable only to natural persons. This may create interpretational ambiguity and unintended consequences.</p> <p>iii. Clause 2(b) - The expression “key management persons by whatever name called” is broad and undefined.</p> <p>iv. Clause 2(c) - The expression “directly or indirectly” is broad and undefined. The introduction of a 20% voting threshold, irrespective of control, materially expands the scope of persons required to satisfy the “fit and proper” criteria.</p>	<p>i. The comment is not clear and not in the form of suggestion and hence not dealt with;</p> <p>ii. Clause 2 is not being amended and the same is presently in force, SEBI has not received any representation pertaining to interpretation issue in respect of the same. Hence, no change is warranted;</p> <p>iii. The suggestion is outside the scope of review, however, it may be noted that the expression “key managerial personnel” is defined in Securities and Exchange Board of India (Issuance of Capital and Disclosure Requirements), 2018;</p> <p>iv. The suggestion is outside the scope of review, however it may noted that the term “directly or indirectly” is clear and used in other regulations as well. Further, the 20% threshold is adopted from the Companies Act, 2013.</p>
Clause 3(b)(iii) – No amendment proposed in the consultation paper		

No.	Public Comments	Response of SEBI
9.	<p>i. The mere passing of an order of “restraint, prohibition or debarment” by the Board or any other regulatory authority or enforcement agency ought not to amount to a disqualifying event. Therefore, Clause 3(b)(iii) should be deleted.</p> <p>ii. The disqualification criteria should be linked only to orders of restraint, prohibition, or debarment issued by SEBI after hearing the aggrieved party consistent with its regulatory authority and oversight within securities market.</p> <p>iii. Distinguishing between interim measures and final orders passed after due adjudication would enhance proportionality and certainty.</p>	<p>Even though this clause is not part of the present consultation and review, it may be noted that any determination of not ‘fit and proper’ status of a person can be made only after granting the person concerned of an opportunity of being heard. Hence, no prejudice shall be caused even in cases of interim orders passed by SEBI. Hence, the proposal may not be accepted.</p>

Clause 3(b)(iv) – No amendment proposed in the consultation paper

10.	<p>i. Clause 3(b)(iv) ought to be amended as follows:- “despite all recovery proceedings being undertaken by the Recovery Officer, the full amount recoverable could not be recovered;”</p> <p>ii. However, disqualification should not operate mechanically in cases where:</p> <ul style="list-style-type: none"> • The underlying order is under appeal and recovery is stayed • Payment timelines have been lawfully extended • Recovery is otherwise stayed by a competent authority 	<p>i. Even though this clause is not part of the present consultation and review, it may be noted that a matter has progressed to recovery proceedings under securities laws only after the person commits default. There is an inherent obligation/duty on a defaulter/person to pay outstanding dues to SEBI.</p> <p>ii. While determining the ‘fit and proper’ status, the Board may consider any mitigating factor like stay, payment made/interest waiver sought and allowed</p>
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No.	Public Comments	Response of SEBI
		by SEBI, etc. Hence, the disqualification is not operating mechanically.
Clause 3(b)(vii) and 3(b)(x) – No amendment proposed in the consultation paper		
11.	We recommend adding the phrase “and such order is in force” at the end of the sentence - such person has been declared insolvent and not discharged or declared a fugitive economic offender.	Even though this clause is not part of the present consultation, it is inherently clear from the provision that the occurrence of the event shall not automatically lead to a declaration of not fit and proper. Thus, SEBI would generally consider this factor if the finding is in force and not usually otherwise.
Clause 3(b)(xi) – Any other disqualification		
12.	Any other disqualification as may be specified by the Board, by way of regulations or by a circular issued with the approval of the Board, having regard to the integrity of the securities market and protection of investors.	Even though this clause is not part of the present consultation, SEBI has the power to issue circulars under the SEBI Act and the same is done pursuant to public consultation and necessary approvals. Hence, the concern is already addressed.

Annexure C- Table of Proposed Amendments

Amendment shall be notified after following the due process.

Annexure D- Draft Amendment Notification

Amendment shall be notified after following the due process.

Annexure E- Revised Draft Amendment Notification

Amendment shall be notified after following the due process.
