

Financial Infrastructure Reform

Posted at: 27/06/2025

Financial Infrastructure Reform: SEBI's Strategy for MIIs

Context:

- In **June 2025**, the **Securities and Exchange Board of India (SEBI)** released a **consultation paper** proposing reforms to strengthen the **governance framework of Market Infrastructure Institutions (MIIs)**.
 - These proposals were prompted by the growing scale of India's securities markets and concerns arising from **past governance lapses** in MIIs.
 - MIIs are crucial for ensuring the **orderly functioning, safety, and stability** of financial markets.
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What are MIIs?

Market Infrastructure Institutions (MIIs) are critical entities that support the structure and functioning of capital markets. These include:

- **Stock Exchanges** - platforms for trading of securities.
- **Clearing Corporations** - manage counterparty risk and settlement.
- **Depositories** - hold securities in electronic form and facilitate ownership transfer.

They form the **institutional backbone** of India's securities market.

Why Governance Reform is Necessary:

- **Expanding scope and complexity** of India's securities market requires stronger regulatory oversight.
 - **Past governance slippages** in some MIIs raised concerns about internal checks, transparency, and independence.
 - Need to **separate commercial and regulatory functions** to avoid conflicts of interest.
 - Ensure **investor protection** and **prevent systemic risks** to the broader economy.
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Key Proposals by SEBI:

1. Mandatory Appointment of Two Executive Directors (EDs):

- **ED 1:** To head **Critical Operations**.
- **ED 2:** To lead **Regulatory, Compliance, Risk Management, and Investor Grievances**.

2. Optional Appointment of a Third ED:

- For the **Business Development/Commercial Interests** vertical.
- Appointment left to the discretion of the MII.

3. Inclusion in Governing Board:

- EDs for the two critical verticals will be part of the **MII Governing Board**.
- Their **appointment and re-appointment** will follow a process similar to that of the **Managing Director (MD)**, including **possible SEBI approval**.

4. Quarterly Reporting Obligations:

- EDs must report **every quarter** to the **Governing Board** and **SEBI** on their

designated areas.

5. Restrictions on Directorships:

- **MDs** can serve as **non-executive directors** in:
 - **Unlisted Government Companies** (Central/State)
 - **Not-for-Profit Companies**
- **EDs are barred** from holding any directorship outside the **MII's subsidiaries**.

Significance of the Proposals:

- Brings **clarity in segregation** of **regulatory vs. commercial roles** within MIIs.
- Strengthens **institutional accountability** and **regulatory compliance**.
- Promotes **greater transparency** in decision-making.
- Enhances **investor confidence** and **market integrity**.
- Contributes to **financial sector reforms** in line with India's growing capital market ecosystem.

