



# atharv

April 2023

Basilstone Consulting is pleased to present to you the **April 2023** issue of **atharv**, covering regulatory insights as well as discussion papers. This issue covers the following areas:

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## I. Regulatory updates & its expected impact

### I.1. Securities & Exchange Board of India

#### I.1.1. Operational Circular for Debenture Trustee.

- a. All the operational circulars issued by SEBI pertaining to Debenture Trustee Regulations have been summarised in this circular in order to remove repetition and inconsistencies. Debenture Trustees are directed to comply with the conditions laid down in this operational circular and it is reiterated that Debenture Trustees shall have the necessary systems and infrastructure in place for the Implementation of this circular.
- b. The Board of Directors of Debenture Trustee shall be responsible for ensuring compliance. Various chapters are mentioned along with Annexures.

#### I.1.2. Advertisement Code for Investment Advisers (IA) and Research Analysts (RA).

- a. It shall include all forms of communication, issued by or on behalf of IA/RA, that may influence investment decisions. Circulars have included pamphlets, circulars, brochures, notices, research reports, or any other literature, documents, information, or material published or designed for use of any publication or displays, in any electric, wired, wireless communication or over the audio-visual form of communication or in any other manner whatsoever.
- b. Information/disclosure in the Advertisement shall include the following-
  - Name registered with SEBI, registered address, SEBI Registration Number, logo/brand name/ tradename of IA/RA, and CIN of the IA/RA, if applicable.
  - Information that is accurate, true, and complete in unambiguous and concise language.
  - Standard warning in legible fonts (minimum 10 font size). No additions/deletions of words shall be made to/from the standard warning.
  - In audio-video media-based advertisements, it should be clear and understandable. The speed in audio-video mode shall not be more than 20 words running for at least 10 seconds.
  - Whenever the advertisement is being issued in a language other than English, it shall be ensured that the standard warning is accurately translated into that language.
  - In case of the mode of advertisement is SMS/Message/Pop-up, social media, etc., and required details are not mentioned then the official website hyperlink shall be provided in SMS/message/Pop-up and the website shall contain all details.
  - In case any specific security/securities are displayed in the advertisement as an example, the disclaimer shall be provided that "The securities quoted are for illustration only and are not recommendatory"
  - Advertisement and Communication/correspondence with clients shall include the disclaimer "Registration granted by SEBI, membership of BASL, and certification from NISM in no way guarantee the performance of the intermediary or provide any assurance of returns to investors".
- c. The advertisement shall not contain prohibited things as mentioned in the circular-
  - Prohibited statements under the law.
  - Statements that are false, misleading, biased, or deceptive, based on assumptions and projections.



- Any misleading or deceptive testimonials.
  - Statements that have omissions, may mislead the investor.
  - Any statements which are likely to be misunderstood, likely disguise the significance of the same or any other statement contained in the advertisement.
  - Statement designed to exploit the lack of experience or knowledge of investors.
  - Exaggerated or inconsistent statements with the nature and risk of the profile of the product.
  - Extensive use of technical or legal terminology or complex language inclusive of excessive details which may distract the investors.
  - Reference to any reports or analysis which is free, unless it's actually free without any condition or obligation.
  - Promise or guarantee of assured risk-free return to the investors
  - Statements that discredit other advertisements or make unfair advertisements.
  - Reference to past performance of the IAs/RA.
  - Superlative terms which provide endorsement to the quality or standing of IA/RA
  - The advertisement shall not include SEBI Logo.
- d. Other Compliance/Requirements to be followed by IA and RA shall be-
- Prior approval for the advertisement shall be obtained from BASL (in the case of IAs) before the issue.
  - In case of suspension, they should not issue any advertisement singly or jointly with other IA/RA, during the period of suspension.
  - IA/RA shall not engage in any games, leagues, schemes, competitions, etc. which may involve the distribution of prize monies, medals, gifts, etc.
  - These norms shall be applicable to any other Investment/research/consultancy agency associated with IA/RA, wherein the IA/RA has been named.
  - Copy of the advertisement shall be retained for the period of five years as per the respective regulations.
  - Additional guidelines shall be specified by SEBI/ BASL from time to time.

**Impact:**

Investment Advisers and Research Analysts have been regulated by SEBI Regulations, but there were no specific regulations governing the code for Advertisement. With this circular coming, it sets out proper dos and don'ts for Research Analysts and Investment Advisers and will strengthen the conduct of the IA/RA while influencing the investment decisions of investors/prospective investor.

**1.1.3. Use of Brand name/Trade name by Investment Advisers (IA) and Research Analysts (RA).**

Investment Advisers (IA) and Research Analysts (RA) may use the brand name/trade name/ logo in order to maintain transparency by ensuring that-

- a. Name of RIAs/RAs as registered under SEBI, logo, its registration number shall be prominently displayed on websites, notice boards, advertisements, and agreements.
- b. Additional information such as an address, telephone number, name of the compliance officer, his telephone number and e-mail address of compliance officer, name address and



email id of grievance officer or grievance redressal cell shall be displayed prominently in the statements and correspondence.

- c. Disclaimer that “Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors” shall be mentioned on portal/web site and other places as required.
- d. SEBI logo shall not be used by IA/RA.

**Impact:**

This shall ensure that the investors/clients are able to identify the IA/RA through their name registered with the regulator along with their registration number, which was not represented prominently because of use of the Brand name/Trade name and also allow an investor to make an informed decision that the regulatory registration will not guarantee the performance and they are required to do their own due diligence before dealing with such intermediaries.

**1.1.4. Circulars on Alternative Investment Fund (AIF)**

- a. AIFs shall have an option of onboarding investors through the direct plan and investors onboarded through SEBI registered intermediaries shall be onboarded via the direct plan only.
- b. AIFs shall disclose distribution fees to investor at the time of onboarding. In case of Cat III AIF, such distribution fees shall be paid from management fees of manager and shall be charged on equal trail basis. Cat I and Cat II AIF may pay upfront fees up to one-third of total distribution fee and remaining shall be paid on equal trail basis over tenure of the fund.
- c. With respect to ‘Excuse and Exclusion’ clause in PPM, a particular investor can only be excused: -
  - If such investment results in violation of law,
  - If stated in contribution agreement that such investment would be in contravention to the internal policy of investor,
  - If manager is of the opinion that such investment would lead to scheme of AIF being in violation of applicable laws or will result in material adverse effect on the scheme of AIF.
  - If the investor is another investment vehicle, such may be partially excluded to the extent of underlying investment in such vehicle by investors forming part of ‘excuse and exclusion’

**Impact:**

- Investors onboarded through other registered intermediaries would not be subject to distributor fees, therefore resulting in higher deployable funds through Investment in AIF units.
- ‘Excuse and Exclusion’ clause is tightened to ensure that AIFs are operated as pooled investment vehicle i.e. investors are not excluded at fund manager’s discretion from participating in investment opportunities, unless specifically informed by the investor himself.

clause.

**1.1.5. Formulation of Price Band for the first day of the Trading pursuant to Initial Public Offering (IPO), re-listing, etc. in normal trading session.**



- a. Previously, on 20<sup>th</sup> January 2012, SEBI had come out with the circular regarding price discovery through call auction pursuant to IPO or recommencement of trading of re-listed scrips in the normal trading session.
- b. As these call auctions would be taken on a different stock exchange, the discovered price could be different on each exchange, which can lead to situations where the price band is different at different places, and would not provide a clear picture to investors.
- c. Accordingly, after deliberation it has been decided for trading on the first day of IPO, excluding derivative contracts as under: -
  - Call Auctions would be continued as practiced, and orders would be matched after calculating the equilibrium price. If the difference in the equilibrium price between exchanges and in percentage form is more than the applicable price band, a common Equilibrium price would be computed by the exchange. It shall be the volume-weighted average of all equilibrium prices on individual exchange as determined by call auction.
  - The exchanges shall set the aforesaid CEP in their trading systems and apply a uniform price band based on the CEP. Only unexecuted pending orders from Call Auction within the price band shall be carried forward to the normal Market segment.
  - Stock exchange is required to follow certain measures in order to implement this circular. For better understanding, we shall refer to an illustration.

**Impact:**

Due to some gaps in the existing system, investors did not have a clear picture. However, with these measures, proper price band formulation can be achieved which would reduce the asymmetry in the stock exchange.

**1.1.6. Contribution by Eligible Issuer of debt securities to the Settlement Guarantee Fund of the limited purpose Clearing Corporation for Repo Transactions in the Debt Securities.**

- a. A Limited Purpose Clearing Corporation was set up for clearing and settling repo transactions in Debt Securities. AMC Repo Clearing Limited (ARCL) has been granted recognition as LPCC by SEBI. Changes in the framework are required to be made in order to put in place a framework for an upfront collection of amounts.
  - Eligible issuers shall be notified by the LPCC as per the risk management policy.
  - An amount of 0.5 basis points of the issuance value of debt securities per annum based on the maturity of debt securities collected and placed on the Stock Exchange and placed in an escrow account prior to the allotment of debt securities.
  - Exchange shall transfer the amounts so collected to the bank Account of the LPCC within one working day. Details of the amounts so collected shall be disclosed on the stock exchange.

**Impact:**

The development of an active repo market in debt securities may also be beneficial to the Issuers as the enhanced liquidity may positively impact the yield, thereby resulting in reduced costs of raising funds to the issuers in the primary market.

**1.1.7. Dispute Resolution Mechanism for Limited Purpose Clearing Corporation.**



- a. SECC Regulations mandate a recognized LLPC to put in place a dispute resolution mechanism, for the settlement of disputes or claims arising out of transactions cleared and settled.
- b. Appropriate measures shall be taken to resolve disputes between-
  - Disputes between clearing members inter-se
  - Disputes between Clearing Member or its Clients and the LPCC
  - Disputes between the Clearing Members and their client
  - Disputes between the LPCC and its vendor/ suppliers/ service providers

#### **1.1.8. Informal Guidance for Bank of Baroda.**

- a. In absence of any irreconcilable inconsistency between the provisions of the LODR Regulations and the Banking Companies Act 1970, the requirements specified in Regulation 17(IC) of LODR would be applicable to the bank.
- b. Regulation 17(IC) of LODR Regulations shall be applicable to the Bank and consequently, the approval of shareholders for appointment or re-appointment of a person on the Board of Directors or as a manager is mandatorily required to be taken at the next general meeting of the bank.
- c. LODR Regulations place restrictions on voting by a shareholder in certain circumstances, which does not include voting on a resolution to approve an appointment or non-appointment of directors. In the absence of any express prohibition under LODR Regulation, there is no restriction put up for consideration of shareholders to approve the appointment or reappointment of directors.



### 1.1.9. Informal Guidance on LGT Wealth India Pvt. Ltd.

- a. Making recommendations with respect to the basket comprising more than one security to the clients, shall be covered within the definition under regulation 2(1)(w) for securities.
- b. By virtue of regulation 3(1) read with 2(1)(g) of the RA Regulations, portfolio managers registered under PMS Regulations shall be exempted from obtaining a certificate of registration under regulations 3(1) of the RA Regulations, subject to compliance with Chapter III of the regulations, for the purpose of issuance, circulation or distribution of research report to the public. However, in order to issue a research report/ recommendation to “any person”, identified or selected, the PMS shall need to obtain a certificate of registration in the terms of 3(1) of the RA Regulations.

### 1.1.10. Bank Guarantees (BGs) created outs of client’s funds

- a. The practice followed by Stock Brokers (SBs)/ Clearing Members (CMs) pledge clients’ funds with the bank which in turn issue Bank Guarantees (BGs). Pursuant to discussions with various stakeholders, several changes have been made.
- b. Beginning from 1<sup>st</sup> May 2023, no new BGs shall be created from the client’s funds by SBs/ CMs. Existing BGs created by the client’s funds shall be wound down by 30<sup>th</sup> September 2023.
- c. This framework which is implemented shall not be applicable to proprietary funds of SBs/CMs in any segment of SB’s proprietary funds deposited with CMs in the capacity of a client.
- d. Monitoring requirements are to be followed by the Stock Exchange and Clearing Corporations to take stock of the current position and winding down measures taken to implement the circulars. For this, periodic reporting requirements are to be set up by SBs/CMs
- e. Stock Exchange and Clearing Corporations to submit data to SEBI on a Quarterly basis as prescribed starting from 1<sup>st</sup> June. Requirements to issue a certificate from Statutory Auditor by SBs/CMs confirming the implementation of these circulars, by 16<sup>th</sup> October 2023.
- f. SEs/ CCs shall verify the compliance of the provisions of the circulars in their periodic inspections and reports. They shall also evolve adequate mechanisms to address the cases of SMs/SBs.

#### Impact:

Stock Brokers (SBs)/ Clearing Members (CBs) used to pledge clients’ funds which in turn to issue Bank Guarantees. This leverage exposes the clients’ funds to risks. This circular would in turn protect the interest of Clients for such risks. Additional Reporting requirements would help to check whether the implementation is in line with the requirements of the circular.

### 1.1.11. Modifications in the requirements of filing of Offer Documents by Mutual Funds

- a. In the previous circulars SEBI had mandated the submission of a soft copy of the final SIDs along with a printed/final copy seven working days prior to the launch of the scheme.
- b. It has been decided, AMCs shall file all final offer documents (Final SID and Final KIM) only digitally by emailing the same to a dedicated email id and waiving the requirements to file physically. This submission shall be made digitally at least two working days prior to the launch of the scheme.





- c. To safeguard the interest of investors, it has been decided that all new fund offers (NFOs) shall remain open for a minimum period of three working days.
- d. This circular shall be applicable with effect from 1<sup>st</sup> May 2023.

**1.1.12. Procedure for implementation of Section 12A of Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 – Directions to stock exchanges and registered intermediaries.**

- a. SEBI has issued directions to be followed by stock exchanges and registered intermediaries while carrying out their operations, while respect to the provisions of Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005. They are required to maintain an updated list of individuals/entities under “Designated List” and update it without any delay.
- b. As a process of due diligence, they need to verify the identity of individuals, and party to the transaction, and that their financial activities and transactions match with the list. In case they match with the list, it shall not carry out such activities and they need to inform to Chief Nodal Officer (CNO) of the Director’s office FIU-India and prevent such persons from doing any such illegal tractions and scheduled activities.
- c. They are required to run checks on a periodic basis on the given parameter of their clients, to verify whether individuals and entities in the designated list are not holding any funds, financial assets, or economic resources.
- d. They are required to file Suspicious Transaction Reports (STR) to FIU-IND with respect to requirements mentioned above.
- e. Communication copies of all the checks done and actions taken as per the above requirements shall be submitted to the SEBI Nodal officer without any delay.

**Impact:**

Screening procedures for onboarding clients have been strengthened with the inclusion of Section 12 A of Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 in the Designated Lists and requirement of filing STR with FIU-IND.

**1.1.13. Master circular for Custodians.**

- a. SEBI has been issuing circulars from time to time on Custodians. In order to provide ease to the stakeholders, all the circulars issued have been compiled in this master circular.
- b. In addition to the requirements provided in the master circular, they are required to follow independently other requirements as specified by SEBI for intermediaries.
- c. Additional reporting requirement is required with respect to reporting for Artificial Intelligence (AI) and Machine Learning (ML) applications and systems offered and used by Custodian and DPPs.

**1.1.14 Circulars issued by BSE Administration and Supervision Limited.**

- a. BASL has issued a circular on 29th March 2023 in response to the circular issued by TRAI. In order to ensure that all promotional messages are sent only through Registered Telemarketers (RTMs) and also to stop misuse of Headers and Message Templates which leads to an increase in the number of fraud/ spams, the Telecom Regulatory Authority of



India (TRAI) has issued directions to be followed by Investment Advisers. Directions are provided which are to be implemented by the Registered Investment Advisers.

- b. On 6<sup>th</sup> April 2023 and on 27<sup>th</sup> April 2023, BASL have further issued circulars in line with the Advertisement code issued for Investment Advisers (IA). The code of Advertisement shall be applicable from 1st May 2023. As informed, they are required to take prior approval for the advertisement before issue. BASL enrolled members can forward their advertisement/material for BASL approval by submitting the application along with relevant documents and details on the BASL Membership portal.
- c. Similarly, BASL circulars stated that, requirements for Usage of brand name/trade name by Investment Advisers (IA) are to be noted by Investment Advisors and shall ensure compliance with the requirements.

## **1.2. Reserve Bank of India**

### **1.2.1. Draft Circular on Fair Lending Practice - Penal Charges in Loan Accounts**

RBI on 12.04.2023 issued a draft circular on Fair Lending Charges- Penal Charges in Loan Account. The RBI has released this draft circular based on their observation that various Regulated Entities (REs) have started using penal interest rate over and above the applicable interest rates which the borrower had agreed on in the loan document.

The RBI has observed that the regulated entities have been charging these penal charges/interest rate to gain additional revenue which is not what the intent of such penal interest rate is. Therefore, RBI looking at this unfair practice has released the draft circular for Fair Lending Practices. The circular contains various instructions that RBI has issued for the regulated entities:

1. The determination of interest rates on loan facilities, as well as the criteria for interest rate resets, shall be strictly restricted by the applicable regulatory instructions issued in this respect. REs are not permitted to add any additional component to interest rates.
2. Penalty, if assessed, for the borrower's default or non-compliance with material terms and conditions of the loan contract shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' added to the rate of interest paid on the loans.



There will be no capitalization of punitive charges, which means no additional interest will be calculated on such penalties.

3. It must be noted that the interest rate on a loan includes an appropriate credit risk premium reflecting the borrower's credit risk profile. If the borrower's credit risk profile changes, REs will be free to adjust the credit risk premium in accordance with the contract terms and conditions and existing instructions.
4. The amount of penal costs will be proportional to the number of defaults/non-compliances with material terms and conditions of the loan contract that exceed a certain level. The REs will decide this criterion, which must not be discriminatory within a certain loan / product category.
5. Individual borrowers' penal charges shall not be higher than nonindividual borrowers' penal charges in the case of loans sanctioned for reasons other than business.
6. Penalties and the conditions precedent thereto shall be clearly disclosed to consumers by REs in the loan agreement and most important terms and conditions / Key Fact Statement (KFS) as appropriate, as well as listed on REs website under Interest rates and Service Charges.
7. When Borrowers are sent reminders to pay instalments, the related penal cost must also be notified.
8. The REs must ensure that there is a clearly laid out Board-approved policy on penal charges or equivalent charges on loans, under whatever name they are referred to.
9. The implementation of 'penal charges' in place of 'penal interest' will be subject to proper assessment during the RBI's supervisory investigation.

### **1.2.2. Master Direction on Outsourcing of Information Technology Services**

The Reserve Bank of India (RBI), with a view to ensure that IT services outsourced by Regulated entities (REs) to Service Providers are governed in an efficient manner, has issued the Master Direction on Outsourcing of Information Technology Services, 2023. The direction shall become applicable from 1st October 2023.

The Master Directions inter-alia are applicable on banking companies, primary co-operative banks, non-banking financial companies in the Middle, Upper and Top Layer (as defined under Scale Based Regulation).

The IT Strategy Committee was largely responsible in the existing IT Directions for the purposes of Outsourcing; however, under the new Directions, the responsibility with respect to governance have been clearly delineated by deciphering the responsibilities of the Board, Senior Management, and IT Function.

These Directions shall apply to Material Outsourcing of IT Services arrangements i.e.,

- I. those that have a significant impact on the NBFC’s business operations, reputation, strategic plans, or profitability or the NBFC’s capacity to manage risk and comply with the law;
- II. or have a material impact on the NBFC’s customers in the event of unauthorised access, loss, or theft of customer information.

The Board shall be responsible, inter alia, for:

- I. putting in place a framework for approval of IT outsourcing activities depending on risks and materiality;
- II. approving policies to evaluate the risks and materiality of all existing and prospective IT outsourcing arrangements.

Before outsourcing any of its IT services or activities, a Board Approved IT Outsourcing policy has to be put in place which will lay down the roles and responsibilities of the Board, Senior Management, IT function, business function along with oversight and assurance functions. Few of the underlying objectives of the policy is to:

- I. evaluate the risks and materiality of all the existing and prospective IT sourcing arrangements;
- II. monitor, manage, mitigate, and report any risks that may be associated with IT outsourcing, to the board committee in a timely manner; and
- III. ensure business continuity plans including exit of any third-party service provider, etc.

Under the Directions, a legally binding agreement shall be executed which shall clearly define the rights and obligations of the NBFC and the service providers respectively. With respect to the enforceability and the legal effect of the agreement, the terms and conditions of the agreement shall be carefully defined and vetted by the NBFC.

Integral part of the Outsourcing Agreement shall be:

- I. Types of data/information that the service provider is permitted to share with the customers of the Regulated Entities or any other party;
- II. Obtaining prior consent from the Regulated Entities before the sub-contractors are engaged by the service providers so as to make the service providers contractually liable for the performance and practices of its sub-contractors; and
- III. Maintain confidentiality of data of the Regulated Entities and its customers and put in place a non-disclosure agreement in terms of the information retained by the service provider to ensure service provider’s liability to the Regulated Entities in the event of any security breach and leakage of information, etc.

Finally, with respect to cross-border outsourcing, the NBFC shall closely monitor the policies of the Service Provider’s jurisdiction on a continuous basis and set up mitigation measures based on the country’s risk. Third-party vendors, consultants, and subcontractors are all subject to the requirements outlined in these Directions.

While currently existing norms are in place to supervise NBFCs’ outsourcing of its non-core activities, the RBI has recognised the necessity for separate guidelines for outsourcing IT services as India takes a leap in Fintech.



Furthermore, NBFCs with existing IT services outsourcing arrangements now have to examine whether such arrangements will qualify as 'Material Outsourcing of IT Services' under the requirements as specified by the RBI. Notably, these factors are not the same, as those which were used to establish whether an NBFC is outsourcing 'core managerial operations' (which are forbidden under the Existing Outsourcing Frameworks).

NBFCs would also further need to reassess their outsourcing agreements and reconsider captive outsourcing arrangements. NBFCs seeking to embark into newer outsourcing contracts shall carefully consider the outsourcing agreement criteria outlined in these Directions.

### **1.2.3. Statement on Developmental and Regulatory Policies**

The Reserve Bank of India released a Statement on Developmental and Regulatory Policies on 6th April 2023. Through this release the regulator has set out certain developmental measures for the following:

- I. Financial Markets
- II. Regulation and Supervision
- III. Payment and Settlement System

#### **Financial Markets**

##### **Developing an Onshore Non-deliverable Derivatives Market-**

1st June 2020 onwards Banks which operate IFSC Banking units were allowed to transact in INR Non-deliverable foreign exchange derivative contract with only Non-Residents or each other. Now, the RBI is looking to permit Residents to transact in INR NDCCs in the Onshore Market. The banks can now settle the NDCC transactions with non-residents or themselves (INR and Foreign Currency) or with Residents (INR only). This measure will deepen the Indian Foreign exchange market and give residents more options in meeting their hedging needs.

#### **Regulatory and Supervision**

##### **Enhancing Efficiency of Regulatory Processes-**

The RBI has taken into consideration the long and cumbersome regulatory processes (both on-line and off-line) that a regulated entity has to go through. To speed up and enhance the various regulatory processes the RBI has announced to develop a secured centralized portal- 'PRAVAAH' (Platform for Regulatory Application, Validation And AutHorisation). The portal will bring better efficiency in the regulatory processes and will help in obtaining timely approvals or other applications.

##### **Development of Centralised Web portal for Public to Search Unclaimed Deposits-**

The RBI, with a view to ensure that unclaimed deposits that are either in are returned to their rightful owners, has announced to develop a web portal for users which will allow the users to search across multiple banks for unclaimed deposits. The search will be more refined and enhanced with the use of Artificial Intelligence. The RBI has been continuously taking measures



for improving the state of unclaimed deposits. Whereas Banks on their front have been displaying the list of Unclaimed Deposits on the website. The use of AI is a step in the right direction and will lead to faster and more efficient results.

### **Grievance Redressal Mechanism relating to Credit Information Reporting-**

The RBI has announced that it will establish a comprehensive framework to reinforce and improve the effectiveness of the grievance redressal system and customer service provided by credit institutions and CICs. In furtherance of the same the CICs are being brought under the aegis of Reserve Bank Integrated Ombudsman Scheme. Apart from this, compensation mechanism for delayed updation, SMS alert when customer's information is accessed by CICs etc. are also planned to be introduced. The RBI will issue detailed guidelines in the near future.

### **Payment and Settlement System**

#### **Operation of Pre-Sanctioned Credit Lines at Banks through the UPI-**

To further increase the use of UPI, RBI has announced that it is enabling the transfer to / from pre-sanctioned credit lines at banks. UPI can now facilitate payments that are financed by Credit from banks. Recently, RuPay Credit Cards were linked with UPI ecosystem.

The RBI's vision in allowing pre-approved credit limits at banks to be accessed via UPI will encourage growth and revolutionize customers access credit. The ability to obtain pre-approved credit lines via UPI will significantly reduce the time and effort required for customers to secure loans, hence driving economic growth and development.

## **1.3. International Financial Services Centre Authority**

### **1.3.1. IFSCA (Re-insurance) Regulations, 2023**

The International Financial Services Centres Authority (IFSCA) has notified the IFSCA (Re-insurance) Regulations, 2023, with the intention of creating a framework for regulating and controlling re-insurance business inward and outward arrangements by IFSC Insurance Offices (IIOs).

The term "re-insurance" shall have the same meaning as defined in sub-section (16B) of Section 2 of the Insurance Act of 1938. Re-insurance, as defined by section 2(16B) of the Insurance Act of 1938, is the insurance of a portion of one insurer's risk by another insurer who accepts the risk for a mutually agreed premium.

According to the new regulations, each IIO must create and record its Re-insurance Strategy and Re-insurance Programme (RSRP), which must be an integral component of the IIO's overall underwriting strategy and risk management philosophy. The RSRP should contain policies and procedures for selecting and managing reinsurance arrangements. Each IIO shall develop a segment-specific retention policy to be duly authorised by its Board and should maximise retention proportionate with its financial strength and risk quality while ensuring that the re-insurance arrangements are not spearheading. Any IIO may initiate and submit a proposal for the formation of an insurance pool to the Authority for prior approval.



## I. Discussion Papers

### Introduction to ESG

#### Why ESG (Environmental Social and Governance)

The world is undergoing a lot of global challenges such as climate change, global warming, depletion of natural resources, gender inequalities, and balancing economic needs with societal needs. So, considering financial results only is not appropriate we need to take into consideration non-financial factors as well.

ESG stands for Environmental, Social, and Governance. The three pillars that companies should adopt in order to improve their practices and achieve the desired results. ESG contains a set of principles guiding the company on non-financial aspects. It is a more stake-holder centric approach, taking into consideration all different factors.

As ESG increasingly becomes top of mind for directors, it is essential to consider the nuances in this topic in which the future of mankind lies.

Environmental Pillar- It takes Planet into consideration. If we break down and understand what is environment, it means, what surrounds us. We as human beings cannot function in isolation. This pillar takes into consideration the effects of air, water, and soil pollution; greenhouse gases and carbon emission reduction; recycling measures; deforestation.

Social Pillar- The social aspect covers the human factor. Various factors that are important for society at large. The company is required to report on how they manage their employee development, labour practices, and working conditions. They need to look at quality, health, and safety standards set up while selling goods and services to customers.

Governance Pillar- It includes what the company does to continue the organization's smooth functioning. It comprises of anti-corruption practices, shareholder's rights, and diversity of the board of directors and executives.

### Environment, Social, and Governance Reporting



Source: <https://earlymetrics.com/esg-ratings-how-can-a-business-environmental-and-social-impact-be-measured>



## How is ESG different from CSR-

ESG are standards through which a company communicates on sustainability, on the basis of which investors screen their investments, on the other hand, CSR are business practices where a company's activity enhances the world around them. The main difference between CSR and ESG is that CSR is an internal initiative to fulfill a corporate purpose, while ESG reflects a company's external impact while doing business.

CSR focuses on the organization's internally-defined social impact vision and ESG is a set of criteria for evaluating a company's impact. Looking at the global scenario for ESG, corporates are now looking at this through the lens of business opportunities, new markets that can open up and sell to, cost reductions, and also integrated risk management. We need to understand the significance of sustainability in order to move towards ESG.

## Sustainability and Sustainable Development

Sustainability consists of fulfilling the needs of the current generation without compromising on the needs of future generations while ensuring the balance between economic growth, environmental care, and social well-being. Sustainability means the ability to continue over a period of time. There are four pillars of Sustainability i.e., Social Sustainability, Human Sustainability, Economic Sustainability, and Environmental Sustainability.

Development is a global need; every country is required to continue the development process in order to support the needs of its citizens. But this should not lead to irresponsible development. The development shall be done keeping sustainability in mind. Sustainable Development is an organizing principle that aims to meet human development goals while also enabling natural systems to provide necessary natural resources and ecosystem services to humans.

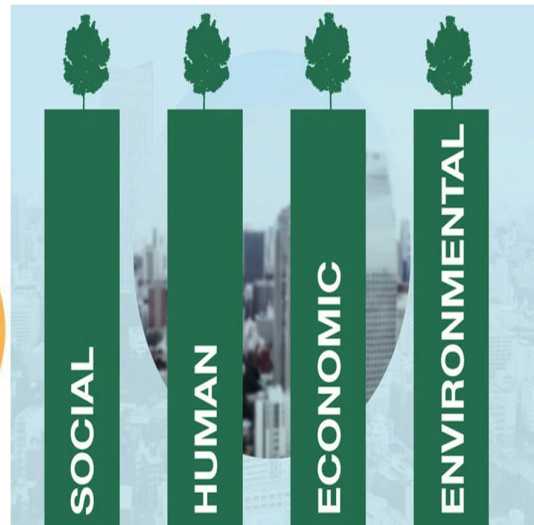


Illustration 1

Illustration 2

Source:

1. [https://www.researchgate.net/figure/The-interconnection-of-the-elements-of-the-Triple-Bottom-Line-concept\\_fig1\\_329185478](https://www.researchgate.net/figure/The-interconnection-of-the-elements-of-the-Triple-Bottom-Line-concept_fig1_329185478)

2. RMIT University 2017

## Environmental Social and Governance (ESG) Reporting-

ESG Reporting talks about the disclosure requirements with respect to Environmental, Social, and Governance related data. The 3Ps model earlier gave priority first to Profit followed by People and





Planet however, dynamics have been changed, priority is first to Planet followed by People and Profit. Now the company is not only required to focus on financial factors but on non-financial factors as well. The purpose is to shed light on the activities carried out by the company on ESG activities and to provide transparency to investors at the same time to be a source of inspiration to others.

By way of reporting, it demonstrates that goals are met by the company and its efforts to genuinely meet goals, not just greenwashing. ESG reporting provides qualitative and quantitative data about the company which provides a better perspective to investors to screen their investment, align their goals with that of the company and avoid companies that have risky propositions that may lead to environmental damage or other adverse circumstances.

**Conclusion:**

With the adaption of ESG Reporting by corporates, millennials and environmentally conscious persons are more interested to attach with the purpose of the brand. Sustainability aligned purpose of the company also reduces employee attrition, lowers risk of financial penalties resulting from regulatory compliance breaches, reduction of the cost of production which leads to an increase in profits derived with a Purpose.

x-x-x-x

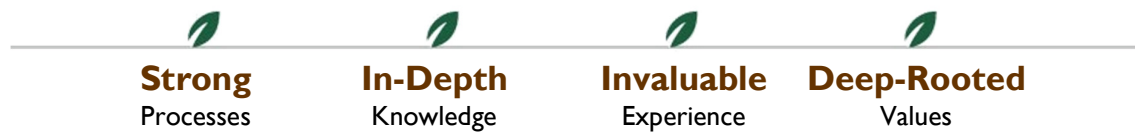


## About Basilstone

Basilstone Consulting Private Limited ('Basilstone') has been promoted to partner with the society and its businesses to achieve their true potential and help realize their vision. We work closely with our clients and enrich their growth by offering them solution driven consultancy services in the areas of strategic planning, incubation, impact analysis, idea validation, product validation, feasibility study, synergy evaluations, fund raising, restructuring, transaction advisory, representation – guiding on regulatory / non-regulatory meetings, succession planning, Inbound and outbound investment, due diligence, dealing with regulatory / statutory authorities, etc.

We, at Basilstone aim to position ourselves as the 'Go to Consultants' for **Simple Solutions & Value Creation** recognised by our clients for delivering ultimate desired results.

The Purpose of Basilstone is to provide simple solutions and create value backed by:



We clearly resonate ourselves with the ever-growing Basil, inspiring us to imbibe the quality of being natural and pure while we adapt to changing conditions and innovation. The rock-solid Stone is representative of our endurance, stability, permanence and our determination, paving the path of value creation for our clients and our firm allegiance to our principles.

Basilstone is the quintessential blend of traditional values and modern thoughts which are echoed in the experience, enthusiasm and energy of its people and translated in the services rendered to its clients.

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