



atharv

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

I. Regulatory Updates and their Expected Impact:

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- I.1.1. Extension of timeline for implementation of provisions of circular dated September 20, 2023 on Redressal of investor grievances through the SEBI Complaint Redressal (SCORES) Platform and linking it to Online Dispute Resolution platform.
- I.1.2. Revised framework for computation of Net Distributable Cash Flow (NDCF) by Infrastructure Investment Trusts (InvITs).
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I. Regulatory updates & it's expected impact

I.1. Securities & Exchange Board of India

I.1.1 Extension of timeline for implementation of provisions of circular dated September 20, 2023 on Redressal of investor grievances through the SEBI Complaint Redressal (SCORES) Platform and linking it to Online Dispute Resolution platform.

- a. Previously circular was issued for the implementation of an Online Dispute Resolution Platform and Redressal of grievances through the SCORES platform to be implemented by December 04, 2023.
- b. There was also required to apply for SCORES Authentication and/or for Application Programming Interface (API) integration with SCORES within such period to ensure that Designated Bodies can comply with provisions of the said circular by December 04, 2023
- c. The date of Implementing the circular has been shifted to April 01, 2024 for better implementation and adoption. The entities however, shall continue to submit the Action Taken Report (“ATR”) on SCORES within 21 calendar days from the date of receipt of the complaint as directed

I.1.2 Revised framework for computation of Net Distributable Cash Flow (NDCF) by Infrastructure Investment Trusts (InvITs)

- a. Regulation 18(16) of SEBI (Infrastructure Investment Trust) Regulations, 2014 outlines the computation of Net Distributable Cash Flow (NDCF) at both the Infrastructure Investment Fund (InvITs) and Hold. Co. /SPV levels. The minimum distribution requirement is set at 90% of NDCF (Net Distributable Cash Flow) for both levels, subject to compliance with the Companies Act, 2013, or the Limited Liability Partnership Act, 2008.
- b. To enhance Ease of Doing Business, a standardized framework for calculating Net Distributable Cash Flows by InvITs and their Hold. Co. /SPVs have been introduced. The revised framework, detailed in Annexure A, aims to streamline the computation process, providing clarity and consistency in reporting.
- c. The revised NDCF framework will come into effect from April 1, 2024, replacing the existing framework outlined in Paragraph F of Chapter 3 of the Master Circular for Infrastructure Investment Trusts dated July 6, 2023.

Impact:

This regulatory update signifies a move towards a more uniform and simplified approach in determining and reporting NDCF in the real estate investment sector.



1.1.3 Revised framework for computation of Net Distributable Cash Flow (NDCF) by Real Estate Investment Trusts (REITs)

- a. Regulation 18(16) of SEBI (Real Estate Investment Trust) Regulations, 2014 outlines the computation of Net Distributable Cash Flow (NDCF) at both the Real Estate Investment Trust (REIT) and Hold. Co. /SPV levels. The minimum distribution requirement is set at 90% of NDCF (Net Distributable Cash Flow) for both levels, subject to compliance with the Companies Act, 2013, or the Limited Liability Partnership Act, 2008.
- b. To enhance Ease of Doing Business, a standardized framework for calculating Net Distributable Cash Flows by REITs and their Hold. Co. /SPVs have been introduced. The revised framework, detailed in Annexure A, aims to streamline the computation process, providing clarity and consistency in reporting.
- c. The revised NDCF framework will come into effect from April 1, 2024, replacing the existing framework outlined in Paragraph F of Chapter 3 of the Master Circular for Real Estate Investment Trusts dated July 6, 2023.

Impact:

This regulatory update signifies a move towards a more uniform and simplified approach in determining and reporting NDCF in the real estate investment sector.

1.1.4 Consultation Paper on framework for issuance of subordinate units and unit-based employee benefits – REITs and InvITs

The regulator has proposed a framework for the issuance of subordinate units by REITs and InvITs to sponsor their associates, additionally, another framework is of unit-based employee benefits (UBEB) in the context of REITs and InvITs

- I. Proposed Framework for Subordinate Units:
 - a. Issuance Restrictions: Subordinate units under the proposed framework can only be issued to the sponsor, its associates, and the sponsor group and shall have inferior voting rights compared to ordinary units.
 - b. Issuance Process: Subordinate units can be issued in the initial offer or subsequent offerings post the initial offer. Post-initial offer issuance requires prior approval from 75% of unitholders by value. Sponsor entities and related parties are restricted from voting on such matters.
 - c. Separation and Consideration: Subordinate units and ordinary units should have separate ISINs. They are not considered for mandatory minimum unitholding requirements applicable to sponsors.
 - d. Conversion and Entitlement: The entitlement date and performance benchmark for converting subordinate units to ordinary units must be clearly defined in the offer document. A one-time extension in the entitlement date is allowed for a maximum



period of one year, subject to conditions. A minimum one-year gap is required between issuance and entitlement date/event for conversion.

- II. Unit-Based Employee Benefits (UBEB) Scheme:
 - a. Manager's Role: REIT or InvIT managers can offer UBEB schemes for their employees based on the units of REIT or InvIT.
 - b. Employee Benefit Trust (EB Trust): Implementation of the scheme should be through a separate EB Trust created by the manager. Units held by EB Trust are solely for providing unit-based employee benefits, with no transfer or sale of units except for this purpose.
 - c. Trustee Restrictions: The trustee of the EB Trust cannot vote on REIT/ InvIT units it holds. Unitholding of the EB Trust, for disclosure to the stock exchange, should be categorized as "non-sponsor and non-public."
 - d. Regulatory Compliance: Sebi's insider trading rules apply to the manager, investment manager, directors, key managerial personnel, recipients of UBEB, and EB Trust.

I.1.5 Consultation paper on review of provisions of NCS Regulations and LODR Regulations for ease of doing business and introduction of fast-track public issuance of debt securities

- a. There is a proposal for a reduction in the Face value of NCDs and NCRPS from 1lakh to 10,000 for issuers, this has been brought to promote participation from non-QIBs as well. Merchant bankers shall carry out due diligence of such privately placed NCDs. Further, such NCDs and NCRPS shall be plain vanilla, interest/dividend-bearing instruments with a simple structure.
- b. While filing the offer documents attaching all the financial statements shall make the application heavier and may lead to technical difficulties while applying, so the financials shall be attached through a QR Code.
- c. Details of certain information required for the current year such as Related Party Transactions, Remuneration of directors, etc. to be specified as required up to the latest quarter, since the issuer needs to close the books of accounts to finalize certain information.
- d. It has been proposed the shut period be standardized to 15 days before the due date of payment of interest/ redemption which was not fixed. In market parlance, the shut period refers to the number of days between the record date and the interest payment date/ redemption date.
- e. The debenture trustee requires a Due Diligence certificate at the time of filing of the application, whose format has been prescribed. Comments have been received to harmonize the format of the NCS Regulation and of the Debenture Trustee Master Circular.

- f. As per LODR Regulation there is a requirement to submit financial statements in the newspaper, they are submitted to exchanges which in turn are displayed on the website so they are available to the public. To save resources and cost, the requirement to make it available in newspapers is now optional.
- g. The concept of Fast Track public issue has been brought as a proposal, as the majority of the money raised in India by Private Placement. Thus, there is scope in the corporate debt market to explore avenues to encourage public issuances of debt securities to boost the participation of non-institutional investors, consequently broadening the investor base.

1.1.6 Credit of units of AIFs in dematerialized form

- a. Process is prescribed wherein AIF units are dematerialised but demat details of investors are not available for crediting units to the same.

1.1.7 Circulars for Stock Brokers.

- a. All payment requests of clients received on a day shall be processed on or before the next settlement day. In cases where the payment request is not processed on the same day, SB/CMs (stock brokers, clearing members) need to ensure that the funds of the client are placed with CC (clearing corporations)
- b. Stock brokers or clearing members cannot avail of any funded or non-funded banking facilities based on FDRs created out of clients' funds.
- c. FDRs to be created only with banks, which satisfy the clearing corporations' exposure norms as specified by them and/or SEBI.
- d. Units of Mutual Fund Overnight Schemes (MFOS) is a new avenue being made available to stock brokers and clearing members to deploy client funds. Stockbrokers and clearing members should maintain a dedicated demat account for the subscription/redemption of MFOS units. Subscription and redemption transactions shall be allowed only from the said account.
- e. Trading Member shall ensure that funds, if any, received from clients, whose running account has been settled, remain in the "Up Streaming Client Nodal Bank Account" and no such funds shall be used for settlement of the running account of other clients.



1.1.8 Consultation Paper on changes in the regulatory framework for Special Situation Funds

SEBI has proposed necessary changes in the regulatory framework of Special Situation Funds (SSF):

- a. 'Special situation asset', inter alia, includes securities of investee companies, whose stressed loans are acquired in terms of Clause 58 of RBI Master Directions.
- b. SSFs having prior investment in securities of stressed companies shall not be disqualified/banned from acquiring stressed loans of the said companies.
- c. SSFs shall not invest in or acquire a special situation asset if any of its investors is disqualified in terms of Section 29A of the Insolvency and Bankruptcy Code about such special situation asset.
- d. Special situation funds shall not invest in its 'related parties'.
- e. SSF shall transfer/sell stressed loans, acquired in terms of Clause 58 of RBI Master Directions, only to the entities enlisted in the Annex of RBI Master Directions.
- f. SSF shall submit necessary information as prescribed and SSFs shall be subject to the necessary supervisory framework.

1.1.9 Simplification of requirements for the grant of accreditation to investors.

- a. Framework Simplification: The circular aims to simplify the accreditation of investors by Accreditation Agencies. Accreditation Agencies, also serving as KYC Registration Agencies (KRAs), can access KYC documents from their database and other KRAs.
- b. Basis for Accreditation: Accreditation will be granted solely based on the KYC and financial information of the applicants. The accreditation certificate includes a disclaimer emphasizing that it doesn't exempt market intermediaries and investment vehicles from necessary due diligence during onboarding.
- c. Validity Period Revision: The validity period of the accreditation certificate is revised. If the applicant meets eligibility criteria for the preceding financial year, the accreditation is valid for two years. If the applicant meets the criteria for each of the preceding two financial years, the accreditation is valid for three years. Newly incorporated entities meeting net-worth criteria receive a two-year validity, even without financial information for the preceding financial year.



- d. Documentation Revisions: Annexure A and Annexure B of the circular, detailing the modalities of accreditation and documents required for accreditation, have been revised.
- e. Communication to Subsidiaries: Stock Exchanges and Depositories are directed to inform their subsidiaries recognized as Accreditation Agencies about the circular's provisions.

Impact:

It simplifies investor accreditation through KYC and financial data, with revised validity periods. Newly incorporated entities benefit from a two-year validity, while a disclaimer emphasizes continued due diligence by market intermediaries. The streamlined process aims to enhance flexibility and investor protection, aligning with evolving financial criteria.

1.1.10 Principles of Financial Market Infrastructures (PFMIs)

- a. SEBI, as a member of IOSCO, has committed to adopting and implementing the CPSS-IOSCO Principles for Financial Market Infrastructures (FMIs) in its regulatory functions. The PFMIs issued in April 2012 consist of 24 principles designed to ensure the robustness and resilience of the global financial market infrastructure.
- b. Full, timely, and consistent implementation of PFMIs is crucial for ensuring the safety, soundness, and efficiency of key FMIs, supporting the resilience of the global financial system. Global central clearing requirements emphasize the need for strong safeguards and consistent oversight of derivatives Central Counterparties (CCPs) in particular.
- c. PFMIs apply to systematically important FMIs, including Central Counterparties (CCP), Central Securities Depository (CSD)/Securities Settlement System (SSS), Payment and Settlement Systems (PSS), and Trade Repositories (TR). These principles aim to enhance safety, efficiency, transparency, financial stability, and the protection of participants and investors.
- d. The different categories of FMIs identified under PFMIs include:
 - 1. Central Counterparties (CCP) that interpose themselves between counterparties to contracts.
 - 2. Central Securities Depositories (CSD) that provide safekeeping services for securities.
 - 3. Securities Settlement Systems (SSS) enabling the transfer and settlement of securities.
 - 4. Payment Systems (PSS) facilitating fund transfers among participants.
 - 5. Trade Repositories (TR) maintain a centralized electronic record of transaction data.



- e. SEBI-regulated Depositories and Clearing Corporations are considered systemically important FMIs. These FMIs, providing essential facilities and performing critical functions, are required to comply with the PFMLs specified by CPSS-IOSCO.
- f. SEBI has established a framework for the self-assessment of PFMLs by regulated FMIs. The assessment includes a periodic evaluation against the 24 principles, classified as "quantitative" and "qualitative". The results of the self-assessment are disclosed by FMIs on their websites, contributing to transparency and accountability in adhering to international standards.

Impact:

SEBI's adoption of CPSS-IOSCO Principles ensures global standards in financial market infrastructure. The self-assessment framework for SEBI-regulated entities enhances transparency and adherence to 24 principles, reinforcing market safety and efficiency. This approach aligns with international best practices, instilling confidence and promoting comprehensive risk management and systemic stability.

1.1.11 Amendment to Circular dated July 31, 2023 on Online Resolution of Disputes in the Indian Securities Market.

- a. Previously the circular was issued for the Online Resolution of Disputes, as per the representations issued there are a few changes made in this circular, such as the scope of applicability has been increased through these circulars.
- b. Fees charges, costs, and other expenses involved in mediation shall be as prescribed by the board or as agreed upon. The claims/complaints/disputes that arise from the activities or roles performed or to be performed by the specified intermediaries or regulated entities.
- c. Entities obtaining registration as intermediaries or getting their securities listed after the circular's implementation must enroll in the ODR Portal immediately upon receiving registration or listing approval from the Board.
- d. Listed companies, their registrars, transfer agents, specified intermediaries, and regulated entities in Schedules A and B, along with institutional or corporate clients, must initiate claims or disputes following Clause 3(a) and/or 3(b), unless the matter is non-arbitrable under Indian law or involves disputes against the Government of India, President of India, or State Governments/ Governors.
- e. In Clause 20(a), it is clarified that the conciliator's determination in online arbitration serves only to establish an admissible claim value for fee computation purposes. However, investors, clients, market participants, and arbitrators are not bound by this



determination when making, defending, or deciding the actual claim, complaint, or dispute.

- f. According to Clause 20(b), when an investor/client initiates online arbitration against a Market Participant, the latter must participate in the process. Within 10 days of arbitration initiation, the Market Participant must deposit 100% of the admissible claim value with the relevant MII and pay the applicable fees for online arbitration. Failure to comply may lead to action by MIIs and/or the Board.
- g. As per Clause 20(c), if a Market Participant intends to pursue online arbitration after the conciliation process (administered by the ODR Institution), it must notify the ODR Institution within 10 days of the conciliation conclusion. Within the subsequent 5 days, the Market Participant must deposit 100% of the admissible claim value with the relevant MII and pay the applicable fees for initiating online arbitration.

Impact:

Widening the scope of the circular suggests a more comprehensive approach, signalling regulatory responsiveness to a broader range of disputes. Requiring immediate enrolment in the ODR Portal for newly registered entities accelerates their integration into the dispute resolution system, promoting timely and effective participation. Mandating Market Participants' active participation and timely financial commitments underscores the focus on accountability, ensuring fair and efficient dispute resolution.

1.1.12 Business Continuity for Clearing Corporations through Software as a Service (SaaS) Model

- a. Clearing Corporations (CCs) are directed to implement a Software as a Service for Risk Management System (SaaS-RMS) model. Client CCs shall design risk operations using software from another CC, the service provider, for efficient risk management.
- b. The client CC manages real-time risk functions, while the service provider CC supplies the RMS software and associated processes. Client CC is responsible for detecting and reporting system issues; the service provider ensures software functionality.
- c. SaaS-RMS handles intraday risk, computes margins, and facilitates member interactions for collateral addition and allocation.
- d. CCs shall decide to shift to SaaS-RMS within 30 minutes during issues, activating all activities promptly. Quarterly mock sessions train members and ensure familiarity with SaaS-RMS.



- e. CCs and exchanges must establish agreements defining roles and responsibilities for SaaS-RMS. Standard Operating Procedures are to be prepared, and infrastructure updates should be completed within 30 days, with progress reported to SEBI.

Impact:

It emphasizes on swift adoption of the SaaS-RMS model for efficient risk management among CCs. Clear division of roles between client and service provider CCs, along with streamlined operational procedures, ensures a seamless transition during system issues. The directives promote prompt implementation, including infrastructure updates and communication with SEBI, to enhance the redundancy model within 30 days.

1.1.13 Consultation Paper on “Introduction of optional T+0 and optional Instant Settlement of Trades in Addition to T+1 Settlement Cycle in Indian Securities Markets”

- a. Consultation paper is introduced facility for clearing and settlement of funds and securities on same-day settlement (T+0) of trades on the stock exchange and real-time settlement on an Optional basis in addition to existing T+1 settlement cycle in secondary markets.
- b. Phase-wise implementation has been proposed, first phase trades till 1:30 PM will be completed by 4:30 on the same day. In phase two an optional immediate trade-by-trade settlement would be carried till 3:30 PM. To facilitate this an API-based interface shall be developed.

Impact:

This shall free up the margins and boost liquidity in the market. This shift shall require high investor education and will impact the business of brokers due to the reduced float period.

1.1.14 Extension of timelines for providing ‘choice of nomination’ in eligible demat accounts and mutual fund folios

As per the previous circular, the last date for submission was 31st December 2023, but due to representations received from the market participants and for ease of compliance, it has been decided to extend it to June 30th 2024.



1.1.15 Consultation Paper on amendments to SEBI Regulations with respect to verification of Market Rumours.

- a. It has been proposed that rumours which are about material events or information should require verification by the listed companies. Currently, it is as per the requirements of LODR Regulations. Materiality definition in terms of price movement in the scrips of the listed company has been proposed. The calculation to define price movement has been provided in the annexures.
- b. It has been suggested that an unaffected price should be considered when the listed entity confirms the market rumours due to material price movements. It has been proposed that the unaffected price shall be applicable for 60 days from the confirmation of the market rumours till the relevant date under existing regulations. However, in case of competitive bidding for a potential M&A deal, where the sole bidder is not identified the period shall be of 180 days. A different framework has been proposed.
- c. The obligation to provide adequate, accurate, and timely responses to queries raised or explanations shall be on the promoters, directors, KMP, and Senior Management.
- d. It has been proposed that in case the listed entity has classified certain information as UPSI and the entity neither confirms, denies, or clarifies market rumour about such information published in the media, then such media reports should not be used later by an insider as a defence that the information was 'generally available'.

1.1.16 Framework for Social Stock Exchange (“SSE”)

- a. To attract more participants and make instruments available for trading for Retail investors, there was a reduction in the minimum issue size of public issuance of Zero Coupon zero Principal Instruments (ZCZP) by non-profit entities from 1 crore to 50 lakhs.
- b. Minimum application size has been reduced to 10,000 from 2 lakhs so that participation can be increased to a larger extent.
- c. NPOs are permitted to disclose past social impact reports in the fund-raising document as per their existing practice subject to disclosure of key parameters.



1.1.17 Master Circular for Online Resolution of Disputes in the Indian Securities Market

- a. SEBI had issued a master circular previously, in which changes have been made by SEBI. Non-adherence to the rule may lead to action against them by MIs and SEBI.
- b. SEBI has made quite changes in the Master circular, market participants against whom the investor pursues the online arbitration will participate in the arbitration process. In which, within 10 days of initiation of online arbitration by the investors, the market participants will deposit 100% of the admissible claim value with relevant MI and make payment of arbitration fees.
- c. In case the, market participants plan to pursue online arbitration then they will inform the ODR institution within 10 days of the conclusion of the conciliation process for initiating the online arbitration.
- d. SEBI has modified the slab of above 50 lakhs for arbitration fees to “Above 50 lakh- 1 crores”

1.1.17 Informal Guidance- Arihant Capital Markets Ltd.

- a. Can the company make payment to shareholders instead of the acquirer as part of the proposed scheme of demerger, if yes whether the entire payment can be made in terms of approved capital reduction? Before the expiry of the stipulated offer period of 2 years.

Response: The obligation to pay is on the acquirer. Further, the requirement of an exit offer shall remain applicable till the expiry of 2 years.

1.1.18 Informal Guidance- Athena Alternative Investment Trust

Informal Guidance regarding investment by Cat III AIF in Mutual Fund units: Investment in Mutual Funds is not covered under permissible investments by a Category III AIF. However, an un-invested portion of the investable funds and divestment proceeds pending distribution to investors of AIFs (including Cat III AIFs) may be invested in liquid mutual funds.

1.2. Reserve Bank of India

1.2.1. Investments in Alternative Investment Funds (AIFs)

The Reserve Bank of India has issued a circular on December 19, 2023 on “Investments in Alternative Investment Funds for regulating investments in AIF’s by banks and financial institutions. The circular applies to the following Regulated Entities:



- 1 All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
- 2 All Primary (Urban) Co-Operative Banks/State Co-Operative Banks/ Central Co-Operative Banks
- 3 All All-India Financial Institutions
- 4 All Non-Banking Financial Companies (Including Housing Finance Companies)

As per the circular, Regulated Entities are prohibited from investing in any Alternative Investment Funds (AIFs) that engage in 'downstream investments'—directly or indirectly—in a 'debtor company of such Regulated Entity.' The term 'debtor company of the Regulated Entity' refers to any company to which the Regulated Entity has had a loan or investment exposure at any time during the preceding 12 months.

If an AIF scheme, in which the relevant Regulated Entity is already an investor, makes a 'downstream investment' in such a debtor company, the Regulated Entity is required to liquidate its investment in the scheme within 30 days from the date of the downstream investment. If investments in such schemes were made before the issuance of these Instructions, the 30-day divestment period will commence from the date of the Instructions.

Should Regulated Entities be unable to liquidate their investments within the stipulated timeframe, they are obligated to make 100% provisions on these investments. Furthermore, investments by Regulated Entities in the subordinated units of any AIF scheme employing a 'priority distribution model' will result in a full deduction from the Regulated Entity's capital funds. It is essential to note that priority distribution models are currently under consideration by the Securities and Exchange Board of India. While the Reserve Bank of India (RBI) does not explicitly prohibit Regulated Entities from subscribing to these subordinated units, it has introduced a substantial economic disincentive to discourage such investments.

Impact:

The Circular is poised to have an impact on larger REs with affiliated AIFs. The broad and indiscriminate scope of the directive signifies a complete cessation of fund flow from REs to both affiliated and general AIFs. While the restriction targets AIFs invested in "debtor companies," navigating overlapping investments poses a practical challenge for REs. This will trigger immediate disinvestment pressure on AIFs.

1.2.2. Fair Lending Practice - Penal Charges in Loan Accounts: Extension of Timeline for Implementation of Instructions

Initially scheduled to be enforced from January 1, 2024, the circular delineating instructions on penal charges in loan accounts has undergone a judicious reconsideration by the RBI. Acknowledging the imperative for additional time and clarifications, the implementation timeline has been extended by three months.



According to the circular, REs are now granted until April 1, 2024, to seamlessly integrate the revised instructions into their operational frameworks.

For fresh loans initiated post this date, adherence to the new penal charges regime is mandatory. In the context of existing loans, the transition is slated to take effect on the subsequent review/renewal date, occurring on or after April 1, 2024, but no later than June 30, 2024.

To foster clarity and facilitate a comprehensive understanding of the circular's nuances, the RBI is poised to release a curated set of Frequently Asked Questions (FAQs). These elucidating FAQs will be readily accessible on the RBI website in the near future.

1.2.3. RBI-Internal Ombudsman for Regulated Entities) Directions, 2023

The Reserve Bank of India (RBI) on December 29, 2023, issued the Master Direction - Reserve Bank of India (Internal Ombudsman for Regulated Entities) Directions, 2023. This Master Direction brings in uniformity in matters like timeline for escalation of complaints to the IO, exclusions from escalating complaints to the IO, temporary absence of the IO, minimum qualifications for appointing the IO and updation of reporting formats, in addition to introduction of the post of Deputy Internal Ombudsman. These instructions are expected to further strengthen the IO mechanism and in turn, the Internal Grievance Redress system in regulated entities apart from providing ease of compliance.

Key Highlights of the Master Direction:

1. Timely Resolution of Customer Complaints:

REs and their Internal Ombudsmen (IOs) are mandated to ensure that the final decision on customer complaints is communicated within 30 days from the complaint receipt date. This initiative aims to enhance consumer grievance redressal and elevate customer service standards within the regulated entities.

2. Appointment of Internal Ombudsmen (IOs) and Deputy Internal Ombudsmen (DIOs):

REs, including banks, Non-Banking Financial Companies (NBFCs), Non-bank System Participants, and Credit Information Companies, have the flexibility to appoint one or more IOs and DIOs based on the volume of received complaints.

3. Automated Complaints Management Software:

REs must establish a fully automated Complaints Management Software. Complaints rejected by the internal grievance redress mechanism should be auto-escalated to the IO within 20 days for a final decision.

4. Access to Complaint Management Software:



REs are required to provide "read-only" access to their Complaint Management Software, allowing IOs to monitor and follow up on cases of delayed escalation. IOs should have access to add their decisions on escalated complaints within the Complaint Management Software.

5. Binding Decision by Internal Ombudsman:

The decision of the IO is binding on the RE, except in cases where the RE has obtained approval to disagree with such decisions.

6. Communication of IO's Decision:

If the IO upholds the RE's decision, the reply to the complainant must explicitly state this fact. If the IO overrules the RE's decision, the reply should indicate that the IO's decision favored the complainant.

7. Disagreement with IO's Decision:

In cases where the RE disagrees with the IO's decision, approval from the Competent Authority is required.

8. IO/DIO Tenure and Age Limit:

IOs/DIOs, appointed on a contractual basis, should not be over 70 years of age before completing their tenure. The IO/DIO tenure in the regulated entity is fixed, ranging from three to five years, with no eligibility for reappointment or term extension.

1.2.4. MHP Exemption for Transfer of Receivables

In a circular dated December 28, 2023, the Reserve Bank of India RBI has taken a stride to bolster the secondary market operations of receivables acquired within the ambit of the 'factoring business,' as outlined in the Factoring Regulation Act, 2011.

The RBI has granted an exemption from the Minimum Holding Period requirement for eligible transferors, contingent upon meeting the following conditions:

- 1 Firstly, the residual maturity of the receivables at the time of transfer should not exceed 90 days.
- 2 Additionally, the transferee must adhere to proper credit appraisal procedures, specifically outlined in clauses 10 and 35 of the provided directions, ensuring a thorough evaluation of the drawee of the bill before acquiring such receivables.



I Discussion Papers

Unlocking Opportunities through Fractionalisation of Asset Classes

Introduction

Fractionalization refers to the process of dividing an asset into smaller, more affordable units, allowing investors to purchase fractions of the whole. Traditional investing has long been characterized by certain barriers that often limited participation to a select group of affluent individuals or institutional investors. This shift in investment dynamics has democratized access to a diverse array of asset classes. Investors are no longer constrained by the need to accumulate significant amounts of capital to enter the market. Instead, they can purchase fractional shares or units, enabling them to participate in the ownership and potential returns of high-value assets without the need for a substantial upfront investment.

Need for Fractionalisation

Fractionalisation of asset class addresses the challenges of traditional investing, here are the reasons for the same: -

1. Democratizing Access to Investments

- High minimum investment acts as a entry barrier for investors at large to participate hence owning a part of asset enables wider participation.
- Digital platforms have emerged world-wide that encourage investors at large with lower ticket size to participate in asset classes by fractionalising the same.

2. Enhancing Portfolio Diversification

- As fractional ownership of asset classes allows wider participation, hence the investors can diversify their capital across various asset classes

3. Liquidity and Flexibility

- As greater number of investors will be participating, the same will enhance liquidity of such asset class.
- Increased liquidity will provide flexibility to investors for managing their portfolios based on changing market conditions

4. Innovation in Investment Models

- Fractionalisation is led by various digital platforms catering specifically to fractional ownership. It has enabled evolution of financial markets and fostering responsive investment environment.

SEBI – Micro, Small and Medium (MSM) REITs

In India, web based fractional ownership platforms were developed providing investors an option to invest in buildings and office spaces including warehouses, shopping centres, conference centres, etc. with minimum investment ranging between Rs.10 Lakhs to Rs.25



Lakhs. Some prominent platforms were handling AUM ranging from approximately Rs.130 crores to Rs. 950 crores.

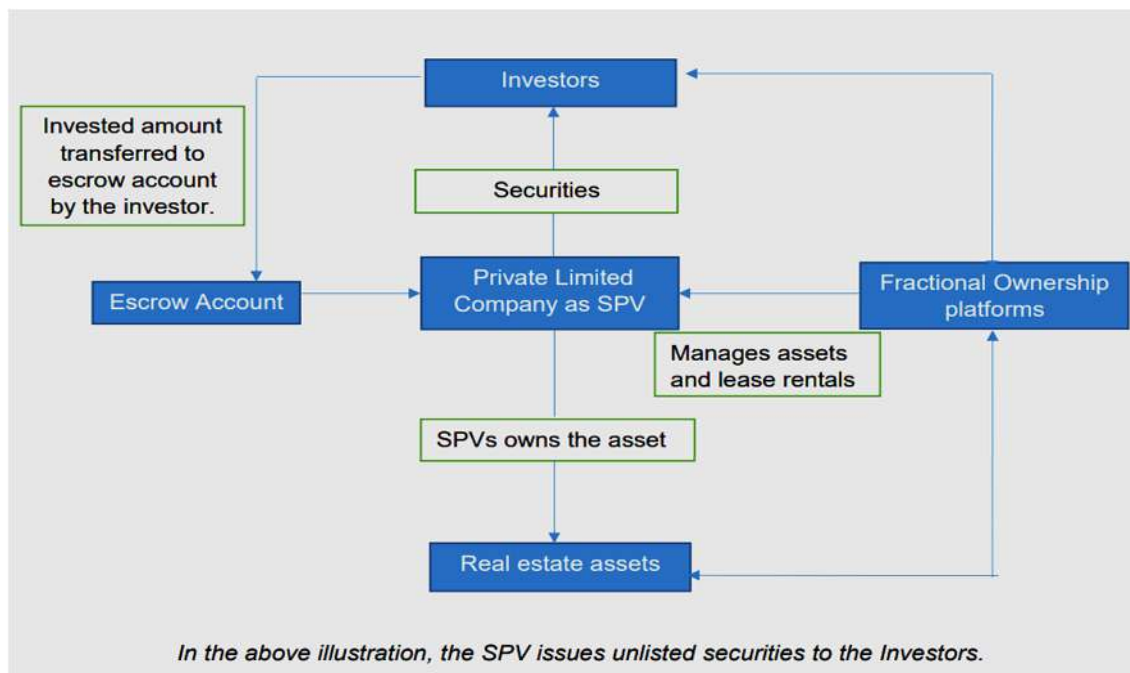
With the rising demand for such platforms offering fractional ownership in real estate, regulatory framework for the same was necessitated. Hence, SEBI in its recent board meeting dated 25th November 2023 has approved the proposed amendments to SEBI (Real Estate Investment Trusts) Regulations, 2014 with respect to MSM REITs.

Fractional Ownership Platforms (FOP) provide an avenue and an opportunity to bring together diverse set of investors and create joint or fractional ownership of such real estate. The main advantage of FOPs is that a group of people can pool in money and jointly purchase real estate.

The transaction flows in following manner: -

1. The property is first identified by the FOP.
2. The identified property is listed on the website of FOP seeking expression of interest from public.
3. On receipt of expression of interest, the placement memorandum to subscribe to the securities issued by the private limited company i.e. Special Purpose Vehicle (SPV) which will purchase the real estate asset or which own the real estate asset are forwarded to the investor.
4. The investor transfers the amount to the escrow account.
5. The investors are allotted the securities.

The operational flow of fractional ownership platform operates in following manner (before the implementation of Regulatory framework): -



*Source: SEBI



Global Practices

Globally, other securities like bonds and equities are also offered in fractional manner. In United States of America, many online brokerage platforms offer such facility to their clients. For the purpose of trade execution, some brokerage firms allow their clients to buy or sell fractional shares in real-time just like full shares. However, some brokerage firms aggregate orders to handle their customer's buying and selling of fractional shares. Aggregating orders means rather than filling each fractional share order in real-time, the brokerage firm collects these orders throughout the day and then executes one or more large orders to fulfill them. Corporate Actions are also granted to the extent of fractional shares held by investor.

In similar manner, fixed income securities are also offered in fractionalised manner.

The way forward

The matured fractional ownership platforms worldwide are moving a step ahead by integrating blockchain based methods in the investment journey to make it faster and improve transparency.

In India, the move by SEBI of regulating the fractional ownership platform in the real estate investment is a positive move and paves the path towards future of fractionalisation of various different asset classes and attracting greater retail participation across all asset classes. As these platforms continue to mature, their impact on democratizing access to diverse investment opportunities is likely to be a key driver of financial innovation in the Indian market. However, the evolution will also depend on regulatory dynamics, investor education, and the ability of these platforms to adapt to changing market conditions.

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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:

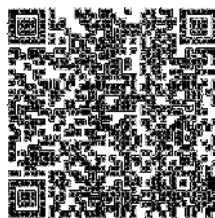


We clearly resonate ourselves with the ever-growing Basil, inspiring us to imbibe the quality of being natural and pure while we adapt to changing conditions and innovation. The rock-solid Stone is representative of our endurance, stability, permanence and our determination, paving the path of value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