



# atharv

January 2022

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Basilstone Consulting is pleased to present to you the **January 2022** issue of **atharv**, covering regulatory insights as well as discussion papers. This issue covers the following areas:

## **I. Regulatory Updates and its expected Impact:**

### **1.1. Securities & Exchange Board of India**

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- 1.1.2. Introduction of Special Situation Funds as a sub-category under Category I AIFs
- 1.1.3. Framework for operationalizing the Gold Exchange in India
- 1.1.4. Informal Guidance – Clarification on Applicability of Provisions of SEBI (Research Analysts) Regulations, 2014 by HDFC Securities

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

- 1.2.1. Framework for facilitating Small Value Digital Payments in Offline Mode
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## I. Regulatory updates & its expected impact

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

#### I.1.1. Change in control of the Asset management company involving scheme of arrangement under Companies Act, 2013

The process of providing approval to the proposed change in control of an AMC involving scheme of arrangement which needs sanction of National Company Law Tribunal (“NCLT”) in terms of the provisions of the Companies Act, 2013 shall be as below:

- i. The application seeking approval for the proposed change in control of the AMC under Regulation 22(e) of MF Regulations shall be filed with SEBI prior to filing the application with the NCLT.
- ii. Upon being satisfied with compliance of the applicable regulatory requirements, an in-principle approval will be granted by SEBI;
- iii. The validity of such in-principle approval shall be three months from the date of issuance, within which the relevant application shall be made to NCLT
- iv. Within 15 days from the date of order of NCLT, applicant shall submit the following documents to SEBI for final approval:
  - a. Application for the final approval;
  - b. Copy of the NCLT Order approving the scheme;
  - c. Copy of the approved scheme;
  - d. Statement explaining modifications, if any, in the approved scheme vis-à-vis the draft scheme and the reasons for the same; and
  - e. Details of compliance with the conditions/ observations mentioned in the in-principle approval provided by SEBI

Other procedures for Change in Control of AMC as per Circular dated 04 March 2021 shall continue to remain same.

**Impact:** This shall help in streamlining the process for applying for change of control and obtaining prior approval for scenario where both NCLT and SEBI approvals are required and in-principle approval from SEBI provides clarity on submission to NCLT.

#### I.1.2. Introduction of Special Situation Funds as a sub-category under Category I AIFs

- i. A sub-category of funds i.e. Special Situation Funds (SSF) has been introduced under Category I AIF, which shall invest in special situation assets.
- ii. Each scheme of SSF shall have a corpus of atleast Rs 100 Crore Rs
- iii. Amount to be accepted from an investor – Not less than Rs 10 Crores  
 Amount to be accepted from an accredited investor – Not less than Rs 5 Crores  
 Amount to be accepted from investors who are employees or directors of the SSF or employees or directors of the manager of the SSF – Minimum Rs 25 Lakhs



- iv. SSF intending to act as a resolution application under IBC, 2016 shall ensure compliance with eligibility requirement thereunder
- v. Further specific guidelines have been specified for SSF acquiring stressed loan in terms of Clause 58 of the Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (‘RBI Master Direction’)

**Impact:** This shall help as an alternative method to rescue many businesses under financial stress and will also become an alternate structure for many investors to deploy their resources and help in rescuing the stressed assets much before the actual financial default.

### 1.1.3. Framework for Operationalizing the Gold Exchange in India

SEBI Board in its meeting held on September 28,2021 approved the framework for Gold Exchange and SEBI (Vault Managers) Regulations, 2021.

The stock exchange/s desirous of facilitating trading in electronic gold receipts (EGRs) may apply to SEBI for approval of trading of EGRs in new segment. EGRs have been recognized as gold receipts under the Securities Contracts (Regulation) Act 1956.

**Impact:** With EGR’s made fungible and interoperability between vault managers, it shall help in lowering costs associated with the withdrawal of golds from the vault. Further, it shall also help in increasing the reach of gold exchange.

### 1.1.4. Informal Guidance – Clarification on Applicability of Provisions of SEBI (Research Analysts) Regulations, 2014 by HDFC Securities

The Head of Research was responsible for assisting the research analysts by mentoring junior analysts, ensuring consistency of research product and reviewing/approving the work done by the analysts, which implies that the head of Research was engaged in the preparation of the content and issuance of Research report, thus being classified under the definition of Research Analyst.

**Impact:** Head of research being identified as a research analyst is required to be in compliance of the limitation on trading as stipulated under the RA Regulations i.e. he shall not deal or trade in securities that the research analyst recommends or follows within thirty days before and five days after the publication of research report.

## 1.2. Reserve Bank of India

### 1.2.1. Framework for facilitating Small Value Digital Payments in Offline Mode

RBI has issued a framework for Small Value Digital Payments in Offline Mode. According to the circular, an offline digital payment means a transaction which does not require internet or telecom connectivity. Under this new framework, such payments can be carried out face-to-face (proximity mode) using any channel or instrument like cards, wallets, mobile devices, etc.



Such transactions would not require an Additional Factor of Authentication (AFA). Since the transactions are offline, alerts (by way of SMS and / or e-mail) will be received by the customer after a time lag. Transactions are subject to a limit of ₹200 per transaction and an overall limit of ₹2000 for all transactions until balance in the account is replenished. Balance replenishment can only occur in an on-line mode. Offline mode of payment can be enabled only after obtaining specific consent of the customer.

**Impact:** Offline transactions are expected to give a push to digital transactions in areas with poor or weak internet or telecom connectivity, particularly in semi-urban and rural areas. The new framework is applicable with immediate effect.

### 1.2.2. Registration of Factors (Reserve Bank) Regulations, 2022

RBI has issued the captioned regulations, superseding the earlier requirements applicable to NBFC-Factors pertaining to registration. The regulations permit NBFC-ND-ICC companies having asset size of INR 1,000 Crore and above to undertake factoring business, without separate registration as a NBFC-Factor.

**Impact:** The Regulations would now permit a vast number of large NBFCs to undertake factoring business, thereby increasing the industry and competition manifolds.

## 1.3. International Financial Services Authority

### 1.3.1. SWIFT Operations by IBUs

IFSCA has notified that the SWIFT operations from International Banking Units (IBU) shall be undertaken by assigning maker / checker roles to suitable staff of IBU itself, to ensure data confidentiality and protection. This, in turn, means neither Indian / Foreign branches, nor Third-Party vendors can be utilized for the said purpose.



## 2. Discussion Papers

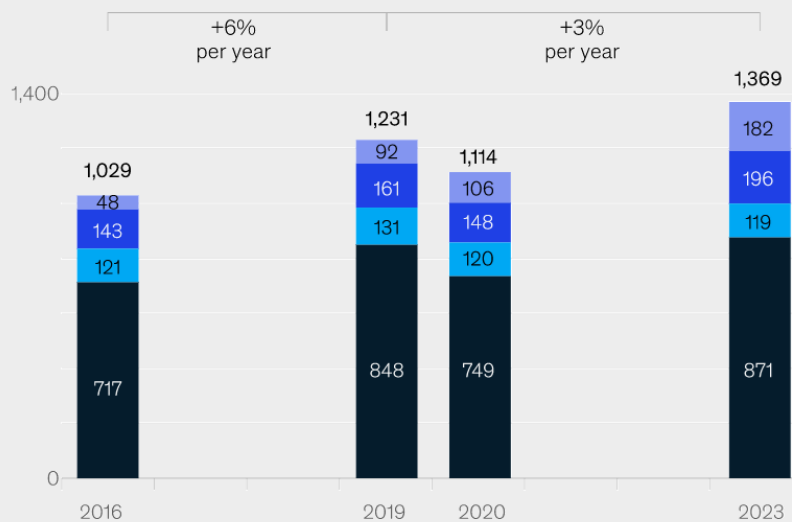
### 2.1. Buy Now Pay Later (BNPL) – An introduction

Buy now, pay later (BNPL) solutions is a Point of Sale (POS) Customer financing, which allow consumers to pay in interest-free instalments on credit availed – sort of a mix between a Credit Card and EMI Loan. BNPL is continuing to grow in popularity as people seek alternative methods of financing - a trend exacerbated by the pandemic. The BNPL industry has modernized layaway and instalment payments to offer consumers flexible payment options for their purchases. Compared to credit cards, intended to be used repeatedly, BNPL solutions are applied to individual transactions - appealing to consumers who want to make less of a financial commitment, even on lower ticket items.

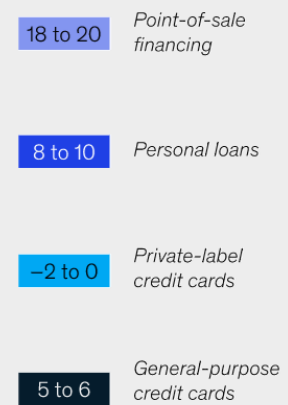
The BNPL industry is estimated to rack up \$680 billion in transaction volume worldwide in 2025. That forecasts a compound annual growth rate (CAGR) of 13.23% from the \$285 billion the industry was estimated to record in 2018.

While some BNPL solutions are available in-store, they are native to ecommerce checkout, making them more widely available when shopping online. And with ecommerce sales climbing an estimated 44.4% year-over-year (YoY) in Q2 2020, more consumers may choose to use BNPL solutions more regularly if they haven't already.

Outstanding balances for unsecured lending products,<sup>1</sup> \$ billion



CAGR,<sup>2</sup> 2020–23, %



<sup>1</sup>Includes all consumer and small-business credit cards, installment-based products offered at point of sale, personal loans. Excludes overdrafts and student loans.

<sup>2</sup>Compound annual growth rate.

Source: Federal Reserve; TransUnion; McKinsey Consumer Finance pools

As a product, BNPL seems to be a win-win proposition for all in the ecosystem. The seller gets instant payment and increased cart value, increased conversion rates and overall footfall and the consumer gets affordable solutions that increase her purchasing power.



## 2.1.1. BNPL in India

India's credit card penetration is much lesser than its global peers and this has widened the opportunities for BNPL. Though credit cards are one of the most lucrative products for a bank, the credit card penetration continues to be low in India compared to developed countries. This can be attributed to the conservative approach of banks that issue credit cards only to cater to limited segment of the population.

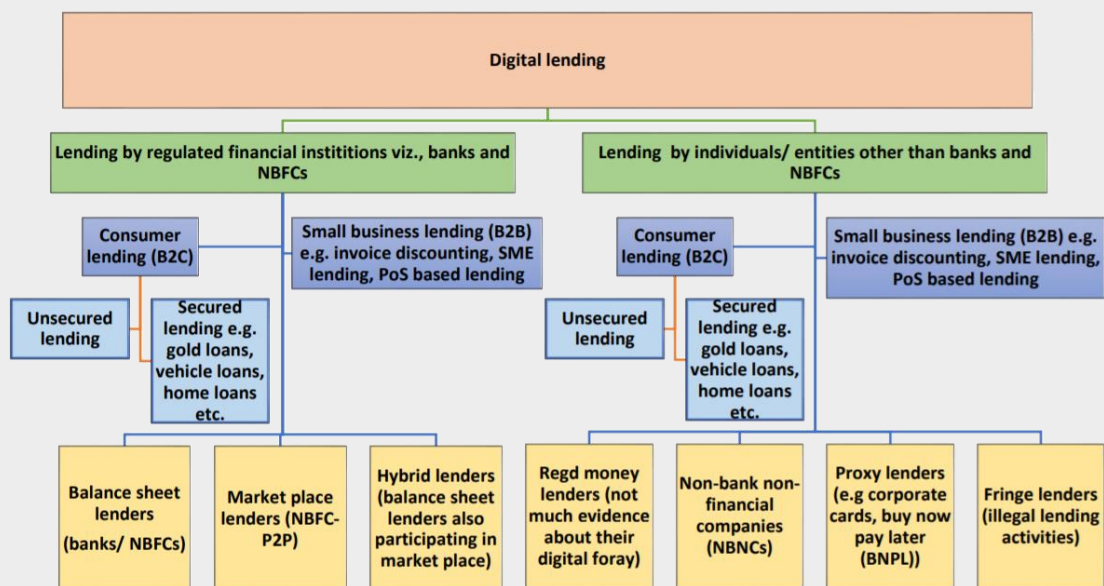
The pandemic has permanently affected the shopping habits of Indians. The increase in e-commerce penetration and online shoppers, particularly in tier II and tier III cities, presents a huge market opportunity to BNPL players. The sheer convenience of using a BNPL service is acting as a catalyst in boosting demand. The pandemic has also fuelled awareness among consumers and merchants about how a fully digital BNPL offering solves for both 'access to credit' and 'convenience of usage'.

It is expected that about 300 million people would be buying a smartphone for the first time in their lives in the coming years, thus leading to a huge demand for short-term loans. Additionally, the push from brands to make purchases more and more affordable for aspirational products is also driving the growth of BNPL offerings.

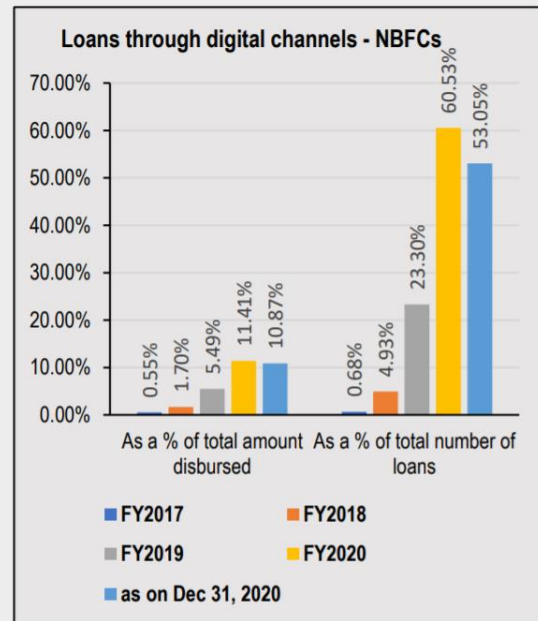
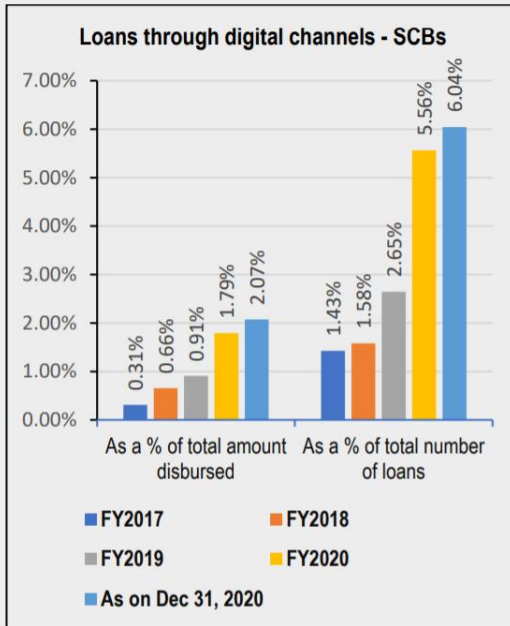
The most prominent disadvantage for the players in the space is late re-payment / defaults. The start-ups mostly cater to new to credit or low credit score customers and underwriting models need to be extremely robust for dealing with such a customer base. Recovery mechanism for delays / defaults may not be feasible for high volume low-ticket size loans.

## 2.1.2. Regulatory Environment

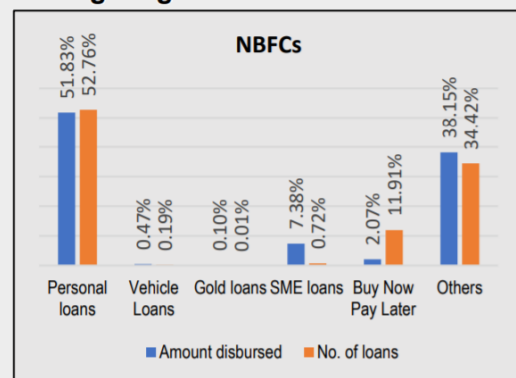
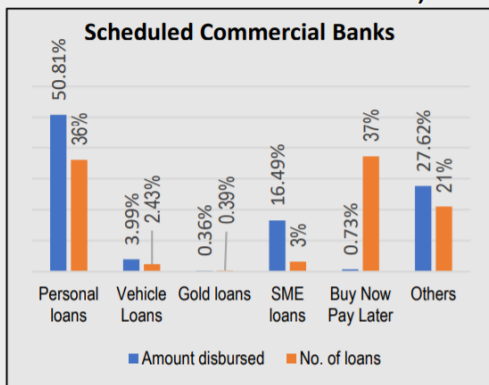
RBI's Working Group on Digital Lending has provided recommendations as discussed below. It has broadly classified the digital lending space as:



The regulator's report has highlighted some major facts of BNPL product in India:



### Percentage share of different types of loans in total loans (both amount as well as number of loans) disbursed through digital channels



It is pertinent to note that over 37% of all Digital Channel Loans (by volume) disbursed by Scheduled Commercial Banks are BNPL.

The Working Group has recommended BNPL to be treated as part of Balance Sheet lending, if not in the nature of operational credit by merchants. The working group has therefore, made recommendations to bring the BNPL product within the regulatory space, considering it as a type of Loan.

### Concluding Remarks

In the regulatory space, there did not exist any ambiguity in classifying BNPL as a credit product. However, not so prudent interpretations have tried to guise it as a Payment processing product.



India has closely regulated the lending business and the growth of financial products through RBI. The regulator has been clear in defining BNPL (and its predecessor 'consumer durable loans') as a lending product. The significance of digitization of traditional lending and payment products has enthused the country in creating an environment that is conducive for employing these at a large scale. This has ensured sustainable growth along with promoting innovation for the industry when consumer appetite for these offerings is exponentially picking up. The wide-scale adoption and exponential growth of Unified Payment System further driving the adoption of BNPL in the country.

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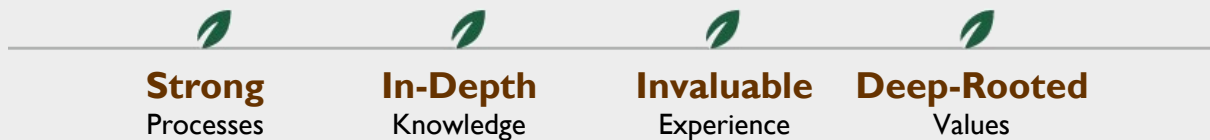


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Basilstone is the quintessential blend of traditional values and modern thoughts which are echoed in the experience, enthusiasm and energy of its people and translated in the services rendered to its clients.

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