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

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1.1. Securities & Exchange Board of India

1.1.1 Transactions in corporate bonds through Request for Quote Platform by Stock Brokers (SBs)

a. SEBI is taking steps to increase the liquidity on the RFQ Platform of the stock exchange in order to support that they have decided that w.e.f. 1st July 2023 for all the trades in a proprietary capacity, SBs shall undertake at least 10% of their total secondary market trades by value in CBs in that month by placing/seeking quotes through one-to-one (OTO) or one-to-many (OTM) mode on the RFQ platform of stock exchanges. It shall be applicable to at least 25% by 1st April 2024.
b. SBs shall consider trades executed by value through the OTO/OTM mode of RFQ with respect to the total secondary market trades in CBs during the current month and immediately preceding two months on a rolling basis. Only trades pertaining to the proprietary capacity of SBs shall be considered for the purpose of such calculations.
c. The stock exchanges are required to make changes as required in order to incorporate such requirements.

Impact:
This would increase liquidity on the RFQ Platform as traders are mandatorily required to do 10% of their total trade on this platform. The RFQ platform provides users a range of options to seek a quote and to respond to a quote while keeping an audit trail of all the interactions i.e., quoted yield, mutually agreed price, deal terms, etc.

1.1.2 Online processing of investor service request and complaints by RTAs.

a. In order to digitize the process of submitting service requests and complaints to RTAs, the Securities and Exchange Board of India (SEBI) has issued a circular proposing to implement a two-phase online system.
b. Phase I of the online system will be implemented by Qualified Registrars and Transfer Agents (QRTAs) from January 1, 2024, and by all other registered RTAs dealing with listed companies from June 1, 2024. The online system will have the following features:
   - Investors will be able to apply for login credentials and view their holdings.
   - They will be able to lodge service requests and complaints and track the status of their requests.
   - The system will display a number of categories for service requests and complaints and a list of documents required to be provided by investors.
   - Investors will receive alerts about the status of their requests through SMS or email.
c. Phase II of the online system will be implemented by QRTAs from July 1, 2024. Under Phase II, a common website will be made and operated by QRTAs through which investors will be redirected to individual web-based portals/websites of the concerned RTA for further resolution by putting the name of the listed company.

d. The online system will be scalable with robust cyber security protocols. RTAs will provide a certificate of compliance from a practicing Company Secretary within 30 days from the date of implementation of Phase I.
e. This circular is applicable to RTAs that deal in folios of listed companies. While transferring the business from one RTA to another, the listed company shall ensure that the new RTA is in compliance with the provisions of this circular.

Impact:
Online processing of investor services requests and complaints by RTAs is a positive step that will benefit investors, RTAs, and the securities market as a whole. It would help in increasing efficiency as they would be able to track their request and save efforts. It would enhance securities and transparency.

1.1.3 Participation of Mutual Funds in Repo Transactions on Corporate Debt Securities.

SEBI has amended its circular on the participation of mutual funds in repo transactions on corporate debt securities. The amendment allows mutual funds to participate in repo transactions on listed AA and above-rated corporate debt securities, commercial papers (CPs), and certificate of deposits (CDs). The credit rating of exposure on repo transactions shall be as that of the underlying securities, i.e., on a look-through basis. For transactions where settlement is guaranteed by a Clearing Corporation, the exposure shall not be considered for the purpose of determination of investment limits for the single issuer, group issuer, and sector-level limits. The provisions of this circular shall come into force with immediate effect.

Impact:
With this change, Mutual Funds will be able to access a wider pool of liquidity, improve their risk-adjusted returns, and manage their risk, Investors would be able to make more informed decisions by having more information about the repo transactions of Mutual Funds.

1.1.4 Upstreaming of clients' funds by Stock Brokers (SBs)/ Clearing Members (CMs) to Clearing Corporations (CCs)

a. This circular sets forth a framework for the upstreaming of client funds by stock brokers (SBs) and clearing members (CMs) to clearing corporations (CCs). The framework is designed to safeguard client funds by ensuring that they are not held by SBs or CMs overnight.
b. Under the framework, all client funds received by SBs or CMs must be up streamed to a CC before a stipulated cut-off time. The funds can be up streamed in the form of either cash, a lien on FDR, or a pledge of units of Mutual Fund Overnight Schemes (MFOS).
c. Client's funds can be up streamed via FDRs created out of the client's funds. Conditions are provided in the circular to be followed by SBs/ CMs, such as-

- SBs/CMs may create FDRs out of Client's Funds only with those banks which satisfy CC's exposure norms.

- FDR created out of clients' funds shall necessarily be lien-marked to one of the CCs at all times.
- CCs shall have explicit precedence on the FDR funds over every other stakeholder, including over the bank providing the FDR.
- Tenure of such FDRs shall not be more than one year and the FDR should be pre-terminable on demand.
- The principal amount of the FDR shall remain protected throughout the tenure, even after accounting for all possible pre-termination costs.
- SBs/CMs shall not avail of any funded or non-funded banking facilities based on FDRs created out of clients' funds.

d. New avenue is being made available to SBs/CMs to deploy their funds into MFOS (Mutual Fund Overnight Schemes) which ensures minimal risk transformation of the client's funds (that are withdrawable on demand) available with for overnight tenure and exposure to only risk-free government securities and overnight tri-party repo dealings and settlement (TREPS). Conditions are prescribed in the circular to be followed in such cases.

e. Other than the FDRs (liened to CCs) and MFOS (pledged to CCs) any remaining client funds with SBs/CMs shall be up streamed to a CC before a stipulated cut-off time.

f. The requirement for change in the name of Bank Accounts has been mentioned in the circulars, and the time limit for upstreaming and down streaming of funds has been suggested in the circular. Cases have been provided in which SBs/CMs can seek the withdrawal of the client's funds. Withdrawal shall be processed within two hours from the time it was requested.

g. Monitoring Mechanisms have also been placed in order to look at the functioning of SBs/CCs.

> **Impact:**
> This has been put as a safeguard to client's funds which are placed with SBs/CMs. With this circular in place, there is a new avenue for SBs/CMs to put the client's money in Mutual Funds Overnight Schemes (MFOS) so that their money remains safe and misutilisation of the client's funds can be prohibited and this would lead to transparency.

1.1.5 Regulatory Framework for Execution Only Platforms facilitating transactions in direct plans of scheme of Mutual Funds.

a. SEBI has come up with a regulatory framework for Execution Only Platforms which has to be followed by the persons providing execution services in direct plans of Mutual Fund Schemes.

b. Such frameworks were used by often availed by investors who are not their clients in terms of SEBI (Investment Advisers) Regulations, 2013 or SEBI (Stock Brokers) Regulations, 1992. No specific framework is presently available for the investors and they might not have recourse or protection for the risks associated with respect to such transactions. Therefore, a need was felt to strike a balance between investor convenience and investor protection.

c. Two categories of EOP have been formed, Category-1 shall act as an agent of AMCs and/or RTAs authorized by such AMCs to facilitate transactions with Mutual Funds. The entity may act as an aggregator of the transactions in direct plans of schemes of

Mutual Funds and provide services to investors/other intermediaries. Category- II shall operate as an agent of investors and operate only through the platforms provided by the Stock Exchanges. The entity shall not act as an aggregator of the transactions in direct plans of schemes of Mutual Funds and shall provide services to investors directly.

d. Both the category EOP shall be body corporate. Category-I shall obtain registration from AMFI, Category- II shall obtain registration from as Stock Broker under Stock Broker Regulations.
e. SEBI mandated EOPs to maintain investor-level segregation between EOP services and distribution services for mutual fund products, at the entity's group level. Thus, an investor at the EOP's group level may either avail EOP services for transacting in direct plans or distribution services for regular plans of mutual funds. Existing platforms that are providing services similar to Category I EOPs will have to obtain suitable registration under one of the categories of EOPs within three months from the date of the circular coming into applicability. All the required compliances shall be followed by both Category EOPs.

Impact:
There was high traction among investors who were buying direct mutual funds schemes as they are cheaper options. In this lot of investors, advisors were providing advice without getting registered. With this regulation in place, they need to get registered in either of one category, which would help to protect investor's interests at large.

1.1.6 Amendment to Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT)/ Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and the rules framed under.

a. SEBI has made changes in the Master Circular on ML/CFT. In this case amendments are made in the previous circular which are brought in the framework.
b. The changes include-
   - The definition of "group" has been added.
   - The requirement to issue a statement of policies and procedures for dealing with ML and TF has been strengthened.
   - The requirements for customer due diligence (CDD) have been revised, including a reduction in the threshold for triggering enhanced due diligence.
   - New requirements for non-profit organizations have been added.
   - The requirement to identify and assess ML/TF risks associated with new products and services has been added.
   - The guidelines for implementing Section 51A of the Unlawful Activities (Prevention) Act (UAPA) have been updated.
   - The requirement to leverage latest technological innovations and tools for name screening has been added.
   - The definition of "non-profit organization" has been clarified.
c. The intermediaries affected by these changes will need to update their policies and procedures, assess the ML/TF risks associated with new products and services, register the details of non-profit organizations on the DARPAN Portal of NITI

Aayog, and leverage the latest technological innovations and tools for effective implementation of name screening.

Impact:
ML/CFL frameworks play an important role in the organization's operations. So, amendments brought would help in not only to overcome the shortcomings but also to a larger extent apply in a better way.

1.1.7 Adherence to provisions of regulation 51A of SEBI (Issue and Listing of Non- Convertible Securities) Regulation 2021 by Online Bond Platform Providers on Product Offerings on Online Bond Platforms.

a. OBPPs are allowed to offer following securities on its platform
   - Listed debt securities, listed municipal debt securities and listed securitised debt instruments;
   - Debt securities, municipal debt securities and securitised debt instruments proposed to be listed through a public offering;
   - Listed Government Securities, State Development Loans and Treasury Bills;
   - Listed Sovereign Gold Bonds

b. A holding company, subsidiary or associate of an Online Bond Platform Provider or any third party shall not utilize the name/ brand name/ any name resembling to that of the Online Bond Platform Provider or the Online Bond Platform for undertaking any activity or offering products/ securities or services (including offering of unlisted securities) that are not regulated by a financial sector regulator viz. SEBI, RBI, IRDAI, or PFRDA.

c. The securities offered on OBPP are to be settled through RFQ platform or exchange mechanism as prescribed.

d. For Investor grievance Redress Mechanism, OBPPs are required to comply with Chapter VII of Master Circular for Stock Brokers.

Impact:
Widening the ambit of product offering on OBPP by including Sovereign Gold Bonds, Municipal securities will improve retail participation in such securities.

1.1.8 Master Circular on Electronic Gold Receipts

EGR are electronic records of gold deposits in designated vaults that can be traded on stock exchanges. EGR is intended to provide an alternative and cost-effective way of investing in gold without physical delivery. The master circular covers various aspects of EGR such as eligibility criteria, registration process, operational framework, disclosure requirements, risk management, grievance redressal mechanism, and inspection by SEBI. SEBI has come up with a master circular in order to bring all the different circulars into one so it is easy for the person to access the same.

1.1.9 Master Circular on Investment Adviser

In order to streamline the process, SEBI has come up with Master Circulars containing all the applicable circulars which have been issued by SEBI so far. It talks about the Guidelines for Investment Advisers, measures to strengthen the conduct of Investment Advisers, investor complaints, and other miscellaneous areas.

1.1.10 Master Circular on Research Analyst

In order to streamline the process, SEBI has come up with Master Circulars containing all the applicable circulars which have been issued by SEBI so far. It talks about the Guidelines for Investment Advisers, measures to strengthen the conduct of Research Analysts, investor complaints, and other miscellaneous areas.

1.1.11 Master circular for Arrangement for Settlement

SEBI has issued a Master Circular for the Scheme of Arrangement; the master circular replaces the previous circulars listed in Schedule I and brings all the applicable guidelines under one comprehensive document. It emphasizes the need for compliance with the circular's provisions, dissemination of information, and implementation of necessary systems and infrastructure. Listed entities, recognized stock exchanges, and other stakeholders are directed to follow the circular's conditions and make any consequential changes as required.

1.1.12 Master Circular for Issue of Capital and Disclosure Requirements

SEBI's Master circular provides comprehensive guidelines as it covers all the circulars issued by SEBI to date. It provides a comprehensive guide to compliance and regulations. It covers various aspects such as non-compliance penalties, rights issues, disclosures, online filing, and compensation to investors. Market participants, including registered merchant bankers, recognized stock exchanges, and listed entities, should familiarize themselves with this circular to ensure compliance with SEBI guidelines and enhance investor protection.

1.1.13 Trading Preference by Clients

a. In the present situation, clients need to give separate authorization/letters in case they want to trade on different stock exchanges for the same segment or on a different segment.
b. Based on the representation received and from consultation it was decided to standardize the format of "Trading Preference" in order to ensure that clients are permitted to access all the stock exchanges in which the stock brokers are registered for the same segment.
c. From now, all the stock brokers are mandated to register their new clients on all the active stock exchanges after obtaining the trading preferences as per the format given in the circular.
d. For existing clients, the stock brokers are mandated to offer them access on all the active stock exchanges for the segments already opted by them, as a default mode, within three months from the effective date of the circular and inform their respective clients through email / SMS. Clients shall be given a choice to opt out of such access by providing negative consent in this regard. Further, the stock brokers shall activate/deactivate the segments based on the preference of the clients.

Impact:
Basically, with the help of the new format provided stock brokers can obtain all the authorization in one instance only. This will help in operational efficiency and simplification of the process.

1.1.14 Circulars regarding Alternative Investment Fund

a. Valuation of Investment in Securities of AIF shall be as per SEBI (Mutual Funds) Regulations. Valuation norms for those securities not covered within the SEBI (Mutual Fund) Regulations will be as per the standards prescribed by AIF Association.
b. Manager shall be responsible for performing true and fair valuation of investments of AIF. The manager may deviate from the valuation standards prescribe in order to provide a fair and appropriate value. However, if such deviation is exceeding the threshold prescribed in circular then manager shall inform the investor the reasons for such deviation and make relevant disclosures in Placement Memorandum. And any change in methodology and approach for valuation of investments shall be construed as material change.
c. The Valuation shall be based on audited accounts of investee company hence the manager shall ensure such audited information is available within a given time frame so as to ensure submission of performance report to benchmarking agencies within specified timeline of six months.
d. Units of AIF shall be in dematerialised form and time line for the same is prescribed in a phased manner.
e. SEBI has introduced regulatory framework for Corporate Debt Market Development Fund which will be offered to Asset Management Companies and Specified Debt Oriented Funds as prescribed under SEBI (Mutual Fund) Regulations.
f. Additionally, SEBI has also introduced regulatory framework for Liquidation Scheme which will address those investments which could not be sold due to lack of liquidity by the end of tenure of the fund.

Impact:
- Corporate Debt Market Development Fund will ensure in deepening of secondary Debt Markets in India by addressing the uncertainty in the period of market dislocation.
- Liquidation Scheme will ensure that investors of AIF are able to exit at end of the tenure even when the investments of AIF could not be liquidated.
- Prescribing Valuation standards will ensure standardised approach in calculation of NAV of AIF units ensuring comparability among funds.

1.1.15 Disclosure of Information on Issuer Not Cooperating (INC) with CRAs

a. This circular from the Securities and Exchange Board of India (SEBI) outlines the new requirements for credit rating agencies (CRAs) to disclose information on issuers who are not cooperating with them. The circular states that CRAs must disclose two lists of non-cooperative issuers, one for securities that are listed or

proposed to be listed on a recognized stock exchange, and one for other ratings. The lists must be disclosed in the following format:

S. No.	Name of Non-cooperative issuer	Date of categorization of issuer as non-cooperative	Link to the webpage hosting the issuer's press releases

b. The lists must be updated on a daily basis. The circular is effective from July 15, 2023, and CRAs must report on their compliance with the circular to SEBI within one quarter from the date of applicability.
c. The purpose of the circular is to provide enhanced transparency and information regarding non-cooperative issuers to various stakeholders, market participants, and investors. This will help investors to make more informed decisions about whether or not to invest in securities that have been rated by a CRA that has categorized the issuer as non-cooperative.
d. The circular also states that monitoring of the circular will be done in terms of the half-yearly internal audit for CRAs, mandated under Regulation 22 of the CRA Regulations. This will help to ensure that CRAs are complying with the requirements of the circular.

Impact:
Overall, the circular is a positive step towards increasing transparency and information for investors in securities that have been rated by CRAs. It will help investors to make more informed decisions about whether or not to invest in these securities.

1.1.16 Manner of Achieving minimum public holding in InvITs/ REITs

a. As per the regulations, there is a requirement that mandates REITs/InvITs which have public unitholding below 25%, shall increase their public unitholding to at least 25% within a period of three years from the date of listing of units pursuant to the initial offer.
b. For that, different methods are suggested which can be used by them in order to achieve the required public unitholding.
c. The Stock Exchange(s) shall monitor the methods adopted by InvITs/REITs to increase their public unitholding and comply with minimum public unitholding requirements in terms of this circular. Non-compliance, if any, observed by the Stock Exchange(s) with respect to the method(s) and/or conditions prescribed herein, shall be reported to SEBI on a quarterly basis.

1.1.17 Investor Service Centres of Stock Exchange

a. It is mandated that apart from the ISCs that are operating in metro cities (viz., New Delhi, Mumbai, Chennai and Kolkata), stock exchanges having nationwide terminals

shall open ISCs in Ahmedabad, Hyderabad, Kanpur, Indore, Bangalore, Pune, Jaipur, Ghaziabad, Lucknow, Gurgaon, Patna and Vadodara.

b. The ISCs shall be set up by stock exchanges and shall provide the following basic minimum facilities:
   - Four financial daily newspapers, at least one in the regional language of the place where the ISC is situated.
   - A dedicated desktop or laptop with internet connectivity.
   - Facilities for receiving investor complaints in both physical and electronic form.
   - Facilitation desks to assist investors in the dispute resolution process.
   - Arbitration and appellate arbitration facility.
   - A meeting room for at least 5 to 6 persons and additional sitting space for at least 5 to 6 persons.
   - Other infrastructure facilities such as telephone, photocopier, printer, scanner, internet access, furniture, etc.
   - A library on relevant laws and regulations.
   - A register or database of visitors (including investors).

c. The officials at ISCs shall be required to have adequate training on various areas of the securities market. The provisions of the circular shall come into effect from the 90th day of issuance of the circular.

1.1.18 Format of Compliance Report on Governance in REITs/ InvITs

a. As per the regulations, there is a requirement of Compliance Reporting to be done on a Quarterly and Yearly basis and for that purpose SEBI has issued a format of Compliance Tracker which has to be followed.
b. The investment manager shall submit the compliance reports within the specified timelines and the stock exchange shall monitor the compliance of the requirements from time to time.

1.1.19 Format for Annual Secretarial Compliance Report for REITs/InvITs

As per the requirement of REITs/ InvITs regulations, manager shall submit a secretarial compliance report within 60 days from the end of each financial year. It shall be annexed with the Annual Report of the REITs/InvITs. SEBI has issued a circular with respect to the format to be followed for such reporting given in the Annexure.

1.1.20 Trading Supported by Blocked Amount in Secondary Market.

a. SEBI has introduced a supplementary process of trading in the secondary markets based on the blocked fund method instead of transferring them upfront to the trading member. This is similar to the ASBA-like facility already available for the primary market which ensures money is transferred only when allocation happens.
b. Under this, funds will remain in the account of client but will be blocked in the favour of the clearing corporation (CC) till the expiry date of the mandate or till blocks are released by CC.
c. Further settlement of funds and securities will be done by the CC without the need for handling of the client funds and securities by the member.

d. The facility will be provided by integrating Reserve Bank of India (RBI)-approved Unified Payments Interface (UPI) mandate service of single-block-and-multiple-debits with the secondary market trading and settlement process called 'UPI block facility'. To begin with, this facility is available in the equity cash segment. The CCs may extend the facility to additional segments subsequently.

Impact:
This would result in an overall reduction of working capital requirements for members. It would eliminate the custody risk of client collateral, which is presently retained by members and not transferred to the clearing corporation.

1.1.21 Implementation of circular on Upstreaming of clients' funds by Stock Brokers (SBs)/ Clearing Members (CMs) to Clearing Corporations (CCs)

a. SEBI has issued a circular modifying the provisions of its earlier circular on the upstreaming of clients' funds by stock brokers (SBs) and clearing members (CMs) to clearing corporations (CCs).
b. The modified provisions allow SBs/CMs to receive funds from clients beyond the prescribed cutoff time for upstreaming, subject to the condition that there shall not be any further movement of funds from that account (i.e., a debit freeze) till the opening of upstreaming window on the next day.
c. The modified provisions also clarify that the tenor of FDRs created out of clients' funds shall not be more than one year and one day. Existing FDRs (created out of clients' funds and having a tenor of more than one-year) created prior to issuance of the circular shall be allowed to be grandfathered till maturity. Such FDRs at the time of renewal shall meet the conditions specified at some clauses specified in Clause 3 of the circular.
d. The modified provisions shall come into effect from September 01, 2023.

1.1.22 Master Circular for listing obligation and disclosure requirements for Non-Convertible Securities, Securitized Debt Instruments and/or Commercial Papers.

a. SEBI LODR Regulations prescribe the continuous disclosure requirements for the issuer of listed Non-Convertible Securities, Securitized Debt Instruments, and Commercial Paper. Multiple circulars have been issued, over the years, covering the operational and procedural aspects thereof.
b. This Master Circular is a compilation of the relevant existing circulars, with consequent changes. The stipulations contained in these circulars have been detailed chapter-wise in this circular. For ease of reference, each chapter of this Master Circular contains footnotes corresponding to the respective erstwhile circulars. Accordingly, the circulars listed at Annex - I stand superseded by this Master Circular.

1.1.23 Informal Guidance in the case of Vidli Restaurants Limited.

Informal Guidance was sought related to transactions to be taken place relating to shares transfer from one promoter to another.

a. Whether the transaction would trigger the obligation for Dr. Vikram Kamat for an open offer under SEBI SAST Regulations.
b. Whether the above transaction is available for exemption under regulation 10(1)(a)(i) of SAST Regulations to make an open offer.

⇨ On Acquiring shares in VITS Hotel Worldwide Pvt. Ltd., he would indirectly hold 53.98% of voting rights and control over the target company thereby triggering the open offer requirements of Regulation 3 & 4. Exemption under regulation 10 shall not be eligible for automatic exemption as the exemption under this regulation would apply pursuant to the inter-se transfer of shares amongst close relatives.

⇨ In this case, it does not involve the inter-se transfer of shares, but those are acquired indirectly through the transfer of shares thus, not eligible for exemption.

c. Whether Dr. Vikram will be a promoter or person acting in concert with the target company after the aforesaid transaction.

⇨ As per SEBI SAST Regulations it specifies that "promoters and member of promoter group" and "immediate relative" are person acting in concert, unless contrary established. Hence, Dr. Vikram V Kamat would be person acting in concert with others in the promoter group of the target company.

1.2. Reserve Bank of India

1.2.1. Guidelines on Default Loan Guarantee

The Reserve Bank of India (RBI) has been regulating the lending and borrowing industry, but with sudden emergence of digital lending platforms necessitated closer regulation, especially in light of the challenges faced during the pandemic. The digital lending sector has raised serious concerns regarding several issues, including the unchecked involvement of third parties, mis-selling practices, breaches of data privacy, unfair business conduct, excessive interest rates, and unethical debt recovery practices.

RBI thereafter established a Working Group on digital lending, which encompassed lending through online platforms and digital lending apps. The working group thoroughly examined the industry and presented its recommendations in a comprehensive report. Following a detailed review of the WGDL's findings, the RBI issued a press release in August 2022.

After this the RBI issued the Digital Lending guidelines which addressed various aspects of digital lending and provided specific instructions for the industry to follow. One notable provision mentioned in the guidelines was related to the practice of offering financial products involving contractual agreements such as First Loss Default Guarantee (FLDG) or Default Loss Guarantee (DLG)

On June 8 2023, the RBI took a significant step by issuing comprehensive guidelines for Default Loss Guarantee to regulate the operations of digital lending players. These guidelines aim to enhance the stability and credibility of the digital lending sector in India. By introducing DLG

guidelines, the RBI aims to promote responsible lending practices among digital lending platforms. The guidelines became operational immediately i.e., from 8th June 2023.

Under the framework, a Regulated Entity (Banks/NBFCs) is allowed to enter into DLG arrangements only with an LSP or other REs with whom they have an outsourcing arrangement. Under the approved FLDG framework, the RBI has directed REs to ensure that the total amount of DLG cover on any outstanding loan portfolio, as specified upfront, does not exceed **5%** of the total value of that loan portfolio.

For DLG arrangements to be valid, there must be a clear and legally binding contract between the RE and the DLG provider. This contract should include specific details, such as the extent or limit of DLG cover, form in which the DLG cover will be maintained with the RE, the timeline for invoking the DLG and disclosure requirements mentioned in Paragraph 11 of the issued guidelines.

The RE can accept DLG in the form of cash, fixed deposits with a lien marked in favour of the RE, or a bank guarantee issued in favour of the RE. These forms of DLG provide additional assurance and financial security to the RE in case of default. The RE is required to ensure that the total amount of DLG cover on any outstanding loan portfolio, as specified upfront, does not exceed five percent of the loan portfolio's value. In implicit guarantee arrangements the DLG Provider shall not bear performance risk of more than the equivalent amount of five per cent of the underlying loan portfolio.

The RE must follow the standard rules for identifying and provisioning for non-performing loans, regardless of whether there is DLG cover in place for the overall loan portfolio. The RE cannot rely solely on the DLG cover to address individual loan defaults or determine the classification of assets as NPAs. When the DLG is invoked, the amount of DLG invoked should not be offset or deducted from the underlying individual loans. If a borrower fails to make a payment and the loan becomes overdue, the RE has a maximum of **120** days to invoke the DLG. However, if the borrower manages to clear the overdue payment within this timeframe, the RE does not need to invoke the DLG.

The RE needs to make sure that LSPs disclose and share information on their website about the number of portfolios covered by DLG and the specific amount associated with each portfolio. This transparency helps provide clarity and visibility to stakeholders regarding the DLG coverage provided by the LSPs.

The REs would need to have a board-approved policy in place that outlines the criteria for selecting DLG providers, the specific terms and coverage provided by the DLG, how the DLG arrangement will be monitored and evaluated, and any fees that need to be paid to the DLG provider. This policy will serve as a guiding framework for the REs in managing DLG arrangements effectively.

Impact:
This development will be highly significant for the fintech industry in India. The FLDG scheme has been widely anticipated, and its introduction brings clarity and a positive outlook for REs and FinTech's operating in the country.
The approval of the FLDG framework by the RBI is a clear indication of the regulator's support for fostering innovation and collaboration within the fintech sector. It is expected to encourage more partnerships between banks, NBFCs, and fintech startups, leading to the development of a vibrant and inclusive digital lending ecosystem in India.

1.2.2. Remittances to International Financial Services Centre (IFSCs) under the Liberalized Remittance Scheme (LRS)

The RBI on June 22nd released a Notification w.r.t Remittances to International Financial Services Centre (IFSCs) under the Liberalized Remittance Scheme (LRS). The Notification is in continuation to the existing framework for Remittances to IFSC i.e.,

1. A.P. (DIR Series) Circular No. 11 dated February 16, 2021, and
2. A.P. (DIR Series) Circular No. 03 dated April 26, 2023.

The current notification has been issued to ensure that the existing regulations are in line with the Government of India (Ministry of Finance) Notification issued on 23rd May 2022. The notification stated that:
S.O. 2374(E)—
In exercise of the powers conferred by sub-clause (xiv) of clause (e), of subsection (1) of section 3 of the International Financial Services Centres Authority Act, 2019 (50 of 2019), the Central Government hereby notifies courses offered in Financial Management, FinTech, Science, Technology, Engineering and Mathematics by foreign universities or foreign institutions in the International Financial Services Centre, as financial service.
Currently, remittances to IFSCs under LRS are permitted solely for investing in securities as per A.P. (DIR Series) Circular No. 11 dated February 16, 2021. However, following the gazetted notification no. SO 2374(E) dated May 23, 2022, it has been directed that Authorised Persons may facilitate remittances by resident individuals for the purpose of 'studies abroad' as mentioned in Schedule III of Foreign Exchange Management (Current Account Transactions) Rules, 2000.

These remittances are intended for payment of fees to foreign universities or institutions in IFSCs for pursuing courses specified in the aforementioned gazette notification (Financial Management, FinTech, Science, Technology, Engineering and Mathematics only).

1.2.3. Framework for Compromise Settlements and Technical Write-offs

The regulator has recently issued the Framework for Compromise Settlements and Technical Write-offs. This framework is a significant milestone as the RBI brings in a new methodology after Prudential Framework for Resolution of Stressed Assets (PFRSA) introduced 4 years ago on 7th June 2019. The RBI's newest framework serves the purpose of rationalizing and

harmonizing the existing guidance, simplifying the regulatory landscape for all stakeholders involved.

A notable distinction between the new Framework and the previous PFRSA is its expanded applicability. While the PFRSA was applicable to systemically important Non-Banking Financial Companies (NBFC-SI), the revised Framework now includes all the NBFCs including Housing Finance Company. Key features of the Framework have been stated below:

Policy Framework:
Regulated Entities (REs) are now required to establish board-approved policies to govern the process of undertaking compromise settlements with borrowers and conducting technical write-offs. These policies serve as guidelines to ensure consistency and proper governance in handling such activities.

It will include specific guidance on important prerequisites, such as minimum ageing of the account and collateral value deterioration. Regarding compromise settlements, the policy will outline provisions regarding the permissible sacrifice for different types of exposures. This will involve carefully considering the current realizable value of available security or collateral when determining the settlement amount.

Compromise Settlement is defined as "any negotiated arrangement with the borrower to fully settle the claims of the RE against the borrower in cash." This means that the borrower agrees to pay the bank a lesser amount than the total amount due on the loan. The bank agrees to accept this lesser amount in full and final settlement of the loan.

Technical Write-Off is defined as "any write-off of non-performing assets (NPAs) by a RE from its balance sheet without involving any waiver of claims against the borrower." This means that the RE writes off the loan as a loss, but it does not give up its right to recover the money from the borrower.

Delegation Of Power:
The policy shall also address the delegation of powers for the approval and sanctioning of compromise settlements and technical write-offs. The delegation of power for approvals of compromise settlements and technical write-offs is assigned to an authority, whether an individual or a committee, that holds a higher hierarchical position compared to the authority responsible for sanctioning the credit or investment exposure.

To ensure independence and avoid conflicts of interest, it is stipulated that any official who was involved in sanctioning the loan, either individually or as part of a committee, shall not be involved in the approval process for a compromise settlement related to the same loan account in any capacity.

Prudential Treatment:
Compromise settlements that involve an agreed settlement amount with a payment timeline exceeding three months will be classified as restructuring, as defined within the Prudential Framework on Resolution of Stressed Assets. In the case of partial technical write-offs, the

prudential requirements related to the residual exposure, including provisioning and asset classification, will be based on the original exposure.

However, it is important to note that the provisions made, including the portion representing the partial technical write-off, must fulfil the existing provisioning requirements calculated based on the gross value of the asset.

Reporting:
A reporting mechanism has to be established by the REs to provide regular updates on compromise settlements and technical write-offs that have been approved by the authority. This reporting should occur at least on a quarterly basis. In cases where compromise settlements and technical write-offs are approved by the MD & CEO or a Board Level Committee, the information should be reported to the Board of Directors.

Cooling Period:
Regarding borrowers who are subject to compromise settlements, there will be a cooling period, as specified in the respective Board-approved policies, before REs can enter into fresh exposures with such borrowers:

1. The cooling period for exposures other than farm credit will have a minimum duration of 12 months. However, REs have the flexibility to establish longer cooling periods based on their individual Board-approved policies.
2. For farm credit exposures, the cooling period shall be determined by the REs in accordance with their specific Board-approved policies.

Accounts Categorised as Fraud and Wilful Defaulter:
REs are authorized to engage in compromise settlements or technical write-offs for accounts classified as wilful defaulters or fraud, without prejudicing any ongoing criminal proceedings against the debtors. This provision recognizes that the resolution process, including compromise settlements or technical write-offs, can proceed independently of criminal proceedings. It ensures that the financial institution's actions in addressing the account's status do not interfere with the legal proceedings underway.
By allowing REs to pursue compromise settlements or technical write-offs in such cases, the framework enables potential resolutions and the recovery of dues while acknowledging the parallel criminal proceedings.

Impact:
This broadening of the framework's scope ensures that a wider range of financial entities are now subject to its provisions. By encompassing a more diverse set of institutions, the revised framework aims to foster consistency and uniformity in dealing with compromise settlements and technical write-offs across a larger segment of the financial sector.

I. Discussion Papers

Development of ESG Framework around the Globe

Introduction:

With the introduction of Environmental Social and Governance reporting, it plays an important role is Global practices and standards. As these standards govern how data is recorded and measured in the systems. It also sets the benchmark for the companies operating policies and procedures which has a very widespread impact. These policies followed by companies are a catalyst to changes happening for protecting the environment.

We may wonder why does ESG include Environmental element. The reason for that is, the environment stands as a proxy for future generations. Future generations refer to the existence of humans and living things in future years to come.

Sustainable Development Goals- 17 Goals:

United Nations Department of Economic Affairs (Sustainable Development) has released 17 Goals for Sustainable development. These are interlinked goals designed to serve as a "shared blueprint for peace and prosperity for the people and the planet, now and into the future". These goals focus on various elements such as hunger, poverty, healthcare, growth, clean energy, and wildlife, etc. These are put up in a way that ESG practices shall take care of these goals in order to achieve them. ESG principles are based on these goals. Indian Government has released 9 principles based on these SDGs, which are also covered in BRSR Framework.

Source: https://www.un.org/sustainabledevelopment/blog/2015/12/sustainable-development-goals-kick-off-with-start-of-new-year/

Global Sustainability Standards:

Unlike financial reporting, for which IFRS standards are adopted by the companies, for ESG there is no one single reporting standard. There are various global standards that are used by different companies in different countries as per their legal or operational requirement such as Global Reporting Initiative Standards (GRI Standards), Task Force on Climate-related Financial Disclosures (TCFD), and Sustainability Accounting Standard Board (SASB) Standards. These are three significant ESG standards and frameworks used around the globe.

Global Reporting Initiative Standards (GRI Standards) help organizations report on significant impacts on the economy, environment, and surrounding society. Their disclosures cater to a broad range of stakeholders which helps in increasing the organization's transparency, and stakeholder engagement, and help to mitigate organizational risk. GRI is an international, independent, and non-profit organization working towards a sustainable global economy. The structure bifurcates the standard into three parts i.e., Universal Standards, Sector Standards, and Topic-specific standards. The reporting process includes Identifying and assessing impacts, determining material topics, reporting disclosures, reporting in accordance with GRI Standards, and navigating the report.

Task Force on Climate-related Financial Development (TCFD) is a principles-based framework for climate-related financial disclosures. It would be adopted by the companies which would help inform investors and other members of the public about risks they face related to climate change. The recommendations are structured to show four core thematic areas such as Governance, Strategy, Risk Management, and Metrics and targets.

Sustainability Accounting Standards Board (SASB) Standards are focused on the information needs of shareholders and designed to produce information that is financially material, decision-useful, and cost-effective. SASB Standards are commonly used by public companies with more than half of the companies in the S&P Global 1200 Index and nearly 1,300 businesses using SASB Standards. SASB Standards identifies the subset of environmental, social, and governance issues most relevant to financial performance in each of the 77 industries.

Carbon Disclosure Project (CDP) is a global non-profit organization, having headquarters in London. CDP requests standardized climate change, water, and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as 'CDP signatories. It runs the global environmental disclosure system.

ESG Investing:

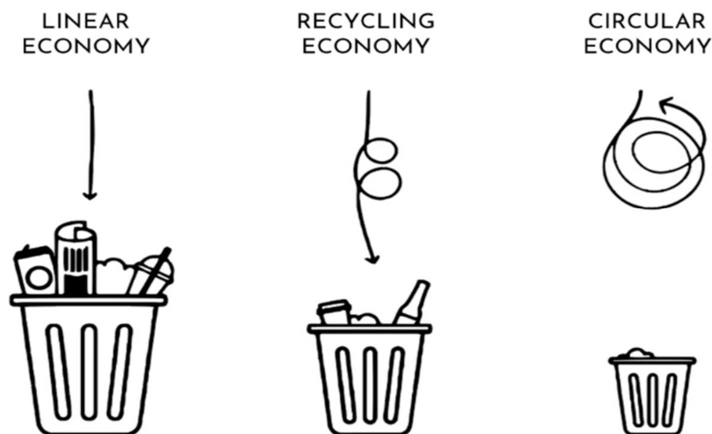
In recent times, investors while investing they not only focus on traditional financial factors but the emphasis is laid on non-financial ESG Factors. ESG factors are taken into consideration

to identify material risk and growth opportunities. The expected returns are taken into consideration keeping ESG in mind. ESG Investing is increasing on a rapid scale as more and more people are understanding the importance due to several steps taken by countries around the globe to protect the environment.

New terms in ESG:

One of the terms, **Financed Emission** which has gained importance for Financial Institutions means emissions generated as a result of financial services, investments, and lending by investors and the companies that provide financial services. It is an important term to understand because if the emissions generated out of lending by banks are not taken into consideration, then it would leave a sizeable blind spot while counting global emissions.

Another one is the **Circular economy**, which refers to a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products for as long as possible. In a circular economy, we treat our environment more responsibly. For Example, electrical devices are designed in such a way that they are easier to repair.



Source: https://www.chooseanew.com/blogs/news/linear-vs-circular-economy-whats-the-difference

Conclusion:

These standards shape the practices followed by the companies with respect to the implementation of ESG in their daily operations. Consistently practiced small practices can have a great impact. We are at such a juncture that if we do not take steps towards sustainability and environmental protection then we might run out of natural resources which would put a big question mark on our existence. Achieving this not only depends on government policies but also consumers actions which shall pave way for a more responsible and sustainable future.

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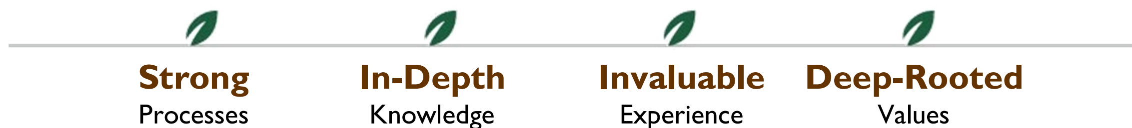

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