BASILSTONE
CONSULTING PRIVATE LIMITED

atharv

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

1. Regulatory Updates and its expected Impact:

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

1.1.1. Issue & Listing of Securities, etc.
1.1.2. Discontinuation of Pool Accounts – Clarifications
1.1.3. AIF – Change in Control under Scheme of Arrangement
1.1.4. Options on Commodity Indices
1.1.5. Electronic Gold Receipts
1.1.6. Informal Guidance – Yes Bank Limited

1.2. **Reserve Bank of India**

1.2.1. Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

2. Discussion Papers

2.1. **Corporate Bonds in India – An Introduction**

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I. Regulatory updates & its expected impact

1.1. Securities & Exchange Board of India

1.1.1. Issue & Listing of Securities, etc.

SEBI has revised the limit for investment via UPI to INR 5 lakhs for public issues on or after 01st May 2022.

1.1.2. Discontinuation of Pool Accounts – Clarifications

SEBI has clarified that:

Existing mandates being used for Mutual Fund transactions may continue to remain in the name of the stock brokers / clearing members, subject to Stock Exchanges / Clearing Corporations ensuring that Payment Aggregators ("PA") puts in place mechanisms wherein beneficiary of the mandate can only be an Approved Account (which shall only be the bank account of the Clearing Corporation) such that:

a. PA shall directly credit the monies collected from the bank account of the investor only into an Approved Account; and
b. PA shall not act on instructions of the stock brokers / clearing members to alter or modify the list of Approved Accounts and in no case the monies shall be credited to the bank account of the stock brokers / clearing members.

On or after April 01, 2022, new mandates shall be accepted only in favour of SEBI recognized Clearing Corporations and those mandates shall exclusively be for subscriptions to units of Mutual Fund schemes and not for any other purpose.

For MFDs / IAs, MFU, channel partners and other entities (including online platforms) ("OTM Holders") facilitating MF transactions, SEBI has clarified that:

a. Existing mandates being used for Mutual Fund transactions can continue to remain in the name of such OTM holders, subject to AMCs ensuring that the PA puts in place mechanisms wherein beneficiary of the mandate can only be an Approved Account (which shall only be the bank account of a mutual fund pool account or mutual fund scheme account) such that:
   - PA shall directly credit the monies collected from the bank account of the investor only into an Approved Account, with the credit being made as per the mandate/ instruction given to the OTM holder by the client; and
   - PA shall not act on instructions of the OTM holder to alter or modify the list of Approved Accounts and in no case the monies shall be credited to the bank account of the OTM Holder.

b. With respect to processing mutual fund transactions under the above-mentioned mandates, AMCs shall:
   - ensure that PA has put in place adequate checks and balances, inter alia, such that Approved Account is that of a mutual fund scheme or mutual fund registered with SEBI;

- enter into an agreement with the concerned PA to ensure that only those mutual fund transactions are processed through them which are in compliance with this Circular read with the aforementioned Circular no. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 4, 2021; and
  - have adequate checks and balances to monitor and govern the receipt of payments through the PA, including by way of third party audits (at least on an annual basis), to
  - verify the compliance with these provisions which shall form part of the agreement with the PA.

c. On or after April 01, 2022, new Mandates may be accepted in the name of the OTM holders, subject to compliance with conditions mentioned above and those mandates shall exclusively be for subscriptions to units of Mutual Fund schemes and not for any other purpose

In case of redemption of units, Two-Factor Authentication (for online transactions) and signature method (for offline transactions) shall be used for authentication. One of the Factors for such Two-Factor Authentication for non demat redemption shall be a One-Time Password sent to the unit holder at his/her email/ phone number registered with the AMC. In case of demat redemption, process of authentication as laid down by the Depositories shall be followed.

Impact:
The clarifications by SEBI would assist the industry to address the possible understanding mismatches between the regulator and industry operations. It also lays down clear segregation of pooling of funds activity and any other SEBI regulated activity.

1.1.3. AIF – Change in Control under Scheme of Arrangement

SEBI has issued guidelines for AIFs proposing to undergo change in control as under:

- The application seeking approval for the proposed change in control of the Sponsor and/or Manager of the AIF under Regulation 20(13) of AIF Regulations shall be filed with SEBI prior to filing the application with the NCLT
- SEBI may issue in-principle approval with a validity of three months – within which the relevant application shall be made to NCLT;

Impact:
Any change in control of Sponsor and / or Manager of AIF involving scheme of arrangement shall also now require prior written approval from SEBI, even before initiating the application at NCLT. This amendment shall give more flexibility to Cat III AIF's, including large value funds for accredited investors of Category III AIF's.

1.1.4. Options on Commodity Indices

SEBI has laid the framework and product design for issue of Options on Commodity Indices and its trading etc.

Impact:
This would result in a big boost to the hedging requirements of entities dealing in commodities.

1.1.5. Electronic Gold Receipts

SEBI has laid the framework for trading in Electronic Gold Receipts, under a 3-tranche mechanism - In tranche 1, physical gold will be converted into EGR, in tranche 2, EGR shall be traded on stock exchanges, and in tranche 3, EGR can be converted into physical gold.

1.1.6. Clarification on applicability of Regulation 23 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in relation to Related Party Transactions

- If RPT approved by shareholders and audit committee prior to 01.04.22 – No requirement to seek for fresh approval from shareholders.
- An RPT that has been approved by the audit committee prior to April 1, 2022 which continues beyond such date and becomes material as per the revised materiality threshold shall be placed before the shareholders in the first General Meeting held after April 1, 2022
- An RPT for which the audit committee has granted omnibus approval, shall continue to be placed before the shareholders if it is material as per the Regulations
- Provide relevant and detailed information to enable and empower shareholders for taking an informed decision

Impact:
This shall ensure smooth implementation of the amended regulations enhancing the scope of related party, related party transactions (RPTs) and the materiality threshold for seeking shareholder approval.

1.1.7. Review of determination of Offer Price in case of disinvestment of PSU Companies

Consultation paper has been issued for public comments with the objective to determine open offer price in case of divestment of Public Sector Undertaking companies (hereinafter referred to as "PSU") by the Central Government and/or State Government.

- In case of disinvestment of PSU companies, the requirement of 60 days' Volume weighted average market price-based parameter for calculation of offer price, may be dispensed with.
- In case such PSU companies have stake in other company(s) and due to such disinvestment, an indirect acquisition is triggered, the requirement of 60 days' Volume weighted average market price-based parameter for calculation of offer price for indirect acquisition, may also be dispensed with

- The acquirer shall disclose upfront the negotiated price for both direct acquisitions as well for indirect acquisition

Impact:
This will help minimize the variance prevailing in determining the trade price of the target companies, between PSU's strategic disinvestment and privately executed agreements.

1.1.8. Informal Guidance – Yes Bank Ltd.

SEBI has given an Informal Guidance on the matter of Employees as 'Insiders' investing in Alternate Investment Funds, which in turn invest in applicable listed securities, stating that the provisions of Prohibition of Insider Trading regulations shall become applicable to such individuals. Therefore, Code of Conduct & Schedule B regulations would be attracted where a Company's Designated Person undertakes trading / investment in units of AIF schemes, that invest in securities that are listed / proposed to be listed, in relation of which the Designated Person has Unpublished Price Sensitive Information.

1.2. Reserve Bank of India

1.2.1. Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

The regulator has amended the Microfinance Regulatory framework by:
- Amending the definition of Microfinance
- Adding additional information requirements for financial institutions
- Easing Interest-rate related restrictions
- Permitting NBFCs other than NBFC-MFI to now lend microfinance loans upto 25% of total assets

Impact:
The microfinance regulations have been streamlined across the financial institutions to allow all types of financial institutions to be a catalyst to the financial inclusion agenda. The shift also provides an avenue for additional disbursement of microfinance loans by existing NBFCs, given the now relaxed limits.

2. Discussion Papers

2.1. Corporate Bonds in India – An Introduction

In a sustainable economy, equity and debt instruments play an important role for raising capital for corporate sectors. Albeit, the equity market has witnessed a significant growth in the recent decades, the need for a bond market with sizeable corporate bonds is very important for India. Companies issue corporate bonds to raise money for capital expenditures, operations and acquisitions. Corporate Bonds vary and issuers have a wide-range of choices with respect to bond structures, coupon rates, maturity dates and credit quality, among other characteristics. The importance of corporate bonds for issuing companies has grown, particularly as bank lending has been squeezed, and is likely to continue to grow. A well-developed corporate bond market can be the optimal alternative, not only to support the financing requirement but also allow corporate borrowers to tap the low-cost market.

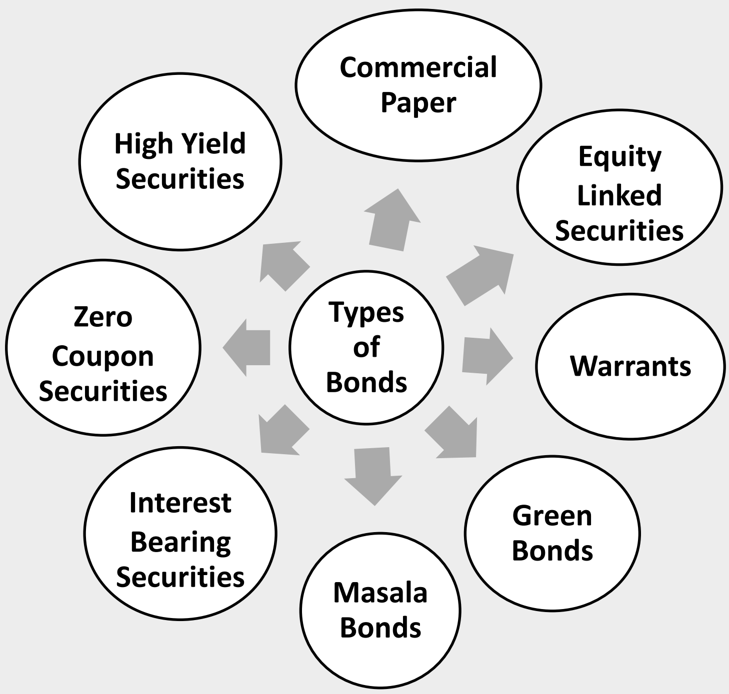
The bond market is categorised mainly as Primary Market and Secondary Market.

Primary Market: This is the market where the borrower approaches investors to raise capital and issue price of the bonds and the coupon rate is fixed at the time of raising capital.

Secondary Market: The secondary market is where securities are traded after the company has sold its offering on the primary market.

Both the primary and the secondary segments of the market continue to be dominated by issuance of bonds by infrastructure and financial services companies while the share of manufacturing firms is negligible.

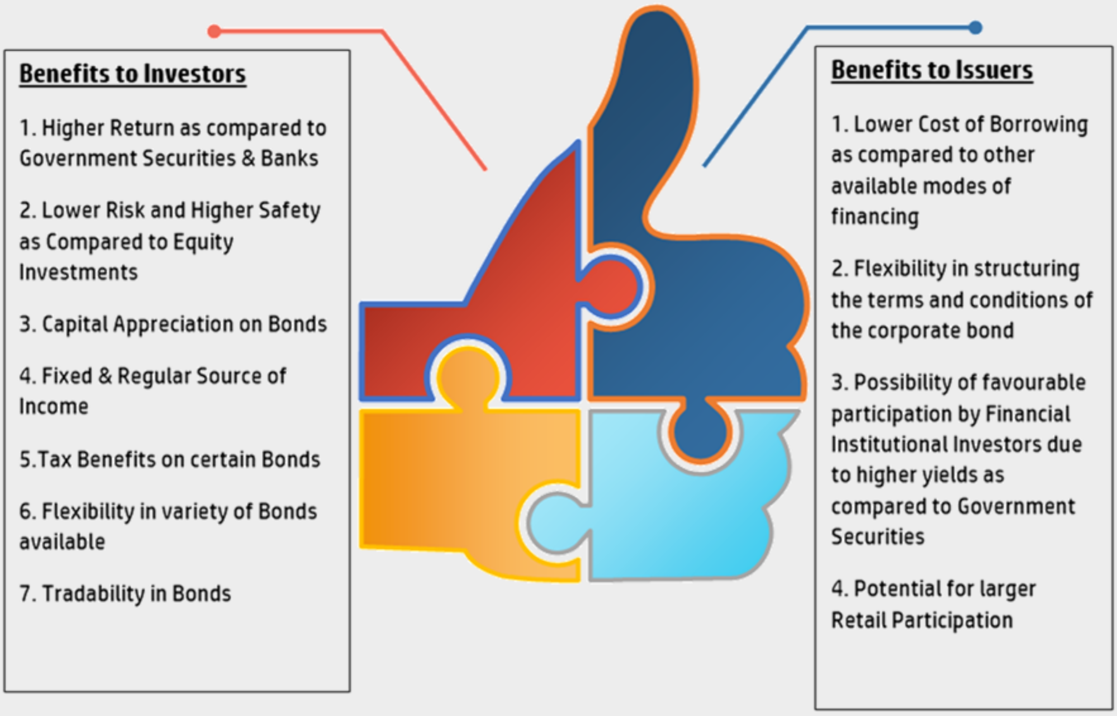
Some of the Types of Bonds available for issuance in India are as follows:



For a long time, bonds in India were generally issued by Government bodies. Having a government backing to the bonds provides security to the investor that these bonds will be repaid on maturity. The debt market in India has seen significant growth over the years, but it has been tilted in favour of the G-sec market. The domestic debt market in India amounts to about 67% of GDP while the size of India's corporate bond market is a mere 16% of GDP.

The corporate bond market has gained traction over the years. Moreover, the unprecedented pandemic and the resultant stimulus have reduced the yield, which has encouraged firms to issue bonds. Increased participation by retail investors in financial markets during the pandemic is also an encouraging sign for the development of India's financial sector. The low yields are an opportunity to undertake steps that can accelerate development.

Development of a vibrant corporate bond market shall reap benefits to both investors and Issuers, which can be understood from the below infographic:



The development of quasi-bond products and operationalization of the 2018-19 Budget announcements mandating large corporates to raise 25% of their funding needs from the bond market shall go a long way towards developing a dynamic and deep corporate debt market in this country.

Conclusion

If we consider the present scenario of the corporate bond market in India, the future appears to be bright, with India mooting the "Make in India" campaign for businesses, there lies a huge upside potential for companies and businesses. A vibrant bond market for the companies and businesses can ease financing constraints both in terms of cost of funds as well as ease of access of funds and also provide a different asset class to the investors.

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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:

Strong Processes

In-Depth Knowledge

Invaluable Experience

Deep-Rooted Values

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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