



atharv

March 2023

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

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I. Regulatory updates & its expected impact

I.1. Securities & Exchange Board of India

I.1.1. Securities Contract (Regulation) (Stock Exchange and Clearing Corporation) (Amendment) Regulation 2023

There have been additions made to the regulations, stating the following: -

- a. Every recognized stock exchange and recognized clearing house shall abide by the code of conduct as prescribed.
- b. There has been an addition in the requirement, for the appointment of one or more person's, maximum of three as director(s) on the governing board of the recognized stock exchange/ clearing corporation and they shall enjoy the same status and power as of governing board.
- c. There has been a requirement for the segregation of functions into the verticals like Critical Operations; Regulatory, Compliance, Risk management, and Investor Grievances; other functions like business development.
- d. Critical Operations and Regulatory Compliance shall be given higher priority by the recognized stock exchange and Investor Grievances shall be given priority by Registered Clearing Corporation.
- e. They should periodically and objectively assess the adequacy of resources allocated to the verticals. Clearing corporations and stock exchanges shall adopt the "Chinese Wall" policy which separates the functions under the verticals as provided. The employees shall not communicate any information concerning their activity to any other vertical.
- f. Grievance Redressal Panel shall be in place to resolve investor grievances, and the compliance officer shall submit a non-compliance report to the board on a quarterly basis.
- g. Appointment of a Chief Risk Officer to identify, monitor and initiate necessary steps to mitigate the risk associated functioning of the stock exchange and clearing corporations. They shall be responsible for the overall risk management of the entity; they are required to submit reports to boards every six months.
- h. Information and Data Sharing policy shall be followed by Stock Exchanges and Depository Participants and the company in which they participate shall lay down sharing and monitoring of data, including confidential and sensitive data, including various factors.
- i. Books of Accounts are also required to be maintained for a minimum period of eight years.

Impact:

- Introduction of changes will enable in strengthening the Risk management systems, enhancing the operational efficiencies for critical functions, robust grievance redressal process, stringent data confidentiality & privacy policy and implementation of Chinese wall policy amongst all its functions in its true spirit.



1.1.2. Securities and Exchange Board of India (Depositories and Participants) (Amendment) Regulations, 2023

- a. There has been the addition of the Chapter of Enforcement, in which power has been provided to issue directions and levy of penalty by the board. The board may by Suo moto or on the complaint received, or receipt of any information issue the directions as deemed fit. The orders can be to divest, direct transfer to IEPF, or debarring them.

1.1.3. Master Circular for Foreign Venture Capital Investors (FVCIs)

- a. Applicant desirous of registering with SEBI as FVCI shall obtain a minimum commitment from the investors of the contribution of at least 1 million USD at the time of submission of application
- b. There is a requirement to report quarterly on venture capital requirements, the report is to be uploaded on the SEBI portal within 7 days from the end of each calendar quarter. All SEBI-registered FVCIs are required to file their compliance report through the online portal only.

1.1.4. Framework for Adoption of Cloud Services by SEBI Regulated Entities (REs)

- a. It is applicable to SEBI Registered Intermediaries such as Stock Exchanges, Clearing Corporations, Depositories, Stock exchange brokers, Depository participants, AMCs, and Mutual Funds, Qualified Registrar to Issue and Share Transfer Agents and KRAs.
- b. These guidelines shall be effective on an immediate basis. RE's which are currently using this framework is required to comply within 12 months or on milestone basis, updation is required.
- c. According to NIST, cloud computing has four types of deployment models viz. public cloud, community cloud, private cloud, and hybrid cloud.
- d. In total nine principles are stated in the circular on which reporting is required to be done.

Impact:

In recent times, the dependence on cloud computing for delivering IT services is increasing. The document also sets out the regulatory and legal compliances by REs if they adopt such solutions and highlights the key risks and mandatory control measures which REs need to put in place before adopting cloud computing.

1.1.5. Operational Guidelines- Amendment to SEBI (Buy-Back of Securities) Regulations 2018

- a. Restrictions have been set out for the companies undertaking buy-back through stock exchange routes.
- b. Company shall not purchase more than 25% of the average daily trading in volume (in value) of its shares or other specified assets in 10 trading days preceding the day in which payment was made.
- c. The company shall not take bids in the pre-open market, in the first and last thirty minutes of the regular trading session.
- d. The company's purchase order shall be given within the range of $\pm 1\%$ from the last traded policy.



- e. Company as well as appointed stock brokers are required to monitor compliance otherwise non-compliance would lead to fines and penalties.
- f. The escrow account shall consist of cash and/or other than cash, the position of the escrow account in other than cash shall be subject to an appropriate haircut. Merchant bankers to the buy-back shall ensure an adequate amount is available in the escrow account after an applicable haircut.

Impact:

This circular is in addition to guidelines issued by SEBI last month with Buy-back, restrictions shall reduce the chance of stock price manipulation and volatile changes in price due to buy-back. Escrow account requirements are mandated in order to secure the money set aside for buy-back.

1.1.6. Clarifications with respect to Qualified RTAs (QRTAs)

- a. RTAs to be categorized as QRTAs if any time during the financial year, the number of physical and demat portfolios being serviced exceed 2 crores. The intimation is to be sent by RTAs within 5 working days to SEBI.
- b. RTAs shall be categorized as QRTAs from the date of categorization as QRTA for the next three financial years, irrespective of subsequent fall in the number of folios, and liable to comply with all the requirements.
- c. Considering the various systems, a period of 60 days from the date of categorization shall be given to the QRTAs to comply with the enhanced requirements mandated.

1.1.7. Common and simplified norms for processing investor’s service requests by RTAs and norms for furnishing PAN, KYC details, and Nomination

- a. It shall be mandatory for all holders of physical securities in listed companies to furnish PAN, Nomination, Contact details, Bank A/c details, and Specimen signature for their corresponding folio numbers.
- b. Those who did not provide their accounts would be frozen, only lodging of grievances would be allowed and for any payment of such as dividend, interest or redemption payment would be allowed. Frozen folios shall be referred to RTAs under Benami Transactions (Prohibitions) Act 1988 if remained frozen till 31st December 2025.
- c. Self-attested copies of documents will be accepted by the RTA for processing of service requests. The security holder/claimant may provide the documents/details to the RTAs for various service requests by way of ‘In Person Verification’ (IPV) or Post or electronic mode with e-sign.
- d. RTAs shall update PAN and KYC details across all the folios of the holder managed by it and details that are already available with the RTAs shall be overwritten upon specific authorization.
- e. Listed companies, RTAs, and stock exchanges shall mention the requirements to be complied with on the website. The listed company shall directly intimate their security holders which are incomplete with respect to the compliance on annual basis within 6 months from the end of the financial year.



- f. RTAs shall provide the certificate of compliance from a practicing CS within 30 days from the date of the circular coming into effect.

Impact:

SEBI had received representations from investors regarding difficulties being faced by them with regard to certain procedural aspects of the provisions and varied interpretations with regard to the documentation required for processing investor service requests. With this circular in place, they have eased out the hardships faced by the participants and have a detailed guideline to initiate and resolve their request.

1.1.8. E-Wallet Investments in Mutual Funds

- a. In the previous circular SEBI had permitted the use of e-wallets for investment in Mutual Fund within the umbrella limit of INR 50,000 for an investment of investors through both e-wallets and/or cash, as per mutual fund per financial year.
- b. In this context, all the e-wallets shall be fully compliant with the KYC norms as prescribed by RBI. These provisions shall be applicable with effect from 1st May 2023.

Impact:

Compliance with KYC norms by e-wallets will help in adherence of the KYC & PMLA framework for all categories of investors investing in mutual funds, even in case of e-wallets.

1.1.9. Master Circular on Surveillance of Security Markets

- a. Trading of securities in the normal segment of the stock exchange only if the company has achieved 100% promoter and promoter group's shareholding in dematerialized form.
- b. All the non-compliant companies which are under the trade for trade (TFT) segment or under suspension shall be under TFT till the time the promoters of the respective companies fully comply.
- c. In case of a merger, demerger, amalgamation, capital reduction/consolidation, scheme of the arrangement, in terms of the Companies Act or section by the relevant authorities or in cases where securities are being admitted to trading from another stock exchange by way of delisting/MOU/securities, admitted for trading under the permitted category or in case suspension for trading is revoked after more than one year, in such case trading shall take place in TFT segments for first 10 trading days with applicable price band keeping it open on the first day of trading.
- d. There have been many instances of unauthenticated news related to scrips circulated through social media platforms without adequate caution as mandated in the code of conduct.
- e. Intermediaries do not have proper internal controls and do not have check and balances in place to govern the conduct of their employees which may lead to damage to the market and distort the price mechanism.
- f. In such cases, intermediaries are directed to maintain a proper code of conduct and controls in place. Employees/Staff and other personnel working should not be encouraged to circulate rumours or unverified information. Access to social media platforms shall be subject to control and supervision. If an employee fails to do so, he/she violates the various



provisions contained and shall be liable for action. The compliance officer shall be held for breach of duty.

- g. Disclosures regarding the prohibition of insider trading shall be maintained by the company in physical/electronic form in the prescribed format.
- h. The listed companies, intermediaries, and fiduciaries shall promptly inform the stock exchange(s) where the concerned securities are traded, regarding violations relating to CoC under PIT Regulations in such form and manner as may be specified by the Board from time to time.
- i. With respect to trading window closure, allowing offer for sale and right entitlements transactions during the trading window closure period, trading window restrictions shall not apply.

1.1.10. Streamlining the onboarding process of FPIs

With reference to the Foreign Portfolio Investors Regulation, an application for a grant of certificate is required to be made to the designated depository participant (DDP).

- DDP grants FPI registration to the applicant on the basis of scanned copies of executed Common Application Form (CAF) along with supporting documents and fees.
- DPP shall thereafter update the CAF module, for issuance of PAN. Post allocation of PAN, scanned copies of the documents shall be uploaded for KYC on the KYC Registration Agencies (KRA) by the DPP/ Custodian.
- Upon receipt and verification of the physical documents by the DPP/Custodian, the custodian shall make an application to the Clearing Corporation for allotment of a CP Code to the FPI to transact in Indian Securities Market.
- FPIs can use digital signatures for the purpose of execution of CAF and other registration-related documents. In the case of physical attestation, a certificate of copies of original documents by authorized bank officials through the SWIFT mechanism may be accepted by DPPs/Custodians for the purpose of verification of documents.
- Authorised bank officials shall be required to send copies of original documents to the DPP/Custodian digitally and certify the authenticity.
- In the case where a PAN application is made by the FPI Applicant via the CAF portal, the DDP/Custodian may verify the PAN of the FPI basis its availability on the CAF module hosted on the website of the depositories.
- FPI Applicant, at the time of registration is required to provide details of FPIs with whom ownership is of more than fifty percent or common control under the “Clubbing of Investment Limit” section in CAF. Depositories should generate a unique FPI investor group ID to identify each investor group.
- There are other changes with respect to bringing consistency with the provisions of FPI regulations.



Impact:

SEBI (Foreign Portfolio Investors) (Amendments) Regulations 2023 were issued on 14th March 2023; this circular is issued in continuation of the previous circular. The main object of this was to smoothen the onboarding process of the clients and ease operations. After the implementation of this circular, FPI would also be allotted a unique id through which different groups can be identified. Use of digital signature shall also be permitted.

1.1.11. Master Circular for Portfolio Managers

- a. Numerous circulars have been subsumed in this master circular.
- b. Concept of Offsite Inspection data reporting is introduced in this circular.
 - The portfolio managers are required to maintain their records in the manner prescribed under the circular wherein separate tables are created for Master Files, Expense Files, etc
 - Such data is to be submitted on a quarterly basis commencing from 30th September 2023. In the first-time reporting, data from 1st April 2020 is required to be submitted.

1.1.12. Circular on Cyber Security and Cyber Resilience framework for Portfolio Managers

- a. All the portfolio managers with AUM of at least 3000 crores under discretionary and non-discretionary category together shall have Cyber Security and Cyber Resilience framework.
- b. In order to strengthen the operational risk management framework, Portfolio Managers should formulate comprehensive cyber security and cyber resilience policy document to include the process to identify, assess, and manage cyber security risks associated with processes, information, networks, and systems.
- c. Cyber security policy should encompass the principles prescribed by the National Critical Information Infrastructure Protection Centre (NCIIPC).
- d. A senior official is to be designated as Chief Information Security Officer (CISO).
- e. A separate committee shall be formed for such purpose. Such committee shall review implementation of the cyber security and cyber resilience policy on a half yearly basis.
- f. Responsibilities of staff with access to or use systems/networks of the Portfolio Managers shall be defined.

Impact:

Cyber security and cyber resilience framework for portfolio managers with large AUM will protect the integrity of data and guard against privacy breach.

1.1.13 SEBI Board Meeting Held on 29th March 2023

The Board Meeting of SEBI was conducted on 29th March 2023, which is briefly summarized as under: -

- a. Balance framework for ESG Disclosures, Ratings, and Investing-



BRSR core has been introduced with a limited set of KPIs on which listed entities are required to have reasonable assurance. As of now, it has been started with the top 150 listed companies by market capitalization. For ESG Rating Providers a separate category of rating called “Core ESG Rating” shall be in line with BRSR Core.

Even measures have been implemented in order to address the risk of miss-selling and greenwashing in order to promote ESG investing. The new framework has also been introduced for ERPs related to ESG Reporting.

Impact:

ESG reporting world-wide is gaining importance, BRSR standards issued by SEBI are in line with ESG Reporting Standards Worldwide, with these changes in line, more meaningful reporting would take place from the companies.

b. Establishing a regulatory framework for ESG Rating Providers-

The board has proposed to approve a new framework for ESG Rating Providers relating to enhanced transparency, mitigating conflict of interest, augmentation of transition finance, and facilitating ratings based on accurate data.

Impact:

This framework relating to ESG Reporting shall enable ERPs to report in a more meaningful way, which would in turn provide valuable outputs.

c. ASBA-like facility for trading in Secondary Markets-

The facility has been made available to investors to make an investment in secondary market trading with the ASBA through UPI, this is optional for investors. The framework has a lot of positive benefits so it was taken for implementation. This shall be implemented in phased manner.

Impact:

It would help in providing direct settlement and thereby avoiding the risk of co-mingling clients’ funds and securities. It would also lead to the elimination of custody risk and would provide hassle-free and immediate unblocking of funds in case of member default.

d. Upstreaming client’s funds by SBs/ CMs/ CCs to mitigate credit risk on intermediaries-

To mitigate credit risk on intermediaries/ risk of potential misuse of clients’ funds, it has been approved as a framework under which, clients’ funds shall be upstreamed by Stock Brokers/ non-banking Clearing Members to Clearing Corporations on an EOD basis so as to ensure that clients funds are not retained. Conditions relating to the framework were also provided. This shall be implemented in a phased manner starting from July 01, 2023.

Impact:

It would help in mitigating credit risk on intermediaries by safeguarding the funds, as the funds are upstreamed by them at EOD basis. Defalcations and misuse of funds shall be reduced.



- e. Amendments to stock broker’s regulation to institute a formal mechanism for prevention and detection of fraud or market abuse by stock brokers-
SEBI Approved a framework for prevention and detection of fraud or market abuse by stock brokers. Accordingly, SEBI (Stock Brokers) Regulations which shall include surveillance system for trading, obligations of stock brokers, escalation and reporting mechanism and whistle blower policy. It shall come to effect from 1st October 2023.
- f. Introduction of Regulatory Framework for Index Providers-
The proposal has been approved with respect to regulated Index Providers with the objective of fostering transparency and accountability in the governance and administration of financial benchmarks.
- g. Framework for “Corporate Debt Market Development Fund”-
Amendments in AIF regulations have been made for setting up CDMDF as a backstop facility to purchase investment grade corporate debt securities during the stress times to instill confidence amongst participants and enhance secondary market liquidity. Further, Amendments in SEBI (Mutual Fund) Regulations, 1996 were approved to provide for the enablement of contribution by the specified debt-oriented mutual fund scheme.

Impact:
There change would instill confidence in the minds of participants in stress times and also promote liquidity in the secondary market.

- h. Clarity on the roles and responsibilities of Trustees and Board of Asset Management Companies of Mutual Fund with Focus on Unitholder Protection-
Amendments have been approved in Mutual Fund Regulations, the aforementioned amendments provide for the identification of special areas as core responsibilities of the trustee and shall require independent evaluation and due-diligence of the Trustee. It shall also provide for the constitution of the Unitholder protection committee by the board with a focus on the unitholder’s protection.
- i. Review on the regulatory framework for sponsors of Mutual Funds to give greater flexibility to the industry-
Amendments have been made in Mutual Fund regulations to strengthen eligibility criteria for sponsors, alternative route has been introduced to enable diverse set of entities to become sponsor, which otherwise were not been eligible to be sponsors. Amendments also allow self-sponsored AMCs to continue Mutual Fund business, subject to some conditions prescribed.

Impact:
This would give the original sponsor flexibility to voluntarily disassociate itself from the Mutual Fund without needing to induct a new and eligible sponsor.



j. Amendments to SEBI (LODR) Regulations to facilitate more comprehensive and timely disclosures-

Amendments related to Disclosure of material events or information by listed entities to provide more transparency and to ensure timely disclosure of material events by listed entities, strengthening corporate governance at listed entities by empowering shareholders, streamlining timelines for submission of first financial results by newly listed companies and timeline to fill up the vacancy of directors and other officials of listed entities.

k. Amendments to SEBI (ICDR) Regulations with the object of increasing transparency and streamlining certain issues and processes-

ICDR Regulations have been amended by the board, with respect to disclosures regarding underwriting in case of a shortfall in demand or to cover subscription risk. Pre-conditions for announcing bonus issue and issuance shall be made in only DEMAT form.

l. Introduction of the concept of GID and KID for issuance of Bonds/Commercial Papers and streamlining of Disclosures-

In order to promote ease of doing business for non-convertible securities and commercial papers proposed to be listed, General Information Document and Key Information Document have been issued. This will reduce the multiple filing of placement memorandum by the issuer. GID shall contain information to be filed for first-time issuance and in case of subsequent private placements KID shall be issued. It is proposed to be made applicable on a “comply or explain basis” by 31st March 2024 and mandatory thereafter.

m. Extension of the “Comply or Explain” period for LCs to meet their financing needs from debt market through issuance of debt securities to the extent of 25% of their incremental borrowings in a financial year-

The period of a contiguous block of 2 years has been extended to a contiguous block of three years, this was decided by the board.

n. Extension of the “Comply or Explain” period of the HVDLEs in respect of corporate governance norms and simplification of disclosure requirements pertaining to the payment of interest/coupons and redemption amount-

On the basis of industry feedback, the period has been extended till 31st March 2024. To enhance ease of doing, the board has approved the proposal to consolidate the disclosure requirements under Regulation 57 of the LODR Regulations.

o. Amendment to AIF Regulations to prescribe provisions for valuation of Investments, dematerialization of units, certification requirement for key employees of Investment manager, transactions with the associates, and option to sell unliquidated investments to new scheme of AIF-

In order to provide a standardized approach for valuation, board has approved different proposals. Board has also approved mandating that all new schemes going forward and existing schemes of AIFs with a corpus of more than Rs. 500 crores shall dematerialize their units by 31st October 2023 and that of below Rs. 500 crores by 30th April 2024.

Board has also approved proposal to replace the existing minimum experience requirement as an eligibility criterion for the key investment team of the Manager of the AIF with a



comprehensive certification requirement. The said certification requirement is also being mandated for the compliance officer of the AIF.

The Board approved a proposal to mandate obtaining approval of 75% of investors by value, for buying or selling of investments potentially involving conflict of interest. It has also approved the proposal of selling investments to new scheme of same AIFs subject to approval of 75% investors by value.

Impact:

This would lead to ease of monitoring and administration by stakeholders and would serve the purpose of investor protection against operational and fraud risks. It would facilitate skill-based approvals and ensure objectivity changes with respect to eligibility criteria have been made. In turn, would lead to better transparency and improved governance and provide flexibility to deal with AIF Investments.

- p. Strengthen the Investor Redressal Mechanism in the Securities Market through Amendment to regulations to operationalize ODR Mechanism for Investors across registered intermediaries/entities-

Online Dispute Resolution Mechanism has been approved in order to provide technology aided resolution framework, accordingly actions have been taken.

1.1. International Financial Services Centre Authority

1.1.1. Clarification in relation to Family Investment Funds

IFSCA on March 01, 2023 issued a clarification with regards to Family Investment Funds (FIF). As per the circular FIF shall not seek money from individuals or entities outside of the single family. However, a FIF may share economic interest with its employees, directors, Fund Management Entities (FME) or other persons providing services to the FIF, as per its internal policy to reward the persons providing services to the FIF or to align the interest of such persons with those of the FIF. In this regard, wherever required, the FIF may accept contributions from the aforementioned persons for the limited purpose of granting economic interest to them, which in no case shall exceed an aggregate of twenty percent (20%) of FIF's profits.

A FIF may set-up additional investment vehicles subject to prior approval of the Authority and payment of fee as applicable to an FIF. Such additional vehicles, in the form of companies, limited liability partnerships, trusts or any other form as may be specified by the Authority, shall also be considered as part of the FIF for the purpose of meeting the requirements specified in the Regulations.

1.1.2. Clarifications in relation to Fund Management Entities and Schemes set up in IFSCs by Sovereign Wealth Funds



The IFSCA on March 1, 2023 issued a clarification in relation to Fund Management Entities and Schemes set up in IFSCs by Sovereign Wealth Funds. Key considerations to remove certain difficulties by way of clarification are stated below:

- I. The existing ceiling of 10% investment from FME or its associates in the case of Venture Capital Schemes and Restricted Schemes shall not be applicable for Sovereign Wealth Funds.
- II. The existing restriction that certain schemes can only be close ended in case of Venture Capital Schemes, Alternate Investment Funds (Category I and II) shall not be applicable for Sovereign Wealth Funds.
- III. A Restrictive Scheme which is set up as an open-ended scheme by a FME of a Sovereign Wealth Fund are allowed to comply with the provisions as applicable to the close ended schemes with regards to:
 - a. Investments in Physical Assets
 - b. Computation and Disclosure of NAV

Furthermore, the existing ceiling on investments in securities of unlisted companies shall not be applicable to such open-ended schemes.

2. Discussion Papers

Beyond Compliance: How NBFCs can embrace RBIs Corporate Governance Guidelines for competitive Advantage-

Corporate Governance is a central and dynamic aspect of business. The term ‘governance’ is derived from the Latin word “gubernare”, meaning ‘to steer’, usually applying to the steering of a ship, which implies that corporate governance involves the function of direction rather than control. It mainly deals with conducting the affairs of a company in such a way that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. It is about openness, integrity and accountability.

Corporate governance comprises the framework of rules, relationships, systems and processes within and by which fiduciary authority is exercised and controlled in a company. Relevant rules include applicable laws of the land as well as internal rules of a corporation. Relationships include those between all related parties, the most important of which are the owners, managers, directors of the board (when such entity exists), regulatory authorities and to a lesser extent, employees and the community at large. Systems and processes deal with matters such as delegation of authority, performance measures, assurance mechanisms, reporting requirements and accountabilities.

Corporate success is also dependent on the conformity of corporate governance processes with global standards. Good corporate governance has thus become a required prerequisite for any company to be managed efficiently in a globalised economy.

The word "corporate governance" is a relatively recent concept in public discourse, despite the fact that the concerns it tackles have been there for much longer. Yet, over the last two decades, corporate governance challenges have gained prominence not only in academic writing, but also in public policy debates.

Nowadays, Corporate governance has become a critical issue in the financial sector. Regulators across the globe have been increasing their focus on corporate governance, with the aim of promoting transparency, accountability, and investor confidence. In India, the Reserve Bank of India (RBI) has



been playing a leading role in this regard, issuing guidelines for the corporate governance of non-banking financial companies (NBFCs).

Corporate governance has earned its place as an essential tool in the management and growth of companies, and will continue to grow in importance as investor and regulator demands for transparency increase. Virtually all companies can benefit by taking steps to increase the quality of their corporate governance systems.

A good corporate governance framework ensures that an organization's board of directors meet regularly, retain control over the business and have a clearly defined responsibilities. Corporate governance is one of the cornerstones of any good business. Corporate governance encourages robust and effective decision-making through process, practice and policies. Moreover, it acts as a first line of defence against any allegation of malpractice or dereliction of corporate duty.

While compliance with RBI guidelines is very important, NBFCs can also leverage them for competitive advantage. By embracing RBI's corporate governance guidelines, NBFCs can differentiate themselves from competitors, attract more investors, and improve their overall grip on the market.

Transparency and Disclosure-

One of the key aspects of corporate governance is transparency and disclosure. NBFCs are required to disclose information on various aspects of their business, such as their financial performance, risk management practices, and board composition. While these disclosures may seem like a burden, they can actually be used to build investor trust and confidence. By providing timely and accurate information, NBFCs can demonstrate their commitment to transparency and accountability, which can in turn attract more investors.

To leverage this for competitive advantage NBFCs should strive to provide more detailed and relevant information that goes beyond what is required by the regulations. For instance, NBFCs can provide additional disclosures on their risk management practices, such as stress testing and scenario analysis. This can help investors better understand the risks associated with the NBFC's business and how it is managing those risks. Similarly, NBFCs can provide more detailed information on their board composition, such as the skills and experience of individual directors. This can help investors assess the effectiveness of the board in overseeing the NBFC's business.

Board Composition and Structure-

Another important aspect of corporate governance is the board composition and structure. RBI's guidelines require NBFCs to have a well-structured board with appropriate skills and experience. While this may seem like a basic requirement, NBFCs can use this as an opportunity to differentiate themselves from competitors.

To implement this, NBFCs should focus on building a diverse board with a mix of skills and experience that is relevant to the NBFC's business. For instance, if the NBFC specializes in lending to small and medium-sized enterprises (SMEs), it should have board members with experience in SME lending or a member who has expertise in understanding the SME business, as well as in risk management and governance. This can help the board better understand the NBFC's business and the risks associated with it, which can in turn improve the quality of decision-making.

Risk Management-



Risk management is another critical aspect of corporate governance. RBI's guidelines require NBFCs to have a robust risk management framework, including policies and procedures for identifying, assessing, and mitigating risks. NBFCs can use this as an opportunity to build a competitive advantage by developing best-in-class risk management practices. To do this, NBFCs should focus on developing a comprehensive risk management framework that goes beyond mere compliance with RBI's guidelines. This should include regular stress testing and scenario analysis, as well as a culture of risk awareness and management. By demonstrating their commitment to risk management, NBFCs can build investor trust and confidence, which can in turn improve their reputation in the market.

Improved Senior-Level Decision making-

There is a significant and provable correlation between an organization's governance and speedy decision-making linked with higher performance. Furthermore, inadequate governance has been directly connected to a number of performance failures. There is little doubt that strong governance ensures timely access to information and effective communication among stakeholders, which leads to improved outcomes. Effective governance also allows for the speedy and precise prioritisation of actions. This can be extremely beneficial in allowing the organisation to weather difficult economic storms and supports the organization's sustainability.

Additionally, NBFCs should focus on building a culture of compliance and ethics throughout the organization. This can be achieved by training employees on the importance of corporate governance and how it relates to their work. A code of conduct should also be established and communicated to all employees, outlining the ethical standards and behaviour expected of them.

Another way for NBFCs to embrace RBI's corporate governance guidelines is by leveraging technology. The use of technology can help automate compliance processes and reduce the risk of errors or omissions. For instance, NBFCs can implement a centralized system for tracking and reporting on compliance requirements. This can also help to ensure that reporting is accurate and consistent across the organization.

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 **Strong**  **In-Depth**  **Invaluable**  **Deep-Rooted**
Processes Knowledge Experience 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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