



atharv

November 2023

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Basilstone Consulting is pleased to present to you the **November 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 & it's expected impact

I.1. Securities & Exchange Board of India

I.1.1 Simplification and Streamlining of Offer Documents of the Mutual Fund Scheme.

- a. SEBI, in collaboration with AMFI, recently revamped the Scheme Information Document (SID) format for mutual funds to enhance its preparation and improve readability for investors. This initiative, conducted with inputs from AMFI and recommendations from the Mutual Fund Advisory Committee, aimed at simplifying and rationalizing the SID format (refer to Annexure 'A').
- b. The modifications to the SID format, previously specified in a circular dated May 23, 2008, and incorporated into the Master Circular dated May 19, 2023, are intended to streamline information dissemination to investors, rationalize SID preparation, and facilitate periodic updates by mutual funds.
- c. The revised SID format, along with the Key Information Memorandum (KIM) and Statement of Additional Information (SAI), is set to be implemented from April 1, 2024. Mutual funds are required to file draft SIDs with SEBI by March 31, 2024. However, existing SIDs can continue to use the old format if final observations from SEBI are pending or have already been received, provided they update the SIDs by April 30, 2024, with data as of March 31, 2024.
- d. Portfolio Holdings Disclosure- Mutual funds must disclose top 10 holdings and sector-wise fund allocation through a functional web link, ensuring investor access to detailed scheme composition.
- e. Fund Manager's Investment Disclosure- The Statement of Additional Information (SAI) will include disclosures on aggregate investments in the scheme by the Concerned Scheme's Fund Manager(s). This covers both the AMC's Board of Directors and other key personnel.
- f. Segregated Portfolio Creation- The creation of a segregated portfolio is at the AMC's discretion and is optional. If enabled in the Scheme Information Document (SID), detailed disclosures must be made in the SAI. New schemes are mandated to include enabling provisions for segregated portfolios in the SID.
- g. SID Disclosures on Segregated Portfolio- The SID should disclose provisions related to segregated portfolios, with detailed information available in the SAI. This ensures transparency regarding the fund's structure and its ability to manage segregated portfolios.
- h. Risk-O-Meter Disclosure- AMCs are required to disclose the risk-o-meter of the Benchmark on the front page of the initial offering application form, SID, and KIM. This information should also be included in the common application form, providing investors with clear insights into the associated risks.



Impact:

This transition is designed to ensure a smooth shift to the updated SID format, promoting clarity, transparency, and timely information for investors. All updated SIDs will be made accessible on the websites of SEBI, AMFI, and AMCs within the stipulated timelines, aligning with SEBI's commitment to investor welfare and industry best practices.

1.1.2 Procedural Framework for dealing with unclaimed amounts lying with entities having listed non-convertible securities and manner of claiming such amounts by the investor.

- a. Transfer to Escrow Account- Regulation 61A (2) of SEBI LODR Regulations mandates that unclaimed interest/dividend/redemption amounts, after 30 days, be transferred to an Escrow Account within seven days.
- b. Standardized Process Framework- Recognizing the need for a standardized approach, a framework (Annex –A) has been introduced to guide listed entities in transferring unclaimed amounts to an Escrow Account and outlining procedures for investor claims.
- c. Transfer to Investor Education and Protection Fund (IEPF) or Investor Protection and Education Fund (IPEF)- Regulation 61A (3) specifies that unclaimed amounts in the Escrow Account for seven years shall be transferred to IEPF for listed companies and IPEF for non-company entities.
- d. Amendments to IPEF Regulations- Amendments to Regulations 4(1) and 5(3) of SEBI IPEF Regulations, 2009, facilitate the transfer of unclaimed amounts from Escrow Accounts to IPEF for listed entities that are not companies.
- e. Utilization of Unclaimed Amounts- Regulation 5(3)(ii) of IPEF Regulations outlines that unclaimed amounts in IPEF shall be utilized for refunding listed entities upon their payment to eligible investors. Investors must apply to the listed entity, which processes the claim and seeks a refund from the Board.
- f. Procedure Framework for Listed Entities (Non-Companies)- Annex –B provides a structured framework defining the procedure for listed entities (non-companies) to transfer unclaimed amounts from the Escrow Account to the IPEF and outlines the process for investor claims.
- g. Regulatory Directives to Market Entities- Recognized Stock Exchanges, Issuers, and Depositories are directed to comply with the circular's conditions, disseminate its provisions on their websites, establish necessary systems, and create awareness among investors.



- h. Communication to Listed Entities- Stock Exchanges are tasked with notifying listed entities and issuers of listed Non-Convertible Securities about the circular's provisions and implementing consequential changes to their respective bylaws.

Impact:

SEBI's regulatory measures aim to streamline the handling of unclaimed amounts, ensuring a systematic and transparent process benefiting both investors and listed entities. The directives provide clarity and standardization in dealing with unclaimed funds, aligning with SEBI's commitment to investor protection and market integrity.

1.1.3 Procedural framework for dealing with unclaimed amounts lying with Infrastructure Investment Trusts (InvITs) and manner of claiming such amounts by unitholders.

- a. Distribution Mandate- Regulation 18(6)(b) of SEBI InvIT Regulations requires InvITs to distribute not less than ninety percent of Net Distributable Cash Flows (NDCF) to unitholders.
- b. Distribution Frequency and Challenges- Regulation 18(6)(c) mandates distributions at least once every six months for publicly offered InvITs and once a year for privately placed InvITs. However, unclaimed or unpaid distributions have been observed due to various reasons, including unitholder account details not being updated.
- c. Introduction of 'Unclaimed Amounts'- Regulation 18(6)(e) was added to address unclaimed or unpaid distributions, defining them as 'unclaimed amounts.' Such amounts are to be transferred to the 'Investor Protection and Education Fund' (IPEF) as specified by SEBI.
- d. Claiming Unclaimed Amounts- Regulation 18(6)(f) allows unitholders to claim amounts transferred to IPEF in a manner specified by SEBI, providing a mechanism for unitholders to recover unclaimed amounts.
- e. Amendments to IPEF Regulations- Amendments to Regulations 4(1) and 5(3) of SEBI IPEF Regulations facilitate the handling of unclaimed amounts in InvITs, defining procedures for transfer to IPEF and subsequent claims by unitholders.
- f. Utilization of Unclaimed Amounts- Regulation 5(3)(ii) of IPEF Regulations outlines that unclaimed amounts in IPEF will be utilized for refunds to entities that transferred the amounts, upon their payment to eligible and identifiable investors. Unitholders must apply to the InvIT for claims, initiating the refund process.
- g. Framework for Handling Unclaimed Amounts- Annex - A of the circular introduces a comprehensive framework outlining the procedure for InvITs to transfer unclaimed



amounts to an Escrow Account and subsequently to IPEF. It also delineates the process for unitholders to claim such amounts.

- h. Regulatory Authority and Approval- The circular is issued under the authority of Section 11(1) of the Securities and Exchange Board of India Act 1992 and Regulation 33 of the InvIT Regulations, with the approval of the competent authority.
- i. Effective Date- The provisions of this circular come into effect from March 1, 2024.
- j. Interest Computation and Transfer Deadline- For InvITs with unclaimed amounts for less than 7 years as of February 29, 2024, interest computation starts from March 1, 2024. InvITs holding unclaimed amounts for over 7 years as of February 29, 2024, must transfer these amounts to IPEF by March 31, 2024, in compliance with the provisions outlined in Annex - A.

Impact:

SEBI's latest circular aims to fortify investor protection by establishing a clear framework for handling unclaimed amounts in InvITs, ensuring timely distributions, and providing avenues for unitholders to claim their rightful dues.

1.1.4 Procedural Framework for dealing with unclaimed amounts lying with the Real Estate Investment Trusts (REITs) and manner of claiming such amounts by Unitholder.

- a. Distribution Mandate for REITs- Regulation 18(16)(b) of SEBI REIT Regulations mandates REITs to distribute not less than ninety percent of Net Distributable Cash Flows (NDCF) to unitholders.
- b. Distribution Frequency and Challenges- Regulation 18(16)(c) requires distributions at least once every six months, with observed challenges of unclaimed or unpaid amounts due to reasons such as unitholder account details not being updated.
- c. Introduction of 'Unclaimed Amounts'- Regulation 18(6)(f) is introduced to address unclaimed or unpaid distributions, defining them as 'unclaimed amounts.' Such amounts are to be transferred to the 'Investor Protection and Education Fund' (IPEF) as specified by SEBI.
- d. Claiming Unclaimed Amounts- Regulation 18(6)(g) allows unitholders to claim amounts transferred to IPEF in a manner specified by SEBI, providing a structured mechanism for unitholders to recover unclaimed amounts.



- e. Amendments to IPEF Regulations- Amendments to Regulations 4(1) and 5(3) of SEBI IPEF Regulations facilitate the handling of unclaimed amounts in REITs, defining procedures for transfer to IPEF and subsequent claims by unitholders.
- f. Utilization of Unclaimed Amounts- Regulation 5(3)(ii) of IPEF Regulations outlines that unclaimed amounts in IPEF will be utilized for refunds to entities that transferred the amounts, upon their payment to eligible and identifiable investors. Unitholders must apply to the REIT for claims, initiating the refund process.
- g. Framework for Handling Unclaimed Amounts- Annex - A of the circular introduces a comprehensive framework outlining the procedure for REITs to transfer unclaimed amounts to an Escrow Account and subsequently to IPEF. It also delineates the process for unitholders to claim such amounts.
- h. Regulatory Authority and Approval- The circular is issued under the authority of Section 11(1) of the Securities and Exchange Board of India Act 1992 and Regulation 33 of the REIT Regulations, with the approval of the competent authority.
- i. Effective Date- The provisions of this circular come into effect from March 1, 2024.
- j. Interest Computation and Transfer Deadline- For REITs with unclaimed amounts for less than 7 years as of February 29, 2024, interest computation starts from March 1, 2024. REITs holding unclaimed amounts for over 7 years as of February 29, 2024, must transfer these amounts to IPEF by March 31, 2024, in compliance with the provisions outlined in Part II of Annex - A.

Impact:

SEBI's proactive measures aim to safeguard investor interests in REITs, ensuring timely distributions and providing a structured approach for unitholders to claim their unclaimed amounts.

1.1.5 Most Important Terms and Conditions (MITC)

- a. Uniform Document Mandate- SEBI mandates uniform documents for formalizing broker-client relationships, including account opening forms, rights and obligations, risk disclosure documents, guidance notes, policies and procedures, and tariff sheets. Brokers are required to provide these documents to clients without charge.
- b. Acknowledging Challenges- Recognizing the challenges posed by the extensive nature of these documents, SEBI acknowledges the potential for investors to lose focus on critical aspects of the broker-client relationship.



- c. Introduction of MITC- In response to this, SEBI introduces the Most Important Terms and Conditions (MITC), a standardized document that encapsulates crucial elements of the broker-client relationship, facilitating a more accessible understanding for investors.
- d. Guidelines for MITC Implementation- The Brokers' Industry Standards Forum (ISF), under stock exchanges, will publish guidelines for MITC implementation, specifying the form, nature of communication, documentation, and detailed standards. This will be done on or before January 01, 2024, in consultation with SEBI.
- e. SEBI's Discretion in Non-Publication- If the ISF is unable to publish the standards by the designated date, SEBI retains the discretion to publish MITC standards.
- f. Amendments to Master Circular- The master circular will incorporate an additional clause (20.1.6) for MITC, amending clause 20.4 to include client acknowledgment of MITC.
- g. Implementation Deadline for New Clients- Market participants are required to implement and comply with MITC for onboarding new clients by April 01, 2024.
- h. Notification Deadline for Existing Clients- MITC information must be communicated to existing clients via email or another suitable mode by June 01, 2024.
- i. Stock Exchange Directives- Stock exchanges are directed to disseminate this circular to stock brokers, incorporate relevant amendments into bylaws, rules, and regulations, publish implementation standards on their websites, and report the implementation status to SEBI in their monthly development reports.

Impact:

SEBI's proactive measures seek to bring transparency and clarity to broker-client relationships, introducing a concise and standardized MITC to streamline information for investors and encourage industry best practices.

1.1.6 Informal Guidance- Paramount Communications

Question: Can the holder of Equity Warrants, being a non-promoter entity transfer their warrants held after the completion of one year of lock-in in terms of Regulation 167(2) of the ICDR Regulation, but before its conversion into equity shares?

Reply from SEBI: As per the interpretation from the ICDR Regulations, specified securities including warrants cannot be transferred till trading approval from all the recognized stock exchanges where they are listed.



Thus, warrants issued cannot be transferred till the trading approval from all exchanges is received where the equity shares of the company are listed.

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

- a. Notable changes are made in the Master Circular which includes the removal of references to the term 'freezing/frozen' and the elimination of the practice of referring frozen folios to the administering authority under the Benami Transactions (Prohibitions) Act, 1988, and/or Prevention of Money Laundering Act, 2002.
- b. Stock Exchanges, Depositories, RTAs, and Listed Companies are advised to
 1. Entities involved, including Stock Exchanges, Depositories, RTAs, and listed companies, are instructed to comply with the conditions outlined in the circular.
 2. They are required to make necessary amendments to relevant bylaws, rules, and regulations for implementing the circular.
 3. Communication and awareness creation among stakeholders, as well as dissemination on websites, are emphasized.

Impact:

This move is likely to enhance operational efficiency for Registrars to an Issue and Share Transfer Agents, reduce complexities in compliance, and contribute to a more investor-friendly regulatory framework.

1.1.8 Informal Guidance- Jain Irrigation Systems Limited

Question: In this case, the company had issued equity share warrants which were allotted on 20th January 2022. Post An amendment in ICDR Regulations came on 15th Jan 2022 stating the lock-in period shall be 6 months from the date of Trading Approval. So, would the amendment be made applicable in this case or not?

Response from SEBI: The proposed amendment shall be applicable where the board meeting of the issuer company considering the preferential issue is held after the notification of the amendment. In this case, approval of the Board of Directors was taken before the Notification of the amendment came into existence. Accordingly, it would not be applicable and the lock-in period shall be one year for the share warrants from the date of trading approval received from the Stock Exchange.

1.1.9 Informal Guidance- Eureka Forbes Ltd

Background: Under the composite scheme of arrangements, Eureka Forbes Ltd. (EFL) underwent a merger with Forbes Enviro Solutions Ltd. (FESL). However, due to the comparatively lower values of Profit After Tax (PAT), the materiality threshold of the



resulting company, FESL, is significantly reduced. It's crucial to note that FESL (merged entity) did not exist before the merger.

Question: According to Regulation 30A, which pertains to materiality threshold criteria, one condition involves calculating five percent of the average absolute value of profit or loss after tax based on the last three audited Consolidated Financial Statements (CFS). Since FESL (merged entity) did not exist before the merger, guidance is sought on whether the available data can be used for this calculation. Additionally, clarification is sought on whether the materiality threshold can be considered based on revenue criteria rather than PAT criteria.

Response from SEBI: Given that EFL merged with FESL, it is important to consider that FESL (merged entity) did exist before the merger. Therefore, the available financial data of FESL should be taken into consideration for the last three years when determining the materiality threshold. It is emphasized that the circular regarding criteria for a new company is not applicable in this scenario.

1.1.10 Consultation Papers on providing flexibility in provisions relating to 'Trading Plans' under the SEBI (Prohibition of Insider Trading) Regulations, 2015

The Working Group was mandated to review provisions of the trading plan under PIT Regulations, 2015 to provide flexibility to facilitate the adoption of trading plans. The recommendations of the working group on trading plans are as follows.

- a. The minimum cool-off period between disclosure of TP and implementation of TP may be reduced to four months from six months.
- b. The minimum coverage period requirement may be reduced to two months from twelve months. The requirement of a black-out period for trading in TP may be done away with.
- c. Insider shall provide flexibility with providing price limits i.e., upper price limits for buy trades and lower price limits for sell trades. Such price limit shall be within +/- 20% of the closing price on the date of submission of TP. If the price of the security, during execution, is outside the price limit set by the insider, the trade shall not be executed. If no price limit is opted for, the trade has to be undertaken irrespective of the prevailing price.
- d. Exemption from the contra-trade restrictions shall be omitted i.e., contra-trade provisions shall be applicable on trades executed under TP as well.
- e. Disclosure of TP to stock exchanges proposed to be done in two days from the date of approval of TP. A suitable format of submission has been may be specified.



- f. With respect to the disclosure of personal details of the Insider in the TP alternatives are provided for the same.
 - i.) Mask personal details (Name, Designation, PAN) of the Insider in the TP.
 - ii.) Continue the existing manner of TP disclosure with personal details (Name, Designation, PAN) of the Insider.
 - iii.) Make two separate disclosures of TP - (a) full (confidential) disclosure to the stock exchange and (b) disclosure without personal details to the public through the stock exchange.

I.1.11 Press Release- SEBI Board Meeting

The following points were discussed in the Board Meeting-

- a. Flexibility in the Framework for Social Stock Exchange (SSE)- There has been a reduction in ticket size in case of public issuance of Zero Coupon Zero Principal Instruments (ZCZP) by NPOs on SSE from Rs. 1 Crore to Rs. 50 lakhs. Reduction in minimum application size in case of public issuance of ZCZP by NPOs on SSE from Rs 2 lakh to Rs. 10,000. Change in nomenclature to “Social Impact Assessor” to convey a positive approach towards the social sector. Permitting NPOs to disclose past social impact reports in the fundraising document subject to disclosure of key parameters. More entities such as NPOs to be made eligible for registration and fundraising through the issuance and listing of ZCZP on SSE by permitting registered entities.
- b. The Board has approved a framework of Index Providers that license ‘Significant Indices’ that shall be notified by SEBI based on objective criteria. The regulatory framework which is in accordance with IOSCO Principles for Financial Benchmarks shall only apply to ‘Significant Indices’.
- c. Board has approved the amendment in REITs for the facilitation of SM REITs, with an asset value of at least Rs. 50 crore vis-à-vis minimum asset value of Rs. 500 crores for existing REITs. SM REITs shall have the ability to create separate scheme(s) through special purpose vehicle(s) constituted as companies.
- d. Any fresh investment by AIF after September 2024 shall be held in dematerialized form. Existing investments may not be held in dematerialized form except investee company being mandated to facilitate dematerialization and AIF along with other intermediaries (who are mandated to hold investments in dematerialized form) has control over the investee company.
- e. Currently, the Custodian is to be appointed by all Category III AIF and Category I/II AIF with a corpus of more than Rs.500 crores. Now, the requirement of appointment of custodian shall be extended to all AIFs.



1.2 Reserve Bank of India

1.2.1 Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices

The RBI has introduced the "Master Direction – Information Technology Governance, Risk, Controls, and Assurance Practices" to bring together and update guidelines on IT practices. This initiative replaces and simplifies previous circulars, reflecting the RBI's commitment to a more unified and robust framework for managing technology in the financial sector. Note that the Master Direction is set to take effect on April 1, 2024

The Master Direction applies to a specific set of entities. These include:

1. Non-Banking Financial Companies (NBFCs): 'Top Layer,' 'Upper Layer,' and 'Middle Layer' NBFCs
2. Banking Companies: All entities falling under the category of banking companies. Corresponding New Banks and State Bank of India:
3. Credit Information Companies: Entities involved in the business of credit information.
4. All India Financial Institutions: EXIM Bank, NABARD, NaBFID, NHB, and SIDBI.

The Directions specifically exclude Core Investment Companies and Base layers from being categorized as Regulated entities under these directions.

Key Highlights:

1. The Master Direction Mandates REs to establish a robust IT governance framework that outlines the governance structure and processes essential for achieving the business and strategic objectives of the entity. This framework is required to explicitly define the roles, including authority, and responsibilities of key entities such as the Board of Directors, Board level Committee, and Senior Management.
2. Furthermore, REs shall implement effective oversight mechanisms to ensure accountability and address IT and cyber/information security risks. This involves putting in place measures that enable continuous monitoring, evaluation, and mitigation of potential risks associated with information technology and cybersecurity.
3. REs is required to have strategies and policies in place concerning IT, Information Systems (IS), Business Continuity, Information Security, and Cyber Security. These strategic documents, covering areas such as Incident Response and Recovery Management, or Cyber Crisis Management, must receive approval from the Board of Directors. Additionally, these strategies and policies need to undergo regular review, with a frequency of at least once a year.
4. REs is obligated to establish a Board Level IT Strategy Committee, comprising a minimum of 3 technically sound and competent directors as members. This

committee is required to convene on a quarterly basis, emphasizing the regular and proactive consideration of IT-related matters at the highest governance level. Moreover, the committee must adhere to additional requirements specified in the Master Direction

5. REs are required to establish an IT Steering Committee, which should include representation at the senior management level from both IT and business functions. This committee plays a crucial role in assisting the Board and the IT Strategy Committee in implementing the IT Policy and IT Strategy.
6. The Master Direction mandates to adoption of sufficient policies for Information Security and Cyber Security. This includes the appointment of a Chief Information Risk Officer (CIRO) and the formulation of a Cyber Security Response Team.
7. Regulated Entities REs is required to establish and define appropriate metrics for system performance, recovery, and business resumption, including defining specific parameters such as Recovery Point Objective (RPO) and Recovery Time Objective (RTO) for all critical information systems.
8. REs is directed to implement a suitable scorecard, metrics, or methodology to measure both IT performance and IT maturity level across the organization.

1.2.2 Regulatory measures towards consumer credit and bank credit to NBFCs

In accordance with the circular dated November 16, 2023, issued by RBI, regulatory measures have been introduced to enhance risk management in consumer credit and bank credit to Non-Banking Financial Companies (NBFCs). The following measures have been implemented:

- I. Consumer Credit Exposure:
 - a. Risk Weight Adjustment for Commercial Banks: As per existing instructions for commercial banks, consumer credit carries a risk weight of 100%. The RBI has now decided to increase the risk weights for consumer credit exposure, including personal loans (excluding housing loans, education loans, vehicle loans, and loans secured by gold and gold jewellery), by 25 percentage points, now standing at 125%.
 - b. Risk Weight Revision for NBFCs: In alignment with current norms, NBFCs' loan exposures generally attract a risk weight of 100%. However, the consumer credit exposure of NBFCs, categorized as retail loans (excluding housing loans, educational loans, vehicle loans, loans against gold jewellery, and microfinance/SHG loans), shall now attract a risk weight of 125%.
 - c. Credit Card Receivables Adjustment: Credit card receivables from Scheduled Commercial Banks currently attract a risk weight of 125%, while those from NBFCs attract a risk weight of 100%. Going forward the risk weights on such exposures has been increased by 25 percentage points to 150% for SCBs and 125% for NBFCs.

2. Bank Credit to NBFCs:

- a. The risk weights on exposures of SCBs to NBFCs will be increased by 25 percentage points (in addition to the risk weight associated with the external rating) in cases where the existing risk weight, as per the external rating of NBFCs, is below 100%. Loans to Housing Finance Companies (HFCs) and NBFCs eligible for priority sector classification will be excluded from this adjustment.

3. Strengthening Credit Standards:

- a. Risk Management Committees of financial institutions are instructed to review their sectoral exposure limits for consumer credit. Board-approved limits should be established for various sub-segments under consumer credit as deemed necessary for prudent risk management. Specifically, limits are to be set for all unsecured consumer credit exposures and strictly adhered to, with continuous monitoring.
- b. Notably, all top-up loans provided by financial institutions against depreciable movable assets, such as vehicles, will be treated as unsecured loans for credit appraisal, prudential limits, and exposure purposes.



1.3 International Financial Services Centre Authority

1.3.1 Amendment to Circular on Reporting Norms for Fund Management Entities under IFSCA (Fund Management) Regulations, 2022

The International Financial Services Centres Authority (IFSCA) on November 03, 2023, issued a circular regarding the amendment to the Circular on Reporting Norms for Fund Management Entities under IFSCA (Fund Management) Regulations, 2022.

The announcement refers to the IFSCA Circular dated May 31, 2023, specifying the reporting norms for Fund Management Entities (FMEs) and in partial modification to the circular stated above.

The amended circular states that the FMEs are advised to provide information in the prescribed formats on a quarterly basis. Accordingly, all the references to “half-year” or “half-yearly” in the circular dated May 31, 2023, shall be read as “quarter” or “quarterly”, respectively.

1.4 Ministry of Corporate Affairs

1.4.1 Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023

The Central Government's recent introduction of the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023 marks a change towards enhancing transparency and modernizing the issuance and management of securities. These rules, effective upon publication in the Official Gazette, are particularly impactful for both public and private companies, streamlining processes and aligning practices with contemporary standards.

1. Share Warrants for Public Companies: Public companies holding share warrants issued before the Companies Act, 2013, now face stringent requirements. Within three months of the rules coming into force, these companies must inform the Registrar using Form PAS-7, providing details of existing share warrants. A subsequent deadline of six months requires these companies to request bearers to surrender share warrants for dematerialization into their accounts. Notification obligations include using Form PAS-8 on the company's website and publishing the same in vernacular and English newspapers. Failure of bearers to comply within the stipulated timeframe necessitates the conversion of share warrants into dematerialized form, with transfer to the Investor Education and Protection Fund. This change aims to enhance transparency and modernize share warrant practices.
2. Dematerialization for Private Companies: Private companies, excluding small companies, undergo significant changes, primarily focused on dematerialization. Every non-small private company must issue securities exclusively in dematerialized form, aligning with the Depositories Act, 1996, and its regulations.



Under the said Rule 9B of the Allotment Rules, every private company which is not a small company as on March 31, 2023, has to ensure that all its shares are in dematerialised form by September 30, 2024.

Promoters, directors, and key managerial personnel must dematerialize their securities before engaging in new offerings, buybacks, bonus share issuance, or rights offers. Existing security holders intending to transfer or subscribe to new securities must also ensure dematerialized holdings.

Post the Last Date of Demat, any new issuance of securities must occur exclusively in dematerialized form. Private companies intending to engage in buyback initiatives, bonus share issuance, or rights issues must also adhere to stringent dematerialization prerequisites.

Crucially, government companies and small companies are exempt from these provisions, as the rules primarily target the practices of private companies.

Impact:

The requirement dematerialization of shares will incur additional compliance costs for private companies. But in the long run these will ease share transfer, buyback, rights issues etc., as they would become a much faster and smoother process.



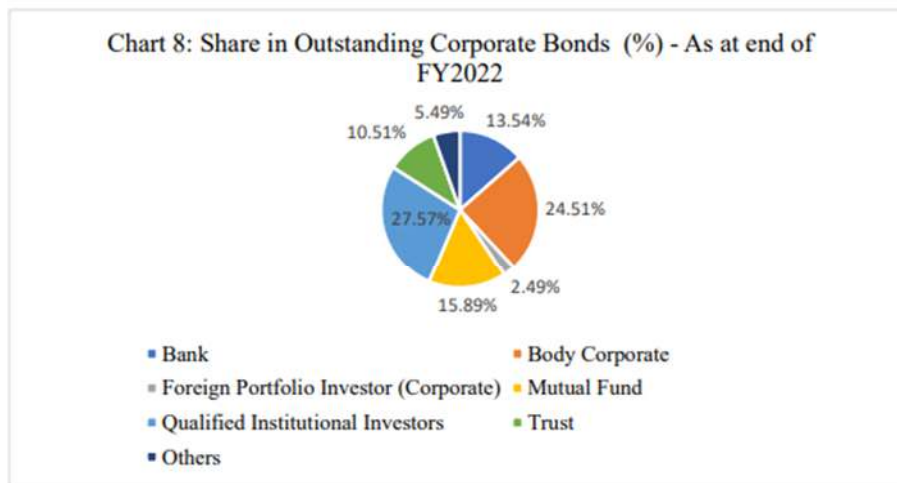
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The Bond Spectrum

Introduction

Funds are raised from external sources either in the form of equity, debt or hybrid instruments that combine the features of both debt and equity. The capital raised by companies through debt instruments is broadly referred to as corporate debt. Corporate debt broadly consists of two types – bank borrowings and bond. The corporate bond ecosystem encompasses the issuers, distributors, participants and the instruments. Online Bond Platform Providers (OBPP) is the newly added member of the Corporate bonds ecosystem and plays a vital role in fundraising for both established companies and new entrants in this space.

The illustration below depicts share of various institutions (issuers) in the corporate bonds: -



Source: SEBI

Types of Bonds

1. Convertible Bonds

Convertible bonds give bondholders the option to convert their bonds into a predetermined number of the common shares of the issuing company. Convertible bonds are hybrid instruments, combining characteristics of both debt and equity, making them attractive to investors who are looking at the security of bonds with the possibility of equity participation. It allows bondholders to participate in the company’s decision-making process on conversion.

2. Non-Convertible Bonds

Non-convertible bonds as the name suggests do not offer a conversion feature. Instead, they have a fixed interest rate and maturity date, and bondholders receive regular interest payments throughout the bond's term. When the bond matures, the issuer repays the principal amount to bondholders.



3. Callable Bonds

It is a type of bond that includes the provision allowing the issuer to redeem (call) the bond before its scheduled maturity date. When a bond is called, the issuer repurchases the bond from bondholders at a predetermined call price. Usually, Callable bonds may have a call protection period during which the issuer is not allowed to call the bond. This period offers some security to bondholders and ensures that they receive interest payments for a certain duration.

4. Puttable Bonds

It is a type of bond that includes a special provision giving the bondholder the right (but not the obligation) to sell the bond back to the issuer or a third party at a predetermined price and time. Puttable bonds provide investors with a degree of flexibility and risk mitigation.

5. Perpetual Bonds

It is a type of financial instrument with no specified maturity date and pay periodic interest indefinitely. Perpetual Bonds are usually a very effective way for Asset Liability Management for any company as they do not have any fixed maturity principal repayment.

6. Masala Bonds

Masala bonds are rupee-denominated bonds or Indian rupee bonds which are issued by foreign entities in the Indian capital markets. Masala bonds are a way for foreign entities to raise capital in India, and they have gained popularity as a means of diversifying funding sources and tapping into the Indian financial markets.

7. Municipal Bonds

Municipal bonds, often referred to as "munis," which are debt securities issued by state and local governments, municipalities, or their agencies to raise funds for various public projects and government operations.

8. Zero coupon, zero principal bond

It is an instrument issued by a not-for-profit organisation that will be registered with the social stock exchange segment of a recognised stock exchange in accordance with the Securities and Exchange Board of India (Sebi) regulations. When an entity issues these securities and raises money, it is not a loan but a donation. So, the borrowing entity does not have to pay interest—therefore zero coupon—and it does not have to pay the principal (zero principal) either.

9. Green Bonds

Green bonds are a specific type of fixed-income financial instrument that is issued to raise funds for projects and initiatives with environmentally friendly or "green" purposes. The key feature of green bonds is that the proceeds generated from their issuance are earmarked for projects and activities that have a positive impact on the environment, such as renewable



energy projects, energy-efficient building construction, clean transportation infrastructure, and environmental conservation efforts.

Conclusion

Indian Debt markets are evolving and inclusion of Indian government bonds in the JP Morgan Global Bond Index-Emerging Markets (GBI-EM) has been an impetus to it. SEBI has also taken key initiatives to promote debt markets by taking measures to improve liquidity by setting up of Corporate Debt Market Development Fund, mandatory listing on certain categories of debt securities, introduction of derivative contracts on certain specified bonds, etc.

However, currently debt securities usually have a high-ticket size making it difficult for retail investor to participate in the same.

Introduction of features like lower ticket size for retail participants, fractionalisation of Asset classes like Bonds and Debentures, etc will enable greater retail participation and boost the development of the corporate bond market at a faster pace.

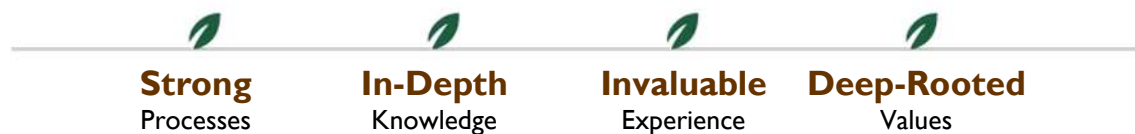


About Basilstone

Basilstone Consulting Private Limited (“Basilstone”) has been promoted to partner with the society and its businesses to achieve their true potential and help realize their vision. We work closely with our clients and enrich their growth by offering them solution driven consultancy services in the areas of strategic planning, incubation, impact analysis, idea validation, product validation, feasibility study, synergy evaluations, fund raising, restructuring, transaction advisory, representation – guiding on regulatory / non-regulatory meetings, succession planning, Inbound and outbound investment, due diligence, dealing with regulatory / statutory authorities, etc.

We, at Basilstone aim to position ourselves as the ‘Go to Consultants’ for **Simple Solutions & Value Creation** recognised by our clients for delivering ultimate desired results.

The Purpose of Basilstone is to provide simple solutions and create value backed by:



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

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

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