



atharv

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Basilstone Consulting is pleased to present to you the **Oct 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. Request for Quote (RFQ) platform for trade execution and settlement of trades in listed Non-convertible Securities, Securitised Debt Instruments, Municipal Debt Securities and Commercial Paper
- 1.1.2. Governing Council on Social Stock Exchange
- 1.1.3. Standard Operating Procedure for Inter-operable Regulatory Sandbox
- 1.1.4. Reduction in denomination for debt securities and non-convertible redeemable preference shares AND Review of Provisions relating to International Securities Identification Number (ISIN)

1.2. Reserve Bank of India

- 1.2.1. Multiple NBFCs in a Group: Classification in Middle Layer

1.3. International Financial Services Centre Authority

- 1.3.1. International Financial Services Centres Authority (Setting up and Operation of International Branch Campuses and Offshore Education Centres) Regulations, 2022

2. Discussion Papers

Changing Landscape for Investment Advisers – An Introduction

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I. Regulatory updates & its expected impact

I.1. Securities & Exchange Board of India

I.1.1. Request for Quote (RFQ) platform for trade execution and settlement of trades in listed Non-convertible Securities, Securitised Debt Instruments, Municipal Debt Securities and Commercial Paper

- a. RFQ platform is introduced to permit the stock exchanges to offer electronic, screen-based trading, providing for order matching, request for quote, negotiated trades, etc.
- b. RFQ platform will do the work of deal execution (price discovery and price negotiation), however settlement will happen via exchange (*Except for Commercial Papers and Certificate of Deposit*)
- c. RFQ platform was accessible only to regulated entities, listed bodies corporates, institutional investors and all India financial institutions. Now, SEBI has even allowed stock brokers to place/seek bids on behalf of clients.

Impact:

RFQ platform is introduced by SEBI with an intention to improve liquidity in the fixed income securities market and make the entire trade process seamless. Also, retail participation in Bond Market will improve.

I.1.2. Governing Council on Social Stock Exchange

- a. SEBI has come out with the composition of Governing Council of Social Stock Exchange which includes individuals from different background and experiences.
- b. Social Governing Council will provide oversight and guidance in smooth functioning of the operations of the Social Stock Exchange, with regard to registration, fund raising and disclosures by Social Enterprises.

I.1.3. Standard Operating Procedure for Inter-operable Regulatory Sandbox

- a. Inter-Regulatory Technical Group on FinTech has been set up.
- b. Sandbox refers to live testing of new products or services in a controlled/test regulatory environment for which regulators may permit certain regulatory relaxations.
- c. Usually, Fintech Products are subject to regulations by different regulators like RBI, SEBI, etc. In order to be compliant with multiple different regulations, a regulatory sandbox is established.
- d. With the help of Sandbox, the principal regulator will continue to govern the product along with some modifications by associated regulators.

Impact:

Fintech is one of the growing industry in India and SOPs for Inter-Regulatory Framework will help the industry to comply with the regulations and validate their products to get meaningful inputs.



1.1.4. Reduction in denomination for debt securities and non-convertible redeemable preference shares AND Review of Provisions relating to International Securities Identification Number (ISIN)

- a. The minimum face value of Debt Securities and Non-Convertible Redeemable Preference Shares is reduced from Rs. 10 Lakhs to Rs. 1 Lakh.
- b. SEBI has also introduced capping limits on number of maturing maximum of 14 ISINs in a year with additional 6 ISINs for Sec 54EC Capital Gains Bonds.

Impact:

The reduction in minimum ticket size will boost retail participation in the corporate bond market. The capping of ISIN would enhance liquidity in secondary market transaction in the corporate bond market.

1.2. Reserve Bank of India

1.2.1. Multiple NBFCs in a Group: Classification in Middle Layer

- a. RBI had introduced Scale based Regulations in October 2021, wherein all the NBFCs will be classified under 4 categories viz. Base Layer, Middle Layer, Upper Layer and Top Layer.
- b. Certain specified classes of NBFCs (Deposit taking, SPD, IDF, CIC, HFC and IFC) are classified as Middle Layer and other class of NBFCs having Asset size of Rs.1000 crores or more will be classified as Middle Layer.
- c. For the purpose of determining the threshold limit of Rs.1000 crores, asset size of all NBFCs within the same group is to be considered.

Impact:

It will bring operational flexibility within the larger group structure as all the NBFCs will be classified in same category. However, compliances may increase for an NBFC individually having as an asset size of Rs 50 Crores, however falling within the group threshold limit of Rs 1000 crores.

1.2.2. Review of Regulatory Framework for Asset Reconstruction Companies (ARCs)

- a. RBI has introduced Corporate Governance Framework for ARCs regarding composition of Board, obtaining recovery rating, disclosure requirements, etc.
- b. Regulations relating to Funds like having minimum NOF, deployment of surplus funds, Investment in Security Receipts by ARCs and Transfer of stressed loans to ARC have been amended.
- c. ARCs having minimum NOF of Rs.1000 crores are allowed to participate as Resolution Applicant in the Insolvency proceedings.

Impact:

RBI will have a better oversight over ARCs and improve transparency in ARC sector. With enhanced corporate governance standards, Investor confidence towards Asset Reconstruction industry would improve resulting in greater investment inflows in industry.



1.3. International Financial Services Centre Authority

1.3.1. International Financial Services Centres Authority (Setting up and Operation of International Branch Campuses and Offshore Education Centres) Regulations, 2022

- a. IFSCA has introduced the new regulations to welcome education centres to be set up in the GIFT IFSC with key focus on areas like Banking, Insurance, Capital Market, Funds Management, FinTech, Longevity Finance, Sustainable Finance, Quantum Computing, etc.
- b. It will encourage both Indian and Foreign students.

Impact:

It will attract more quality talent to GIFT IFSC and solve the problem of human resource deficiency.



2. Discussion Papers

2.1. Changing Landscape for Investment Advisers – An Introduction

Need for a Regulation for Investment Advisers

Until a few years ago, investors became prey to agents providing investment product advice. This advisory was primarily a product push strategy than investment advisory in true sense. During 2008-2010, SEBI reconsidered the entire spectrum of mis-selling and rationalized brokerages on various investment products.

Going forward, SEBI (Investment Advisers) Regulations was enacted in 2013 to lay down a framework for the investment advisers providing advice relating to investing, purchasing, selling, or otherwise dealing in securities or investment products, etc, to their clients.

Investment adviser (IA) would act in a fiduciary capacity towards its clients and shall disclose all conflicts of interests, whether actual or potential, as and when they arise. However, a potential threat of conflict of interest arises due to the dual role played by them as advisers and distributors of financial products. The lack of segregation between the dual roles of advisory and distribution services often leads to a situation where a client's interest would be compromised by an adviser who would advise the client with the products which would fetch him better profits through commission. Additionally, the regulation did not provide any guidelines to ensure the quality of the investment advisors and prevent fraud play by the advisors who charge an exorbitant fee for their advice.

In light of these issues, several investor complaints were brought before the SEBI against the IA regarding their lack of experience and qualification, unprofessional conduct, assured returns being offered by the Investment Advisors, charging of exorbitant fees from client with a false promise of handsome returns, mis-selling by IAs without adhering to the risk profile of the client, non-disclosure of complete service fees/charges and, extracting money in the name of various charges.

Such conduct of these entities is against the interest of investors. SEBI has issued orders u/s IIB of SEBI Act, 1992 against various entities in the recent past wherein the entities were observed violating the provisions of IA regulations and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

To devise a solution to these problems and make a more robust regulatory framework and at the same time align the regulatory framework with the developments in the securities markets, SEBI had issued three consultation papers dated October 7, 2016, June 22, 2017 and January 2, 2018 seeking public comments on various proposals relating to segregation of advisory and distribution activities,



usage of misleading nomenclatures by distributors etc. for the investment advisors. Following which, SEBI notified amendments in the IA regulations.

Challenges in the role of Investment Advisers

Ever changing dynamics in the relationship between advisers and clients presents a significant challenge. The speed at which clients process, accept and act on the advice imparted to them has changed. In the past clients would have been more likely to act blindly on the advice imparted to them. And this sometimes proved to work to their detriment, especially when substandard advice was imparted to them by fraudulent advisors. This has seen clients become more aware and well informed regarding basic concepts of investing, personal finance and financial planning. Therefore, advisers must ensure that they communicate clearly with clients and do their best to ensure clients act on their advice in a timely manner. Clients on the other hand must learn to put more faith in their advisers and act on advice imparted to them after a reasonable amount of thought and analysis.

Changing role and dynamics of Investment Advisers in India

The advent of the SEBI Investment Adviser Regulations in 2013 bought a space that was less regulated until then, under the purview of a set of much more stringent regulations. The effects of the changes brought about by the shift in the stringency of regulations have brought in a lot more quality to the advice delivered, received and acted upon. But in the coming years, investment advisory as a practice must brace itself for an entirely new wave of evolution that will be game changing and inevitable. And adapting to this wave of evolution would undoubtedly present its own set of challenges for advisers. Advisers must understand how these changes will impact their practice and adapt to them in order to ensure that their skills and services remain relevant and their practice continues to grow in the years to come.

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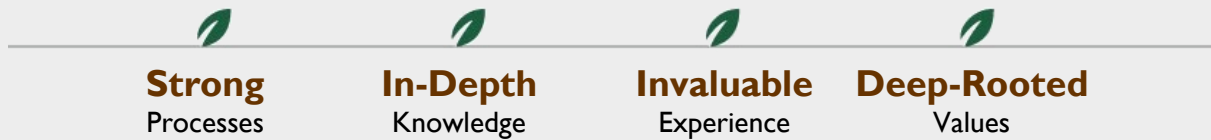


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We, at Basilstone aim to position ourselves as the 'Go to Consultants' for **Simple Solutions & Value Creation** recognised by our clients for delivering ultimate desired results.

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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