



atharv

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Basilstone Consulting is pleased to present to you the **October 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 Centralized mechanism for reporting the demise of an investor through KRAs.

- a. Intermediaries, when notified of an investor's demise, must promptly obtain and verify the death certificate along with the PAN from the notifier through online or offline means.
- b. If the intermediary cannot access the death certificate, they should inform the concerned parties and flag the investor's KYC status as "On Hold" until the death certificate is provided.
- c. After verifying the death certificate, the intermediary must submit a 'KYC modification request' to the KYC Registration Agency (KRA), block debit transactions in the deceased investor's account, and adhere to specified joint account modes.
- d. Upon receiving the modification request, the KRA will independently validate the information, update the KYC record, and communicate the status to linked intermediaries. If errors are found, the KRA will consult with the intermediary for correction.
- e. Upon receiving a "Blocked Permanently" status from the KRA, intermediaries must block debit transactions, inform the notifier/nominee about the transmission procedure, and provide necessary forms and document lists. Transaction requests in "On Hold" accounts require additional due diligence.

Impact:

These regulations are designed to enhance investor protection, transparency, and accountability in the financial industry, but they may lead to increased costs and technology investments for intermediaries. Overall, they aim to create a safer and more reliable investment environment.

I.1.2 Limited relaxation from compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

- a. Regulation 58(1)(b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that a listed entity shall send a hard copy of the statement containing the salient features of all the documents, as specified in Section 136 of Companies Act, 2013 and rules made thereunder to those holders of non-convertible securities who have not so registered.
- b. It has been decided to relax, up to September 30, 2024, the requirements of regulation 58 (1)(b) of the SEBI Listing Regulations, with immediate effect.



- c. Stock Exchanges are advised to bring the provisions of this circular to the notice of all entities with listed non-convertible securities and disseminate on their websites.

1.1.3 Master Circular for Depositories

- a. SEBI from time to time, has been issuing various circulars/directions to Depositories. Further, a Master Circular in the form of a compilation of all the relevant circulars was also issued on this subject on February 05, 2021. To enable the users to have access to all the applicable circulars/directions about depositories in one place, the Master Circular for Depositories has been prepared.
- b. This Master Circular shall come into force from the date of its issuance. This Master Circular covers the relevant circulars/communications about depositories issued by SEBI up to August 31, 2023.

1.1.4 Requirement of Base Minimum Capital Deposit for Category 2 Execution Only Platforms

- a. SEBI has prescribed the Regulatory Framework for Execution Only Platform (EOP), in which people can get registration under one of the two categories.
- b. Category 1 EOP- Entities desirous of operating as Category 1 EOP are required to obtain registration from AMFI and shall act as an agent of AMC(s) and can provide service to investors and other intermediaries. Category 2 EOP- They are required to obtain registration as a Stock Broker in terms of SEBI (Stock Brokers) Regulations, 1992 under the EOP segment of Stock Exchanges.
- c. It has been decided that the members of stock exchanges functioning only in the EOP segment (Category 2 EOP) shall maintain a sum of Rs. 10 Lakhs with the stock exchange as BMC deposit. However, for members having registration of more than one segment on the same stock exchange, the BMC deposit requirement shall not be additive for such some segments and shall be the highest applicable BMC deposit, across various segments.

1.1.5 Relaxation from compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Reg.

- a. As per regulation 36(1)(b) there is a requirement of sending physical copies of financial statements (including the Board’s report, Auditor’s report, or other documents required to be attached therewith) to the shareholders, for the AGMs conducted.
- b. The Master Circular governing this provision has relaxed the applicability till September 30, 2023 now it has extended the deadline by providing the relaxation till September 30, 2024.



1.1.6 Extension in timeline for compliance with qualification and experience requirements under Regulation 7(1) of SEBI (Investment Advisers) Regulations, 2013

- a. Regulation 7 of SEBI (Investment Advisers) Regulations, 2013, specifies the qualification and experience requirements for investment advisers and provides that an individual investment adviser or principal officer of a non-individual investment adviser and persons associated shall comply with the enhanced qualification and experience requirements specified in regulation 7(1) within a period of three years, i.e., by September 30, 2023.
- b. Accordingly, it is now specified that the timeline to comply with the enhanced qualification and experience requirements under regulation 7(1) is extended to September 30, 2025.

1.1.7 Master Circular on Know Your Client (KYC) norms for the securities market

- a. The Securities and Exchange Board of India (SEBI) has been issuing various circulars/directions from time to time on Know Your Client (KYC) norms to be followed by intermediaries in the securities market. To enable the users to have access to all the applicable circulars/directions in one place, this Master Circular on the captioned subject is being issued.
- b. Some of the rules entailed in the Master Circular are as follows-
 - i. All SEBI-registered intermediaries will use the same KYC form and supporting documents. In which part-I of AOF shall contain basic details of the client and part-II shall contain additional specific information required.
 - ii. PAN shall be a unique identification number for all participants, registered intermediaries shall verify the PAN of the clients online. Exemptions are also provided for these requirements.
 - iii. Other documents shall be accepted as proof of identity when issued by the State Government or gazette notification, indicating the change in name.
 - iv. Registered Intermediaries shall upload the details of their mobile number and email address on the KRA system. In person verification done by one SEBI intermediary can be relied upon by another intermediary.

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

- a. Enhanced AML/CFT Measures- The circular outlines amendments to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, aimed at strengthening anti-money laundering and counter-financing of terrorism (AML/CFT) measures.



- b. Group-Wide AML/CFT Programs - Financial groups are required to implement comprehensive group-wide programs to manage ML/TF risks effectively. These programs include sharing information for customer due diligence (CDD) and risk management, along with safeguards for information confidentiality.
- c. Trust Disclosure Requirement- In the case of trusts, the reporting entity must ensure that trustees disclose their status at the commencement of an account-based relationship.
- d. Beneficial Ownership Identification- The circular provides detailed guidelines for identifying beneficial ownership and control, especially for different entity types like companies, partnership firms, unincorporated associations, and trusts. It also specifies exemptions for certain entities listed on stock exchanges.
- e. Ongoing Client Due Diligence- Registered intermediaries must periodically update client information, particularly for high-risk clients. The circular emphasizes that no transaction or account-based relationship should proceed without following the Customer Due Diligence (CDD) procedure.

Impact:

These amendments aim to enhance the effectiveness of anti-money laundering and counter-financing of terrorism measures in the financial sector and enhance financial system security.

1.1.9 Master Circular for Stock Exchanges and Clearing Corporations

- a. SEBI from time to time, has been issuing various circulars/directions to Depositories. Further, a Master Circular in the form of a compilation of all the relevant circulars. In order to enable the users to have access to all the applicable circulars/directions pertaining to depositories in one place, the Master Circular for Stock Exchanges and Clearing Corporations has been prepared.
- b. This Master Circular shall come into force from the date of its issuance. This Master Circular covers the relevant circulars/communications pertaining to depositories issued by SEBI up to August 31, 2023.

1.1.10 Ease of doing business and development of corporate bond markets – revision in the framework for fundraising by issuance of debt securities by large corporates (LCs)

- a. The revised framework shall be applicable from 1st April 2024 for LCs following the Apr-Mar cycle and from 1st Jan 2024 for LCs following the Jan- Dec cycle, subject to meeting the prescribed criteria.



- b. LCs have been mandated to raise a minimum of 25% of their incremental borrowings through debt securities. The framework’s requirements are met over a contiguous block of three years.
- c. Stock Exchange shall identify LCs by the end of June or March accordingly. They shall calculate and communicate incentives and disincentives by May or Feb.
- d. LPCCs shall help facilitate LCs with compliance of incentives and disincentives regarding contribution to the Core Settlement Guarantee Scheme.

Impact:
 This amendment in corporate bond fundraising for large corporates would help them in fundraising and comply with new requirements and promote a conducive environment for the development of this space.

1.1.11 Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) of Qualified RTAs (QRTAs)

- a. Qualified RTAs (RTAs with over 2 Crore folios) are systemically important institutions in the securities market, necessitating high resiliency to ensure uninterrupted critical functions.
- b. SEBI, in consultation with the Technical Advisory Committee, is issuing guidelines to enhance resiliency, BCP, and DR capabilities, including better Recovery Time Objective (RTO) and Recovery Point Objective (RPO).
- c. QRTAs must establish a Business Continuity Plan (BCP) and Disaster Recovery Site (DRS), maintain a capable Incident and Response Team (IRT), and review BCP-DR policy quarterly.
- d. DRS and PDC (Primary Data Centre) configurations should ensure zero data loss, have a minimum distance of 500 kilometers between them, and have one-to-one correspondence in hardware and software.
- e. QRTAs must achieve a 45-minute Recovery Time Objective (RTO) for Critical Systems, which includes transaction processing, connectivity, and NAV calculations, with a 15-minute Recovery Point Objective (RPO).
- f. Regular DR drills, unannounced live operations, and root cause analysis are mandatory to demonstrate preparedness and identify and prevent system-related issues.



- g. A comprehensive BCP-DR policy document, approved by the Governing Board, must be in place, covering disaster scenarios, procedures, communication protocols, and monitoring. Revised policies should be submitted to SEBI within three months. System Audit should also include clauses 5.8 and 6.1.5.

Impact:

The guidelines aim to significantly enhance the systemic resilience of the securities market by reducing market risk, improving operational efficiency, and ensuring data and transaction integrity.

1.1.12 Revision in manner of achieving minimum public unitholding requirement- Infrastructure Investment Trusts (InvITs)

- a. SEBI has introduced additional methods for privately placed InvITs to meet the minimum public unitholding requirement. In which the privately placed InvITs can achieve shareholding, with the condition that only publicly issued units shall be considered for compliance with minimum unitholding requirements.
- b. There has been the introduction of a maximum limit of privately placed InvITs, which shall be exempted as per applicable conditions when units are sold by Sponsor(s), Investment Manager, Product Manager and their associate party.

Impact:

Privately placed InvITs have an additional method of disposal as well as to achieve minimum unitholding requirements, which have to be examined before exercising it. This shall bring governance and transparency within the InvITs sector.

1.1.13 Informal Guidance on LODR Regulation Query sought by Gail (India) Limited.

Query I: Whether the details of arbitral proceedings of pending arbitration matters or arbitral awards can be disclosed to SEBI as it may contravene Section 42A of the Arbitration and Conciliation Act, 1996, as these are required to be disclosed as per the requirement of Regulation 30 of LODR.

SEBI Response: Disclosure of details of arbitral proceedings or arbitral awards can be made to the extent it is legally permissible under the Arbitration Act which shall include the amount of claim involved, facts of proceeding, and court orders in relation to arbitration proceedings.



Query 2: What does ‘cumulative basis’ mean? Whether it includes-

- a. In case of multiple litigation/cases with the same party, whether claims by/against the same party be taken together to arrive at the same party?
- b. In the case of a single litigation/ case, whether the claim by the listed entity and counter-claim against the listed entity need to be added together to arrive at the cumulative figures?

SEBI Response: A cumulative figure is to be arrived at by taking together the claims by/against a party in all ongoing litigations or disputes with the same party. However, claims by the listed entity and counterclaims against the listed entity in any single litigation may not be added together or set off for the purpose of arriving at the claim amount.

1.1.14 Informal Guidance on SAST Regulation Query sought by Kreon Financial Services Limited.

Query: The current holding of promoters was below 25% and there was a proposed conversion of warrants into equity shares in FY 2024 which would increase the holding of the promoters which will exceed the holding of promoter above the 25% mark. So will it trigger Open offer Obligations under SEBI SAST Regulations?

SEBI Response: Since the individual holding of both the promoters is below 25% open offer requirements would not be triggered in that case.

1.1.15 Informal Guidance on PIT Regulation Query sought by Rama Mines (Mauritius) Limited.

Query: Whether the provisions of contra-trade apply to trades made by individual promoters or whether the entire category of Promoter & Promoter Group is considered for the same?

SEBI Response: As per Regulation 9 of PIT Regulations, contra-trade restrictions may apply to trades made by the promoter individually. Since in this case the promoters are corporates and have common shareholders, so the restrictions shall apply jointly. Even though another promoter has not purchased the shares, they cannot sell them as it would amount to contra trade.



1.2. Reserve Bank of India

1.2.1. Strengthening Credit Reporting: RBI's New Guidelines for Credit Institutions and Information Companies

In a significant move to enhance the credit reporting system's efficiency and customer service, the Reserve Bank of India (RBI) has introduced new guidelines and expectations for Credit Institutions (CIs) and Credit Information Companies (CICs). These directions aim to ensure a smoother, more transparent credit information ecosystem, providing individuals with improved access to their financial data and enhancing the resolution of grievances. These directions come into effect 6 months from date of this circular i.e., 26th October 2023

Setting up Nodal Points for Customer Grievances:

CIs are now required to designate dedicated nodal points or officials to facilitate the resolution of customer grievances. These individuals will serve as primary contacts for CICs, streamlining the grievance redressal process. The details of these nodal points, including email addresses and telephone/mobile numbers, are to be shared with CICs. Any changes to these points of contact must be communicated to CICs within five calendar days.

Root Cause Analysis for Grievances:

To prevent recurring customer grievances, CIs shall now conduct Root Cause Analysis (RCA) of customer complaints at least on a half-yearly basis. This analysis will help identify underlying issues contributing to grievances. CIs will also review the results at least annually, and top management will be actively involved in this process. By addressing the root causes of grievances, CIs can improve their services and prevent future complaints.

Transparency in Data Correction Rejections:

CIs are further now required to inform customers of the reasons for rejecting their requests for data correction, if applicable. This measure allows customers to better understand why certain information in their Credit Information Report (CIR) could not be modified. CICs will also circulate a list of common reasons for rejection to all CIs. This shared information will be used during the grievance redressal process, ensuring consistency in communication about data correction requests.

Periodic Review of Match Logic Algorithm:

CICs will implement a board-approved policy for the periodic review of their 'Search & Match' logic algorithms, used to provide Credit Information Reports (CIRs) to borrowers. These reviews, conducted at least every six months, will utilize the results of Root Cause Analyses (RCAs) of customer complaints to identify and rectify issues in the existing algorithm. Any changes to the search and match logic will be reviewed by the Board of Directors of the CIC. This ensures that the algorithm remains robust and accurate in its credit data reporting.



Timely Data Ingestion and Rejection:

CICs are expected to ingest credit information data received from CIs within seven calendar days of receipt, adhering to their data acceptance rules. In cases of data rejection, CICs must communicate with the concerned CI, providing reasons for the rejection, within seven calendar days of receiving the data. This streamlined process will enhance data accuracy and data sharing between CIs and CICs.

Easy Access to Free Full Credit Reports:

A major highlight of the RBI's guidelines is the requirement for CICs to provide easy access to Free Full Credit Reports (FFCR), including credit scores, to individuals annually. This access should be readily available on CICs' websites, prominently displayed on the home page. It enables individuals to conveniently access their comprehensive credit reports once a year, allowing them to monitor and manage their financial standing.

The RBI's recent guidelines for CIs and CICs are poised to bring about a positive shift in the credit reporting ecosystem. They emphasize transparency, efficiency, and accountability, ultimately benefiting consumers.

Impact:

CICs and CIs will need to make operational adjustments to adhere to the new requirements. This includes designating nodal points or officials for grievance redressal, conducting Root Cause Analysis (RCA) of customer complaints, and promptly communicating data rejections and reasons.

1.2.2. RBI Introduces Compensation Framework for Timely Resolution of Credit Information Discrepancies

The Reserve Bank of India (RBI) has introduced a comprehensive compensation framework for credit institutions (CIs) and credit information companies (CICs) to ensure the timely resolution of complaints regarding credit information discrepancies.

This new framework, outlined in the Circular, comes into effect six months from its issuance, and it places the onus on both credit institutions (CIs) and credit information companies (CICs) to promptly address consumer complaints. This framework provides a clear timeline for resolving such complaints and outlines the compensation mechanisms for both CIs and CICs.

The RBI's compensation framework is designed to incentivize CIs and CICs to resolve credit information discrepancies efficiently. It outlines the following key provisions:



1. **Compensation for Delayed Resolution:** Complainants are entitled to a compensation of ₹100 per calendar day if their complaint is not resolved within 30 calendar days from the date of the initial filing of the complaint.
2. **Timelines for Resolution:** CIs are expected to send updated credit information to CICs, making corrections or additions, within 21 calendar days of being informed by the complainant or a CIC. Likewise, CICs must resolve complaints within 30 calendar days after being informed by the complainant or a CI, provided that the CI has furnished the updated credit information within 21 calendar days.
3. **Apportionment of Compensation:** Compensation for delayed resolution is to be apportioned among the CIs and CICs concerned proportionately, ensuring collective accountability for resolving complaints.
4. **Communication with Complainants:** CIs and CICs must inform complainants about the action taken on the complaint, including cases where the complaint is rejected. In instances of rejection, reasons for the rejection must be provided.
5. **Grievance Resolution Involving Multiple Entities:** When a complaint involves inaccurate credit information from multiple CIs, the concerned CIC is responsible for coordinating with all the CIs to provide a comprehensive resolution to the complainant.
6. **Compensation Disbursement:** The compensation amount, once approved, shall be credited to the complainant's bank account within five working days of the complaint's resolution.
7. **RBI Ombudsman and Resolution:** In cases of wrongful denial of compensation by CIs or CICs, complainants have the option to approach the RBI Ombudsman under the Reserve Bank - Integrated Ombudsman Scheme, 2021.

The compensation framework will not apply to disputes for which remedies are provided under Section 18 of the Credit Information Companies Regulation Act (CICRA), 2005. Additionally, it excludes complaints related to internal administration, human resources, pay and emoluments, suggestions, commercial decisions, disputes regarding credit score computation, and cases already pending in other forums.

The introduction of the RBI's compensation framework is a significant step towards ensuring accountability and consumer protection within the financial sector. It empowers complainants by providing compensation for delayed resolutions and encourages CIs and CICs to be more diligent in addressing consumer complaints promptly.



Impact:

CI and CICs will need to be proactive in monitoring and responding to consumer complaints. This includes promptly forwarding updated credit information and resolving disputes within the specified time limits. Non-compliance with the framework's provisions may lead to penalties and regulatory action as per the provisions of the Credit Information Companies Regulation Act (CICRA), 2005.

1.2.3. Amendment to the Master Direction (MD) on KYC

The newly introduced amendments made by the Reserve Bank of India (RBI) to the Master Directions on Know Your Customer (KYC) in October 2023 are aimed at strengthening the KYC process and enhancing anti-money laundering (AML) and counter-terrorism financing (CTF) measures. These changes have brought in significant implications for Regulated Entities in India.

Key Highlights:

Customer Due Diligence (CDD):

- I. The amendment emphasizes the use of reliable and independent sources of identification for customers, ensuring the reliability of customer information.
- II. REs must take reasonable steps to understand the nature of the customer's business and identify the beneficial owner.

Group-Wide Policies:

- I. REs are required to implement group-wide policies to facilitate the sharing of information for client due diligence, AML requirements, and terrorism risk management.
- II. Safeguarding the confidentiality of shared information is essential.

ML/TF Risk Assessment:

- I. The flexibility of determining the periodicity of the ML/TF risk assessment exercise by either the Board of the RE or a delegated committee grants more adaptability to organizations. This enables a more tailored approach to risk assessment and mitigation.

Risk-Based Approach:

- I. The introduction of a Risk-Based Approach in CDD signifies a major shift in how RE manages customer risks.
- II. The approach should consider ML/TF risks and the size of the business. It also necessitates the establishment of Board-approved policies, controls, and procedures, fostering a proactive approach to risk management.

Reporting Suspicious Transactions:

- I. REs are granted the option to file Suspicious Transaction Reports (STR) when they are unable to comply with CDD requirements from customers. This provision encourages transparency and cooperation in identifying suspicious activities.

Monitoring of Accounts:

- I. REs are required to monitor accounts for suspicious ML/TF activities.
- II. If suspicions arise, customers should be identified according to specific sections of the regulations.

Politically Exposed Persons (PEPs):

- I. The amendment lays down guidelines for conducting CDD on Politically Exposed Persons (PEPs), which includes determining the status of beneficial owners and their source of wealth.
- II. It also extends these guidelines to the family members and close associates of PEPs, ensuring a comprehensive approach to risk management.

Enhanced Due Diligence (EDD):

- I. REs are required to apply enhanced due diligence that is proportionate and effective for business relations and transactions involving natural and legal persons from high-risk jurisdictions, as identified by the Financial Action Task Force (FATF).

Impact:

REs need to take specific actions, including: Developing advanced technical procedures. Ensuring well-trained personnel with strong ethical standards and comprehensive knowledge of applicable rules and KYC criteria. Using independent and reliable sources for KYC information. Implementing organization-wide due diligence policies in full compliance with the updated Master Directions.

1.2.4. Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

On October 19, 2023, the Reserve Bank of India (RBI) introduced the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions 2023, which has been immediately implemented, replacing the previous framework governing NBFCs.

Specifically, it supersedes the earlier regulations, namely, the Master Direction – NBFC – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, and the Master Direction – NBFC – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. The primary



objective of the SBR Master Direction is to align the regulations with the scale-based framework for NBFCs, which was initially published by the RBI on October 22, 2021.

Furthermore, in alignment with the RBI's SBR Framework, the SBR Master Direction maintains the categorization of NBFCs into four distinct layers: the Base Layer, the Middle Layer, the Upper Layer, and the Top Layer.

The SBR Framework came into effect in October 2022, but the regulations were not fully synchronized. Consequently, the previous regulatory regime remained in force during the interim period from October 1, 2022 (SBR Notification), until October 18, 2023. This situation created uncertainty regarding the classification of Non-Banking Financial Companies (NBFCs) with asset sizes between INR 500 crore and INR 1,000 crore. It was unclear whether these NBFCs should be categorized as NBFCs-BL (based on their asset size) and whether they were obligated to adhere to all the requirements that applied to systemically important NBFCs.

These specific NBFCs found themselves in the challenging position of having to navigate compliance with both the Erstwhile Regulatory Regime and the various notifications and circulars issued under the SBR Framework.

Now, with the introduction of the SBR Master Directions, the SBR Framework has been effectively amalgamated with the Erstwhile Regulatory Regime to form a comprehensive set of directives, addressing the previous ambiguity.

Key Highlights and Regulatory Changes:

Group Asset Size Determination:

According to the SBR Master Direction, when multiple NBFCs belong to the same group or share common promoters, their combined asset size will be used to classify them into the Middle Layer. If the consolidated assets of these NBFCs in the group amount to INR 1,000 crore or more, each NBFC within the group, whether an NBFC-ICC, NBFC-MFI, NBFC Factor, or mortgage guarantee company, will be classified as a Middle Layer NBFC. As a result, Middle Layer regulations will apply to these NBFCs in the group, regardless of their individual asset size. This methodology, however, does not apply to the classification of NBFCs falling under the Upper Layer.

Asset Classification Norms:

The SBR Master Direction has introduced revised asset classification norms for NBFCs. It also outlines a transition path, applicable only to NBFCs not currently subject to the 90-day NPA (Non-Performing Asset) norm under the SBR Master Direction. These NBFCs will be required to classify accounts as non-performing assets if the overdue period exceeds 150 days. After March 31, 2024, this period will be reduced to 120 days, and from March 31, 2025, it will be further reduced to 90 days. Additionally, Middle Layer



NBFCs must make provisions for standard assets at 0.40% of the outstanding standard loans, which cannot be counted towards net NPAs.

Experienced Directors:

The board of directors of any NBFC is mandated to include at least one director with relevant experience in a bank or NBFC.

Base Layer NBFCs:

NBFCs that neither access public funds nor have customer interactions fall under the Base Layer category as per the SBR Framework. The SBR Master Direction further exempts such NBFCs from prudential regulations and regulatory restrictions and limits mentioned in Chapters IV and V of the SBR Master Direction.

Minimum Net Owned Fund:

The net owned fund requirement for NBFC-ICC, NBFC-MFI, and NBFC-Factors has been raised to INR 10 Crores with incremental increases.

Reporting to CRILC:

Deposit-taking NBFCs, non-deposit taking NBFCs with assets exceeding INR 500 Crores, and NBFC Factors are now required to identify and report 'non-cooperative borrowers' as per the SBR Master Direction. They must also report credit information, including fund-based and non-fund-based exposure of INR 5 Crore and above, and the special mention account status of the borrower to the Central Repository of Information on Large Credits (CRILC), in accordance with the SBR Master Direction requirements.



2. Discussion Papers

Demystifying Financial Instruments

Introduction

Financial instruments have come a long way from the barter system of ancient civilizations. Their evolution mirrors the growth and complexity of the global financial system, and understanding this evolution is crucial for anyone navigating the modern financial landscape. IND AS 32 “Financial Instruments: Presentation” defines a “Financial Instrument” as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial Instruments facilitate flow of capital and investment in the economy. There are various types of financial instruments, some of which are summarised as under: -

Types of Financial Instruments

1. Equity Capital

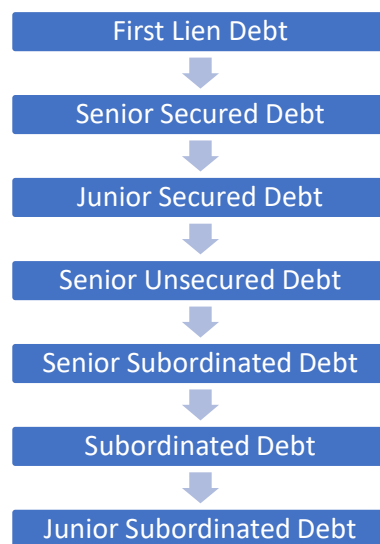
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity or shares are a unit of ownership in a company, and equity capital is raised by issuing shares to shareholders. It is also referred to as share capital.

2. Debentures

Debenture is a form of financial instrument wherein the issuer borrows money and promises to repay the principal amount at a specified maturity date, along with periodic interest payments until the debt is repaid. Debentures can be: -

- Convertible: Can be converted in equity
- Non-Convertible: Cannot be converted in equity
- Callable: Can be redeemed by issuer any time prior to maturity date
- Puttable: Holder has a right to redeem the debentures prior to maturity date

Seniority Ranking of Debt is as follows: -



3. Quasi Equity

Quasi-Equity financing is a type of debt that also has characteristics of an equity investment which would include either being an unsecured loan, or being loan with flexible repayment schedule. Mezzanine debt and junior debt are examples of quasi-equity financing as they are both usually unsecured and flexible when it comes to the repayment schedule of the loan.

Quasi Equity describes a form of capital with debt-like properties and equity-like functionality. This form of financing allows the issuer flexibility and value.

The capital is less expensive than purely equity, yet provides virtually the same level of value add as equity instrument.

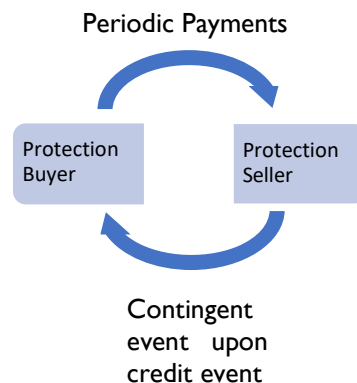
4. Derivatives

Derivative refers to a type of financial contract whose value is dependent on an underlying asset, group of assets, or benchmark. A derivative is set between two or more parties that can trade on an exchange or over-the-counter (OTC).

5. Swaps

A swap is a financial derivative contract where two parties engage in the exchange of cash flows or liabilities associated with two distinct financial instruments. Typically, these swaps involve cash flows that refer to a notional principal amount, which can represent various financial assets such as loans or bonds, etc. Importantly, the principal amount itself remains static throughout the duration of the swap. Each of the cash flows involved in the transaction constitutes a separate leg of the swap. Typically, one leg entails fixed cash flows, while the other leg involves variable cash flows that are tied to a benchmark interest rate, fluctuating currency exchange rates, or the changing values of an index or asset price.

Different types of swaps are interest rate swap, credit default swap, currency swap, A credit default swap (CDS) is a financial derivative enabling an investor to transfer or hedge their credit risk by entering into an agreement with another investor. In this arrangement, the purchaser of the CDS acquires protection from potential default by obtaining a contract from another investor who commits to compensate them if the borrower defaults on their obligation.



6. Collateralised Debt Obligation (CDO)

CDO is a type of asset backed security i.e the security is backed by diversified pooled of debt obligations. Majorly, CDOs are issued in following form: -

- Collateralised Bond Obligation: Backed by leveraged fixed income securities
- Collateralised Loan Obligation: Backed by leveraged bank loans
- Collateralised Synthetic Obligations: Backed by Credit Derivatives

7. Collateralised Mortgage Obligations (CMO)

CMO are financial instruments that bundle mortgage pass-through securities or multiple pools of loans. CMOs are designed to reorganize the cash flows into distinct bond classes or tranches, thereby creating securities with varying degrees of exposure to prepayment risk.

8. Participatory Notes (P-Notes)

Participatory notes are offshore derivative instruments with Indian shares as the underlying assets.

9. Units of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

REITs, are akin to investment trusts, specialize in the ownership and operation of real estate properties, which yield consistent income and potential capital growth on investments. REITs gather capital from investors, providing them with a convenient gateway into the real estate market. This approach aids investors in diversifying their portfolios and attaining a combination of ongoing income and the potential for sustained capital appreciation.

InvITs serve as vehicles for pooling funds from investors, with a focus on the ownership and operation of established infrastructure assets. These assets encompass a wide range, including highways, roads, pipelines, warehouses, and power plants. InvITs offer investors the prospect of consistent income through dividends and the potential for long-term capital appreciation.

Future Outlook

Out of the above instruments which are illustrated, Debt is a one of the prominent ways of raising funds of larger ticket size. Private credit activity in India is witnessing a strong growth momentum and private credit players are offering innovative structured solution capital to corporate borrowers. Necessary efforts by regulators are taken to ensure improved liquidity like setting up of Corporate Debt Market Development Fund to address concerns during the times of market dislocation, compulsory listing of non-convertible debt (NCD) securities if at least one NCD of the entity is already listed resulting in greater availability of securities, etc.

As the world continues to evolve and economies grow, the role of debt in raising funds for larger ticket size endeavours will remain a key element of modern finance, whether it shall be for a corporation embarking on a major expansion plan or a government investing in critical infrastructure.



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:

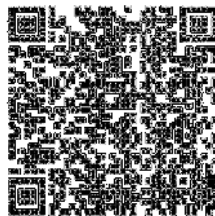


We clearly resonate ourselves with the ever-growing Basil, inspiring us to imbibe the quality of being natural and pure while we adapt to changing conditions and innovation. The rock-solid Stone is representative of our endurance, stability, permanence and our determination, paving the path of value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