NEWSLETTER *Weekly*

Volume-CXXVII, Issue-I, Dated: 04th February, 2025

SECURITIES AND EXCHANGE BOARD OF INDIA

1. **Framework for Monitoring and Supervision of System Audit of Stock Brokers (SBs) through Technology based Measures.**

   SEBI has issued a circular introducing a framework for monitoring and supervising system audits of stock brokers (SBs) through technology-based measures, effective for FY 2025-26. The framework aims to enhance audit processes in light of technological complexities and risks. Stock exchanges must develop web-based platforms within six months to oversee the entire audit lifecycle, including pre-audit, audit, and post-audit phases. Key measures include capturing geo-locations during auditor visits, standardized audit reporting templates, and the inclusion of third-party vendor compliance. Auditors will undergo eligibility scrutiny, emphasizing independence and qualifications, with reappointment restricted after three consecutive years to ensure impartiality. Exchanges will conduct surprise visits and assess compliance with technical standards, such as logging and monitoring mechanisms and disaster recovery protocols. Non-compliance may lead to penalties or de-empanelment of auditors. The circular mandates exchanges to submit bi-annual audit summaries to SEBI, ensuring oversight and accountability.

   For more information, you can access the SEBI circular here:
   https://www.sebi.gov.in/legal/circulars/jan-2025/framework-for-monitoring-and-supervision-of-system-audit-of-stock-brokers-sbs-through-technology-based-measures_91424.html

2. **Parameters for external evaluation of Performance of Statutory Committees of Market Infrastructure Institutions (MIIs); and Mechanism for internal evaluation of Performance of MIIs and its Statutory Committees.**

   Securities and Exchange Board of India (SEBI) issued a circular outlining guidelines for the evaluation of Market Infrastructure Institutions (MIIs) and their statutory committees. The circular emphasizes external evaluations by independent agencies, conducted every three years, and internal annual evaluations. Statutory committees, including Functional, Oversight, and Investment Committees, will be assessed based on roles, meeting effectiveness, and governance, with defined weightages for each criterion. A rating framework will ensure consistent evaluation outcomes across MIIs. The first external evaluation, covering FY 2024-25, must be completed and reported by September 30, 2025. MIIs are required to appoint independent agencies with SEBI's approval, ensuring no conflict of interest. Internal evaluations must also follow SEBI guidelines, with reports submitted within three months of the fiscal year-end. MIIs are directed to implement the provisions, amend relevant rules, and notify stakeholders. These measures aim to enhance governance and operational efficiency within the securities market infrastructure.

   For more information, you can access the SEBI circular here:
   https://www.sebi.gov.in/legal/circulars/jan-2025/parameters-for-external-evaluation-of-performance-of-statutory-committees-of-market-infrastructure-institutions-miis-and-mechanism-for-internal-evaluation-of-performance-of-miis-and-its-statutory-c-_91404.html

3. **Details/clarifications on provisions related to association of persons regulated by the Board, MIIs, and their agents with persons engaged in prohibited activities.**

   The Securities and Exchange Board of India (SEBI) issued a circular on January 29, 2025, clarifying the provisions regarding the association of persons regulated by the Board (including stock exchanges, clearing corporations, and depositories) and their agents with individuals or entities engaged in prohibited activities.

According to SEBI's new regulations, such persons or their agents are prohibited from associating with anyone who provides advice or recommendations on securities without being registered by the Board or makes performance claims about securities unless authorized. The circular also defines what constitutes "association," including any financial transactions, referrals, or information-sharing related to prohibited activities. While persons regulated by SEBI are responsible for ensuring their associates do not engage in these prohibited activities, the regulations exclude entities involved solely in investor education. Violations of these regulations can lead to actions such as penalties, suspension, or even debarment. The regulations are already effective as of August 29, 2024, and entities were advised to terminate any existing associations with violators by October 2024.

For more information, you can access the SEBI circular here:
https://www.sebi.gov.in/legal/circulars/jan-2025/details-clarifications-on-provisions-related-to-association-of-persons-regulated-by-the-board-miis-and-their-agents-with-persons-engaged-in-prohibited-activities_91356.html

4. **Format of Due Diligence Certificate to be given by the DTs.**

Securities and Exchange Board of India (SEBI) has issued a circular outlining the due diligence certificate format for debenture trustees (DTs) handling unsecured debt securities. This follows amendments to the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, which already specified the format for secured debt securities. Issuers must now submit due diligence certificates from DTs at two stages: when filing the draft offer document (as per Annex-A) and when submitting the listing application (as per Annex-B). These certificates confirm that disclosures in the offer document are fair, all covenants are included in the debenture trust deed, and required agreements are executed before listing. Additionally, SEBI has modified relevant sections of its Master Circular for DTs to align with these regulations. The circular is effective immediately and aims to enhance transparency and investor protection in the debt securities market.

For more information, you can access the SEBI circular here:
https://www.sebi.gov.in/legal/circulars/jan-2025/format-of-due-diligence-certificate-to-be-given-by-the-dts_91219.html

5. **Development of Web-based portal: iSPOT (Integrated SEBI Portal for Technical glitches) for reporting of technical glitches.**

Securities and Exchange Board of India (SEBI) has developed a new web-based portal called iSPOT (Integrated SEBI Portal for Technical Glitches) to streamline the reporting of technical glitches by Market Infrastructure Institutions (MIIs) such as Stock Exchanges, Clearing Corporations, and Depositories. Effective from February 3, 2025, MIIs will be required to submit both preliminary and final Root Cause Analysis (RCA) reports through iSPOT instead of emailing them to SEBI. This move aims to improve the data quality, traceability, and compliance monitoring of technical glitches, while automating notifications for RCA report submissions. The portal has been integrated with SEBI's Intermediary portal for easy access. Amendments to the relevant regulations and rules will be necessary for MIIs to comply with this updated process. The initiative is part of SEBI's ongoing efforts to regulate the securities market and protect investor interests.

For more information, you can access the SEBI circular here:
https://www.sebi.gov.in/legal/circulars/jan-2025/development-of-web-based-portal-ispot-integrated-sebi-portal-for-technical-glitches-for-reporting-of-technical-glitches_91215.html

MINISTRY OF FINANCE

1. **Government Approves Mutual Credit Guarantee Scheme to Strengthen MSME Manufacturing Sector, fulfilling the budget announcement of 2024-25.**

Government of India has approved introduction of Mutual Credit Guarantee Scheme for MSMEs (MCGS-MSME) for providing 60% guarantee coverage by National Credit Guarantee Trustee Company Limited (NCGTC) to Member Lending Institutions (MLIs*) for credit facility upto Rs.100 crore sanctioned to eligible MSMEs under MCGS-MSME for purchase of equipment / machinery.

Salient Features of The Scheme:

a. Borrower should be an MSME with valid Udyam Registration Number;

b. Loan amount guaranteed shall not exceed Rs.100 crore

c. Project Cost could be of higher amounts also

d. Minimum cost of equipment /machinery is 75% of project cost

e. Loan upto Rs.50 crore under the Scheme shall have repayment period of upto 8 years with upto 2 years moratorium period on principal instalments. For loans above Rs.50 crore, higher repayment schedule and moratorium period on principal instalments can be considered.

f. Upfront (initial) contribution of 5% of the loan amount shall be deposited at the time of application of guarantee cover

g. Annual Guarantee Fee on loan under the Scheme shall be Nil during the year of sanction. During the next 3 years, it shall be 1.5% p.a. of loan outstanding as on March 31 of previous year. Thereafter, Annual Guarantee Fee shall be 1% p.a. of loan outstanding as on March 31 of previous year

h. The Scheme will be applicable to all loans sanctioned under MCGS-MSME during the period of 4 years from the date of issue of operational guidelines of the scheme or till cumulative guarantee of Rs. 7 lakh crore are issued, whichever is earlier.

Major Impact

Manufacturing sector currently comprises 17% of the nation's GDP and over 27.3 million workers. Hon'ble Prime Minister's has given a call for 'Make in India, Make for the World' and has signalled that India is ready and keen to increase the share of manufacturing to 25% of GDP. The Mutual Credit Guarantee Scheme for MSMEs (MCGS-MSME) is expected to facilitate the availability of credit for purchase of Plant and Machinery / Equipment by MSMEs and give a major boost to manufacturing and thereby to Make in India.

Background

i. Global supply chains are realigning. India is emerging as an alternative supply source given its raw materials, low labour costs, growing manufacturing knowhow, and entrepreneurial ability. One of the major costs involved in manufacturing is the fixed cost of Plant and Machinery (P&M)/ Equipment's. With availability of credit to expand the installed capacity of manufacturing units, it can be expected that the manufacturing will grow at a faster pace. Also, the need for a credit guarantee scheme for the manufacturing units, particularly for the enterprises in the medium category has been raised by industry associations from time to time. So, to give a boost to manufacturing by facilitating the availability of credit for purchase of Plant and Machinery / Equipment, 'Mutual Credit Guarantee Scheme for MSMEs (MCGS-MSME) is being introduced. The scheme will facilitate collateral free loans by banks and financial institutions to MSMEs who are in need of debt capital for their expansion and growth**.**

For more information, you can access the GOI press release here:
https://pib.gov.in/PressReleasePage.aspx?PRID=2097455

2. Highlights and Summary of Union Budget 2025.

Union Finance Minister Nirmala Sitharaman presented her 8th budget on Saturday, February 1, 2025. The Budget announcement brought a series of key announcements for the nation's middle class. One of the most discussed developments among the budget announcements has been no income tax up to ₹12 lakh.

The Finance Bill is set to be tabled next week, according to the finance minister. The first part of the Parliament's Budget session began on January 31 and will end on February 13, 2025. The second part will commence on March 10 and conclude on April 4, 2025.

- **New Tax Update:** Nirmala Sitharaman, in the Budget 2025 announcement, proposed revised tax rates, which highlights that income up to ₹12 lakh will draw zero income tax rates under the new tax regime.

- **Capex:** India's capital expenditure (Capex) rises to ₹11.21 crore as per the budget estimates of FY2025-26, the budget estimates of FY2024-25 was at ₹11.11 lakh crore, according to the budget data.

- **Bihar Makhana:** Budget 2025 announced India's plans to create a Makhana Board, which will be established in Bihar to improve the production, processing, value addition, and marketing of Makhana.

- **Job Scheme:** The Modi 3.0 government accounted its plans to generate 22 lakh jobs in the economy through this scheme. India aims to enhance the productivity, quality, and competitiveness of India’s footwear and leather sector.

- **UDAN Scheme:** The government also plans to launch a modified version of the UDAN Scheme, which aims to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the coming 10 years.

For more information, you can access the GOI press release here:
https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2098353

3. India’s real and nominal GDP are expected to grow at 6.4% and 9.7% respectively in FY25 as per 1st Advanced Estimates.

India, one of the fastest-growing economies, is focusing on restoring order in the global financial system. The Union Government aims to create an international economic order that is just, fair, inclusive, and equitable for all. The government's fiscal policy will be grounded in reforms, resilience, and readiness, aiming to invigorate growth momentum and create buffers to respond to global and domestic challenges. The Macro-Economic Framework Statement 2024-25 projects India's real and nominal GDP growth rates at 6.4% and 9.7% in FY 2024-25, respectively. Inflation pressures have moderated in FY 2024-25, with average retail inflation easing to 4.9%. The government's fiscal policy strategy has generated desired results and provided for the country's development needs. The Central Government Debt to GDP ratio is expected to decline to 56.1 in FY 2025-26.

- **Real GDP Growth (6.4%)**:

  - **Real GDP** is the measure of a country's total economic output adjusted for inflation, providing a clearer picture of economic growth.

  - A **6.4% growth** in real GDP indicates that India’s economy is expected to grow by this percentage in terms of actual output, after eliminating the effects of price changes.

  - This growth rate reflects the overall expansion of production in various sectors like agriculture, manufacturing, services, etc. It is a relatively robust figure, showing continued recovery and growth despite global uncertainties or challenges.

- **Nominal GDP Growth (9.7%)**:

  - **Nominal GDP**, on the other hand, measures the total value of goods and services produced within a country, but it does **not** adjust for inflation.

- A **9.7% growth** in nominal GDP suggests that India's total economic output, in terms of market value, is expected to rise by this percentage, influenced by both actual growth (real GDP) and inflation.

- Nominal GDP figures can be higher than real GDP due to inflationary pressures, which cause the value of goods and services to increase, even if the quantity of production doesn't grow at the same rate.

- **Implications:**

  - **Inflation Impact**: The difference between real and nominal GDP growth reflects the inflationary pressures within the economy. The larger gap between these figures suggests higher inflation, which is expected to contribute significantly to nominal GDP growth.

  - **Growth Drivers**: This growth is often driven by factors like government spending, investments in infrastructure, agricultural output, industrial performance, and growth in the services sector.

  - **Sectoral Outlook**: Specific sectors like technology, manufacturing, and services might see strong growth, while agriculture might face challenges depending on weather conditions or policy measures.

For more information, you can access the GOI press release here:
https://pib.gov.in/PressReleasePage.aspx?PRID=2098357

4. Slew Of Direct Tax Reforms Proposed In Union Budget 2025-26 To Achieve Good Governance

Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, presented the Union Budget 2025-26 in Parliament, proposing several Direct Tax reforms to improve governance and economy. The proposals include a reduction in income tax payable up to Rs. 12 lakhs for salaried taxpayers, a rationalization of TDS/TCS for easing difficulties, an extension of the time-limit for filing updated income tax returns, a reduction in compliance burden for small charitable trusts/institutions, a scheme for determining arm's length price of international transactions, and an extension of the incorporation period for start-ups. The budget also proposes tax certainty for Electronics Manufacturing Schemes, a tonnage tax scheme for inland vessels, an extension for incorporation of start-ups, and specific benefits for ship-leasing units, insurance offices, and treasury centers of global companies set up in the International Financial Services Centre (IFSC). Alternative Investment Funds (AIFs) will be provided certainty of taxation on gains from securities, and the investment date for Sovereign and Pension Funds will be extended by five years. These proposals are expected to result in revenue loss of about Rs.1 lakh crore in direct taxes.

For more information, you can access the GOI press release here:
https://pib.gov.in/PressReleasePage.aspx?PRID=2098362

5. Investment and Turnover Limits for classification of all MSMES to be enhanced to 2.5 and 2 times respectively

The Union Budget 2025-26 aims to stimulate balanced growth across all regions and achieve the goal of Viksit Bharat. It defines MSMEs as powerful engines for development and proposes measures to support their growth and secure inclusive development. The budget includes a revision in classification criteria for MSMEs, enhancing investment and turnover limits to 2.5 and 2 times respectively. Over 1 crore registered MSMEs, employing 7.5 crore people and generating 36% of manufacturing, are positioned as a global manufacturing hub. Credit guarantee cover will be enhanced for Micro and Small Enterprises from 5 crore to 10 crore, startups from 10 crore to 20 crore, and well-run exporter MSMEs for term loans up to 20 crores. Customized credit cards for micro enterprises will be introduced, and a new Fund of Funds will be established with expanded scope and a fresh contribution of 10,000 crore. A new scheme will be launched for 5 lakh women, Scheduled Castes, and Scheduled Tribes first-time entrepreneurs, providing term loans up to 2 crores over the next five years.

For more information, you can access the GOI press release here:
https://pib.gov.in/PressReleasePage.aspx?PRID=2098389

RESERVE BANK OF INDIA

1. Private Placement of Non-Convertible Debentures (NCDs) with maturity period of more than one year by HFCs – Review of guidelines.

Please refer to Chapter XI of Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 wherein guidelines on private placement of NCDs by HFCs have been prescribed. On a review, it has been decided that the Guidelines on Private Placement of NCDs (with maturity more than one year) by NBFCs, as contained in para 58 of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (as amended from time to time) shall be applicable, mutatis-mutandis, to HFCs. Accordingly, the existing guidelines under Chapter XI of Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 stand repealed. The revised guidelines shall be applicable to all fresh private placements of NCDs (with maturity more than one year) by HFCs from the date of this circular.

For more information, you can access the RBI notification here:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12772&Mode=0

2. Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007.

Please refer to the Circular DPSS.CO.OD.No.1328/06.08.005/2019-20 dated January 10, 2020 on the 'Framework for imposing monetary penalty on authorized payment system operators/ banks under the Payment and Settlement Systems Act, 2007'. Keeping in view the amendments[1] to the provisions of the Payment and Settlement Systems Act, 2007 (PSS Act), and with the objective of rationalising and consolidating enforcement action by Reserve Bank of India, it has been decided to amend the instructions contained in the framework. The revised framework shall supersede the aforementioned Circular and come into effect from the date of this Circular

For more information, you can access the RBI notification here:
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12773&Mode=0

3. Withdrawal of ₹2000 Denomination Banknotes – Status.

The Reserve Bank of India (RBI) had announced the withdrawal of ₹2000 denomination banknotes from circulation vide Press Release 2023-2024/257 dated May 19, 2023. The status of withdrawal of ₹2000 banknotes is periodically published by the RBI. The last press release in this regard was published on January 01, 2025. The facility for deposit and / or exchange of the ₹2000 banknotes was available at all bank branches in the country up to October 07, 2023. The facility for exchange of the ₹2000 banknotes is available at the 19 Issue Offices of the Reserve Bank (RBI Issue Offices)[1] since May 19, 2023. From October 09, 2023, RBI Issue Offices are also accepting ₹2000 banknotes from individuals / entities for deposit into their bank accounts. Further, members of the public are sending ₹2000 banknotes through India Post from any post office within the country, to any of the RBI Issue Offices for credit to their bank accounts. The total value of ₹2000 banknotes in circulation, which was ₹3.56 lakh crore at the close of business on May 19, 2023, when the withdrawal of ₹2000 banknotes was announced, has declined to ₹6,577 crore at the close of business on January 31, 2025. Thus, 98.15% of the ₹2000 banknotes in circulation as on May 19, 2023, has since been returned. The ₹2000 banknotes continue to be legal tender.

For more information, you can access the RBI press release here:
https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=59667

You may send your suggestions at niyati@asalegal.in

Disclaimer:

The content in this mail is offered only as updates in Financial, Capital Market, Corporate etc. sectors. This mail should not be used as a substitute for obtaining legal advice from an attorney licensed or authorized to practice in your jurisdiction. Nothing in this mail is intended to create an attorney-client relationship and nothing posted constitutes legal advice.