



NEWSLETTER *Weekly*

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SECURITIES AND EXCHANGE BOARD OF INDIA

1. Amendment to Circular for mandating additional disclosures by FPIs that fulfil certain objective criteria

The Securities and Exchange Board of India (SEBI) vide notification dated August 01st 2024 amending disclosure requirements for Foreign Portfolio Investors (FPIs). This amendment introduces significant changes to the previously established rules under the FPI Master Circular. The modification aims to streamline compliance for certain categories of FPIs, specifically university funds and related endowments.

For more information, you can access the SEBI's notification here:

https://www.sebi.gov.in/legal/circulars/aug-2024/amendment-to-circular-for-mandating-additional-disclosures-by-fpis-that-fulfil-certain-objective-criteria_85371.html

2. SEBI launches chatbot "SEVA" for investors

The Securities and Exchange Board of India (SEBI) vide press release dated July 29th 2024 in line with its mandate of investor protection, SEBI has launched SEBI's Virtual Assistant (SEVA) –an Artificial Intelligence (AI) based conversation platform for investors. The Beta version of the chatbot includes features like citations for generated response, speech-to-text and text-to-speech functionality for accessibility, follow-up questions, etc. The chatbot is presently enabled to answer questions relating to general information on securities market, latest master circulars, grievance redressal process, etc. Based on the feedback received from the users, additional areas will be added to the chatbot.

For more information, you can access the SEBI's press release here:

https://www.sebi.gov.in/media-and-notifications/press-releases/jul-2024/sebi-launches-chatbot-seva-for-investors_85254.html

3. SEBI clarifies on reports regarding T+0 settlement cycle

The Securities and Exchange Board of India (SEBI) vide press release dated July 31st 2024 clarified at the NSE event on July 30, 2024 that SEBI might take a proposal to its Board to make it mandatory for the Qualified Stock Brokers to offer ASBA as an option to their clients. It further emphasised that the option as to whether to use ASBA for their trading shall still remain with the clients. This has been erroneously reported in a section of the press as "SEBI bats for making T+0 system mandatory for all".

For more information, you can access the SEBI's press release here:

https://www.sebi.gov.in/media-and-notifications/press-releases/jul-2024/sebi-clarifies-on-reports-regarding-t-0-settlement-cycle_85348.html

4. Address by WTM (Shri Ananth Narayan G) - 21st Annual Capital Market Conference (CAPM 2024)

The Securities and Exchange Board of India (SEBI) vide press release dated August 02nd 2024 released the speech given by Shri Ananth Narayan G, WTMSEB, wherein he provided some perspectives of SEBI around capital formation, using the specific example of a topical issue – Equity Derivatives, also known as Equity Futures & Options (or F&O). He also covered the recent positive trends in investor participation in capital markets; listed four points to ponder—including around F&O -amidst the good news; explained SEBI’s regulatory approach vis-à-vis the F&O segment; and suggested some broad takeaways around regulation and self-regulation.

For more information, you can access the SEBI’s press release here:

<https://www.sebi.gov.in/media-and-notifications/speeches/aug-2024/address-by-wtm-shri-ananth-narayan-g-21st-annual-capital-market-conference-capm-2024- 85411.html>

MINISTRY OF CORPORATE AFFAIRS

1. MCA may remove up to 400 Chinese companies in 3 months over financial fraud; more than 700 under probe.

The Ministry of Corporate Affairs (MCA) in India is reportedly planning to remove around 400 Chinese companies in the next three months. Over 700 Chinese companies are currently being investigated by MCA. The investigation focuses on loan apps, online job companies, and other businesses accused of predatory lending practices, fraud, and financial violations. This move is part of India's efforts to crack down on unethical practices and protect consumers. Companies that do not respond to notices will be removed from the official Registrar of Companies (RoC) and will no longer be recognized as valid businesses.

RESERVE BANK OF INDIA

1. ‘Fully Accessible Route’ for Investment by Non-residents in Government Securities – Exclusion of new issuances in 14-year and 30-year tenor securities

The Reserve Bank of India (RBI) vide notification dated July 29th 2024 introduced amendments to the Fully Accessible Route (FAR) for investment by non-residents in government securities. New issuances of 14-year and 30-year tenor securities will be excluded from the FAR, although existing stocks of these securities will remain available for non-resident investment in the secondary market. Future investments by Foreign Portfolio Investors (FPIs) in these securities will be subject to specific investment limits and conditions as per relevant circulars. These changes are effective immediately and aim to regulate foreign investments in long-term government securities.

For more information, you can access the RBI notification here:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=12712&Mode=0>

2. Master Direction on Treatment of Wilful Defaulters and Large Defaulters

The Reserve Bank of India (RBI) vide notification dated July 30th 2024 released a direction to establish a clear framework for identifying and managing borrowers who deliberately default on their financial obligations. This directive, effective in 90 days, mandates a transparent process for classifying defaulters, including detailed procedures for the identification and review of such cases. It covers a range of entities, including commercial banks, co-operative banks, financial institutions, and non-banking financial companies. The directions emphasize a non-discriminatory approach, ensuring that the classification of wilful defaulters is based on deliberate and intentional defaults. It outlines roles for Identification and Review Committees in assessing defaults, providing a structured process for issuing notices, considering representations, and making decisions. The aim is to uphold financial system integrity by discouraging intentional defaults and preventing further institutional finance to such defaulters. This new framework replaces previous circulars on non-cooperative borrowers and aims to enhance regulatory oversight and transparency in the banking sector.

For more information, you can access the RBI notification here:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12713&Mode=0>

3. Guidelines on treatment of Dividend Equalisation Fund (DEF)- Primary (Urban) Co-operative Banks (UCBs)

The Reserve Bank of India (RBI) vide notification dated July 30th 2024 released new guidelines for Primary (Urban) Co-operative Banks (UCBs) regarding the treatment of Dividend Equalisation Funds (DEF). Previously, UCBs could not use accumulated profits or reserves for dividend payments and could only pay dividends from the net profit of the current year. The RBI observed that some UCBs were including DEF balances as part of Tier-II capital. As a one-time measure, UCBs are now allowed to transfer DEF balances to general or free reserves, which will qualify as Tier-I capital. These changes must be disclosed in the 'Notes on Accounts' to the Balance Sheet, and UCBs must comply with all relevant laws and regulations. These guidelines are effective immediately.

For more information, you can access the RBI notification here:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12714&Mode=0>

4. Master Directions on Cyber Resilience and Digital Payment Security Controls for non-bank Payment System Operators

The Reserve Bank of India (RBI) vide notification dated July 30th 2024 released the directions aimed to enhance the safety and security of payment systems amidst evolving cyber threats. Following stakeholder feedback on the draft released on June 2, 2023, the final directions outline robust governance mechanisms for risk identification, assessment, monitoring, and management. They mandate baseline security measures and encourage migration to the latest security standards. These directions cover areas including information security policies, cyber crisis management plans, risk assessment, network security, application security, vendor risk management, data security, incident response, and business continuity planning. Implementation timelines vary by PSO size, with large PSOs to comply by April 1, 2025, medium PSOs by April 1, 2026, and small PSOs by April 1, 2028. Existing security and risk mitigation instructions for card payments, prepaid payment instruments, and mobile banking

remain applicable. In case of any guideline discrepancies, the new directions prevail, ensuring a robust framework for secure digital payment transactions.

For more information, you can access the RBI notification here:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12715&Mode=0>

5. Prudential Treatment of Bad and Doubtful Debt Reserve by Co-operative Banks

The Reserve Bank of India (RBI) vide notification dated August 02nd 2024 has issued updated guidelines on the treatment of Bad and Doubtful Debt Reserves (BDDR) for co-operative banks, effective August 2, 2024. This advisory aims to standardize the accounting and regulatory treatment of BDDR to ensure compliance with Accounting Standard (AS) 52. Co-operative banks must now recognize provisions for Non-Performing Assets (NPAs) directly as expenses in the Profit and Loss (P&L) account. Previously, some banks created BDDR by appropriating net profits rather than recognizing it as an expense. The new guidelines require banks to adjust their BDDR balances as of March 31, 2024, by moving the appropriated amounts to provisions for NPAs or general reserves, thus ensuring compliance with Income Recognition, Asset Classification, and Provisioning (IRACP) norms. Additionally, BDDR can be counted as Tier 1 capital, but it should not reduce Gross NPAs to determine Net NPAs. These instructions apply to all Primary (Urban) Co-operative Banks, State Co-operative Banks, and Central Co-operative Banks.

For more information, you can access the RBI notification here:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12716&Mode=0>

6. Aadhaar Enabled Payment System (AePS) – Due Diligence of Touchpoint Operators – Draft Directions

The Reserve Bank of India (RBI) vide press release dated July 31st 2024 released draft directions aimed at strengthening the Aadhaar Enabled Payment System (AePS) by improving due diligence of Touchpoint Operators. This move, announced in the February 2024 Statement on Developmental and Regulatory Policies, addresses recent fraud incidents involving identity theft and compromised customer credentials. The draft directions outline procedures for onboarding and ongoing monitoring of AePS Touchpoint Operators, ensuring they are onboarded by only one acquiring bank and that their KYC information is updated if inactive for six months. The RBI emphasizes the need for enhanced security measures to protect bank customers and maintain confidence in the AePS. Stakeholders are invited to provide feedback on these draft directions by August 31, 2024, by contacting the Chief General Manager-in-Charge, Department of Payment and Settlement Systems, RBI. Compliance with these directions by banks and the National Payments Corporation of India (NPCI) is expected within three months from the date of issue.

For more information, you can access the RBI press release here:

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=58401

7. Draft Framework on Alternative Authentication Mechanisms for Digital Payment Transactions

The Reserve Bank of India (RBI) vide press release dated July 31st 2024 released a draft framework on alternative authentication mechanisms for digital payment transactions to enhance security in the digital payment's ecosystem. Traditionally, SMS-based OTP has been

the primary method for additional factor authentication (AFA). However, advancements in technology now offer alternative methods. The draft framework, announced in the RBI's Developmental and Regulatory Policies statement on February 8, 2024, aims to expand the choice of authentication methods available to Payment System Operators and users. The framework sets broad principles for compliance by all participants in the payment chain and mandates the use of dynamic and robust AFA methods. It also outlines exemptions for small value transactions and certain recurring payments. Stakeholders are invited to submit comments or feedback on the draft by September 15, 2024. The framework is designed to ensure the security and integrity of digital payment transactions while leveraging technological advancements.

For more information, you can access the RBI press release here:

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=58406

8. Withdrawal of ₹2000 Denomination Banknotes – Status

The Reserve Bank of India (RBI) vide press release dated August 01st 2024 that 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 ₹7409 crore at the close of business on July 31, 2024. Thus, 97.92% of the ₹2000 banknotes in circulation as on May 19, 2023, has since been returned. The facility for exchange of the ₹2000 banknotes is available at the 19 Issue Offices of the Reserve Bank (RBI Issue Offices) 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.

For more information, you can access the RBI press release here:

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=58411

You may send your suggestions at kartikey@asalegal.in

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