Compliance Matters

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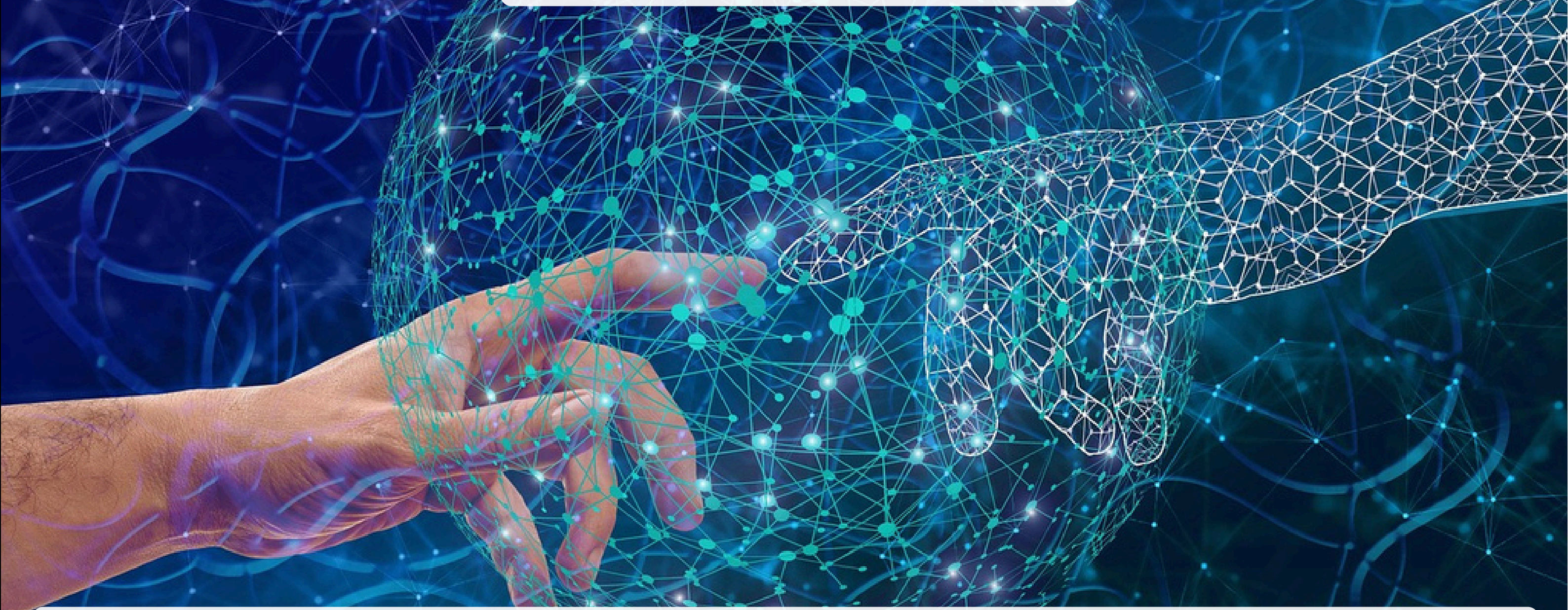
INDIA REGULATORY ROUND UP

Monthly Newsletter from Compliance Matters



While algorithms can provide valuable insights and efficiency, they should be viewed as tools to support, not replace, human judgment.

-Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India

Liquidity Adjustment Facility - Change in rates

The RBI in its Monetary Policy statement on February 7.2025, has announced the reduction in the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.50% to 6.25%, effective immediately. Accordingly, the Standing Deposit Facility (SDF) rate stands adjusted to 6.00%, and the Marginal Standing Facility (MSF) rate is set at 6.50%. All other terms and conditions of the LAF scheme remain unchanged.

Standing Liquidity Facility for Primary Dealers

With the reduction in the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.50% to 6.25%, the Standing Liquidity Facility for Primary Dealers (PDs), which provides collateralized liquidity support, will also be available at the revised repo rate of 6.25%.

Change in Bank Rate

With the reduction in the Bank Rate by 25 basis points from 6.75% to 6.50%, the Penal interest rates on shortfalls in reserve requirements, which are linked to the Bank Rate, have also been revised.

The revised penal interest rates are:

Bank Rate + 3.0 percentage points: Reduced from 9.75% to 9.50%.

Bank Rate + 5.0 percentage points: Reduced from 11.75% to 11.50%.

All Agency Banks to remain open for public on March 31, 2025 (Monday)

All Agency Banks handling government receipts and payments must remain open on March 31, 2025 (Monday - Public Holiday) to ensure all government transactions are accounted for in FY 2024-25. Banks must also publicize the availability of services on this day.

Foreign Exchange Management (Manner of Receipt and Payment) (Amendment) Regulations, 2025

The Foreign Exchange Management (Manner of Receipt and Payment) (Amendment) Regulations, 2025 amend Regulation 3(2)(I)(a)(ii) of the 2023 Regulations, modifying the rules for payments involving Asian Clearing Union (ACU) member countries (excluding Nepal and Bhutan). Payments between residents of participant countries must follow the ACU mechanism or RBI directions, while all other transactions can be settled as per the specified manner. The amendment takes effect from its Official Gazette publication date.

Government securities transactions between a Primary Member (PM) of NDS-OM and its own Gilt Account Holder (GAH) or between two GAHs of the same PM

Government securities transactions between a Primary Member (PM) and its own Gilt Account Holder (GAH) or between two GAHs of the same PM were previously not permitted to be matched on NDS-OM or settled through CCIL. These transactions have now been permitted on both the Order Matching and Request for Quote (RFQ) segments of NDS-OM, with CCIL handling clearing and settlement of the transactions matched on NDS-OM. Additionally, bilaterally negotiated transactions between a PM and its GAH or two GAHs of the same PM which are reported on NDS- OM, can also be cleared and settled through CCIL, on an optional basis. A settlement failure in these transactions will be treated as an instance of SGL bouncing and will attract penalties .Detailed operational guidelines will be issued separately by CCIL.

Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023 - Amendment

RBI has amended paragraph 34.2.3 of the Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023, issued on September 21, 2023. The amendment provides that investments made by AIFIs regulated by Reserve Bank, as per their statutory mandates, in long-term bonds and debentures (i.e., having a minimum residual maturity of three years at the time of investment) issued by non-financial entities shall not be accounted for the purpose of the ceiling of 25 percent applicable to investments included under the Held to Maturity (HTM) category, as specified under the Directions. This is in addition to investments specified in sub-sections 34.2.2(ii) and 34.2.2(iii), which were already excluded from the ceiling.

Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025

RBI has issued the Forward Contracts in Government Securities Directions, 2025, after incorporating market feedback. The Directions which come into effect from May 2,2025 have been notified through the Gazette Notification (S.O. 2192 (E), dated January 8, 2010) in the Official Gazette on February 13, 2025.Updates have also been made to the related Master Directions to enable forward contract transactions in government securities.

Review of Risk Weights on Microfinance Loans

Earlier, Risk weights (RW) on consumer credit including personal loans, but excluding housing loans, educational loans vehicle loans, and loans against security of gold and gold jewellery were increased to 125 % to address the high growth in certain segments. On a review RBI has decided that Microfinance loans in the nature of consumer credit will also be excluded from the higher RW of 125% and will instead attract a 100% RW. Microfinance loans that are not in the nature of consumer credit and meet the four regulatory criteria may be classified under Regulatory Retail Portfolio (RRP), subject to banks ensuring compliance with qualifying conditions. All microfinance loans extended by Regional Rural Banks (RRBs) and Local Area Banks (LABs) will attract a 100% risk weight. The new RW instructions apply to both outstanding and new microfinance loans, with immediate effect.

Exposures of Scheduled Commercial Banks (SCBs) to Non-Banking Financial Companies (NBFCs) – Review of Risk Weights

To address the risk from high growth in certain segments of consumer credit, RBI had increased RWA on bank's exposure to NBFCs in November 2023. The additional 25 percentage points risk weight on SCBs' exposures to NBFCs over and above the RW associated with the given external rating (where the risk weight was below 100%) has now been removed. Risk weights on such exposures will now be based solely on external ratings as per Basel III norms. All other provisions of the previous circulars remain unchanged.

Reporting and Accounting of Central Government transactions for March 2025

The Government has set April 10, 2025, as the closure date for residual transactions of March 2025.RBI has therefore issued detailed guidelines to Agency banks on the procedure to be followed by them to ensure that all collections in and payments from Government accounts, towards end of March 2025, are accounted for in the same FY. Receiving branches, including non-local ones, must arrange special messengers or couriers for passing on chalans/scrolls to Nodal/Focal point branches to ensure their timely processing. Nodal/Focal Point branches must prepare separate scrolls for March residual transactions and April transactions during the first 10 days of April 2025. All transactions up to March 31, 2025, must be accounted for within FY 2024-25 and not mixed with April 2025 transactions. Banks must issue necessary instructions to their branches to ensure compliance.

Penalty corner

Imposed a monetary penalty of ₹27.30 lakh on **Federal Bank Limited** for non-compliance with certain directions issued by RBI on 'Interest Rate on Deposits'. The bank had opened certain savings deposit accounts in the name of ineligible entities.

Imposed a monetary penalty of ₹8.30 lakh on **Karur Vysya Bank Limited** (the bank) for non-compliance with certain directions issued by RBI on 'Loan System for Delivery of Bank Credit'. The bank failed to ensure that the outstanding 'loan component' was at least the specified percentage of the sanctioned fund based working capital limit for certain borrowers.

Imposed a monetary penalty of ₹6.70 lakh on **Ujjivan Small Finance Bank Limited** (the bank) for non-compliance with certain directions issued by RBI on 'Loans and Advances - Statutory and Other Restrictions'. The bank failed to issue loan agreements to certain borrowers at the time of sanction / disbursement of loans.

Imposed a monetary penalty of ₹61.40 lakh on **The Nainital Bank Limited** (the bank) for non-compliance with certain directions issued by RBI on 'Interest Rate on Advances' and 'Customer Service in Banks'.
- The bank did not benchmark certain floating rate loans extended to MSMEs to an external benchmark rate; and
- The bank levied penal charges for non-maintenance of minimum balance in savings bank accounts at flat rates instead of the charges being directly proportionate to the extent of shortfall.

Imposed a monetary penalty of ₹5.80 lakh on **Shriram Finance Limited** (the company) for non-compliance with certain provisions of the RBI's Directions.
- The company failed to put in place a system of periodic review of risk categorisation of accounts;
- The company did not ensure that its agreements with certain Direct Sales Agents had a clause regarding the RBI's right to inspect books and accounts of service providers; and
- The company failed to share information about the Relationship Segment of the corporates to the Credit Information Companies, during the financial year 2022-23.

Imposed a monetary penalty of ₹2.00 lakh on **Pinnacle Capital Solutions Pvt. Ltd.**, Jharkhand for non-compliance with certain directions issued by RBI on 'Credit Card and Debit Card – Issuance and Conduct Directions' and 'Digital Lending'. The company had:
- issued credit line in the nature of credit card to certain borrowers, without prior approval from RBI; and
- disbursed loans to borrowers through a pass-through account of a third party.

Imposed a monetary penalty of ₹39.00 lakh on **Citibank N.A.** for non-compliance with certain directions issued by RBI on 'Large Exposures Framework' and 'Furnishing of Credit Information to Credit Information Companies (CICs).
- The bank reported certain breaches in Large Exposures limits with delay;
- The bank did not upload the rectified data pertaining to certain segment, within seven days of receipt of the rejection reports from Credit Information Companies.

Imposed a monetary penalty of ₹1.50 lakh on **JM Financial Home Loans Limited** for non-compliance with certain provisions of the 'Non-Banking Financial Company - Housing Finance Company (Reserve Bank) Directions, 2021 ' issued by RBI. The company failed to disclose, the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers, to its customers in the application forms and also did not communicate the same explicitly in the sanction letters.

Safer participation of retail investors in Algorithmic trading

SEBI has introduced a revised regulatory framework to facilitate the safer participation of retail investors in algorithmic (algo) trading, ensuring proper risk management and market integrity. Brokers will act as principals, with algo providers as agents, ensuring all algo orders are tagged with a unique identifier. Retail investors developing their own algos must register them with exchanges if exceeding a specified order-per-second threshold. Brokers must implement strict authentication mechanisms, including OAuth-based authentication and two-factor authentication. Algo providers must be empaneled with exchanges, undergo due diligence by brokers, and share subscription and brokerage charges transparently. Exchanges will oversee algo trading, conduct surveillance, and define empanelment criteria. Algorithms are categorized into Execution (White Box) and Black Box algos, with Black Box algos requiring Research Analyst registration and documentation of their logic. Brokers, exchanges, and algo providers must adhere to SEBI's risk management guidelines, with further operational details to be formulated by the Broker's Industry Standards Forum.

Facilitation to SEBI registered Stock Brokers to access Negotiated Dealing System-Order Matching (NDS-OM) for trading in Government Securities- Separate Business Units (SBU)

The RBI, through its notification on February 07, 2025, has allowed SEBI-registered non-bank brokers to access the NDS-OM platform for trading in Government Securities. To facilitate this, stock brokers can operate a Separate Business Unit (SBU) within their entity for NDS-OM transactions. The regulatory framework, covering policy, eligibility, risk management, and enforcement, will be governed by the respective authorities. Key safeguards include segregation and ring-fencing of SBU activities from securities market operations, maintaining separate accounts and net worth for the SBU, and ensuring an arms-length relationship between the two. Since the SBU falls under a different regulatory authority, grievance redressal mechanisms like the stock exchange IPF and SCORES will not be applicable to investors using the SBU's services.

Service platform for investors to trace inactive and unclaimed Mutual Fund folios- MITRA (Mutual Fund Investment Tracing and Retrieval Assistant)

MITRA is a platform by RTAs to help investors trace inactive and unclaimed Mutual Fund folios, update KYC, and prevent fraud. It will be hosted by Computer Age Management Services Limited (CAMS) and KFIN Technologies, accessible via multiple platforms, and must comply with SEBI's cybersecurity and regulatory guidelines. The platform must be launched within 15 working days, with a two-month beta version, and AMCs, Qualified RTAs (QRTAs), and distributors must promote investor awareness. AMCs Unit Holder Protection Committee (UHPC) must now review inactive folios, and RTAs must ensure MITRA helps investors trace their unclaimed investments.

Imposed a monetary penalty of ₹6.20 lakh on **Asirvad Micro Finance Limited** for non-compliance with certain provisions of the RBI's Directions.
- The company failed to report the household income of certain borrowers to Credit Information Companies;
- The company failed to provide factsheets to certain gold loan customers; and
- The company failed to establish a system of auto-escalation of all complaints that were partly or wholly rejected by its internal grievance redress mechanism to the Internal Ombudsman for a final decision.

Imposed a monetary penalty of ₹66.60 lakh on **The Hongkong and Shanghai Banking Corporation Limited** for non-compliance with certain directions issued by RBI.
- The bank had outsourced the disposal / closure of AML alerts to a Group company;
- The bank did not report Unhedged Foreign Currency Exposures of certain borrowers to CICs; and
- The bank had opened savings deposit accounts in the name of certain ineligible entities.

Imposed a monetary penalty of ₹33.10 lakh on **IIFL Samasta Finance Limited** (the company) for non-compliance with certain provisions of RBI's Directions.
- The company charged interest on loans for a period prior to the date of actual disbursement of loan / issuance of cheque to certain borrowers in contravention of RBI directions on 'Fair Practices Code';
- The company failed to classify certain loan accounts with overdues of 90 days or more as Non-Performing Assets (NPAs);
- It classified certain loan accounts which were NPA as 'standard asset' without realisation of entire arrears of interest and principal amount due; and
- It allotted multiple customer identification codes to certain individual customers instead of a Unique Customer Identification Code (UCIC) to each individual customer.

Relaxation in timelines for holding AIFs' investments in dematerialised form

SEBI has relaxed the timelines for AIFs to hold investments in dematerialised form, modifying the relevant provisions in the Master Circular. From July 1, 2025, all new AIF investments must be held in dematerialised form, regardless of acquisition method. Investments made before this date are exempt, except when the investee company is legally required to facilitate dematerialisation or when the AIF, along with SEBI-registered entities, exercises control over the investee company. Such exempted investments must be dematerialised by October 31, 2025. The requirement does not apply to AIF schemes ending before October 31, 2025, or those already in extended tenure as of February 14, 2025.

Revised timelines for issuance of Consolidated Account Statement (CAS) by Depositories

SEBI has revised the timelines for issuing the Consolidated Account Statement (CAS) by depositories, modifying the relevant provisions in the Master Circular. AMCs/MF-RTAs must now provide monthly common PAN data to depositories by the 5th of each month. Depositories shall dispatch e-CAS by the 12th and physical CAS by the 15th. For half-yearly CAS, AMCs/MF-RTAs must provide PAN data by the 8th of April and October, with depositories dispatching e-CAS by the 18th and physical CAS by the 21st. CAS will be sent monthly if there is a transaction; otherwise, it will be sent half-yearly. Investors can opt to receive CAS in physical form if they do not wish to receive it via email. The circular takes effect from May 14, 2025.

Industry Standards on "Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction

SEBI has introduced industry standards for the minimum information required for audit committee and shareholder review of related party transactions (RPTs) under Regulation 23(2), (3), and (4) of the LODR Regulations. These standards, developed by the Industry Standards Forum (ISF) in consultation with SEBI and stock exchanges, aim to ensure uniform compliance.

Most Important Terms and Conditions (MITC) for Investment Advisers

Investment Advisers (IAs) must include the Most Important Terms and Conditions (MITC) in investment advisory agreements as per SEBI (IA) Regulations, 2013. SEBI has specified that MITC shall be standardized by the Industry Standards Forum (ISF) in consultation with IAASB and SEBI. Existing clients must be informed about the MITC via email or other preservable communication by June 30, 2025. For new agreements, IAs must incorporate MITC, disclose them to clients, and obtain consent as per SEBI's January 8, 2025, circular.

Most Important Terms and Conditions (MITC) for Research Analysts

Research Analysts (RAs) must disclose the terms and conditions of research services and obtain client consent as per SEBI (RA) Regulations, 2014. SEBI has specified minimum mandatory terms and conditions (MITC) for RAs, standardized by the Industry Standards Forum (ISF) in consultation with RAASB and SEBI. Existing clients must be informed about the MITC via email or other preservable communication by June 30, 2025. RAs must incorporate MITC into their terms and conditions, disclose them to clients, and obtain consent as per SEBI's January 8, 2025, circular.

Clarification regarding Investor Education and Awareness Initiatives

AMCs must allocate at least 2 basis points of daily net assets annually for investor education and awareness within the total expense ratio limit. This requirement is as per regulation 52 of SEBI (Mutual Fund) Regulations, 1996. Investor education and awareness initiatives include financial inclusion initiatives approved by SEBI.

Investor Charter for Stock Brokers

SEBI has updated the Investor Charter for Stock Brokers to enhance financial consumer protection, financial inclusion, and literacy, considering recent market developments like the Online Dispute Resolution (ODR) platform and SCORES 2.0. The revised charter, formulated in consultation with the Brokers' Industry Standards Forum (ISF), is provided in the guidelines.

Opening of Demat Account in the name of Association of Persons

SEBI permits opening of demat accounts directly in the name of Association of Persons (AoP) for holding mutual fund units, corporate bonds, and government securities. AoP must ensure compliance with statutes governing its constitution while subscribing to financial instruments. PAN details of AoP and its Principal Officer must be obtained. Depository Participants must confirm that the AoP holds only permitted securities and does not subscribe to equity shares. In case of disputes, the Principal Officer will be the legal representative of the AoP and AoP members are jointly and severally liable.

Industry Standards on Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

SEBI, in consultation with the Industry Standards Forum (ISF) comprising ASSOCHAM, CII, and FICCI, has introduced industry standards for effective implementation of material event disclosures under Regulation 30 of SEBI (LODR) Regulations, 2015. These standards aim to facilitate ease of doing business and will be published on the websites of industry associations and stock exchanges.

Timelines for deployment of funds collected by Asset Management Companies (AMCs) in New Fund Offer (NFO) as per asset allocation of the scheme

SEBI has introduced new guidelines for the deployment of funds collected by AMCs in NFOs to ensure timely allocation and prevent mis-selling. Effective April 1, 2025, AMCs must specify achievable deployment timelines in the Scheme Information Document (SID) and deploy funds within 30 business days of unit allotment. In exceptional cases, the Investment Committee may grant an extension of up to 30 additional days, with proper justification. Trustees must monitor compliance. If funds are not deployed within the mandated timeline, the AMC will be restricted from accepting fresh inflows, charging exit loads after 60 days, and must inform investors of their exit option. Additionally, fund managers can adjust the NFO period (except for ELSS) based on market conditions. To prevent mis-selling, AMCs must ensure that distribution commissions in switch transactions to an NFO are the lower of the two schemes involved.

Regulatory framework for Specialized Investment Funds ('SIF')

SEBI has introduced a regulatory framework for Specialized Investment Funds (SIF) to bridge the gap between Mutual Funds (MFs) and Portfolio Management Services (PMS). This new investment product offers greater portfolio flexibility while maintaining a structured regulatory approach. The framework has been incorporated into the SEBI (Mutual Funds) Regulations, 1996, and will be effective from April 1, 2025. AMFI will issue necessary guidelines by March 31, 2025.

Amendments and clarifications to Circular dated January 10, 2025 on Revise and Revamp Nomination Facilities in the Indian Securities Market

SEBI has issued amendments and clarifications to its January 10, 2025, circular on revised nomination norms for demat accounts and mutual fund folios. Key clarifications include transmission rules for joint accounts, nomination opt-out options, nominee empowerment, and KYC requirements. Amendments address odd-lot distribution, acceptable identity documents for NRIs/OCIs/PIOs, and modifications to the nomination form, including signature and witness requirements. Transmission provisions have been revised to allow updates to key details without requiring KYC unless previously requested.

Industry Standards on Key Performance Indicators ("KPIs") Disclosures in the draft Offer Document and Offer Document

SEBI has introduced industry standards for KPI disclosures in draft offer documents and offer documents under the ICDR Regulations, 2018. These standards were developed by the Industry Standards Forum (ISF), comprising ASSOCHAM, CII, and FICCI, in consultation with SEBI and stock exchanges. Issuer companies and merchant bankers must adhere to these standards to ensure uniformity in KPI identification and disclosure.

Industry Standards Recognition Manual

SEBI launched the Industry Standards Fora (ISF) pilot program in July 2023 to develop implementation standards for regulatory instructions. Initially focused on listed companies and stock brokers, the program was later expanded to include portfolio managers, custodians, designated depository participants, and alternative investment funds based on market feedback. Market participants found that industry-driven implementation standards, formulated in consultation with SEBI, enhance governance, compliance quality, and ease of adherence to regulations. However, as the ISFs operate flexibly without uniform norms, differences exist in their formation, functioning, and consultation processes. To streamline operations and ensure industry standards reflect practical challenges, SEBI plans to introduce self-guiding principles for ISF recognition and governance.

Launch of 'Bond Central' - A Centralised Database Portal for Corporate Bonds

SEBI Chairperson launched 'Bond Central,' a centralized database portal for corporate bonds, developed by the Online Bond Platform Providers Association (OBPP Association) in collaboration with Market Infrastructure Institutions (MIIs). The portal serves as a single, authentic source of corporate bond information in India, accessible to the public free of cost. Operated by the OBPP Association with MIIs' support, it aims to enhance transparency and informed decision-making among investors. Key features include comprehensive bond listings across exchanges, price comparisons with G-Secs and fixed-income indices, investor-centric information with risk assessments and disclosures, and standardized data to reduce information asymmetry. The first phase is live, with more features to be added based on feedback.

Consultation Paper on draft circular for Management Statement and Auditor's / Independent Practitioner's Report on digital assurance based on information obtained from external data repositories

The ICAI's Auditing and Assurance Standards Board (AASB) and Digital Accounting and Assurance Board (DAAB) have introduced a "Technical Guide on Digital Assurance" to help auditors use digitally available audit evidence. This guide does not mandate separate auditor reporting or require listed entities to provide external data access. SEBI, after consulting its Primary Market Advisory Committee (PMAC), proposes mandating a separate report on digital assurance for listed companies' financial statements under Regulation 33 of the SEBI (LODR) Regulations, 2015. This aims to enhance financial reporting quality, improve transparency, strengthen disclosures, and boost investor confidence. ICAI suggests the cost impact will be minimal. A draft circular with the reporting format is available for public comments until February 24, 2025, via SEBI's website or email submission.

Consultation Paper on Draft Circular on Extension of automated implementation of trading window closure to Immediate Relatives of Designated Persons

SEBI has issued a consultation paper seeking public comments on extending the automated implementation of trading window closure to the immediate relatives of Designated Persons (DPs) under the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations). Currently, the framework restricts trading by DPs during the trading window closure by freezing their PAN at the security level. This was initially applied to NIFTY 50 and SENSEX companies and later extended to all listed companies. Given its effective implementation, SEBI now proposes to extend the restriction to immediate relatives of DPs, as defined under Regulation 2(1)(f) of PIT Regulations. This aims to further ease compliance and prevent inadvertent non-compliance. Public comments on the draft circular are invited until February 28, 2025, through an online submission link.

Consultation Paper on review of Regulation 17 (a) of SEBI (AIF) Regulations, 2012, with the objective of Ease of Doing Business

SEBI's consultation paper seeks public feedback on revising SEBI (AIF) Regulations, 2012, to address concerns arising from recent amendments to SEBI (LODR) Regulations, 2015. These amendments require all non-convertible debt securities issued after January 1, 2024, to be listed, potentially shrinking investment opportunities for Category II AIFs, which primarily invest in unlisted securities. Industry stakeholders highlighted challenges in adhering to the existing 50% unlisted investment requirement due to mandatory listing requirements for debt securities. SEBI's analysis shows that 192 Category II AIF schemes currently invest over 50% in unlisted debt, making them vulnerable to these changes. To mitigate this, SEBI proposes allowing Category II AIFs to meet the 50% unlisted investment requirement by also including investments in listed debt securities rated 'A' or below. This would maintain their exposure to credit risk while expanding their investment scope. The Alternative Investment Policy Advisory Committee (AIPAC) also suggested considering privately placed listed debt securities as part of this requirement.

Consultation Paper on aspects relating to Secretarial Compliance Report, Appointment of Auditors and Related Party Transactions of a Listed Entity

SEBI has proposed amendments to the Annual Secretarial Compliance Report (ASCR), auditor appointment criteria, and Related Party Transaction (RPT) approval thresholds. The key changes include updating the ASCR format to enhance compliance monitoring, setting eligibility requirements for statutory auditors, and requiring detailed disclosures at different levels for auditor appointments. Additionally, the paper aims to streamline RPT approvals for subsidiaries and provide clarity on RPT regulations.

Consultation Paper on Treatment of unclaimed funds and securities of clients lying with Trading Members

SEBI proposes a mechanism for handling unclaimed client funds and securities with Trading Members (TMs) to protect investors. TMs must attempt to trace clients and maintain an audit trail. Unclaimed funds must be upstreamed to Clearing Corporations (CCs) as per existing guidelines. For securities, frozen demat accounts due to non-traceability will be addressed by designated stock exchanges (DSEs). If a TM ceases operations, unclaimed funds and securities will be transferred to the DSE's dedicated accounts. TMs must invest unclaimed funds in low-risk instruments to generate returns until upstreamed.

Margin obligations to be given by way of Pledge / re-pledge in the Depository system

SEBI proposes amendments to the margin pledge framework to mitigate the risk of misuse of client securities. Brokers currently retain invoked client securities in their demat accounts instead of selling them immediately, leading to potential misutilization. To address this, SEBI suggests blocking such securities for early pay-in upon invocation. Additionally, brokers face operational challenges in un-pledging and paying in securities separately when a client sells pledged shares. To streamline this, SEBI proposes a "pledge release for pay-in" mechanism, allowing simultaneous release and pay-in setup in the client's demat account. Public comments on the draft circular are invited until March 4, 2025.

Consultation Paper on Advance Fee to be charged by Investment Advisers and Research Analysts

SEBI is seeking public comments on a proposal to extend the advance fee period for Investment Advisers (IAs) and Research Analysts (RAs) from the current two and one quarters, respectively, to up to one year. This follows representations from RAs and IAs citing operational challenges and the need for long-term client retention. While the existing limit protects investors from being locked into services, industry players argue that shorter fee periods may incentivize short-term recommendations. SEBI proposes that IAs and RAs may charge advance fees for up to one year if agreed by clients, with refund and breakage fee provisions remaining in place. Additionally, fee-related regulations will only apply to individual and HUF clients, while institutional investors and accredited investors will be governed by contractual terms. Public comments are invited until February 27, 2025.

Consultation paper on Introduction of format for No-objection Certificate (NOC)/ Consent Letter to be submitted by existing charge holders to issuer

SEBI has issued a consultation paper proposing a standardized format for No-Objection Certificates (NOC)/Consent Letters from existing charge holders to issuers, as required under Chapter II of the Master Circular for Debenture Trustees (DTs) dated May 16, 2024. The absence of a specified format has led to inconsistencies in submission, necessitating standardization for better due diligence and investor protection. The proposed format is based on recommendations from Trustees Associations (TAI & UTAI) and internal discussions.

Consultation Paper on Draft Circular on "Strengthening of ESG Rating Providers (ERPs)"

SEBI has released a consultation paper on the draft circular titled "Strengthening of ESG Rating Providers (ERPs)" to seek public comments. The objective is to enhance the regulatory framework governing ERPs. Public comments on the draft circular (Annexure A) are invited until March 06, 2025, through SEBI's online web-based form. The submission process includes selecting the consultation paper, recording agreement levels, and providing comments on individual proposals. A draft response can be reviewed before final submission. In case of technical issues, stakeholders can contact SEBI officials via email.

Consultation on Draft Circulars - Review of - (a) disclosure of financial information in offer document / placement memorandum, and (b) continuous disclosures and compliances by Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

SEBI has issued draft circulars for public comments on revising financial disclosure norms for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs). The proposed changes, based on recommendations from the Working Group on Ease of Doing Business, aim to align financial disclosure requirements in offer documents with SEBI (ICDR) Regulations, 2018, and improve continuous disclosures post-listing. Key updates include mandatory audited consolidated financial statements, aligning pro forma financial statements with SEBI norms, revising Net Distributable Cash Flow calculations, and reducing the time gap for deviation statements on debt proceeds. Investor protection measures include mandating full financial statements instead of condensed versions, aligning quarterly results with SEBI (LODR) norms, and requiring disclosures on Net Borrowings Ratio and financial ratios for entities with outstanding borrowings. Public comments can be submitted by March 7, 2025, via the web-based form, with technical support available if needed.

Consultation paper on technology based measures to secure trading environment and to prevent unauthorised transactions in trading/demat account of investors

SEBI's consultation paper proposes technology based measures to enhance trading security and prevent unauthorized transactions in trading and demat accounts. Due to rising cyber threats like SIM spoofing, identity theft, and unauthorized account access, SEBI formed a working group to recommend solutions. The key proposal includes implementing a One UCC-One Device-One SIM authentication model, similar to UPI, where trading accounts will be accessed only from registered devices. The framework mandates SIM binding, biometric authentication, QR code-based multi-device logins, family account operations, and enhanced call-and-trade security. Investors will have control features like session monitoring, temporary account locks, and trade restrictions. Initially, implementation will be phased, starting with the top 10 Qualified Stock Brokers, with optional adoption for investors before becoming mandatory. These measures aim to create a more secure trading environment by restricting unauthorized access, ensuring only registered users can trade, and minimizing fraud risks. SEBI invites public comments on this framework by March 11, 2025, through its official portal or via email.

Consultation on Draft Circulars - Amendment to Master Circular for Infrastructure Investment Trusts (InvITs) and Master Circular for Real Estate Investment Trusts (REITs) dated May 15, 2024

SEBI has issued a consultation paper inviting public comments on proposed amendments to the Master Circulars for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs), dated May 15, 2024. The key proposals include:

- Revising the lock-in requirements for preferential issues of units in InvITs and REITs.
- Establishing rules for follow-on offerings by REITs and publicly offered InvITs.

The draft circulars detailing these amendments are available in Annexure A (for InvITs) and Annexure B (for REITs). SEBI seeks public feedback on these proposals, with comments to be submitted by March 13, 2025, through the designated web-based form.

Consultation paper on expanding definition of Qualified Institutional Buyers under SEBI (ICDR) Regulations, 2018, to include Accredited Investors for the limited purpose of investments in Angel Funds

SEBI has released a consultation paper proposing the inclusion of Accredited Investors (AIs) in the definition of Qualified Institutional Buyers (QIBs) under the SEBI (ICDR) Regulations, 2018, for investments in Angel Funds. Angel Funds, a type of Category I AIFs, raise capital from Angel Investors to invest in start-ups. A review highlighted concerns regarding investor risk appetite and verification gaps. SEBI previously proposed mandating that only AIs invest in Angel Funds to ensure adequate risk awareness. Expanding QIBs to include AIs would exempt Angel Funds from the 200-investor cap under private placement norms, increasing funding opportunities for start-ups. AIs, verified by third-party accreditation, meet higher financial thresholds, ensuring investor sophistication. The net-worth criteria for Angel Investors, unchanged since 2013, align with current AI eligibility. SEBI also suggests removing the cap on the number of investors onboarded to Angel Funds, given AIs' risk capability. This aims to scale up Angel Funds while maintaining regulatory safeguards. Public comments are invited on the proposal.

Consultation Paper on Enhancing Trading Convenience and Strengthening Risk Monitoring in Equity Derivatives

SEBI's consultation paper proposes measures to improve trading convenience and strengthen risk monitoring in equity derivatives. Key proposals include disseminating intraday Future Equivalent (FutEq) open interest (OI) snapshots for better risk management and revising exposure computations for Mutual Funds (MFs) and Alternative Investment Funds (AIFs) by measuring both long and short options on a FutEq (Delta) basis with netting at the scrip/index level. Position limits for index futures and options are being revised, with new end-of-day and intraday limits to address net Delta risk. Pre-open and post-closing sessions for derivatives are proposed to enhance price discovery and reduce volatility. Eligibility criteria for derivatives on non-benchmark indices are also tightened, requiring a minimum of 14 constituents and limiting the top stock's weight to 20%.