Compliance Matters

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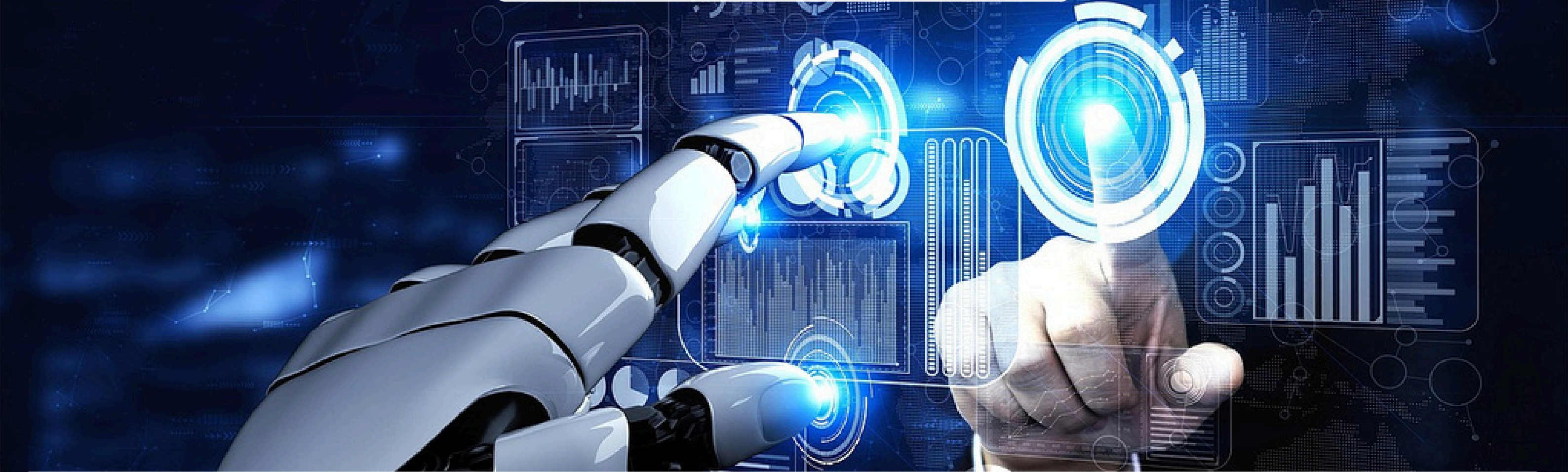
INDIA REGULATORY ROUND UP

Monthly Newsletter from Compliance Matters



While technology in all its forms is a powerful enabler,.... it is no substitute for integrity, empathy, and human judgment. In a world increasingly driven by data, algorithms, and automation, it is all too easy to lose sight of the human element. Every transaction represents not just a number in a ledger, but the hard-earned savings of a family, the dreams of a small entrepreneur, or the lifelong savings of a senior citizen. It is, therefore, critical that REs continue to invest in human resources dedicated for customer service and grievance redressal.

-Shri Sanjay Malhotra, Governor, Reserve Bank of India

Policy Statement: Framework for Formulation of Regulations

The RBI's Framework for Formulation of Regulations outlines a standardized, transparent, and consultative process for issuing or amending regulations. Regulations would illustratively cover guidelines, directions, policies notifications etc. Key steps include publishing draft regulations for public consultation (with a minimum period of 21-days for receipt of comments from stakeholders and members of the public.), conducting impact analysis, and disclosing the Bank's response to feedback. Significant amendments must follow the same process. Regulations are periodically reviewed based on relevance, effectiveness, and global standards. The Framework does not apply to internal, administrative, procedural, or entity-specific matters, and the RBI may waive provisions in cases involving confidentiality, urgency, or public interest. Existing regulations remain valid, though future changes will follow this Framework.

Reserve Bank of India (Digital Lending) Directions, 2025

The Directions have been framed to address concerns around misselling, exorbitant interest charges, unethical business practices etc. in digital credit products. Regulated entities are expected to carry out due diligence of the Lending Service Providers (LSPs) and are responsible for all acts and omissions of LSPs. REs should assess credit worthiness of their borrowers and provide them with a Key Fact Statement (KFS). Besides a robust grievance redressal mechanism, REs should ensure that information in respect of DLAs deployed by them, or those of LSPs, are reported on the CIMS portal of RBI by June 15, 2025 to create a directory of Digital Lending Apps.

Investments by Foreign Portfolio Investors in Corporate Debt Securities through the General Route – Relaxations

The RBI has relaxed norms for Foreign Portfolio Investors (FPIs) investing in corporate debt securities through the General Route. Effective immediately, FPIs are no longer required to comply with the short-term investment limit and concentration limit prescribed under paragraphs 4.4(iii) and 4.4(v) of the Master Direction on Non-resident Investment in Debt Instruments (2025). This move aims to enhance ease of investment.

Reporting on FIRMS portal – Issuance of Partly Paid Units by Investment Vehicles

RBI has clarified reporting requirements for issuance of partly paid units by investment vehicles to persons resident outside India, following the 2024 amendment to the Foreign Exchange Management (Non-debt Instruments) Rules, 2019. As per Regulation 4(10) of the relevant FEMA regulations, such issuances must be reported in Form InVI within 30 days of issue of the units. However, for partly paid units issued before this circular, investment vehicles are allowed a one-time extended reporting window of 180 days from the circular date, with no late submission fees. Issuances on or after the circular date must follow the regular 30-day reporting timeline. These directions are effective immediately, and AD Category-I banks are required to inform relevant clients.

Publishing Investor Charter for KYC (Know Your Client) Registration Agencies (KRAs) on their Websites.

SEBI has directed all KYC Registration Agencies (KRAs) to publish an Investor Charter on their websites and at office locations to increase investor awareness. This charter outlines the services KRAs offer, investor rights, key KYC activities, dos and don'ts, and the grievance redressal process.

Measure for Ease of Doing Business - Facilitation to SEBI registered Stock Brokers to undertake securities market related activities in Gujarat International Finance Tech-city - International Financial Services Centre (GIFT-IFSC) under a Separate Business Unit (SBU)

SEBI has removed the requirement for separate approval for stock brokers operating in GIFT-IFSC. Brokers can now function through a Separate Business Unit (SBU) within the same entity or continue via a subsidiary. SBUs must remain ring-fenced from domestic operations and comply with IFSCA-permitted activities. SEBI's grievance redressal mechanisms will not apply to SBU clients. This change simplifies regulatory compliance, offering greater operational flexibility and supporting GIFT-IFSC's development as a global financial centre.

Review of - (a) disclosure of financial information in offer document / placement memorandum, and (b) continuous disclosures and compliances by Infrastructure Investment Trusts (InvITs)

SEBI has revised Chapters 3 and 4 of the InvIT Master Circular to streamline financial disclosure requirements. The changes clarify how financials should be presented in offer documents, especially around acquisitions or divestments between reporting periods. InvITs must also provide proforma financials, audit summaries, and follow ICAI guidance where general-purpose financials are unavailable.

Review of - (a) disclosure of financial information in offer document, and (b) continuous disclosures and compliances by Real Estate Investment Trusts (REITs)

SEBI has revised Chapters 3 and 4 of the REIT Master Circular (May 15, 2024) to simplify compliance and enhance financial disclosures. REITs must now provide certified proforma statements if material acquisitions/divestments occur post the latest reporting period but before offer document filing. Publicly disclosed financials may be referenced, and ICAI-aligned statements are required if audited data is unavailable. The circular is effective immediately, with new disclosure norms under Chapter 4 applicable from April 1, 2025.

Simplification of operational process and clarifying regarding the cash flow disclosure in Corporate Bond Database pursuant to review of Request for Quote (RFQ) Platform framework.

SEBI has issued a circular to streamline the operational process and enhance transparency in the corporate bond market, effective August 18, 2025. Key changes include:

- Yield-to-Price Computation: For non-convertible securities traded on the Request for Quote (RFQ) platform, cash flow dates for interest, dividend, or redemption will now be based on scheduled due dates, without adjustments for day count conventions.

- Cash Flow Disclosure: Issuers are required to disclose cash flow schedules in the centralized corporate bond database at the time of ISIN activation. This includes due dates and payment dates as per day count conventions. Any updates during the security's tenure must be made within one working day. This requirement applies to both new issuances and residual maturities of listed ISINs.

These measures aim to simplify processes and improve clarity in the corporate bond market.

Investor Charter for Registrars to an Issue and Share Transfer Agents (RTAs)

SEBI has updated the Investor Charter for Registrars and Transfer Agents to enhance investor protection and transparency. RTAs must publish the revised charter online, share it with shareholders, and disclose monthly grievance data. The changes are effective immediately.

Rating of Municipal Bonds on the Expected Loss (EL) based Rating Scale

SEBI has permitted Credit Rating Agencies (CRAs) to use the Expected Loss (EL)-based rating scale for municipal bonds issued to finance infrastructure projects. This complements the existing Probability of Default (PD)-based ratings and aims to better reflect recovery prospects.

Penalty corner

Imposed a monetary penalty of ₹61.40 lakh on **Bank of Baroda** for non-compliance with certain directions issued by RBI on 'Financial Services provided by Banks' and 'Customer Service in Banks' read with 'Interest Rate on Deposits'. The bank:
(i) Failed to ensure that no incentive (non-cash) was paid to its staff engaged in insurance corporate agency service by an insurance company; and
(ii) Did not credit interest in certain inoperative / dormant / frozen savings deposit accounts at the prescribed intervals.

Imposed a monetary penalty of ₹31.80 lakh on **IDBI Bank** Limited for non-compliance with certain directions issued by RBI on 'lnterest Subvention Scheme for Short Term Loans for Agriculture and Allied Activities availed through Kisan Credit Card (KCC)'. The bank charged interest in excess of applicable rate of interest in certain KCC accounts.

Imposed a monetary penalty of ₹31.80 lakh on **Bank of Maharashtra** for non-compliance with certain directions issued by RBI on 'Know Your Customer (KYC)'. The bank did not adhere to certain regulatory requirements in respect of several deposit accounts opened using Aadhaar OTP based e-KYC, in non-face-to-face mode.

Imposed a monetary penalty of ₹97.80 lakh on **ICICI Bank Ltd**. for non-compliance with certain directions issued by RBI on 'Cyber Security Framework in Banks', 'Know Your Customer (KYC)', and 'Credit Card and Debit Card – Issuance and Conduct'. The bank:
(i) Failed to report a cyber security incident to RBI within the stipulated timeline;
(ii) Failed to put into use a robust software for throwing alerts for certain categories of accounts;
(iii) Failed to send credit card bills / statements to certain customers, but levied late payment charges.

Imposed a monetary penalty of ₹29.60 lakh on **Axis Bank Limited** for non-compliance with certain directions issued by RBI on 'Un-authorized Operation of lnternal / Office Accounts'. The bank routed unauthorised or unrelated entries through certain internal / office accounts.

Imposed a monetary penalty of ₹1,72,80,000 on **State Bank of India** for non-compliance with certain directions issued by RBI on 'Loans and Advances- Statutory and Other Restrictions', 'Customer Protection – Limiting Liability of Customers in Unauthorised Electronic Banking Transactions' and 'Opening of Current Accounts by Banks - Need for Discipline'. The bank:
(i) Extended a bridge loan to an entity against amounts receivable from the Central / State Government by way of subsidy / reimbursement;
(ii) Failed to (i) credit (shadow reversal) the amount involved in unauthorised electronic transactions to certain customer accounts within 10 working days from the date of notification by the customer and (ii) compensate certain customers within 90 days from the date of receipt of the complaint;
(iii) Opened / maintained certain current accounts in contravention of regulatory requirements.

Imposed a monetary penalty of ₹1.00 crore on **Jana Small Finance Bank Limited** for contravention of provision of Section 12B(5) of the Banking Regulation Act, 1949 (BR Act). The bank issued / allotted CCPS to certain persons, which taken along with equity share capital held by them, made such persons to hold more than permitted percentage of the paid-up share capital of the bank. It was not ensured that such persons have obtained previous approval of RBI as required under Section 12B(1) of the BR Act.

Extension of timeline for implementation of provisions of SEBI circular dated December 17, 2024 on Measures to address regulatory arbitrage with respect to Offshore Derivative Instruments (ODIs) and FPIs with segregated portfolios vis-à-vis FPIs

SEBI has extended the timeline for implementing certain provisions of its December 17, 2024 circular related to Offshore Derivative Instruments (ODIs) and Foreign Portfolio Investors (FPIs) with segregated portfolios. The provisions under paragraphs 2.2 to 2.7, requiring additional disclosures by ODI subscribers and FPIs, will now come into effect on November 17, 2025, instead of the original five-month window. Depositories are also granted the same extended timeline to implement necessary compliance systems. All other provisions of the circular remain unchanged.

Review of provisions pertaining to Electronic Book Provider (EBP) platform to increase its efficacy and utility

SEBI has enhanced the Electronic Book Provider (EBP) framework to improve transparency and efficiency in private placements of debt securities. Use of EBP is now mandatory for issues of ₹20 crore and above, with optional use for smaller or other instruments. Key changes include stricter timelines for submission of placement memorandums, capping green shoe options at 5x, regulated anchor allocations linked to credit ratings, mandatory pro-rata allotments, and detailed post-issue disclosures. Revised norms will roll out over 3–6 months, with some taking immediate effect.

Norms for Internal Audit Mechanism and composition of the Audit Committee of Market Infrastructure Institutions

SEBI has introduced a new framework to strengthen governance at Market Infrastructure Institutions (MIIs) like stock exchanges, clearing corporations, and depositories. Annual internal audits—covering all key functions—must now be conducted by independent firms and report directly to the Audit Committee. Audit scope and outcomes must be transparently documented, with critical issues reported biannually without management present. Additionally, Executive Directors, including the MD, are excluded from the Audit Committee. The circular takes effect 90 days from issuance.

Accessibility and Inclusiveness of Digital KYC to Persons with Disabilities

Following a Supreme Court ruling, SEBI has directed all intermediaries to make digital KYC processes accessible to persons with disabilities, including those with visual impairments. Updated FAQs on this requirement are available on SEBI's website.

Process for appointment, re-appointment, termination or acceptance of resignation of specific KMPs of an MII and Cooling-off period for KMPs of an MII joining a competing MII and provisions relating to re-appointment of PIDs

SEBI has tightened governance norms for Market Infrastructure Institutions (MIIs). Key changes include a structured process for appointing and terminating vital Key Management Personnel (KMPs), requiring independent agency involvement and Governing Board approval. MII Boards can now also set cooling-off periods for KMPs and directors moving to competing MIIs.

Imposed a monetary penalty of ₹50,000/- on **Grewal Brothers Finance Company Private Limited**, Kerala for non-compliance with certain provisions of 'Master Direction- Reserve Bank of India (Non- Banking Financial Company-Scale Based Regulation) Directions, 2023' issued by RBI. The company failed to obtain prior written permission of the RBI for effecting change in management, resulting in change of more than 30 per cent of its directors, excluding independent directors.

Imposed a monetary penalty of ₹50 lakh on **Deutsche Bank AG, India** for non-compliance with certain directions issued by RBI on 'Creation of a Central Repository of Large Common Exposures- Across Banks' read with 'Central Repository of lnformation on Large Credits (CRlLC) – Revision in Reporting'. The bank did not report credit information of certain borrowers to Central Repository of Information on Large Credits (CRILC).

Imposed a monetary penalty of ₹29,60,000 on **Yes Bank Limited** for non-compliance with certain directions issued by RBI on 'Financial Statements Presentation and Disclosures'. The bank did not disclose correct and complete information about customer complaints in its Annual Financial Statements for the financial year 2023-24.

Imposed a monetary penalty of ₹63.60 lakh on **Union Bank of India** for non-compliance with the provisions of Section 26A of the Banking Regulation Act, 1949 (BR Act) and certain directions issued by RBI on 'Credit Flow to Agriculture - Collateral free Agricultural Loans'. The bank:
(i) Had not transferred eligible amounts to the Depositor Education and Awareness Fund within the prescribed period; and
(ii) Had obtained collateral security for agricultural loans amounting upto ₹1.60 lakh in certain cases.

Imposed a monetary penalty of ₹40 lakh on **Transactree Technologies Private Limited** [also referred to as 'Lendbox'] for non-compliance with certain provisions of the 'Non-Banking Financial Company - Peer to Peer Lending Platform (Reserve Bank) Directions, 2017' issued by RBI. The company:
(i) routed the amounts disbursed and collected in loan accounts in the P2P Platform through a 'co-lending escrow account' in violation of the laid down 'Fund Transfer Mechanism'; and
(ii) did not : (a) disclose credit assessment and risk profile of the borrowers to the prospective lenders; and (b) disbursed loans to individual borrowers without the specific approval of individual lenders.

Additionally, non-reappointment of a Public Interest Director (PID) after their first term requires SEBI notification with rationale. These rules take effect in 90 days.

Final Settlement Day (Expiry Day) for Equity Derivatives Contracts

SEBI has directed that all equity derivatives contracts on exchanges must now expire on either a Tuesday or Thursday, with each exchange choosing one of these days. Exchanges can continue offering one weekly benchmark index options contract on their chosen day.
For all other equity derivatives, including benchmark index futures, non-benchmark index futures/options, and single stock futures/options, the minimum tenor is now one month. These will expire on the last Tuesday or Thursday of the month, corresponding to the exchange's selected day.
Exchanges will also need prior approval from SEBI to change their chosen expiry day. This move is designed to create a better balance between product differentiation and market stability, while also reducing the high activity often seen on expiry days. Exchanges have until June 15, 2025, to submit their compliance proposals to SEBI and implement the necessary changes.

Measures for Enhancing Trading Convenience and Strengthening Risk Monitoring in Equity Derivatives

SEBI has introduced measures to improve trading convenience and bolster risk monitoring in the equity derivatives segment. Key changes include enabling the trading of Futures & Options (F&O) contracts on individual securities and indices from 9:00 a.m. to 5:00 p.m., subject to stock exchange readiness. Exchanges must implement enhanced real-time risk monitoring mechanisms, including dynamic price bands, to prevent excessive volatility. Clearing corporations are directed to ensure robust margining and stress testing systems throughout the extended trading hours. These reforms aim to align India's equity derivatives market with global practices, provide greater flexibility to investors, and reinforce systemic stability.

Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2025

SEBI's Second Amendment to LODR Regulations enhances transparency in securitized debt. Trustees can now use a single SCORES registration for all Special Purpose Distinct Entities (SPDVs) they oversee. SPDVs/trustees must also annually disclose any outstanding litigation or material developments concerning involved parties, and servicer defaults, to better protect investors.

Consultation Paper on Regulatory Amendments for REITs and InvITs

SEBI released a consultation paper proposing amendments to REIT and InvIT regulations. These changes aim to improve governance, transparency, and operational efficiency. Key proposals include: strengthening sponsor obligations, revising valuation norms, protecting unitholder interests, and adjusting leverage and distribution requirements to align with market practices.

Consultation Paper on Rationalization of Placement Document for Qualified Institutions Placement

SEBI's May 2, 2025 consultation paper proposes to simplify Qualified Institutions Placement (QIP) disclosure requirements. The goal is to reduce redundant information in placement documents, align them with current market practices, and introduce standardized templates. This aims to ease the compliance burden for issuers while ensuring institutional investors still receive critical information for their decisions.

Consultation Paper on use of liquid mutual funds for compliance with deposit requirement by Investment Advisers and Research Analysts

SEBI has proposed allowing Investment Advisers and Research Analysts to use lien-marked liquid mutual fund units, in addition to fixed deposits, to meet regulatory deposit requirements. Aimed at easing operational challenges, the proposal ensures sufficient liquidity and oversight, with annual reviews and top-up provisions. Public comments are open until May 29, 2025.

Consultation Paper on providing flexibility to AIFs to offer Co-Investment opportunities to investors within the AIF structure under AIF Regulations

SEBI has proposed allowing AIFs to offer co-investment opportunities through a dedicated Co-Investment Vehicle (CIV) under the AIF Regulations. This would replace the current PMS route, addressing issues like high compliance costs and regulatory misalignment. CIVs would be Category I or II AIFs, open only to Accredited Investors, with simplified compliance norms and aligned tenure with the main AIF.

Consultation Paper on proposal to facilitate relaxation in regulatory compliances for FPI applicants investing only in Indian Government Bonds

SEBI has issued a consultation paper proposing relaxed compliance norms for FPIs investing solely in Indian Government Bonds under VRR and FAR. Key proposals include simplified KYC, exemption from investor group disclosures, relaxed material change timelines, and greater flexibility for NRI/OCI/RI participation. Aimed at boosting foreign inflows ahead of India's inclusion in global bond indices, public comments are invited by June 3, 2025.

DRAFT CIRCULAR FOR PUBLIC COMMENTS - Modification to Chapter VII of the Master Circular for listing obligations and disclosure requirements for Non-Convertible Securities, Securitized Debt Instruments and Commercial Paper

SEBI has proposed revisions to Chapter VII of its Master Circular, aiming to boost transparency and simplify compliance for Non-Convertible Securities, Securitized Debt Instruments, and Commercial Paper. The changes focus on clearer disclosure norms, financial result submission timelines, and credit rating disclosures.