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~BY CATALYST

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CIRCULAR AND AMENDMENT ISSUED BY THE MARKET REGULATORS: (Alternative Investment Funds) (Amendment) Regulations, 2024 (Applicability - Date of publication in the Official Gazette) – dated 5th January, 2024.

SEBI issued a regulatory amendment dated 5th January 2024 on AIFs, below are the key highlights of the same:

- Regulation 15(i) shall be inserted. AIFs shall hold their investments in dematerialised form, subject to such conditions and exclusions as may be specified by the SEBI from time to time.
- Regulation 20, sub-regulation (11) shall be substituted. The Sponsor or Manager of the AIF shall appoint a Custodian registered with the SEBI for safekeeping of the securities of the AIF, in the manner as may be specified by the SEBI from time to time. Additionally, Custodian appointed by the Sponsor or Manager of an AIF shall report or disclose such information regarding investments of the AIF in such manner as may be specified by SEBI from time to time.
- Regulation 20 (11A) shall be inserted. A Custodian which is an associate of the Sponsor or Manager of an AIF may act as a custodian for that AIF subject to fulfilment of conditions laid down in the regulations.

For more details, please refer the attached SEBI circular link.

Learn more: https://www.sebi.gov.in/legal/regulations/jan-2024/securities-and-exchange-board-of-india-alternative-investment-funds-amendment-regulations-2024_80608.html

Foreign investment in Alternative Investment Funds (AIFs) (Applicability - Immediate Effect) – dated 11th January, 2024.

The Government of India through gazette notification has amended the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, for revising the thresholds w.r.t. beneficial ownership, basis which SEBI has issued a circular dated January 11, 2024, w.r.t. foreign investment in Alternative Investment Funds (AIFs).

Below mentioned are the key highlights of the same:

1. In view of the amendments to the Prevention of Money-Laundering Rules, under SEBI Master Circular dated July 31, 2023, for AIF is modified.
 - Investor or its beneficial owner, as defined by the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, must not be individuals listed in the United Nations Security Council Sanctions List.
 - They should not be residents of countries identified by the Financial Action Task Force as having strategic deficiencies in Anti-Money Laundering or Combating the Financing of Terrorism, or those that have not made sufficient progress in addressing such deficiencies.
2. If an investor previously onboarded to an AIF fails to meet the revised conditions outlined in the circular, the Investment Manager is prohibited from drawing any additional capital contributions from that investor for investment purposes until the investor complies with the specified condition.

For more details, please refer the attached SEBI circular link.

Learn more: https://www.sebi.gov.in/legal/circulars/jan-2024/foreign-investment-in-alternative-investment-funds-aifs_80593.html

Consultation Paper on providing flexibility to Alternative Investment Funds (AIFs), Venture Capital Funds (VCFs) and their investors to deal with unliquidated investments of their schemes beyond expiry of tenure – dated 12th January, 2024.

SEBI has issued the Consultation Paper dated January 12, 2024, on providing flexibility to AIF, VCFs and their investors to deal with unliquidated investments of their schemes beyond expiry of tenure.

(Background) AIF Regulations amended and notified as on June 15, 23, for enabling AIFs to launch the Liquidation scheme or distributing such unliquidated investments in-specie to investors. The operational modalities of launching a Liquidation Scheme were specified vide SEBI Circular dated June 21, 23. AIFs under Liquidation Period can launch Liquidation Scheme.

Issues consider under this Consultation Paper are as follows:

1. Providing flexibility to AIFs to deal with unliquidated investments within the same scheme of AIF instead of the requirement of launching new scheme ('Liquidation Scheme')
2. One-time flexibility to schemes of AIFs, whose Liquidation Period has expired to deal with unliquidated investments.
3. Extending flexibility of Dissolution Period/Process to VCFs through migration to AIF regime

For more details, please refer the attached consultation paper Link

Learn more: <https://www.sebi.gov.in/reports-and-statistics/reports/jan-2024/consultation-paper-on-providing-flexibility-to-alternative-investment-funds-aifs-venture-capital-funds-vcfs-and-their-investors-to-deal-with-unliquidated-investments-of-their-schemes-beyond-expir-80612.html>

Guidelines for AIFs with respect to holding their investments in dematerialized form and appointment of custodian – dated 12th January, 2024.

SEBI issued Guidelines for AIFs with respect to holding their investments in dematerialised form and appointment of custodian via circular dated January 12, 2024, and the guidelines provides clarity on the below:

1. Holding investments of AIFs in dematerialised form:
 - Investments made by AIFs after October 01, 2024, must be held in dematerialized form. However, exemptions are provided for investments made before this date, with specified conditions, and such investments shall be held in dematerialised form by the AIF on or before January 31, 2025.
 - certain Schemes of AIF with tenures ending on or before January 31, 2025, and schemes which is in extended tenure as on date of this circular are exempt from this dematerialization requirement.
2. Appointment of custodian for AIFs:
 - The Sponsor or Manager must appoint a custodian registered with the SEBI for safeguarding the AIF's securities. If the custodian is an associate of the Sponsor or Manager, specific conditions must be met and compliance with Regulation 20(11A) of AIF Regulations are to be done by managers on or before January 31, 2025.
 - Custodians for AIF schemes must be appointed before the scheme's first investment, and existing Category I and II AIFs with a corpus up to INR 500 crore must appoint a custodian by January 31, 2025.
3. Reporting of investments of AIFs under custody:
 - As per Regulation 20(11) of AIF Regulations, Custodians must report investment information in a manner specified by SEBI.
 - The Standard Setting Forum for AIFs (SFA) will establish implementation standards, defining reporting formats. Managers and custodians must adhere to these standards, published by industry associations (IVCA, PE VC CFO Association, Trustee Association of India) within 60 days of this circular.
 - The 'Compliance Test Report' shall also include compliance with the provisions of this circular.
4. The necessary information in this regard shall be incorporated in SEBI's quarterly Activity Report as well.

For more details, please refer the attached circular Link.

Learn more: https://www.sebi.gov.in/legal/circulars/jan-2024/guidelines-for-aifs-with-respect-to-holding-their-investments-in-dematerialised-form-and-appointment-of-custodian_80614.html

Consultation paper on proposal to enhance trust in the Alternative Investment Funds ('AIF') ecosystem to facilitate Ease of Doing Business measures – dated 19th January, 2024

SEBI has issued the Consultation Paper dated January 19, 2024, proposing to enhance trust in the Alternative Investment Funds ('AIF') ecosystem to facilitate Ease of Doing Business measures.

"Every Alternative Investment Fund, Manager of the Alternative Investment Fund and Key Management Personnel of the Manager and the Alternative Investment Fund, shall carry out specific due diligence, as may be specified by SEBI from time to time, with respect to their investors and investments, before each investment, to prevent facilitation of circumvention of extant regulations administered by any financial sector regulator.

If any participation of an investor of an AIF in an investment opportunity has been ascertained to result in facilitation of circumvention of any extant regulation, the manager of the AIF shall –

- not make the investment; OR exclude such an investor from the investment. (Please refer to the attached consultation paper Link)

Learn more: https://www.sebi.gov.in/reports-and-statistics/reports/jan-2024/consultation-paper-on-proposal-to-enhance-trust-in-the-alternative-investment-funds-aif-ecosystem-to-facilitate-ease-of-doing-business-measures_80799.html

IFSCA Circular on Accredited Investors in IFSC – dated 25th January 2024.

(Background)The IFSCA (Fund Management) Regulations, 2022 provide for certain flexibility with respect to investors who are considered to be better aware of and have wherewithal to withstand the risks emergent from their investments. Such investors have been termed as "Accredited Investors". Further, the regulatory framework for Distributors of capital market products and services, specified vide Circular dated December 21, 2022, under IFSCA (Capital Market Intermediaries) Regulations, 2021, enables distribution of a wider bouquet of products and services to such Accredited Investors as compared to other investors.

IFSCA has issued a circular specifying the eligibility criteria for Accredited Investors and modalities related thereto; the eligibility criteria for Accredited Investors are as follows:

Structure	Income Criteria	Net Assets Criteria	Joint Investments Criteria
Individuals, Sole Proprietorships, One Person Companies, and any other legal form comprising of only a natural person	Annual gross income in the preceding financial year not less than USD 200,000	Net assets not less than USD 1 Million, out of which at least USD 500,000 worth of net assets comprise of financial assets	A) Where the joint investments are made by parent(s) and their child(ren) (including stepchildren, adopted children, ex-nuptial children), at least one person should independently fulfill the eligibility criteria and such person should be responsible for making investment decisions. B) Where the joint investments are made by spouses, their combined income/ net worth should meet the eligibility criteria.

HUF	Same as above	Same as above	-
Partnership firms	Same as above (Note: All the partners of the partnership firm independently meet the applicable eligibility criteria of Accredited Investors)	Net worth not less than USD 5 Million and the partner(s) responsible for making investment decisions for the partnership firm meet the applicable eligibility criteria of Accredited Investors.	-
Trusts	Same as above (Note: All the beneficiaries of the trust independently meet the applicable eligibility criteria of Accredited Investors)	Net worth not less than USD 5 Million and the person(s) responsible for making investment decisions for the trust meet the applicable eligibility criteria of Accredited Investors	-
Body corporates (including Limited Liability Partnerships)	Same as above (Note: All the constituents of the body corporate independently meet the applicable eligibility criteria of Accredited Investors)	Net worth not less than USD 5 Million	-

The circular also mentions entities that are deemed Accredited Investors. Further, the circular states the Responsibilities of Regulated Entities, Withdrawal of Consent. Requesting you to kindly refer to the attached circular link:

<https://ifsc.gov.in/Viewer?Path=Document%2FLegal%2F accredited-investors-in-ifsc25012024021313.pdf&Title=Accredited%20Investors%20in%20IFSC&Date=25%2F01%2F2024>

KNOWLEDGE SHARING!

Did you know? We, Catalyst Trusteeship Ltd are the Market leaders in the Securitization Domain having 70%+ Market share, it is due to our technologically backed Software advancement system and the legacy of timely fulfilment of duties that we firmly emphasize upon!! Read more about it...

Securitisations: Enhancing Trustee Responsibilities with Technology Infusion.

~ Authored article penned by our Securitisation Division Head & DVP Mr. Achinto Bhattacharya

In the dynamic landscape of financial markets, securitisation stands as a pillar of structured finance, offering avenues for liquidity and risk management. As we delve into the nuances of securitisation from the trustee's perspective, it's imperative to understand the evolving market dynamics, regulatory frameworks, and the pivotal role trustees play in ensuring seamless transactions.

Market Dynamics and Global Comparisons: The Indian securitisation market for the fiscal year 2023-24 witnessed a substantial surge, standing at 1.4 Lakh Crore, approximately USD 17 Billion. While this demonstrates a robust growth trajectory, a comparative analysis with global counterparts showcases vast potential for expansion. The US market leads with USD 507 Billion, followed by China, Europe, Japan, Australia, Latin America, and Canada, presenting a panoramic view of the global securitisation landscape (Source: S&P Global Ratings).

Instrumentation Landscape: In the Indian market, two primary types of securitized asset class prevail: Asset-backed securities (ABSs) and Mortgage-backed securities (MBSs). ABSs encompass receivables from financial assets, excluding housing loans, while MBSs revolve around receivables from housing loans and loans against property.

Driving Forces: The demand for securitisation stems from various quarters. While banks' priority sector lending (PSL) requirements continue to be a significant driver, non-banking financial companies (NBFCs) are emerging as key investors, engaging in both the pass-through certificate (PTC) routes and loan transfer assignment avenues.

Foreign Investors' Entrée: The recent allowance for foreign portfolio investors to invest in securitized debt instruments has spurred heightened interest from global investors. This influx not only fosters growth but also introduces diverse structural mechanisms, enriching the landscape of securitisation in India.

Regulatory Framework and Evolution: Since its inception in the early 1990s, securitisation in India has traversed through evolving regulatory guidelines. The Reserve Bank of India (RBI) released specific guidelines in 2006, with subsequent amendments in 2021 and 2022, reflecting the evolving landscape of regulatory protocols in response to the current market dynamics.

Trusteeship Evolution: The role of trustees in securitisation transactions has evolved significantly over the years. From mere custodians of information, trustees now shoulder comprehensive responsibilities, serving as vigilant watchdogs for regulatory compliance and statutory adherence. As the landscape transforms, trustees continually adapt to meet evolving demands.

Technological Augmentation: In the digital era, technology emerges as a cornerstone in augmenting trustee functionalities. Catalyst Trusteeship, boasting a 70% market share, exemplifies this integration through its indigenous systems. These systems encompass a spectrum of functionalities, from pass-through certificate management to document archival and borrower-level reporting, underscoring Catalyst's commitment to seamless service delivery, the same is elaborated as below:

Pass through Certificate System: Wherein from last 7 years the system has been used right from initiation of the transaction to the incorporation of various structures like TITP, TIUP & UIUP along with capturing monthly collection data and allocation of same as per waterfall mechanism and reporting to various stakeholders through automatic reporting mechanism of the system. Also, statutory, and regulatory compliances are embedded in the system enabling smooth and error-free reporting to stakeholders.

Document Management System: It enables stakeholders to view from any place and download in the state of execution all legally executed documents at any given point in time.

Direct and Co lending Tier II model system: It is the latest addition to the Catalyst Trusteeship bouquet of platforms. Post Covid and Moratorium RBI in 2022 gave a mandate to all PSU to maintain borrower-level records for Direct Assignments, however we at Catalyst Trusteeship understood the benefits of borrower-wise reporting in early 2020 and had implemented borrower-wise reporting to all Stakeholders and with the vision of enhancing the experience of micro-level analysis this System is developed with capability of micro-level monitoring of each underlying borrower in the pool with 30 plus validation checks and incorporates Customizable reporting and a dashboard for all stakeholders. It also holds API capabilities enabling real-time processing through push and pull methods for data extraction, processing, reporting and payment processing. The reconciliation segment enables stakeholders to understand the point of difference along with the reason for the point of difference. The said system will also be capable of taking raw data from originators and creating collection reporting to be utilized in creating reporting got investors. Varied levels of analysis and audit are possible with the availability of the database of data and information.

Lexcil - Catalyst Trusteeship Joint Venture: It introduces a transaction platform wherein right from pool selection to the settlement of transaction can be carried out by all stakeholders and this capability Lexcil Catalyst Trusteeship platform will be providing end-to-end process in a securitisation i.e. Pool Selection à Legal Documentation à Transaction Settlement à Monthly Processing of Payments à Monthly Reconciliation à Maturity Proceedings.

Future Outlook: Looking ahead, the emphasis on technological prowess remains paramount. As trustees navigate through intricate regulatory landscapes, technological innovation emerges as a linchpin in ensuring precision and efficiency. Catalyst Trusteeship, aligned with this vision, continues to fortify its technological infrastructure, poised to meet the dynamic demands of the securitisation segment.

In essence, the trustee's role transcends beyond mere transactional facilitation; it embodies a commitment to integrity, diligence, and technological advancement, paving the way for a robust and resilient securitisation ecosystem.

HIGHLIGHTS OF THE MONTH:

Security Trustee deals:

Sectors	No. of Transaction	Facility Amount (Cr.)
Infrastructure Sector	6	3632.03
Renewable Sector	41	21944.95
NBFC	8	139.35
Others	12	2897.27
Real Estate Sector	10	5888.5
Grand Total	77	34,501.65

Debenture Trustee deals:

Sector	No. of Transaction	Facility Amount (Cr.)
Manufacturing	10	4456.5
NBFC	28	4954.01
Real estate & Infrastructure	7	2242
Construction	3	519
Banking & Finance	3	380
Others	10	1288.5
Grand Total	61	13,840.01

Securitization deals:

Asset Class	No. of Deals	Pool Size (Cr.)
Commercial Vehicle Receivables	5	2,280
Education Loans Receivables	2	34
Gold Loan Receivables	2	110
Housing Loans Receivables	4	294
Loan Against Property	10	990
Microfinance loan receivables	23	2,378
Personal loan receivables	7	760
Secured Business Loans receivables	12	1,182
Unsecured Business Loans receivables	6	212
Grand Total	71	8,240

Other deals:

Category	No. of Deals	Issue Size in Crores
AIF(Domestic)	3	1500
ESOP/EBT	2	50
Grand Total	5	1,550

**Thanks and Regards,
Editorial team of Catalyst.**

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