NEWS

THE MARKET CHRONICLE

~BY CATALYST

VOLUME 7 • 31 OCTOBER, 2023

CIRCULAR AND AMENDMENT ISSUED BY THE MARKET REGULATOR SEBI:

SEBI (LODR) Amendment Regulation 62A Listing of subsequent issuances of non-convertible debt securities (Effective: January 1, 2024) – dated 20th Sept.2023.

SEBI has recently introduced the SEBI(LODR) (Fourth Amendment) Regulations, 2023. These amendments are aimed at regulating the listing of non-convertible debt securities by listed entities

A summary of the same is as under:

1. Mandatory Listing of Non-Convertible Debt Securities (NCDS): Listed entities with NCDS are now required to list all such securities proposed to be issued on or after January 1, 2024, on stock exchanges.
2. Listing of Outstanding Securities: Entities that have issued unlisted NCDS on or before December 31, 2023, and have such securities outstanding on that date, may also choose to list them on stock exchanges.
3. Listing of Outstanding Unlisted Securities: Listed entities planning to list NCDS on or after January 1, 2024, must also list all outstanding unlisted NCDS issued on or after that date within three months from the date of listing the proposed securities.

- Exemptions from Listing: Certain categories of non-convertible debt securities are exempt from this listing requirement, including bonds issued under section 54EC of the Income Tax Act, 1961, securities issued under agreements with multilateral institutions, and those issued as per court orders or regulatory requirements of financial sector regulators like SEBI, RBI, IRDAI, or PFRDA.
- Lock-In Period for Exempted Securities: For securities issued under the exemptions mentioned above, investors are required to hold the securities until maturity, and these securities must remain unencumbered during this period. This measure aims to maintain the stability and integrity of exempted securities.
- Disclosure Requirements: Listed entities intending to issue securities under the exempted categories must disclose all key terms of such securities to the stock exchanges where their non-convertible debt securities are listed. This includes details such as embedded options, security features, interest rates, charges, commissions, premium, maturity periods, and any other information deemed necessary by SEBI.

Learn more: https://www.sebi.gov.in/legal/regulations/sep-2023/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-september-20-2023-_77239.html

Centralized mechanism for reporting the demise of an investor through KRAs (Effective Date - January 1, 2024) – dated 3rd October, 2023.

Below are the key important highlights of the SEBI Circular:

- Centralized Reporting Mechanism: SEBI has introduced a centralized mechanism for reporting and verifying the demise of investors to streamline the process of transmission in the securities market. This mechanism applies to natural persons who are investors or account holders.
- Obligation of Intermediaries:

a)Verification of the death certificate- The 'concerned intermediary' shall obtain the death certificate along with the PAN, upon receipt of intimation about the demise of an investor from a joint account holder(s) or nominee(s) or legal representative or family member ['notifier(s)']. If the concerned intermediary is unable to obtain death certificate after receiving information about the demise of the investor from the notifier, the steps mentioned in the circular are to be followed.

b)Updation of records in the KRA system by the Intermediary - After verification of the death certificate, the concerned intermediary shall (on the same day of verification) submit a 'KYC modification request' to the KRA and Block all debit transactions in the account / folios of the deceased investor. In case the death certificate is not received, mentioned in the circular are to be followed.

- Obligations of the KRA : Upon receipt of 'KYC modification' request from the intermediary shall carry out:

1. Independent validation and verification by the next working day of receipt of modification request;
2. Update the KYC record as "Blocked Permanently" in the system and intimate to all linked intermediaries;
3. If the death certificate is not available, the KRA shall flag off the KYC of the investor as "On Hold" and intimate to all linked intermediaries;
4. Consult with the concerned intermediary and share details of its observations if there are some errors / issues.
5. Put in place systems, protocols and procedures to operationalize this circular

- Intimation on Transmission of assets of the deceased investor.
- Transaction request in accounts/folios flagged off as "On Hold" – Conduct additional due diligence and further steps as shared in the circular.
- Other obligations Report to SEBI on the updated status of deceased investors and put in place a common SOP for uniformity for operationalizing this circular.

Learn more: https://www.sebi.gov.in/legal/circulars/oct-2023/centralized-mechanism-for-reporting-the-demise-of-an-investor-through-kras_77534.html

Working Groups to recommend on simplification, ease of compliance and reduction in cost of compliance; suggestions invited – dated 4th Oct. 2023 (Press Release).

SEBI has issued a press release basis the Budget Announcements in the Union Budget FY 23-24, which was as follows:

"To simplify, ease and reduce the cost of compliance, financial sector regulators will be requested to carry out a comprehensive review of existing regulations. For this, they will consider suggestions from public and regulated entities."

Pursuant to the Budget Announcement, SEBI has constituted Working Groups to recommend simplification of various SEBI Regulations. The Working Groups will also look into the compliance requirements to enhance the ease of compliance and reduction in the cost of compliance.

At present, 16 Working Groups, under the aegis of its standing Advisory Committees, are reviewing compliance requirements under various SEBI Regulations applicable for various regulated entities, such as equity and debt listed companies, Mutual Funds, Stock Brokers, Alternative Investment Funds, REITs/InvITs, Portfolio Managers, Custodians, Investment Advisers, Research Analysts, etc.

Suggestions towards simplifying, easing and reducing the cost of compliance with respect to the various regulations listed in the link given below, are invited from the public and regulated entities.

Kindly go through the SEBI Press Release via below shared Link to recommend on simplification, ease of compliance and reduction in cost of compliance; suggestions invited on SEBI website and provide your comments by 23.10.2023.

Learn more: https://www.sebi.gov.in/media-and-notifications/press-releases/oct-2023/working-groups-to-recommend-on-simplification-ease-of-compliance-and-reduction-in-cost-of-compliance-suggestions-invited_77632.html

Master Circular on Know Your Client (KYC) norms for the securities market – dated 12th Oct. 23.

SEBI has issued the said MasterCircularr by compiling all the circulars/ amendments/ releases concerning KYC into a single reference master circular for:

1.All Intermediaries registered with SEBI under Section 12 of the Securities and Exchange Board of India Act, 19922.Recognised Stock Exchanges
3.Association of Mutual Funds in India (AMFI)
4.Association of Portfolio Managers in India (APMI)
5.BSE Administration & Supervision Limited (BASL)

Further, this Master Circular contains all the circulars/directions issued by SEBI up to September 30, 2023. Any modifications/updation in existing KYC records shall be effected in line with the provisions of this Circular by December 31, 2023. *(Kindly refer to the below attach link to refer the circular)*.

Learn more: https://www.sebi.gov.in/legal/master-circulars/oct-2023/master-circular-on-know-your-client-kyc-norms-for-the-securities-market_77945.html

Ease of doing business and development of corporate bond markets – revision in the framework for fund raising by issuance of debt securities by large corporates (LCs) (effective date: April 1, 2024) – dated 19th october 2023.

This circular introduces a revision in the framework for fund raising by the issuance of debt securities by large corporates (LCs).

The changes are designed to address market conditions and feedback from stakeholders, ultimately facilitating corporate bond market growth.

1. Applicability of the Framework: The revised framework takes effect from April 1, 2024, for LCs with an April-March financial year and from January 1, 2024, for those with a January-December financial year. LCs that meet the following criteria are subject to the framework:

- **Listed entities (except Scheduled Commercial Banks).**
- **Specified securities or debt securities listed on recognized stock exchanges.**
- **Outstanding long-term borrowings of Rs. 1,000 crore or more.**
- **Credit rating of "AA"/"AA+"/"AAA."**

2. Framework Overview:

- **LCs are mandated to raise a minimum of 25% of their incremental borrowings through debt securities.**
- **The qualified borrowings are defined as incremental borrowings between two balance sheet dates with an original maturity of more than one year, excluding certain categories.**
- **The framework's requirements are met over a contiguous block of three years.**
- **Incentives and disincentives are introduced based on the actual borrowings compared to the qualified borrowings.**

3. Responsibilities of Stock Exchanges:

- **Stock exchanges are tasked with identifying LCs by the end of June or March, depending on the financial year.**
- **They calculate and communicate incentives and disincentives by May or February for the respective LCs.**
- **Necessary amendments are made to ensure uniformity in approach and implementation.**

4. Responsibilities of the Limited Purpose Clearing Corporations (LPCC): LPCCs make changes to facilitate LC compliance with the provisions of incentives and disincentives regarding the contribution to the Core Settlement Guarantee Fund.

5. Requirements for LCs Identified Based on Erstwhile Criteria: Special provisions are provided for LCs identified under the previous criteria, with an effort to bring them in line with the revised framework.

6. Effective Date and Incorporation: The circular is in effect immediately and replaces the previous Chapter XII of the NCS Master Circular, effective from FY 2025.

Conclusion: SEBI's latest circular on the revision of the corporate bond fundraising framework for large corporates signifies the regulator's commitment to fostering a conducive environment for corporate bond markets. By introducing incentives and disincentives, SEBI aims to encourage compliance with the new framework and drive the development of corporate bond markets, ultimately benefiting India's business ecosystem. The changes will impact how large corporates raise funds and interact with the debt securities market, creating new opportunities for growth and investment.

Learn more: https://www.sebi.gov.in/legal/circulars/oct-2023/ease-of-doing-business-and-development-of-corporate-bond-markets-revision-in-the-framework-for-fund-raising-by-issuance-of-debt-securities-by-large-corporates-lcs-_78237.html

Update on the SEBI DLT Portal - Introduction of Covenant recording module:

This has reference to the captioned subject and SEBI Master Circular dated 31-Mar-23 – Chapter III.

NSDL has recently made live the Recording of Covenants on the Distributed Ledger Technology (DLT) portal (for Listed Secured & Unsecured transactions). In this regard, please find attached the user manual shared by NSDL for your reference.

Further, please take note of the following timelines:

1. **Legacy cases i.e. existing live ISINs: There is no specific timelines mentioned, however the Issuer is expected to close the same ASAP and accordingly Trustee shall be approving the entries on an ongoing basis.**
2. **New issuances: As per DT Master Circular dt. 31-Mar-23 – Chap III –**

- **Clause 5.4 (a): Issuer shall enter the covenants of the issuance in the system and upload the DTD within 5 working days of signing of Debenture Trust Deed**
- **Clause 5.4 (b): Debenture Trustee shall validate the covenants so entered by the Issuer within 7 working days of signing the Debenture Trust Deed**

In case of any technical queries, you may connect with the NSDL officials:

#	Name	Email id
1	Mr. Pinkesh Jha	pinkeshj@nsdl.com
2	Ms. Maitri Parikh	MaitriP@nsdl.com

(Please refer to the DLT Platform for the Manual)

KNOWLEDGE SHARING!

Did you know? Exempted establishments in India are directed to recoup the loss on Investment by PF trust even after providing more benefits to their employees!! ~ as per the PF authorites and EPFO guidelines...Read more about it in the below write up!!

Recoupment of Loss on Investments by PF Trusts of Exempted Establishments:

There are quite a few Exempted establishments functioning across India. These very reputed companies have obtained exemption from PF authorities after accepting the responsibility to deliver at least at par (with EPFO) benefits to their employees. Such companies have to form and manage PF Trusts.

Such PF Trusts are mandated to invest a certain portion of their funds in Debt instruments. Many of such PF Trusts had invested part of their allocated funds, in Bonds of DHFL, ILFS, Reliance Capital etc.; unfortunately, these companies have defaulted.

PF Authorities, citing the provisions of Para 27AA, are directing these PF Trusts and their employers to recoup the loss on such investments. In a few cases, PF Authorities are also arguing the practice of debiting such loss to Reserves available with the Trust.

This appears to be a harsh approach, particularly when such PF Trusts have delivered at-par returns to their members. Exempted establishments intend to give their employees more benefits, but they need not be compelled to do so. As long as Exempted establishments credit interest at par with EPFO, recoupment of loss may not be insisted. Such action will certainly discourage employers from even thinking of offering better benefits to their employees.

These defaults have impacted various PF Trusts spread across India and there is a possibility that respective RPFCs may initiate action against them. Thus, the matter may be referred to the Ministry of Labour for consideration and requesting the Ministry to direct RPFCs to read down the provisions and direct recoupment only to the extent of deficit/shortfall in matching the EPFO's rate of interest.

For your views on the above or any other interests with respect to PF matters, you can reach out to us!

Mr. Sameer Vaidya – Head Retiral Funds Division: Sameer.vaidya@ctltrustee.com | 9850834601

HIGHLIGHTS OF THE MONTH:

Security Trustee deals:

Sectors	No. of Transaction	Facility Amount (Cr.)
Infrastructure Sector	3	515.9
Renewable Sector	12	6667.6
NBFC	3	300
Others	6	3858.5
Real Estate Sector	6	931
Grand Total	30	12,273

Debenture Trustee deals:

Sector	No. of Transaction	Facility Amount (Cr.)
NBFC	22	13058.82
Real estate & Infra	9	1464.65
Business & Enterprise	5	1660
Financial service	4	1290
Manufacturing	3	93.7
Others	9	917.5
Grand Total	52	18484.67

Securitization deals:

Asset Class	No. of Deals	Pool Size (Cr.)
Business Loan	2	472
Home Loan	1	246
LAP (SME Loans)	2	236
Loan Against Property	1	67
Microfinance Loans	8	889
Personal Loans	3	365
Two Wheeler Loan	1	29
Unsecured Business Loans receivables	1	70
Grand Total	19	2,374

Other deals:

Category	No. of Deals	Issue Size in Crores
AIF - Domestic	1	100
AIF - GIFT City	2	950
Grand Total	3	1050

Thanks and Regards,
Editorial team of Catalyst.