

Regulatory Update

India Edition

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1.0 RBI REGULATORY UPDATES & DEVELOPMENTS

1.1 Notifications

1.1.1 Notification to Scheduled Commercial Banks

- **Incorporation of Name of the Purchaser on the Face of the Demand Draft**

In order to address the concerns arising out of the anonymity provided by payments through demand drafts and its possible misuse for money laundering, RBI has decided that the name of the purchaser should be incorporated on the face of demand draft, pay order, banker's, cheque etc. by the issuing bank. These instructions shall take effect for such instruments issued on or after 15th September 2018.

Banks have been advised to ensure compliance with the above decision.

https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11332

1.1.2 Notifications to Agency Banks

- **Master Circular – Disbursement of Government Pension by Agency Banks**

The above master circular consolidates important instructions on the subject issued by RBI till 30th June 2018. It does not replace or supersede such existing government instructions. In case of any doubt or apparent contradiction, agency banks may be guided by the relevant government instructions. Contents of various circulars issued in this connection by RBI are summarised in this Master Circular.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11314

- **Period for Submission of Agency Commission Claims**

As per circular dated 15th June 2017, all agency banks were advised to submit their agency commission claims to RBI within 90 days from the end of the quarter during which the transactions have been conducted.

It has been observed that agency banks are submitting their claims for the agency commission after much delay, even though all the agency banks are under the core banking system. This leads to avoidable delays in timely assessment of agency commission payment by RBI. Accordingly, taking into account the steady increase in the Electronic transactions, especially after the implementation of GST framework, RBI has decided to reduce the time period allowed to agency banks to furnish their claim on agency commission to RBI from 90 days to 60 calendar days from the end of the quarter in which the transactions have been conducted. If the banks fail to lodge claims within the stipulated period mentioned above, RBI will have the discretion to reject the claims. This will be applicable for the agency commission claims for the quarter ended 30th June 2018 onwards.

The agency banks have been advised to scrupulously follow the instructions issued by RBI while submitting the claims for agency commission in the prescribed format.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11334

1.1.3 Notifications to all Banks

- **Master Circular – Detection and Impounding of Counterfeit Notes**

RBI has consolidated the instructions relating to Detection and Impounding of Counterfeit Notes. The Master Circular has since been updated by incorporating the latest instructions issued till date and has been placed on the RBI website.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11317

- **Master Circular – Scheme of Penalties for Bank Branches Based on Performance in Rendering Customers Services to The Members of Public**

RBI has issued a revised and updated version on the scheme of penalties for bank branches on the above subject in its Master Circular dated 3rd July 2018.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11326

- **Master Circular – Facility for Exchange of Notes & Coins**

RBI has issued a Master Circular dated 2nd July 2018 regarding the facility for exchange of notes & coins. This Master Circular has been revised by RBI for information and necessary action by all banks.

All Branches of Banks in all parts of the country are mandated to provide the following customer services, more actively and vigorously to members of the public so that there is no need for them to approach the RBI Regional Offices for this purpose:

- Issuing fresh/good quality notes and coins of all denominations on demand,
- Exchanging soiled/mutilated/defective notes, and
- Accepting coins and notes either for transactions or exchange.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11316

- **Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by banks – Valuation of State Development Loans**

RBI has decided that securities issued by each state government, i.e., State Development Loans (SDLs), shall be valued in a manner which would objectively reflect their fair value based on observed prices/yields.

Financial Benchmarks India Pvt. Ltd. (FBIL) shall make available prices for valuation of SDLs based on the above principles with effect from 30th September 2018 which should be used for valuation of SDLs from the above date. Till then banks shall continue to value SDLs as detailed in the circular dated 1st July 2015.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11348

- **Priority Sector Lending – Targets and Classifications: Lending to Non-Corporate Farmers**

RBI has issued a Master Circular dated 12th July 2018, advising all domestic scheduled commercial banks that the system-wide average of the last three years achievement with regard to overall direct lending to non-corporate farmers will be notified in due course and thereafter, at the beginning of each year.

In this connection, RBI has further advised that the applicable system wide average figure for computing achievement under priority sector lending for the FY 2018-19 is 11.99 per cent.

https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11333

1.1.4 Notifications to Participants in Repo Markets

- **Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018**

RBI has issued, directions on the issuance of comprehensive repo directions, as a part of the sixth Bi-monthly Monetary Policy Statement for 2017-18 dated 7th February 2018.

The draft directions were released for public comments on 1st March 2018. Based on the feedback received from the market participants, the Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 have been reviewed and have since been finalised.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11345

1.1.5 Notifications to Participants in the Government Securities Market

- **Transactions in the WI Market in Central Government Securities**

The Statement on Developmental and Regulatory Policies, by the RBI on 6th June 2018 proposed to liberalise the eligible participant base and relax the entity-wise limits for transactions in the “When Issued” (WI) market in Central Government Securities.

Accordingly, a comprehensive review of the existing guidelines on “When Issued” market has been carried out and the revised directions were issued on 24th July 2018.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11344

- **Secondary Market Transactions in Government Securities – Short Selling**

RBI has undertaken a comprehensive review of the existing Directions/circulars on ‘Short Sale’ transactions and the revised directions are issued through its circular dated 25th July 2018. These Short Sale (Reserve Bank) directions supersede all existing regulations on this subject.

https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11346

1.2 Press Releases

1.2.1 Computation and Dissemination of Reference Rate – Taking Over by FBIL

RBI compiles and publishes on a daily basis, the Reference Rate for spot USD/INR and exchange rate of other major currencies. As announced in the sixth bi-monthly policy statement for the year 2017-2018, the Financial Benchmark India Private Limited (FBIL) will take over from RBI, the responsibility of computation and dissemination of reference rate for USD/INR and exchange rate of other currencies. FBIL will commence the process with effect from 10th July 2018. These rates would be published on every week-day (excluding Saturdays, Sundays and Bank Holidays in Mumbai). Accordingly, the daily press release on Reference Rates issued by the RBI has been discontinued after 9th July 2018.

1.2.2 RBI Cancels Certificate of Registration of 138 NBFCs

During the month of July 2018, RBI has cancelled the Certificate of Registration of 138 Non Banking Financial Companies (NBFCs). Further, 2 NBFCs have surrendered their Certificate of Registration to RBI.

2.0 SEBI REGULATORY UPDATES & DEVELOPMENTS

2.1 Circulars

2.1.1 Overseas Investment by AIFs/VCFs

In October 2015, SEBI had permitted overseas investments by Alternative Investment Funds (AIFs) and Venture Capital Funds (VCFs) to the extent of USD 500 million. SEBI, in consultation with RBI, has now enhanced the limit from USD 500 million to USD 750 million (see SEBI Circular dated 3rd July 2018).

AIFs/VCFs would need to report the utilisation of the overseas limits within 5 working days of such utilisation on the SEBI intermediary portal.

Through the SEBI intermediary portal, AIFs/VCFs would also be required to comply with the reporting requirements, as follows:

- In case an AIF/VCF has not utilised the overseas limit granted to it either fully or partially within the validity period (i.e. a period of 6 months from the date of SEBI approval), then the same needs to be reported within 2 working days after expiry of the validity period.
- In case an AIF/VCF wishes to surrender the overseas limit at any point of time within the validity period, then the same needs to be reported within 2 working days from the date of decision to surrender the limit.

The aforesaid provisions came into effect from 2nd July 2018.

2.1.2 Review of Adjustment of Corporate Actions for Stock Options

During June 2001, SEBI had prescribed a framework for adjustment of corporate actions for stock option contracts. SEBI had also, through its circular issued in December 2002, laid down the principles for adjustment in derivative contracts at the time of corporate actions.

SEBI has now decided to review the mechanism of dividend adjustment for stock options (please see SEBI circular dated 5th July 2018).

In terms of the amendment, adjustment in strike price will be carried out in the following cases of declaration of dividends:

- Dividends declared at and above 5% of the market value of the underlying stock, or

- All cases of dividends, where the listed entity has sought exemption from the timeline prescribed under the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

2.1.3 Discontinuation of Acceptance of Cash by Stock Brokers

SEBI has directed that Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of the stock broker (see SEBI Circular dated 12th July 2018). All payments would be received or made by the stock brokers from or to the clients strictly by account payee crossed cheques or demand drafts or by way of direct credit into the bank account through electronic fund transfer, or any other mode permitted by RBI.

Stock brokers are permitted to accept cheques drawn only by the clients and can also issue cheques in favour of their clients only, for their transactions.

2.1.4 Investment by FPI through Primary Market Issuances

SEBI, in its Foreign Portfolio Investors (FPI) Regulations, 2014, had stipulated that the purchase of equity shares of each company by a single FPI or an investor group should be below 10% of the total issued capital of the company.

The regulations stipulate that in case the same set of Ultimate Beneficial Owners (UBOs) invest through multiple entities, such entities would be treated as part of the same investor group and the investment limits of all such entities would be clubbed at the investment limit as applicable to a single FPI.

In order to ensure compliance with the above requirements at the time of finalisation of basis of allotment during primary market issuances, Registrar and Transfer Agents (RTAs) have been advised to obtain the following details within the prescribed timelines.

- Permanent Account Number (PAN) issued by the Income Tax Department of India for checking compliance for a single FPI.
- Validation from Depositories for the FPIs, who have invested in a particular primary market issuance, to ensure that there is no breach of investment limit.

2.1.5 Strengthening the Guidelines and Raising Industry standards for RTAs - Clarification

In April 2018, SEBI had mandated Registrar and Share Transfer Agents (RTAs) to send a letter under Registered/Speed Post seeking the PAN and bank account details within 90 days of the circular dated 20th April 2018 and two reminders thereof after a gap of 30 days.

SEBI has now clarified that the timeline for sending the initial letter by Registered or Speed Post to physical shareholders has been extended to 30th September 2018 to enable companies to send the initial letter along with Annual Reports/notice of Annual General Meeting (AGM). Subsequently, two reminders may be sent by other modes including ordinary post or courier.

2.2 Regulations

2.2.1 SEBI (Public Offer and Listing of Securitised Debt Instruments) (Amendment) Regulations, 2018

SEBI has introduced certain amendments to its Public Offer and Listing of Securitised Debt Instruments Regulations, 2008. The key highlights of the amendments are as follows:

- The title of the regulations has been substituted and the regulations will now be known as SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008.
- Chapter VII A has been introduced in the Principal Regulations, which enumerates the provisions relating to the Issuance and Listing of Security Receipts, as highlighted below.
 - An issuer proposing to issue and list security receipts or only list its already issued security receipts would be required to comply with the provisions of this chapter.
 - Security receipts proposed to be listed are required to be in compliance with the provisions of RBI and the provisions pertaining to the issue of security receipts. The security receipts would have to be issued on a private placement basis.
 - This chapter also prescribes the regulations relating to the sale of security receipts by the existing holders, conditions for listing and trading of security receipts.

- In addition to Chapter VII A, a new Schedule VA has been introduced, which details the disclosures to be made in the Offer Document. The schedule states that the offer document should contain all material information which shall be true and adequate to enable the investors to make an informed decision regarding an investment in the issue.

2.2.2 SEBI (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations, 2018

On 30th July 2018, SEBI revised its Stock Brokers and Sub-Brokers Regulations, 1992. As per the revised regulations, SEBI has done away with the category of sub-brokers as market intermediaries.

Under the current framework, sub-brokers had to seek registration from SEBI under its stock broker and sub-broker norms, while authorised persons were required to seek registration from the concerned stock exchange.

SEBI has clarified that no fresh registration would be granted to any person as a sub-broker and any pending applications for registration as sub-brokers under process would be returned to the concerned stock exchanges for onward transmission to the applicant.

The registered sub-brokers have time till 31st March 2019 to migrate to act as an Authorised Person and/or trading member whereas those who do not choose to migrate will be deemed to have surrendered their registration with SEBI with effect from 31st March 2019.

With this, the title of the regulation will be called as SEBI (Stock Brokers) Regulation and the provisions of the revised regulation will come into effect from 1st April 2019.

2.3 Press Release

2.3.1 Meeting Between MAS and SEBI

On 24th July 2018, SEBI and Monetary Authority of Singapore (MAS) held discussions on various issues of cooperation. SEBI and MAS agreed that the collaboration between both the authorities would be further strengthened to derive benefits for capital markets of both the countries.

3.0 INDIA MARKET UPDATES

3.1 RBI Tightens Banks' Statutory Auditor Rules

RBI has tightened the rules relating to statutory auditors of Banks and has issued a framework for the same. RBI has stated that if the audit quality is not found satisfactory, then it would reserve the right to not approve appointments of such auditors for a specified period.

Action would be taken against statutory auditors of banks in case of any lapses in their auditing process including instances such as mis-statement of a bank's financial statement or wrong information in the audit report.

The framework would cover, inter alia, instances of divergence identified in asset classification and provisioning during the RBI inspection vis-à-vis the audited financial statements of banks.

3.2 RBI to Hold Joint Audit of CRA with SEBI

RBI proposes to conduct a regular audit and inspection of CRAs (Credit Rating Agencies), whose actions can significantly influence the borrowing price of all companies including insolvent businesses. Till now, SEBI has been monitoring such audits of CRAs.

RBI has recently communicated its decision to hold a joint audit or inspection with SEBI. This is pursuant to the mandate given to CRAs to rate debt instruments based on the resolution plan prepared with the consent of lenders and bankruptcy court for reviving a company.

ABOUT CCL

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If you wish to discuss how CCL can assist you with any of the issues raised in this Regulatory Update, please contact one of the principals using the details below:

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This Regulatory Update provides information about the consultative documents and publications issued by the RBI and SEBI which are still current, proposed changes to the Rules and Guidance set out by RBI and SEBI, actual changes to Rules and Guidance that have occurred in the months leading up to the update, and other matters of relevance to RBI & SEBI-regulated firms. This Regulatory Update is intended to provide general summarised guidance only, and no action should be taken in reliance on it without specific reference to the particular RBI and SEBI Notifications referred to.