



NEWSLETTER ^{Weekly}

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SECURITIES EXCHANGE BOARD OF INDIA

Participation of Mutual funds in repo transactions on Corporate Debt Securities

SEBI allowed mutual funds to participate in repo transactions in securities such as Commercial Papers and Certificate of Deposits ("**Corporate debt securities**"). In addition, the SEBI said that mutual funds can participate in repo transactions only in "AA" and above rated corporate debt securities.

In repo transactions, also known as a repo or sale repurchase agreement, securities are sold with the seller agreeing to buy them back at a later date. The instrument is used for raising short term capital. The provision of the circular to come into force with immediate effect.

You can access the circular here:

<https://www.sebi.gov.in/legal/circulars/jun-2023/participation-of-mutual-funds-in-repo-transactions-on-corporate-debt-securities-72365.html>

Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)

SEBI vide circular dated June 08, 2023 has mandated upstreaming of all client funds received by Stock Brokers (SBs)/Clearing Members (CMs) to Clearing Corporations (CCs) with a view to safeguard clients' funds placed with SBs/CMs.

As per the framework, no clients' funds shall be retained by SBs/ CMs on End of Day (EoD) basis. The clients' funds shall all be up streamed by SB/ CMs to CCs only in the form of either cash, lien or pledge of units of Mutual Fund Overnight Schemes (MFOS).

You can access the circular here:

<https://www.sebi.gov.in/legal/circulars/jun-2023/upstreaming-of-clients-funds-by-stock-brokers-sbs-clearing-members-cms-to-clearing-corporations-ccs-72380.html>

Online processing of investor service requests and complaints by Registrar and Transfer Agents (RTAs)

SEBI on Thursday, June 08th 2023, provided a mechanism for processing of investors' service requests and complaints through online mode by RTAs and thereafter track the status as well as obtain periodical updates.

Looking to digitise the process in two phases, SEBI mentions that the mechanism would provide benefits such as a database for service requests and complaints, online

acknowledgement and intimation to the investor and online tracking of status of service requests and complaints by investors.

In the first phase, SEBI mentions that all RTAs servicing listed companies will have a functional website. Such a website will mandatorily display basic details of the RTA like registration number, registered address of head office and branches, names and contact details of key managerial personnel (KMPs) including compliance officer. Thereafter in the second phase, SEBI mentions that a common website will be made and operated by QRTAs from July 1, next year, through which investors will be redirected to individual web-based portals of the concerned RTA for further resolution by putting the name of the listed company.

You can access the circular here:

https://www.sebi.gov.in/legal/circulars/jun-2023/online-processing-of-investor-service-requests-and-complaints-by-rtas_72363.html

RESERVE BANK OF INDIA

The Reserve Bank of India has released new guidelines on default loss guarantees (“DLG”) in digital lending, providing clarity on the permissibility of offering financial products with such guarantees. DLG is a contractual arrangement between a regulated entity (RE) and an entity meeting prescribed norms, under which the latter guarantees to compensate the RE, loss due to default up to a certain (5%) percentage of the loan portfolio specified upfront. REs must put in place a Board approved policy for entering into any DLG arrangement, which must deal with aspects such as eligibility criteria for DLG provider, nature and extent of DLG cover, monitoring and review process, etc. The RBI has expressly clarified that DLG arrangements should not be a substitute for credit appraisal requirements and robust credit underwriting standards.

You can access the notification here:

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12514&Mode=0>

CENTRAL BOARD OF DIRECT TAXES

The Central Board of Direct Taxes has proposed substantial revisions to Rule 11UA of the Income Tax Act 1961. These revisions are relating to the valuation of shares and the application of Section 56(2) (vii b), commonly referred to as ‘Angel Tax’. The proposed changes aim to enhance clarity and simplify the tax procedures associated with the receipt of consideration from non-residents for share issuance. Proposed Changes in Rule 11 UA:

- a. Rule 11UA currently prescribes two valuation methods with respect to valuation of shares namely, Discounted Cash Flow (DCF) and Net Asset Value (NAV) method for resident investors. It is proposed to include 5 more valuation methods, available for non-resident investors, in addition to the DCF and NAV methods of valuation.
- b. Further, where any consideration is received by a company for issue of shares, from any non-resident entity notified by the Central Govt, the price of the equity shares corresponding to such consideration may be taken as the FMV of the equity shares for resident and non-resident investors subject to the extent the consideration from such FMV does not exceed the aggregate consideration that is received from the notified entity and

the consideration has been received by the company from the notified entity within a period of ninety days of the date of issue of shares which are the subject matter of valuation.

Similarly, price matching for resident and non-resident investors would be accessible in the case of Venture Capital Funds or Specified Funds investment.

- a. A valuation report by the Merchant Banker for the purposes of this rule would be acceptable, if it is of a date not more than ninety days (90) prior to the date of issue of shares which are subject matter of valuation.
- b. Further, to account for forex fluctuations, bidding processes and variations in other economic indicators, etc. which may affect the valuation of the unquoted equity shares during multiple rounds of investment, it is proposed to provide a safe harbour of 10 % variation in value.

You may send your suggestions at arpit@asalegal.in or kartikey@asalegal.in

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