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Company Secretaries of India

भारतीय कम्पनी सचिव संस्थान

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for

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CORPORATE FUNDING & LISTINGS IN STOCK EXCHANGES

MODULE 3

PAPER 7

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Lesson 1

Indian Equity- Public Funding

Amendments to guidelines for preferential issue and institutional placement of units by a listed InvIT

SEBI has issued the aforesaid Circular to prevent preferential issue of units to any person who has sold or transferred any units of the issuer during the six months preceding the relevant date. It is to be noted that the mentioned circular has been issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 and Regulation 33 of the InvIT Regulations.

For more details, please refer: <https://www.sebi.gov.in/legal/circulars/nov-2020/amendments-to-guidelines-for-preferential-issue-and-institutional-placement-of-units-by-a-listed-inviti-48182.html>

Additional Payment Mechanism (i.e. ASBA, etc.) for Payment of Balance Money in Calls for partly paid specified securities issued by the listed entity

SEBI, in its efforts to protect investors' interest and reduce investor grievances relating to refund, introduced Application Supported by Blocked Amount (ASBA) as the sole payment mechanism in the IPO and Rights issues. In view of the fact that payment through ASBA process is conducive for investors and assist in quick completion of the process, , SEBI has decided to launch additional channels for making subscription and / or paying call money.

For details, please refer:

<https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=7&smid=0>

Relaxation with respect to Validity of SEBI Observations and Revision in issue size (SEBI/HO/CFD/DIL1/CIR/P/2020/188)

With reference to SEBI's Circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/66 dated April 21, 2020, wherein it provided certain relaxations with reference to validity of SEBI Observations and filing of fresh offer document in case of increase or decrease of issue size beyond a particular threshold, in this regard, SEBI has decided to continue with the relaxations for some more time in light of the representations received due to ongoing Covid 19 scenario.

After due consideration SEBI decided that relaxation mentioned at Sr. No. 1(ii) of SEBI Circular no. SEBI/HO/CFD/DIL1/CIR/P/2020/66 dated April 21, 2020 (the mentioned Circular may be accessed at: https://www.sebi.gov.in/legal/circulars/apr-2020/one-time-relaxation-with-respect-to-validity-of-sebi-observations_46536.html for revision in issue size up to 50% shall continue till March 31, 2021.

For details, please refer: https://www.sebi.gov.in/legal/circulars/sep-2020/relaxation-with-respect-to-validity-of-sebi-observations-and-revision-in-issue-size_47719.html

SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2020

In exercise of the powers conferred under section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following Regulations to further amend the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, wherein, amendments have been made with respect to amounts (in words) (Regulations 3 and 60), substitution of promoters or directors of the issuer with persons or entities (Regulation 61), disclosures in letter of offer (Part B- Regulation 70 (2)) etc.

For more details, please refer: https://www.sebi.gov.in/legal/regulations/sep-2020/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-fourth-amendment-regulations-2020_47712.html

SEBI (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2020

In exercise of the powers conferred under section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following Regulations to further amend the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, with reference to Optional Pricing in Preferential Issue on July 1, 2020.

For more details, please refer: https://www.sebi.gov.in/legal/regulations/jul-2020/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-third-amendment-regulations-2020_46991.html

Prior to the above mentioned amendments, the following amendments have been made and may be referred as continuation to the aforesaid amendments for comprehensive learning.

a) SEBI (Issue of Capital Disclosure Requirements) (Second Amendment) Regulations, 2020 (https://www.sebi.gov.in/legal/regulations/jun-2020/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-second-amendment-regulations-2020_46907.html)

b) SEBI (Issue of Capital Disclosure Requirements) (Amendment) Regulations, 2020 (https://www.sebi.gov.in/legal/regulations/jun-2020/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-amendment-regulations-2020_46885.html)

c) SEBI (Issue of Capital Disclosure Requirements) (Seventh Amendment) Regulations, 2019 (https://www.sebi.gov.in/legal/regulations/jan-2020/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-seventh-amendment-regulations-2019_45626.html)

Lesson 2

Real Estate Investment Trusts

Norms regarding holding of liquid assets in open ended debt schemes & stress testing of open ended debt schemes

In order to augment the liquidity risk management framework for all open ended debt schemes, SEBI has decided to initiate the following significant measures:

- a. All open ended debt schemes (except Overnight Fund, Liquid Fund, Gilt Fund and Gilt Fund with 10 year constant duration) shall hold at least 10% of their net assets in liquid assets. For this purpose, 'liquid assets' shall include Cash, Government Securities, T-bills and Repo on Government Securities.
- b. The liquid assets specified in the above mentioned point above shall not be included for determining the scheme characteristics of the open ended debt schemes.
- c. In case, the exposure in such liquid assets / securities falls below the threshold mandated at point a, the Asset Management Companies (AMCs) shall ensure compliance with the above requirement before making any further investments.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/nov-2020/circular-on-norms-regarding-holding-of-liquid-assets-in-open-ended-debt-schemes-and-stress-testing-of-open-ended-debt-schemes_48110.html

Non-compliance with provisions related to continuous disclosures (SEBI/HO/DDHS/DDHS/CIR/P/2020/231)

With reference to continuous disclosures, SEBI has prescribed continuous disclosure norms for issuers of listed Non-Convertible Debt Securities, Non-Convertible Redeemable Preference Shares (NCRPS) and Commercial Papers. Accordingly, in order to ensure effective enforcement of continuous disclosure obligations by issuers of listed Non-Convertible Debt Securities or NCRPS or Commercial Papers, it has been decided to lay down a similar uniform structure for imposing fines for non-compliance with continuous disclosure requirements after discussion with market participants.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/nov-2020/non-compliance-with-provisions-related-to-continuous-disclosures_48171.html

Lesson 4

Indian Equity – Private funding

Securities and Exchange Board of India (Alternative Investment Funds) (Amendment) Regulations, 2020

SEBI through aforesaid regulations proposes to substitute sub-clause (g) of Regulation 4 of the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, thereby, specifying the criteria for the Key Investment Team of the Manager of Alternative Investment Fund. Further, the Clause (6) specifies the responsibilities of the Manager of the Alternative Investment Fund.

For more details, please refer: [file:///C:/Users/e0583/Downloads/1603203360424%20\(1\).pdf](file:///C:/Users/e0583/Downloads/1603203360424%20(1).pdf)

Procedural Guidelines for Proxy Advisors (SEBI/HO/IMD/DF1/CIR/P/2020/147)

Regulation 24(2) read with Regulations 23(1) of SEBI (Research Analyst) Regulations, 2014 mandates proxy advisors to abide by Code of Conduct specified therein. The aforesaid Circular mandates proxy advisor to adhere to the following procedural guidelines-

(a) Proxy Advisors shall formulate the voting recommendation policies and disclose the updated voting recommendation policies to its clients. Proxy Advisors shall ensure that the policies should be reviewed at least once annually. The voting recommendation policies shall also disclose the circumstances when not to provide a voting recommendation.

(b) Proxy Advisors shall disclose the methodologies and processes followed in the development of their research and corresponding recommendations to its clients.

(c) Proxy Advisors shall alert clients, within 24 hours of receipt of information, about any factual errors or material revisions to the report.

(d) Proxy Advisors shall have a stated process to communicate with its clients and the company.

(e) Proxy Advisors shall share their report with its clients and the company at the same time. This sharing policy should be disclosed by proxy advisors on their website. Timeline to receive comments from company may be defined by proxy advisors and all comments/clarifications received from the company, within timeline, shall be included as an addendum to the report. If the company has a different viewpoint on the recommendations stated in the report of the proxy advisors, then proxy advisors, after taking into account the said viewpoint, may either

revise the recommendation in the addendum report or issue an addendum to the report with its remarks, as considered appropriate.

(f) Proxy Advisors shall clearly disclose in their recommendations the legal requirement vis-a-vis higher standard they are suggesting if any, and the rationale behind the recommendation of higher standards.

(g) Proxy Advisors shall disclose conflict of interest on every specific document where they are giving their advice. Further, the disclosures should especially address possible areas of potential conflict and the safeguards that have been put in place to mitigate possible conflicts of interest.

(h) Proxy Advisors shall establish clear procedures to disclose, manage and/or mitigate any potential conflicts of interest resulting from other business activities including consulting services, if any, undertaken by them and disclose the same to clients.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/aug-2020/procedural-guidelines-for-proxy-advisors_47250.html

Procedural Guidelines for Proxy Advisors (SEBI/HO/IMD/DF1/CIR/P/2020/256)

In partial modification to the SEBI Circular on Procedural Guidelines dated August 03, 2020 for Proxy Advisors, SEBI issued the above mentioned Circular stating that Proxy Advisors shall alert clients, within 24 hours of receipt of information, about any factual errors and any impending material revisions to their reports. Further, any such material revisions to their reports shall be communicated to the clients within 72 hours of receipt of the information, while ensuring that adequate time is available for clients to make an informed decision.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/dec-2020/procedural-guidelines-for-proxy-advisors_48633.html

Circular on Mutual Funds (SEBI/HO/IMD/DF2/CIR/P/2020/175)

On September 17, 2020, in order to bring uniformity in applicability of Net Asset Value (NAV) across various schemes upon realization of funds and Trade Execution and Allocation related matters, SEBI issued the aforesaid Circular.

It is to be noted that in partial modification to SEBI Circular No. SEBI/IMD/DF/21/2012 dated September 13, 2012, the mentioned Circular states that with reference to purchase of units of mutual fund schemes (except liquid and overnight schemes), closing NAV of the day shall

be applicable on which the funds are available for utilization irrespective of the size and time of receipt of such application.

Further, it has been decided that AMCs shall put in place a written down policy which inter-alia detail the specific activities, role and responsibilities of various teams engaged in fund management, dealing, compliance, risk management, back-office, etc., with regard to order placement, execution of order, trade allocation amongst various schemes and other related matters.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/sep-2020/circular-on-mutual-funds_47574.html

Circular on Mutual Funds (SEBI/HO/IMD/DF2/CIR/P/2020/253)

In continuation to the Circular on Mutual Funds issued on September 17, 2020, SEBI issued a Circular on December 31, 2020, wherein in terms of paragraph 1 of SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/ 2020/175 dated September 17, 2020, the uniform applicability of NAV in respect of purchase of units of mutual fund schemes upon realization of funds, was to come into effect from January 1, 2021. However, in light of the subsequent representation received from AMFI pertaining to operational challenges in implementing the mentioned Circular, SEBI decided to extend the applicability of the aforesaid provision to February 1, 2021.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/dec-2020/circular-on-mutual-funds_48630.html

Lesson 6

Debt Funding- Indian Fund Based (Corporate Debt)

Monitoring and Disclosures by Debenture Trustee(s) (Circular No.: SEBI/HO/MIRSD/CRADT/CIR/P/2020/230)

Through aforesaid Circular, SEBI has prescribed the manner in which debenture trustees shall carry out due diligence for creation of security at the time of issuance of debt securities and as required under Regulation 15(1)(s) & 15(1)(t) of DT Regulations, debenture trustee(s) shall carry out due diligence on continuous basis.

For more details of the circular, please refer: <https://www.sebi.gov.in/legal/circulars/nov-2020/monitoring-and-disclosures-by-debenture-trustee-s-48159.html>

Introduction of Unified Payments Interface (UPI) mechanism and Application through Online interface and Streamlining the process of Public issues of securities under –

- **SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (ILDS Regulations),**
- **SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 (NCRPS Regulations),**
- **SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 (SDI Regulations) and**
- **SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (ILDMS Regulations)**

After consultation with the stakeholders, SEBI decided to introduce the following in addition to the already specified modes under the ASBA Circular dated August 16, 2018:

1. Providing an option to investors to apply in public issues of debt securities through the app / web interface of Stock Exchange(s) with a facility to block funds through Unified Payments Interface (UPI) mechanism for application value upto Rs. 2 Lac;
2. Permitting the UPI mechanism to block funds for application value upto Rs. 2 Lac submitted through intermediaries (Syndicate members, Registered Stock Brokers, Registrar and Transfer agent and Depository Participants).

For more details: <https://www.sebi.gov.in/legal/circulars/nov-2020/introduction-of-unified-payments-interface-upi-mechanism-and-application-through-online-interface-and-streamlining-the-process-of-public-issues-of-securities-under-sebi-issue-and-listing-of-debt-48235.html>

Master Circular on (i) Scheme of Arrangement by Listed Entities and (ii) Relaxation under Subrule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957 (SEBI/HO/CFD/DIL1/CIR/P/2020/249)

It is heartening to note that in order to enable the users to have access to the applicable circulars at one place, Master Circular in respect of schemes of arrangement has been prepared by SEBI. This Master Circular is a compilation of relevant and updated circulars issued by SEBI which deal with schemes of arrangement and which are operational as on date of this circular. Broadly speaking, the mentioned Master Circular has two components, i.e. Requirements before the Scheme of arrangement is submitted for sanction by the National Company Law Tribunal (NCLT) and Application for relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957.

For details, please refer: https://www.sebi.gov.in/legal/master-circulars/dec-2020/master-circular-on-i-scheme-of-arrangement-by-listed-entities-and-ii-relaxation-under-sub-rule-7-of-rule-19-of-the-securities-contracts-regulation-rules-1957_48531.html

Core Settlement Guarantee Fund, Default Waterfall and Stress Test for Limited Purpose Clearing Corporation (LPCC)

In order to enhance robustness of the risk management system in the clearing corporations, granular norms relating to core settlement guarantee fund, stress testing and default waterfall procedures have been prescribed by SEBI vide Circular no. CIR/MRD/DRMNP/25/2014 dated August 27, 2014. Further, vide Circular no. CIR/MRD/DRMNP/33 /2017 dated April 26, 2017, clearing members were permitted to bring their contribution towards Core Settlement Guarantee Fund, in the form of Central Government Securities, in addition to Cash and Bank Fixed Deposits. Also, norms relating to contribution by a non-defaulting member in the Default waterfall of Clearing Corporations were modified vide Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/01 dated January 03, 2020.

In view of the aforesaid fact, SEBI notified the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2020, (SECC Amendment Regulations, 2020) on October 08, 2020, to permit setting up of a Limited Purpose Clearing Corporation for clearing and settlement of repo transactions in debt securities.

For more details, please refer: <https://www.sebi.gov.in/legal/circulars/dec-2020/core-settlement-guarantee-fund-default-waterfall-and-stress-test-for-limited-purpose-clearing-corporation-lpcc-48496.html>

Creation of Security in issuance of listed debt securities and 'due diligence' by debenture trustee(s) - Extension of timeline for implementation (SEBI/HO/MIRSD/CRADT/CIR/P/2020/254)

SEBI, vide circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/218 dated November 03, 2020 (the mentioned Circular may be accessed at: <https://www.sebi.gov.in/legal/circulars/nov-2020/creation-of-security-in-issuance-of-listed-debt-securities-and-due-diligence-by-debenture-trustee-s-48074.html>) , specified requirements with regard to creation of security in issuance of listed debt securities and due diligence to be carried out by debenture trustee(s), which were applicable from January 01, 2021.

The above mentioned Circular has been issued under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 2A of the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993 and Regulation 31(1) of the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

For details, please refer: <https://www.sebi.gov.in/legal/circulars/dec-2020/creation-of-security-in-issuance-of-listed-debt-securities-and-due-diligence-by-debenture-trustee-s-extension-of-timeline-for-implementation-48621.html>

Lesson 9

Foreign Funding- Instruments & Institutions

Framework for monitoring of foreign holding in Depository Receipts (SEBI/HO/MRD/DCAP/CIR/P/2020/190)

It is to be noted that framework for monitoring of foreign holding in Depository Receipts by a listed company was previously notified by SEBI vide Circular dated October 10, 2019 (to access the mentioned Circular, please refer: https://www.sebi.gov.in/legal/circulars/oct-2019/framework-for-issue-of-depository-receipts_44609.html). This Circular's Para Nos. 2.19 to 2.21 provided the obligations of Indian Depository and Domestic Custodian, whereby, Indian Depositories were required to develop a system to monitor the foreign holding, including that held by way of DRs, as per the limits prescribed under the Foreign Exchange Management Act, 1999 and applicable SEBI Regulations, and disseminate the information regarding outstanding DRs and available limit for conversion.

Now based on discussion with market participants, SEBI has come out with broad operational guidelines encompassing the following-

1. Listed Company shall appoint one of the Indian Depository as the Designated Depository for the purpose of monitoring of limits in respect of Depository Receipts.

2. The Designated Depository in co-ordination with Domestic Custodian, other Depository and Foreign Depository (if required) shall compute, monitor and disseminate the Depository Receipts (DRs) information as prescribed in the framework. The said information shall be disseminated on website of both the Indian Depositories. For this purpose, the Designated Depository shall act as a Lead Depository and the other depository shall act as a Feed Depository.

3. Domestic Custodian shall:

3.1. Provide one-time details of DRs (Depository Receipts) in the format and manner as may be prescribed by the Indian Depositories.

3.2. Provide the requisite information as may be prescribed by Designated Depository for the purpose of computation of information in respect of Depository Receipts as and when requested.

3.3. Ensure that the underlying permissible securities, pertaining to a listed company, against which DRs are issued in the Permissible Jurisdiction, are held in a demat account, under a separate Type & Sub-Type as prescribed by the Indian Depositories for the purpose of issue of Depository receipts.

3.4. Provide certificate / declaration / information, to the Designated Depository in the prescribed format upon termination/cancellation of DR program. For this, the issuer or

Foreign Depository shall be required to report such termination / cancellation to the Domestic Custodian.

4. Procedure for the purpose of monitoring of limits

4.1.The Designated Depository shall forward the list of such companies (ISINs) for which it will be monitoring the DR issuance to Feed Depository. For any addition or deletion of ISINs, the Designated Depository shall communicate to the Feed Depository regarding the same through Incremental information sent on a periodic basis.

4.2.Feed Depository shall provide the ISIN wise demat holdings of investors tagged with separate sub-type to the Designated Depository on a daily basis.

4.3.The Designated Depository shall ascertain the details of holdings pertaining to Foreign Depository lying under demat account(s) tagged under such separate Type & Sub-Type as well as other investors with 'DR' sub type held at both depositories and consolidate such holdings to arrive at the outstanding Permissible Securities against which the DRs are outstanding.

4.4.Calculation of headroom i.e. 'the limit up to which Permissible Securities can be converted to DRs', may be undertaken in the following manner:

| | Particulars |
|-------------------------------|---|
| (A) | Number of DRs originally issued including corporate action |
| (B) | Outstanding Permissible Securities against which the DRs are outstanding |
| I | Re-issuance approval granted by Domestic Custodian (unutilized) at End of Day |
| Headroom = A – (B + C) | the limit up to which Permissible Securities can be converted to DRs |

4.5.The Indian Depositories shall exchange with each other their respective list of companies, for dissemination of DR headroom related information, which shall be consolidated by both depositories and thereafter published on their respective websites.

5. Re-issuance mechanism

5.1.For the purpose of re-issuance of permissible securities, a Foreign Investor shall request SEBI registered Broker with requisite quantity of securities (based on available headroom) required for re-issuance of depository receipts which shall be forwarded to the Domestic Custodian.

5.2.Based on last available headroom disseminated by Designated Depository, the Domestic Custodian shall grant approval (T- day where T is date of approval granted by Domestic Custodian) to such request received from SEBI registered Broker for re-issuance purpose which shall be valid for a period of 3 trading days (T+3) from the date of approval of request granted by Domestic Custodian.

5.3.The Domestic Custodian shall report such request approvals along with requisite quantity granted to Designated Depository on same day (i.e. T day) and based on which the Designated Depository shall block the quantity for the purpose of calculation of Headroom.

5.4.The Domestic Custodian shall report the status of utilisation of such approved request to the Designated Depository upon receipt of securities in the demat account of Foreign Depository for the purpose of calculation of Headroom. The domestic custodian shall report the final utilisation status of such approved request with respect to receipt of securities on D+1 basis (where D is a date of credit of security in the Foreign Depository's account) before such time as may be prescribed by Designated Depository. In case of non-receipt of securities within the specified timeline, Custodian shall unblock the requisite quantity of approval granted and report the same to Designated Depository.

6. Monitoring of Investor group limits

6.1.FPI shall report the details of all such FPIs forming part of the same investor group as well as Offshore Derivative Instruments (ODI) subscribers and / or DR holders having common ownership, directly or indirectly, of more than fifty percent or on the basis of common control, to its Designated Depository Participant (DDP). The investor group may appoint one such FPI to act as a Nodal entity for reporting the aforesaid grouping information to its DDP in the format enclosed at Annexure A. Further, such Nodal FPI shall report the investment holding in the underlying Indian security as held by ODI subscriber and / or as DR holder, including securities held in the Depository Receipt account upon conversion ('DR conversion' account), to its Domestic Custodian on a monthly basis (by the 10th of every month) in the format enclosed at Annexure B. Similarly, the FPIs who do not belong to the same Finvestor group shall report such investment holding details in the underlying Indian security as ODI subscriber and / or as DR holder, including securities held in the 'DR conversion' account, to its Custodian in the aforesaid format on a monthly basis (by 10th of the month).

6.2.The DDP shall report FPI grouping information as reported by Nodal FPI to such Indian Depository (by 17 of the month) where FPI group demat accounts are held in the manner and format as specified by such Indian Depository. Similarly, the Custodian of Nodal entity (who also happen to be the DDP) shall report the investment holdings in the underlying Indian security as held by the ODI subscriber and / or DR holder in respect of the aforesaid FPI group on monthly basis to such Indian Depository (by 17th of the month) where FPI group demat accounts are held in the manner and format as specified by such Indian Depository.

6.3.The Depository which monitors the FPI group limits shall club the investment pertaining to DR holding, ODI holding and FPI holding of same investor group and monitor the investment limits as applicable to FPI group in a Listed Indian company on a monthly basis. However, in respect of FPIs which do not belong to the same investor group, responsibility of monitoring the investment limits of FPI shall be with the respective DDP / Custodian. The Custodian of such FPIs not forming part of investor group shall club the investment as held by FPIs as well as investment as held by such FPI in the capacity of ODI subscriber and / or DR

holder and monitor the investment limits as applicable to single FPI. In case where the investment holding breaches the prescribed limits, the Indian Depository / Custodian, as the case may be, shall advise the concerned investor / investor group, to divest the excess holding within 5 trading days similar to the requirement prescribed under SEBI Circular dated November 05, 2019 on 'Operational Guidelines for FPIs & DDPs under SEBI (Foreign Portfolio Investors), Regulations 2019 and for Eligible Foreign Investors.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/oct-2020/framework-for-monitoring-of-foreign-holding-in-depository-receipts_47777.html

Lesson 10

Other Borrowing Tools

Review of provisions regarding valuation of debt and money market instruments due to the COVID -19 pandemic (SEBI/HO/IMD/DF4/CIR/P/2020/192).

It is to be noted that SEBI, vide Circular No. SEBI/HO/MIRSD/CRADT/CIR/P/2020/160 dated August 31, 2020 has provided relaxation to Credit Rating Agencies in recognition of default for restructuring by the lender/ investors solely due to COVID-19 related stress.

In view of this, discretion was required to be provided to valuation agencies engaged by AMCs/AMFI for recognition of default in case proposal of restructuring of debt is solely due to COVID-19 related stress. For the said purpose, any proposal of restructuring received by Debenture Trustees shall be communicated to investors immediately.

Further, any proposal received by Mutual Funds from lenders/issuer/Debenture Trustees shall be reported immediately to the valuation agencies (along with the other material information required for the purpose of valuation), Credit Rating Agencies and AMFI. AMFI, on receipt of such information, shall immediately disseminate it to its members.

The Circular further states that if the valuation agency, based on its assessment of the proposal, is of the view that the proposed restructuring is solely due to fallout of COVID-19 pandemic then the valuation agency may not consider the restructuring/ non receipt of the dues as a default for the purpose of valuation of money market or debt securities held by Mutual Funds. Further, valuation agencies shall ensure that change in terms of investment, financial stress of the issuer and the capability of issuer to repay the dues/borrowings on the extended dates are reflected in the valuation of the securities.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/oct-2020/circular-on-review-of-provisions-regarding-valuation-of-debt-and-money-market-instruments-due-to-the-covid-19-pandemic_47779.html

Lesson 12

Securitization

Testing of software used in or related to Trading and Risk Management

After due examination and consultation with stakeholders, SEBI has decided that requirement of mandatory mock trading sessions to facilitate testing of new software or existing software that has undergone any change of functionality shall be optional if a Stock Exchange provides suitable simulated test environment to test new software or existing software that has undergone any change of functionality and ensures the following:

- i) The test environment shall be made available to all the members.
- ii) The test environment shall be made available for at least two hours after market hours and at least on two trading days in a week.
- iii) For the purpose of testing, Stock Exchange shall make available data from at least one trading day in all segments and the same shall not be older than one month from the day of the testing environment.
- iv) All trading members (excluding those who use only Exchange provided front end and/or ASP services) having approved Algorithms available with the member, irrespective of the algorithm having undergone change or not, shall participate in the Simulated Environment at least on one trading day during each calendar month at all the exchanges where they are members. This shall be audited and reported in the System Auditors report.
- v) Exchange shall provide a daily log, including Algos used, of members participation in Simulated Environment to all participating members. The Exchange shall provide summary report of such activity to SEBI in the monthly development report (MDR).

For more details: https://www.sebi.gov.in/legal/circulars/nov-2020/testing-of-software-used-in-or-related-to-trading-and-risk-management_48244.html

Operational guidelines for Transfer and Dematerialization of re-lodged physical shares

With reference to the mentioned Circular, SEBI has fixed March 31, 2021 as the cut-off date for re-lodgement of transfer requests and has stipulated that such transferred shares shall be issued only in demat mode.

For more details, please refer: https://www.sebi.gov.in/legal/circulars/dec-2020/operational-guidelines-for-transfer-and-dematerialization-of-re-lodged-physical-shares_48336.html