Swift India
CORPORATE SERVICES LLP

Swift e-Bulletin

Week – November 04th to November 09th

Quote for the week:

"In the middle of difficulty lies opportunity."

– **Albert Einstein** (Theoretical physicist)

Introduction

We welcome you to our weekly newsletter!

The 'Swift e-Bulletin' - weekly newsletter, covers all regulatory updates and critical judgements passed during the week. We want this newsletter to be valuable for you so, please share your feedback and suggestions to help us improve.

Further, various regulatory authorities have been proactive in bringing significant regulatory changes in recent challenging times. This week's newsletter covers various circulars/notifications issued by certain regulatory authorities such as Ministry of Micro, Small & Medium Enterprises **("MSME"),** Securities and Exchange Board of India **("SEBI")**, Reserve Bank of India **("RBI").**

The Regulatory authorities provided various updates/relaxations, some of which being:

- **SEBI vide circular dated November 04, 2024 issued circular on Investment in Overseas Mutual Funds/ Unit Trusts by Indian Mutual Funds.**

- **RBI vide notification dated November 06, 2024 issued Amendment to the Master Direction - Know Your Customer (KYC) Direction, 2016**

We have prepared a comprehensive summary for quick reference of the aforesaid updates and Judgements/ orders issued during the week of November 04th to November 09th.

Thank you, Swift team

MICRO, SMALL & MEDIUM ENTERPRISES (MSME)

1. **MSME vide circular dated November 07, 2024 issued amendment in the Micro, Small and Medium Enterprises Development Act, 2006**

   - All companies registered under the Companies Act, 2013 with a turnover of more than Rs. 250 crore and all Central Public Sector Enterprises shall be required to get themselves onboarded on the Trade Receivables Discounting System platforms, set up as per the notification of the Reserve Bank of India.

   - The onboarding process on the Trade Receivables Discounting System platforms shall be completed by March 31, 2025.

   To read the circular in detail, please click here.

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

1. **SEBI vide circular dated November 04, 2024 issued circular on Investment in Overseas Mutual Funds/ Unit Trusts by Indian Mutual Funds.**

   - SEBI vide its Master Circular dated June 27, 2024 permitted mutual funds to invest in overseas securities which also includes investment in overseas Mutual Funds/Unit Trusts ('MF/UTs')

   - SEBI in order to facilitate ease of investment in overseas MF/UTs, to bring transparency in the manner of investment and to enable Mutual Funds to diversify investment overseas, has inter alia decided the following as below:

     - Indian MFs schemes may also invest in overseas MF/UTs having exposure to Indian securities, provided that the total exposure to Indian securities by these overseas MF/UTs shall not be more than 25% of their assets.

     - While investing in overseas MF/UTs that have exposure to Indian securities, the Indian Mutual Fund schemes shall ensure Overseas MF/UT is managed by an independent investment manager/fund manager who is actively involved in making all investment decisions for the fund.

     - Indian Mutual Fund schemes shall ensure that such overseas MF/UTs disclose their portfolios at least on a quarterly interval to the public to maintain transparency.

     - Further, Indian Mutual Fund schemes shall ensure that the underlying overseas MF/UTs do not have more than 25% exposure to Indian securities.

     - If exposure by an underlying overseas MF/UTs to India securities exceeds 25% of their net assets, an observance period of 6 months from the date of publicly available information of such breach (e.g. portfolio disclosures) shall be permitted to Indian Mutual Fund schemes for monitoring of any portfolio rebalancing activity by the underlying overseas MF/UT.

     - If the portfolio of an underlying overseas MF/UT is not rebalanced within the 6 - month observance period, Indian Mutual Fund scheme shall liquidate its investments in the concerned underlying overseas MF/UT within the next 6 months from end of the observance period.

     - If the Indian Mutual Fund/ Asset Management Company fails to rebalance the portfolio of the scheme in line with the aforesaid requirements, then after the 6-month liquidation period, the Indian Mutual Fund/ Asset Management Company shall not be permitted to accept any fresh subscriptions in concerned Indian Mutual Fund scheme.

   - The circular shall be applicable to all mutual funds, all asset management companies (AMCs), all Trustee Companies/ Boards of Trustees of Mutual Funds, Association of Mutual Funds in India (AMFI) and all custodians.

   - The circular shall come into force with effect from the date of this circular.

To read the circular in detail, please click here.

2. **SEBI vide circular dated November 05, 2024, issued disclosure of expenses, half yearly returns, yield and risk - o - meter of schemes of Mutual Funds.**

- Under the current regulatory framework for Mutual Funds various disclosure requirements have been mandated, which include disclosures by Mutual Funds with respect to expenses and risks pertaining to schemes.

- To facilitate enhanced transparency, ease of comprehension by investors and a standardised approach towards disclosures by the Mutual Fund industry.

- <u>Disclosure of expenses, half yearly returns and yield of a scheme.</u>

  Investments under direct plan of a mutual fund scheme, which was introduced vide circular dated September 13, 2012 and came into effect from January 01, 2013, are investments which are not routed through distributors of Mutual Funds.

  As distribution expenses and commission cannot be charged to investors of a direct plan, the expense ratio of direct plan of any scheme is lower than that of the regular plan of the same scheme and hence the returns of the direct and regular plans also differ.

- Accordingly, disclosure of expenses, returns during the half year and yield of direct and regular plans shall be as under:

  - 3.1. The expenses disclosed in terms of Sl. No. 6.4 of Twelfth Schedule read with Regulation 59 SEBI (Mutual Funds) Regulations, 1996 shall contain separate disclosures for total recurring expenses for direct and regular plans, apart fromthe disclosure of total recurring expenses of the scheme.

  - 3.2. In terms of Sl. No. 7.1 and 7.2 of Twelfth Schedule read with Regulation 59 SEBI (Mutual Funds) Regulations, 1996, returns during the half year and Compounded annualized yields respectively shall be separately disclosed for direct and regular plans.

- To standardise the above disclosures, the format for half-yearly financial statement for MF schemes shall be reviewed and finalised by AMFI, in consultation with SEBI.

- For all other regulatory disclosures where expenses, expense ratio, returns and/or yield of the schemes are required to be disclosed, separate disclosures shall be made for both regular and direct plans.

- <u>Colour Scheme for Risk – o – meter</u>

  Clause 17.4 of the Master Circular dated June 27, 2024 for Mutual Funds ("Master Circular"), specifies the provisions pertaining to product labelling in Mutual Funds. Based on the recommendation of MFAC, it has been decided that in addition to the existing labels relating to levels of risk i.e. Low, Low to Moderate, Moderate, Moderately High, High and Very High, the Risk – o - meter shall also be depicted using a colour scheme. Accordingly, para (d) of the Master Circular stands modified as under:

  "Risk – o - meter shall have following six levels of risk for mutual funds with the given colour scheme –

  i. Low Risk

ii. Low to Moderate Risk
iii. Moderate Risk
iv. Moderately High Risk
v. High Risk
vi. Very High Risk

- <u>Disclosure of change in Risk - o – meter: -</u>

  As per clause 17.4.1 (h) of the Master circular, any change in the risk -o-meter shall be communicated to unitholders of that particular scheme by way of a Notice cum Addendum as well as an e-mail or SMS.

  In order to standardise the format of disclosure and for ease of understanding of the change in level of risk for unitholders, the Mutual Funds shall disclose the existing risk – o - meter along with the revised risk – o - meter.

- Accordingly, clause 17.4.1 (h) of the Master Circular stands modified as under:

  "Any change in risk – o - meter of the scheme or its benchmark shall be communicated by way of Notice cum Addendum and by way of an e - mail or SMS to unitholders of that particular scheme. The format for disclosure of change in Risk – o - meter shall be as under:

  The circular is applicable to Mutual Funds (MFs), Asset Management Companies (AMCs), All Trustee Companies/ Board of Trustees of Mutual Funds, All Registrar to an Issue and Share Transfer Agents ('RTAs'), Association of Mutual Funds in India (AMFI).

To read the circular in detail, please click here.

RESERVE BANK OF INDIA (RBI)

1. **RBI vide notification dated November 06, 2024 issued Amendment to the Master Direction - Know Your Customer (KYC) Direction, 2016**

   - Master Direction dated February 25, 2016 has been amended to align the instructions with the recent amendments carried out in the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, incorporate instructions, revise certain existing instructions.

   - The aforementioned notification has resulted in the following amendments:

   - There is no requirement of CCD procedure If an existing KYC compliant customer of a Regulated Entities ("RE") opens an account or avails of any other services from the same RE.

   - RE shall within seven days or within such period as may be notified by the Central Government, furnish the updated information to CKYCR, which shall update the KYC records of the existing customer in CKYCR. CKYCR shall thereafter inform electronically all the reporting entities who have dealt with the concerned customer regarding updation of KYC record of the said customer. Once CKYCR informs an RE regarding an update in the KYC record of an existing customer, the RE shall retrieve the updated KYC records from CKYCR and update the KYC record maintained by the RE.

   - there is a change in the information of the customer as existing in the records of CKYCR; or

   - the KYC record or information retrieved is incomplete or is not as per the current applicable KYC norms; or the validity period of downloaded documents has lapsed; or

   - the RE considers it necessary in order to verify the identity or address (including current address) of the customer, or to perform enhanced due diligence or to build an appropriate risk profile of the customer.

   - For the purpose of establishing an account-based relationship, updation/ periodic updation or for verification of identity of a customer

   - High risk accounts have to be subjected to more intensified monitoring.

   - The said directions shall come into force with immediate effect.

   To read the notification in detail, please click here.

2. **RBI vide circular dated November 07, 2024, issued 'Fully Accessible Route' for Investment by Non-residents in Government Securities – Inclusion of Sovereign Green Bonds.**

   - RBI vide circular a reference is invited to the Press Release on 'Issuance Calendar for Marketable Dated Securities for October 2024 - March 2025' dated September 26, 2024, issued by the Reserve Bank, notifying, inter alia, the issuance calendar for Sovereign Green Bonds for the second half of the fiscal year 2024-25.

   - Attention is also invited to the Fully Accessible Route (FAR) introduced by the Reserve Bank, vide dated March 30, 2020, wherein certain specified categories of Central

Government securities were opened fully for non-resident investors without any restrictions, apart from being available to domestic investors as well.

- The Government Securities that are eligible for investment under the FAR (‘specified securities’) were notified by the Bank in various circulars.

- It has now been decided to also designate Sovereign Green Bonds of 10-year tenor issued by the Government in the second half of the fiscal year 2024-25 as ‘specified securities’ under the FAR.

- The Directions contained in this circular have been issued under Section 45W of Chapter IIID of the Reserve Bank of India Act, 1934 and are without prejudice to permissions/ approvals, if any, required under any other law.

- The circular is applicable to All participants in Government Securities market.

To read the circular in detail, please click here.

3. **RBI vide notification dated November 08, 2024 issued on Reporting of Foreign Exchange Transactions to Trade Repository**

- AD is tasked with the requirement to report various over-the-counter foreign exchange derivative contracts and foreign currency interest rate derivative contracts, undertaken by them directly or through their overseas entities to the Trade Repository of CCIL.

- The scope of this reporting has been enlarged. It is decided to include foreign exchange spot (including value cash and value tom) deals in reporting to the Trade Repository of CCIL.

- Transactions in the following foreign exchange contracts, involving INR or otherwise, (hereinafter referred to as “FX contracts”) shall now be reported to the Trade Repository:

  foreign exchange cash;
  foreign exchange tom; and
  foreign exchange spot.

- All inter-bank FX contracts undertaken by Authorised Dealers shall be reported to the TR of CCIL with effect from February 10, 2025 as per the following timelines:

- Inter-bank FX contracts involving INR shall be reported in hourly batches within 30 minutes from completion of the hour. Such contracts executed 60 minutes prior to closure of CCIL's reporting platform for the day and subsequent to closure of CCIL's reporting platform for the day shall be reported by 10 a.m. of the following business day.

- Inter-bank FX contracts not involving INR executed up to 5 p.m. on any given day should be reported by 5:30 p.m. of that day. Such contracts executed after 5 p.m. should be reported by 10 a.m. of the following business day.

- Authorised Dealer shall ensure that outstanding balances between their books and the TR are reconciled and subjected to concurrent audit on an ongoing basis.

- The said directions shall come into force with immediate effect.

To read the notification in detail, please click here.

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The contents of this newsletter should not be construed as a legal opinion. View detailed disclaimer.

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+91 22 6669 5000

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About Swift

Swift India Corporate Services LLP ("Swift") (Formerly known as SwiftIndiaInc Corporate Services Private Limited) established in the year 2005, is an affiliate entity of Nishith Desai Associates ("NDA"), a preeminent India centric law firm. We are a premier and boutique firm specialized in meeting with the global standard corporate governance aspirations of our clients operating in India.

Our team comprises of professionals with a prolific corporate, legal and secretarial compliance background. We aim to provide pragmatic and business-oriented solutions in governance and compliance matters, through a unique holistic approach that blends our expertise and decades of experience in compliance and regulatory areas.

Swift India Corporate Services LLP

Regd. Office: 91-92 B, Mittal Court, Nariman Point, Mumbai 400 021, India
LLPIN: AAH-4705, registered under the Limited Liability Partnership Act, 2008
Tel +91 22 6669 5000, Fax +91 22 6669 5001

Website:
https://swiftindiallp.com/

Contact:
swift@nishithdesai.com

Core Team:
Ms. Hetal Pandya - hetal.pandya@nishithdesai.com
Mr. Maulin Salvi – maulin.salvi@nishithdesai.com
Mr. Santosh Gangavati – santosh.gangavati@nishithdesai.com
Mr. Chandrashekar K – chandrashekar.k@nishithdesai.com

Principal Advisor:
Mr. Janak C. Pandya – janak.pandya@nishithdesai.com