Swift India
CORPORATE SERVICES LLP

Swift e-Bulletin

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Week – July 24 to July 28, 2023

<u>Quote for the week:</u>

"If you do what you've always done – you'll get what you've always gotten."

– *Tony Robbins (American writer)*

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 hope that you liked our previous editions and found it to be of great value in its content. 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 the Securities and Exchange Board of India (“SEBI”)

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

- SEBI issued Circular dated July 27, 2023 on Investment by Mutual funds schemes and Asset Management Companies (**“AMC's”**) in units of Corporate Debt Market Development Fund (**“CDMDF”**).

- SEBI issued Circular dated July 27, 2023 on framework for CDMDF

We have prepared a comprehensive summary for quick reference of the aforesaid updates and Judgements / orders issued during the week of July 24 to July 28, 2023.

Thank you,
Swift team

REGULATORY UPDATES

SEBI

1. SEBI issued Circular dated July 27, 2023 on Investment by Mutual Fund Schemes and AMC's in units of CDMDF

- The Mutual Fund Advisory Committee (**"MFAC"**) of SEBI had constituted a Working Group which inter-alia recommended creation of an entity to buy corporate debt securities from Mutual Fund schemes with support from Government of India.

- Chapter III-C was inserted in SEBI (**Alternative Investment Funds**) Regulations, 2012 vide Gazette Notification no. SEBI/LAD-NRO/GN/2023/132 dated June 15, 2023 and Regulation 43A was inserted in SEBI (**Mutual Funds**) Regulations, 1996 vide Gazette Notification no. SEBI/LAD-NRO/GN/2023/134 dated June 26, 2023 to facilitate constitution of CDMDF as a backstop facility for purchase of investment grade corporate debt securities, to instill confidence amongst the participants in the Corporate Debt Market during times of stress and to generally enhance secondary market liquidity by creating a permanent institutional framework for activation in times of market stress.

- CDMDF shall be launched as a close ended scheme with an initial tenure of 15 years (extendable) from the date of its initial closing (date on which contribution from all AMCs and specified schemes is received by CDMDF).

- Accordingly, the following has been decided:

  - The units of CDMDF shall be subscribed by AMCs of Mutual Funds and "specified debt-oriented MF Schemes". Contribution including the appreciations, if any, shall be locked in till winding up of the Fund.

  - Specified debt-oriented MF Schemes shall invest 25 bps of their Assets Under Management (**"AUM"**) in the units of CDMDF.

  - AMCs shall make a one-time contribution equivalent to 2 bps of the AUM of specified debt-oriented MF Schemes managed by them.

  - In case of delay in contribution by Mutual Fund Schemes and AMCs, the respective AMCs shall be liable to pay interest at fifteen percent (15%) per annum for the period of delay. Such interest shall be credited to the fund of CDMDF.

  - The sellers of debt securities shall be paid 90% of the consideration in cash and 10% in terms of units of CDMDF.

  - The respective Mutual Funds shall have access to sell corporate debt securities during market dislocation, held in the portfolio of contributing schemes, to the CDMDF. Access to the Fund shall be in proportion to the contribution made to the Fund at a Mutual Fund level.

To read the Circular in detail, please click here.

2. SEBI issued Circular dated July 27, 2023 on Framework for CDMDF

- In addition to the above-mentioned scheme as mentioned at para 2 above, CDMDF shall comply with following:

  - The fund shall deal only in following securities during normal times:

    - Low duration Government Securities;
    - Treasury bills;
    - Tri-party Repo on G-sec; and
    - Guaranteed corporate bond repo with maturity not exceeding 7 days.

  - The fees and expenses of the Fund shall be as follows:

    - During Normal times: (0.15% + tax) of the Portfolio Value charged on daily pro-rata basis.
    - During Market stress: (0.20% + tax) of the Portfolio Value charged on daily pro-rata basis.
    - "Portfolio Value" means the aggregate amount of portfolio of investments including cash balance without netting off of leverage undertaken by the Fund.

  - CDMDF shall follow the Fair Pricing document as placed at Annexure A while purchase of corporate debt securities during market dislocation.

  - CDMDF shall follow the loss waterfall accounting, as prescribed at Annexure B.

  - CDMDF shall disclose Net Asset Value (NAV) of the fund by 9:30 PM on all business days on website of its Investment Manager and AMFI.

  - Purchase allocation and trade settlement of corporate debt securities bought by CDMDF during market dislocation:

    - AMFI shall specify the detailed guidelines for purchase of securities by CDMDF in consultation with SEBI.
    - Clearing Corporations shall provide required infrastructure to facilitate the trade settlement of corporate debt trades by CDMDF during market dislocation, within 3 months of issuance of this circular.

To read the Circular in detail, please click here.

3. **SEBI issued Circular dated July 26, 2023 on Resources for Trustees of Mutual Funds.**

- According to the Master Circular on Mutual Funds dated May 19, 2023, the trustees shall have standing arrangements with independent firms for special purpose audit and/or seek legal advice in case of any requirement as identified and whenever considered necessary.

- As the aforesaid standing arrangement with the independent firm should be on continuous basis, a confirmation to this effect is required to be provided by Trustees in the Half Yearly Trustee Reports submitted to SEBI.

- Accordingly, the format for Half Yearly Trustee Reports is provided under Chapter 2 of the Master Circular on Mutual Funds has been revised as below:

  - Compliance with the requirement of standing arrangements with independent firms for special purpose audit and/or to seek legal advice.

  - Any other matter the trustees would like to report to SEBI.

- The said circular shall be applicable to All Mutual Funds, All Asset Management Companies, All Trustee Companies/Boards of Trustees of Mutual Funds, All Registrar to an Issue and Share Transfer Agents, Association of Mutual Funds in India.

- The said circular shall be applicable with immediate effect

To read the Circular in detail, please click here.

4. **SEBI issued Circular dated July 27, 2023 on Mandating Legal Entity Identifier (LEI) for all non – individual Foreign Portfolio Investors ("FPIs")**

- The Legal Entity Identifier (**"LEI"**) code is a unique global 20-character code to identify legally distinct entities that engage in financial transactions. The Reserve Bank of India (**"RBI"**) directions inter alia, mandates non-individual borrowers having aggregate exposure of above Rs. 25 crores, to obtain LEI code.

- Presently, the FPIs were required to provide their LEI details in the Common Application Form (**"CAF"**), used for registration, KYC and account opening of FPIs on a voluntary basis.

- Now it has been decided to mandate the requirement of providing LEI details for all non-individual FPIs. Depositories shall carry out the necessary modifications to the CAF in their portals.

- All existing FPIs including those applying for renewal that have not already provided their LEIs to their DDPs shall do so within 180 days from the date of issuance of this circular, failing which their account shall be blocked for further purchases.

- Subsequent to issuance of this circular all fresh registration shall be carried out upon receipt of the FPI's respect LEI details.

- FPIs are required to ensure that their LEI is active at all times. Accounts of FPIs whose LEI code has expired/lapsed shall be blocked for further purchases in the securities market till the LEI code is renewed by such FPIs.
- The circular shall be applicable to FPIs, DDPs, Custodians and the Depositories.
- The said Circular shall come into force with ***immediate effect***.

To read the Circular in detail, please click here.

5. **SEBI vide Notification dated July 24, 2023 amended the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.**

- Pursuant to the amendment, these Regulations will be called as the Securities and Exchange Board of India (Stock brokers) (Second Amendment) Regulations, 2023.
- Vide this Notification, amendment has been made in Regulation 10A of the said Regulations which details about the provisions relating to the Applicability for Registration for Clearing Members.
- Following are inter-alia the amendments
  - Insertion of the Second Proviso which states; that no separate registration shall be required for any person registered with the limited purpose clearing corporation as a participant for participating in the tri-party repo segment for undertaking proprietary trades in corporate bonds.
  - Insertion of Explanation regarding “Participant”; Participant shall mean an eligible entity under Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018.

To read the Notification in detail, please click here.

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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 associate entity of Nishith Desai Associates — Legal & Tax Counseling Worldwide (legal and tax consulting firm).

We are a team of professionals with rich corporate, legal and secretarial backgrounds. We are a premier corporate compliance firm that caters to the needs and demands of our global clients. Swift aims to provide quick and pragmatic corporate solutions alongside high-quality compliances.

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