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It gives us immense pleasure to share with you the eighth issue of the *Financial Institutions Group (**FIG**) Bulletin*, a quarterly newsletter produced by our FIG practice.

This edition takes the readers through an array of regulatory developments in the fintech space, such as amendments to the master directions released by the Reserve Bank of India (**RBI**) on Prepaid Payment Instruments (PPIs) to allow full-KYC PPIs gain access to the Unified Payment Interface (UPI) network through third-party UPI applications along with recent regulatory developments on cybersecurity and cyber resilience framework for Regulated Entities by Securities and Exchange Board of India (**SEBI**).

This edition discusses recent regulatory updates from the RBI, the SEBI, the International Financial Services Centres Authority (**IFSCA**), and the Insurance Regulatory and Development Authority of India (**IRDAI**) and their impact on business and the Indian market.

We hope you enjoy reading this newsletter. Please feel free to send your comments, feedback and suggestions to cam.publications@cyrilshroff.com.

Regards,

Cyril Shroff

Managing Partner
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India's **leading** law firm

RBI Regulatory Updates

1. Framework for reclassification of Foreign Portfolio Investment to Foreign Direct Investment[1]

Background

The Reserve Bank of India (**RBI**), on November 11, 2024, in consultation with the Government of India and Securities and Exchange Board of India (**SEBI**), issued the operational framework for reclassification of Foreign Portfolio Investment made by Foreign Portfolio Investors (**FPIs**) as Foreign Direct Investment (**FDI**) under the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (**NDI Rules**).

According to Schedule II of the NDI Rules, investments made under the FPI route are mandated to be less than 10 per cent of the total paid-up equity capital of an Indian company, on a fully diluted basis. An investment in breach of the prescribed limit has the option of either divesting the holdings or reclassifying the holdings as FDI. This operational framework is for such reclassification of foreign portfolio investment to FDI.

Key Highlights

i. Consent will be required from Indian investee company to confirm compliance with the NDI Rules and prior approvals from the Central Government.

ii. Reclassification is not permitted in any sector prohibited for FDI.

iii FPIs and their investor groups will be treated as one entity for reclassification purposes.

iv. FPIs will have to declare their intent to reclassify investments as FDI to their Custodian, and the Custodian will freeze further purchases by the FPI until the reclassification is complete. In the event of absence of approvals, excess investments must mandatorily be divested within the prescribed time.

v. The reporting of the reclassification has to be within the timelines as specified under the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019, with the Indian company reporting new equity issuances in Form FC-GPR and FPI reporting secondary market acquisitions in Form FC-TRS.

Conclusion

The operational framework aims to streamline the process of reclassification from portfolio investment to FDI and increase transparency for foreign investors investing in the Indian markets via the FPI route. It lays down a clear mechanism and process for such reclassification.

2. Directions for Central Counterparties (CCPs)[2]

Background

The RBI on October 28, 2024, notified the updated directions relating to capital requirements and governance framework for CCPs as also providing a framework for recognition of foreign CCPs. These directions repeal the Direction for Central Counterparties dated June 12, 2019.

Applicability

The directions are applicable to a domestic CCP authorised to operate in India under the Payment and Settlement Systems Act, 2007 (**PSS Act**), and the RBI-recognised foreign CCPs under the PSS Act for their operations, including clearing and settlement in India.

Key Aspects

Following are the key governance principles included in the updated directions:

i. Minimum net worth requirement of INR 300 crore at the time of submitting the application.

1 Operational framework for reclassification of Foreign Portfolio Investment to Foreign Direct Investment (FDI) dated November 11, 2024.
2 Directions for Central Counterparties (CCPs) dated October 28, 2024.

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ii. Submission of an audited net worth certificate as at close of the financial year from the statutory auditor within six (6) months of the closure of the financial year.

iii. Requirement of a diverse Board composition, including nominee and independent directors.

iv. Specified roles for the Board, including overseeing risk management and ensuring compliance with regulatory standards.

v. "Fit-and-proper criteria" assessment for appointment of directors by the RBI.

vi. Term limits for the Chairperson and Managing Director provided to ensure effective governance and accountability within CCP operations.

vii. Constitution of a regulatory compliance committee chaired by an independent director.

Conclusion

The revised directions add certain key new requirements in relation to net worth and measures to ensure better corporate governance practices.

3. FEMA Compounding Directions[3]

Background

The RBI on October 1, 2024, issued these directions as part of the updated Foreign Exchange (Compounding Proceedings) Rules, 2024, to enhance the efficiency of the compounding process by providing clear procedures, increasing monetary thresholds, and allowing for faster resolutions of minor and procedural breaches of FEMA.

These directions follow the notification of the Foreign Exchange (Compounding Proceedings) Rules, 2024, by the Government of India on September 12, 2024, which supersede the Foreign Exchange (Compounding Proceedings) Rules, 2000. These rules aim to bring greater clarity, efficiency, and uniformity to the compounding proceedings, aligning them with contemporary business practices and regulatory expectations.

Key Highlights

i. *Enhanced monetary limits:* The revision in the monetary limits determining the level of the RBI officer empowered to handle the compounding aims to increase efficiency by lower-ranking officers handling a greater number of cases.

Increase in monetary limit based on sum involved in contravention		
Rank of RBI Officer	Sum involved in contravention [in INR]	
	Erstwhile Compounding Rules	Compounding Rules
Assistant General Manager	<= 10 L	<= 10 L
Deputy General Manager	>10 L and <40 L	>10 L and <40 L
General Manager	>= 40 L and 1 Cr	>= 40 L and 1 Cr
Chief General Manager	> 1 Cr	> 1 Cr

ii. *Compounding procedure:* Compounding requests may be submitted either physically or through the PRAVAAH Portal. The application fee, set at INR 10,000, may be paid via NEFT, RTGS, or demand draft. The online payment option has also been enabled for paying the compounding penalty (within 15 days of receiving the compounding order). Under the Erstwhile Compounding Rules, payment of application filing fee and compounding penalty could only be paid by demand draft.

iii. *Non-compoundable offences:* The directions list out cases that cannot be compounded *inter alia* including money laundering and terror financing, cases falling under Rule 9 of Foreign Exchange

[3] RBI Directions - Compounding of Contraventions under FEMA, 1999 dated October 01, 2024.

(Compounding Proceedings) Rules, 2024, Section 3(a) Violations relating to unauthorised dealings in foreign exchange or foreign securities – cases where an order imposing a penalty has already been passed by an adjudicating authority – are excluded from compounding. Such cases are referred to the Directorate of Enforcement (**DoE**) for further investigation.

Conclusion

While these directions aim to simplify and expedite the overall compounding process, the regulator may still need to streamline these further to fully realise the intended objectives of these amendments.

4. RBI enables PPIs to access the UPI

The RBI has made amendments to the Master Directions on Prepaid Payment Instruments (**PPI MD**) to allow full-KYC PPIs gain access to the Unified Payment Interface (**UPI**) network through third-party UPI applications. Previously, the law allowed PPI holders to access the UPI network through their PPI issuer entity. The amended provision now enables full-KYC PPIs to be discovered on third-party UPI applications and subsequently carry out transactions authenticated using their UPI credentials. This move, previously announced in RBI's Statement on Development and Regulatory Policies dated April 05, 2024, brings full-KYC PPI accounts on par with other bank accounts and furthers the goal of financial inclusion.

5. Amendment to the Master Direction – Know Your Customer, 2016

Background

The RBI enacted the Master Direction – Know Your Customer (**KYC MD**) in 2016 to ensure that all entities it regulates (Regulated Entities or **REs**) follow certain practices related to customer identification while establishing account-based relationship or undertaking transactions with them to uphold the requirements of the Prevention of Money-Laundering Act, 2002 (**PML Act**) and the rules made thereunder (PML (Maintenance of Records) Rules, 2005, or **PML Rules**).

Key Highlights

Following is the summary of changes:

i. The Customer Due Diligence (**CDD**) procedure should be done at the Unique Customer Identification Code (**UCIC**) level to ensure existing customers do not need to undergo a fresh verification process to avail multiple accounts or products/services from the same regulated entity (RE)..

ii. Paragraph 56(h) and (j) of the KYC MD have been amended to ensure (a) REs ensure prompt updation of customers' KYC information on the central registry (**CKYCR**); (b) CKYCR circulates the updated KYC information to all REs; (c) REs retrieve such updated records and update the records maintained by them; and (d) REs use the KYC identifier to retrieve customer records from CKYCR instead of requiring resubmission of information unless the circumstances necessitate it.

iii. Annex II of the KYC MD has been amended to change the designation of the Central Nodal Officer from "additional secretary" to "joint secretary" for the Unlawful Activities (Prevention) Act, 1967 (**UAPA**).

Conclusion

The recent amendments to the KYC MD have ensured (a) alignment with the recent amendments made to the PML Rules; (b) incorporation of the instructions issued *vide* corrigendum dated April 22, 2024, to Government of India's Order on Procedure for implementation of Section 51A of the UAPA; and (c) review of certain other directions.

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ahead of the curve

Analysing RBI's Enforcement Trends (2022-2024)[4]

Introduction

This FIG Paper highlights recent trends in enforcement actions of the Reserve Bank of India (**RBI**) against different financial institutions, which has seen a significant 88% rise since 2021.

Understanding the RBI's enforcement actions on market participants is crucial to outlining regulatory priorities and strategies for financial institutions. The benefit of such an exercise is two-fold: first, to equip financial institutions to understand the regulator's approach, which in turn would help align businesses with the regulator's expectations; and second, it enables financial entities to anticipate and adapt to regulatory changes more efficiently.

Parameters

Our analysis below covers the RBI's enforcement action from April 2022 to June 2024 (**Review Period**), basis penalties imposed on banks, non-banking financial companies (**NBFCs**), payment system operators (**PSO**), and credit information companies (**CICs**), excluding any quantum of penalty having monetary value below INR 1 lakh (~USD 1,200) (**Filtering Criteria**). The objective of this paper is to focus on macro trends in relation to the RBI's enforcement actions on key players in the regulated financial market, which is further benchmarked to global trends during the Review Period.

India Enforcement Highlights	Global Trends	Analysis
Know Your Customer (KYC)		
i. Total number of enforcement actions during the Review Period was 23. ii. Type of enforcement – monetary fines and remediation measures against banks and NBFCs. iii. Average penalty imposed – Rs 81.38 lakh (~$98,000). iv. KYC-related penalty – Rs 5.39 crore (~$647,000) fine on a payments bank in 2023 for not monitoring transaction/ fund flows. v. KYC related enforcement action by RBI has risen from 17% in 2022 to 27% in 2024, of the total enforcement action by the regulator	i. Significant increase in monetary penalties – US regulators fined a global investment bank $348 million for Anti Money Laundering (**AML**) gaps; UK's Financial Conduct Authority (**FCA**) successfully pursued criminal charges before the Southwark Crown Court against a Big 4 bank, which was fined GBP 264.8 million (~$335 million) for significant gaps in AML transaction monitoring. ii. Mandatory remediation programmes enforced by global regulators to address AML deficiencies.	i. Broad heads of non-compliances include failure to identify beneficial owners, failure to preserve customer identification records, failure to monitor pay-out transactions, etc. ii. RBI is making public disclosure of key issues mandatory and has become more vocal in calling out *mala fide* conduct, similar to trends in Hong Kong and the UK. iii. In line with the global trend of mandatory remediation, the RBI is also ordering operational audits of errant financial institutions. iv. Given that customer protection is paramount for the RBI, regulated entities need to be strict with their KYC compliances, else face harsher penalties.

[4] FIG Paper (No. 36 – Series 1): Analysing RBI's Enforcement Trends (2022-24) | India Corporate Law (cyrilamarchandblogs.com)

India Enforcement Highlights	Global Trends	Analysis
Lending & Digital Lending Norms		
i. Total number of enforcement actions during the Review Period was 23. ii. Type of enforcement – 19 monetary fines, 2 cease and desist orders, and 2 NBFC license cancellations. iii. Average penalty – Rs 1.85 crore (~$222,000) iv. Fine of Rs 12.19 crore (~$1.46 million) against a bank, for advancing loans to companies run by the bank's directors. v. Doubling of penalties between FY2022-23 and FY2023-24 – 64 lenders fined approximately Rs 74 crore (~$8.9 million) in FY2023-24 compared to Rs 33.1 crore (~$3.9 million) in FY2022-23. vi. Notable actions included halting specified products and winding down of certain operations with significant monetary fines. vii. Lending-related enforcement action by RBI has risen from 11.5% in 2022 to 32% in 2023, of the total enforcement actions by the regulator in those respective years. viii. RBI penalised seven banks for continued violations in 2023.	i. The US regulator fined a financial firm a record $250 million for lapses in risk management and customer protection in its mortgage business. ii. The French regulator fined an investment banker $10.72 million for mis-selling mortgage products. iii. While the US and the EU regulators used higher monetary fines as deterrents, their Asian counterparts (Hong Kong and Singapore) took a more aggressive stance on lending violations, ordering suspensions and cancellation of banking licences for repeat offenders.	i. Major non-compliances included lack of due diligence before sanctioning of project loans, inadequate margins for loan financing, loans to related parties, failure to prevent intimation and harassment by loan recovery agents, varied interest rates on loans and deposits, etc. ii. New focus on digital lending practices on account of the RBI's Digital Lending Guidelines in late 2022. iii. Banks and NBFCs need to be careful regarding lending and credit-related protocols – this has been a cause of concern for the RBI.

India Enforcement Highlights	Global Trends	Analysis
Outsourcing of Operations		
i. Total number of enforcement actions during the Review Period was 10. ii. Type of enforcement – cancellation of 6 NBFC licences in 2022, 2 monetary fines and 2 NBFC licence cancellations in 2023. iii. A bank and an NBFC were fined Rs. 5 crore (~$600,000) and Rs. 45 lakh (~$54,000), respectively, for improper acts of outsourced agents and lack of monitoring.	i. Global concern regarding outsourcing practices were the highest in 2022 – EU (through the European Banking Authority), the UK and Hong Kong updated and tightened their outsourcing oversight norms. ii. US regulator fined a multinational bank $15 million for inadequate outsourcing oversight in 2023. iii. The US, UK and Hong Kong regulators imposed operational restrictions on financial institutions until their outsourcing practices improved.	i. Fine against a bank was 10x higher than fine against an NBFC for outsourcing irregularities. ii. Entities started becoming more cautious with their outsourcing activities in 2023-24; this also coincided with the publication of the RBI's Draft Framework for Outsourcing of Financial Services 2023. iii. We noted in an earlier FIG Paper that outsourcing - related enforcement has coincided with the publication of the consolidated Draft Financial Services Outsourcing Guidelines, indicating growing clarity on compliance expectations, resulting in reduction of outsourcing violations from 2023 onwards.
Fraud and Compliance Reporting		
i. Total number of enforcement actions during the Review Period was 17. ii. Type of enforcement – monetary fines. iii. Average penalty – Rs 45.83 lakh (~$55,000). iv. Action against all four Indian CICs for maintaining inaccurate or incomplete data and delays in grievance redressal and credit score updating of customers. v. Highest fine of Rs 1.73 crore (~$207,500) imposed on a bank for repeat offences of furnishing incorrect information to credit bureaus.	i. US regulators imposed record breaking fines for inadequate fraud reporting – e.g., $500 million by US SEC in 2023; a global investment bank was ordered to reconstitute senior management and pay fine of $300 million in 2022. ii. Global bank fined not only in India, but in the UK too for inadequate fraud controls in 2023.	i. Globally, regulators closely linked KYC violations with fraud reporting and compliance obligations. ii. Incomplete fraud reporting and inadequate consumer protection saw bulk of enforcements in 2023. iii. In India, the RBI viewed reporting compliance as separate from KYC violations and both banks and NBFCs were fined for delays in fraud reporting.

<table>
<tr><th>India Enforcement Highlights</th><th>Global Trends</th><th>Analysis</th></tr>
<tr><td colspan="3">Prudential Norms & Capital Requirements</td></tr>
<tr><td>i. Type of enforcement – out of 7 enforcement actions, 5 resulted in monetary fines; and 2 in licence cancellations.
ii. Average penalty – Rs 46.64 lakh (~$56,000).
iii. Cancellation of banking and NBFC licences for inability to meet capital requirements and severe corporate governance issues.
iv. A bank paid the highest fine of Rs 2.20 crore (~$264,000) in connection with reporting of non-performing assets (NPA), balance sheet irregularities, etc.</td><td>i. In addition to fines, EU and US regulators mandated remedial actions; instructing banks to raise their capital adequacy ratios above minimum requirements and imposing temporary restrictions for remediation.
ii. Public disclosure of enforcement actions against banks by regulators in Hong Kong and Singapore, including cancellation of licences; an aggressive trend of Asian regulators towards abating prudential and capital adequacy risks.</td><td>i. Predominantly, small finance banks, cooperative banks and NBFCs are fined for failure to adhere to prudential norms.
ii. RBI's key focus is on improper classification of NPAs, risk categorisation inadequacies, and discrepancy in NPA reporting.</td></tr>
<tr><td colspan="3">Data Localisation</td></tr>
<tr><td>i. Type of enforcement – Total 3 enforcement actions, all prohibiting customer on-boarding.
ii. Enforcement action predominantly against PSOs.
iii. Restrictions on customer on-boarding imposed on certain card networks.</td><td>i. 75% jurisdictions enforced some form of data localisation/ residency requirements.
ii. Move towards 'sovereign clouds', i.e., cloud-based data centres where data is stored, processed, and managed, in compliance with certain local laws.</td><td>i. Due to irregularities in 2022, data localisation is a gating requirement to undertake licenced activity now.
ii. Data localisation-related penalties saw a decline over the Review Period; likely because data localisation has become a pre-requisite for regulatory licensing. For e.g., the PA Guidelines require applicants to report system audits (SAR), prior to getting final RBI authorisation.</td></tr>
</table>

Conclusion & Way Forward

The trends and patterns of enforcement actions by the RBI are reflective of its regulatory philosophy in recent times. Average penalties for high stakes violations in relation to lending, KYC, and operational risks tend to be high, signalling the RBI's areas of focus and concern, as well as where the cost of non-compliance is high.

The RBI, like other Asian regulators, has not only been imposing higher fines, but also publicly imposing operational restrictions and remediation instructions. To pass muster with the regulator, regular internal audits of operations by market participants should include comprehensive stress testing of infrastructure, stricter review of outsourcing agreements and agent activity, as well as double-checking fraud reporting compliances and protocols.

Prioritising the understanding of these enforcement trends is beneficial to market participants to glean regulatory expectation and allow institutions to do the all-important cost benefit analysis of compliance, which can only hold them in good stead.

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SEBI Regulatory Updates

1. Clarifications to Cybersecurity and Cyber Resilience Framework (CSCRF) for SEBI Regulated Entities

The Securities and Exchange Board of India (**SEBI**) has issued a circular dated December 31, 2024, on clarifications on the Cybersecurity and Cyber Resilience Framework (**CSCRF**) for SEBI REs, dated August 20, 2024. This framework, a necessary evolution in the changing threat landscape and rapid technological advancements, is designed to ensure that SEBI REs maintain robust cybersecurity posture; remain equipped with adequate cyber resiliency measures; and can withstand, respond to, and recover from cyber threats effectively. Following are certain clarification laid out in the Circular:

i. *Regulatory forbearance:* The compliance requirements, effective from January 01, 2025, under the CSCRF, are now extended until March 31, 2025. For any noncompliance the regulator notices during this period, no regulatory action shall be taken if the REs are able to demonstrate when given an opportunity before SEBI considers any regulatory action the meaningful steps taken/progress made in implementing CSCRF.

ii. *Extension of compliance dates for REs:* The CSCRF compliance timeline for following the REs has been extended based on the feedback on the rationalisation of categorisation of certain Res:

   a) KYC registration agencies (**KRAs**): From January 01, 2025 to April 01, 2025.

   b) Depository Participants (**Dps**): From January 1, 2025 to April 01, 2025.

iii. *Data Security Standard on Data Localisation:* Guidelines and provisions on Data Localisation [Data Security Standard (PR.DS.S2)] have been kept in abeyance until further notification.

2. Circular for implementation of Expert Committee recommendations for facilitating ease of doing business for listed entities

The SEBI circular, issued on December 31, 2024, aims to simplify and streamline compliance processes for listed entities in India. It reflects the implementation of recommendations made by an expert committee formed to review SEBI's LODR (Listing Obligations and Disclosure Requirements) norms.

Key Changes

i. *Integrated filing*: The circular introduces integrated filing for governance and financial disclosures, applicable from the quarter ending December 31, 2024. As a result, listed entities will no longer have to file multiple periodic reports separately, thereby reducing compliance burden.

   The timeline for quarterly integrated filing is as follows:

   a) Integrated Filing (Governance): Within 30 days from the end of the quarter.

   b) Integrated Filing (Financial): Within 45 days from the end of the quarter, other than the last quarter, and 60 days from the end of the last quarter and the financial year.

ii. *Disclosure of Employee Benefit Scheme-related documents:*

   a) The scheme document shall be uploaded to the listed entity's website after obtaining shareholder approval as required under SEBI (SBEB) Regulations, 2021.

   b) The documents uploaded to the website shall mandatorily have minimum information to be disclosed to shareholders as per SEBI (SBEB) Regulations, 2021.

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c) The rationale for redacting information from the documents and the justification for how such redacted information would affect competitive position or reveal commercial secrets of the listed entity shall be placed before the board of directors for consideration and approval.

iii. *Single filing system:* The single filing facility by listed entities has been implemented. This starts with the filing of statements on the redressal of investor grievances under Regulation 13(3) of the LODR Regulations and has been subsequently extended to the corporate governance report under Regulation 27(2), the reconciliation of share capital audit report, and the disclosure of voting results under Regulation 44(3).

3. Prior approval for change in control: Transfer of shareholdings among immediate relatives and transmission of shareholdings and their effect on change in control

SEBI, *vide* circular dated December 27, 2024, addresses the transfer of shareholding and the change of control of intermediary firms, particularly when the transfer occurs among immediate relatives in respect of investment advisers (**Ias**), research analysts (**RAs**), and KYC registration agencies (**KRAs**). It provides guidance on the implications of such transfers and the need for prior approval in certain cases.

i. The transfer of shareholding among immediate relatives, as interpreted under Regulation 2(1)(l) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, *inter alia*, includes any spouse, parent, sibling, child of a person or of the spouse shall not result into change in control.

ii. If an intermediary is a proprietary concern, the transfer or bequeathing of the business/capital by way of transmission to another person constitutes a change in the legal formation or ownership; therefore, by definition, such transmission or transfer shall be considered as "change in control". The legal heir/transferee in such cases is required to first obtain prior approval and subsequently a fresh registration in the name of the legal heir/transferee.

iii. Change in partners and their ownership interest of the partnership will be as follows:

a) If a SEBI-registered entity is a partnership firm with more than two partners, then the *inter se* transfer among the partners shall not be construed as a change in control. However, if the partnership firm only has two partners, it would be dissolved upon the death of one partner. If a new partner were inducted into the firm, it would be considered as a change in control, which would then require fresh registration and prior SEBI approval.

b) If the partnership deed includes a clause stating that upon the death of a partner, the legal heir(s) of deceased partner be admitted, then the legal heir(s) may become the partner(s) of the partnership firm. Since in this scenario, the partnership firm bequeaths the partnership right to legal heir(s) by transmission, it shall not be considered as a change in control.

4. SEBI circular on Business Continuity for Interoperable Segments of Stock Exchanges

SEBI, *vide* circular "Business Continuity for Interoperable Segments of Stock Exchanges" datedNovember 28, 2024, announced a business continuity plan for interoperable segments of stock exchanges, ensuring uninterrupted trading activities across stock exchanges in India despite technical glitches or outages at one or more exchanges.

Key Provisions

i. *Interoperability:* The circular mandates interoperability between stock exchanges for various segments, including cash markets, equity derivatives, and currency derivatives, allowing traders to seamlessly switch to another exchange

and continue with their trading activities if their exchange experiences an outage.

ii. *Designated exchanges:* The circular designates the National Stock Exchange (**NSE**) and the Bombay Stock Exchange (**BSE**) as alternative trading venues for each other.

iii. *Standard operating procedures* (**SOPs**): The circular requires stock exchanges to develop and implement SOPs for managing outages during trading hours. These SOPs should outline procedures for the following:

a) Switching trading to the designated alternative exchange

b) Managing open positions and orders

c) Ensuring fair and orderly trading

iv. *Reserve contracts:* For exclusive scrips during outages, the circular requires exchanges to create reserve contracts, which will be available for trading on the alternative exchange.

v. *New index derivatives:* The circular mandates the introduction of new index derivatives if no correlated products exist to help provide traders with additional hedging options during outages.

Benefits

i. *Reduced market disruptions:* Interoperability will help minimise market disruptions caused by technical glitches or outages.

ii. *Improved investor confidence:* Interoperability will improve investor confidence because of the assurance that trading activities can continue despite an outage at one exchange.

iii. *Enhanced market efficiency:* Interoperability will help improve market efficiency by providing traders with access to multiple trading venues.

5. SEBI circular on specific due diligence of investors and investments of AIFs

SEBI issued a circular on October 8, 2024, to strengthen due diligence protocols for Alternative Investment Funds (**AIFs**). This move aims to enhance regulatory compliance and prevent the misuse of investment routes in India's financial markets.

Key Provisions

i. *Enhanced due diligence:* The circular mandates stricter due diligence procedures for AIF managers and key personnel regarding investors and investments.

ii. *Focus on investments from bordering countries:* Investments from countries sharing land borders with India will face heightened scrutiny, especially for schemes where such investments constitute 50 per cent or more of the corpus.

iii. *Non-compliant investors:* The circular requires AIFs to exclude non-compliant investors and maintain detailed records of their due diligence processes.

iv. *Adherence to implementation standards:* The circular emphasises the need for AIFs to adhere to implementation standards set by industry bodies.

Existing Investments

i. *Reporting requirements:* The circular requires AIFs to report the status of existing investments not compliant with the new due diligence requirements by April 7, 2025.

ii. *Confirmation of compliance:* For existing investments that pass the due diligence checks, AIFs must confirm compliance by the same deadline.

Conclusion

The SEBI circular reflects the regulator's commitment to safeguarding the integrity of India's securities market while promoting investor confidence. By implementing these stricter due diligence measures, SEBI aims to prevent potential risks and ensure the responsible operation of AIFs in the Indian market.

6. SEBI norms for monitoring shareholding of Market Infrastructure Institutions (MIIs)

SEBI issued a circular on October 14, 2024, to streamline the monitoring of shareholding norms for Market Infrastructure Institutions (MIIs). This circular aims to enhance the oversight of shareholding patterns within MIIs, which include stock exchanges, clearing corporations, and depositories.

Key Provisions

i. *Expanded scope:* The new framework extends the application of shareholding norms to all MIIs, including both listed and unlisted entities.

ii. *Disclosure requirements:* MIIs are now required to disclose their shareholding pattern on a quarterly basis. The format for this disclosure aligns with the requirements for listed companies under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations).

iii. *Designated depository:* Each MII must appoint a non-associated Designated Depository (**DD**) to monitor compliance with shareholding limits.

iv. *Fit-and-proper criteria:* Shareholders with 2 per cent or more equity in an MII must meet the fit-and-proper criteria established by SEBI.

v. *Consequential actions:* In case of breaches in shareholding limits, the DD will take appropriate actions, such as freezing excess shares, disabling voting rights, and transferring dividends from excess holdings to Investor Protection.

vi. Funds (IPF) or Settlement Guarantee Funds (SGF).

7. SEBI's proposed new amendments on usage of AI tools by regulated entities

Introduction

SEBI, on November 13, 2024, issued a consultation paper, "Proposed amendments with respect to assigning responsibility for the use of Artificial Intelligence Tools by Market Infrastructure Institutions, Registered Intermediaries and other persons regulated by SEBI" (**Draft Amendments**), in response to the rapid development and deployment of Artificial Intelligence (**AI**) and Machine Learning (**ML**) tools by market participants over the past year. It is seeking public suggestions on a series of amendments to the extant regulations.

Regulatory Outlook

To develop an inventory of the AI/ML landscape to understand the adoption of such technologies in the securities market, SEBI had previously established the reporting requirements for AI and ML applications and systems offered and used by the following entities:

- Stock brokers and depository participants – through issuance of a **Circular** dated January 4, 2019.
- MIIs (stock exchanges, depositories and clearing corporation) – through issuance of a **Circular** dated January 31, 2019.
- Mutual funds, asset management companies, trustee companies, board of trustees of mutual funds – through issuance of a **Circular** dated May 9, 2019.

Any set of applications/ soft ware/ executable systems (computer systems) offered to investors(individuals and institutions) by Regulated Entities (**REs**) to facilitate investing and trading, to disseminate investment strategies and advice or to carry out compliance operations, where AI/ML is portrayed as a part of the public product offering or under usage for compliance or management purposes, were included within the ambit and scope of the above mentioned SEBI circulars.

REs were thus required to intimate SEBI of any such use or deployment of AI/ ML technologies on a quarterly basis.

SEBI's Concerns

The use of AI and ML technologies, especially AI Neural Networks (**NN**) and Large Language Models (**LLM**), provide inherent benefits to REs, such as increased efficiency in operational and compliance functions, accuracy in decision making, risk management, and scaling, leading to its increased use in Quantitative, Algorithmic and High Frequency Trading.

The efficient analysis and dynamic learning of AI and ML functions have allowed REs to increasingly delegate operations to AI systems, including decision making functions that aff ectinvestor outcomes. However, the rapid adoption of emerging AI and ML technologies is ofconcern to SEBI and other regulators for several reasons, including:

- **Data sets quality control risk**: AI applications derive their outputs from two primary factors: user inputs and the data sets that they have been exposed to. Changing a single factor in a data set would result in the AI learning and processing data in an entirely different manner that may not result in the desired use case outcome. This risk is heightened due to the vast amount of data that AI systems used by REs process, coupled with their innate ability to learn from data and apply it in different scenarios.
- **Transparency:** Concerns around the transparency of AI algorithms, accountability for AI-assisted decisions, explainability of AI-made decisions and ethical considerations have remained an area of concern since the inception of sophisticated AI technologies. Deep learning algorithms and other complex AI models oft en operate as "Black Boxes", providing accurate predictions without clear explanations for their reasoning. This lack of transparency raises questions about the accountability of AI-generated outcomes in the legal domain.
- **Privacy and confidentiality risk**: Privacy and confidentiality risks with AI technology continue to evolve with its potential. REs must ensure that AI models are trained using data sets that either do not require consent to obtain and use (such as publicly available data),or for which consent has been adequately obtained, especially in light of the enactment ofthe Digital Personal Data Protection Act, 2023 (**DPDP Act**).

Proposed Amendments

In light of the above, SEBI has proposed amendments to the **Securities and Exchange Board of India (Intermediaries) Regulations, 2008**, the **Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018** and the

Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018. The proposed amendments broadly aim to ensure the following:

- **Compliance**: REs shall be responsible for ensuring that their AI and ML tools are compliant with all applicable laws in force, irrespective of the method, extent or degree of adoption of such technologies or tools.
- **Data Privacy**: REs shall be solely responsible for ensuring the privacy, security and integrity of investor and stakeholder data. This will especially include the data maintained by REs in a fiduciary capacity.
- **Operational Liability**: REs shall be held responsible (and are liable to investors) for all consequences arising from outputs from the usage of AI or ML technologies that are relied upon for any purpose.

Implications and Way Forward

The Draft Amendments emphasize compliance with existing laws, liability for the use of AI andML technology and its consequences, and responsibility for the privacy, security and integrity ofinvestor and stakeholder data.

The homogenous regulatory approach taken by SEBI displays a uniform regulatory attitudetowards the use of AI and ML technologies, prioritising investor and stakeholder welfare andtransparency in the development and use of such emerging technologies.

Furthermore, REs are likely to be held responsible for their reliance on and use of AI/MLtechnologies, and it is thus advised that REs exercise caution in the development orprocurement of such technologies from third parties, and exercise human oversight of AI/MLoutputs in respect of decision making functions.

IRDAI Regulatory Updates

1. Draft amendments to IRDA (Meetings) (Amendment) Regulations, 2024

The Insurance Regulatory and Development Authority of India (**IRDAI**) has proposed amendments to the IRDA (Meetings) Regulations, 2000, aiming to enhance the clarity and efficiency of the meetings of the regulatory authority. The proposed amendments include substituting the word "Designated Officer" with "Secretary to the Authority"; reducing from 6 (six) to 4 (four) the number of times IRDA has to meet in a year; adding the term "mode" to sub-regulation 4 of Regulation 3 to account for different modes of meeting; amending sub-regulation (5) of Regulation 3 to allow the Secretary to circulate the meeting notice and agenda to the authority and for it to be circulated in less than 7 (seven) days upon the approval of the Chairperson; reducing from 48 (forty-eight) to 24 (twenty four) hours the convening time for an emergent meeting and an immediate meeting in case of emergency, and amending sub-regulation (1) of Regulation 6 to include minutes of the proceedings to be recorded at the earliest.

2. Draft amendments to IRDA (Insurance Advisory Committee) (Amendment) Regulations, 2024

IRDAI has proposed amendments to the IRDA (Insurance Advisory Committee) Regulations, 2000, aiming to enhance the clarity and efficiency in advisory functions of the Insurance Advisory Committee (**IAC**). The proposed amendments include substitution of the word "Designated Officer" with "Secretary to the Authority"; addition of the term "mode" to sub-regulation (3) of Regulation 3 to account for different modes of meeting; amendment of sub-regulation (5) of Regulation 3 for allowing the Secretary to circulate the meeting notice and agenda to the authority, reduction of time from forty-eight (48) to twenty four (24) hours for convening an emergent meeting; addition of Regulation 5A to provide for the resignation and removal of any IAC member.

3. Draft Amendments to IRDA (Re-Insurance Advisory Committee) Regulations, 2019

IRDAI has proposed amendments to IRDA (Re-Insurance Advisory Committee) Regulations, 2019, to enhance the efficiency of the conduct of Re-insurance advisory Committee (**RAC**). The proposed amendments includes addition of IRDAI's power to remove RAC members in specific situations and substitution of sub regulation (1) in Regulation 6 to include "such modes" of meeting as may be decided by the chairman.

4. Draft IRDAI (Regulatory Sandbox) (Amendment) Regulations, 2024

Background

The IRDAI has proposed amendments to the Regulatory Sandbox Regulations to adopt a principle-based approach instead of a rule-based approach. The Exposure Draft for the IRDAI (Regulatory Sandbox) (Amendment) Regulations, 2024, has been released and seeks to create a suitable testing environment for innovative ideas across the insurance value chain.

Key Highlights

i. *Application categories:* An applicant seeking to promote/implement an innovative insurance product that requires relaxation of any provision within the IRDAI's regulatory framework may apply to the Authority for permission. However, areas involving capital, liquidity, investment, solvency, and reserving are not subject to improvement by application and remain solely under the purview of the Authority.

ii. *Application grant conditions:* The Authority may grant permission to the Applicant to execute the proposal only if it is convinced that the application promotes innovation that is beneficial to the insurance sector in India, promotes ease of doing business, increases business efficiency, and is conducive for the orderly growth of the industry. The

permission shall be valid for a certain experiment period specified by the Authority.[5]

iii. *Proposal regulation:* The Authority has specified its process to review and monitor the progress of the applicant's proposal in Clauses 8–10 of the Draft Regulations. Once the Authority grants permission, the applicant must ensure adequate internal mechanisms for reviewing and monitoring procedures and safeguards, ensuring policyholder data confidentiality always. Any deviation in the execution of the proposal must be notified to the Authority. A single point of contact must communicate with the Competent Authority (Chairperson or Whole-Time Member), who will review the proposal's progress at regular intervals and guide the applicant as necessary.

iv. *Proposal conclusion:* Upon completion of the allocated experiment period, the Applicant must submit a report to the Competent Authority detailing the result of the insurance product and informing whether it has met its objectives, based mainly on policyholder feedback. The Applicant must also submit a plan of action for integrating the proposal into the existing regulatory framework. If the Competent Authority is convinced about the proposal meeting its objectives, the Applicant may adopt the proposal. The provisions of the Insurance Act, 1938, and the IRDA Act, 1999, in addition to all Regulations, Guidelines, Circulars, etc., notified by the IRDA, shall apply to the proposal from the date of integration into the existing regulatory framework. Upon the completion of all processes under the proposal, all personal data of the participants will be erased.

v. *IRDAI supervision:* The IRDA reserves the right to make the final call on multiple aspects of submitted proposals, including extension of specified experiment period, suspension or cancellation of permission granted, and any other appropriate actions.

Conclusion

The Draft IRDAI (Regulatory Sandbox) (Amendment) Regulations, 2024, provide a conducive environment for innovations in insurance products across the insurance value chain while preserving the IRDA's powers to make policy-based decisions in the best interests of the insurance market and insurance policyholders.

5. Draft IRDAI (Maintenance of Information by the Regulated Entities and Sharing of Information by the Authority), Regulations, 2024

Background

The IRDAI has released an exposure draft on the proposed IRDAI (Maintenance of Information by the Regulated Entities and Sharing of Information by the Authority) Regulations, 2024 (**Draft Regulations**) combining previously issued regulations on (i) IRDAI (Minimum Information Required for Investigation and Inspection) Regulations, 2020, (ii) Insurance Regulatory and Development Authority (Sharing of Confidential Information Concerning Domestic or Foreign Entity) Regulations, 2012, and (iii) IRDAI (Maintenance of Insurance Records) Regulations, 2015. The Draft Regulations seek to rationalise the framework relating to data maintenance in electronic form, ensure security and compliance, and enforce an established data governance framework.

Key Highlights

i. *Categorisation of information sought:* An entity may request information (**Requesting Entity**) about a domestic or foreign entity whose information can be disclosed under the Draft Regulations (**Requested Entity**) from IRDA, which can either be (i) available in the public domain or (ii) not be in the public domain but be available with IRDAI.

ii. *Mechanism of sharing of confidential information:* Any Requesting Entity may request the IRDA for any

[5] Paragraph 6, Exposure Draft on IRDAI (Maintenance of Information by the Regulated Entities and Sharing of Information by the Authority) Regulations, 2024

of the purposes set out in Paragraph 6 of the Draft Regulations.[5] IRDA may disclose such information depending on whether the same is in public domain or only available with IRDA after considering the request on merit. IRDA also reserves the right to reject to protect the insurance sector, the stability of the RE, or the public or policyholder's interest.

iii. *Information not available in public domain:* The Draft Regulations provides for checks and balances to be applied in case disclosure of information not in the public domain. An assessment of request shall be guided, *inter alia*, by the principles of confidentiality maintenance, applicable law on sharing such information, and the written consent of the Requested Entity.

iv. *Maintenance of insurance records:* Every insurer must maintain a record of every policy issued and every claim made in complete, accurate, and electronic form. The maintenance systems storing such data must possess necessary security features and governance framework and be housed in data centres located and maintained in India. Insurers must also have a board-approved policy in place for regular maintenance and security review of data records.

v. *Minimum information for investigation and inspection:* Every insurer must maintain all records, information, data, documents, books, or registers at their principal place of business in India as specified by applicable laws and regulations, and include the minimum information specified in Schedule I of the Draft Regulations. However, if not feasible to maintain at the principal place of business, the information may be stored in branches or other offices, in that only the relevant part of the information applicable to its working is stored in such branch or office. Similar information maintenance has been provided for intermediary and insurance intermediaries in Schedule II of the Draft Regulations. Access to such information needs to be ensured for IRDA-authorised persons for investigation and inspections.

vi. *Board approved policy:* The Draft Regulations require insurers, intermediaries, and insurance intermediaries to establish board-approved policies for maintenance of records and destruction of old records in physical and electronic form considering nature, importance, business needs, and applicable legal requirements and reconcile such information with the audited financials and applicable law.

Conclusion

The IRDAI's intent with the Draft Regulations is to enhance minimum data governance, ensure confidentiality, and facilitate the lawful sharing of information in an effort to streamline regulatory compliance and safeguarding sensitive data. These Draft Regulations lay down the minimum information insurers, intermediaries, and insurance intermediaries must maintain and ensure regulatory access to this information. This move eliminates the prevalent ambiguity about the relevant information each entity must maintain.

6. Draft IRDAI (Insurance Fraud Monitoring Framework) Guidelines, 2024

Background

IRDAI has released an exposure draft on proposed IRDAI (Insurance Fraud Monitoring Framework) Guidelines, 2024 (**Draft Guidelines**), aiming to provide a regulatory framework on measures insurers and distribution channels must take to address and manage risk emanating from fraud. The Draft Guidelines are proposed to be applicable to all insurers and distribution channels.

Key Highlights

i. *Classification of frauds:* The Draft Guidelines classify frauds perpetrated, either individually or in collusion into (a) internal fraud by internal employees, board members, senior management etc.; (b) distribution channel fraud; (c) policyholder fraud and/or claim fraud; (d) external fraud by external parties, service providers/vendors, etc.

ii. *Risk governance framework:* Regulation 5.3 of the Draft Guidelines prescribes the minimum elements to be covered in a board-approved policy for implementation of fraud risk management and governance framework that each insurer must adopt. Further, the Draft Guidelines also require the insurers to establish a Fraud Monitoring Committee (**FMC**) to oversee fraud deterrence, prevention, detection, monitoring, investigation, and reporting activities and a Fraud Monitoring Unit (**FMU**) separate from the internal audit, to support the FMC in discharging its functions.

iii. *Risk identification and assessment:* Every insurer must submit an annual comprehensive risk assessment to the board and assess and review its red flag indicators for effective detection of fraud.

iv. *Risk control and mitigation:* Apart from the mitigation measures identified at organisational level, the Draft Guidelines provide for measures that insurers must implement to mitigate internal fraud, distribution channel fraud, policyholders or claims fraud, and external fraud.

v. *Risk monitoring and review:* Insurers must maintain an Incident Database recording information on parties convicted of fraud or those who have attempted to commit a fraud. The Draft Guidelines also prescribe performance monitoring, audits, and customer grievance monitoring for prevention and detection of frauds.

vi. *Cyber or new-age frauds:* Insurers must maintain robust cybersecurity framework and control systems to defend against evolving cyber frauds or threats. The processes should provide for fraud risk identification, detection, prevention, mitigation, and monitoring, such as Incident Database, verification of customer information, enhance verification mechanisms for areas with high incidence of frauds, and access rights to employees and vendors.

vii. *Insurance Information Bureau (**IIB**):* All insurers must contribute to and use the Fraud Monitoring Technological Framework proposed to be set up at IIB. The IIB should also maintain a repository of blacklisted agents, distribution channels, TPAs etc., to safeguard the integrity of the insurance market.

viii. *Framework for reinsurance:* The Draft Guidelines mandates that insurers effectively monitor reinsurance transactions and maintain robust controls, verification processes, and periodic audits to mitigate risk of reinsurance frauds.

ix. *Distribution channels:* Distribution channels, integral to the insurance business, must have appropriate fraud risk monitoring framework, commensurate with their business size and risk profile.

x. *Intermediary and insurance intermediaries (except for individuals):* Intermediaries and insurance intermediaries must establish internal policies, procedures, and controls for prevention, detection, report, and remedy of frauds. The Draft Guidelines provide for minimum aspects they must cover in the internal policies.[6]

xi. *Training, education and awareness:* Insurers must conduct regular fraud awareness programmes for policyholders and general public and provide fraud risk management training to employees, board, intermediaries and agents.

xii. *Reporting:* Besides informing the law enforcement agencies, insurers must file an annual return to the IRDAI all incidents of fraud within 30 days of the close of the financial year. They must also inform the IRDAI promptly of any fraud committed by IRDAI-registered distribution channels.

Conclusion

The Draft Guidelines provide for a comprehensive framework to identify, assess, and mitigate fraud in the insurance industry by laying down standards for fraud detection and prevention, internal controls and promoting transparency in reporting and investigations. These are a step towards building fraud resilience of the insurance industry.

[6] Paragraph 10.1.2, Exposure draft o IRDAI (Insurance Fraud Monitoring Framework) Guidelines, 2024.

IFSCA Regulatory Updates

1. Review of IFSCA (Fund Management) Regulations, 2022

Banking and Investment Funds have played a pivotal role in the growth and development of India's maiden International Financial Services Centres (**IFSC**), Gujarat International Fin-tech City (**GIFT City**). The latest data available on IFSCA website suggests a significant rise in the number of Fund Management Entities (**FMEs**) and funds operating within the IFSC. As of December 2024, a total of 132 FMEs and 177 Funds are registered with International Financial Services Centre Authority (**IFSCA**) – a surge that reflects the growing attractiveness of the IFSC, GIFT City, as a hub for financial services, driven by a favourable regulatory regime, tax incentives, friendly regulators, and access to other international markets.

In its 42nd meeting held on December 19, 2024, IFSCA announced its decision to review the IFSCA (Fund Management) Regulations, 2022 (**FM Regulations**), aiming to further simplify and streamline the regulatory framework, enhance the ease of doing business, and encourage more FMEs to set up and expand their fund and portfolio management services operations out of IFSC, Gift City.

Overview of proposed changes in the FM Regulations

i. *Non-retail schemes (venture capital schemes and restricted schemes):*

a) Minimum corpus reduction: Reducing the minimum corpus requirement for venture capital schemes and non-retail schemes (alternative investment funds or AIFs) from USD 5 million to USD 3 million, with an aim to encouraging smaller ticket investors.

b) Memorandum validity extension: Extending the private placement memorandum validity for non-retail schemes from 6 (six) to 12 (twelve) months from the date of filing with the IFSCA or from the date of issuance of the observation letter by IFSCA, whichever comes later, with the intent of providing greater assurance and operational flexibility to fund managers and investors.

c) Category III AIFs adjustment: Allowing open-ended Category III AIFs to commence investment activities on achieving a minimum corpus of USD 1 million, with a 12-month window to reach the minimum corpus of USD 3 million, with an aim to give fund managers a more measured approach to scale their operations, while adhering to the regulatory requirements.

d) Enhanced FME/sponsor contribution: Allowing up to 100 per cent FME/sponsor contribution to the non-retail schemes, provided the FME and its associates and their ultimate beneficial owners are not residents of India, and investment in any single company and its associates is restricted to one-third (1/3rd) of the corpus. The proposed provision aims to mitigate risk for investors by ensuring that the schemes maintain diversification and are not overly concentrated in specific investments.

e) Joint investments: Permitting joint investments for investors with their close family members such spouse, parent, or child. This change aims to offer greater flexibility for families and close-knit members to seize collective investment opportunities.

f) Governance and accountability safeguards: Requiring prior approval from at least 75 per cent of investors before the buying or selling of securities from associates, other schemes of the FME or its associates to enhance governance and accountability, in case of a non-retail scheme. This safeguard aims to foster fairness and minimise potential conflicts of interest by ensuring that significant transactions with related parties are vetted thoroughly by most of the scheme's investors.

g) Valuation exemption: Exempting non-retail schemes from the requirement of independent valuation by a third-party service provider if the underlying funds are already valued by an independent entity. This exemption aims to reduce administrative burdens while maintaining transparency and consistency in the valuation process for multilayered investment structures.

ii. *Manpower requirements for FMEs:*

a) From Prior Approval to Intimation: Shifting from requiring from requiring prior approval to merely an intimation to the IFSCA to appoint Key Managerial Personnel (**KMP**) for the FME. This aims to enhance efficiency while maintaining oversight over the leadership of these entities.

b) Additional KMP for larger portfolios: Appointing an additional KMP for FMEs managing Assets Under Management (**AUM**) of at USD 1 billion. This aims to ensure adequate managerial oversight when handling the scale and complexity of larger portfolios, help manage risk better, and improve operational effectiveness. In case of retail scheme or ETF, this requirement needs to be fulfilled before filing with IFSCA.

c) Certification requirement: Requiring FME employees to obtain specific certifications from institutions specified by the IFSCA. This aims to raise the standard of professional qualifications and competency within the funds industry, ensuring that individuals involved are well-equipped to meet the evolving challenges of the global financial markets.

iii. *Registered FME (Retail) and retails schemes:*

a) Revision in "sound track record" criteria: Revising the "sound track record" criteria to allow the experience of an FME, its holding company, or subsidiaries to be considered when determining the track record. Previously, an FME was required to have 5 years of experience in managing AUM of at least USD 200 million besides managing funds for at least 25,000 investors. This change aims to enable newer FMEs to leverage the experience of their parent or affiliate companies, facilitating their entry into the market and potentially broadening the pool of qualified fund managers.

b) Change in eligibility criteria for FME controllers: Broadening the eligibility of the person(s) in control of the FME to include individuals holding more than 25 per cent shareholding in the FME, each with a background in fund management activities such as portfolio management, wealth management, distribution of financial products, and investment advisory, for not less than 5 years, with collective management of assets for at least 1,000 investors and a total of USD 2 million, or other net worth prescribed by IFSCA. The existing framework provides for individuals holding more than 25 per cent of the shareholding in the FME and carrying on financial services activities for at least 5 years.

c) Reduction in minimum corpus for retail schemes: Reducing the minimum corpus requirement for retail schemes from USD 5 million to USD 3 million. An open-ended scheme can commence their investment activities on achieving a corpus of USD 1 million and reach the remaining minimum amount of USD 3 million within 12 months.

d) Exemptions for Fund of Funds schemes: Exempting Fund of Funds schemes from certain restrictions applicable to retail schemes (such as limits on investments in a single company or sector) if the underlying funds comply with these investment restrictions. Fund of Funds schemes also are exempt from having an independent service provider for valuation if the underlying funds are already valued by independently.

e) Optional listing of close-ended schemes: Making the listing of close-ended retail schemes optional if the minimum investment requirement for each investor in the scheme is at least USD 10,000. By setting up a higher minimum

investment threshold, such schemes are likely to attract more sophisticated investors, thereby reducing the need for mandatory listing while preserving the integrity and liquidity of the retail investment space. This move aims to provide greater flexibility and access to investors.

iv. *Miscellaneous*:

a) Custodian exemption for Fund of Funds schemes: Exempting Fund of Funds schemes from appointing a custodian unless dealing with securities listed in foreign jurisdictions, which mandate the appointment of a custodian.

b) Broader range of investment options: Broadening the range of investment options for FMEs managing non-retail and retail schemes. Pending capital deployment, FMEs can invest in various financial products, including bank deposits and overnight schemes. This aims to provide greater liquidity and flexibility, particularly during market volatility.

c) Reduction in PMS minimum investment: Reducing the minimum investment requirement from USD 150,000 to USD 75,000 to increase accessibility to Portfolio Management Services (**PMS**). This adjustment aims to lower the entry barrier to allow a wider clientele to access professional investment management. Clients under PMS can now transfer funds directly into a designated broking account, which the FME will manage under the PMS.

d) Branch or representative offices in other jurisdictions: Allowing FMEs to open branch or representative offices in other jurisdictions for marketing or client service purposes without prior approval from IFSCA. This move aims to facilitate higher efficiency in global expansion, attracting international clients, and supporting cross-border investments.

Capital Market

2. IFSCA master circular for credit rating agencies[7]

On October 1, 2024, the IFSCA issued a master circular for credit-rating agencies. It had earlier issued various circulars for Credit Rating Agencies' activities in International Financial Services Centres (**IFSC**). This master circular supersedes all SEBI-issued circulars and guidelines in this regard and consolidates all previous IFSCA-issued circulars.

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3. Listing of Commercial Paper (CP) and Certificates of Deposit (CD) on the recognised stock exchanges in the IFSC

Pursuant to the IFSCA (Listing) Regulations, 2024 (**Listing Regulations**),[8] *vide* circular dated October 17, 2024, IFSCA issued the requirements for listing of Commercial Paper (**CP**) and Certificates of Deposit (**CD**) on recognised stock exchanges in the IFSC (**CD CP Circular**).[9]

The CD CP Circular mandates that the maturity period of a CP not be less than 7 (seven) days and not more than 1 (one) year. The transaction should also be in specified foreign currency as permitted under the Listing Regulations, and the issuer of CP and CD should meet the eligibility criteria.

An issuer meeting the eligibility criteria provided under Chapter II of the Listing Regulations is eligible to list CP on the recognised stock exchange in the GIFT IFSC. An IFSC Banking Unit (**IBU**) is also eligible to list its CS on a recognised stock exchange in the GIFT IFSC in accordance with the IFSCA (Banking) Regulations, 2020,[10] and the IFSCA Banking Handbook.[11]

A person resident in India and a person resident outside India are both eligible as investors of such CD and CP. The Listing Regulations require the CP to be held in a demat form with the depository in IFSC or with an international central securities depository. The CD CP Circular also provides issue conditions and disclosure requirements for the issuer of both CPs and Cds.

Listing CP and CD on the GIFT IFSC stock exchanges is expected to attract diverse pool of investors, enhance market transparency, facilitate secondary trading, provide regulatory oversight, and contribute to the capital market ecosystem.

4. Framework for ESG Ratings and Data Products Providers in the IFSC

On October 30, 2024, IFSCA issued the Framework for ESG Ratings and Data Products Providers (**ERDPP**) in the IFSC (**ERDPP Circular**).[12]

The ERDPP Circular recognises ERDPP as intermediaries under IFSCA (Capital Market Intermediaries) Regulations, 2021 (**CMI Regulations**). It outlines the various requirements for establishing an ERDPP in GIFT IFSC, such as applicability, registration process, legal procedures for establishing a branch or forming a company or limited liability partnership or body corporate in IFSC, net worth requirements, fit-and-proper requirements, and the appointment of principal and compliance officers, etc.

The entities can also undertake services relating to ESG Ratings and ESG Data Products in IFSC or a Financial Action Task Force (**FATF**)-compliant foreign jurisdiction by following the code of conduct prescribed under the ERDPP Circular. A registered ERDPP providing ESG Ratings needs to disclose the guidelines / criteria / methodology on the rating process on its website.

The ERDPP Circular aims to significantly facilitate the achievement of net-zero targets by reducing the carbon footprints and provide a positive social impact and pervasiveness of transparency and governance.

5. IFSCA (Market Infrastructure Institutions) (Amendment) Regulation, 2024

On November 1, 2024, IFSCA notified the IFSCA (Market Infrastructure Institutions) (Amendment) Regulations, 2024 (**MII Amendment Regulations**),[13] amending the IFSCA (Market Infrastructure Institutions) Regulations, 2021 (**MII Regulations**).[14]

8 International Financial Services Centres Authority
9 listing-of-commercial-paper-and-certificates-of-deposit-on-the-recognised-stock-exchanges-in-the-ifsc17102024045736.pdf
10 Reserve Bank of India - Master Directions on Cyber Resilience and Digital Payment Security Controls for non-bank Payment System Operators dated July 30, 2024.
11 FIG Paper (No. 36 – Series 1): Analysing RBI's Enforcement Trends (2022-24) | India Corporate Law (cyrilamarchandblogs.com)
12 FIG Paper (No. 37 – Series 1) | SEBI Proposes to Introduce 'New Asset Class' | India Corporate Law (cyrilamarchandblogs.com)
13 International Financial Services Centres Authority
14 ifsca-market-infrastructure-institutions-regulations-2021-as-amended-up-to-november-01-202407112024061520.pdf

Key Changes

i. Expanding the definition of *"clearing corporation"* to include other permitted financial products.

ii. Enlarging the scope of *"key management personnel"* to include a person covered under the definition of "key managerial personnel" under the Companies Act, 2013.

iii. Redefining *"non-independent director"* to mean a director elected or nominated by the shareholders, who is neither a broker dealer / clearing member / depository participant nor their associate or agent.

iv. Deleting the definitions for *"shareholder director"* and *"trading member"* from the MII Regulations.

v. Replacing the requirement of holding minimum 51 per cent of shareholding by *"consortium"* of MII with *"joint venture"* of MII for the purpose of shareholding in recognised stock exchanges, recognised clearing corporations, and recognised depository.

The MII Amendment Regulations also introduces provision on the governing board of MII, compensation, trade settlement, maintenance of record, winding up, and more.

An MII is now required to segregate functions into three verticals: (a) Critical Operations, (b) Regulatory, Legal, Compliance, Risk Management, and Investor Grievance (c) Other functions including business development.

The MII Amendment Regulations aim to enhance the governance standard of MIIs, maintain market confidence, and deter malpractices.

6. Principles to mitigate the risk of greenwashing in ESG-labelled debt securities in the IFSC

On November 21, 2024, the IFSCA notified the principles to mitigate risk of greenwashing in ESG-labelled debt securities in the IFSC,[15] aiming to promote transparency, accountability, and adequacy of disclosures to investors.

Principles

i. *Being true to label*: Avoiding misleading labels and terminology. Issuers of debt securities in IFSC cannot use terms such as "Green", "Social", "Sustainability", "Sustainability-linked" or a combination of these terms in the issuance of ESG-labelled debt securities or its marketing, unless the securities are aligned with any of the frameworks recognised by IFSCA.

ii. *Screen the Green*: Ensuring transparency in methodology for project selection and evaluation. Issuers must disclose in the offer document a statement on ESG objectives, details of process followed for evaluating and selecting the project(s) and/or asset(s), proposed use of the proceeds, details of the systems and procedures for tracking the deployment of the proceeds, and avoid using broad or generic statements for investment screening criteria. Investors must be able to understand the sustainability-related investment screening criteria. Issuers of security must communicate the social and environmental risk associated with the project and also explain sustainability target, if any set by them.

iii. *Walk the talk*: Managing and tracking use of proceeds. Issuers must outline procedure for ensuring that funds are directed solely towards projects or activities as defined in the offer document and disclose the internal control for managing and tracking the use of proceeds in the offer document. In case of inadvertent misallocation of green bond proceeds, issuers must promptly disclose this to the investors.

iv. *Overall impact*: Quantifying negative externalities. Issuers must quantify the negative externalities associated with ESG debt utilisation, which could include metrics for residual environmental impacts

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or potential environmental risks associated with the financed projects. They must not engage in selective reporting of the impact to create a misleading picture of the environmental impact.

v. *Be alert*: Monitoring and disclosing. Issuers must continuously monitor and disclose the environmental impact of their projects financed by issuing securities that include metrics demonstrating a reduction in adverse environmental impacts and progress towards a sustainable economy. They must disclose the quantitative and qualitative indicators for performance measures.

Banking Sector

7. IFSCA (Registration of Factors and Registration of Assignment of Receivables) Regulations, 2024

On November 18, 2024, IFSCA notified the IFSCA (Registration of Factors and registration of Assignment of Receivables) Regulations, 2024 (**Factor Regulations**),[16] aiming to outline the process for granting certificates of registration to factors and the procedure for filing of the transaction particulars with the central registry by Trade Receivable Discounting System on behalf of the factors, as outlined under the Factoring Regulations Act, 2011.

The Factor Regulations mandate that every factor intending to commence factoring business in IFSC must apply to IFSCA for the grant of a certificate of registration. A factor can undertake a factoring business with (i) the assignor directly or (ii) through an International Trade Financing Services platform (**ITFS**).

However, entities other than factors can engage in a factoring business though an ITFS, provided they meet the IFSCA-prescribed eligibility criteria. All entities are required to furnish information about their operations to IFSCA as specified.

With the implementation of the Regulations, the RBI-issued Registration of Assignment of Receivables (Reserve Bank) Regulations, 2022, and Registration of Factors (Reserve Bank) Regulations, 2022, will no longer apply in an IFSC. The IFSCA Guidelines on Factoring and Forfaiting of Receivables[17] dated August 17, 2021, also stands repealed following the Factor Regulations notification.

8. Directions to IBUs for operations of the Foreign Currency Accounts (FCA) of Indian resident individuals opened under the Liberalised Remittance Scheme (LRS)

On December 13, 2024, the IFSCA issued the revised directions to IFSC Banking Units (**IBUs**) for operations of Foreign Currency Accounts (**FCA**) of Indian Resident Individuals (**RIs**) opened under the Liberalised Remittance Scheme (**LRS**) (**New Directions**). The New Directions override the IFSCA directions issued earlier on October 10, 2024.

Key Provisions

i. IBUs are permitted to open an FCA account for receiving remittance under the LRS from (a) onshore India and (b) from locations other than onshore India.

[16] ifsca-registration-of-factors-and-registration-of-assignment-of-receivables-regulations-2024-1-22112024061610.pdf
[17] International Financial Services Centres Authority

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ii. IBUs may permit the opening of FCA by RI for purposes other than the LRS, in compliance with the provisions of the Foreign Exchange Management (Foreign currency accounts by a person resident in India) Regulations, 2015.

iii. IBUs must (a) monitor that remittance into the FCA are made within a reasonable period of time from the date of its opening; (b) ensure that the remittances from onshore India are routed through an Authorised Person (**AP**); and (c) obtain necessary documents/copy of returns as submitted by the AP to the RBI.

iv. To avail financial services or financial products in IFSC, IBUs must obtain a declaration from the RI upon confirmation of the amount being spent from its FCA that (a) the received / realised / unspent / unused foreign exchange from onshore India or from locations other than onshore India in FCA shall repatriated through an AP to the RI's account in the designated AD Bank, unless reinvested within 180 days from the date of such receipt / realisation / purchase / acquisition or date of return to India and that (b) the RI shall not settle any domestic transactions with other RIs through such an FCA. Remittances to offshore jurisdictions (other than IFSCs) should permit remittance of money for undertaking capital or current account transactions, ensure that the funds are not made to countries identified by FATF as non-cooperative countries and territories, and ensure funds from the FCA are not remitted, directly or indirectly, to those individuals and entities identified as posing a significant risk of committing acts of terrorism as advised separately by RBI.

v. IBUs must also (a) notify the IFSCA by letter, including a description of the arrangements established for complying with the conditions specified by IFSCA and (b) furnish data about operations in the FCAs in the form and manner specified by the IFSCA.

9. IFSCA (Payment and Settlement Systems) Regulations, 2024

On October 14, 2024, the IFSCA notified the IFSCA (Payment and Settlement Systems) Regulations, 2024 (**Payment Regulations**),[18] clarifying that from the commencement of the Payment Regulations, the Payment and Settlement Systems Regulations, 2008, issued by the RBI will no longer apply in an IFSC.

For a grant of authorisations, every person desirous of commencing or carrying on a payment system in an IFSC must submit an application to the IFSCA along with a non-refundable fee of USD 1000. The IFSCA will grant the in-principal approval, subject to the fulfilment of conditions mandated under Section 7 of the Payment and Settlement Systems Act, 2007, including the need for the proposed payment system, technical standard, the manner in which the transfer of funds will be affected, the financial status of the applicant, the procedure for netting payment instructions affecting the payment obligations, the interest of consumers, the monetary and credit policies, etc.

An applicant may seek an exemption from authorisation under Section 4 of the Payment and Settlement Systems Act, 2007, upon justifying the rationale for such an exemption. The rationale, *inter alia*, includes exemptions after considering the interests of the monetary policies, the efficient operation of the payment system, the size of any payment system, or any other reason. The IFSCA may accept or reject the application and communicate its decision within 90 days from the application date. Every system provider has to comply with the Principles of Financial Market Infrastructure issued by the Committee on Payments and Market Infrastructure and the International Organisation of Securities Commissions or other IFSCA-specified norms. Every system provider must also furnish returns, documents, or other information as required by IFSCA.

The Payment Regulations, thus, envisage the setting up of a board to prescribe policies for regulations and supervision of the payment system.

[18] ps-regulations-final-consolidated-final23042024043055.pdf

10. Guidelines on setting up and operation of International Trade Finance Service Platform

On December 23, 2024, the IFSCA issued the new guidelines on establishing and operating the International Trade Finance Service Platform (**ITFS Guidelines**). The ITFS Guidelines supersede the IFSCA circular titled "Framework for setting up of International Trade Financing Services Platform (**ITFS**) for providing trade finance services at IFSC" dated July 9, 2021.

Key Provisions

i. The eligibility criteria include allowing the applicant to establish a newly incorporated company under the Companies Act, 2013. The applicant's parent entity must have at least three years' experience in operating a trading infrastructure in the financial markets or operating a fintech platform. The minimum owned fund should be USD 0.2 million, and fulfil other requirements such as adequate infrastructure, sound financial positions, fit-and-proper compliance, and technical standards.

ii. The IFSCA will grant provisional registration to the applicant subject to any IFSCA-specified conditions.

iii. The ITFS operator must commence operations within 6 (six) months, which is extendable for three more months from the date of registration.

iv. Permissible activities include (a) transactions relating to factoring, reverse factoring, bill discounting under letter of credit, supply chain financing, pre-shipment credit, forfaiting, or any other activity permitted by IFSCA and (b) secondary market transactions of the foregoing products at (a). The ITFS operator will require prior permission from IFSCA if it intends to undertake any other permitted activity in the IFSC.

v. An ITFS operator must have well-documented rules and regulations regarding onboarding of participants, suspension and cessation of membership, roles and responsibilities of participants and operator, liability framework for ITFS and users in case of rules and regulations breaches, restrictions or other applicable requirements for using the ITFS, including order processing and execution , risk management, and control.

vi. The ITFS operator must provide the criteria for onboarding financiers on the ITFS platforms.

vii. Other operation principles, including being compliant with IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022, facilitating transparent bidding, displaying bids without revealing the name, not assuming any credit risk, having a complaint handling and grievance redressal mechanism, fulfilling the fit-and-proper requirement, currency of operations, corporate governance, and ensuring provisions on outsourcing and reporting of all information and documents to the IFSCA.

Aircraft and Ship Leasing

11. Guidelines for utilisation of office space or manpower or both by finance company(ies) / unit(s) undertaking ship leasing activity in the IFSC[19]

The IFSCA, *vide* circular dated October 4, 2024, issued guidelines for a ship lessor registered with IFSCA (**Applicant Entity**). The guidelines, *inter alia*, pertain to seeking approval for using office space or manpower or both (**Resource**) with another entity intending to seek registration with the IFSCA for ship-leasing activity (**Proposed Entity**). This is applicable if the Proposed Entity qualifies as a "group entity" of either the Applicant Entity or its parent entity.

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12. Amendment to the "Framework for Lease" regarding transactions with person(s) resident in India

On October 30, 2024, the IFSCA issued a circular amending the Framework for Aircraft Lease dated May 18, 2022 (**Aircraft Lease Framework**).[20] The circular outlines the conditions for transactions with person(s) in India, subject to certain restrictions. Specifically, a person resident in India cannot sell, transfer, lease, or dispose the assets (within the scope of the Aircraft Lease Framework) to a finance company (in IFSC) engaging in aircraft-leasing activities if these assets are to be operated or used solely by the person resident in India or will be operated or used to provide services to person resident in India.

However, the aforementioned restriction does not apply if the disposal of assets is to a lessor who is not a "group entity" of such person(s); or the disposal of assets is to a lessor as part of sale and leaseback arrangement of such assets being imported into India for the first time.

AML/CFT

13. Financial Action Task Force (FATF) high-risk and other monitored jurisdictions – October 2024

On November 11, 2024, the IFSCA, through press release, highlighted the public statement of Financial Action Task Force, dated October 25, 2024, which had removed Senegal from the list of jurisdictions under increased monitoring. The "jurisdictions under increased monitoring" are Algeria, Angola, Bulgaria, Burkina Faso, Cameroon, Côte d'Ivoire, Croatia, Democratic Republic of the Congo, Haiti, Kenya, Lebanon, Mali, Monaco, Mozambique, Namibia, Nigeria, Philippines, South Africa, South Sudan, Syria, Tanzania, Venezuela, Vietnam, and Yemen.

14. Exempting certain entities/activities from the applicability of IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022

On November 18, 2024, the IFSCA exempted certain entities from the applicability of the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022 (**AML, CTF and KYC Guidelines**).[21]

The exempted entities includes (i) Global-in-House Centres registered under the IFSCA (Global-in-House Centres) Regulations, 2020; (ii) International Branch Campus or Offshore Educational Centre of Foreign University or Foreign Educational Institution registered under the IFSCA (Setting up and Operation of International Branch Campuses and Offshore Education Centres) Regulations, 2022; (iii) Financial Crime Compliance Services Provider registered under the IFSCA (Book-keeping, Accounting, Taxation and Financial Crime Compliance Services) Regulations, 2024; and (iv) Financial Institutions providing services only to entities in its financial group, which are not located in FATF-high-risk jurisdictions.

[20] International Financial Services Centres Authority
[21] Exempting certain entities/activities from the applicability of International Financial Services Centres Authority (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022.

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The AML, CTF, and KYC Guidelines also require all financial institutions undertaking transactions through third party business/service providers to undertake business risk assessment and comply with the incidental provisions.

The aforementioned exempted entities need to nevertheless undertake business risk assessment, and if any AML/CTF risk is envisaged in the business risk assessment, they have to comply with the rules under the Prevention of Money Laundering Act, 2002, in addition to the AML, CTF, and KYC Guidelines.

However, all financial institutions (whether exempted or not) must transact or receive monetary considerations (i.e., funds / fees / amount) only through an account maintained with an IBU in IFSC.

15. Modifications under the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022

On November 22, 2024, the IFSCA modified the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022 (**AML CTF Guidelines**).[22]

The AML CTF Guidelines state that the REs adhere to the countermeasures when requested by any Central Government-accepted international or intergovernmental organisation of which India is a member. An RE, which is part of a financial group, must also provide group-wise compliance, audit, and AML/CTF functions for customers, accounts, and transaction information from its branches and subsidiaries. This now includes information and analyses on unusual transactions or activities, if such analyses have been conducted. Similarly, branches and subsidiaries must receive such information from group-level functions when relevant and appropriate for effective risk management.

16. Procedure for implementation of Section 51A of the Unlawful Activities (Prevention) Act, 1967: Change in the details of the Central [Designated] Nodal Officer

On November 18, 2024, the IFSCA issued a circular for changes in the details of the Central Designated Nodal Officer under Section 51A of the Unlawful Activities (Prevention) Act, 1967, following the Ministry of Home Affairs notification dated April 22, 2024, modifying the details of the designated authority. With the modification in place, the Joint Secretary (CTCR), Ministry of Home Affairs, is designated as the Central Nodal Officer in place of the Additional Secretary (CTCR) to implement Section 51A of the Unlawful Activities (Prevention) Act, 1967.

Regulatory Updates: Rules and Regulations, Circulars, Notification, and FAQs

17. Clarifications in relation to Investment Restrictions on Retail Schemes set up in IFSCs[23]

IFSCA, *vide* circular dated October 29, 2024, clarified the exemption for retail schemes in IFSC in the nature of a fund of fund structure.

The IFSCA has clarified that the following limits/ceilings will not apply for investments by retail schemes in unlisted securities issued by open-ended investment funds and regulated by the regulatory authority concerned in its home jurisdiction:

i. The 15 per cent cap on investment of the total AUM of scheme in unlisted securities for open-ended schemes.

ii. The minimum investment of USD 10,000 for close-ended schemes investing more than 15 per cent of AUM in unlisted securities.

[22] International Financial Services Centres Authority
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iii. The 50 per cent cap on investment of AUM in unlisted securities in case of close-ended scheme.

iv. The 25 per cent limit on investments of AUM in the associates.

The circular further mandates that if the retail scheme functions as fund-of-funds scheme, the FME must disclose the details of the underlying schemes and their intended investments in the offer document, including an underlying association of FME, if any.

18. IFSCA (Informal Guidance) Scheme, 2024

On December 02, 2024, the IFSCA notified the IFSCA (Informal Guidance) Scheme, 2024 (**Scheme**),[24] seeking to provide a mechanism for clarity and guidance on various issues pertaining to potential business activities and transactions under the regulatory ambit of the IFSCA and the acts it administers.

The Scheme's key provisions include the eligibility criteria of a "person", types of informal guidance in the form of no-action letters or interpretative letters, and the application process for seeking informal guidance via email until the filing is enabled through the Single-window IT System (**SWITS**). The provision on fees states that a person has to pay a non-refundable fee of USD 1000, of which 75 per cent will be charged as guidance fees and 25 per cent as processing fees.

19. Complaint handling and grievance redressal by regulated entities in the IFSC

On December 02, 2024, the IFSCA introduced the IFSC (**Complaint Handling and Grievance Redressal Circular**).[25] This circular, issued following the IFSCA-issued consultation paper on August 30, 2024, applies to all IFSCA-regulated entities dealing with consumers (except group entities). It excludes Foreign Universities, Foreign Educational Institutions, Ancillary Service Providers, BATF Service Providers, and Finance Company/Finance Units engaged in aircraft leasing or ship leasing, and global/regional corporate treasury centres in IFSC.

The REs must have a policy approved by the governing body/board of directors for complaint handling and grievance redressal. They must also ensure adequate mechanism for receiving, handling, and redress of complaints, based on the nature, scale, and complexity of its business, including details of the Complaint Redressal Officer (**CRO**) and Complaint Redressal Appellate Officer (**CRAO**), which they should provide on the website. The CRO has to acknowledge the acceptance of complaints within 3 (three) working days. In case of non-acceptance, they should inform the complainant within 5 (five) working days with the reasons.

The RE must dispose the complaint preferably within 15 (fifteen) days but no later than 30 (thirty) days from acceptance. The complainant can file an appeal before CRAO within 21 (twenty-one) days from the receipt of the CRO's decision. After exhausting the appeal mechanism, the complainant can escalate the complaint to the IFSCA within 21 (twenty-one) days of receiving the RE's decision.

An RE must also maintain the records of complaints, including those received and processed, correspondence exchanges, information and documents they relied upon, complaint outcomes, reasons for complaint rejection, complaint processing timelines, and data of all complaints handled in electronic form for at least 6 (six) years if not otherwise provided.

[24] International Financial Services Centres Authority
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Consultation Papers

20. Consultation Paper on the proposed IFSCA (Capital Market Intermediaries) Regulations, 2024

On November 21, 2024, the IFSCA invited comments and suggestions from the public and stakeholders on the draft IFSCA (Capital Market Intermediaries) Regulations, 2024 (**Draft CMI Regulations**).[26] The CMIs in the IFSCs are currently regulated under the IFSCA (Capital Market Intermediaries) Regulations, 2021 (**CMI Regulations**).[27]

The Draft CMI Regulations proposed the introduction of a new CMI category called "research entity", which provides research reports on securities or financial products in the IFSC or any foreign jurisdiction. It also provides key regulatory requirements relating to distributors and providers of ESG rating and data products.

The Draft CMI Regulations also permit "broker dealers" interested in setting up their own cross-border arrangement for accessing global markets to register directly with the IFSCA (instead of through the stock exchange concerned). Subsidiaries of recognised stock exchanges providing access to global markets are also required to register as "broker dealers" with the IFSCA. Additionally, the CMI Draft Regulations have revised the net worth requirement for various CMIs and specified the qualifications for the principal officer.

21. Consultation Paper on Draft IFSCA (KYC Registration Agency) Regulations, 2024

On December 06, 2024, the IFSCA issued a consultation paper on the draft IFSCA (Know Your Customer (**KYC**) Registration Agency) Regulation, 2024 (**Draft KRA Regulations**).[28]

The Draft KRA Regulations provide the regulatory framework for registration, regulation, and supervision of the KRA, seeking to enable the establishment of KRAs in IFSCs and to centralise the KYC records of the clients onboarded by various REs. The KRA should be incorporated as company in the IFSC operating as a wholly owned subsidiary of a stock exchange / depository / KRA recognised and registered in India, the IFSC, or foreign jurisdiction.

The net worth requirement for KRAs is set at USD 1 million. The KRAs must adhere to a code of conduct prescribed by the IFSCA to maintain high levels of integrity, dignity, and fairness in the conduct of their businesses.

The obligations and functions of KRAs, *inter alia*, broadly include (i) conducting the initial KYC of clients and uploading the KYC information on the KRA system while retaining the physical KYC documents; (ii) verifying client details from the KRA system; (iii) updating the information on the KRA system following changes in KYC details; (iv) not using the clients' KYC data for any purpose other than those intended; (v) complying with the provisions of Digital Personal Data Protection Act, 2023, and taking adequate measures to ensure the safety and security of the KYC database., etc.

[26] International Financial Services Centres Authority
[27] ifsca-capital-market-intermediaries-regulations-2021-as-amended-up-to-july-3-202320072023040848.pdf
[28] consultation-paper-on-proposed-ifsca-kyc-registration-agency-regulations-202406122024083333.pdf

Market Updates

1. BlackRock's 100% Acquisition of Global Infrastructure Partners

One of the largest financial services sector transactions notified to the Competition Commission of India, this transaction involved an examination of the asset management services sub-sector, which comprises "relevant markets" not previously examined in detail by the antitrust regulator. It involved obtaining an unconditional approval from the Competition Commission of India for BlackRock Funding Inc.'s acquisition of 100 per cent limited liability company interests in Global Infrastructure Management LLC. The firm represented Global Infrastructure Management LLC.

2. Tata Capital Limited Provided Financing to Jai Balaji Industries Limited

Tata Capital Limited extended financial assistance to Jai Balaji Industries Limited for the purposes of re-financing the existing debt availed by the Borrower. The transaction involved complex structuring and advising, since the Lender intended to provide financial assistance to the Borrower company, which had undergone restructuring twice in the past and was declared as a "wilful defaulter" by its existing lenders. The Borrower account was also acquired by certain asset reconstruction companies (ARCs) from the Borrower's existing lenders, which was re-financed by the financing the Lender had provided. The firm, acting as legal counsel for Tata Capital Limited, was involved in drafting the entire suite of financing documents, including the term-loan agreement and common security documents, and advising on the regulatory aspects of the transaction.

3. Restructuring of JMFL Group to Consolidate Holding in Subsidiaries

The firm acted as counsel to JM Financial Limited (**JMFL**), and its subsidiaries, JM Financial Credit Solutions Limited, a middle layer NBFC-ICC (**JM CSL**) and JM Financial Asset Reconstruction Company Limited, an asset reconstruction company (**JM ARC**) on the consolidation of the holdings of JMFL in JM CSL and JM ARC. Both JM CSL and JM ARC are high-value debt-listed entities and material subsidiaries of JMFL.

The transaction involved (a) advising on the rights issue undertaken by JM ARC of approximately INR 595.5 crore;

(b) the acquisition of 48.96 per cent stake in JM CSL by JMFL from INH Mauritius 1 (a GIC-backed entity) (in one or more tranches) for a total consideration of INR 1,460 crore, with Tranche I being the acquisition of 42.99 per cent shareholding in JM CSL for a consideration of approximately INR 1,282 crore; and (c) the sale of 71.79 per cent in JM ARC by JMFL to JM CSL for approximately INR 856 crore.

4. Exit of Kedaara Capital and Partners Group from Aavas Financiers Limited

The transaction involved the acquisition of 26.47 per cent stake held by Kedaara Capital and Partners Group collectively in the Company by Aquilo House Pte. Ltd., an entity belonging to the CVC Capital Partners Group. The transaction is the largest-ever buyout of a housing finance company in India by consideration value. The stake sale to the Purchaser was pursuant to a bid process. The firm advised Kedaara Capital, Partners Group, and Aavas Financiers Limited on various aspects of the transaction including obtaining approval of the RBI.

5. Entry of Binance Holdings Limited in India

Binance, the largest global crypto assets exchange, was among nine offshore digital asset exchanges issued show-cause notices by the Financial Intelligence Unit – India (**FIU-IND**) on December 28, 2023, for not registering with the FIU-IND as virtual digital asset service providers (**VDASP**).

Subsequently, the Ministry of Electronics and Information Technology (**MeitY**) blocked its URL/website/applications on the Google Play Store and Apple App Store on January 10, 2024.

The Firm represented Binance on its India entry strategy, including liasing with the FIU-IND and MeitY, stakeholder engagement, and tax aspects, ultimately resulting in the unblocking of Binance's platform and applications on Google Play Store and Apple App Store in India.

6. Vayana Raises USD 20.5 million from Investors as Part of Its Series D funding

The leading trade finance platform, Vayana, closed its Series D funding round to raise USD 20.5 million from various investors, led by Sumitomo Mitsui Banking Corporation (**SMBC**). The funding also saw participation from other existing investors, including the International Finance Corporation, Chiratae Ventures, and Jungle Ventures. The Company said that it plans to introduce new product lines to bolster its effort of providing trade credit.

7. M2P Fintech Raised USD 100 million from Helios Investment Partners, Taking Valuation to USD 785 million

M2P Fintech, a leading banking infrastructure provider enabling core banking system, core lending suite, BNPL, card systems, and UPI services for banks and financial institutions in over 30 markets across the globe raised USD 100 million from Helios Investment Partners. The investment comes as part of its Series D funding round and was joined by Bank Muscat. The fresh round of funding is aimed at expanding the company's reach in the African market by leveraging Helios Investment Partners' deep understanding of the region. M2P Fintech was founded in 2014 and currently serves more than 50 million end users across the globe through its technology stack, which enables clients to perform various payment-related services without requiring a banking license.

8. Drip Capital Raises USD 113 million through a Mix of Debt and Equity from Institutional Investors

The digital trade finance platform, Drip Capital raised USD 113 million in its latest funding round. The new round of funding includes USD 23 million raised as equity from GMO Payment Gateway and Sumitomo Mitsui Banking Corporation, and the balance in debt from International Finance Corporation and East West Bank. The company has been on a rapid expansion

trajectory in the last two years on the back of AI-enabled credit risk assessment, operational efficiency, and enhanced customer experience. The company aims to develop new financial products from the fresh round of funding to further bolster the suite offered to their clients and continue their expansion.

9. Onsurity Raises USD 45 million as Part of Its Series B Funding from Creagis, International Finance Corporation, Nexus Venture Partners and Quona Capital

Onsurity, the Bengaluru-based employee healthcare provider raised USD 45 million as part of its Series B funding round, led by the private equity firm Creagis. The company aims to utilise the fresh round of funding for developing new lines of digital products for the small and medium enterprises in India. Founded in 2020, the company focuses on providing employers a platform to manage health insurance for their employees. However, the company has recently launched other insurance products such as cyber insurance and commercial general liability insurance.

10. RBI Announces Five Entities as Part of the 5th Regulatory Sandbox Cohort

The Reserve Bank of India announced that it has picked five entities for the test phase of its fifth cohort of the regulatory sandbox. The regulatory sandbox initiative allows the selected entities to test their innovative financial products in a controlled environment, before the same can be deployed in the market. During such testing, the regulator may or may not permit certain relaxations in the regulatory regime so as to enable innovation. As part of the present cohort, RBI has picked Connectingdot Consultancy, Epifi Technologies, Finagg Technologies, Indian Banks' Digital Infrastructure Company (IBDIC), and Signzy Technologies. The fifth phase, announced by the regulator in October last year, saw applications from 22 entities.

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