

January 2024

NEWSLETTER
REGULATORY

- RBI
- SEBI
- MCA



Lovi Mehrotra & Associates

Chartered Accountants

21-22 IInd Floor Krishna Nagar Safdarjung Enclave
New Delhi 110029

Website : www.lma.co.in • Email : d.khanna@lma.co.in

RBI

1. Risk Management and Inter-Bank Dealings – Hedging of Foreign Exchange Risk

RBI/2023-24/108/ Circular No. 13

Dated: 5th January, 2024

Effective Date: April 05, 2024

Reference to Existing Provisions: The Foreign Exchange Management (Foreign Exchange Derivative Contracts) (First Amendment) Regulations, 2020 came into effect from September 01, 2020 on the regulatory framework for hedging of foreign exchange risks.

Vide this Notification, the Directions contained in the Currency Futures (Reserve Bank) Directions, 2008 dated August 06, 2008 and Exchange Traded Currency Options (Reserve Bank) Directions, 2010 dated July 30, 2010, as amended from time to time, are now being incorporated in the Master Direction – Risk Management and Inter-Bank Dealings.

The revised Directions are provided at Annex-I to this circular. These Directions replaced the existing Directions in Part A (Section I) of the Master Direction – Risk Management and Interbank Dealings dated July 5, 2016, as amended from time to time, and in supersession of the notifications listed in the Annex-II.

Further, Authorised Persons shall mean Authorised Dealer Category - I banks and for the purpose of exchange traded currency derivatives, Recognised Stock Exchanges and Recognised Clearing Corporations as authorised under Section 10 (1) of the Foreign Exchange Management Act, 1999.

[Notification](#)

SEBI	
1. Framework for Short Selling	
Circular No: SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/1 Dated: 5 th January, 2024	
<p>Reference to Existing Circular: SEBI vide Master Circular dated October 16, 2023 had provided the broad framework on ‘Short Selling and Securities Lending and Borrowing Scheme’ as specified in ‘Annexure 3’ of Chapter 1 of the said Master Circular.</p> <p>Vide this Circular, SEBI has amended the contents of ‘Annexure 3’ of Chapter 1 of the above mentioned Master Circular dated October 16, 2023 (which are in line with the provisions of rescinded SEBI Circular No. MRD/DoP/SE/Dep/Cir-14/2007 dated December 20, 2007).</p> <p>Annexure 3- Broad Framework for Short Selling includes:</p> <ol style="list-style-type: none"> 1. Definition of Short Selling 2. Permitted Investors and Classes 3. Prohibition of Naked Short Selling 4. Institutional investors Regulations 5. Provisions for Failure to Deliver 6. Securities Lending and Borrowing Scheme 7. Eligibility of Stocks for Short Selling 8. Disclosure Requirements <p>Detailed framework forms part of this circular.</p> <p>Circular</p>	
2. SEBI (Alternative Investment Funds) (Amendment) Regulations, 2024	
No. SEBI/LAD-NRO/GN/2024/163 Dated: 5th January, 2024	
<p>Vide this notification, SEBI has amended the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.</p> <p>Following is the gist of the amendments:</p> <p>Regulation 15: Alternative Investment Funds shall hold their investments in dematerialised form, subject to such conditions as may be specified. Some exceptions are allowing flexibility for investments not eligible for dematerialization or those held by liquidation schemes.</p> <p>Regulation 20: Where the Sponsor or Manager of an Alternative Investment Fund is mandated to appoint a Custodian registered with the Board. The Custodian’s role includes the safekeeping of the fund’s securities, with specific provisions for Category III AIFs dealing with commodity derivatives.</p> <p>Regulation 20: It outlines conditions for a Custodian associated with the Sponsor or Manager of an AIF. These conditions include the Sponsor or Manager having a minimum net worth, director representation independence, non-subsidiary relationships, absence of common directors, and a commitment to act independently.</p> <p>Regulation</p>	
3. Foreign investment in Alternative Investment Funds (AIFs)	
SEBI/HO/AFD/PoD1/CIR/2024/2 Dated: 11 th January, 2024	
<p>Reference to Existing Circular: The Government of India through its gazette notification dated March 07, 2023 and September 04, 2023 amended the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 to revise the</p>	

thresholds for determining the beneficial ownership.

Vide this circular, SEBI has modified the Chapter 4 of the SEBI Master Circular dated July 31, 2023 for Alternative Investment Funds (AIFs) in view of the amendments to the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005.

Following is the modified conditions regarding the investor's beneficial ownership:

The investor or its beneficial owner as defined in the above mentioned rules, does not appear in the Sanctions List issued by the United Nations Security Council and should not be a resident in the country identified in the public statement of Financial Action Task Force as –

- (i) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or*
- (ii) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.*

Further, in case an investor who has been already on-boarded to scheme of an AIF, fails to meet the revised conditions, the manager of the AIF shall not drawdown any further capital contribution from such investor for making investment, until the investor meets the said condition.

[Circular](#)

4. Ease of Doing Investments by Investors-Facility of voluntary freezing/ blocking of Trading Accounts by Clients

Circular No.: SEBI/HO/MIRSD/POD-1/P/CIR/2024/4
Dated 12th January, 2024

Stock broking industry in India has moved from a call and trade type of scenario to online mode, wherein the investors use the login ids and passwords provided to them by the Trading Members. It has been observed that at times, suspicious activities are noticed by investors, but the facility of freezing/blocking of accounts is not available with majority of Trading Members.

Similar facility of voluntary blocking/ freezing of demat accounts is already available for investors and this facility is now proposed to be offered to the investors for their trading accounts also.

Vide this circular, SEBI has decided that the framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities shall be laid down on or before **April 01, 2024**.

Detailed policy for voluntary freezing/ blocking the online access of the trading account of the client shall include the following:

- Modes through which a client can request/communicate to the Trading Member for voluntarily blocking the trading accounts,
- issuing of acknowledgement to the clients on receipt of message,
- time period within which the request shall be processed and the trading account shall be frozen/blocked.
- Action to be taken by the Trading Member pursuant to the receipt of request for freezing/blocking of the trading account
- Process for re-enabling the client for trading/transfers

Applicability:

1. The above guidelines are implemented by Trading Members with effect from **July 01, 2024**. Stock Exchanges shall also put in place an appropriate reporting requirement by Trading Members to enforce the above system.
2. A compliance report to this effect shall be submitted to SEBI by Stock Exchanges latest by **August 31, 2024**.

[Circular](#)

5. Ease of Doing Business- Changes in Reporting

Reference to existing Circulars: SEBI Master Circular on stock brokers dated May 17, 2023 provide safeguards against misutilisation of clients' funds and the use of one clients' collateral for another.

Vide this circular, SEBI has addressed concerns raised by stakeholders regarding the efficiency of monitoring mechanism and focused on simplifying reporting for stock brokers, aiming at fostering ease of doing business. In order to bring in efficiencies in reporting and a step towards ease of doing business, certain reports are being discontinued.

Based on the above decision the following clauses of the master circular stand modified:

- Clause 15.5.2 pertaining to uploading of data shall be on weekly basis stands deleted.
- Clause 15.5.3 is modified, emphasizing the 'G' principle for monitoring clients' funds with stock brokers and clearing corporations.
- Tables 5 (Reconciliation - Funds of credit balance clients used for settlement obligation of debit balance clients or for own purpose), Table 6 (Reconciliation - Funds of clients used for Margin obligation of proprietary trading), and Table 7 (Reconciliation - Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading) are deleted, marking a shift towards more efficient reporting.

[Circular](#)

6. Guidelines for AIFs with respect to holding their investments in dematerialised form and appointment of Custodian

Circular No.: SEBI/HO/AFD/PoD/CIR/2024/5

Dated 12th January, 2024

Reference to existing Circulars: SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") was amended dated January 05, 2024 with respect to AIFs holding their investments in dematerialised form and appointment of custodian.

Vide this circular, SEBI had introduced following guidelines concerning dematerialisation of AIF investment and mandatory appointment of custodians.

A. Holding investments of AIFs in dematerialised form

AIFs shall hold their investments in dematerialised form, subject to the following specified conditions:

- Any investment made by an AIF on or after October 01, 2024 shall be held in dematerialised form only.
- The investments made by an AIF prior to October 01, 2024 are exempted from the requirement of being held in dematerialised form, except in the certain specified cases.
- The investments made by an AIF prior to October 01, 2024 which are covered under specified conditions, shall be held in dematerialised form by the AIF on or before January 31, 2025.
- The aforesaid requirement of holding investments in dematerialised form shall not be applicable to:
 1. Scheme of an AIF whose tenure ends on or before January 31, 2025.
 2. Scheme of an AIF which is in extended tenure as on date of this circular.

B. Appointment of Custodian for AIFs

The Sponsor or Manager of the AIF shall appoint a custodian registered with the Board for safekeeping of the securities of the AIF. In this regard following is specified:

- The custodian for a scheme of an AIF shall be appointed prior to the date of first investment of the scheme.
- Existing schemes of Category I and II AIFs having corpus less than or equal to INR 500 crore and holding at least one investment as on date of this circular shall appoint custodian on or before January 31, 2025.
- In case of AIFs with custodians that are associates of their manager or sponsor, managers of such AIFs shall ensure compliance with Regulation 20(11A) of AIF Regulations on or before January 31, 2025.

C. Reporting of investments of AIFs under Custody

The custodian shall report or disclose such information regarding investments of the AIF in such manner as may be

specified by the Board from time to time. In this regard, the following conditions are specified:

- The pilot Standard Setting Forum for AIFs ('SFA'), shall formulate implementation standards for reporting data on investments of AIFs that are under custody with the custodian.
- Managers of AIFs and custodians shall adopt and adhere to such implementation standards, formulated by the SFA.

Further, the trustee/sponsor of AIF, as the case may be, shall ensure that the '**Compliance Test Report**' prepared by the manager in terms of para 15.2 of SEBI Master Circular No. dated July 31, 2023, includes compliance with the provisions of this circular.

Detailed guidelines forms part of this circular.

[Circular](#)

7. Framework for Offer for Sale (OFS) of Shares to Employees through Stock Exchange Mechanism

Circular No.: SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/6

Dated 23rd January, 2024

Reference to Existing Circulars: SEBI had specified the comprehensive framework on Offer for Sale (OFS) of shares through stock exchange mechanism vide its Master Circular dated October 16, 2023. As per the extant procedure, OFS to employees of the eligible company is happening outside the stock exchange (SE) mechanism. Promoters were allowed to sell shares to employees within two weeks from the OFS transaction.

Vide this circular, SEBI has decided that the promoters can also offer the shares to employees in OFS through the SE Mechanism to streamline the existing process, enhance efficiency, and reduce costs associated with the current procedure.

Further, the procedure for OFS to employees through the SE Mechanism is an additional option to the existing procedure of OFS to employees.

Procedure for OFS to Employees via Stock Exchange is as under:

- OFS to employees to occur on T+1 day under a new category called "Employee."
- Employees can bid for other categories within applicable limits.
- Certain shares reserved for employees, disclosed in the OFS notice to stock exchanges. Bidding allowed during trading hours on T+1 day.
- Floor price disclosed to participants under the "Employee" category.
- Employees place bids at the cut-off price of T+1 day.
- Maximum bid amount set at INR 5,00,000.

Detailed framework forms part of this circular.

[Circular](#)

8. Extension of timeline for verification of Market Rumours by Listed Entities

Circular No.: SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/7

Dated 25th January, 2024

Reference to existing circulars: SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) mandates the verification and confirmation, denial or clarification of market rumours applicable to top 100 listed entities as per market capitalization from **February 1, 2024** and to top 250 listed entities as per market capitalization from **August 1, 2024**.

Vide this circular, SEBI has decided to extend the timeline for effective date of implementation of above provisions to June 1, 2024 for top 100 listed entities and to December 1, 2024 for top 250 listed entities.

[Circular](#)

MCA
There is no Circular or notification issued during the month.

Disclaimer:

This is not a complete listing of all circulars/notifications issued during the month.
Instead it is only a listing of some of the circulars/notifications that we considered important.



Lovi Mehrotra & Associates

Chartered Accountants

**21-22 IInd Floor Krishna Nagar Safdarjung Enclave
New Delhi 110029**

Website : www.lma.co.in • Email : d.khanna@lma.co.in