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Semi-Annual Corporate Law Compendium 2025

January – June 2025

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Introduction

This Compendium consolidates the key regulatory updates, notifications and developments in the corporate sector including real estate, media and Information Technology ("**IT**") sector updates, which were circulated as JSA Newsletters/Prisms during the calendar period from January 2025 till June 2025.

Securities and Exchange Board of India

Guidelines for Research Analysts/Investment Advisers

The Securities and Exchange Board of India ("**SEBI**"), *vide* circulars dated January 8, 2025, prescribed the guidelines to be adhered to by Research Analysts ("**RAs**")/Investment Advisers ("**IAs**"), pursuant to the SEBI (RAs) (Third Amendment) Regulations, 2024 and SEBI (IAs) (Second Amendment) Regulations, 2024, respectively. Some of the key provisions are as follows:

1. the deposit to be maintained by RAs/IAs, will be based on the maximum number of clients of the RA/ IA on any day of the previous Financial Year ("**FY**"), as follows: up to 150 (one hundred and fifty) clients - INR 1,00,000 (Indian Rupees one lakh); 151 (one hundred and fifty-one) to 300 (three hundred) clients - INR 2,00,000 (Indian Rupees two lakh); 301 (three hundred and one) to 1,000 (one thousand) clients - INR 5,00,000 (Indian Rupees five lakh); 1,001 (one thousand and one) clients and above - INR 10,00,000 (Indian Rupees ten lakh). The deposit amounts made by RAs are required to be maintained with a scheduled bank and marked as a lien in favour of the RA Administration and Supervisory Body ("**RAASB**"), while deposits made by IAs are required to be marked as lien in favour of the IA Administration and Supervisory Body ("**IAASB**"). Existing RAs are required to ensure compliance with these deposit requirements by April 30, 2025, while the date to ensure compliance for existing IAs is June 30, 2025;

2. a partnership firm registered as a RA/IA, where no partner of the firm has the minimum qualification and certification requirements provided under the respective principal regulations, must apply for registration as a RA/IA in the form of a Limited

Liability Partnership ("**LLP**") or a body corporate by September 30, 2025;

3. RAs/research entities and IAs are required to disclose to their clients the extent of use of Artificial Intelligence ("**AI**") tools in providing research services/investment advice at the time of disclosing the terms and conditions of the research services/entering into the agreement and make such additional disclosure whenever required. In the context of existing clients, RAs/IAs are required to comply with this disclosure requirement by April 30, 2025; and

4. IAs may also provide financial planning services to their clients, which may include investment advice related to products or services not under the purview of SEBI. When providing investment advice in relation to such products and services not under the purview of SEBI, the IA is required to make a disclosure to the client and take appropriate declarations and undertakings from the client that such products/services and the services of the IA in respect of such products/services do not come under regulatory purview of SEBI and that no recourse is available to the client, with SEBI, for their grievances related to such products/services or services of the IA in respect of such products/services.

Investor charters for IAs and RAs

SEBI, *vide* notifications dated June 2, 2025, updated the investor charters for IAs and RAs. The revised charters are designed to enhance financial consumer protection alongside enhanced financial inclusion and financial literacy. RAs/IAs must bring the investor charter to the notice of their clients through their respective websites and mobile applications (if any), making them available at prominent places in the office, providing a copy of investor charter as a part of client on-boarding process. All RAs/IAs and registered Registrars to an Issue and Share Transfer Agents ("**RTAs**") must continue to disclose on their respective websites and mobile applications (if any), the data on complaints received against them or against issues dealt by them and redressal thereof, latest by 7th (seventh) of succeeding month, as per the prescribed format.

Revised and revamped nomination facilities in the Indian securities market

SEBI, *vide* circular dated January 10, 2025, revised the norms for nomination for demat accounts and Mutual Fund ("**MF**"), folios, with the intention of preventing the generation of unclaimed assets in the Indian securities market. The circular is divided into 2 (two) sections, with section A reiterating the existing norms to ensure a uniform approach across the securities market, and section B providing the revamped norms. Some of the key provisions of section B are as follows:

1. investors must provide personal identifiers of nominee(s), which is limited to Permanent Account Number, driving license number or the last 4 (four) digits of Aadhaar;

2. investors can nominate up to 10 (ten) persons in the account/folio;

3. power of attorney holder(s) of the investor cannot nominate;

4. upon transmission of joint account/folio, the nominees must have the option to either continue as joint holders with the other nominees or open separate single account/folio for their respective portion;

5. nominees are required to act on behalf of incapacitated investors. The Regulated Entity ("**RE**") will provide the investors having single holding/account/folio, the option to:

    a) empower, any 1 (one) of the nominees (excluding minor nominee) to operate the investor's account/folio, if the investor is physical incapacitated, but still has the capacity to contract;

    b) specify either the percentage or absolute value of assets in the account/folio that can be encashed by such nominee; and

    c) change the mandate of the nominee any number of times without any restriction;

6. direction to Asset Management Companies ("**AMCs**") of MF, their RTAs, and depository participants, for operation of accounts in case of an incapacitated investor are:
   a) an officer of the RE must visit the incapacitated investor in person to ascertain that the investor has the capacity to contract;
   b) for uniformity in dealing with incapacitate investors and those with special needs or sick or old investors in the securities market, the depositories and Association of MFs in India ("**AMPFI**") will place a common standard operating procedure; and
   c) the power of attorney holder of an investor can continue to transact in the account/folios of an investor, subject to the applicable norms;
7. for transmission of assets to the registered nominee(s), the RE will require self-attested copy of death certificate of the deceased investor; due completion, updating or reaffirming of the Know Your Customer ("**KYC**") of nominee/s; due discharge from the creditors if there are subsisting credit facilities secured by a duly created pledge;
8. the REs must transfer assets from the nominee(s) to the legal heir(s) of an investor, when approached by either party and must obtain suitable declaration from the nominee(s) while effecting transmission; and
9. REs must have the prescribed online mechanism for existing and new investors, who want to opt-out of nomination.

Annexure – A of the circular provides the format for nomination form for demat accounts and MF folios.

The circular dated January 10, 2025, was further amended, *vide* SEBI circular dated February 28, 2025, on revised and revamped nomination facilities in the Indian securities market. Some of the key aspects are as follows:

1. it is clarified in the event of the demise of one or more joint holders, the assets held in a joint account will be transmitted to the surviving joint holder(s) by deleting the deceased holder(s)' name;
2. an investor having single holding/account/folio can opt-out of nomination, either online or through physical /offline mode;
3. for new accounts opened online, the opt-out process must also be completed online, whereas new offline accounts will require the opt-out to be completed offline. Existing account holders have the flexibility to opt out either online or offline, based on their convenience. For demat accounts, depository participants will handle the online opt-out process, not the depositories themselves;
4. in case of Non-Resident Indians ("**NRIs**") Overseas Citizens of India ("**OCIs**")/person of Indian origin, passport number of the nominee is acceptable as the personal identifiers of the nominee;
5. the provisions of Clause 3.5.1 of the circular dated January 10, 2025, will be applicable for a joint account/folio in the event where all the holders are simultaneously incapacitated; and
6. the nomination form for demat accounts and MF folios at Annexure- A to the circular dated January 10, 2025, is modified.

Disclosure of Risk Adjusted Return

SEBI, *vide* circular dated January 17, 2025, directed AMCs to disclose the Information Ratio ("**IR**") for equity-oriented MF schemes, ensuring transparency in Risk Adjusted Return ("**RAR**"). To bring more transparency in disclosures made by AMC and aid better decision making by investors, the proposal of disclosure of IR as a financial metric to measure the RAR of a scheme portfolio, was placed for public consultation and deliberated in MF Advisory Committee ("**MFAC**"). Based on the recommendations, some of the key aspects decided upon are as follows:

1. MFs/AMCs must disclose the IR of a scheme portfolio on their website along with a performance disclosure, on a daily basis;
2. AMFI must ensure that such disclosures are made available on its website in a comparable,

downloadable (spreadsheet) and machine readable format;

3. to bring uniformity across varied MFs, the SEBI circular prescribes the formula to be used for calculation of IR, including the 'benchmark' to be used and method of calculation of daily portfolio return;
4. to ensure a better understanding of IR by investors, adequate steps must be undertaken by AMCs and AMFI to educate investors about RAR, IR and their significance in scheme performance evaluation; and
5. disclosures of IR provided on the websites of AMCs and AMFI are to be in the format as prescribed by SEBI.

SEBI (MFs) (Amendment) Regulations, 2025

SEBI, *vide* notification dated February 14, 2025, amended the SEBI (MFs) Regulations, 1996. Some of the key amendments are as follows:

1. the AMCs must invest a percentage of the remuneration of such employees as specified by SEBI in units of MF schemes based on the designation or roles of the designated employees in the manner as may be specified by SEBI;
2. the AMC must conduct stress testing for such schemes as specified by SEBI and disclose the results of the stress testing in the form and manner, as may be specified by SEBI; and
3. the AMC must pay charges or commission or fees related to distribution of MF schemes, and in the manner as may be specified by SEBI from time to time.

Relaxation in the 'skin in the game requirements' for MFs

SEBI, *vide* circular dated March 21, 2025, modified the Master Circular for MFs dated June 27, 2024, pursuant to the amendment to the SEBI (MFs) Regulations, 1996 (*vide* notifications dated February 14, 2025), which relaxed the regulatory framework relating to alignment of interest of the designated employees of the AMCs with the interest of the unit holders (also known as the 'skin in the game requirements'). Some of the key changes are as follows:

1. minimum slab wise percentage of the gross annual cost to company, net of income tax and any statutory contributions of the designated employees of the AMCs must be mandatorily invested in units of MF schemes in which they have a role/oversight, in the prescribed manner;
2. designated employees (associated with liquid fund scheme and other schemes, with respect to the quantum required to be invested in liquid fund schemes) managing liquid fund schemes, up to 75% of the minimum investment amount required to be invested in liquid fund schemes may be invested in schemes, managed by the AMC, with higher risk as compared to liquid fund schemes. The risk value based on the risk-o-meter of the preceding month will be considered;
3. in case of retirement on attaining the superannuation age, the units must be released from the lock-in and the designated employee will be free to redeem the units, except for the units in close ended schemes where the units will remain locked in till the tenure of the scheme is over;
4. on resignation or retirement of the designated employee from the AMC before attaining the age of superannuation, the lock-in period, for the investments made will be reduced to 1 (one) year from the end of the employment or completion date of 3 (three) year lock-in period, whichever is earlier, except for the units in close ended schemes where the units will remain locked in till the tenure of the scheme is over; and
5. in case of fraud or gross negligence by the designated employees, the nomination and remuneration committee of AMC will undertake the preliminary examination and provide recommendations to SEBI for consideration, after approval of the trustees.

Applicability of timelines for rebalancing of portfolios of MF schemes in cases of all passive breaches

SEBI, *vide* circular dated June 26, 2025, clarified that the provisions prescribed under paragraph 2.9 of the Master Circular for MFs (dealing with timelines for rebalancing of portfolios of MF schemes in the event of deviation from mandated asset allocation mentioned in the scheme information document due to passive breaches) will be applicable for all types of passive breaches for the actively managed MF schemes.

Timeline for review of Environmental, Social, and Governance rating pursuant to occurrence of material events

SEBI, *vide* circular dated January 17, 2025, provided relaxations to Environmental, Social, and Governance ("**ESG**") Rating Providers ("**ERPs**") in the timeline prescribed for review of ESG ratings under the Master Circular for ERPs. The relaxation comes pursuant to ERPs having highlighted operational challenges faced in undertaking the review of a large number of listed companies post the publication of Business Responsibility and Sustainability Reporting ("**BRSR**") by such companies. Accordingly, ERPs must carry out a review of the ESG ratings upon the occurrence of or announcement/news of material developments immediately, but not later than 10 (ten) days of occurrence of the said event. However, review of the ESG rating pursuant to publication of BRSR by the rated entity must be carried out immediately, but not later than 45 (forty-five) days of the publication of the BRSR.

Format of due diligence certificate to be given by the debenture trustees

Pursuant to the SEBI (Issue and Listing of Non-Convertible Securities) (Amendment) Regulations, 2024, SEBI, *vide* circular dated January 28, 2025, outlined the due diligence certificate format for Debenture Trustees ("**DTs**") handling unsecured debt securities. The following is specified in case of unsecured debt securities:

1. at the time of filing the draft offer document with the stock exchanges, the issuer must submit to the stock exchange, a due diligence certificate obtained from the DT as per the format specified in Annex–A of the aforesaid circular; and
2. at the time of filing of listing application, the issuer must submit to the stock exchange, a due diligence certificate obtained from the DT as per the format specified in Annex–B of the aforesaid circular.

Responsible use of artificial intellegence by intermediaries

SEBI, *vide* notifications dated February 10, 2025, issued the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2025 amending the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 and the SEBI (Intermediaries) (Amendment) Regulations, 2025 amending the SEBI (Intermediaries) Regulations, 2008, respectively, to include provisions dealing with responsible use of Artificial Intelligence ("**AI**"). A recognised stock exchange/recognised clearing corporation/any person regulated by SEBI which uses AI and machine learning tools and techniques, either designed by it or procured from third-party technology service providers, irrespective of the scale and scenario of adoption of such tools for conducting its business and servicing its clients or constituents, will be solely responsible for:

1. the privacy, security and integrity of investors' and stakeholders' data including data maintained by it in a fiduciary capacity throughout the processes involved;
2. the output arising from the usage of such tools and techniques it relies upon or deals with; and
3. the compliance with applicable laws in force.

SEBI (Depositories and Participants) (Amendment) Regulations, 2025

SEBI, *vide* notification dated February 10, 2025, amended the SEBI (Depositories and Participants) Regulations, 2018, by inserting Regulation 9A dealing with interest on non-payment, belated payment or short payment of annual fee and annual charge payable to SEBI. Where due to the default of the depository, any fee which was liable to be paid to SEBI under Regulation 8 and Regulation 9 of the principal regulations remains unpaid or is paid belatedly or is short-paid by the depository, it will, without prejudice to any other action that may be initiated under the SEBI Act, 1992, rules or regulations, pay an interest of 15% per annum on the amount remaining unpaid or belatedly paid or short-paid, for every month of delay or part thereof to SEBI.

Further, provisions pertaining to responsible use of AI are inserted. A depository which uses AI and machine learning tools and techniques, either designed by it or procured from third-party technology service providers, irrespective of the scale and scenario of adoption of such tools for conducting its business and servicing its clients or constituents, must be solely responsible:

1. the privacy, security and integrity of investors' and stakeholders' data including data maintained by it in a fiduciary capacity throughout the processes involved;
2. the output arising from the usage of such tools and techniques it relies upon or deals with; and
3. the compliance with applicable laws in force.

Facilitation to SEBI registered stock brokers to access negotiated dealing system-order matching for trading in government securities – separate business units

Pursuant to the Master Direction - RBI (Access Criteria for NDS-OM) Directions, 2025, and to facilitate SEBI-registered stock brokers to participate in Government Securities ("**G-Sec**"), market in the Negotiated Dealing System – Order Matching ("**NDS-OM**"), SEBI, *vide* circular dated February 11, 2025, decided that they may do so under a Separate Business Unit ("**SBU**") of the stock broking entity itself, in the specified manner. Some of the key safeguards are as follows:

1. they must ensure that activities of the NDS-OM under a SBU are segregated and ring-fenced from their securities market related activities and arms-length relationship between these activities are maintained;
2. such SBUs must be exclusively engaged in activities of transacting on NDS-OM only;
3. they must prepare and maintain a separate account for the SBU on arms-length basis; and
4. the net worth of the SBU must be kept segregated from their net worth in the securities market.

Governance of technical glitches in stock broker's electronic trading systems – moving towards a more balanced framework

The summary below reviews the regulatory framework surrounding Technical Glitches (defined below) in light of the recent circular dated March 28, 2025, issued by Stock Exchanges (defined below).

SEBI circular dated November 25, 2022[1]

On November 25, 2022, SEBI issued a circular ("**SEBI Circular 2022**") introducing a framework to govern Technical Glitches in stock brokers trading systems. The intent behind the issuance of the circular was to tackle issues related to glitches and risks to avoid disruption of investors' opportunity to trade.

[1] SEBI circular no.: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 (SEBI | Framework to address the 'technical glitches' in Stock Brokers' Electronic Trading Systems).

Thus, SEBI recognised that the consequential effect of Technical Glitches could include financial loss as well as diminish investor confidence in a trading platform's reliability, and as such, a resilient trading infrastructure was warranted to ensure seamless market operations and maintain investor confidence and participation. With this background, a working group was constituted to recommend suitable measures to address the issue as stated aforesaid, resulting in the release of the SEBI Circular 2022.

To simplify, a 'Technical Glitch' in the context of stock brokers broadly refers to any malfunction in the stock broker's trading infrastructure (viz. hardware, software, networks, process etc.) that disrupt normal trading operations and impact trading operations and investor access for a contiguous period of 5 (five) minutes or more ("**Technical Glitch**").Failure/ delays in order execution, data synchronisation issues, display of incorrect or delayed trading data are certain examples of Technical Glitches.

The SEBI Circular 2022 proceeds to introduce mechanisms and guidelines to deal with Technical Glitches occurring in the trading systems of stock brokers including in terms of reporting and monitoring of Technical Glitch. Briefly, in terms of reporting requirements, a single Technical Glitch requires 3 (three) separate reports *viz.* an intimation report - within an hour of the incident ("**1st Report**"); a preliminary report - within the next day ("**2nd Report**"); and a Root Cause Analysis Report - within 14 (fourteen) days from date of incident ("**3rd Report**"). Further, the SEBI Circular 2022 also mandated continuity planning in the event of natural disasters, change of management and software testing, and review of infrastructure in terms of accommodating client scalability. Towards the aforesaid, the SEBI Circular 2022 directed Stock Exchanges (*viz.* National Stock Exchange of India, BSE Limited, Metropolitan Stock Exchange of India, Multi Commodity Exchange of India Limited and National Commodity and Derivatives Exchange Limited ("**Stock Exchanges**")) to build systems for implementing these provisions and establish a financial disincentives framework for both, non-compliance of the provisions and the occurrence/non-reporting of Technical Glitches.

Exchange Framework

In December 2022, pursuant to the SEBI Circular 2022, the Stock Exchanges introduced a framework in this regard ("**Framework 2022**").

Essentially, the Framework 2022 outlined parameters and provided more detailed guidelines on the aspects raised in the SEBI Circular 2022 including in terms of: reporting process and formats for each of the three reporting obligations; manner of testing and periodic reviews for continuity planning; criteria for applicability of additional requirements for specified members (i.e. stock brokers as will be notified by the Stock Exchanges ("**Specified Members**")); and enforcement action/penalty structure ("**Penalising Structure**").

In terms of the Penalising Structure envisaged, a few essential elements are listed below:

1. **Applicability**: the Penalising Structure is applicable only to Technical Glitches which were continuing for more than 15 (fifteen) minutes.
2. **Differentiated enforcement**: Additionally, the Penalising Structure is segregated between those applicable to Specified Members and other stock brokers, with stricter sanctions applicable to Specified Members.
3. **Progressive penalties**: The number of Technical Glitches in a given FY determines the severity of the enforcement action, which ranges from issuing an observation letter/administrative warnings to imposition of monetary penalty. The calculation of the monetary penalty increases with each instance of Technical Glitches without any upper limit. Further, Stock Exchanges have discretion to impose further disciplinary action basis severity.
4. **Client restrictions**: With respect to Specified Members, on the occurrence of more than 5 (five) Technical Glitches in the FY, in addition to monetary penalty, restraint on on-boarding new clients will be imposed for a period.
5. **Other penalties**: Separate monetary penalties in case of non-reporting of Technical Glitches (with additional penalty for each additional day of non-reporting without an upper limit) and other events in terms of disaster recovery.

Time duration of the Technical Glitch	Reportable	Whether subject to Penalising Structure
0-5 mins	No	No
5-15 mins	Yes	No
More than 15 mins	Yes	Yes

To summarise, the Penalising Structure for a Technical Glitch can be grouped as follows:However, the broad definition of 'Technical Glitch' appears to encompass all instances of glitches, regardless of their direct impact on trading operations or investor experience and may be beyond the objective set out in the SEBI Circular 2022 which was limited to those Technical Glitches that *"...impact on the investors' opportunity to trade* ....". This coupled with a progressive penalty structure without an upper limit, gives rise to the possibility of penalties accumulating indefinitely. Not to mention the increased compliance burden of reporting arguably non-relevant Technical Glitches in a time bound manner. These aspects, amongst others, necessitated greater clarity and a more balanced regulatory approach.

Stock Exchange circular dated March 28, 2025[2]

Following representations from stock brokers and the Brokers Industry Standard Forum, the Stock Exchanges released respective circulars dated March 28, 2025 ("**SE Circular**"), *inter alia* containing a set of Frequently Asked Questions ("**SE FAQs**"), a revised Penalising Structure and reporting formats.

The SE Circular and SE FAQs clarify certain ambiguities, refining the practical implementation of the Framework 2022. The key clarifications and resolutions provided are tabulated below.

Sr.No.	Clarification provided in brief	Specific inclusions (if any) in terms of the clarification
Definition of Technical Glitch		
1.	• The SE FAQs clarify that any glitch incident which may lead to either stoppage, slowing down or variance in normal functions/ operations/ services of stock broker for a continuous period of 5 minutes or more must be reported as Technical Glitch. This is elaborated to specifically include certain kinds of Technical Glitches. • The SE FAQs also provides certain examples of supporting functions (*viz. visibility of technical charts, suggestions or news as well as price update delay provided available on refresh of page*) which will not be considered as a Technical Glitch.	Any glitch will be considered a Technical Glitch irrespective of: a) availability of alternative mode of service; b) the number of clients affected; c) whether the same occurred in trading application or support functions; d) segment where such glitch took place; e) whether the same took place in backend office so long as they affect the trading, settlement or decision making process of the client; f) whether the same took place during trading hours or not; g) whether the same was on account of Market Infrastructure Institutions ("**MII**") or third-party service providers or vendors; and h) whether the same took place in the primary site or disaster recovery site of the stock broker in a live drill.

Penalising Structure		
1.	While the scope of Technical Glitch remains broad, the SE FAQs clarify that certain glitches even though fall under the definition of Technical Glitch and thus, reportable, will not be subject to the Penalising Structure.	A Technical Glitch exclusively on account of the following may not attract penal action: a) global issue with cloud service providers; b) technology disruption due to issues at MII (glitch reported by MII to SEBI); c) technological issues in processing of a new trading account i.e. KYC process; d) back office/operational issues not impacting trading and settlement of the clients; e) Technical Glitch occurred during non-trading hours and not having any impact on trading activities of clients; f) failure of payment gateway application due to issues at bank or service provider; and g) technical charts not viewable
2.	Further, the SE Circular issued a revised Penalising Structure with certain additional monetary penalties introduced.	a) Penalty for failure to set up disaster recovery site. b) Penalty for failing to obtain ISO-27001 (*i.e.* international standard for information security management systems) certification by Specified Members.
3.	Notably, an upper limit is added on the imposition of monetary penalty for certain non-compliances. To clarify, the progressive monetary penalty would continue to apply basis the number of occurrences of a Technical Glitch in a given FY.	The upper limit of monetary penalty is added for the following non-compliances: a) for non-reporting of Technical Glitches (i.e. up to a maximum of INR 5,00,000 for Specified Members and INR 1,00,000 for other brokers) b) for failure by Specified Members to conduct disaster recovery drills (i.e. up to a maximum of INR 10,00,000 for Specified Members.) c) For failure by Specified Members to obtain ISO certifications within time. (i.e. up to a maximum INR 5,00,000 for Specified Members)
4.	Additionally, while considering imposition of direction of no on-boarding of clients on crossing 6 or more Technical Glitches in a given FY, only those Technical Glitches will be considered which have affected more than 5% active client (basis certification by the auditor)	-
Reporting requirements		
1	Irrespective of whether the relevant Technical Glitch is subject to the revised Penalising Structure, it is noteworthy that the same will still be reportable and the revised Penalising Structure will still be applicable to such non-compliance.	-
2	In terms of the formats for the three-fold reporting requirements, while the formats largely remain the same, certain modifications are made.	Such modifications to the reporting formats include: a) relocating point 6 (*nature of network connectivity issues*) from the 1st Report format to the 2nd Report; and

		b) streamlining the 3rd Report format to resemble the format shared as part of the annexure to the SEBI Circular 2022. Resultantly, certain information heads from the previous 3rd Report format are removed.

Conclusion

The SE Circular read with the SE FAQs constitute a reasonable effort towards enhancing regulatory clarity while maintaining oversight; the exemptions of certain Technical Glitches from the revised Penalising Structure and the imposition of upper limits on specific monetary penalties are positive developments that contribute to a more balanced regulatory framework.

Nevertheless, the definition of 'Technical Glitches' remains overly broad, posing compliance challenges and necessitating a more precise delineation to ensure effective enforcement. Furthermore, the reporting obligations continue to apply to all Technical Glitches, irrespective of their materiality and whether the same was on account of a third-party or MII, thereby sustaining the associated compliance burden. Even in case of Technical Glitches caused by the systems of an MII, the SE FAQs suggest that only if the MII reports the glitch, the same would not amount to a glitch on the broker's part and hence would not be subject to the revised Penalising Structure. Thus, the current framework does not fully resolve existing deficiencies.

In this regard, a definition which includes a minimum percentage of impacted clients by such Technical Glitch could be more effective. Further, waiving reporting obligations for Technical Glitches which are immaterial and/or caused by MIIs could ease compliance burdens. Additionally, given that there is a limit to the oversight a stock broker can have over third-party systems, the revised Penalising Structure for a Technical Glitch caused by such third party may require to be further revisited.

The SE Circular read with the SE FAQs provide important clarifications and are a relief to the operations of stock brokers. Further refinements would be a welcome addition towards a more proportionate and practical enforcement framework.

Facilitation to SEBI registered stock brokers to undertake securities market related activities in Gujarat International Finance Tec-City International Financial Services Centre

SEBI, *vide* circular dated May 2, 2025, introduced measures to enhance ease of doing business for SEBI-registered stock brokers seeking to undertake securities market-related activities in the Gujarat International Finance Tec-City ("**GIFT- City/ GIFT**") International Financial Services Centre ("**IFSC**"). Previously, SEBI registered stock brokers were required to obtain explicit approval from SEBI for establishing a subsidiary or joint venture to operate in GIFT-IFSC. Pursuant to the amendment, SEBI registered stock brokers proposing to undertake securities market related activities in GIFT-IFSC are permitted to do so under a SBUs of the stock broking entity itself without SEBI approval. These activities can also be carried out if the branch qualifies as an SBU.

Some of the key provisions are as follows:

1. SBUs in GIFT-IFSC must be exclusively engaged in providing securities market related activities as permitted by the International Financial Services Authority ("**IFSCA**");
2. stock brokers must prepare and maintain a separate account for the SBU on arms-length basis;
3. the net worth of the SBU must be kept segregated from the net worth of the stock broker in the Indian securities market;
4. SBUs must maintain separate financial accounts and the net worth of the SBU must be independent of the domestic entity and adhere to IFSCA's regulatory requirements; and
5. stock brokers that have already established subsidiaries or joint ventures for GIFT-IFSC operations may opt to dissolve those structures and continue such services through an SBU.

Relaxation in timelines for holding Alternative Investment Fund's investments in dematerialised form

SEBI, *vide* circular dated February 14, 2025, modified the timelines with respect to Alternative Investment Funds ("**AIFs**") holding their investments in dematerialised form. Some of the relaxations are as follows:

1. any investment made by an AIF on or after July 1, 2025, will be held in dematerialised form only;
2. the investments made by an AIF prior to July 1, 2025, are exempted from the requirement of being held in dematerialised form, except in the prescribed cases (which must be held in dematerialised form on or before October 31, 2025); and
3. the requirement of holding investments in dematerialised form will not be applicable to:
   a) scheme of an AIF whose tenure (not including permissible extension of tenure) ends on or before October 31, 2025; and
   b) scheme of an AIF which is in extended tenure as on February 14, 2025.

Investment in listed debt securities (rated A or below) by Category II AIF will be considered as investments in unlisted securities

At its board meeting on March 24, 2025, SEBI has resolved to amend Regulation 17(a) of the SEBI (AIF) Regulations, 2012 ("**SEBI AIF Regulations**"). The notification implementing this amendment is expected to be issued shortly.

Background

Regulation 17(a) under 'Conditions for Category II AIFs', of the SEBI AIF Regulations, states that "Category II AIF will invest in investee companies or in the units of Category I or other Category II AIF as may be disclosed in the placement memorandum;

Explanation – Category II AIF will invest primarily in unlisted companies directly or through investment in units of other AIF"

The SEBI master circular for AIFs dated May 7, 2024, clarified that "with respect to Regulation 17(a) of the SEBI AIF Regulations, the term 'primarily' is indicative of where the main thrust of Category II AIFs ought to be. The investment portfolio of a Category II AIF ought to be more in unlisted securities as against the aggregate of other investments." Accordingly, Category II AIFs are required to invest more than 50% of the investible fund in unlisted securities.

At this juncture, it may be noted that amendments made to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**SEBI LODR Regulations**"), in September 2023 introduced Regulation 62A which inter-alia required all listed entities that already have outstanding listed non-convertible debt securitiesor proposes to list non-convertible debt securities on or after January 1, 2024, to necessarily list all other non-convertible debt securities on the stock exchange(s) issued on or after January 1, 2024.

Given this, the availability of investment opportunities in unlisted securities may possibly be reduced in the future for AIFs for making fresh investments. In order to address this issue, SEBI floated a consultation paper on February 7, 2025, to review Regulation 17(a) of the SEBI AIF Regulations, with the objective of ease of doing business. Subsequently, SEBI at its board meeting held on March 24, 2025, clarified that investments made by Category II AIFs in listed debt securities rated 'A' or below will be treated as akin to investments in unlisted securities for the purpose of their compliance with minimum investment conditions in unlisted securities.

Conclusion

SEBI's proposed amendment to Regulation 17(a) of the SEBI AIF Regulations aims to provide flexibility for Category II AIFs in meeting their investment requirements by allowing investments in listed debt securities rated 'A' or below to count as unlisted securities i.e. be construed to be in compliance with the explanation to Regulation 17(a) of the SEBI AIF Regulations. This change is a part of SEBI's ongoing efforts to streamline processes and promote ease of doing business in the investment sector.

SEBI (AIF) (Amendment) Regulations, 2025

SEBI, *vide* notification dated May 21, 2025, amended the SEBI AIF Regulations, by modifying the explanation under Regulations 17 (2) (*conditions for Category II AIFs*) to state that a Category II AIF must invest primarily in unlisted securities and/or listed debt securities (including securitised debt instruments) which are rated 'A' or below by a CRAs registered with SEBI, directly or through investment in units of other AIFs, in the manner as may be specified by SEBI.

Notification under SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

SEBI, *vide* notification dated June 25, 2025, notified the following conditions/requirements relating to the certification to be obtained by associated persons under the SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007:

1. at least 1 (one) key personnel, amongst the associated persons functioning in the key investment team of the manager of Category I AIF or Category II AIF or Category I and II AIF, must obtain certification from the National Institute of Securities Market ("**NISM")** by passing either the NISM Series-XIX-C; and
2. at least 1 (one) key personnel, amongst the associated persons functioning in the key investment team of the manager of Category III AIF, must obtain certification from the NISM by passing either the NISM Series-XIX-C.

AIFs, existing as on June 25, 2025, must obtain requisite certification on or before July 31, 2025.

Qualified buyers under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

SEBI, *vide* notification dated February 28, 2025, specified that all Non-Banking Financial Companies ("**NBFCs**"), including Housing Finance Companies ("**HFCs**"), regulated by the Reserve Bank of India ("**RBI**"), are classified as qualified buyers for the purposes of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 subject to the following conditions:

1. they must ensure that the defaulting promoters or their related parties do not directly or indirectly gain access to secured assets through security receipts; and
2. they must comply with such other conditions as RBI may specify from time to time.

Implementation of Industry Standards on 'Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction'

SEBI, *vide* circular dated February 14, 2025, mandated listed entities to follow the Industry Standards on 'Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction' ("**Industry Standards**") with effect from April 1, 2025. The Industry Standards Forum ("**ISF**") has formulated the Industry Standards to facilitate uniform approach and assist listed entities in complying with the requirement under Regulation 23(2), (3) and (4) of the SEBI LODR Regulations, requiring Related Party Transactions ("**RPTs**") to be approved by the audit committee and by the shareholders, if material,. It provides for the minimum information to be provided for review of the audit committee and shareholders for approval of RPTs. By virtue of the circular dated March 21, 2025,the timeline for applicability of the Industry Standards was extended to July 1, 2025.

The Industry Standards were further revised, *vide* circular dated June 26, 2025. Some of the key modifications made to the Industry Standards are as follows:

1. the listed entity must provide the audit committee with the information as specified in the Industry Standards, while placing any proposal for review and approval of an RPT; and
2. the notice being sent to the shareholders seeking approval for any RPT must, in addition to the requirements under the Companies Act, 2013 ("**Companies Act**"), include the information as part of the explanatory statement as specified in the Industry Standards.

The timeline for applicability of the Industry Standards was extended to September 1, 2025.

Modification to the formats for disclosure of specified securities and shareholding pattern

SEBI, *vide* circular dated March 20, 2025, modified the formats for disclosure of holding specified securities and shareholding pattern under the Master Circular dated November 11, 2024, for compliance with the provisions of SEBI LODR Regulations by listed entities. Some of the key amendments are as follows:

1. Table I to Table IV showing the shareholding pattern are amended as follows:
    a) details of Non-Disposal Undertaking ("**NDU**"), other encumbrances, if any and total number of shares pledged or otherwise encumbered including NDU must be disclosed by the listed entities;
    b) it is clarified that underlying outstanding convertible securities also includes Employee Stock Option Plans ("**ESOPs**") i.e. the existing header of column X as 'No. of Shares Underlying Outstanding convertible securities' (including warrants, ESOPs); and
    c) one additional column is added in the existing shareholding pattern format to capture the details of total number of shares on fully diluted basis (including warrants, ESOP, convertible securities).
2. Table II of the shareholding pattern is amended to include a footnote providing the details of promoter and promoter group with shareholding 'NIL'.

SEBI redefines high value debt listed companies

SEBI amended the SEBI LODR Regulations pursuant to the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2025 ("**LODR Amendment**"). The LODR Amendment came into effect on March 27, 2025.

The LODR Amendment redefines High Value Debt Listed Companies ("**HVDLE**s") to mean entity which has outstanding listed non-convertible debt securities of INR 1,000 crore (Indian Rupees one thousand crore) and above ("**HVDLE Threshold**") as on March 31, 2025, and also prescribes the corporate governance for HVDLEs. Some of the key amendments are as follows:

Applicability

1. any entity with an outstanding listed non-convertible debt securities of the HVDLE Threshold as on March 31, 2025, will be a HVDLE. This threshold is increased from INR 500 crore (Indian Rupees five hundred crore) as existing previously;
2. if any entity meets the HVDLE Threshold, then such entity will be required to comply with the regulatory and disclosure requirements within 6 (six) months from the date of such trigger. The disclosure of such compliance will be required to be made in the corporate governance compliance report on and from the date of the third quarter following the date of such a trigger;
3. an entity which becomes a HVDLE must continue to comply with the requirements applicable to a HVDLE till the value of the outstanding listed debt securities as on March 31 in a year, reduces and remains below the HVDLE Threshold for a period of 3 (three) consecutive FYs. Previously, the

relevant corporate governance requirements would continue to remain applicable until all the listed debentures were redeemed regardless of whether a listed entity's outstanding listed debt securities fell below the prescribed threshold;

4. Real Estate Investment Trusts ("**REITs**") and Infrastructure Investment Trusts ("**InvITs**") are not required to comply with these corporate governance requirements and continue to be governed by the SEBI regulations specifically applicable to them; and

5. the corporate governance provisions proposed pursuant to the LODR Amendments are in addition to the requirements set out in the Companies Act.

Additional corporate governance requirements under the LODR Amendments

1. **DTs consent for material RPTs:**

   a) HVDLEs are required to obtain consent from the DTs ("**DTs Consent**") for all material RPTs[3]. The DTs consent should be provided after the DTs obtains approval from the debenture holders who are not related to the issuer and hold at least 50% of the debentures in value. HVDLE can proceed to obtain the approval of the shareholders only upon the receipt of the DTs Consents;

   b) this requirement is only applicable to debt securities which are issued after April 1, 2025, and does not apply to debt securities which are issued until March 31, 2025;

   c) further, the requirement of DTs Consent does not apply in the following cases:

      i) transactions entered into between 2 (two) government companies (as defined under the Companies Act);

      ii) transactions entered into between a Holding Company ("**HoldCo**") and its Wholly Owned Subsidiary ("**WOS**") whose accounts are consolidated with such HoldCo and placed before the shareholders at the general meeting for approval; and

      iii) transaction entered into between 2 (two) WOSs of the listed HoldCo, whose accounts are consolidated with such HoldCo and placed before the shareholders at the general meeting for approval.

   d) This is a major departure from the existing regime where no such consent from DTs were required.

2. **Introduction of a separate regime for HVDLEs which do not have any specified securities listed:**

   a) the LODR Amendment introduces a new Chapter VA which sets out the corporate governance requirements applicable to HVDLEs, which do not have any specified securities (i.e. equity shares' and 'convertible securities' as defined under clause 33 (eee) of sub-regulation (1) of Regulation 2 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("**SEBI ICDR Regulations**") listed on any stock exchange. HVDLEs which have any specified securities listed on any stock exchange, continue to be governed by the requirements set out under Regulations 15 to 27 of the SEBI LODR Regulations;

   b) the corporate governance requirements prescribed under Chapter VA as introduced by the LODR Amendment remain substantially similar to what is provided under Regulations 15 to 27 of the SEBI LODR Regulations. These include board composition and corporate governance requirements such as appointment of woman directors, independent directors, constitution of audit committee, nomination and remuneration committee and audit committee; and

   c) HVDLEs which are governed by Chapter VA as introduced by the LODR Amendment have the flexibility to constitute the nomination and remuneration committee, the stakeholder relationship committee and the risk management committee or discharge their

[3] A material RPT is defined in the SEBI LODR Regulations as transaction with a related party is considered material if the transaction to be entered into individually or taken together with previous transactions during a FY, exceeds INR 1,000 crore (Indian Rupees one thousand crore) or 10%. of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

functions through the board of directors. This will ease the burden of constituting various committees by such HVDLEs.

Conclusion

The introduction of the LODR Amendment is primarily aimed at simplifying and streamlining the corporate governance norms of HVDLEs. The changes introduced pursuant to the LODR Amendment are largely in alignment with the consultation paper introduced by the SEBI in October 2024 to address issues concerning listed entities with a significant exposure in the debt capital markets.

The increase in the threshold of applicability has rightly been revised to INR 1,000 crore (Indian Rupees one thousand crore) to ensure ease of doing business, especially for companies which are in a nascent stage in accessing the debt markets generally and does not apply to entities which do not have major exposure to the debt capital markets.

The additional requirement of procuring debenture holder consent for material RPT may prove to be burdensome. Usually, the requirement of consent of the debenture holders for RPTs is commercially driven and may not be the norm. NBFCs with multiple debt issuances and a large exposure to debt markets may struggle to obtain such consent which was not commercially sought for by the debenture holders. This will also affect covenant-lite perpetual or subordinated debt instruments which usually do not have these consent items in their contracts. Delay or failure to obtain such consent from debenture holders (especially, retail participants where the debentures are widely held) may stall any strategic sale or other forms of corporate restructuring by the issuers which may be time sensitive in nature and was not contractually permitted. In light of the above, it will be interesting to see how some of the HVDLEs navigate through this new framework especially since the regulators are trying to deepen the bond market in the past.

ESG disclosures for value chain, and introduction of voluntary disclosure on green credits

SEBI, *vide* circular dated March 28, 2025, modified the Master Circular for Compliance with the Provisions of the SEBI LODR Regulations, to enhance the ease of doing business for listed entities. It focuses on revising ESG disclosures, particularly concerning the value chain, and offer options for either assessment or assurance of BRSR core. Some of the key changes are as follows:

1. green credits are included in BRSR, requiring listed entities to disclose the number of green credits generated or procured by the entity and their top 10 (ten) value chain partners, based on the value of purchases and sales;

2. it is specified that ‘assessment’ refers to third-party assessment undertaken as per the standards developed by the Industry Standards Forum in consultation with SEBI and listed entities can choose between ‘assessment’ or ‘assurance’ for BRSR core and value chain ESG disclosures;

3. listed entities can make the ESG disclosures for value chain as per BRSR core in their annual report. For this purpose, value chain must encompass the top upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value) respectively. However, the listed entity may limit disclosure of value chain to cover 75% of its purchases and sales (by value) respectively;

4. ESG disclosures for the value chain will be applicable to the top 250 (two hundred and fifty) listed entities on a voluntary basis from FY 2025-26; and

5. if a listed entity provides ESG disclosures for value chain, then it must disclose the percentage of total

sales and purchases covered by the value chain partners, respectively, for which ESG disclosure are provided.

SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2025

SEBI, *vide* notification dated April 29, 2025, amended the SEBI LODR Regulations. The amendments include additional disclosures on the outstanding litigations and material developments in relation to the originator or servicer or any other party to the transaction which could be prejudicial to the interests of the investors and disclosures about defaults in connection with servicing obligations undertaken by servicer. These must be disclosed by special purpose distinct entity or its trustee to the stock exchange on an annual basis. For grievance redressal related to securitised debt instruments, the SEBI Complaints Redress System (“**SCORES**”) registration may be obtained at the trustee level, covering all special purpose distinct entities for which they act as trustee.

Limited relaxation from compliance with certain disclosure requirements

SEBI, *vide* circular dated June 5, 2025, decided that no penal actions for any non-compliance (undertaken between the period October 1, 2024 to June 5, 2025) under the SEBI LODR Regulations will be taken against entities having listed non-convertible securities, who have complied with the conditions as specified in the Ministry of Corporate Affairs (“**MCA**”) general circular dated September 19, 2024, and have not sent hard copy of statement containing the salient features of all the documents to the holders who have not registered their email address. Further, similar relaxations from the requirements of SEBI LODR Regulations are provided for entities having listed non-convertible securities (for the period June 6, 2025, to September 30, 2025), provided that advertisement will disclose the web-link to the statement containing the salient features of all the documents, so that the holder of non-convertible securities have access.

Industry Standards on key performance indicators disclosures in the draft offer document and offer document

SEBI, *vide* circular dated February 28, 2025, formulated Industry Standards (formulated by the Industry Standards Forum) for effective implementation of the requirement to disclose Key Performance Indicators (“**KPIs**”) in the draft offer document and offer document as per the provisions of the SEBI ICDR Regulations. The circular is applicable for all draft offer documents / offer documents filed with SEBI / stock exchanges on or after April 1, 2025. Issuer companies and merchant bankers must follow these industry standards to facilitate uniform approach in identification and disclosure practices of KPIs.

Key updates for equity capital markets under the SEBI ICDR Regulations

On March 3, 2025, SEBI approved amendments to the SEBI ICDR Regulations. These amendments were published in the official gazette on March 8, 2025, as the SEBI ICDR Amendment Regulations, 2025 (“**Amendment**”). The Amendment will take effect from the specified date except for regulations related to the rights issue by a listed issuer which will apply to rights issues approved by the board of the issuer post this Amendment. The Amendment introduces certain significant structural changes affecting capital raising, disclosure norms, compliance obligations, and regulatory oversight.

The Amendment also takes care of some of the recurring SEBI observations on the draft offer documents filed by companies eyeing for an Initial public offering (“**IPO**”). It standardises some of the definitions and provisions under the SEBI ICDR Regulations and SEBI LODR Regulations and resonates with the views taken by expert committees through their consultation papers in relation certain conceptual ambiguity existing under various capital markets regulations in the past.

Some of the key amendments in the equity capital markets space are discussed below:

Stock Appreciation Rights

1. Regulation 5(2) of the SEBI ICDR Regulations are amended to introduce Stock Appreciation Rights ("**SARs**"), as valid dilutive instruments, which are fully exercised prior to filing of the Red Herring Prospectus ("**RHP**"), in addition to ESOPs and compulsorily convertible securities which will convert prior to filing of the RHP for entities eligible to make an IPO. As per the Amendment, relevant disclosure pertaining to SARs should be accordingly made in the draft offer document and offer documents. This Amendment is in line with the evolving corporate incentive structures.
2. The Amendment also harmonises the existing provisions under the SEBI (Share-Based Employee Benefits and Sweat Equity) Regulations, 2021 which allows and regulates such stock-based benefits and SEBI LODR Regulations. It also speaks with the consultation paper released by the expert committee for facilitating ease of doing business and harmonisation of the provisions of SEBI ICDR Regulations and SEBI LODR Regulations dated June 26, 2024.

Finalised position in relation to employee benefits schemes in relation to IPO:

1. ESOPs settled for equity shares – Permitted;
2. ESOPs settled for cash (fully or partly) – Not permitted. Only cashless exercise is permitted in terms of SEBI (Share Based Employee Benefits) Regulations, 2014;
3. SARs settled for equity shares **–** Permitted now, subject to full exercise of rights prior to RHP filing. Further, SEBI advisory dated February 27, 2023, will stand modified and be read in conjunction with aforementioned amendment;
4. SARs settled for cash – Not permitted; and
5. any other employee benefit scheme settled for cash – Not permitted.

Accordingly, SARs are to be considered for lock-in calculation of Minimum Promoters' Contribution ("**MPC**") and the exemption from lock-in requirements available in respect of ESOPs will also be extended to any equity shares allotted pursuant to a bonus issue against equity shares allotted pursuant to SARs scheme.

Changes in public announcement norms

1. Public announcements post filing of the IPO draft offer document within 2 (two) days are amended to 2 (two) working days. Further, the requirement to keep the draft offer document available for public comments for 21 (twenty-one) days from the date of its filing are amended to 21 (twenty-one) days from the date of publication of the public announcement on filing of the draft offer document.
2. The pre-issue advertisement and the price band advertisement are merged into 1 (one) advertisement, which will be made at least 2 (two) working days prior to the opening of the issue. The format of the pre-issue and price band advertisement are provided in the Amendment.

Promoter lock-in

Under the pre-Amendment regime, if the majority of the fresh issue proceeds are proposed to be utilised for capital expenditure, the MPC lock-in period will be 3 (three) years from the date of allotment in the IPO, otherwise, the MPC will be locked in for 18 (eighteen) months. Similarly, promoters holding in excess of MPC will be locked in for a 6 (six) month period. However, if the majority of the fresh issue proceeds is proposed to be utilised for capital expenditure, the lock in will be for 1 (one) year.

The Amendment also formalises the repayment of existing loans that may be taken for the purpose of such capital expenditure to be considered for the fresh issue proceeds being utilised for capital expenditure. This is a recurring SEBI observation and is introduced as an amendment for SEBI ICDR Regulations.

Faster approvals, revised compliance timelines and changes in renunciation provisions for rights issue

1. Reduced timelines and faster approval process for rights issue by a listed issuer are introduced**.** The rights issue amendments are in line with the consultation paper released for faster rights issue with flexibility of allotment to selective investors

on August 20, 2024. Post the Amendment, the draft letter of offer is not required to be filed with SEBI; instead, it can be directly filed with stock exchanges.

2. Public announcement of draft letter of offer on issuer's website for public comments is omitted.
3. The threshold for applicability of the SEBI ICDR Regulations for rights issue by a listed issuer wherein the aggregate value of the issue is INR 50,00,00,000 (Indian Rupees fifty crore) or more under Regulation 3 and Regulation 60 of the SEBI ICDR Regulations are omitted. Therefore, the SEBI ICDR Regulations is now uniformly applicable for all rights issue regardless of the issue size.
4. Regulation 69 of the SEBI ICDR Regulation is amended to eliminate the obligation for issuers to appoint a merchant banker for rights issue. Instead, the responsibilities are redistributed amongst the issuer, the registrar and the stock exchanges. Accordingly, the requirement of submission of due diligence certificate by the lead managers under Regulation 71 of the SEBI ICDR Regulations and provisions relating to due diligence being conducted by the merchant bankers and the mandatory issue agreement to be entered between the issuer and merchant bankers have also been deleted. However, given the stock exchange approval process, issuers may still require to appoint advisors for the purpose of ensuring compliance under SEBI ICDR Regulations.
5. An additional eligibility criterion is added wherein in case the equity shares of the issuer are suspended from trading as a disciplinary measure as on the reference date, the issuer will not be eligible to make the rights issue. This will deter companies under trading suspensions from using rights issues as a means to resolve their liquidity issues.
6. The Amendment also allows the promoters/promoter group to renounce their rights entitlements in favour of specific investors. Regulation 77 B is introduced *vide* this Amendment which defines the specific investor as any investor who is eligible to participate in rights issue and whose name are disclosed by the issuer in terms of Regulation 84 in the issue related advertisements. Further, the issuers are also allowed to allocate any unsubscribed portions to specific investors basis the terms captured in the Amendment. As per the Amendment, the letter of offer should specifically disclose the intention of issuer to allot the under-subscribed portion of the rights issue to specific investors.

Post this Amendment, SEBI also issued a circular no. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2025/31 on March 11, 2025, wherein the revised timelines for completion of the rights issue process within 23 (twenty-three) working days from the date on which the board of the issuer approves the rights issue are notified.

Reporting of pre-IPO transaction

Disclosure of pre-IPO transactions are mandatorily required to be reported to stock exchanges within 24 (twenty-four) hours of such pre-IPO transactions (in part or entirety). This is aligned with advisories issued by SEBI earlier in relation to the public announcement and price band advertisement with respect to proposed/undertaken pre-IPO placement and should be read in conjunction with the July 4, 2023, SEBI advisory.

Objects related amendments

The Amendment clarifies that for loan repayment object, a certificate on utilisation of loan for the purpose it was availed may be obtained from the chartered accountant, holding a valid peer review certificate instead of the statutory auditor for the periods *not* audited by the current statutory auditor; or the loan which is proposed to be repaid was availed by a subsidiary and the issuer's current statutory auditor is *not* the statutory auditor of the subsidiary. Disclosure pertaining to the object of utilisation of long-term working capital to be included basis audited standalone financials. Such standalone financial statements will be restated if there are any restatements/adjustments in the restated consolidated financial statements which may have impact on the audited standalone financial statements.

Disclosure of material agreements in the IPO offer document

The Amendment requires the disclosure of agreements impacting the management or control of the issuer or imposing any restriction or creating any liability upon the issuer (as prescribed under clause 5A, paragraph A of part A (Schedule III) of SEBI LODR Regulations) in the IPO offer document.

Litigation related disclosure in the IPO offer document

In line with the SEBI LODR Regulations, with respect to disclosures relating to outstanding civil litigation in the IPO offer documents, the Amendment mandates to follow the lower of the monetary thresholds prescribed therein. Under the pre-Amendment regime, the issuer was required to disclose material civil litigation in its IPO offer documents based on the materiality policy adopted by its board.

All criminal proceedings involving Key Managerial Personnel ("**KMP**") and senior management of the issuer and also the actions by regulatory authorities and statutory authorities against such KMP and senior management of the issuer are required to be disclosed.

Disclosure of voluntary proforma financials

Basis the Amendment, the issuer may voluntarily disclose proforma financial statements of acquisitions/divestments even when such acquisitions/divestments are below the materiality threshold specified in the SEBI ICDR Regulations or if the acquisitions/divestments are completed prior to the latest period for which financial information is disclosed in the IPO offer document. The issuer may also include financial statements of a business or subsidiary acquired/divested, provided such financial statements are certified by the auditor of the business or subsidiary acquired/divested, or chartered accountants holding a valid peer review certificate.

Amendments pertaining to confidential filings

1. Basis the Amendment, the issuer is required to make a public announcement of the confidential filing within 2 (two) working days of filing of the draft offer document and updated draft RHP – I. Further, SARs which are fully exercised for equity shares prior to the filing of the RHP are now exempted for confidential filings.
2. Other important amendments:
   a) compliance officer must be a qualified company secretary. This is in line with the existing obligations of a compliance officer under SEBI LODR Regulations;
   b) the Amendment also clarifies that the calculation of price per share for determining ineligible securities for MPC, to be done after adjusting the same for corporate actions such as share split, bonus issue, etc. undertaken by the issuer;
   c) in relation to Regulation 6(2) offerings, under the pre-Amendment regime, if the shares offered by a shareholder (individually or PAC) were more than 20% of the pre-issue shareholding of the issuer, the shareholder cannot offer more than 50% of their pre-issue shareholding. In a situation wherein the pre-issue shareholding is less than 20%, the shareholder cannot offer more than 10% of the pre-issue shareholding of the issuer. The Amendment provides the clarity that the shareholding to be calculated as on the date of the IPO draft offer document and the threshold limit will apply cumulatively to the total number of shares offered for sale to the public as well as any secondary sale transactions prior to the IPO; and
   d) additional disclosures in the IPO offer documents.
3. In offer document summary, the details pertaining to the pre-issue and post-issue shareholding as at allotment in the prescribed format must be included for the promoter(s), promoter group and additional top 10 (ten) shareholders of the issuer.
4. In relation to disclosure under basis for offer price chapter, in relation to disclosure of Earnings Per Share ("**EPS**"), price-to-earnings ratio, Return on Net Worth ("**RoNW**") and Net Asset Value ("**NAV**"), a new format is introduced. A statement to be added that the lead managers have exercised due diligence and satisfied themselves before assigning weights with respect to EPS and RoNW.

Faster rights issue with a flexibility of allotment to specific investors

SEBI, *vide* circular dated March 11, 2025, introduced significant reforms to streamline the rights issue process for listed companies, with effect from April 7, 2025. Pursuant to the Amendment, a new framework for rights issue process is introduced. In terms of the amended Regulation 85 of the SEBI ICDR Regulations, rights issues must be completed within 23 (twenty-three) working days from the date of board of directors of the issuer approving the rights issue. Accordingly, the revised timelines for completion of the various activities involved in rights issue are prescribed. Further, the rights issue must be kept open for subscription for a minimum period of 7 (seven) days and for a maximum period of 30 (thirty) days. The validation of application bids received for subscribing to the shares in rights issue and finalisation of basis of allotment will also be carried out by the stock exchanges and depositories along with the registrar to the issue.

Pursuant to the new framework of rights issue, some of the key amendments made to the Master Circular on SEBI ICDR Regulations, dated November 11, 2024, are as follows:

1. in the letter of offer the issuer must disclose the process of credit of REs in the demat account and renunciation;
2. for rights issues the issuer must file the letter of offer with SEBI through email and the payment of filing fees must be made online through payment link provided on SEBI website under the fees category 'Filing Fees'; and
3. Application Supported by Blocked Amount ("**ASBA**") facility in rights issue enables an investor/shareholder to apply through ASBA mode. ASBA process from the time of submission of application by the applicants till transfer of shares in the depository account of the investors, as specified for public issues, will be followed in the case of rights issues also to the extent relevant for rights issue.

Revision in the scope of unpublished price sensitive information and disclosure timelines

SEBI, *vide* notification dated March 11, 2025, issued the SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2025, amending the SEBI (Prohibition of Insider Trading) Regulations, 2015, effective 90 (ninety) days from publication (i.e., June 9, 2025). Some of the key amendments are as follows:

1. the term 'unpublished price-sensitive information' is revised to include new disclosure requirements such as contract awards or terminations not in the normal course of business, rating changes, fundraising activities, agreements affecting management control, and financial or regulatory actions;
2. KMP resignations, fraud, defaults, insolvency proceedings, forensic audits and legal disputes impacting a company must be disclosed;
3. structured digital databases must record external information within 2 (two) calendar days of receipt; and
4. trading window is now open for unpublished price sensitive information not originating within the listed company.

Framework on social stock exchange

SEBI, *vide* circular dated March 19, 2025, revised the existing minimum application size for subscribing to Zero Coupon Zero Principal Instruments issued by non-profit organisations on social stock exchange from INR 10,000 (Indian Rupees ten thousand only) to a lower amount i.e., INR 1,000 (Indian Rupees one thousand only).

SEBI (InvITs) (Amendment) Regulations, 2025

SEBI *vide* circular dated April 1, 2025, amended the SEBI (InvITs) Regulations, 2014 ("**SEBI InvIT Regulations**"). Some of the key amendments are as follows:

1. a new proviso to Regulation 4 (2)(e) (v) of the SEBI InvIT Regulations is inserted stating that if by a vacancy in the office of an independent director of the investment manager, the investment manager becomes non-compliant with the requirement of having an independent director, such vacancy must be filled by the manager as follows: (a) if such vacancy arises due to expiry of the term of office of the independent director, then the resulting vacancy must be filled not later than the date such office is vacated; or (b) if such vacancy arises due to any other reason, then the resulting vacancy must be filled at the earliest and not later than 3 (three) months from the date of such vacancy;
2. a new sub-regulation is inserted that imposes additional responsibilities on the trustee, including conducting due diligence on investments, maintaining high governance standards, acting impartially in fiduciary capacity, and prioritising unit holders' interests,. These changes are outlined in Schedule X of the SEBI InvIT Regulations;
3. InvITs can invest in additional instruments as part of the 20% investment bucket, subject to certain conditions. These include (a) investing in unlisted equity shares of companies providing project management and incidental services related to infrastructure development; and (b) investing in units of liquid MF schemes with a credit risk value of at least 12 (twelve) and falling under class A-I in the potential risk class matrix. Additionally, InvITs can now invest in interest rate derivatives, including interest rate futures, forward rate agreements, and interest rate swaps. InvITs that raised funds through public issues can now invest in unlisted equity shares of the exclusive project manager or service provider for the infrastructure project, subject to the InvIT holding the entire shareholding in the company, either directly or indirectly. The SEBI InvIT Regulations previously allowed InvITs to make investments in companies derived at least 80% of their operating income from the infrastructure sector;
4. it now allows sponsors and/or their group entities to undertake inter-se transfers of locked-in units, provided that such units continue to remain locked-in for the balance of period mandated under Regulation 12 of the SEBI InvIT Regulations. Additionally, transfers of locked-in units between outgoing and incoming sponsors are also permitted, subject to compliance with the prescribed conditions in Regulation 12 of the SEBI InvIT Regulations.

SEBI (InvITs) (Second Amendment) Regulations, 2025

SEBI, *vide* circular dated April 28, 2025, permitted InvITs to invest the unutilised funds in unlisted equity shares, units of certain liquid MF schemes (provided that (a) the credit risk value is at least 12 (twelve), and (b) the scheme falls under class A-I in the potential risk class matrix, as specified by SEBI) and interest rate derivatives as part of the 20% investment bucket, subject to fulfilment of prescribed conditions.

SEBI (REITs) (Amendment) Regulations, 2025

SEBI, *vide* circular dated April 22, 2025, amended the SEBI (REITs) Regulations, 2014 ("**SEBI REIT Regulations**") through the SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2025.

Some of the key amendments are as follows:

1. the definition of 'common infrastructure' is inserted to include facilities or amenities such as power plants, district or retail heating and cooling systems, water treatment or processing plants, waste treatment or processing plants and any facilities or amenities incidental to real estate business which exclusively supply or cater to, or are exclusively consumed by the REIT, its HoldCo

or Special Purpose Vehicle ("**SPV(s)**"), irrespective of whether such facilities or amenities are co-located within any project of REIT or not (Regulation 2 (ga) of the SEBI REIT Regulations). However, any excess production or capacity not consumed by the REIT, its HoldCo or SPV(s), may be sold to a Central or State grid or utility, subject to the prescribed conditions under the SEBI (REIT) (Amendment) Regulations, 2025;

2. if by a vacancy in the office of an independent director of the manager, the manager becomes non-compliant with the requirement of having an independent director, such vacancy must be filled by the manager as follows: (a) if such vacancy arises due to expiry of the term of office of the independent director, then the resulting vacancy must be filled not later than the date such office is vacated; or (b) if such vacancy arises due to any other reason, then the resulting vacancy must be filled at the earliest and not later than 3 (three) months from the date of such vacancy;

3. the trustee must: (a) comply with the core principles defining its roles and responsibilities which must encompass transparency, accountability, due diligence and compliance with the SEBI REIT Regulations; and (b) act impartially in their fiduciary capacity, prioritise protection of the interests of unitholders, ensure effective management oversight over the manager and the REIT and maintain high standards of governance of the manager and the REIT; and

4. REITs can invest in additional instruments as part of the 20% investment bucket, subject to certain conditions. These include(a) investing in unlisted equity shares of companies providing property management or property maintenance and other incidental services exclusively to the REIT, its HoldCo(s) and SPV(s), and (b) where the entire shareholding or interest in such company is held by REIT either directly or through its HoldCo(s) or SPV(s). Further, in case of business parks, townships and other real estate projects, such services may be provided to other entities which are contiguous within the project, subject to certain prescribed conditions.

Review of disclosure requirements by InvITs and REITs

SEBI, *vide* circulars dated May 7, 2025, revised Chapters 3 and 4 of the Master Circulars for InvITs and REITs dated May 15, 2024, dealing with disclosure of information in the offer document and post listing of units. Some of the key revisions are as follows:

1. the offer document/placement memorandum must contain audited financial statements for a period of 3 (three) FYs (*earlier audited financial statements were not mandatory*). Further, if the latest audited financials are older than 6 (six) months from the date of filing, additional stub period financials must be provided;

2. if general-purpose financial statements are unavailable, combined or carved-out financial statements must be prepared and audited by the seller's auditor. If the REIT/InvIT is in existence for less than 3 (three) completed FYs, disclosures should be provided for the years the REIT/InvIT is operational, including any applicable stub periods;

3. in case of a follow-on offer, if the InvIT/REITs has been in existence for a period lesser than the last 3 (three) completed FYs, then financial statements of the InvIT/REITs must be disclosed for such FYs for which the InvIT/REITs has been in existence and for the stub period (if applicable); and

4. additional disclosures are specified which will be included as a part of the audited financial information and will be audited accordingly. These include project-wise operating cash flows, contingent liabilities and commitments as of the date of the latest financials.

Investor charter for InvITs and REITs

SEBI, *vide* circulars dated June 12, 2025, has decided to introduce the investor charters for InvITs and REITs, to enhance financial consumer protection alongside enhanced financial inclusion and financial literacy. Some of the key aspects are as follows:

1. the charter for InvITs aims to develop the Indian InvIT Industry and provide investors with transparent, efficient, and reliable investment opportunities in infrastructure assets by ensuring fair and robust regulatory mechanisms and enhance confidence among investors by protecting and promoting the interests of unitholders; and
2. the charter for REITs aims to commit to advancing the growth and development of REITs sector in India, with a focus on the growth of commercial real estate assets including other assets portfolio management. To advocate for both business and investor interests while adhering to regulations. To develop integrity and excellence, and foster industry best practices that are benchmarked to leading global REIT standards.

Some of the key rights of investors under the charter for InvITs are as follows:

1. right to receive timely distributions as per the declared schedule made by the InvIT and SEBI mandates at least half-yearly for publicly listed InvITs and at least annually for privately listed InvITs;
2. right to vote on significant matters, including the acquisition of new assets, borrowing, related party transactions, appointment or change of the investment manager, and induction or exit of a sponsor (with an exit option for dissenting voters) and such other matters which requires unitholders consent as per Regulation 22 of the SEBI InvIT Regulations;
3. right to access a full valuation report of all InvIT assets at least annually for both publicly and privately listed InvITs;
4. right to receive annual and half-yearly report of the InvIT including financial information, auditors report and valuation report;
5. right to be informed of any disclosures that may materially impact investments in the InvIT; and
6. right to participate in meetings and vote on matters affecting the InvIT.

Some of the key rights of investors under the charter for REITs are as follows:

1. right to receive information and details about the REIT including about its investment philosophy, and such other information as may be required under SEBI regulations to enable investors to make an informed decision about investing in a REIT, prior to making any such investment;
2. right to timely receipt of distribution advices / interest / proceeds / refunds and evidencing a transaction as specified in the SEBI REIT Regulations, or to receive such statements on request;
3. right to receive annual report / half yearly report and valuation reports; and
4. right to be informed about such disclosures which may have a material bearing on their investments in REIT.

Clarifications to cybersecurity and cyber resilience framework for SEBI REs

SEBI, *vide* circular dated April 30, 2025, revised the thresholds and categorisation of certain REs. The category of REs must be decided at the beginning of the FY based on the data of the previous FY. Once the category of RE is decided, RE must remain in the same category throughout the FY irrespective of any changes in the parameters during the FY. The category must be validated by the respective reporting authority at the time of compliance submission. In case an RE is registered under more than one category of REs, then the provision of the highest category under which such an RE falls will be applicable to that RE.

Amendments to investor charter for RTAs

SEBI, *vide* circular dated May 14, 2025, updated the investor charter for RTAs. It introduces a more detailed and structured framework for investor services, building upon previous guidelines to ensure higher standards of transparency, efficiency and accountability in the securities market. Some of the key changes in the investor charter for RTAs are as follows:

1. it aims to improve investor protection and financial inclusion, particularly with the introduction of the ODR platform and SCORES 2.0; and
2. all the registered RTAs must continue to disclose on their respective websites, the data on complaints received against them or against issues dealt by them and redressal thereof, latest by 7th of succeeding month.

Composition of the internal audit team for Credit Rating Agencies

To provide Credit Rating Agencies ("**CRAs**") with a larger pool of eligible professionals with the relevant experience/ qualifications for conducting the internal audit, SEBI *vide,* circular dated May 14, 2025, decided to include cost accountant and diploma in information system security audit qualifications from the Institute of Cost Accounts of India to the audit team.

Process for appointment, re-appointment, termination or acceptance of resignation of specific key management personnel of MIIs

SEBI, *vide* circular dated May 26, 2025, prescribed a framework for the appointment, re-appointment, termination or acceptance of resignation of specific KMP of Vertical 1 (compliance and risk management) and Vertical 2 (technology and information security) of MIIs, including stock exchanges, clearing corporations, and depositories. The provisions of this circular will come into force 90 (ninety) days from the date of issuance, i.e., from August 24, 2025.

Some of the key provisions are as follows:

1. the MII must engage an external agency to recommend suitable candidates for positions such as compliance officer, chief risk officer, chief technology officer and chief information security officer. The agency's recommendations will be submitted to the nomination and remuneration committee, which will then evaluate the recommendations and present them to the Governing Board. The Governing Board will then make the final decision on re-appointment, termination, or resignation of these KMP, with terminations only allowed if they are given a reasonable opportunity to be heard;
2. the cooling-off period for KMP shifting to a competing MII will be determined by the Governing Board of the MII; and
3. in case the existing public interest director after completion of his first term is not considered for re-appointment by the Governing Board of the MII, the rationale for the same must be recorded and informed to SEBI.

Margin obligations to be given by way of pledge/re-pledge in the depository system

SEBI, *vide* circular dated June 3, 2025, inserted clauses in the circular - Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System, dated February 25, 2020, and Master Circular for Stock Brokers dated August 9, 2024, to make the invocation and sale of client's securities pledged in favour of brokers as a combined automated process. These amendments will come to effect from September 5, 2025. Some of the key provisions are as follows:

1. under invocation of margin pledge, depositories will offer a streamlined process called 'pledge release for early pay-in', allowing the Trading Members ("**TM**")/Clearing Members ("**CM**") to initiate a single instruction that simultaneously releases the pledge and sets up an early pay-in block in the client's demat account subject to pay in validation;
2. margin pledged securities (including pledged funded stock) of client (other than MFs units that are not traded on the exchanges), that are invoked or sold off by the TM, will be blocked for early pay-in in the client's demat account with a trail being maintained in TM/CM's 'client securities margin pledge account'/'client securities under margin funding account';
3. in case of invocation of MFs units that are not traded on the exchange, the depository will provide a single instruction in the form of 'invocation cum redemption' and such MFs units will come to 'client securities margin pledge account' and go for auto redemption from the said account; and
4. where the client's trading account is frozen or marked as 'not permitted to trade' or equivalent at the stock exchanges after the creation of pledge, the invoked securities will come to demat account of TM/CM and the same will be sold by TM/CM under the proprietary code. TM/CM must ensure that pay-in of securities is done on the same day of invocation, to prevent the accumulation of client securities in the demat account of TM/CM.

Framework for ESG debt securities (other than green debt securities) under the SEBI

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015 provides for 17 (seventeen) Sustainable Development Goals ("**SDGs**"). The SDGs emphasise the close links among the ESG aspects of sustainable development. A substantial amount of funding is necessary to accomplish the SDGs. In alignment with this objective, SEBI introduced the concept of Green Debt Securities ("**GDS**") through a circular issued in 2017. This concept was subsequently incorporated into the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 ("**SEBI NCS Regulations**")) to incentivise the financing of projects/asset class related to environmental sustainability.

SEBI, through its circular dated June 5, 2025 ("**Circular**"), laid down a broad framework for issuance of social bonds, sustainability bonds and sustainability-linked bonds, i.e., ESG debt securities (other than GDS).

The framework is issued pursuant to Regulation 12 A of the SEBI NCS Regulations. It supplements the existing requirements under both the SEBI NCS Regulations and SEBI LODR Regulations.

Overview

ESG debt securities (excluding GDS) can be issued only with effect from the date of this circular i.e., June 5, 2025

Regulation 12A of the SEBI NCS Regulations mandates that issuers of ESG debt securities must adhere to conditions specified by SEBI. Conditions to be complied with for issuance of only GDS were set out under the Master Circular for issue and listing of Non-Convertible Securities, Securitized Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated May 22, 2024 ("**NCS Master Circular**"). Under the Circular, the conditions to be complied with for issuance of social bonds, sustainability bonds and sustainability-linked bonds are set out. The Circular came into force for issuance of ESG debt securities with effect from June 5, 2025.

Meaning of ESG debt securities

ESG debt securities are defined under the NCS Regulations as:

1. GDS;
2. social bonds;
3. sustainability bonds;
4. sustainability-linked bonds; and
5. any other securities by whatever name called, that are issued in accordance with such international frameworks as adapted or adjusted to suit Indian requirements that are specified by SEBI from time to time, and any other securities as specified by SEBI.

GDS is governed separately by the provisions specified in chapter IX of the NCS Master Circular.

Alignment with recognised standards

Debt securities may be designated as 'social bonds' or 'sustainability bonds' or 'sustainability-linked bonds' only if the proceeds raised through their issuance are proposed to be utilised for financing or refinancing projects and/or assets aligned with any of the following recognised standards or fall under the definitions of the respective debt securities: International Capital Market Association principles/guidelines; Climate Bonds Standard; ASEAN Standards; European Union Standards; andany framework or methodology specified by any financial sector regulator in India.

Classification of a debt security

The power to classify a debt security as a GDS, social bond or sustainability bond lies with the issuer. Such classification should be determined by the issuer based on its primary objectives for the underlying projects and also subject to the conditions as may be specified by the SEBI from time.

1. 'Social bonds' means debts security for raising funds to be utilised for social project(s) that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population under the following categories: (a) affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation); (b) access to essential services like health, education, vocation training, healthcare etc., (c) affordable housing; (d) employment generation; (e) climate transition projects; (f) food security and sustainable food systems; and (g) socio economic empowerment, etc, in addition to projects for environmental sustainability.
2. 'Sustainability bonds' means a debt security issued for raising funds to be utilised for finance or refinance of eligible green project(s) and social project(s) as specified in the definition of green bonds and social bonds.
3. 'Sustainability-linked bonds' means a debt security which has its financial and/or structural characteristics linked to predefined sustainability objectives, subject to the condition being measured through predefined sustainability KPIs and assessed against predefined Sustainability Performance Targets ("**SPTs**").

Disclosure requirements

The Circular lists out 2 (two) types of disclosures to be made by the issuer of social bonds and sustainability-linked bonds: initial disclosures; and continuous disclosures. Initial disclosures should be made in the offer document for public issues/private placements, which include the rationale for issuance, taxonomies, standards or certifications both Indian and global, details of definition, calculation methodology and benchmarks for KPI(s) and SPT(s) and timelines, system/procedures for tracking the achievement of the targets, etc. Continuous disclosures should be made in the annual report and financial results. However, the issuer of sustainability bonds must comply with the provisions specified for GDS as specified in chapter IX of the NCS Master Circular as well as the standards specified for social bonds as specified in the Circular.

Requirement for independent third-party reviewer/certifier

Every issuer is required to appoint an independent third-party reviewer/certifier, to ascertain that the ESG labelled debt securities are in alignment with purposes mentioned in the recognised international standards and/or fall within the purview of definitions of such debt security as provided in the Circular.

The following criteria are required to be satisfied in order to be appointed. The reviewer must:

1. be independent of the issuer, its directors, senior management and KMP;
2. be remunerated in a way that prevents any conflicts of interest; and
3. have expertise in assessing ESG debt securities.

An ERP registered with SEBI will also be eligible to be appointed by the issuer to act as a third-party reviewer. ERP must also comply with the aforementioned conditions. The scope of the review(s) conducted by the independent third-party reviewer/certifier must be specified in the offer document.

Measures to mitigate the risk of purpose - washing and not being 'True to Label'

The Circular listed several measures to be followed by an issuer of social bonds/ sustainability bonds to avoid occurrence of purpose-washing including the following:

1. while raising funds for social objects/sustainability objects, the issuer is required to continuously monitor to check whether the form of operations undertaken is resulting in reduction of the adverse social impact/sustainable impact, as envisaged in the offer document;
2. in the event the funds raised through social bonds/sustainability bonds are used for purposes not mentioned in their respective definitions and/or the recognised standards, the issuer must disclose the same to the investors and, if required, by majority of debenture holders, undertake early redemption of such debt securities;
3. the issuer should not use misleading labels, hide trade-offs or cherry pick data;
4. the issuer must quantify the negative externalities associated with utilisation of the funds raised through social bonds/sustainability bonds; and
5. it will not make untrue claims giving false impression of certification by a third-party entity.

Conclusion

The introduction of the Circular is likely to benefit issuers and investors alike and bolster credibility, transparency, and global alignment in India's fast-evolving sustainable finance ecosystem. Given the 'reliance based' approach of the Circular on international standards, it is likely to attract more foreign investors especially multilateral agencies by positioning the Indian debt market as a jurisdiction which is aligned to the global practices and taxonomy in sustainable finance. Issuers especially in the infrastructure sectors can tap into the bond market for affordable housing and other essential services such as public health and gender equity on globally established parameters.

The larger challenge lies in the need for more sophistication of domestic issuers and their ability to create robust KPIs which can withstand the test of 'purpose washing' especially in projects which are of a long term nature. The landscape around third party verification in India is still in a nascent stage and needs more developments and players in this ecosystem.

The new framework on ESG debt securities introduced by the Circular is a well-intended initiative that has plugged the regulatory gap since 2017, making sustainable finance a core investment principle for the economy which is not just limited to green finance.

Reserve Bank of India

Streamlining the methods of payment and reporting for investments by persons residing outside India

RBI, *vide* notification dated January 15, 2025, issued the Foreign Exchange Management ("**FEM**") (Mode of Payment and Reporting of Non- Debt Instruments ("**NDI**")) (Third Amendment) Regulations, 2025, amending the FEM (Mode of Payment and Reporting of NDI) Regulations, 2019, in relation to mode of payment and remittance of sale proceeds for persons resident outside India. Accordingly, 'banking channels' will include any Rupee vostro accounts, including special Rupee vostro accounts, permitted to be held by a person resident outside India under FEM (Deposit) Regulations, 2016 ("**Deposit Regulations**"). Some of the key provisions are as follows:

1. for purchase or sale of equity instruments of an Indian company by a person resident outside India:
   a) the amount of consideration must be paid as inward remittance from abroad through banking channels or out of funds held in any repatriable foreign currency or Rupee account maintained in accordance with the Deposit Regulations;
   b) the amount of consideration includes issue of equity shares by an Indian company against

any funds payable by it to the investor and swap of equity instruments or equity capital. Equity instruments must be issued to the person resident outside India making such investment within 60 (sixty) days from the date of receipt of the consideration;

c) if such equity instruments are not issued within 60 (sixty) then the investment amount will be refunded to the person concerned by outward remittance through banking channels or by credit to his repatriable foreign currency or Rupee account, within 15 (fifteen) days from the date of completion of 60 (sixty) days;

d) Indian company issuing equity instruments may open a foreign currency account with an authorised dealer in India in accordance with FEM (Foreign Currency Accounts by a Person Resident in India) Regulations, 2016; and

e) sale proceeds (net of taxes) of the equity instruments may be remitted abroad or credited to the investor's repatriable foreign currency or Rupee account maintained as per the Deposit Regulations;

2. investment by Foreign Portfolio Investors ("**FPIs**"):

   a) the amount of consideration will be paid as inward remittance from abroad through banking channels or out of funds held in a foreign currency account and/or a Special Non-Resident Rupee ("**SNRR**") account maintained in accordance with the Deposit Regulations;

   b) the foreign currency account must be used exclusively for transactions under Schedule II of FEM (NDI) Rules, 2019 ("**FEM NDI Rules**"); and

   c) sale proceeds (net of taxes) of equity instruments and units of REITs, InvITs and domestic MF may be remitted outside India/credited to the foreign currency account/SNRR account of the FPI;

3. investment in a LLP:

   a) payment by an investor towards capital contribution of an LLP will be made by way of an inward remittance through banking channels or out of funds held in any repatriable foreign currency or Rupee account maintained in accordance with the Deposit Regulations;

   b) the disinvestment proceeds may be remitted outside India or may be credited to any repatriable foreign currency or Rupee account of the person concerned maintained as per the Deposit Regulations;

4. investment by a Foreign Venture Capital Investor ("**FVCI**"):

   a) the amount of consideration will be paid as inward remittance from abroad through banking channels or out of funds held in a foreign currency account and/or a SNRR account maintained in accordance with the Deposit Regulations; and

   b) the sale/maturity proceeds (net of taxes) of the securities may be remitted outside India or may be credited to the foreign currency account or a SNRR account of the FVCI;

5. investment by a person resident outside India in an investment vehicle:

   a) the amount of consideration will be paid by the person concerned as inward remittance from abroad through banking channels or by way of swap of shares of a SPV or out of funds held in any repatriable foreign currency or Rupee account maintained in accordance with the Deposit Regulations; and

   b) the sale/maturity proceeds (net of taxes) of the units may be remitted outside India or may be credited to any repatriable foreign currency or Rupee account of the person concerned, maintained in accordance with the Deposit Regulations;

6. investment in Indian Depository Receipts ("**IDRs**"):

   a) the Deposit Regulations caters to specific categories of investors, such as NRIs, OCIs, and FPIs, outlining distinct payment methods. NRIs/OCIs may invest in the IDRs out of funds held in their Non-Resident External/Foreign Currency Non-Resident bank account, while FPIs can utilise foreign currency or SNRR accounts, maintained in accordance with the Deposit Regulations; and

b) redemption/conversion of IDRs into underlying equity shares of the issuing company must be in compliance with the FEM (Overseas Investment) Rules, 2022;

7. issue of convertible notes by an Indian start-up company

a) Indian start-ups issuing convertible notes to a person resident outside India must receive the amount of consideration by inward remittance through banking channels or by debit to any repatriable foreign currency or Rupee account of the person concerned, maintained in accordance with the Deposit Regulations; and

b) repayment or sale proceeds may be remitted outside India or credited to any repatriable foreign currency or Rupee account of the person concerned.

Simplifying fund transfers for non-residents with business interests in India

RBI, *vide* notification dated January 15, 2025, issued the FEM (Deposit) (Fifth Amendment) Regulations, 2025, amending the Deposit Regulations. Some of the key amendments are as follows:

1. authorised dealers in India and their branches abroad can accept deposits from persons resident outside India;
2. the transfer of funds, for all bona fide transactions, between repatriable Rupee accounts maintained in accordance the Deposit Regulations is permitted; and
3. amendments made to SNRR accounts:

a) non-residents with business interests in India can open SNRR account with an authorised dealers in India or their overseas branches for the purpose of putting through permissible current and capital account transactions with a person resident in India in accordance with the rules and regulations framed under the FEM Act, 1999 ("**FEMA**"), and for putting through any transaction with a person resident outside India;

b) units in IFSC can open SNRR accounts with an authorised dealer in India (outside IFSC) for their business-related transactions outside IFSC; and

c) the tenure of the SNRR account must be concurrent to the tenure of the contract/period of operation/the business of the account holder.

Flexibility provided to exporters in managing their foreign currency account

RBI, *vide* notification dated January 15, 2025, issued the FEM (Foreign Currency Accounts by a Person Resident in India) (Fifth Amendment) Regulations, 2025, amending the FEM (Foreign Currency Accounts by a Person Resident in India) Regulations, 2015, in relation to opening, holding and maintaining a foreign currency account outside India. A person resident in India, being an exporter, may open, hold and maintain a foreign currency account with a bank outside India, for realisation of full export value and advance remittance received by the exporter towards export of goods or services. Funds in this account may be utilised by the exporter for paying for its imports into India or repatriated into India within a period not exceeding the end of the next month from the date of receipt of the funds after adjusting for forward commitments, provided that the realisation and repatriation requirements under the FEM (Export of Goods and Services) Regulations, 2015 are met.

Steps to encourage cross border transactions in Indian Rupees

RBI, *vide* press release dated January 16, 2025, promotes settlement of cross border transactions in Indian Rupees and local/national currencies. The following changes are made in the extant FEMA regulations:

1. overseas branches of authorised dealer banks will be able to open Indian Rupee accounts for a person resident outside India for settlement of all permissible current account and capital account transactions with a person resident in India;
2. persons resident outside India will be able to settle bona fide transactions with other persons resident outside India using the balances in their repatriable Indian Rupee accounts such as SNRR account and special Rupee vostro account;
3. persons resident outside India will be able to use their balances held in repatriable Indian Rupee accounts for foreign investment, including Foreign Direct Investment ("**FDI**"), in NDI; and
4. Indian exporters will be able to open accounts in any foreign currency overseas for settlement of trade transactions, including receiving export proceeds and using these proceeds to pay for imports.

Guidelines on settlement of dues of borrowers by Asset Reconstruction Companies

RBI, *vide* circular January 20, 2025, prescribed guidelines on settlement of dues payable by the borrowers of Asset Reconstruction Companies ("**ARCs**"). Some of the key provisions are as follows:

1. ARCs are mandated to frame a board-approved policy for settlement. The board-approved policy must, *inter alia*, cover aspects such as cut-off date for one-time settlement eligibility, permissible sacrifice for various categories of exposures while arriving at the settlement amount, methodology for arriving at the realisable value of the security;
2. the net present value of the settlement amount should be not less than the realisable value of securities;
3. it is recommended that settlement payments be made in one lump sum. However, if borrowers cannot pay the entire amount agreed upon in one instalment, the settlement proposal should be in line with and supported by an acceptable business plan (where applicable), projected earnings and cash flows of the borrower;
4. settlement of accounts pertaining to a borrower having aggregate value of more than INR 1,00,00,000 (Indian Rupees one crore) in terms of outstanding principal in the books of transferor/s at the time of acquisition by the ARC must be done as per board-approved policy, subject to the following conditions:
   a) the borrower's dues settlement proposal must be reviewed by an Independent Advisory Committee ("**IAC**"), consisting of professionals with technical, finance, and legal backgrounds. The IAC after assessing the borrower's financial position, recovery timeline, and projected earnings, must give its recommendations to the ARC regarding settlement of the dues; and
   b) the board of directors, including independent directors (at least 2 (two)) or a committee, considers the IAC's recommendations and decides on the settlement. This decision, along with the reasoning behind it, must be formally recorded;
5. settlement of accounts pertaining to a borrower having aggregate value of INR 1,00,00,000 (Indian Rupees one crore) or below in terms of principal outstanding in the books of transferor/s at the time of acquisition by the ARCs must follow the criteria set in their board-approved policy subject to the following:
   a) any official who was part of the acquisition (as an individual or part of a committee) of the concerned financial asset must not be part of processing/approving the proposal for settlement of the same financial asset, in any capacity; and

b) a quarterly report on such settlements will be submitted to the board/IAC. The board is required to establish a reporting format that covers the trend in accounts subjected to compromise settlement, separate breakdown of accounts classified as fraud or wilful default, amount-wise, acquisition authority-wise, and business segment/asset-class-wise grouping of such accounts, and the extent and timelines of recovery in such accounts;

6. settlement of dues payable by the borrowers classified as frauds/wilful defaulters will be done, regardless of the amount involved, and ARCs can proceed with such settlements without affecting ongoing criminal proceedings against such borrowers; and

7. ARCs pursuing recovery proceedings under a judicial forum must obtain a consent decree from the relevant judicial authorities before any settlement with the borrower is made.

Accordingly, Para 15 (*Settlement of dues payable by the borrower*) of the Master Direction – RBI (ARCs) Directions, 2024 is amended.

Updates to the Master Direction on Foreign Investment in India

RBI introduced updates to the Master Direction – Foreign Investment in India (FED Master Direction No.11/2017-18) on January 20, 2025 ("**Updated Master Directions"**). The Updated Master Directions supplement the FEM (NDI) Rules and the FEM (Mode of Payment and Reporting of NDI) Regulations, 2019.

The Updated Master Directions, *inter alia,* provide the following key clarifications:

1. **Extension of pricing guidelines to unsubscribed portion of rights issue:** The FEM NDI Rules lay down detailed pricing guidelines applicable to various modes of issuance/transfer between residents and non-residents. In relation to rights issue by an unlisted Indian company, Rule 7 of the FEM NDI Rules provides that the price should not be less than the price offered to resident shareholders.

   The Updated Master Directions have clarified that specifically in relation to the unsubscribed portion of the rights issue, wherein the board of directors decide the manner of disposal of the unsubscribed shares (in a manner not dis-advantageous to the shareholders and the company), the pricing guidelines must apply i.e., the unsubscribed portion should be priced at the fair market value as per any internationally accepted pricing methodology for valuation on an arm's length basis duly certified by a chartered accountant or a merchant banker registered with the SEBI or a practising cost accountant, in case of an unlisted Indian company.

2. **Deferred consideration and other options for Foreign Owned and Controlled Companies:** Rule 9(6) of the FEM NDI Rules provides that in the event of transfer of equity instruments between a resident and a non-resident, the 25% of the consideration may be:

   a) paid on a deferred basis within a period not exceeding 18 (eighteen) months from the date of the transfer agreement;

   b) settled through an escrow arrangement between the buyer and the seller for a period not exceeding 18 (eighteen) months from the date of the transfer agreement; and

   c) indemnified by the seller for a period not exceeding 18 (eighteen) months from the date of the payment of the full consideration, if the total consideration has been paid by the buyer to the seller.

   The Updated Master Directions expressly clarify that these arrangements will also be available for the purpose of downstream investment by Foreign Owned and Controlled Companies ("**FOCCs**"). It is to be noted that FOCCs have generally been prevented from using such structures as it was not clear if FOCCs could also structure their transactions to provide for deferred consideration subject to the above conditions. This update significantly broadens the scope of structuring of transactions involving FOCCs, subject to the scope of restrictions applicable to downstream investments as imposed under Rule 23 of the FEM NDI Rules.

3. **Reporting in Form DI pursuant to reclassification:** The Updated Master Directions have widened the scope of filing Form DI. The Updated Master Directions have clarified that investment by resident investors who have subsequently become owned and/or controlled by persons resident outside India, is reckoned as downstream investment from the date on which the investor entity is owned and/or controlled by persons resident outside India. Such downstream investment should be reported in Form DI by the investor entity within 30 (thirty) days from the date of such reclassification. This reporting requirement is different from the general requirement under Rule 23(6) of the FEM NDI Rules which places the obligation on the first level Indian company making the downstream investment.

4. **Foreign investment to fulfil Net-Owned Funds requirements:** The FEM NDI Rules lays down that investment in companies operating in the financial sector requires prior approval of RBI, as detailed thereunder. However, RBI clarified that an Indian investee company whose proposed activities are regulated by a financial sector regulator, may receive foreign investment to comply with the criteria of minimum net owned funds prescribed by such regulator. RBI expressly clarified that such investment should only be utilised for the sole purpose of complying with the **Net-Owned Funds ("NOF")** requirements and not for any other purposes or activities.

   Further, in the event that the registration/license is not granted by the respective regulator the investment amount should be repatriated to the investor. This clearly lays down the intention of the regulator to ensure that the companies do not misuse the provision which was provided to further facilitate companies to meet the NOF requirement.

   This relaxation significantly assists such companies to meet the NOF requirement by means of foreign capital.

5. **Treatment of inherited assets:** RBI clarified that non-resident legal heirs inheriting equity instruments held by a resident individual must inherit the same on non-repatriation basis and no reporting is required in this regard. Further, RBI clarified that change in residential status of a holder from a resident to a non-resident would deem the investment held to be on a non-repatriable basis.

6. **Issue of ESOP, sweat equity shares and share based employee benefits:** The resident companies are required to adhere to the sectoral foreign investment limits applicable on such companies while granting ESOPs, sweat equity shares and share based employee benefits. RBI further clarified that the percentage of foreign investment should be calculated on fully diluted basis, upfront, at the time of issuance/grant of employee stock options, sweat equity shares and share based employee benefits to persons resident outside India. Resident companies should be mindful of this requirement while drafting and adopting the underlying documents in relation to these schemes.

Private placement of non-convertible debentures with maturity period of more than one year by HFCs

RBI, *vide* circular dated the January 29, 2025, modified the Master Direction – NBFCs – HFCs (Reserve Bank) Directions, 2021 stating that the guidelines applicable to NBFCs for issuance of Non-Convertible Debentures ("**NCDs**") on private placement basis (with a maturity of more than 1 (one) year) will *mutatis mutandis* apply to HFCs. Accordingly, the existing guidelines under

Chapter XI of the Master Direction – NBFC – HFC (Reserve Bank) Directions, 2021 stand repealed. The revised guidelines are applicable to all fresh private placements of NCDs (with maturity more than 1 (one) year) by HFCs from January 29, 2025.

Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007

RBI, *vide* circular dated January 30, 2025, updated its framework for imposing monetary penalties and compounding offences under the Payment and Settlement Systems Act, 2007 ("**PSS Act**") in view of the Jan Vishwas (Amendment of Provisions) Act, 2023. Some of the key provisions are as follows:

1. the framework outlines various contraventions that can result in penalties, such as unauthorised operation of payment systems, false statements, failure to comply with RBI directions, disclosure of prohibited information, non-compliance with data storage norms and contravention of any provisions of the PSS Act or any of it requirements;
2. RBI is empowered to impose a penalty not exceeding INR 10,00,000 (Indian Rupees ten lakh) (*earlier this was INR 5,00,000 (Indian Rupees five lakh)*) or twice the amount involved in such contravention or default where such amount is quantifiable, whichever is more, in case of contraventions/defaults of the nature mentioned in sub-sections (2), (3) and (6) of Section 26 of the PSS Act. Where such contravention or default is a continuing one, a further penalty up to INR 25,000 (Indian Rupees twenty five thousand) for every day after the first during which the contravention or default continues, can also be imposed;
3. only material contraventions will be taken up for enforcement action in the form of imposition of monetary penalty or compounding of offences. The materiality of a contravention would be determined based on various factors including:
   a) severity of contravention in terms of degree of breach of norms/limits (isolated, localised, extensive, widespread);
   b) period and frequency of a similar contravention during the past 5 (five) years;
   c) seriousness of the contravention, percentage of amount involved in the contravention vis-à-vis total value of transactions handled by the contravener during the period under consideration;
   d) amount involved in the contravention; and
   e) submission of wrong/false/incomplete compliance;
4. RBI is duly authorised to compound contraventions, not being an offence punishable with imprisonment only or with imprisonment and fine. Accordingly, contraventions mentioned in Sections 26 (1), 26 (3), 26 (4), 26 (5) and 26 (6) of the PSS Act are covered for the purpose of compounding;
5. the compounding amount for penalties will be calculated using the same basis as penalties. It can be 25% less than the fine/penalty amount imposed under the PSS Act. If repeated contraventions occur within 5 (five) years, compounding can be increased by 50% of the calculated amount, subject to statutory limits. This is in line with the principles of penalties; and
6. in the event of failure to pay the compounding amount within the stipulated time of 30 (thirty) days, it will be deemed/treated as if the contravention has not been compounded, and the applicant may become liable for being criminally proceeded with before the court of competent jurisdiction and/or such other action as RBI may deem fit in accordance with law. Further, the applicant would not be entitled to file another application for compounding the contravention in respect of which the compounding order was passed.

Payments Regulatory Board responsible for regulating and supervising all payment and settlement systems

RBI, on May 20, 2025, notified the Payments Regulatory Board ("**PRB**"), Regulations, 2025 to establish a new regulatory framework for payment systems in India. The PRB, replacing the previous Board for Regulation and Supervision of Payment and Settlement Systems, will be responsible for regulating and supervising all payment and settlement systems. This shift aims to enhance independence and accountability in regulatory decision-making. PRB will be a central authority responsible for regulating India's digital payment landscape, ensuring a well-structured framework backed by expert governance. The PRB will be assisted by the Department of Payment and Settlement Systems which will report to the PRB. It will consist of 6 (six) members, including the RBI governor as chairman, a deputy governor in charge of payment systems, one other RBI-nominated officer, and 3 (three) members nominated by the Central Government.

Revision in the payment rules for cross border transactions

RBI, *vide* notification dated February 10, 2025, issued the FEM (Manner of Receipt and Payment) (Amendment) Regulations, 2025, amending the FEM (Manner of Receipt and Payment) Regulations, 2023. Pursuant to the amendment, as regards receipt/payment for export to or import of eligible goods and services, the payments from a resident in the territory of one participant country to a resident in the territory of another participant of the member countries of Asian Clearing Union ("**ACU**"), other than Nepal and Bhutan, must be through ACU mechanism, or as per the directions issued by RBI to authorised dealers from time to time. For all other transactions, receipt and payment ca be made in Indian Rupees or in any foreign currency.

Limits for investment in debt and sale of credit default swaps by FPIs

RBI, *vide* circular dated April 3, 2025, introduced investment limits for FPIs in debt instruments. These investment limits for FPIs are as follows:

1. the limits for FPI investment in G-Sec, State Government Securities ("**SGSs**"), and corporate bonds will remain unchanged at 6%, 2%, and 15%, respectively, of the outstanding stocks of securities for 2025-26;
2. all investments by eligible investors in the specified securities will be reckoned under the fully accessible route;
3. the incremental G-Sec limit has been evenly split (50:50) between the general and long-term sub-categories;
4. all additional limits for SGSs are allocated to the general sub-category;
5. the revised investment limits for FPIs in G-Sec general, G-Sec long term, SGS general, SGS long term and corporate bonds, will be implemented in 2 (two) phases, i.e., April to September 2025 and October 2025 to March 2026, with gradual increases across all categories; and
6. the aggregate limit of the notional amount of credit default swaps sold by FPIs will be 5% of the outstanding stock of corporate bonds. Accordingly, an additional limit of INR 2,93,612 crore (Indian Rupees two lakh ninety-three thousand six hundred and twelve crore) is set out for 2025-26.

Compounding of contraventions under FEMA, 1999

RBI, *vide* circulars dated April 22, 2025, and April 24, 2025, amended the framework for compounding of contraventions under FEMA ("**Compounding Circulars**"). The key amendments are as follows:

1. deletion of provision contained at Paragraph 5.4.II.v of the Compounding Circulars, which linked the sum for which contravention is compounded (i.e., compounding amount) payable to earlier compounding order. The applicant will be deemed to have made a fresh application, and the

compounding amount payable must not be linked to the earlier compounding order;

2. updation of application format, which will require the applicant to provide additional details such as: mobile number of the applicant/authorised representative, RBI office to which application fee amount has been paid, and mode of submission of the application concerned, in their application; and

3. introduction of a discretionary cap of INR 2,00,000 (Indian Rupees two lakh) for the compounding amount per rule or regulation contravened in relation to 'other non-reporting violations' under row 5 of the computation matrix provided in the Compounding Circulars. The relevant violations include contraventions in the nature of receiving investment from ineligible foreign investors, violating end-use restrictions for foreign exchange, making payments to non-residents without required approvals.

Amendment to the Master Circular for FPIs, Designated Depository Participants and Eligible Foreign Investors

The Master Circular for FPIs, Designated Depository Participants and Eligible Foreign Investors dated May 30, 2024, mandated additional disclosures for FPIs that individually, or along with their investor group, hold more than INR 25,000 crore (Indian Rupees twenty-five thousand crore) of equity asset under management in the Indian markets. SEBI, *vide* circular dated April 9, 2025, increased this threshold from INR 25,000 crore (Indian Rupees twenty-five thousand crore) to INR 50,000 crore (Indian Rupees fifty thousand crore).

RBI (KYC) (Amendment) Directions, 2025

RBI, *vide* circular dated June 12, 2025, issued the RBI (KYC) (Amendment) Directions, 2025, modifying the Master Direction - KYC Direction, 2016 ("**KYC Directions**") to enhance consumer protection and service. Some of the key amendments are as follows:

1. a clause has been added to para 38 of the KYC Directions, requiring that for individual customers categorised as low risk, the RE must allow all transactions and ensure that the KYC is updated within 1 (one) year from the date it becomes due or by June 30, 2026, whichever is later. The RE must also regularly monitor the accounts of such customers. This requirement applies even if the KYC update was already due before this amendment came into effect;

2. banks may obtain self-declarations from customers, if there is no change in KYC details or only a change in address, through authorised Business Correspondent ("**BCs**"). These declarations and supporting documents must be captured electronically by the BC after biometric e-KYC authentication. Until this is enabled, physical submission is permitted. Banks must update the KYC records and inform the customer once the update is complete, as per Paragraph 38(c) of the KYC Directions. The bank remains ultimately responsible for ensuring periodic KYC updation; and

3. REs must inform their customers in advance to update their respective KYC information. Prior to the due date to update KYC, REs must give at least 3 (three) advance intimations at appropriate intervals, including at least 1 (one) intimation in writing, to their customers. Even after the due date, REs must give at least 3 (three) reminders at appropriate intervals, including at least 1 (one) reminder in writing, to such customers if they have still not complied. These communications must clearly outline instructions for updating KYC, escalation mechanisms, and potential consequences. REs must comply with this requirement by January 1, 2026.

FEM (Export of Goods & Services) (Amendment) Regulations, 2025

RBI, *vide* notification dated June 24, 2025, amended the FEM (Export of Goods & Services) Regulations, 2015, by inserting Regulation 4 (ca) which provides that the export of tugs, tugboats, dredgers and vessels used for providing offshore support services can be made without filing a declaration, provided they are re-imported into India.

Ministry of Corporate Affairs

Companies (Indian Accounting Standards) Amendment Rules, 2025

MCA, *vide* notification on May 7, 2025, issued the Companies (Indian Accounting Standards) Amendment Rules, 2025 amending the Companies (Indian Accounting Standards) Rules, 2015 ("**Principal Rules**"), focusing on the effects of changes in foreign exchange rates. Amendments are made to Annexure B of the Principal Rules. Some of the key amendments are as follows:

1. a currency is exchangeable into another currency when an entity can obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations;

2. elaboration on the definition of exchangeable is inserted stating that an entity assesses whether a currency is exchangeable into another currency - at a measurement date and for a specified purpose. Further, the currency is not exchangeable into the other currency, if an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose; and

3. an entity must disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects the entity's financial performance, financial position and cash flows.

Companies (Accounts) Amendment Rules, 2025

MCA, *vide* notification dated May 16, 2025, amended the amend the Companies (Accounts) Rules, 2014, requiring every company covered under the provisions of Section 135 (1) of the Companies Act to mandatorily furnish a report on Corporate Social Responsibility in Form CSR-2 to the Registrar of Companies. For the FY 2023-2024, Form CSR-2 must be filed separately on or before June 30, 2025, after filing Form No. AOC-4 or Form No. AOC-4-NBFC (Ind AS) (*earlier this was March 31, 2025*).

Corporate governance enhanced through mandatory workplace harassment disclosures under new company law amendments

MCA, *vide* notification[4] dated May 30, 2025, introduced the Companies (Accounts) Second Amendment Rules, 2025, ("**Amendment Rules**") amending Rule 8(5)(x) of the Companies (Accounts) Rules, 2014 ("**Company Rules**"), and mandating specific disclosures regarding compliance with *inter alia* the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 ("**POSH Act**"). These Amendment Rules will be effective from July 14, 2025, and will mark a significant development in strengthening corporate governance, accountability as well as workplace safety.

Background and scope of the Amendment Rules

Prior to the introduction of the Amendment Rules, Rule 8(5)(x) of the Company Rules required companies to disclose in their annual Board Report ("**Board Report**"), only a brief statement affirming compliance with the requirement to constitute an Internal Committee ("**IC**") under the POSH Act. Under the Amendment Rules, companies are additionally required to disclose the following:

1. number of complaints of sexual harassment received in the year;

2. number of complaints disposed-off during the year; and

[4] G.S.R. 357(E).

3. number of cases pending for more than 90 (ninety) days.

Further, format of the extract in the Board Report released through the Amendment Rules also requires companies to provide details of the number of female employees, male employees, and transgender employees, each, as on the closure of the FY. Some of these additional and specific disclosures appear to be aligned with applicable disclosure and reporting norms already required under POSH Act as well as the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Rules, 2013 ("**POSH Rules**"). Interestingly, in addition to disclosures under the POSH Act, the Amendment Rules also mandate inclusion of a statement in the Board Report affirming company's compliance with provisions of the Maternity Benefit Act, 1961.

Statutory provisions relevant to reporting of sexual harassment complaints and implications for non-compliance

These Amendment Rules appear to be built on the existing statutory and broader reporting framework under Sections 21 and 22 of the POSH Act read with Rule 14 of the POSH Rules. Under section 21 of the POSH Act, every IC constituted under the POSH Act is required to prepare and submit to the employer, an annual report capturing *inter alia* details of:(a) number of complaints of sexual harassment: (i) received during the year; and (ii) disposed-off during the year; (b) number of cases pending for more than 90 (ninety) days; (c) number of workshops or awareness programme that were carried out against sexual harassment; and (d) nature of action taken by the employer.Section 22 of the POSH Act obligates an employer to include in the company's annual report, details pertaining to number of sexual harassment cases filed and their disposal status. Where no such report is required to be prepared, the data on number of cases should be intimated to the concerned 'District Officer'.

With the latest introduction of compliance and reporting norms under the Amendment Rules, a non-compliance with prescribed disclosure requirements could attract penal consequences under both the POSH Act as well as the Companies Act.

Under the POSH Act, failure to incorporate the prescribed data in the annual report of a company in accordance with applicable provisions may attract penalties in the form of fine raging between INR 50,000 (Indian Rupees fifty thousand) and INR 1,00,000 (Indian Rupees one lakh) depending on the frequency of contravention. In some cases, repeated contraventions could also lead to cancellation, withdrawal, or non-renewal of the license/registration of an establishment. Section 134(8) of the Companies Act prescribes stringent consequences for non-compliance with prescribed disclosures in the Board Report, with penalties reaching up to INR 3,00,000 (Indian Rupees three lakh) on the company and INR 50,000 (Indian Rupees fifty thousand) on each officer responsible for the default.

Conclusion

The Amendment Rules represent a significant regulatory advancement aimed at strengthening workplace compliance under the POSH Act. By shifting reporting compliance from a simple declaration to more detailed and quantifiable disclosures, the MCA underscored the critical importance of maintaining safe and inclusive work environments. Adherence to these disclosure requirements, supported by strong internal monitoring, accurate tracking of the status of sexual harassment complaints, effective disposal of such complaints, and record-keeping, is essential for managing legal risks and maintaining good corporate governance, enhancing organisational accountability.

Shifting these disclosures from internal records to publicly available Board Reports increases transparency, allowing relevant stakeholders greater visibility into a company's compliance status in addressing matters of sexual harassment, and consequently reinforcing the need for organisations to maintain effective complaint redressal mechanisms. These measures, combined with frequent notifications from local authorities requiring companies to comply with the POSH Act and register details of their ICs on the '*SHe-box*' portal, appear to be directed at a more efficient and streamlined monitoring of compliance under the POSH Act. Disclosures pertaining to gender of employees may lead to enhanced public perception of a company's culture towards implementing a diverse workplace.

However, despite these measures, it remains to be tested whether companies will in fact, continue to adhere to such compliance measures not only as a matter of statutory form, but in spirit and substance also—be it through implementation of appropriate reporting channels, constitution of functional ICs not just on the basis of technical specifications under the POSH Act, but in a manner such that the ICs are more accessible and demonstrably independent in addressing complaints of sexual harassment at workplace, or ensuring policy revisions and leadership mandates directed towards on-ground efforts at hiring a diverse workforce.

International Financial Services Centres Authority

Liquidity enhancement scheme for bullion exchange

IFSCA, *vide* circular dated February 4, 2025, permitted bullion exchange in the IFSCs, to introduce 1 (one) or more Liquidity Enhancement Schemes ("**LES**") to enhance liquidity of illiquid commodity derivatives contracts. Some of the key features of the LES are as follows:

1. the bullion exchange must get prior approval from its governing board before implementing the LES. The approval is valid for 1 (one) year;
2. only market makers, liquidity providers, or designated participants can receive incentives. These participants should be actively engaged in providing liquidity and should meet specific performance criteria set by the bullion exchange;
3. the bullion exchange must formulate its own benchmarks for selecting the securities for liquidity enhancement with the broad objective of enhancing liquidity in illiquid securities. The criteria are the bullion exchange may introduce LES on any security. Once the scheme was discontinued, the scheme can be re-introduced on the same security; and the list of securities eligible for liquidity enhancement must be disseminated to the market;
4. incentives for market makers and liquidity providers may encompass fee discounts, fee adjustments across segments, cash payments, or issuance of shares, including options and warrants. However, total incentives should not exceed 25% of the bullion exchange's net profits, free reserves, or net worth, based on the preceding FY's audited financial statements; and
5. the bullion exchange may issue shares, including options and warrants, as incentives under the LES. However, the total number of shares issued upon the exercise of these options or warrants in a FY cannot exceed 25% of the exchange's outstanding shares as of the last day of the previous FY.

New regulations to govern bullion exchange

IFSCA, on February 13, 2025, notified the IFSCA (Bullion Market) Regulations, 2025 ("**BM Regulations**"), to govern bullion exchanges, clearing corporations, depositories, and vault managers within IFSCs. They provide a framework for recognition of bullion exchanges and bullion clearing corporations, and registration of bullion depositories and vault managers, and matters connected therewith or incidental thereto. Some of the key features of the BM Regulations are as follows:

1. both bullion exchanges and bullion clearing corporations are mandated to maintain a minimum net worth of USD 10,000,000 (US Dollars ten million). IFSCA may specify higher net worths based on specific business considerations;
2. the term KMP *inter alia* includes individuals with decision-making influence and those involved in core functions, ensuring clarity in governance structures.
3. they also specify the process for appointing directors, requiring compliance with the Companies Act and approval from IFSCA;
4. every bullion clearing corporation will have to maintain a framework for orderly winding down of its critical operations and services covering both voluntary and involuntary scenarios. This framework will provide for: (a) timely and orderly settlement or cessation or transfer of position; (b)

transfer of the collateral/ deposit/ margin/ any other asset of the members to another bullion clearing corporation that would take over the operations of the bullion clearing corporation; and

5. every bullion exchange will have to establish a consumer education and protection fund to promote consumer education and provide compensation to consumers in case of defaults by the bullion trading members.

Remote Trading Participants on the stock exchanges in IFSCs

On February 11, 2025, IFSCA issued a circular revising the eligibility criteria of a Remote Trading Participants ("**RTPs**"). Foreign entities regulated by their home jurisdiction's securities market regulator are eligible to register as RTPs, provided:

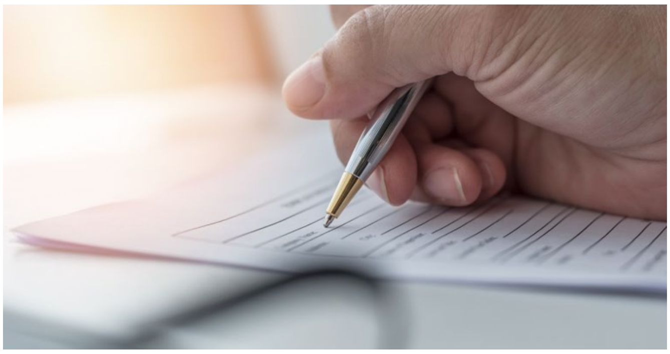
1. their country is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding or a signatory to the bilateral Memorandum of Understanding ("**MoU**") with IFSCA or has a bilateral MoU with IFSCA;
2. entities from countries flagged by the Financial Action Task Force for anti-money laundering concerns are excluded;
3. RTPs are permitted only proprietary trading in cash-settled derivatives and must partner with an IFSCA-registered clearing member;
4. an entity incorporated in India will not qualify to be onboarded by the stock exchanges as an RTP;
5. the RTP must be onboarded by the stock exchange in accordance with the IFSCA (Anti Money Laundering, Counter Terrorist-Financing and KYC) Guidelines, 2022;
6. the stock exchanges will be responsible for specifying the terms and conditions for onboarding a RTP, *inter alia* including the risk management measures and code of conduct in relation to the RTP; and
7. the stock exchanges will have the operational flexibility to specify the net-worth criteria, security deposit, application fee, annual fee and any other additional conditions for onboarding an RTP.

Appointment and change of KMP by a Fund Management Entity

IFSCA, *vide* circular dated February 20, 2025, specified the manner and procedure to be followed by a Fund Management Entity ("**FME**") for effecting the appointment of or change to the KMP subsequent to the grant of registration by IFSCA to the FME. This circular aligns with Regulation 7 of the 2025 FM Regulations, which mandates that FMEs appoint KMP based in IFSCs who meet specific eligibility criteria, including educational qualifications and work experience. Some of the key provisions of the circular are as follows:

1. **Intimation to IFSCA**: FMEs must notify IFSCA about proposed appointments or changes of KMP using the prescribed format, accompanied by the applicable fee. Pending applications as of the circular's date should be refiled as prescribed under this circular, providing proof of any fees already paid.
2. **Regulatory review process**: Upon receiving the intimation, IFSCA will review and communicate any observations within 7 (seven) working days. FMEs are expected to consider these comments before proceeding with the appointment or change.
3. **Compliance responsibility**: FMEs and their controlling persons are responsible for ensuring that KMP meet the eligibility criteria set by IFSCA, including being based in an IFSC.
4. **Succession planning and timelines**: FMEs should have a structured succession plan to maintain operational continuity. A vacant KMP position must be filled within 3 (three) months of its

occurrence and cannot remain vacant for more than 6 (six) months.



Revision in reporting formats for FMEs in IFSC

IFSCA, *vide* circular dated April 3, 2025, revised the reporting norms for FMEs, the updated formats aim to capture key details of retail schemes, enhance data granularity for supervisory purposes and improve clarity for FMEs through table restructuring and the inclusion of guidance notes. These changes also align the reporting requirements with the recently notified 2025 FM Regulations.

Fund Management Regulations notified to streamline fund management industry in GIFT-City IFSC, offering investor-friendly measures and more operational flexibility

In furtherance of the commitment to develop the GIFT city as the premier global centre for fund management activities and with a view to facilitate the next phase of growth in fund management operations within the IFSCs, IFSCA, undertook a comprehensive review of the extant IFSCA (Fund Management) Regulations, 2022 ("**2022 FM Regulations**"). Pursuant to this review, IFSCA notified the IFSCA (Fund Management) Regulations, 2025 ("**2025 FM Regulations**") on February 13, 2025, superseding the 2022 FM Regulations.

Key amendments introduced under the 2025 FM Regulations

Non-retail scheme (venture capital and restricted scheme)

1. the minimum corpus of the scheme is reduced from USD 5,000,000 (US Dollars five million) to USD 3,000,000 (US Dollars three million). This change will make entry of the new fund managers more accessible;
2. the validity of private placement memorandum is increased to 12 (twelve) months from 6 (six) months. It will provide more time to FMEs to raise the minimum corpus to start a scheme;
3. FMEs or their associates can invest up to 100% (as opposed to erstwhile 10%) in a venture capital scheme provided that:
   a) the FME and its associate investing in the scheme, are persons resident outside India and do not have any person resident in India as their ultimate beneficial owners; and
   b) not more than one-third of the corpus of the scheme is invested in an investee company and its associates;
4. open-ended schemes are permitted to commence its investment activities upon receiving an investment of USD 1,000,000 (US Dollars one million) and the minimum corpus of USD 3,000,000 (US Dollars three million) can be achieved within a 12 (twelve) month period. This allows FMEs additional time period to achieve necessary corpus; and
5. a provision for joint investments is introduced for restricted schemes. It aims to increase investor participation in the schemes launched by FMEs.

Retails schemes

1. the minimum corpus is reduced from USD 5,000,000 (US Dollars five million) to USD 3,000,000 (US Dollars three million);
2. the mandatory requirement for listing close-ended retail schemes on recognised stock exchanges is optional, provided that each investor's minimum contribution to the scheme is not less than USD 10,000 (US Dollars ten thousand); and
3. the 'sound track record' requirement for retail FMEs considers the experience of other entities in the FME group, making it easier for new fund managers to enter.

Portfolio management services

1. the minimum investment amount is reduced to USD 75,000 (US Dollars seventy-five thousand)

from USD 150,000 (US Dollars one hundred and fifty thousand); and

2. clients under a portfolio management services may maintain their funds in specific account of the client maintained with a regulated broker dealer, amongst other accounts subject to certain prescribed conditions.

Manpower and operational flexibility

1. no prior approval of IFSCA is required for appointing any KMP - only an intimation will suffice;
2. FMEs managing Assets under Management ("**AUM**") over USD 1,000,000,000 (US Dollars one billion) (excluding the AUM of fund of funds) will have to appoint one additional KMP within a period of 6 (six) months from the end of the FY. This requirement is meant to manage the higher operational risks associated with larger AUM;
3. it is mandated that the employees of FMEs should undergo certifications from specified institutions to ensure continuous professional competence; and
4. the requirements regarding educational qualifications, work experience, eligibility criteria of the KMP are clarified to widen the pool of eligible candidates to man the KMP positions and to streamline the process for appointment of KMP.

Conclusion

2025 FM Regulations represents a regulatory advancement aimed at reinforcing the positioning of IFSC as globally competitive financial jurisdictions by balancing business facilitation with investor protection mechanisms. In nutshell, the aim of replacing 2022 FM Regulations is to enhance the overall ease of doing business, incorporate protective measures to safeguard the interest of investors and provide necessary clarification to the intent and scope of existing regulatory regime.

Framework to facilitate co-investment by venture capital scheme and restricted scheme

IFSCA, *vide* circular dated May 21, 2025, issued a framework for all FMEs under the IFSC, which provides for a mechanism and manner for facilitating co-investment by venture capital scheme and restricted scheme through special purpose vehicle (hereinafter referred to as the "**Special Scheme**"). Some of the key provisions of the Special Scheme are as follows:

1. an FME registered with IFSCA, having either an operational venture capital scheme or restricted scheme or both (hereinafter referred to as the "**Existing scheme**"), will be eligible to launch a Special Scheme, in accordance with the terms and conditions of the placement memorandum of the Existing Scheme;
2. the Special Scheme will be established as a company, LLP, or trust under the applicable laws of India and will be classified as a Category I, II, or III AIF, consistent with the classification of the Existing Scheme.
3. the Existing Scheme will, at all times, hold a minimum of atleast 25% of the equity share capital, interest, or capital contribution in the Special Scheme;
4. in line with the investment strategy of the Existing Scheme, as recorded by IFSCA, the Special Scheme must be used for making co-investment with or without leverage. Further a Special Scheme must be permitted to invest only in a single portfolio company. However, the Special Scheme will be permitted to hold securities of more than 1 (one) entity if such securities are issued as a result of 1 (one) or more corporate actions or restructurings at the portfolio company level, including but not limited to amalgamation, demerger, slump;
5. any person will be eligible to co-invest in the Special Scheme, subject to the minimum contribution requirements as mentioned in the 2025 FM Regulations;
6. a term sheet containing minimum disclosures as prescribed must be duly filed with the IFSCA within a period of 45 (forty-five) days from the date of investment;
7. The investors of the Existing Scheme must be duly informed of the establishment of the Special

Scheme prior to seeking capital contribution. The term sheet must be provided to the investor(s) and should contain the specified disclosures under the 2025 FM Regulations; and

8. activities of the Special Scheme may be consolidated with the reporting of the Existing Scheme for the purpose of reporting to IFSCA.

Extension of timeline for appointment of custodian under Regulation 132 of the 2025 FM Regulations

In terms of Regulation 132[5] of 2025 FM Regulations, FMEs are required to appoint an independent custodian to provide custodial services for the prescribed schemes. The custodian to be appointed is required to be based in IFSC, unless the local laws of the jurisdiction where the securities of the investee company have been issued mandate the appointment of a custodian in that jurisdiction. In this regard the following has been decided, *vide* circular dated May 24, 2025:

1. an additional time period of six (6) months from the date of the issuance of this circular is granted for the appointment of an independent custodian for the schemes:
    a) taken on record by IFSCA after the 2025 FM Regulations came into effect (i.e., February 19, 2025), or
    b) taken on record by IFSCA prior to the 2025 FM Regulations coming into effect but which did not enter into an agreement with a custodian as on February 19, 2025;
2. during the period of six (6) months, the FMEs of the aforementioned schemes may appoint an independent custodian in India or any foreign jurisdiction which is regulated by the financial sector regulator in that jurisdiction and make necessary arrangement to provide such information to IFSCA whenever directed to do so; and
3. FMEs must make necessary arrangements to ensure strict compliance with Regulation 132 on or before the expiry of the 6 (six) months period.

Amendment to the framework for aircraft lease for person(s) resident in India

IFSCA, *vide* circular dated February 26, 2025, issued an amendment to the framework for aircraft lease regarding transactions with person(s) resident in India. To enable purchase of assets covered by the aircraft lease framework by a lessor in IFSCs from the manufacturers of such assets in India, the following key amendments are made in the aircraft lease framework:

1. lessor is prohibited to purchase, lease or otherwise acquire any asset(s) covered under this framework, where post-acquisition, the asset will be operated or used solely by person(s) resident in India or provide services to person(s) resident in India; and
2. the abovementioned restriction will not apply if: (a) the acquisition is made from such a person(s) who is not a 'Group Entity' of the lessor or; (b) the acquisition by a lessor is a part of sale and leaseback arrangement of such assets which are being imported into India for the first time, or; (c) such asset(s) is acquired by the lessor from a manufacturer of such asset(s) in India.

Key clarifications on net worth and settlement guarantee fund contributions

Pursuant to the amendment to the IFSCA (MII) Regulations, 2021 ("**MII Regulations**") on November 1, 2024, the definition of 'net worth' for a clearing corporation was revised to mean the aggregate value of its liquid assets, as specified by IFSCA. It was further stated that these liquid assets would include cash and

[5] Regulation 132, inter alia, requires the FME to appoint an independent custodian to provide the custodial services for the following schemes:-

(a) Retail schemes; (b) Open ended restricted schemes; and (c) All other schemes managing assets under management above USD 70 Million.

bank balances, fixed deposits, G-Sec, and other instruments specified by IFSCA. Further, Regulation 31 of the MII Regulations permitted funding of the Settlement Guarantee Fund ("**SGF**") of a clearing corporation through contributions from the clearing corporation, the stock exchange and clearing members.

IFSCA, *vide* circular dated March 7, 2025, clarified that the clearing corporation's contribution to its SGF will be counted towards its net worth. Furthermore, the interest earned in cash contributions to the SGF will also accrue to the SGF and be distributed pro-rata among contributors based on their share.

Guidelines on cyber security and cyber resilience for REs

Cyber security is a foundational pillar for ensuring stability, resilience and credibility of the financial services offered within the GIFT IFSC. Through the circular dated March 10, 2025, IFSCA issued guidelines on cyber security and cyber resilience intending to lay down IFSCA's broad expectations from its REs including any entity licensed, recognised, registered or authorised by IFSCA. Implementation of these guidelines follow the principle of proportionality, considering the entity's scale and complexity, nature of the activity, operations and exposure to cyber risks. Some of the key components of the guidelines are stated below:

1. **Governance**: REs are required to establish governance mechanisms to manage cyber risks effectively. Oversight may be handled by the governing board, senior management or a designated committee. The board and senior leadership must have sufficient expertise to manage cyber risks and foster a strong security culture of cyber risk management. Each RE are required to appoint a Chief Information Security Officer ("**CISO**") or a senior officer to assess and mitigate risks, respond to incidents, establish controls and implement cybersecurity processes. This individual will be referred to as the "Designated Officer."
2. **Cybersecurity and cyber resilience framework**: REs must develop a cybersecurity framework to ensure confidentiality, integrity, and availability of IT assets. The REs will formulate an Information Security (IS) Policy which will cover asset identification and classification, protection mechanisms, access control, physical security, vulnerability assessment, incident management, recovery procedures, and audit trails. This framework should:
   a) define cyber risk appetite and resilience objectives;
   b) identify and mitigate third-party cyber risks;
   c) establish clear roles and communication protocols for incident response; and
   d) be periodically reviewed and updated.
3. **Third party risk management**: REs must work collaboratively with third-party vendors to ensure cybersecurity standards are met. These service providers are required to undergo security audits at least every 6 (six) months, with other vendors reviewed periodically. Clear communication and escalation procedures must be in place to manage risks, with ultimate responsibility resting on the RE.
4. **Communication and awareness**: REs must provide training to its employees on topics in relation to issues but not limited to cyber security, social engineering, password hygiene and incident reporting procedures. REs must have a clear and accessible channels for employees to report suspicious activity, vulnerabilities and potential cyber incidents.
5. **Audit**: REs must conduct annual cybersecurity audits through an independent auditor having certified certifications or CERT-In empanelled auditor or auditor having prior experience in cybersecurity. Audit reports must be submitted to IFSCA within 90 (ninety) days of the FY-end. Higher-risk entities may conduct audits more frequently.

REs registered as broker dealers, clearing members, or depository participants can submit the same audit report filed with MII or bullion exchanges to IFSCA within 7 (seven) days of submission.

Entity incorporation in GIFT IFSC

IFSCA, *vide* public notice dated March 25, 2025, advised the entities intending to establish business operations in GIFT IFSC through a new company or LLP, to seek assistance from IFSCA in case they face any problems while processing e-forms for name reservation or incorporation through the Central Registration Centre, MCA.

To enable IFSCA to take up the matter with MCA, request to IFSCA must be accompanied with a copy of challan (service request number), duly certified application form (name reservation/incorporation) and all the documents submitted with reference to the queries raised, regarding re-submission of the e-forms as per the Companies Act.

Compliance reminder on licensing and Special Economic Zones approvals

IFSCA, *vide* circular dated April 3, 2025, issued a directive after observing that some entities are operating within GIFT IFSC without the necessary regulatory approvals. Specifically, certain businesses lack valid authorisation from IFSCA and the required Letter of Approval ("**LoA**") under the Special Economic Zones Act, 2005, ("**SEZ Act, 2005**"), both of which are mandatory under applicable laws. To maintain regulatory discipline and support the structured growth of the financial services ecosystem in IFSC, all entities are reminded to ensure they always possess valid approvals from both IFSCA and the SEZ authorities. REs are directed to ensure that they hold valid and subsisting:

1. Certificate of Registration ("**CoR**") /license /recognition /authorisation letter/ permission/ approval or any equivalent document; and
2. LoA under the SEZ Act, 2005. The expiry of the LoA (having validity of 1 (one) year, if business not commenced or 5 (five) years, after commencement of business) or failure to renew it in timely manner, may lead to appropriate enforcement action, including cancellation of the registration/ license / recognition /authorisation/permission/approval granted under the applicable IFSCA regulations or framework.

Framework for finance company/finance unit undertaking the activity of global/ regional corporate treasury centres

The IFSCA (Finance Company) Regulations, 2021 ("**FC Regulations**"), enable a Finance Company ("**FC**") /Finance Unit (**FU**") to establish a set up in an IFSC and undertake permissible activities, including Global/Regional Corporate Treasury Centre ("**GRCTC**"). To promotes ease of doing business and bring alignment with international best practices, IFSCA, *vide* circulate dated April 4, 2025, issued a framework for FC/FU undertaking the activity of the GRCTC ("**Framework**") superseding the framework for undertaking the GRCTC activities by FC/FU in IFSC dated June 25, 2021.

Some of the key provisions of the Framework are:

1. **Applicability**: the Framework is applicable to any entity/ unit registered or desirous of seeking registration as a FC/FU under the FC Regulations, for undertaking the activity of the GRCTC.
2. **Conditions for Registration**: the Framework sets out the conditions for grant of registration for undertaking the activity of GRCTC. An entity desirous to commence the activity of the GRCTC ("**Applicant**"), must apply to IFSCA and fulfil prescribed conditions while submitting the application, for obtaining a registration as a FC/FU under the FC Regulations. These conditions include:
   a) possessing or undertaking necessary infrastructure including adequate office space, equipment and communication facilities;

b) satisfying substance requirement by employing at least 5 (five) qualified personnel including head of treasury and compliance officer;

c) having an ability to meet the owned fund requirements;

d) parent must not be from a 'High Risk Jurisdiction – subject to call for action' by Financial Action Task Force (FATF);

e) satisfaction of fit and proper requirements by the applicant, its KMP and other persons having control over it; and

f) the application must not be refused by the Authority during the preceding 1 (one) year from the date of submission.

3. **Legal Form**: the applicant is required to be set-up in IFSC either in the form of a company or a branch of a company incorporated in India or outside India.

4. **NOF**: a FC/FU undertaking the activity of the GRCTC is required to have and consistently maintain a minimum owned fund of USD 0.2 million (US Dollars zero point two million). The required owned fund may be maintained at the parent level, if the FU is undertaking the activity of GRCTC.

5. **Grant of License**: on being satisfied that the Applicant has complied with the conditions required for obtaining CoR and upon receipt of specified registration fees, IFSCA may grant CoR to the Applicant, which will be valid unless suspended, withdrawn or cancelled by IFSCA or surrendered by the FC/FU. The Applicant will be permitted to conduct business in IFSC only after the receipt of the CoR under the FC Regulations and must ensure that it continues to hold a valid and subsisting LoA under the SEZ Act, 2005 during the time it is conducting business in IFSC.

6. **Permissible Activities**: A FC/FU which are granted CoR to undertake the activities of GRCTC, may undertake the activities such as:

a) raising capital by issuance of equity shares,

b) borrowing including in the form of inter-company deposits,

c) credit arrangements,

d) transacting or investing in financial instruments issued in IFSC or outside IFSC,

e) undertaking derivative transactions (over the counter and exchange traded),

f) foreign exchange transactions in such currencies as specified by IFSCA,

g) factoring and forfaiting,

h) acting as a re-invoicing centre,

i) liquidity management, and

j) maintaining relationships with financial counterparties.

7. **Corporate Governance**: the FC is required to have a corporate governance policy, risk management policy and policy for undertaking permissible activities, approved by its board. Furthermore, prior approval of IFSCA is required for undertaking merger, acquisition, takeover or change in management of the FC, which results in change in control of at least 20% (twenty percent) of total share capital or which impacts the authority to take business decisions under an agreement. However, no such approval is required in the case where the GRCTC is set up in a branch form.

Amendment to the Framework

IFSCA, *vide* circular dated June 9, 2025, amended the Framework by inserting a proviso to Clause 3(2)(ii), which prescribes the conditions for grant of registration to undertake GRCTC activities. The newly inserted proviso empowers the chairperson of IFSCA to grant a relaxation from the conditions prescribed under Clause 3(2)(ii), if a request is made by an applicant for seeking relaxation. The chairperson may consider providing such relaxation depending upon the permissible activities proposed to be undertaken by the applicant and the projected business volume for a period not exceeding 1 (one) year from the date of commencement of operations.

Amendment to the guidelines on corporate governance and disclosure requirements for an FC

To align the Guidelines on Corporate Governance and Disclosure Requirements for a FC ("**Guidelines**") with FC Regulations, IFSCA, *vide* circular dated April 4, 2025, amended the Guidelines. Below are the amendments to the Guidelines:

1. Part I of the Guidelines were earlier applicable to all FCs. However, pursuant to the amendment, Part I of the Guidelines are not applicable to FCs which are registered for undertaking an activity of GRCTC; and
2. Part II of the Guidelines were earlier applicable to all FCs undertaking one or more core activities with or without non-core activities, and all FCs undertaking specialised activities with or without core or non-core activities. However, pursuant to the amendment, Part II of the Guidelines are not applicable to FCs which are undertaking specialised activities with or without core or non-core activities, and GRCTC (in form of FCs) which are undertaking one more or core activities with or without non-core activities.

Amendments to the framework for ship leasing

IFSCA, *vide* circular dated April 7, 2025, amended the Framework for Ship Leasing dated August 16, 2022 ("**SL Framework**"), and circular dated May 8, 2024, issued under SL Framework ("**SL Circular**"). The amendments modify the provisions dealing with currency for conduct of business and additional requirements for carrying out the permissible activities by FC as a lessor.

The amendments to the SL Framework are detailed out as under:

1. The lessor entities are required to raise invoices in any foreign currency listed in the first schedule of the IFSCA (Banking) Regulations, 2020 and receive payments into their foreign currency accounts with IFSC Banking Units ("**IBUs**"). Additionally, lessor entities are permitted to open SNRR accounts with authorised dealers in India (outside IFSC) for its business-related transactions outside IFSC (*previously all transactions undertaken by a lessor was to be conducted through freely convertible foreign currency only*).

2. Under the amendment made to the SL Circular, lessor entities are restricted to undertake a transactions involving transfer of a ship ownership or leasehold rights from Indian residents to IFSC entities, for the purpose of providing services solely to a person resident in India in a single FY. However, this restriction does not apply to transfer of ships or ocean vessels which are newly acquired from an Indian shipyard.

Additional requirements for carrying out the permissible activities by FCs as a lessor under the 'SL Framework'

IFSCA, *vide* circular dated May 8, 2025, issued clarification under the SL Framework. Pursuant to the clarification, an applicant under the SL Framework or a lessor, who has obtained a certificate of registration under Regulation 3 of the FC Regulations is prohibited from undertaking any transaction involving transfer of the ownership and/or leasehold right of a ship or ocean vessel in any form, from a person resident in India to an entity established in the IFSC, for the sole purpose of providing services to persons resident in India. However, the applicant or lessor, may still acquire a new ship or ocean vessel, or enter into a new leasehold contract with person resident outside India, to cater to persons resident in India.

Requirements for entities seeking registration as KYC registration agencies

To govern the registration, functioning, and compliance of entities operating as KYC Registration Agencies ("**KRAs**") within India's IFSCs, IFSCA, *vide* notification dated April 16, 2025, issued the IFSCA (KRA) Regulations, 2025. These regulations aim to strengthen compliance, promote transparency, enhance the KYC framework in GIFT IFSC and align with the global standards to provide-

1. the eligibility requirement for a KRA to be registered with IFSCA;
2. registration requirements including net worth for a KRA;
3. qualification and experience for a KRA;
4. functions and obligations of a KRA and REs in IFSC; and
5. code of conduct to be followed by a KRA.

IFSCA (Capital Market Intermediaries) Regulations, 2025

IFSCA, *vide* notification dated April 16, 2025, notified the IFSCA (Capital Market Intermediaries) Regulations, 2025, ("**New CMI Regulations**"), superseding the extant IFSCA (Capital Market Intermediaries) Regulations, 2021. This is a significant step in streamlining and strengthening the regulatory framework for capital market entities operating within the IFSC. The New CMI Regulations provide regulatory framework for registration, regulation and supervision of the Capital Market Intermediaries ("**CMI**") operating in IFSCs in India with the objectives of protecting the interests of investors, maintaining the integrity of the securities market and promoting ease of doing business for the entities participating in the capital markets by simplifying and rationalising requirements based on feedback and suggestions received from the stakeholders. Some of the noteworthy changes under the New CMI Regulations are as under:

1. **Types of Intermediaries**: A new category of 'Research Entity' is introduced under the New CMI Regulations and the category of 'Account Aggregator' is removed. 'Research Entity' will mean a person registered as a research entity with IFSCA who is responsible for publishing or providing research report with respect to securities. Further, framework for 'Distributors' and 'ESG Ratings and Data Products Providers ("**ERDPP**")' has also been included within the New CMI Regulations.
2. **Qualifications Requirements**: The New CMI Regulations prescribe for certain minimum qualifications and experience for appointment of a person as the 'Principal Officer' or 'Compliance Officer' of a CMI. For entities having multiple registrations as CMI, separate principal officers are required to be appointed for each registration (except for entity registered as broker dealer, clearing member and depository participant, or CRA and ERDPP, respectively, where the same person can be the principal officer). However, compliance officer for such entities (having multiple registrations) is permitted to the same person for all registrations.
3. **Net Worth Requirements**: The minimum net worth requirements are rationalised for the following categories: CRA - USD 200,000 (US Dollar two hundred thousand), IA - USD 25,000 (US Dollars twenty-five thousand), investment banker - USD 100,000 (US Dollars one hundred thousand) and research entity – USD 25,000 (US Dollars twenty-five thousand). In case of entities operating as a branch, the minimum net worth requirements maintained at the parent level in the home jurisdiction will be earmarked for its branch in IFSC. Lastly, for broker dealers, clearing members and investment bankers, net worth maintained in the form of liquid assets will only be considered.
4. **Annual Compliance Audit**: All CMIs are required to file a copy of annual compliance with IFSCA latest by September 30 every year.

Expansion in the scope of trusteeship services under the IFSCA (Ancillary Service) Framework, 2021

IFSCA, *vide* circular dated April 17, 2025, expanded the scope of activities of 'Trusteeship Services' under the IFSCA (Ancillary Services) Framework, 2021. Pursuant to the above amendment, 'Trusteeship Services' will include services to investment funds, investment trusts such as InvIT and REIT, family investment funds, security trust arrangements and escrow agency functions. Further, 'Trusteeship Services' can also be offered to various schemes, including retail schemes launched by FMEs registered under the new 2025 FM Regulations. All such services must adhere to relevant regulatory standards, including compliance with the 'fit and proper' criteria and a specified code of conduct.

Obligations of vault managers within the IFSC concerning customer due diligence and the maintenance of supply chain integrity

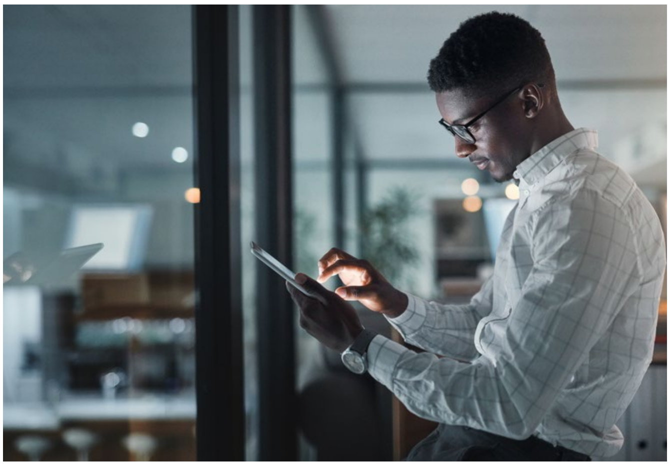
IFSCA, *vide* circular dated April 22, 2025, issued clarifications on conducting Customer Due Diligence ("**CDD**") by REs under the IFSCA (Anti Money Laundering, Counter Terrorist-Financing and KYC) Guidelines, 2022 ("**KYC Guidelines**"), dated October 31, 2022; and maintenance of supply chain integrity as referenced in the IFSCA circular on Operating Guidelines on Bullion Exchange, Bullion Clearing Corporation, Bullion Depository and Vault Manager ("**Bullion Guidelines**") dated August 25, 2021.

Clarifications on conducting CDD by the vault manager under the KYC Guidelines, are as follows:

1. the vault manager, being an RE under the KYC Guidelines, is required to carry out CDD, particularly for those who are ultimate beneficial owners of Bullion Depository Receipts ("**BDRs**"). This includes coordinating with the bullion depository to ensure availability of complete and verified customer records upon request;
   a) while the vault manager may rely on CDD conducted by the bullion depository, such reliance does not exempt them from their own responsibility to independently assess and verify all customers, regardless of their location (overseas, within GIFT-IFSC, or in India). This applies to all stakeholders, including suppliers, buyers, qualified jewellers, and bullion exchange members; and
   b) additionally, the vault manager must enter into agreements with overseas logistics service providers, ensuring that these providers are contractually required to perform CDD on bullion suppliers. Such CDD must align with either Financial Action Task Force standards or the regulatory framework of the supplier's country, whichever is more stringent.
2. To comply with the Bullion Guidelines on maintaining supply chain integrity, the following conditions must be met:
   a) the vault manager must ensure the integrity of the supply chain in respect of bullion sourced from the jurisdiction of origin. At no stage the bullion must exit the custody of the vault manager or its authorised partner logistics service provider; and the vault manager must incorporate such requirement in their formal contractual arrangements; and
   b) such contractual arrangements must ensure that the bullion once procured by the supplier from the overseas refinery, remains continuously within the custody of either the authorised partner logistics entity or any other authorised entity engaged in the collection, storage, transportation, and delivery of the bullion. The custodial chain to remain intact throughout the delivery lifecycle until the bullion is duly received and vaulted by the vault manager.

Dispensation of net-worth requirement for 'customers'

IFSCA's circular dated August 25, 2021, outlining the Operating Guidelines for the Bullion Exchange, Bullion Clearing Corporation, Bullion Depository, and Vault Manager, includes a definition of 'customer' that specifies net worth requirements of the respective customers, eligible to trade/invest on the India International Bullion Exchange (IFSC) Ltd. ("**IIBX**"). Thereafter, IFSCA *vide* circular dated April 29, 2025, following a request from the IIBX, and to encourage broader participation in IIBX's various products, removed the net worth requirement for all types of 'customers'. However, the net worth requirements specified by IFSCA for qualified suppliers (circular dated August 18, 2022) and qualified jewellers (circular dated December 11, 2023) will continue to apply. This will broad base participation across various products offered on IIBX. This will also remove entry barriers and make it easier to access the investment products proposed to be offered by IIBX in near future, thus, encouraging prospective participants, including retail investors, to choose IIBX for their bullion and bullion-related investments.



Change in trading hours of IIBX

To foster market vibrancy, liquidity and ease of doing business, IFSCA, *vide* Press Release dated April 29, 2025, granted permission to the IIBX to extend its trading hours for spot contracts by 3 (three) hours. The revised trading hours on IIBX for these contracts will be 9 AM to 9:30 PM (IST). The extended trading hours are expected to significantly benefit the bullion market ecosystem by enabling qualified suppliers to place sell orders and qualified jewellers/valid India-UAE CEPA Tariff Rate Quota holders to place buy orders on the same day of creation of BDRs and receipt of funds, respectively, even when such creation and receipt take place late in the evening. This will result in the optimal and timely utilisation of bullion and funds, enhancing the cost-effectiveness of trading of bullion through the IIBX.

Participation of IBUs in international payment systems

IFSCA, *vide* circular dated May 21, 2025, issued the following policies for permitting IBUs to participate in international payment systems:

1. IBUs are permitted to either participate as, or become members of international payment systems for making or receiving payments, to or from banks and financial institutions outside IFSC, without requiring prior approval from IFSCA;
2. an international payment system that permits IBUs to make or receive payments among themselves affecting domestic (i.e., IFSC) transactions, will need an authorisation from IFSCA; and
3. IBUs may also participate as or become members of international payment systems for making or receiving payments with other IBUs, without prior approval of IFSCA, after being satisfied that such international payment system complies with the condition specified in point 2 above.

Further, IBUs are required to review their participation in the international payment systems and intimate the Department of Banking Supervision about its compliance within 30 (thirty) days from the date of the circular. Additionally, IBUs are required to share the list of all the international payment systems in which the IBU was participant as of March 31, 2025, with IFSCA.

Participation of PSPs in international payment systems

IFSCA, *vide* circular dated June 6, 2025, issued the following policies for PSPs participating in international payment systems:

1. PSPs may either participate as or become members of international payment systems for making or receiving payments to or from banks and financial institutions outside IFSC, after obtaining prior approval of IFSCA;

2. any international payment system permitting PSPs to make or receive payments among themselves or among other financial institutions in IFSC affecting domestic (i.e. IFSC) transactions, will require authorisation from IFSCA; and

3. PSPs may also participate as or become members of international payment systems for making or receiving payments with other PSPs or to/from other financial institutions in IFSC with the prior approval of the IFCA, after being satisfied that such international payment system complies with the specified conditions.

Further, PSPs are required to review their participation in the international payment systems and inform the Department of Banking Supervision with the same within 30 (thirty) days from the date of the circular. Additionally, PSPs are required share a list of all the international payment systems in which the PSP was participant as of May 31, 2025, with IFSCA.

Modifications under the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and KYC) Guidelines, 2022

IFSCA, *vide* circular dated June 5, 2025, notified amendments to the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and KYC) Guidelines, 2022. Some of the key amendments are as follows:

1. Proof of address for verification of identity: Customers submitting any documents other than the post office savings bank account statement or statement of a bank account (including that of a foreign bank) for the purpose of address proof are now required to submit updated officially valid document reflecting their current address within 3 (three) months of the submission of the alternative document.

2. KYC information retrieval and on-going due diligence: For the purposes of establishing an account-based relationship, verification of identity of a customer and undertaking on-going due diligence, REs are required to either obtain the KYC Identifier from its customer, or retrieve it from the Central KYC Records Registry ("**CKYCR**") with the customer's consent and access the KYC records online. Provided however that, REs are prohibited from requiring their customers to submit the same KYC records or additional identification documents unless:

    a) there has been a change in the customer's information in CKYCR;

    b) the retrieved records are incomplete or non-compliant with applicable KYC norms;

    c) the validity period of the documents has lapsed; and

    d) further verification is deemed necessary for identity, address (including current address), enhanced due diligence, or risk profiling.

3. Updating KYC records with CKYCR: REs are required to submit the updated information obtained from the customer to the CKYCR, within 7 (seven) days. The CKYCR will then electronically notify all the REs dealing with such customers about the updated information and the concerned REs will then be required to update their KYC records basis the updated CKYCR records.

4. Applicability to specific REs: The updated guidelines are applicable to the REs engaged in the following activities:

    a) Payment Service Provider ("**PSPs**");

    b) FC undertaking core activities;

    c) IBUs;

    d) bullion trading /clearing member;

    e) broker dealer;

    f) clearing member;

    g) depositary participant;

    h) investment advisor;

    i) FMEs;

    j) general insurance; and

    k) life insurance.

5. KYC records for foreign nationals: REs are not required to submit KYC records of foreign nationals to the CKYCR. However, if an RE intends to submit the KYC records of a foreign national to the CKYCR, the documents issued by the relevant Government departments of the foreign jurisdiction (such as passport, driving license, or voter identity card) and/or letters issued by the Foreign Embassy or Mission in India will be acceptable as the current address proof.

Operation of foreign currency accounts of Indian resident individuals opened under the liberalised remittance scheme in IBUs

IFSCA, *vide* circular dated June 23, 2025, amended the 'Directions to IBUs for operations of the foreign currency accounts of Indian resident individuals opened under the Liberalised Remittance Scheme ("**LRS**")' dated December 13, 2024. Under the amended directions, IBUs are required to collect a declaration from resident individuals confirming that:

1. any amount spent from their foreign currency accounts for availing financial services or financial products in the IFSC is for the purpose declared at the time of remittance under the LRS or for a purpose otherwise permissible under the LRS; and
2. any amount remitted from their foreign currency accounts aligns with the purpose declared while remitting funds under the LRS or with a purpose allowed under the LRS.

Office memorandum on recommendations for streamlining the incorporation process of IFSC companies

To speed up the incorporation of IFSC companies, MCA issued an office memorandum dated January 20, 2025, setting up a process to prioritise the applications of the IFSC entities. In this connection, IFSCA issued an office memorandum issued dated June 24, 2025, stating the below:

1. in case a company wants to incorporate its subsidiary in IFSC area and the only distinction in the name is the addition of the word 'IFSC', then the application for the name approval/incorporation of the IFSC company may be accompanied by a no objection certificate from the parent company, which will then be duly considered by the Central Registry Centre;
2. the Corporate Identification Number of the holding company cannot be entered twice in the Form SPICE+ Part B, while entering the details of the subscribers of the wholly owned subsidiaries, as the details of second subscriber [nominee shareholder] is required to be filled for complying the minimum shareholding requirement in case of a private company. Wholly owned subsidiaries must provide due compliance of the provisions of Section 89 of Companies Act;
3. IFSC entities will get 60 (sixty) days (*instead of 30 (thirty) days*), to submit their documents to the Registrar for the verification of the registered office. Thus, it is not necessary that the details of registered office be disclosed at the time of filing of an application for incorporation of a company; and
4. the requirement to attach a photograph of the registered office in Form INC-20A is a one-time compliance and must be completed within 180 (one hundred and eighty) days from the date of incorporation. Additionally, Form INC-22 needs to be filed only when the registered office is notified for the first time or when it is shifted and IFSC companies have 60 (sixty) days to complete the filing of Form INC-22, as compared to the 30 (thirty)day timeline applicable to other companies.

Ministry of Electronics and Information Technology

Electronics Component Manufacturing Scheme, 2025

The Ministry of Electronics and Information Technology ("**MeitY**"), *vide* notification dated April 8, 2025, introduced the Electronics Component Manufacturing Scheme ("**ECM Scheme**"), to strengthen domestic electronics manufacturing, reduce import dependency, and boost India's position in global supply chains. The ECM Scheme emerged from the recognition that while India has made significant progress in electronics manufacturing (growing from USD 30 billion (US Dollar thirty billion) in FY 2014-15 to USD 115 billion (US Dollars one hundred and fifteen billion) in FY 2023- 24), there remains a significant gap in domestic component manufacturing.

Despite success in reducing finished electronics imports through previous initiatives like the production linked incentives scheme, electronic component imports have continued to increase. The National Institution for Transforming India (NITI) Aayog's report '*Electronics: Powering India's Participation in Global Value Chain*' (July 2024) identified key challenges in component manufacturing, including high capital requirements, unfavourable investment-to-turnover ratios, long gestation periods, lack of scale, and difficulty keeping pace with technological advancements.

The ECM Scheme derives its authority from the MeitY's policy-making powers, which represents an administrative directive that is binding on those who apply for benefits under the ECM Scheme. The implementation will be governed by detailed guidelines to be issued and approved separately by MeitY.

Overview and applicability of the ECM Scheme

The objective of the ECM Scheme is to develop a robust component manufacturing ecosystem by attracting global and domestic investments, ultimately leading to an increase in domestic value addition and India's share of exports in global electronic trade. The ECM Scheme offers 3 (three) types of fiscal incentives:

1. **Turnover-linked incentive**: This incentive is given on net incremental sales (over the base year) for certain target goods manufactured in India. To disburse the turnover-linked incentive, the incremental sales and the cumulative incremental investment is a mandatory criterion.
2. **Capex incentive**: This incentive is provided for eligible capital expenditures. For the disbursement of the capex incentive, meeting the investment threshold and the commencement of commercial production is mandatory.
3. **Hybrid incentive**: This incentive is a combination of the turnover-linked incentive and the capex incentive for manufacturing certain target segment goods (mentioned below) as set out in the ECM Scheme.

The 3 (three) incentives mentioned above apply to 4 (four) target segments:

1. **Sub-assemblies**: Display modules and camera modules.
2. **Bare components**: Non-surface mount devices passive components (including but not limited to resistors, capacitors, ferrites, specialty ceramics), electro-mechanicals, multi-layer Printed Circuit Board ("**PCB**"), Li-ion cells, and enclosures.
3. **Selected bare components**: High-density interconnect/modified semi-additive process/flexible PCB and surface mount devices passive components.
4. **Supply chain ecosystem and capital equipment**: Parts/components used in manufacturing components and capital goods.

Both greenfield and brownfield investments are allowed under the ECM Scheme for the specified target segments. Applicants must submit separate applications for each product within a target segment and cannot apply multiple times for the same product. Eligibility will be based on the applicant's overall global electronics system design and manufacturing revenue, manufacturing capabilities, technological strength, and financial capacity.

Budget and tenure of the ECM Scheme

The ECM Scheme has a budget outlay of INR 22,919 crores (Indian Rupees twenty-two thousand nine hundred and nineteen crore) and will run for six (6) years, with applications opening May 1, 2025, for the first 3 (three) target segments. For the last target segment, i.e., supply chain ecosystem and capital equipment, the ECM Scheme will be open for applications initially for a period of 2 (two) years from May 1, 2025.

Applicants must meet specific investment, sales, and employment thresholds detailed in Annexure A (III) of the ECM Scheme, which lays down the threshold criteria for target segments. Furthermore, for businesses in the electronics sector, the ECM Scheme presents an opportunity to expand component manufacturing operations with government support. The incentives directly address the high capital requirements and competitive disadvantages that have made component manufacturing challenging in India. By participating, companies can secure substantial financial incentives from the government to strategically position themselves within India's electronics manufacturing ecosystem.

Conclusion

The ECM Scheme benefits entities with the capability to make substantial investments in advanced component manufacturing (such as high-density interconnect/modified semi-additive process/PCBs or display modules) or those looking to establish supply chain operations with relatively modest investments.

For industry stakeholders, understanding the specific thresholds and incentive structures for their target segments will be crucial for maximising the benefits available under this initiative, designed to strengthen India's electronics manufacturing self-reliance.

It is anticipated that the ECM Scheme will attract an investment of approximately INR 59,350 crore (Indian Rupees fifty-nine thousand three hundred fifty crore), resulting in the production of around INR 4,56,500 crore (Indian Rupees four lakh fifty-six thousand five hundred crore) and generation of additional direct employment for about 91,600 (ninety-one thousand six hundred) people and many indirect jobs as well.

MeitY releases blueprint for consent management

As India moves toward implementing the Digital Personal Data Protection Act, 2023 ("**DPDP Act**"), a key focus area has been developing robust frameworks for user consent management. In this context, the National e-Governance Division under the MeitY, published a Business Requirement Document ("**BRD**") for consent management.

The BRD is a non-binding technical reference issued by MeitY's Startup Hub and is not part of the DPDP Act. The BRD was published as part of an Innovation Challenge, inviting participants to build a prototype Consent Management System ("**CMS**"). While the document is not intended to serve as official guidance under the DPDP Act, it does, however, serve as an early indication of how the government may be thinking about consent architecture.

Regulatory context

The DPDP Act is not currently enforceable. The Government released the Draft Digital Personal Data Protection Rules, 2025, in January 2025, to operationalise the law. These draft rules address procedures and technical standards for compliance, including obligations around security, notices, and breach notifications. The public consultation period closed in March 2025, and final rules are awaited.

Key features of the BRD

The BRD lays out a modular, privacy-by-design CMS architecture, supporting the full consent lifecycle - collection, validation, renewal, withdrawal, and auditing. Some of the notable features include:

Consent collection

Consent is triggered when an individual initiates a service requiring personal data processing, such as account registration or onboarding. The CMS identifies the relevant processing purposes and generates consent requests accordingly. In this context:

1. consent must be unbundled, granular, and purpose-specific, collected *via* explicit UI controls (e.g., toggles, checkboxes), with no pre-checked options;
2. consent must be validated as free, specific, informed, unambiguous, explicit, and affirmatively given;
3. upon validation, the CMS generates a consent artefact containing key metadata (user ID, purpose ID, session ID, timestamp, consent method), which is securely stored in the consent database;

4. the system synchronises consent status across internal and external processors in real time via application programming interfaces; and
5. users receive an acknowledgement notification confirming submission, and all events are logged for auditability.

Consent validation

Before any data processing activity occurs, the CMS must validate the consent whether the required consent exists and remains active. Consent may be validated in the following manner:

1. when a data controller initiates a processing action or system query, the CMS checks its database for an active consent artefact matching the specified purpose and user ID;
2. consent must be current and not withdrawn or expired;
3. importantly, processing must remain within the scope of the consent provided. For instance, personal data collected for authentication cannot be reused for marketing without separate consent;
4. based on the outcome, the CMS either approves or denies processing. The user is notified of any denial; and
5. all validation actions are immutably logged to maintain a verifiable audit trail.

Cookie consent

1. the cookie consent component ensures transparency and control over tracking technologies used on websites and apps, empowering users to make informed choices about their data;
2. on the first visit, a cookie banner must inform users of the use of cookies and similar technologies;
3. users must be provided granular consent options across cookie categories such as essential, performance, analytics, and marketing;
4. only essential cookies may be enabled by default; all others require explicit, opt-in consent; and
5. the CMS must offer a dedicated cookie preference interface where users can modify or withdraw consent at any time, with preferences updated in real time.

Grievance redressal

The BRD outlines a comprehensive redressal system as described below, that allows individuals to raise complaints related to data processing, privacy violations, or consent issues:

1. complaints will be automatically categorised (e.g., consent violation, data breach, processing error) and assigned unique reference IDs;
2. acknowledgement notifications will be sent upon submission, and all complaint data (user ID, timestamp, complaint type, and description) will be securely transmitted using TLS 1.3 (one point three) encryption;
3. a real-time resolution tracking dashboard will display complaint status (e.g., submitted, in progress, resolved), with updates and outcome notifications issued to the user; and
4. an escalation workflow will auto-forward unresolved complaints to the data protection officer if not closed within specified timeframes.

Conclusion

The BRD offers a preview of the operational contours of consent management under India’s evolving data protection regime. While non-binding, it can help organisations future-proof their systems and prepare for robust, compliant consent workflows.

Ministry of Home Affairs
Government of India
सत्यमेव जयते

Ministry of Home Affairs

Extension of the validity of Foreign Contribution (Regulation) Act, 2010 registration certificates

The Ministry of Home Affairs (“**MHA**”), *vide* public notice dated December 27, 2024, extended the validity of registration certificates of the following categories of entities registered under the Foreign Contribution (Regulation) Act, 2010 ("**FCRA**"):

1. registered entities whose validity was previously extended till December 31, 2024, will stand extended till March 31, 2025; and
2. registered entities whose 5 (five) years validity period is expiring during the period of January 1, 2025, to March 31, 2025, and who have applied/will apply for renewal before the said expiry period, will stand extended up to March 31, 2025, or till the date of disposal of renewal application, whichever is earlier.
3. In the event of a refusal of the application for renewal of the certificate of registration of a registered entity, the validity of the certificate of registration will be deemed to have expired on the date of refusal of the application. Pursuant to such refusal, the previously registered entity will no longer be eligible to receive foreign contribution or utilise the foreign contribution received.

MHA, *vide* public notice dated March 28, 2025, decided to extend the validity of FCRA registration certificates of the certain categories of FCRA registered entities. Accordingly, FCRA registered entities whose validity was extended till March 31, 2025 and whose renewal application is pending and/or entities whose 5 (five) years validity period is expiring during April 1, 2025 to June 30, 2025 and who have applied/will apply for renewal before expiry of 5 (five) years validity period, will stand extended till June 30, 2025, or till the date of disposal of renewal application, whichever is earlier.

Intimation of foreign contribution by the recipient

MHA, *vide* notification dated December 31, 2024, issued the Foreign Contribution (Regulation) Amendment Rules, 2024 ("**FC Amendment Rules**"), amending the Foreign Contribution (Regulation) Rules, 2011. As per the FC Amendment Rules, associations are permitted to carry forward the unspent portion of administrative expenses to the next FY, after mentioning the reasons for such non-utilisation under Form FC-4. Consequently, Form FC-4, regarding intimation of foreign contribution by the recipient, is modified to include:

1. 'Transfer of Foreign Contribution part of income-tax refund from non-FCRA bank account', under the details of receipt of foreign contribution; and
2. 'Carry forward of unspent part of allowable administrative expenses in a FY', under details of unutilised foreign contribution.

Penal action against non-governmental organisations receiving foreign funds without valid FCRA certificate

With regards to receipt or utilisation of foreign contribution without valid FCRA registration, in violation of provisions of the FCRA, MHA vide, public notice dated January 21, 2025, has warned that any transaction in FCRA accounts/FCRA utilisation accounts of non-governmental organisations whose FCRA certificate has been cancelled or ceased or the validity has expired would amount to violation of the FCRA and is liable for penal actions.

Amendments to forms under the Foreign Contribution (Regulation) Rules, 2011

MHA, *vide* notification dated May 26, 2025, notified the Foreign Contribution (Regulation) Amendment Rules, 2025 amending the Foreign Contribution (Regulation) Rules, 2011. Some of the key amendments are as follows:

1. an applicant seeking registration under Form FC-3A must enclose among other documents, the following documents:

a) financial statements and audit reports of the last 3 (three) FYs, including the statement of assets and liabilities, receipts and payments account, and income and expenditure account;

b) if the audit reports and financial statements do not contain activity-wise expenditure for the last 3 (three) FYs, a chartered accountant's certificate in the prescribed format specifying the activity-wise amount spent by the association, duly reconciled with the income and expenditure account and the receipt and payment account; and

c) year-wise activity reports of last 3 (three) years;

2. an applicant seeking prior permission under Form FC-3B must enclose the following documents:

   a) commitment letter from the donor, with the amount committed in the letter matching the donation amount prescribed;

   b) project report including a detailed breakup of proposed expenses to be incurred from the foreign contribution to be received, along with a declaration that administrative expenses must not exceed 20% of the foreign contribution;

   c) letter from the chief functionary, in the prescribed format, providing point wise details in respect of each item of guidelines for prior permission issued by MHA; and

   d) undertaking to adhere to the Good Practice Guidelines of the Financial Action Task Force, in the prescribed format;

3. a note is inserted under Form FC-3C stating that if the registration under the FCRA has ceased, an affidavit regarding receipt and utilisation of foreign contribution after expiry of registration certificate must be submitted in the prescribed format and a copy of the FCRA designated and utilisation bank account statements from the date of expiry till date, duly certified by an officer of the bank; and

4. an applicant intimating change of name and/or address under Form FC-6A must also enclose the following documents:

   a) copy of approval of relevant authority for amendment, duly signed by chief functionary; and

   b) copy of resolution of the governing body passed before effecting the change.

Ministry of Information and Broadcasting

Advisory on adherence of Indian laws and the code of ethics prescribed under the IT (Intermediary Guidelines and Digital Media, Ethics Code) Rules, 2021

The Ministry of Information and Broadcasting, *vide* circular dated February 19,2025, advised OTT platforms to adhere to the various provisions of applicable laws, and the code of ethics prescribed under the IT (Intermediary Guidelines and Digital Media, Ethics Code) Rules, 2021 while publishing content on their platforms, including stricter adherence of the age-based classification of content prescribed under the code of ethics. Further, self-regulatory bodies of OTT platforms are requested to take appropriate proactive action for violation of code of ethics by the platforms.

Ministry of Law and Justice

The Disaster Management (Amendment) Act, 2025

The Ministry of Law and Justice ("**MoLJ**"), *vide* notification dated March 29, 2025, amended the Disaster Management Act, 2005 to strengthen the national and state disaster management authorities. Some of the key changes are as follows:

1. it is clarified that the 'man-made causes' of disasters do not include any law-and-order related matter or situation;
2. the definition of 'disaster database' is introduced which will include information related to disaster assessment, fund allocation details, expenditure, preparedness, mitigation plans, and risk registers;
3. disaster management is inclusive of disaster risk reduction. It is the practice of reducing disaster risk through systematic effort to analyse and manage the causal facts of disaster through:
    a) reduced exposure to hazard;
    b) reduced vulnerability of people, property, infrastructure, economic activity, environmental and natural resource; and
    c) improved preparedness, resilience and capacity to manage and respond to adverse event;
4. the 'National Crisis Management Committee' which was constituted prior to the commencement of the Act, will act as the nodal body to deal with the major disasters which have serious or national ramifications; and
5. the State Government may constitute a separate 'Urban Disaster Management Authority' for their state capitals and all cities having a municipal corporation, except for the National Capital Territory of Delhi and Union territory of Chandigarh.

Ministry of Micro, Small and Medium Enterprises

Revised criteria for Micro, Small and Medium Enterprises classification

The Ministry of Micro, Small, and Medium Enterprises (**"MSME Ministry"**), *vide* notification dated March 21, 2025, updated the classification norms for Micro Enterprise, Small Enterprise and Medium Enterprises ("**MSMEs**"). An enterprise will be classified as a MSME based on the following criteria:

1. a micro enterprise - where the investment in plant and machinery or equipment does not exceed INR 2,50,00,000 (Indian Rupees two crore and fifty lakh) (*previously it was INR 1,00,00,000 (Indian Rupees one crore))* and turnover does not exceed INR 10,00,00,000 (Indian Rupees ten crore) (*previously it was INR 5,00,00,000 (Indian Rupees five crore)*;
2. a small enterprise - where the investment in plant and machinery or equipment does not exceed INR 25,00,00,000 (Indian Rupees twenty-five crore) (*previously it was INR 10,00,00,000 (Indian Rupees ten crore*)) and turnover does not exceed INR 100,00,00,000 (Indian Rupees one hundred crore) (*previously it was INR 50,00,00,000 (Indian Rupees fifty crore)*); and
3. a medium enterprise - where the investment in plant and machinery or equipment does not exceed INR 125,00,00,000 (Indian Rupees one hundred and twenty-five crore) (*previously it was INR 50,00,00,000 (Indian Rupees fifty crore))* and turnover does not exceed INR 500,00,00,000 (Indian Rupees five hundred crore) (*previously it was INR 250,00,00,000 (Indian Rupees two hundred and fifty crore).*

Department for Promotion of Industry and Internal Trade

Press Note 1 (2025 series) - Revision in criteria for Industrial Entrepreneur Memorandum acknowledgement

The Department for Promotion of Industry and Internal Trade (**"DPIIT"**), *vide* Press Note 1 (2025 series) dated April 1, 2025 ("**Press Note**"), revised the criteria for Industrial Entrepreneur Memorandum (**"IEM"**) acknowledgement raising investment and turnover thresholds to encourage industrial growth. This change follows the gazette notification dated March 21, 2025 (**"MSME Notification"**), issued by the MSME Ministry, which updated the classification norms for MSMEs.

Prior to the Press Note, all the industrial undertakings that were exempt from the compulsory licensing requirement under the Industries (Development and Regulation) Act, 1951 and had investment in the plant and machinery/equipment above INR 50,00,00,000 (Indian Rupees fifty crore) or annual turnover above INR 250,00,00,000 (Indian Rupees two hundred and fifty crore) were required to file information relating to setting up of industries in Form IEM. Confirmation for receipt of this information, issued by DPIIT, is known as the IEM acknowledgment.

Under the MSME Notification, the MSME Ministry increased the upper threshold for an enterprise to be classified as a MSME. Now, an enterprise will be classified as a medium enterprise if its investment in the plant and machinery/equipment does not exceed INR 125,00,00,000 (Indian Rupees one hundred and twenty-five crore) or annual turnover does not exceed INR 500,00,00,000 (Indian Rupees five hundred crore).

Accordingly, to maintain congruity between both the eligibility criteria, DPIIT also revised the thresholds and enterprises will be required to obtain IEM acknowledgment if they have an investment in plant and machinery or equipment exceeding INR 125,00,00,000 (Indian Rupees one hundred and twenty-five crore) or an annual turnover exceeding INR 500,00,00,000 (Indian Rupees five hundred crore).

All the eligible industrial undertakings may file for IEM acknowledgement through G2B Portal under the new criteria.

Conclusion

With this revision, DPIIT aims to provide relaxation to MSMEs from an additional compliance burden, foster industrial growth, encourage higher investments and position India as a global manufacturing hub. The Press Note will definitely be a step towards promoting ease of doing business in India.

Press Note 2 (2025 series)- Clarification on the issuance of bonus shares by Indian companies engaged in sectors prohibited for FDI

On April 7, 2025, DPIIT, through Press Note 2 (2025 series) ("**PN2**"), issued a clarification concerning the issuance of bonus shares by Indian companies operating in sectors where FDI is prohibited.

As per Schedule I of the FEM NDI Rules, FDI is prohibited in lottery business, gambling and betting, chit funds, Nidhi companies, trading in transferable development rights (TDRs), real estate business or construction of farmhouses, manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes, and activities/sectors not open to private sector investment ("**Sectors Prohibited for FDI**").

There was ambiguity on whether Indian companies engaged in Sectors Prohibited for FDI could issue bonus shares to its shareholders (which, by implication would have included extending the bonus offer to non-resident ("**NR**") shareholders) under the 'automatic' route. Pursuant to the PN2, the Government clarified the position that such companies (i.e., Indian companies engaged in Sectors Prohibited for FDI) are allowed to issue bonus shares to NR shareholders. The PN2 provides clarity for the Indian companies operating in sectors where FDI was originally permitted but is now prohibited. For example, it was through Press Note 2, dated May 10, 2010, that FDI was prohibited in the manufacturing of cigarettes.[6]

What has the Government clarified?

The Government clarified that issuance of bonus shares by Indian companies engaged in Sectors Prohibited for FDI to its existing NR shareholders is permitted provided the Indian company fulfils the following conditions in connection with such issuance:

1. the shareholding pattern of the pre-existing NR shareholders will not change pursuant to the issuance of the bonus shares; and

2. the issuance of bonus shares must comply with all other applicable rules, laws, regulations, and guidelines.

[6] Press Note 2 (2010 Series).pdf.

Thus, issuance of bonus shares will need to be in accordance with the Companies Act and rules thereunder and SEBI ICDR Regulations (in case of listed companies).

The implication of this clarification is that such companies can proceed to issue bonus shares without having to obtain a prior government approval provided the aforesaid conditions are fulfilled by the Indian company.

Does PN2 have a retrospective application?

One of the interesting questions is whether this clarification can be applied retrospectively. Can previous issuances of bonus shares by such companies be grandfathered under this clarification? The language of PN2 reads "*following clarification is inserted*", which is quite unlike previous Press Notes (including the famous Press Note 3) which amended the position of the law. Given the PN2 'clarification', one could possibly argue that the position of law was always that such bonus issuance to NR shareholders was permitted under the extant FDI framework, and the current clarification merely puts the matter beyond doubt. While one could rely on certain judicial precedents to argue that a clarificatory amendment has retrospective application, it may be a slightly risky argument to advance in the context of FDI which is a highly regulated activity.[7] Accordingly, a cautious approach is suggested.

Impact of PN 2 *vis-à-vis* FDI from land-bordering countries (i.e., Press Note No. 3 (2020 Series)

Press Note No. 3 (2020 Series) ("**PN3**"), which was issued against the backdrop of the Covid pandemic, mandated that where an investing entity is situated in a country sharing land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, FDI will be permitted only with prior Government approval.

The basis of the clarification provided in PN2 seems to be the fact that a bonus issuance does not entail any inflows of funds nor would it under ordinary circumstance (unless there is a selective bonus issuance) alter the existing shareholding pattern of the Indian company. Given the rationale behind the clarification that resulted in the issuance of PN2, one could argue that a similar logic could also extend to the issue of bonus shares that could otherwise get caught within the restriction of PN3. Therefore, a similar clarification from the Government in relation to PN3 would help.

Conclusion

While the PN2 'clarification' sheds light on the regulator's thought process, PN2 states that the clarification will be only effective from the date of issuance of the applicable notifications issued under the FEMA. The FEMA notification in this regard is still awaited and hence, on a literal interpretation, the PN2 is not effective as on date of this article.

From the date of the anticipated FEMA notification, the PN2 clarification will allow the Indian companies in Sectors Prohibited for FDI an additional avenue to effectively capitalise their existing reserves and such companies could explore bonus issuances as a means for cash distribution to their existing shareholders, including for Indian shareholders. Previously due to the restriction on issue of the bonus shares to NR shareholders, Indian companies in Sectors Prohibited for FDI largely shied away from undertaking issuance of bonus shares considering the commercial and governance related challenges especially those in relation to the dilution of the NR shareholder(s). The move is expected to ensure parity in shareholder rights and make exploring bonus issuances easier for Indian companies operating in the Sectors Prohibited for FDI.

[7] *Bengaluru Development Authority vs. Sudhakar Hegde and Ors.* (2020) 15 SCC 63; *State Bank of India vs. V. Ramakrishnan* (2018) 17 SCC 394; *CIT vs. Vatika Township* (2015) 1 SCC 1

वाणिज्य एवं
उद्योग मंत्रालय
MINISTRY OF
COMMERCE AND INDUSTRY
सत्यमेव जयते

Ministry of Commerce and Industry

Guarantee provided against credit instruments extended by member institutions to finance eligible startups

The Ministry of Commerce and Industry ("**MoCI**"), *vide* notification dated May 8, 2025, issued the Credit Guarantee Scheme for Startups ("**CGSS**"), for the purpose of providing credit guarantees (upto a specified limit) against credit instruments extended by Member Institutions ("**MI**") to finance eligible borrowers being startups. The CGSS will help provide collateral free debt funding to startups. Loan/debt facilities sanctioned to an eligible borrower on or after the date of notification of the scheme will be eligible for coverage under the scheme. Some of the key provisions of the CGSS are as follows:

1. an entity that is recognised by the DPIIT as a startup, is not in default to any lending/investing institution and/or not classified as 'Non-Performing Asset' as per RBI guidelines, and their startup eligibility are certified by the MI for the purpose of guarantee cover, will be applicable to borrow under the CGSS;
2. scheduled commercial banks, financial institutions, registered NBFCs (having a rating of BBB having minimum networth of INR 100 crore (Indian Rupees one hundred crore)) and SEBI registered AIFs, will be eligible for the lending/investing institutions under the CGSS;
3. a lending/investing institution will not be entitled to a guarantee in respect of eligible loan/venture debt facilities granted by it unless it has entered into an agreement with trustee/submitted an undertaking to the trustee;
4. the maximum guarantee cover per borrower will not exceed INR 20,00,00,000 (Indian Rupees twenty crore). The credit facility being covered, must not have been covered under any other guarantee scheme. The guarantee will be limited to the outstanding limit, less the value of collateral security accepted by the MI at the time of sanction of facilities in terms of its valuation policy guidelines, subject to compliance with other conditions of the CGSS; and
5. to avail the guarantee cover under the CGSS, the MIs must pay guarantee fee in the form of annual commitment charge of 0.15% per annum of the proposed pooled investment in startups upfront to the trust within 30 (thirty) days from the date of credit guarantee demand advice note of commitment charge. In case the pooled investment amount in startups is higher than what was proposed initially, the MI will pay the balance guarantee fee (commitment charges) from time to time.

Special Economic Zones (Amendment) Rules, 2025

MoCI, *vide* notification dated June 3, 2025, has amended the Special Economic Zones ("**SEZ**") Rules, 2006. Some of the key amendments are as follows:

1. the minimum requirement for a SEZ exclusively set up for manufacturing of semiconductors or electronic components will be 10 (ten) hectares or more of contiguous land;
2. the condition of encumbrance free area for an SEZ may be relaxed, in case the area is already mortgaged or leased to the Central Government/State Government/their authorised agency, after the reasons are recorded in writing;
3. units may also be setup for providing services or manufacturing services to overseas entities if the finished goods are to be exported out of the country/transferred to the customs bonded warehouse to be maintained by the overseas entity/supplied to the domestic tariff area with payment of applicable duties/transferred to the free trade and warehousing zone unit to be maintained by the overseas entity in the same or different SEZ as per the instructions of the overseas entity; and
4. under the net foreign exchange earnings, units providing manufacturing services in the semiconductor sector, value of goods received as well as value of goods supplied on free of cost basis will be included in net foreign exchange

calculations and such value will be determined in accordance with the customs valuation rules.

Ministry of Finance

Securities Contracts (Regulation) Amendment Rules, 2025

The Ministry of Finance ("**MoF**"), *vide* notification dated May 16, 2025, amended the Securities Contracts (Regulation) Rules, 1957. A proviso is inserted to Rule 8 (*qualifications for membership of a recognised stock exchange*) sub-clause (1)(f) (*conditions for eligibility to be elected as a member*) and (3)(f) (*no person who is a member at the time of application for recognition or subsequently admitted as a member must continue as such if*) of the Securities Contracts (Regulation) Rules, 1957, stating that investments made by a member must, at all times, not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker.

Amendment to the FEM rules: Issuance of bonus shares to non-resident investors by companies engaged in sectors prohibited from receiving FDI

Bonus shares are issued under Section 63 of the Companies Act and the Companies (Share Capital and Debentures) Rules, 2014. This process involves the issuance of additional shares in a pre-determined ratio to existing shareholders resulting in an increase in the total number of shares and a corresponding proportional decrease in the stock price. The issuance of bonus shares must be undertaken in compliance with the provisions of the Companies Act, rules thereunder, and applicable foreign exchange laws including the FEM NDI Rules. In the case of listed entities, it is also necessary to comply with the applicable regulations issued by SEBI, including the SEBI ICDR Regulations.

Amendment to the FEM NDI Rules

On June 11, 2025, MoF introduced amendments to Rule 7 of the FEM NDI Rules ("**Amendment Notification**").

The Amendment Notification allows resident companies (operating in sectors prohibited for FDI or undertaking activities prohibited from receiving FDI as elaborated below) to issue bonus shares to existing NR shareholders with the condition that such NR shareholders' shareholding does not increase pursuant to such issuance. The Amendment Notification came into effect from June 11, 2025. The Amendment Notification is also retrospective in nature and applies to bonus issuance undertaken during the subsistence of the erstwhile FEM (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 or the FEM (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017.

Prohibited sectors

The FDI Policy, 2020 restricts FDI in the following sectors:

1. lottery business including government/private lottery, online lotteries, etc.;
2. gambling and betting including casinos etc.;
3. chit funds;
4. nidhi company;
5. trading in transferable development rights;
6. real estate business or construction of farm houses[8];
7. manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes; and
8. activities/sectors not open to private sector investment e.g. (a) atomic energy; and (b) railway operations (other than permitted activities mentioned in para 5.2 of the FDI Policy, 2020).

Related clarifications

Prior to the Amendment Notification, DPIIT, through Press Note 2 (2025 series) dated April 7, 2025 ("**PN 2**"),

[8] 'Real estate business' does not include development of townships, construction of residential/commercial premises, roads or bridges and REIT registered and regulated under the SEBI REIT Regulations.

had issued a clarification concerning the issuance of bonus shares by Indian companies operating in sectors where FDI is prohibited. The clarification however did not include provisions relating to retrospective applicability of the clarification.

In addition to including the provision as substantive law, it may be noted that the deeming language under the Amendment Notification provides clarity relating to the fact that these relaxations are available retrospectively including relating to actions undertaken under the erstwhile FEM (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 or the FEM (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017.

Conclusion

The Amendment Notification eases the restrictions on companies while undertaking future issuance of bonus shares. This is particularly beneficial to foreign shareholders whose investments were 'grandfathered' (i.e. new rules restricting investments do not apply retroactively to existing investments) pursuant to any change in law which restricted their holding by means of a prohibition on foreign investment. Such shareholders may now be able to freely receive bonus shares without increasing their total shareholding percentage. Further, given that the Amendment Notification provides retrospective validation to bonus shares already issued, the Amendment Notification will provide relief to several companies who may now be able to regularise outstanding non-compliance issues in this regard. The Amendment Notification is accordingly a welcome move for existing foreign investors in companies operating in FDI prohibited sectors and reduces legal complexity and uncertainty.

Stamp Duty

Key Changes under the Maharashtra Stamp (Amendment) Act, 2025

The Maharashtra Stamp (Amendment) Act, 2025 ("**Amendment Act**"), enacted on April 1, 2025, introduces several key changes to the Maharashtra Stamp Act. The amendment includes *inter alia* increase in fees and streamlining online payment of stamp duty.

Key amendments under the Amendment Act

1. **Increase in stamp duty for supplementary documents (Section 4)**: The stamp duty chargeable on '*other instruments*' that form part of a single transaction has been raised from INR 100 (Indian Rupees one hundred) to INR 500 (Indian Rupees five hundred).

2. This amendment to Section 4 of the Maharashtra Stamp Act enhances the stamp duty payable on each additional/ancillary instrument (such as power of attorney, release deed, or a similar document) executed along with the principal instrument (such as sale deed, mortgage deed, or other primary document) within a single transaction. The amendment is likely to result in an increased overall cost of execution of such transactions by parties within the State of Maharashtra.

3. **Online payment of stamp duty (Section 10)**: The online payment of stamp duty has been streamlined by amendments to the process of e-payment of stamp duty and introduction of the concept of '*e-stamp certificate*' under Section of the Maharashtra Stamp Act. These amendments are summarised below:

    a) the Chief Controlling Revenue Authority ("**CCRA**") may, by notification, specify the instruments for which stamp duty must be paid by either of these 2 (two) methods: (i) by franking machine; or (ii) by e-payment, in virtual treasury through Government Receipts Accounting System ("**GRAS**") or a designated bank account specified in the official gazette;

    b) any duties paid by e-payment will be valid only if: (i) the instrument contains an endorsement to that effect by an officer authorised by CCRA

("Authorised Officer"), or (ii) a certificate to that effect is issued by an Authorised Officer in case of consolidated payments for an electronic record, or (iii) an e-stamp certificate is issued through prescribed electronic means and mode; and

c) mere e-payment of stamp duty without the aforesaid validation will not be considered as valid stamp duty payments. The procedure for e-payment, endorsement, certification, and issuance of e-stamp certificate will be prescribed by the CCRA by way of an order.

The facilitation of online payment of stamp duty promotes ease of compliance. The validation of stamp duty paid through the issuance of an 'e-stamp certificate' is a progressive step towards digitisation and administrative convenience. It is expected to substantially reduce the time, effort and paperwork involved in the payment of stamp duty. While initial implementation challenges may arise, the digitised framework is likely to benefit all stakeholders, including the transacting parties and the State Government.

4. **Adjudication of stamp duty (Section 31)**: The process, fees and payments involved in the adjudication of stamp duty payable on an instrument have also been amended and the concept of pre-adjudication deposit of deficit stamp duty has been introduced. These amendments are summarised below:

a) the application fee for adjudication of stamp duty has been increased from INR 100 (Indian Rupees one hundred) to INR 1,000 (Indian Rupees one thousand);

b) an application for adjudication of executed instruments will only be accepted if the applicant deposits with the Collector:

i) in cases of market value based stamp duty, the difference between the duty already paid and the duty chargeable on either the market value (as determined by applicant) or the consideration mentioned in the instrument, whichever is higher; and

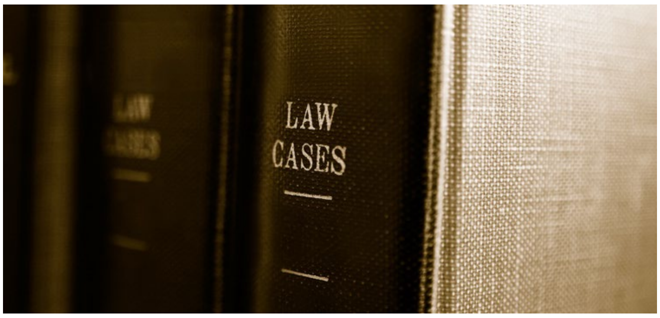
ii) in other cases, the difference between the stamp duty chargeable (as determined by the applicant) and the duty already paid.

Post adjudication, the Collector will adjust the deposited amount against the stamp duty finally determined and any excess amount deposited will be refunded to the applicant within a period of 45 (forty-five) days, without interest.

The amendments to the said Section 31 of the Maharashtra Stamp Act significantly increase the upfront costs involved in the determination of stamp duty chargeable on executed instruments. While a portion of the cost escalation may be attributed to the enhancement of application fee, the primary cause is the newly introduced requirement mandating applicants to deposit the self-assessed deficit stamp duty at the time of filing an application for adjudication. Resultantly, the transacting parties will be obliged to arrange for and deposit the estimated deficit duty upfront, as opposed to the earlier practice of remitting such duty subsequent to the adjudication and determination of the actual amount payable.

Conclusion

The amendments are intended to ease the process of stamp duty compliance by streamlining the process of e-payment of stamp duty and enabling the issuance of e-stamp certificates for validation of duty paid. However, they also introduce a significant increase in the upfront costs associated with the stamp duty adjudication process and the execution of instruments, as stated above. It may be worthwhile for transacting parties in Maharashtra to take the same in consideration before execution of instruments within the State.



Case Laws

Agreement to sell granting possession of immovable property must be treated as a conveyance for stamp duty purposes

Recently, the Hon'ble Supreme Court of India ("**Supreme Court**"), while deciding the case of ***Mr. Ramesh Mishrimal Jain vs. Mr. Avinash Vishwanath Patne and Niranjan Prakash Dali,***[9] held that an agreement to sell granting possession of property would be deemed to be a conveyance and would attract stamp duty as applicable to a conveyance under Explanation I to Article 25 ("**Explanation**") of the Maharashtra Stamp Act, 1958 ("**Maharashtra Stamp Act**").

Brief facts

1. Respondent no. 1 along with his mother were joint owners of the property situated at Paiki Village Kasaba Khed, Khed Taluk, within the limits of Khed Municipal Council, Maharashtra ("**Suit Property**"). The appellant was a tenant in the Suit Property.

2. By and under an unregistered Agreement to Sell dated September 3, 2003 ("**said Agreement**") executed on a stamp paper of INR 50 (Indian Rupees fifty), respondent No. 1's mother, agreed to sell the Suit Property to the appellant for a consideration of INR 11,00,000 (Indian Rupees eleven lakh) on the terms and conditions mentioned therein. The said Agreement provided the timeline within which the sale deed was to be executed, upon which the possession would be handed over on ownership basis. The same was also reaffirmed by an extension agreement dated July 28, 2004. Pursuant to the demise of respondent no.1's mother, respondent no 1 became the absolute owner of the Suit Property. The appellant filed a suit[10] for specific performance of the said Agreement before the Court of Civil Judge, Senior Division, Ratnagiri ("**Trial Court**").

3. The respondents filed an application under Section 34 of the Maharashtra Stamp Act before the Trial Court for impounding the said Agreement on the ground that the said Agreement was not sufficiently stamped. The appellant who was already in possession of the Suit Property in the capacity as a tenant, claimed that the said Agreement did not amount to a conveyance and that no stamp duty was payable at that stage. The appellant argued that his occupation of the Suit Property as a tenant wasnot part of the sale transaction. The appellant further claimed that after completion of the sale transaction, the possession of the Suit Property would be given to the appellant on ownership basis.

4. The Trial Court, *vide* order dated August 3, 2015 ("**Trial Court Order**") allowed the application, impounded the said Agreement and directed that the same be sent to the Register of Stamps for recovery of deficit stamp duty. The Appellant's contention that no stamp duty was required as it was not a conveyance was rejected.

5. The appellant challenged the Trial Court's Order, but the Bombay High Court ("**Bombay HC**") dismissed the writ petition[11], upholding the impounding of the said Agreement and stamp duty recovery. The Bombay HC ruled that since the appellant remained in possession of the Suit Property, the said Agreement was 'deemed conveyance' under the Explanation of the Maharashtra Stamp Act.

6. The order of Bombay HC came to be challenged by the appellant before the Supreme Court.

Issue

The Supreme Court in the civil appeal framed the following question of law:

[9] 2025 INSC 213 (Civil Appeal No. 2549 of 2025)
[10] Special Civil Suit No. 65 of 2012
[11] Writ petition No. 3246 of 2016

"Whether the Appellant is liable to pay stamp duty and penalty on the Agreement to Sell dated 3rd September, 2003 in respect of the Suit Property".

Finding and analysis

1. The legal position that stamp duty is applicable on the instrument rather than the transaction was re-affirmed by the Supreme Court. Thus, even if the actual transfer of ownership occurs later, the agreement itself can attract stamp if possession has been given.
2. The Explanation provides that an agreement to sell an immovable property is considered as a conveyance, if under such agreement possession is transferred or agreed to be transferred.
3. The Supreme Court referred to its judgments in the matters of *Veena Hasmukh Jain vs. State of Maharashtra*[12], and *Shyamsundar Radheshyam Agarwal vs. Pushpabai Nilkanth Patil*[13], whereunder it had held that in case of an agreement to sell immovable property if possession is transferred at any time without executing the conveyance such an instrument is deemed to be a 'conveyance'.
4. The Supreme Court stated that the intent in equating the agreement at par with a conveyance, was with an object to realise the revenue at the earliest point of time. It further held that since possession was given to the appellant before the said Agreement, possessory rights protected under Section 53A of the Transfer of Property Act, 1882 would also be derived and therefore the same requires payment of proper stamp duty.

Conclusion

The Supreme Court affirmed that an agreement to sell attracts stamp duty as a conveyance under the Maharashtra Stamp Act if possession of property is given.

Supreme Court explains the concept of equitable mortgage as applicable in India and the distinction between Indian law and English law vis-à-vis the mortgage by deposit of title deeds

The Supreme Court in its judgement in ***The Cosmos Co. Operative Bank Ltd. vs. Central Bank of India and Ors.***[14], has held that: (a) a mortgage by deposit of title deeds is a legal mortgage and the handing over of title deeds evidencing ownership, to the mortgagee is essential to create a valid mortgage; (b) equitable mortgages are legally recognised in India and are enforceable as a charge; and (c) a legal mortgage created subsequent to an equitable mortgage will prevail over the equitable mortgage unless it is established that the subsequent mortgagee had notice of the prior equitable mortgage.

Brief facts

The borrowers availed 2 (two) loans from Central Bank of India ("**Central Bank**") and Cosmos Cooperative Bank Limited ("**Cosmos Bank**") respectively in the years 1989 and 1998. To secure the loans, a flat ("**Flat**") was mortgaged in favour of both the banks by depositing property related deeds. While the borrowers had deposited different agreements to sell with both the banks, the share certificate which evidenced the ownership of Flat was deposited with Cosmos Bank. The borrowers defaulted in servicing both the loans. Central Bank initiated recovery proceeding before the Bombay HC, which later got transferred to the Debts Recovery Tribunal-I, Mumbai ("**DRT**"); and Cosmos Bank took steps to sell the Flat by enforcing the security interest.

The DRT held that Central Bank did not have a valid mortgage in its favour. Central Bank's appeal to the Debts Recovery Appellate Tribunal, Mumbai ("**DRAT**"),

[12] (1999) 5 SCC 725: 1999 SCC Online SC 78
[13] (2024) 10 SCC 324

[14] Judgement dated February 4, 2025, in C.A. No. 1565 of 2025. Neutral Citation 2025 INSC 243

was held in its favour. The DRAT held that Central Bank had a valid and prior mortgage in its favour and that it will prevail over the mortgage created in favour of Cosmos Bank. Cosmos Bank was unsuccessful before the Bombay HC in its challenge to the order of the DRAT, and therefore preferred a civil appeal before the Supreme Court.

Issue

Whether an equitable mortgage will have a priority in enforcement over a legal mortgage?

Decision of the Supreme Court

The Supreme Court dealt with the nature of the mortgages created in favour of the 2 (two) banks in light of the applicable laws and judicial precedents, and held as under:

1. **Agreement to sell**: An agreement to sell does not by itself create any interest in a property; and it cannot be considered as a deed conferring title or ownership.
2. **Share certificate of a housing society**: The share certificate issued under the Maharashtra Ownership Flats (Regulation of the promotion of construction, sale, management and transfer) Act, 1963 by the concerned housing society in which the Flat is located, is the ownership or title deed for the Flat.
3. **Legal mortgage vs. equitable mortgage**: A legal mortgage is created when proprietary interest in property is transferred by complying with the formalities prescribed under the applicable laws; and that equitable mortgage is created solely based on a clear intention of the parties to create mortgage.
4. **Priority of rights**: Considering the difference between the legal and equitable mortgages; and that the equitable mortgage creates only a right *in personam*, an equitable mortgage would have priority over subsequent charges or mortgages only if the subsequent charge holder or mortgagee was aware of the equitable mortgage. The Supreme Court also emphasised the steps required to be taken by an equitable mortgagee to retain the priority of such mortgage.
5. **Status of mortgage by deposit of title deeds in India**: under Indian law, mortgage by deposit of title deeds is statutorily recognised under section 58 of the Transfer of Property Act, 1882 (“**TP Act**”) and hence is a legal mortgage and not an equitable mortgage, in contrast to the position under English law.
6. **Central Bank’s mortgage and priority**: While there was clearly an intention to create mortgage in favour of Central Bank,considering that, the share certificate, which was the title deed for the Flat was not deposited by the borrower with the Central bank and the bank had also not taken steps to obtain the title deed from the borrowers; the mortgage in favour of Central Bank was only an equitable mortgage. By placing reliance on section 78 of the TP Act, the Court held that the mortgage in favour of Central Bank, will not have priority over the subsequent legal mortgage in favour Cosmos Bank, since Central Bank had not issued any public notice regarding the mortgage in its favour and Cosmos Bank was unaware of the equitable mortgage in favour of Central bank. Accordingly, the Court held that Cosmos Bank will be entitled to appropriate the proceeds from the sale of the Flat.

Conclusion

The judgment is significant since it clarifies the position relating to mortgage by deposit of title deeds under the TP Act, and the difference between such a mortgage and equitable mortgage. The judgment further extensively deals with the concept of equitable mortgage as developed under English law and the differentiating aspects under Indian law. The decision emphasises the need to have proper documentation in place for a valid mortgage and due diligence required on the part of a mortgagee.

Supreme Court declares Rule 55A(i) of the Tamil Nadu Registration Rules, 1949 ultra vires the Registration Act, 1908

The Supreme Court in ***K. Gopi vs. Sub-Registrar and Ors.***[15] held Rule 55A(i) of the Tamil Nadu Registration Rules, 1949 ("**Registration Rules**") *ultra vires* the Registration Act, 1908 ("**Registration Act**"). Under Rule 55A of the Registration Rules, the sub-registrar cannot register any documents unless the original title documents and Encumbrance Certificates ("**ECs**") relating to the property are verified. This brought in a challenge for many *bona fide* owners to transact their property in the absence of original title documents. The Supreme Court has come to their aid, and it reemphasises that the sub-registrar, being a procedural authority performing administrative functions, cannot refuse to register an instrument on the basis that the executant lacks title to the property.

Brief facts

During the years 2007 to 2018, the Inspector General of Registration ("IGR"), Tamil Nadu, released a series of administrative circulars instructing sub-registrars to ascertain the title of the executants prior to registration, which was to be done by examining the original title deeds and ECs of the immovable property. These circulars were issued with the objective of preventing fraudulent transactions and to eliminate forgery. However, these circulars did not have a statutory backing under the Registration Act.

The veracity of such circulars was tested in *Ammasi Kutti vs. S. Manoharan*[16], wherein the Madras High Court ("**Madras HC**") affirmed their legitimacy. Notably, the Madras HC also suggested the Government of Tamil Nadu to formally amend the Registration Rules to include provisions of the circular. Accordingly, the Tamil Nadu government officially incorporated Rule 55A into the Registration Rules *vide* order dated September 5, 2022[17]. Rule 55A of the Registration Rules formalised these circulars, requiring sub-registrars to validate the title of the executant by checking the previous original title documents and ECs. Alternatively, in case the previous original deeds were lost, the executants had to produce a non-traceable certificate issued by the police, in addition to public notice.

The registration department's justification stemmed from the public interest to safeguard people from counterfeits and bogus dealings in property. The stringent requirements stipulated in Rule 55A of the Registration Rules ventured much beyond the legal formalities. Many citizens did not have access to their original deeds owing to familial disagreements, loss over generations, etc.

For example, women attempting to register their legal portion of ancestral property were commonly coerced or stonewalled by male relatives who concealed original deeds. In such circumstances, women were made helpless not due to a lack of legal entitlement, but rather by a procedural barrier masquerading as a protective measure. According to the Madras HC in *M. Ariyanatchi vs. Inspector General of Registration*[18], Rule 55A of the Registration Rules invalidated any progressive reforms by necessitating physical ownership of documents. Moreover, there were instances of people being solicited to pay bribes for the police non-traceable certificates, allowing corruption and delays to thrive. Citizens were ambiguous, property acquisitions were hindered, and loan approvals were disrupted.

[15] 2025 SCC OnLine SC 740 (India)
[16] (2022) SCC OnLine Mad 5748 (India)
[17] Commercial Taxes and Registration (J2) Department, G.O. Ms. No. 129 (Issued on September 5, 2022) (India)
[18] W.A.(MD). No. 856 of 2023, dated 27.06.2023

In *Punithavathy vs. Inspector General of Registration*[19] the Madras HC notably stated that Rule 55A of the Registration Rules infringed constitutional property rights granted by Article 300A of the Constitution of India. The court went on to say "*the right of the appellant to deal with the property which is protected under Article 300-A of the constitution, cannot be affected by a rule which has been introduced with the view to prevent bogus registrations. The Registering Authority can verify the ownership from the certified copy of the original which is also issued by the very same department*". The Court acknowledged the practical societal dynamics that Rule 55A of the Registration Rules overlooked.

In *P. Pappu vs. The Sub-Registrar, Rasipuram*[20] the Madras HC criticised the inflexibility, remarking that "*insistence on production of originals was a superfluous exercise*" and adding that such bureaucratic persistence *"will result only in encouraging underhand dealings*".

Moreover, the reports extracted from the Tamil Nadu Information Commission Annual Report of 2015[21] further highlighted complaints against sub-registrars over non-registration or delays due to the circulars, even prior to the implementation of Rule 55A of the Registration Rules.

In this case, the sale deed presented for registration was refused on the grounds of lack of title. Aggrieved by this, the appellant, filed a writ petition before the Madras HC and the same was dismissed. In the intra court appeal, the division bench affirmed the order of the writ court.

Subsequently, the appellant filed a Special Leave Petition ("**SLP**") challenging the constitutionality of Rule 55A(i) of the Registration Rules.

Key issue

Whether the sub-registrar is empowered under Rule 55A(i) of the Registration Rules, framed under the Registration Act, to refuse the registration of an instrument on the grounds that the executant's alleged lack of title, and whether such rule is constitutionally valid?

Findings of the Supreme Court

The Supreme Court's rationale in declaring Rule 55A(i) of the Registration Act *ultra vires* the Registration Act, was grounded in the fundamental context of the Registration Act. The findings of the Supreme Court are as follows:

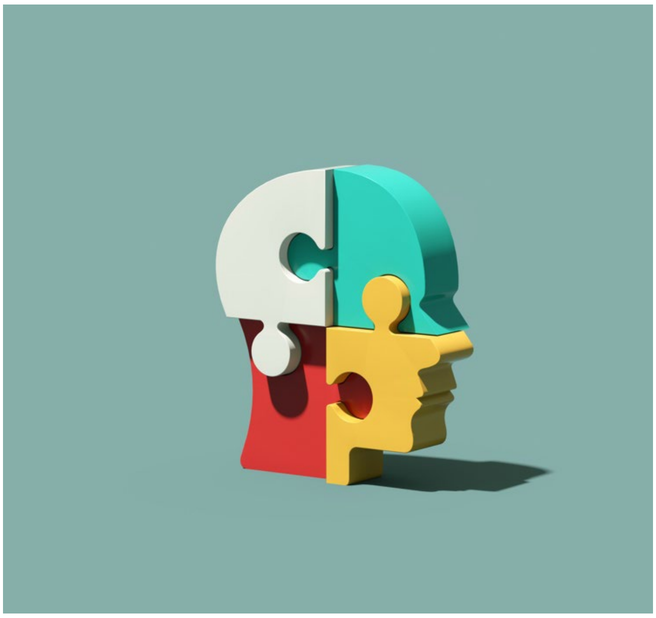
1. under the scheme of the Registration Act, the functions of the sub-registrar are to ensure procedural compliances in relation to the registration and do not have the power to ascertain the title of the executants. To state it otherwise, sub-registrars do not have any adjudicatory power to decide whether the vendor/executant has any title or not;
2. Rule 55A of the Registration Rules states that unless the presentant produces the original title documents and ECs, the sub-registrars will not register the document. Therefore, if a document is lodged for registration, then the executants must provide the original title documents and establish their ownership of the same. As a corollary Rule 55A of the Registration Rules empowers the sub-registrar to ascertain the title of the executants and adjudicate upon the same;
3. the rule making power of the IGR is circumscribed under section 69 of the Registration Act. None of the clauses in section 69 of the Registration Act confers power on the IGR to refuse registration of a document on the basis of lack of title. The Supreme Court declared that subordinate law cannot impose substantive requirements which are in contradiction to the governing legislation; and
4. For the foregoing reasons, Rule 55A(i) of the Registration Rules was found to be inconsistent with the Registration Act and therefore was declared *ultra vires* the Registration Act.

Conclusion

Rule 55A of the Registration Rules was a well-intentioned but misguided rule which confounded process with authority, resulting in the refusal of property rights to common people. The Supreme Court's decision to overturn Rule 55A(i) of the Registration Rules restores the subtle but essential

[19] W.A. No. 1571 of 2024, dated June 5, 2024 (India)
[20] 2024(5)C TC 575 (India)
[21] Tamil Nadu Information Commission, Annual Report – 2015, No. 16168/C1/2016 (March 2016) (India)

distinction among procedural law and substantive rights.



India mergers and acquisitions: Simplification of share swaps boosts structuring avenues and opportunities

Share swaps: Growing in popularity

Global trends reveal 'share swaps' have emerged as an attractive proposition for implementing Mergers and Acquisitions ("**M&A**") for several commercial, strategic and regulatory reasons. Several landmark transactions, both globally[22] and in India[23], involving share-swap arrangements are implemented.

In India, the rules around cross-border share swaps have been considerably liberalised ove r the years. The era of liberalisation which started in 2015 when the foreign exchange rules permitted limited types of 'share-swaps' culminated with substantial liberalisation of the norms in 2024. Some of the remaining uncertainties have been further clarified, as recent as in January 2025. Only a handful of share-swap structures remain under the 'approval' route. This opens exciting new structuring opportunities for structuring M&A transactions, particularly for start-ups. Further, growth-stage companies with limited liquidity are often inclined towards swap routes for undertaking strategic acquisitions. The reforms are likely to provide a fillip to such companies for relocation to India ('reverse' flipping in common parlance).

Swaps: Understanding the mechanics

The term 'swap' means 'an act of exchange, interchange or switch'. Therefore, a share swap is a mechanism for acquiring shares of a company in exchange for shares of another company. The consideration for such transaction may or may not involve cash.

There are 2 (two) types of share swaps: (a) a domestic share swap; and (b) a cross-border share swap. In a 'domestic share swap', the shares of companies incorporated in India gets exchanged and the transaction involves 'resident' parties. A 'cross-border share swap' involves 'non-resident parties' dealing with the shares of a company incorporated in India ("**Indian Company**") or 'resident parties' dealing with the shares of a foreign company with limited liability ("**Foreign Company**").

Permissible structures

1. Domestic share swaps: This share swap is devoid of any exchange control limb. It is purely domestic and hence, governed solely by the (Indian) Companies Act. In such a situation, a swap may be, inter alia, undertaken as follows:

    a) an Indian Company A can issue fresh securities to a resident shareholder (i.e., individual as well as entities) and the resident shareholder can pay for the same by transferring the securities it holds in an Indian Company B;

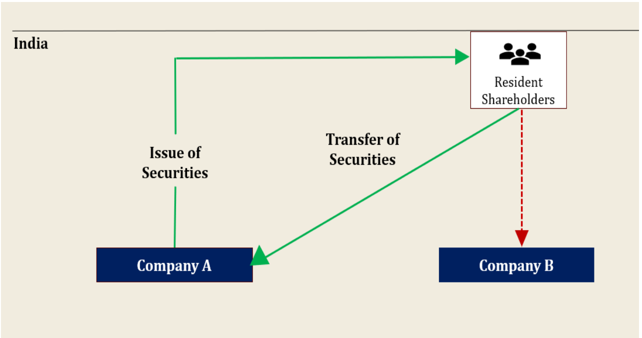
    b) a resident shareholder can purchase the securities of an Indian Company A held by a resident shareholder and pay for the same by transferring the securities it holds in an Indian Company B; and

    c) an Indian Company B can purchase the securities of an Indian Company A held by a resident shareholder and pay for the same by issuing and/or allotting securities of itself.

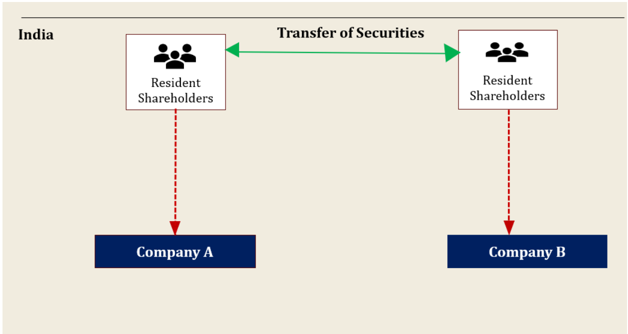
[22] Based on publicly available information, notable overseas transactions involving swap arrangements are: Disney's acquisition of 21st Century Fox

[23] Based on publicly available information, notable transactions in India involving swap arrangements are: Zomato's acquisition of Blinkit

Domestic share swap by primary issuance



Domestic share swap by secondary transfer



Any issuance of securities will be considered a 'private placement' of securities under the Companies Act. Accordingly, the rules with respect to a private placement must be complied with. Any transfer of securities must be executed by way of relevant securities transfer form/dematerialisation instruction, as the case may be, after paying relevant stamp duty on the transfer.

2. Cross-border share swaps

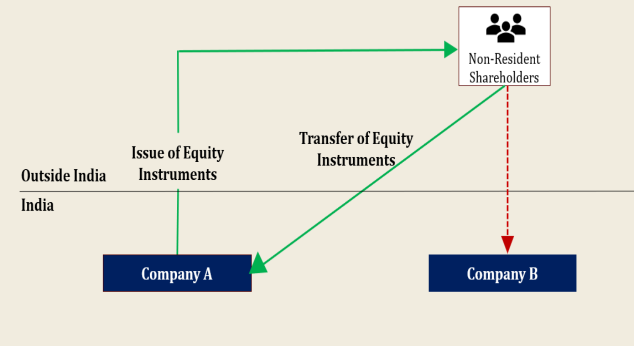
   a) **Inbound share swap**: Where one or more parties involved in a swap arrangement is a non-resident entity, the FEM (Non-Debt Rules), 2018 ("**NDI Rules**") apply. The NDI Rules, *inter alia*, permits swap of 'equity instruments' of Indian Companies. 'Equity instruments' under NDI Rules is defined to mean "*equity shares, convertible debentures, preference shares and share warrants issued by an Indian company*". Accordingly, swap may be undertaken, *inter alia*, as provided below:

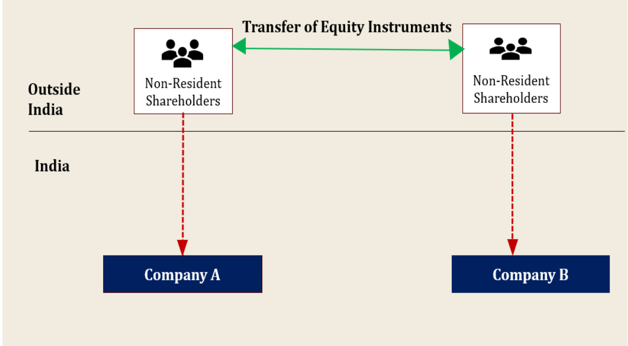
      i) an Indian Company A can issue fresh equity instruments to a non-resident shareholder (i.e., individual as well as entities) and the non-resident shareholder can pay for the same by transferring the equity instruments it holds in an Indian Company B;and

      ii) the equity instruments of an Indian Company A held by a non-resident shareholder can be transferred in consideration for the equity instruments held by shareholders of another Indian Company B.

Inbound share swap by primary issuance

Inbound share swap by secondary transfer





b) **Outbound share swap**: An outbound swap may be a FDI - Overseas Direct Investment ("**ODI**") Swap ("**FDI-ODI Swap**") (or vice-versa) or an ODI-ODI Swap as explained below:

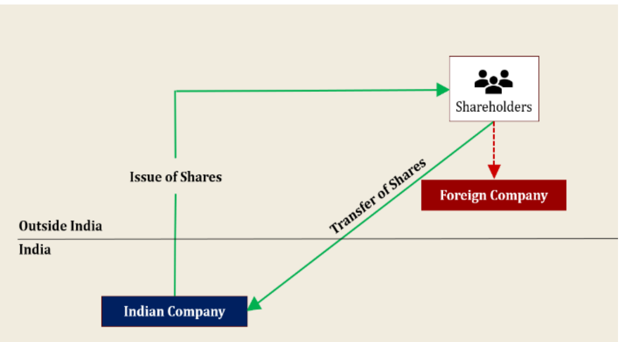
i) **FDI-ODI Swap**: The 'equity instruments' of an Indian Company gets exchanged for 'equity capital' of a Foreign Company (the swap, "**FDI-ODI Swap**"). Therefore, on the one hand, NDI Rules apply for the receipt of foreign investment (or transfer thereof) and on the other hand, Overseas Investment Laws (*defined below*) apply for the outbound leg of the investment.

The regulations governing overseas investment by an Indian entity ("**Overseas Investment Laws**") permit an Indian Company to undertake ODI by investment in 'equity capital' of a Foreign Company. Such ODI may be made or held, *inter alia*, by way of swap of securities. The term 'equity capital' is defined to mean "*equity shares or perpetual capital or instruments that are irredeemable or contribution to non-debt capital of a foreign entity in the nature of fully and compulsorily convertible instruments*". The swap may be undertaken, *inter alia*, as provided below:

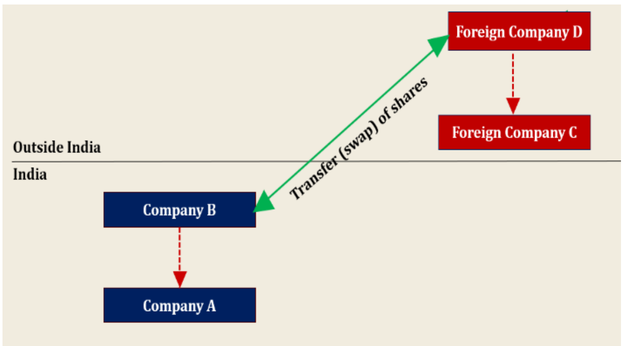
- an Indian Company may issue its equity instruments in exchange for equity capital held by the shareholder entity of a Foreign Company. Similarly, a Foreign Company may issue its equity capital in exchange for equity instruments held by the shareholder entity of an Indian Company;

- a shareholder entity B of an Indian Company A may purchase the equity capital of a Foreign Company C held by its shareholder entity D and pay for the same by transferring the equity instruments it holds in the Indian Company A.

Outbound share swap by primary issuance



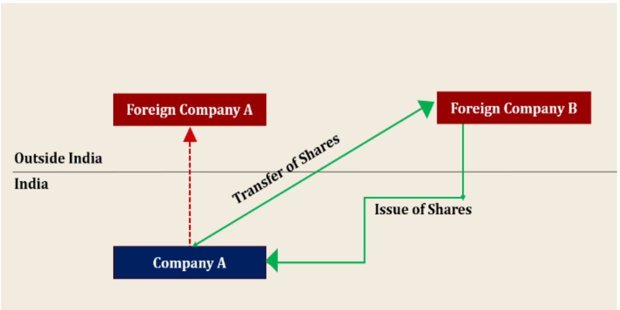
Outbound share swap by secondary transfer



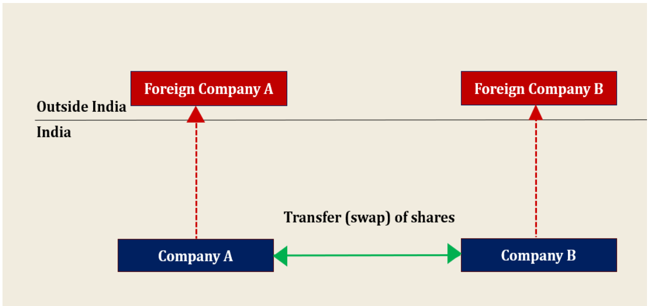
ii) **ODI-ODI Swap**: Schedule I of the FEM (Overseas Investment) Rules, 2022 describes the manner in which the overseas investment can be made. It provides that ODI may be held or made by way of 'swap of securities'. It is pertinent to note that the Overseas Investment Laws do not expressly use the term 'swap of equity capital'. Since the intention of the Government has been to liberalise the rules for swap and make it easier for Indian companies to use this structure, a broader and more purposive interpretation of the expression "securities" can be applied. Accordingly, the 'equity capital' of a Foreign Company held by an Indian Company may be exchanged for 'equity capital' of a Foreign Company B ("**ODI-ODI Swap**"). In such a case, the Overseas Investment Laws will apply. These swaps may, *inter alia*, be undertaken as follows:

- An Indian Company 'A' can transfer the equity capital held by it in a Foreign Company 'A' to a Foreign Company 'B' as consideration for allotment of equity capital in Foreign Company 'B'.
- An Indian Company 'A' can transfer the equity capital held by it in a Foreign Company 'A' to an Indian Company 'B' as consideration for acquiring equity capital held by Indian Company 'B' in Foreign Company 'B'.

Outbound share swap by primary issuance

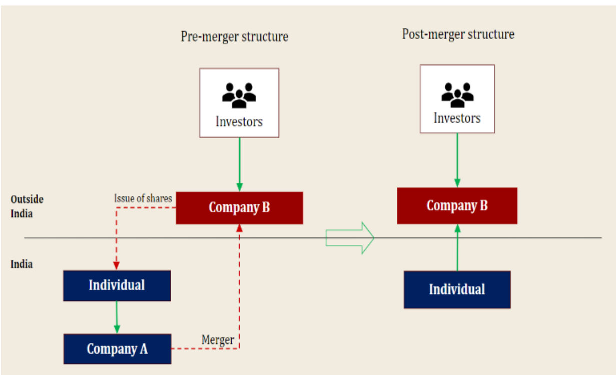


Outbound share swap by secondary transfer

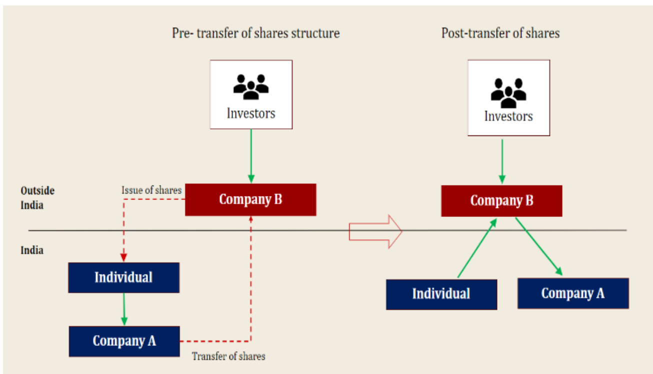


iii) **Swaps involving a 'resident' individual**: The Overseas Investment Laws permits a resident individual to undertake overseas investment in 'equity capital' of a Foreign Company. Such overseas investment may be made or held by way of 'swap of securities' only in case of merger, demerger, amalgamation and liquidation. Outside of this context, swap of securities by 'resident individuals' where Overseas Investment Laws apply can only take place under the 'approval' route. The merger, demerger and / or the amalgamation is required to be undertaken in accordance with the Companies Act and the RBI's FEM (Cross Border Merger) Regulations, 2018.

A structure permitted for resident individuals



A structure not permitted for resident individuals



iv) **Swaps involving an FOCC**: Pursuant to the amendment to the Master Directions on Foreign Investment in India[24], it has been clarified that downstream investment may be undertaken by swap of equity instruments and, or equity capital, as applicable. Accordingly, FDI-ODI Swap or ODI-ODI Swap referred in sub-paragraphs i) and ii) above may also be undertaken by an Indian Company that is a 'foreign owned and / or controlled' ("**FOCC**"). Where the swap of equity instruments and, or equity capital is resulting in a downstream investment, the NDI Rules governing downstream investment should be strictly complied with, including that downstream investment is not undertaken by usage of borrowed funds.

Compliance with laws

Unless the swap is devoid of any exchange control limb (as in the case of 'Domestic Swaps' discussed above), both the legs of the swap transaction would need to comply with FEMA (i.e., NDI Rules and, or Overseas Investment Laws, as applicable). Importantly, the swap arrangements would need to comply with the key conditions provided below for such swap arrangements to be permissible:

1. In respect of swaps where NDI Rules apply:
    a) the Indian investee company is engaged in the 'automatic' sector;
    b) the swap resulting in investment in India would be subject to sectoral caps, entry routes, pricing guidelines and reporting requirements stipulated under NDI Rules. The valuation would need to be undertaken by a chartered accountant, practising cost accountant, merchant banker registered with the SEBI or an investment banker outside India registered with the appropriate regulatory authority in the host country, as the case may be; and
    c) a swap that results in investment from an entity that is incorporated in a country which shares land border with India ("**Restricted Country**") or if the 'beneficial owner' of such foreign investment is situated in or is a citizen of a Restricted Country would fall under the 'Government approval route'.
2. In respect of swaps where Overseas Investment Laws apply:
    a) the foreign entity must be engaged in a bona-fide business activity i.e., any business activity that is permissible under any law in force in India and the host country or host jurisdiction, as the case may be;
    b) the swap arrangement must not be in breach of the restrictions governing round-tripping i.e., the overseas investment in a foreign company (which has further invested in India) will not result in the foreign entity having more than two-layers of subsidiaries, directly or indirectly;
    c) the swap will be subject to pricing norms i.e., require compliance with arm's length pricing taking into consideration the valuation as per any internationally accepted pricing methodology for valuation. The authorised dealers are empowered to specify in their board approved policy, the instances where valuation may not be insisted upon, such as transfer on account of merger, amalgamation or demerger or liquidation, where the price has been approved by the competent court/tribunal as per the laws in India and/or the host jurisdiction;
    d) the Indian Company would need to comply with the net worth requirements stipulated under the Overseas Investment Laws;
    e) the swap will be subject to reporting requirements set out under the Overseas Investment Laws; and
    f) particularly, a swap that results in one or more of the following would require prior Governmental approval: (i) swap of securities in a foreign entity formed, registered or incorporated in Pakistan or in any other jurisdiction as prescribed by the Government

[24] RBI, Master Directions https://www.rbi.org.in/scripts/bs_viewmasdirections.aspx?id=11200.

from time to time; and/or (ii) where the financialcommitment by an Indian entity exceeds USD 1 (one) billion (or its equivalent) in a FY.

Restricted structures

1. **Swaps involving a 'resident' individual.** As aforesaid, the Overseas Investment Laws permits a resident individual to undertake overseas investment in 'equity capital' of a Foreign Company by way of swap of securities only in case of merger, demerger, amalgamation and liquidation. Outside of this context, a swap of securities by 'resident individuals' where Overseas Investment Laws apply can only take place under the 'approval' route.

2. **Company vs. other forms of legal entity.** The Overseas Investment Laws permit an Indian Entity to swap the equity capital held by it in any 'foreign entity that has limited liability' (which would include a foreign LLP). However, the NDI Rules limit swap transactions to equity instruments (i.e., of Indian companies and not Indian LLPs).

Conclusion

The liberalisation of share swap rules in India has opened new doors for structuring M&A transactions, offering enhanced flexibility and opportunities for businesses. With the option to now internalise the ownership and value of companies back to India, the ease of doing business in India has increased. The upcoming FYs are likely to witness a momentum in swap deals. The trend has already begun with various upcoming deals being structured as share swaps.

Corporate Practice

JSA's corporate practice is centered around transactional and legal advisory services including day-to-day business, regulatory issues, corporate and governance affairs. We have an expert team of attorneys who advise on legal issues concerning inbound and outbound investments, strategic alliances, collaborations and corporate restructurings. We advise clients through all stages of complex and marquee assignments including restructuring, mergers and acquisitions (including those in the public space) to private equity and joint ventures. Our vast clientele includes multinational corporations and large Indian businesses in private, public and joint sector. We work closely with in-house counsel teams, investment banks, consulting and accounting firms along with multilateral agencies and policy making institutions on development of policy and legal frameworks. We provide assistance and counsel to start-ups and venture backed companies by drawing upon our in-depth understanding of how companies are incorporated, financed and grown. With an in-depth understanding of the industry combined with years of expertise, our attorneys provide innovative and constructive solutions to clients in complex transactional engagements. We emphasise teamwork across our wide network of offices across India. This allows us to benefit from the various specialisations available for the ultimate benefit of our clients. We also provide assistance in dealing with diverse corporate governance and compliance issues including FCPA /Anti-Bribery/Anti-Corruption matters and investigations.

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18 Practices and
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