

# REGULATION COMPLIANCE

***"Good governance and strong oversight by the board of directors and senior management are fundamental to responding to both existing and emerging risk, especially in fast-changing environment."***

**- Tan Keng Heng, Executive Director – Monetary Authority of Singapore  
IMAS 8th Regulatory Forum – January 2022**

## **Operational Guidance on Credit Default Swap (CDS) transactions by FPIs**

RBI has provided operational guidance on transactions in CDS by FPIs, allowing eligible non-retail users to transact in CDS protection under Credit Derivatives Directions. Effective May 09, 2022, FPIs shall be subjected to limits on selling of CDS protection and the aggregate limit for notional amount of CDS sold by FPIs shall be 5% of the outstanding stock of corporate bonds. Debt instruments purchased and received as deliverables shall be reckoned against investment limits for corporate bonds. These debt instruments and the notional amount of protection sold shall not be subjected to minimum residual maturity requirement/short-term limit, concentration limit or single/group investor limits.

## **Reporting and Accounting of Central Government transactions of March 2022**

Guidelines have been issued to agency banks on the procedure to be followed for reporting and accounting of Central Government transactions at the Receiving/Nodal/Focal Point branches of banks for the Financial Year 2020-21, so that all payments and collections made on behalf of the government towards the end of March are accounted for in the same financial year. The closure date for residual transactions has been fixed as April 11, 2022. These branches are required to prepare a separate set of scrolls, one for March and another for April residual transactions during the first 11 days of April 2022.

## **Clarifications on Prudential Norms**

Following numerous queries received on the Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning dated November 12, 2021, the Reserve Bank has issued a set of clarifications to banks, NBFCs, AIFI, and other regulated entities. This notification has no impact on the requirements of CRILC Reporting and does not impede the implementation of Ind-AS by these entities. Paragraph 10 of the Circular stipulates that loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrowers. NBFCs have been given until September 30, 2022, to place commensurate measures for the implementation of this provision.

## **Implementation of Core Financial Services Solution (CFSS) by NBFCs**

NBFCs falling in the Middle and Upper Layer with 10 or more Fixed Point service delivery units as of October 01, 2022, have been mandated to adopt and implement 'Core Financial Services Solution (CFSS)' before September 30, 2025. RBI aims to integrate the functions within an NBFC, provide a smooth customer experience and create a centralised repository with accounting records that supports the generation of MIS. While it is not mandatory for NBFCs in the Base layer or NBFCs in the Middle and Upper layers with less than 10 Fixed Points Service Delivery Units, RBI has advised them to consider the implementation of CFSS for their own benefit.

## **RBI cautions the public against the use of unauthorized Prepaid Payment Instruments**

A Gurgaon-based company sRide Tech Private Limited has come under the spotlight of the regulator for issuing semi-closed prepaid instrument (wallet) through its carpooling app sRide, without the necessary authorisations from RBI under the Payment and Settlement Systems Act 2007. RBI has therefore urged members of the public to exercise caution before using such applications, dealing with or parting their money to such unauthorised entities.

## **RBI's Assessment of Cryptocurrencies - Recent speech by T Rabi Sankar, Dy. Governor**

The Dy. Governor in his Keynote address on dealing with cryptocurrencies, pointed out that the global market capitalisation of cryptocurrencies has touched \$1.9 trillion in February 2022, up from \$20 billion in 2017. The phenomenal growth of VCs has warranted a closer look at what they constitute and whether they are financial assets, commodities, or digital assets. With no underlying cash flows or intrinsic value; they are akin to Ponzi Schemes, and maybe worse. For the hype on revolutionary innovation, the DG argued that VCs themselves do not appear to be designed to meet any need in the financial space that is currently not being met or to meet existing needs more efficiently. The innovation, if at all, is of distributed ledger, which contrary to the claims of proponents, can flourish even if VCs themselves are banned globally. They can threaten the financial sovereignty and integrity of a country, especially the KYC/AML/CFT regulations by virtue of its anonymity. He concluded that banning cryptocurrency is perhaps the most advisable choice open to India. Meanwhile, the Cryptocurrency Bill is still under consideration.

## **SOG for Electronic Gold Receipt (EGR) Segment**

Securities and Exchange Board of India (Vault Managers) Regulations, 2021 was notified on December 31, 2021. For the ease of compliance of market participants in the EGR ecosystem as well as effective implementation of the Regulations, SEBI has issued the SOG. As per the regulations issued in 2021, Vault Managers are mandated to create and terminate EGR. This circular capture the modalities for deposit of gold, creation of EGR, withdrawal of gold, and creation/ extinguishment of EGR.

## **Voluntary Retention Route (VRR) for FPIs**

The investment limit under VRR for FPIs investment in G-Secs and Corporate Debt Securities has been enhanced by RBI from Rs. 1,50,000 crore to Rs. 2,50,000 crore effective April 01, 2022, given the positive response to the scheme and the near exhaustion of the current limit. Participation for FPIs through this route is voluntary.

## **SEBI: Indian Accounting Standards (IND AS)**

SEBI had earlier mandated that the AMCs shall prepare the Financial Statements and Accounts of MF Schemes in accordance with IND-AS with effect from April 01, 2023. The present circular sets out the specific requirements in this regard. Mutual Fund Schemes have been advised to furnish additional information which includes labeling the previous Generally Accepted Accounting Principles (GAAP) information prominently as not being prepared in accordance with IND-AS, disclosing the nature of adjustments that may be required to adopt IND-AS and the format in which financial statements shall be submitted etc.

## **Penalty Corner**

### **Penalty on NSE and Former Senior Executives**

NSE and its Former MD-CEO have been penalised Rs. 2 Crore and Rs. 3 Crore respectively by SEBI, while four other individuals have been collectively penalised approximately Rs. 4.06 Crore for gross governance lapses and have been barred from the markets for periods ranging from 2-3 years. Lapses included the appointment of a person with inadequate experience as per company KMPs as the Group Operating Officer and Strategic Advisor to MD and despite disproportionately higher remuneration, was not identified and reported as a key person to SEBI. Additionally, the Former MD has been charged for sharing confidential information on NSE's business plans, financials etc, with unidentified persons outside the organisation. The CRO was also indicted by SEBI for failing to report the appointment independently to it, revealing the extent of governance failures across NSE.

### **Monetary Penalty on Poonam Finserv Pvt Ltd**

M/s Poonam Finserv Pvt Limited was penalised Rs. 10 Lakh for non-compliance with certain provisions of RBI's Master Directions on KYC and directions on Raising Money through Private Placement of Non-convertible Debentures by NBFCs.