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April 2023

Weekly Insights & Updates **7 July 2022**

MCA

1. **MCA extends timeline to submit Annual Returns under the Limited Liability Partnership Act, 2008 for Financial Year 2021-22**

June 29, 2022: Ministry of Corporate Affairs ("**MCA**") *vide* a general circular No. 07/ 2022 dated June 29, 2022 has extended the timeline to file e-form 11 (Annual Returns) required to be submitted as per Section 35 of the Limited Liability Partnership Act, 2008 for the financial year 2021-2022 without paying additional fees upto July 15, 2022. Earlier MCA had *vide* general circular No. 04/ 2022 dated May 27, 2022 extended the timeline till June 30, 2022.

Link [here].

SEBI

1. **Key Highlights of SEBI Board Meeting held on June 29, 2022**

June 29, 2022: The Securities and Exchange Board of India ("**SEBI**") in its board meeting held on June 29, 2022, took several key decisions including, *inter alia,* (i) permitting Foreign Portfolio Investors ("**FPIs**") to participate in Exchange Traded Commodity Derivatives ("**ETCDs**") market and (ii) approving amendments to the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 with respect to provisions relating to Limited Purpose Clearing Corporation for clearing and settlement of corporate bond repo transactions.

A. Permission to FPIs to participate in ETCD market:

In a move aimed to enhance depth and liquidity in the market, SEBI has decided to allow FPIs to participate in the ETCD segment. SEBI had previously already permitted institutional investors such as Category III Alternative Investment Funds, Portfolio Managers and Mutual Funds to participate in ETCDs, and this move to permit FPIs will further promote efficient price discovery. The effective date of the amendments will be notified *vide* a circular; however, the salient features for this proposed participation of FPIs in ETCDs are as under:

i. FPIs are permitted to trade in all non-agricultural commodity derivatives and select non-agricultural benchmark indices. However, initially, FPIs will be allowed only in cash-settled contracts.

ii. Presently, only foreign entities having *actual exposure* to Indian physical commodities, known as Eligible Foreign Entities, are allowed to participate in the Indian commodity derivatives market. This route has now been discontinued and any foreign investor desirous of participating in the Indian ETCD segment *with or without actual exposure* to Indian physical commodities can do so through the FPI route.

iii. Uptil now FPIs being financial investors with huge purchasing power were not allowed to participate in the ETCD segment. However, now, FPIs will be allowed to participate in the Indian ETCD market, subject to certain risk management measures. In fact a working group comprising of representatives from SEBI and market participants has also been constituted to review/examine whether any additional risk management measures, are required to be prescribed for FPIs.

B. Amendments to The Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 ("SECC Regulations") relating to Limited Purpose Clearing Corporation ("LPCC")

With a view to align the provisions of the SECC Regulations with those of the Reserve Bank of India Directions for Central Counterparties, SEBI has approved amendments to the provisions of SECC Regulations relating to LPCC.

LPCCs are entities established to undertake the activity of clearing and settlement of repo transactions. In October 2020, the SECC Regulations were amended to set out the framework for setting up LPCCs.

Under the SECC Regulations, LPCCs have been permitted to enter into outsourcing agreements with existing clearing corporations for the purpose of using their core and critical IT support infrastructure / activities for running the core activities (transaction process, clearing and settlement) of the LPCC. In this regard, SEBI, *vide* ***Circular No.: SEBI/HO/MRD2/DCAP/CIR/P/227*** also introduced a detailed framework governing the outsourcing activities by the LPCC.

In the board meeting held on June 29, 2022, it has been decided that SEBI, in consultation with the Reserve Bank of India, will now review the outsourcing agreements of the LPCC in relation to its core and critical IT support infrastructure / activities for running the core activities (transaction process, clearing and settlement) after *two or three years.*

Further, it has been decided that in order to meet the net worth requirements of LPCCs under the Payment and Settlements Systems Act, 2007, over time, LPCCs will be required to put in place a mechanism for infusion of additional capital in a phased manner.

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RBI

1. RBI issues Provisioning Requirement for Investment in Security Receipts (SRs)

June 28, 2022: The Reserve Bank of India ("**RBI**"), *vide* its notification RBI/2022-23/78 DOR.STR.REC.51/21.04.048/2022-23 has issued Provisioning Requirement for Investment in Security Receipts (SRs), as applicable to lending institutions (including non-banking financial companies), in order to provide path for the entities earlier kept out of the ambit of circular "**Guidelines on Sale of Stressed Assets by Banks**" dated September 1, 2016 and ensure smooth execution of clause 77 of the **Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021** ("**MD-TLE**"). In respect of valuation of investments in SRs outstanding on the date of issuance of MD-TLE (September 24, 2021), RBI has advised as follows:

i. The difference between the carrying value of such SRs and their valuation as of the next financial reporting date after the date of issuance of the MD-TLE, in terms of clause 77 of MD-TLE, may be provided over a five-year period beginning with the fiscal year ending on

March 31, 2022, i.e., from FY2021-22 to FY2025-26.

ii. However, subsequent valuations of investments in such SRs on an ongoing basis must strictly adhere to the conditions prescribed under MD-TLE.

iii. All lending institutions must implement a board approved plan to ensure that the provisioning made in each fiscal year in compliance of point a) above, is not less than one-fifth of the required provisioning necessary on this count.

iv. Valuation of investments in SRs made after the issuance of MD-TLE shall be strictly in accordance with its provisions.

v. All other provisions of MD-TLE shall continue to be applicable, as hitherto.

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Authors

Nusrat Hassan
Co-Managing Partner
nusrat@linklegal.in

Sayantani Dutta
Partner
sayantani.dutta@linklegal.in

Ambuj Sonal
Associate Partner
ambuj.sonal@linklegal.in

Tanvi Pande
Senior Associate
tanvi.pande@linklegal.in

Abhinav Anand
Senior Associate
abhinav.anand@linklegal.in

Meghna Punjabi
Associate
meghna.punjabi@linklegal.in

Shreyali Srivastava
Associate
shreyali.srivastava@linklegal.in

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OUR OFFICES

DELHI
Aiwan-e-Ghalib Complex,
Mata Sundri Lane,
New Delhi 110 002, India
Tel: +91 11 4651 1000

MUMBAI
21/22, Second Floor,
Free Press House,
Free Press Journal Road,
215, Nariman Point,
Mumbai – 400 021, India
Tel: +91 22 6633 6791/6625 2222

BENGALURU
#10, First Floor, 12th Main,
Palace Road,
Vasanth Nagar,
Bengaluru – 560 052, India
Tel: +91 80 4123 1072

HYDERABAD
1st Floor, MC Design House,
Plot No. 27, Rohini Layout,
HITEC City, Madhapur,
Hyderabad – 500 081, India
Tel: +91 40 3516 8987, +91 40 3516 8988

CHENNAI
1B, First Floor 17-A,
Diamond Business Center,
Kalakshetra Road,
Chennai – 600 041, India
Tel: +91 44 4271 9731

NEW YORK
57 West, 57th Street,
4th Floor, New York,
NY 10019
Tel: (212) 389-6290/ (212) 389-6281/
(212) 381-1057

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