KNOWLEDGEWARE
AUGUST 2016
REGULATORY

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Editorial:

Dear Esteemed Readers,

We are pleased to share with you August 2016 Regulatory Newsletter covering regulatory updates in India.

In the background of consolidation taking place in Insurance Industry, the Insurance regulator has unveiled the guidelines related to all insurers whose equity shares are proposed to be listed on stock exchanges and to the allotment process pursuant to a public issue. Insurance is still an untapped sector in terms of unlocking market value of an insurer.

From the desk of Reserve Bank of India (RBI):

- Circular on Interest Subvention Scheme 2016-17 was released which has provided the modalities to be followed by banks for claiming the subvention amounts and the formats for making claims.
- In order to boost the Micro Small & Medium Enterprises (MSEM) sector, RBI has allowed factoring transactions on 'with recourse' basis to be eligible for priority sector classification by banks.
- RBI had earlier released the roadmap for adoption of Ind AS by banks and NBFCs. Taking the process forward, the roadmap for Exim Bank, NABARD, NHB and SIDBI ("All India Financial Institutions")has been released on 4th August with largely the same timelines as Banks and NBFCs.

The Securities & Exchange Board of India (SEBI) had issued a circular dated 5th July 2016 for listed entities (equity). On the similar lines, SEBI has issued a circular in this month providing revised Formats for Financial Results and Implementation of Ind AS for entities having listed debt securities and/or non-cumulative redeemable preference shares.

Just as the appointment of the new Governor of the RBI is expected to generally continue the policies of the present Governor, the initiatives announced this month appear to be with the purpose of streamlining procedures and processes which is also essential to supplant bigger policy changes (like the upcoming GST).

Thank you.
Happy reading!

Yours Sincerely,
Knowledgeware Team
B. K. Khare & Co.

Reserve Bank of India (RBI)

Reserve Bank of India (RBI) issues Circular on Interest Subvention Scheme 2016-17

Government of India has approved the implementation of the Interest Subvention Scheme for the year 2016-17, as announced in the union budget, for short term crop loans upto Rs 3 lakh with the following stipulations:

i. Subvention to be given at 2% (maximum Rs. 3 lacs) on loan amount, to be calculated from the date of disbursement to the date of repayment or the due date, whichever is earlier. Short term crop loans to be provided at 7% per annum.
ii. An additional interest subvention of 3 % per annum will be available to the prompt paying farmers, subject to conditions (effective rate to prompt paying farmers will be 4%).
iii. Benefit of interest subvention is extended up to six months post-harvest season, for small and marginal farmers having Kisan Credit Cards, to enable them to store their produce in warehouses, subject to conditions.
iv. In order to provide relief to the farmers affected by natural calamities, Interest subvention of two percent will continue to be available to banks only for the first year on the restructured amount.

The circular also provides the modalities to be followed by banks for claiming the subvention amounts and the formats for making claims.

RBI Circular no: RBI/2016-17/32 dated August 4, 2016

Factoring to MSME Borrowers made eligible for inclusion in Priority Sector Lending

In order to increase liquidity support for the MSME sector, factoring transactions on 'with recourse' basis have now been made eligible for priority sector classification by banks carrying on the business of factoring for transactions whichshall take place through TReDS(Trade Receivables Discounting System) upon operationalization of the platform.

Banks can classify their outstanding factoring portfolio on the reporting dates under MSME category wherever the 'assignor' in the factoring transaction is a Micro, Small or Medium Enterprise, subject to the corresponding limits for investment in plant and machinery/ equipment as under and other extant applicable guidelines for priority sector classification.

Manufacturing Sector	
Enterprises	**Investment in plant and machinery**
Micro Enterprises	<=Rs. 25 lakhs
Small Enterprises	> Rs. 25 lakhs <= Rs.5 crores
Medium Enterprises	> Rs.5 crores<= Rs.10 crores
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	<=Rs.10 lakhs

Small Enterprises	> Rs.10 lakhs <= Rs.2 crores
Medium Enterprises	<Rs.2 crores<= Rs.5 crores

RBI Circular reference: RBI/2016-17/37 FIDD.CO.Plan.BC.10/04.09.01/2016-17 dated 11 August 2016

Foreign Investment in Rupee denominated bonds issued overseas by Indian Corporates

The Reserve Bank of India (RBI) in its Fourth Bi-monthly Policy Statement for the year 2015-16 had allowed Indian corporates to issue rupee denominated bonds overseas within the ceiling of Foreign Portfolio investments (FPI) in corporate debt.

Security and Exchange Board of India has fixed Rs 2,44,323 Cr as the Combined Corporate debt limit for all foreign investments in rupee denominated bonds, which will include bonds issued both onshore and overseas by Indian corporates. These investments would not be treated as FPI investments and would not come under the purview of SEBI (Foreign Portfolio Investors) Regulations, 2014.

SEBI has asked the depositories (National Securities Depository Limited and Central Depository Services Limited) to put in place the necessary systems for receiving data on foreign investments in overseas rupee denominated bonds from RBI on a periodic basis.

This circular shall come into force immediately on its issue.

RBI Circular reference: SEBI/HO/IMD/FPIC/CIR/P/2016/67 dated August 04, 2016.

Ind AS implementation roadmap for All India Financial Institutions (AIFIs), viz. Exim Bank, NABARD, NDB and SIDBI

RBI had earlier released roadmap foradoption of Ind AS by banks and NBFCs. Taking the process forward, roadmap for AIFI has been released on 4^{th} August with largely the same timelines as Banks and NBFCs.

AIFIs have been required to implement Ind AS for accounting periods from 1^{st} April 2018 with comparatives for Financial Year 2016-17 and arenot allowed to adopt Ind AS early. Broad actions and timelines are as follows:

Action	Date
Impact Assessment, First draft Ind AS Financial Statements for period ended 30^{th} September 2016	30 November 2016
Disclosure of Ind AS implementation Strategy	Annual report for F.Y. 2016-17

NHB has been given exemption with implementation timeline of 31 December 2016 and submission date of 28 February 2017.

AIFIs have been specifically required to make a detailed disclosure with respect to'Expected Credit Loss' model used to estimate impairment in financial assets.

Proforma of Ind AS financials is attached as Annexure to the notification. The Proforma takes into account industry specific assets and liabilities of AIFIs.

RBI Circular reference: RBI/2016-17/34 RBI/2016-17/DBR. FID. No. 1/01.02.000/2016-17

Risk- based Internal Audit

Reserve Bank of India (RBI) has in its circular dated December 27, 2002 set out the scope and coverage of Risk-based Internal Audit (RBIA) system in commercial banks.

In this connection some banks have made representation to RBI seeking approval for engaging services of retired officers of the bank for assisting in internal audit.

As the demographic profile of the staff in banks has undergone change on account of retirement leading to shortage of staff to conduct internal audit which is an important component of Risk Based Supervision (RBS), RBIhas been decided to permit commercial banks (excluding Regional Rural Banks) to engage the services of its retired officials for assisting in internal audit subject to the following conditions:-

1. Each bank should formulate with the approval of their Board of Directors, a policy to engage the services of its retired personnel for a maximum tenure not exceeding three years in the areas where it does not have enough expertise. The policy should inter alia include the terms of engagement, review of performance, termination of services, etc.

2. Banks need to ensure that the retired personnel so engaged, work under the close supervision of the Management of the bank and the final sign off of the audit reports would be the responsibility of the serving bank officials.

3. In order to avoid conflict of interest, the retired personnel so engaged may not be assigned branches/ sections, where they had worked while in active service with the bank

This circular will enable the commercial banks to engage services of retired personnel in areas where they lack expertise to conduct Risk based Internal Audit, a crucial element of Corporate Governance.

RBI/2016-17/46 DBS.CO.PPD.05/11.01.005/2016-17 dated August 25, 2016

Reserve Bank of India (RBI) issues Prudential Norms – Risk Weights for Exposures to Corporates, AFCs and NBFC-IFCs

This circular is with reference to the Para 5.8 ofMaster Circular on Basel III capital regulations dated July 1, 2015 on exposures to the captioned entities. At present unrated exposures to these entities attract a risk weight of 100 per cent. On review, it has now been decided to make the following modifications to the risk weights applicable to unrated exposures:

- With effect from June 30, 2017, all unrated claims on corporates, AFCs, and NBFC-IFCs having aggregate exposure from banking system of more than INR 200 crores will attract a risk weight of 150 per cent.
- However, claims on corporates, AFCs and NBFC-IFCs having aggregate exposure from banking system of more than INR 100 crores which were rated earlier and subsequently have become unrated will attract a risk weight of 150 percent with immediate effect.

RBI/2016-17/44DBR.No.BP.BC.6/21.06.001/2016-17 dated August 25, 2016

Securities and Exchange Board of India (SEBI)

Annual System Audit of Stock Brokers / Trading Members of National Commodity Derivatives Exchanges

SEBI vide Circular dated November 6, 2013 has prescribed stock broker system audit framework and mandated Stock Exchanges to ensure conduct of system audit of its members as per the prescribed framework and monitor the same.

Pursuant to Section 131 of Finance Act, 2015 and Central Government notification F.No. 1/9/SM/2015 dated August 28, 2015, all recognized associations under the Forward Contracts (Regulation) Act, 1952 are deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 with effect from September 28, 2015.

This circular applies to National Commodity Derivatives Exchanges (Exchanges) as defined in the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2015.

The broad features in the Circular are:

1. It will be applicable to the Brokers / Trading Members of the National Commodity Derivatives Exchanges.
2. The major provisions / framework of System audit for Brokers / Trading members covered are as under:-
    a. Audit Process
    b. Auditor selection norms
    c. Terms of Reference (TOR) for Type I, Type II, Type III Brokers
3. Based on the representations made by stock exchanges regarding exemption of system audit for Type I Brokers, and post examination by Technical Advisory Committee (TAC) it is decided that such brokers may be exempted from system audit and the development of NEAT / BOLT / Exchange provided terminals be included in the scope of Annual System Audit of Exchanges

The provisions of circular are applicable from financial year 2016-17. For financial year 2015-16 except for Brokers/ Trading members who have already commenced their annual system audit, rest of the Brokers/ Trading members will have to conduct system audit as per this circular.

The circular is aimed at by bringing the Brokers/ Trading Members of National Commodity Derivatives Exchanges within the ambit of annual system audit.

SEBI Circular reference: SEBI/HO/CDMRD/DEICE/CIR/P/2016/70 dated August 11, 2016

SEBI Circular on Revised Formats for Financial Results and Implementation of Ind AS: Applicable to listed entities having listed debt securities and/or non-cumulative redeemable preference shares

SEBI vide Circular No. CIR/IMD/DF1/9/2015 dated November 27, 2015, had prescribed formats for publishing financial results for the entities which have listed their debt securities and/or non-cumulative redeemable preference shares (hereinafter referred as '**listed entities**' limited to this circular).

SEBI has already issued a circular dated July 5, 2016 on revised timelines and relaxations for publishing Ind AS compliant financial results of listed entities to which Ind-AS Rules are applicable from the accounting period beginning on or after April, 1, 2016. Relaxations are applicable specifically for the interim financial results to be published for the quarters ending 30 June, 30 September and 31 December, 2016. In continuation to this, the capital market regulator has prescribed the following in the current circular:

- Upto the period ending December 31, 2016, the disclosure of financial results i.e. Balance Sheet & Statement of Profit & Loss should be as per Schedule III format as mentioned in Companies Act, 2013 for the listed companies other than Banking & Insurance Companies where the formats have been prescribed in respective regulations/by regulators.
- All listed entities have to follow Companies Rules, 2006 until Companies (Indian Accounting Standards) Rules, 2015 become applicable.
- The listed companies who have adopted Ind AS should while publishing the half yearly/annual financial results ensure that the comparative financial results, filled along with the said half yearly/annual financial results, also comply with Ind AS. For a smooth transition, the timeline for submitting these said financial results would be extended by one month after the end of half year i.e. 75 days (earlier 45 days plus 30 days of extension)
- The comparative financial results submitted with half yearly/annual financial results may not be subject to limited review or audit subject to disclosure that management has exercised necessary due diligence to ensure that the said comparative results provide a true & fair view.

SEBI Circular reference: CIR/IMD/DF1/69/2016

Insurance Regulatory and Development Authority of India (IRDAI)

Insurance Regulatory and Development Authority of India (IRDAI)issues Insurance Regulatory and Development Authority of India (Listed Indian Insurance Companies) Guidelines 2016("The Guidelines)

Insurance is a specialized financial service which requires significant capital infusion in especially during the initial five to ten years of business. Considering the importance of capital in the sector, IRDAI had already issued two guidelines viz. IRDAI (Issuance of Capital by Indian Insurance Companies transacting Life Insurance Business), 2015 and similar for non-life business.

The recent Guidelines have been issued in addition to the above and are applicable to all insurers whose equity shares are listed on the stock exchanges and to the allotment process pursuant to the public issue, and shall come into effect on the day of their issuance, i.e. August 5, 2016. Further these guidelines shall also be applicable to an insurance intermediary registered under IRDAI provided that such insurance intermediary is drawing more than 50% of its revenue from insurance related business.

The guidelines are broadly divided into three parts viz.

Part A: Approval mechanism other aspects:

- Glossary of key terms such as associate enterprise, major shareholders etc.
- Directions on Prior Approval:
    - self-certification of 'Fit & Proper' criteria of the acquirer and filing with the concerned insurer shall be considered as deemed approval of the authority for the purpose of Section 6A (4) (b) (iii) of the Act, in case the agreement or arrangement is to transfer 1 per cent or more but less than 5 per cent of the paid up equity share capital of the concerned insurer.
    - prior approval of the IRDAI required in the manner specified in these guidelines if the arrangement or agreement for acquisition which is likely to take the aggregate holding to 5 per cent or more.

- Prior Approval in case of subsequent increase in Shareholding:
    - submission of details in the prescribed form (Per Form A attached to the Guidelines) for the first time acquisition
    - no prior approval is required for subsequent increase in shareholding upto 10 percent of shares of an insurer
- Determination of 'Fit and Proper' Status:
    - includes Illustrative criteria for determining 'Fit and Proper' Status of applicants
    - additional criteria are laid down for any acquisition in excess of 10 percent of share capital
- Continuous Monitoring Arrangements:
    - due diligence in case of existing major shareholders
    - continual monitoring of 'fit and proper' status within 2 months from the end of each financial year

- Acquisition of shares/voting rights for the purpose of gaining Controlling Interest in Insurers:
    - even when the acquisition/aggregate holding is proposed to be less than 5 per cent and if the concerned insurer suspects that dubious methods have been adopted to get over the ceiling of 5 per cent to camouflage the real purpose of these guidelines by individuals/groups with a view to acquire controlling interest the insurer, reference shall be made to the IRDAI by the concerned insurer.

Part B: Shareholding and Voting Rights Limits in Insurerswhich specifies limits of shareholding qua shareholders' status:

- Promoters: 50 percent of the total shareholding
- Individuals: 10 percent of the total shareholding
- Entities from the financial sector, other than regulated or diversified or listed : 15 percent of the total shareholding
- Regulated, diversified, listed entities from the financial sector or public sector undertaking or Government: 30 percent of the total shareholding

Part C: Foreign holding and other requirements:

- Mandatory conversion of equity shares in Demat format
- An insurer may invest in the equity share capital of another listed insurer subject to the exposure norms
- Every listed insurer to ensure compliance of Regulation 11 of IRDAI (registration of Indian Insurance Companies) regulation, 2000.
- The foreign investment in the Insurance company at any point of time to be in accordance with the Foreign Direct Investment Policy of India and Provision of FEMA 1999, also to be compliant with 'Indian owned and Controlled' Guidelines

In the background of consolidation taking place in Insurance Industry and still a untapped sector in terms of market penetration and unlocking of market value in the capital markets, the Guidelines have been released at an appropriate time.

IRDA/F&A/GDL/LSTD/154/08/2016 dated August 5, 2016