



N.A.SHAH ASSOCIATES LLP
Chartered Accountants

BULLETIN

CAPITAL MARKETS – JUNE, 2022



EXECUTIVE SUMMARY

- ♦ SEBI has notified amendments in the SEBI (Collective Investment Schemes) Regulations, 1999.
- ♦ SEBI has provided relaxation for dispatching physical copies of annual reports.
- ♦ SEBI has streamlined the process for trading in Rights Entitlements.

AMENDMENTS TO COLLECTIVE INVESTMENT SCHEMES

SEBI has brought about the following amendments in the SEBI (Collective Investment Schemes) Regulations, 1999 ('CIS').

- ♦ Changes in definitions – SEBI has introduced new definitions and have made amendments in the definitions which are as under:
 - '*Designated employees*' of a Collective Investment Management Company ('CIMC') shall include chief executive officer, chief investment officer, chief risk officer, chief investment security officer, chief operation officer, fund manager, compliance officer, sales head, investor relation officer, heads of other departments, dealer of CIMC, persons reporting directly to CEO, fund management and research team, and any other employee identified by CIMC.
 - The definition of '*economic offence*' has been omitted.
 - The definition of '*fraud*' has been borrowed from Regulation 2(1)(c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Securities Market) Regulations, 2003.
 - The definition of '*relative*' has been contracted to exclude extended family like grandparents and grandchildren.
- ♦ Conditions for eligibility:
 - Business criteria – The applicant / promoter should have a minimum experience of 5 years in the field in which the CIS is being proposed.
 - Net worth criteria –
 - The applicant / promoter should have positive net worth in all the preceding 5 years.
 - The applicant should have a minimum net worth of INR 50 crores. However, in case if the applicant does not have profits in all of the preceding 5 years, then in such cases the minimum net worth of the applicant should be INR 100 crores.

- Profit criteria – The applicant / promoter should have profits in the 3 out of the 5 preceding years, including the 5th year.
- Ownership / control criteria –
 - CIMC / promoters of CIMC or group companies shall not invest in excess of 10% in the shareholding of another CIMC / trustee of CIMC and cannot have representation on such CIMC / trustee of CIMC.
 - Individual holding 10% or more of a CIMC / trustee of CIMC cannot invest in excess of 10% in the shareholding of another CIMC / trustee of CIMC and cannot have representation on such CIMC / trustee of CIMC.
 - But if the above limits are breached in the event of a scheme of arrangement, the shareholders / promoters shall have 1 year to regularize the breach from the effective date of the arrangement.
- Investment criteria - CIMC and its designated employees would be required to invest in the scheme for such amounts as may be specified by SEBI.
- Minimum subscription criteria – The scheme of CIMC should have:
 - Minimum subscription of INR 20 crores;
 - Minimum 20 investors; and
 - No person should own more 25% of the assets under the scheme
- ♦ SEBI has reduced the timeline for offer period of a scheme from 90 days to 15 days however, the applicant can increase the same by another 15 days by serving public notice.
- ♦ CIMC cannot invest more than 25% of the funds of a scheme into projects which are directly or indirectly owned by the CIMC.
- ♦ Ceiling on expenses incurred by scheme:
 - Initial issue expenses – Maximum 2% of the amounts raised and the said expenses shall include cost of offer documents, marketing and selling expenses, fees to lead managers and banks, rating and appraisal fees, etc.


- Annual recurring expenses – Maximum 2% of the amounts raised and the said expenses shall include management and advisory fees, registrar fees, trustee expenses, audit fees, subsequent rating and appraisal fees, listing fees, etc. Incentive fees based on performance of the scheme shall be over and above the 2% limit and the same shall not be charged to the scheme.
- Other Expenses – The CIMC may charge other expenses to the scheme which are incidental to the scheme after the approval of the trustee and the 80% of the expenses should be disclosed item-wise in the quarterly report.

RELAXATION IN ISSUING PHYSICAL COPY OF ANNUAL REPORTS

- ◆ SEBI has provided relaxation in issuing physical copies of the annual reports to shareholders of listed companies / listed non-convertible securities till December 31, 2022.

STREAMLINING THE PROCESS OF RIGHTS ISSUE

- ◆ As per the erstwhile provisions, the timeline for trading in Rights Entitlements (REs) on the secondary market platform of stock exchanges would commence along with the opening of the issue and would close at least 4 days prior to the closure of the rights issue. When there were trading holidays during the 4 days mentioned above, the timely completion of settlement process of REs became challenging.
- ◆ In order to streamline settlement of traded REs, the timeline for trading in REs on secondary market platform would now close at least 3 working days before the closure of right issue.



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