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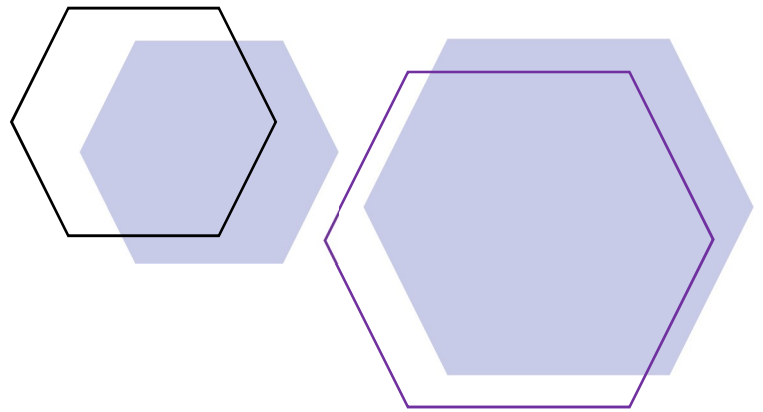
AN INITIATIVE TO PRESENT MONTHLY AMENDMENTS IN CORPORATE LAWS AND RELATED REGULATIONS IN SUMMARY FORM TO KEEP OUR READERS UPDATED ABOUT THE CHANGING REGULATORY ENVIRONMENT

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Amendments to the Third schedule to the Companies Act, 2017

**THROUGH S.R.O. 614 (I)/2020 DATED 6TH JULY,
2020**

The criteria for the classification of company as a Public Interest Company & Large Sized Companies (PILSC) has been modified to include all the companies which are engaged in production and sale of sugar irrespective of their size and any other condition. As a result, the affairs of all such companies can be scrutinized by the governments in order to identify and rectify wrongdoings and malpractices.



**THROUGH S.R.O. 613(I)/2020 DATED 7TH JULY,
2020**

Previously Element of income only represents the income composition (income earned during the year and accumulated profit carried from prior year) of the net asset value of an open end collective investment scheme that the collective investment scheme receives on issue of units and pays out on redemption. However, due to the amendment on 7th July 2020, the criteria has set an additional obligation for Exchange Traded Funds, where receipt and payment of element of income relating to income statement is taken to Income Statement both at the time of issuance and redemption of units.

A clear explanation for Exchange Traded Funds has been provided that their accounting income would also include net-of element of income created through income statement at the time of issuance and/or redemption of units.

Amendments to the Non-Banking Finance Companies and Notified Entities Regulations, 2008

Amendments to the Private Funds Regulations, 2015

- The criteria for designation of an Investor as an eligible investor for the purpose of Private Funds has been redefined with focus on total net worth rather than the value of investment only. Any person who has net assets of Rs.15 million excluding the value of personal residence will qualify as an Eligible Investor under the amended regulations.
- The investment venues for a Private Fund have been enhanced by inclusion of the following:
 - Financial Assets (excluding derivative) of an unlisted company
 - Unlisted SME
 - Units of other Private Equity and Venture Capital Fund
- The prohibitions to engage in business of venture capital without registration have been expanded by inclusion of a specific prohibition upon raising money without registration taking lead from the past fraudulent exploitation of inadequacy of the law in this regard.
- Previously formation of a trust was the only legal structure for the launch of Private Fund. This has now been amended to include other legal modes such as by way of incorporation of a company under Companies Act 2017, or LLP under Limited Liability Partnership Act 2017, or any other legal structure which is approved by the commission. Consequently, amendments have been made to other related requirements and procedures to include documentation and other requirements applicable in the case of the newly added permissible legal structures. The definition of 'Trustee' has also been modified with the inclusion of word 'Custodian' in order to make room for other legal structures.
- Minimum Equity requirement for the launch of a Private Fund has been revised downward from Rs. 30 million to Rs. 10 million.
- It has been made mandatory for a Private Fund Management Company to assess or take into consideration the financial sector experience, risk tolerance and net worth of eligible investor as per Schedule VI before offering a private fund to an eligible investor.
- The minimum threshold of investment has been done away with as against the previous limit of Rs. 3 million.
- The number of eligible investors in a private fund has been enhanced from 30 to 50, with the exclusion of Qualified Institutional Buyer.
- The conditions and restrictions applicable on investments of a fund have been modified as follows:
 - It shall only borrow from financial institutions / companies
 - Short term borrowing shall not exceed 15% of the size of Private Equity
 - The long term borrowings shall only be repayable at maturity of the Fund or shall only be obtained against an instrument convertible to equity.
- A new clause is introduced in investment conditions and restrictions where the Private Fund Management Company may make investment in private funds managed by it out of its surplus equity (i.e. over and above the required minimum equity requirements).
- A new clause is introduced in investment conditions and restrictions where a Private Fund can be sub-categorized as Private Equity and Venture Capital Fund, Venture Capital Fund, Angel Fund, Small and Medium Enterprise Fund, Infrastructure Fund, Impact Fund, Hedge Fund etc. This categorization can be made into any sub-category subject to investment of at least seventy percentage of its net assets in eligible investment of that sub-category investment.
- Contents of Placement Memorandum have been amended to include the Name and details of auditor of the Fund.

- Changes to the Private Fund Valuation and Pricing:
 - The name of auditor was not required to be mentioned with the Pricing and Valuation methodology although it has now been introduced as a content of Placement Memorandum separately.
 - Before the change in valuation and pricing instructions, it was only mandatory to mention the values of fund and its unit correctly without any further detailing. Post amendment, the criteria for valuation has been altered in a way that the fund is valued at least once in a financial year by an independent valuer appointed with the consent of the trustee except for a fund sub-categorized as venture Capital Fund shall be valued once in two years by independent valuer appointed with the consent of trustee.

Amendments to the Credit Rating Companies Regulations, 2016

THROUGH S.R.O. 582(I)/2020 DATED 29TH JUNE, 2020

- In definitions, after deletion of “Substantial Shareholder”, following new definitions were added:
 - “Private Ratings” means a rating opinion not available in public domain.”
 - “Solicited Rating” means a rating granted by the credit rating company where the Rating Agreement is established with the entity”
 - “Un-solicited Ratings” means a rating not initiated at the request of the Rated Entity or its Agents or not maintained at the request of the Rated Entity or its Agents.”
- The condition that no shares shall be disposed of by the directors prior to approval from the Commission has been modified to exclude the transfer of qualifying shares subject to a cap of 2% of the total share capital.
- The mandatory condition to have a technical collaboration agreement with an internationally recognized credit rating institution has been modified whereby the Commission has been empowered to notify a list of approved internationally recognized credit rating institutions.
- The license renewal conditions have been modified to include submission of an undertaking of compliance.
- Restrictions over concentration of shareholding have been eased out for newly formed companies who have been allowed a three year period from the date of obtaining license to comply with the requirement.
- The requirement to seek approval from the Commission prior to launch of a new rating product/service has been eased out whereby only intimation of the fact is required to be made to the Commission.
- Disclosure requirement related to the assumptions and rationale for the rating assigned, the risk factors considered in the assessment and critical financial information of the entity are exempted for a public unlisted company or a private company which is not otherwise required to make such public disclosure under any other regulatory framework.
- A general relaxation clause has been added to the regulations whereby a Company can seek relaxation from any of the provisions by formally applying with the Commission and upon the satisfaction of the Commission.
- Professional qualifications CA, CFA, ACCA and CMA have been added to the eligibility criteria for appointment of a Chief Executive.
- Conflict of Interest clause has been amended to exclude participation of an external member of the rating committee in rating of an entity, where he/she is a director, substantial shareholder or senior management officer.

The competence criteria of an Analyst has been modified whereby a person can only be eligible for such position if he/she holds a graduate degree in finance, economics, commerce, or other business related discipline.