

SEPTEMBER 2020

NEWSLETTER

REGULATORY

- RBI
- SEBI
- MCA



Lovi Mehrotra & Associates

Chartered Accountants

21-22 IInd Floor Krishna Nagar Safdarjung Enclave
New Delhi 110029

Website : www.lma.co.in • Email : d.khanna@lma.co.in

1. Long Form Audit Report (LFAR) – Review

Notification No. RBI/2020-21/33 Ref.No.DOS.CO.PPG./SEC.01/11.01.005/2020-21
Dated 5th September, 2020

Keeping in view the large scale changes in the size, complexities, business model and risks in the banking operations, a review of the LFAR formats, in consultation with the stakeholders, including the Institute of Chartered Accountants of India (ICAI), was undertaken and RBI has decided to revise the LFAR format as under:

- a. [Annex I](#) for Statutory Central Auditors (SCA)
- b. [Annex II](#) for Branch Auditors
- c. An Appendix as part of Annex II for the specialized branches and
- d. [Annex III](#) on Large / Irregular / Critical accounts for branch auditors.

The revised LFAR formats are required to be put into operation for the period covering FY 2020-21 and onwards. The mandate and scope of the audit will be as per this format and if the SCA feels the need of any material additions, etc., this may be done by giving specific justification by the SCA and with the prior intimation of the bank's Audit Committee of Board (ACB).

[Notification](#)

SEBI

1. Review of debt and money market securities transactions disclosure

Circular No.: SEBI/HO/IMD/DF4/CIR/P/2020/163

Dated 1st September, 2020

Effective Date – 01 October, 2020

Earlier, SEBI has vide circular no. Cir/IMD/DF/6/2012 dated February 28, 2012 prescribed a format for Mutual Funds to disclose details of debt and money market securities transacted (including inter scheme transfers) in its schemes portfolio on a daily basis with a time lag of 30 days.

Vide this circular, SEBI has reduced the time lag from 30 days to 15 days and revised the format as prescribed in *Annexure A* to the Circular to disclose the details of debt and money market securities transacted on a daily basis. The above disclosure shall be in a comparable, downloadable (spreadsheet) and machine readable format.

[Circular](#)

2. Disclosures on Margin obligations given by way of Pledge Re-pledge in the Depository System

Circular No.: SEBI/HO/CFD/DCR-2/CIR/P/2020/164

Dated 2nd September, 2020

Regulation 29(4) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 provides that shares taken by way of encumbrance shall be treated as an acquisition and shares given upon release of encumbrance shall be treated as a disposal for the purpose of disclosure under Regulation 29(1) and (2).

Further, SEBI vide circular dated 25th February, 2020 issued guidelines on acceptance of collateral from clients in the form of securities by Trading Member (TM) / Clearing Member (CM), only by way of 'margin pledge', created in the Depository system.

SEBI, vide this circular, has dispensed with the disclosures required under above regulation in relation to the shares encumbered with TM /CM as a collateral from clients for margin obligation in the ordinary course of stock broking business.

[Circular](#)

3. Review of provision regarding segregation of portfolio due to the COVID – 19 Pandemic

Circular No.: SEBI/HO/IMD/DF4/CIR/P/2020/165

Dated 2nd September, 2020

In terms of SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated 28th December, 2018 segregated portfolio can be created in a Mutual Fund scheme by AMC in case of a credit event, which includes downgrade to below investment grade and subsequent downgrades in credit rating by the SEBI registered Credit Rating Agency.

RBI vide Circular dated 6th August, 2020, had allowed all lenders of the borrower to sign the Inter Creditor Agreement ("ICA") for resolving the stressed assets on account of Covid 19.

Further, SEBI, vide circular No. SEBI/HO/MIRSD/CRADT/CIR/P/2020/160 dated August 31, 2020 had provided that if the CRA is of the view that restructuring by the lenders/investors is solely due to COVID - 19 related stress or under the aforementioned RBI framework, CRAs may not consider the same as a default event and/or recognize default.

Considering the above, SEBI has partially modified its circular issued on 28th December, 2018 and stated that the date of proposal for restructuring of debt received by AMCs will be treated as the trigger date for the purpose of creation of segregated portfolio.

Such proposal of restructuring of debt received by AMCs shall be immediately reported to the Valuation Agencies, Credit Rating Agencies, Debenture Trustees and AMFI. AMFI, on receipt of such information, shall immediately

disseminate it to its members.

The abovementioned modification shall be in force till 31st December, 2020.

[Circular](#)

4. Re-lodgement of Transfer Requests of shares

Circular No.: SEBI/HO/MIRSD/RTAMB/CIR/P/2020/166
Dated 7th September, 2020

Transfer of securities held in physical mode has been discontinued w.e.f. April 01, 2019 in terms of Regulation 40(1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Subsequently, vide Press Release No. 12/2019 dated March 27, 2019, SEBI had clarified that transfer deeds lodged prior to deadline of April 01, 2019 and rejected/returned due to deficiency in the documents may be re-lodged with requisite documents.

Vide this circular, SEBI has fixed 31st March, 2021 as the cut-off date for re-lodgement of transfer deeds.

Further, the shares that are re-lodged for transfer (including such request that are pending with the listed company/RTA, as on date) shall henceforth be issued only in demat mode.

[Circular](#)

5. Entities permitted to undertake e-KYC Aadhaar Authentication service of UIDAI in Securities Market – Addition of NSE to the list

Circular No.: SEBI/HO/MIRSD/DOP/CIR/P/2020/167
Dated 8th September, 2020

SEBI vide circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/80 dated May 12, 2020 had permitted eight entities to undertake Aadhaar Authentication service of UIDAI subject to compliance of prescribed conditions.

In addition to the above, Government of India, Department of Revenue (DoR), vide Gazette Notification No. G.S.R. 516(E) dated 20th August, 2020, notified “National Stock Exchange of India Limited” (NSE) to undertake Aadhaar authentication service of the UIDAI under section 11A of the Prevention of Money laundering Act, 2002 subject to compliance of the prescribed conditions.

[Circular](#)

6. Automation of Continual Disclosures under Regulation 7(2) of SEBI (Prohibition of Insider Trading) Regulations, 2015 - System driven disclosures

Circular No.: SEBI/HO/ISD/ISD/CIR/P/2020/168
Dated 9th September, 2020

Vide this circular, SEBI has decided to implement the system driven disclosures for member(s) of promoter group and designated person(s) in addition to the promoter(s) and director(s) of company (collectively referred to as entities) under Regulation 7(2) of the SEBI (Prohibition of Insider Trading) Regulations, 2015 pertaining to trading in equity shares and equity derivative instruments.

The procedure for implementation of the system driven disclosures is provided in *Annexure-A* to this circular. Further, the system would continue to run parallel with the existing system i.e. entities shall continue to independently comply with the disclosure obligations under PIT Regulations as applicable to them till March 31, 2021.

This circular supersedes the earlier circulars dated 1st December, 2015, 21st December, 2016 and 28th May, 2018 with respect to implementation of System driven disclosures under PIT Regulations.

[Circular](#)

7. Circular on Asset Allocation of Multi Cap Funds	
Circular No.: SEBI/HO/IMD/DF3/CIR/P/2020/172 Dated 11 th September, 2020	
<p>Vide this circular, SEBI has partially modified the scheme characteristics of Multi Cap Fund at Sr. No. 1 of point A of Annexure of the SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017 pertaining to categorization and rationalization of Mutual Fund Schemes as under:</p> <p>Minimum investment in equity & equity related instruments shall be 75% of total assets in the following manner:</p> <ol style="list-style-type: none"> Minimum investment in equity & equity related instruments of mid cap companies - 25% of total assets Minimum investment in equity & equity related instruments of large cap companies - 25% of total assets Minimum investment in equity & equity related instruments of small cap companies - 25% of total assets <p>All existing Multi Cap Funds shall ensure compliance with the above provisions within one month from the date of publishing the next list of stocks by AMFI, i.e. January 2021.</p> <p>Circular</p>	
8. Collection and Reporting of Margins by Trading Member (TM)/Clearing Member (CM) in Cash Segment – Clarification	
Circular No.: SEBI/HO/MIRSD/DOP/CIR/P/2020/173 Dated 15 th September, 2020	
<p>SEBI, vide this circular, has issued clarifications with respect to Collection and Reporting of Margins by Trading Member (TM)/Clearing Member (CM) in Cash Segment and modified the previous circulars dated 19th November, 2020 and 31st July, 2020 issued on the subject.</p> <p>With regard to levy of penalty for non-collection of “other margins” (other than VaR and ELM) on or before T+2 days from clients by TM / CM, SEBI has clarified as under:</p> <ol style="list-style-type: none"> If pay - in (both funds and securities) is made by T+2 working days, the other margins would deemed to have been collected and penalty for short/non collection of other margins shall not arise. If Early Pay - In of securities has been made to the Clearing Corporation (CC), then all margins would deemed to have been collected and penalty for short/non-collection of margin including other margins shall not arise. If client fails to make pay-in by T+2 working days and TM/CM do not collect other margins from the client by T+2 working days, the same shall also result in levy of penalty as applicable. <p>Clearing Corporations shall continue to collect upfront VaR plus ELM and other margins from TM / CM as applicable from time to time.</p> <p>Circular</p>	
9. Circular on Mutual Funds	
Circular No.: SEBI/HO/IMD/DF2/CIR/P/2020/175 Dated 17 th September, 2020	
<p><i>Effective Date – 1st January, 2021</i></p> <p>Vide this circular, SEBI has modified certain provisions (as below) in respect of Mutual Funds included in the earlier MF circulars issued.</p> <p>1. Uniformity in applicability of Net Asset Value (NAV) across various schemes upon realization of funds: In partial modification to the SEBI circular SEBI/IMD/DF/21/2012 dated 13th September, 2012, in respect of purchase of</p>	

units of mutual fund schemes (except liquid and overnight schemes), closing NAV of the day shall be applicable on which the funds are available for utilization irrespective of the size and time of receipt of such application.

2. Trade Execution and Allocation: AMCs shall put in place a written down policy which includes details of the specific activities, role and responsibilities of various teams engaged in fund management, dealing, compliance, risk management, back-office, etc., with regard to order placement, execution of order, trade allocation amongst various schemes and other related matters.

3. For orders pertaining to equity and equity related instruments: AMCs shall use an automated Order Management System wherein the orders for equity and equity related instruments of each scheme shall be placed by the fund manager(s) of the respective schemes.

4. Requirements with respect to investments in all instruments: AMC shall ensure that the dealing desk is suitably staffed and comply with the requirements as mentioned in this circular.

5. Monitoring of Compliance: AMC shall have a system based monitoring mechanism to ensure compliance with the requirements as specified in the circular.

[Circular](#)

10. Write-off of shares held by FPIs

Circular No.: SEBI/HO/IMD/FPI&C/CIR/P/2020/177
Dated 21st September, 2020

SEBI, vide Circular No. IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019, had issued Operational Guidelines for Foreign Portfolio Investors (FPIs) and Designated Depository Participants (DDPs) under SEBI (Foreign Portfolio Investors), Regulations 2019.

The operational guidelines permitted write - off of securities held by FPIs who wish to surrender their registration only in respect of shares of companies which are unlisted/illiquid/suspended/delisted.

Vide this circular, SEBI has permitted the said FPIs to write-off shares of all companies which they are unable to sell. In this regard, detailed process at para 17 of Part C of the said Operational Guidelines are required to be complied with.

[Circular](#)

11. System-Driven Disclosures (SDD) under SEBI (SAST) Regulations, 2011

Circular No.: SEBI/CIR/CFD/DCR1/CIR/P/2020/181
Dated 23rd September, 2020

SEBI, vide circular dated 9th September, 2020 has provided detailed procedure for system driven disclosures implementation under SEBI (Prohibition of Insider Trading) Regulations, 2015. The circular provides that capturing the PAN of the entities to be done from the listed company itself rather than through the RTAs.

Vide this circular, SEBI has permitted to use the procedure of capturing the PAN of the promoters from the listed companies as mentioned in para 2, 3 & 4 of the Annexure A of the above mentioned circular for SAST disclosures too.

[Circular](#)

12. Guidelines for Investment Advisers

Circular No.: SEBI/HO/IMD/DF1/CIR/P/2020/182
Dated 23rd September, 2020

SEBI, after reviewing the framework for regulation of Investment Advisers (IA), had notified the SEBI (Investment Advisers) (Amendment) Regulations, 2020 on 3rd July, 2020 effective from 30th September, 2020.

Vide this circular, SEBI has issued additional guidelines to be complied by the Investment Advisors in respect of the

following:

1. Client Level Segregation of Advisory and Distribution Activities
2. Agreement between IA and the client
3. Fees to be charged
4. Qualification and certification requirement
5. Registration as Non Individual Investment Advisor
6. Maintenance of record
7. Audit Requirement
8. Risk profiling and suitability for non-individual clients
9. Display of details on website and in other communication channel

Detailed guidelines along with the respective applicable dates are given in the circular.

[Circular](#)

MCA

1. Companies (Acceptance of Deposits) Amendment Rules, 2020

Notification No. G.S.R. _ (E)

Dated 7th September, 2020

Vide this notification, MCA has amended the Companies (Acceptance of Deposits) Rules, 2014 as below:

Amendment is made in Rule 2(1)(c)(xvii) pertaining to the definition of 'Deposit'. The amendment is as under:

An amount of twenty five lakh rupees or more received by a start-up company, by way of a convertible note (convertible into equity shares or repayable within a period not exceeding ten years (**previously five years**) from the date of issue) in a single tranche, from a person will not be covered in the definition of Deposit.

[Notification](#)

2. Relaxation of additional fees and extension of last date of filing of CRA-4 (Form for filing of Cost Audit Report) for FY 2019-20 under the Companies Act, 2013

General Circular No. 29/2020

Dated 10th September, 2020

As per Rule 6(5) of Companies (Cost Records and Audit) Rules, 2014, the cost auditor is required to forward his duly signed report to the Board within 180 days from the closure of the financial year.

Vide this circular, MCA has permitted the submission of cost audit report for the financial year 2019-20 beyond 180 days by 30th November, 2020 and this would not be considered a violation of above provision.

As per Rule 6(6) of Companies (Cost Records and Audit) Rules, 2014, the company is required to file the Cost Audit report in e-form CRA-4 within 30 days from the date of receipt of report.

In case a company has availed extension of time for holding Annual General Meeting then e-form CRA-4 may be filed within the timeline as specified in rule 6(6).

[Circular](#)

3. Extension of Companies Fresh Start Scheme, 2020

General Circular No. 30/2020

Dated 28th September, 2020

Vide this Circular, MCA has extended the Companies Fresh Start Scheme, 2020 to be in force till 31st December, 2020. The scheme was originally in force from 1st April 2020 to 30th September 2020. All other requirements provided in the General Circular No. 12/2020 dated 30th March, 2020 issued on the subject shall remain unchanged.

[Circular](#)

4. Extension of LLP Settlement Scheme, 2020

General Circular No. 31/2020

Dated 28th September, 2020

Vide this Circular, MCA has extended the LLP Settlement Scheme, 2020 to be in force till 31st December, 2020. The scheme was originally in force from 1st April 2020 to 30th September 2020. All other requirements provided in the General Circular No. 13/2020 dated 30th March, 2020 issued on the subject shall remain unchanged.

[Circular](#)

5. Extension of time - Scheme for relaxation of time for filing forms related to creation or modification of charges under the Companies Act, 2013
<p style="text-align: right;">General Circular No. 32/2020 Dated 28th September, 2020</p>
<p>Vide this Circular, MCA has extended the Scheme for relaxation of time for filing forms related to creation or modification of charges under the Companies Act, 2013 till 31st December, 2020 (previously 30th September, 2020).</p> <p>All other requirements provided in the original Circular issued on the subject shall remain unchanged.</p> <p>Circular</p>
6. Clarification on passing of ordinary and special resolutions by companies under the Companies Act, 2013 read with rules made thereunder on account of COVID-19- Extension of time
<p style="text-align: right;">General Circular No. 33/2020 Dated 28th September, 2020</p>
<p>Vide this Circular, MCA has extended the relaxations provided in conducting EGMs through VC or OAVM or transact items through postal ballot vide General Circulars No. 14/2020, 17/2020 and 22/2020 issued on 8th April 2020, 13th April 2020 and 15th June 2020 respectively. The relaxations are extended till 31st December, 2020 (previously 30th September, 2020)</p> <p>All other requirements provided in the previous Circulars issued on the subject shall remain unchanged.</p> <p>Circular</p>
7. Companies (Amendment) Act, 2020
<p style="text-align: right;">Dated 28th September, 2020</p>
<p>Government has passed the Companies (Amendment) Bill, 2020 to further amend the Companies Act, 2013. The Amendment Act received the assent of the President on 28th September, 2020. It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint.</p> <p>The major amendments made are listed as below</p> <ol style="list-style-type: none"> Decriminalization of various non-compoundable offences in case of defaults, but not involving frauds, omitting imprisonment for various offences which were considered procedural and technical in nature. Removal of penalty, imprisonment for offenses which relate to non-compliance with orders of the NCLT, and reduction in the amount of fine payable in certain cases. Allowing public companies to directly list certain prescribed classes of securities in foreign jurisdictions. Preparation and filing of periodic financial results by specified classes of unlisted companies. Companies that have CSR spending obligation up to ₹50 lakh would not be required to constitute a CSR committee. Eligible companies under CSR will be allowed to set off any amount spent in excess of their CSR spending obligation in a particular financial year towards such obligation in subsequent financial years. Insertion of the words "or any other non-executive director, including an independent director" after the words "whole-time director or manager," in Section 197 pertaining to Overall Maximum Managerial Remuneration and Managerial Remuneration in Case of Absence or Inadequacy of Profits. Accordingly, if a company fails to make profits or makes inadequate profits in a financial year, any non-executive director of such company, including an independent director, shall be paid remuneration in accordance with Schedule V of the Act. Modification in the offer period under Right issue of shares specifying the period to be not less than fifteen days "<i>or such lesser number of days as may be prescribed</i>" and not exceeding thirty days from the date of the offer. Insertion of new chapter relating to Producer Companies on similar lines as provided in the Companies Act, 1956. <p>Companies (Amendment) Act, 2020</p>

OTHER LAWS

Foreign Contribution (Regulation) Amendment Act, 2020

The Foreign Contribution (Regulation) Amendment Bill, 2020 was introduced in Lok Sabha on September 20, 2020. The Bill amends the Foreign Contribution (Regulation) Act, 2010. The act received the assent of the President on 28th September, 2020. The provisions shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint. The objective of the amendment act is to make the FCRA law more stringent and to streamline the provision of FCRA by strengthening the compliance mechanism, enhancing transparency and accountability in the receipt and utilization of foreign contributions worth thousands of crores of rupees every year.

The key amendments in the act are discussed hereunder:

Section 3(1)(c) - Bar on public servants to accept foreign contribution:

The act has widened the list of the persons who are prohibited to accept foreign contributions. Now, public servants are also come under the umbrella of the prohibited list.

Section 7 - Prohibition to transfer of foreign contribution to another person:

Earlier, a person who is registered and granted a valid certificate could transfer funds out of the Foreign contribution received to another person who was also registered and had been granted the certificate or obtained the prior permission but now, the act prohibits transfer to another person altogether to restrict money laundering.

Section 8(1) - Limitation on usage of foreign funds for Administrative purpose:

The act also limits the use of foreign funds received under FCRA for administrative purposes from the current limit of 50 % to 20 %.

Section 11(2) - Restriction in utilization of foreign contribution

If the Government after holding a summary inquiry, has reason to believe that any person has contravened the provisions of the FCRA, it may pending further inquiry, direct such person not to utilize the unutilized foreign contribution or receive any further foreign contribution without its approval.

Section 12(1A) and Section 17 - Requirement of FCRA Account:

Now, every person who makes an application under Foreign Contribution (Regulation) Act needs to open an FCRA account in a manner as specified under the Act.

Every person who has been granted certificate or prior permission under section 12 shall receive foreign contribution only in an account designated as "**FCRA Account**" by the bank, which shall be opened by him for the purpose of remittances of foreign contribution in such branch of the **State Bank of India at New Delhi**. The person may open another FCRA account in any scheduled bank of their choice for **keeping or utilizing** the received contribution. No funds other than the foreign contribution should be received or deposited in this account.

Section 12A - Mandatory Aadhaar Card to receive foreign funds:

The act has made Aadhaar card mandatory for all Office bearer or directors of NGOs and other organizations which are eligible for foreign contribution seeking either prior permission or prior approval/making application for grant of certificate or for renewal of certificate. However, a passport or overseas citizen of India card is required in the case of foreign national.

Section 13 - Time Limit for suspension of certificate:

The Act empowers the Government to further extend the time limit for suspension of a certificate that has been issued under FCRA for a maximum limit upto 180 days in addition to extant limit of 180 days.

Section 14A - New provision for surrender of certificate:

In order to provide an easy exit route to genuine entities, the act introduces a new provision for surrender of certificate. If the Government is satisfied that such person has not contravened any of the provision of FCRA, then their registration could be surrendered.

[Foreign Contribution \(Regulation\) Amendment Act, 2020](#)

Revised effective date for Applicability of ICSI Auditing Standards

The ICSI had issued following Auditing Standards applicable on the Audit Engagements accepted by the Auditor:

- a. Auditing Standard on Audit Engagement (CSAS-1)
- b. Auditing Standard on Audit Process and Documentation (CSAS-2)
- c. Auditing Standard on Forming of Opinion (CSAS-3)
- d. Auditing Standard on Secretarial Audit (CSAS-4)

The above standards were recommendatory w.e.f. 1st July, 2019 and mandatorily applicable for Audit Engagements on or after 1st April, 2020. However, due to unprecedented situation occurred by the spread of COVID-19, the mandatory applicability was deferred to 1st October, 2020. In view of the current situation of the pandemic, the mandatory applicability is further deferred to 1st April, 2020.

[ICSI-Web Module](#)

Disclaimer:

This is not a complete listing of all circulars/notifications issued during the month.
Instead it is only a listing of some of the circulars/notifications that we considered important.



Lovi Mehrotra & Associates

Chartered Accountants

**21-22 IInd Floor Krishna Nagar Safdarjung Enclave
New Delhi 110029**

Website : www.lma.co.in • Email : d.khanna@lma.co.in