

Regulatory Updates

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November 6, 2024: Amendment to the master direction—Know Your Customer (KYC) direction, 2016

Tags

Know Your Customer (KYC), Master Direction, Amendments, Customer Due Diligence (CDD), Central KYC Records Registry (CKYCR), High-Risk Accounts, Compliance, Prevention of Money Laundering, Customer Verification

Summary

This master direction focuses on the amendments to the master direction on Know Your Customer (KYC) issued on November 6, 2024. Key updates include enhanced procedures for updating KYC records through the Central KYC Records Registry (CKYCR), allowing existing compliant customers to open new accounts without additional documentation, and intensified monitoring for high-risk accounts. The amendments align KYC instructions with recent regulatory changes and are effective immediately, emphasizing the importance of compliance and customer verification in financial institutions.

Insights

Here are detailed insights from the notification regarding the 'Fully Accessible Route' for investment by non-residents in Government Securities, including the inclusion of Sovereign Green Bonds:

1. **KYC records update:** Regulated Entities (REs) are required to retrieve and update KYC records from the Central KYC Records Registry (CKYCR) without requiring customers to resubmit documents unless there are changes in customer information, incomplete records, lapsed document validity, or if further verification is deemed necessary.
2. **Customer acceptance policy:** The Customer Due Diligence (CDD) procedure must be applied at the Unique Customer Identification Code (UCIC) level, allowing existing KYC-compliant customers to open additional accounts without undergoing a fresh CDD process.
3. **Enhanced monitoring for high-risk accounts:** The document emphasizes intensified monitoring for high-risk accounts, ensuring that such accounts are subjected to more rigorous scrutiny.
4. **Alignment with recent regulations:** The amendments align the KYC instructions with recent changes in the Prevention of Money Laundering (Maintenance of Records) Rules

and incorporate updates from the Government of India regarding the Unlawful Activities (Prevention) Act.

5. **Immediate effect:** The revised provisions are effective immediately, reinforcing the importance of updated KYC practices among financial institutions.

These amendments aim to streamline KYC processes, enhance customer verification, and ensure compliance with evolving regulatory standards.

Further details can be found on the RBI website:

<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12746&Mode=0>

November 7, 2024: 'Fully Accessible Route' for investment by non-residents in government securities—Inclusion of sovereign green bonds

Tags

Fully Accessible Route, Sovereign Green Bonds, Non-resident Investment, Government Securities, Sustainable Finance, Investment Opportunities, Financial Markets Regulation, Specified Securities, Green Finance, Environmental Initiatives, Investment Guidelines

Summary

The notification from the Reserve Bank of India, dated November 7, 2024, announces the inclusion of Sovereign Green Bonds as 'specified securities' under the Fully Accessible Route (FAR) for non-resident investors. This decision allows non-residents to invest in these 10-year tenor bonds without restrictions, alongside domestic investors. The FAR was initially introduced in March 2020 to facilitate non-resident investment in certain Central Government securities. The notification references previous circulars that outlined eligible securities and states that these directions are effective immediately.

Insights

Here are detailed insights from the notification regarding the 'Fully Accessible Route' for investment by non-residents in Government Securities, including the inclusion of Sovereign Green Bonds:

1. **Introduction of sovereign green bonds:** The notification announces that Sovereign Green Bonds with a 10-year tenor, issued by the Government in the second half of the fiscal year

2024-25, will now be included as 'specified securities' under the Fully Accessible Route (FAR) for non-resident investors.

2. **Fully Accessible Route (FAR):** The FAR was introduced by the Reserve Bank of India on March 30, 2020, allowing certain categories of Central Government securities to be fully accessible to non-resident investors without restrictions, while also being available to domestic investors.
3. **Regulatory framework:** The directions in the notification are issued under Section 45W of Chapter IIID of the Reserve Bank of India Act, 1934, indicating the legal basis for these regulations.
4. **Immediate effect:** The directions regarding the inclusion of Sovereign Green Bonds under the FAR are applicable with immediate effect, allowing non-residents to start investing right away.
5. **Objective of sovereign green bonds:** The inclusion of Sovereign Green Bonds aligns with the government's commitment to sustainable finance and environmental initiatives, encouraging investments that contribute to green projects.
6. **Contact information:** The notification provides contact details for further inquiries, including a phone number and email address for the Financial Markets Regulation Department of the Reserve Bank of India.

These insights highlight the key aspects of the notification and its implications for non-resident investors in the context of sustainable investment opportunities in India.

Further details can be found on the RBI website:

<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12747&Mode=0>

November 8, 2024: Reporting of foreign exchange transactions to trade repository

Tags

Foreign Exchange Transactions, Authorized Dealers, Trade Repository, FX Contracts, Clearing Corporation of India Ltd. (CCIL), OTC Contracts

Summary

This circular is applicable to all Authorized Dealers. The circular highlights Authorized Dealers need to report foreign exchange to the Trade Repository of the Clearing Corporation of India Ltd (CCIL).

Insights

1. Authorized Dealers need to report foreign exchange contracts including foreign exchange spot, cash and Tom deals to the Trade Repository of the Clearing Corporation of India Ltd (CCIL).
2. Inter-bank FX contracts involving INR shall be reported in hourly basis within 30 minutes from completion of hour. Contracts executed 60 minutes prior to the closing of CCIL's reporting platform and executed after the closure of reporting platform need to be reported at 10 a.m. of following business day.
3. Inter-bank FX contracts involving non-INR executed up to 5 p.m. need to be reported at 5.30 p.m. and any contract executed post 5 p.m. need to be reported at 10 a.m. of following business day.
4. Authorized dealers need to report all FX contracts executed with client of value USD 1 million or more with effect from May 12, 2025.
5. Authorized dealers need to report all FX contracts executed with client of value USD 50,000 or more with effect from November 10, 2025.

Further details can be found on the RBI website:

<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12748&Mode=0>

November 11, 2024: Operational framework for reclassification of foreign portfolio investment to foreign direct investment (FDI)

Tags

Foreign Portfolio Investment (FPI), Foreign Direct Investment (FDI), Custodian

Summary

This circular is applicable to all Category—I Authorized Dealer Banks. The circular highlights operational framework for reclassifying Foreign Portfolio Investment (FPI) to Foreign Direct Investment (FDI).

Insights

1. Investments made by FPIs need to less than 10 percentage of total paid-up equity capital on fully diluted basis. If this investment limit is breached, then FPIs need to

divest its holdings or reclassify as FDI within 5 trading days from the date of settlement of the trade which cause the breach of the investment limit.

2. The reclassification of FPIs into FDIs shouldn't involve the sector in which FDI is prohibited. FPIs need to obtain all the applicable approvals from Government and Indian investee company.
3. FPIs need to inform the custodian about the intent of reclassification so that custodian will freeze any equity purchase transaction till reclassification is completed.
4. Investment will be treated as FDI once the reclassification is completed, and it will be governed by rules applicable for FDI investment.

Further details can be found on the RBI website:

<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12749&Mode=0>