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BEGUR BULLETIN

INVESTMENT FUNDS

July 2026

REGULATORY UPDATE

WELCOME TO THE BEGUR BULLETIN!

India's investment funds ecosystem continues to witness sustained regulatory evolution, with the Securities and Exchange Board of India ("**SEBI**") and the International Financial Services Centres Authority ("**IFSCA**") introducing a series of measures aimed at strengthening governance, enhancing operational efficiency and facilitating ease of doing business across mutual funds, portfolio management services ("**PMS**"), specialized investment funds ("**SIFs**"), listed securities and IFSC-based Finance Companies and Finance Units. The regulatory focus has increasingly shifted towards rationalising compliance obligations and streamlining investor-facing processes while preserving robust investor protection through simplified documentation, enhanced disclosures and time-bound grievance redressal. At the same time, GIFT-IFSC continues to emerge as a preferred international financial services jurisdiction, with IFSCA introducing targeted reforms relating to prudential norms for factoring transactions and a proposed framework for direct listing of specified securities without a public offer.

The month of July 2026 witnessed a broad spectrum of regulatory initiatives across the investment funds and securities markets ecosystem. Key developments included SEBI's extension of the SWP/STP standing instruction facility to Mutual Fund units held in demat form, a comprehensive proposed overhaul of the SEBI (Portfolio Managers) Regulations, 2020 (including a dedicated MF-PMS framework and expanded investment avenues). On the IFSC front, IFSCA clarified capital relief and prudential norms applicable to factoring transactions undertaken by Finance Companies and Finance Units and proposed a regulatory framework enabling eligible issuers to directly list specified securities on IFSC exchanges without a public offer. Collectively, these developments reflect a concerted push toward reducing procedural friction, strengthening enforceability of investor remedies, and expanding the range of permissible investment and listing avenues across the securities and funds ecosystem.

In this regulatory update, we explore these developments elaborating on their potential impact on stakeholders and discussing the efficacy of such developments.

We value your thoughts and suggestions. If there is feedback on how we can improve The Begur Bulletin, we'd love to hear from you on communications@begurs.com. Your input helps us keep this platform insightful.

Enjoy reading, here's to staying informed, compliant, and capital-ready.

— Team Begur

ALTERNATIVE INVESTMENT FUNDS (AIFS)

1. FAST-TRACK MECHANISM FOR PROCESSING OF PLACEMENT MEMORANDUM OF AIFS FILED WITH SEBI

SEBI, vide circular dated July 30, 2026, has specified the operational modalities of the Green-Channel: AIF Rollout Upon Document Acknowledgement ("**GARUDA**") mechanism for processing Placement Memoranda ("**PPMs**") of AIFs. This marks a shift towards a document-acknowledgement-based launch process that relies on Merchant Banker due diligence for regular schemes and manager-level accountability for AI only funds, LVFs and Angel Funds.

Key provisions include:

a. **Fast-Track Launch of Regular Schemes:** AIFs may launch a new Regular scheme after 10 working days of filing the PPM with SEBI (through a SEBI-registered Merchant Banker), unless otherwise advised; for a first scheme, launch may commence from the date of SEBI registration or expiry of 10 working days, whichever is later. Filing must be accompanied by a Merchant Banker Due Diligence Certificate, Fit and Proper declarations, Sponsor/Manager continuing-interest declarations, and PAN details of the AIF, Sponsor, Manager, Trustee and key investment team members.

b. **Merchant Banker Accountability:** The Merchant Banker must independently exercise due diligence on all PPM disclosures, cannot be an associate of the AIF, its sponsor, manager or trustee, and must be named in the PPM along with a prescribed disclaimer clause confirming that disclosures are true, fair and adequate with both the Merchant Banker and the Manager liable for any irregularity or lapse in the PPM.

c. **Exemption for AI Only Funds, LVFs and Angel Funds:** AI only funds and Large Value Funds for Accredited Investors ("LVFs") where each investor invests at least Rs. 25 crore as well as Angel Funds, are exempt from filing the PPM through a Merchant Banker and from incorporating SEBI comments; such schemes may be launched immediately upon filing the PPM (or from the date of SEBI registration for first schemes), subject instead to a signed undertaking from the CEO and Compliance Officer of the Manager.

d. **Scheme Naming Convention:** New AI only fund schemes must carry "AI only fund" or "AIOF" at the end of the scheme name, and new LVF schemes must carry "LVF" at the end of the scheme name.

e. **Definitional Clarifications:** "Regular schemes" are defined as schemes other than LVFs, AI only funds and Angel Funds; "Launch" means circulation of the PPM to investors for soliciting funds; and "Working days" excludes Saturdays, Sundays and SEBI holidays.

f. **Changes to PPM Terms:** AI only funds, LVFs and Angel Funds are exempt from routing changes to PPM terms through a Merchant Banker and may file such changes directly with SEBI, accompanied by a CEO/Compliance Officer undertaking.

B&P View: The GARUDA mechanism is a welcome, time-saving reform for AIFs, it materially shortens the runway to launch a scheme. This gives fund managers greater certainty in planning fundraising timelines and capital deployment.

MUTUAL FUNDS

2. FAST-TRACK/EXTENDED FACILITY FOR CREATING STANDING INSTRUCTIONS FOR SWP/STP FOR MUTUAL FUND UNITS HELD IN DEMAT FORM

SEBI, vide circular dated July 17, 2026, has extended the facility of creating standing instructions for Systematic Withdrawal Plan (SWP) and Systematic Transfer Plan (STP) to Mutual Fund units held in demat form, a facility presently available only for units held in the physical/statement of account mode. The move follows representations from Depositories and recommendations of a SEBI-constituted Working Group and the Secondary Market Advisory Committee and is aimed at ease of doing business for demat account holders.

Key proposals include:

a. **Phased Implementation:** The facility shall be rolled out in two phases, Phase I for "Unit-based SWP/STP" (standing instructions for redemption of a fixed number of units at a specified frequency, for withdrawal or for purchasing units of another scheme of the same Mutual Fund), and Phase II for "Amount-based SWP/STP" (standing instructions for redemption of a fixed amount at a specified frequency, for similar purposes).

b. **Implementation Timelines:** Depositories, as the nodal facilitators, must ensure implementation of Phase I by January 31, 2027 and Phase II by April 30, 2027. A standard operational framework is to be jointly published by Depositories on their websites by October 31, 2026.

c. **Consequential Actions by Depositories:** Depositories are directed to make necessary amendments to relevant bye-laws, rules and regulations, carry out requisite system changes, and disseminate the provisions of the circular on their websites.

B&P View: This circular addresses a long-standing operational gap for Mutual Fund investors holding units in dematerialized form, who were previously unable to set up SWP/STP standing instructions directly and had to rely on RTA-based, physical-mode facilities.

1. **SEBI PROPOSES COMPREHENSIVE REVIEW OF SEBI (PORTFOLIO MANAGERS) REGULATIONS, 2020**

SEBI vide consultation paper issued on July 23, 2026, proposed a comprehensive review of the SEBI (Portfolio Managers) Regulations, 2020, seeking public comments on the draft Portfolio Managers Regulations, 2026 by August 13, 2026. The proposals aim to enable new investment avenues, ease compliance, consolidate provisions, simplify language, and remove redundant clauses.

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Key proposals include:

a. **Expanded Investment Avenues:** Portfolio managers may now invest in "to be listed" securities, and discretionary portfolio management services (“**DPMS**”) providers may invest up to 10% of client AUM in investment-grade unlisted debt securities (previously restricted to at 25%). Investment in foreign securities (listed equity, listed debt, and overseas funds/REITs) is proposed to be permitted under both DPMS and non-discretionary portfolio management services (“**NDPMS**”), subject to FEMA limits and explicit client.

b. **MF-only PMS (MF-PMS) Framework:** A dedicated framework is proposed for portfolio managers exclusively investing in direct plans of Mutual Fund schemes/ETFs/SIFs, targeting mass-affluent investors featuring reduced minimum ticket size to INR 25 lakh from INR 50 lakh, reduced net worth to INR 2 crore from INR 5 crore, relaxed dealing room/additional employee, fee cap of 2.5% of AUM, and mandatory segregation from mutual fund distributor (“**MFD**”) activities.

c. **Exchange Traded Derivatives Flexibility:** Portfolio managers may undertake total derivative exposure up to 1.25x client AUM, with unhedged short exposure (equity derivatives only) capped at 50% of AUM and options exposure capped at 10% of AUM, subject to explicit positive client consent.

d. **Ease of Compliance Measures:** Key changes include realigning the "related party" definition with the Companies Act, 2013; rationalizing Principal Officer educational qualifications; redefining net worth (with 10% mandatorily in liquid assets); enabling digital disclosure documents; extending filing timelines (7 working days to 10 calendar days for various filings); clarifying the 0.50% operating expense cap excludes statutory levies; and mandating business activity commencement (minimum 10 clients or INR 5 crore AUM) within 3 years of registration.

e. **Modified Grandfathering and Other Structural Proposals:** Existing grandfathering on the INR 25 lakh minimum investment threshold is being phased out, all clients (except MF-PMS) must comply with the INR 50 lakh minimum within 36 months. Other proposals include relaxing the dedicated dealing room requirement for smaller portfolio managers (AUM below INR 100 crore/under 10 clients), permitting Eligible Fund Managers to manage overseas clients in overseas securities, enabling independent fund managers to operate under a single registered Portfolio Manager, demat account portability across portfolio managers, and relaxing the Power of Attorney requirement.

f. **Governance and Oversight Clarifications:** Geographical operational boundaries are clarified, portfolio managers cannot execute transactions outside India except for overseas securities investments. Compliance officer qualification is standardized (NISM Series-III-C certification), and a certificate surrender provision is added for parity with other intermediaries.

B&P View: This is among the most significant PMS regulatory overhauls since 2020, materially expanding investment flexibility (foreign securities, derivatives, unlisted debt) while introducing a mass-market MF-PMS category. Fund advisory teams should closely track the foreign securities, MF-PMS fee/segregation norms, and revised grandfathering timelines, and consider submitting comments by August 13, 2026 given the far-reaching operational and compliance implications for portfolio manager clients.

INTERNATIONAL FINANCIAL SERVICES CENTRE

1. IFSCA CLARIFIES CAPITAL RELIEF AND PRUDENTIAL NORMS FOR FACTORING TRANSACTIONS

IFSCA, vide circular dated July 21, 2026 issued a framework clarifying the applicability of capital relief to Finance Companies and Finance Units undertaking factoring business in the IFSC, while also prescribing prudential norms for such transactions. The circular applies to all entities registered under the IFSCA (Finance Company) Regulations, 2021 engaged in factoring, and addresses risk-weight treatment, eligible protection providers, exposure ceiling computation, and NPA classification norms, coming into force with immediate effect.

Key Directions:

a. **Credit Risk Mitigation and Capital Relief:** Finance Companies obtaining credit insurance or a guarantee from eligible institutions may claim capital relief, the covered portion of a factoring exposure is assigned the risk weight of the protection provider (if lower than the counterparty), while the uncovered portion carries the importer's risk weight. Under the two-factor model (e.g., via FCI), the export factor's exposure is treated as covered by the import factor, subject to qualifying guarantee conditions.

b. **Eligible Protection Providers and Qualifying Conditions:** Recognised protection providers include sovereigns, ECAs, PSEs, MDBs, banks, securities firms, and other prudentially regulated institutions (including insurance companies and import factors). To qualify, the credit protection contract must be a direct, irrevocable, explicitly documented claim referencing specific exposures, free of unilateral cancellation clauses, with a straightforward invocation right (no prior legal action needed against the counterparty).

c. **Finance Units-Home Regulator Recognition:** Finance Units may claim capital relief only if such relief is recognised by their parent's home regulator, requiring an undertaking to this effect at the time of registration.

d. **Exposure Ceiling Reckoning:** Factoring exposures fall within the existing exposure ceiling framework (May 25, 2021 circular) and are reckoned differently based on structure on the assignor (with-recourse), the debtor (without-recourse, subject to credit protection carve-outs), the import factor (two-factor model, to the extent covered), or the protection provider (trade credit insurance, to the extent covered).

e. **NPA Classification and Underwriting Limits:** Factoring receivables unpaid beyond 90 days past due are classified as NPA (180 days for Finance Companies/Units with asset size under USD 150 million, or the home regulator's period if lower for Finance Units). Entities underwriting credit risk on a without-recourse basis must maintain a Board-approved underwriting limit.

B&P View: This circular meaningfully aligns IFSC factoring norms with consistent credit risk mitigation standards, offering genuine capital efficiency for factors using credit insurance/guarantees. Finance Units should proactively secure home-regulator recognition undertakings at registration stage, while all entities must revisit exposure-ceiling computation methodologies and NPA policies to ensure compliance with the differentiated recognition timelines based on asset size and structure.

2. IFSCA PROPOSES REGULATORY FRAMEWORK FOR DIRECT LISTING OF SPECIFIED SECURITIES WITHOUT PUBLIC OFFER

IFSCA vide consultation paper dated July 13, 2026, issued a proposed regulatory framework enabling direct listing of specified securities (equity shares and convertible securities) without a public offer on recognised stock exchanges in the IFSC, seeking public comments on the same. While Regulation 40 of the IFSCA (Listing) Regulations, 2024 already enables such listings, the detailed eligibility criteria, procedural requirements, and disclosure standards had not been specified. The paper benchmarks proposals against IOSCO principles and global jurisdictions, with a draft circular annexed for stakeholder feedback by August 3, 2026.

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Key provisions include:

a. **Eligibility Criteria:** An issuer becomes eligible for direct listing without public offer if it satisfies any one of: (i) operating revenue of at least USD 20 million (consolidated, last year or 3-year average); (ii) pre-tax profit of at least USD 1 million (consolidated, last year or 3-year average); or (iii) post-listing market capitalisation of at least USD 50 million, the last being a calibrated enhancement over the USD 25 million threshold applicable for public-offer listings, to compensate for reduced liquidity/price discovery in the absence of fresh issuance.

b. **Superior Right (SR) Shares and Applicability:** The framework applies to issuers not listed on any exchange in India, the IFSC, or abroad. Issuers with Superior Right equity shares may also list without public offer, provided the Superior Right shares were authorised by shareholder resolution and held for at least three months prior to filing the information document.

c. **In-Principle Approval and Information Document:** Issuers must first obtain in-principle approval from a recognised stock exchange (to be granted or rejected within 15 days, with an opportunity for written submissions before rejection). Thereafter, the issuer, through a registered investment banker, must file an information document (accompanied by a due diligence certificate) with the Authority and stock exchange, to be hosted on the websites of the Authority, exchange, issuer, and investment banker.

d. **Disclosures and Financials:** The information document must contain comprehensive disclosures risk factors, capital structure, business/industry description, management, shareholders' agreements, financial statements, related-party transactions, and litigation/regulatory matters along with a prescribed IFSCA disclaimer. Audited financials for the last three years (or since inception, if shorter) must be provided, not older than six months, prepared under IFRS, US GAAP, Ind AS, or a reconciled home-jurisdiction standard.

e. **Public Shareholding, Pricing and Listing:** Indian-incorporated issuers must comply with Rule 19A minimum public shareholding (SCRR, 1957); foreign issuers must maintain 10% public shareholding of post-listing capital. The base listing price is determined via an independent valuation report (not older than three months), with a special pre-open price discovery session on the first listing day; issuers may appoint market makers to support secondary market liquidity.

B&P View: This proposed framework is a significant enabler for scaled, well-capitalised IFSC-linked companies (including PE/VC-backed entities) seeking visibility, governance upgrades, and shareholder liquidity without dilution or IPO costs.

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MISCELLANEOUS

1. SEBI PROPOSES TO STREAMLINE THE ONLINE DISPUTE RESOLUTION FRAMEWORK IN INDIAN SECURITIES MARKET

SEBI, vide consultation paper issued on July 23, 2026, proposed a revised framework for streamlining the SCORES-ODR investor grievance and dispute resolution mechanism in the Indian securities market. The proposal shifts responsibility for Conciliation and Arbitration from ODR institutions to Market Infrastructure Institutions (“**MIIs**”), addressing stakeholder concerns around arbitrator appointment, payment delays, and enforceability.

Key Provisions:

a. **Shift of ODR Administration to MIIs:** The existing ODR institution-led mechanism is proposed to be replaced by an MII-administered system (Stock Exchanges, Depositories, Clearing Corporations), reviving pre-ODR best practices such as empanelment of Conciliators/Arbitrators by MIIs, given their superior enforceability over registered intermediaries and listed entities. Case allocation follows a defined matrix, trading member/listed company disputes to the relevant exchange, DP disputes to depositories, and other intermediary disputes on a round-robin basis among MIIs.

b. **Arbitrator/Conciliator Appointment Process:** Arbitrators will be appointed via a two-step process, first, matching preferences of three names submitted by each party; failing consensus, appointment through a Centralized Arbitrator Appointment Process (“**CAAP**”) excluding the six preferences already given. A sole arbitrator applies for claims up to Rs. 30 lakhs; a three-member tribunal (one nominee each plus a CAAP-appointed third) applies above that threshold. Conciliators are appointed directly by MIIs from their panel.

c. **SCORES-to-ODR Escalation Streamlining:** Unresolved grievances at the Designated Body (“**DB**”) review stage (pre-conciliation) will now escalate directly to Conciliation under ODR, cutting the timeline by 21 calendar days. Complaints against AIFs, VCFs, KRAs and CRAs (with no DB specified) may go directly to ODR. Complaints against MIIs themselves remain outside ODR's escalation scope.

d. **AIF-Specific Protections**: AIF investors are proposed to be given the choice to resolve disputes as per pre-existing agreements rather than mandatorily through ODR. Separately, an amendment to the AIF Regulations, 2012 is proposed to extend the trust-structure protection (shielding investor funds from fund manager liability in dispute resolution) to AIFs constituted as companies or LLPs, closing an existing protection gap based on form of incorporation.

B&P View: This proposal materially strengthens enforceability by consolidating dispute administration within MIIs, who have direct regulatory leverage over intermediaries, a welcome shift for investors and AIF managers alike. Fund managers should particularly track the proposed AIF Regulations amendment extending trust-level liability protection to company/LLP structures, and the optionality for AIF investors to bypass ODR via pre-agreed dispute mechanisms.

2. SEBI PROPOSES CERTIFICATION REQUIREMENTS FOR DISTRIBUTION OF SPECIALIZED INVESTMENT FUNDS (“SIFs”)

SEBI vide circular dated July 21, 2026 has modified the certification requirements applicable to entities engaged in the sale and/or distribution of SIFs. Pursuant to industry representations and discussions with NISM, SEBI has now streamlined the certification pathway for SIF distributors, replacing the earlier dual-certification requirement with a single consolidated certification, effective immediately.

Key provisions include:

a. **New consolidated certification for SIF distributors:** Persons engaged in the sale/distribution of SIF products must now hold a valid "NISM Series-V-D – Mutual Fund - Specialized Investment Fund Distributors Certification." Holders of this certification are automatically eligible to distribute both Mutual Fund and SIF products, without separately holding the "NISM Series V-A – Mutual Fund Distributors Certification."

b. **Status quo for pure Mutual Fund distributors:** Entities distributing only Mutual Fund products (not SIFs) continue to be governed by the existing NISM Series V-A certification requirement under the 2010 Gazette notification, unaffected by this change.

c. **Phase-out of NISM Series XIII requirement:** The earlier requirement of holding "NISM Series XIII – Common Derivatives Certification" for SIF distribution will cease to apply after September 21, 2026, marking the sunset of the erstwhile dual-certification framework.

d. **Transition arrangement:** Distributors already holding a valid NISM Series XIII certification (obtained on or before September 21, 2026) are exempted from obtaining the new NISM Series-V-D certification until their existing Series XIII certification expires provided they continue holding a valid NISM Series V-A certification in the interim. AMFI and AMCs are tasked with ensuring distributor/agent compliance.

B&P View: This simplifies the certification landscape for SIF distribution by consolidating two certifications into one, reducing compliance overhead for distributors while grandfathering existing NISM Series XIII holders through a transition window. AMCs and distributor networks should update onboarding and compliance checklists to reflect the NISM Series-V-D requirement and track the September 21, 2026 sunset date for the erstwhile framework.

3. SEBI SIMPLIFIES THE FRAMEWORK FOR TRANSMISSION OF SECURITIES

SEBI vide circular dated July 23, 2026 has revised the framework governing transmission of listed securities and AMC-issued units upon the demise of the sole/all joint holder(s). The revised framework introduces a harmonised, standardised, risk-based process, along with a new low-value claims category, revised monetary thresholds, and simplified documentation.

Key provisions include:

a. **Introduction of Quick Transmission Processing ("QTP") and revised thresholds:** A new QTP category has been created for low-value claims by immediate relatives (parents, spouse, children, parents-in-law), with thresholds of Rs. 10,000 (physical mode) and Rs. 30,000 (demat mode). Simplified documentation thresholds have been revised to Rs. 10 lakh (physical, enhanceable at the entity's discretion) and Rs. 30 lakhs (demat), replacing the earlier framework.

b. **Documentation simplification: The mandatory requirement** of Probate of Will has been removed in line with succession law amendments. A combined affidavit-cum-NOC replaces separate affidavit and NOC requirements. Death certificates bearing a QR code are now accepted as an eligible document, alongside originals/attested copies, easing verification burdens on claimants.

c. **Cross-border and procedural provisions:** For death certificates issued abroad, additional verification modes are permitted, including certification by overseas branches of Indian banks or correspondent foreign banks, apostille, or consularisation. Processing entities must acknowledge claims, flag deficiencies upfront, and settle transmission requests within 21 calendar days of receiving complete documentation, failing which reasons must be recorded in writing.

B&P View: The revised framework meaningfully eases the transmission process for investors' legal heirs by removing probate requirements, consolidating documentation, and introducing time-bound processing with a dedicated low-value QTP track. For entities and RTAs (including AMC clients advised by the firm), this necessitates updating internal SOPs, claim forms, and website disclosures ahead of the August 22, 2026 effective date and calibrating the six-month SEBI reporting mechanism.

4. EXTENSION OF TIMELINES WITH RESPECT TO COMPLIANCE OF DIGITAL ACCESSIBILITY CIRCULARS

SEBI, vide circular dated July 31, 2026, has extended the timeline for Regulated Entities ("**REs**") to comply with the mandatory digital accessibility requirements issued pursuant to the Rights of Persons with Disabilities Act, 2016 and rules made thereunder. The extension follows representations received from REs and SEBI's examination of the current status of compliance across the industry.

Key provisions include:

a. **Extended Timeline for Accessibility Audit and Remediation:** The timeline for "Conduct of Accessibility Audit for the digital platforms and Remediation of findings from the audit" has been extended to October 31, 2026.

B&P View: This is a welcome, purely procedural relief for clients who are Regulated Entities still working through their digital accessibility audits, it gives an additional window to complete the audit and remediate findings, without altering the substance of the underlying accessibility obligations.

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