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IN THIS ISSUE

I SPECIAL GUEST POST BY: MS. KETAKI GOR MEHTA (PARTNER) & MS. NIDHI JITENDRA PATEL (SENIOR ASSOCIATE), CYRIL AMARCHAND MANGALDAS

II INSOLVENCY & BANKRUPTCY LAW

III SECURITIES LAW

IV TAXATION LAW

V MISCELLANEOUS

GUEST POST

FROM MARKET ACCESS TO MARKET DEPTH: UNLOCKING THE POTENTIAL OF SECONDARY ETF LISTINGS IN IFSC

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What makes a financial centre matter is not simply the capital it attracts, but the markets it builds around that capital. The International Financial Services Centre **("IFSC")** at Gujarat International Finance Tec-City **("GIFT City"**) has reached an interesting juncture: its next chapter of growth will depend less on drawing in new participants and more on cultivating liquidity, intermediation and genuinely deep capital-market activity.

On August 27, 2026, the IFSC Authority **("IFSCA")** released a consultation paper proposing to permit secondary listings of Exchange Traded Funds **("ETFs")** on IFSC exchanges. The idea is a simple but elegant one: weave GIFT City into the fabric of global ETF liquidity, without asking any fund to relocate its domicile, manager or primary regulator. The timing feels far from coincidental. GIFT IFSC's fund ecosystem now comprises 235 Fund Management Entities **("FMEs")** and 416 schemes, retail investor numbers have grown thirteen-fold in just a single year, and the global ETF market that IFSCA is now courting is worth roughly USD 23.11 trillion.

None of this is being built from scratch, which is part of its appeal. The IFSCA is simply extending the architecture already laid out in the IFSCA (Fund Management) Regulations, 2025 **("FM Regulations")**, which allow an ETF in India **(outside IFSC)** or in a foreign jurisdiction to be listed and traded on a recognised IFSC exchange. Global managers need not register with the IFSCA at all; their home regulators continue to hold primary oversight.

So what does it take for an ETF to earn a place at the table? Its manager must be an FME (Retail), or a retail fund manager regulated in India or a foreign jurisdiction, meeting the FM Regulations' fit-and-proper test. The ETF itself must be an index-tracker, constituted under a regime with genuine investor safeguards and real guardrails against manipulation, conflicts of interest and misuse of unpublished price-sensitive information. It must generally have been listed and traded on a stock exchange in India or abroad for at least 12 months, though that threshold eases for retail FMEs or managers with a proven, sound-track record as objectively defined by the IFSCA.

How does the IFSCA keep watch over foreign-traded ETFs that it doesn't regulate directly? Through a local representative, an onshore point of contact who liaises with investors, receives notices, reports to the IFSCA and flags trading suspensions or other material developments to the IFSC exchanges. The IFSC exchange itself carries out the frontline eligibility screening and sets market-maker and trading rules, needing only to intimate the IFSCA prior to listing. In this arrangement, the IFSC exchange stands as the first sentinel at the gate, while the IFSCA keeps a steady hand on the tiller without micromanaging every application. What stands out is the restraint in the design: procedural enough to inspire confidence, yet not so onerous as to blunt the commercial promise of secondary ETF listings.

For any IFSC competing for cross-border capital, investor protection is never an afterthought. It is the very foundation of credibility: without it, neither global managers nor global investors will trust the venue enough to bring their liquidity onshore. So how is that protection reinforced here? Through targeted disclosure rather than regulatory duplication. The disclosures under consideration cover, among other matters, the ETF's place of constitution and home regulator, its non-IFSC status, the respective roles of the manager and the local representative, trading arrangements, fees, tax treatment, listing-specific risks and the applicable grievance redressal mechanism.

And there is a backstop, too: the IFSCA and the IFSC exchanges retain the power to suspend or delist any ETF whose manager or representative breaches applicable law, while managers also retain the option to delist voluntarily. Accountability remains within reach, even for a fund domiciled abroad. Taken together, these proposed conditions reflect a calibrated, measured regulatory approach: GIFT City may be opening its doors to global liquidity, but it is not letting go of the lever. Get the balance right, and this framework could help GIFT IFSC grow from being simply an access point for listings into a genuine venue for trading depth, price discovery and global capital formation.


INSOLVENCY
& BANKRUPTCY

The National Company Law Appellate Tribunal ("NCLAT") clarifies that Homebuyers Pursuing Remedies for Refund of Money Lose Status as Financial Creditors under the Insolvency and Bankruptcy Code, 2016 ("IBC") [*Sumit Bansal v. Rajeev Lochan, Resolution Professional M/s RG Residency Pvt. Ltd.*] [Link]

The NCLAT has clarified that real estate allottees who choose to pursue remedies for refund of their investment via arbitration or a complaint under Section 138 of the Negotiable Instruments Act, 1881 **("Negotiable Instruments Act")**, lose their legal status as an "allottee" under Section 5(8)(f) of the Insolvency and Bankruptcy Code, 2016 **("IBC")**. The core issue was whether an investor seeking repayment of funds after formally exiting a housing project can still claim classification as a financial creditor during insolvency proceedings.

The IBC was amended in 2018 which inserted an explanation to Section 5(8)(f) clarifying that amounts raised from real estate allottees will have the commercial effect of a borrowing and therefore they would be recognised as financial creditors under Section 5(7). However, there existed an ambiguity when homebuyers accepted exit cheques or initiated independent recovery proceedings. Corporate debtors faced claims from former homebuyers who attempted to use their status as allottees as a leverage point in the Corporate Insolvency Resolution Process **("CIRP")**.

The NCLAT has now clarified that to qualify as a financial creditor, there must be an existing and continuous liability under Section 3(11) of IBC. The same ceases to exist when an allottee accepts refund cheques and pursues debt-recovery remedies. It additionally clarified that Real Estate Regulatory Authority **("RERA")** decree-holders continue to hold their allottee status though those who voluntarily abandon their allotment by seeking pure monetary recovery through arbitration or Section 138 proceedings permanently surrender their status.

This decision gives clarity on the implication of the status for real estate investors at the stage of admission of claims in insolvent proceedings. Corporate Debtors and Insolvency Resolution Professionals can now take this ruling to negate claimants that have renounced their position as allottees by trying to get monetary recovery via external legal mechanisms.

In the future, creditors and homebuyers will have to think more carefully about their legal strategy, since choosing the route of monetary recovery through arbitration or Negotiable Instruments Act proceedings will strip them of their rights to be categorized as financial creditors under the IBC framework.

SECURITIES LAW



The Securities and Exchange Board of India ("SEBI") releases a circular to notify the operational modalities of the Green Channel: AIF Rollout Upon Document Acknowledgement ("GARUDA") mechanism. [Link]

Through a circular released on 30th July, 2026, SEBI has prescribed the working procedure for the GARUDA mechanism for processing of private placement memorandums of Alternative Investment Funds **("AIFs")**.

The GARUDA mechanism was introduced in the SEBI (Alternative Investment Funds) Regulations, 2012 through the SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2026. The circular provides the operational modalities to bring the GARUDA mechanism into effect. Prior to the amendment, launch of Large Value Fund for Accredited Investors **("LVFs")** required filing of a Private Placement Memorandum **("PPM")** through a merchant banker, and imposed other due diligence and disclosure requirements. Scheme could only be launched after 30 days from application.

The circular altogether replaces Paragraphs 2.4, 2.5 and 21.4.4 of the SEBI Master Circular for AIFs dated June 03, 2026 **("Master Circular")** and inserts Paragraph 2.7 adding new definitions. AIFs can now launch their scheme after 10 days from the filing of the application with SEBI. The due diligence and other obligations of the merchant banker have also been clarified in the amended Paragraph 2.4. Additionally, the application of Paragraph 2.5 now also extends to Accredited Investor-only funds, LVFs and Angel Funds as compared to the earlier provision, which applied only to LVF schemes. Accredited Investor-only funds and LVFs can now launch their scheme immediately after filing of PPM with SEBI. Angel Funds can proceed post circulating PPM to their investors.

The enactment of the GARUDA mechanism will significantly reduce the waiting time for the launch of schemes. It also reduces a lot of procedural burden and consequently brings much ease of doing business to the market. By permitting Accredited Investor-only funds and LVFs to launch immediately upon PPM filing, and Angel Funds upon circulation, the framework reduces transaction costs and accelerates capital deployment, while retaining merchant banker due diligence safeguards.

SEBI proposes the introduction of Fixed Income Channel Partners ("FICPs") for the distribution of fixed income securities. [LINK]

SEBI has released a consultation paper proposing a new category of distributors called FICPs. They would be enlisted with stock exchanges and appointed by Online Bond Platform Providers **("OBPPs")** to sell fixed income securities to investors. The framework is modelled on the existing Mutual Fund Distributor **("MFD")** system, and aims to bring more retail investors from Tier II, Tier III, and rural areas into the bond market.

Before this proposal, investors could only buy fixed income securities directly through OBPPs, with no distributor involved. This model worked well for tech-savvy urban investors. In this demographic, trades on the Request for Quote platform jumped from 2.76 lakh in FY25 to 17.84 lakh in FY26. However, it left a gap in reaching investors outside big cities, who usually need someone to explain products in person and build trust before investing.

Under the proposed framework, to be eligible for becoming an FICP, the individual must be an Indian citizen, at least 18 years old, and hold a valid National Institute of Securities Markets certification for fixed income securities. Mutual fund distributors already registered with Association of Mutual Funds in India can become FICPs without paying any enlistment fee, provided they clear this certification. Enlistment would remain valid for three years.

Once enlisted, an FICP can approach any OBPP for appointment, and may work with more than one OBPP at a time. FICPs may assist investors with onboarding and paperwork, but cannot handle client money or securities at any stage. All orders must be routed directly through the OBPP. OBPPs would be held responsible for the conduct of every FICP they appoint, including any resulting losses to investors. FICPs would be paid only by the OBPP, through a share of commission, capped at 2.5% of the investment amount. They are barred from offering FICPs gifts or other perks.

The adoption of this FICP model is expected to enhance retail participation in the corporate bonds market since it addresses the issue of access and lack of trust for investors not located in metropolitan centres. By adapting the MFD model while prohibiting handling of client assets and capping commissions, SEBI seeks to expand distribution without materially compromising investor protection.

SEBI proposes to replace the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 ("Settlement Regulations") with the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2026 ("Draft Regulations"). [Link]

Currently, settlement proceedings are governed by the Settlement Regulations, which provide the framework for applicants to settle proceedings initiated by SEBI. SEBI has now issued a consultation paper proposing the Draft Regulations, which seek to replace the Settlement Regulations.

This proposed change has come in response to growing concerns regarding the consistency of settlement amounts under the existing regime. In particular, the absence of sufficiently objective criteria for determining settlement amounts raised concerns regarding their proportionality, with proposed settlement amounts in cases where settlement failed averaging nearly eight times the eventual penalty.

Under the Draft Regulations, SEBI proposes to introduce a more structured basis for determining settlement amounts. The proposed framework links the base settlement amount to a minimum statutory penalty, subject to specified conditions, while also accounting for the nature of the applicant. It further proposes that the "count of default" be determined by the underlying default rather than merely by the number of statutory provisions or transactions involved, thereby reducing the possibility of disproportionate settlement amounts.

Further, the Draft Regulations propose to remove wrongful gains and investor losses from the calculation of the base settlement amount. Instead, these would be addressed separately through disgorgement and non-monetary terms, preventing the same factor from being reflected both in the settlement amount and in the amount required to be disgorged. The Draft Regulations also broaden the scope of matters capable of settlement, including matters involving significant investor or market harm where such harm can be addressed through monetary or non-monetary terms.

The proposed amendments introduce objectivity and proportionality into SEBI's settlement framework. By linking settlement amounts to statutory penalties, redefining defaults, and separately addressing wrongful gains and investor losses, the new framework could significantly reduce inconsistent or excessive settlement demands while broadening the scope for settlement of complex matters.

The Supreme Court ("SC") held that trading in securities while in possession of Unpublished Price Sensitive Information ("UPSI") gives rise to a presumption that the trade was motivated by such information, regardless of motive or profit/loss. [*Securities and Exchange Board of India ("SEBI") v. Rajeev Vasant Seth & Ors.*] [Link]

The SC has recently ruled that the mere possession of UPSI coupled with trading is sufficient to create a presumption under Regulation 4(1) of the SEBI (Prohibition of Insider Trading) Regulations, 2015 ("2015 Regulations") that such information influenced the transaction. Though the reasons for trading and use of proceeds are irrelevant. The court has therefore placed emphasis on trading during the UPSI period, not the trader's justifications for it.

The position under the SEBI (Prohibition of Insider Trading) Regulations, 1992 was far more flexible. While it prohibited dealing on the basis of UPSI, it did not carry the specific clarification now attached to Regulation 4(1) of the 2015 Regulations. The absence of such a provision permitted courts and tribunals to probe the substantive nature of a transaction more deeply and allowed an insider to explain a trade by reference to commercial compulsion or the absence of any profit.

Now, the court has clarified that the reason for such a presumption is because UPSI provides an insider with an informational advantage over other investors. This information is not yet publicly available but could nonetheless affect the price of a company's securities once it becomes known. Trading while possessing such information creates an informational imbalance between the insider and other market participants, regardless of whether the insider ultimately benefits from such a trade.

The SC also clarified the scope regarding disgorgement under Section 11B of the SEBI Act, 1992. SEBI may now issue directions to any person to disgorge all unlawful gains as well as any loss incurred while undertaking any transaction in contravention of the Act or Rules. Therefore, absence of profit does not indicate lack of liability.

In conclusion, the ruling makes insider-trading liability more objective, reducing the relevance of a trader's subjective intent. In practice, insiders must now maintain stronger compliance safeguards, as trading during a UPSI period may trigger the statutory presumption and shift the evidentiary burden onto them.

The ruling further materially raises the compliance burden for the corporate sector. Promoters, directors and senior management cannot justify trading while in possession of UPSI merely on grounds of financial distress, restructuring or corporate rescue. Companies must therefore strengthen trading plans, pre-clearance mechanisms, information barriers and disclosure controls. While the decision promotes market integrity, it may constrain urgent fundraising, as even loss-avoiding transactions could invite regulatory action, disgorgement and penalties.

TAXATION LAW



Parliament amends the Payment and Settlement Systems Act, 2007, the Income-tax Act, 2025, and the Finance Act, 2026 through the Taxation and Other Laws (Amendment) Act, 2026. [Link]

On August 17 2026, the President gave assent to the Taxation and Other Laws (Amendment) Act, 2026 ("Amendment Act"), a Money Bill amending the Payment and Settlement Systems Act, 2007 ("PSS Act"), the Income-Tax Act, 2025 ("IT Act"), and the Finance Act, 2026. Though it is technical, the changes incorporated are important for offshore investors, electronics manufacturers, and diamond traders, and it shows where the government wants to direct growth over the next decade.

Under the PSS Act, the electronic payment modes recognised under section 10A were tied to those prescribed under section 269SU of the old Income-tax Act, 1961, which created restrictions compelling Parliament to step in with fresh legislation every time new technology emerged. The IT Act was similarly restrictive on the investment side, as offshore funds working with India-based fund managers had only a narrow route under Schedule I to avoid being treated as carrying on business in India.

Moreover, the tax incentive for contract manufacturing of electronics was set to lapse in 2030-31. The IT Act, in turn, offered no dedicated exemption to Foreign Institutional Investors ("FIIs"), the Bank for International Settlements ("BIS"), or foreign companies in the rough diamond trade or bonded warehouse storage.

The Amendment Act now lets the Central Government notify new electronic payment modes directly under the PSS Act. It also substitutes Schedule I of the IT Act, clarifying that an offshore fund will not be treated as carrying on business in India so long as it meets conditions such as treaty-country or notified-jurisdiction residency, a 5% cap on Indian investor participation, no control or management of business in India, and use of an independent, properly registered fund manager whose profit share stays within 20%.

The IT Act's Schedule IV, which lists these exempt-income categories, sees changes of its own. The contract manufacturing incentive for goods like mobile phones, laptops and wearables is pushed out by a decade, from 2030-31 to 2040-41.

Alongside this, new exemptions are introduced for interest and capital gains earned by FIIs and the BIS on government securities, for foreign companies engaged in selling rough diamonds in specified special zones; and for storage of electronic parts in bonded warehouses, running through tax year ending 31st March 2041.

In conclusion, these changes indicate an approach embedded in the long-term perspective on taxation and payment policies, with the process finally starting to depart from strict technological provisions. By giving companies, a sense of certainty regarding measures applied to them, they can start planning and organising their work. Nevertheless, the transfer of responsibility affects offshore funds, producers of electronic devices, and diamond companies, since these entities will now have to deal with the new rules and exemptions, check their existing schemes, and ensure they file on time.

The SC upholds the requirement that a supplier must pay tax for buyer to claim Input Tax Credit ("ITC") under Section 16(2)(c) of the Central Goods and Services Tax Act, 2017 ("CGST Act"). [*Bhandari Scrap Traders v Union of India*] [Link]

In this case, the SC dismissed the petitions and upheld the Gujarat High Court's judgment in *Maruti Enterprise v. Union of India*. It held that the Delhi Value Added Tax (VAT) Act, 2004 ("Delhi VAT Act") and the CGST Act run on different schemes, so ITC reasoning under one cannot simply be carried over to the other.

Section 16(2)(c) of the CGST Act sets one of the conditions a buyer must clear before claiming ITC. It says credit is available only once the tax charged on a purchase has actually reached the government, whether paid in cash or set off through the supplier's own ledger. Put simply, if a seller collects Goods and Services Tax ("GST") from a buyer but never deposits it, the buyer's credit stays blocked until that gap is closed.

Section 9(2)(g) of the Delhi VAT Act also denied credit to buyers whenever their seller skipped payment. The Delhi High Court read down that provision in *Arise India Ltd. v. Commissioner of Trade & Taxes,* holding that honest buyers shouldn't pay for a seller's default, and the SC upheld the same on 10 January, 2018. When GST brought in an almost identical bar, taxpayers expected the same logic to apply. High Courts have since split, with Tripura's ruling in *Sahil Enterprises v. Union of India* ("Sahil Enterprises") favouring buyers while Gujarat took a stricter line.

In the present case, the SC referred to Sections 41, 73 and 74 of the CGST Act, which let a buyer re-avail reversed credit once the supplier eventually pays up, as evidence that GST law already has a built-in fix. Finding no ground to strike down or read down Section 16(2)(c), the Court affirmed its validity.

The ruling makes clear that a buyer's lack of fault does not by itself protect its ITC claim. Due diligence now has to extend to picking suppliers who will actually deposit the tax they collect. Expect tighter GSTR-2A/2B reconciliation, closer vendor checks, and contract clauses that push the loss back onto a defaulting seller. The split with Tripura's pro-buyer view in Sahil Enterprises hasn't gone away, so this may not be the last word on Section 16(2)(c). Litigation on the point is likely to continue until a larger bench steps in.

The SC clarifies that extended limitation under Section 74 of the CGST Act cannot be invoked without foundational facts of fraud or suppression [*M/s Tata Steel Ltd. v. Union of India*] [Link]

The SC has recently clarified that extended limitation periods under Section 74 of the CGST Act cannot be invoked mechanically without detailing specific foundational facts of fraud, wilful misstatement or suppression in the Show Cause Notice ("SCN").

Historically, the tax assessment determination in the case of absence of fraudulent intentions was governed by the three-year time limit as per Section 73 of the CGST Act commencing from the date of filing of annual returns. However, the consequential procedural delays, coupled with several extensions, along with the exclusion of the COVID-19 pandemic period as directed by the SC, pushed the respective normal limitation dates for Financial Years 2018-19 through 2020-21, to 28th February, 2025.

In order to overcome these expiring deadlines, the authorities initiated five-year limitation notices under Section 74, based on unverified audit objections, transferring the unresolved files to call books or issuing non-statutory "protective demands" which resulted in ambiguity for the taxpayers.

Resolving these issues in the present case, the SC held that, in order to issue a Section 74 SCN, the Assessing Officer is required to first individually required to be personally satisfied with respect to the allegations of fraud or suppression, as opposed to relying on the objections pending before the Comptroller and Auditor General ("CAG") audit. The Bench invalidated the SCN and subsequent Order-in-Original, clarifying that protective assessments are alien to the GST regime and Explanation 2 under Section 74 cannot be applied retrospectively.

This decision protects assesses from arbitrary and time-barred GST demands. Revenue authorities will no longer be able to issue Section 74 SCNs or use protective demands to cover administrative delays in normal limitation periods under Section 73. In future, GST officers will have to independently establish and state facts of deliberate evasion of tax in the body of the SCN itself in order to seek extended recovery.

MISCELLANEOUS



The International Financial Services Centre Authority ("IFSCA") releases consultation paper on the secondary listing of exchange-traded funds ("ETFs") in the International Financial Services Centre ("IFSC"). [Link]

On August 27, the IFSCA released a consultation paper, proposing a framework whereby a registered fund manager can secondary list its ETFs on a recognized stock exchange in the IFSC.

Earlier, Regulation 114 in Chapter VII of the IFSCA (Fund Management) Regulations, 2025 ("FM Regulations") provided that an ETF listed in a foreign jurisdiction or in India outside the IFSC could list itself on a stock exchange in the IFSC. However, for such listing, the fund had to be brought by a Fund Management Entity ("FME") listed with the IFSCA.

The paper proposes to forego the requirement of fund managers registering themselves as FME with the IFSCA. The proposal follows from the rationale that registration as an FME solely to list an existing fund is not proportionate to the activity involved. The secondary listed ETFs continue to be regulated and managed in their home jurisdiction, leaving little reason for IFSCA registration. The paper also proposes the eligibility criteria of the ETF manager, appointment of a representative for secondary listing, additional disclosure requirements, and the delisting mechanism.

Therefore, the consultation paper offers a welcome change in the market by offering investors' access to global ETFs under a unified regulator. Such an amendment will also allow for more trading participants and volumes in IFSCA, along with diversifying their product profiles. By aligning the management ecosystem with other globally renowned frameworks, it offers a chance for Indian investors to seek exposure to foreign markets and vice versa.

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