

Date: 13th January 2022

The Chief General Manager,
Integrated Surveillance Department,
The Securities Exchange Board of India,
SEBI Bhavan, Plot No. C4-A, G Block,
Bandra Kurla Complex, Bandra (E),
Mumbai - 400 051.

Subject: Request Letter for an Interpretative Letter under the Securities Exchange Board of India (Informal Guidance) Scheme, 2003 (SEBI Informal Guidance Scheme)

Ref: Securities Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations)

Dear Sir/Madam,

This is to request an interpretative letter under paragraph 5(ii) of the SEBI (Informal Guidance) 2003 (the Scheme) to interpret PIT Regulations as mentioned in the captioned mater on the basis of submissions below.

1. BACKGROUND

- a. YES BANK, is a high quality, customer centric and service driven Bank. Since inception in 2004, YES BANK has grown into a 'Full Service Commercial Bank' providing a complete range of products, services and technology driven digital offerings, catering to corporate, MSME & retail customers. YES BANK operates its Investment Banking, Merchant Banking & Brokerage businesses through YES Securities (India) Limited, wholly owned subsidiary of the Bank.
- b. YES Bank Limited (YBL) has adopted a referral model for doing business of Alternate Investment Funds (AIFs) wherein YBL Customers are referred to AIF AMCs signed up with YBL and commission is passed on to the Bank basis the agreed commission structure with AIF AMC.

2. FACTS

- a. The employees (including their immediate relatives) of the Bank may choose to invest their funds in security market through Alternate Investment Fund service offered by the Bank.

- b. As per the Internal Code of Conduct (the Code) formulated in terms of the PIT Regulations certain employees of the Bank, have been categorized as Designated Persons (DP). The said Code cast certain Compliances and Obligations requirements on the DP.
- c. In terms of Regulation 4 of the PIT Regulations, the Designated Person are not permitted to trade in securities of the Bank and other listed companies while in possession of Unpublished Price Sensitive Information (UPSI).
- d. Investments made by the Fund Manager in AIF schemes on behalf of the Investor (including the DP and their immediate relatives as Investor) may include investments in the companies whose UPSI is with the Bank and in turn with the DP. However, the Investor has no direct/indirect control or influence over the investment making decisions of Fund Manager. Further, the DPs in any manner are not allowed to communicate any form of UPSI available with them with the Fund Manager, which can influence the investment decision of Fund Manager.

3. ALTERNATE INVESTMENT FUND

i) MEANING AND CATEGORIES:

Alternative Investment Fund or AIF means any fund established or incorporated in India which is a privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.

As per Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 there are 3 categories of AIF as given below:

(a) "**Category I Alternative Investment Fund**" which invests in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable and shall include venture capital funds, SME Funds, social venture funds, infrastructure funds and such other Alternative Investment Funds as may be specified;

Explanation – For the purpose of this clause, Alternative Investment Funds which are generally perceived to have positive spillover effects on economy and for which the Board or Government of India or other regulators in India might consider providing incentives or concessions shall be included and such funds which are formed as trusts or companies shall be construed as "venture capital company" or "venture capital fund" as specified under sub-section (23FB) of Section 10 of the Income Tax Act, 1961.

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(b) “Category II Alternative Investment Fund” which does not fall in Category I and III and which does not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in these regulations;

Explanation – For the purpose of this clause, Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator shall be included.

(c) “Category III Alternative Investment Fund” which employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives.

Explanation – For the purpose of this clause, Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator shall be included.

AIF does not include funds covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities.

ii) ALTERNATE INVESTMENT FUND AKIN TO MUTUAL FUND:

Particulars	Alternative Investment Fund	Mutual Fund
Security/Unit	Units are allocated to the Investor.	Units are allocated to the Investor.
Approach	Pooling of funds is the main essence of this kind of investment model.	Pooling of funds is the main essence of this kind of investment model.
Regulated by	They are regulated by SEBI (Alternative Investment Funds) Regulations 2012.	They are regulated by SEBI (Mutual Funds) Regulations 1996.
Types	AIF have three categories depending upon their investment objectives (defined earlier):	Mutual Funds are divided into five broad categories:
	- Category I	- Equity Schemes
	- Category II	- Debt Schemes



	- Category III	- Hybrid Schemes
		- Solution Oriented Schemes
		- Other Schemes
Use of Leverage	As per the SEBI Circular, leverage allowed by Category III AIFs is limited to two times the "NAV" of such Category III AIF (on netted basis).	At no point in time the derivative position shall result, even for a few moments on an intra-day basis, in actual or potential leverage or short sale / short position on any underlying security.
	As per SEBI Regulations, category I and II AIFs cannot invest more than 25% on the investable funds in any one investee company. For Category III AIFs, this is capped at 10%.	<p>Diversification norms for equity funds: As per SEBI, the investment in equity shares or equity-related securities of a single company must not exceed 10% of the net assets of the scheme. In case of unlisted securities, the restriction is more stringent. For open-ended funds, investment in unlisted securities should not exceed 5% of the net assets.</p> <p>Diversification norms for debt funds: SEBI restricts the investment in rated investment grade debt instruments issued by a single issuer to 15% of the net assets of the scheme. The limit can be extended to 20% with the prior approval of trustees and board of AMCs. In the case of unrated debt instruments, the schemes are permitted to invest up to 10% of their net assets in schemes of a single issuer.</p>
Minimum Investment	Every investor is required to make a minimum investment of Rs. 1 Crore.	Investor can invest in select mutual funds with as low as Rs. 100 per month via SIP or minimum lumpsum investment ranges from Rs. 1,000 to Rs. 5,000.



Liquidity	AIFs being close ended except for Category III, which can be closed ended or open ended in nature. Closed ended AIFs are least liquid compared to MFs and PMS.	Lock-in period of maximum 5 years if invested in solution-oriented schemes and lock-in period of maximum 3 years if invested in ELSS. For rest all mutual funds there is no lock- in period.
NAV Declaration	Category III AIFs shall ensure that calculation of the NAV is independent from the fund management function of the AIF and such NAV shall be disclosed to the investors at intervals not longer than a quarter for close ended Funds and at intervals not longer than a month for open ended funds.	The NAV per unit of all mutual fund schemes must be updated on AMFI website and the Mutual Funds' website by 11 p.m. of the same day. Fund of Funds are allowed time till 10 a.m. the following business day to update the information.
Number of Investors	No of investors for every scheme or fund shall not exceed 1000.	No upper limit
Segregation of Funds	Segregation of funds is not allowed.	Yes, in Debt Funds. The term 'segregated portfolio' shall mean a portfolio, comprising of debt or money market instrument affected by a credit event, that has been segregated in a mutual fund scheme.
Sponsor/Manager Contribution	<p>Sponsor/Manager are required to have some continuing interest in AIF.</p> <p>In case of Category I and II AIFs, it should be 2.5% of corpus or 5 Crore rupees whichever is less.</p> <p>Category III AIFs, it should be 5% of corpus or 10 Crore rupees whichever is less.</p>	The sponsor makes an application for registration of the mutual fund and contributes at least 40% of the net worth of the AMC. In other words, every MF needs a sponsor before it can commence operations.



Listing on Exchange	Units of close ended Alternative Investment Fund may be listed on stock exchange subject to a minimum tradable lot of one crore rupees. Such listing shall be permitted only after final close of the fund or scheme. However, listing on stock Exchanges is purely voluntary.	SEBI registered mutual funds are listed and available for trading in the capital market segment of the Exchange.
Tenure	Category-I and II AIFs have a minimum tenure of 3 years and a maximum of 5 years. The minimum term is extended when two-thirds of investors by value approve it. Category-III funds have no minimum tenure.	Open Ended MFs does not have any tenure. Closed ended funds can have.
Returns Profile	High to Very High	Low to High
Risk Profile	High to Very High	Low to High
Investor Relevance	HNIs & UHNIs	Retail & HNIs
Customization	Not available	Not available
Drawdown of funds	Available	Not available

- iii) Alternative Investment Funds (AIFs) are an attractive investment option for High-Net-Worth Individuals (HNWI) with a minimum ticket size of INR 1 crore. One of the primary goals of AIF investment is to reduce risk through portfolio diversification. AIFs have features which may help in providing customized solutions on various asset classes such as Unlisted Equity, Listed Equity, Real Estate, Derivatives etc. These AIFs are run by professionals with subject matter expertise.

Most of large Wealth outfits and Private Sectors Banks such as ICICI Bank, HDFC Bank, Citibank, IIFL, Barclays, Kotak Mahindra Bank, Edelweiss Wealth, ASK Wealth, etc. distribute these products. The investment in these products is typically 5-to-7-year period which helps in long term wealth creation.



4. PROPOSED TRANSACTION / QUERIES / CLARIFICATION

1. *Whether the units allotted under AIF scheme are covered under the definition of Securities for the purpose of PIT Regulations?*
2. *Whether the employees of the Bank covered as Designated Persons and their immediate relatives in terms of PIT Regulations are allowed to invest in AIF (Category I, II & III)?*

5. LEGAL FRAMEWORK - PROVISIONS UNDER THE PIT REGULATIONS

Relevant provisions of the PIT Regulations are reproduced herein below:

- a. *2 (i) "securities" shall have the meaning assigned to it under the Securities Contracts (Regulation) Act, 1956 (42 of 1956) or any modification thereof except units of a mutual fund.*
- b. *4 (1) No insider shall trade in securities that are listed or proposed to be listed on a stock exchange when in possession of unpublished price sensitive information.*
- c. *9 (2) The board of directors or head(s) of the organization, of every other person who is required to handle unpublished price sensitive information in the course of business operations shall formulate a code of conduct to regulate, monitor and report trading by their designated persons and immediate relative of designated persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule C to these regulations, without diluting the provisions of these regulations in any manner.*
- d. *Minimum Standards for Code of Conduct for Listed Companies to Regulate, Monitor and Report Trading by Designated Persons in schedule C of PIT Regulations lays down the following:*
 3. *Designated persons and immediate relatives of designated persons in the organisation shall be governed by an internal code of conduct governing dealing in securities.*
 4. *Designated persons may execute trades subject to compliance with these regulations. Trading by designated persons shall be subject to pre- clearance by the compliance officer(s) if the value of the proposed trades is above such thresholds as the board of directors or head(s) of the organisation may stipulate.*
 5. *The compliance officer shall confidentially maintain a list of such securities as a "restricted list" which shall be used as the basis for approving or rejecting applications for pre-clearance of trades.*

6. OUR REQUEST FOR GUIDANCE

We request you to kindly issue an interpretive letter with your guidance on the aforesaid queries in accordance with the SEBI Informal Guidance Scheme 2003. In the event you require any further clarifications or information, we request you to kindly inform us accordingly.



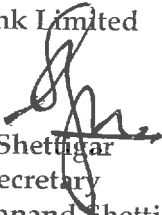
7. FEES

We enclose herewith Demand Draft of Rs. 25,000/- dated 12th January 2022 bearing number 582257 drawn on YES Bank Limited, favoring "Securities and Exchange Board of India", payable at Mumbai towards fees for the informal guidance.

Thanking you,

Yours faithfully,

For YES Bank Limited


Shivanand Shettigar
Company Secretary
Email: Shivanand.Shettigar@yesbank.in

