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DRAFT DPDP RULES: A COMPREHENSIVE OVERVIEW

The Ministry of Electronics and Information Technology ("MeitY") has introduced draft Digital Personal Data Protection Rules, 2025 ("Rules") under Section 40 of the Digital Personal Data Protection Act, 2023 ("Act"), marking a significant milestone in India's efforts to establish a robust framework for data privacy and security. Published on January 3, 2025, the draft rules invited public feedback until February 18, 2025. The draft Rules provided detailed guidelines on data protection responsibilities for data fiduciaries (entities processing personal data) and also detailed the rights of data principals (individuals whose data is being processed).

Here's an analysis of the key provisions of the Rules.

Obligations of Data Fiduciaries

Data fiduciaries are required to provide clear, accessible notices to Data Principals detailing the nature and purpose of data collection and must ensure ease of consent withdrawal. To ensure accountability, the Draft Rules introduce the concept of Consent Managers, entities tasked with verifying and managing individual consent. These Consent Managers must adhere to strict guidelines or risk penalties, including suspension of operations. Rule 5 provides for cases involving personal data processing by government entities, such as activities permitted for delivering benefits, subsidies, and services, provided they adhere to the standards specified in the Second Schedule of the Rules.

On the security front, data fiduciaries are mandated to implement robust safeguards, including encryption, access controls, and mechanisms to detect and address data breaches. According to Rule 7, in case of a breach, fiduciaries must notify affected individuals promptly, providing details of the breach, potential risks, and mitigation measures.

Additionally, data fiduciaries must inform the data protection board within 72 hours of becoming aware of the breach.

Subsequent Obligations of Significant Data Fiduciaries

Under Rule 12 of the draft Rules, entities classified as 'Significant Data Fiduciaries' are required to adhere to additional responsibilities. These fiduciaries must conduct a Data Protection Impact Assessment and an audit annually, starting from the date of their classification. The findings from these assessments and audits must be reported to the Data Protection Board, highlighting significant observations to ensure compliance with the Act and its rules. Furthermore, these fiduciaries are obligated to exercise due diligence in verifying that any algorithmic software they use for handling personal data does not pose risks to the rights of data principals. These measures aim to strengthen accountability and mitigate potential harms associated with advanced data processing technologies.

Note- The term Significant Data Fiduciaries is defined under section 2(z) of the Act as any data fiduciary or class of data fiduciaries as may be notified by the Central Government under section 10 of the Act.

Data Processing of Children and Persons with Disability

Section 9 of the Act, read with Rule 10 of the draft Rules, puts an obligation on data fiduciaries to obtain the consent of the parent of the child before processing any personal data of a child. The Rules also require data fiduciaries to establish measures that verify the individual giving consent for a child's data processing is the child's parent or legal guardian and ensure that the parent or guardian can be reliably identified.

The illustration under Rule 10 of the draft Rules obliges data fiduciaries to verify that the parent is an adult by using reliable identity details or a virtual token mapped to such details. This verification process is introduced to ensure consent from a responsible adult parent.

Similarly, data fiduciaries need to obtain consent from a lawful guardian of a person with a disability. The draft Rules specify that when a data fiduciary seeks verifiable consent from an individual claiming to be the lawful guardian of a person with a disability, the fiduciary must exercise due diligence to confirm the guardian's legal status. This includes verifying that the guardian has been appointed by a court of law, a designated authority, or a local-level committee, as per the applicable laws governing guardianship.

Exemption for processing children's data

The draft Rules provide certain exemptions for processing children's personal data under specific circumstances. According to Rule 11, the provisions outlined in sub-sections (1) and (3) of Section 9 of the Act do not apply to certain classes of data fiduciaries as specified in part A of the fourth schedule, subject to prescribed conditions. Similarly, exemptions are granted for processing children's data for purposes detailed in part B of the fourth schedule, provided the associated conditions are met.

Note- Section 9 of the Act regulates the processing of personal data of children.

Processing of Personal Data outside India

Rule 14 of the draft Rules addresses transferring personal data processed by a data fiduciary to countries or territories outside India. It applies to data processed within India or concerning goods or services offered to data principals in India.

The rule stipulates that such transfers are subject to restrictions and requirements specified by the Central Government. These requirements, issued through general or special orders, ensure that personal data is shared only with foreign states, entities, or agencies under conditions that align with India's data protection framework.

Conclusion

The draft Rules under the Act represent a significant move towards enhancing data privacy and security in India. These rules provide detailed guidelines for data fiduciaries, outlining their responsibilities regarding transparency, consent management, and maintaining strong security measures. There are also specific provisions for significant data fiduciaries, the processing of data related to children and persons with disabilities, and the transfer of data across borders, all of which strengthen the framework. These draft Rules show the Government's dedication to protecting personal data and ensuring that all entities managing such data do so responsibly. As the consultation continues, the final rules will likely significantly impact shaping the nation's data protection framework.



About the Authors

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EFFECT OF ARTIFICIAL INTELLIGENCE IN LEGAL RESEARCH AND ITS PERSPECTIVE IN LEGAL PROFESSION

Known for its complexity and excessive amounts of paperwork, the legal profession in India is undergoing a significant transformation as a result of the introduction of artificial intelligence (AI)[1]. The field of law has been disrupted as a result of the crucial changes induced by AI across a range of industries. Legal practitioners are presented with both opportunities and challenges as a result of the inclination and inculcation of AI technologies in traditional methods of legal study. An increasing number of legal businesses are incorporating AI capabilities into their operations to enhance the efficacy, precision, and decision-making processes.

How is AI currently being used in the Legal field?

There are several fields that have profited from the use of AI, including legal research and practice. Legal research often involves skimming through vast volumes of data, which is usually an exhausting and time-consuming process. Doing legal research using technologies powered by AI enables one to swiftly evaluate and analyze legal texts, discover relevant case laws and precedents, and deliver insights in a time-efficient manner.

Pros of Application of AI in Legal Research

According to a Thomson Reuters Law Blog [2], a majority of legal professionals, accounting for almost 77% of the total practitioners do believe that the intelligent application of AI would considerably increase their work efficiency in the next five years. Subsequently, considering the analysis of an article published by Bloomberg Law [3], AI is capable of enhancing the quality of legal research by aiding attorneys in rapidly sifting through enormous quantities of case law and delivering more helpful summaries of that information, which in turn will help improve the standards of legal research. The use of AI to automate repetitive tasks has the potential to cut operational expenditures, which in turn enables legal practitioners/organizations to work more effectively.

Intelligent Collaboration with AI Technology at its core

The partnership between AI-led Technology Platforms and prominent law firms highlights the legal fraternity's commitment to leveraging advanced technology, including generative AI into their day-to-day operations. AI-powered tools not only enhance the firm's capability to train, adopt and develop practical use cases but also offer a distinctive blend of speed and adaptability features that set them apart from many other organizational tools and solutions.

The leading full-service law firm, based in India, has announced its partnership with an artificial intelligence-powered legal technology platform. Through continuous and regular use of these tools, the law firms' goal is to revolutionize the legal profession by enhancing company effectiveness, automating routine tasks, and freeing up professionals to focus on more important matters.

Cons of Artificial Intelligence in Legal Research

It is a plausible possibility that AI systems would reinforce preconceptions that already exist in their training data, and are capable of bringing up ethical dilemmas. According to the findings of an investigation conducted by the University of Oxford, AI lawtech is causing changes to conventional operational processes and is likely to raise problems in regard to ethical utilization of data. [4]

Privacy concerns surrounding data in the realm of AI underscore the importance of securing confidential information. Mishandling such sensitive client data can compromise the integrity and performance, leading to significant risks and leaks. In reference to an article published by the Economic Times, there is an urgent need for law firms to tackle emerging challenges like cyber crimes and other complex risks associated with artificial intelligence. [5]

AI has swiftly carved a significant niche within the legal industry with AI-powered tools becoming indispensable for various core legal functions. These cutting-edge technologies are revolutionizing tasks such as drafting and intelligent management of legal documents, conducting comprehensive case law searches, and summarizing complex judgments. However, their integration into high-stakes legal matters raises legitimate concerns. The reliance on large language models, which form the backbone of these tools, is not without risks, chief among them being the phenomenon of “hallucination”, where the AI generates misleading or inaccurate information. This inherent limitation underscores the need for caution and judicious use of AI in the legal profession, particularly in contexts where precision and reliability are paramount.

Over the past few years, several legal research providers have championed approaches like retrieval-argument generation (RAG) for their claimed ability to mitigate or eliminate hallucinations in AI-driven tools. However, the closed and proprietary nature of these systems makes it difficult to independently evaluate such assertions, raising questions about the extent to which these claims hold true in practice. [6]

A number of practicing legal professionals have expressed concerns over the reliability of AI-powered devices. They are cautious about allowing AI to handle more sophisticated tasks like answering consumer inquiries or synthesizing legal concepts, despite witnessing the time-saving aspect of document review and analysis. It is difficult to decipher and track the decision-making process of AI, which is occasionally obscured by the “black box” conundrum. It becomes difficult to assume accountability in these situations. Who is at fault — the firm that implemented the tool, the lawyer who employed it, or the creator of the AI system?

The distribution of accountability is further impacted by the opacity of working methods employed by AI, particularly when court decisions deviate from accepted standards. [7]

General Impact of the Adoption of AI Technology

Rapid evolution of AI raises questions alongside advantages. AI is set to revolutionize how legal research is conducted as well as perceived, offering a combination of hope and fear, witnessed in the case of the growth of the internet and subsequently social media. It is likely that the first wave of change in the legal profession through the usage of AI will be brought about by clients, particularly those who are business-oriented and knowledgeable about technology, due to potential savings in terms of both money and time. Despite this positive feedback, the legal profession is known for its cautious nature. Lawyers are expected to navigate their way between ethical, fiduciary, and legal contexts. The reluctance to accept AI technology in the current legal domain highlights the urgent need for careful consideration of both the disadvantages and the benefits of AI technology in the legal domain. [8]

Reduced demand for assistance employees and junior associates/lawyers will be one of the direct effects of AI integration. Conventionally, these duties have been handled in a repetitive, monotonous, and administrative manner by human counterparts. The good news is that junior associates/lawyers may now concentrate on higher-level work, therefore, molding and enabling them for quicker professional development. This change also implies increased competition for fewer entry-level positions. Offering courses on the efficacious use of AI tools and technology can help law students/graduates.

Graduates with AI literacy will stand out from their colleagues as companies respect associates who can successfully work with AI technologies more and more.

AI Technology is here to stay, and rejecting it will simply limit professional development over time. But it is also necessary to acknowledge that human touch in an artificially intelligent environment is inevitable. Lawyers who interact with AI and are well-versed with its usage will set themselves up to flourish in the new AI-driven legal landscape. Artificial intelligence cannot replace the complex decision-making process employed by the human brain that characterizes the legal profession, even if it may simplify work and provide insightful analysis. The attorneys capable of working with AI alongside their own strategic thinking will be the ones to excel in this new age. [9]

Law firms are looking for tech-savvy graduates and are also ready to modify their hiring practices with AI-themed examinations to measure applicants' technology knowledge. The University of Oxford also stresses the rise of "T-shaped lawyers," who combine technology mastery with great legal knowledge. [10]

Conclusion

Significant concerns over the industry's future are brought up by the developing involvement of AI in legal research and the legal profession in general. AI has the ability to completely transform conventional methods by improving accessibility, accuracy, and efficiency, but it also presents operational, ethical, and professional issues that need careful consideration. [11]

These questions highlight the necessity of incorporating AI into legal practice with caution and sensitivity.

The responsibility for developing frameworks that encourage the ethical use of AI while educating the next generation of legal professionals falls not just on law companies but also on academic institutions, legislators, and developers. Adopting AI and modifying it to supplement human expertise without undermining the ethical and professional foundations of the judicial system may be the biggest difficulty.

The future is dynamic, ambiguous, and subject to interpretation. It is neither wholly hopeful nor pessimistic. The nexus between AI and law challenges us to think creatively, pose challenging queries, and create avenues that uphold the fundamental principles of the field while welcoming advancement.

End-Notes:

[1] Alarie, Benjamin and Niblett, Anthony and Yoon, Albert, *How Artificial Intelligence Will Affect the Practice of Law* (November 7, 2017).

[2] Sarah Strumberger, "[How AI Is Transforming the Legal Profession \(2025\) | Legal Blog](#)" (Thomson Reuters Law Blog, January 17, 2025).

[3] Law B, "[How Is AI Changing the Legal Profession?](#)" (Bloomberg Law, December 23, 2024).

[4] Díaz-Rodríguez N and others, "[Connecting the Dots in Trustworthy Artificial Intelligence: From AI Principles, Ethics, and Key Requirements to Responsible AI Systems and Regulation](#)" (2023) 99 Information Fusion 101896.

[5] Online E, "[AI and Privacy: The Privacy Concerns Surrounding AI, Its Potential Impact on Personal Data](#)" The Economic Times (April 25, 2023).

[6] Magesh V and others, "[Hallucination-Free? Assessing the Reliability of Leading AI Legal Research Tools](#)" (arXiv.org, May 30, 2024).

[7] Aditi Prabhu and Aditi Prabhu, "[Artificial Intelligence in the Context of the Indian Legal Profession and Judicial System](#)" (Bar And Bench - Indian Legal News, August 12, 2023).

[8] West DM and Allen JR, "[How Artificial Intelligence Is Transforming the World](#)" Brookings (April 24, 2018).

[9] Borna and Glaser, "[AI: The New Legal Powerhouse — Why Lawyers Should Befriend the Machine to Stay Ahead](#)" (2024) 1.

[10] Parnham, R., Sako, M. and Armour, J. (2021). *AI-assisted lawtech: its impact on law firms*. Oxford: University of Oxford. December 2021.

[11] Biresaw SM and Saste AU, "[The Impacts of Artificial Intelligence on Research in the Legal Profession](#)" (2022) 5 International Journal of Law and Society 53.

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LEGACY SNIPPETS: COUNTRY UPDATES

Draft Competition Commission of India (Determination of Cost of Production) Regulations, 2025

- The Competition Commission of India in a remarkable move has proposed to reform the methodology for determining production costs in predatory pricing cases. Predatory pricing is an anti-competitive mechanism in which a producer/manufacturer reduces the pricing of the product too low in an attempt to eliminate competitors and then increases it once their dominance is established in the market.
- To reform the methodology for identifying and quantifying such practices, the Commission has proposed to include 'modernized cost benchmarks' that are 'structured to align with contemporary economic theories, judicial interpretations, and global competition standards'.



Image available [here](#).

RBI's Notifications for Micro-Finance Loans

- In February 2025, the Reserve Bank of India published two key Notifications seeking to revise the risk weightage for certain types of loans.
- While vide Notification No. RBI/2024-25/119DOR.CRE.REC.63/21.06.001/2024-25, the risk weight for microfinance loans was reduced from 125% to 100%, vide Notification No. RBI/2024-25/120DOR.STR.REC.61/21.06.001/2024-25, the risk weights for loans to the NBFCs rated A and above, were reduced by over 25%.



Rights of a Homebuyer in cases where possession of property is delayed

- In March 2025, the Hon'ble Supreme Court, in the case of The Chief Officer Nagpur Housing and Area Development Board (A MHADA Unit) & Ors. vs. Manohar Burde (S.L.P. (C) 3802/2024), held that homebuyers cannot be compelled to take possession of properties after considerable delays, and that they shall be entitled to be refunded in such cases.

Limited Scope of Interference under Section 37 of the Arbitration Act

- In the recent case of C.C. Constructions Ltd vs Ircon International Ltd (C.A. 6657/2023), the Hon'ble Supreme Court reiterated the narrow scope of judicial interference in Arbitral Awards and held that,

"The limited and extremely circumscribed jurisdiction of the court under Section 34 of the Act, permits the court to interfere with an award, sans the grounds of patent illegality i.e. that "illegality must go to the root of the matter and cannot be of a trivial nature"; and that the Tribunal "must decide in accordance with the terms of the contract, but if an arbitrator construes a term of the contract in a reasonable manner, it will not mean that the award can be set aside on this ground" The other ground would be denial of natural justice. In appeal, Section 37 of the Act grants narrower scope to the appellate court to review the findings in an award, if it has been upheld, or substantially upheld under Section 34."

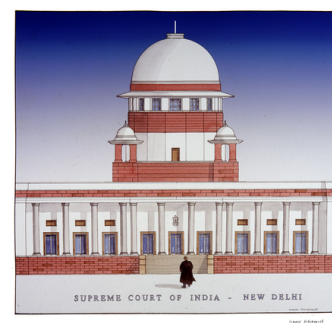


Image available [here](#).

THE EVOLVING ROLE OF AIFs AS QUALIFIED INSTITUTIONAL BUYERS (QIBs) IN INDIA'S CAPITAL MARKETS

Alternative Investment Funds (AIFs) in India represent a distinct and rapidly expanding segment of the nation's financial landscape. These funds are privately pooled and cater to sophisticated investors, both domestic and international. AIFs operate under established investment policies devised to generate profits for their investors. While the AIF sector in India is still in its nascent stages, it has demonstrated remarkable growth and evolution since its inception.

The goal is to prevent investors from bypassing the compliance regulations set forth by various financial sector regulators/regulations in India. These practices include preventing investors from accessing benefits meant specifically for Qualified Institutional Buyers (QIBs) and Qualified Buyers (QBs) under the SARFAESI Act, 2002, with another restriction applicable to residents or entities from countries that share a land border with India. Additionally, it aims to restrict RBI-regulated lenders and entities from ever-greening their stressed loans or assets.

If a scheme's proposed investment does not pass the prescribed due diligence checks prescribed for QIBs, QBs, or the ever-greening of stressed loans, as outlined in the Securities & Exchange Board of India (SEBI) Circular [1], the investment should not proceed. Alternatively, the investor or related group of investors must be excluded from the investment [2], and any such exclusion must be properly disclosed in the Private Placement Memorandum (PPM).

SEBI's Classification and Regulation in Relation to AIFs

SEBI has introduced a three-category classification system for AIFs to structure the wide range of investment strategies in the AIF sector. Category I AIFs focus on investments that

are socially or economically beneficial, such as start-ups, small and medium-sized enterprises (SMEs), and infrastructure projects. This category includes venture capital funds, social impact funds, and infrastructure funds. Category II AIFs cover funds that do not fit into Category I or III and generally do not use leverage, except for operational purposes. These include private equity and debt funds. Category III AIFs engage in complex trading strategies and may use leverage, including hedge funds and Private Investment in Public Equity (PIPE) funds, which can invest in both listed and unlisted derivatives.

This classification system enables a diverse range of investment strategies within the AIF framework, reflecting the dynamic nature of India's financial landscape. By accommodating various investor preferences and market opportunities, SEBI's intelligent classification helps distribute capital across different sectors of the economy. As the AIF sector grows, it is expected to play a larger role in capital allocation across India's financial market.

However, with the maturity of the AIF sector, SEBI has identified certain regulatory challenges. SEBI has observed instances of potential misuse of AIFs to circumvent existing financial regulations. Further recognizing the need to balance fostering a thriving investment environment while ensuring compliance, SEBI has pinpointed areas that need closer attention. SEBI is focusing more on maintaining the integrity of the AIF sector by introducing targeted measures and safeguards to prevent the misuse of AIFs. By addressing these concerns, SEBI aims to eliminate malpractices without disrupting compliant AIFs, in line with its broader efforts to promote the sector's growth while ensuring the AIFs adhere to the compliance regulatory framework. [3]

The Reserve Bank of India (RBI) has already addressed concerns regarding the evergreening of loans by prescribing provisions for overlapping investments made by AIFs in their debtor entities. Subsequently, new requirements introduced by SEBI may be seen as overarching in light of the RBI's prior actions. SEBI's new standards target several areas, focusing on investors using AIFs to obtain benefits designated for QIBs, which they would otherwise be ineligible for.

Current Scenario

Over the past decade, AIFs have transitioned from being niche players to becoming significant contributors in India's capital markets. The industry has experienced substantial expansion, with the number of AIFs registered with the Securities Exchange Board of India (SEBI) increasing from 42 in March 31, 2013, to more than 1,500 as of September 01, 2024, an approximate 35-fold increase in just over a decade. This significant growth highlights the promising interest in alternative investments within India's financial ecosystem.

As of March 31, 2024, the cumulative net investments made by AIFs reached an impressive ₹4 lakh crore (approximately \$48 billion), demonstrating significant growth from ₹2 lakh crore in March 2021. [4] This represents a doubling of investments over three years, emphasizing the crucial role of AIFs in channelling capital into various sectors of the Indian economy, particularly in small and medium enterprises (SMEs).

According to recent statistics, investment trends within the AIF categories reveal notable developments. Category I AIFs, which encompass venture capital and SME funds, exhibited robust growth, with an investment totality of ₹40,000 crore as of March 2024. A considerable share of

this investment was allocated to early-stage and growth-stage companies within the SME sector. Meanwhile, Category II AIFs, which mainly include private equity and debt funds, maintained their dominance with investments totalling ₹3 lakh crore. Category III AIFs, featuring hedge funds, contributed ₹1 lakh crore.

Future Outlook

AIFs have emerged as a crucial component of India's financial ecosystem over the past decade. A key factor in the growing influence of AIFs has been their status as Qualified Institutional Buyers (QIBs), which has allowed them to participate more actively in India's primary and secondary markets.

A QIB, as defined by SEBI, is an institutional investor considered to be more knowledgeable about investment practices compared to retail investors. Under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, all SEBI-registered AIFs are recognized as QIBs. This status allows AIFs to participate in various primary market issuances, including Initial Public Offerings (IPOs) and Follow-on Public Offerings (FPOs) on both the main board and the SME platform. [5]

Their status as QIBs has been instrumental in the allocation of institutional capital into smaller, growing companies. This trend has seen remarkable growth, as evidenced by the latest data released by the SEBI for the quarter ending March 31, 2024.

AIFs consider investing via QIB status due to the strategic advantages and regulatory benefits it offers. As QIBs, AIFs gain preferential access to various primary market issuances. This status allows AIFs to secure significant allocations in these offerings, often at favourable terms, providing them with early entry into potentially high-growth opportunities.

The QIB designation also entails reduced compliance burdens and streamlined investment processes, enhancing operational efficiency. Furthermore, the involvement of AIFs as QIBs in public issuances boosts market confidence, given their reputation for thorough due diligence and professional management. This credibility can lead to a more favourable reception of the IPO or FPO by the broader market, potentially increasing the value of AIF investments. Additionally, the regulatory framework governing QIB investments includes provisions that support long-term engagement with investee companies, aligning with the strategic investment horizons typical of AIFs.

A significant aspect of AIFs participating as QIBs is their potential role as anchor investors in IPOs. Anchor investors are institutional investors who are offered shares in an IPO before the public offering to stabilize and build confidence in the IPO. As anchor investors, AIFs can enjoy several benefits, such as allocation of up to 60% of the portion available for QIB allocation and confirmed allotment a day before the IPO opens for public subscription. This early commitment not only stabilizes the offering but also provides a foundation of trusted, stable investments that can attract further interest from other investors. For AIFs, being anchor investors allows them to negotiate better terms and secure allocations in high-demand IPOs, giving them early access to promising investment opportunities. Their participation signals confidence in the offering, which can boost the overall perception and performance of the IPO. [6]

This strategic role not only strengthens the investment portfolio of AIFs but also reinforces their reputation as influential and trusted market participants. Several other flexibilities and benefits are provided to QIBs under the ICDR

Regulations which are availed by AIFs, such as issues made through the book-building process under Regulation 6(1) up to 50% shall be allocated to QIBs, issues made through the book-building process under Regulation 6(2) at least 75% shall be allocated to QIBs. In addition to this, QIBs are also exempt from the 200-investor limit stipulated in the Companies Act, 2013, for private placements, offering greater flexibility in structuring such offerings. Furthermore, post-listing, companies can conduct “qualified institutions placements” targeting QIBs on a private placement basis, providing a streamlined avenue for additional capital raising. These provisions collectively enhance the appeal of QIBs as a capital source.

Regulatory Concerns

Given two-way benefits, SEBI is now considering a significant overhaul of the QIB status for AIFs, which could have far-reaching implications for both the SME and mainboard exchanges.

SEBI has prompted apprehensions regarding potential regulatory arbitrage via its consultation paper released on May 19, 2023. Specifically, the paper highlighted certain AIFs, whose investors are either from the same family or investor group, or consist of a limited number of investors that have been participating in IPOs under the QIB quota. This practice raised concerns as it potentially circumvented the norms pertaining to QIBs under ICDR Regulations, allowing entities that may not otherwise be eligible for QIB status to avail themselves of the associated flexibilities.

In order to tackle this circumvention, SEBI, in its consultation paper, had recommended mandating that AIFs with 50% or more contribution from a single investor or investors belonging to the same group should not be entitled to avail benefits designated for QIBs.

This move is driven by the diverse nature of AIFs and their investors, with some AIFs potentially including retail investors or those with lower investment thresholds. [7]

Further developments came on January 19, 2024, when SEBI released a consultation paper aimed at enhancing trust in the AIF ecosystem. SEBI emphasized that QIBs are generally considered large, regulated, sophisticated, and informed institutional investors, expected to possess the expertise to evaluate, invest, and manage financial risks, as well as contribute to price discovery for IPOs and FPOs, reiterating their concern that certain entities were accessing QIB benefits without actually qualifying as QIBs.

Recognizing the necessity of the situation, SEBI moved swiftly and on April 25, 2024, it approved these recommendations and amended the AIF Regulations. The proposed measure was inserted as the new "Regulation 20" in the AIF Regulations, 2012. This amendment aims to ensure that AIFs, their managers, and key personnel conduct thorough checks on both their investors and investments, preventing any circumvention of SEBI's rules and maintaining the integrity of the QIB category. Additionally, SEBI plans to frame principles that will guide the development of specific and verifiable due diligence standards for AIF stakeholders.

These regulatory changes reflect SEBI's ongoing efforts to balance the benefits of institutional investment on the SME exchange and the mainboard exchange with the need to maintain market integrity. By addressing potential loopholes and strengthening due diligence requirements, SEBI aims to ensure that the QIB status is utilized as intended, ultimately fostering a more robust and transparent investment ecosystem. [8]

Conclusion

Despite these concerns, it's essential to recognize that the scrutiny applies to a small fraction of the market players, and SEBI is aware of the broader positive impact of AIFs. The ongoing contemplation by SEBI reflects a balanced approach, aiming to nurture the growth of this burgeoning sector while addressing specific malpractices. This deliberation indicates SEBI's cautious stance, acknowledging the substantial capital that AIFs as QIBs bring to the market without unduly penalizing the entire sector for the actions of a few.

As SEBI continues to refine these regulations, the potential for AIFs to continue contributing to India's economic growth remains healthy. The regulatory framework is evolving to bolster investor confidence and ensure that the market operates with increased transparency and fairness. For AIFs and other market participants, staying agile and informed about these regulatory changes will be key to navigating this dynamic environment and leveraging opportunities in India's promising capital markets.

These changes have the potential to reshape the AIF industry and alter the funding ecosystem for SMEs and other market participants on their designated exchanges. AIFs will potentially need to adjust their strategies and prepare for a new era of more stringent qualifications for utilising the QIB status. The outcome of these regulatory shifts will likely shape the future of institutional investment in India's SME and mainboard listing sector, potentially leading to a more equitable and efficient capital market.



[Image available here.](#)

End-Notes:

- [1] Circular No.: SEBI/HO/AFD/AFD-POD-1/P/CIR/2024/135, dated October 8, 2024, "[Specific due diligence of investors and investments of AIFs.](#)"
- [2] Roopal Bajaj, Vibhor Agarwal, [AIFs As Qualified Institutional Buyers \(QIBs\) And Their Impact On Capital Markets](#), (last accessed February 26, 2025).
- [3] SEBI FAQs on [SEBI \(Alternative Investment Funds\) Regulations, 2012](#).
- [4] SEBI Published '[Data relating to activities of Alternative Investment Funds \(AIFs\)](#)' (last accessed February 26, 2025).
- [5] Mohit Mittal, [AIFs and QIB Status: What SEBI's New Due Diligence Rules Mean for Fund Managers and Investors](#) (Last accessed on 26th February, 2025).
- [6] Khushboo Tiwari, [Alternative investment fund route to obtain 'QIB' status may get tough](#) (Last accessed on 27th February, 2025).
- [7] Roopal Bajaj & Vibhor Agarwal, [AIFs As Qualified Institutional Buyers \(QIBs\) And Their Impact On Capital Markets](#), Mondaq, September 11, 2024.
- [8] Argus Partners, [SEBI Notification: Amendments To SEBI \(Alternative Investment Funds\) Regulations, 2012](#) (last accessed on 27th February, 2025).

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The article has been authored by the Capital Markets Client Service Group at Legacy Law Offices LLP, Delhi. Their details are available [here](#).

Alternative Investment Funds (AIFs)

All you need to know!



[Image available here,](#)

LEGACY SNIPPETS: FIRM UPDATES

Mr Gagan Anand, Managing Partner, paid a visit to Georgia in the month of March 2025, where he had the pleasure of meeting Ms Nino Tsaturova and Mr Irakli Khergiani.

Ms Tsaturova is the Head of Legal & Director at Intelligent Solution LLC, and a distinguished member of the FIDIC President's List of Approved Dispute Adjudicators, while Mr Khergiani is the President of the Association of Consulting Engineers Georgia and a Member of the FIDIC Membership Committee.



In the month of March 2025, our Senior Partner-cum-Chair Dispute Resolution, Ms Sadiqua Fatma, alongwith our Partner, Ms Tanvi Kakar, had the pleasure of acting as judges for the 5th Moot Court Competition, organized by the School of Law, CHRIST (Deemed to be University), in Delhi. This participation reflects the continued efforts of Legacy Law Offices LLP to engage in thought leadership and knowledge imparting initiatives to support the growth of law and the legal domain.



AN OVERVIEW OF 2025 CIRCULARS CONCERNING CAPITAL MARKETS

- **SEBI Circular Regarding Reporting of Differential Rights by AIFs date March 3, 2025:** The Securities Exchange Board of India (SEBI) introduced one time reporting obligation for Alternative Investment Funds (AIFs) who filed their Private Placement Memorandum (PPM) on or before March 1, 2020 and have differential rights inconsistent with the prescribed standards formulated by Standard setting forum for AIFs. As per the SEBI Circular dated December 13, 2024, AIFs were expected to comply with these obligations by February 28, 2025. However, the deadline has been extended to March 31, 2025 following the industry feedback.
- **Circular F. No. IFSCA-IF-10PR/1/2023-Capital Markets/6 dated February 20, 2025:** The International Financial Services Centres Authority (IFSCA) issued a circular detailing the procedure for the appointment and change of Key Managerial Personnel (KMPs) by Fund Management Entities (FMEs) operating within International Financial Services Centres (IFSCs), in accordance with Regulation 7 of the IFSCA (Fund Management) Regulations, 2025.
 - FMEs are required to appoint KMPs who meet the prescribed eligibility criteria for qualifications and experience. Any new appointment or change requires prior intimation to IFSCA in the prescribed format along with the applicable fee. The Authority will provide observations, if any, within seven (7) working days, which must be addressed before moving forward.
 - To maintain operational continuity, FMEs are required to have a structured succession plan. In case of vacancy, they must identify a suitable candidate and notify IFSCA within three (3) months and fill the position within six (6) months of the previous KMP's resignation.
 - The circular, issued under Sections 12 & 13 of the IFSCA Act, 2019, and Regulations 7 & 146 of the IFSCA (Fund Management) Regulations, 2025, is effective immediately.
- **SEBI Circular on Minimum Information for Related Party Transactions (RPTs) dated February 14, 2025:** Effective from April 1, 2025, the Securities and Exchange Board of India (SEBI) mandates listed companies to follow new Industry Standards when providing crucial information to their Audit Committees and shareholders pertaining to Related Party Transactions (RPTs). This requirement aligns with Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and is based on a Master Circular issued on November 11, 2024.
 - The Industry Standards Forum (ISF), which includes representatives of three Industry Standard Forums, namely, ASSOCHAM, CII, and FICCI, collaborated with SEBI to formulate these standards to ensure consistent compliance across the industry. These standards will be accessible on stock exchange websites for further reference.
 - Under this new directive, listed companies must present information that aligns with Industry Standards during Audit Committee reviews and when obtaining shareholder approvals. This includes necessary disclosures in the explanatory statements as specified in the Companies Act, 2013. Stock exchanges will be responsible for monitoring compliance with this Circular, which is issued under the SEBI Act, 1992. This initiative of SEBI will further improve transparency and safeguard the interests of all stakeholders involved.

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India's Top 100 Law Firm List Inclusion

Legacy Law Offices LLP is proud to have been included in the list of **Top 100 Law Firms of India**, published by the esteemed ReSight India Journal. (commonly known as **RSGI**). This list was compiled by the agency after evaluating the submissions of more than 500 law firms, whereafter Legacy's name was included on the basis of outstanding feedback from clients and in-house legal teams of various companies.



Chambers & Partners Global 2025

We are thrilled to share that **Mr. Gagan Anand** has been yet again recognized in **Chambers and Partners Global 2025** for his exceptional contribution to the Projects, Infrastructure, and Energy practice area. Being one of just 38 lawyers ranked across India, this recognition is a testament to his expertise and standing in the field.



Legal 500 Asia-Pacific 2025

We are delighted to announce that **Legacy Law Offices LLP** has been recognized in the **Projects and Energy practice area** by the **Legal 500 Asia Pacific 2025 Rankings**. The rankings reflect the immense expertise held by the lawyers of the Firm in handling work on various national and international projects. In addition to the Firm rankings, **Mr. Gagan Anand**, **Ms. Shalini Munjal**, and **Mr. Amarendra Gogoi** have also been recognized as 'Recommended Lawyers' for their outstanding contributions to the field.

Masterclass on New Compliance Requirements for Related Party Transactions (RPTs)

Mr. Pradyun Chakravarty, Principal Associate Advocate and two Associate Advocates of the Capital Markets team recently attended a Masterclass on New Compliance Requirements for Related Party Transactions (RPTs). **Ms Yogita Jadhav**, CGM, SEBI, addressed the participants. The Masterclass provided participants with detailed insights and guidance on RPT compliances under SEBI LODR Regulations, 2015, as per recently issued Industry Standards on '*Minimum information to be provided for Review of Audit Committee and Shareholders for Approval of RPT*', which has introduced many additional requirements.

FIDIC's Member Visit to India

In March 2025, members of the **Fédération Internationale Des Ingénieurs-Conseils** (International Federation of Consulting Engineers) visited India for a meet and greet with the Indian FIDIC Member Association, Consulting Engineers Association of India (CEAI). **Mr. Gagan Anand**, in his capacity as the Vice-Chair of the FIDIC Contracts Committee, and **Ms Vandana Randhawa**, in her capacity as a Member of the Governing Council of CEAI, actively participated in the various networking and interactive sessions with the other Members. Discussions surrounded the use and potential of FIDIC Contracts in India.



SEBI'S ADVISORY ON SPECIAL RIGHTS FOR PRE-IPO INVESTOR AND ITS SUBSEQUENT ROLL-BACK

On May 29, 2024, Securities Exchange Board of India ("SEBI") issued a 31-point advisory ("advisory") to Merchant Bankers ("MB") asking them to provide additional disclosures, in order to expedite the process between filing of Draft Red Hearing Prospectus ("DRHP") and listing of shares on stock exchanges. The advisory also required the companies which intend to go public to cancel any 'special rights' available to any shareholders before filing the Updated Draft Red Hearing Prospectus ("UDRHP"). However, within a month, SEBI withdrew this advisory following concerns raised by the Private Equity ("PE") investors and investment bankers.

According to the SEBI (Issue of Capital Disclosure Requirements) Regulations, 2018 ("ICDR Regulations"), all equity shares offered in an IPO shall rank *pari-passu* with the existing shares of the issuer company. These regulations ensure that all the Post-IPO shareholders have equal footing with the Pre-IPO shareholders. To comply with this directive, the legal counsel or the MB advises the issuer company to amend the existing parts of the Articles of Association ("AoA"), the Shareholder Agreements ("SHA") or any other agreements, which provide special rights to the pre-IPO investors.

The Pre-Advisory Landscape

Before the aforementioned advisory, agreements which conferred special rights to the shareholders were amended in such a manner that they automatically fell away upon the listing of the issuer company's shares.[1] If the listing didn't take place, the special rights of such shareholders remain intact. The intention of SEBI was clear: all the shareholders should rank *pari passu* with each other, ensuring no undue advantage for pre-IPO shareholders.

Regarding observations on DRHPs submitted up to June 2023, SEBI acknowledged that 'special rights' would automatically cease upon the listing of equity shares, without the need for additional steps. The following are examples of observations issued by SEBI on offer documents filed prior to June 2023, which demonstrate the regulator's intent:

(i.) *"LM is advised to specifically mention in the RHP that all special rights available to the Shareholders will cease to exist upon listing of Equity Shares on Stock Exchanges pursuant to the Offer, (without requiring any further action) except for rights subject to approval of the Shareholders by way of a special resolution, in a general meeting post listing of the Equity Shares."*[2]

(ii.) *"LM is advised that it is categorically disclosed in the DRHP under section "History and Certain Corporate Matters" of the offer document that none of the special rights available to the Promoters / Shareholders (except for nominee/nomination rights and information rights) would survive post listing of the Equity Shares of the Company and same shall cease to exist or shall expire/waived off immediately before or on the date shares are allotted to public shareholders in IPO, without requiring any further action."*[3]

The above-mentioned arrangement was generally seen as a win-win situation for both the regulator and investors holding special rights. However, concerns arose when pre-IPO investors, with special rights, such as information rights, were deterring the IPO or trying to influence the issuer company on IPO pricing. This was particularly prevalent in the recent IPO of new-age tech companies and companies whose IPO came under regulation 6(2) of the ICDR Regulations, where pre-IPO investors exited at exorbitant profits, leaving the post-IPO investors to deal with a dramatic price decline.

Advisory and its Impact

The advisory instructed MBs involved in IPOs to ensure that shareholders with special rights in companies planning an IPO must forfeit those rights from the company's contractual and charter documents before submitting the UDRHP to SEBI. This was not an abrupt change in SEBI's stance on special rights but rather a continuation of a trend that began in June 2023, when SEBI advised MBs to instruct issuer companies to terminate special rights at the time of filing the RHP, rather than waiting until the listing date. The regulator's objective was to ensure that no shareholder retained superior rights once the company went public.

However, the timing of the termination of special rights became a point of contention between the regulator and the holders of these rights, as it can take four to six weeks to complete an IPO after receiving SEBI's approval.[4] Additionally, there is a possibility that the IPO may not materialize at all due to prevailing market conditions or other unforeseen circumstances. In such a scenario, investors with substantial capital at stake would be left without protective rights, exposing them to the decisions of the promoters and the board of directors. Further, once the special rights are removed from the company's contractual and charter documents, reinstating them is not straightforward for minority shareholders. [5]

This dissatisfaction led to representations from minority investors with special rights, prompting SEBI to roll back this requirement in an email communication to the Association of Investment Bankers of India ("AIBI"). The rollback allowed these special rights to fall away at the time of listing, rather than earlier. [6]

From a corporate governance perspective, the early termination of special rights may not be

beneficial for minority shareholders, as these rights offer checks and balances on management decisions, ensuring that significant corporate actions are carefully reviewed and align with the broader interests of all the shareholders.

Conclusion

SEBI's decision to reverse its advisory was welcomed by market experts, as the advisory was seen as potentially causing more harm than good to investors. The rollback also highlighted confusion among the members of the regulator itself. The investor community would appreciate it if such decisions are brought in through amendments to regulations as opposed to advisory issued mail, since for changes in regulations, SEBI typically follows a prior public consultative process. Further, if SEBI revisits this issue again in future, agreements leading to the termination of special rights should include a long stop date, ensuring that if the IPO does not occur by the specified date, the shareholder's special rights would automatically be reinstated.

End Notes:

[1] Mythri Murali, Fair Shares: Stripping Away Special Rights for Private Equity, *The Indian Review of Corporate and Commercial Law* (July 2024).

[2] SEBI advisory on cancellation of special rights under AOA or SHA before filing of UDRHP, *Lex Familia India* (June 2024).

[3] *Id.*

[4] Ashley Coutinho, SEBI rolls back diktat to end special rights before IPO, *The Business Line* (June 2024).

[5] Subhasish Pamegam, Crossroad of Exit Uncertainties for PE Investors in India: SEBI's Directive on Special Rights, *The Indian Review of Corporate and Commercial Law* (Nov. 2024).

[6] *Id.* at 2.

About the Authors

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