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Reserve Bank of India vide notification dated September 15, 2025, has provided Master Direction on Regulation of Payment Aggregator (PA)

- The circular consolidates and updates the regulatory framework for Payment Aggregators (PAs), which are entities that facilitate online payments. It introduces a new, streamlined system for their supervision and governance.
- **Analysis:**
 - ❖ Key features of the new framework include:
 - **New PA Categories:** PAs are now classified into three categories: PA-Online (PA-O) for digital transactions, PA-Physical (PA-P) for in-person payments, and PA-Cross Border (PA-CB) for foreign exchange transactions.
 - **Certificate of Authorisation (CoA):** All non-bank PAs are now required to obtain a Certificate of Authorisation from the RBI. The circular specifies capital requirements and a deadline for existing PAs to apply for this new authorization.
 - **Enhanced Business and Risk Management:** The guidelines detail strict rules for business conduct, including procedures for dispute management, security, and risk management to protect both customers and merchants.
 - **Mandatory KYC:** PAs must adhere to strict Know Your Customer (KYC) and due diligence procedures for their merchants, including retrieving records from the Central KYC Records Registry (CKYCR) and conducting background checks.
 - ❖ The new regulations affect a wide range of entities and professions in the financial and e-commerce sectors:
 - **Payment Aggregators:** This includes all bank and non-bank entities that handle digital and physical payment transactions.
 - **E-commerce and Fintech Industries:** The new rules will have a direct impact on online marketplaces, digital wallets, and other financial



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technology companies that rely on payment aggregation services.

- **Merchants:** Businesses that accept online or in-person payments through PAs will be subject to new, more rigorous KYC and due diligence checks.

➤ The notification is attached herein.

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Securities and Exchange Board of India vide circular dated September 19, 2025, has established a framework for a Social Stock Exchange (SSE)

- The Securities and Exchange Board of India (SEBI) has established a framework for a Social Stock Exchange (SSE), which is a new platform to help social enterprises raise funds.
- **Analysis:**
 - ❖ The key features of the latest circulars include:
 - **Expanded Eligibility:** SEBI has widened the definition of eligible Not-for-Profit Organizations (NPOs) to include more charitable trusts, societies, and Section 8 companies, allowing more entities to raise funds through the SSE.
 - **Enhanced Reporting:** All social enterprises raising funds via the SSE are now required to submit an Annual Impact Report (AIR) that details their social impact and use of funds. This report must be assessed by certified Social Impact Assessors.
 - ❖ The SEBI framework impacts a variety of organizations and professions involved in the social sector and capital markets:
 - **Not-for-Profit Organizations (NPOs):** This is a major impact, as the new framework gives them a structured way to raise capital from the market for their social projects.
 - **For-Profit Social Enterprises:** Businesses that have a primary social objective can also list and raise funds on the SSE.



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- **Investors:** Retail investors and institutional investors now have a formal platform to invest in social causes, with the minimum investment for Zero Coupon Zero Principal Instruments (ZCZPIs) lowered to be more accessible.
 - **Social Impact Assessors:** A new professional category has been formalized to evaluate and report on the social impact created by organizations listed on the SSE.
- The circular is attached herein.

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Securities and Exchange Board of India vide circular dated September 19, 2025, has provided ease of doing investment for smooth transmission of securities from Nominee to Legal Heir

- The Securities and Exchange Board of India (SEBI) has simplified the process of transferring securities from a nominee to a legal heir. The new guideline introduces a specific reporting code to prevent unnecessary tax liabilities and streamline the process.
- **Analysis:**
- ❖ Key Highlights are:
 - **New Reporting Code:** SEBI has introduced a new standard reason code, "TLH" (Transmission to Legal Heirs). This code must be used by reporting entities when transmitting securities from a nominee to a legal heir.
 - **Tax Exemption:** The new code ensures that these transmissions are not incorrectly treated as "transfers" or "sales" and are therefore not subject to capital gains tax. This aligns the reporting process with the Income Tax Act, 1961, which already exempts such transmissions.
 - **Effective Date:** The new reporting code becomes effective from January 1, 2026.



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- ❖ The SEBI framework impacts a variety of organizations and professions involved in the social sector and capital markets:
 - **Investors/Security Holders:** This circular directly impacts individuals who hold dematerialized (demat) securities, mutual funds, or physical shares and have appointed a nominee.
 - **Nominees:** The primary beneficiaries of this change are the nominees of a deceased investor. They will no longer face the hassle of paying capital gains tax and then having to apply for a refund.
 - **Financial Professionals and Institutions:** This includes Registrars to an Issue and Share Transfer Agents (RTAs), listed companies, depositories, and depository participants. These entities are required to update their systems to use the new "TLH" code.
- The circular is attached herein.

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Equity Investment Through Commercial MoU Not Operational Debt: NCLT Hyderabad

The National Company Law Tribunal (NCLT), Hyderabad Bench, comprising Mr. Rajee Bhardwaj (Judicial Member) and Mr. Sanjay Puri (Technical Member), has ruled that an equity investment made under a commercial memorandum of understanding (MoU), even with a clause for conditional repayment, does not fall within the ambit of *operational debt* under the Insolvency and Bankruptcy Code, 2016 (IBC).

The application before the Tribunal was filed under Section 9 read with Rule 6 of the IBC, seeking commencement of corporate insolvency resolution proceedings (CIRP) against the corporate debtor for an alleged default of ₹2.75 crore.

As per the facts, the applicant entered into an MoU with the respondent, agreeing to invest in the company in exchange for shares as security. Pursuant to this arrangement, the applicant invested ₹1 crore, for which 20 lakh equity shares of ₹5 each were allotted. Upon default, the applicant sold the shares, recovering ₹57.29 lakh. According to the MoU, the respondent was to repay the shortfall with interest. Later, on 30.06.2023, a second MoU was executed, acknowledging liability of ₹2.75 crore. When repayment did not materialize, the applicant issued a demand notice.



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The respondent opposed the petition, arguing that the husband of the applicant had already filed a claim as a financial creditor based on the same transaction, and this application was an attempt to re-litigate the matter under the garb of operational debt. It was contended that the claim essentially arose out of losses from sale of shares, which cannot be treated as *operational debt* under Section 5(21) of the IBC. Reliance was placed on *Pioneer Urban Land and Infrastructure Ltd. & Anr. v. Union of India & Ors.*, (2019) 8 SCC 416, wherein the Supreme Court clarified that the IBC is not intended as a forum for recovery of disputed claims or civil/contractual disputes.

The respondent further argued that once equity shares were allotted pursuant to the MoU, no debt obligation subsisted. Since equity is neither a loan under Section 5(8) nor an operational liability under Section 5(21), the claim was outside the IBC framework. The loss suffered on resale of shares, it submitted, was an inherent investment risk.

The Tribunal, agreeing with these submissions, held that the applicant's investment was clearly towards equity subscription and not in exchange for goods or services. By a plain reading of Section 5(21), such claims cannot be treated as *operational debt*. The Bench emphasized that the inclusion of a refund clause does not change the fundamental nature of an equity investment.

Citing *Anuj Jain, IRP v. Axis Bank Ltd.*, (2020) 8 SCC 401, the Bench reiterated that mere commercial investment with conditional repayment does not qualify as operational debt. It further observed that the second MoU amounted to novation under Section 62 of the Indian Contract Act, 1872, thereby substituting prior obligations. Breach of such substituted obligations would not automatically confer the status of operational debt under the IBC.

The Tribunal concluded that insolvency proceedings cannot be used as a substitute for recovery proceedings and directed that such disputes should instead be resolved before civil courts or arbitral forums. Consequently, the petition was dismissed as being devoid of merit.

Case Title: *Neeta Zanvar v. Filatex Fashions Ltd*

Case No.: C.P. (IB) No. 30/9/HDB/2024

HP High Court: Closure of Partnership Business Till Dissolution Cannot Be Granted as Interim Relief Under Section 9 of A&C Act

The Himachal Pradesh High Court, presided over by Justice Jyotsna Rewal Dua, has held that an interim relief application under Section 9 of the Arbitration and Conciliation Act, 1996 ("ACA") seeking the closure of partnership business operations cannot be entertained when the core dispute itself relates to the functioning of that partnership. The



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Court clarified that granting such relief would destroy the subject matter of arbitration, defeating the purpose of Section 9.

Facts of the Case

The petition was filed under Section 9 of the ACA by Nitin Gupta (Petitioner) seeking an order restraining the Respondent, Arpit Aggarwal, from continuing the business of *M/s Vidhyasha Pharmaceuticals* until final adjudication of arbitration proceedings. The reliefs sought included suspension of production activities and freezing of the firm's bank accounts.

The partnership was originally formed in June 2014 between Sh. Parkash Chand Bansal, the Petitioner, and the Respondent. Following Bansal's retirement in January 2015, the Petitioner and Respondent became equal partners in the reconstituted firm engaged in pharmaceutical manufacturing and related services.

Disputes arose between the partners, and on 26 May 2025, the Petitioner issued a dissolution notice under Section 43 of the Partnership Act. According to him, the partnership stood dissolved on publication of the notice, and the Respondent could not legally continue business operations thereafter.

Contentions of the Parties

The Petitioner argued that once the partnership stood dissolved, business activities should be wound up. He urged the Court to halt production, freeze accounts, and restrain the Respondent from carrying on the business, citing judicial precedents that a partner cannot continue day-to-day business post-dissolution.

The Respondent opposed the petition, contending that no prima facie case for dissolution had been established. He argued that closure of business would cause irreparable harm not only to the partnership but also to over 100 employees dependent on it. Freezing operations would also disrupt licenses, certifications, and goodwill, leading to irreversible damage.

Court's Observations

The Court reiterated that the object of Section 9 of the ACA is to protect the subject matter of arbitration, not to destroy it. Interim relief cannot take the form of reliefs that would undermine the arbitral process itself.

Upon examining the Partnership Deed, the Court noted that while Clause 10 described the firm as a partnership "at will," Clause 8 specifically restricted either partner from transferring or disposing of their share without written consent of the other. Whether the general "at will" provision prevailed over this contractual bar was a question for the arbitral tribunal, not for the Court to decide at this stage.



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The Court also applied the three-point test for interim relief—prima facie case, balance of convenience, and irreparable injury. While the existence of a prima facie case was acknowledged, the other two factors weighed against the Petitioner. The Court noted that closure of the business would affect over 120 employees, jeopardize 1100+ regulatory approvals and licenses, block payment of statutory dues and salaries, and cause permanent damage to goodwill and clientele.

Decision

Holding that the relief sought would virtually paralyze the partnership firm and amount to destruction rather than preservation of the subject matter of arbitration, the Court dismissed the petition. It left the Petitioner free to approach the arbitral tribunal for appropriate remedies.

Case Title: *Nitin Gupta v. Arpit Aggarwal*

Case No.: Arb. Case No. 116 of 2025

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