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SEBI IN ITS BOARD MEETING APPROVES PROPOSALS FOR SIMPLIFYING DISCLOSURE REQUIREMENTS IN THE INDIAN BOND MARKET

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The Securities and Exchange Board of India (SEBI) in its board meeting dated 30 April 2024 (Board Meeting) has approved a series of proposals to ease disclosures under various regulations *inter alia*, the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (SEBI NCS Regulations) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations).

Key highlights of the Board Meeting:

1. **Issuance of non-convertible debentures (NCDs) and non-convertible redeemable preference shares (NCRPS) on private placement basis, at a reduced face value**

   SEBI has given its approval for a proposal to provide the issuers an option to issue NCDs and NCRPS on private placement basis at a reduced face value of INR 10,000 (Indian Rupees Ten Thousand) subject to appointment of a merchant banker for such issuances. While the NCDs and NCRPS in such issuances are required to be plain vanilla and interest/dividend-bearing instruments, however, credit enhancements have also been permitted for such instruments. Currently, the regulations prescribe face value of INR 1,00,000 (Indian Rupees One Lakh) for issuance of NCDs and NCRPS and INR 1,00,00,000 (Indian Rupees One Crore) in relation to issuance of perpetual debt instruments and other instruments forming part of non-equity regulatory capital. Further, currently there is no requirement to appoint a merchant banker for such issuances on private placement basis. It appears that the SEBI has approved this change with an intention to increase the participation of non-institutional investors in the Indian bond market. Further, this change will also aid the investors and issuers in structuring the partial redemption (whether in the form of quantity redemption or face value redemption) due to lower face value.

2. **Disclosure of audited financials via web links and QR codes in disclosure document**

   SEBI has approved the proposal allowing issuers (having outstanding listed NCDs or NCRPS on the date of disclosure document) to disclose audited financials for the last three years by inserting a web link and QR code of the stock exchange website where such financials are hosted in the disclosure document. This change will not only substantially ease financial disclosures in the disclosure documents but will also help in reducing the size of the disclosure document and avoiding technical difficulties that the issuers face in filing, uploading and dissemination of such disclosure documents on the stock exchange. The disclosure of key operational and financial parameters remains unchanged and will still be required to be included in the disclosure documents.

3. **Standardization of the record date for identifying eligible holders**

   SEBI has approved the proposal for standardising the record date for the payment of interest (or dividend) and repayment of principal amount for debt securities or NCRPS. Pursuant to this, such record date is required to be 15 (fifteen) calendar days prior to the due date(s) of such payment obligations. The proposed modification aims at addressing inconsistencies in relation to fixing the record date and achieving uniformity and standardization across various issuances. Hence, it will not be possible for the issuers and the debenture holders to decide a different time-period in relation to record date.

4. **Alignment of the format of due diligence certificate required to be issued by debenture trustee**

   SEBI has approved the proposal for aligning the format of the due diligence certificate which is required to be provided by the debenture trustee as specified under the SEBI NCS Regulations to make it in line with the format specified under SEBI master circular no. SEBI/HO/DDHS-PoD1/P/CIR/2023/109 dated March 31, 2023 (SEBI Debenture Trustees Master Circular). This change will provide a much-needed clarity and uniformity in the format of due diligence certificate required to be issued by the debenture trustee, which is currently inconsistent under the SEBI NCS Regulations and SEBI Debenture Trustees Master Circular.

5. **Publication of financial results in newspapers for entities that have listed only non-convertible securities (NCS)**

   As an alternative to disclosing full financial results in newspaper, the SEBI has approved a proposal to provide an option to the entities (that have listed only NCS) to only provide an intimation (in the form of a window advertisement), with a reference to QR code and link of website of both the listed entity and the relevant stock exchange in newspapers regarding the financial results of such listed entity. This option can be exercised for: (a) outstanding NCS in which case, such listed entity shall obtain prior approval of debenture trustee; and (b) future issuances in which case, such entity is required to either make a disclosure in the disclosure document or seek the debenture trustee's prior approval. This move paves way for a modernized and efficient way of intimating the financial results of debt listed entities in a very cost effective manner. Moreover, the requirement of obtaining prior approval from the debenture trustee or the disclosure requirement in offer documents aims to streamline the process, safeguard investors' trust, and enhance efficiency in the Indian bonds market.

Comment

These regulatory changes, once notified, will simplify and streamline the disclosure and compliance requirements, which will help in improving efficiency, transparency, flexibility and accessibility across the Indian bonds market. While these proposals are approved by the SEBI in its Board Meeting, these changes will come into effect only once the same are notified.

By doing away with lengthy and tedious process, SEBI strides to create a more streamlined disclosure and investor-friendly environment, which will be more conducive for stakeholders investing in or looking to invest in the Indian bonds market.

The modifications approved by the SEBI will boost investors' confidence, increase regulatory efficiency and ease of doing investments in Indian bonds market.

However, it will be interesting to watch when and the form in which the SEBI notifies the actual amendments to give effect to these regulatory changes/ modifications.

- *Manisha Shroff (Partner); Mohit Nad (Principal Associate); Akshansh Sharma (Associate) and Shubha Ojha (Associate)*

For any queries please contact: editors@khaitanco.com