



To,

Ms. Harini Balaji,
General Manager,
Investment Management Department (IMD)
Division of Funds – 2 (DOF -2),
Securities and Exchange Board of India,
Plot No. C 4-A, G Block, Near Bank of India,
Bandra Kurla Complex, Bandra East,
Mumbai, Maharashtra 400051

Sub: Representation on need to amend Regulation 54 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Ma'am,

About Indian Securitisation Foundation (ISF)

ISF is a not-for-profit entity representing the securitisation industry in India. The membership of the Foundation includes banks, NBFCs, microfinance institutions, other issuers and investors and securitisation professionals for promoting interest of securitisation and fixed income securities in India. As ISF is dedicated to the cause of promoting securitization, asset-based financing and related areas in India, we humbly submit our recommendations herein below on the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as "Listing Regulations") which may have a significant impact on issue of unsecured debt instruments in India.

Background

The need for a strong bond market in India is almost unarguable. A reasonably well-developed corporate bond market is very much required in any economy to supplement banking credit and the equity market and to facilitate the long-term funding requirement of corporate sector as well as infrastructure development in the country. Taking a note of the necessity of the development of the corporate bond market, the regulators have taken necessary action to open up the position of unsecured NCDs in the country. It is counter

INDIAN SECURITISATION FOUNDATION

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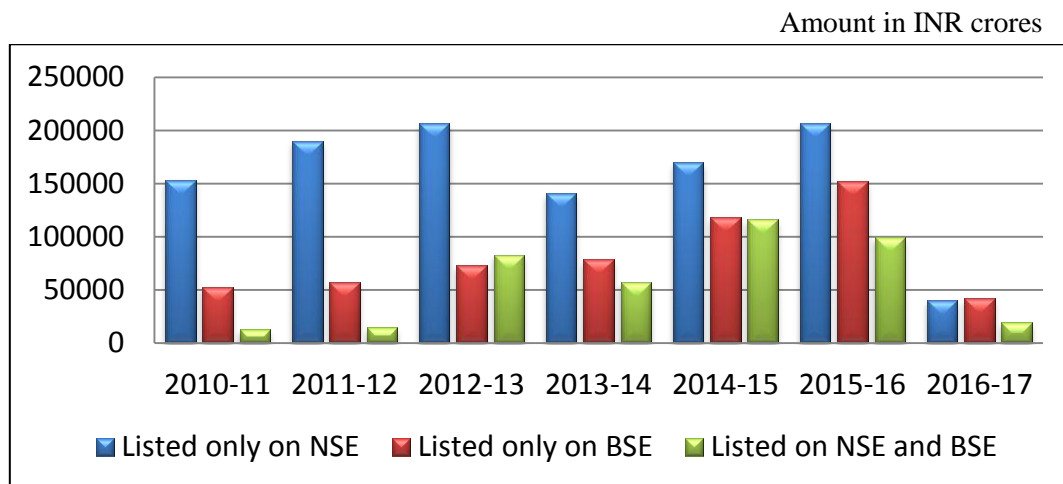
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intuitive to expect a corporate to issue secured bonds; if the corporate had security to offer, it must have opted to access bank loans. Debentures are an incremental additional source of funding, and not the first source of borrowing for most companies.

Earlier, last year NBFCs¹ and HFCs² were permitted to issue unsecured bonds to institutional investors only. The investors' to such unsecured debentures was limited to institutional investors as retail investors may not understand the underlying risks of the unsecured bonds.

This resulted in surge in volumes of privately placed corporate bonds, as evident from the following graph³:



In line with the recent amendments, the MCA vide notification dated June 29, 2016⁴ has notified that unsecured bonds can be issued provided such bonds are listed.

RBI is also contemplating allowing FPIs to invest in unlisted debt securities issued by a public company, subject to certain end use restrictions on the amounts raised.

In essence, there is regulatory impetus towards ensuring the development of the corporate bond market in India by facilitating unsecured corporate bonds which for so long were not permitted in the country and by increasing the investors base.

¹[Guidelines on Private Placement of NCDs \(maturity more than 1 year\) by NBFCs](#)

²[Issuance of NCDs on private placement basis \(NHB\) Directions, 2014](#)

³ Based on data on Private placement of Corporate Bonds as issued by SEBI from time to time.

⁴[The Companies \(Acceptance of Deposits\) Amendment Rules, 2016](#)

We appreciate the changes introduced by the regulators. However, we want to bring to your notice a practical difficulty in issuance of listed unsecured corporate bonds by way of this representation.

Regulation 54 of Listing Regulations

Asset Cover

*(1) In respect of its listed non-convertible debt securities, the listed entity **shall maintain** hundred percent asset cover sufficient to discharge the principal amount at all times for the non-convertible debt securities issued.*

(2) The listed entity shall disclose to the stock exchange in quarterly, half-yearly, year-to-date and annual financial statements, as applicable, the extent and nature of security created and maintained with respect to its secured listed non-convertible debt securities.

*(3) The requirement specified in sub-regulation (1), shall not be applicable in case of unsecured debt securities **issued by regulated financial sector entities eligible for meeting capital requirements** as specified by respective regulators.*

Our Representation

- Regulators viz. RBI, NHB permit issuance of unsecured debt securities other than those eligible for meeting capital requirements (subordinated debt).
- Regulation 54 (1) of Listing Regulations mandates creation of 100% asset cover in respect of listed debt securities.
- Regulation 54 (3) creates an exception only in case of issuance of debt securities without the asset cover requirement where such debt securities are regulated by financial sector entities and such debt securities that are eligible for meeting the capital requirements. The carve out is limited to such debt securities meeting the twin condition.
- The MCA notification came after the Listing Regulations were issued.

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Hence, in order to strengthen the issue of debt securities in India, the following amendments may be made to Listing Regulations:

54. Asset Cover

(1) In respect of its listed non-convertible debt securities, the listed entity shall maintain hundred per cent. asset cover sufficient to discharge the principal amount at all times for the non convertible debt securities issued.

(2) The listed entity shall disclose to the stock exchange in quarterly, half-yearly, year-to-date and annual financial statements, as applicable, the extent and nature of security created and maintained with respect to its secured listed non-convertible debt securities.

(3) The requirement specified in sub-regulation (1), shall not be applicable in case of unsecured debt securities issued in accordance with the guidelines/ directions/ rules as specified by respective regulators.

As ISF is dedicated to the cause of contributing to the development of the financial services sector and capital market instruments in particular, in the event of any further clarification needed, we would be happy to provide the same.

Thanking you

Yours Faithfully

For **Indian Securitisation Foundation**

Sd/-

(Vinod Kothari)

Dated: July 11, 2016

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Cc:

1) Dr V.R. Narasimhan
Chief Regulations
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai - 400051

2) Ms. Netra Sahni,
DGM – Listing Compliance
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai 400 001

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