



**Addendum to Consultation Paper**

**Public Issuance of Non-Convertible Redeemable Preference Shares and Debt Securities by Municipalities**

**A. Introduction:**

A consultation paper was released on January 04, 2017 presenting views on introduction of 'Risk-o-Meter' and enhancing disclosures on 'Public Issuance of Non-Convertible Debentures having credit rating below Investment Grade'. The consultation paper is available at [http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1483532603493.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1483532603493.pdf)

The aforementioned consultation paper did not cover the issues with respect to the rating of Non-convertible Redeemable Preference shares and debt Securities by Municipalities which are issued to public and this addendum seeks to cover the same.

**B. Objective:**

To solicit the comments/views from stakeholders on the consultation paper proposing amendments/clarifications to the SEBI (Issue and Listing of Non-convertible Redeemable Preference shares) Regulations, 2013 (hereinafter referred as "NCRPS Regulations") and SEBI (Issue and listing of debt securities by municipalities) Regulations, 2015 ("Municipal Regulations"). The objective of the consultation paper is to seek comments on the proposals with respect to public issuances of NCRPS and Municipal Bonds-

1. To remove the minimum credit rating requirement with respect to such issuances
2. To prescribe a framework for 'Risk-o-meter' with respect to such issuances
3. To enhance disclosure requirements with respect to such issuances
4. Restriction on investment amount in case of Retail Investor and Allocation to Retail Investors in Base Issue Size with respect to such issuances

**C. Background and Need for Revision:**

1. SEBI (Issue and Listing of Non-convertible Redeemable Preference shares) Regulations, 2013 were introduced to regulate the public issuance or private placement and listing of non-



convertible redeemable preference shares (“NCRPS”).With respect to the credit rating requirements for aforementioned preference shares, Regulation 4(2) of NCRPS Regulations mentions that,

- 1.1. An issuer has to obtain credit rating from at least one credit rating agency registered with the Board and disclose it in the offer document.
- 1.2. The issue has been assigned a rating of not less than “AA-“ or equivalent by a credit rating agency registered with the Board.
2. SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (“ILDS Regulations”) specify that an issuer making a public issue of debt securities has to obtain credit rating from at least one credit rating agency registered with the Board and disclose it in the offer document. However, the ILDS Regulations do not specify any minimum credit rating for such issuances.
3. SEBI (Issue and listing of debt securities by municipalities) Regulations, 2015 (“Municipal Regulations”) also mention that credit rating has to be obtained from at least one credit rating agency registered with the Board and disclose it in the offer document. The Regulations, however, specify that the minimum credit rating required has to be investment grade, i.e., BBB-.

It has been represented to SEBI that in a disclosure based regime, it should be left to the investor to decide whether or not to invest in a non-investment grade debt instrument. Hence, it is felt that the possibility of allowing lower rated issuances to the public in NCRPS Regulations and Municipal Regulations may be explored to suit the risk/return appetite of investors.

**D. Proposals:**

5. **Introduction of ‘Risk-o-Meter’ or ‘Rate-o-Meter’ and Enhancing Disclosures- Advertisements**

**Questions for public comments-**

- 5.1. **Whether the ‘Risk-o-Meter’ or ‘Rate-o-Meter’ (whatever it may be called) should be introduced for such issuances?**



5.2. Whether the advertisements of such issuances shall mandatorily contain the 'Risk-o-meter' or 'Rate-o-meter'?

6. Removing the minimum credit rating requirement, Defining "Retail Investor" and Allocation to Retail Investors

6.1. Both NCRPS Regulations and Municipal Regulations specify about a minimum credit rating to be in place before public issuance of debt securities. On one hand NCRPS Regulations specifies that the minimum credit rating shall be "AA-" and on the other hand Municipal Regulations specify that investment grade debt securities can only be issued by municipalities.

Questions for public comments-

For both, public issuance of NCRPS and Municipal Bonds-

6.1.1. The proposal is to bring the credit rating requirement for public issuance of NCRPS and Municipal Bonds in line with the rating requirements mentioned in ILDS Regulations. In this regard, whether minimum credit rating for such issuances shall be removed?

6.1.2. If the minimum credit rating requirement is removed,

i. Whether the investment in such issuances shall be allowed without putting restrictions on investment by retail investor but with the additional disclosures like Risk-o-meter etc.?

OR

ii. Whether a limit shall be prescribed on the investment amount by a retail investor, i.e. defining "Retail Investor"? The definition of Retail Investor shall be as under,

a. Option A- An investor who subscribes to the debt securities for a value of a minimum prescribed amount, say two lakh rupees.



OR

- b. **Option B-** An investor who subscribes to the debt securities for a value of not more than a prescribed amount, say two lakh rupees.

6.1.3. **In case of Municipal Bonds-**

As regards Public Issuance of debt securities by Municipalities, it may be noted that they can issue both Secured and Unsecured NCDs. However, there is a stark difference in the priority of claims of the Secured and Unsecured NCD holders. Hence, in case **Option B** is accepted, it is proposed to limit the investment in such issuances by retail investors as follows-

(I.) For Secured NCDs, the allocation in the Issue to Retail Investor shall not be more than a certain maximum amount, say 10%, of the Base Issue Size.

(II.) As Unsecured NCDs contain higher risk than Secured ones, for Unsecured NCDs, the allocation in the Issue to Retail Investor shall not be more than a certain maximum amount, say 5%, of the Base Issue Size.

OR

6.1.4. Whether the investment in such issuances (both public issuance of NCRPS and Municipal Bonds) shall be allowed with both i.e. the limits on investment by retail investor as mentioned at pt. 6.1.2 and with the additional disclosures like Risk-o-meter etc.?

- E. Any other suggestions for enhancing the disclosures and advertisement guidelines with regard to the Public Issuance of Non-convertible Redeemable Preference Shares and Debt Securities by Municipalities.

F. **Public Comments:**

In light of the above, public comments are invited on the proposals contained in the



# भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

addendum to,consultation paper dated January 04, 2017. Comments/ suggestions may be provided in the format given below:

Name of entity / person / intermediary/ Organization			
Sr. No.	Pertains to Point No.	Suggestions	Rationale

The comments may either be forwarded by email to [ilds@sebi.gov.in](mailto:ilds@sebi.gov.in) or may be sent by post to the following address latest by **January 29, 2017**.

**Ms. Richa G. Agarwal**  
**Deputy General Manager**  
**Investment Management Department**  
**Division of Funds I**  
**Securities and Exchange Board of India**  
**SEBI Bhavan, Plot No. C4-A, G Block**  
**BandraKurla Complex, Bandra East**  
**Mumbai - 400 051**

**Issued on: January 16, 2017**