Introduction of Liquidity Window facility for investors in debt securities through Stock Exchange mechanism

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Background on the circular

- The Corporate bond market is a key source of funding for companies and offers an investment opportunity for investors. However, low liquidity, due to institutional investors holding bonds until maturity, has hindered broader market participation. To address this, SEBI has introduced several initiatives to enhance investor participation and transparency, such as the Electronic Book Provider (EBP) platform for large private placements, the Request for Quote (RFQ) platform for secondary trading, and the Online Bond Platforms.

- To further improve liquidity, particularly for retail investors, SEBI has proposed a Liquidity Window facility. This facility allows issuers to offer put options, enabling investors to redeem debt securities before maturity on pre-specified dates, as outlined in Regulation 15 of SEBI's 2021 guidelines. This framework aims to create uniform norms for liquidity, promoting retail investment in corporate bonds.

- Issuers of debt securities have the option to offer the Liquidity Window facility at their discretion when issuing bonds. This facility is available on an ISIN basis and applies only to future issuances, either through public issues or private placements, as outlined in the circular.

Brief on the circular

The features and the conditions governing the Liquidity Window facility shall be as follows

1. Authorizations and Guardrails for the Liquidity Window Facility

- The Board of Directors must approve the Liquidity Window facility before its implementation.

- If the issuer has listed specified securities, the Stakeholders Relationship Committee (SRC) is responsible for overseeing the implementation and outcomes of the Liquidity Window. For issuers of only listed debt securities, monitoring is done by the Board of Directors or a designated board-level committee.

- The facility must be objective, transparent, non-discriminatory, and non-discretionary for all eligible investors.

- The operation of the liquidity window must not compromise market integrity, risk management, asset-liability management, or liquidity management norms, as defined by the Board of Directors in cases where no regulatory requirements exist.

2. Debt Securities Eligibility and ISIN Exclusion

- The Liquidity Window facility can only be offered after one year from the issuance of debt securities.
- Re-issuances of securities under the same ISIN are not allowed in cases where the Liquidity Window facility is offered.
- ISINs used in this facility will be excluded from the count of maximum permissible ISINs, in accordance with SEBI's guidelines on Non-Convertible Securities, Securitized Debt Instruments, and others.

3. Investor Eligibility for the Liquidity Window Facility

- Issuers must clearly define which investors are eligible for the Liquidity Window. This can either be all investors or limited to retail investors.
- Investors must hold the debt securities in demat form to be eligible for the facility.

4. Aggregate and Sub-limit for Put Options

- The issuer must set an aggregate limit of at least 10% of the Final issue size (in terms of the number of debt securities) for the exercise of put options over the tenor of the securities.
- The percentage must be disclosed in the offer document at the time of issuance.
- Issuers can also specify sub-limits for each liquidity window session. If the demand for the put option exceeds the sub-limit, allocation to investors will be done on a proportionate basis.

5. Designated Stock Exchange

The issuer must designate a stock exchange for handling the Liquidity Window facility. This exchange will act as the main platform for carrying out transactions related to the facility.

6. Operational Period for the Liquidity Window

- The window will be open for three working days.
- Issuers have the flexibility to operate the window either on a monthly or quarterly basis.
- Issuers must provide an upfront schedule of the liquidity windows in the offer document. Additionally, SMS/WhatsApp notifications should be sent within five working days at the start of each financial year, informing investors of the facility's availability in compliance with Regulation 15(6) of the NCS Regulations.

7. Mode and manner of availing the Liquidity Window facility

The Liquidity Window facility allows eligible investors to exercise put options on debt securities during trading hours by blocking the securities in their demat accounts. Investors can modify or withdraw bids during the session. If the total bids exceed the sub-limit, acceptance will be done proportionately. All valid exercises made by the end of day three are considered tendered. Stock exchanges, with clearing corporations and depositories, will provide detailed guidelines for using this facility, including processes for tendering, blocking securities, and settling funds. Regulation 15(6) ensures that issuers send both soft and hard copy notices to eligible investors regarding redemption rights at least 21 days in advance.

8. Valuation and Payment for Debt Securities

- Debt securities will be valued on T-1 day (where T is the first day of the liquidity window). This valuation must be displayed on the websites of the issuer and stock exchanges throughout the window period.
- Payments to investors should be made within one working day of the window's closure, with amounts being transferred directly to the bank account linked to the demat account from which the debt security was tendered.
- The settlement of debt securities will follow a T+4 settlement cycle, where T is the first day of the liquidity window.

9. Dealing with debt securities received by issuer pursuant to put option

- The issuer must deal with debt securities received through the put option within 45 days of the liquidity window's closure or before the end of the relevant quarter, whichever is earlier.

- The issuer has multiple options for dealing with debt securities received pursuant to a put option, including selling them on the debt segment of a stock exchange, directly on an eligible Request for Quote (RFQ) platform, through an online bond platform, or extinguishing the securities instead of selling them.

- The total number of debt securities sold through any of the aforementioned methods will contribute to the aggregate limit of the Liquidity Window facility, effectively replenishing any past usage of the limit.

10 . Reporting and Disclosure Requirements

- Issuers must submit a report to the stock exchanges within three working days after the liquidity window closes.

- Issuers must inform depositories and debenture trustees of any securities extinguished within three days working days on completion of forty-five days of the closure of window.

- Issuers are required to display a list of ISINs on their website for which the Liquidity Window is available, including key details such as the coupon rate, credit rating, and the schedule of liquidity windows. The issuer must provide specified information to stock exchanges, depositories, and the debenture trustee, who will host it on their websites/ corporate bond database Any changes in this information must be updated within 24 hours. Upon receipt of intimation from the Issuer, Stock exchanges, Depositories and Debenture Trustee shall update the information within one working day. Stock exchanges and Depositories may provide a feed to Online Bond Platforms of all such information for display by Online Bond Platforms.

Impact On the Circular

- By providing issuers with multiple platforms (stock exchange, RFQ, online bond platforms) for selling securities, the facility ensures a more active and liquid debt market. This is particularly beneficial for corporate bonds that historically have low liquidity.

- Issuers can tailor their approach to handling debt securities based on market conditions. The option to extinguish the securities provides a strategic tool to manage their outstanding liabilities effectively.

- The sale of debt securities under the Liquidity Window replenishes the aggregate limit, ensuring that past utilizations of the facility do not permanently reduce its availability. This dynamic replenishment allows the facility to remain viable for future use by investors.

- Issuers are held to a strict reporting timeline for dealing with debt securities. The requirement to submit reports to stock exchanges within three working days of the window’s closure promotes transparency and ensures regulatory compliance