



RBI Master Direction 2024 (Commercial Paper and Non- Convertible Debentures of original or initial maturity up to one year)

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Background

RBI Issued its master Direction on (Commercial Paper and Non-Convertible Debentures of original or **initial maturity up to one year**) **Directions, 2024**

Brief

These Directions shall be applicable to all persons/agencies dealing in Commercial Paper and/or Non-Convertible Debentures of original or initial maturity up to one year. **These Directions shall come into force with effect from April 01, 2024**

1 Eligible issuers

- Entities eligible to issue **Commercial Papers (CPs) and Non-Convertible Debentures (NCDs)** include **companies, NBFCs (including HFCs), InvITs, REITs, AIFs, and other corporate bodies** with a **net worth of ₹100 crore**, provided they are permitted to incur debt in India and Any other entity specifically permitted by the Reserve Bank
- Co-operative societies and limited liability partnerships with a minimum net worth of **₹100 crore** may also issue CPs under these Directions subject **to their fund-based facilities being classified as Standard at the time of issue.**

2 Eligible Investors

- Residents can invest in **CPs and NCDs freely, while non-residents can invest within FEMA guidelines.** However, neither residents nor non-residents can invest in CPs or NCDs issued by related parties, either in the primary or secondary market.

3 General Guidelines

Primary Issuance

- CPs and NCDs must be in **dematerialized form and held with a SEBI-registered depository.**
- CPs and NCDs shall be issued in minimum denomination of **₹5 lakh and in multiples of ₹5 lakh thereafter.**
- The tenor of a CP shall not be less **than seven days or more than one year.** The tenor of an NCD shall **not be less than ninety days or more than one year.**
- CPs/NCDs cannot have call/put options or be **underwritten/co-accepted.**
- Offer documents for CPs/NCDs must contain **minimum disclosures per Annex I.**
- The primary issuances of CPs and NCDs, including both payment of funds to the issuer and issue of CPs and NCDs to the investors, shall be settled within a period not exceeding **T+4 working days, where T represents the deal date**
- Total subscription by all **individuals, including Hindu Undivided Families, in any primary issuance of CPs or NCDs shall not exceed 25 per cent of the total amount issued.**

Discount/Coupon Rate

- CPs shall be issued at a **discount to the face value**
- NCDs shall be issued at a discount to the face value or with **fixed or floating rate coupon**
- The coupon on floating rate NCDs shall be linked to a benchmark published by a **Financial Benchmark Administrator or approved by the Fixed Income Money Market and Derivatives Association of India (FIMMDA) for this purpose.** FIMMDA shall ensure that any floating rate approved by them for this purpose is determined transparently, objectively and in arms' length transactions. **The coupon on floating rate NCDs can also be linked to policy rates published by the Reserve Bank.**

Credit Enhancement

- **Banks and AIFIs** may, based on their commercial judgement and subject to prudential guidelines issued by Department of Regulation, RBI, choose to provide stand-by assistance/credit, back-stop facility, etc., **by way of credit enhancement for a CP/NCD issue.**
- **Non-bank entities (including corporates)** may provide **unconditional and irrevocable guarantee** for credit enhancement of CPs and NCDs issued by a group entity subject to making appropriate disclosures as set out in **Annex I.**

End Use

- Funds raised through CPs and NCDs shall ordinarily be used to finance current assets and operating expenses. The end-use of the funds raised through a CP or an NCD shall be disclosed in the offer document.
- Where funds raised are used for purposes other than financing current assets and operating expenses, **the exact/ specific end-use shall be disclosed in the offer document.**
- The issuer shall submit a certificate from the **Chief Executive Officer/Chief Financial Officer (CEO/CFO)** to the IPAs concerned that the proceeds of CPs and NCDs have been used for the disclosed purposes and that all other provisions of these Directions and conditions of the offer document have been adhered to. The certificate shall be provided to the **IPA within 3 months of the issue of CP/NCD or on maturity of the issue, whichever is earlier.**

Rating Requirement

- The minimum credit rating, assigned by a Credit Rating Agency (CRA), for the issuance of CPs and NCDs shall **be 'A3' as per rating symbol and definition prescribed by SEBI**

Primary Market - Other Conditions

- For each **CP/NCD issuance, an IPA and a Debenture Trustee (for NCDs) must be appointed**. Subscriptions to primary CP/NCD issues must go through the IPA
- The aggregate number of CPs and NCDs which can be issued by an issuer shall be within such limits as may be approved by the Board of Directors or its equivalent body. The aggregate amount which can be issued by an issuer regulated by a financial sector regulator shall also be subject to the limits, if any, specified by the regulator concerned.

Secondary Market – Trading Venue and settlement

- CPs/NCDs shall be traded on OTC or on stock exchanges approved by the Reserve Bank , settlement for OTC trades in CPs and NCDs shall be either **T+0 or T+1**.
- All OTC secondary market transactions in CPs (including transactions undertaken on ETPs) shall be settled on a **DvP basis** through the clearing corporation of any recognized stock exchange, or any other mechanism approved by the Reserve Bank
- All OTC secondary market transactions in NCDs (**including transactions undertaken on ETPs**) shall be settled **bilaterally, or on a DvP basis** through the clearing corporation of any recognized stock exchange, or any other mechanism approved by the Reserve Bank.

Buyback

Issuers of CPs and NCDs are permitted to buyback the CPs and NCDs before maturity. Such buybacks shall be subject to the following conditions:-

- Buybacks for CPs are allowed after **seven days post-issue and for NCDs after ninety days**. The offer must be extended uniformly to all investors, **who can accept or decline it**. The buyback happens at prevailing market rates.
- The issuer of a CP/NCD shall inform the details of the buyback to the IPA on the date of buyback. **In the case of NCDs, the details shall also be informed to the Debenture Trustee**
- The payment for the buyback of the **CP/NCD** by the issuer shall be routed through the IPA. CPs and NCDs bought back, partially or in full, shall be extinguished on the date of buyback.

Repayment of CP/NCDs

- There will be no grace period for repayment of **CPs/NCDs**.
- The issuer shall make the funds for redemption available to the IPA by **3:00 P.M.** on the redemption date.
- The repayment of a CP/NCD, including coupon payments, **shall be routed through the IPA**

Default

- In case of default on CP/NCD payments, the issuer must notify **IPA/Debenture Trustee before 5:00 PM on the default day. Default details must be publicly shared on the issuer's website and F-TRAC platform.** Repayments for defaulted obligations can go directly to investors or through IPA/Debenture Trustee, aligning with investors' proportions. Details of repayment for defaulted CPs/NCDs must be informed to IPA/Debenture Trustee on the repayment day. If converted after default, CPs/NCDs are extinguished on the conversion date. After default, the issuer cannot issue **CPs/NCDs until full repayment or six months post-default**, whichever's earlier. Any conversion event must be **reported to IPA/Debenture Trustee**

Market Timings

- Primary issuance and secondary market trading hours shall be **between 9:00 AM and 5:00 PM on a working day or as specified by the Reserve Bank from time to time**

Market Practices and Documentation

- Participants / agencies in the CP and NCD markets shall follow any standardized procedures and documentation which may be prescribed by **FIMMDA, in consultation with the Reserve Bank**, for smooth functioning of the markets

4 Reporting Requirements

▪ Primary Issuances

Details of all issuances in primary markets of the CPs and NCDs shall be reported by the IPA on the F-TRAC platform by **5:30 PM on the day of issuance.**

▪ Secondary market transactions

All secondary market transactions in **CPs and NCDs, executed in the OTC market** and/or on the recognized stock exchanges, shall be reported with time stamp within **15 minutes of execution on the F-TRAC platform** by each counterparty to the transaction

▪ Buybacks

Details of buybacks of CPs and NCDs shall be reported by the IPA on the **F-TRAC platform by 5:30 PM on the buyback date**

▪ Default

Instances of default and repayment of defaulted obligations shall be reported by the **IPA on the F-TRAC platform by 5:30 PM on the day of default or the day of repayment of defaulted obligations, as the case may be.**

▪ Reporting by depositories

The depositories shall report to the Reserve Bank, the details of the CPs and NCDs held with them in the dematerialized form, in the prescribed format furnished in **Annex II, at fortnightly intervals (on the 15th day and on the last day of the month) or as and when called upon to do so by the Reserve Bank.**

▪ Reporting by Debenture Trustee

The Debenture Trustee shall report the details of the outstanding amount of NCDs and the particulars of default in repayment of NCD, at quarterly intervals (**within 15 days from the end of the quarter**), in the format prescribed in **Annex III** to the Reserve Bank through **e-mail (reportfmd@rbi.org.in).**

5 Roles and Responsibilities

▪ Issuing and Paying agent

As an **Issuing and Paying Agent (IPA)** for **Commercial Papers (CPs)** and/or **Non-Convertible Debentures (NCDs)**, it's crucial to ensure the issuer's authorization for borrowing through CPs/NCDs and compliance with relevant directives. This involves verification and custody of certified copies of original or digitally signed issuance-related documents. Upon satisfactory verification, an IPA certificate confirming document accuracy is issued and made electronically available on depository websites. Additionally, obtaining the requisite certification from the **CEO/CFO** of the issuer is essential. Adherence to reporting obligations outlined in these directives is mandatory. In the event of IPA non-compliance with these guidelines or other regulations from the Reserve Bank, the RBI reserves the right to prohibit the entity from acting as an **IPA for CP/NCD issuances for a determined period**.

▪ Debenture Trustee

The roles and responsibilities of Debenture Trustees are guided by the **Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993**, **relevant provisions of the Companies Act, 2013**, the trust deed, and the offer document. Ensuring compliance with reporting obligations outlined in these directives is a fundamental duty of the Debenture Trustee. Additionally, they are obligated to furnish any required information regarding **Non-Convertible Debentures (NCDs)** to the Reserve Bank when requested. In case of a Debenture Trustee's violation of these directions or any RBI-issued guidelines, the Reserve Bank reserves the right to disallow the entity from acting as a **Debenture Trustee for an NCD issuance** for a specified period.

▪ Credit Rating Agency

Credit Rating Agency (CRA) registered with **SEBI** and accredited by the Reserve Bank as an External Credit Assessment Institution (ECAI) for bank loan ratings is eligible to rate **Commercial Papers (CPs)** and **Non-Convertible Debentures (NCDs)**. **CRAs** must comply with SEBI guidelines applicable to securities ratings and adhere to Reserve Bank guidelines. Additionally, they may follow directions from other regulators or authorities, provided they don't conflict with these directives or RBI guidelines. If a CRA loses SEBI registration or Reserve Bank accreditation as an ECAI for bank loan ratings, they lose eligibility to rate **CPs/NCDs**. In case of a CRA's violation of these directives or any RBI-issued guidelines, the Reserve Bank reserves the right to disallow the CRA from rating **CPs/NCDs for a specified period**.

6 **Obligation to provide information sought by the Reserve Bank**

The Reserve Bank can request information or clarifications from any entity involved in CP and NCD markets. Upon request, these entities, including issuers, investors, IPAs, debenture trustees, CRAs, depositories, clearing corporations, and stock exchanges, must promptly provide the specified information or clarifications as deemed relevant by the Reserve Bank within the specified timeframe.

7 **Dissemination of data**

The Reserve Bank or any other agency authorized by it, may, in public interest, publish any anonymized data related to primary and secondary market transactions in CPs and NCDs.

8 **Violation of Directions**

In the event of any person violating any provision of these Directions, the Reserve Bank may, in addition to taking any penal or regulatory action in accordance with law, disallow that person from participating in the CP and NCD markets for a period not exceeding one month at a time, after providing reasonable opportunity to the entity to defend its actions, and such action would be made public by the Reserve Bank. - make it short and without changing its meaning

9 **Applicability of other laws, directions, regulations or guidelines**

Market participants must follow guidelines from other regulators or authorities, as long as they don't clash with these Directions for CPs and NCDs. If conflicts arise, these Directions take precedence.

Notes:- To refer Annex I- Minimum disclosure in the offer document by issuers of CP and NCD
Annex II-Details of the outstanding Commercial Papers (CPs) held with as on date
Annex III - Quarterly Reporting by Debenture Trustee

Refer to RBI Master Direction - RBI/FMRD/2023-24/109 FMRD.DIRD.09/14.02.001/2023-24



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