

DRAFT CIRCULAR FOR PUBLIC COMMENTS

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

1. OBJECTIVE:

- 1.1. To solicit comments/ views/ suggestions from the public on the draft circular titled *“Introduction of Liquidity Window facility for investors in debt securities through Stock Exchange mechanism”* placed at Annexure - A.

2. PUBLIC COMMENTS

- 2.1. Public comments are invited on the draft circular annexed to this consultation paper. The comments/ suggestions should be submitted latest by **September 06, 2024**, through the online web-based form which can be accessed using the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

- 2.2. The instructions to submit comments on the consultation paper are as under:

1. Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.
2. Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.
3. All fields in the form are mandatory.
4. Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.
5. If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box.
6. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of

- agreement with the selected proposal. Please note that submission of agreement level is mandatory.*
- 7. If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under **“Do you want to comment on the proposal”** and use the text boxes provided for the same.*
 - 8. After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.*
 - 9. If you do not want to react on any proposal, please select that proposal from the dropdown and click on **“Skip this proposal”** and move to the next proposal.*
 - 10. After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on **“Check your response before submitting”** just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.*
 - 11. The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper*

2.3. In case of any technical issue in submitting your comment through the web based public comments form, you may contact the following through email with the subject: ***“Introduction of Liquidity Window facility for investors in debt securities through Stock Exchange mechanism.”***

- a) Rishi Barua, DGM (rishib@sebi.gov.in)
- b) Appin Gothwal, AGM (apping@sebi.gov.in)
- c) Kiran Dhembre (Ms.), AM (kirand@sebi.gov.in)

Issued on: August 16, 2024

DRAFT CIRCULAR

SEBI/HO/DDHS/P/CIR/2024/_____

_____, 2024

To,

**Issuers who have listed and/ or propose to list Non-convertible Securities;
Recognised Stock Exchanges;
Registered Depositories;
Recognised Clearing Corporation;
Registered Credit Rating Agencies, Debenture Trustees, Merchant Bankers, Registrars
to an Issue and Share Transfer Agents and Bankers to an Issue**

Madam/ Sir,

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

1. The Corporate bond market serves as a critical source of funding for the issuers whilst providing an investment avenue for the investors. SEBI has been undertaking various measures to widen the investor base and also encourage participation and transparency in the corporate bond market. Some of the measures include introduction of the electronic book building platform for debt securities issued on private placement basis, exceeding issue size Rs 50 crores, 'Request for Quote' (RFQ) platform for secondary market transactions, reduction in the face value of debt securities issued on private placement basis (proposed to be listed), introduction of framework for Online Bond Platforms (refer <https://www.sebi.gov.in/online-bond-platform-providers.html>), introduction of corporate bonds repo system operated by AMC Repo Clearing Limited (refer www.arclindia.com), etc.

2. One of the factors that drives investor participation in a market is the availability of liquidity. Low levels of secondary market transactions in corporate bonds (including due to a large number of institutional investors holding such bonds to maturity) has resulted in the corporate bond market being perceived as illiquid. To address the issue of liquidity for investors, especially retail investors, and pursuant to discussions with issuers / potential issuers of debt securities, it is felt that establishing a framework of providing a Liquidity Window facility by the issuers through use of put options exercisable on pre-specified dates or intervals will provide uniform norms for such issuer(s) to consider adopting Liquidity Window facility in the manner specified. Such uniform norms and instituting a Liquidity Window facility as contemplated in this circular will also be of immense utility to investors, especially retail investors, and can serve to enhance their investment in such debt securities.

3. In this regard, Regulation 15 of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations) enables an Issuer with the right to recall non-convertible securities¹ or redeem debt securities² prior to maturity. The said regulation provides for the following with regard to the call and put option:

“15. (1) An issuer making issuance of non-convertible securities shall:

- (a) have the right to recall such securities prior to the maturity date (call option); or,*
- (b) shall have a right to provide such right of redemption of debt securities prior to the maturity date (put option) to all the investors or only to retail investors.*

(2) Such right to recall non-convertible securities or redeem debt securities prior to the maturity date shall be exercised in accordance with the terms of issue and detailed disclosure in this regard shall be made in offer document including date from which such right is exercisable, period of exercise (which shall not be less than three

¹ Regulation 2(x) of the NCS Regulations defines ‘non-convertible securities’ as: *non-convertible securities” means debt securities, non-convertible redeemable preference shares, perpetual non-cumulative preference shares, perpetual debt instruments and any other securities as specified by the Board;*

² Regulation 2(k) of the NCS Regulations defines ‘debt securities’ as: *debt securities’ means non-convertible debt securities with a fixed maturity period which create or acknowledge indebtedness and includes debentures, bonds or any other security whether constituting a charge on the assets/ properties or not, but excludes security receipts, securitized debt instruments, money market instruments regulated by the Reserve Bank of India, and bonds issued by the Government or such other bodies as may be specified by the Board*

working days) and redemption amount (including the premium or discount at which such redemption shall take place).

(3) The issuer or investor may exercise such right with respect to all the non-convertible securities issued or held by them respectively or with respect to a part of the non-convertible securities so issued or held.

(4) In case of partial exercise of such right in accordance with the terms of the issue by the issuer, it shall be done on proportionate basis only.

(5) No such right shall be exercisable before the expiry of one year from the date of issue of such non-convertible securities.

(6) The issuer shall send a notice regarding recall or redemption of non-convertible securities, prior to maturity, to all the eligible holders of such securities and the debenture trustee(s), at least twenty-one days before the date from which such right is exercisable and the notice to the eligible holders shall be sent in the following manner:

(i) soft copy of such notice shall be sent to the eligible holders who have registered their email address(es) either with the listed entity or with any depository; and

(ii) hard copy of the notice shall be sent to the eligible holders who have not registered their email address(es) either with the listed entity or with any depository.

(7) The issuer shall simultaneously provide a copy of such notice to the stock exchange(s) where the non-convertible securities of the issuer are listed, for dissemination on its website.

(8) Issuer shall pay interest at the rate of fifteen percent per annum for the period of delay, if any.

(9) After the completion of the exercise of such right, the issuer shall:

- (a) submit a report to the stock exchange(s) where the non-convertible securities are listed for public dissemination regarding the details of non-convertible securities redeemed during the exercise period and details of redemption thereof;*
- (b) inform the debenture trustee regarding the debt securities redeemed during the exercise period and details of redemption thereof; and,*
- (c) inform the depositories for extinguishing the non-convertible securities that have been redeemed.*

Explanation: For the purpose of this regulation, “retail investor” shall mean the holder of non-convertible securities having the aggregate face value not more than rupees two lakh.”

- 4. Accordingly, it is proposed to introduce a Liquidity Window facility framework by use of put options exercisable on pre-specified dates or intervals, as specified under Regulation 15 of the NCS Regulations, in the manner outlined in this circular.
- 5. Choice of the Issuer: An entity issuing debt securities, which are proposed to be listed, may at its option/discretion provide the Liquidity Window facility as envisaged in this circular for the debt securities, on an ISIN basis, at the time of issuance of such debt securities and make such Liquidity Window facility available to the eligible investors in such debt securities.
- 6. Prospective applicability: The Liquidity Window facility can be provided only for prospective issuances of debt securities through public issue process or on a private placement basis (proposed to be listed).
- 7. Features and conditions: The features and the conditions governing the Liquidity Window facility shall be as follows:
 - 7.1. Authorizations and guardrails: The Issuer shall ensure that the Liquidity Window facility provided in terms of provisions of this circular:
 - a) has the prior approval of its Board of Directors,

- b) its implementation and outcome is monitored by Stakeholders Relationship Committee (SRC), in case of companies with listed equity. In case of pure debt listed entities, for whom it is not mandatory to constitute a SRC, its implementation and outcome should be monitored by its Board or such board-level committee that the Board may determine.
- c) is objective, transparent, non-discretionary and non-discriminatory within the class of investors specified as eligible investors; and
- d) its implementation or operation of the liquidity window facility does not compromise market integrity or risk management, asset liability management or liquidity management norms as its Board of Directors may specify (in the absence of any regulatory requirement governing risk management, asset liability management or liquidity management) .

7.2. Period of operation of liquidity window: The Issuer shall provide Liquidity Window facility only after the expiry of one year from the date of the issuance of the debt securities.

7.3. Eligibility of investors to avail the Liquidity Window facility: The Issuer shall specify eligibility of investors who can avail of the Liquidity Window facility i.e. whether the facility shall be available to all investors in the debt securities or only to retail investors in the debt securities. Eligible investors desirous of availing of the liquidity window shall be required to hold the debt securities in demat form.

7.4. Aggregate limit of Liquidity Window facility and per liquidity window sub-limit: The Issuer shall determine and specify the percentage of the issue size of the eligible securities constituting the aggregate limit for the exercise of put options by the investors through Liquidity Window facility over the tenor of the debt securities, which shall not be less than [10] or [15] % of final Issue size of such debt securities. The said percentage shall be disclosed in the offer document at the time of issuance of such debt securities. Issuer may also specify the sub-limit of put options that can be exercised in each liquidity window over the tenor of Liquidity Window facility. In case the put options exercised by eligible investors exceeds the per window sub-limit, the acceptance of put options from eligible investors shall be on proportionate basis.

- 7.5. Designated Stock Exchange: Issuer may designate any of the Stock Exchanges as the 'designated Stock Exchange' for the purpose of liquidity window.
- 7.6. Minimum period of liquidity window: The liquidity window shall be kept open for three working days on a monthly/ quarterly basis at the discretion of the Issuer. The schedule of liquidity window/s shall be disclosed upfront in the offer document. The notice/ intimation regarding the liquidity window through put option shall be made within five working days via SMS/ WhatsApp messaging from the start of each financial year regarding the Liquidity Window facility being available on monthly/ quarterly basis in that respective financial year. Such notice/ intimation shall be treated as compliance with Regulation 15(6) of the NCS Regulations.
- 7.7. Mode and manner of availing of Liquidity Window facility: On and from the commencement of liquidity window, eligible investors can exercise the put option on debt securities by blocking the said securities in their demat account. Such exercise shall be done during trading hours. All exercises of the put option on the debt securities (i.e. accompanied with block on securities in demat account) received by the designated stock exchange until the end of trading hours on the date of closure of the liquidity window (i.e. Day three of the Liquidity Window) shall be treated as duly tendered. However, if the window sub-limit specified by the Issuer is exceeded, the acceptance of the tendered debt securities shall be on a proportionate basis. Stock exchanges, in consultation with clearing corporations and depositories, shall publish detailed operational guidelines regarding the mode and manner of availing the Liquidity Window facility, including the mechanism for exercising the put option to tender the debt securities, blocking of such debt securities in the demat account, the basis of acceptance of tendered debt securities, effecting of transfer from the demat account of the eligible investor at end of the day of closure of the liquidity window, etc.
- 7.8. Valuation of debt securities, amounts payable and the date of payment: Debt securities that have been duly tendered shall be valued on the day of closure of the liquidity window. Such valuation shall be done in accordance with *Chapter 9*:

Valuation of Master circular for mutual funds dated June 27, 2024³ (as amended from time to time). Further, issuer shall ensure the amounts payable to investor shall not be at a discount of more than 100 bps on the valuation arrived plus the accrued interest. Such amounts shall be payable within one working day from the closure of the liquidity window to the bank account linked with demat account of the eligible investor from which debt security was tendered and transferred on the closure of the liquidity window.

- 7.9. Dealing with debt securities received by issuer pursuant to put option: Within forty-five days of the closure of the liquidity window or before the end of the relevant quarter (whichever is earlier), the Issuer may deal with the debt securities received pursuant to tendering within the Liquidity Window facility in the following manner:
- a) sell such debt securities on the debt segment of stock exchange;
 - b) sell such debt securities directly on RFQ platform, if eligible to access;
 - c) sell such debt securities through an online bond platform provider; or
 - d) extinguish such debt securities.

The amount realized by the Issuer on sale of the debt securities shall be added to the aggregate limit of the Liquidity Window facility and hence will replenish any past usage of the limit.

- 7.10. Reporting and disclosure requirements: Within three working days of the closure of Liquidity Window facility, the issuer shall:
- a) Submit a report to the Stock Exchange where such debt securities are listed, in the form, manner and substance as the Stock Exchange may specify in consultation with SEBI;
 - b) Inform the depositories regarding debt securities to be extinguished; and
 - c) Inform the debenture trustee regarding the debt securities extinguished.

³ https://www.sebi.gov.in/legal/master-circulars/jun-2024/master-circular-for-mutual-funds_84441.html

7.11. Stock exchanges, Depositories, Debenture Trustee and Issuers shall disclose on their website a list of ISINs for which liquidity window option is available. The following information shall be displayed per ISIN:

- a) Name of the issuer
- b) Outstanding amount of the ISIN
- c) Credit rating
- d) Coupon rate
- e) Latest Valuation (Marked To Market), if available
- f) Liquidity Window schedule - dates and period of exercise (monthly/ quarterly basis)
- g) Percentage of the Issue size for which such option is provided in the respective ISIN alongwith the sub-limit of the put option that can be exercised in each liquidity window
- h) Corresponding percentage of the issue size for which such option has been exercised and amounts paid by the Issuer against such put option
- i) extent of debt securities sold by the issuer and/or extent of debt securities extinguished by the issuer, as applicable
- j) percentage of the issue size which is yet to be utilized by the eligible investors, and extent of replenishment on account of sale by the issuer

Issuer shall intimate changes, if any, of the above information to Stock Exchanges and Debenture Trustee within 24 hours of such change. Upon receipt of intimation from the Issuer, Stock exchanges, Depositories, Debenture Trustee shall update the information within one working day.

8. The provisions of this circular shall be applicable on and from XXX 01, 2024.

9. The Circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 55 (1) of the SEBI (Issue and Listing of Non-convertible Securities) Regulations, 2021 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

10. This Circular is available at www.sebi.gov.in under the link “Legal Circulars”.

Yours faithfully,

Name

Designation

Department of Debt and Hybrid Securities

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