

The information in this section is designed to offer a simplistic explanation/clarification of terms/concepts related to issue and listing of Municipal Debt Securities. Any such explanation/clarification that is provided herein should not be regarded as an interpretation of law nor be treated as a binding opinion/guidance from SEBI. For full particulars of laws, please refer to actual text of the Acts/Regulations/Circulars appearing under the Legal Framework Section on the SEBI website.

MUNICIPAL DEBT SECURITIES | REGULATORY FRAMEWORK

A. APPLICABLE LAWS AND CIRCULARS:

1. SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015, as amended (“**ILMDS Regulations**”).
2. SEBI operational circular dated 10 August 2021 for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper, as amended by SEBI from time to time.
3. SEBI circular dated 19 June 2017 – ‘*Continuous disclosures and compliances by issuers under the ILMDS Regulations*’.
4. SEBI circular dated 13 November 2019 – ‘*Continuous disclosures and compliances by listed entities under the ILMDS Regulations*’.
5. SEBI circular dated 24 November 2022 – ‘*Disclosures and compliance requirements for Issuance and Listing of Municipal Debt Securities under the ILMDS Regulations, which fall within the definition of green debt security*’.
6. Frequently Asked Questions for Municipal Debt Securities, issued by SEBI on 6 June 2022, which clarifies some provisions of the ILMDS Regulations.
7. Guidance Note dated 29 July 2020 on SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015.

** The above is a generic summary of the regulatory framework specifically applicable to municipal bonds and is not exhaustive. Please refer to all other regulations / circulars which are generally applicable for listed issuances of debt securities.

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INDICATIVE ACTION ITEMS AS SET OUT IN THE SEBI (ISSUE AND LISTING OF MUNICIPAL DEBT SECURITIES) REGULATIONS, 2015, AS AMENDED (“ILMDS”) FOR THE ISSUE OF MUNICIPAL DEBT SECURITIES (“MUNI BONDS”)

B. Regulatory Checklist:

Sr. No.	Particulars	Regulation	Provision	Timeline
1.	Eligibility conditions for issuing municipal debt securities (“Muni Bonds”)	Regulation 4 of the ILMDS	i. An Issuer must be eligible to raise funds under its constitutional documents. ii. The accounts of the issuer to be prepared in accordance with any of the following: (a) National municipal accounts manual; (b) Municipal accounts manual as adopted by the respective State Governments; (c) Accounting standards, applicable to issuers, as prescribed under the Companies Act, 2013 (“ Companies Act ”); or (d) Accounting standards/policies, applicable to issuers, as specified in their constitutional document. iii. No default in repayment of debt securities or loans obtained from banks or financial institutions, during the preceding 365 days. iv. No order or direction of restraint, prohibition or debarment by the SEBI in force against the issuer or its promoters or its directors from accessing the securities market;	As on the date of filing the draft offer document or preliminary placement memorandum.

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		Regulation 5 of the ILMDS	<p>v. The issuer or its promoter, group company or director(s), not named in the list of the wilful defaulters;</p> <p>vi. Any of the promoter or director(s) of the issuer not declared as a fugitive economic offender(s).</p> <p>Provided that where the issuer is a body corporate to which the Companies Act applies or is a special purpose vehicle, which is set up for the purpose of raising funds for a person for performing one or more functions entrusted under Article 243W of the Constitution of India, the requirements specified under clauses (ii) and (iii) above shall be complied by the person being financed.</p> <p><u>Eligibility conditions for public issue of Muni Bonds:</u></p> <p>i. The issuer must have surplus income as per its income and expenditure statement in any of the immediately preceding 3 financial years.</p> <p>Provided that where the issuer is a body corporate to which the Companies Act applies, it shall not have negative net worth in any of immediately preceding 3 financial years.</p> <p>Provided further that where the issuer is a body corporate to which the Companies Act applies or is a special purpose vehicle, which is</p>	

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Sr. No.	Particulars	Regulation	Provision	Timeline
			<p>set up for the purpose of raising funds for a person for performing one or more functions entrusted under Article 243W of the Constitution of India, the requirements set out under clause (i) above shall be complied by the person being financed.</p> <p>ii. Any other conditions as may be specified by the SEBI from time to time.</p>	
2.	In-principle approval (Required for both public issue and private placement of Muni Bonds)	Regulation 4A of the ILMDS	To be obtained from stock exchange where the Muni Bonds are proposed to be listed.	Prior to opening of the issue of Muni Bonds
3.	Credit rating	Regulation 4B of the ILMDS	To be obtained from at least 1 credit rating agency registered with SEBI.	To be obtained prior to filing of the draft offer document or preliminary placement memorandum.
4.	Dematerialisation	Regulation 4C of the ILMDS	Arrangement to be entered into with a depository for issuing the Muni Bonds in dematerialised form.	Prior to the issue of the draft offer document or preliminary placement memorandum.
5.	Debenture Trustee	Regulation 4D of the ILMDS	SEBI registered debenture trustee to be appointed.	Must be appointed prior to filing of the draft offer document or preliminary placement memorandum.
6.	Appointment of Merchant Banker	Regulation 6A of the ILMDS	The issuer shall appoint one or more SEBI registered merchant bankers, as lead manager(s) to the issue.	To be appointed prior to commencement of diligence and

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Sr. No.	Particulars	Regulation	Provision	Timeline
				drafting of the draft offer document or preliminary placement memorandum.
7.	Escrow Payment Mechanism	Regulation 19 of the ILMDS read with the SEBI circular dated 13 November 2019 – ‘Continuous disclosures and compliances by listed entities under SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015’ (“Continuous Disclosure Circular”)	Creation of interest payment Account, sinking fund account and general account as set out in the Continuous Disclosure Circular.	Mechanism and arrangement to be disclosed in the draft offer document or preliminary placement memorandum. The accounts to be created prior to the opening of the issue.
8.	Trust Deed	Regulation 20 of the ILMDS	Trust deed to be executed by the issuer in favour of the debenture trustee.	Draft to be finalised prior to opening of the issue. To be executed prior to final listing application. The issue proceeds shall not be utilised until the trust deed is executed.
9.	Comments on draft offer document or preliminary placement memorandum	Regulation 7 and 14A of the ILMDS	Draft offer document / Preliminary placement memorandum to be filed with SEBI for comments.	Prior to the filing of the offer document / placement memorandum
10.	Due diligence certificate from merchant banker for draft offer document	Regulation 7 (2) and 14A (2) of the ILMDS	Merchant banker to provide due diligence certificate in Form A as set out in Schedule II of the ILMDS.	Prior to filing draft offer document or preliminary placement memorandum with SEBI.

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Sr. No.	Particulars	Regulation	Provision	Timeline
	or preliminary placement memorandum			
11.	Due diligence certificate from merchant banker for offer document or placement memorandum	Regulation 7 (9) and 14A (4) of the ILMDS	Merchant banker to provide due diligence certificate in Form B and Form C as set out in Schedule II of the ILMDS.	Prior to filing offer document or placement memorandum.
12.	Due diligence certificate from debenture trustee	Regulation 7 and 14A of the ILMDS	Debenture trustee to provide certificate per the prescribed format in Schedule III of the ILMDS.	On or before the opening of the issue.
13.	Advertisements for public issues (For only public issue)	Regulation 9 of the ILMDS	Issuer may make an advertisement in a national daily with wide circulation, containing the disclosures as per Schedule IV of the ILMDS.	On or before the issue opening date
14.	Bidding period for public issue	Regulation 8 of the ILMDS	Bidding period for public issue of Muni Bonds .	To be kept open for at least 3 days prior to the issue closing date.
15.	Minimum subscription (For only public issue)	Regulation 11 of the ILMDS	Issuer to stipulate minimum subscription in the offer document, which shall not be less than 70% of the issue size.	Minimum subscription to be received prior to issue closing date. In case of non-receipt of minimum subscription, all application moneys received in the public issue shall be refunded to the applicants within 12 days from the date of the closure of the issue.

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16.	Over-subscription (For only public issue)	Regulation 11A of the ILMDS	Issuers are allowed to retain the over-subscription money up to 100% of the base issue size but not exceeding the rated size or any lower limit as specified in the offer document	N.A
17.	Allotment (For public issue)	Chapter 1, Paragraph 12 of the SEBI operational circular dated 10 August 2021, as amended (" Operational Circular ")	Allotment of Muni Bonds	Within 4 days from the issue closing date.
18.	Mandatory Listing	Regulation 4E of the ILMDS read with Chapter I, Paragraph 12 and Chapter VII, Paragraph 3 of the Operational Circular	Muni Bonds to be listed on at least 1 recognised stock exchange.	For public issue: Application to be made and listing to be completed within 5 days from the issue closing date. For private placement: Application to be made and listing to be completed within 3 days from the issue closing date.