

Frequently Asked Questions for Municipal Debt Securities

Disclaimer: These FAQs are prepared with a view to guide market participants on SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (“Municipal Debt Regulations”). For full particulars of laws governing the municipal debt securities, please refer to the Acts/Regulations/Guidelines/Circulars etc. appearing under the Legal Section of SEBI website i.e. www.sebi.gov.in. Any queries about the Municipal Debt Regulations can be addressed to the Department of Debt and Hybrid Securities, SEBI.

1. What are Municipal Debt Securities?

Municipal Debt Securities are non-convertible debt securities which create or acknowledge indebtedness, and include debenture, bonds and such other securities of an issuer, issued in terms of Municipal Debt Regulations.

2. Who can be issuers under Municipal Debt Regulations?

The issuers of Municipal Debt Securities under Municipal Debt Regulations can be any municipality or any Statutory Body or Board or corporation, Authority, Trust or Agency established or notified by any Central or State Act or any Special Purpose Vehicle notified by the State Government or Central Government, subject to the condition that it undertakes one or more functions that may be entrusted under Article 243W of the Constitution of India.

Further, any structure set up under the Pooled Finance Development Fund Scheme of the Government of India or a body corporate to whom the Companies Act, 2013 applies, which offers or proposes to offer municipal debt securities in accordance with Municipal Debt Regulations shall also be deemed to be allowed as an issuer subject to the condition that it is set up by the State Government(s) or Central Government for the purpose of raising funds for a person performing one or more functions entrusted under Article 243W of the Constitution of India.

3. What are the eligibility condition for issuance of municipal debt securities under Municipal Debt Regulations?

The criteria for eligible issuers are specified under Regulation 4 of Municipal Debt Regulations. Some of the eligibility conditions are as follows:

- The issuer is eligible to make an issue under its constitution document
- The accounts of the issuer are prepared in accordance with the manual/standards specified under Municipal Debt Regulations
- The issuer has not defaulted in debt repayment during the preceding 365 days
- The issuer, its promoter, directors have not been named ‘willful defaulters’, ‘fugitive economic offender’
- The issuer has obtained credit rating from SEBI registered credit rating agency
- The issuer has appointed a SEBI registered debenture trustee for the issue

4. What are the different kinds of issues which can be made by an issuer under Municipal Debt Regulations?

Under Municipal Debt Regulations, issuers are allowed to issue municipal debt securities either through public offer or on private placement basis. Municipal debt securities issued on private placement basis that are proposed to be listed are governed by the provisions of Municipal Debt Regulations.

a. Public issue

When an issue / offer of municipal debt securities is made to investors/ public through an issue of offer document, it is called a public issue.

b. Private placement

When an issuer makes an offer of municipal debt securities to a select group of persons (not exceeding two hundred excluding qualified institutional buyers in a financial year), through placement memorandum, it is called a private placement.

5. Is there any requirement to seek in-principle approval from stock exchange?

Yes, the issuer is required to make an application for in-principle approval to one or more recognized stock exchange(s) for listing of municipal debt securities.

6. Is there any requirement to obtain credit rating?

Yes, the issuer is required to obtain credit rating from at least one credit rating agency registered with SEBI, which is required to be disclosed in the offer document or placement memorandum. Further, where credit ratings are obtained from more than one credit rating agency, all the ratings, including the unaccepted ratings, are to be disclosed in the offer document or placement memorandum, as applicable.

7. Are there any guidance notes for issuance of municipal debt securities?

Yes, a guidance note for issuance of municipal debt securities is available on SEBI website (www.sebi.gov.in) under the heading Legal —> Guidance Notes. The same can also be accessed at the following weblink:

<https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=85&smid=0>

A. Processing of offer document for public issue of municipal debt securities

8. Are there any entry requirements for an issuer to make an issue / offer to public? If yes, what are these?

In order to make public issue of municipal debt securities, issuer shall have surplus income as per its Income and Expenditure statement in any of the immediately preceding three financial years. However, if the issuer is a body corporate to which the Companies Act 2013 applies, then it shall not have negative net worth in any of the immediately preceding three financial years.

9. Please provide the list of intermediaries to be appointed for a public issue?

The issuers are required to appoint one or more merchant bankers, which are registered with the Board, as lead manager(s) to the issue. The issuer is also required to appoint a debenture trustee registered with the Board in accordance with the provisions of the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993.

10. What are the disclosures to be made in the offer document?

The disclosures to be made in the offer document are specified under Regulation 6, Schedule I and Schedule IA of the Municipal Debt Regulations.

11. Where do the issuer file draft offer document?

The issuer is required to file draft offer document with SEBI and designated stock exchange through the lead manager.

12. What is the time taken by SEBI to issue observation post filing of offer document?

SEBI may specify changes or issue observations, if any, on the draft offer document within twenty one days from the later of the following dates:

- a) the date of receipt of the draft offer document; or
- b) the date of receipt of satisfactory reply from the lead manager(s), where SEBI has sought any clarification or additional information from them; or
- c) the date of receipt of clarification or information from any regulator or agency, where SEBI has sought any clarification or information from such regulator or agency;
- d) the date of receipt of a copy of in-principle approval letter issued by the stock exchange(s)

13. Whether there is any requirement to seek public comments on the draft offer document?

Yes, the draft offer document filed with the designated stock exchange is made public by posting the same on the website of the designated stock exchange for seeking public comments for a period of fifteen days from the date of filing the draft offer document with stock exchange.

14. What should be done on either issuance of observations by SEBI or on expiry of twenty one days from the dates specified above?

The lead manager is required to submit the following documents to SEBI

- a) If SEBI has issued observations or suggested any changes then a statement has to be made certifying that all changes, suggestion and observations made by SEBI has been incorporated in the offer document
- b) Due diligence certificate in the format specified under Form B and Form C of Schedule II of Municipal Debt Regulations

15. Besides entry norms, are there any mandatory provisions which an issuer is expected to comply before making an issue?

Prior to the opening of the public issue, the debenture trustee is required to furnish a due diligence certificate to SEBI in the format specified under Schedule III of Municipal Debt Regulations

16. What are the provisions regarding advertisements relating to the public issue of municipal debt securities?

The issuer may make advertisements in a national daily with wide circulation on or before issue opening date and such advertisement is required to contain disclosures as specified under Schedule IV of the Municipal Debt Regulations. Further certain exclusions relating to advertisements are mentioned under Regulation 9 of the Municipal Debt Regulations.

17. What are the timelines for allotment and listing of municipal debt securities issued through public issue?

The municipal debt securities issued through public offer are required to be listed on the stock exchange platform within six working days from the date of the closure of issue.

B. Processing of placement memorandum for private placement of municipal debt securities

18. Who is required to file placement memorandum and where?

Prior to making a private placement of municipal debt securities which are proposed to be listed, the issuer is required to file the placement memorandum with SEBI and stock exchange(s) through the merchant banker registered with SEBI.

19. What are the disclosure requirements in placement memorandum?

The merchant banker to the issue shall provide disclosures specified under Regulation 14A (2), Schedule I and Schedule IA of Municipal Debt Regulations in the placement memorandum

20. What is the time taken to issue observation by the Board?

SEBI may issue observations, if any, on the preliminary placement memorandum within fifteen days from the later of the following dates:

- a) the date of receipt of the preliminary placement memorandum; or
- b) the date of receipt of satisfactory reply from the issuer and/or merchant banker to the issue, where SEBI has sought any clarification or additional information from them; or
- c) the date of receipt of clarification or information from any regulator or agency, where SEBI has sought any clarification or information from such regulator or agency; or
- d) the date of receipt of a copy of in-principle approval letter issued by the stock exchange(s).

21. What documents are required to be filed along with placement memorandum?

The merchant banker to the issue, is required to ensure that all comments are suitably incorporated in the preliminary placement memorandum prior to filing the placement memorandum to the Stock Exchange(s), the merchant banker to the issue is also required to provide the due diligence certificate as specified in Form B and Form C of Schedule II of Municipal Debt Regulations.

Prior to the opening of issue, the debenture trustee is required to furnish a due diligence certificate to SEBI in the format specified under Schedule III of the Municipal Debt Regulations

22. What is the minimum subscription amount?

The minimum subscription amount per investor in case of private placement is INR ten lakh.

23. What are the timelines for allotment and listing of municipal debt securities issued on private placement basis?

The municipal debt securities issued on a private placement basis are required to be listed on the stock exchange platform within four working days from the date of closure of the issue.

C. Queries and complaints

24. Will SEBI answers my queries pertaining to primary market?

The “Contact us” section on the SEBI website gives details of the contact name, address, phone number, etc for any investor to communicate his/her complaints or for assistance. However, if the queries are legal in nature, they may be referred to SEBI under the SEBI (Informal Guidance) Scheme, 2003 as available at <https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=2&ssid=10&smid=0>

25. How can investors redress their complaints against issuers of municipal debt securities or any other intermediaries involved in the allotment of municipal debt securities?

Investors should first approach the concerned issuer with their complaint. If the complaint remains unresolved, the investors may approach SEBI for facilitating redressal of their complaints. SEBI has a web based centralized grievance redress system called SEBI Complaint Redress System (SCORES) available at <http://scores.gov.in> where investors can lodge their complaints against issuers of municipal debt securities or any other intermediaries involved in the allotment of municipal debt securities.