Amendments to SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008

1. Objective

1.1. This Board Memorandum proposes amendments to SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 **(**hereinafter referred to as "SDI Regulations") with a view to refresh and restate the SDI Regulations in the backdrop of the revised directions issued by the RBI in September 2021 on Securitization of Standard Assets and feedback from market participants.

2. Background:

2.1. Securitization is a process in which assets/ receivables are pooled together and then re-packaged into pass through instruments. The cash flow from these underlying assets/ receivables is passed on to the purchasers/ investors in the pass through instruments.

2.2. Securitization in India is regulated and governed by:

2.2.1. Securities and Exchange Board of India ('SEBI'), under the provisions of SEBI (Issue and Listing of Securitized Debt Instruments and Security Receipts) Regulations, 2008 ('SDI Regulations') which deals with issuance, listing and trading of securitized debt instruments ('SDIs') and of security receipts ('SRs')

2.2.2. Reserve Bank of India ('RBI'), under the provisions of

a) Master Direction - RBI (Securitization of Standard Assets) Directions, 2021 – for standard assets; ('RBI SSA Directions')
b) Securitization and Reconstruction of Financial Assets and Enforcement of security Interest Act, 2002 ('SARFAESI Act') – for stressed financial assets

2.3. SEBI had set up a working group (WG) to inter alia review and align the provisions of the SDI Regulations with RBI SSA Directions. RBI

representatives were invitees to the meetings and discussions of the working group.

3. Consultation:

3.1. Following the recommendations of the working group, review of RBI SSA Directions, meetings with various market participants and internal deliberations, SEBI issued a consultation paper titled " Consultation paper on review of SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008" on November 01, 2024 seeking comments/ views/ suggestions from the public. Extract of the report of the WG was also uploaded along with the public consultation paper.

3.2. A total of 517 comments were received out of which 430 comments were received online and remaining 87 comments were received through email. Proposal wise level of agreement is given in below table. 53 out of 87 comments received through email, have not indicated their level of agreement (i.e partially agree, disagree) hence the same are not counted in the below table. Summary of the responses received is as under:

Table No. 1

Proposals		**No. of people/entities agreeing to the proposal**				
P. No.	**Proposal Description**		**Agree**	**Partially agree**	**Disagree**	**Total**
1	SDI issuance and its transfer shall be only in demat form.	in no.	16	0	0	16
		in %	100%	0%	0%	100%
2	The minimum ticket size i.e. size of investment by a single investor whether at the time of initial subscription or subsequent purchase of SDI shall be: 1. For Originators that are RBI regulated entities (i.e. scheduled commercial banks (excluding regional rural banks), small finance banks, NBFCs	in no.	6	1	15	22

	including HFCs and All-India Term Financial Institutions), the minimum ticket size shall be as specified by RBI from time to time (currently specified as Rs 1 crore). .2. For Originators that are not regulated by RBI and are undertaking securitisation, the minimum ticket size shall be Rs 1 crore. 3. For SDIs with underlying that are listed securities, the amount shall be atleast the face value specified for such listed securities	in %	27%	5%	68%	100%
3	Number of persons to whom offer or invitation (including by way of a secondary transaction) can be made in case of issuance of SDI on a private placement basis and which are proposed to be listed can be revised to 200. An offer or invitation to investors in excess of such number will require being undertaken as a public issue of SDIs.	in no.	5	2	14	21
		in %	24%	10%	67%	100%
4	Offer or invitation made to qualified institutional buyers to be excluded while calculating the limit of 200 persons.	in no.	12	1	0	13
		in %	92%	8%	0%	100%
5	Minimum and maximum number of days of which the public offer can kept open shall be 3 days and 10 days respectively.	in no.	11	1	0	12
		in %	92%	8%	0%	100%
6	Advertisement requirements for SDIs shall be aligned with the requirements specified in the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.	in no.	13	0	1	14
		in %	93%	0%	7%	100%
7	Minimum risk retention (MRR) of 10% by the originator is proposed to be specified.	in no.	6	7	6	19
		in %	32%	37%	32%	100%
8	For transactions where receivables have a scheduled maturity up to 24	in no.	8	6	2	16

	months, Minimum risk retention (MRR) of 5% by the originator is proposed to be specified.	in %	50%	38%	13%	100%
9	Minimum holding period (MHP) by the originator of the receivables that would be the underlying for an SDI shall be specified from time to time.	in no.	3	4	13	20
		in %	15%	20%	65%	100%
10	Clean-up call option would be available to the originator and stipulated at a maximum of 10% of the original value of the underlying.	in no.	11	1	1	13
		in %	85%	8%	8%	100%
11	The exercise of the clean-up call option, if any, is not mandatory upon the originator.	in no.	13	0	0	13
		in %	100%	0%	0%	100%
12	Clean-up call options, if any, should not be structured to avoid allocating losses to credit enhancements or otherwise structured to provide credit enhancements and should be in accordance with the norms as specified from time to time.	in no.	12	0	0	12
		in %	100%	0%	0%	100%
13	Originators may directly provide liquidity facilities or appoint an independent third party to provide such liquidity facilities. Such liquidity facilities help smoothen the timing differences faced by a special purpose distinct entity (SPDE) between the receipt of cash flows from the underlying assets and the payments to be made to the investors, and should be in accordance with the norms as specified from time to time.	in no.	12	1	1	14
		in %	86%	7%	7%	100%
14	Definition of debt/receivables shall be amended. Such definition shall specify: listed debt securities, trade receivables (arising from bills/invoices duly accepted by the obligors), rental receivables and equipment leasing receivables. Further, SEBI may notify other types	in no.	5	7	9	21
		in %	24%	33%	43%	100%

	of debt or receivables from time to time. No other debt or receivable (including unlisted debt securities) shall be permitted to be an underlying for an SDI.					
15	Conditions that shall govern securitisation resulting in issuance of SDIs: (1) No obligor shall have more than 25% in asset pool. (2) Asset comprising the securitisation pool should be homogeneous. (3) SDIs must be fully paid up. (4) Originators must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable it is seeking to securitize. (5) Obligor must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable that the originator is seeking to securitize. (6) Originator and Obligor must have a business relationship for atleast 3 years. In case of trade receivables, such business relationship should have spanned atleast two cycles of payments with no defaults, and the receivables arising from such obligors proposed to be securitized should have the same payment cycle.	in no.	1	7	14	22
		in %	5%	32%	64%	100%
16	Trustees of an SPDE shall only be a SEBI registered Debenture Trustee. Accordingly, Board of Trustees, or other entities permitted to be trustees of an SPDE would not subsist.	in no.	9	0	2	11
		in %	82%	0%	18%	100%

17	Requirement of prior approval from SEBI for the removal or replacement of trustees shall be dispensed with.	in no.	11	0	0	11
		in %	100%	0%	0%	100%
18	Procedure of removal of trustee to be aligned with SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 ('NCS Regulations') and/or Mutual fund regulations.	in no.	9	0	0	9
		in %	100%	0%	0%	100%
19	Procedure for calling of and holding of the meeting for trustee removal and replacement shall be specified.	in no.	8	0	0	8
		in %	100%	0%	0%	100%
20	Amend Duties of trustees under SDI regulation to provide clarity, increase accountability and transparency and relevant provisions of NCS Regulations and MF Regulations.	in no.	8	1	0	9
		in %	89%	11%	0%	100%
21	Aligning the code of conduct and duties of trustees to the code of conduct and duties of debenture trustees provided in Schedule III (read with regulation 16) and relevant provisions of NCS Regulations and MF Regulations	in no.	7	1	1	9
		in %	78%	11%	11%	100%
22	Mandate disclosure of updated information regarding the SDIs on a semi-annual basis.	in no.	10	2	0	12
		in %	83%	17%	0%	100%
23	DT/ CRA to update any rating change to stock exchanges on a continuous basis.	in no.	10	1	0	11
		in %	91%	9%	0%	100%
24	Introduce the format of the disclosures to be made on a semi-annual basis.	in no.	10	0	0	10
		in %	100%	0%	0%	100%
25	Specify that the defaults should cover defaults in connection with servicing obligations undertaken in the past for any SDI or securitisation notes or SRs.	in no.	8	2	1	11
		in %	73%	18%	9%	100%

26	Specify that the entity(ies) in respect of whom such disclosures should be made are: originator, servicer, or any other parties to the transaction.	in no.	9	2	1	12
		in %	75%	17%	8%	100%
27	Permit declaration to be made by any authorized person of the originator (as authorized by the board or governing board of the originator) where the issuance is done through private placement.	in no.	11	0	0	11
		in %	100%	0%	0%	100%
28	Deletion of requirement of an application for listing of an SDI by an SPDE since LODR Regulations, 2015 is applicable for all listed entities.	in no.	9	0	0	9
		in %	100%	0%	0%	100%
29	References to concepts and provisions from Monopolies and Restrictive Trade Practices Act, 1969 and Companies Act, 1956 under regulation 10(3) of SDI regulations may be deleted since both these legislations have now been repealed.	in no.	10	0	0	10
		in %	100%	0%	0%	100%
30	SDI Regulations may re-define the term Group suitably based on Competition Act 2002 and/or under same control as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and/or associate company and/ or subsidiary.	in no.	6	2	0	8
		in %	75%	25%	0%	100%
31	SDI Regulations may re-define the term "under same management" suitably based on the Competition Act 2002 and/or SAST and/or associate company and/or subsidiary.	in no.	6	2	0	8
		in %	75%	25%	0%	100%
32	References to Companies Act, 1956 shall be replaced by Companies Act, 2013 and accordingly provisions referencing provisions of the Companies Act 1956 shall be updated with relevant provision of	in no.	11	0	0	11
		in %	100%	0%	0%	100%

	the Companies Act, 2013 in various provisions of the SDI Regulations.					
33	Rights of investors in an SDI shall not be varied without their consent. Accordingly, the word "adversely" in Regulation 34(6) of SDI Regulation is proposed to be deleted.	in no.	11	3	1	15
		in %	73%	20%	7%	100%
34	E-Voting may be permitted and accordingly Regulation 34(7) shall be amended.	in no.	9	0	0	9
		in %	100%	0%	0%	100%
35	SPDE/Trustee of an SPDE shall comply with the requirements as provided under Chapter III of the SEBI LODR Regulations.	in no.	9	2	0	11
		in %	82%	18%	0%	100%
36	In terms of LODR regulations, the entity issuing the listed SDIs is required to be registered on the SCORES Platform. Accordingly, SCOREs shall permit registration at the Trustee level for all the SPDEs that it is a trustee of.	in no.	10	1	0	11
		in %	91%	9%	0%	100%

3.3. Based on recommendations of the working group, CoBoSAC and internal deliberations, this memorandum is placed before the Board for approval. The proposals consulted in the aforementioned consultation paper, suggestions received from the public and views of SEBI thereon are summarized at Annexure A.

4. Mandating SDI issuance and its transfer only in demat form

4.1. Extant Regulatory framework:

4.1.1. Regulation 23(2) of the SDI Regulations reads as under:

"(2) The special purpose distinct entity shall give an option to the investors to receive the securitised debt instruments either in the physical form or in dematerialised form."

4.2. Rationale for proposed amendment:

4.2.1. With the advent of dematerialized holdings of securities and wide number of investors having opened demat accounts, SDIs should also

be issued, held and transferred in demat form. This will also be in the interest of advancement of facilitating smoother trading and settlements. Hence issue of SDIs in physical form is redundant. Further, this can aid assessing the extent of issuances that take place via the depository system. Therefore, it is recommended that, moving forward, all SDIs be required to be issued in dematerialized form to enhance the ease of tradability and transferring these instruments during secondary market transactions.

4.3. **Proposals for consideration of the SEBI Board:**

4.3.1. In order to ensure better tracking and enhance the ease of transferring SDIs during secondary market transactions, it is proposed that SDIs should be issued and transferred in demat form only.

5. Requirements related to the minimum ticket size i.e. size of investment by a single investor whether at the time of initial subscription or subsequent purchase of SDI shall be: 1. For Originators that are RBI regulated entities (i.e. scheduled commercial banks (excluding regional rural banks), small finance banks, NBFCs including HFCs and All-India Term Financial Institutions), the minimum ticket size shall be as specified by RBI from time to time; (2) For Originators that are not regulated by RBI and are undertaking securitisation, the minimum ticket size shall be Rs 1 crore and (3) For SDIs with underlying that are listed securities, the amount shall be highest face value among such listed securities

5.1. **Extant regulatory provision:**

5.1.1. SDI Regulations do not prescribe any minimum ticket size for SDIs.

5.1.2. Further, RBI SSA Directions reads as under:

"28. The minimum ticket size for issuance of securitisation notes shall be Rs.1 crore.

Explanation: Ticket size, for the purpose of these directions, refers to the size of investment by a single investor."

5.2. **Rationale for proposed amendment:**

5.2.1. Given the complexity and inherent risks associated with SDIs, it is crucial to establish a larger initial ticket size and subsequent transfer size (i.e. secondary market transaction size) for investments to attract investors who can effectively assess the risks associated with the instrument, and therefore, reduce the likelihood of misinterpretation of risks. This initial ticket size should be set at a higher threshold, as in case of SSA Directions, thereby ensuring that participants possess the requisite expertise and commitment to conduct thorough due diligence.

5.2.2. 68% of the comments received were not in the agreement with the proposal. Some of the key comments from the public and our response are as under:

a) Comment: Raising minimum ticket size may reduce accessibility for Investors (including investing via portfolio management scheme)

Response: Large percentage of underlying for SDI is originated by RBI Regulated Entities - final proposal pegs ticket size in line with RBI Directions. This will provide necessary access especially in secondary transactions. For other types of underlying, the nascence, lack of regulatory oversight over originators, and lack of transparency of credit behavior of obligors as well as originator/servicer practices requires keeping access restricted through high ticket size.

b) Comment: Minimum ticket size specified for secondary transactions should factor the amortizing nature of underlying

Response: Final proposal factors such concern

c) Comment: Proposal is not aligned with RBI SSA Directions where the minimum lot size of 1 crore is required only at initial participation and does not extend to secondary market transfers.

Response: Final proposal factors in such feedback

d) Comments: Invoices are sold online in lots as small of INR1000. Fixed deposits, Unlisted NCD and equity and Lease dues are sold. The securitisation market has some measure of regulation and by its nature allows for a greater degree of protection for the client as a SEBI registered Trustee is involved to make assets bankruptcy remote and owned by the client. By making minimum ticket size 1 Cr the securitisations will not compete with unlisted NCD or invoices and thus a better product will be killed while a worse one with no investor protection is allowed to survive.

Response: comparisons of regulated products with those that are unregulated products is not appropriate. Regulated products are designed keeping in mind investor sophistication, risk appetite, disclosure requirements, parties and intermediaries involved and systemic risks.

e) Comments: The Mutual funds all have a policy of investing only in AA or AA A rated securitized paper. Rating agencies have a policy have giving a rating which is linked to originator rating i.e. if an Originator is rated BBB the best rating his PTC can get is BBB plus or A minus. So, a move to increase the minimum size of each PTC in primary and secondary the product will be confined to the top 5 of companies in India and the remaining 95 will not be able to securitize.

Response: There are multiple fallacies in the feedback. MFs do invest in instruments with varied levels of rating depending on scheme objectives & risk return expectations. CRAs do rate SDIs factoring in underlying obligors, servicer performance track record and originator practices relevant to creation of obligors, etc. Minimum ticket size is of relevance to investors rather than originators.

f) Comments: Monitoring compliance with ticket sizes in secondary purchase would become practically impossible for either the securitisation trust (issuing such SDIs) or the originator considering the listed and freely transferable nature of such instruments.

Response: Such concern is unfounded - Exchanges and Depositories are equipped to ensure transactions take place at specified lot sizes

5.3. **Proposal:**

5.3.1. It is proposed that the minimum ticket size for originators that are RBI regulated entities i.e. size of investment by a single investor at the time of initial subscription shall be as per RBI guidelines, and as specified by RBI from time to time. For secondary transactions, no minimum ticket size is proposed.

5.3.2. For Originators that are not regulated by RBI and are undertaking securitisation, the minimum ticket size at the time of initial subscription and for subsequent transfers shall be Rs. 1 crore.

5.3.3. For SDIs with underlying that are listed securities, the minimum ticket size at the time of initial subscription and for subsequent transfers shall be that of highest face value among such securities.

Provided that for instruments with amortization structures, when the amortised value falls below the applicable minimum ticket size for secondary market transaction, then the same shall be permitted to be traded in such lots of amortised value without further diminution of lot sizes.

6. Specifying number of persons to whom offer or invitation (including by way of a secondary transaction) can be made in case of issuance of SDI on a private placement basis and which are proposed to be listed and carve out for qualified institutional buyers (QIBs)

6.1. **Extant regulatory provision:**

6.1.1. Regulation 21(4) of the SDI Regulations reads as under:

"(4) Notwithstanding sub-regulation (2), any offer of securitised debt instruments made to fifty or more persons in a financial year shall always be deemed to have been made to the public:

Provided that sub-regulation (3) applies only in respect of securitised debt instruments which belong to the same tranche and which are pari passu in all respects.

Explanation: For the purposes of sub-regulation (4), the term "financial year" shall mean the period of twelve months commencing from the 1st day of April in any year."

6.2. **Rationale for proposed amendment:**

6.2.1. WG recommended that the number of persons specified herein the SDI Regulations in be made consistent with the limit specified under section 42 of the Companies Act, 2013, read with rule 14(2) of the Companies (Prospectus and Allotment of Securities) Rules, 2014 with respect to number of persons (in a financial year), that is, 200, to whom an offer can be made to subscribe to securities on private placement basis. Further, it is also recommended to consider including the carve-out for an offer or invitation made to qualified institutional buyers while calculating the limit of 200 persons.

6.2.2. In addition to above, SEBI consulted public with additional condition of restricting the number of persons by way of secondary market transaction.

6.2.3. 67% of the comments received were not in the agreement with the proposal. Some of the key comments from the public are as under:

a) A 200-investor limit in the secondary market is inconsistent with open and transparent market principles and limits investor base diversification and price discovery and contradicts the listing provisions' fundamental purpose of creating a broad, accessible market for all eligible investors countering the purpose of listing securities.

b) Monitoring such limits is practically impossible for the trust or originator due to the listed and freely transferable nature of these instruments.

c) The restriction could reduce market liquidity, price discovery, and retail investor participation, weakening the market overall.
d) It restricts the primary investor's ability to sell holdings if 200 investors are already present, disincentivizing initial investment.
e) The proposal doesn't align with other securities issuance regulations, where such caps are only applicable at the time of issuance, not for secondary market transactions.

6.2.4. In respect of the above public comments, SEBI’s comments are as under:

a) Public consultation was done to increase the number to 200 from 50, however, based on internal deliberations and to remain in sync with RBI SSA Directions, it decided to keep the threshold at 50 only and take authorisation from the Board to enhance such number to 200 (or such other number from time to time, and in tandem with RBI).
b) Introduce a safe harbor mechanism for private securitisation transaction that are not intended to be made available to public at large by harnessing the depository mechanism. Further, discussion was held with a depository regarding process restricting shareholders in case of unlisted private companies. The depository has informed that:
a) At the time of ISIN admission, the Issuer is given an option to keep the ISIN with frozen for debit status or keep it unfrozen. If the Issuer opts to freeze the ISIN, the status is kept as frozen for debit.
b) Subsequently, If the Issuer wants to transfer the securities of the ISIN, a request letter from the Issuer is obtained along with the requisite payment & standard format.
c) The Issuer is required to confirm the period for which they wish to unfreeze the ISIN for a maximum of 7 calendar days.
d) ISIN is then unfrozen and after the requested period is over, the ISIN is again frozen for debit.

e) The above approach can be extended to BO ISIN level freeze for SDIs.

f) Such mechanisms shall help create a safe harbor for private securitisation transactions that are not intended to be made available to public.

g) Further, it is proposed to introduce provisions for private securitisation transaction to help create a safe harbor for private securitisation transactions that are not intended to be made available to public and to restrict the number of holders/ investors in such transactions within the specified number that requires listing as per SDI Regulations.

6.3. **Proposal:**

6.3.1. It is proposed to retain the extant provision and keep the limit of 50 (proposed to be raised to 200 in tandem with RBI, or such further number as may be notified from time to time)) in a financial year for SDIs beyond which the offer at the stage of issuance or in subsequent transfers would be deemed to be made to be made by the public.

6.3.2. Additionally, it is proposed to specify the “safe harbour’ mechanism, such that special purpose distinct entities or securitisation transactions not intending for PTC/Securitization Notes/instrument/securities by whatever name called being available to investors above specified, and hence not desiring listing (whether on a public issue basis or private placement basis) to ensure that:

a) Specify prominently, expressly and in writing in the offer document/ private placement memorandum/ information memorandum/ document or contract (or other such information in whatever form or manner) for the PTC/Securitization Notes/instrument/securities by whatever name called: That initial and subsequent investors have to be limited to [50/200] and the investors should abide by such restrictions, and the mechanism instituted by the Issuer & Depository.

b) Issuance, holding and transfer of PTC/Securitization Notes/ instrument/ securities by whatever name called shall be in demat mode

c) Issuers and investors shall only utilize the mechanism instituted by the depository for issue & allotment, holding & transfers

d) Issuer/Originator shall not engage any SEBI registered intermediary (whether merchant banker, stockbroker, CRA or DT, etc.) for any role or activity in connection with the asset transfer transaction or in issuance/transfer of PTC/Securitization Notes/instrument/securities by whatever name called - other than for demat holding & depository mechanism outlined above

7. Specifying minimum and maximum number of days of which the public offer of SDI can kept open

7.1. Extant regulatory provision:

7.1.1. Regulation 36(1) of the SDI Regulations reads as under:

"36.(1) In respect of public offers of securitised debt instruments, the special purpose distinct entity or trustee thereof shall satisfy the recognised stock exchange to which a listing application is made that each scheme of securitised debt instruments was offered to the public for subscription through advertisements in newspapers for a period of not less than two days and that applications received in pursuance of the offer were allotted in accordance with these regulations and the disclosures made in the offer document."

7.1.2. Regulation 29 of the SDI Regulations reads as under:

"29. No public offer of securitised debt instruments shall remain open for more than thirty days."

7.2. Rationale for proposed amendment:

7.2.1. To align the timelines of public issue of SDIs with public issue timelines of NCS Regulations and to minimize the uncertainty that arises when the offer period is extended for a long duration.

7.3. **Proposal:**

7.3.1. It is proposed that public offer for SDI may be kept open for minimum of 2 working days and upto a maximum of 10 working days.

8. Introduction of advertisement requirements for SDIs

8.1. **Extant regulatory provision:**

8.1.1. Regulation 35(1) (b) of SDI regulation requires that copies of all offer documents and advertisements in connection with offer of securitised debt instruments by the special purpose distinct entity or its trustee at any time shall be submitted to stock exchange along with the application for listing.

8.1.2. Regulation 35 (1) (b) of SDI Regulations reads as under:

"35. (1) A special purpose distinct entity required by sub-section (2) of section 17A of the Act to get the securitised debt instruments issued by it listed on a recognised stock exchange or otherwise desirous of getting the securitised debt instruments issued by it so listed shall make an application to the stock exchange in the form specified by it along with the following documents and particulars:

(a) …

(b) copies of all offer documents and advertisements in connection with offer of securitised debt instruments by the special purpose distinct entity or its trustee at any time;"

8.1.3. Currently, SDI Regulations do not define what prescribe any format of advertisements for public issues of SDIs.

8.1.4. Regulation 2(c) of NCS Regulations, reads as under:

"(c) "advertisement" means and includes notices, brochures, pamphlets, show cards, catalogues, hoardings, placards, posters, insertions in newspaper, pictures, films, websites or in any other print or digital medium, radio, television programmes through any electronic medium;"

8.1.5. Further, Regulation 30 of NCS Regulations, reads as under:

"Advertisements for Public issues

30.(1) The issuer shall make an advertisement through electronic modes such as online newspapers or website of the issuer or the stock exchange, or]in an english national daily and regional daily wir with wide circulation at the place where the registered office of the issuer is situated, on or before the issue opening date and such advertisement shall, amongst other things, contain the disclosures as specified in Schedule V.

Provided that issuers opting to advertise the public issue through electronic modes shall publish a notice, in an English national daily and regional daily newspaper with wide circulation at the place where the registered office of the issuer is situated, exhibiting a QR Code and link to the complete advertisement.

(2) No issuer shall issue an advertisement which is misleading or which contains any information in a distorted manner or which is manipulative or deceptive.

(3) The advertisement shall be truthful, fair and clear and shall not contain a statement, promise or forecast which is untrue or misleading.

(4) Any advertisement issued by the issuer shall not contain any matters which are extraneous to the contents of the offer document and the advertisements shall not display models, celebrities, fictional characters, landmarks, caricatures or the likes for solicitation of the public issue. (5) The advertisement shall solicit investment only on the basis of information contained in the offer document.

(6) Any corporate or product advertisement issued by the issuer from the date of filing of the draft offer document with the stock exchange(s) till the issue closure date, shall not make any reference to the issue of debt securities and non-convertible redeemable preference shares or be used for solicitation for debt securities and non-convertible redeemable preference shares.

(7) The credit rating shall be prominently displayed in the advertisement."

8.2. **Rationale for proposed amendment:**

8.2.1. To align the provisions with NCS Regulations

8.3. **Proposal**

8.3.1. It is proposed to amend SDI Regulations to align the same with NCS Regulations.

9. Introduction of provisions related to Minimum retention requirement (MRR)

9.1. **Extant regulatory provision:**

9.1.1. Currently, SDI Regulations do not specify any MRR. Extant regulation recognizes the requirement of MRR since the Summary term sheet under clause 4.3 of Schedule V of SDI Regulations, inter alia mentions, Minimum Retention Requirement, if any [Continuing stake, if any, of Originator, if any, on the receivables].

9.1.2. Para 12 of RBI SSA Directions inter alia require originators to retain a minimum risk in transactions, ensuring they have a stake in the outcome Further, Annex 2 of the RBI SSA Directions requires disclosure of the same in the offer document.

9.1.3. Para 12 and 13 of RBI SSA Directions reads as under:

"12. The MRR is primarily designed to ensure that the originators have a continuing stake in the performance of securitised assets so as to ensure that they carry out proper due diligence of loans to be securitised. The originators should adhere to the MRR as detailed below while securitising loans leading to issuance of securitisation notes other than residential mortgage backed securities:

a. For underlying loans with original maturity of 24 months or less, the MRR shall be 5% of the book value of the loans being securitised.

b. For underlying loans with original maturity of more than 24 months as well as loans with bullet repayments, as mentioned in proviso to Clause 6, the MRR shall be 10% of the book value of the loans being securitised.

13. In the case of residential mortgage backed securities, the MRR for the originator shall be 5% of the book value of the loans being securitised, irrespective of the original maturity.

The MRR shall be retained by the originator as follows:

a. Upto 5 per cent of the book value of loans being securitised:
   • First loss facility, if available;
   • If first loss facility is not available, or where retention of the entire first loss facility amounts to less than 5 per cent, balance through retention of equity tranche;
   • Where retention of the entire first loss facility, if available, and equity tranche amounts to less than 5 per cent, balance pari passu in remaining tranches sold to investors.
b. Greater than 5 per cent of the book value of loans being securitised:
   • First loss facility, or equity tranche or any other tranche sold to investors, in any combination thereof.

Explanation: It is clarified that first loss facility for this purpose shall not include overcollateralization available, if any.

Investment in the Interest Only Strip representing the Excess Interest Spread/ Future Margin Income, whether or not subordinated, will not be counted towards the MRR.

MRR should not be reduced either through hedging of credit risk or selling or encumbering the retained interest. MRR has to be maintained by the originating lender itself and not by any of its group entities. The form of MRR should not change during the life of securitisation. The MRR as a percentage of unamortised principal should be maintained on an ongoing basis except for reduction of retained exposure due to repayment or through the absorption of losses. Specifically, in cases of securitisations featuring replenishment period, MRR should be maintained not only at the initiation of the securitisation but also at the end of the replenishment period

9.2. **Rationale for proposed amendment:**

9.2.1. Minimum risk retention plays a critical role in safeguarding transactions, a concept introduced post global financial crisis to counter the risks of the originate-to-sell model. This model can harm investors' interests by potentially compromising credit underwriting and lack of alignment of

interests of the originator and investor. As a result, a disparity arises between originators in the financial sector and those in the non-financial sector.

9.2.2. To align standards for securitisation transactions originated by non-financial entities with internationally accepted norms, WG recommended that a minimum retention requirement is introduced under the SDI regulations. By introducing MRR in the SDI Regulations, non-financial sector entities will be held to similar standards of accountability, skin-in-the-game, thereby reducing the risks associated with the originate-to-sell model and aligning their practices with those of financial sector originators. This will strengthen investor confidence across the board and mitigate risks of possible moral hazard or lax underwriting standards.

9.2.3. The primary purpose of the MRR is to ensure that originators retain a portion of the credit risk in the securitised assets. Few key objectives of MRR are:

a) **Risk Management**: Ensures that originators have "skin in the game," meaning they share in the potential losses, which promotes better risk management.

b) **Market Confidence**: Enhances investor confidence by demonstrating that the originators believe in the quality of the assets being securitised.

9.2.4. Replenishing structures are not proposed to be specified in the SDI framework as the essential feature of such structures is retention of the moneys realized and then reinvesting into acquiring new underlying. The lack of distribution is not desirable. Further, reinvesting may be into deteriorating assets/obligors or result in circular transactions.

9.3. **Proposal:**

9.3.1. In order to ensure that the originators retain a portion of the credit risk in the securitised assets which results in better risk management and enhancement of investor confidence it is proposed to introduce MRR in line with RBI SSA Directions as mentioned below:

a) MRR of 10% by the originator is proposed to be specified.
b) For transactions where receivables have a scheduled maturity up to 24 months, MRR of 5% by the originator is proposed to be specified.
c) The conditions regarding retention of MRR akin to RBI stipulation would be provided in SDI Regulations.

10. Introduction of provisions related to Minimum holding period (MHP)

10.1. **Extant regulatory provision:**

10.1.1. Currently, SDI Regulations do not specify any MHP. Extant regulation recognizes the requirement of MHP since the Summary term sheet under clause 4.3 of Schedule V of SDI Regulations, inter alia mentions, Minimum Holding Period, if any [Minimum Holding Period, if any, during which the receivables are held by the Originator].

10.2. **Rationale for proposed amendment:**

10.2.1. MHP helps to ensure alignment of interests between the originators and investors in securitisation transactions. Few key objectives of the MHP are:

a) **Early Mortality**: MHP ensures that risk of early delinquency or default is retained with the originator and is not assumed by investors.
b) **Risk Management**: Ensures that the originators retain an economic interest in the assets being securitized, which encourages responsible lending and underwriting practices.
c) **Market Stability**: Reduces the chances of originating institutions offloading low-quality assets immediately after origination, thereby maintaining the stability of the financial system.
d) **Investor Protection**: Enhances the confidence of investors by ensuring that the assets have performed satisfactorily over a minimum period before being securitized.

e) **Alignment of Interests**: Ensures that originators have "skin in the game," meaning they hold onto a portion of the risk for a set period, aligning their interests with those of investors.

10.2.2. In brief, applicable MHP in RBI SSA Direction, is as under:

a) 3 months in case of loans with tenor of up to 2 years;
b) 6 months in case of loans with tenor of more than 2 years

10.2.3. 65% of the comments received were not in the agreement with the proposal. Some of the key comments from the public and our response are as under:

a) Comments: Extending RBI MHP requirement for securitisations for non-RBI regulated originators does not appreciate the difference in the respective business models. Such stipulations in particular will render trade receivables and short term cash flows or receivables ineligible for securitisation.

Response: MHP ensures that risk of early delinquency or default is retained with the originator and is not assumed by investors. For trade receivables stipulation of 2 completed payment cycles and of accepted invoices is to avoid any accommodation transactions. Notably, there are alternatives such as TReDS and Factoring which serve short term requirements better.

b) Comments: Future Flow Securitisation Transactions - Non-RBI regulated originators, in certain cases, engage in ‘future-flow securitisation’ transaction including rental receivables (by equipment lessors), toll receivables (by infrastructure SPVs), and oil and gas sale receivables. Such transactions are backed by future claims that will arise out of future performance and not existing claims against any performance.

The credit rating methodology followed for such transactions is not similar to traditional securitisation transactions, and the key factors for rating are the creditworthiness of the obligor (i.e., the counterparty from whom the cash flow to service the rated debt

is received, such as tenants in case of rental cash flow) and the extent of linkage of the future cash flow to the issuer's operating performance. Traditional MHP requirements cannot be made applicable

Response: all SDIs arising from RBI regulated entities as originators are also future flow in terms of the obligor paying / repaying the amounts over a future period of time. There is a performance role of such an originator as a servicer and to deal with the obligors as clients. CRAs would also evaluate these in a similar manner. Rational for MHP noted above and not being repeated

c) Comments: Unlike securitisation by RBI regulated originators which typically have individuals as obligors, securitisation by non-RBI regulated originators involving receivables such as leasing, trade receivables or warehousing almost entirely have corporations as obligors. ○ Alternative Methods to meet MHP (1) In securitisation transactions originated by non-RBI regulated originators, where the obligor is a corporation with audited financials, the purpose of MHP can be met by introducing checks on the obligor's performance history. (2) For example, for lease rental securitisations, obligors having audited financials of 3 years can serve as a substitute for the MHP requirement and be more appropriate for this industry.

Response: There's no bar on RBI regulated entities to originate transactions with corporate obligors. Corporate obligors can also become delinquent or default. Rational for MHP noted above and not being repeated

10.3. **Proposal:**

10.3.1. It is proposed to introduce MHP in order to ensure alignment of interests between the originators and investors in securitisation transactions in line with RBI guidelines as mentioned below:

The originator can securitise loans only after a minimum holding period (MHP), as prescribed below, which is counted from the date of registration of the underlying security interest with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI):

a) Three months in case of loans with tenor of up to 2 years;
b) Six months in case of loans with tenor of more than 2 years.

   Provided that in case of loans where security does not exist or security cannot be registered, the MHP shall be calculated from the date of first repayment of the loan.

   Provided further that in case of transfer of project loans, the MHP shall be calculated from the date of commencement of commercial operations of the project being financed.

   Provided further that in case of loans acquired from other entities by a transferor, such loans cannot be transferred before completion of six months from the date on which the loan was taken into the books of the transferor.

   Provided that for commercial or residential real estate mortgages, MHP shall be counted from the date of full disbursement of the loan, or registration of security interest with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), whichever is late.

c) For accepted invoice receivables (trade receivables) which are permissible under RBI SSA directions, only those receivables will be eligible for securitization, a drawee of the bill has fully repaid the entire amount of last two receivables within 90 days of the due date. In case such assets are securitised, the investors in the securitisation notes issued against them should be able to verify the compliance of the underlying asset with the above requirement. For trade receivables stipulation of 2 completed payment cycles and of accepted invoices is to avoid any accommodation transactions and such 2 billing cycles shall not

be less than 90 days. Notably, there are alternatives such as TReDS and Factoring which serve short term requirements better.

10.3.2. It is further proposed that SEBI may notify MHP requirements for other debt/ securities as and when permitted under Regulation 2(g).

11. Introduction of provisions related to Clean-up call option

11.1. **Extant regulatory provision:**

11.1.1. Regulation 2(e) of SDI Regulations, reads as under:

"(e) "clean-up call option" means an option retained and exercisable by the originator to purchase the debt or receivables assigned to a special purpose distinct entity, if the residual value of such debt or receivables falls below a specified percentage of the price at which it was assigned;"

11.1.2. The Regulations also require the issuer to make disclosures regarding the presence of clean-up call option, and the terms of exercise of such option;

11.1.3. Para 81 of RBI SSA Directions inter alia reads as under:

"b. the originator should not be able to repurchase the transferred exposures unless it is done through invocation of a clean-up call option. Provided that the purchase on invocation of clean-up calls is conducted at arm's length, on market terms and conditions (including price/fee) and is subject to the originator's normal credit approval and review processes;

f. The exercise of the clean-up calls, if any, should not be mandatory on the originator, in form or substance and must be at the discretion of the originator.

g. The clean-up call options, if any, should not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancements.

Provided that if a clean-up call, when exercised, is found to serve as a credit enhancement (for example, to purchase delinquent underlying exposures), the exercise of the clean-up call should be considered a form of implicit support provided by the originator.

h. The threshold at which clean-up calls become exercisable shall not be more than 10% of the original value of the underlying exposures or securitisation notes."

11.2. **Rationale for proposed amendment:**

11.2.1. The clean-up call option, as the name suggests, allows the originator to repurchase the outstanding pool of a securitisation transaction when the outstanding pool balance falls below a certain threshold, making it uneconomical. This option is at the discretion of the originator, not an obligation, to maintain true sale conditions, and the clean-up call option is an exception to the conditions of true sale. Thus, it is a crucial feature of any securitisation transaction and should ideally be included in the SDI Regulations.

11.3. **Proposal:**

11.3.1. It is proposed to align clean-up call with RBI SSA Directions. Accordingly, the following may be introduced:

a) Clean-up call option would be available to the originator and stipulated at a maximum of 10% of the original value of the underlying.

b) The exercise of the clean-up call option, if any, is not mandatory upon the originator.

c) Clean-up call options, if any, should not be structured to avoid allocating losses to credit enhancements or otherwise structured to provide credit enhancements and should be in accordance with the norms as specified from time to time.

12. Introduction of provisions related to liquidity facilities

12.1. **Extant regulatory provision:**

12.1.1. Regulation 14(2) of SDI Regulations reads as under:

"(2) A special purpose distinct entity may avail the services of a liquidity provider, subject to making full disclosures of the arrangements in the offer document or the particulars submitted to the recognised stock exchange."

12.2. **Rationale for proposed amendment:**

12.2.1. Currently, SEBI regulations acknowledge the concept of liquidity facilities but lack sufficient detail regarding their nature and specifications. This absence of clarity may hinder effective implementation and understanding of liquidity support in securitisation transactions, especially the ones issued by the non-financial sector entities.

12.2.2. In a securitisation transaction, a liquidity facility is vital for managing temporary cash flow mismatches between the timing of inflows from the underlying assets and payments to investors. It acts as a buffer to ensure that payments remain on schedule despite short-term delays, thereby helping to maintain the credit rating of the securitised instruments. Since credit ratings are sensitive to payment delays, any disruption could lead to a downgrade, impacting the transaction's creditworthiness and market perception. By preventing default scenarios caused by cash flow issues, the liquidity facility also boosts investor confidence, making the securitisation more appealing.

12.2.3. It is essential to distinguish between a liquidity facility and credit enhancement because they serve different purposes. Credit enhancement absorbs losses and improves the credit quality of the assets, offering protection to investors. In contrast, a liquidity facility only addresses temporary cash flow mismatches without covering losses or enhancing credit quality. This distinction affects regulatory treatment, as

credit enhancement often requires higher capital charges, while properly defined liquidity facilities face fewer requirements.

12.2.4. The RBI SSA Directions explicitly outline this difference, and a similar clarification would be incorporated into the SEBI SDI Regulations. This can be achieved by detailing the features of both credit enhancements and liquidity facilities within the SDI Regulations.

12.3. **Proposal:**

12.3.1. It is proposed to specify the norms with respect to liquidity facilities in alignment with the RBI SSA Directions which is as under:

Liquidity facility

1. A liquidity facility is intended to manage timing mismatches between the special purpose distinct entities' receipt of cash flows from the underlying assets and payments to investors. To ensure it does not function as credit enhancement or support, it must satisfy the following conditions:

a) The facility provider must be regulated by at least one financial sector regulator.

b) The facility should be structured separately from other arrangements, with clear documentation detailing its nature, purpose, scope, and performance standards in a written agreement executed at the time of the transaction and disclosed in the offer document.

c) The facility should be provided on an 'arm's length basis,' under market terms, and subject to the provider's usual credit approval and review process.

d) Payment of fees or income related to the facility must not be subordinated, deferred, or waived.

e) The facility should be limited to a specified amount and duration.

f) The duration should not exceed the earlier of:

i) settlement of all claims related to the securitised debt instruments issued by the SPDE; or

ii) termination of the facility provider's obligations.

g) There should be no recourse to the facility provider beyond its fixed contractual obligations.

h) A legal opinion should confirm that the agreement protects the facility provider from liability to investors or the special purpose distinct entities/trustee, except for its contractual obligations.

i) The special purpose distinct entities and/or investors should have the right to select an alternative provider, subject to compliance with these conditions.

j) The documentation should clearly define the circumstances under which the facility may or may not be accessed.

k) The facility should only be drawn if there are sufficient non-defaulted assets to cover it or if a significant credit enhancement covers potential non-performing assets.

l) The facility must not be used for:

i) providing credit enhancement;

ii) covering the SPDE's losses;

iii) acting as permanent revolving facility (it should be used as an exception, not the norm); or

iv) covering losses in the underlying assets before a drawdown.

m) The facility should not be available for:

i) meeting recurring securitisation expenses;

ii) funding additional asset acquisition by the SPDE;

iii) covering final scheduled repayments to investors; or

iv) addressing warranty breaches.

n) The facility should be provided to the SPDE, not directly to investors.

o) Once drawn, the facility provider shall have priority over future cash flows from the underlying assets, ranking senior to the senior tranche.

p) The originator shall not be liable for any shortfall in liquidity support provided by an independent third party.

2. If any of these conditions are not met, the liquidity facility will be regarded as serving the economic purpose of credit enhancement. In such cases, a third-party liquidity facility shall be classified as credit enhancement.

3. As the liquidity facility is meant to address temporary cash flow mismatches, it should only be drawn for short periods and preferably not used for two consecutive repayment cycles."

13. Amendment to the definition of debt/receivables

13.1. Extant regulatory provision:

13.1.1. Regulation 2(g) of SDI regulation reads as under:

"debt" or "receivables" means any right that generates or results into a cash flow and includes-

(i) mortgage debt ;

(ii) such receivables arising out of securities as may be specified by the Board;

(iii) any financial asset within the meaning of clause (l) of sub-section (1) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002);

13.2. Rationale for proposed amendment:

13.2.1. Working group identified the following 3 concerns as mentioned below in respect of the existing provision:

a) The scope of this definition does not include receivables under Factoring Regulation Act.

b) The second one deals with receivables arising out of unlisted debt securities. The SDI Regulations permit the securitisation of receivables arising from securities specified by SEBI. However, the term "securities" is not defined within the regulations. For terms not explicitly defined in the SDI Regulations, the meaning is derived from the SEBI Act or regulations made under it, the Companies Act, 2013, the SARFAESI Act, or RBI regulations. The SEBI Act and Companies Act reference the Securities Contracts (Regulation) Act, 1956 (SCRA) for the definition of "securities." Under SCRA, the definition is broad enough to cover unlisted NCDs. Despite this, there has been resistance to listing SDIs backed by unlisted debt under the SDI Regulations due to

ambiguity about whether such listings are permissible when receivables come from debt securities.

c) SDI Regulations do not explicitly include other receivables in the nature of rental receivables, equipment leasing receivables, warehouse receivables and invoice receivables that can be securitized.

13.3. **Proposal:**

13.3.1. It is proposed to restrict/ limit the definition of debt/ receivables which can be securitized instead of keeping it open ended. Accordingly, the definition of debt/receivables shall be amended to further include the following:

a) assets and receivables permissible for securitisation under RBI SSA Directions, 2021, as and when updated, when originated by RBI regulated entities;
b) equipment leasing receivables,
c) listed debt securities,
d) trade receivables (arising from bills/invoices duly accepted by the obligors)
e) rental receivables, and
f) such debt / receivable including sustainable securitised debt instruments as notified by SEBI by circular from time to time

Provided all such debts or receivables shall arise from written contractual obligations/written contracts and

Provided further that no other debt or receivable (including unlisted debt securities or other securities or instruments or assets) shall be permitted to be an underlying for an SDI

13.3.2. Further in line with RBI SSA Directions, it is proposed that re-securitisation and synthetic securitisation will not be permitted.

14. Introduction of conditions governing securitisation resulting in issuance of SDIs

14.1. **Extant regulatory provision and back ground:**

14.1.1. There are no extant regulatory provisions. It is however felt necessary to further strengthen the securitization framework by mandating the following conditions:

a) No obligor shall have more than 25% in asset pool (- accordingly single asset securitisation is not proposed to be allowed at this stage)

b) Asset comprising the securitisation pool should be homogeneous (- accordingly securitisation pools of non-homogenous assets is not proposed to be allowed at this stage)

c) SDIs must be fully paid up

d) Originators must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable it is seeking to securitize

e) Obligor must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable that the originator is seeking to securitize.

f) Originator and Obligor must have a business relationship for atleast 3 years. In case of trade receivables, such business relationship should have spanned atleast two cycles of payments with no defaults, and the receivables arising from such obligors proposed to be securitized should have the same payment cycle.

14.1.2. 64% of the comments received were not in the agreement with the proposal. Some of the key comments from the public and our response are as under:

a) Comments: Single asset / obligor underlying not being contemplated for SDIs and what has been specified is a limit of 25% on asset / obligors as underlying (combined with other conditions) has drawn a wide set of comments.

Response: Single asset/obligor represents a high level of risk to an investor. There can also be absence of track record, credit history or relationship with the originator. The conditions seek to balance the interests of originators, investors and obligors.

As noted above, basis feedback, in the final proposal changes are proposed as follows: A. Homogeneous shall mean same or similar risk/return profile arising from the proposed underlying for an SDI, and SEBI shall by circular specify homogeneity for different types of underlying as may be required. B. Conditions 4 & 5 (originator and obligor to be existent for 3 years) will not apply to originators regulated by RBI. C. Condition 6 requiring business relationship of 3 years will be dropped. Other proposals shall continue

b) Comments: The paper is silent on the permissibility of replenishing structures in listed SDIs, which are essential for trade receivable securitisation. These structures allow the use of cash flows to acquire further receivables from the same originator, making transactions viable. The use of such structures is crucial for trade receivable securitisation where the duration of the underlying receivables is not long enough, and such structures make the transaction commercially viable. Under the SSA Directions, such structures are expressly permitted.

Response: Replenishing structures are not proposed to be specified in the SDI framework as the essential feature of such structures is retention of the moneys realized and then reinvesting into acquiring new underlying. The lack of distribution is not desirable. Further, reinvesting may be into deteriorating assets/obligors or result in circular transactions.

c) Comments: Homogenous v Diversification: Most equipment lease securitisation would be homogenous in the nature of

receivables (being lease receivables), however, the lease receivables would emanate from different kinds of underlying equipment. Such variation in underlying equipment should also be considered as homogenous. Similarly, for financial entities acting as originators, the loan pools can comprise of both secured and unsecured loans, however, such variations in the nature of loans/ borrowers should not be construed as heterogeneous pools. Investors would benefit from the diversification of obligors and form of receivables. Existing mandatory disclosures and risk rating procedures would ensure that there is sufficient disclosure on the nature of the underlying receivables

Response: As noted above, basis feedback, in the final proposal changes are proposed as follows: Homogeneous shall mean same or similar risk/return profile arising from the proposed underlying for an SDI, and SEBI shall by circular specify homogeneity for different types of underlying as may be required.

14.2. **Rationale for proposed amendment:**

14.2.1. The proposal aims to strengthen the framework governing the securitisation resulting in the issuance of Securitised Debt Instruments (SDIs) by establishing stringent conditions. Key objectives and potential impacts of these conditions are as under:

a) **Diversification of Risk**: By ensuring that no single obligor has more than 25% in the asset pool at the time of issuance, the proposal aims to prevent over-concentration of risk in the securitisation pool.

b) **Homogeneity of asset pool**: Homogeneous shall mean same or similar risk/return profile arising from the proposed underlying for an SDI.

c) **Full Payment of SDIs**: Requiring SDIs to be fully paid up ensures that the investors' financial interests are safeguarded and that the instruments are backed by adequately paid assets.

d) **Track Record of Originators and Obligors**: For originators that are not RBI regulated, there is a need for enhanced requirements. The requirement for originators and obligors to have a track record of at least 3 financial years ensures that only entities with proven stability and performance history are involved in the securitisation process. This enhances the credibility and reliability of the securitised assets.

14.2.2. Overall, these conditions aim to promote transparency, reduce risk, and enhance investor confidence in the securitisation market.

14.3. **Proposal:**

14.3.1. It is proposed to introduce the following conditions to govern securitisation resulting in issuance of SDIs:

a) No obligor shall have more than 25% in asset pool at the time of issuance (- accordingly single asset securitisation is not proposed to be allowed at this stage).
b) Asset comprising the securitisation pool should be homogeneous
c) SDIs must be fully paid up upfront.
d) Originators must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable it is seeking to securitize.
e) Obligor must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable that the originator is seeking to securitize.

Provided that d) and e) above shall not be applicable to SDIs originated by RBI regulated entities.

14.3.2. Further, it is proposed that ‘homogeneous’ shall mean same or similar risk/return profile arising from the proposed underlying for an SDI and SEBI shall by circular specify homogeneity for different types of underlying, as may be required.

15. Revising the eligibility for trustees of an SPDE

15.1. Extant regulatory provision and background:

15.1.1. Regulation 4(1) of SDI Regulations, states that no person shall make a public offer of SDI or seek listing for such instruments unless they are constituted as a special purpose distinct entity and all trustees are registered with SEBI under these regulations. Further, regulation 4(2) specifies that the requirement of obtaining registration as a trustee does not apply to persons already registered as debenture trustees with SEBI or as securitization company or reconstruction company under SARFAESI Act, NHB, NABARD, scheduled commercial bank other than regional rural banks, PFIs etc. The said regulations are reproduced hereunder:

"4. (1) On and from the commencement of these regulations, no person shall make a public offer of securitised debt instruments or seek listing for such securitised debt instruments unless –

(a) it is constituted as a special purpose distinct entity;

(b) all its trustees are registered with the Board under these regulations; and

(c) it complies with all applicable provisions of these regulations and the Act.

(2) The requirement of obtaining registration shall not apply to the following persons, who may act as trustees of special purpose distinct entities, namely: -

(a) any person registered as a debenture trustee with the Board;

(b) any person registered as a securitisation company or a reconstruction company with the Reserve Bank of India under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002);

(c) the National Housing Bank established by the National Housing Bank Act, 1987 (53 of 1987);

(d) the National Bank for Agriculture and Rural Development established by the National Bank for Agriculture and Rural Development Act, 1981 (61 of 1981):

Provided that the aforesaid persons and special purpose distinct entities in respect of which they are trustees shall comply with all other provisions of these regulations:

Provided further that the provisions of these regulations shall not apply to the National Housing Bank and the National Bank for Agriculture and Rural Development to the extent of inconsistency with the provisions of their respective Acts.

(e) any scheduled commercial bank other than a regional rural bank;

(f) any public financial Institution as defined under clause (72) of section 2 of the Companies Act, 2013; and

(g) any other person as may be specified by Board

15.2. **Rationale for proposed amendment:**

15.2.1. No transactions have taken place from the inception of the SDI regulations till date where any other permitted type of entity acted as a trustee. Debenture trustees registered with SEBI do act as trustees when SDIs are issued and hence the proposal to continue with only debenture trustees and drop other entities.

15.3. **Proposal:**

15.3.1. It is proposed to limit the trustee of special purpose distinct entity to SEBI registered Debenture Trustee.

16. <u>Relaxation from SEBI approval for the removal or replacement of trustees and introduction of procedure for removal of trustee</u>

16.1. **Extant regulatory provision:**

16.1.1. Regulation 34 (3) (b) of SDI regulations reads as under:

"(3) In such meeting, the investors may move a motion to–

(a) call upon the trustee and the special purpose distinct entity to wind up the scheme and distribute the realisations;

(b) remove the trustee;

16.1.2. Clause 16 of Schedule IV of SDI Regulations reads as under:

"16. The removal of the trustee in all cases would require the prior approval of the Board."

16.2. **Rationale for proposed amendment:**

16.2.1. SEBI regulations mandate prior approval from SEBI for the removal or replacement of trustees. This requirement can create delays and may hinder the timely management of trust arrangements, impacting the overall efficiency of securitisation transactions. It may be noted that in other Regulations such as SEBI ((Infrastructure Investment Trusts) Regulations, 2014 and SBI (Real Estate Investment Trust) Regulations, 2014, there is no requirement to take prior approval of SEBI. Therefore, there is a case for doing away with the condition of SEBI's prior approval for removal of trustee in SDI Regulations. Investors in SDI would continue to exercise the right to remove and replace.

16.3. **Proposal:**

16.3.1. In order to ensure timely management of trust arrangements and enhance overall efficiency of securitisation transactions it is proposed to repeal the requirement of prior approval of SEBI for the removal or replacement of trustees.

17. <u>Amendment to 'Duties of trustees' under SDI regulation to provide clarity, increase accountability and transparency</u>

17.1. **Extant regulatory provision:**

17.1.1. Regulation 11 of SDI Regulations provides Obligations of trustees. Further, Clause 4 of Schedule IV of SDI Regulations requires that duties and obligations of the trustees shall be clearly specified in Trust Deed or other constitutional document. Clause 4 of Schedule IV of SDI Regulations reads as under:

"4. The duties and obligations of the trustees shall be clearly specified."

17.2. **Rationale for proposed amendment:**

17.2.1. The Working Group recommended that currently, SDI Regulations provide for obligations of the trustees, however, certain clauses lack

clarity, and certain clauses demand changes in order to increase the accountability and transparency of trustees in general.

17.3. **Proposal:**

17.3.1. In order to increase the accountability and transparency of trustees under SDI regulation it is proposed to amend the “duties of the trustees” as described in Annexure C.

17.3.2. Additionally, it is proposed to align trustee responsibility with relevant provision of MF Regulations. Accordingly, following additional clauses may also be made applicable to trustee of SDI as applicable to the mutual fund trustee (Refer Regulation 18 of MF Regulations related to Rights and obligations of the trustees):

a) The trustees shall be accountable for, and be the custodian of, the funds and property of the respective schemes and shall hold the same in trust for the benefit of the unitholders in accordance with these regulations and the provisions of trust deed.

b) The Trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.

18. Aligning the code of conduct and duties of trustees to the code of conduct and duties of debenture trustees provided in Schedule III (read with regulation 16) and relevant provisions of NCS Regulations and MF Regulations

18.1. **Extant regulatory provision:**

18.1.1. Regulation 7(g) of SDI Regulations mandates trustee to abide by the Code of Conduct specified in Schedule III. The same is as under:

“7. Any certificate granted under regulation 6 shall be subject to the following conditions being complied with by the trustee, namely: -

..

(g) it shall abide by the Code of Conduct specified in Schedule III.”

18.2. **Rationale for proposed amendment:**

18.2.1. WG recommended that SEBI may consider aligning the code of conduct and duties of trustees to the code of conduct and duties of debenture trustees provided in Schedule III (read with regulation 16) given that a trustee of the issuer in a securitisation transaction is akin to a debenture trustee in debenture issuance and that they have the same fiduciary relation with the subscribers of the SDIs that a debenture trustee has with the investors.

18.3. **Proposal:**

18.3.1. It is proposed to align the code of conduct applicable to the trustee of SDIs with that of mutual fund trustee to help in bringing more confidence to investors to participate in SDIs. The additional clauses to be inserted are placed in Annexure D.

19. Mandating periodic disclosure requirements

19.1. **Extant regulatory provision:**

19.1.1. SEBI Regulations currently do not mandate any such disclosure of information on a periodic basis.

19.2. **Rationale for proposed amendment:**

19.2.1. The IOSCO Principles provide for disclosure of updated information on asset backed securities (ABS) on an annual or other periodic basis. However, the SEBI Regulations currently do not mandate any such disclosure of information on a periodic basis.

19.2.2. Further the Working group suggested that the following information may be mandatorily disclosed to the investors:

a) In case of all transactions:

i. The Issuer shall make such disclosures as may be pertinent or required for an investor, including a secondary market investor, to assess whether the issuance complies with requirements provided in Annex I of the RBI's SSA Directions.

b) In case of receivables from loan, credit facilities or securities (financial asset):
    i. Amount and number of additional/top up loans given on the same underlying financial asset.
    ii. Probability of Default (PD) and Loss Given Default (LGD) with respect to the underlying financial asset and any change thereof
    iii. Any material amendment to the transaction document relating to the financial asset
    iv. No. of loan accounts where there was an amendment to the payment terms during the reporting period
    v. No. of accounts where pre-payment was made during the period - including the prepayment fee paid
    vi. No. of defaulted loan accounts during the period - including details relating to suits filed etc. for recovery of amount
    vii. Amount of cumulative recoveries from defaulted accounts during the period
    viii. Any information that the originator is aware of which could impact the credit assessment of significant obligators (being anyone who owes receivables in excess of 10% of total pool)
    ix. Information regarding significant enhancement providers
    x. Assessment of Compliance with Applicable Servicing Criteria including an independent third party check of aspects of the servicing function

c) In case of receivables from other receivables:
    i. Information relating to actual recovery of the receivables as compared to the cash flows projected at the time of the issuance of the instruments.
    ii. Any amendment or modification pertaining to the contract, transaction or cash flows from which the receivables arise

iii. Any event of default or adverse material change relating to any obligor from whom the receivables arise

iv. Any material event which could impact the performance of the originator under the underlying contracts from which the receivables emanate.

v. Any information that the originator is aware of which could impact the credit assessment of significant obligors (being anyone who owes receivables in excess of 10% of total pool)

vi. Information regarding significant enhancement providers

vii. Assessment of Compliance with Applicable Servicing Criteria including an independent third party check of aspects of the servicing function

19.3. **Proposal:**

19.3.1. It is proposed to amend the SDI Regulations to align with the IOSCO principles and mandate disclosure of updated information regarding the SDIs on a periodic basis. The format of the disclosures shall be introduced by SEBI by way of Circular.

19.3.2. It is also proposed that SEBI may specify disclosure requirement, and may specify additional instructions and disclosure requirements for facilitating automated supervision and automated processing of data related to SDIs as part of continuous disclosure requirements.

20. Amendment to clause 12(4) of Schedule V (Disclosures about the Servicer)

20.1. **Extant regulatory provision:**

20.1.1. Clause 12(4) of Schedule V of SDI Regulations related to disclosures about the servicer reads as under:

"4. Disclosure about defaults if any."

20.2. **Rationale for proposed amendment:**

20.2.1. Clause 12(4) of Schedule V talks about disclosures regarding default by the servicer. However, there is no clarity of the nature of defaults that

need to be disclosed. Further, the time period for which such defaults needs to be reported is also not specified.

20.3. **Proposal:**

20.3.1. It is proposed to clarify that disclosure about defaults should cover only defaults in connection with servicing obligations undertaken in the past. Further, it is proposed that the time period for which such disclosure has to be made, may be preceding three years and the current financial year, in line with para 3.3.21 of Schedule I of NCS Regulations.

20.3.2. Further, in the interest of the holders of SDIs, it is proposed that special purpose distinct entity or its trustee shall disclose the relevant information to stock exchange on annual basis.

21. <u>Amendment to clause 16 of Schedule V (Outstanding litigations and material developments)</u>

21.1. **Extant regulatory provision:**

21.1.1. Clause 16 of Schedule V of SDI Regulations reads as under:

"16.0 Outstanding litigations and material developments."

21.2. **Rationale for proposed amendment:**

21.2.1. Clause 16 of schedule V requires disclosures regarding outstanding litigations and material developments generally. However, it is not clear whom the disclosures relate to. It should be clarified as to the entity in respect of whom such disclosures should be made. Ideally, such disclosures should be made for originator, servicer, or any other parties to the transaction which could be prejudicial to the interests of the investors.

21.3. **Proposal:**

21.3.1. It is proposed to specify that the entity(ies) in respect of whom disclosures pertaining to "Outstanding litigations and material developments" should be made viz., originator, servicer, or any other parties to the transaction.

21.3.2. Further, in the interest of the holders of SDIs, it is proposed that special purpose distinct entity or its trustee shall disclose the above information to stock exchange on annual basis.

22. Amendment to clause 19 of Schedule V (Declaration)

22.1. **Extant regulatory provision:**

22.1.1. Clause 19 (2) of Schedule V of SDI Regulations reads as under:

"(2) The offer document shall also contain a declaration made by the directors of the originator in the following terms: -

"We …….. being the directors of the originator namely: ……. accept responsibility for the information contained in this offer document. To the best of our knowledge and belief and we have taken all reasonable care to ensure that the information contained in this document is in accordance with facts which are true, fair and adequate and does not omit anything likely to affect the import of such information.

In our opinion, the originator is a going concern.

In our opinion, the expected cash flow from the asset pool is sufficient to meet the obligations on the securitised debt instruments."

22.2. **Rationale for proposed amendment:**

22.2.1. Currently clause 19(2) of schedule V requires that declarations be made by the directors of the originator. In case of private placement, usually the originators delegate the authority to carry out necessary actions for securitisation transactions to identified individuals, who may or may not be directors of the company.

22.3. **Proposal:**

22.3.1. It is proposed that the declaration required to be made in the offer document by the directors of the originator may be allowed to be made by any authorised person of the originator, when the issuance is done through private placement.

23. <u>Amendment to regulation 35A (2) (Application for listing)</u>

23.1. **Extant regulatory provision:**

23.1.1. Regulation 35A (2) of SDI Regulations reads as under:

"35A. (2) Every special purpose distinct entity which has previously entered into agreements with a recognised stock exchange to list securitised debt instruments shall execute a fresh listing agreement with such stock exchange within six months of the date of notification of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015."

23.2. **Rationale for proposed amendment:**

23.2.1. Since the SEBI LODR Regulations is now applicable for all listed entities, it is recommended that this provision be deleted.

23.3. **Proposal:**

23.3.1. It is proposed to delete the provision of 35A (2) since LODR Regulations, 2015 is applicable for all listed entities.

24. <u>Deletion of references to concepts and provisions from Monopolies and Restrictive Trade Practices Act, 1969 and Companies Act, 1956 under Regulation 10(3)</u>

24.1. **Extant regulatory provision:**

24.1.1. Regulation 10(3) of the SDI Regulations reads as under:

"(3) No special purpose distinct entity shall acquire any debt or receivables from any originator which is part of the same group or which is under the same management as the trustee.

Explanation: For the purposes of sub-regulation (3), -

(a) two persons shall be deemed to be "part of the same group" if they belong to the same group within the meaning of clause (ef) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) or if they own "inter-connected undertakings" within the meaning of clause (g) of section 2 of that Act;

(b) the expression “under the same management” shall have the meaning derived from subsection (1B) of section 370 of the Companies Act, 1956 (1 of 1956).”

24.2. **Rationale for proposed amendment:**

24.2.1. SDI Regulations currently make references to concepts and provisions from Monopolies and Restrictive Trade Practices Act, 1969 and Companies Act, 1956 for defining when the originator and the trustee would be considered as part of the same group and part of the same management. Both these legislations have now been repealed.

24.3. **Proposal:**

24.3.1. It is proposed that the references to concepts and provisions from Monopolies and Restrictive Trade Practices Act, 1969 and Companies Act, 1956 under regulation 10(3) of SDI regulations may be deleted since both these legislations have now been repealed.

25. <u>Redefining the term ‘Group’ and ‘under same control’</u>

25.1. **Extant regulatory provision:**

25.1.1. Regulation 10(3) of the SDI Regulations reads as under:

“(3) No special purpose distinct entity shall acquire any debt or receivables from any originator which is part of the same group or which is under the same management as the trustee.

Explanation: For the purposes of sub-regulation (3), -

(a) two persons shall be deemed to be “part of the same group” if they belong to the same group within the meaning of clause (ef) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) or if they own “inter-connected undertakings” within the meaning of clause (g) of section 2 of that Act;

25.2. **Rationale for proposed amendment:**

25.2.1. References to concepts and provisions from Monopolies and Restrictive Trade Practices Act, 1969 and Companies Act, 1956 under regulation 10(3) of SDI regulations may be deleted since both these legislations have now been repealed.

25.3. **Proposal:**

25.3.1. It is proposed that the term 'Group' Competition Act, 2002 defines group as under:

""group" means two or more enterprises which, directly or indirectly, are in a position to—

(i) exercise twenty-six percent or more of the voting rights in the other enterprise; or

(ii) appoint more than fifty percent of the members of the board of directors in the other enterprise; or

(iii) control the management or affairs of the other enterprise;"

25.3.2. Regulation 2(e) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 defines 'control' as under:

"(e) "control" includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner:

Provided that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position;

26. <u>Redefining the term 'under same management'</u>

26.1. **Extant regulatory provision:**

26.1.1. Regulation 10(3) of the SDI Regulations reads as under:

"(3) No special purpose distinct entity shall acquire any debt or receivables from any originator which is part of the same group or which is under the same management as the trustee.

Explanation: For the purposes of sub-regulation (3), -

(a)…

(b) the expression "under the same management" shall have the meaning derived from subsection (1B) of section 370 of the Companies Act, 1956 (1 of 1956).

26.2. **Rationale for proposed amendment:**

26.2.1. The concept of ‘under the same management’ does not find any mention in the Companies Act, 2013.

26.3. **Proposal:**

26.3.1. It is proposed that ‘under same management’ may be replaced with ‘under same control’ and ‘control’ may be defined as having same meaning as in Regulation 2(e) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 which reads as under:

“(e)“control” includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner: Provided that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position.

27. Updation of references to Companies Act, 1956 with Companies Act, 2013

27.1. **Extant regulatory provision:**

27.1.1. Regulation 16(1) reads as under:

“Without prejudice to provisions of the Companies Act, 1956 (1 of 1956), or any other applicable law, a special purpose distinct entity shall maintain or cause to be maintained proper accounts and records to enable a true and fair view to be formed of its assets, liabilities, income and expenditure and those of all its schemes and to comply with the disclosure requirements of these regulations and other applicable laws.”

27.1.2. Regulation 26(2) reads as under:

“….

Explanation: For the purpose of this regulation “expert” shall have the same meaning as in sub-section (2) of section 59 of the Companies Act, 1956 (1 of 1956).”

27.1.3. Regulation 34(3) reads as under:

"…

Provided that any such decision shall be taken by means of a special resolution of the investors of the scheme and sections 179 and 189 of the Companies Act, 1956 (1 of 1956) shall mutatis mutandis apply to such special resolution."

27.1.4. Regulation 43 reads as under:

"…

Explanation: For the purposes of this sub-regulation, the expression "qualified auditor" shall have the meaning derived from section 226 of the Companies Act, 1956 (1 of 1956)."

27.1.5. Regulation 34(8) reads as under:

"Sections 189 and 192A of the Companies Act, 1956 (1 of 1956) and the rules framed thereunder shall mutatis mutandis apply to the special resolution referred to in sub-regulation (7)."

27.2. **Rationale for proposed amendment:**

27.2.1. Companies Act, 1956 has been repealed and replaced by Companies Act, 2013.

27.3. **Proposal:**

27.3.1. It is proposed to update SDI Regulations referencing provisions of the Companies Act 1956 with relevant provision of the Companies Act, 2013. Accordingly, the following are proposed:

a) Regulation 16(1) - Reference to provisions of Companies Act, 1956 (1 of 1956) should be updated to refer to provisions of Companies Act, 2013.

b) Regulation 26 - "expert" shall have the same meaning as in sub-section (38) of section 2 of the Companies Act, 2013 instead of sub-section (2) of section 59 of the Companies Act, 1956 (1 of 1956).

c) Regulation 34(3) - Sections 109 and 114 of the Companies Act, 2013 shall mutatis mutandis apply to such special resolution instead of sections 179 and 189 of the Companies Act, 1956 (1 of 1956).

d) Regulation 43 - "qualified auditor" shall have the meaning derived from section 141 of the Companies Act, 2013 instead of section 226 of the Companies Act, 1956 (1 of 1956).

e) Regulation 34(8) - Section 110 and Section 114 of the Companies Act, 2013 shall mutatis mutandis apply to the special resolution instead of Sections 189 and 192A of the Companies Act, 1956 (1 of 1956).

28. Amendments to the Rights of investors in an SDI

28.1. **Extant regulatory provision:**

28.1.1. Regulation 34(6) of SDI Regulations reads as under:

"(6) The terms of issue of securitised debt instruments shall not be adversely varied without the consent of the investors."

28.2. **Rationale for proposed amendment:**

28.2.1. Word 'adversely' is subjective and further, change in terms of issue of SDIs without consent of investor is not appropriate and not in line with the investor rights.

28.3. **Proposal:**

28.3.1. It is proposed that word 'adversely' may be deleted. Proposed amendment may provide investors with more control over key decisions and improving the overall accountability of issuers and trustees which in turn can boost investor confidence and participation in the SDI market.

29. Introduction of e-Voting for investors of SDIs

29.1. **Extant regulatory provision:**

29.1.1. Regulation 34(7) of SDI Regulations reads as under:

"(7) For purposes of sub-regulation (6), investors shall be deemed to have given their consent to variation if and only if twenty-one days' notice is given to them of the proposed variation and it is approved by a special resolution passed by them through postal ballot."

29.2. **Rationale for proposed amendment:**

29.2.1. E-voting is an important measure to empower investors and provide them with greater control over their investments, and ultimately contribute to a more robust and investor-friendly securitization market.

29.3. **Proposal:**

29.3.1. It is proposed that e-voting may be made mandatory. Further, since e-voting is a superior system it is proposed to remove the requirement of postal ballot.

30. <u>Permitting SCORES registration at the Trustee level for all the SPDEs that it is a trustee of</u>

30.1. **Extant regulatory provision:**

30.1.1. Regulation 13 under Chapter III – Common Obligations of Listed entities of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 reads as under:

"13 (2) The listed entity shall ensure that it is registered on the SCORES platform or such other electronic platform or system of the Board as shall be mandated from time to time, in order to handle investor complaints electronically in the manner specified by the Board."

30.2. **Rationale for proposed amendment:**

30.2.1. In terms of LODR regulations, the entity issuing the listed SDIs is required to be registered on the SCORES Platform. However, having a SCORES registration is operationally not feasible for each trust.

30.3. **Proposal:**

30.3.1. It is proposed that SCORES should allow registration at the Trustee level for all the Special Purpose Distinct Entities (SPDEs) under their trusteeship.

31. Proposal to the Board:

31.1. The Board is requested to

31.1.1. consider and approve the proposals as detailed under paras no 4 to 30 above and the consequent draft amendment notification placed at Annexure B;

31.1.2. authorize the Chairperson to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

Annexure – A

Table I: <u>SDI issuance and its transfer shall be only in demat form. (Para 4 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
1.	**SDI issuance and its transfer shall be only in demat form.** **Proposal:** In order to ensure better tracking and enhance the ease of transferring SDIs during secondary market transactions, it is proposed that SDIs should be issued and transferred in demat form only.	NIL	Not applicable

Table II: <u>Requirements related to the minimum ticket size (Para 5 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
2	**Requirements related to the minimum ticket size** **Proposal:** It is proposed that the minimum ticket size i.e. size of investment by a single investor whether at the time of initial subscription or subsequent purchase of SDI shall be as per RBI guidelines, as specified by RBI from time to time, for Originators that are RBI regulated entities; for Originators that are not regulated by RBI and are undertaking securitisation, the minimum ticket size shall	The following issues/ concerns have been highlighted in the public comments: a)The proposed change of increasing the ticket size for both primary and secondary purchases of SDIs to Rs 1 Crore will bring a complete halt to SDI participation for retail investors. b)Retail investors investing in such instruments through portfolio management services ("PMS") (with a minimum ticket size of Rs 50 Lakhs) will also not be able to access such instruments. In PMS structures, while the PMS purchases securities in its pool account, the same is transferred to the individual demat accounts of the investors through secondary transfers. Considering that a	(1) Large percentage of underlying for SDI is originated by RBI Regulated Entities - final proposal pegs ticket size in line with RBI Directions. This will provide necessary access especially in secondary transactions. For other types of underlying, the nascence, lack of regulatory oversight over originators, and lack of transparency

	be Rs 1 crore and; for SDIs with underlying that are listed securities, the minimum ticket size shall be that of highest face value among such securities.	minimum ticket size of Rs 1 Crore is being proposed for secondary transactions, each such investor who invests in a PMS would be required to purchase SDIs worth at least Rs 1 crore. Consequently, investors who are investing less than Rs 1 crore through a PMS will not be able to get exposure to SDIs. c)The proposal results in the imposition of 'de-facto' lock-in on investments made in SDIs by proposing that the minimum ticket size at the time of subsequent purchase of SDIs should also be set at Rs 1 Crore (except for SDIs with underlying receivables that are listed securities). For investors who have invested at the minimum ticket size (at the time of issuance), amortisation of the instrument as a result of periodic principal repayment, would result in such investors being unable to liquidate their holdings in secondary transactions as the ticket size will fall below Rs 1 Crore. d)The imposition of ticket sizes in secondary purchases is contrary to the purpose of listing securities on the stock exchange. Monitoring compliance with ticket sizes in secondary purchase would become practically impossible for either the securitisation trust (issuing such SDIs) or the originator considering the listed and freely transferable nature of such instruments. ○ As a result, such investors would necessarily have to hold the SDIs until maturity and would be locked-in. This would	of credit behavior of obligors as well as originator/servicer practices requires keeping access restricted through high ticket size. (2) Final proposal factors concerns related to amortization. (3) Concern related to monitoring of ticket sizes in secondary purchase is unfounded - Exchanges and Depositories are equipped to ensure transactions take place at specified lot sizes

		act as a disincentive to invest in the first place .e)Proposal is not aligned with RBI SSA Directions where the minimum lot size of 1 crore is required only at initial participation and does not extend to secondary market transfers. Invoices are sold online in lots as small of INR1000. Fixed deposits, Unlisted NCD and equity and Lease dues are sold. The securitisation market has some measure of regulation and by its nature allows for a greater degree of protection for the client as a SEBI registered Trustee is involved to make assets bankruptcy remote and owned by the client. By making minimum ticket size 1 Cr the securitisations will not compete with unlisted NCD or invoices and thus a better product will be killed while a worse one with no investor protection is allowed to survive. g)The Mutual funds all have a policy of investing only in AA or AA A rated securitized paper. Rating agencies have a policy have giving a rating which is linked to originator rating i.e. if an Originator is rated BBB the best rating his PTC can get is BBB plus or A minus. So, a move to increase minimum size of each PTC in primary and secondary the product will be confined to the top 5 of companies in India and the remaining 95 will not be able to securitize.	(4) Final proposal factors in alignment with RBI. Further, comparisons of regulated products with those that are unregulated products is not appropriate. Regulated products are designed keeping in mind investor sophistication, risk appetite, disclosure requirements, parties and intermediaries involved and systemic risks. (5) There are multiple fallacies in the feedback. MFs do invest in instruments with varied levels of rating depending on scheme objectives & risk return expectations. CRAs do rate SDIs factoring in underlying obligors, servicer performance track record and originator practices relevant to creation of obligors, etc. Minimum ticket size is of relevance to investors rather than originators.

Table V: <u>Specifying number of persons to whom offer or invitation (including by way of a secondary transaction) can be made in case of issuance of SDI on a private placement basis and which are proposed to be listed and carve out for qualified institutional buyers (QIBs). (Para 6 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
3	**Specifying number of persons to whom offer or invitation (including by way of a secondary transaction) can be made in case of issuance of SDI on a private placement basis and which are proposed to be listed and carve out for qualified institutional buyers (QIBs)** **Proposal:** It is proposed to exclude qualified institutional buyers (QIBs) for the number of persons to whom offer or invitation, (including by way of a secondary transaction) can be made in case of issuance of SDI on a private placement basis and which are proposed to be listed.	The following issues/ concerns have been highlighted in the public comments: a)Extending the cap of 200 persons to secondary transactions, limits the diversification of investor base (and limits price discovery) which is contrary to the purpose of listing securities on the stock exchange. b)There is practical impossibility in monitoring such limits by either the trust or the originator (considering the listed and freely transferable nature of such instruments). c)Restricting the ability of the primary investor to sell their holdings in case there are already 200 investors which will act as a disincentive to invest in the first place. As a result, such investors would necessarily have to hold the SDIs until maturity and would be locked in. commercial unviability for issuance of such instruments by originators: As an example, for SDIs structured with face value (equivalent to those of the underlying listed securities of Rs 10,000, the cap of 200 investors would limit the total issuance to Rs 20 Lakhs and will be unviable from a commercial standpoint after accounting for the issuance costs. d)The proposal does not benchmark the requirements with other	a) Public consultation was done to increase the number to 200 from 50, however, based on internal deliberations and to remain in sync with RBI SSA Directions, it decided to keep the threshold at 50 only and take authorisation from the Board to enhance such number to 200 (or such other number from time to time, and in tandem with RBI). b) Introduce a safe harbor mechanism for private securitisation transaction that are not intended to be made available to public at large by harnessing the depository mechanism. Further, discussion was held with a depository regarding process restricting shareholders in case of unlisted private companies. The depository has informed that: a) At the time of ISIN admission, the Issuer is given an option to keep the ISIN with frozen for

		regulations for issuance of securities. e)The proposed cap of 200 investors in the secondary transaction under SDIs contradicts the fundamental purpose of listing provisions which intends to create a broad accessible market where any eligible investor can participate in the trading of instrument listed. The proposal would undermine the core objective of market transparency liquidity and accessibility that listing provisions are designed to hold. f)This restriction could limit market liquidity, limit price discovery, and reduce the ability of retail investors to participate, ultimately weakening the market overall. Listing provisions promote liquidity and price discovery by enabling unrestricted trading in regulatory environment. Placing a hard cap on the number of secondary market participants disrupts this liquidity leading to reduced market depth and less accurate price formation. Such restrictions could discourage active market participation making SDIs less attractive and limiting the growth and vibrancy of the securitized debt market. g)Limit of 200 investors in secondary market is inconsistent with Principles of Open and Transparent Markets. h)Listing on an exchange signals that an instrument is available to the broader market encouraging transparency and equal access. Imposing a restriction on the number of participants introduces opacity and confusion effectively reducing the benefit of listing. It	debit status or keep it unfrozen. If the Issuer opts to freeze the ISIN, the status is kept as frozen for debit. b) Subsequently, If the Issuer wants to transfer the securities of the ISIN, a request letter from the Issuer is obtained along with the requisite payment & standard format. c) The Issuer is required to confirm the period for which they wish to unfreeze the ISIN for a maximum of 7 calendar days. d) ISIN is then unfrozen and after the requested period is over, the ISIN is again frozen for debit. e) The above approach can be extended to BO ISIN level freeze for SDIs. f) Such mechanisms shall help create a safe harbor for private securitisation transactions that are not intended to be made available to public. g) Further, it is proposed to introduce provisions for private securitisation transaction to help create a safe harbor for private securitisation transactions that are not intended to be made available to public and to restrict the number

		sends a contradictory message that these instruments are publicly listed yet privately restricted which may not only deter potential investors but also create ambiguity regarding compliance with open market principles. i)The proposal does not benchmark the requirements with other regulations for issuance of securities. Under the Companies Act, 2013 (other than the limited duration of 6 months from the issuance to prohibit warehousing structures and flouting of norms of public issuance) as well as the SEBI NCS Regulations, the requirement of 200 investors is only applicable at the time of issuance and not for secondary market transactions. Similarly, under the SSA Directions, the limit of 50 persons is only applicable to any offers of securitisation notes in an issuance.	of holders/ investors in such transactions within the specified number that requires listing as per SDI Regulations.

Table IV: <u>Specifying minimum and maximum number of days of which the public offer of SDI can kept open. (Para 7 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
4	**Specifying minimum and maximum number of days of which the public offer of SDI can kept open** **Proposal:** It is proposed that public offer for SDI may be kept open for minimum of 2 working days and upto a maximum of 10 working days.	NIL	Not applicable

Table V: Introduction of advertisement requirements for SDIs. (Para 8 of board memorandum)

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
5	**Introduction of advertisement requirements for SDIs** **Proposal:** To introduce advertisement requirement and align the provisions with NCS Regulations.	NIL	Not applicable

Table VI: Introduction of provisions related to Minimum retention requirement (MRR). (Para 9 of board memorandum)

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
6	**Introduction of provisions related to Minimum retention requirement (MRR)** **Proposal:** In order to ensure that the originators retain a portion of the credit risk in the securitised assets which results in better risk management and enhancement of investor confidence it is proposed to introduce MRR in lines with RBI SSA Directions as mentioned below:	The following issues/ concerns have been highlighted in the public comments: a)MRR requirements shall not be stipulated for securitisation by originators not regulated by RBI. Such stipulations in particular will render trade receivables and short term cashflows or receivables ineligible for securitisation. b) The proposal does not recognise the existing forms of 'skin-in-the-game' measures used by non-RBI regulated originators In the equipment lease securitisation space, the originator (i.e., the lessor of the leased equipment) holds a residual value in the asset (which is realised at the end of the lease transaction). Thus, the originator already has a "skin-in-the-game". Furthermore, the underlying equipment is also hypothecated in favour of the securitisation trust and investors' expected pay-outs are senior to the originator's pay-out of residual value. c) The introduction of an MRR (in the traditional form of cash collateral or over	The primary purpose of the MRR is to ensure that originators retain a portion of the credit risk in the securitised assets. Few key objectives of MRR are: a) Risk Management: Ensures that originators have "skin in the game," meaning they share in the potential losses, which promotes better risk management. b) Market Confidence: Enhances investor confidence by demonstrating that the originators believe

	a) MRR of 10% by the originator is proposed to be specified. b) For transactions where receivables have a scheduled maturity up to 24 months, MRR of 5% by the originator is proposed to be specified.	collateral) would result in an increase in the capital requirements from non-RBI regulated originators. d)The proposal lacks in identifying the exemptions provided in the RBI SSA Directions 2021 in case of RBI regulated entities leading to inconsistencies between the two regulations and leading to overlap between two regulations. e) The proposal will rule out balance sheet derecognition as risk held by originator will exceed historical loss rate for most viable deals and derecognition norms for the same has not been specified.	in the quality of the assets being securitised. In order to ensure that the originators retain a portion of the credit risk in the securitised assets which results in better risk management and enhancement of investor confidence it is proposed to introduce MRR in line with RBI SSA Directions

Table VII: <u>Introduction of provisions related to Minimum holding period (MHP). (Para 10 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
7	**Introduction of provisions related to Minimum holding period (MHP)** **Proposal:** It is proposed to introduce MHP in order to ensure alignment of interests between the originators and investors in securitisation transactions.	The following issues/ concerns have been highlighted in the public comments: a)MHP requirements shall not be stipulated for securitisation by originators not regulated by RBI. Such stipulations in particular will render trade receivables and short term cashflows or receivables ineligible for securitisation. b)The said proposal introduces a uniform MHP requirement for securitisations undertaken by both RBI regulated and non-RBI regulated originators without appreciation of the difference in the business models. c) Future Flow Securitisation Transactions - Non-RBI regulated	a)&b) MHP ensures that risk of early delinquency or default is retained with the originator and is not assumed by investors. For trade receivables stipulation of 2 completed payment cycles and of accepted invoices is to avoid any accommodation transactions. Notably, there are alternatives such as TReDS and Factoring which serve short term requirements better. c) all SDIs arising from RBI regulated entities as

	Rationale: MHP helps to ensure alignment of interests between the originators and investors in securitisation transactions.	originators, in certain cases, engage in 'future-flow securitisation' transaction, where the securitisation trust (issuer) issues SDIs, the principal and interest obligations for which are met through receivables that the issuer expects to generate during its normal course of operations. These include, rental receivables (by equipment lessors), toll receivables (by infrastructure SPVs), and oil and gas sale receivables. Such transactions are backed by future claims that will arise out of future performance and not existing claims against any performance. The credit rating methodology followed for such transactions is not similar to traditional securitisation transactions, and the key factors for rating are the creditworthiness of the obligor (i.e., the counterparty from whom the cash flow to service the rated debt is received, such as tenants in case of rental cash flow) and the extent of linkage of the future cash flow to the issuer's operating performance. In a typical future-flow securitisation transaction, the issuer earmarks the future cash flow directly or indirectly for servicing the debt raised against the future cash flow. The future cash flow goes directly to an escrow account managed by the trustee. On top of the waterfall are the principal and interest payments to be made to the investor. d) Unlike securitisation by RBI regulated originators which typically have individuals as obligors, securitisation by non-RBI regulated originators involving receivables such as leasing, trade receivables or warehousing almost entirely have corporations as obligors. ○ Alternative	originators are also future flow in terms of the obligor paying / repaying the amounts over a future period of time. There is a performance role of such an originator as a servicer and to deal with the obligors as clients. CRAs would also evaluate these in a similar manner. d) There's no bar on RBI regulated entities to originate transactions with corporate obligors. Corporate obligors can also become delinquent or default.

		Methods to meet MHP (1) In securitisation transactions originated by non-RBI regulated originators, where the obligor is a corporation with audited financials, the purpose of MHP can be met by introducing checks on the obligor's performance history. (2) For example, for lease rental securitisations, obligors having audited financials of 3 years can serve as a substitute for the MHP requirement and be more appropriate for this industry.	

Table VIII: Introduction of provisions related to Clean-up call option (Para 11 of board memorandum).

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
8	**The exercise of the clean-up call option, if any, is not mandatory upon the originator. (Para 11 of board memorandum)**. **Proposal:** It is proposed to align clean-up call with RBI SSA Directions.	NIL.	**Not applicable**

Table IX: Introduction of provisions related to liquidity facilities. (Para 12 of board memorandum)

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
	Introduction of provisions related to liquidity facilities **Proposal:** It is proposed to align liquidity that e-voting may be permitted.	RBI has provided detailed stipulations from a provisioning and prudential norms perspective and it is relevant for entities governed by RBI. Such requirements will have to be	Under current SDI regulations, SEBI already recognise liquidity facility and is only proposing that such facility shall be in accordance with norms as specified from time to time.

		complied by originators which are regulated by RBI even in listed SDI transactions. Apart from permitting liquidity facilities the revised SDI regulations need not address this in detail leaving it to the a. originator b. liquidity provider and c. investors to structure the transactions as per their requirements.	

Table X: <u>Amendment to the definition of debt/receivables. (Para 13 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
10	**Amendment to the definition of debt/receivables.** **Proposal:** It is proposed to restrict/ limit the definition of debt/ receivables which can be securitized instead of keeping it open ended. Accordingly, the definition of debt/receivables shall be amended and specify: lease rentals, equipment leasing, warehouse receivables, invoice receivables, contracts with predictable cash flows (e.g. solar power purchase agreements) and insurance contracts.	(1) Definition be made expansive rather than limited to meet the objective of deepening the capital market. The focus may instead be on the certainty of amount and time of the underlying obligation i.e. cash flows. Allowing unlisted NCDs to be underlying asset of listed SDIs is also a powerful way to deepen the market and allow investors to diversify and provide access to capital for smaller sellers. If the definition is not expansive the non inclusion of the word loans and advances will not allow even the originators regulated by RBI to issue SDIs dispute adhering to the requirements of the RBI Securitisation Master Directions. We recommend that the scope of the existing definition be expanded to specifically cover cashflows and receivables of the originators not regulated by RBI which are in the form of A. receivables under service contracts	Revised proposal is as under: definition of debt/receivables shall be amended to further include the following: (a) assets and receivables permissible for securitisation under RBI SSA Directions,2021, as and when updated, when originated by RBI regulated entities; (b) equipment leasing

	No other debt or receivable (including unlisted debt securities) shall be permitted to be an underlying for an SDI apart from the ones mentioned above. Further, 'receivables' may be limited to receivables with underlying contracts. Further, the assets and receivables permissible for securitisation under RBI SSA Directions when originated by RBI regulated entities shall be included in the list. Further, other types of debt or receivables may be notified by SEBI from time to time.	B. trade receivables arising from bills and invoices duly accepted by the obligors and C. rights and obligations of any person under the law governing a. negotiable instruments b. negotiable warehouse receipts under the Warehousing Development and Regulation Act 2007 or c. to instruments which are for the time being by law or custom negotiable or any mercantile document of title to goods d. negotiable instruments such as bills of exchange or such other mercantile practices. Definition of the term securitisation Towards enabling securitisation of short term receivables by way of replenishing structure we recommend that the definition of the term securitisation be amended as below by inserting the phrase from time to time. Securitisation means acquisition of debt or receivables from time to time by any special purpose distinct entity from any originator or originators for the purpose of issuance of securitised debt instruments to investors based on such debt or receivables. (2) Challenges for RBI Regulated Securitisations and Our Recommendation(s): Under the SSA Directions, assets which are eligible for securitisation have been expressly specified. To avoid any ambiguity for RBI regulated originators who wish to originate listed SDIs, we suggest that the requirements under this proposal should be aligned with those under the SSA Directions. (3) Challenges for non-RBI Regulated Securitisations and Our Recommendation(s) The Consultation Paper has proposed only the following	receivables, (c) listed debt securities, (d) trade receivables (arising from bills/invoices duly accepted by the obligors), (e) rental receivables, and f) such debt / receivable including sustainable securitised debt instruments as notified by SEBI by circular from time to time Provided all such debts or receivables shall arise from written contractual obligations/written contracts and Provided further that no other debt or receivable (including unlisted debt securities or other securities or instruments or assets) shall be permitted to be an underlying for an SDI Further in line with RBI SSA

		kinds of receivables: listed debt securities, trade receivables (arising from bills/invoices duly accepted by the obligors), rental receivables and equipment leasing receivables. In addition to the above, any nature of receivables arising from underlying contracts which have a predictable stream of cash flow (for example: solar power purchase agreements) should be permissible to be securitised. This is in line with SEBI consultation paper on sustainable securitized debt instrument. Solar ABS backed by Power purchase agreements is the backbone of sustainable securitization globally and we recommend the same for the growth of renewable sector in India. Our Recommendation: We reiterate the recommendations of the WG regarding the inclusion of receivables as defined under the Factoring Regulation Act 2011 (including, warehouse receivables) within the definition of 'Debt/ Receivables' (under Regulation 2(g)) (4) In alignment with other proposals and SEBI recommendations to the same the definition of debt or receivables is quite restrictive and instead it must permit securitization of any business that has a predictable cash flow. (5) Prohibiting SDIs with Unlisted Debt Securities as underlying assets while allowing those backed by Listed Debt Securities does not align with the intrinsic value or risk profile of SDIs. SDIs are structured rated and subject to comprehensive disclosure standards ensuring that investors have clear insight into the risk and quality of these securities. Whether the underlying assets are listed or unlisted this rating and disclosure process mitigates risk and provides transparency effectively	Directions, it is proposed that re-securitisation and synthetic securitisation will not be permitted.

		equipping investors with the information they need to make informed decisions. Additionally SDIs with Unlisted Debt Securities as underlying asset pool are also traded on Stock Exchanges and Cleared and Settled through Clearing Corporations thus mitigates the settlement risk and makes it at par with the Listed Debt Securities and SDIs with underlying pool of Listed Debt Securities. By disallowing SDIs backed by Unlisted Debt Securities the proposed amendment would ignore the extensive measure already in place that safeguard investor interests regardless of the listing status of the underlying pool. It is also notable that Unlisted NCDs are mandatorily required to be secured while Listed NCDs may or may not be. Thus primarily being a secured product and coupled with added benefits which SDI may provide such as rating robust disclosure requirements Credit Enhancement MRR etc. rather makes Unlisted Debt Securities as better underlying asset pool for SDI purposes than that of listed unsecured debt securities. Additionally exchanges are now allowing basket orders in debt segment eventually offering the benefits of which generally SDIs offers i.e. relating to risk diversification thereby including Listed Debt Securities under SDI framework per se does not add any value. (6) Unlisted Debt Securities can represent a valuable source of diversification within SDI pools. Restricting SDIs with unlisted debt securities as underlying would reduce flexibility in structuring these products potentially narrowing the appeal and diversity of the SDI Market. This restriction may also discourage originators from creating SDIs tailored to	

		specific investment needs thus hindering market development and stiffing innovation in securities debt products. On the other hand permitting SDIs with Unlisted Debt Securities as underlying would provide originators with the necessary exposure facilitating their readiness for instrument listing. It is suggested that instead of providing complete embargo on Unlisted Debt Securities from being underlying of SDIs same should be allowed with prescribed eligibility criteria such as Appointment of Merchant Banker. (7) We recommend expanding the definition of eligible receivables to include other types of receivables arising from underlying contracts with predictable cashflows such as power purchase agreements or insurance contracts. 2. We recommend that unlisted non convertible debentures be permitted as eligible receivables for non RBI regulated entities provided provided they are part of a diversified pool such as by ensuring no single issuer represents 10 percent of the total pool. (8) Unlisted debt securities to be allowed with the caveat that no single debt issuer in the pool can have more than 25% concentration. This will enable issuers to get exposure of listed debt market and as they see more participation in their NCDs , it will nudge them to directly come to listed NCD market. b)Definition to kept open ended since there may be other use cases where SDIs can be done. For eg: securitization of power purchase agreements. Similarly there can be other use cases also. c) Obligor concentration of 25% to be removed. The concentrated nature of credit risk can be factored in the credit rating. Most of the SDIs done in the market (with non NBFC originators) have	

		had single obligors only. Presently the market is nascent and having such restrictions will not allow development of the market. d) Below conditions should not be applicable for transactions with securities as the underlying as security receivables are not created via business operations rather they get originated from investments. Also many of such transactions where securities are underlying are done by OBPPs which have started operations recently only (9) 1. Unlisted securities are secured. Once the underlying pool is rated and listed there is complete disclosure along with a mechanism for price discovery and settlement 2. Unlisted securities are far safer than lease rental receivables and unsecured trade receivables (10) The contractual and passive receivables should be allowed to be securitised in the form of SDI. Listing of SDIs backed by a pool of unlisted NCDs should be allowed subject to satisfaction of the conditions proposed in the consultation paper. Principally, all future contractual receipts meeting the below conditions shall be considered as "receivables" for the purposes of securitisation: • There should be a contractual agreement (i.e. a contractual obligation for the obligor to pay to the originator); and • Such arrangement/ obligation shall be passive in nature (i.e. originator is not required to carry out any active activity to generate such receivables/ cash flows). Based on the above, we request that the following contracts/ arrangements/ receivables shall be added to the definition of "receivables" for the purposes of securitisation: • Revenue from transmission line projects; • Annuities under HAM project; • Receivables under	

		Power Purchase agreements. • Other similar future contractual receipts. The above would provide an additional fund-raising mechanism for the infrastructure projects and support long term funding for green initiatives. Unlisted debt securities: As per Master Direction on Scale Based Regulations issued by RBI, unquoted debentures are treated as term loans. Further, term loans are qualified as debt/receivables in the SDI & RBI SSA regulations. Additionally, MSMEs due to its financial limitations, issue unlisted securities instead of listed. It should be allowed to create SDI, with pool of unlisted securities issued by MSMEs, subject to compliance with the conditions proposed in the consultation paper (such as limit of 25% for a single obligor, homogeneous pool, etc.). Allowing SDI of unlisted securities will enable MSMEs to access the capital markets and enable SEBI to regulate the same.	

Table XI: <u>Introduction of conditions governing securitisation resulting in issuance of SDIs. (Para 14 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
11	**Introduction of conditions governing securitisation resulting in issuance of SDIs** **Proposal:** To introduce the following conditions	The following issues/ concerns have been highlighted in the public comments: a)Conditions other than issuance of fully paid up SDIs be dropped as it may as an unintended consequence have the restrictive effect on the below mentioned originators in accessing the capital markets. A. Originators including entities regulated by RBI which generate	Key objection and SEBI's view on them are as under: <u>1) Comment</u> : ●Single asset / obligor underlying not being contemplated for SDIs and what has been specified is a limit of 25% on asset / obligors as underlying (combined with

	to govern securitisation resulting in issuance of SDIs: a) No obligor shall have more than 25% in asset pool (- accordingly single asset securitisation is not proposed to be allowed at this stage). b) Asset comprising the securitisation pool should be homogeneous (- accordingly securitisation pools of non-homogenous assets is not proposed to be allowed at this stage). c) SDIs must be fully paid up. d) Originators must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable it is seeking to securitize. e) Obligor must necessarily have a track record of operations of 3 financial years which resulted in the	receivables or cashflows from retail obligors. B. Project SPVs may not be able to meet the 25 percent concentration threshold as they are likely to only have either one or few obligors. For instance the power purchase agreements entered by power project SPVs. C. Greenfield project SPVs as they will not meet the three year period requirement. As regards the condition on homogeneity it is not clear as to why homogeneity is better than diversity. b)Proposal of disallowing single asset/ obligor securitisation at this stage is not viable.. The permissibility of single obligor securitisations is crucial for asset classes like equipment leasing, rental receivables and trade receivables. Unlike loan pools, the obligor in equipment leasing or rental receivables are also the operators of these assets. In such transactions, the obligors tend not to be individuals, but instead, medium to large corporate entities who aim to take a large number/ value of assets on lease in one go. The rating of the SDI is directly linked to the rating of the obligor, rating agencies view diversification as insufficient and penalise the instrument's rating by linking it to the lowest rated entity. c) The proposal is silent on the permissibility of replenishing structures in listed SDIs. Such structures permit the use of cash flows from the securitised assets to acquire further debt or receivables, (identified in a manner and with criteria forming part of the transaction documents) from the same originator, followed by a period (amortising period), during which the	other conditions) has drawn a wide set of comments. ○ Response: Single asset/ obligor represents a high level of risk to an investor. There can also be absence of track record, credit history or relationship with the originator. The conditions seek to balance the interests of originators, investors and obligors. ○ As noted above, basis feedback, in the final proposal changes are proposed as follows: A. Homogeneous shall mean same or similar risk/return profile arising from the proposed underlying for an SDI, and SEBI shall by circular specify homogeneity for different types of underlying as may be required. B. Conditions 4 & 5 (originator and obligor to be existent for 3 years) will not apply to originators regulated by RBI. C. Condition 6 requiring business relationship of 3 years will be dropped. Other proposals shall continue 2) Comment:● The paper is silent on the permissibility of replenishing structures in listed SDIs, which are essential for trade receivable securitisation. These structures allow the use of cash flows to acquire

	creation of the type of debt or receivable that the originator is seeking to securitize. f) Originator and Obligor must have a business relationship for atleast 3 years. In case of trade receivables, such business relationship should have spanned atleast two cycles of payments with no defaults, and the receivables arising from such obligors proposed to be securitized should have the same payment cycle.	cashflows are used to make pay-outs to the investors. d)The proposal states that the assets comprising the pool must be homogenous. Most equipment lease securitisation would be homogenous in the nature of receivables (being lease receivables), however, the lease receivables would emanate from different kinds of underlying equipment. Such variation in underlying equipment should also be considered as homogenous. Similarly, for financial entities acting as originators, the loan pools can comprise of both secured and unsecured loans, however, such variations in the nature of loans/ borrowers should not be construed as heterogeneous pools. e) The proposed 3-year track record and business relationship requirements for originators and obligors may be overly restrictive and challenging for many market participants, particularly newer businesses and emerging sectors and also create operational challenges in listing such units and will restrict transactions with such single bond securitization. Entities in the space of quick loans and loan against salaries etc. will never be able to participate in the market given the nature of the business. e) Besides its practically and operationally challenging for non RBI related entities belonging to corporates manufacuring and trading sectors etc. to develop a homogenous pool for securitization. It must be noted that the cost of issuing SDIs and adhering to the compliances thereto is quite higher especially if it is by way of public	further receivables from the same originator, making transactions viable. The use of such structures is crucial for trade receivable securitisation where the duration of the underlying receivables is not long enough, and such structures make the transaction commercially viable. Under the SSA Directions, such structures are expressly permitted. ○ Response: Replenishing structures are not proposed to be specified in the SDI framework as the essential feature of such structures is retention of the moneys realized and then reinvesting into acquiring new underlying. The lack of distribution is not desirable. Further, reinvesting may be into deteriorating assets/obligors or result in circular transactions. 3) Comment:● Homogenous v Diversification: Most equipment lease securitisation would be homogenous in the nature of receivables (being lease receivables), however, the lease receivables would emanate from different kinds of underlying equipment. Such variation in underlying equipment should also be considered

		issuance. Unlike the business model of RBI regulated entities there is no quick churning of customers base in most of the entities adopting to securitization. Further establishing record of operations for 3 financial years is quite discretionary and subjective to determine. In most of the cases obligors will not be able to develop a pool with the prescribed criteria. f) It is difficult to monitor the criteria for being in operation for 3 financial years and it is quite discretionary to determine the same. This kind of eligibility will require 100 percent due diligence of the pool as well as the originator in all instances of securitization. g) The conditions proposed i.e. at least two payment cycles with no default is not in line with RBI SSA Directions and are rather more stringent than the current provisions of RBI SSA Directions. h)The said proposal is not in line with RBI SSA Direction and also limits market flexibility, innovation and overemphasis on relationship Duration Over Credit Quality.	as homogenous. Similarly, for financial entities acting as originators, the loan pools can comprise of both secured and unsecured loans, however, such variations in the nature of loans/ borrowers should not be construed as heterogeneous pools. Investors would benefit from the diversification of obligors and form of receivables. Existing mandatory disclosures and risk rating procedures would ensure that there is sufficient disclosure on the nature of the underlying receivables ○ Response: As noted above, basis feedback, in the final proposal changes are proposed as follows: Homogeneous shall mean same or similar risk/return profile arising from the proposed underlying for an SDI, and SEBI shall by circular specify homogeneity for different types of underlying as may be required.

Table XII: Revising the eligibility for trustees of an SPDE. (Para 15 of board memorandum)

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments

12	**Revising the eligibility for trustees of an SPDE** **Proposal:** It is proposed to limit the trustee of special purpose distinct entity to SEBI registered Debenture Trustee.	The only disagreement inter alia acknowledges that limiting trusteeship to entities that are already regulated by SEBI promotes standardization and accountability and SEBI- registered Debenture Trustees are required to meet stringent regulatory standards, conduct thorough due diligence and adhere to high level of fiduciary duty and reporting. The only limitation mentioned is that restriction on SEBI registered debenture trustees to be trustee of SPDE will reduce competition and diversity in trustee option. Also, the said restriction may lead to higher costs and limit the availability of customized services that could better suit specific SPDE requirements.	Since any entity willing to act as trustee of SDI may seek registration as SEBI registered debenture trustee to carry out the requisite activity, we may not agree with the public comments.

Table XIII: <u>Relaxation from SEBI approval for the removal or replacement of trustees and introduction of procedure for removal of trustee to be aligned with SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 ('NCS Regulations') and/or Mutual fund regulations. (Para 16 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
13	**Relaxation from SEBI approval for the removal or replacement of trustees and introduction of procedure for removal of trustee** **Proposal:** In order to ensure timely management of trust arrangements and enhance overall efficiency of securitisation transactions it is proposed to repeal the requirement of prior approval of SEBI for the removal or replacement of trustees.	NIL	**Not applicable**

Table XIV: <u>Amendment to 'Duties of trustees' under SDI regulation to provide clarity, increase accountability and transparency (Para 17 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
14	**Amendment to 'Duties of trustees' under SDI regulation to provide clarity, increase accountability and transparency** **Proposal:** In order to increase the accountability and transparency of trustees under SDI regulation it is proposed to amend the "duties of the trustees". Additionally, it is proposed to align trustee responsibility with relevant provision of MF Regulations.	NIL	Not applicable

Table XV: <u>Aligning the code of conduct and duties of trustees to the code of conduct and duties of debenture trustees provided in Schedule III (read with regulation 16) and relevant provisions of NCS Regulations and MF Regulations. (Para 18 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
15	**Aligning the code of conduct and duties of trustees to the code of conduct and duties of debenture trustees provided in Schedule III (read with regulation 16) and relevant provisions of NCS Regulations and MF Regulations** **Proposal:** It is proposed to align the code of conduct applicable to the trustee of SDIs with that of mutual fund trustee to help in bringing more confidence to investors to participate in SDIs.	(1) It will effectively mean mutual funds trustee can only act as trustee.	Alignment of code of conduct of trustee of SDIs with that of mutual fund trustee shall help in bringing more confidence to investors to participate in SDIs.

Table XVI: Mandating periodic disclosure requirements. (Para 19 of board memorandum)

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
16	**Mandating periodic disclosure requirements and to introduce the format of the disclosure** **Proposal:** It is proposed to amend the SDI Regulations to align with the IOSCO principles and mandate disclosure of updated information regarding the SDIs on a periodic basis. 19.3.2. Additionally, it is proposed that DT/ CRA shall update any rating change to stock exchanges on a continuous basis.	NIL	Not applicable

Table XVII Amendment to clause 12(4) of Schedule V (Disclosures about the Servicer) (Para 20 of board memorandum)

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
17	**Amendment to clause 12(4) of Schedule V (Disclosures about the Servicer)** **Proposal:** It is proposed to clarify that disclosure about defaults should cover only defaults in connection with servicing obligations undertaken in the past. Further, it is proposed that the time	The following issues/ concerns have been highlighted in the public comments: a)Recency and Relevancy - The limit for required disclosures must be limited to a specified timeframe. Incentivising correction of defaults Including a provision allowing servicers to mention the measures taken to correct a past default. Specifying the time limit would address information asymmetry by ensuring more recent, and relevant data for investors. The disclosures would	Regulatory requirement is already there under Para 12(4) of Schedule V of SDI Regulations, 2008. Instant proposal is only to provide clarity. Further, in view of public comments, we may specify the period / time frame for

	period for which such disclosure has to be made, may be preceeding three years and the current financial year, in line with NCS Regulations. **Rationale:** Clause 12(4) of Schedule V talks about disclosures regarding default by the servicer. However, there is no clarity of the nature of defaults that need to be disclosed. Further, the time period for which such defaults needs to be reported is also not specified.	reveal the current capabilities of the servicer, rather than outdated information. Incentivising correction of defaults, demonstrating proactive risk management boosts investor confidence. Incentivising such risk management aligns the interests of the servicers and the investors and overall contributes to reducing the costs associated with defaults. b)Entities regulated by RBI acting as servicers shall be exempted from such requirements. Also in case of third party servicers which are not regulated by RBI shall not be required to provide such disclosures as it may be pertaining to other originators or different asset class. c)Who will report the default and how will it be penalized. Further, what happens if trustee says there is a default and servicer says no.	which such disclosures are to be made. Revised proposal: We may specify the time period for which such disclosures need to be made. <u>Additional proposal</u> Further, SPDE or its trustee shall disclose the relevant information to stock exchange on annual basis

Table XVIII: <u>Amendment to clause 16 of Schedule V (Outstanding litigations and material developments) (Para 21 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
18	**Amendment to clause 16 of Schedule V (Outstanding litigations and material developments)** **Proposal:** It is proposed to specify that the entity(ies) in respect of whom disclosures pertaining to "Outstanding litigations	The following issues/ concerns have been highlighted in the public comments: a)Introduce proportional disclosure requirements - The clause must be amended to require different levels of disclosure, at different levels of relevance, and the potential impact of such litigation on the transaction. The suggestion aims at removing the disclosure of low-impact data to reduce costs with data collection, analysis,	The requirement of disclosure in case of default is already there under Para 16 of Schedule V of SDI Regulations, 2008. Instant proposal is only to provide clarity. <u>Additional proposal</u>:

	and material developments" should be made viz., originator, servicer, or any other parties to the transaction.	documentation, reporting and regulatory filing and monitoring costs. For example, a high-stakes litigation involving larger financial claims would require detailed closures, whereas, in a minor case, summary information will suffice, saving the costs, and getting rid of low-impact data. b)Certain regulated entities, as mentioned below, providing professional services shall not be subjected to such disclosure requirements as it will not have any bearing on the transaction entities I. Third party servicers which are regulated by RBI; II. Third party credit enhancers which are regulated by other financial services regulators and III. Third party liquidity providers which are regulated by other financial services regulators. c)To report where interest or principal has not been serviced. Further, how to establish that it was because of the servicer and not a default of the underlying.	SPDE or its trustee shall disclose the relevant information to stock exchange on annual basis.

Table XIX: <u>Permit declaration to be made by any authorized person of the originator (as authorized by the board or governing board of the originator) where the issuance is done through private placement. (Para 22 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
19	**Permit declaration to be made by any authorized person of the originator (as authorized by the board or governing board of the originator) where the issuance is done through private placement.**	NIL	Not Applicable

Table XX: <u>Deletion of requirement of an application for listing of an SDI by an SPDE since LODR Regulations, 2015 is applicable for all listed entities (Para 23 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
20	**Deletion of requirement of an application for listing of an SDI by an SPDE since LODR Regulations, 2015 is applicable for all listed entities**	NIL	Not Applicable

Table XXI: <u>References to concepts and provisions from Monopolies and Restrictive Trade Practices Act, 1969 and Companies Act, 1956 under regulation 10(3) of SDI regulations may be deleted since both these legislations have now been repealed. (Para 24 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
21	**References to concepts and provisions from Monopolies and Restrictive Trade Practices Act, 1969 and Companies Act, 1956 under regulation 10(3) of SDI regulations may be deleted since both these legislations have now been repealed**	NIL	Not Applicable

Table XXII: <u>Redefining the term 'Group' and 'under same control'. (Para 25 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
22	**Redefining the term 'Group' and 'under same control'**	The following issues/ concerns have been highlighted in the public comments: a)To ensure consistency it should be limited to the definition of 'control' in SEBI Substantial Acquisition of Shares and Takeovers Regulations. b)To use Companies Act definition since normal definition of Group as per RBI is Companies Act.	Public comment is merely suggestive in nature and not an objection per se.

Table XXIII:<u>Redefining the term 'under same management'(Para 26 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
23	**Redefining the term 'under same management'**	It is suggested that to ensure consistency it should be limited to the definition of 'control' in SEBI Substantial Acquisition of Shares and Takeovers Regulations.	Public comment is merely suggestive in nature and not an objection per se.

Table XXIV: <u>References to Companies Act, 1956 shall be replaced by Companies Act, 2013 and accordingly provisions referencing provisions of the Companies Act 1956 shall be updated with relevant provision of the Companies Act, 2013 in various provisions of the SDI Regulations. (Para 27 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
24	**References to Companies Act, 1956 shall be replaced by Companies Act, 2013 and accordingly provisions referencing provisions of the Companies Act 1956 shall be updated with relevant provision of the Companies Act, 2013 in various provisions of the SDI Regulations**	NIL	Not Applicable

Table XXV: <u>Amendments to the Rights of investors in an SDI. (Para 28 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
25	**Amendments to the Rights of investors in an SDI. (Para 29 of board memorandum)** **Proposal:** It is proposed that word 'adversely' may be deleted. Proposed amendment may provide investors with more control over key decisions and improving the overall accountability of	The following issues/ concerns have been highlighted in the public comments: a)It is suggested that it is better to have a process by which investors are informed on who has decided to make the change and who decided it is not adverse. If the investors disagree damages can be granted by the courts in terms of the regulations for how damages may be calculated. Correction of errors apparent on the face of the record should be excluded from this restriction. b)It is suggested that it should be expressly clarified that such adjustments in cash flow schedules (appended to the transaction documents) to account for timely interest and ultimate principal (TIUP), ultimate interest and ultimate principal (UIUP) structures will not be viewed as a variation and can be carried out by the Trustee without requiring consent from	Change in terms of issue of SDIs without consent of investor is not appropriate and not in line with the investor rights.

	issuers and trustees which in turn can boost investor confidence and participation in the SDI market.	the SDI investors. We suggest that consent should be calculated on a "present and voting" basis and proxy voting should be permitted. Rationale: The deletion of the word “adversely” from Regulation 34(6) could potentially trigger unnecessary investor consent for changes that do not affect the core financial terms or rights of the investors. It is crucial to distinguish between material changes (that affect investor returns, risk, or fundamental terms) and non-material changes such as the following, which should be permitted without requiring investors’ consent”. c)Currently, SDIs follow different structures in relation to the payment of principal and interest. In certain structures (colloquially referred to as TIUP and UIUP), it is common for principal and interest payments being only expected during the tenure and promised at the end of the tenure. This allows for flexibility and variations in the repayment flows. Similarly, as per the prevailing market practice, any foreclosures/ prepayments are agreed by the Servicers themselves (without investor consent) resulting in changes in cash flow schedules. Accordingly, it is suggested that it should be expressly clarified that such adjustments in cash flow schedules (appended to the transaction documents) to account for TIUP, UIUP structures will not be viewed as a variation and can be carried out by the Trustee without requiring consent from the SDI investors. Rationale: Inspiration from Regulations Under Companies Act, 2013 The voting mechanism should be aligned with conditions under the Companies Act, 2013, which also permit proxy voting and allow members to exercise their vote through electronic means. The deletion of the word “adversely” from Regulation 34(6) could potentially trigger unnecessary investor consent for changes that do not affect the core financial terms or rights of the investors. It is crucial to distinguish between material	

		changes (that affect investor returns, risk, or fundamental terms) and non-material changes such as the following, which should be permitted without requiring investors' consent". d) It will be helpful if any adjustment in cash flow schedules (which is typically documented in transaction appendices) for structures where flexible repayment flows are permissible is not considered as a variation requiring consent. Further, consent should be based on a "present and voting" basis, and proxy voting should be explicitly permitted to ensure greater flexibility and participation in decision-making. Rationale: Current SDI structures feature varying schedules for principal and interest payments. In certain structures, such as timely interest and ultimate principal (TIUP) and ultimate interest and ultimate principal (UIUP), payments are typically expected during the tenure but guaranteed at maturity, allowing for flexible repayment flows.	

Table XXVI: <u>E-Voting may be permitted and accordingly Regulation 34(7) shall be amended. (Para 29 of board memorandum)</u>.

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
26	**E-Voting may be permitted and accordingly Regulation 34(7) shall be amended. (Para 30 of board memorandum).** **Proposal:** It is proposed that e-voting may be permitted.	NIL	Not Applicable

Table XXVII: <u>Clarification on applicability of requirements as provided under Chapter III of the SEBI LODR Regulations at SPDE/Trustee level</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
27	**Clarification on applicability of requirements as provided under Chapter III of the SEBI LODR Regulations at SPDE/Trustee level. (Para 31 of board memorandum)** **Proposal:** It is proposed that SPDE/Trustee of an SPDE shall comply with the requirements as provided under Chapter III of the SEBI LODR Regulations.	All public comments are in agreement with SEBI's proposal. The only comment with partial agreement suggested as under: a) The proposal to centralise compliance responsibilities at the trustee level could simplify regulatory adherence and minimise operational redundancies, however, this consolidation might not accommodate nuanced compliance needs, which vary by instrument type, issuer structure, and market risk factors inherent to both SDIs and SRs. Therefore, while the proposal is efficient in reducing duplicative requirements, it also introduces potential concerns regarding the depth and immediacy of compliance monitoring. b) For listed SDIs, whose core structure and investor interaction may be limited compared to standard listed corporations, a broad, generalized policy for document preservation could introduce inefficiencies. SDIs, by design, focus on specific asset classes, often operate within controlled investment frameworks, and may not require the same breadth of document preservation as other corporate entities. By enforcing document preservation requirements at the trustee level, SEBI can ensure that document retention and management efforts are appropriately focused. Trustees are responsible for safeguarding records directly related to investor interests and compliance with	In respect of the suggestion made in the public comment it may be noted that Regulation 18(3) of SDI regulations on maintenance of records mandates that the special purpose distinct entity shall maintain its books of account, records and other documents in respect of its schemes for a minimum period of eight years from the redemption of all instruments issued under the scheme. Since trustees are responsible for SPDE (which is a trust), the regulatory requirement of maintenance of records already reside with the trustee.

		the terms of the SDI. This shift ensures that preservation policies serve their intended purpose without unnecessary expansion, aligning regulatory requirements with the functional needs of SDI governance.	

Table XXVIII: <u>Permitting SCORES registration at the Trustee level for all the SPDEs that it is a trustee of. (Para 30 of board memorandum)</u>

S. No.	Proposal in Consultation Paper	Public Comments not in support of the proposal	SEBI views on such public comments
28	**Permitting SCORES registration at the Trustee level for all the SPDEs that it is a trustee of. (Para 32 of board memorandum)** **Proposal:** It is proposed that SCORES should allow registration at the Trustee level for all the Special Purpose Distinct Entities (SPDEs) under their trusteeship.	The only comment with partial agreement suggested that to ensure a smooth implementation of the proposals, a transition period should be provided along with the grandfathering of SDIs listed prior to the effective date of the new requirements.	the suggestion on providing suitable transition period is noted.

Annexure – B

Draft Amendment Notification

Amendment shall be notified after following the due process.

Annexure-C

Duties of Trustee

Below mentioned Amendments as mentioned in below table are proposed in:

Duties of trustee under SDI Regs	**Amendments, if any, proposed in SDI regulations.**
11 (2) The trustees shall ensure that the covenants in the trust deed and any other transaction document are complied with by the concerned parties.	11(2) The trustees shall ensure that the covenants in the trust deed and any other transaction document are complied with by the concerned parties and shall take necessary steps in case of any breach of covenants in terms of the trust deed and transaction documents.
11 (3) (f) take appropriate measures for protecting the interest of the investors including informing the board about any action, legal proceeding, etc., initiated against it in respect of any material breach or noncompliance by it, of any law, rules, regulations, directions of the Board or of any other regulatory body;	These are two different aspects - first part is covered in 11(3) (c) above - so duplicacy can be removed. (f) inform the board about any action, legal proceeding, etc., initiated against it in respect of any material breach or noncompliance by it, of any law, rules, regulations, directions of the Board or of any other regulatory body;
11 (3) (h) call for periodic reports from the originator regarding the performance of the underlying asset pool, atleast on quarterly basis;	Corresponding obligation can be cast on originator to provide periodic reports to the trustee regarding the performance of the underlying asset pool
11 (3) (i) communicate to the investors regarding the compliance by the servicer with its obligations and the actions taken thereof, atleast	(i) communicate to the investors regarding the status of compliance by the servicer with its obligations and the actions taken thereon, atleast on

Duties of trustee under SDI Regs	**Amendments, if any, proposed in SDI regulations.**
on quarterly basis;	quarterly basis;
11(3) (j) obtain a certificate from the auditor(s) of originator regarding the disclosures of underlying asset pool assigned to the securitization trust, as made by the originator, on quarterly basis	Corresponding obligation should be present on the originator
11 (3) (k) share such reports and auditors certificate as received from the originator or the auditor(s) of originator, with the credit rating agency which is rating the securitised debt instrument	Corresponding obligation should be present on the originator
11 (3) (l) call a meeting of all the investors on a requisition, in writing signed by at least one-tenth of investors in value for the time being outstanding or at the occurrence of an event, which constitutes a servicer default or which in the opinion of the trustees affects the interest of the investors;	(l) shall call a meeting of all the investors on— (a) a requisition in writing signed by at least one-tenth of the investors in value for the time being outstanding; or (b) the happening of any event, which constitutes a servicer default or breach of covenants (as specified in the trust deed or transaction documents) or which in the opinion of the trustee affects the interest of the investors; (2) In all other cases, the trustee may call a meeting of the investors, if required in the opinion of the trustee. (3) The meetings of investors shall be called and conducted in such manner as

Duties of trustee under SDI Regs	Amendments, if any, proposed in SDI regulations.
	may be specified by the Board from time to time, subject to the following - (a) in order to facilitate wider participation and collective sense, meetings shall be facilitated by video-conferencing and voting shall be facilitated by electronic means, (b) to facilitate timely decision-making, the sense of the meeting shall be ascertained on the basis of present and voting, (c) as to requisite majority, unless otherwise explicitly provided in these regulations or any other regulations framed by the Board or any other law for the being in force or the trust deed, any matter placed before the SDI holders shall be decided by a majority of more than 50% of the value of SDIs outstanding. Provided that the terms of the issue of SDIs or trust deed may provide for a higher majority. Explanation: For the purpose of these regulations, standards, if any, as specified by the Board with respect to the calling of meetings of SDI holders shall mutatis mutandis apply to the calling of meetings of investors.

Duties of trustee under SDI Regs	**Amendments, if any, proposed in SDI regulations.**
11 (3) (n) ensure that any change in registration status or any administrative, civil or penal action taken by Board or any material change in financial position which may adversely affect the interests of investors is promptly informed to the investors;	(n) ensure that any change in registration status or any administrative, civil or penal action taken by Board against the trustee under any of the applicable regulations or any material change in financial position of the trustee which may adversely affect the interests of investors is promptly informed to the investors;

Annexure-D

Code of conduct

1.1. As mentioned below, amendments may be carried out to clause 3, 16 and 17 of Schedule III of the SDI Regulations and additional clause as mentioned below from clause 18 to clause 39.

16. "3. A special purpose distinct entity and its trustee shall avoid conflicts of interest in managing the affairs of the schemes and other regulated activities, shall keep the interest of all investors paramount in all matters and shall make adequate disclosure of its interest. A special purpose distinct entity and its trustee shall ensure that good corporate policies and corporate governance is in place and shall develop internal code of conduct for governing its internal operations and laying down standards of appropriate conduct for its employees for carrying out their duties. Such a code may extend to the maintenance of professional excellence and standards, integrity, confidentiality, objectivity, avoidance of conflict of interests, disclosure of shareholdings and interests, etc.

17. A special purpose distinct entity and its trustee shall not be party to—
    a. creation of false market;
    b. price rigging or manipulation;
    c. passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary.

18. A special purpose distinct entity and its trustee shall take all reasonable steps to establish the true and full identity of each of its clients, and of each client's financial situation and maintain record of the same.

19. The trustee shall ensure that any change in registration status/any penal action taken by Board or any material change in financial position which may adversely affect the interests of investors is promptly informed to the clients and any business remaining outstanding is transferred to another registered intermediary in accordance with any instructions of the affected clients

20. A special purpose distinct entity and its trustee shall put in place a mechanism to resolve any conflict of interest situation that may arise in

the conduct of its business or where any conflict of interest arises, shall take reasonable steps to resolve the same in an equitable manner.

21. A special purpose distinct entity and its trustee shall make appropriate disclosure to the client of its possible source or potential areas of conflict of duties and interest while acting as trustee which would impair its ability to render fair, objective and unbiased services.
22. A special purpose distinct entity and its trustee shall not indulge in any unfair competition, which is likely to harm the interests of other trustees or subscriber to the securitised debt instrument or is likely to place such other trustees in a disadvantageous position while competing for or executing any assignment nor shall it wean away the clients of another trustee on assurance of lower fees.
23. A special purpose distinct entity and its trustee shall not discriminate among schemes / their clients, except and save on ethical and commercial considerations.
24. A special purpose distinct entity and its trustee shall share information available with it regarding special purpose distinct entity with registered credit rating agencies.
25. A special purpose distinct entity and its trustee shall provide the holders of securitised debt instrument with adequate and appropriate information about its business, including contact details, services available to holders, and the identity and status of employees and others acting on its behalf with whom the holder may have to contact.
26. A special purpose distinct entity and its trustee shall ensure that adequate disclosures are made to the holders of securitised debt instrument and security receipt, in a comprehensible and timely manner so as to enable them to make a balanced and informed decision.
27. A trustee shall endeavour to ensure that—
    a. inquiries from holders of securitised debt instrument and security receipt are adequately dealt with;
    b. grievances of holders of securitised debt instrument and security receipt are redressed in a timely and appropriate manner;
    c. where a complaint is not remedied promptly, the holders of securitised debt instrument and security receipt is advised of any

further steps which may be available to the investor under the regulatory system

28. A special purpose distinct entity and its trustee shall make reasonable efforts to avoid misrepresentation and ensure that the information provided to the investor is not misleading.
29. A special purpose distinct entity and its trustee shall maintain required level of knowledge and competency and abide by the provisions of the Securities and Exchange Board of India Act, 1992 (15 of 1992), regulations and circulars and guidelines.
30. A special purpose distinct entity and its trustee shall not make untrue statement or suppress any material fact in any documents, reports, papers or information furnished to the Board.
31. A special purpose distinct entity and its trustee ensure that the Board is promptly informed about any action, legal proceeding, etc., initiated against it in respect of any material breach or non-compliance by it, of any law, rules, regulations, directions of the Board or of any other regulatory body.
32. A special purpose distinct entity and its trustee or any of his employees shall not render, directly or indirectly, any investment advice about any security in the publicly accessible media, whether real-time or non-real-time unless a disclosure of his interest including long or short position in the said security has been made, while rendering such advice.
33. A special purpose distinct entity and its trustee is rendering such advice, the investor shall ensure that he discloses his interest, the interest of his dependent family members and that of the employer, including their long or short position in the said security, while rendering such advice.
34. A special purpose distinct entity and its trustee shall ensure that any person it employs or appoints to conduct business is fit and proper and otherwise qualified to act in the capacity so employed or appointed (including having relevant professional training or experience).
35. A special purpose distinct entity and its trustee shall ensure that it has adequate resources to supervise diligently and does supervise diligently persons employed or appointed by it to conduct business on its behalf.

36. A special purpose distinct entity and its trustee shall have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, its clients, investor and other registered entities from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.
37. A special purpose distinct entity and its trustee shall be responsible for the acts or omissions of its employees and agents in respect to the conduct of its business.
38. A special purpose distinct entity and its trustee shall provide adequate freedom and powers to its compliance officer for the effective discharge of its duties.
39. A special purpose distinct entity and its trustee shall ensure that the senior management, particularly decision makers, have access to all relevant information about the business on a timely basis.