

Review of SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015

1. Objective

- 1.1. This Board Memorandum proposes amendments to SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (“**ILMDS Regulations**”) with an intent to encourage municipal bond issuances and enhance retail participation in municipal debt securities.

2. Background

- 2.1. SEBI notified the SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (“ILMDS Regulations”) in July 2015, thereby providing a framework for public issue of municipal debt securities and the listing and trading of such securities.
- 2.2. As on March 31, 2026, 22 Municipal Corporations have accessed capital market and raised INR 4540.34 crores through 31 issuances of municipal debt securities.
- 2.3. In view of the changes in the debt market ecosystem over the years and the feedback garnered from stakeholders during interactions with them at various outreach programs, it was decided to undertake a review of the ILMDS Regulations. Accordingly, a Working Group (“**WG**”) was constituted in August, 2024 to provide suggestions/recommendations in respect of changes required in the regulatory framework for municipal debt securities.

3. Public consultation

- 3.1. Based on the recommendations of the WG, SEBI issued a Consultation paper on “Review of the SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015” on May 13, 2026. The last date for receiving public comments was June 3, 2026. A copy of the consultation paper is enclosed as **Annexure A**. The Consultation paper sought public comments on proposals in respect of the following:

- 3.1.1. Re-financing as an objective for raising of funds

- 3.1.2. Utilisation of issue proceeds towards working capital requirements
 - 3.1.3. Raising of funds by two or more municipalities through a Pooled finance vehicle
 - 3.1.4. Requirements related to face value/ trading lot/ denomination for municipal debt securities
 - 3.1.5. Permitting issuers to offer incentives in the form of additional interest or a discount to the issue price to certain categories of investors in municipal debt securities
 - 3.1.6. Permitting electronic modes for making advertisements for public issues of municipal debt securities
 - 3.1.7. Framework for issuance of “Environment, Social and Governance (ESG) debt securities” by municipalities
 - 3.1.8. Definition of “working day” under ILMDS Regulations.
- 3.2. A total of 16 entities (71 comments) responded on the proposals made in the Consultation Paper with their views/ suggestions. While a majority of the respondents have agreed with the proposal, some respondents have made additional suggestions related to the proposal. A summary of the comments received, along with SEBI’s views on the same, are placed at **Annexure B**.

4. Proposals for the consideration and approval of the Board

4.1. Re-financing as an objective for raising of funds

- 4.1.1. Currently, there is no specific provision in the ILMDS Regulations for re-financing as an object for raising of funds by municipalities.

4.1.2. While the extant framework does not restrict issuance of municipal debt securities for re-financing of existing loan/ debt, there are no provisions mandating specific disclosures required to be made in the offer document in respect of the same.

4.1.3. Analysis of Public Comments:

4.1.3.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
0	9	0	0	1	10

4.1.3.2. While a majority of the public comments are in favour of the proposal, it has been suggested to include additional disclosures, viz. original amount of loan / debt, reason for refinance and whether the refinancing materially alters the projects leverage or risk profile. Accordingly, the said disclosures are proposed to be suitably incorporated in the prescribed format for draft offer document/ placement memorandum.

4.1.4. Proposal for the approval of the Board:

4.1.4.1. Certain disclosures in respect of the existing lenders and loan(s) that are being refinanced are proposed to be included in the offer document or placement memorandum since information on the same will be necessary for investors to assess the issuer's financial health, and liquidity risk.

4.1.4.2. Accordingly, in Schedule I of the ILMDS Regulations (in respect of the disclosures to be made in the draft offer document or placement memorandum), under paragraph 5 on "Objects of the Issue", the following "clause (i)" are proposed to be added -

"(i) If the project is re-financed, the following details shall be provided in respect of the lenders and existing project(s) related loan(s) or debt that are

being refinanced, as per the specified format:

- i. Type of existing loan/ debt
- ii. Original amount of loan / debt
- iii. Existing lenders
- iv. Existing rate of interest
- v. Existing repayment schedule
- vi. Details of project(s) financed by existing loan/ debt
- vii. Past restructuring, if any, on the said project
- viii. Reason for re-finance”

4.2. Utilisation of issue proceeds towards working capital requirements

4.2.1. Regulation 18A of the ILMDS Regulations specifies certain provisions in respect of “Utilization of issue proceeds”. However, there are no stipulations in the extant ILMDS Regulations with regard to utilisation of the issue proceeds towards working capital requirements of the project being financed through such issue.

4.2.2. While reviewing the proposal for re-financing as an objective for raising of funds by municipalities, the Corporate Bonds & Securitization Advisory Committee (CoBoSAC) suggested that the following conditions may be specified with regard to utilisation of issue proceeds towards working capital requirements of the project being financed:

4.2.2.1. The issue proceeds shall be used for specified project(s) and shall not be used for general purposes.

4.2.2.2. Not more than 25 per cent of the issue proceeds may be utilised towards working capital requirements of the project(s) being financed.

4.2.2.3. The offer document shall contain disclosure with regard to the percentage of issue proceeds proposed to be used towards the working capital component of project(s) being financed.

4.2.2.4. The aforesaid conditions shall be applicable for both original issuance and refinancing.

CoBoSAC noted that this would ensure that the proceeds of municipal debt securities are deployed efficiently and productively towards capital expenditure on the project, which constitutes the primary purpose for raising of funds.

4.2.3. Analysis of Public Comments:

4.2.3.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
0	5	2	0	1	8

4.2.3.2. While a majority of the public comments are in favour of the proposal, the following additional suggestions have been received:

- a) Instead of working capital, allow 25% of the issued proceeds for “General purpose” and define what is covered under “General purpose”, viz. DPR preparation charges, Project Consultant charges and Regulatory approvals and statutory clearances. The offer document shall contain disclosure regarding the percentage of issue proceeds proposed to be used towards the General Purpose.
- b) A higher cap (up to 35% of issue proceeds) may be allowed towards working capital, subject to Credit Rating Agency validation that the working capital is essential for the project’s viability.
- c) The definition of working capital may be inserted to clearly define components those may considered under working capital.

4.2.3.3. Comments/ views on public suggestions:

- a) Under ILMDS Regulations, the object of the issue is project-specific. The current Regulations do not specify any limit on use of

issue proceeds for general purpose or working capital of the specified project. Comments have been received regarding lack of clarity on what is covered under “General purpose” or working capital. Various challenges have been highlighted with regard to the proposals related to working capital (like fixing a cap, defining its components, etc.). In view of the public comments received and keeping in mind ease of doing business, it is proposed not to specify limits for project related working capital. Thus, municipalities/ SPV shall use funds for the specified projects or to re-finance specified projects.

4.3. Raising of funds by two or more municipalities through a Pooled finance vehicle

4.3.1. In terms of Regulation 2(1)(l) of the ILMDS Regulations:

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

4.3.2. While the extant framework provides for an enabling provision for raising of funds by two or more municipalities through a pooled finance vehicle, there are no provisions mandating specific disclosures required to be made in the offer document in respect of the same. Further, certain operational aspects, viz. agreement between the pooled vehicle SPV (“issuer”) and the constituent municipalities and the escrow account mechanism, also need to be specified for better clarity regarding the pooled finance arrangement and the repayment mechanism.

4.3.3. Analysis of Public Comments:

4.3.3.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
4	7	0	1	0	12

4.3.3.2. While a majority of the public comments are in favour of the proposal, the following additional suggestions have been received:

- a) The proposed provision allowing SPVs in the form of Trusts or Companies may be expanded to include Societies, Section 8 Companies, State Urban Infrastructure Funds, Pooled Finance Funds and other state-sponsored financing entities, subject to equivalent governance, disclosure and investor protection requirements.
- b) Regulations should outline and demarcate the roles and responsibilities of both the State Pooled Finance Entity/SPV and constituent municipalities.
- c) Modifications in the format of Schedule 1B (Format for disclosures to be made in the offer document/ placement memorandum in case of pooled issuance by municipalities) have been suggested to clearly specify for each disclosure, whether the same is required to be made by the Issuer (SPV) or the constituent municipalities. Further, certain disclosures that may be irrelevant in case of a pooled issuance or may pose significant challenge for the constituent municipalities have been suggested for deletion.
- d) The methodologies and criteria used for assigning credit rating to a bond issued by an SPV through pooling of funds should be finalized by the respective credit rating agency (CRA), in line with existing regulations and disclosure requirements for the industry.

Hence, credit rating agencies should not be mandatorily asked to undertake a credit rating assessment of each constituent municipality in the pool.

4.3.3.3. Comments/ views on public suggestions:

- a) Under, the Pooled Finance Development Fund Scheme of the Government of India, the Pooled Finance SPV (Issuer) can be a trust or a company. The Scheme does not provide for other entities, as suggested by the respondent, to act as the SPV.
- b) It is proposed that the constituent Municipalities shall enter into an agreement with the pooled finance vehicle (SPV) prior to fund raising and shall disclose the same in the offer document. The aspects mentioned in public comments regarding role of SPV and constituent municipalities shall be dealt with in the said agreement. Codifying the same through Regulations may not be appropriate as it would take away flexibility from the issuer/ constituent municipalities to suitably tailor respective role and responsibility.
- c) The proposed format of Schedule 1B has been suitably modified to incorporate the suggestions received relating to clarifying disclosures by issuer and constituent municipalities.
- d) Considering the feedback received on credit rating, it has been proposed that rating methodology/ approach may be finalized by CRAs, without prescribing that the CRA shall undertake a credit rating assessment of each constituent municipality in the pool, while rating the bond issued by the SPV.

4.3.4. Proposal for the approval of the Board:

- 4.3.4.1. Schedule I of the ILMDS Regulations provides the format of disclosures to be made in the offer document and placement memorandum. A separate “Schedule IB” is proposed to be inserted, which shall be applicable where the issuer is a Special Purpose Vehicle (SPV) set up for pooled financing

by constituent ULBs. The proposed draft of Schedule IB is placed at **Annexure C**.

4.3.4.2. The constituent Municipalities shall enter into an agreement with the pooled finance vehicle (SPV) prior to fund raising and shall be required to disclose the same in the offer document (as part of Schedule 1B). Further, the SPV may be formed as either a Trust or a Company. Enabling provisions to this effect are proposed to be inserted in the main body of the ILMDS Regulations.

4.3.4.3. SEBI Circular SEBI/HO/DDHS/CIR/P/134/2019 dated November 13, 2019, inter alia, specifies requirements related to the escrow payment mechanism for issuers of municipal debt securities. This Circular is proposed to be suitably modified, to provide for a “two-step escrow account mechanism”, as given below:

- “1. In case the listed entity is a pooled finance vehicle/ Special Purpose Vehicle (SPV) set up under the Pooled Finance Development Fund Scheme of the Government of India, the constituent municipalities are required to create all the above accounts and comply with the requirements specified for the same.

Further, the SPV/ pooled finance vehicle shall maintain an “Interest payment account” and a “Sinking fund account”, to which funds from the respective “Interest payment account” and “Sinking fund account” maintained by the constituent municipalities shall be transferred, as per the agreement between the SPV and the constituent municipalities. The SPV/ pooled finance vehicle shall throughout the tenure of the municipal debt securities maintain an amount equivalent to one year interest obligation in the Interest payment account.

2. The SPV / pooled finance vehicle may include following forms of credit enhancement to enhance credit rating and provide greater protection to investors:

- i. Additional cash collateral
- ii. Program equity by the state government
- iii. Access to state finance commission devolutions to ULBs
- iv. Full or partial credit guarantee from a high rated development finance institution (DFI) or multilateral institution
- v. Any other appropriate credit enhancement structure

4.4. Requirements related to face value/ trading lot for municipal debt securities

4.4.1. Currently Regulation 22 of the ILMDS Regulations provides as under:

“The face value of municipal debt securities shall be disclosed in offer document or placement memorandum in the manner as specified by the Board.”

4.4.2. However, the ILMDS Regulations currently do not specify any amount with regard to the face value or trading lot for municipal debt securities. It was proposed to specify trading lot and face value or Rs. 10,000 or Rs.1 lakh on similar lines as for non-convertible securities.

4.4.3. In case of non-convertible securities issued under SEBI (Issue and Listing of Non-Convertible Securities) Regulations 2021 (“**NCS Regulations**”), Chapter V of the “Master Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated October 15, 2025” (“**NCS Master Circular**”), inter alia, specifies requirements related to the face value of debt securities issued on private placement basis.

4.4.4. Analysis of Public Comments:

4.4.4.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
1	5	0	1	0	7

4.4.4.2. While a majority of the public comments are in favour of the proposal, it has been suggested to allow greater flexibility with regard to the face values/ trading lots for the issuances.

4.4.4.3. Comments/ views on public suggestions: There is no restriction on the face value/ trading lot for public issues of municipal debt securities. The proposed face value of Rs. 10000/ Rs. 1 Lakh only relates to privately placed debt, where issuances are targeted towards an identified set of investors, to have some standardization in the face value/ trading lot.

4.4.5. Proposal for the approval of the Board:

4.4.5.1. Similar requirement (as under the NCS Regulations) are proposed to be specified in respect of face value and trading lot for municipal debt securities, by suitably specifying the following through a circular:

“3. Issuance and trading of municipal debt securities:

- 3.1 The face value of each municipal debt security issued on private placement basis shall be Rs. One Lakh or Rs. Ten Thousand, as deemed fit.
- 3.2 The municipal debt security issued at a face value of Rs. Ten Thousand shall have a fixed maturity and shall be without any structured obligations.
- 3.3 The trading lot of the listed municipal debt security issued on private placement basis, traded on a Stock Exchange, shall always be equal to the face value of such security.”

4.4.5.2. It shall also be clarified that the face value specified above is applicable only for privately placed municipal debt security and not for public issues

4.5. Permitting issuers to offer incentives in the form of additional interest or a discount to the issue price to certain categories of investors

4.5.1. Currently, Regulation 22B of the ILMDS Regulations specifies the following in respect of payment of incentives:

“Prohibition on payment of incentives

22B. Any person connected with the issue shall not offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person for making an application in the issue, except for fees or commission for services rendered in relation to the issue.”

4.5.2. In order to encourage public issuances in the debt market, the NCS Regulations were amended in January, 2026, to permit issuers to offer an incentive in the form of additional interest or a discount to the issue price to certain categories of investors, viz. senior citizens, women, serving and retired defence personnel, widows and widowers of defence personnel and retail individual investors. It was proposed to provide for similar incentives for public issue of municipal debt securities.

4.5.3. Analysis of Public Comments:

4.5.3.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
1	6	0	0	0	7

4.5.3.2. While all the public comments are in favour of the proposal, it has been suggested to extend the incentives to additional categories of investors (viz. companies and institutions contributing toward urban development within municipal corporation areas, persons with disabilities, transgender person and residents of the issuing municipal area) and to investors in the secondary market.

4.5.3.3. Comments/ views on public suggestions:

- a) Since the intent of the proposal is to encourage wider participation in the debt market by retail investors, it may not be appropriate to provide the incentive to companies and institutions as suggested in public comments. Further, Persons with Disabilities, Transgender Persons and residents of the issuing municipal area are already included under the proposed category "retail individual investors" for investment amounts up to INR 2 Lakh. Therefore, addition of separate categories may not be required.
- b) Permitting the incentives to extend to transferee investors, even within the same category, may create price distortion and difficulty in selling bonds that do not carry the incentives.

4.5.4. Proposal for the approval of the Board:

4.5.4.1. Accordingly, incentives for certain categories of investors (as under NCS Regulations) are proposed to be provided in case of municipal debt securities to encourage participation of retail investors by inserting the following proviso in Regulation 22B of the ILMDS Regulations:

“Provided that nothing contained in this regulation shall preclude the issuer from offering an incentive in the form of additional interest or a discount to the issue price to senior citizens, women, serving and retired defence personnel, widows and widowers of defence personnel, retail individual investors or any other category of investors as may be specified by the Board from time to time:

Provided further that such incentive shall be available only to the initial allottee but not in case the municipal debt securities are transferred/transmitted post allotment.”

4.5.4.2. Further, the following definition of “retail individual investor”, as provided under NCS Regulations, is also proposed to be inserted in the ILMDS Regulations-

“(va) “retail individual investor” means an individual investor who applies or bids for municipal debt securities for a value of not more than two lakhs rupees”.

4.6. Permitting electronic modes for making advertisements for public issues

4.6.1. Regulation 9(1) of the ILMDS Regulations specifies that “The issuer may make an advertisement in a national daily with wide circulation...”. It was proposed to enable advertisements also through electronic modes.

4.6.2. Analysis of Public Comments:

4.6.2.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
1	5	1	0	0	7

4.6.2.2. While a majority of the public comments are in favour of the proposal, it has been suggested to also include social media handles for greater reach. Further, one respondent has suggested that the option to advertise and the mode should be with the issuer.

4.6.2.3. **Comments/ views on public suggestions:** The Regulations do not restrict municipalities from making advertisements through social media platforms, in addition to the modes prescribed. However, making the same mandatory may not be appropriate since all municipalities may not have social media presence. This also aligns with the requirements specified for corporate bonds under NCS Regulations.

4.6.3. Proposal for the approval of the Board:

4.6.3.1. Under NCS Regulations, issuers are permitted to make advertisement through electronic modes such as online newspapers or website of the issuer or the stock exchange. Accordingly, Regulation 9(1) of the ILMDS Regulations is proposed to be amended to provide as under (insertions underlined):

“The issuer may make an advertisement through electronic modes such as online newspapers or website of the issuer or the stock exchange, or in a national daily with wide circulation, on or before the issue opening date and such advertisement shall, amongst other things, contain the disclosures as per Schedule IV.

Provided that issuers opting to advertise the public issue through electronic modes shall publish a notice, in a national daily with wide circulation, exhibiting a QR Code and link to the complete advertisement.”

4.7. Framework for issuance of “Environment, Social and Governance (ESG) debt securities” by municipalities

4.7.1. In the recent years, several municipal corporations have issued green municipal debt securities, in terms of the framework provided under the

NCS Regulations. NCS Regulations also provide the operational framework, inter-alia, covering initial and post issue disclosure by the issuer and appointment of an independent third party reviewer for issuance of “ESG debt securities”, viz. social bonds, sustainability bonds and sustainability-linked bonds. It was proposed to specify similar provisions in the ILMDS Regulations.

4.7.2. Analysis of Public Comments:

4.7.2.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
2	5	0	0	0	7

4.7.3. Proposal for the approval of the Board:

4.7.3.1. The framework for issuance of ESG debt securities, as provided under the NCS Regulations, may be enabled under the ILMDS Regulations to facilitate the issuance of such securities by municipalities. Accordingly, the following enabling provision is proposed to be inserted as Regulation 4F. in the ILMDS Regulations:

“Issuance of Environment, Social and Governance Debt Securities

An issuer desirous of issuing and listing of Environment, Social and Governance Debt Securities shall comply with the conditions as may be specified for such securities under SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and circulars issued thereunder.”

4.7.3.2. It may be noted that the above proposal does not impose any new stipulations on municipalities issuing ESG debt securities; municipalities are already complying with the said regulatory requirements while issuing ESG debt securities under the NCS Regulations.

4.8. **Definition of “working day”**

4.8.1. The following provisions under ILMDS Regulations specify timelines in terms of “working days”:

“Period of subscription

8. (1) Except as otherwise provided in these regulations, public issue of municipal debt securities shall be kept open for at least three working days.

(2) The issuer may extend the bidding period disclosed in the offer document, in case of force majeure, banking strike or similar circumstances, for a minimum period of three working days.”

4.8.2. However, as the ILMDS Regulations do not specify the definition of “working day”, it was proposed to add a suitable definition.

4.8.3. **Analysis of Public Comments:**

4.8.3.1. The public comments received on the above proposal are summarised as under:

Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total
1	4	1	0	0	6

4.8.4. **Proposal for the approval of the Board:** The following definition of “working day”, as specified under the NCS Regulations, is proposed to be inserted in ILMDS Regulations to provide greater clarity in respect of timelines specified in the ILMDS Regulations-

““working day” means all days on which commercial banks in the city, as specified in the offer document, are open for business;

Explanation:

For the purpose of this definition, in respect of -

(i) Announcement of bid /issue period:

working day shall mean all days, excluding Saturdays, Sundays and public holidays, on which commercial banks in the city as notified in the offer document are open for business;

(ii) the time period between the bid/ issue closing date and the listing of the non-convertible securities on the stock exchanges:

working day shall mean all trading days of the stock exchanges for non-convertible securities, excluding Saturdays, Sundays and bank holidays, as specified by the Board;”

4.9. **Extension in timelines for the certain post-issue event-based compliances**

4.9.1. SEBI Circular dated November 13, 2019, inter alia, specifies the following timelines:

- i. The listed entities shall prepare and submit half yearly un-audited financial results to the stock exchange as soon as the same are available but within forty five days of the end of the first half year.
- ii. The listed entities shall submit annual audited financial results for the financial year, within sixty days from the end of the financial

year along with the audit report.

4.9.2. The WG, in its report, submitted that given the complexity and diversity of operations of municipalities, compiling accurate and comprehensive financial and operational data within the prescribed timelines is a significant challenge. Further, the current reporting timelines may not fully align with the practical challenges faced during data collection, inter-departmental coordination and meeting disclosure requirements. In view of the same, the WG recommended that the existing timelines may be relaxed as proposed in para 4.9.3 below.

4.9.3. **Proposal for the approval of the Board:** The timelines specified in the aforesaid SEBI Circular are proposed to be extended as under-

- i. Submitting unaudited half-yearly financial results: From the current 45 days to 60 days from the end of half year, and
- ii. Submitting audited annual financial results: From the current 60 days to 90 days from the end of financial year.

4.10. **Modification in the language of Regulation 23(2) of ILMDS Regulations**

4.10.1. **Proposal for the approval of the Board:** The language in Regulation 23(2) of ILMDS Regulations is proposed to be modified as under (deletion in strikethrough) for grammatical rectification:

“(2) Where the issuer is a body corporate to whom the Companies Act, 2013 applies, one-third of its Board shall comprise ~~of~~ independent directors, as defined in section 149 of the Companies Act, 2013.”

5. Comments of the Corporate Bonds & Securitization Advisory Committee (CoBoSAC):

The above proposals were placed before the members of CoBoSAC for deliberation during the meeting held on April 27, 2026. Members of CoBoSAC broadly agreed with the proposed measures.

6. Proposal to the Board:

6.1. The Board is requested to:

6.1.1. consider and approve the proposals as detailed in para 4 above and the consequent draft amendment notification enclosed as **Annexure D**;

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

Enclosed.:

1. Annexure A to Board Memorandum
2. Annexure B to Board Memorandum
3. Annexure C to Board Memorandum
3. Annexure D to Board Memorandum

Available on SEBI website

https://www.sebi.gov.in/reports-and-statistics/reports/may-2026/consultation-paper-on-review-of-the-sebi-issue-and-listing-of-municipal-debt-securities-regulations-2015-_101404.html

Annexure B

S. No.	Public Comment	SEBI comments
1.	Proposal 1: Re-financing as an objective for raising of funds · <i>There can be two possibilities – (1) Re-financing of existing project for which already loan taken from Bank, FI or govt body and (2) Re financing of existing Project which already financed through Bond Issue. Kindly confirm.</i> · <i>Disclosure on the “Original Amount of loan / debt” and any other disclosure, if required, may be added and deletion of disclosure on “Purpose of existing debt”.</i> · <i>The purpose of undertaking the refinance be specified. e.g. this could include reducing borrowing cost extending maturity consolidating multiple loans or even improving cash flow by lowering near debt service obligation.</i> · <i>Proposed to include why the refinancing is being undertaken and whether the refinancing materially alters the projects leverage or risk profile. The below can be added as well</i> 1. Rationale and purpose of refinancing existing debt 2. Comparison of the key terms of refinanced debt vs existing project including material changes in ROI tenure repayment schedule security package covenants 3. Impact of refinancing on the overall indebtedness of the project including any increase or decrease in aggregate debt exposure 4. Details of extension or revised security or guarantee or charge or credit enhancement created pursuant to refinancing 5. Details of change in lending arrangement or	· The re-financing may be for both the scenarios, i.e. existing loan and bond issue, as mentioned by the respondent. Hence, no restriction/ conditions related to this aspect has been proposed. · As suggested, we may include "Original Amount of loan/ debt" and "Reason for re-finance" in the list of disclosures to be made by the issuer under "Objects of the issue". Disclosure on "Purpose of existing debt" may also be retained since the said debt may have been availed for more than one projects/ objects. · Disclosures related to refinancing of existing debt may also be added in Schedule IB, which is applicable in case of raising of funds by two or more municipalities through a Pooled finance vehicle. · The proposed disclosures already capture the key information related to the existing <i>debt</i> which may be useful to the investors. Mandating the detailed disclosures, as suggested by the respondent, may be overly burdensome without adding significant informational value. · Further, the NCS Regulations, while placing no restrictions on re-financing as an object of the issue, do not have such <i>granular</i>

S. No.	Public Comment	SEBI comments
	creditor composition including inter creditor arrangements substitutions or additions of lenders 6. Whether refinancing constitutes a cash out refinancing or is being undertaken solely for liability management or replacement of existing debt · Similar clause should be added in the Schedule IB proposed for Raising of funds by two or more municipalities through a Pooled finance vehicle · In addition to the proposed disclosures it is suggested that the <i>offer</i> document may also include following: Details of security or collateral created for the existing debt including nature of charge and assets encumbered · Further, in addition to the proposed disclosure <i>requirements</i> for refinancing of existing loans the scope of Objects of the Issue may be expanded to include the following 1. Recoupment of expenditure already incurred by the Corporation towards the projects from internal accruals Issuers may be permitted to utilize issue proceeds for recoupment of expenditure already incurred from internal accruals or budgetary resources towards projects. Appropriate disclosures may be made regarding a. Nature of expenditure b. Period during which such expenditure was incurred and c. Quantum proposed to be recouped. Further it is suggested to include land acquisition for the project as a permissible object under Objects of the Issue as land forms an integral component of infrastructure and project development. In cases where the issue proceeds are proposed to be utilised towards land acquisition and allied costs, appropriate disclosures may be made	disclosure requirements for corporate bonds. Therefore, it may not be appropriate to impose stricter requirements on municipalities to disclose the same. · The proposed amendment includes disclosure on “Past restructuring, if any, on the said project”, so that investors are aware regarding the use of issue proceeds towards refinancing of a distressed/ non-performing loan. · The respondent, while agreeing with the proposal in the consultation paper, has provided additional suggestion related to disclosure of financials by municipalities on their websites. <i>Municipalities</i> are already required to disclose their half yearly un-audited and annual audited financial results to the stock exchange(s), vide Circular dated November 13, 2019.

S. No.	Public Comment	SEBI comments
	regarding: a. the purpose and details of the project for which land is being acquired b. location and brief description of the acquisition process and the land proposed to be acquired c. estimated cost of land acquisition and proportion of issue proceeds proposed to be allocated d. proportion of issue proceeds proposed to be allocated towards rehabilitation and resettlement obligations if any e. key statutory approvals required and status thereof and f. Implementation timeline of the project linked to such land acquisition. · Who is accountable - the issuer the merchant banker or debenture trustee - if it emerges post issuance that proceeds <i>were</i> used to pay distressed loans or Non-performing loans What is the remedy available to the investor? · SEBI should make it mandatory for all municipal corporations issuing bonds to create a dedicated investor tab on their web portals, providing detailed information on cash flows, outstanding debt, and financial disclosures.	
2.	Proposal 2: Utilisation of issue proceeds towards working capital requirements · Kindly note that as per Regulation 18B “Issuer Contribution” Issuer contribution shall not be less than 20% of the Project cost which can be used for working capital requirement and capital expenditure along with grant sanctioned for that project. This contribution could be treated as working capital. · DPR and Work order covers Capital as well as working capital <i>requirement</i> for the project. Instead of working capital, we would suggest to allow 25% of the issued proceed as General	· Under ILMDS Regulations, the object of the issue is project-specific. The current Regulations do not specify any limit on use of issue proceeds for general purpose or working capital of the specified project. Comments have been received regarding lack of clarity on what is covered under “General purpose” or working capital. Various challenges have been highlighted with regard to the proposals related to working capital (like fixing a cap, defining its components, etc.). In view of the public comments

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	purpose, and also define what are covered under General purpose. We are suggesting following Expenses- - I DPR preparation charges - II Project Consultant charges - III Regulatory approvals and statutory clearances. b) The definition of working capital may be inserted to clearly define components those may considered under working capital. · While we support the cap to ensure funds are used for capital expenditure, we recommend a “flexibility clause” for certain essential service projects. Municipalities often face cyclical revenue gaps for operational maintenance of the very infrastructure being financed. A rigid 25% cap might be restrictive for projects like water treatment, or waste management where operational costs are high. We recommend that SEBI allow a higher cap (up to 35%) subject to Credit Rating Agency validation that the working capital is essential for the projects viability. This ensures the “productive deployment” goal of CoBoSAC is met without strangling project operations. · What is the post issuance monitoring mechanism which makes sure where and how the money was used on a specific project. Who is to be held accountable if funds are not spent as intended. As is the bond prospectus provision for leakage of funds as a condition for their inability to meet interest obligation. Additional provisions should not be given to cushion the working capital of the project. A post issuance monitoring mechanism requiring mandatory publicly available information communication should happen to gain the trust of the public. · For efficient working capital utilization, municipal corporations need to appoint a dedicated debt	received and keeping in mind ease of doing business, it is proposed not to specify limits for project related working capital. Thus, municipalities/ SPV shall use funds for the specified projects or to re-finance specified projects.

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	manager to manage funds effectively. Since these funds are deployed <i>toward</i> day-to-day operations and contractor payments, greater transparency, monitoring, and timely execution are essential to ensure efficient delivery and financial discipline. Allow them to run active treasury management. Allow them to invest surplus cash in Overnight funds and other MF Debt market product.	
3.	Proposal 3: Raising of funds by two or more municipalities through a Pooled finance vehicle - Does this mean a separate individual rating has to be assigned to each of the underlying pool? If yes, then do we need to engage with each such municipality for the rating assignment. - The methodologies and criteria used for assigning credit rating to a bond issued by an SPV through pooling of funds should be finalized by the respective credit rating agency, in line with existing regulations and disclosure requirements for the industry. Hence, credit rating agencies should not be mandatorily asked to undertake a credit rating assessment of each constituent municipality in the pool. - The proposed provision allowing SPVs in the form of Trusts or <i>Companies</i> may be expanded to include Societies, Section 8 Companies, State Urban Infrastructure Funds, Pooled Finance Funds and other state-sponsored financing entities, subject to equivalent governance, disclosure and investor protection requirements. - If amortising bonds are being considered, then a stipulation may be needed that prescribes minimum quantum of <i>reserves</i> of both interest and principal obligations. - Regulations should outline and demarcate the roles and responsibilities of both the State Pooled Finance Entity/SPV and constituent municipalities. For instance, responsibilities like hiring market intermediaries, constitution of a Bond Issuance Committee, selection of projects pool and municipalities, ensuring bond's financial closure,	- Considering the feedback received on credit rating, we may not proceed with the proposal regarding credit assessment of constituent <i>municipalities</i> by the CRAs. The rating methodology/ approach for rating of municipal debt security issued through pooled municipal financing may be finalized by CRAs. - Under, the Pooled Finance Development Fund Scheme of the Government of India, the Pooled Finance <i>SPV</i> (Issuer) can be a trust or a company. The Scheme does not provide for other entities, as suggested by the respondent, to act as the SPV. - The extant ILMDS Regulations or NCS Regulations have no stipulations related to <i>amortising</i> bonds in specific. Therefore, it may not be consistent to impose specific conditions related to the same in case of pooled finance by municipalities. - It is proposed that the constituent Municipalities shall enter into an agreement with the pooled finance vehicle (SPV) prior to fund raising and may be required to disclose the same in the offer document. The aspects mentioned by the

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	monitoring of municipalities' escrow accounts for timely debt repayment etc. should be outlined as SPFE/SPV's responsibility. Whereas, municipalities' responsibilities may largely be restricted to selection of projects under combined pool, project implementation and monitoring, timely debt repayment, complying with disclosure requirements. · Regulations should clarify that only SPV's pooled bond issuance would require credit rating and not constituent municipalities. Requiring constituent municipalities to be <i>individually</i> credit rated would increase cost and compliance burden reducing interest in pooled bond issuances. InvIT Regulations also do not require credit rating of individual projects' and SPVs' · Modifications in draft <i>Schedule 1B</i>: ○ 11(d): Propose deletion. Since pooled bond issuance will involve multiple municipalities, Mayors and Commissioners cannot be expected to attest to other municipalities info as it is beyond their jurisdictions. Seeking this declaration will lead to several months of delays. Based on conversations with Accounts Officers and market intermediaries, this declaration has delayed even single bond issuance as neither elected representatives nor Commissioners are willing to attest easily as several legacy issues unearthed during muni bonds process. To encourage more states towards pooled bonds, regulatory compliance requirements should reduce ULBs compliance burden while protecting investors interests. Advisable to only limit to 11e which seeks a similar declaration from Director of the Companies. ○ Pt 4(l) seeking 'Details of State Finance Commission grant on annual basis' should be deleted since the State Pooled Finance Entities (the 'issuer') do not receive SFC grants directly. Only details that are relevant to the bond issuance should be sought to reduce	respondent shall be dealt with in the said agreement. Codifying the same through Regulations would result in over-prescription and take away the flexibility from the issuer/ constituent municipalities. · Based on the suggestions, proposed <i>Schedule 1B</i> has been appropriately modified.

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	compliance burden on constituent ULBs. – for instance, if any of the constituent ULB’s project’s capital structure depends on debt repayment through SFC grants, then the same would be captured under Point 4(j). ○ pt 3e seeks details of Bond Issue Committee. This was a proposed committee under a MoHUA toolkit prepared for PFDF Scheme and was intended to constitute the Heads of Finance Function of each ULB and State Pooled Finance Entity or SPFE (ref. pg 34 of Scheme Toolkit). To provide clarity, Regulations may either mandate formation of a committee by SPFE and outline required composition OR restrict disclosure to any committee constituted by SPFE. ○ pt 8.IV pl seek details of reforms by constituent Municipalities instead of Issuer as reforms relate to municipal functions ○ pt12b expand to include Companies · Disclosure shall be pertaining to Issuer SPV created for <i>the</i> pool bond and not for each constituent municipalities. · In case the disclosures of constituent municipalities are required the proposed framework may require further refinement to accommodate pooled financing structures including where - a.The bond proceeds are utilised at the SPV level for a common project - b.The repayment is through state-level escrow of grants and transfers c. Structures involving large no. of ULBs with small individual exposures Following is suggested: Allowing issuer SPV centric disclosures with limited requirement for granular disclosures for each individual ULB. Clause 4.1.5 be modified to include pooled finance vehicles or SPVs set up under State	

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	Government schemes as well. · Where repayment mechanism is structured through state level escrow of grants and transfers rather than cash flows or <i>revenues</i> of individual ULBs all the escrow accounts may be opened and operated at the SPV level and not at the individual ULB level · Further the post issue and continuous disclosure obligations <i>shall</i> be complied with at the SPV level to avoid duplication and ensure consistency · It is suggested to keep that SPV under pool bond structure shall <i>not</i> be considered as deemed NBFC under the regulatory framework of the RBI. · Following are <i>modifications</i> proposed to Schedule IB: ○ Disclosures with respect to clause 3c and clause 3d may be removed as it is not be applicable to SPV. ○ With respect to Clause 4a 4f 4l. It may be clarified that disclosures on constitutional documents allotment resolutions. state finance commission grants pertain to the Issuer SPV only ○ With respect to Clause 8 it is suggested that the provision available under Schedule IB permitting issuers with less than three years of existence to disclose financial statements for such period of existence be extended to Schedule I as well ○ With respect to Clause 8.I For a first time issuer it is suggested that if an issuer undertakes an issue on or before May 31 of a Financial Year and if the audited financial statements for the immediately preceding financial year are not available such issuer may disclose audited financial statements for three financial years immediately preceding such latest financial year.	

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	○ With respect to clause 8.IV on status of reforms disclosure requirement may be removed considering the pooled nature of the structure ○ With respect clause 9.b.iii 9.d 9.e 9.f clarity may be provided on whether such disclosures are required for the Issuer only ○ With respect to clause 9.b iii It is suggested that the term company may be replaced with Issuer ○ With respect to Clause 11.d the requirement for declaration by the Mayor and Commissioner may be removed ○ With respect to Clause 10 and clause 12 clarity may be provided on disclosures for Government approvals borrowing resolutions and authorised signatories and it is suggested that such disclosures be made at the Issuer level only	
4.	Proposal 4: Requirements related to face value/ trading lot/ denomination for municipal debt securities · In the section on Issuance and trading of municipal debt securities it states that The Municipal debt security issued at a face value of Rs Ten Thousand shall have a fixed maturity and be without any structured obligation. Clarification is required on applying Structured payment mechanisms for municipal bonds. This clause gives an impression that SPMs will not be there. All muni bonds today have SPMs which give enhancement to the debt instrument. · We would propose to include minimum and maximum range of Face <i>value</i> in case of Public Issue of Municipal bonds. We also propose for allowing the municipal bond issue with face value differentiation i.e. out of total issue size, certain identified part may have face value of Rs. 1 Lakh and remaining part may have face value of Rs. 10 thousand.	· The proposed provision restricts <u>structured obligation</u> (i.e. securitised debt) for municipal debt securities issued at a face value of Rs. Ten Thousand. There is no restriction on various forms of credit enhancement. · There is no restriction on the face value/ trading lot for public issues of <i>municipal</i> debt securities. The said proposal for Rs. 10000/ Rs. 1 Lakh face value only relates to privately placed debt, where issuances are targeted towards an identified set of investors, to have some standardization in face value/ trading lot. · Specifying requirements related to fixing of record dates is beyond the scope of the present consultation process and may require separate examination and stakeholder consultation. · The suggestion to include a

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	- Trading lot <i>should</i> be INR 5000 for retail and INR1 cr for institutional investor. - Regulation 23.7 of SEBI ILNCS provides that: - a.The issuer shall fix a record date for the purposes of payment of interest dividend and payment of redemption or repayment amount or for such other purposes as specified by the Board. - b.Such record date shall be fixed at fifteen days prior to the due date of payment interest or dividend repayment of principal or any other corporate actions. Incorporating a similar provision in SEBI ILMDS regulation would promote consistency provide operational clarity and ease of implementation for issuers and market participants. - For such retail-focused issuances, the Offer <i>Document</i> must include a "Simplified Key Information Document" to ensure retail investors understand the specific risks associated with municipal revenue streams.	"Simplified Key Information Document" is beyond the scope of the present consultation process and may require separate examination and stakeholder consultation.
5.	Proposal 5: Permitting issuers to offer incentives in the form of additional interest or a discount to the issue price to certain categories of investors - In addition to the categories proposed by SEBI, consideration may be given to including Divyangjan (Persons with <i>Disabilities</i> defined like in Income Tax), Transgender Persons, residents of the issuing municipal area. - SEBI may consider whether the restriction limiting such incentives only to the initial allottee is necessary in the context of municipal debt securities. Given that one of the stated objectives of the proposal is to encourage greater retail participation in municipal bonds, extending the benefit to eligible investors who acquire the securities in the secondary market may further	- The categories of persons suggested by the respondent (namely, Persons with Disabilities, Transgender Persons and residents of <i>the</i> issuing municipal area) are already included under the proposed category "retail individual investors" for investment amounts up to INR 2 Lakh. Therefore, addition of separate categories may not be required. - The intent of the proposal is to encourage retail participation in public debt issues. Permitting the incentives to extend to <i>transferee</i> investors, even though within the same category, may create price

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	support this objective and improve secondary market liquidity. · Incentives can also be provided to companies and institutions contributing toward urban development within municipal corporation areas. This may include infrastructure companies developing projects in the respective regions, regional cooperative banks, and regional producer organizations working toward economic and social development of the municipal corporation ecosystem. Rather than giving benefit to individuals or senior citizen	distortion and difficulty in selling bonds that do not carry the incentives. Therefore, incentives may only be offered to the original allottee of the issue. This also aligns with the stipulation under NCS Regulations. · Since the intent of the proposal is to encourage <i>wider</i> participation in the debt market by certain under-represented categories of investors, in line with similar provision for other non-convertible debentures under the NCS Regulations, it would not be appropriate to provide the incentive to companies and institutions as suggested by the respondent.
	Proposal 6: Permitting electronic modes for making advertisements for public issues · Official social media handles should also be included since that <i>has</i> the most reach among mass populations. Partnering with online bond trading platforms should also be done since people use these platforms more often. · The option to advertise and mode should be with the issuer. Hence, we recommend to change the language suitably as below: “The issuer may make an advertisement through electronic modes such as”	· The Regulations do not restrict municipalities from making advertisements through social media <i>platforms</i>, in addition to the modes prescribed. However, making the same mandatory may not be appropriate since all municipalities may not have social media presence. This also aligns with the requirements specified for corporate bonds under NCS Regulations. · It may not be appropriate to make advertisement of the issue and mode of the <i>same</i> an optional requirement in order to ensure wider potential investor base. Therefore, the proposal for making advertisement through specified modes may be retained.
6.	Proposal 7: Framework for issuance of Environment, Social and Governance (ESG) debt securities by municipalities · SEBI may consider enabling entity level ESG	· SEBI-registered ESG Rating Providers are already allowed to assign <i>ESG</i> ratings to listed issuers, apart from listed securities. Hence, no further enablement is required.

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	<i>assessments</i> of municipalities by ESG Rating Providers (ERPs) in addition to instrument level reviews.	
7.	Proposal 8: Definition of working day - Clarification is required on whether Saturdays will be considered as <i>nonworking</i> days as 1st and 3rd Saturdays are working for commercial banks. - We would suggest to include following in ILMDS Regulation to provide practical clarity: (I) Creation of Recovery Expense Fund, and (II) Regulatory Fee	- The proposed definition specifies that - "" "working day" means all days on which commercial banks in the city, as <i>specified</i> in the offer document, are open for business...". Therefore, no further clarification in this regard may be required. - The suggestion related to introduction of Recovery Expense Fund and Regulatory Fees under ILMDS Regulations is <i>beyond</i> the scope of the present consultation process and may require separate examination and stakeholder consultation.

Proposed draft of Schedule IB of the ILMDS Regulations

Amendment shall be notified after following the due process

Draft amendment notification

Amendment shall be notified after following the due process