

**RESERVE BANK OF INDIA
INTERNAL DEBT MANAGEMENT DEPARTMENT
CENTRAL OFFICE
MUMBAI**

Mumbai, June 23, 2010

Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010

The Reserve Bank of India, having considered it necessary in public interest and to regulate the financial system of the country to its advantage, in exercise of its powers conferred under sections 45K, 45L and 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf, hereby gives to the agencies dealing in securities and money market instruments, the following directions for issuance of Non-Convertible Debentures (NCDs) of original or initial maturity up to one year.

1. Short title and commencement of the directions

These directions may be called the Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010 and they shall come into force with effect from **August 02, 2010**.

2. Definition

For the purposes of these Directions,

- i. Non-Convertible Debenture (NCD) means a debt instrument issued by a corporate (including NBFCs) with original or initial maturity up to one year and issued by way of private placement;*
- ii. "Corporate" means a company as defined in the Companies Act, 1956 (including NBFCs) and a corporation established by an act of any Legislature*

3. Eligibility to issue NCDs

A corporate shall be eligible to issue NCDs if it fulfills the following criteria, namely,

- i. the corporate has a tangible net worth of not less than Rs.4 crore, as per the latest audited balance sheet;
- ii. the corporate has been sanctioned working capital limit or term loan by bank/s or all-India financial institution/s; and
- iii. the borrowal account of the corporate is classified as a Standard Asset by the financing bank/s or institution/s.

4. Rating Requirement

4.1 An eligible corporate intending to issue NCDs shall obtain credit rating for issuance of the NCDs from one of the rating agencies, viz., the Credit Rating Information Services of India Ltd. (CRISIL) or the Investment Information and Credit Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE) or the FITCH Ratings India Pvt. Ltd or such other agencies registered with Securities and Exchange Board of India (SEBI) or such other credit rating agencies as may be specified by the Reserve Bank of India from time to time, for the purpose.

4.2 The minimum credit rating shall be P-2 of CRISIL or such equivalent rating by other agencies.

4.3 The Corporate shall ensure at the time of issuance of NCDs that the rating so obtained is current and has not fallen due for review.

5. Maturity

5.1 NCDs shall not be issued for maturities of less than 90 days from the date of issue.

5.2 The exercise date of option (put/call), if any, attached to the NCDs shall not fall within the period of 90 days from the date of issue.

5.3 The tenor of the NCDs shall not exceed the validity period of the credit rating of the instrument.

6. Denomination

NCDs may be issued in denominations with a minimum of Rs.5 lakh (face value) and in multiples of Rs.1 lakh.

7. Limits and the Amount of Issue of NCDs

7.1 The aggregate amount of NCDs issued by a corporate shall be within such limit as may be approved by the Board of Directors of the corporate or the quantum indicated by the Credit Rating Agency for the rating granted, whichever is lower.

7.2 The total amount of NCDs proposed to be issued shall be completed within a period of two weeks from the date on which the corporate opens the issue for subscription.

8. Procedure for Issuance

8.1 The corporate shall disclose to the prospective investors, its financial position as per the standard market practice.

8.2 The auditors of the corporate shall certify to the investors that all the eligibility conditions set forth in these directions for the issue of NCDs are met by the corporate.

8.3 The requirements of all the provisions of the Companies Act, 1956 and the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, or any other law, that may be applicable, shall be complied with by the corporate.

8.4 The Debenture Certificate shall be issued within the period prescribed in the Companies Act, 1956 or any other law as in force at the time of issuance.

8.5 NCDs may be issued at face value carrying a coupon rate or at a discount to face value as zero coupon instruments as determined by the corporate.

9. Debenture Trustee

9.1 Every corporate issuing NCDs shall appoint a Debenture Trustee (DT) for each issuance of the NCDs.

9.2 Any entity that is registered as a DT with the SEBI under SEBI (Debenture Trustees) Regulations, 1993, shall be eligible to act as DT for issue of the NCDs only subject to compliance with the requirement of these Directions.

9.3 The DT shall submit to the Reserve Bank of India such information as required by it from time to time.

10. Investment in NCD

10.1 NCDs may be issued to and held by individuals, banks, Primary Dealers (PDs), other corporate bodies including insurance companies and mutual funds registered or incorporated in India and unincorporated bodies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs).

10.2 Investments in NCDs by Banks/PDs shall be subject to the approval of the respective regulators.

10.3 Investments by the FIIs shall be within such limits as may be set forth in this regard from time to time by the SEBI.

11. Preference for Dematerialisation

While option is available to both issuers and subscribers to issue/hold NCDs in dematerialised or physical form, they are encouraged to issue/ hold NCDs in dematerialised form. However, banks, FIs and PDs are required to make fresh investments in NCDs only in dematerialised form.

12. Roles and Responsibilities

12.1 The role and responsibilities of corporates, DTs and the credit rating agencies (CRAs) are set out below:

(a) Corporates

12.2 Corporates shall ensure that the guidelines and procedures laid down for issuance of NCD are strictly adhered to.

(b) Debenture Trustees

12.3 The roles, responsibilities, duties and functions of the DTs shall be guided by these regulations, the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993, the trust deed and offer document.

12.4 The DTs shall report, within three days from the date of completion of the issue, the issuance details to the Chief General Manager, Financial Markets Department, Reserve Bank of India, Central Office, Fort, Mumbai-400001.

12.5 DTs should submit to the Reserve Bank of India (on a quarterly basis) a report on the outstanding amount of NCDs of maturity up to year.

12.6 In order to monitor defaults in redemption of NCDs, the DTs are advised to report immediately, on occurrence, full particulars of defaults in repayment of NCDs to the Financial Markets Department, Reserve Bank of India, Central Office, Fort, Mumbai-400001, Fax: 022-22630981/22634824.

12.7 The DTs shall report the information called for under para 12.4, 12.5 and 12.6 of these Directions as per the format notified by the Reserve Bank of India, Financial Markets Department, Central Office, Mumbai from time to time.

(c) Credit Rating Agencies (CRAs)

12.8 Code of Conduct prescribed by the SEBI for the CRAs for undertaking rating of capital market instruments shall be applicable to them (CRAs) for rating the NCDs.

12.9 The CRA shall have the discretion to determine the validity period of the rating depending upon its perception about the strength of the issuer. Accordingly, CRA shall, at the time of rating, clearly indicate the date when the rating is due for review.

12.10 While the CRAs may decide the validity period of credit rating, they shall closely monitor the rating assigned to corporates vis-à-vis their track record at regular intervals and make their revision in the ratings public through their publications and website.

13. Documentary Procedure

13.1 Issuers of NCDs of maturity up to one year shall follow the Disclosure Document brought out by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), in consultation with the Reserve Bank of India as amended from time to time.

14. Violation of the directions will attract penalties, which would include debarring of the entity from the NCD market.

(H R Khan)
Executive Director

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