

# INDIA LEGAL UPDATE

January 19, 2024

## RBI issued notification to tweak NCDs, commercial paper norms

<b>Notification Date:</b>
January 3, 2024
<b>Effective Date:</b>
April 1, 2024
<b>Legal Framework:</b>
Reserve Bank of India Act, 1934
<b>Government Authority:</b>
Reserve Bank of India (RBI)
<b>Weblink:</b>
<a href="#">RBI Notification</a>

### LEGAL UPDATE

This Master Direction - Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year) Directions, 2024 sets a complete framework for the issuance, trading, and governance of Commercial Paper (CP) and Non-Convertible Debentures (NCDs) of tenor up to 1 year.

Market participants are expected to align with these directions, and any deviations may result in regulatory actions by the RBI.

#### Applicability

All persons/agencies dealing in CP and / or NCDs of original or initial maturity upto one year.

#### Definitions

- Commercial Paper means an unsecured money market instrument issued in the form of a promissory note.
- Non-convertible Debenture means a secured money market instrument with an original or initial maturity upto one year.

#### Eligible Issuers

- Companies
- NBFCs, including Housing Finance Companies (HFCs)
- InvITs and REITs
- All India Financial Institutions (AIFIs)
- Any other body corporate with a minimum net-worth of Rs. 100 crore, provided that the body corporate is statutorily permitted to incur debt or issue debt instruments in India
- Co-operative societies and limited liability partnerships with a minimum net-worth of Rs. 100 crore

## Eligible Investors

- All residents
- Non-residents to the extent allowed under the Foreign Exchange Management Act (FEMA), 1999

## Exception

- Neither resident nor non-resident can invest in CPs and NCDs issued by related parties in the primary / secondary market.

## Primary Issuance

- W.e.f. April 1, 2024, CPs and NCDs shall be issued in dematerialised form and held with a depository registered with SEBI.
- It must be issued in a minimum denomination of ₹5 lakh and in multiples of ₹5 lakh thereafter.
- The issuance of a CP/NCD with options (call/put) or to be underwritten is not allowed.
- The primary issuances of CPs and NCDs include:
  - payment of funds to the issuer, and
  - issue of CPs and NCDs to the investors

must be settled within a period not exceeding T+4 working days.

Here, T is the deal date.

- Total subscriptions by all individuals, including Hindu Undivided Families, shall not exceed 25% of the total amount issued.

## Tenor

**For CP:** Minimum 7 days and Maximum 1 year & **For NCDs:** Minimum 90 days and Maximum 1 year

## Discount/Coupon Rate

- CPs shall be issued at a discount to the face value
- NCDs shall be issued at a discount to the face value or with fixed / floating rate coupon

## End-Use

- The end-use of the funds raised through a CP / NCD shall be disclosed in the offer document.

## Buyback

- Issuers of CPs and NCDs are permitted to buy back the same before maturity.
- The buy-back can be made after a minimum tenor period of issue.
- The offer shall be extended to all investors on identical terms and conditions.

- The investors shall have the option to accept / reject the offer.
- It shall be at the prevailing market price.
- The issuer of CP and NCDs must inform the details of the buyback to the IPA and Debenture Trustee, respectively, on the date of the buyback.
- The payment for the buyback by the issuer as well as repayment, including coupon payments shall be routed through the IPA (Issuing and Paying Agent).

### Effects of Non-Compliance

- The RBI may take any penal or regulatory action in accordance with law.
- They may also disallow that person from participating in the CP/ NCD markets for a maximum period of 1 month at a time.
- RBI must provide a reasonable opportunity for the entity to defend its actions.

### Queries?

If you have any queries about this article, please reach out to our experts:



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