Sebi, Centre at odds over easing NCDs' listing norms

If proposal is approved, companies listing their non-convertible debentures won't be obliged to meet disclosure rules

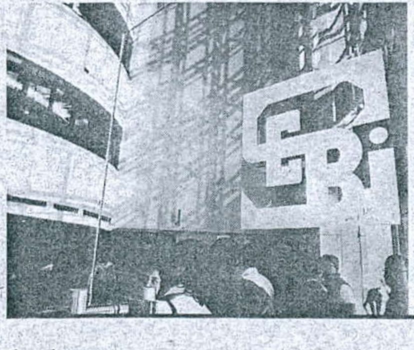
SHRIMI CHOUDHARY
New Delhi, 1 June

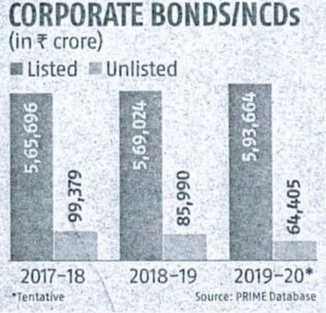
The capital markets regulator, Securities and Exchange Board of India (Sebi), is at odds with the government over the proposal to relax disclosure norms for listed non-convertible debentures (NCDs). Sources in Sebi said the implementation won't be easy, as a minimum disclosure should be required the moment a company lists debentures on the exchanges.

The markets regulator is of the view that disclosure requirements cannot be ended abruptly because investors will be unaware of the company's financials and other pieces of information, and this may hurt their interests. Sources said the regulator has asked the concerned committee on the primary market and the bond market to come out with a framework and also take up the same with the finance ministry and other stakeholders.

So far, listed NCDs have to declare their earnings and meet other listing compliances in line with the existing requirement. Finance Minister Nirmala Sitharaman, during the stimulus package announcement, had said that private firms listing their NCDs won't be regarded as listed entities. This means that if a private firm offers NCDs through public issues, it will not be obliged to meet Sebi's listing disclosure requirement.

"The regulator has not initiated any such discussion internally or with the ministry on the framework adopted for it. If the issuer company issuing listed NCDs is not to be treated as a listed entity, it would then require a change in regulations," said a person privy to the development.





According to the Sebi rules, any company proposing to make a public issue of debt securities is required to provide audited financials which are not older than six months from the date of the offer document.

However, listed entities (that have listed equity shares or debentures and in compliance with the listing agreement) can disclose unaudited financials, instead of audited, for the interim period.

Sebi is said to have asked many unlisted NCDs to get listed. However, companies would only come on board if there is a waiver on the existing disclosure requirements, says an expert.

In 2019, a large number of NCD issuances took place mostly because banks and mutual funds had dried up after a series of liquidity crises. Many NBFCs opted for public issuance of bonds to meet the regulatory requirement that large firms need to raise 25 per cent through bonds.

"Listing compliance for only NCD-listed companies is pretty light, but unlisted NCDs are beyond the purview of Sebi. Since mutual funds are regulated by Sebi and so are listed NCDs, it is a good proposal to get unlisted NCDs listed to ensure transparency and better price discovery, and more importantly liquidity, as mutual funds should be able to exit in times of need. Relaxed listing guidelines for only NCDs are already in place. Gradually, the reserve bank should also mandate all unlisted NCDs held by banks to get listed," said Prithvi Haldea, founder, PRIME Database.

According to PRIME Database, firms raised approximately ₹64,405 crore in 2019-20 through unlisted corporate bond and non-convertible debentures.

About ₹5.93 trillion worth of public issuances of NCDs were made over the period.

NCDs are loan-linked bonds (which cannot be converted into stocks) and usually offer higher interest rates than convertible debentures, bank fixed deposits, and corporate deposits.

6