Consolidation and re-issuance in the Corporate Bond Market

1. Consolidation in Corporate Bond Market

The report of High Level Expert Committee on Corporate Bonds and Securitization (Dr. R.H. Patil Committee) had recommended for consolidation of privately placed bonds so as to avoid fragmentation of debt market with multiple issues and for re-issuances which help in creation of large floating stocks which is needed to enhance market liquidity. SEBI is proposing to put in place, an enabling framework for the same.

2. Consolidation in G-Sec Market

In the G-Sec (Government Securities) market, the gradual extinguishing of illiquid, infrequently traded and reissue of liquid bonds has helped in improving liquidity.

Gandhi Committee Report ("Report of the Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets") has recommended active and passive consolidation modes for consolidating the G-sec market and bringing liquidity in the market. In the G-Sec market, a policy of passive consolidation through reissuance was started in 1999 in order to improve fungibility among the securities and to facilitate consolidation of debt. The larger stock size of securities has greatly improved market liquidity and helped the emergence of benchmark securities in the market.

Given the encouraging results in liquidity in the G-Sec market, this experiment is now recommended to be attempted in the corporate debt market. It is proposed that there should be enabling provisions re-issuance of the existing bonds by an issuer in a given time period (say over a quarter) and any new issue should preferably be a reissue so that there are large stocks in any given issue, thereby helping to create secondary market liquidity.

3. Proposal

Section 24 of the Companies Act, 2013 empowers SEBI to administer certain provisions of Companies Act including issue and transfer of securities by making regulations.

The public issue of debt securities is covered under SEBI (Issue and Listing of Debt Securities) Regulations, 2008 [SEBI (ILDS) Regulations]**.**

Therefore, amendments are proposed in SEBI (ILDS) Regulations, 2008, to include a specific enabling provision to this effect.

In view of the same, it is proposed to amend the Chapter II of the (SEBI (ILDS) Regulations) to incorporate a sub-regulation (A) to Regulation 18 as under:

"Consolidation and Re-issuance"

18 (A): An issuer may carry out consolidation and re-issuance of its debt securities, subject to the fulfillment of the following conditions:

- *a) there is such an enabling provision in its articles under which it has been incorporated;*
- *b) the issue is through private placement;*
- *c) the Issuer has obtained credit rating from at least one credit rating agency registered with the Board and is disclosed;*
- *d) such ratings should be revalidated on a periodic basis and the change if any, shall be disclosed;*
- *a) appropriate disclosures are made with regards to consolidation and re-issuance, in the Term Sheet.*

4. Public Comments

1. In the light of above, SEBI proposes to make suitable amendments to SEBI (Issue and Listing of Debt Securities) Regulations, 2008. Public comments are invited on

the aforesaid proposal along with rationale for the same. Comments may be forwarded by email to Mr. Sandeep Kriplani, Assistant General Manager (sandeepk@sebi.gov.in) or Ms. Vandana Agarwal, Assistant Manager (vandanaa@sebi.gov.in) latest by December 25, 2014.

2. Comments should be given in the following format:

Name of person/ organization:			
S. No.	**Pertains to**	**Suggestion/ Recommendation**	**Rationale**

Issued on: December 4, 2014