FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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ANNEXURE 2

Detailed Representation of NBFC sector issues to SEBI Chairman

SUB: Policy and Regulatory Alignment with SEBI on key areas of concerns of NBFCs

This note presents a consolidated view of industry-wide concerns raised by member NBFCs through FIDC, for consideration by SEBI leadership.

The concerns are categorized as:

A. POLICY-RELATED ISSUES
B. CROSS-REGULATORY COORDINATION
C. OTHER REGULATORY & OPERATIONAL ISSUES

A. POLICY-RELATED ISSUES

1. High-Value Debt Listed Entity (HVDLE) Threshold Rationalization for NBFCs

Concern:
As per **Regulation 16(1)(ta)** of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR), a listed entity is classified as a **High-Value Debt Listed Entity (HVDLE)** if it has listed **Non-Convertible Debt securities (NCDs) with an outstanding value of ₹1,000 crore or more** on a private placement basis.

This ₹1,000 crore is disproportionately low threshold for NBFCs and triggers significant compliance requirements for the entity under LODR, including:

- Formation of Audit Committee, NRC, Risk Management Committee (RMC)
- Enhanced disclosure norms
- Governance and ESG reporting requirements on par with equity listed entities

Most Middle and Upper layer NBFCs often raise over ₹500 crore through debt instruments as a **routine treasury function**, which is not linked to public capital raising or shareholder equity listing. Further, the NCD investors or debt holders do not have voting rights or equity-like governance interests, and their protection is already ensured through trustee mechanisms under SEBI's NCS Regulations.

This low threshold thus creates an **uneven compliance burden** on NBFCs relative to their business model, leading to operational and regulatory compliance challenges without commensurate stakeholder benefit.

Submission:
We submit that **the HVDLE threshold be raised from ₹1,000 crore to ₹5,000 crore** for **NBFCs** and **other financial sector entities** that list NCDs on a private placement basis, in recognition of:

- The fundamentally different capital-raising patterns of NBFCs
- The prudential regulatory oversight NBFCs already face from RBI
- The operational reality that debt issuance volume does not correlate with public market exposure or governance risk

The proposed ₹5,000 crore benchmark would better reflect materiality and proportionality, while still ensuring that truly large debt issuers are subject to enhanced governance norms. This change will support **ease of compliance** and **regulatory harmony** across financial sector entities.

Issue 2 & 3: Face Value & Issuance Norms for Subordinated-Debt (Sub-Debt) and Perpetual Debt Instrument (PDI)

Background:
SEBI has rightly encouraged deeper bond market participation by mandating large corporates to raise at least **25% of incremental long-term borrowings** through issuance of debt securities such as **NCDs, Subordinated Debt, and Perpetual Debt Instruments (PDIs)**. This mandate is outlined in **SEBI Circular SEBI/HO/DDHS/DDHS-POD1/P/CIR/2023/172 dated October 19, 2023**, and applies from FY 2024–25 onwards.

While NBFCs welcome this initiative, current regulatory structures introduce two key constraints in the issuance of sub-debt and NBFC-PDIs that hinders the intended objectives of deeper market participation:

⇒ **2. Issuance of Subordinated Debt – Face Value & Merchant Banker Requirement**

Concern:

- **Face Value Reduction (Rs. 10,000)**:
  In response to stakeholder feedback, SEBI permitted lower face value of ₹10,000 for sub-debt issuances through private placements via **SEBI Circular SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/94 dated July 3, 2024**. This is an excellent reform to enhance investor participation, especially for non-institutional and retail segments.
- **However, the same circular mandates appointment of a Merchant Banker** for all such issuances—even when made **purely through private placement to Qualified Institutional Buyers (QIBs)**. The role of the Merchant Banker mirrors that of a public issue, involving due diligence, documentation vetting, and disclosures.
- This requirement **adds unnecessary cost and time delays**—defeating the objective of allowing smaller-ticket, frequent issuances.

Submission:
We request SEBI to consider the following submissions:

- **NBFCs** be **exempted** from the **Merchant Banker appointment requirement** for sub-debt issuances of face value ₹10,000 when issued via **private placement**
- Such exemption may apply **only to issuances routed via Electronic Book Provider (EBP)** platforms, where QIBs are the main participants
- All other disclosure norms under SEBI NCS and RBI capital recognition requirements (for Tier-II) would remain applicable

This would **reduce cost of capital**, enable **ALM-matched smaller issuances**, and **preserve investor protection** through existing frameworks.

⇒ **3. Challenges in NBFC-Perpetual Debt Instrument (PDI) Issuance – Face Value, Market Participation & Valuation Norms**

Concern:
NBFCs issue **Perpetual Debt Instruments (PDIs)** to meet regulatory capital requirements, especially Tier-II norms under **RBI Master Directions for NBFCs**. These instruments differ significantly in structure and risk compared to Bank AT-1 Bonds:

NBFC-PDIs	Bank AT-1 Bonds
No discretion to skip coupon payments	Banks can cancel interest
No principal loss absorption	AT-1 has Point of Non-Viability triggers
Step-up of 100 bps after Year 10 if not called	No such clause

Despite these differences, SEBI circulars continue to apply restrictive norms to NBFC-PDIs:

- **High Face Value (₹1 crore):**
  Per **SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/027 dated February 8, 2023**, the minimum face value for securities under Chapter V of SEBI NCS Regulations—including PDIs—was increased to ₹1 crore. This restricts participation by high-net-worth individuals and smaller institutions who previously invested under ₹10 lakh denominations.
- **Valuation as 100-Year Maturity Instrument:**
  SEBI/HO/IMD/DF4/CIR/P/2021/032 dated March 10, 2021 mandated that all perpetual bonds (including NBFC-PDIs) be valued with a **100-year residual maturity**. Though later relaxed via SEBI's glide path to allow contractual maturity for NBFC-PDIs, the impact on mutual funds and market pricing has been severe.
- **Investment Cap by Mutual Funds:**
  SEBI restricted mutual funds from investing more than **10% in PDIs** (Circular No. SEBI/HO/IMD/DF4/CIR/P/2021/032), originally intended for AT-1 Bonds. This **unintentionally suppressed demand** for NBFC-PDIs, despite their better risk characteristics.

Submission:
We request SEBI to consider the following:
a) **Reduce the face value** of NBFC-PDIs from ₹1 crore to **₹10 lakh**, as was earlier permitted and similar to sub-debt norms
b) **Exclude NBFC-PDIs** from the following:

- The **10% investment cap** for mutual funds (Circular SEBI/HO/IMD/DF4/CIR/P/2021/032)
- The **100-year deemed residual maturity valuation norm**, as NBFC-PDIs have different contractual and risk characteristics compared to Bank AT-1 Bonds

This will **rebuild demand for NBFC-PDIs**, support capital raising through long-term instruments, and ensure that SEBI's intent of **broadening the bond market** is achieved with fair treatment to NBFC instruments.

4. Listing and Market Enablement for Pass-Through Certificates (PTCs)

Concern:
Pass-Through Certificates (PTCs), issued as part of securitization transactions by NBFCs under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act), play a vital role in **freeing up capital and enhancing liquidity** for retail and priority sector lending by NBFCs. Thus, despite their relevance, **PTCs remain largely unlisted and illiquid**, which limits their participation to a narrow set of institutional investors.

The absence of listing results in the following bottlenecks:

- Lack of **price discovery** and **transparency**
- No access for **mutual funds**, **insurance**, **pension funds**, and **HNI investors** seeking structured debt exposure
- Hinders the growth of a **secondary market** for securitized NBFC-originated assets

While SEBI has issued detailed guidelines on securitization (e.g., SEBI Master Circular SEBI/HO/DDHS/DDHS_Div1/P/CIR/2023/101 dated June 19, 2023), these are primarily applicable to listed securitized debt instruments under the SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 and updated NCS frameworks. **PTCs issued under RBI's securitization guidelines** (e.g., [RBI Master Direction - Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021]) however, do not always fall under SEBI's listing regime, especially when structured as **non-'debt security' PTCs**.

Further, there is no standardized framework for listing of PTCs on exchanges, benchmarking of yields and maturities, investor disclosure standards for underlying pool performance and credit enhancements.

As a result, **the securitization market remains underdeveloped**, limiting NBFCs—especially those serving retail and MSME segments—from effectively tapping into a broader base of capital market investors.

Submission:
We request SEBI to consider the following submissions as it will enable **wider investor participation** (particularly from mutual funds, insurance firms, DFIs), **deepen securitization market** in India, improve **transparency, liquidity, and credit transmission** from NBFCs to borrowers, **democratizing structured debt instruments**:

- **Constitute a dedicated Working Group** comprising SEBI, RBI, NBFCs, stock exchanges, credit rating agencies, and investor representatives which can define eligibility conditions for listing PTCs, standard disclosure and reporting formats, governance norms for trustee oversight, harmonization with RBI securitization guidelines
- **Listing framework** may initially apply to **senior tranches** of rated PTCs, thereby balancing investor protection and market development.

5. Reconsideration of ISIN limitation impacting liquidity for NBFCs

Concern:
SEBI's current framework limiting the number of International Securities Identification Numbers (ISINs) for debt securities issued on a private placement basis significantly hampers issuance flexibility for NBFCs.

As per **SEBI/HO/DDHS/DDHS_Div1/P/CIR/2022/0000000105** dated **July 29, 2022**, and reiterated in the **SEBI Master Circular for Non-Convertible Securities dated August 10, 2021** (SEBI/HO/DDHS/POD1/CIR/2021/122), the number of ISINs that can mature in a financial year is capped as follows:

- 9 ISINs for plain vanilla listed NCDs (secured and unsecured),
- 5 ISINs for structured/market-linked instruments,
- 6 ISINs for 54EC capital gains tax-exempt bonds (reduced from 12 earlier).

NBFCs, particularly those classified as **Large Corporate Borrowers** (LCBs) under SEBI circular **SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/172** dated **October 19, 2023**, are now **mandated to raise at least 25% of their incremental long-term borrowings through debt markets**. This requires frequent and tailored issuances across various maturities to match the nature of their underlying assets and address asset-liability mismatches.

The present ISIN cap restricts:

- Flexibility in meeting investor demand across varied tenor buckets (e.g., 13 months, 3 years, 5 years),
- Diversification of maturity profiles needed for prudent ALM,
- Efficient pricing and segmentation based on investor preferences,
- Smooth compliance with the 25% capital market funding mandate for LCBs.

In practice, once the 9-ISIN limit is exhausted, issuers are forced to re-issue in existing ISINs, leading to:

- Concentrated redemptions,
- Reduced investor interest due to lack of unique identifiers,
- Artificial bunching of maturities, increasing rollover/refinancing risk.

This constraint is especially acute for **NBFCs and HFCs**, which operate across diverse borrower segments and asset classes (e.g., consumer loans, MSME, vehicle finance, housing loans), necessitating a more granular liability structuring approach.

Submission:
We request SEBI to **enhance the ISIN limit from 9 to at least 21 per financial year** for plain vanilla listed NCDs **for NBFCs and HFCs classified as Large Corporate Borrowers** which would:

- Align with the higher capital market borrowing requirement for LCBs,
- Enable more precise and market-aligned liability structuring,
- Avoid maturity concentration and enable better ALM,
- Facilitate broader investor participation through bespoke tenors.

The requested **enhancement should exclude sub-debt and PDIs from the ISIN count** and can optionally be reviewed annually based on issuance volumes. The measure would directly support capital market development while preserving prudential safeguards.

6. Public Issue of NCDs – Cost Rationalization and Procedural Flexibility for Upper Layer NBFCs

Concern:

The current framework for public issuance of Non-Convertible Debentures (NCDs), particularly via Shelf and Tranche Prospectuses under SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations), imposes **significant fixed costs and procedural overheads for each tranche**, even for NBFCs that already operate under high regulatory scrutiny.

Each tranche issuance involves:

- Mandatory appointment of **Lead Merchant Bankers**, to conduct extensive and granular due diligence due to increasing regulatory scrutiny, sometimes leading to delays over non-material matters.

- **Multiple auditor appointments**: Under RBI's Guidelines for appointment of SCAs/SAs (dated April 27, 2021), large NBFCs must appoint joint auditors and rotate them every three years. For each tranche, issuers must obtain certifications from all auditors, including for subsidiaries—resulting in substantial fixed expenses irrespective of issue size.
- Engagement of other intermediaries such as legal counsel, registrar, and Public Issue & Sponsor Banks (PISB), further driving up costs and effort.

This repeated process—despite adherence to SEBI LODR disclosure norms and RBI prudential regulations—results in **higher cost per issuance**, slower time-to-market, and deters smaller tranches aligned to dynamic market demand or ALM needs.

Submission:

We request SEBI to prescribe a **differentiated compliance framework for Upper Layer NBFCs** (as per RBI's Scale-Based Regulation), which are already subject to elevated regulatory and governance standards.

Our Specific submissions include:

- **Streamlined Tranche-Level Compliance for Upper Layer NBFCs:**
  - Allow reuse of disclosures and certifications submitted under the latest quarterly filings for the following items:
  - Remuneration to directors

  - Financial indebtedness
  - Capital structure
  - Statutory dues defaults
  - Material fraud disclosures
- If a **Tranche Prospectus is filed within the same quarter** as the previous disclosures, no updates should be mandated except for the issue structure itself.
- In cases where tranche documents are filed **just before quarterly results**, a **grace period** should be allowed, permitting filing based on the last available disclosures.
- **Recognise the Ongoing Governance and Disclosure Standards** for Upper Layer NBFCs as below:
  - There is **continuous audit and inspection** under RBI regulations.
  - Regular **quarterly financials and LODR disclosures** are made publicly available.
  - Companies raising capital via **QIP or rights issues** are already required to publish extensive offer documents meeting equity-level standards.
- **Permit Public Issue of Sub-Debt (Tier 2 Instruments) at ₹10,000 face value**, similar to listed NCDs to:
  - Democratize access to retail investors
  - Help NBFCs shore up capital incrementally
  - Leverage the strong retail investor base built by NBFCs

These measures will **avoid inefficiencies** due to **duplicative due diligence, multi-party certification per tranche** and will result **in lower issuance costs, reduce turnaround time,** and provide NBFCs with **flexibility to align issuances to ALM and market needs**—without compromising on investor protection or market discipline.

7. Oversight and Regulatory Alignment of Foreign Proxy Advisory Firms

Concern:
Resolutions proposed by Indian listed entities during Annual General Meetings (AGMs) and postal ballots are increasingly influenced by recommendations from **foreign proxy advisory firms** (PAFs). However, many such recommendations are often based on **global governance frameworks** without a proper understanding of the **Indian legal context and regulatory mandates**, **Indian corporate governance**

standards and **sector specific regulatory obligations**, especially for NBFCs, banks, and regulated entities.

This misalignment has in several cases **negatively impacted shareholder voting outcomes**, despite the resolutions being legally compliant and in shareholders' long-term interests.

Submission:
We request SEBI to consider regulatory oversight mechanisms to ensure proxy recommendations made on Indian companies are **aligned with Indian statutes** and do not contradict **mandatory compliance-based resolutions.**

Key recommendations include:

⇒ **Mandatory Contextual Disclosure Requirements**
   - Require foreign proxy advisors to include a declaration stating that their recommendations are **not inconsistent with Indian law**, or to **explicitly highlight deviations** with rationale.

⇒ **Registration or Reporting Framework for Foreign Proxy Advisors**
   - Introduce a **reporting framework or adapted registration** under SEBI norms for foreign proxy advisors advising on Indian-listed companies, to promote transparency in methodology and coverage.

⇒ **Establishment of a SEBI Working Group**
   - A technical group may be formed to develop **India-specific proxy advisory standards** or a **code of conduct**, ensuring recommendations reflect local regulatory requirements and market structures.

8. Simplified Listing for Private Placement Debt Instruments

Concern:
While SEBI permits listing of privately placed Non-Convertible Debentures (NCDs) under its **ILDS Regulations, 2021**, the **pre-issuance compliance steps**—including documentation finalization, security creation, and listing approvals—cause significant **execution delays** for treasury teams managing dynamic funding needs.

These delays are particularly constraining for **Upper Layer NBFCs**, which are mandated under the **SEBI Large Corporate Borrower framework** to raise 25% of incremental borrowings from capital markets and regularly access private placement routes.

Submission:
We request SEBI to enable a **simplified, post-issuance listing framework** for **plain vanilla debt instruments** (secured/unsecured NCDs) that meet certain eligibility criteria (e.g., listed issuer, rated instruments, no complex features) which will result in enhancing time-to-market, reduced transaction costs, enable more frequent and ALM-aligned issuances, deepen investor participation and secondary market liquidity, and advance SEBI's broader objective of developing a robust debt capital market accessible to systemic NBFCs.

Key suggestions:

1. **Post-Issuance Listing Window:**
   Permit issuers to **complete placement and pricing first**, followed by submission of listing documents (e.g., placement memorandum, security documents, auditor certifications) **within a defined post-issue window** (e.g., T+7 working days).
2. **Fast-Track Listing Channel:**
   Constitute a **dedicated facilitation committee or desk** at stock exchanges for NBFCs/HFCs to support **expedited listing** of plain vanilla instruments that do not involve public offer risks.
3. **Exemption from Prior Intimation for Repeat Issuers:**
   For frequent listed issuers (Upper Layer NBFCs), SEBI may consider exempting repeat vanilla issuances from prior ISIN approval, subject to standard disclosures and credit rating continuity.

9. Increase in Investor Cap for Private Placements – Rationalization for Institutional Debt Market Depth

Concern:
Under **Section 42 of the Companies Act, 2013** and **Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014**, private placements are restricted to a maximum of **200 allottees in a financial year** (excluding Qualified Institutional Buyers, employees, and certain exempt categories). While the **₹1 crore minimum investment** ensures participation by sophisticated investors, the **200-**

investor ceiling increasingly limits the ability of NBFCs—particularly frequent issuers—to tap into a broader institutional base.

Impact:
The 200-investor cap:

- Restricts **wider participation** from emerging pools of capital (e.g. AIFs, family offices, PFs, insurers).
- Leads to **artificial fragmentation** of tranches and ISINs to accommodate demand.
- Hampers **price discovery and liquidity**, especially for high-rated instruments.
- Disincentivizes the use of **listed private placements** as a scalable debt strategy.

Submission:
We request SEBI to consider revising the investor limit to **1,000 qualified institutional participants per financial year**, while **retaining the ₹1 crore minimum application size**.

This would preserve the institutional character of private placements, support **deepening India's corporate bond market** while maintaining investor protection and enhancing **execution flexibility** for frequent issuers upper and middle layer NBFCs.

10. Bond Market Liquidity Enhancements

Concern:
Retail and HNI investors often compare bonds with fixed deposits (FDs), which offer foreclosure options and access to **loan against FD** (LAFD) facilities. In contrast, **corporate bonds, including NCDs**, lack comparable liquidity mechanisms—limiting exit flexibility, undermining investor confidence, and reducing market depth. Additionally, the **sell-side digital experience** remains partially manual, further deterring participation.

Submission:
To improve **secondary market liquidity**, **enhance retail participation,** improve **price discovery** in listed debt, we propose the following regulatory enablers:

- **Loan Against NCDs (LAD)**: Permit LAD as a regulated product, akin to Loan Against Shares (LAS), with appropriate margin, valuation norms, and borrower safeguards which would offer interim liquidity without requiring distress sales, especially for long-tenor NCDs.

- **Market-Making**: Encourage participation of banks, NBFCs, corporates, and designated institutions in **market-making roles** for listed bonds—either directly or via issuer-supported SPVs.
- **Primary Funding Ecosystem:** Permit **funding of retail and institutional applications** in public debt issues (as in equity markets) to drive greater primary market subscription and liquidity.
- **Put Options & Structured Exits**: Enable **issuer-initiated put options** at pre-agreed intervals (e.g., annually), priced below YTM, especially for tenors exceeding one year and for newly issued bonds, allow **initial year market-making via SPVs**, to stabilize post-listing liquidity.
- **Digital Sell-Side Execution**: Allow **dematerialized bond transfers** to clearing corporations via fully digital channels (eliminating physical DIS slips), to mirror equity settlement ease.

11. Promotion of ESG Labelled Bond Issuances by NBFCs

Concern:
While SEBI has introduced a regulatory framework for Green, Social, and Sustainability-Linked Bonds, uptake by NBFCs remains limited. Key reasons include the absence of implementation clarity, limited market incentives, lack of standardised certification / disclosure protocols, and insufficient investor mandates specific to ESG-labelled issuances.

Submission:
We recommend SEBI to consider a targeted policy push to promote ESG-labelled bond issuances by NBFCs, through the following measures:

- **Issuance of streamlined guidance** on taxonomy alignment, certification norms (approved verifiers), and simplified ESG disclosure templates under the BRSR Core/Green Debt Framework.
- **Regulatory incentives** such as priority listing, relaxed post-issue reporting timelines, or reduced listing fees for compliant ESG issuances by NBFCs.
- **Encouragement to institutional investors (including mutual funds and insurers)** to earmark a proportion of their debt allocation for labelled

instruments, either via disclosure-based nudges or stewardship code alignment.

Justification & Policy Alignment:
NBFCs are uniquely placed to channel funds into ESG-aligned sectors such as renewable energy, electric mobility, affordable housing, and social infrastructure, given their sectoral expertise and reach. Promoting ESG-labelled issuances by NBFCs is aligned with:

- India's commitment to climate action under the Paris Agreement and SDG targets,
- SEBI's sustainable finance roadmap and Green Bond Guidelines,
- The need to expand the domestic ESG debt market beyond public sector issuers and large corporates.

12. Exemption for Group NCD Transactions under New RPT Industry Standard

Concern:
SEBI has notified an **Industry Standard on Minimum Information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions**, dated **June 26, 2025**, effective **September 1, 2025**.

Under this, for items in **Para B(1) to B(7)**, additional disclosures are mandated **beyond Part A**, including **detailed pre-transaction information for each type of borrowing under B(5)**.

NBFCs regularly issue **NCDs on a private placement basis** to meet regulatory and business requirements, including the mandate for **Large Corporates to raise at least 25% from the bond market**. Group companies often subscribe to these NCDs via the EBP platform or secondary markets.

Requiring **prior Audit Committee approval for each such borrowing** from group entities, with the level of granularity mandated under **Para B(5)**, is impractical. This would disrupt legitimate treasury and capital raising activities that are already transparent, regulated, and arm's-length.

Submission:
We request SEBI to **exempt subscription to listed NCDs by related parties (group**

companies) via private placement or secondary market from the RPT approval framework under Para B(5), in line with the **existing exemption provided to Banks and NBFCs for public deposit acceptance** basis the following rationale:

- The nature of bond issuance through private placement/EBP is **market-driven and price-discovered**, and often open to multiple institutional participants.
- Audit Committee pre-clearance for each group participation will introduce **unnecessary delays**, affecting NBFC liquidity management.
- The transaction is already captured in **financial statements, board-level oversight, and investor disclosures.**

This exemption will enable **practical, cost-effective compliance** without compromising governance, and align NBFC treatment with that of Banks for similar RPT exemptions.

B. CROSS-REGULATORY COORDINATION

1. Recognition and Classification of Infra Bonds Issued by NBFCs for Affordable Housing and Infrastructure Lending

Concern:
There is regulatory ambiguity around whether long-tenor bonds issued by NBFCs—especially those financing infrastructure or affordable housing loans—can be classified as "Infrastructure Bonds" (Infra Bonds). The Upper Layer NBFCs are unable to unlock investor headroom or benefit from dedicated allocations by long-term investors (e.g., pension funds, insurance companies), when such bonds are used to fund eligible infrastructure assets.

Regulatory Background:
The **RBI circular RBI/2014-15/127 DBOD.BP.BC.No.25/08.12.014/2014-15 dated July 15, 2014** enabled **Scheduled Commercial Banks** to issue long-term bonds (with a minimum maturity of 7 years) for financing **infrastructure projects and affordable housing**, offering key regulatory incentives such as:

- Exemption from **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)** requirements,
- Exclusion from **Adjusted Net Bank Credit (ANBC)** computation for **Priority Sector Lending (PSL)** obligations.

This enablement was introduced to promote financial deepening, improve asset-liability matching, and stimulate private sector participation in infrastructure financing.

Gap for NBFCs:
While NBFCs—especially those in the **Upper Layer** as defined under RBI's Scale-Based Regulation (SBR)—play a significant role in financing infrastructure, real estate, and affordable housing for the **Economically Weaker Sections (EWS)/ Low Income Group (LIG) /Middle Income Group (MIG)** population, **no equivalent provision or recognition exists for their long-term bonds as "Infra Bonds"** which leads to:

- Missed opportunity to tap investor categories with regulatory caps on general NBFC exposure but higher limits for infra bonds,
- Suboptimal ALM due to lack of matched-tenor funding instruments,
- Regulatory inconsistency despite functionally equivalent lending activity as banks.

Clarification Needed:
As per the **Harmonised Master List of Infrastructure Sub-sectors**, **affordable housing and key physical infrastructure sectors** financed by NBFCs qualify as infrastructure lending. NBFCs are thus eligible in principle to issue infra bonds for funding such activities.

Submission:
We request SEBI, in consultation with RBI, to **explicitly permit Upper Layer NBFCs** to **designate and issue bonds with minimum original maturity of 7 years as "Infrastructure Bonds,"** provided these are deployed towards:

- Loans for affordable housing (as defined under PMAY/CLSS or equivalent),
- Infrastructure projects as per the harmonized infrastructure list.

This classification should be **linked to the corresponding infrastructure/affordable housing loan book** on the balance sheet, ensuring traceability and compliance.

2. Data Confidentiality Sharing Among Regulators

Concern:
In cases of borrower default, fraud investigations, or forensic red flags, critical data and alerts may reside with different regulators—SEBI (in case of listed debt, market

disclosures, surveillance), RBI (through supervisory inspections, CRILC, or fraud reporting), or sector-specific regulators. The absence of a formal, real-time and confidential information-sharing protocol between these entities may delay detection and response to systemic risks, market misconduct, or investor harm.

Submission:
We request SEBI to collaborate with RBI and other financial sector regulators (e.g., IRDAI, PFRDA, IBBI) to establish a secure, permissioned data-sharing framework for confidential information exchange in cases involving:

- Early signs of stress, defaults, or forensic flags in listed debt instruments;
- Investigations involving misreporting, related-party risks, or governance failures;
- Market conduct issues that may have prudential spillovers or vice versa.

This framework may be anchored under the aegis of the FSDC or a formal MoU mechanism to ensure inter-regulatory collaboration without compromising confidentiality or independence.

3. Unified KYC Framework Across Regulators

Concern:
Investors are currently subject to duplicative Know Your Customer (KYC) procedures across different financial products regulated by SEBI (e.g., mutual funds, demat accounts), RBI (e.g., bank accounts, NBFC loans), and IRDAI (e.g., insurance policies). This fragmentation increases onboarding time, operational costs, and investor drop-offs—especially in digital journeys.

Submission:
We request SEBI to coordinate with RBI, IRDAI, and other relevant authorities to institutionalize a **single, regulator-agnostic KYC framework**, using existing infrastructure such as **CKYC (Central KYC Registry)** or **KYC Registration Agencies (KRAs)**. The framework should ensure:

- **One-time KYC capture and verification** across the financial system,
- **Interoperability** of KYC data among regulated entities, and
- **Privacy-preserving, Aadhaar-enabled digital onboarding** mechanisms.

This approach was endorsed by the **Ministry of Finance and FSDC in June–July 2025**, aiming to implement **revamped CKYC norms** for seamless, cross-sector investor onboarding

4. Cybersecurity and Resilience – Joint Standards

Concern:
Systemically important NBFCs (including UL-NBFCs) operate across regulated domains governed by **SEBI, RBI, and CERT-IN**, each prescribing different cybersecurity, ransomware response, and digital infrastructure norms. This fragmented approach leads to:

- **Duplication of compliance efforts** (e.g., separate audits, formats, and reporting cycles),
- **Operational gaps** due to conflicting standards across regulators,
- and **inconsistent enforcement visibility** in multi-regulatory breach scenarios.

Submission:
We request SEBI to initiate inter-regulatory coordination for a **unified cybersecurity and resilience framework** applicable to **systemically important financial institutions**, including UL-NBFCs. This framework should:

- **Harmonize risk classification, data protection, breach notification timelines, and audit requirements** across SEBI, RBI, and CERT-IN,
- Enable **centralized threat intelligence sharing** and coordinated incident response protocols,
- Align with evolving **Digital Personal Data Protection (DPDP) Act**, **CERT-IN advisories**, and RBI's **Digital Lending and IT Governance guidelines**.

Such a joint framework will eliminate regulatory overlap, reduce operational compliance burden, and ensure a **cohesive, high-trust digital environment**—essential to safeguard financial stability and investor confidence in a digital-first ecosystem.

C. OTHER REGULATORY & OPERATIONAL ISSUES

1. Market Rumour Verification (LODR Regulation 30(11))

Concern:
Under **Regulation 30(11) of SEBI (LODR) Regulations, 2015**, top 250 listed entities are mandated to confirm, clarify, or deny market rumours published in mainstream media within **24 hours** if a **material price movement** is observed. As per exchange guidelines, the materiality threshold for companies trading above ₹200 is as low as **±3% price movement**.

Since the rule's applicability from **1st December 2024**, many entities have triggered this threshold **multiple times**, **and majority** of such triggers were linked to company-specific rumours. Movements were typically driven by macroeconomic or sectoral trends (e.g., rate changes, geopolitical news), creating repeated **false positives**.

Each trigger initiates an internal compliance protocol, involving:
- Continuous price monitoring,
- Manual validation of media/rumour presence,
- Escalation to senior management, and
- Formal disclosure assessment—even when no rumour exists.

This **increases administrative burden** and dilutes the efficacy of the regulation without enhancing investor transparency.

Submission:
We request that SEBI **raise the threshold for material price movement** for triggering Regulation 30(11) obligations:
- For securities priced **₹200 and above**, increase the cut-off to **±5%**, and
- Adjust thresholds proportionally for other price bands.

This rationalization will preserve the regulation's intent—**curbing misinformation in price-sensitive situations**—while avoiding operational inefficiencies and unnecessary compliance overhead in non-material cases.

2. Unclaimed Dividends/Redemptions

Concern:
As per **Section 124(5) of the Companies Act, 2013**, companies are required to transfer any unclaimed or unpaid amounts lying in the **Unpaid Dividend Account** to the **Investor Education and Protection Fund (IEPF)** after seven years.

SEBI's recent **Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/91** dated **23rd June 2025** (Clause 19.1 read with Clause 3 of Annexure 8) mandates that **physical security holders** who have updated their KYC and bank account details must be paid **all current and past unclaimed amounts** without requiring further action from them.

However, a similar automatic disbursement mechanism does **not exist for demat account holders**, despite repeated regulatory emphasis on reducing unclaimed investor funds. As a result, a large quantum of unclaimed dividends and redemptions remain with companies or get transferred to IEPF—even when demat holders have subsequently updated their bank details.

Submission:
We request SEBI to consider extending the existing **suo-moto payment framework** (currently applicable to physical holders) to include **demat shareholders** as well. Companies should be permitted to automatically credit **past and current unclaimed amounts** to demat investors who have updated their bank account details with the depositories.

This step will:
- **Reduce the accumulation of unclaimed investor funds**,
- **Minimize procedural burden** on retail investors (especially senior citizens and long-term holders), and
- Align with SEBI's broader agenda of **investor protection, simplification, and financial inclusion**.

3. Electronic Mode for Dividend/Redemption to Demat Holders

Concern:
As per **SEBI Circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2021/655** dated **November 3, 2021**, physical security holders who have not updated KYC (including bank account details) are permitted to receive dividend, interest, or redemption payments only via **electronic mode** with effect from **April 1, 2024**. No physical warrants or demand drafts are allowed in such cases.

However, for **demat security holders**, there is **no similar mandatory provision**, even in cases of failed electronic credit. This inconsistency leads to higher administrative efforts, increased costs, and missed opportunities to streamline and secure payouts in the capital markets ecosystem.

Submission:
SEBI had already acknowledged this inconsistency and proposed rectification in its **Consultation Paper dated September 20, 2024**, followed by **Board approval in SEBI's 208th Meeting held on December 18, 2024** (not 2025). The proposal recommended that **all payments to demat security holders also be mandated through electronic mode**, in line with physical holders.

We request SEBI to:

- **Amend LODR Regulation 12 and Schedule I** to mandate that **all dividend, interest, redemption, or repayment payments to demat security holders** be made **only via electronic mode**.
- Enable listed entities and RTAs to proactively notify and assist demat holders in updating bank details where electronic credits fail.
- Launch an investor awareness campaign during the transition period to encourage timely compliance.

Rationale & Benefits of Mandatory Electronic Payments (as recognized by SEBI itself):

- **Reduced risk of loss-in-transit** and fraud associated with paper instruments.
- **Faster and more reliable credit** directly into investor bank accounts.
- **Easier tracking and reconciliation** for both investors and listed entities.
- **Environmentally friendly**, avoiding paper usage.
- **Lower administrative costs** and backend complexity for RTAs and issuers.
- **Minimizes human error**, such as incorrect addresses or duplicate processing.

Mandating electronic payments for demat holders will align the payment ecosystem across investor categories, promote digital efficiency, and strengthen SEBI's broader goals of investor protection and market infrastructure modernization.

4. BRSR – Disclosure by Value Chain Partners

Concern:
Under SEBI's enhanced **BRSR Core** framework, listed entities are now required to disclose Key Performance Indicators (KPIs) not only for themselves but also for their **value chain partners** (suppliers, vendors, etc.). However, companies are facing significant operational hurdles in sourcing consistent, auditable, and timely data from these upstream/downstream partners—most of whom may not be subject to similar regulatory or sustainability reporting obligations. Specific concerns are:

- There is **ambiguity around the reference date or period** for value chain disclosures—year-end data may not be feasible or available.
- Companies are unclear whether **estimates, self-declared values**, or **proxy baselines** are permissible in early stages of implementation.
- Requiring granular disclosures from **unregulated or MSME vendors** may create compliance risks and pushback, without proportionate gains in transparency.

Submission:
We request SEBI to issue **clarifications and practical guidance** on value chain reporting obligations under BRSR, including:
- Defining **reference period** for data collection (e.g., preceding 12-month average vs. year-end snapshot),
- Allowing use of **good faith estimates or self-certifications** where audited values are not feasible, especially for first-tier MSME suppliers,
- Providing a **phased implementation roadmap** for large companies to onboard and train value chain partners.

Such flexibilities will improve early adoption without compromising the intent of BRSR. They also align with global ESG frameworks (e.g., GRI, ISSB) which allow for **scope-based proportionality** in supply chain disclosures.

5. Parity in Annual Report Dissemination for Debenture Holders

Concern:
Under current SEBI Listing Regulations, equity shareholders are permitted to receive electronic communication of the Annual Report via:
- Email (where addresses are registered), or

- A physical letter containing a **web link** to access the Annual Report, if emails are unavailable.

However, similar provisions are **not extended to debenture holders** under **Regulation 58**, despite them being financial investors entitled to periodic reporting. This creates an inconsistency in communication standards and imposes avoidable physical dispatch requirements for debt instruments.

Submission:
We request SEBI to consider amending **Regulation 58 of the SEBI (LODR) Regulations, 2015** to allow:

- **Web-based access** to the Annual Report for debenture holders, and
- **Dispatch of a physical intimation letter** containing the download link, where email is not registered.

This will ensure **regulatory parity across securities**, reduce administrative costs, **paperless compliance, ease of doing business**, and **digital transformation of investor services**, while preserving transparency for debt investors.

6. Alignment of SEBI LODR & NCS Regulations

Concern:
There are inconsistencies in regulatory filing and signing requirements between equity and debt listed companies. These include discrepancies in signatories for GID/KID documents, overlapping filings for compliance officer/RTA appointments, and differing norms for XBRL and PDF submissions.

Submission:
We request SEBI to consider harmonizing filing requirements across equity and debt listed securities to reduce duplication, improve compliance efficiency, and ensure regulatory parity. Key recommendations are:

- **Signing of GID/KID:** Align the signing protocol under SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 with the Companies Act, 2013. While the Companies Act mandates a director's declaration, the NCS Regulations require signatures from any two KMPs. A uniform requirement would reduce ambiguity and bring procedural consistency.

- **Compliance Officer and RTA Filings:** Equity-listed companies already confirm compliance officer and RTA details quarterly through the share reconciliation report. For debt-listed companies, an additional quarterly filing under Regulation 6(1) and 7(1) of the NCS Regulations creates redundancy. SEBI may consider eliminating this duplication and mandating a change-based disclosure through Regulation 30 for both equity and debt.
- **XBRL vs. PDF Filing Standards:** Entities with both equity and debt listings often file Integrated Governance Reports in both PDF (required for debt) and XBRL (required for equity). This dual filing increases compliance burden and causes divergence in industry practices. A unified XBRL-compliant format or clear guidance for dual-listed entities would streamline reporting and promote digital consistency.

7. Re-lodgement of Physical Share Transfers

Concern:
SEBI's Circular dated 2nd July 2025 allows a special window for re-lodgement of transfer deeds of physical shares (lodged prior to April 1, 2019, but rejected or unattended). It mandates listed companies to publicize the opening of this window through **bi-monthly print and social media notices** during the six-month window.

For companies with a **very small number of physical shareholders** (e.g., less than 20), the requirement to publish repeated public notices imposes avoidable administrative burden and cost, without improving shareholder reach or effectiveness.

Submission:
We request SEBI to consider granting a **relaxation from bi-monthly media publication** requirements for companies with **fewer than 20 physical shareholders**. Instead, such companies may be permitted to **communicate directly** with their physical shareholders via **letters, emails, or RTA-driven outreach**.

This direct communication approach will:
- Ensure timely and targeted communication to the relevant holders,
- Avoid unnecessary media expenditure, and
- Improve operational efficiency, better compliance and transparency without undermining regulatory intent.

8. TDS Applicability on Listed Bonds (Sec 194A)

Concern:
With effect from May 2023, Section 194A of the Income Tax Act has made Tax Deduction at Source (TDS) applicable to interest on listed bonds, aligning it with the treatment of fixed deposits (FDs). However, unlike FDs, bonds are frequently traded in the secondary market, and TDS is being deducted at the full applicable rate irrespective of when the investor acquired the bond. This creates confusion, especially for retail investors who may not be fully aware of the nuances of TDS applicability on traded securities.

Submission:
We request SEBI that listed bonds be exempted from TDS, restoring the pre-April 2023 position. Listed bonds, unlike FDs, are market-traded instruments and the application of TDS in their secondary market context causes administrative complexities and investor deterrence. Removing TDS on listed bond interest payments would promote retail participation, enhance secondary market liquidity, and reduce post-trade compliance burdens — aligning with broader capital market deepening objectives.

9. Digitalization of Investment Process

Concern:
The investment process for primary bond issuances remains largely physical or hybrid. Currently, investors must fill and sign a physical application form, submit it to their stockbroker, who then enters the bid on the stock exchange platform. The broker forwards the form to the ASBA (Applications Supported by Blocked Amount) bank, which verifies the investor's signature and blocks the requisite funds. This multi-step, paper-heavy process increases turnaround time, administrative costs, and inhibits wider investor participation.

Submission:
We request SEBI to consider mandating a fully digital investment process for primary bond issuances, mirroring the equity IPO mechanism. A digital ASBA-like model would:

- Eliminate physical paperwork and manual verification steps,
- Accelerate allotment timelines,

- Reduce issuance and compliance costs for issuers and intermediaries, and
- Encourage broader investor participation through simplified, digital onboarding.

10. Relaxation of Advance Dispatch Requirement for Annual Reports to NCD Holders

Concern:
As per existing regulations, annual reports must be dispatched to Non-Convertible Debenture (NCD) holders at least 21 days before the Annual General Meeting (AGM). However, NCD holders typically have limited or no voting rights in AGM matters, and their participation in such meetings is minimal. Despite this, issuers are required to follow the same dispatch protocols as equity shareholders, leading to avoidable administrative burden and cost.

Submission:
We request SEBI to consider relaxing the requirement of 21-day advance dispatch of annual reports to NCD holders. Specifically, the following measures are recommended:

- Permit digital-only dissemination of the annual report to NCD holders, unless there is a consent or voting item that specifically pertains to them.
- Waive the 21-day timeline in cases where NCD holders are not entitled to vote at the AGM.

This change will streamline compliance obligations, reduce unnecessary costs, and bring practicality to investor communications in line with their rights and relevance.

11. Standard Operating Framework for NCD Buybacks

Concern:
Currently, there is no uniform regulatory framework governing voluntary buybacks or repurchases of Non-Convertible Debentures (NCDs). This creates inconsistent practices and friction with intermediaries such as debenture trustees and stock exchanges. Some of the interpretational ambiguity for issuers are pertaining to:

- Approval processes (e.g., role of debenture trustees, board approvals)
- Investor disclosure requirements
- Timelines for execution and exchange intimation

- Treatment and reusability of ISINs post-buyback

Submission:
We request SEBI to introduce a clear Standard Operating Procedure (SOP) for voluntary NCD buybacks. Such a framework will enhance transparency, reduce regulatory uncertainty, and facilitate responsible liability management by issuers. It will also improve investor confidence, foster liquidity in the corporate bond market. The SOP could address the following matters:

- Approvals required from the Board, debenture trustee, and any other stakeholders
- Mandatory disclosures to investors and stock exchanges
- Defined timelines for initiation, investor communication, and completion
- Clarification on ISIN cap adjustments and reuse post-buyback

GLOSSARY OF TERMS

Abbreviation	Full Form
AGM	Annual General Meeting
ASBA	Application Supported by Blocked Amount
BRSR	Business Responsibility and Sustainability Reporting
CDSL	Central Depository Services (India) Limited
CKYC	Central Know Your Customer
CRA	Credit Rating Agency
DEMAT	Dematerialised (Securities Account)
DP	Depository Participant
EBP	Electronic Book Provider
ESG	Environmental, Social and Governance
GID	General Information Document
IEPF	Investor Education and Protection Fund
IPO	Initial Public Offering
ISIN	International Securities Identification Number
IT	Information Technology
KID	Key Information Document

KMP	Key Managerial Personnel
KRA	KYC Registration Agency
KYC	Know Your Customer
LODR	Listing Obligations and Disclosure Requirements
MCA	Ministry of Corporate Affairs
NBFC	Non-Banking Financial Company
NCD	Non-Convertible Debenture
NCS	Non-Convertible Securities
NSDL	National Securities Depository Limited
PAN	Permanent Account Number
PDF	Portable Document Format
RPT	Related Party Transactions
RTA	Registrar and Transfer Agent
SEBI	Securities and Exchange Board of India
SOP	Standard Operating Procedure
TDS	Tax Deducted at Source
UL-NBFC	Upper Layer – Non-Banking Financial Company
XBRL	eXtensible Business Reporting Language

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