

CIRCULAR

SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/141

October 16, 2024

To,

**Issuers who have listed and/ or propose to list Non-convertible Securities;
Recognised Stock Exchanges;
Registered Depositories;
Recognised Clearing Corporation;
Registered Credit Rating Agencies, Debenture Trustees, Merchant Bankers, Registrars
to an Issue and Share Transfer Agents and Bankers to an Issue**

Madam/ Sir,

**Subject: Introduction of Liquidity Window facility for investors in debt securities
through Stock Exchange mechanism**

1. The Corporate bond market serves as a critical source of funding for the issuers whilst providing an investment avenue for the investors. SEBI has been undertaking various measures to widen the investor base and also to encourage participation and transparency in the corporate bond market. Some of the measures include introduction of the electronic book Provider platform (EBP Platform) for debt securities issued on private placement basis, exceeding issue size Rs 50 crores, 'Request for Quote' (RFQ) platform for secondary market transactions, reduction in the face value of debt securities issued on private placement basis (proposed to be listed), introduction of framework for Online Bond Platforms (refer <https://www.sebi.gov.in/online-bond-platform-providers.html>), introduction of corporate bonds repo platform operated by AMC Repo Clearing Limited (refer www.arclindia.com), etc.
2. One of the factors that drives investor participation in a market is the availability of liquidity. Low levels of secondary market transactions in corporate bonds (including due to a large

number of institutional investors holding such bonds to maturity) has resulted in the corporate bond market being perceived as illiquid. To address the issue of liquidity for investors, especially retail investors, and pursuant to discussions with issuers / potential issuers of debt securities, it is felt that establishing a framework of providing a Liquidity Window facility by the issuers through use of put options exercisable on pre-specified dates or intervals will provide uniform norms for such issuer(s) to consider adopting Liquidity Window facility in the manner specified. Such uniform norms and instituting a Liquidity Window facility as contemplated in this circular will also be of immense utility to investors, especially retail investors, and can serve to enhance their investment in such debt securities.

3. In this regard, reference is made to Regulation 15 of the *SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations)* which *inter-alia* enables an Issuer to provide a right of redemption of debt securities¹ prior to the maturity date (put option) to all the investors or only to retail investors². Accordingly, it is proposed to introduce a Liquidity Window facility framework by use of put options as specified under Regulation 15 of the NCS Regulations, exercisable on pre-specified dates or intervals in the manner outlined in this circular.
4. Choice of the Issuer: An entity issuing debt securities, which are proposed to be listed, may at its option/discretion provide the Liquidity Window facility as envisaged in this circular for the debt securities, on an ISIN basis, at the time of issuance of such debt securities and make such Liquidity Window facility available to the eligible investors as specified in para 6.3 of this circular.

¹ Regulation 2(k) of the NCS Regulations defines 'debt securities' as: *debt securities' means non-convertible debt securities with a fixed maturity period which create or acknowledge indebtedness and includes debentures, bonds or any other security whether constituting a charge on the assets/ properties or not, but excludes security receipts, securitized debt instruments, money market instruments regulated by the Reserve Bank of India, and bonds issued by the Government or such other bodies as may be specified by the Board*

² "retail investor" shall have the same meaning as mentioned under Regulation 15 of the NCS Regulations. Currently it reads as: "retail investor" shall mean the holder of non-convertible securities having the aggregate face value not more than rupees two lakh

5. Prospective applicability: The Liquidity Window facility can be provided only for prospective issuances of debt securities through public issue process or on a private placement basis (proposed to be listed) as specified in paragraph 7 below.
6. Features and conditions: The features and the conditions governing the Liquidity Window facility shall be as follows:
- 6.1. Authorizations and guardrails: The Issuer shall ensure that the Liquidity Window facility provided in terms of provisions of this circular:
- a) has the prior approval of its Board of Directors,
 - b) its implementation and outcome is monitored by Stakeholders Relationship Committee (SRC), in case of entities with listed specified securities. In case of only debt listed entities, for whom it is not mandatory to constitute a SRC, its implementation and outcome should be monitored by its Board or such board-level committee that the Board may determine.
 - c) is objective, transparent, non-discretionary and non-discriminatory within the class of investors specified as eligible investors; and
 - d) its implementation or operation of the liquidity window facility does not compromise market integrity or risk management, asset liability management or liquidity management norms as its Board of Directors may specify (in the absence of any regulatory requirement governing risk management, asset liability management or liquidity management) .
- 6.2. Debt securities eligible for the Liquidity Window facility, exclusion from ISIN count:
The Issuer shall provide Liquidity Window facility only after the expiry of one year from the date of the issuance of the debt securities. Re-issuances shall not be permitted under the ISINs in which Liquidity Window facility is offered. Consequently, such ISINs shall be exempted from the computation of maximum limit on ISINs as specified under Para 1 of Chapter VIII of the *Master Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt*

Securities and Commercial Paper dated May 22, 2024³ (as amended from time to time).

- 6.3. Eligibility of investors to avail the Liquidity Window facility: The Issuer shall specify eligibility of investors who can avail of the Liquidity Window facility i.e. whether the facility shall be available to all investors in the debt securities or only to retail investors in the debt securities. Eligible investors desirous of availing of the liquidity window shall hold the debt securities in demat form.
- 6.4. Aggregate limit of Liquidity Window facility and per liquidity window sub-limit: The Issuer shall determine and specify the percentage of the issue size (in terms of number of debt securities) of the eligible securities constituting the aggregate limit for the exercise of put options by the investors through Liquidity Window facility over the tenor of the debt securities, which shall not be less than 10% of final Issue size of such debt securities (in terms of number of debt securities). The said percentage shall be disclosed in the offer document at the time of issuance of such debt securities. Issuer may also specify the sub-limit of put options that can be exercised in each liquidity window over the tenor of Liquidity Window facility. In case the put options exercised by eligible investors exceeds the per window sub-limit, the acceptance of put options from eligible investors shall be on proportionate basis.
- 6.5. Designated Stock Exchange: Issuer may designate one of the Stock Exchanges as the 'Designated Stock Exchange' for the purpose of liquidity window facility.
- 6.6. Period of liquidity window: The liquidity window shall be kept open for three working days. The liquidity window may be operated a monthly/ quarterly basis at the discretion of the Issuer. The schedule of liquidity window/s shall be disclosed upfront in the offer document. The notice/ intimation regarding the liquidity window through put option shall be made within five working days via SMS/ WhatsApp messaging

³ https://www.sebi.gov.in/legal/master-circulars/may-2024/master-circular-for-issue-and-listing-of-non-convertible-securities-securitised-debt-instruments-security-receipts-municipal-debt-securities-and-commercial-paper_83546.html

from the start of each financial year regarding the Liquidity Window facility being available on monthly/ quarterly basis in that respective financial year. Such notice/ intimation shall be treated as compliance with Regulation 15(6)⁴ of the NCS Regulations.

6.7. Mode and manner of availing the Liquidity Window facility: The mode and manner of exercise of put options through the Liquidity Window facility shall be as follows:

- 6.7.1. When the liquidity window opens, eligible investors can exercise the put option on debt securities by blocking the said securities in their demat account and utilizing the mechanism for notifying the exercise of put option to the issuer. Such exercise shall be done during trading hours.
- 6.7.2. Eligible investors may be permitted to modify or withdraw their bids during the liquidity window session.
- 6.7.3. All exercises of the put option on the debt securities received by the stock exchange until the end of trading hours on the date of closure of the liquidity window (i.e. day three of the Liquidity Window) and for which block is created shall be treated as duly tendered. However, if the window sub-limit specified by the Issuer is exceeded, the acceptance of the tendered debt securities shall be on a proportionate basis.
- 6.7.4. Stock exchanges, in consultation with clearing corporations and depositories, shall publish detailed operational guidelines regarding the mode and manner of availing the Liquidity Window facility, including the mechanism for exercising the put option to tender the debt securities, blocking of such debt securities in the

⁴ Regulation 15(6) of the NCS Regulations is re-produced as under:

15(6) The issuer shall send a notice regarding recall or redemption of non-convertible securities, prior to maturity, to all the eligible holders of such securities and the debenture trustee(s), at least twenty-one days before the date from which such right is exercisable and the notice to the eligible holders shall be sent in the following manner:

- (i) soft copy of such notice shall be sent to the eligible holders who have registered their email address(es) either with the listed entity or with any depository; and
- (ii) hard copy of the notice shall be sent to the eligible holders who have not registered their email address(es) either with the listed entity or with any depository.

demat account, the basis of acceptance of tendered debt securities, effecting of transfer from the demat account of the eligible investor at end of the day of closure of the liquidity window, mode and manner of modification or withdrawal of the put option, settlement of funds, handling of shortages, etc.

- 6.8. Valuation of debt securities, amounts payable and the date of payment: Debt securities shall be valued on 'T-1' day where T is the first day of the liquidity window. Such valuation shall be displayed at all times during the period of liquidity window, on the website of the Issuer and Stock Exchanges. Such valuation shall be done in accordance with *Chapter 9: 'Valuation' of Master circular for mutual funds dated June 27, 2024⁵* (as amended from time to time). Further, issuer shall ensure the amounts payable to investor shall not be at a discount of more than 100 basis points on the valuation arrived plus the accrued interest. Such amounts shall be payable within one working day from the closure of the liquidity window to the bank account linked with demat account of the eligible investor from which the debt security was tendered and transferred on the closure of the liquidity window. Further, settlement of debt securities shall be on 'T+4' day where T is the first day of the liquidity window.
- 6.9. Dealing with debt securities received by issuer pursuant to put option: Within forty-five days of the closure of the liquidity window or before the end of the relevant quarter (whichever is earlier), the Issuer may deal with the debt securities received pursuant to tendering within the Liquidity Window facility in the following manner:
- sell such debt securities on the debt segment of stock exchange;
 - sell such debt securities directly on RFQ platform, if the Issuer is eligible to access the RFQ platform;
 - sell such debt securities through an Online Bond Platform; or
 - extinguish such debt securities.

⁵ https://www.sebi.gov.in/legal/master-circulars/jun-2024/master-circular-for-mutual-funds_84441.html

The number of debt securities sold by the Issuer through any modes mentioned above shall be added to the aggregate limit of the Liquidity Window facility and hence will replenish any past usage of the limit.

6.10. Reporting and disclosure requirements: The Issuer shall:

- a) Within three working days of the closure of Liquidity Window facility submit a report to the Stock Exchange(s) where such debt securities are listed, in the form, manner and substance as the Stock Exchange may specify in consultation with SEBI;
- b) Within three working days from the end of the timeline specified in para 6.9 of this circular, inform the depositories and debenture trustee regarding debt securities to be extinguished.

6.11. Issuers shall disclose on their website a list of ISINs for which liquidity window option is available. The following information shall be displayed per ISIN:

- a) Name of the issuer
- b) Outstanding amount of the ISIN
- c) Credit rating
- d) Coupon rate
- e) Maturity date
- f) Valuation, if available (as specified in para 6.8 of this circular)
- g) Liquidity Window schedule - dates and period of exercise (monthly/ quarterly basis)
- h) Percentage of the Issue size for which such option is provided in the respective ISIN along with the sub-limit of the put option that can be exercised in each liquidity window (in terms of number of debt securities)
- i) Corresponding percentage of the issue size for which such option has been exercised and amounts paid by the Issuer against such put option (in terms of number of debt securities and amount)
- j) extent of debt securities sold by the issuer and/or extent of debt securities extinguished by the issuer, as applicable (in terms of number of debt securities)

- k) percentage of the issue size which is yet to be utilized by the eligible investors, and
- l) extent of replenishment on account of sale by the issuer (in terms of number of debt securities)

Issuer shall furnish the aforesaid information to Stock exchanges, Depositories, and Debenture Trustee who shall host the same on their website/ corporate bond database. Further, Issuer shall intimate changes, if any, of the above information to Stock Exchanges, Depositories and Debenture Trustee within 24 hours of such change. Upon receipt of intimation from the Issuer, Stock exchanges, Depositories and Debenture Trustee shall update the information within one working day. Stock exchanges and Depositories may provide a feed to Online Bond Platforms of all such information for display by Online Bond Platforms.

- 7. The provisions of this circular shall be applicable on and from November 01, 2024.
- 8. The Circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 55 (1) of the SEBI (Issue and Listing of Non-convertible Securities) Regulations, 2021 to protect the interest of investors in securities and to promote the development of and to regulate the securities market.
- 9. This Circular is available at www.sebi.gov.in under the link “Legal → Circulars”.

Yours faithfully,

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