



CIRCULAR

SEBI/HO/DDHS/CIR/P/134/2019

November 13, 2019

To

All Issuers who have listed/propose to list municipal debt securities (listed entities)  
All Recognized Stock Exchanges  
All Registered Depositories  
All Registered Merchant Bankers

Sir/Madam,

**Sub: Continuous disclosures and compliances by listed entities under SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015**

1. SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (ILDM Regulations) prescribe disclosures to be made by issuers making public issues of debt securities or seeking listing of municipal debt securities issued on private placement basis to the Stock Exchange(s). SEBI vide Circular No. CIR/IMD/DF1/60/2017 ("hereinafter to be referred as ILDM Circular") dated June 19, 2017 had specified continuous disclosures and compliance by issuers of debt securities under ILDM Regulations.
2. Subsequently, ILDM regulations have been amended to, inter alia, widen the definition of issuers, revise timelines for submission of annual and half yearly financial results, structure payment mechanism through escrow accounts, etc.
3. Regulation 29 of ILDM regulations provides that the Board shall have the power to issue directions through guidance notes or circulars. Accordingly, it has been decided to specify as under:
  - (a) Clause 2.1 of the ILDM circular regarding disclosure of financial information is substituted to read as under :



## **“2.1 Disclosure of Financial Information**

While disclosing its financial information to the Stock Exchange(s), listed entities shall comply with the following:

### **2.1.1. Half Yearly Unaudited Financial results**

- (a) The listed entities shall prepare and submit half yearly un-audited financial results to the stock exchange as soon as the same are available but within forty five days of the end of the first half year.

### **2.1.2. Annual Audited Financial Results**

- (a) The listed entities shall submit annual audited financial results for the financial year, within sixty days from the end of the financial year along with the audit report.

Provided that listed entities, who are being audited by CAG, may adopt the following two step process for audit of its accounts

- (i) The first level audit shall be carried out by CAG appointed audit firm (auditor). The auditor so appointed shall conduct audit of accounts of the listed entity and such audited annual financial results shall be submitted to the Stock exchange(s) within sixty days from the end of the financial year.
- (ii) The final annual audited financial results as audited by CAG and after approval of the same by the Standing Committee and/or the Governing Body or Board of Directors of the listed entities, as applicable, shall be submitted to the Stock exchange(s) within nine months from the end of the financial year.

### **2.1.3. Preparation and Submission of Financial Results**

While preparing financial results, the listed entities shall comply with the following

- (a) The half yearly un-audited financial results and annual audited financial results shall contain comparative information for the immediately preceding corresponding half year or financial year respectively.
- (b) The half yearly un-audited financial results and annual audited financial results submitted to the Stock exchange(s) shall be taken on record by Standing



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Committee or General Body or Board of Directors or Board of Trustee, as applicable or equivalent.

- (c) The listed entities shall disclose debt equity ratio, debt service coverage ratio, interest service coverage ratio etc along with the half yearly and annual financial results.

## 2.1.4. Annual Report

The annual report shall contain the following

- (a) Balance sheet
  - (b) Income and expenditure account
  - (c) Statement of cash flows (a summary of cash flow over a given period of time)
  - (d) Receipts and payments accounts (detailed as per the account head)
  - (e) Notes to Account
  - (f) Financial performance indicators
  - (g) Auditor's report
  - (h) Municipal commissioner's report on the Annual Financial Statements and the qualifications and comments made in the report of the auditor; and
  - (i) Standing committee's action taken report on the qualifications and comments made in the Report of the Auditor and the Report of the Municipal commissioner.”
- (b) The following shall be added after para (16) in the Annexure 1 of Clause 2.2.2(b) of ILDM Circular on disclosing material and price sensitive information.

“17. any material adverse changes affecting ability to service municipal debt securities”

- (c) Clause 2.2.2.(c) of the ILDM Circular regarding timely payment of interest or principal obligations or both is substituted to read as under:

**“(c) Timely payment of interest or principal obligations or both**

The listed entities shall submit a certificate to the stock exchange(s) intimating the status of payment of interest or principal or both within five working days of the same becoming due in respect of municipal debt securities.”

- (d) Clause 2.3.2. of ILDM Circular regarding Credit rating is modified to read as under:-



**“2.3.2. Credit Rating**

- (a) Every credit rating shall be reviewed at least once a year, by a registered credit rating agency.
- (b) In the event of credit rating being downgraded by two or more notches below the rating assigned at the time of issue, the listed entities shall disclose the reasons for downgrade in rating and the steps, if any, it intends to take to recover the rating.
- (c) Any change in credit rating shall be promptly disseminated on the Stock exchange(s) where such securities are listed.”

(e) Clause 2.3.3. (e) of ILDM Circular regarding periodic disclosure shall be deleted.

4. In addition to the above modifications, it has been decided to further specify as under:-

**9.1 Escrow Payment Mechanism**

The listed entities are required to create following escrow accounts for the purpose of payment obligations due to the investors.

**4.1.1. No lien escrow account**

- (a) The listed entities shall deposit tax revenues, user charges and/or grants etc., as detailed in the offer document/private placement memorandum, to this account.

**4.1.2. Interest payment account**

- (a) The listed entities shall, throughout the tenure of the municipal debt securities, maintain an amount equivalent to one year interest obligation in this account. The amount received in the “No lien escrow account” may be transferred to this account to maintain the required balance.
- (b) In case of any shortfall of funds in this account, the listed entities are required to maintain the minimum balance from other accounts.



#### 4.1.3. Sinking fund account

- (a) A Sinking fund account shall be created for redemption of municipal debt securities.
- (b) The listed entities shall transfer the principal amount due for repayment, as per the timelines and amount specified in the offer document or preliminary placement memorandum. The amount received in the "No lien escrow account" may be transferred to this account to maintain the required balance in the "Sinking fund account".

#### 4.1.4. General Account

- (a) The surplus funds in the "No lien escrow account" after meeting minimum balance in the "Interest payment account" and "Sinking funding account" can be transferred to General account on a monthly basis after obtaining certificate from debenture trustee that the listed entities has discharged its debt obligations in a timely manner.

4.1.5. All the above accounts except "General account" shall be monitored by the debenture trustee.

4.1.6. The listed entities shall within 45 days from the end of the quarter, disclose the balances in the aforesaid accounts along with notes pertaining to transfers made to/from these accounts to stock exchange(s) for dissemination.

4.1.7. The amounts available in the escrow accounts may be invested in Government Securities or Treasury Bills or Fixed deposit with Scheduled commercial bank or liquid mutual fund or gilt fund or debt mutual funds or debt ETFs with a lien in favour of the debenture trustee.

#### 9.2 Interim use of issue proceeds

- (a) The listed entities may invest the issue proceeds in Government Securities or Treasury Bills or Fixed deposit with Scheduled commercial bank or liquid mutual fund or gilt fund or debt mutual funds or debt ETFs with a lien in favour of the debenture trustee pending utilization of funds for the stated objects.



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**9.3 Utilization of funds for projects and status of implementation of projects**

- (a) The listed entities shall submit a report containing status of implementation of project(s) which is being financed along with reasons for delay, if any and the amount of utilizations of issue proceeds for execution of the projects as stated in the offer document/ placement memorandum, as applicable, on a half yearly basis along with financial results to the stock exchange(s).

**9.4 Day Count Convention**

- (a) The day count convention for calculation of interest payment for listed municipal debt securities shall be Actual/ Actual. The manner of calculation of Actual/ Actual for municipal debt securities shall be as specified in Clause I of SEBI Circular no. CIR/IMD/DF/18/2013 dated October 29, 2013 and Circular no. CIR/IMD/DF-1/122/2016 dated November 11, 2016 issued for debt securities listed under ILDS Regulations.

5. The provisions of this circular shall come into force with immediate effect.
6. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 and Regulation 29 of ILDM Regulations to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets.
7. This Circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the categories "Legal Framework→Circulars".

Yours faithfully,

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