भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CONSULTATION PAPER

Consolidation and re-issuance of debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008

A. Market Structure of corporate bonds:

The development of the primary market in corporate bond has been important part of the reform process as it was essential for discovery of price through an efficient market mechanism and providing for both listing and issuance of debt securities on private placement and public issuance basis.

Table 1:Primary market data for private placement of corporate bonds:

Financial Year	No. of Public Issues	Amount Raised through Public Issue (Rs. Crore)	No. of Pvt. Placement	Amount Raised through Private Placement (Rs. Crore)	Total Amount Raised through Public Issue and Pvt. Placement (Rs. Crore)
2007-08	0	0	744	118,485	118,485
2008-09	1	1,500	1041	173,281	174,781
2009-10	3	2,500	1278	212,635	215,135
2010-11	10	9,451	1404	218,785	228,236
2011-12	20	35,611	1953	261,283	296,894
2012-13	20	16,982	2489	361,462	378,444
2013-14	35	42,383	1924	276,054	318,437
2014-15	25	9,713	2611	4,04,136	4,13,849
2015-16	20	33,811	2975	4,58,073	4,91,884
2016-17#	14	29213	2662	478,974	5,08,187

As on January 2017; private placement data is up to December 2016

Table1 shows that the amount of private placement of corporate bonds has increased from Rs 1.18 trillion in the FY 2007-08 to Rs 4.78 trillion in the FY 2016-17. Thus, it can be seen that the private placement issues have increased by 176.41 % since FY 2007-08 till date. Further, the public issues in the primary market have increased from nil figures in the FY 2007-08 to Rs 29,213 crores. The total primary issuance in the corporate bond market has increased by 328.9% since FY 2007-08.

As per section 42 of the Companies Act, 2013 read with the Companies (Prospectus and Allotment of Securities) Rules, 2014, if a bond issue is made to more than 200 investors (excluding QIBs), the issuer has to follow the public issue route. To meet their funding requirements, some of the issuers take recourse in issuing several issues of bonds in a single month/quarter/year.This evidences that the private placement mode of issuance of corporate bond is substantially robust and favored for raising funds.

While the primary market for corporate bonds/debt securities has grown since the year 2007, the liquidity in secondary market has not been high and commensurate with the growth in the primary market.

Table 2: Details of Trades in Secondary Market in Listed Corporate Bonds:

Secondary Market Trades in Corporate Bonds		
Month/Year	**Total no. of trades**	**Total Amount (Rs Crores)**
2008-09	22730	1,48,166
2009-10	38230	4,01,198
2010-11	44060	6,05,274
2011-12	51533	5,93,783
2012-13	66383	7,38,631
2013-14	70887	9,70,799
2014 -15	75791	10,91,293
2015-16	70123	10,22,407
2016-17#	71430	11,70,633

January 2017

The above table shows that the trading of corporate bonds in the secondary marketing has increased from Rs 1.48 trillion in the FY 2008-09 to Rs 11.70 trillion in the FY 2016-17. However, the average number of trades per day continues to be very limited at around Rs 2000 crores. Generally, the investors prefer to buy and hold the security, instead of trading it in the secondary market. Moreover, some of the investors, are prohibited from trading the debt securities in the secondary market unless the rating of such debt securities falls two notches below their initial credit rating. The absence of a well-developed corporate bond repo market and secondary market infrastructure such as credit default swaps, interest rate futures, lack of participation on the dedicated debt segment of the exchanges etc. can be touted as some of the reasons due to the absence of liquidity in the secondary market.

Table 3 shows that the issuer 1 had over the period of four months, frequently used the private placement mode for raising different amounts of capital, thus creating multiple ISINs.

Table 3: Examples of private placement issuance made by an issuer

Date of the Issue	Name of the issuer	Amount raised	Tenure	Yield/Coupon
Aug 23, 2016	Issuer 1	25	36	8.26
September 08, 2016	Issuer 1	125	36	8.20
September 08, 2016	Issuer 1	25	39	8.20
September 08, 2016	Issuer 1	25	18	8.00
September 08, 2016	Issuer 1	25	39	8.18
November 22, 2016	Issuer 1	100	36	7.77
November 22, 2016	Issuer 1	200	24	7.76
November 22, 2016	Issuer 1	150	18	7.66
Total		**675**		

Table 4 below shows that each of the top issuers of corporate bonds have more than 200 ISINs, which has resulted in large number of outstanding issuances at any point of time.

Table 4: Top Issuers of corporate bonds with their total ISINs:

Serial No.	Issuer Name	No of ISINs issued	Custody Value (Rs Crores)
1.	Issuer 1	447	6674.15
2.	Issuer 2	331	15232.9
3.	Issuer 3	305	19205.5
4.	Issuer 4	281	68520.3
5.	Issuer 5	251	27862.2
6.	Issuer 6	222	13024.3
7.	Issuer 7	222	34509.7
8.	Issuer 8	216	19135.6
9.	Issuer 9	212	96940.1
10.	Issuer 10	203	14882.2

Source: NSDL
Data as on November 30, 2016

The trader would trade in those corporate bonds of a particular issuer, which have been freshly issued, thus rendering the old outstanding issues of that same issuer illiquid. This in turn affects the secondary market liquidity in corporate bonds.
Thus, one of the suggestions is the capping of such fragmented issues vide consolidation and re-issuance.It is envisaged that such consolidation and re-issuance could be one of the possible solutions that would aid in generation of liquidity through minimal number of ISINs.It is also felt that such fragmented issues can be avoided, if the maximum number of investors (which are two hundred at present) to whom private placement are made are increased to a higher number under the Companies Act, 2013.

B. Government Securities Market

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

In the case of G-secs, it is pertinent to note that the process of carrying out consolidation and re-issuance is simpler as compared to the corporate bonds. Some of the reasons for the same being as under:

a. Government being one single issuer in case of G-secs;
b. Fungible nature of G-secs;
c. No requirement for credit rating and
d. The borrowing calendar for the government is fixed at the beginning of the financial year and the borrowings are made to finance the government expenditure as well as to cover shortfalls (deficits) in its annual budget.

The Gandhi Committee Report ("Report of the Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets") had recommended consolidation of G-Sec. Considering the objective of the working group i.e. to enhance secondary market liquidity, the group felt that there was a need to undertake consolidation of the G-Sec outstanding for which a framework needs to be prepared for the next 3-4 years. The process should begin with the issuance of securities at various maturity points in conjunction with further steps like buyback and switches. The framework should outline the various objectives proposed to be achieved through the exercise, various constraints that need to be taken into account in the process and the buyback program should be long drawn.

The process should lead to the consolidation of the GoI's market borrowings to a fewer securities and fresh borrowings through a limited number of securities thereby increasing the outstanding amount of each security, which would have a direct bearing on the secondary market trade volumes. The consolidation in the G-sec market has greatly improved market liquidity and helped the emergence of benchmark securities in the market

C. Background for consolidation and re-issuance of debt securities:

Section 121 of the erstwhile Companies Act 1956 had provisions of consolidation and re-issuance. However, the recently notified Companies Act 2013 is silent regarding the company's power to reissue their bonds. In this regard, the Ministry of Corporate Affairs (MCA) has clarified that since Companies Act 2013 is silent on the issue, it may be assumed that such reissuance is possible if there is enabling provision in this behalf in the articles of the company. In view of the clarification provided by MCA, SEBI provided an enabling framework for consolidation and re-issuance. However it may be noted that only one issuer has since come for taking advantage of this provision.

As stated above, an amendment was made to the SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (ILDS) in the year 2015, wherein regulation 20A was inserted, to provide for consolidation and re-issuance of debt securities. The regulation reads as under:

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 fresh credit rating for each re-issuance from at least one credit rating agency registered with the Board and is disclosed;*
d) *such ratings shall be revalidated on a periodic basis and the change, if any, shall be disclosed;*

e) *Appropriate disclosures are made with regard to consolidation and re-issuance in the Term Sheet.*

The working group, on Development of Corporate Bond market in India, under the chairmanship of Shri. H R Khan in its report has made the following observations in respect of consolidation and re-issuance:

a. One of the reasons for the lack of trading volume is non-availability of sufficient floating stock for each International Securities Identification Number (ISIN) as corporates have preferred fresh issuance rather than going for reissuance of bonds. Each new issuance from the same issuer receives a separate ISIN; hence older bonds in the same maturity become illiquid.

b. To augment market liquidity, it is necessary that corporates are encouraged to re-issue existing bonds under the same ISIN code.

c. A major argument against common ISINs is the bunching of liabilities on the same date which can lead to asset-liability mismatch; however, this can be resolved by spreading out the redemption amount across the year through amortizing the payments.

d. SEBI has enabled consolidation and re-issuance with a view to reducing fragmentation in corporate bond market. Though SEBI has recently allowed reissuances by the corporates, there has not been any reissue of bonds by any corporate due to problems related to bunching of liabilities and stamp duty.

e. Corporates may be permitted to issue bonds under the same ISIN with a flexibility in terms of timing for raising the funds as well as structuring of the redemption requirements.

In view of the aforesaid observations, the H R khan working group, inter-alia, recommended that the issuers coming out with frequent debt issues with the same tenor during a quarter may club them under the same umbrella ISIN which in turn would increase the float in the market, thus enhancing its liquidity. These issuers may come out with a feasible maturity structure wherein they can stagger the redemption amount across the year by amortizing the repayments.

The Corporate Bond and Securitization Advisory Committee (CoBoSAC) of SEBI, in its meeting held on November 16, 2016, inter-alia, deliberate on the ways to increase secondary market liquidity in the corporate bonds. It was discussed that a sub-committee may be formed by SEBI to explore the mechanism for implementation of the consolidation and re-issuance in the corporate bonds.

The sub-committee was constituted and while preparing this consultation paper, inputs have been taken from the market participants

D. Structural issues faced in the consolidation for corporate bonds:

While carrying out deliberations on laying down an implementable and feasible operational framework for consolidation and re-issuance for corporate bonds, the following legal/structural issues have been noted by SEBI:

i. Stamp Duty:

It is understood that re-issuance is not legally recognized and is considered a fresh issue of securities. As a fallout of this, re-issuing securities attracts stamp duty thereby making the process cost ineffective. However, as no fresh securities are actually being issued, there should not be any incidence of stamp duty on the re-issued securities. In this regard, the H R Khan committee had already made the recommendation that the re-issuances may not be treated as fresh issuance for the purpose of stamp duty. The matter is under deliberation.

ii. Bunching of liabilities:

In case of consolidation and reissuance of debentures, the maturities of debentures issued under consolidation will fall on same day which shall create liquidity problem and bunching of liabilities for borrowers. The same shall also have impact on their liquidity and rating.

iii. Issuances are triggered as per the demands of the investors:

The issue amount is not predetermined rather the issuers bring out the corporate bond issuances in the market in accordance with the investor appetite. This is elaborated by the fact that the mutual funds would demand only for those papers whose maturities are in alignment with the tenure of their debt funds or those suiting their requirements.

Consolidation and reissue would reduce the demand/appetite of the investors and also increase the coupon rate because of lower demand.

iv. Re-issuance at a discount or premium

The coupon rate on bonds is a dynamic factor and mostly market driven, hence the interest rate frozen at the time of issue of ISIN may change and in such case subsequent issue of bonds

have to be made at discount or premium depending on market conditions. This kind of arrangement may not be acceptable by to certain categories of investors like mutual fund, provident fund etc. This will also lead to accounting and taxation issues.

E. Objective of the consultation paper

In spite of the technical issues mentioned above, in carrying out consolidation and re-issuance, it is felt that such a measure would help in building secondary market liquidity in corporate bonds.

This consultation paper has been prepared with the objective of seeking public comments/views on the proposals mentioned in this paper. Apart from the proposals mentioned here, other suggestions/ inputs, to develop the secondary market for corporate bonds, are also invited from the public at large.

i. Passive Consolidation :
   a. Restriction on the maximum number of ISINs for private placement of debt securities;
   b. Staggered repayments of the redemption amount on the debt securities; and

ii. Active consolidation:

   a. Switching or conversion of less liquid debt securities into larger, more liquid benchmark bond issues. This can be carried out via following two methods:

      i. Tender offer method
      ii. Reverse Auction Conversion/Switching Ratio

F. Proposals:

1. Passive Consolidation :

1.1. Restriction on maximum number of ISINs in a year:

Option A: One ISIN per quarter:

It is proposed that the issuers can have only ISIN per quarter, i.e total of 4 ISINs in a financial year. In case the issuer raises funds by way of private placement of debt securities in a particular quarter, then for the whole of that quarter, the issuer can have only one ISIN. Further, if the issuer makes another issuance of debt security in the same quarter, whose

maturity is in the same quarter as that of the maturity of the existing debt instrument, then the issuer must consolidate both the issuers under the same existing ISIN by adjusting the difference in the issue price. The debt may be issued either at a discount or at a premium.

If the issuer makes another issuance of debt security in the same quarter, whose maturity does not fall in the same quarter as that of the maturity of the existing debt instrument, then the issuer has the flexibility to obtain a new ISINs for that particular issuance. However, the total number of ISINs in a financial year shall not exceed 4 i.e. 1 ISIN per quarter.

Or

Option B:One ISIN in a period of two months:

It is proposed that the issuers can have only ISIN in a period of two months, i.e total of 6 ISINs in a financial year. In case the issuer raises funds by way of private placement of debt securities in a two month period, then for the whole of that two months, the issuer can have only one ISIN. Further, if the issuer makes another issuance of debt security in the same period of two months, whose maturity is in the same half year as that of the maturity of the existing debt instrument, then the issuer must consolidate both the issues under the same existing ISIN by adjusting the difference in the issue price. The debt may be issued either at a discount or at a premium.

If the issuer makes another issuance of debt security in the same period of two months, whose maturity does not fall in the same half year as that of the maturity of the existing debt instrument, then the issuer has the flexibility to obtain a new ISINs for that particular issuance. However, the total number of ISINs in a year shall not exceed 6.

1.2. Staggered repayments of the redemption amount

It has been pointed out that if the restriction as above are implemented, it may lead to a situation of liquidity mismatch and bunching of liabilities for the issuer. In order to resolve this issue, it is proposed that the issuer can as a onetime exercise make a choice of having bullet maturity payment or in order to avoid bunching of liabilities, the issuer can make equated quarterly payment or equated monthly payment of the maturity proceeds within that financial year. This will enable the issuers to stagger the redemption amount across the year by amortizing the repayments. However this should clearly be disclosed in the information memorandum

1.3. Illustration to show as to how the number of ISINs will be capped for option A under proposal 1.1 above:

Assuming first option i.e. wherein only one ISIN is allowed per quarter, then say an issuer issues 14 debt securities in the financial year 2017-18 (of maturity profile 1 to 5 years) as under :

Serial number	Date of issue	Date of maturity	Total number of months and quarter in which maturity is due
1	01/04/2017	01/04/2019	24 months (April-June2019)
2	23/04/2017	23/04/2020	36 months (April-June 2020)
3	05/05/2017	05/04/2021	47 months (April-June 2021)
4	15/06/2017	15/06/2019	24 months (April-June 2019)
5	25/06/2017	25/06/2020	36 months (April-June 2020)
6	15/07/2017	15/09/2022	62 months (July-September 2022)
7	26/07/2017	26/04/2021	45 months (April-June 2021)
8	10/08/2017	10/08/2022	60 months (July-September 2022)
9	20/08/2017	20/08/2022	60 months (July-September 2022)
10	18/10/2017	18/12/2020	38 months (October-December 2020)
11	15/11/2017	15/11/2022	60 months (October-December 2022)

Serial number	Date of issue	Date of maturity	Total number of months and quarter in which maturity is due
12	20/12/2017	20/12/2022	60 months (October-December 2022)
13	10/01/2018	10/01/2020	24 months (January-March 2020)
14	25/01/2018	25/01/2021	36 months (January-March 2021)

The allotment of ISINs for the aforesaid schedule of issuance shall be as under:

Maturity date of issuance	***ISIN for year***	***ISIN for quarter***	***Nos of ISINs***
	2018-19	April-June	1
		July-September	1
		October- December	1
		January- March	1
01/04/2019and 15/06/2019	2019-20	April-June	1
		July-September	1
		October- December	1
10/01/2020		January- March	1
23/04/2020, 25/ 06/2020	2020-21	April-June	1
		July-September	1
18/12/2020		October- December	1
25/01/2021		January- March	1
05/04/2021, 26/04/2021	2021-22	April-June	1
		July-September	1
		October- December	1
		January- March	1
	2022-23	April-June	1
10/08/2022, 20/08/2022 15/09/2022,		July-September	1
15/11/2022, 20/12/2022		October- December	1
		January- March	1

From the aforesaid table, following can be deduced:

For the Financial year 2018-19, as there are no securities due for maturity, the issuer can take 1 ISIN each in every quarter.

For the financial year 2019-20, it can be seen that for the quarter ended June 2020, there are two securities due for redemption. Hence, in such a case the issuer, for the security issue on 01/04/2019, the issuer would take a new ISIN. However, for the subsequent security issued on 15/06/2019, the issuer cannot take a new ISIN and will necessarily have to consolidate it with the ISIN of the security issued on 01/04/2019 as both these securities are due for redemption in the same quarter. Further, for the quarter ended January-March 2020, the issuer can again take a new ISIN.

Similarly for the financial year 2022-23, it can be seen that for the quarter ended September 2023, there are three securities due for redemption. Hence, in such a scenario, for the security issued on 10/08/2022, the issuer would take a new ISIN. For the subsequent security issued on 20/08/2022 and 15/09/2022 the issuer cannot take a new ISIN and will necessarily have to consolidate it with the ISIN of the security issued on10/08/2022 as both these securities are due for redemption in the same quarter.

In both the above scenarios, the issuer has to flexibility to make staggered re-payments on maturity of the instruments, instead of bullet repayment.

2. Active Consolidation: Switches-Conversion

Switching or Conversion, would offer investors the opportunity to convert their holdings of smaller debt securities into larger debt securities of same issuer.A switching or conversion can be viewed as a repurchase of the debt securities in advance of maturity where payment for these repurchases would be in terms of newly issued more-liquid benchmark securities. Thus, a bond switching or conversion is a repurchase in advance of maturity, where other debt securities would be supplied as payment. The less-liquid debt securities would usually be paired with liquid benchmarks that are of similar maturity and coupon rate.

Here, it may be pointed out that switching or conversion rate or ratio mostly depend on the secondary market prices at the time of the announcement of a conversion. However, due to lack of liquidity here the pricing may be a concern. Hence the following is proposed for carrying out the switching or conversion.

2.1. Proposed mechanics of Switching or Conversion

2.1.1. Conversion/Switching Rate/Ratio

The switching rate/ratio may be carried out by the issuer by exercising call option as given in information memorandum in the following manner:

2.1.1.1. Tender offer method

A tender offer is a fixed price offer, i.e. the issuer will fix a particular price for the maximum number of debt securities it is willing to purchase and sends a letter of offer to all the holders of debt securities. The issuer will also fix an outer time limit for accepting the offer. The issuer may determine the rate which may be at a premium or discount. However, more likely, the issuer may fix the rate at a discount in order to encourage holders to switch their debt securities.

2.1.1.2. Reverse Auction Conversion/Switching Ratio

Reverse Auction Conversion/Switching is where the market participants would submit various competitive rates of conversion as well as the amount they wish to convert to the issuer/arranger and is essentially an auction.The mechanics that underlie the reverse auction conversion is same as standard conventional auction where bidders are bidding to purchase debt securities and are offering debt securities as payment for their purchase in lieu of cash. Thus offers are simply price or yield ratios. This can further be done by multiple-price auction i.e. French Auction or single-price auction method based on discretion of the issuer.
Further, the issuer, at the beginning of the financial year, shall specify the pre-notified amount for which he is willing to carry out the switch operations.

Such switching or conversion may be done through the Electronic Book Platform (EBP) mechanism.

2.1.2. Reduction on number of ISIN's issued

It is proposed that the issuers having large number of outstanding issues and multiple ISINs, should resort to **Switching or Conversion**to reduce the number of outstanding ISINs in a phased manner.

Assuming an issuer has 250 outstanding ISINs as on March 31, 2017 with maturities over say next 5 years. Issuer should switch all existing ISINs in such a manner so as to restrict the number of ISINs to maximum 12 ISINs in a financial year. This would be in addition to limit proposed above i.e. maximum number of ISINs for fresh issuances. For example, say some of the ISINs in the said 250 ISINs may be due for maturity in the FY 2018, FY 2019, FY 2020, FY 2021, FY 2022. Then these ISINs should be switched in such a manner to reduce the number of ISINs to 60 i.e. 12 ISINs outstanding in each of FY 2018, FY 2019, FY 2020, FY 2021, FY 2022.

G. Public Comments:

In the light of the above, public comments are invited on the consultation paper. Comments may be forwarded by email to conr@sebi.gov.in or may be sent by post to the following address latest by February 28, 2017 to:

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Comments should be given in the following format:

Name of entity/ person/ intermediary: ____________________			
S. No.	Pertains to Point No.	Proposed/ suggested changes	Rationale

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