

SEBI/HO/MIRSD/MIRSD_CRADT/CIR/P/2022/67

May 19, 2022

To,

Issuers who have listed and/ or propose to list Non-Convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities or Commercial Paper; Recognized Stock Exchanges;

All Recognized Stock Exchange(s)

All Debenture Trustees registered with SEBI

Dear Sir/ Madam,

Sub: Revised format of security cover certificate, monitoring and revision in timelines

1. SEBI vide circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/230 dated November 12, 2020, and circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/207 dated October 22, 2020 specified format of security cover certificate, periodical monitoring and disclosures by Debenture Trustee(s) and the requirement of creation of "Recovery Expense Fund" (REF).
2. Representations were received from issuers, Debenture Trustee(s) as well as other market participants on issues related to operational challenges faced in complying with certain provisions of circulars and have also given suggestions on strengthening the said requirements. These challenges were also discussed in SEBI constituted Working Group on "Unique Identification Code - Securities & Covenant Monitoring System" ('Working Group'). After taking into account recommendations of the Working Group and feedback from market participants, SEBI amended the SEBI (Debenture Trustees) Regulations, 1993, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and amendments were notified vide gazette notifications dated April 11, 2022. Accordingly, the provisions in the above mentioned circulars have been revised as under.

A. Revised format of the Security Cover:

3. In terms of regulation 54 read with regulation 56(1)(d) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, listed entities are required to disclose security cover to Stock Exchange(s) and Debenture Trustee, and the format for preparation of security cover for listed debt securities was prescribed as per Annexure A of SEBI Circular dated November 12,2020. Based on the recommendation of the Working Group, the security cover format has been revised and the format prescribed as per Annexure A of SEBI Circular dated November 12,2020 stands rescinded. The revised format has been prepared to provide a holistic picture of all the borrowings and the status of encumbrance on the assets of the listed entity. The revised format for security cover is enclosed at **Annexure I**. Further, the obligations of listed entity and Debenture Trustee with respect to preparation and submission of security cover format are given as under:

3.1. Manner of preparation of security cover certificate by listed entity:

- (a) The listed entity shall be required to prepare the security cover certificate on quarterly basis and the statutory auditor of the listed entity shall certify the book values of the assets provided in such certificate.
- (b) The listed entity shall provide the values in the format under the market values column including the reference date based on which the market value has been arrived at and the certificate shall be submitted to Debenture Trustees). In case of loans/receivables or any other asset offered as security and the market value is not ascertainable in the specific quarter, then the listed entity may provide the carrying value/book value as per the format for security cover is enclosed at **Annexure I**. However, listed entity shall provide the justification for not providing the market value along with certificate in that quarter.
- (c) The frequency of valuation for asset classes offered as security by listed entity shall be as under:
- i. In case of asset classes, wherein frequency of valuation has been prescribed by SEBI, the market value shall be provided, accordingly, in the security cover certificate.

- ii. For the asset classes wherein there is no regulatory guideline on frequency of the valuation of a specific asset class then it shall be on quarterly basis.

- (d) In case, the issuer company has more than one Debenture Trustee for its listed debt securities, the listed entity shall prepare such certificate separately for each Debenture Trustee.

- (e) The assets that are not paid for shall not be included as part of any security cover calculation.

- (f) In case, security cover offered for the debt securities comprises the assets of the listed entity only, the security cover shall be prepared on standalone basis.

- (g) In case, debt securities are secured by creation of charge on the assets of third party/subsidiary/group/holding company; or assets of the listed entity are offered for securing the debt securities issued by third party/ subsidiary/ group/ holding company; or assets of the listed entity are offered for securing the other liabilities of third party/subsidiary/group/holding company, the listed entity shall make disclosure in two separate tables in the security cover format in the following manner:
 - i. Table for security cover on standalone basis for the listed entity and;
 - ii. Table on net summary basis on consolidated level in order to provide the overall/ holistic picture of the borrowings and security cover provided by the listed entity.

- (h) Obligations of listed entity in case of third party/ subsidiary/ group/ holding company assets being offered as underlying security:
 - i. The book value for security cover shall be certified by the statutory auditor of the third party/ subsidiary/ group/ holding company with respect to third party/ subsidiary/ group/ holding company assets being offered as underlying security.
 - ii. In case, security cover comprises exclusive charge on third party/ subsidiary/ group/ holding company assets, the security cover certified by the statutory

auditor of the concerned third party/ subsidiary/ group/ holding company shall include details of such assets including the book value of such assets.

- iii. In case, security cover comprises pari-passu charge on third party/ subsidiary/ group/ holding company assets, the security cover certified by the statutory auditor of the concerned third party entity shall include details all encumbrances on such assets.
- (i) Further, in order to adequately capture details regarding other debt securities, viz. unsecured debentures, subordinated debt, other debt issuances which fall in the lower priority order in the waterfall mechanism for liquidation/ resolution proceeds, an additional column named “Debt not backed by any assets offered as security” shall be incorporated in the security cover certificate and the same shall be covered under such column.

3.2. Manner of preparation and submission of security cover certificate by Debenture Trustee(s):

- (a) Debenture trustee on quarterly basis shall certify the market value of assets based on the due diligence carried out by it or its appointed agencies and shall submit the security cover certificate as per **Annexure I**. Debenture Trustee shall certify the security cover in respect of the secured debt securities, to the extent charged held by it.
 - (b) In case of reduction in the computed value of security cover in comparison to the previous quarter or previously calculated security cover, the Debenture Trustee shall record the reason for such variation in the security cover certificate. Clarification, if any, in this regard, may be obtained by Debenture Trustee from listed entity.
4. **Calculation of Security Cover Ratios:** In order to standardize calculation of security cover ratio as prescribed in Annexure I, the following formulas shall be used:

4.1. Exclusive security cover shall be calculated in the following manner:

$$\text{Exclusive Security Cover} = \frac{\text{Value of assets having exclusive charge}}{\text{Outstanding value of corresponding debt} + \text{Interest accrued}}$$

4.2. Pari-passu security cover shall be calculated in the following manner:

$$\text{Pari - passu Security Cover} = \frac{\text{Value of assets having Pari - passu charge}}{\text{Outstanding value of corresponding debt} + \text{Interest accrued}}$$

5. **Mandatory numbering of security cover certificates certified by statutory auditor and chartered accountant (CA):** The certificates certified by statutory auditor of issuer company and by the empaneled independent CAs of the Debenture Trustee shall have the Unique Document Identification Number(UDIN) generated in the manner prescribed by the relevant regulatory authority.
6. **Qualifications/disclaimers in security cover certificates:** The Debenture Trustee shall ensure that the qualifications/disclaimer (by whatever name called), does not impair the rights of debenture holders in terms of security provided. Further, if the Debenture Trustee is of opinion that such qualifications/disclaimer are affecting rights of debenture holders, the Debenture Trustee shall be required to take corrective action in this regard.

B. Monitoring of covenants:

7. On quarterly basis, listed entity shall furnish the compliance status with respect to financial covenants of the listed debt securities certified by statutory auditor of listed entity to Debenture Trustee.
8. Regulation 15(f) of SEBI (Debenture Trustees) Regulations, 1993 mandates the Debenture Trustee(s) to monitor the breach of covenants. In order to ensure effective monitoring, Debenture Trustee(s) shall:
 - 8.1. Establish board approved internal policies with respect to proactive and effective monitoring of breach of covenants and such policy shall inter-alia include:
 - (a) procedure of monitoring of breach of covenants; and
 - (b) clearly defined role and responsibilities of the employees engaged in the process of monitoring of breach of covenants including delegation of authority with respect to process of monitoring of breach of covenants.

- 8.2. Formulate the category wise list of covenants applicable to the particular issuance defining the frequency of each covenant to be monitored viz. continuous, quarterly, half-yearly, annual etc. The covenants may be categorized as financial covenants, affirmative covenants, negative covenants etc. A guidance note for the list of covenants prepared in consultation of Debenture Trustees is enclosed as **Annexure II**.
- 8.3. Initiate action in case of breach of covenants viz. accelerated payment, borrowing restriction, not to declare dividend before payment, declaration of event of default etc. in accordance with the terms of issue/ Offer Document/ Debenture Trust Deed.
- 8.4. Independently monitor any breach of covenants from continuous monitoring of any public disclosure on Stock Exchange(s), company filings, news articles in electronic/ print media or any information available in public domain apart from periodical information/ documents submitted by the issuer company.
- 8.5. Furnish a status report on its website and to the Stock Exchange(s) for further dissemination on a quarterly basis. Such status report shall contain the covenants breached in the preceeding quarter and the actions taken by the Debenture Trustee(s) for the same as per the format prescribed vide SEBI Circular dated November 12,2020.

C. Disclosure by Debenture Trustee:

9. In order to enhance transparency with respect to no-objection certificate (NOC)/no-dues certificate/consent/permission (by whatever name called) issued by Debenture Trustee(s) and monitoring of listed entity, Debenture Trustee shall make the following disclosures on Stock Exchange(s):
 - 9.1. No-objection Certificate (NOC)/no-dues certificate/consent/permission (by whatever name called) issued by Debenture Trustees to listed entity in terms of contractual obligations arising out of offer document/ debenture trust deed or any other transaction document related to debt securities, including the consent/ NOC for further borrowing by issuer within 48 hours of issuance of such consent/ no-objection certificate by Debenture Trustee to listed entity.
 - 9.2. Any breach of the minimum security cover within 48 hours of such breach.

D. Revision in timelines of submission of security cover certificate, valuation report and Quarterly compliance report and regulatory compliance by Debenture Trustees:

10. Based on the representation received from Debenture Trustees to align the timelines for submission and website disclosure of security cover certificate and quarterly compliance reports with the timelines prescribed for submission of financial results for listed issuer companies. In view of the above and to reduce cost of compliance with respect to preparation and submission of valuation report and title search report, it has been decided that in partial modification of the timelines mentioned in para 2 and 4 of SEBI Circular number SEBI/HO/MIRSD/CRADT/CIR/P/2020/230 dated November 12, 2020, Debenture Trustees shall submit:

10.1. the security cover certificate to the stock exchange and make website disclosure of the security cover certificate and quarterly compliance report within 75 days from the end of each quarter except last quarter of financial year.

10.2. the security cover certificate to the Stock Exchange(s) and make website disclosure of the security cover certificate and quarterly compliance report for the last quarter of financial year, within 90 days from the end of financial year.

10.3. the valuation report and title search report to the Stock Exchange(s) once in three years within 75 days from the end of the financial year.

Further, in case of pari-passu charge, wherein multiple Debenture Trustees are holding charge over the same assets, a lead Debenture Trustees may be decided amongst the Debenture Trustees based upon the amount of the charge each Debenture Trustees holds and accordingly the exercise of carrying out the valuation and preparation of the valuation report may be carried out by the lead Debenture Trustees.

11. In partial modification of the timelines mentioned in para 5 of SEBI Circular number SEBI/HO/MIRSD/CRADT/CIR/P/2020/230 dated November 12, 2020, timelines for the following regulatory compliance is revised as under:

Report	Periodicity
Half yearly compliance report	Half-yearly basis within 75 days of the end of each half-year.
Details of other activities carried out by Debenture Trustee(s) including type of activity, description of activity etc.	

12. It is also clarified that the half-yearly compliance report shall be reviewed by the Board of Directors of the Debenture Trustee prior to the submission to SEBI.

E. Monitoring of Recovery Expense Fund (REF) by Debenture Trustee(s):

13. SEBI vide circular numbered SEBI/HO/MIRSD/CRADT/CIR/P/2020/207 dated October 22, 2020 issued guidelines in respect of the contribution by issuers of listed or proposed to be listed debt securities towards creation of REF. The circular, inter-alia, states that in order to enable the Debenture Trustee(s) to take prompt action for **enforcement of security** in case of 'default' in respect of listed debt securities, a REF shall be created which shall be used in the manner as decided in the meeting of the holders of debt securities.

14. While the intent of the circular dated October 22, 2020 was aimed at creation of REF for both secured as well as unsecured issuances as the Debenture Trustee has a fiduciary duty to the debenture holders and the timely initiation of legal proceedings in case of default is one of the key responsibilities of the Debenture Trustee irrespective of the nature of issuance, the usage of the term "enforcement of security" created a confusion that the requirement was meant only for secured issuances.

15. Accordingly, it is stated that the purpose of the creation of REF is to be read as for "**enforcement/ legal proceedings**" instead of "enforcement of security".

16. Further, with respect to independent verification of creation of REF by issuer companies, Debenture Trustee(s) shall take confirmation from Designated Stock Exchange(s) or any other independent source in writing regarding the creation of REF by the listed entity and shall not rely solely upon the communication by the listed entity.

17. The Stock Exchange(s) shall disclose the REFs created by the listed entities on half yearly basis. Such disclosure shall also include the details of the Debenture Trustee to the debt issue.
18. **Applicability:** The provisions mentioned in Part A and B with respect to 'Revised format of the Security Cover' and 'Monitoring of Covenants' are applicable w.e.f October 1st, 2022. Other provisions of this circular shall come into effect with immediate effect.
19. This circular is issued in exercise of the powers conferred upon SEBI under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 2A of the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993 and Regulation 55 of the Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and Regulation 101(1) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Regulation 29 of the Securities and Exchange Board of India (Issue and Listing of Municipal Debt Securities) Regulations, 2015 , Regulation 48 of Securities and Exchange Board of India (Issue And Listing Of Securitised Debt Instruments And Security Receipts) Regulations, 2008 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

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Column A	Column B	Column C ⁱ	Column D ⁱⁱ	Column E ⁱⁱⁱ	Column F ^{iv}	Column G ^v	Column H ^{vi}	Column I ^{vii}	Column J	Column K	Column L	Column M	Column N	Column O
Particulars	Description of asset for which this certificate relate	Exclusive Charge	Exclusive Charge	Pari-Passu Charge	Pari-Passu Charge	Pari-Passu Charge	Assets not offered as Security	Elimination (amount in negative)	(Total C to H)	Related to only those items covered by this certificate				
		Debt for which this certificate being issued	Other Secured Debt	Debt for which this certificate being issued	Assets shared by pari passu debt holder (includes debt for which this certificate is issued & other debt with pari-passu charge)	Other assets on which there is pari-Passu charge (excluding items covered in column F)	debt amount considered more than once (due to exclusive plus pari passu charge)	Market Value for Assets charged on Exclusive basis	Carrying /book value for exclusive charge assets where market value is not ascertainable or applicable (For Eg. Bank Balance, DSRA market value is not applicable)	Market Value for Pari passu charge Assets ^{viii}	Carrying value/book value for pari passu charge assets where market value is not ascertainable or applicable (For Eg. Bank Balance, DSRA market value is not applicable)	Total Value(=K+L+M+N)		
		Book Value	Book Value	Yes/ No	Book Value	Book Value					Relating to Column F			
ASSETS														
Property, Plant and Equipment														
Capital Work-in-Progress														
Right of Use Assets														
Goodwill														
Intangible Assets														
Intangible Assets under Development														
Investments														

Loans															
Inventories															
Trade Receivables															
Cash and Cash Equivalents															
Bank Balances other than Cash and Cash Equivalents															
Others															
Total															
LIABILITIES															
Debt securities to which this certificate pertains															
Other debt sharing pari-passu charge with above debt		<i>not to be filled</i>													
Other Debt															
<i>Subordinated debt</i>															
<i>Borrowings</i>															
<i>Bank</i>															
<i>Debt Securities</i>															
<i>Others</i>															
<i>Trade payables</i>															

Lease Liabilities														
Provisions														
Others														
Total														
Cover on Book Value														
Cover on Market Value^{ix}														
		Exclusive Security Cover Ratio			Pari-Passu Security Cover Ratio									

- ⁱ This column shall include book value of assets having exclusive charge and outstanding book value of debt for which this certificate is issued.
- ⁱⁱ This column shall include book value of assets having exclusive charge and outstanding book value of all corresponding debt other than column C.
- ⁱⁱⁱ This column shall include debt for which this certificate is issued having any pari passu charge - Mention Yes, else No.
- ^{iv} This column shall include a) book value of assets having pari-passu charge b) outstanding book value of debt for which this certificate is issued and c). other debt sharing pari- passu charge along with debt for which certificate is issued.
- ^v This column shall include book value of all other assets having pari passu charge and outstanding book value of corresponding debt.
- ^{vi} This column shall include all those assets which are not charged and shall include all unsecured borrowings including subordinated debt and shall include only those assets which are paid-for.
- ^{vii} In order to match the liability amount with financials, it is necessary to eliminate the debt which has been counted more than once (included under exclusive charge column as also under pari passu). On the assets side, there shall not be elimination as there is no overlap.
- ^{viii} Assets which are considered at Market Value like Land, Building, Residential/ Commercial Real Estate to be stated at Market Value. Other assets having charge to be stated at book value/Carrying Value.
- ^{ix} The market value shall be calculated as per the total value of assets mentioned in Column O.

Annexure II- Guidance note on list of Covenants

	Category	Sub-type (As applicable)	Covenant (As applicable)
1.	Accounts/ funds/ reserves maintained	<ul style="list-style-type: none"> Debt Service Reserve amount Interest Service Reserve Account Major maintenance reserve Escrow account/RERA account Debenture Redemption Reserve Debenture Reserve Fund Recovery Expense Fund Account details Any other Fund/Account 	<ul style="list-style-type: none"> Covenant as to amount to be maintained, manner of creation and/or funding of account, Date till required to be maintained or date on which to be created, manner of creation including period for renewal, replenishment, invocation (amount, date, period,etc.), manner of maintenance (ratio, percentage etc), bank account number (if applicable) etc.
2.	Financial	<ul style="list-style-type: none"> Debt Service Coverage Ratio (DSCR) Interest cover Net Debt to EBITDA Gross Debt to EBITDA Debt cap Debt Equity ratio Debt/Tangible Net Worth Gross Non-Performing Assets PAR 90 and write off Net Non-Performing Assets/ Tangible Net Worth Debt to Value Ratio CAR (Capital Adequacy Ratio) (Tier I CAR) Current Ratio Dividend ratio (Dividend/PAT) Liquidity Asset liability mismatch Any other ratio (state the ratio and define the formula) Payment of Interest on due dates Payment of principal on due dates 	<ul style="list-style-type: none"> Covenant as to maintenance as a ratio or percentage of (state), Not less than/ Not exceeding x, Time Bucket etc.
3.	Affirmative	<ul style="list-style-type: none"> Security Cover as per terms of Issue Title of Security/asset 	<ul style="list-style-type: none"> Covenant as to Ratio or percentage, not less than, third party interest/title, rentals, negative lien, insurance, ROC and CERSAI filing etc.
4.	Affirmative or restrictive	<ul style="list-style-type: none"> Credit rating Credit downgrade 	<ul style="list-style-type: none"> Covenant as to minimum rating (Rating symbol), Standalone basis, consolidated, CE/SO rating, notch downgrade, etc.
5.	Negative	<ul style="list-style-type: none"> Purpose/end-use Change in nature and conduct of business Change in management Fund raising/ borrowing/ encumbrance 	<ul style="list-style-type: none"> Change in Key Managerial Personnel (KMP), Auditor, Board of Directors, shareholding, restriction with amount, date till which applicable, any change or restriction with specifics, , modification of charge/ creation of further charge, indebtedness/further investment etc.
6.	Default	<ul style="list-style-type: none"> Default of principal or interest or both Security creation default 	<ul style="list-style-type: none"> Covenant as to extra interest payable, cure period allowed, investment allowed, additional infusion required etc.