Mandatory bond issuance by Large Corporates: FAQs on revised framework

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Background

SEBI in its continued effort to deepen the bond market issued a circular dated November 26, 2018 identifying certain categories of listed entities as Large Corporates (**"LCs"**) and mandating a certain percentage of its borrowings through the issuance of debt securities, and thereby providing a framework thereof ("**erstwhile LC Framework**"). The said circular, *inter alia*, was consolidated into and made part of the Master Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated August 10, 2021 (updated till July 07, 2023) ("Master Circular").

Owing to the difficulty faced by the LCs under the erstwhile framework viz., increasing cost in raising debt due to light liquidity and hikes in benchmark rate, non-availability of interest subsidy benefits from the Government, and increased burden on consumers in the form of higher tariff rates due to increase in cost of debt (in case of powers sector entities), SEBI issued a Consultation paper on review of the LC framework dated August 10, 2023, which was approved by SEBI in its Board Meeting dated September 21, 2023 after considering the public comments received. Thereafter, SEBI notified the revised LC framework vide circular dated October 19, 2023 ("**revised LC Framework**") which will become effective from April 1, 2024.

Our article on the detailed analysis of the revised LC framework can be accessed here.

Refer to our FAQs on the erstwhile LC Framework here.

Further, our resource page on long-term bond markets can be accessed here.

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Applicability

1. **What is the date of applicability of the revised LC Framework?**

    Revised LC Framework is applicable with effect from April 01, 2024 for LCs following April- March as their financial year and with effect from January 01, 2024 for LCs following January-December as their financial year.

2. **How to construe the term financial year as mentioned in the revised LC Framework?**

    The term 'Financial Year' would imply April- March or January - December, as may be followed by an entity. Accordingly, FY 2025 shall mean April 01, 2024 - March 31, 2025 or January 01, 2024-December 31, 2024 as the case may be.

3. **Which entities will be covered under the revised LC Framework?**

    All the listed entities which fulfill **each of the three conditions** given below (based on the financials of the previous financial year) are classified as an LC:

    - **Condition 1**: Entities (except Scheduled Commercial Banks) that have their specified securities, debt securities, non-convertible redeemable preference shares listed on a recognized stock exchange;
    - **Condition 2:** Having outstanding long term borrowings of Rs. 1000 cr. and above (*earlier limit was Rs. 100 crore)*; **and**
    - **Condition 3**: Carries a credit rating of AA/AA+/AAA of unsupported bank borrowings or plain vanilla bonds (highest rating to be considered in case of multiple ratings).

4. **Whether the requirements of the revised LC Framework are relevant for all the LCs?**

    While the ambit of Ch. XII of the Master Circular is broad enough to cover both Non-Banking Financial Companies ('NBFCs') and Non-Banking Non-Financial Companies ('NBNFCs'), the circular is more relevant for NBNFCs.

    NBFCs are financial institutions and are engaged in lending and investing activities in their day to day operations and therefore, a major portion of the working capital and long-term funding requirements anyways come from the issuance of debt securities.

    Therefore, one may construe that the revised LC Framework is more relevant for NBNFCs since they are not mandated to borrow by way of the issue of debt securities as the funding requirements of these entities can also be fulfilled by banks.

Meaning of entities having listed securities (Condition 1)

5. **Which securities are to be considered in order to satisfy the condition of having the listed securities?**

   The revised LC Framework is applicable to all entities (except Scheduled Commercial Banks) that have listed any of the following securities on a recognized stock exchange(s), in terms of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'/ 'LODR Regulations'):
   - specified securities; or
   - debt securities or
   - non-convertible redeemable preference shares.

6. **What is the meaning of a listed entity?**

   The revised LC Framework is applicable to any entity which has listed its securities *(as* mentioned *in FAQ no. 6)* on one or more stock exchanges. Listed entity has been defined in clause (p) of Reg 2(1) of the LODR Regulations as an entity which has listed, on a recognised stock exchange(s), the designated securities issued by it or designated securities issued under schemes managed by it, in accordance with the listing agreement entered into between the entity and the recognized stock exchange(s).

   Therefore, listed entities other than Scheduled Commercial Banks will be required to check the applicability under the revised LC Framework.

7. **What is the meaning of "specified securities"?**

   The term "specified securities" has been defined under clause (zl) of Regulation 2(1) of the LODR Regulations to mean equity shares and convertible securities as defined in Reg. 2 (1) (eee) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 *("SEBI ICDR Regulations")*.

   As per clause (k) of Reg 2(1) of SEBI ICDR Regulations, "convertible security" means a security which is convertible into or exchangeable with equity shares of the issuer at a later date, with or without the option of the holder of such security and includes convertible debt instrument and convertible preference shares.

8. **Whether a company that has only listed its Commercial Paper is also required to comply with the revised LC Framework if other conditions are met?**

   Clause (a) of para 3.2. of the revised LC Framework clearly mentions the type of listed securities that are to be considered for the purpose of applicability of the Framework *(refer FAQ no. 6)*. Commercial Papers are money market instruments. These are neither "securities" in terms of the Securities Contract (Regulation) Act, nor are they covered within the list of securities specified in clause (a) of para 3.2. of the revised LC Framework.

9. Whether an entity which has listed its securities in the nature of units of a mutual fund or units issued by investment vehicles, etc. are also covered under the revised LC Framework?

The meaning of “securities” is provided under clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956. The definition of securities is wide enough to cover shares, debentures, derivatives, units of collective investment schemes or units of mutual fund schemes etc. However, please note that all forms of “securities” are not covered under clause (a) of para 3.2. of the revised LC Framework for the examination of the applicability of the Framework on the entity.

10. Which type of preference shares are covered under clause (a) of para 3.2. of the revised LC Framework for the purpose of determining the applicability of the Framework?

The entities which have listed any of the following types of preference shares are covered -

a. Non-convertible Redeemable Preference Shares (‘NCRPS’)
b. Convertible preference shares (convertible into equity shares)

NCRPS has been defined in NCS Regulations to mean a preference share which is redeemable in accordance with the relevant provisions of the Companies Act, 2013 (18 of 2013) and does not include a preference share which is convertible into or exchangeable with equity shares of the issuer at a later date, at the option of the holder or not.

Therefore, if an entity issues preference shares structured in a manner other than as mentioned above, the same will not be covered under clause (a) of para 3.2. of the revised LC Framework.

11. What is the meaning of debt securities for the purpose of checking the applicability under clause (a) of para 3.2 of the revised LC Framework as well as for complying with the Framework once the cumulative conditions are fulfilled and the listed entity is identified as an LC?

Debt securities have been defined in Regulation 2(1)(k) of the NCS Regulations as non-convertible debt securities with a fixed maturity period which create or acknowledge indebtedness and include 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;

Therefore, in order to qualify as a “debt security” under the NCS Regulations, the following needs to be ensured -

a. It should be non-convertible.
    - Optionally convertible or compulsorily convertible debt securities will not satisfy the meaning of “debt securities” under the NCS Regulations.
b. It should have a fixed maturity period.
    - Therefore, perpetual debt instruments will not be covered.
c. It may be termed as debentures, bonds, or any other security acknowledging indebtedness.
d. It may be secured or unsecured.
e. It should not be security receipts, securitised debt instruments, money market instruments, or bonds issued by the Government or other bodies as may be specified by SEBI.

Outstanding Long Term Borrowings (Condition 2)

12. What qualifies to be an Outstanding Long Term Borrowings ('OLTB')?

Outstanding Long Term Borrowings or OLTB means any outstanding borrowing with an original maturity of more than one year and excludes the following (*recent insertions indicated in bold)*:

(a) External Commercial Borrowings;
(b) Inter-corporate borrowings between holding company and/or subsidiary **and/ or associate companies**;
(c) Grants, deposits or any other funds received as per the guidelines or directions of Government of India;
(d) Borrowings arising on account of interest capitalization; and
(e) Borrowings for the purpose of schemes of arrangement involving mergers, acquisitions and takeovers.

13. Let us examine whether a loan qualifies as OLTB for the purpose of clause (b) of para 3.2. of the revised LC Framework in the following cases.

Let us assume that a company obtains a loan from a bank for Rs. 50 crores on 15th April, 2021.

<u>**Case I - Prepayment of loan having original maturity of more than one year**</u>

The loan has a maturity period of 15 months ending on 15th July, 2024, but the Company repays the same on 10th April, 2024, i.e., within a period of 11 months.

The language of the clause reads as *"any outstanding borrowing with **original maturity** of more than one year"*. Therefore, if a company avails long-term borrowings for an original term of more than a year, but the borrowings are subsequently prepaid within a year, the same should still qualify as OLTB for the purposes of clause (b) of para 3.2. of the revised LC Framework.

<u>**Case II - Prepayment of loans before the end of financial year**</u>

In the aforesaid case, consider that the loan has been repaid in the month of February, 2024, i.e., before the end of the FY.

The determination of whether an entity is an LC or not is based on the financials of the entity as on the last date of the FY. Further, the language of the clause reads as *"any **outstanding borrowing** with original maturity of more than one year"*. Therefore, where the borrowings are repaid before the end of FY itself, thus having no outstanding amount as at the end of the FY, the same is not required to be included for the purpose of clause (b) of para 3.2 of the revised LC Framework.

<u>**Case III - Renewal of short-term borrowings for a total maturity period exceeding one year**</u>

Assume that the loan was obtained with an original maturity of eight months, i.e., till December, 2023 however, was renewed on the same terms and conditions thereafter, for another period of eight months, i.e., till August, 2024.

Ideally, one should go by the contractual terms to determine the maturity of loans. However, if considering the mechanics in which a loan is being rolled over, it seems that the loans were intended to be long-term borrowings, the same may be considered as long-term borrowings for the purpose of determining applicability.

Case IV - Long-term borrowings with an original maturity of more than one year, but repayment due within a period of less than one year on the date of checking the applicability

Assuming that a loan obtained on 15th April, 2023 is due for repayment on 15th June, 2024. The loan is due for repayment within a period of less than one year (2.5 months) from the last day of the financial year (31st March, 2024).

It is to be noted that the original maturity of the loan shall be for a period of more than one year and not the time interval between the date of checking the applicability and the date of repayment of the loan. Therefore, the loans will still qualify to be OLTB as on 31st March, 2024.

Credit Rating (Condition 3)

14. **Ratings of which instruments of an entity have to be considered for the purposes of determining the applicability of the LC Framework?**

    As per condition clause (c) of para 3.2 of the revised LC Framework, the credit rating of the unsupported bank borrowing or plain vanilla bonds of the entity with no structuring/support built in is to be considered for the purpose of identifying an entity as LC.

15. **If a company does not have any rated instrument, will the revised LC Framework apply to such a company?**

    For the purpose of falling under the applicability of the revised LC Framework, all three cumulative conditions provided under para 3.2 of the revised LC Framework are required to be fulfilled. Accordingly, an entity not having any rated bonds or bank borrowings will not be covered under the said Framework.

16. **Whether credit rating on securitised debt instrument / structured debt instrument to be covered?**

    The credit rating on securitised/ structured debt instruments is not covered for the purpose of determining the applicability of the revised LC Framework.

17. **What are structured instruments? Will the credit rating of such structured instruments also be considered for determining the applicability of LC Framework?**

    Structured instruments are instruments other than plain vanilla bonds or debentures, with certain features or conditions which result in distributing the risk-reward amongst the parties involved. For

example, market-linked bonds, index-based instruments, put or call options in a bond, etc. are covered within the meaning of structured instruments. Credit rating of such instruments will not be considered for determining the applicability of the revised LC Framework.

18. What constitutes unsupported bank borrowing?

The revised LC Framework talks about the credit rating of unsupported borrowings or plain vanilla bonds. A supported borrowing may be referred to as a borrowing backed by some sort of a guarantee for ensuring its repayment. Therefore, an unsupported borrowing would be a borrowing that is not supported by any guarantee from a third party so as to uplift or back its credibility. The same does not mean to include unsecured borrowings, i.e. not backed by a collateral. The supported borrowings, or borrowings backed by guarantee may result in enhancement of credit rating of such borrowing. The reason behind maintaining the requirement of credit rating of AA/AA+/AAA for unsupported borrowing is to mandate entities (falling under the definition of an LC) to borrow through mandatory debt issuance, on the basis of its own credentials and creditworthiness without being impacted by the credentials of the guarantor. Further, only such highly rated entities shall encourage an investor to invest.

19. What if the issuer has multiple credit ratings?

In case, where an issuer has multiple ratings from multiple rating agencies or for multiple instruments, the highest of such ratings shall be considered for the purposes of applicability of the revised LC Framework.

20. What if the listed entity has not received any rating for its unsupported borrowing?

If the listed entity has not received any rating for its unsupported borrowing, the revised LC Framework will not be applicable on such an entity.

21. What if the listed entity does not have any unsupported borrowing or plain vanilla bonds as on the date of examining the applicability of the revised LC Framework?

If the listed entity does not have any unsupported borrowing or plain vanilla bonds as on the date of examining applicability, and therefore, no credit rating, the entity will not satisfy the requirement under clause (c) of para 3.2. of the revised LC Framework, resulting in non-applicability of the same**.**

22. In case the company has a rating of AA-, will that fall under the applicability condition?

Clearly, the revised LC Framework mandating certain companies to divert at least a part of their qualified borrowings to the capital market is applicable to entities having a rating of "AA/AA+/AAA". Hence, an entity having a rating of AA- will not fall under the applicability condition.

Stated differently, the question pertains to whether AA- rating is also a case of AA rating?

Strictly from the definitional viewpoint, + and – symbols after a rating are simply notches. AA rating has three notches – AA+, AA, and AA-. One may refer to the definition of AA rating in S&P's global rating definitions. It goes to say: "S&P may add a "+" or a "-" to these letter grades as well to "show relative standing within the rating categories". Therefore, the related standing of a AA- entity is one

notch below an entity having a AA rating; however, both are cases of AA rating. Therefore, a view may be taken that AA- may be included within the meaning of rating of "AA".

However, from the perspective of the SEBI's prescription for LCs, it will be contextually wrong to say that an entity with AA- rating has a rating of AA or above. Clearly, the prescription to source funds from the bond markets is based on the acceptability of the bonds by the capital market. One cannot contend that a company with AA- rating will have the same acceptability for a capital market investor as one with AA rating. As AA- is certainly a standing or notch below AA, the reference to "AA or higher rating" does not include AA-.

Compliances required under revised LC Framework

23. What compliances trigger for entities identified as LC with respect to qualified borrowings?

Under the revised LC Framework, from FY 2025 onwards, LC shall raise not less than 25% of its qualified borrowings by way of issuance of debt securities over a contiguous block of 3 financial years subsequent to the financial year in which it is identified as an LC.
For e.g., if on the last day of March 31, 2024 ("T-1"), an entity gets identified as an LC for FY 2024-2025 ("T"), then atleast 25% of the qualified borrowings for the FY 2025 ("T") will required to be raised by way of issuance of debt securities within a block 3 consecutive FYs, i.e., FY 2025 ("T"), FY 2026 ("T+1") and FY 2027 ("T+2").

24. How to determine whether an entity is an LC or not for each FY?

Under the revised LC Framework, Stock exchanges are responsible for identifying the LCs on the basis of financial results submitted by the listed entities. In this regard, Stock exchanges shall:

1. Determine such LCs and release a list of LCs for the FY, by:
    - June 30, for LCs following April-March as their FY
    - March 31, for LCs following January- December as their FY;
2. Place the list of LCs on their website; and
3. Notify the listed entities who are identified as LCs via email

25. Whether listed entities are required to submit any details to the Stock Exchange along with the annual financial results?

Yes. As per the BSE Master Circular for debt-listed companies dated April 30, 2024, listed companies are required to provide below-mentioned details to the stock exchanges (in a web form) at the time of submission of the annual financial results:

- Outstanding Qualified Borrowings at the start of the FY (Rs. in Cr.);
- Outstanding Qualified Borrowings at the end of the FY (Rs. in Cr.);
- Highest credit rating of the company relating to the unsupported bank borrowings or plain vanilla bonds, which have no structuring/support built in;
- Incremental borrowing done during the year (qualified borrowing) (Rs. in Cr.);
- Borrowings by way of issuance of debt securities during the year (Rs. in Cr.).

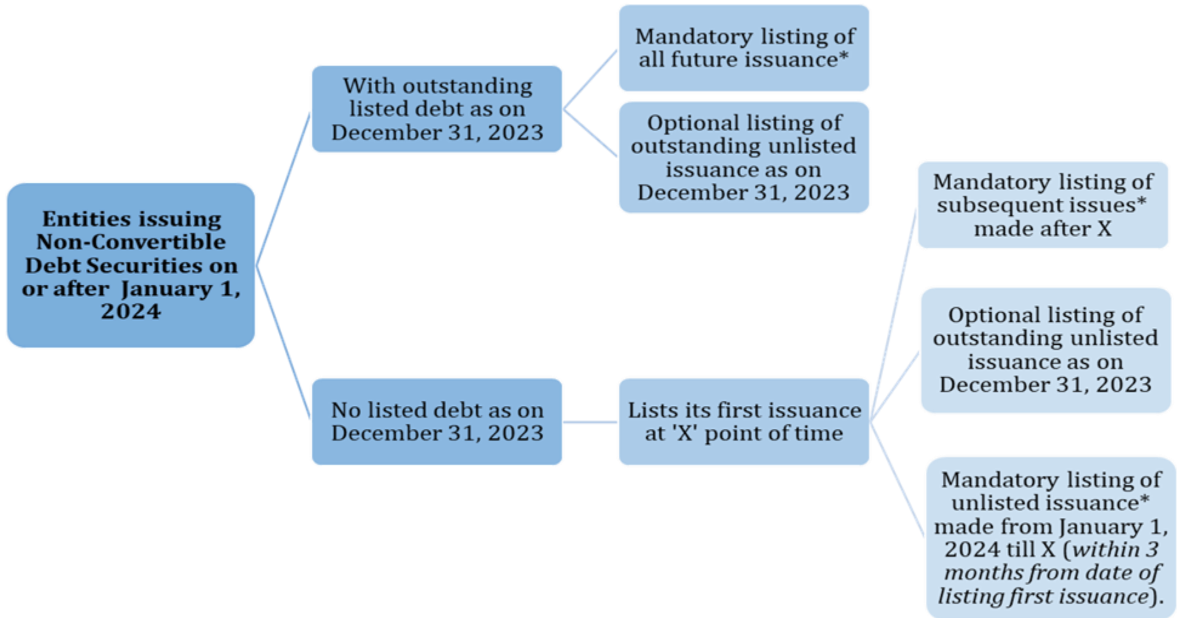
The aforesaid disclosure is required to be submitted mandatorily to the stock exchanges for every FY commencing from the FY ending on March 31, 2024/ December 31, 2023.

Accordingly, listed entities will have to disclose while submitting the results for FY ending March 31, 2024.

26. Can unlisted debt securities be issued for the purpose of complying with the revised LC Framework?

The revised LC Framework requires LCs to raise at least 25% of its qualified borrowings during a financial year by way of issuance of debt securities *(refer FAQ no. 12 for the meaning of debt securities)*. There may be a doubt on whether the reference of "debt securities" for the purpose of meeting qualified borrowing requirements, shall be restricted to "listed" debt securities, or can cover "unlisted" debt securities too. In our view, the same should be taken to mean "listed" debt securities for the following reasons –

- The underlying objective of the revised LC Framework was to develop and deepen a 'liquid and vibrant corporate bond market' by nudging corporates, who have borrowing needs, to access the bond market. Needless to say that SEBI can regulate only listed bonds and therefore, reference of "debt securities" in this context should be "listed" debt securities only.
- Further, the revised LC Framework refers to the meaning of debt securities to be taken from the NCS Regulations. NCS Regulations are applicable to only listed debt securities, and therefore, any reference to "debt securities" under the revised LC Framework should be interpreted as listed debt securities only.
- Where a listed entity has listed debt securities as on December 31, 2023, pursuant to the mandatory listing of further debt issuance notified by SEBI effective from January 1, 2024, the debt securities raised will have to be listed. In case of an LC having unlisted debt security, it will have to comply with the mandatory listing norms once it lists for the first time. Refer to the diagram below. Refer the article at https://vinodkothari.com/2023/06/mandatory-listing-for-further-bond-issues/



Having said that, please note that the revised framework does not explicitly use the term "listed" debt securities, and therefore, the issuer may, until any clarity is provided by the regulator, interpret it to include unlisted debt securities as well, for the purpose of compliance with the requirement of incremental borrowings as per revised LC Framework unless covered under the mandatory debt listing norm discussed above.

27. Apart from NCDs, what all debt securities can be issued by the LC for complying with the qualified borrowings requirement under the revised LC Framework?

Generally, for the purpose of raising plain vanilla debt security, NCDs or bonds are the most common options. Any debt security with a convertible option loses its applicability under the NCS Regulations. Therefore, plain vanilla listed bonds or listed debentures without convertibility option will form part of the qualified borrowing under the revised LC Framework.

Qualified Borrowings

28. What constitutes Qualified Borrowings ('QB')?

The revised LC Framework substitutes the term 'incremental borrowings' under the erstwhile LC Framework with QB, which means incremental borrowing between two balance sheet dates having original maturity of more than one year and excludes the following (*new insertion highlighted in bold*):

- External Commercial Borrowings;
- Inter-corporate borrowings between holding company and/ or subsidiary and/ **or associate companies;**
- **Grants, deposits or any other funds received as per the guidelines or directions of Government of India;**
- **Borrowings arising on account of interest capitalization; and**

- **Borrowings for the purpose of schemes of arrangement involving mergers, acquisitions and takeovers**.

29. Whether QB will be considered from the date of actual disbursement or from the date of executing the facility arrangement?

Since the borrowing is captured in the balance sheet from the date of disbursement, it can be implied that QB as mentioned in the LC Framework shall be considered from the date of actual disbursement and not from the date of execution of facility arrangement. For example, an agreement executed in March, 2024 but funds disbursed in April, 2024 should be considered as QB for FY 2025.

30. Will vehicle loans qualify as QB?

Considering the intent of the LC Framework is to strengthen the bond market in India, it can be stated that a vehicle loan, which in essence is an asset backed borrowing, i.e. loan taken to buy a vehicle, cannot qualify as QB as one cannot access bond market to get funding for purchasing a vehicle.

31. Will non-fund based borrowings also be included as QB?

In case of non-fund based facilities, there is no inflow of money, and therefore, the same cannot be included for the purpose of computation of QB.

32. Whether Pass Through Certificates ('PTCs') also be considered as QB?

Under the LC Framework, QB has been defined to include borrowings during a particular financial year with an original maturity of more than 1 year excluding the amounts stated in FAQ No. 28.

Further, IND AS 109 treats PTCs as collateralized borrowings only. Here it is pertinent to note that the question of showing the investor's share in PTC as financial liability arises only because the securitised pool of assets fails the de-recognition test.

The originator has no obligation towards the investors of the PTC. The investors are exposed to the securitised pool of assets and not to the originator. Therefore, merely because the investor's share appears on the balance sheet of the originator as financial liability, as per Ind AS 109, does not mean they are debt obligations of the originator. Accordingly, PTCs shall not be considered as QB.

Disclosure requirements

33. What are the disclosure requirements under the revised LC Framework?

There are no disclosure requirements provided under the revised LC Framework. The Circular requires Stock exchanges to identify the listed entities as LCs.

34. In the absence of annual disclosure, how is the LC required to report in relation to debt issuance made during FY 2022-23?

The LCs identified under the erstwhile LC framework are required to endeavour to comply with the requirement of raising 25% of their incremental borrowings done during FY 2022, FY 2023 and FY

2024 respectively by way of issuance of debt securities till March 31, 2024, failing which, such LCs are required to provide a one - time explanation in their Annual Report for FY 2024.

35. How will the stock exchange be apprised that an entity is no longer an LC?

As per the Circular, pursuant to submission of financial results by listed entities as per regulations 33 and 52 of LODR Regulations, the Stock Exchanges are required to, (a) by June 30, for LCs following April - March as their financial year or (b) by March 31, for LCs following January - December as their financial year, as applicable; determine the list of LCs for the financial year.

The Stock Exchanges will coordinate and release a uniform list of LCs for the financial year and place the same on their websites. They will also notify listed entities so identified as LCs by email, to enable them to comply with the requirements.

Penal provisions

36. What are the penal consequences for non-compliance?

There are no penal provisions under the revised LC framework. The penal provisions have been substituted with provisions relating to disincentives discussed in the next segment below.

37. Whether any penalty be imposed for existing LCs failing to meet the requirement under the erstwhile LC Framework?

SEBI circular notifying the revised LC Framework has dispensed with the provisions of levying the monetary penalty/fine in case of shortfall. Hence, such LCs do not have to pay any penalty with respect to the shortfall in the obligations of FY 2022, 2023 and 2024. As discussed above in FAQ no. 34, the LC will have to disclose in its Annual Report for FY 24.

Incentive Structure

38. What is the meaning of surplus in the requisite borrowings?

The amount of borrowings raised through debt securities which are in excess of 25% of the qualified borrowings for the FY "T", is the surplus in requisite borrowings.

For e.g., For FY 2025 (T), LC is required to raise an amount of Rs.100 crores (25% of qualified borrowings) over the block of three years i.e., FY 2024-25, FY 2025-26 and FY 2026-27. At the end of FY 2026-27, if the LC has raised an amount of Rs. 120 crores, the excess amount of Rs. 20 crores is the surplus amount.

39. What are the incentives provided to the LCs in case of surplus?

Under the incentive structure, the following incentives have been provided to the LCs in case of surplus:

- Reduction in the annual listing fees of FY "T+2" (at the end of 3 years) pertaining to debt securities or NCRPS; and
- Credit in the form of reduction in contribution to Core SGF of LPCC for FY "T+2".

40. What is Core Settlement Guarantee Fund ("Core SGF")?

Core SGF is a fund set up by the clearing corporation for the purpose of settlement of trades in case of default. Entities having listed debt securities, clearing members, and clearing corporations are required to contribute towards the Core SGF.

For more details on Core SGF, refer to the FAQs of AMC Repo Clearing Corporation (LPCC notified by SEBI) on Issuer Contribution Toward Core Settlement Guarantee Fund (Core SGF).

41. What is a Limited Purpose Clearing Corporation (LPCC)?

LPCC is an entity set up by the Asset Management Companies, pursuant to SEBI Circular dated February 02, 2021, to manage the process of clearing and settlement of trades executed on stock exchanges. Presently, only one LPCC is recognized by SEBI in India, namely, AMC Repo Clearing Corporation Limited ("ARCL").

42. How to determine whether the entity is an eligible issuer or not? What are the obligations of eligible issuers with respect to Core SGF?

ARCL rolls out a list of eligible issuers, who will be required to make contribution towards Core SGF for eligible issuances, on its website on a periodical basis.

As per the SEBI Circular dated April 13, 2023, eligible issuers are required to contribute 0.5 basis points (0.005%) of the issuance value of debt securities per annum. based on the maturity of debt securities, upfront prior to the listing of debt securities (full contribution).

Further, pursuant to the revised LC Framework, such eligible issuers being LCs are also required to make additional contribution towards Core SGF, in case of shortfall.

43. What is the quantum of credit to be provided in the form of a reduction in the annual listing fees?

At the time of payment of annual listing fees to the stock exchange of listed debt securities and NCRPS for the FY "T+2", a certain percentage of reduction is provided in the said fees, which is as follows:

% of surplus borrowing as on the last day of "T+2" for the block starting FY "T"	**% of reduction in annual listing fees for FY "T+2"**
0-15	2% of annual listing fees
15.01-30	4% of annual listing fees
30.1-50	6% of annual listing fees
50.1-75	8% of annual listing fees
Above 75	10% of annual listing fees

44. What is the quantum of credit to be provided in the form of a reduction in the contribution to Core SGF? How to determine such a quantum of credit?

The amount of contribution towards Core SGF will stand reduced in proportion to the percentage of surplus, in the following manner:

% of surplus borrowing as on last day of "T+2" for the block starting FY "T"	**Quantum of Credit**
0-15	0.01%
15.01-30	0.02%
30.1-50	0.03%
50.1-75	0.04%
Above 75	0.05%

Manner of calculating the quantum of credit is explained hereunder with an example:

Particulars	Amount (in crores)
25% of qualified borrowings to be raised by the LC from debt market for FY “T” ***(A)***	200
Actual borrowings for the FY “T” (in a block of three years) ***(B)***	280
Surplus borrowings (B-A) ***(C)***	80
% of surplus borrowings (C/A*100)	40%#
Quantum of Credit (% of quantum of credit as per the table above*C)	0.024 *(80*0.03%)*

 # On the basis of % of surplus borrowings, determine the % of quantum of credit applicable (from the table above)

45. Incentives on account of surplus can be set off for how many years?

LC Framework introduces the concept of set-off pursuant to which the amount of incentive, in the form of a reduction in the contribution towards Core SGF, will be carried forward for set-off within 6 years from obtaining such incentive, in case of eligible issuers.
For e.g. a LC having accumulated incentive for FY 2025 and FY 2026, was identified as an eligible issuer by LPCC in FY 2026. Such LC is eligible to set off the such accumulated incentive for the period of 6 years commencing from FY 2026.

46. Whether non-eligible issuers can avail the benefit of such set-off?

In case of non-eligible issuers, who are not identified by the LPCC for the purpose of making contribution towards the Core SGF, the incentive will be carried forward to set off within 6 years from the year in which such LC is identified as eligible issuer by LPCC.

47. How to determine the amount of incentive in the form of reduction in contribution towards Core SGF, if the LC is an eligible issuer?

For the FY 2026 “T”, LC is required to raise an amount of Rs. 250 crores during the FY 2026, FY 2027, and FY 2028. At the end of FY 2028 “T+2”, LC raised an amount of Rs. 300 crores through debt securities and is eligible for incentive under revised LC Framework. LC has an obligation to contribute an amount of Rs. 1 crore towards the Core SGF as an eligible issuer.

Particulars	Amount (in crores)
25% of qualified borrowings to be raised by the LC from debt market for FY 2026 “T” *(A)*	250
Actual borrowings for the FY2026 “T” (in a block of three years) *(B)*	300
Surplus borrowings (B-A) *(C)*	50
% of surplus borrowings (C/A*100)	20% *(50/250*100)*
Quantum of Credit (% of quantum of credit as per the table above*C), in the form of reduction	0.01 *(50*0.02%)*
Contribution to Core SGF (Total contribution - quantum of credit)	0.99 *(1-0.01)*

Disincentive Structure

48. What is the meaning of shortfall in the requisite borrowings?

When the amount of actual borrowings raised through debt securities is less than 25% of qualified borrowings, then such deficit in borrowings is shortfall in requisite borrowings.

49. What are the consequences in case of a shortfall in the requisite borrowings?

For the shortfall in the requisite borrowings for the FY “T” which is to be calculated at the end of the three years i.e.FY “T+2”, the additional contribution will be required to be made by the LC towards the Core SGF, as a disincentive under the LC Framework.

50. What is the quantum of additional contribution to be made towards Core SGF in case of shortfall? How to determine the amount of such additional contribution?

% of shortfall borrowing as on last day of “T+2” for the block starting FY “T”	Quantum of % of additional contribution
0-15	0.015%
15.01-30	0.025%
30.1-50	0.035%
50.1-75	0.045%
Above 75	0.055%

Manner of calculating the disincentive is explained hereunder with an example:

Particulars	Amount (in crores)
25% of qualified borrowings to be raised by the LC from debt market for FY “T” ***(A)***	200
Actual borrowings for the FY “T” (in a block of three years) ***(B)***	150
Shortfall borrowings (A-B) ***(C)***	50
% of shortfall borrowings (C/A*100)	25%#
Quantum of additional contribution (% of quantum of additional contribution as per the table above*C)	0.0125 *(50*0.025%)*

 # On the basis of % of shortfall borrowings, determine the % of quantum of additional contribution applicable (from the table above)

51. Who has the onus of calculating the incentive or disincentive every FY?

As per the revised LC Framework, stock exchanges are responsible for calculating the incentive or disincentive of an LC, as on the last day of FY “T+2” for the FY “T”, on the basis of financial results submitted by the LCs.

For this purpose, stock exchanges will intimate the LCs by

- May 31st of each FY (for the LCs following April-March as their FY)
- February 28th/29th of each FY (for LCs following calendar year as their FY)

Stock exchange will also intimate the relevant details with respect to the contribution to Core SGF under the incentive/disincentive to the LPCC by May 31st or February 28th/29th, as the case may be.

52. What is the manner of adjusting the deficit as per the revised LC Framework?

Explanation to clause (c) of para 4.3 of the revised LC Framework states that the actual borrowings done by the LC in FY "T" shall get adjusted towards the deficit in the previous FY, i.e., adjustment towards the deficit for the FY "T-2" and then further towards deficit for the FY "T-1". Any remaining amount after adjustment of the deficit in the previous FY, will then be adjusted against the mandatory borrowings for FY "T".
Refer the illustration:

LC has a shortfall in FY "T-2" of Rs. 10 crores and in "T-1" of Rs. 50 crores. During the FY "T", such LC raised an amount of Rs. 100 crores.
Actual borrowings raised by the LC during the FY "T" of Rs. 100 crores will be adjusted in the following order:

- Shortfall of FY "T-2" of Rs. 10 crores - balance remaining is 90 crores
- Shortfall of FY "T-1" of Rs. 50 crores - balance remaining is 40 crores

Therefore, the borrowings made for the FY "T" will only be Rs. 40 crores after adjusting the deficit of previous years.

Such adjustment will help the LCs to cut down on the disincentive which may accrue on the shortfall of previous years.

53. What is the time limit for adjusting the Actual borrowings raised during the FY "T" towards the deficit of previous years?

As explained above in FAQ no. 52, Actual borrowings raised during the FY "T" can be adjusted for two previous FYs i.e., "T-1" and "T-2". For e.g., Actual borrowings made during FY 2027 can be adjusted towards the deficit of FY 2025 ("T-2") and FY 2026 ("T-1").

54. How to determine the amount of disincentive in the form of additional contribution to Core SGF, if the LC is an eligible issuer?

For the FY 2025 "T", LC is required to raise an amount of Rs. 800 crores during FY 2025, FY 2026, and FY 2027. At the end of FY 2027 "T+2", LC raised an amount of Rs. 500 crores through debt securities. Since there is a shortfall, LC has to provide additional contribution towards the Core SGF as a disincentive. Also, LC has an obligation to contribute an amount of Rs. 5 crore towards the Core SGF as an eligible issuer.

Particulars	Amount (in crores)
25% of qualified borrowings to be raised by the LC from debt market for FY 2026 "T" *(A)*	800
Actual borrowings for the FY2026 "T" (in a block of three years) *(B)*	500
Shortfall borrowings (A-B) *(C)*	300
% of shortfall borrowings (C/A*100)	37.5% *(300/800*100)*
Quantum of additional contribution(% of quantum of credit as per the table above*C)	0.105 *(300*0.035%)*
Contribution to Core SGF (Total contribution + additional contribution)	5.105 *(5+0.105)*

Illustration

A Company, which has its equity shares listed on the stock exchange, has unsupported bank loans having a credit rating of AA+. The details of outstanding long-term borrowings, qualified borrowings and actual borrowings are given below:

FY	**Outstanding long-term borrowings for FY "T-1"** ***(in crores) (as on March 31)***	**Qualified borrowings for FY "T"** ***(in crores)***	**Actual borrowings raised through issuance of debt securities for FY "T"** ***(in crores)***
2025	1100	600	75
2026	1700	300	25
2027	2000	0	0
2028	800	600	95
2029	1400	300	150

Tabular representation of applicability of the framework and calculation of incentive/ disincentive:

Particulars	**2025**	**2026**	**2027**	**2028**	**2029**
Outstanding long-term borrowings for FY "T-1" ***(as on March 31)***	1100	1700	2000	800	1400
Applicability of framework	Yes	Yes	Yes	No *(outstanding borrowings less than 1000 cr.)*	Yes
Qualified borrowings for FY "T"	600	300	0	600	300
25% of Qualified borrowings (being Obligation for "T" to be met during block of 3 years i.e. "T", "T+1" and "T+2") [A]	150	75	0	0 *(No obligation as the framework is not applicable in this year)*	75
Actual Borrowings for FY "T" [B]	75	25	0	95	150
(Deficit)/Excess carry forwarded from FY "T-2" [C]	NA *(deficit before FY 2025 cannot be adjusted)*	NA *(deficit before FY 2025 cannot be adjusted)*	(50) *(deficit carried forward from FY 2025)* *[150-75-25]*	(75) *(deficit carried forward from FY 2026)*	0
(Deficit)/Excess carry forwarded from FY "T-1" [D]	NA *(deficit before FY 2025 cannot be adjusted)*	(75) *(FY T-1 being FY 2025)* *[150-75]*	(75) *(deficit carried forward for FY 2026)*	0 *(No qualified borrowing in FY 2027 being T-1)*	0

Particulars	**2025**	**2026**	**2027**	**2028**	**2029**
Amount adjusted for FY "T-2" [E] *(Basis values indicated in [C] above)*	0	0	0	75 *(Adjusted towards deficit of FY 2026)*	0
Amount adjusted for FY "T-1" [F] *(Basis values indicated in [D] above)*	0	25 *(Adjusted towards shortfall of FY 2025)*	0	0	0
Amount adjusted for FY "T" *[B - E- F] or [A], whichever is lower*	75	0	0	NA *(There is no obligation for FY 2028)*	75
(Shortfall)/Surplus in FY "T+2" after adjustment (for FY "T")	NA *(To be calculated at FY T+2)*	NA *(To be calculated at FY T+2)*	(50) *(Shortfall for FY 2025)* *[150-75-25]*	20 *(Surplus after adjusting the deficit)* *[95-75]*	0 *(remaining amount to be adjusted in coming FY)*
Incentive - Reduction in listing fees (calculated for FY "T" and provided in FY "T+2")	NA *(To be calculated at FY T+2)*	NA *(To be calculated at FY T+2)*	NA (*as there is a shortfall*)	Yes (4% of annual listing fees for FY 2028)	NA
Incentive - Reduction in contribution to Core SGF (calculated for FY "T" and provided in FY "T+2")	NA *(To be calculated at FY T+2)*	NA *(To be calculated at FY T+2)*	NA	Yes 0.004	NA
Disincentive - Additional contribution to Core SGF (calculated for FY "T" and provided in FY "T+2")	NA *(To be calculated at FY T+2)*	NA *(To be calculated at FY T+2)*	Yes 0.0175	NA *(as there is a surplus)*	NA

55. Determine the applicability of the revised LC framework for FY 2025 to FY 2029 as per the above illustration?

Outstanding long-term borrowings for the FY 2025, 2026, 2027 and 2029 exceed the limit of Rs. 1000 crores and therefore revised LC framework is applicable. However, the amount of outstanding long-term borrowings for the FY 2028 is Rs. 800 crores, therefore, the revised LC framework is not applicable in the said year.

56. How will the balance obligation of FY 2025 be carried forward in the next two years?

Obligation for the FY 2025 of Rs. 150 crores is required to be raised in the FY 2025, 2026 and 2027. After borrowings of Rs. 75 crores are raised in FY 2025, the balance obligation is to be raised during FY 2026 and FY 2027. Therefore any deficit of FY 2025 can be adjusted in FY 2026 and FY 2027.

57. How will the actual borrowings raised in FY 2026 be adjusted?

The amount of actual borrowings raised during FY 2026 of Rs. 25 Cr. shall be first adjusted towards the FY 2025 being "T" (block of three years - FY 2025, FY 2026 and FY 2027). Therefore, the actual obligation of FY 2026 being "T" of Rs. 75 Cr. is carried forward as deficit to FY 2027.

58. How will the surplus/shortfall be calculated for FY 2025 at the end of block of 3 years i.e. FY 2027?

Out of the total obligation (25% of qualified borrowings) for the FY 2025 i.e., Rs. 150 Cr., Rs. 75 Cr. was raised during FY 2025 "T" and Rs. 25 Cr. was raised during FY 2026 "T+1" (adjusted). Since, no amount was raised through debt securities in the FY 2027 "T+2", the remaining amount of Rs. 50 Cr. (150-75-25) is the shortfall for FY 2025 "T".

59. As per the illustration above, what is the quantum of disincentive to be applicable in FY 2027 ("T+2")?

Particulars	**Amount (in crores)**
25% of qualified borrowings for FY 2025 "T" *(A)*	150
Actual borrowings for the FY2025 "T" (in a block of three years) *(B)*	100
Shortfall borrowings (A-B) *(C)*	50
% of shortfall borrowings (C/A*100)	33.3% *(50/150*100)*
Quantum of additional contribution (% of quantum of credit as per the table above*C)	0.0175 *(50*0.035%)*

60. How the actual borrowing of FY 2028 of Rs. 95 will be adjusted towards the deficit of "T-2" and "T-1"? What will be the surplus/shortfall for FY 2028?

Actual borrowing raised during FY 2028 of Rs. 95 Cr. will be adjusted in the following order:
(i) Deficit of "T-2" - Deficit for FY 2026 being year "T-2" will be adjusted first (Rs. 75 crores);
(ii) Deficit of "T-1" - Thereafter, deficit of FY 2027 being year "T-1" which be adjusted (NIL)

Since the revised LC Framework was not applicable for FY 2028, there was no obligation for the LC to raise debt securities. Therefore, after an adjustment of Rs. 75 crores, the remaining amount of Rs. 20 crores raised by the LC during the FY 2028 is a Surplus for the said FY and eligible for the incentive.

61. What is the incentive for the surplus in FY 2028?

Since there was a surplus of Rs. 20 crores at the end of FY 2028 (for the block of 3 years from FY 2026), the listed entity will be eligible for the incentive in the following manner:

A. Reduction of Annual listing fees - Since the surplus for the obligation of FY 2026, the percentage of surplus will be calculated as **26.6% [20 *(surplus)* /75 *(obligation of FY 2026)* *100]**, therefore LC is eligible to claim **4% reduction in the annual listing fees** *(falling under 15.01-30% category)* to be paid for FY 2028.

And

B. Incentive in the form of reduction in contribution towards Core SGF:

Particulars	Amount (in crores)
25% of qualified borrowings for FY 2026 "T" *(A)*	75
Actual borrowings for the FY 2026 "T" (in a block of three years) *(B)*	95
Surplus borrowings (B-A) *(C)*	20
% of surplus borrowings (C/A*100)	26.6% *(20/75*100)*
Quantum of additional contribution (% of quantum of credit as per the table above*C)	0.004 *(20*0.02%)*