# SEBI INCENTIVIZES LARGE CORPORATES TO STRENGTHEN DEBT MARKET

Thought Leadership • December 18, 2023

As published by Bar and Bench

By: Safir Anand and Deepanshu Aggarwal

Under the new framework, if large corporates raise more than 25% of their qualified borrowing for the financial year through the issuance of debt securities, they are allowed certain incentives.

The market watchdog, SEBI, has recently amended the existing framework for fundraising via the issuance of debt securities by large corporates (LCs) in an attempt to incentivize them. There is a stark contrast in the amended provisions when compared to the penal provisions found in the current framework.

Applicable from the Financial Year (FY) 2025 (i.e., FY April 1, 2024 – March 31, 2025 or January 1, 2024-December 31, 2024, as may be applicable), under the new framework the LCs (except for Scheduled Commercial Banks) are to mandatorily raise 25% of their qualified borrowing for the financial year subsequent to the financial year in which it is identified as an LC, through issuance of debt securities. The mandatory requirement of fundraising through debt securities has to be met over a contiguous block of three years, beginning the financial year in which qualified borrowing is raised by LC.

The term 'qualified borrowing' used in the amended framework subsumes the term 'incremental borrowing' appearing in the existing framework. While doing so, SEBI has also hiked the outstanding long-term borrowings threshold from INR 100 crores to INR 1000 crores for any entity to be identified as an LC, thereby reducing the coverage of LCs from what it is now.

Let us understand this with the help of an example.

Suppose the entity is qualified as an LC on March 31, 2024. It has raised qualified borrowing during the FY 2025 (April 1, 2024-March 31, 2025) of INR 100 crores. In this case, the entity is mandatorily required to raise 25% of its qualified borrowing i.e., INR 25 crores through debt securities. Such a requirement needs to be fulfilled over a block of three years i.e., FY 2025, FY 2026 and FY 2027.

Incentive program
Where the actual borrowings through debt securities made by LC is more than 25%, the LC would be allowed the following incentives:

Reduction in Annual Listing Fee of a third year from the three-year block (e.g., FY 2027 in the above example) payable on listed debt securities or non-convertible redeemable preference shares ranging from 2% to 10%.

Credit by way of reduction in contribution to Core Settlement Guarantee Fund (SGF) of Limited Purpose Clearing Corporation (LPCC) ranging from 0.01% to 0.05%.

On the other side, in case there is a shortfall, a disincentive in the form of additional contribution to the core SGF shall apply.

Since the new norms push out the penal provisions and notify disincentives, the existing framework has been amended to bring it at par by abolishing the monetary penalty of 0.2% in case of a shortfall.

In other words, listed entities which are identified as LCs beginning from FY 2021 based on the existing criteria can raise the funds through debt securities over a block of three years without attracting any penalty on shortfall. However, the existing LCs should endeavour to meet 25% of their incremental borrowing done during FY 2022, FY 2023 and FY 2024 respectively from the debt market by March 31, 2024, failing which such LCs are required to provide a one-time explanation in their Annual Report for FY 2024.

The new norms would aid in ease of compliance as well as ease of doing business and promote the corporate debt market.

About the authors: Safir Anand is a Senior Partner and Head of Department (Trademarks, contractual and commercial IP) at Anand and Anand. Deepanshu Aggarwal is a Consultant – Corporate at the firm.

## KEY CONTACT

**Safir Anand**

Senior Partner

View Bio of Safir Anand