

भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

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SEBI/HO/MIRSD/CRADT/CIR/P/2020/207

October 22, 2020

To

All issuers who have listed or propose to list their debt securities

All Recognized Stock Exchanges

All Debenture Trustees registered with SEBI

Dear Sir/ Madam,

Sub: Contribution by Issuers of listed or proposed to be listed debt securities towards creation of “Recovery Expense Fund”

1. In order to enable the Debenture Trustee(s) to take prompt action for enforcement of security in case of ‘default’ in listed debt securities, a ‘Recovery Expense Fund’ (REF) shall be created which shall be used in the manner as decided in the meeting of the holders of debt securities.

A. Manner of creation and operation of REF

2. The issuer proposing to list debt securities shall deposit an amount equal to 0.01% of the issue size subject to maximum of Rs. 25 lakhs per issuer towards REF with the ‘Designated Stock Exchange’, as identified and disclosed in its Offer Document/ Information Memorandum.
3. The REF shall be created and maintained in the following form:
 - a. The issuer shall deposit cash or cash equivalent(s) including Bank Guarantees towards contribution to this fund at the time of making the application for listing of debt securities.
 - b. The Designated Stock Exchange shall invest cash in Government Securities or Treasury Bills or Fixed Deposit with a Scheduled commercial bank or gilt fund or debt mutual funds or debt Exchange Trade Funds and the income/interest earned thereof shall be added to the REF of the issuer.

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- c. The issuer shall ensure that the Bank Guarantee remains valid for a period of 6 months post the maturity date of the listed debt security. The issuer shall keep the bank guarantee in force and renew the Bank Guarantee at least 7 working days before its expiry, failing which the Designated Stock Exchange shall invoke such Bank Guarantee.
4. In case of any change in status of issuer of the listed debt securities on account of corporate restructuring by way of Scheme of Arrangement etc., the Designated Stock Exchange shall make sure that the amount maintained in the REF is available as per paragraph 2 before issuing the 'Observation letter' in that regard.

B. Manner of utilization of Recovery Expense Fund

5. In the event of default, the Debenture Trustee/ Lead Debenture Trustee shall obtain the consent of holders of debt securities for enforcement of security and shall inform the same to the Designated Stock Exchange. The Designated Stock Exchange shall release the amount lying in the REF to the Debenture Trustee/ Lead Debenture Trustee within 5 working days of receipt of such intimation.

For the purpose of this Circular, Lead Debenture Trustee shall mean:

- a. A Debenture Trustee who has been chosen to be the Lead Debenture Trustee by other Debenture Trustees or
 - b. A Debenture Trustee who is the Debenture Trustee of more than 50% of the outstanding value of debt securities.
6. The Debenture Trustee shall keep a proper account of all expenses incurred out of the funds received from REF towards Legal expenses, cost for hosting meeting etc. towards enforcement of security.

C. Refund of Recovery Expense Fund to the issuer

7. The balance in the Recovery Expense Fund shall be refunded to the issuer on repayment to holders of debt securities on their maturity or at the time of the exercise of call or put option,

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for which a 'No Objection Certificate (NOC)' shall be issued by the Debenture Trustee(s) to the Designated Stock Exchange. The Debenture Trustee(s) shall satisfy that there is no 'default' on any other listed debt securities of the issuer before issuing the NOC.

8. 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 31(1) of the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.
9. **Applicability:** The provisions of this circular shall come into force w.e.f. January 01, 2021 and all the applications for listing of debt securities made on or after January 01, 2021 shall comply with the condition of creation of REF. The existing issuers whose debt securities are already listed on Stock Exchange(s) shall be given additional time period of 90 days to comply with this circular for creation of REF.
10. The circular is available on the SEBI Website at www.sebi.gov.in under the head "Legal Framework/Circulars"

Yours faithfully,

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