

- **ICMA Principles, Climate Bonds Standard, ASEAN Standards, EU Taxonomy, Indian frameworks**, or other global standards.

- **External independent review:** Mandatory.

Issuer Disclosures

- In offer doc: ESG objectives, project evaluation/selection process, use of proceeds, tracking system.
- Post-listing (until full allocation):
 - **Utilization, Allocation Report, Impact Report.**

Sustainability-Linked Bonds

- Additional disclosures: Rationale, alignment with ESG/business strategy.
- Pre/post-issuance obligations as per chosen framework.

LISTING OBLIGATIONS & DISCLOSURE REQUIREMENTS (LODR) – IFSCA REGS

Disclosure Principles

- Accurate, timely info using proper accounting standards.
- Avoid **misrepresentation**.
- Equal access via efficient dissemination.
- Adherence to **IFSCA laws**, circulars, stock exchange rules.

Filing Requirements

- Periodic & event-based.
- Must reflect performance & status clearly and timely.

Compliance Officer

- Must be **Qualified CS**.
- Responsible for:
 - Ensuring compliance in letter & spirit.
 - Coordination with **IFSCA**, exchanges, depositories.
 - Authenticity of info filed.

SUSTAINABLE FINANCE AT IFSC

- IFSCA has strategy across: **Capital markets, Banking, Insurance, FinTech**.
- Ecosystem: 2 international exchanges, 20+ IBUs, clearing corps.
- FY 2021–22: ESG listings = **USD 5.2 billion**.
- **IRFC**: First CPSE to list **green bonds** (USD 500M) **exclusively** on IFSC (Jan 24, 2022).

IFSCA (FUND MANAGEMENT) REGULATIONS, 2022

- Earlier: AIFs in IFSC governed by **SEBI (AIF) Regulations, 2012**.
- IFSCA now has **independent authority** via IFSCA Act, 2019.
- Issued separate frameworks for:
 - **REITs**
 - **InvITs**
 - **Portfolio Management Services (PMS)**
- Need identified for **unified fund management** approach.
- **Expert Committee on Investment Funds** chaired by **Nilesh Shah** formed.
- Draft **IFSCA (Fund Management) Regulations, 2022** approved in **March 2022**.

CH- 14 RAISING OF FUNDS FROM DEBTS AND PROCEDURAL ASPECTS

◆ SECTION I – Indian Fund-Based

🌐 Introduction

- Vibrant **securities mkt (eq + bond)** → key for long-term **fund mobilization**

- **Banks = primary financial intermediaries**, but **bond mkt** rising as alt. esp. for **top-rated firms**
- **Corp Bond Mkt (CBM)** = alt. finance source → reduces **banking risk**
- Offers **stable finance** when **eq mkt is volatile**
- Helps manage **asset-liability mismatch**
- **NPAs** in banks → push to strengthen **CBM**
- Crucial for **infra funding** in India

📁 Debentures

- **LT debt instr. by Govt/Corps**
- **Non-Convertible Debentures (NCDs)** = higher interest, attract lenders
- CBM complements **bank credit** for **economic activities**

☐ Policy Measures to Develop CBM

- **Partial Credit Enhancement** allowed for banks
- **Info Repositories** by exchanges/depositories
- **Electronic Book Building (EBB)** for debt issuance
- Enhanced norms for **Credit Rating Agencies**
- Standardization via **ISIN** specs
- **Tri-party repo** trading for liquidity

◆ Debt Market

🏠 Types of Fixed Income Securities

- **Issuer types:** Central/State Govt, Corps, Banks, Stat. bodies
- 2 segments:
 - **Govt Sec.:** G-Secs, T-Bills, ZCBs, FRBs
 - **Corp Sec.:** FI bonds, PSU bonds, Debentures

🔍 Trading & Regulation

- **G-Secs** trade via **NDS** (RBI) using **NSE/BSE** members
- Earlier: Pvt placements → not listed
- Now: **Listing mandatory** (SEBI mandate)
- **NSDL/CDSL**: hold sec. in **demat**
- **RBI**: holds G-Secs for banks/PDs/FIs
- **NDS** = electronic platform for G-Secs

◆ Regulatory Framework for Debt

📁 1. Companies Act, 2013 + Debenture Rules 2014

- **Section 71**: Issue of debentures, convertibility, trustee, DRR
- **Rule 18**: Debenture issuance process

📁 2. SEBI ICDR Reg, 2018

- **Convertible debt** → disclosure norms of **equity instruments**

📁 3. SEBI LODR Reg, 2015

- **Listing agreement** → co. & stock exchange
- **Ch. V (Reg 49–62)** → for **non-convertible sec.** listing

📁 4. SEBI NCS Reg, 2021

- Merged: **ILDS (2008) + NCRPS (2013)**
- Covers issue/listing of:
 - **Debt sec.**
 - **NCRPS**
 - **Perpetual debt instruments**
 - **Commercial Paper (CP)**
- **Master Circular (2023)** → All circulars consolidated

◆ NCS Regulations – Definitions

- **Non-convertible sec.** = Debt sec., NCRPS, Perpetual instruments
- **Debt sec.** = Non-conv. fixed maturity → debentures/bonds (excludes Govt bonds, MMIs, etc.)

◆ Major Reforms under NCS Reg

1 ☐ Listing by New Cos

- New entity can raise funds via **private placement**
- Must use **EBP platform**
- Only **QIBs** can subscribe

- No 3-yr existence required now
- 2 **Ease of Doing Biz**
- **No min rating (AA-)**
 - **No min tenure (3 yrs)**
 - **No max 4 issues/yr** under shelf prospectus
 - **No min issue size (₹100 Cr)**
 - **Abridged prospectus:** 10 pages (prev. ~50)
- 3 **Debenture Trustee**
- **Mandatory** appointment
 - Due diligence: **defaults, security, asset cover** (even for pvt placements)
- 4 **Call/Put Options Flexibility**
- Extended to **pvt placement** issues
 - Exercise window: **12 mo** (earlier 24 mo)
- 5 **Additional Key Changes**
- **EBP platform mandatory** if issue \geq ₹50 Cr incl. green shoe
 - New **SEBI Circular (Oct 2022):** revised EBP framework
 - **Rollover:** e-voting allowed (besides postal ballot)
 - **Risk factor disclosures:** issuer-specific & instr.-specific risks
 - **Default cured?** → shelf prospectus allowed (if cured \geq 30 days prior)
 - **Charge creation** aligned with **Companies Act** (on any asset incl. shares/IP of issuer or affiliates)
 - **NBFCs/HFCs:** must disclose **ALM details** (even for pvt placement)

Want this converted into a printable **cheat sheet PDF** or want a **flowchart or mind map** version next?
Here's a **bullet-point summary** for **quick revision** on **Debentures** based on your preferred style (crisp, technical, minimal grammar, all essentials):

Debenture – Meaning

- **Debt instrument** acknowledging loan to company.
- Includes: **debenture stock, bonds, debt instruments** (Sec 2(30), CA 2013).
- May be **convertible / non-convertible** into equity.
- Fixed **interest rate**, repayable on **maturity** or as per contract.

Sec 71 – Companies Act, 2013

1. Co. may issue **convertible debentures** (partial/fully) – needs **special resolution**.
2. No debentures with **voting rights**.
3. **Secured debentures** allowed – as per prescribed T&Cs.
4. Create **Debenture Redemption Reserve (DRR)** from profits – usable only for redemption.
5. Public offer to $>$ 500 persons requires **appointment of Debenture Trustee (DT)**.
6. DT to protect **interest of holders** & address **grievances**.
7. Trust deed cannot **exempt/indemnify trustee** from breach of trust unless $\frac{3}{4}$ holders agree.
8. Co. must pay **interest + principal** as per issue terms.
9. If assets insufficient, DT may petition **NCLT** to restrict co. from further liabilities.
10. On default in redemption/interest, **NCLT can direct** immediate payment.
11. Contract to take up debentures = **specific performance** enforceable.
12. **CG may prescribe** rules: trust deed, DRR, inspection rights, etc.

Types of Debentures

A. By Security

- **Secured:** Charge on co. assets; safer.
- **Unsecured (Naked):** No charge; higher return & risk.

B. By Tenure

- **Redeemable:** Repaid on maturity (Max: 10 yrs, or 30 yrs for infra cos).

C. By Convertibility

- **Convertible:** Fully into equity after period.
- **Non-Convertible:** Only repayment, no conversion.
- **Partly Convertible:** Split into convertible + non-convertible parts.
- **Optionally Convertible:** Holder chooses conversion at maturity.

D. By Negotiability

- **Bearer:** Transferable by delivery; unregistered.
- **Registered:** Transfer needs deed & registration; not negotiable.

Market Linked Debentures (MLDs)

Definition & Structure

- Returns **linked to mkt index/assets** (Nifty, MIBOR, GDP, etc.).
- Can have **equity-linked** returns.
- Complex, structured using **derivatives**.
- Principal may/may not be protected.

Regulatory Points (SEBI NCS Regs, 2021)

- **Principal non-protected** = not considered debt securities under Reg. 2(k).
- **Issuer net worth \geq ₹100 Cr** required.

Disclosure Requirements

- Rating prefixed with **'PP-MLD'**.
- **Scenario analysis + valuation matrix** under various market conditions.
- **Prominent risk disclosures:**
 - **Model risk** – returns based on complex math models.
 - **Credit risk** – principal subject to issuer's creditworthiness.
- If **interest %** shown – must be **annualized**.
- **Valuation details** to be on issuer + valuer website.
- **Distributor commission** must be disclosed.
- **Premature redemption** terms to be clearly stated.

MLD vs NCD

Basis	MLD	NCD
Return	Linked to market (not fixed)	Fixed interest
Principal Risk	Possible loss if mkt underperforms	Principal protected
Conversion	Generally non-convertible , but may be structured	Strictly non-convertible
Regulation	Subject to SEBI NCS + extra MLD norms	Subject to SEBI NCS Regulations

Here's your **concise bullet-point summary** of the provided content on **Bonds** – formatted for **quick revision**, using **abbreviations, keywords**, & minimal grammar as per your preferred style:

BONDS – INTRO

- **Bond** = Debt instrument → borrower (govt/corp) raises ₹ → pays fixed/variable **interest (coupon)** over time.
- **Investor** = lender/creditor → gets **fixed return + principal at maturity**.
- **Tenure:** 3–10 yrs (generally).
- **Purpose:** Infra devp, corp financing, diversifies beyond banking system.
- **Coupon** = % of **face value**, paid **semi-annually/annually**.

CORP BOND MKT – ROLE

- Vital part of **Capital Mkt** → Finances **real economy**, infra, corporates.
- FY 23–24: ₹9.2 lakh cr raised in primary mkt → ₹8.6 lakh cr via **corp bonds**.
- Est. to reach ₹65–70 lakh cr by 2025 (CRISIL).

- SEBI (Apr 2024): Face value in **private placement** ↓ ₹1L → ₹10k → boost **retail inv.**

TYPES OF BONDS

- **Fixed-rate:** Constant coupon. Mkt-proof.
- **Floating-rate (FRBs):** Interest = linked to ref. rate (variable).
- **Inflation-Indexed:** Lower rate, protected against inflation.
- **Perpetual:** No maturity. Infinite coupon payments.
- **Callable:** Issuer can redeem early. Higher returns.
- **Puttable:** Investor can redeem early. Lower returns.
- **Zero-Coupon:** Issued at discount. No coupon. Redeem @ par.
- **Convertible:** Can convert into equity @ defined terms.
- **Green Bonds:** Used for eco projects (solar, sewage, etc.).
- **Municipal Bonds:** Issued by local bodies for infra.
- **Secured:** Backed by assets.
- **Unsecured:** No collateral.
- **G-Secs:** Govt bonds. Risk-free. Base pricing for others.

BOND INVESTMENT RISKS

- **Interest Rate Risk:** ↑ Rates → ↓ Bond prices.
- **Credit Risk:** Default possibility by issuer.
- **Inflation Risk:** Real return ↓ due to inflation.
- **Reinvestment Risk:** Reinvest at lower rates if interest ↓.
- **Liquidity Risk:** Difficult to sell at mkt value → forced discount.

OBPP – ONLINE BOND PLATFORM PROVIDERS

- **SEBI Circular (Nov 14, 2022):** OBPP = Entity providing online bond platform ≠ stock exchange/Electronic Book Platform.
- **Regn under Reg 51A, NCS Regs.**
- Must be:
 - **Indian co.**
 - **Regd stock broker (debt segment)**

OBPP Eligibility & Norms

- **Pre-Nov 14, 2022 entities** must limit offerings to:
 - Listed/To be listed: debt/muni/secured/G-Secs/SDLs/T-Bills/SGBs.
- Must:
 - Appoint **Compliance Officer (CS)**.
 - Have 2 KMPs with **3+ yrs securities mkt exp.**
 - Be on **SCORES**, with grievance mech.
 - Ensure strong **tech infra** – secure, scalable, reliable.
 - Follow **SEBI disclosure norms, Ad Code**, risk mgmt.
 - Handle **trading failures**, conflicts of interest, data sec., etc.
 - Submit info to **SEBI/Stock Exchanges** as needed.

MANDATORY DISCLOSURE (OBPP Listings)

- **Issuer Name, Security Name, ISIN**
- Nature: **Listed Secured/Unsecured**
- **Seniority:** Senior/Non-senior
- **Issue Mode/Date:** Public/Private
- **Rating:** Current, Agency, Date, Rationale
- **FV, Clean/Dirty Price**
- **Coupon:** Fixed/Floating, %/₹, Frequency
- **Maturity Date/Tenor**
- **Debenture Trustee Name**
- **Yield:** Current/YTM + calc
- **Prospectus/PPM & other SEBI req. docs**

Here's a **concise, bullet-point summary** of the **Electronic Book Provider (EBP) Mechanism** for quick revision in your preferred format:

EBP Mechanism – Summary

Purpose & Background

- **Debt issuance** via:
 - *Public issuance* or *Private placement*
- **Old system** lacked:
 - Transparency
 - Efficient price discovery
 - Speed
- **SEBI Framework** introduced via circular (21-Apr-2016), based on consultation (4-Dec-2015)
- **Platform:** Web-based **online bidding & allotment** portal for **private placement** of debt

1. Eligible Participants

- **QIBs** (as per SEBI ICDR Reg. 2(ss))
- **Non-QIBs** (if authorized by issuer for that issue)

2. Mandatory Use Cases (Issue through EBP)

- **Private Placement of Debt Securities/NCRPS** if:
 - Single issue** ≥ ₹50 Cr (incl. green shoe)
 - Shelf issue:** cumulative in FY ≥ ₹50 Cr
 - Subsequent issue:** aggregate prior issues in FY ≥ ₹50 Cr
- **Issuer < 3 yrs old** → mandatory, regardless of issue size
- **Regulatory instruments** (PDI, PNCPS, PCPS, RNCPS etc.) → mandatory, regardless of size

3. Optional Use

- **Issuer may choose EBP** for:
 - *Municipal Bonds, CPs, CDs*
 - *Debt/NCRPS < ₹50 Cr*

4. Issuer Obligations

- **Comply with:**
 - Section 42 of **Companies Act, 2013**
 - All applicable **laws/regulations**
- **File Placement Memo + Term Sheet** with EBP:
 - **Min. 2 working days** before issue
 - **Min. 5 working days** if **first-time issuer**

Disclosure in Term Sheet:

- Issue size & green shoe (max 5× base size)
- Coupon type (Zero/Fixed/Floating)
- Bid open/close dates
- **Min. bid lot**
- **Bidding type:** Open or Closed
- **Allotment type:** Uniform or Multiple yield
- **Settlement:** Clearing Corp or Issuer's Escrow
- **Cycle:** T+1 or T+2
- **Optional:** Est. cut-off yield (min. 1 hr before bid open)

Post Issue:

- Must disclose allotment details (Investor name, QIB/non-QIB, category, ₹ invested)

5. Participants & Bidding

- **One-time enrollment** on EBP → Valid till rescinded
- **KYC** via SEBI-KRAs
 - QIBs (direct or via arranger): KYC + enroll by EBP
 - Non-QIBs (direct): KYC by issuer, enroll by EBP
 - Non-QIBs via arranger: KYC + enroll by arranger

Other Rules:

- Access to PM + term sheet mandatory
- Confirm no use of **bots/algos** for unfair access
- No **preferential access** to any bidder
- **Bid cap via arranger:** Lower of ₹100 Cr or 5% of base issue
 - **FPIs:** can bid via custodians

Arranger's Bids Must Disclose:

- Type: Proprietary / Client / Consolidated

- For Consolidated:
 - Breakup (proprietary + client)
 - **Client info:** Name, QIB/non-QIB, ₹ amount

Here's a **quick-revision bullet point** summary of Sections 7 to 11, as per your preferred format:

7. Bidding, Allotment & Settlement

a) Bidding Timings

- Time: **9 AM–5 PM**, working days only
- Window open **min 1 hr**
- Issuer to give eligible participant list to EBP **≥1 hr before bidding**

b) Bidding Announcement

- Made **≥1 working day before** bidding
- Must include bid open/close time, other EBP-required info
- Change in bid time/date:
 - Allowed **max 2 times**, with **1-day prior notice**

c) Bidding Mode: Anonymous order-driven system

d) Bid Types:

- **Price, Coupon** (up to 4 decimals), or **Spread** (bps)
- Amount in **INR**

e) Bidding Based On:

- **Issuer-specified coupon** → quote in **price**
- **Discovered coupon/spread** → quote in **coupon/spread**

f) Multiple bids allowed

g) Modification/Cancellation:

- Only **within bidding period**
- No cancellation in **last 10 mins**
- Only **downward coupon/spread** or **upward price/amount** allowed in last 10 mins

h) Audit trail: bidder ID, timestamp, order no. + **ack. by EBP**

i) Disclosure Format: | Coupon/Price/Spread | Amount at that level (₹ Cr) | Cumulative Demand (₹ Cr) |

- **Open bidding:** real-time
- **Closed bidding:** post closure

j) Allotment Rules:

- **Issuer-specified coupon:**
 - **Price-time priority**
 - **Uniform yield:** cut-off price-based
 - **Multiple yield:** bidder-quoted price
- **Discovered coupon:**
 - **Yield-time priority**
 - **Uniform yield:** face value
 - **Multiple yield:** price adjusted for quote
- **Same bid/time** → **Pro-rata** allotment

8. Anchor Portion

a) Anchor Rules:

- Max **30% of base issue**
- **Issuer selects** anchor investor(s)
- No bidding on EBP
- Disclose in **PM & term sheet**

b) Settlement Amount for Anchor:

- **Issuer-specified coupon:**
 - **Uniform:** cut-off price (base issue – anchor)
 - **Multiple:** face value
- **Discovered coupon/spread:** face value
- In **re-issuance:** cut-off price applies

c) Rest of issue (non-anchor + green shoe):

- Bids open to eligible participants
- Anchor investor may bid if eligible

9. Pay-in Obligations

a) Pay-in by:

- **Allottee's account**
- If via **arranger**, funds from **eligible participant's account**

b) Pay-in Routes:

- Via **clearing corp** or **issuer's escrow a/c**

- Disclosed in **PM**
- **T+1 or T+2** settlement (T = issue day)

c) Default Rules:

- **1 default:** debarred from EBP **30 days**
- **3 defaults** by arranger's clients → arranger debarred **7 days**

d) Escrow Pay-in Flow:

1. Bidders pay from EBP-registered bank a/c only
2. Escrow bank confirms fund receipt to RTA
3. RTA reconciles with EBP, informs issuer
4. RTA sends corp action to depositories, then releases funds

10. Withdrawal of Offer

a) Voluntary Withdrawal:

- Issuer barred from all EBPs **7 days**
- Applies to full issue incl. anchor

b) Exceptions (No bar):

- Bids < base issue size
- Defaulted payment by bidders
- Cut-off yield > estimated cut-off yield

c) Est. cut-off yield disclosure: at issuer's discretion

d) If withdrawn due to cut-off yield issue → EBP must disclose est. cut-off

11. Entity Responsibilities

a) Issuer:

- Maintain escrow a/c (alone or with RTA)
- Disclose escrow a/c details & pay-in timeline
- Post RTA confirmation → initiate corp action

b) RTA:

- Reconcile EBP vs escrow bank data
- Notify issuer of fund status
- Post corp action to depositories, instruct escrow bank to release funds
- Inform EBP of issue status, defaults

Here's a **crisp bullet-point summary** of Sections 12 & 13 + **EBP Mechanism Benefits** for quick revision:

12. Obligations & Duties of EBP

a) EBP Functions:

- Provide **online platform** for bid placement.
- Maintain **infra** (office space, tech, manpower, risk mgmt).
- Upload **PM, term sheet**, & issue info **immediately** after receipt.
- Ensure **data safety, secrecy, retrievability, & disaster recovery** systems.

b) Website Disclosures:

- Update **all issuance details** on EBP site.

c) Operational Uniformity:

- Standardize **procedures** across EBPs.
- Disclose **operational procedure** on EBP sites.

d) Estimated Cut-off Yield Handling:

- Maintain **secrecy + audit trail** of disclosed est. yield.
- If issue **withdrawn due to high yield**, **mandatory disclosure** on platform.

e) Coordination Duties:

- Coordinate with **other EBPs + depositories**.
- Ensure **issuer cooling-off & investor debarment** periods are followed.

f) Bidding Oversight:

- Ensure **compliance** with SEBI-specified bidding process.
- Ensure **secured, timely & accurate** bid execution.
- Provide **quote-limit setting** to prevent 'fat finger' errors.

g) Grievance Handling:

- **Address investor grievances** from bidding process.

13. CISA Audit of EBP

- EBP platform must undergo **CISA audit once/year** (min).

Benefits of EBP Mechanism

- **Transparent price discovery** via **anonymous bidding**.
- **Real-time data dissemination** (anonymous).
- Allows **multiple bids at diff. yields**.
- **Institutional investors** can bid via arrangers/sub-arrangers.
- **Allotment details** available on **EBP website** → enhances **secondary market transparency**.
- Equal **market access** to all **QIBs** post one-time registration.
- **Pre-bid disclosure** enables better investment planning.
- Leads to **lower costs & faster execution** for issuers & investors.

Here's a **succinct bullet-point summary** of the **RFQ Platform, Securities, Mandates, Brokers' Role, and CS Role** in listed debt entities — optimized for **quick revision**:

RFQ Platform – Secondary Mkt for Debt Securities

Key Concepts:

- **RFQ = Electronic platform** for centralized, **multi-lateral negotiation** of OTC trades.
- Enables **straight-through processing (STP)** of **clearing & settlement**.
- Used for trades in: **Corporate Bonds, G-Secs, T-Bills, CPs, CDs, SDLs**, etc.
- Provides **pre-trade transparency + audit trail** (quoted yield, price, terms).

Features:

- **Initiator** requests quotes; **Responder** replies.
- Quotes can be:
 - **Named or Anonymous**
 - Sent to **one counterparty (OTO)** or **many (OTM)**.
- Quotes are **bilaterally negotiated**; acceptance = mutual agreement.
- Enables electronic execution of **OTC deals**.
- Developed by **BSE & NSE** (SEBI-approved in Feb 2020).

1. RFQ Platform Features:

- Interface to **invite/respond to quotes**.
- Tracks interactions with **full audit trail**.
- Facilitates **negotiation + execution** on platform.

2. Eligible Securities:

- **Non-Convertible Securities**
- **Securitized Debt Instruments**
- **Municipal Debt Securities**
- **Commercial Paper (CP)**
- **Certificates of Deposit (CD)**
- **Govt. Securities (G-Secs)**
- **State Dev. Loans (SDLs)**
- **Treasury Bills (T-Bills)**
- Others as notified by **Exchange + SEBI**

3. Mandatory Trades via RFQ (SEBI Mandates):

- For **Mutual Funds, AIFs, PMS** – specified % of corp bond trades must be routed via RFQ.
- **IRDAI** mandates similar for **insurers**.
- Aim: **Boost liquidity & transparency** in bond market.

4. Brokers on RFQ:

- **SEBI allows brokers** (regd. in debt segment) to:
 - Bid on behalf of clients.
 - Continue proprietary bidding.
- Boosts **price discovery, real-time info, and market efficiency**.

Company Secretary's Role in Listed Debt Entities Expanding Role:

- Beyond statutory duties → CS now acts as **Governance Professional**.
- Key liaison among **Board, Investors, Regulators, and Stakeholders**.

Strategic Impact:

- Ensures **compliance** with all laws/SEBI regs.
- Helps mitigate **financial + reputational risks**.
- Brings **commercial acumen, strategic insight, and people skills**.
- Conducts **regular compliance assessments** to align with evolving norms.

Here's a **concise, bullet-point summary** of the key points from the text on **Sustainable Finance & Green/Transition Bonds (SEBI Framework)** for **quick revision**:

I. GREEN DEBT SECURITIES (GDS) – DEFINITION (Reg 2(1)(q), NCS Regs)

Debt raised for funding green projects. Categories:

- **i. Renewable/sustainable energy** (wind, bioenergy, clean tech)
- **ii. Clean/mass transport**
- **iii. Climate change adaptation** (infra resilience, early warning systems)
- **iv. Energy efficiency** (green buildings)
- **v. Sustainable waste mgmt** (recycle, waste-to-energy)
- **vi. Sustainable land use** (forestry, afforestation)
- **vii. Biodiversity conservation**
- **viii. Pollution control** (air/GHG, soil remediation, India Cooling Action Plan)
- **ix. Circular economy** (reusable/recyclable/refurbished products)
- **x. Blue bonds** – clean water, water recycle, sustainable shipping/fishing
- **xi. Yellow bonds** – solar energy & related industries
- **xii. Transition bonds** – funding ops aligned with India's INDCs
- **xiii. Other SEBI-specified categories**

II. INITIAL DISCLOSURE REQS (Feb 6, 2023 Circular)

In offer doc (public/private issues), issuer must disclose:

- **Env. sustainability objective**
- **Project/asset eligibility process** (incl. fit with Reg 2(1)(q))
- **Referenced standards/taxonomies** (Indian/global), incl. INDC alignment
- **Proceeds tracking system**
- **Project details** incl. **refinancing, new projects**
- **Est. % of finance vs. refinance**
- **Placement plan for unutilized funds**
- **Risk & mitigation plan**
- **3rd party reviewer/certifier** for project eval (on 'comply or explain' for 2 yrs)

III. CONTINUOUS DISCLOSURE REQS

To be disclosed **with annual report & financials**:

- **Utilisation report**, verified by **external auditor**
- **Unutilized funds** status per ISIN
- **Project list, brief description, amounts disbursed**
- **Impact metrics** (qualitative/quantitative), if not available – explain
- **Assumptions & methodology** used
- **Deployment of risk mitigation plan**
- **Impact reporting** (project-wise) & **reporting standards used**
- **BRSR Principle 6 disclosures** (Environment)

IV. 3RD PARTY REVIEWER/CERTIFIER

Appoint for:

- Post-issue proceeds mgmt
- Internal tracking & impact verification
- Again, 'comply or explain' for 2 yrs

V. ISSUER RESPONSIBILITIES

- Maintain decision-making process for **ongoing eligibility**
- Ensure projects meet **stated green objectives**
- Use proceeds **only** for disclosed purpose
- Comply with **SEBI greenwashing circular (Feb 3, 2023)**

VI. GREENWASHING – DOS & DON'TS (Feb 3, 2023 Circular)

Issuer must:

- **Track transition** efforts for measurable env. impact
- **Not misuse funds** beyond Reg 2(1)(q)
- **Disclose misallocation** + allow early redemption
- **Avoid misleading labels/data cherry-picking**
- **Maintain transparency** & ratings
- **Quantify negative impacts**
- **Avoid false 3rd-party cert. claims**

VII. TRANSITION BONDS – ADDITIONAL REQUIREMENTS (May 4, 2023 Circular)

Special Category under GDS (GB-T)

- Must use **denotation 'GB-T'** (on cover page & term sheet)
- **Transition Plan** to be disclosed with:
 - Interim targets + timelines + emission reduction metrics
 - Strategy, tech deployment
 - Oversight mechanism (e.g. committee)
- **Disclosures in Centralised Database:**
 - Denotation GB-T in Instrument Type (Annex-XIV-A)
 - Depositories to prefix GB-T in instrument details
- **Annual Reporting:**
 - Updated Transition Plan + implementation progress
- **Stock Exchange Disclosure:**
 - Any **revisions** in Transition Plan + explanation

Here's a **bullet-point revision** of the key points related to **Municipal Bonds** in India, with technical terms bolded and concise format for **fast revision**:

★ Municipal Bonds – Overview

- **Urban infra need** ↑ → existing **tax, non-tax** revenues + **central/state grants** = **insufficient**
- **Alt. source: Municipal Bonds** (non-convertible debt securities)
- **SEBI (ILDMS) Regs, 2015** govern municipal bonds
- **"Municipality"** = self-govt under **Art. 243Q**, Constitution of India

★ Market Status (as of Mar 2024)

- **16 issues** by **10 Municipal Corps** → ₹2700 Cr raised
- Used for: **liquid waste, water supply, sewage treatment, residential**, etc.
- Some issues = **green bonds** (climate-linked projects)

★ Eligibility/Regulatory Framework

- Comply with **SEBI ILDMS Regs** + circulars
- Public/Private placement allowed
- **Green Bonds** under **SEBI NCS Regs, 2021** (Reg. 2(1)(q))

★ Recent Municipal Bond Issues (Sample)

Municipality	Date	Amt (₹Cr)	Coupon %
Pune MC	Jun '17	200	7.59
GHMC	Feb '18	200	8.9

Municipality	Date	Amt (₹Cr)	Coupon %
Indore MC	Jun '18	139.9	9.25
Lucknow MC	Nov '20	200	8.5
Indore MC (Green)	Feb '23	244	8.25
Ahmedabad MC	Feb '24	200	7.9

★ SEBI Info Database (via QR Code)

- Launched Jan 2023, contains:
 - **Regulations, FAQs, circulars**
 - **Pre-listing checklists, sample letters, Due Diligence Qs**
 - Templates for stakeholder agreements
- Access via **SEBI website** or **QR code**

★ SEBI NCS Regs – Key Compliances

🎯 **Responsibility:** Lead Mgr (Public issue) / **Company Secretary** (Private)

◆ Issue-Related Compliances (Reg. 5–23)

- **In-principle listing approval**
- **ISIN, Demat, Trustee, Registrar** appointment
- **Credit rating** disclosure (min 1 CRA)
- **Recovery expense fund** = 0.01% of issue (max ₹25L)
- **SEBI fee, payment on working days, Actual/Actual** interest calc.
- **DRR / CRR** as per **Companies Act, 2013**
- **Security creation** for secured NCDs
- **DLT-based Covenant Monitoring**
- **EBP mechanism** if issue size ≥ ₹50 Cr (Private placement)

◆ Eligibility Check

- No **wilful defaulter, fugitive, or disqualified directors/promoters**

★ Issuers w/o 3-Year Track Record

- Allowed if:
 - Issue = **private placement**
 - **EBP platform** used (irrespective of size)
 - Subscription = **only by QIBs**
- Typically applies to **SPVs, NBFCs, listed REITs/InvITs**
- Role of **Company Secretary** = crucial for **due diligence + compliance**

★ Obligations re: Applicants (Reg. 23)

- Apply for **SCORES** authentication
- Fair & equitable treatment of applicants
- No fraudulent schemes/promises

★ Disclosures (Reg. 27, 28, 45)

- **CS ensures** true, fair, adequate info in **offer doc**
- **Merchant Banker** (Public) = mandatory; **optional** for Private → CS ensures **disclosures**
- **Audited financials** ≤ 6 months old
- Disclose **CS name + contact** on front page

★ Advertisements (Reg. 30)

- Must be **truthful, fair, clear**
- No **misleading forecasts/promises**
- Based only on **offer doc content**

★ No Incentives (Reg. 31)

- No **indirect/direct incentives** for applications
- Only allowed: **fee/commission for services**

Here's a **concise bullet-point** version of the content using your preferred style:

INTER-CORPORATE DEPOSITS (ICDs)

- **Unsecured loan:** From 1 corporate to another.
- Used by **low-rated corporates** needing short-term funds.
- **Better-rated** corporates borrow from banks → lend in ICDs for **speculative gains**.
- **Higher interest rates** vs banks (due to higher corp cost of funds).
- **Unregulated & risky; low transparency** in transactions.

PUBLIC DEPOSITS

Basics:

- Money placed in **bank/FI a/cs** (e.g. **FDs**).
- Fixed term & rate; **withdrawable** at maturity or on demand.
- Cheaper & easier to procure than other funding.
- Used for **short/medium term** needs.

As per Companies Act, 2013:

- **Sec 73–76 + Companies (Acceptance of Deposits) Rules, 2014.**
- "Deposit" = any money received as **deposit/loan/other forms**, **except** exempted items (see below).

Not Treated as Deposits (Rule 2(1)(c)):

- From **Central/State Govt, foreign banks, FIs, scheduled banks, insurance cos.**
- **Inter-corporate loans.**
- **Commercial papers** or RBI-regulated instruments.
- **Share application money** (not refunded within 75 days → becomes deposit).
- **Employee deposits** (non-interest bearing, within annual salary).
- From **director/relative** (not from borrowed funds).
- Secured **debentures/bonds**.
- **Promoter unsecured loans** per lender condition.
- **Nidhi Company** as per Sec 406.
- **Business advances** (immovable property, LT supply, goods/services within 365 days, security, warranty).
- Sectoral regulator–allowed amounts.
- Subscription advances (e.g. publications).
- **Chit funds, SEBI-regulated schemes.**
- **Convertible notes** (min ₹25L by startups ≤10 yrs, single tranche).

ELIGIBILITY TO ACCEPT DEPOSITS

- **Public Co** with **NW ≥ ₹100 Cr** or **Turnover ≥ ₹500 Cr**.
- Must pass **Special Resolution** & file with **RoC & RBI**.
- **Ordinary Resolution** if accepting within Sec 180(1)(c) limits.

Sec 73 Non-Applicability:

- Not applicable to:
 - **Banking Cos**
 - **NBFCs** (under RBI Act)
 - **Cos** notified by **Central Govt** (in consultation with RBI)

SEC 73 CONDITIONS TO ACCEPT DEPOSITS

- Pass **Shareholder Resolution** in GM.
- Disclose to members:
 - **Financials, Credit Rating, # Depositors, Past dues.**
- File info with **RoC** ≥30 days before issue.
- Deposit **20%** of next FY's deposit maturities in **Deposit Repayment Reserve A/c** (by April 30 yearly).
- No current/past **defaults** in principal/interest (5 yrs gap if default was cured).
- **Secured deposits** must have security; others = **unsecured**.
- **Tenure: Min 6 months, Max 36 months.**

NBFCs

Overview:

- Key role in **financial inclusion; target underserved** segments.
- Offer loans: **personal, vehicle, gold, microfinance, etc.**
- Grew due to **post-2015 bank stress**.
- **~10,000 NBFCs**; Assets ≈ ₹50 L Cr (as of Mar 2024).

Definition (Sec 45-1(f), RBI Act):

- Co whose principal biz = lending, investing, or deposit taking.
- Excludes: Agriculture, industrial activity, trading (except securities), services, real estate.

NBFC Types:

- **Loan/Advance providers**
- **Investment cos** (shares/bonds, etc.)
- **Chit funds, insurance biz, leasing, hire purchase**

NBFC ≠ Bank:

- No **demand deposits**
- No **cheques**
- No **deposit insurance** (DICGC)

NBFC REGISTRATION (Sec 45-IA, RBI Act)

- Must be:
 - Regd under **Companies Act**
 - Have **Net Owned Funds (NOF) ≥ ₹10 Cr**

NOF Transition Glide Path:

NBFC Type	Current	By Mar 2025	By Mar 2027
NBFC-ICC	₹2 Cr	₹5 Cr	₹10 Cr
NBFC-MFI	₹5 Cr (₹2 Cr in NE)	₹7 Cr (₹5 Cr NE)	₹10 Cr
NBFC-Factor	₹5 Cr	₹7 Cr	₹10 Cr

- Must obtain:
 1. **Certificate of Registration**
 2. Maintain RBI-specified **NOF** (₹25L–₹100 Cr)
- **Exemptions:** NBFCs regulated by other regulators.

Here's the **ultra-condensed bullet point version** of the full NBFC content, using technical terms, keywords, symbols & minimal grammar for **fast revision**:

Principal Business Criteria (NBFC)

- **>50%** financial assets of total assets &
- **>50%** income from fin. assets of gross income
⇒ **Mandatory NBFC registration** with RBI

RBI Powers over NBFCs

- **Sec 45-ID:** Remove director (non-Govt NBFCs) after hearing
- **Sec 45-IE:** Supersede Board (non-Govt NBFCs)
- **Resolution powers** for NBFCs in public interest
- **Call info / inspect** group companies
- **Sec 45-MAA:** Action vs **auditors**

Types of NBFCs (by Activity)

- **NBFC-ICC:** Invest, Lending, Asset Finance
- **NBFC-MFI:** Microfinance
- **NBFC-IFC:** Infra finance
- **NBFC-Factor:** Factoring
- **NBFC-HFC:** Housing finance
- **CIC:** Core Investment (Sys. Imp. if > ₹100 Cr)
- **NBFC-AA:** Account Aggregators
- **NBFC-P2P:** Peer-to-peer lending
- **IDF-NBFC:** Long-term infra debt
- **MGC:** Mortgage Guarantee Cos.

NBFC Layers (Supervision-Based)

a. Base Layer (NBFC-BL)

- NBFC-ND (non-SI) + NBFCs < ₹1000 Cr
- Includes: NBFC-AA, NBFC-P2P, NOFHC, no public funds/customer interface

- Low regs, ↑ disclosures
- b. Middle Layer (NBFC-ML)**
- NBFC-D + NBFC-ND-SI > ₹1000 Cr
 - Includes: SPD, IDF, CIC, IFC, HFC
 - ↑ Reg supervision, plug bank arbitrage
- c. Upper Layer**
- RBI-selected top NBFCs via analysis
 - **Top 10 NBFCs** by asset size ⇒ always in UL
 - ↑ Prudential norms, intensive supervision
- d. Top Layer**
- Empty by default
 - RBI can move NBFCs from UL ⇒ TL (high sys. risk)
 - **Strictest regulations**

RBI Reforms (Oct 2022 – Risk Based Supervision)

1. NBFC Reclassification

- Infra Inv. Cos, CIC, MFI, SI/NSI, D/ND
- 4 Layers: BL, ML, UL, TL
- Based on asset size, risk, activity

2. IPO Financing

- Cap: ₹1 Cr/borrower
- NBFCs may set tighter limits

3. Governance Norms

- Layer-based governance req.
- **Middle/Upper layers:** Addl disclosures
- **Risk Mgmt Committee (RMC) @ Board/Exec level**

4. Director Experience

- ≥1 Director must have **Bank/NBFC** experience

5. Loans to Mgmt

- **Board-approved policy** for loans to directors/Sr. officers/relatives/entities with shareholding

6. Addl Disclosures for BL NBFCs

- RPTs, RE & Capital Mkt exposure, Sectoral exposure

7. ICAAP

- Internal Capital Adequacy Assessment
- NBFCs to assess **capital vs risk** (like banks)
- Follow Basel III-like approach

8. Core Financial Services Solution (CFSS)

- For ML & UL NBFCs with ≥10 fixed outlets
- Quarterly progress reporting to RBI
- Seamless digital interface

Provisioning Norms (Scale Based)

Asset Type	NBFC-ND-SI / NBFC-D	NBFC-ND-NSI	Secured Portion
Standard	0.40%	0.25%	NA
Sub-standard	12M: 10%	18M: 10%	NA
Doubtful	100% (Unsecured)	Same	Based on age of 'doubtful':- ≤1Y: 20%– 1–3Y: 30%– >3Y: 50%
Loss	100% write-off	Same	NA

Asset Classification

- **Standard:** No default, normal risk
- **NPA (Non-performing Asset):**
 - Lease/Hire Purchase:
 - 3M overdue (NBFC-ND-SI)
 - 12M overdue (NBFC-ND-NSI)
 - Other assets:
 - 3M overdue (NBFC-ND-SI)
 - 6M overdue (NBFC-ND-NSI)

Updated NPA Norms Timeline

- >150D overdue → NPA by **Mar 31, 2024**
- >120D → NPA by **Mar 31, 2025**
- >90D → NPA by **Mar 31, 2026**

Here's a **concise bullet-point summary** of the **Corporate Governance Norms for NBFCs and Bank Finance**, in line with your preferred revision style (→ direct, keywords bolded, minimal grammar):

CORPORATE GOVERNANCE – NBFCs

1. Applicability

- Applies to:
 - NBFCs-ND-SI (Non-deposit, asset size ≥ ₹500 Cr)
 - NBFCs-D (Deposit accepting)

- Called **Applicable NBFCs**

2. Non-applicability

- **Systemically Important CICs** (Core Investment Cos) – exempted

3. Board Committees (Mandatory)

- **Audit Committee** (≥3 directors)
 - Same powers/duties as **Sec 177**, Companies Act, 2013
 - Must conduct **IS Audit** every 2 yrs
- **Nomination Committee**
 - Ensure **fit & proper** directors
 - Powers/duties per **Sec 178**
- **Risk Mgmt Committee**
 - Must be formed **separately** (in addition to ALM Committee)

4. Fit & Proper Criteria

- Policy approved by **BoD**
- Must:
 - Take **declaration + undertaking** from directors
 - Obtain **Deed of Covenant**
 - File **quarterly change of directors + MD cert.** on fit & proper
 - File by **15 days post-quarter**, Q4 statement → **auditor certified**
- RBI can examine directors of **any NBFC**, regardless of size

5. Disclosure & Transparency

- **Board Disclosures (periodic):**
 - Risk mgmt policy + implementation status
 - Committee roles, composition, meeting frequency, etc.
- **Annual Disclosure (from FY 2015):**
 - Regulator licences
 - Credit ratings + migration
 - Regulator penalties
 - JV/subsidiary details (location, partners)
 - ALM profile, NPAs, off-BS exposure, securitisation

6. Auditor Rotation

- Partner(s) of **CA firm** to rotate every **3 yrs**
- Re-eligible after **3-year cooling off**
- To be in **appointment letter** + enforced

7. Internal Governance Guidelines

- Framed & approved by **BoD**
- Must be hosted on **company website**, if any

8. RBI Diktat (May 2024) – Cash Loans

- Strict adherence to **Sec 269SS**, IT Act
- **Cash loan disbursement capped at ₹20,000**
- Target: curb large **gold loan** cash disbursements

BANK FINANCE – CORPORATES

Secured vs Unsecured

- **Secured Loans:** backed by **tangible security**
- **Unsecured Loans:** backed by **personal credibility**
- ~11–15% of total bank advances = unsecured

Fund vs Non-Fund Based Facilities

- **Fund-Based (FB):** Direct fund outflow
 - **Term Loans, Cash Credit, Bill Discounting**
 - Income: **interest / discount**
- **Non-Fund Based (NFB):** No immediate fund outflow

- **Bank Guarantees (BGs), Letters of Credit (LCs)**
- Income: **commission**
- Bank pays **only if invoked/default**

NFB Credit to Non-Borrowers

- Permitted **without any fund-based facility**, if:
 1. Declaration: no other bank funding
 2. Same credit appraisal as FB
 3. Must report to **Credit Info Companies**

FUND-BASED FACILITIES – DETAILS

Overdrafts (OD)

- Most common after loans
- Allows **cheques > account balance**
- Types:
 - **Temporary OD** (Clean): No security, based on personal worth
 - **Secured OD**: Backed by FD, LIC, NSC, Shares
- Interest: Charged **daily** on debit balance
- “**Against Clearing**” cheques = OD sub-type
- Popular with **traders** (low cost, simple docs)

Want a quick one-pager PDF or flashcard-style notes on this? Here's a **concise bullet-point summary** for quick revision, following your preferred format (technical terms, abbreviations, minimal grammar):

Cash Credit Account (CC A/c)

- **Short-term loan**, tenure ≤ 1 yr, renewable.
- Based on **projected sales & a/c** operation.
- Types:
 - **Open CC**: Like current a/c, debit allowed \leq sanctioned limit or **Drawing Power (DP)**.
 - **Key CC**: Stock **pledged**, key with bank; funds released against **stock value – margin**.
- **Security**:
 - **Pledge/Hypothecation** of RM, SFG, FG, Receivables.
 - Also allowed against **TDs, LICs, NSCs, Gold** (no stock stmt req.).
- For **Mfg Units**: To buy RM, convert to FG.
For **Traders**: To purchase trading goods.

Bills Finance

- **Short-term, self-liquidating.**
- **Types of bills**:
 - **Demand Bills** – purchased
 - **Usance Bills** – discounted
- **Negotiation under LC**: For **Sight or Usance Drafts**.
- **Doc. Bills**:
 - **D/P** – Delivery vs Payment
 - **D/A** – Delivery vs Acceptance
- Usance Bills = credit risk on **drawee** also.
- Post-acceptance, Usance Bills = **clean bills**.

Leasing Finance

- **Lease** = Contract: Lessor (owner) \leftrightarrow Lessee (user).
- **Types**: Operating, Financial lease.
- **Bank financing**: OD/CC/DL vs hypothecation of new machinery.
- **Repayment**: From lease rentals; Max 5 yrs or equipment life.
- Only for **productive assets**, not **consumer durables**.
- Banks **don't own leased asset**.

Hire Purchase Finance

- Similar to lease, mostly in **auto sector**.
- Ownership = with financier until end of term.
- End option: **Return or Purchase** asset.
- Bank financing = **Priority Sector Lending** for transport.

- Banks prefer **Hypothecation** over Hire-Purchase.

Diff: Hire-Purchase vs Hypothecation

Feature	Hire-Purchase	Hypothecation
Ownership	With financier till end	With borrower
Legal Defn.	Defined via Contract	Defined by SARFAESI Act, 2002
Reclaim Asset	Ownership allows repossession	Repossession needs borrower's consent
Bank's Limitation	Bank can't hold ownership (RBI license)	Bank has charge, not ownership
Risk	Bank party in accidents (legal + image)	Not party, as no ownership

Credit Facilities (Fund-Based) for Exporters

Rupee Export Credit

- **Pre-shipment (Packing Credit)**:
 - For **procure** \rightarrow **manufacture** \rightarrow **pack** \rightarrow **ship**.
 - Tenor: Up to 3/6/9 months.
 - **Concessional rate**, repay via post-shipment or own funds.
- **Post-shipment Credit**:
 - After shipment \rightarrow till proceeds realized.
 - Repaid via export proceeds or eligible resources.
 - Routes:
 1. Purchase/discount/negotiation of export bills.
 2. Advance vs export bills for collection.
 3. Advance vs export incentives.
- **Rupee Deemed Export Credit**:
 - Supply within India \rightarrow SEZs, Int'l Projects, Foreign tourists.
 - Paid in **FX**, considered **Export**.
 - Treated same as Rupee Pre/Post shipment credit.
 - **FOR** basis value, export date = supply date.

Foreign Currency Export Credit

PCFC (Pre-shipment Credit in FC)

- FC working capital loan for exporters.
- Objective: Finance at **int'l competitive rate**.
- Routes:
 1. Rupee credit \rightarrow converted to FC.
 2. FC credit + export bill **discount/rediscout** under **EBR**.
 3. Rupee pre-shipment \rightarrow FC or INR post-shipment via EBR.
- Max period: **360 days**, renewable.
- For **Deemed Exports**: Max 30 days or till project payment.

PSCFC (Post-shipment Credit in FC)

- Discounting **Usance Export Bills** in FC.
- Uses: Own FC funds or lines of credit from foreign banks.
- Normal period: **Up to 180 days** (can exceed).
- Bank rediscounts bills abroad \rightarrow squares PSCFC.

Here's a **concise bullet-point revision** of the full content using **technical terms, abbreviations, and minimum grammar for quick recall**:

IMPORT FINANCE

Modes:

- **Buyers' Credit**: Loan by overseas bank/fin. inst. to Indian importer.
- **Suppliers' Credit**: Credit by overseas **exporter/supplier** to Indian importer.

Common Req.:

- Imports must comply with **DGFT's** Foreign Trade Policy.

Feature	Buyers' Credit	Suppliers' Credit
Credit from	Overseas bank/fin. inst.	Overseas supplier
Payment	Cash to exporter	Down payment + deferred

Feature	Buyers' Credit	Suppliers' Credit
Mode		installments
Interest	Slightly higher (external bank rates)	Comparatively lower (supplier funds credit)

LOAN AGAINST SECURITIES (LAS)

Concept:

- **OD facility** backed by **pledge of securities** (e.g. shares, MFs, NSC).
- Loan amt. depends on **type/value of pledged sec.**
- **Interest only on used amt. & duration.**

Approved Sec.:

1. **NCDs**
2. **MF Units**
3. **NABARD Bonds**
4. **Demat Shares**
5. **NSC/KVP (in Demat only)**
6. **Insurance Policies**

Example:

- Zen Ltd pledges ₹10L in Ten Ltd shares → Depository creates pledge → Bank disburses funds → On repayment, pledge released.

Advantages:

- Quick liquidity.
- Shareholder rights (dividend, bonus, price gains) retained.

Key Features:

- **Secured Loan**
- **Tenure:** Usually 1 yr
- **ROI:** ~12–15% p.a.
- **Processing Fee:** ~2%
- **Loan Amt:** Eg. Shares → ~50% of value
- **Prepay Charges:** Nil

CREDIT DEFAULT SWAP (CDS)

Def.:

- **Credit Derivative:** Buyer pays prem. to seller → gets protection on default of **reference entity's debt.**
- **Hedge tool for credit risk mgmt.**

Benefits:

- **Transfer/Hedge credit risk**
- **Enhance** investment & borrowing ops
- **Lower cost, dev. bond mkt**

RBI CDS Guidelines vs 2022 Directions

Parameter	RBI 2013	RBI 2022
Permitted Users	Only non-retail (Banks, NBFCs, FIs, MFs, etc.)	Retail & Non-retail; min net worth ₹500Cr for corps
Retail Participation	Not permitted	Allowed only for hedging
Non-retail Participation	Only for hedging	Allowed for hedging + trading
Reference Entities	CPs, CDs, NCDs, rated/unrated infra bonds	Same + No ABS, MBS, enhanced/guaranteed/convertible/op tion bonds
Contract Type	Not specified	Only single-name CDS allowed
Market Makers	Banks, PDs, NBFCs with track record	Added: HFCs, NABARD, SIDBI, EXIM, NHB; less strict norms
Settlement	Cash/Physical/Auction – pre-agreed	Physical mandatory (non-retail); auction for exceptions; exchange CDS → cash settled
Standard Doc.	Parties define terms	FIMMDA to draft std. master agreement with event definitions, settlement procedures

Here's a **concise, bullet-point revision** of the provided content using minimal grammar, focusing on **key terms**, abbreviations, & core concepts:

LOAN AGAINST PROPERTY (LAP)

- Loan **secured against immovable property** (residential/commercial/land, self-occupied or rented).
- **Purpose:** personal/business/consumption.
- **LTV (Loan-to-Value):** ~50%-65%.
- **Tenure:** 10-15 yrs.
- **Interest:** competitive.
- **Mortgage creation:** mandatory.

DISCOUNTING (Bill Discounting)

- Based on **negotiable instruments** (bills of exchange) issued for credit sales.
- Seller **discounts bill** with bank/FI to get early cash.
- **Interest = discounting charge** deducted from face value.
- **Advantage:** unlocks cash tied in invoices = unsecured biz loan.
- RBI schemes:
 - **1942:** Bill Market Scheme.
 - **1970:** Bill Rediscount Scheme.
- Rediscounting: at **RBI rate/discretionary rates.**
- **Issues:**
 - Stamp duty & paper shortage.
 - Reluctance to accept bills.
 - Cash credit system dominates.
 - Admin load (title docs).
- Need: **First class bills** or **bank co-acceptance** for marketability.
- **Underdeveloped** in India due to low vol. of high-grade bills.

FORFAITING

- **Export finance** method: medium/long-term export receivables discounted.
- Without **recourse** to exporter.
- **Co-acceptance** by importer's bank mandatory.
- Handled by **Forfeiter** (e.g., EXIM Bank in India).
- Tenure:
 - Medium: 3-5 yrs.
 - Long: up to 10 yrs.
- Process:
 1. Export contract → goods shipped.
 2. Docs prepared as per forfeiter's format.
 3. Importer arranges bank co-acceptance ("availed docs").
 4. Exporter submits docs → forfeiter discounts.
 5. Charges deducted: **commitment fee, discount, doc fee.**
 6. Forfeiter collects payment at maturity from importer's bank.
- **Advantage:** Exporter gets immediate cash, removes risk.

FACTORING

- **Sale of receivables** to factor (FI) at discount.
- **Immediate cash:** up to 80%-90% of invoice.
- **Balance** paid after debtor pays – less finance/ops costs.
- Buyer/customer pays **Factor** directly.
- Used in various sectors: **goods, construction, medical**, etc.

Parties Involved

1. **Seller** (client)
2. **Buyer** (customer)
3. **Factor** (FI/funder)

Factoring Process

- Seller applies → broker → funder.
- Due diligence: UCC, credit check, liens verified.
- Buyer informed, not consulted.

- **Sanction Letter:** contains limits, start date, authorized signatories, discount terms.
- **Advance:** 70-90%, construction sector ~60-70%.
- **Reserve:** held until full invoice paid.
- Seller submits invoice → Factor verifies → advances funds.
- Buyer pays Factor → balance returned post deductions.

Advantages to Seller

- **Instant liquidity** post sale.
- Paperwork & follow-up by Factor.
- No new debt, off-B/S funding.
- Approval based on buyer's credit, not seller's.
- Smooth **cash flow** for payroll/ops.

Types of Factoring

Type	Description
Non-recourse	Factor bears credit risk.
Recourse	Seller bears bad debt loss.
Maturity	No advance; Factor pays on collection/maturity.
Advance	Advance against pending receivables.
Undisclosed	Buyer not informed; firm collects/redirects payment.
Invoice Discounting	Similar to factoring, but bank charges interest for advance on receivables.

Factoring vs. Forfaiting

Criteria	Factoring	Forfaiting
Trade	Domestic & Intl	Intl only
Instruments	A/c Receivables	Bills of Exchange, Promissory Notes
Term	Short-term	Medium/Long-term (3-10 yrs)
Advance %	80-90%	Up to 100%
Goods	Consumer goods/services	Capital goods
Recourse	Recourse/Non-recourse	Always non-recourse
Beneficiary	Supports Seller	Supports both Importer & Exporter

Here's a **bullet-point style, exam-revision friendly** summary of the **Working Capital Finance** topic, as per your format:

WORKING CAPITAL FINANCE – Core Concepts

- **Purpose:** Fund daily ops (RM, wages, utilities, inventory, receivables).
- **Divided into:**
 - **Fixed Cap:** Land, bldg, plant, machinery, tools, etc.
 - **Working Cap:** For day-to-day ops.

KEY DEFINITIONS

- **Working Capital (WC) = Current Assets – Current Liabilities**
- **Net WC = Portion of WC from long-term funds**
- **WC Requirement (WCR) depends on:**
 - **Volume of Ops** (Prod/Sales)
 - **Nature of Biz** (Mfg process, prod type, materials, marketing, etc.)

METHODS TO ASSESS WORKING CAPITAL

1. Operating Cycle Method (Cash-to-Cash Cycle)

- **Cycle:** Cash → RM → WIP → FG → Receivables → Cash
- **WCR = Total cash needed for this cycle.**
- **Cycle Includes:**
 - RM storage time
 - Processing time
 - FG storage time
 - Receivables collection time

2. Turnover Method (Nayak Committee) – for MSMEs

- **Limit:** Up to ₹5 Cr (SSI), ₹2 Cr (others)
- **Bank Finance = 25% of proj. annual TO**
 - 5% by borrower (**Margin**)
 - 20% bank finance
- **If NWC > 5% TO**, bank finance = TO-based gap.

3. Tandon Committee – MPBF Methods

- **1st Method:**
 - **WC Gap = TCA – Other CL** (non-bank)
 - Bank finances **75% of WC Gap**
 - **25% from LT funds**
- **2nd Method:**
 - Bank funds **75% of TCA**
 - **25% TCA from LT funds**
 - Ensures **Current Ratio ≥ 1.33:1**
- **3rd Method:**
 - Same as 2nd but **Core Current Assets** (min required CA) **excluded** from TCA.
 - Core CA to be funded **entirely via LT sources**

4. Chore Committee

- Setup by **RBI (1979)** for:
 - Reviewing **Cash Credit system**
 - Studying **low utilization vs sanctioned limits**
- **Recommended:**
 - Mandatory use of **Tandon's 2nd Method** for WCR assessment (except for **sick/rehab units**)

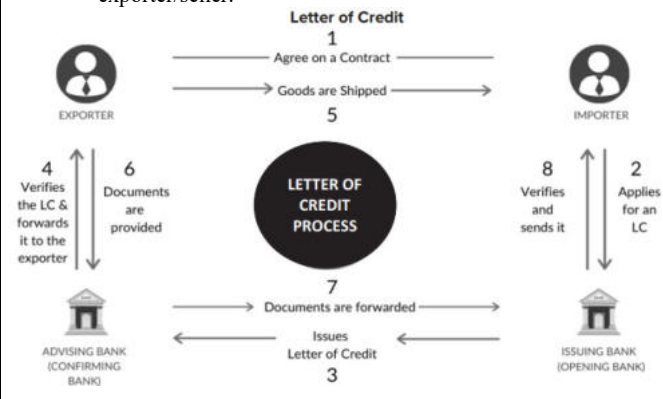
5. Cash Budget System

- Used for **seasonal biz** (Tea, Sugar, Construction, Films, Services)
- **WC limits based on projected monthly cash flows**
- Ensures credit matches **seasonal needs vs. repayment ability**

Here's a **concise bullet-point revision** of the provided content on **Indian Non-Fund Based Facilities – Letter of Credit (LC)**, per your request style:

Non-Fund Based Facility: Letter of Credit (LC) Definition:

- Bank **guarantees payment** to exporter if LC conditions met.
- Issued by bank at request of importer/buyer in favor of exporter/seller.



Types of LC

- **Sight LC:**
 - Payment on presentation (within max 7 days).
- **Acceptance/Time LC (Usance LC):**
 - Bill payable after a period.
 - Docs delivered to buyer upon **acceptance** (not payment).
 - Unsecured till payment.
- **Revocable LC:**

- Can be amended/cancelled by issuing bank without prior notice.
- Not common.
- **Irrevocable LC:**
 - Can't be changed without beneficiary consent.
 - Default type if nothing stated.
- **Confirmed LC:**
 - Another bank (confirming bank) adds its **guarantee** to the LC.
 - Used when exporter doesn't trust issuing bank.
- **Back-to-Back LC:**
 - Exporter receives LC from buyer, uses it to open LC to own supplier.
 - Example:
 - Mr. Pankaj → LC to DNP Ltd → DNP uses LC to pay CS Ltd.
- **Transferable LC:**
 - Beneficiary can **transfer** LC rights (only once) to another party.
 - Must be marked "Transferable".
- **Red Clause LC:**
 - Advance payment before shipment for working capital.
 - Requires **undertaking/receipt** from exporter.
- **Green Clause LC:**
 - Extends Red Clause by covering **warehouse & insurance** costs pre-shipment.
 - Used in **commodity trades**.
- **Standby LC (SLOC/SBLC):**
 - Acts as **guarantee** in case of default.
 - Requires **proof of non-performance** to claim.
- **Revolving LC:**
 - Replenishes credit after each drawing.
 - May have a turnover limit.

Parties in LC

1. **Applicant** – Buyer/importer who pays if docs are compliant.
2. **Issuing Bank** – Buyer's bank; issues LC, liable to pay.
3. **Advising Bank** – Forwards LC to seller; authenticates; no liability.
4. **Beneficiary** – Seller/exporter; receives payment if terms met.
5. **Negotiating Bank** – Verifies docs, forwards to issuing bank.
6. **Reimbursing Bank** – Pays negotiating bank on behalf of issuing bank.
7. **Confirming Bank** – Adds own guarantee if issuing bank defaults.

LC Documents

- Banks deal **only with docs**, not goods.
- Must strictly match LC terms.

(a) Bill of Exchange

- Drawn by exporter on issuing bank.
- Must show:
 - Sight/usance term
 - Amount
 - LC number
 - Beneficiary details

(b) Commercial Invoice

- Must match **LC terms**, mention:
 - Value, quantity, Inco terms (FOB/CIF/C&F)
 - Importer's details, shipping marks

(c) Transport Docs

- Title to goods; type depends on mode:
 - Sea – **Bill of Lading (B/L)**
 - Air – Airway Bill (AWB)
 - Rail – Railway Receipt (RR)
 - Road – Lorry Receipt (LR)
 - Multimodal – Multimodal Transport Doc

(d) Bill of Lading

- Evidence of shipment; must indicate:
 - Goods description, weight

- "Clean" condition (no damage/shortage)
- Freight paid/unpaid
- Consignee (opening bank or endorsed)
- Port of origin/destination

(e) Insurance Policy/Certificate

- Must cover **All Risks** (110% of CIF)
- Currency same as LC
- Issued before/on shipment date
- Must mention goods, ports, shipment date

(f) Other Docs

- **Certificate of Origin** – Proves source (not from restricted countries)
- **Packing List**, quality certs, as per LC

Standby Letter of Credit (SLOC/SBLC)

- Formal guarantee of **payment/performance**
- Used in international trade or contracts
- Types:
 - **Financial SLOC:** Guarantees payment if buyer defaults
 - **Performance SLOC:** Guarantees performance/completion

SLOC vs Bank Guarantee:

- **SLOC:** Formal, detailed, used in high-value/foreign trades
- **Bank Guarantee:** Simpler, less formal, local use

Here's a **concise bullet-point revision** of the content on **Bank Guarantee, Letter of Credit (LC), and Credit Appraisal Methodology** – formatted for **quick study/review** using **bold** for key terms and abbreviations:

BANK GUARANTEE (BG)

- **Non-fund based credit** facility by banks.
- **Legal contract:** Bank (guarantor) assures 3rd party (beneficiary) to pay if client defaults.
- Used in **contracts, tenders, infra projects**.

Types of BGs:

1. Financial Guarantee

- Issued in lieu of **caution deposit/EMD** to govt. depts.
- Helps client bid w/o upfront cash.
- If client backs out, govt. invokes BG & bank pays.

2. Performance Guarantee

- Guarantees **completion of work/contract** on time.
- Covers:
 - Construction (roads, dams, bldgs, etc.)
 - Supply contracts
 - Warranty obligations
 - Infra projects (ports, airports, etc.)
- If client defaults → bank pays up to BG amt.

3. Deferred Payment Guarantee (DPG)

- For **capital goods** purchased on installment basis.
- Bank pays supplier on due dates even if buyer has no balance.
- Buyer gives margin (~10–15%) + assets charged to bank.
- Bank's liability ends after expiry unless invoked.

Key BG Conditions:

- **Specific liability amt + validity period.**
- Limitation clause governs claim period.
- Normally, **maturity ≤ 10 yrs** (Board approval needed if > 10 yrs).
- If invoked, **bank pays immediately**, no delays.

DIFFERENCE: BG vs LETTER OF CREDIT (LC)

Feature	Bank Guarantee (BG)	Letter of Credit (LC)
Nature	Secondary payment guarantee	Primary payment method
Trigger	Invoked only on default	Paid on fulfillment of terms
Used in	Infra, real estate, trade	International trade

Feature	Bank Guarantee (BG)	Letter of Credit (LC)
Risk coverage	Credit risk mitigation	Transaction assurance
Example	Cement supply for construction	Export of goods to foreign buyer

CREDIT APPRAISAL – NON-FUND BASED LIMITS

Purpose:

- Assess **credit risk** before sanction.
- Evaluate **financial strength** & ability to meet BG/LC obligations.

I. Appraisal of LC Limit

- LC = Bank promises seller to pay on buyer's behalf after conditions met.
- Used for **raw materials, capital goods**.

Limit Assessment Formula:

- A = Annual raw material consumption
- B = Raw material procurement via LC
- C = Monthly consumption
- D = Usance period (credit period)
- E = Lead time (order to delivery)
- F = D + E (Total time)
- G = LC time = F × C (working LC limit required)

II. Appraisal of Bank Guarantee Limit

Checks:

- Is BG needed for **normal business activity**?
- **One-time or recurring** requirement?
- Type of BG – **Financial or Performance**?
- Applicant's **financial strength** to meet liability if BG invoked.
- **Past BG record** (invocations & response).
- Current **outstanding BGs**.
- **Margin & security** offered.

Limit Assessment Formula:

- A = O/s BG as per Balance Sheet
- B = New BGs needed in period
- C = Expected BG maturities/cancellations
- D = Total BG limit needed = A + B – C

CH-15 FOREIGN FUNDING - INSTITUTIONS

INTERNATIONAL AGENCIES & DEV. BANKS

- Set up by **Govts. of developed nations** (national/regional/international levels)
- Purpose: **Fund dev. projects** in emerging mkts
- Key institutions:
 - **IFC, ADB, IMF, World Bank**

INTERNATIONAL FINANCE CORPORATION (IFC)

History

- Est. **1956** → Capital: **\$100 mn**
- Purpose: **Private sector dev.** in dev. countries
- First investment (1957): **\$2 mn loan** to Siemens, Brazil
- Early roles: Brought **MNCs** into dev. mkts, staff deployed locally
- Consistent focus on: **Innovation, Impact, Demonstration effect**

About IFC

- Member of **World Bank Group**
- World Bank goals:
 1. **End extreme poverty**

2. Promote shared prosperity

- Services offered:
 - **Investment, Advisory, Asset Mgmt**
- IFC pioneered:
 - Term "**emerging markets**"
 - **Sustainable bonds**

Mission:

Promote **private enterprise** in dev. countries to drive **economic growth**

Support modes:

- **Loans, Equity, Debt securities, Guarantees**
- **Mobilize capital** via participations, parallel loans
- **Advisory**: Biz + Govt to improve **investment climate**

Development Focus (since 2009)

- Goals:
 - **Sustainable agri**
 - **Health & edu**
 - **Microfinance**
 - **Infra**
 - **SME revenue growth**
 - **Climate investment**
- **Ownership**: By **member govts** (shareholders)
- Operates **independently**; makes **autonomous investment decisions**
- Role: **No mgmt control**, but provides **risk mgmt + ESG advice**

Functions

- Provide **investment + advisory** to dev. world entrepreneurs
- Financial products:
 - **A-Loans** (own a/c)
 - **Equity, Quasi-equity**
 - **B-Loans** (syndicated)
 - **Risk mgmt products**
 - **Credit guarantees**
- Advisory services:
 - Often **donor-funded**
 - Mix of **finance + advisory** tailored per project
 - Private sector retains **leadership + capital**

Funding by IFC

- First investment: **1957**, \$2 mn to Siemens Brazil
- Examples:
 - **India, Pakistan**: Steel
 - **El Salvador**: Textiles
 - **Thailand**: Cement
 - **Africa (1960)**: Kilombero Sugar, Tanzania

ESG Bonds (SRI)

- **Green Bonds** → Climate projects
- **Social Bonds** → Social issues
- Standards: **Green & Social Bond Principles, IFC Sustainability Framework**

Funding Instruments

1. **Benchmark & Global Bonds**
 - USD, AUD, GBP, NZD, SOFR-linked
2. **Discount Notes**
 - Since 2009, short-term finance tool (USD, RMB)
3. **Green Bonds**
 - Since 2010; supports **climate-smart projects**
4. **Impact Notes**
 - Track record: \$28 bn (long-term finance), \$22.3 bn (mobilized)
5. **MTNs & Structured Notes**
 - Types: Rate/FX/Equity/Commodity-linked, callable, hybrid
 - Size: Min \$3 mn, maturity: 1–30 yrs
 - **Buyback program** available
6. **Social Bonds**
 - Since 2017; linked to **SDGs**

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