October 2022

Reduction in minimum face value/trading lot for debt securities and non-convertible redeemable preference shares

The Department of Debt and Hybrid Securities of the Securities and Exchange Board of India (“**SEBI**”) released a circular on October 28, 2022, reducing the minimum face value/denomination for debt securities and non-convertible redeemable preference shares ("**Security(ies)**”) being issued on a private placement basis (“**Circular**”).

Key Points covered in the Circular

1. The existing minimum face value of each Security issued on private placement basis is INR 10,00,000 (Indian Rupees ten lakhs). As a corollary the minimum trading lot would be the same denomination.
2. Pursuant to feedback from market participants (including issuers), SEBI, concluded that such a high minimum ticket size was a deterrent to investors (especially retail investors), restricting access to such Securities and the growth of the debt market that has been the focus of the monetary policy over the past few cycles. A lower face value and trading lot would encourage participation from a wider spectrum of investors and result in a more liquid debt securities market.
3. SEBI, pursuant to the Circular, amended the Operational Circular for Issue and Listing of Non-Convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated August 10, 2022, reducing the face value of Securities issued on private placement basis to INR 1,00,000 (Indian Rupees one lakh).
4. The provisions of this Circular are applicable to all Securities, on private placement basis, issued on or after January 1, 2023. However, in relation to shelf memoranda for existing private placements, valid on January 1, 2023, the issuer of the Securities may retain the option to continue with face value at INR 10,00,000 (Indian Rupees ten lakhs) or modify the issuance of future Securities to a face value of INR 1,00,000 (Indian Rupees one lakh).

JSA Comment

As per the SEBI (Issue and Listing of Debt Securities) Regulations, 2008, ‘debt securities’ are non-convertible debt securities which create or acknowledge indebtedness, and include debentures, bonds and such other securities issued by a body corporate or any statutory body constituted by a legislation, whether constituting a charge on the assets of the body corporate or not, but excludes bonds issued by the Government or such other bodies as may be specified by the SEBI, security receipts, and securitised debt instruments. We understand that the minimum face value requirement would be applicable to the private placement of securitised debt instruments ("**SDI**") as well.

The debt securities market in India has always been beyond the reach of the average individual/retail participant due to the higher denominations of minimum investments required. A high minimum investment threshold has always been a hurdle for retail investors in spite of their interest in fixed-income instruments. Most household income in India flows to bank deposits but this could now change, as investors may consider subscribing to debt securities including SDIs. This proactive action to reduce the minimum face value of Securities will in our view result in an increase in investment from retail investors who will now be able to tap into and benefit from the market for higher yielding debt securities.

The reduced ticket size will also bring about more transaction volume and secondary trading. This would lead to a lower cost of funds and higher risk dissipation, eventually resulting in an improved debt securities market.

What remains to be seen is how the market reacts to this reduction in the last two months of the year before the change in minimum face value/ denomination comes into effect on January 1, 2023.

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2 Ranked Lawyers

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