**GNLU CENTRE FOR LAW & ECONOMICS**
**Policy Recommendations**

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# Comments to the Securities and Exchange Board of India on consultation paper titled "Consultation Paper on Review of SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008"

Comments on behalf of the Policy Inputs Research Group on SEBI, GNLU Centre for Law & Economics


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INDEX



## I. INTRODUCTION: -

This paper analyses proposed amendments to the SEBI (Issue and Listing of Securitized Debt Instruments and Security Receipts) Regulations, 2008, as put forward in the recent SEBI consultation paper through a law and economics perspective. Securitization, which essentially pools and re-packages assets into securities for investment, plays a central role in financial markets to provide liquidity and transfer credit risk. However, with the ever-changing market scenario and latest amendments in regulations-the Reserve Bank of India refined its guidelines on securitization of standard assets for the year 2021-the SEBI norms must be updated to be in line with the present scenario.

Proposed changes cover some critical aspects of SDIs, fine-tune regulatory clarity, enhance market stability, and nurture investor confidence in the market. Some of them occurred in the SDI issuance forms, size of tickets, eligibility criteria for investors, risk retention, and disclosure requirements. The structural elements of securitization transactions concerning minimum holding periods, liquidity facilities, and trustees' obligations are also analysed in order to stress on transparency and accountability. The new changes echo the intentions of SEBI to establish a strong framework in order to protect the interest of investors and to bring it in line with international practices.

The following analysis delves into the possible implications and challenges arising out of the amendments and then makes an assessment to realize their implications for the issuers, investors, and regulatory bodies-all this through a law and economics perspective. This paper contributes to the ongoing discourse by providing insights and recommendations aimed at strengthening the securitization ecosystem in India while balancing the gears of market growth with the watchful eyes of regulations.

## II. GENERAL COMMENTS: -

The proposed amendments by SEBI seem to indicate a strategic shift toward clarity in regulations, smoothing compliance, and promoting higher transparency in the securitized debt instrument market. The shift of issuance completely to dematerialized, or demat, form was a crucial step in a more modern digital practice with a view to providing it with maximum safety, operational efficiency, and accuracy in record-keeping. In that sense, it also provides a constant ticket size for investors, which capping exposure at the investment direction for smaller retail investors exposed to complex instruments will attract high-net-worth individuals and institutional players.

The 200 investor limit on private placements, and Qualified Institutional Buyers exemptions, balance institutional demand with the need for regulation to protect the non-institutional investors. While providing the liquidity and depth of markets necessary for such extensive institutional interest, the framework provides strong protections when issuances exceed that threshold provided by private placement limits.

The minimum risk retention of MRR and the clean-up call options emphasize the alignment of risk between originators and investors. The provisions for liquidity ensure cash flow flexibility and a standardized format adopted for disclosure that enhances market comparability and access to information. The disclosures updates that SEBI looks for aim to provide meaningful, well-timed information that would avoid extreme volatility driven by small rating fluctuations.

Regarding the trend of centralizing compliance at the trustee level, it may reduce administrative burdens in other areas but could also challenge the oversight ability regarding issuer-specific themes. Even though trustees are usually well-positioned for this type of compliance, they often do not have an immediate view into the specific operational intricacies of each SPE, leading to delays in addressing concerns of investors. Though this model may be efficient, it may also lead to bottlenecks in the grievance redressal process, especially for the trustees managing multiple trusts with complex designs. The proposed amendment, therefore, while a pragmatic response to regulation streamlining, now has to be tested carefully to ensure that it does not pose risks to the responsiveness or accountability of investor protections expected.

In total, these proposals are aligned with best practices and reflect SEBI's commitment to the development of a safer, more transparent, and accessible SDI market.

## III. SPECIFIC COMMENTS: -

| SL. NO. | ISSUE | SUMMARY OF PROPOSAL | COMMENTS/ SUGGESTIONS | RATIONALE |
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| A | **Amendments relating to form and nature of SDIs, ticket size, meaning of debt, etc.** | | | |
| | **FORM OF ISSUANCE AND MODE OF TRANSFER** | | | |
| | **2.1.** SDI issuance and its transfer shall be only in demat form. | SDIs should be issued and transferred in dematerialized form only to ensure quick and secured transactions. | Mandating the SDIs to be issued and transferred solely in a dematerialized (demat) form as opposed to how it was previously done in physical and digital format, marks the shift towards digitalization of the market and increasing transparency. It also aligns and harmonizes SDI issuance with established current practices for equity and other securities under SEBI and RBI regulations. | It minimizes operational risks associated with physical certificates and enhances the traceability of transactions, which is particularly critical in the securitization market where underlying asset pools are complex and require robust monitoring. This also reinforces market integrity and makes it easier for regulators to track and manage these transactions. |

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| | | | | Besides improving traceability and security, bringing SDIs in line with the digitized framework used for equity and debt securities, it aligns with India's broader financial digitalization efforts. |
| | **TICKET SIZE** *(size of investment by a single investor whether at the time of initial subscription or subsequent purchase of SDI)* | | | |
| | **2.2.1.** For Originators that are RBI regulated entities (i.e. scheduled commercial banks (excluding regional rural banks), small finance banks, NBFCs including HFCs and All-India Term Financial Institutions), | Minimum size of each ticket, or minimum investment per investor, shall be of Rs 1 crore for RBI regulated originators; that is, commercial banks other than regional rural banks, small finance banks, NBFCs, HFCs and All-India Term Financial Institutions. | With specifying a uniform minimum ticket size for SDIs, allows for specific investment participation only, unlike previously it allowed a broadened threshold potentially opening to smaller investors or players in the market. It might have raised concerns over exposure to risk. With the amendment it controls the market players allowing a restricted but more secured entry, aiming to limit the access to institutional or high-net | A higher threshold ticket size safeguards the SDI participation by limiting the originator of higher threshold limit. The unified threshold between the regulated and unregulated by the RBI ensures consistency and mitigates arbitrage between different regulatory regimes. SEBI SDI Regulations with parallel regulatory frameworks, such as |

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| | the minimum ticket size shall be as specified by RBI from time to time (*currently specified as Rs 1 crore*). | | investors. The approach to introduce a uniform limit to both regulated and non-regulated entities by RBI allows a corresponding and equivalent partaking. | RBI's *Master Directions on Securitization of Standard Assets* and the *SARFAESI Act* for stressed assets, reveals an underlying effort to unify definitions and operational standards across asset classes. This fosters coherence, supports the credibility of SDIs as structured products, and reinforces investor confidence across various asset classifications. When SDIs are backed by listed assets, the amendment matches the ticket size with the face value of the underlying securities. This creates proportional investment entry points, which align |
| | **2.2.2.** For Originators that are not regulated by RBI and are undertaking securitisation, the minimum ticket size shall be Rs 1 crore. | In case of the non-RBI regulated originators who are doing securitization, also the minimum ticket size shall be of Rs 1 crore. | | |
| | **2.2.3.** For SDIs with underlying that are listed securities, the amount shall be atleast the face value specified for such listed | If SDIs are backed collaterally with listed securities, the amount of investment must be equivalent to the face value of those securities. | | |

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| | securities. | | | the cost of investment with the value of the assets backing the SDI. It easier for assessing the investment's value and the proportional risk involved based on the face value. |
| | **NUMBER OF INVESTORS** | | | |
| | **2.3.** Number of persons to whom offer or invitation (including by way of a secondary transaction) can be made in case of issuance of SDI on a private placement basis and which are proposed to be listed can be revised to | The proposal further limits private placements to just 200 qualified investors after which there must be a shift to public issuance. | Earlier with no explicit cap on the number of investors for private placements of SDIs left room for higher investor participation. The investor segmentation aligns with limits on private placements seen in other regulators like the Companies Act, 2013. When the cap exceeds going through the public issue route, involves more extensive disclosures and investor protections thereby insuring transparency and stricter regulator after a limit. | Establishing a 200-investor limit before reclassifying an issuance as a public offering maintains regulatory consistency across capital markets as a private placements can be obscured transactions so it is vital to monitor to not be misused. SDI issuance moves beyond a private placement and starts to resemble a public issue, warranting greater regulatory scrutiny and |

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| | 200. An offer or invitation to investors in excess of such number will require being undertaken as a public issue of SDIs. | | | transparency requirements to protect a broader base of potentially less sophisticated investors. |
| | **2.4.** Offer or invitation made to qualified institutional buyers to be excluded while calculating the limit of 200 persons. | The limit does not include QIBs hence, issuers can effectively expand institutional investment without having to raise the issue into the public market. | Exempting Qualified Institutional Buyers attracts substantial institutional investment without being constrained by the cap. This is likely to increase the depth and liquidity of the SDI market. | Exempting Qualified Institutional Buyers (QIBs) ensures that institutional capital can flow freely into the SDI market without triggering the public issue requirements. This makes it easier for issuers to tap into institutional demand while still protecting retail investors by keeping the private placement limit effective. It also pushes for greater market liquidity without compromising |

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| | | | | regulatory oversight. |
| | **UPDATING OFFER PERIOD FOR SDIS** | | | |
| | **2.5.** Minimum and maximum number of days of which the public offer can kept open shall be 3 days and 10 days respectively. | Public issue offer period is defined between 3 and 10 days, thus limiting fundraising time from investors. | Setting a specified offer period of 3 to 10 days for public SDI issuances establishes a balanced framework, allowing issuers adequate time to attract investors while ensuring that offers remain efficient and timely. | This regulated time frame aligns with SEBI's norms for other non-convertible securities and promotes consistency in public offerings, allowing investors a reasonable window to assess opportunities. The defined period prevents protracted/prolonged offers that could create market uncertainty, facilitating a smoother, more predictable investment environment for both issuers and potential buyers. |
| | **2.6.** Advertisement requirements | Advertising requirements for SDIs should be | Aligning advertisement requirements for SDIs with those outlined in the | Consistency in advertising standards ensures that SDI |

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| | for SDIs shall be aligned with the requirements specified in the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 ('NCS Regulations'). | harmonized with SEBI's regulations for NCSs so that there is not too much variation across similar financial products. | SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, simplifies compliance procedures and promotes uniformity across similar debt instruments. | offers are presented with the same transparency and disclosure as other non-convertible securities, enhancing investor awareness and reducing informational asymmetry. This alignment also enables issuers to streamline their regulatory compliance processes, reducing redundancies and increasing regulatory coherence across different categories of debt instruments. |
| **B** | **Amendments relating to structural elements of the securitisation transaction** | | | |
| | **MINIMUM RISK RETENTION (MRR)** | | | |
| | **2.7.** MRR of 10% by the originator is proposed to be specified. | The proposal proposes to specify the Minimum Risk Retention (MRR) at the originator's level should be at 10%. | MRR requirements can be classified based on asset risk and type, thereby ensuring increased market participation. For example, lower retention levels for high-quality | Instead, in an economic sense, MRR and MHP requirements have the effects of aligning originators' incentives with investors and thus |

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| | **2.8.** For transactions where receivables have a scheduled maturity up to 24 months, MRR of 5% by the originator is proposed to be specified. | The MRR for receivables maturing within less than 24 months should be 5%. | assets will facilitate easier originator participation while the riskier assets are expected to have more MRR such that their incentives and responsibilities are better aligned. This differentiation allows for more targeted risk management, reduces the financial burden on originators with lower-risk assets, and makes securitization more appealing for both high and low-risk issuers. With MRR differentiated by asset risk, market liquidity improves, and originators are incentivized to bring to the market a broader range of assets, thereby enhancing overall market efficiency and investor confidence. | reduce adverse selection and moral hazard by ensuring that originators retain some risk. Risk-adjusted MRRs and MHPs improve market efficiency by reducing information asymmetry because there exist longer holding periods for riskier assets to assess performance by having more precise pricing for the assets. Such regulatory requirements, adjusted in line with market conditions, promote efficient capital allocation; when stability prevails, liquidity is increased, but when there is more volatility, it decreases to prevent increased issuances of risky items. |
| | **2.9.** Minimum holding period (MHP) by the originator of the receivables that would be the underlying for an SDI shall be specified from time to time | Periodical Minimum Holding (MHP) is as proposed will be for a securitization debt instrument, which is defined as the minimum period that the receivables be held in the books of the originator. | | |

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| | | | | Conformity with international standards supports competitiveness because international investors are attracted, and mandatory disclosure and enforcement increases the confidence and participation of investors in the market. Therefore, this approach reconciles risk management with market growth and supports a stable, attractive securitization framework. |
| | **CLEAN UP CALL OPTION** | | | |
| | **2.10.** Clean-up call option would be available to the originator and stipulated at a maximum of 10% of the | This option would allow an originator to buy back assets when the pool value hits 10% of the original without circumventing | Flexibility also needs transparency and alignment of interest with the investor to balance risk management of clean-up call options. While allowing originators to decide | Economically, call options with the clean-up allow originators to manage transaction costs and the increase in liquidity by giving the opportunity to |

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| | original value of the underlying. | credit enhancements or unfairly transferring losses and is regulated. | whether to exercise the option keeps flexibility intact, guidance on this aspect should include the point that a call cannot be used artificially to inflate the asset value or transfer risks to investors. Clean-up calls would have clear and standardized terms to ensure fair use without exploiting the originators. | close the remaining pools-small pricey ones to administer. It protects investors as well by not favoring loss distribution that diminishes the value of investment by bringing balance to the marketplace through limiting the call at 10% of the original value and not allowing risk-shifting structures. This allows for the retention of founder flexibility and investor trust, which are crucial to a sound securitization market. |
| | **2.11.** The exercise of the clean-up call option, if any, is not mandatory upon the originator. | | | |
| | **2.12.** Clean-up call options, if any, should not be structured to avoid allocating losses to credit enhancements or otherwise structured to provide credit enhancements and should be in accordance with the norms as specified from | | | |

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| | time to time. | | | |
| | **LIQUIDITY FACILITIES** | | | |
| | **2.13.** Originators may directly provide liquidity facilities or appoint an independent third party to provide such liquidity facilities. Such liquidity facilities help smoothen the timing differences faced by a special purpose distinct entity ('SPDE') between the receipt of cash flows from the underlying assets and the payments to be made to the | The originators either make direct provision of liquidity facilities or commit a third party to do it for a Special Purpose Distinct Entity (SPDE). These help bridge the timing gap between inflows from cash underlying assets and to pay out to investors, all within stipulated norms. | Allowing originators or third parties to administer liquidity facilities gives SPDEs greater flexibility in making sure that the SPDE does not miss payments. As a precautionary measure to prevent possible cash-flow mismatches, standards might also be set for the credit quality and capacity of third-party providers to enhance stability. | Liquidity facilities inject stability into the markets through timely control of risks in order to reduce uncertainty in payment to the investors. Flexible provisions to be used by originators either directly or through qualified third parties increase aggregate liquidity and confidence in the market. The facilities help dampen cash flow gaps and enhance trust because returns will, indeed, be paid to the investors on time. |

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| | investors, and should be in accordance with the norms as specified from time to time. | | | |
| | **DEFINITION OF DEBT/ RECEIVABLES** | | | |
| | **2.14.** Definition of debt/receivables shall be amended. Such definition shall specify: listed debt securities, trade receivables (arising from bills/invoices duly accepted by the obligors), rental receivables and equipment leasing receivables. | The proposed amendments cap eligible receivables for securitization only to listed debt securities, trade receivables, rental receivables, and equipment leasing receivables. Unlisted debt securities are excluded from the list unless there are extensions by SEBI. Additional conditions mandate homogenous asset pools, fully | The 25% concentration cap and requirement for homogenous assets further reduce the risk by creating predictable cash flows. Moreover, the three-year track record adds further reliability on the securitized assets while further limiting unlisted debt reduces transparency risks. The rules possibly may allow room for flexibility, such as high-quality short-term relations or asset classes that would be allowed under specific conditions. | The requirements concerning concentration limit and homogenous pool support portfolio diversification and minimize the exposition to risks with stability and, therefore, improved risk management in securitized portfolios. Additionally, the requirement for a track record minimizes adverse selection and thus reduces informational asymmetry because assets with proven |

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| | Further, SEBI may notify other types of debt or receivables from time to time. No other debt or receivable (including unlisted debt securities) shall be permitted to be an underlying for an SDI. | paid-up SDIs, and a three-year track record in originating and operating receivables for both originators and obligors. An agreement between the originator and the obligor should also be present for at least three years with two cycles of payment without defaults on the trade receivables. | | performance are preferred. The assets are restricted to listed securities, which enhance transparency and information flow, consequently market efficiency, since investors can rely on regulated, public, available data for the evaluation.<br>Secondly, tenures create a relationship of trust among parties, hence reducing the moral hazard risk as established and reliable relationships are formed. The combination of all these measures with an equilibrium framework is what ultimately balances the tension between risk management and active market participation and |
| | **2.15.** The following conditions shall govern securitisation resulting in issuance of SDIs:<br>• No obligor shall have more than 25% in asset pool (-accordingly | | | |

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| | single asset securitisation is not proposed to be allowed at this stage)<br>• Asset comprising the securitisation pool should be homogeneous (- accordingly securitisation pools of non-homogenous assets is not proposed to be allowed at this stage)<br>• SDIs must be fully paid up<br>• Originators must necessarily have a track record of operations of 3 financial years which | | | investor confidence, which leads to a proper functioning and efficient market for securitization. |

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| | resulted in the creation of the type of debt or receivable it is seeking to securitize<br>• Obligor must necessarily have a track record of operations of 3 financial years which resulted in the creation of the type of debt or receivable that the originator is seeking to securitize.<br>• Originator and Obligor must have a business relationship for atleast 3 years. In case of trade receivables, | | | |

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| | such business relationship should have spanned atleast two cycles of payments with no defaults, and the receivables arising from such obligors proposed to be securitized should have the same payment cycle. | | | |
| **C** | **<u>Amendments relating to trustees</u>** | | | |
| | **COMPOSITION OF BOARD OF TRUSTEES** | | | |
| | **2.16.** Trustees of an SPDE shall only be a SEBI registered Debenture Trustee. Accordingly, Board of | The proposal suggests that trustees of a Special Purpose Distressed Entity (SPDE) should exclusively be SEBI-registered Debenture Trustees. This | The proposal to mandate that only SEBI – registered Debenture Trustees serve as trustees for a Special Purpose Distinct Purpose Entity (SPDE) aims to streamline regulatory oversight and ensure uniformity in the | The proposal to restrict trustees SPDEs to SEBI-registered Debenture Trustees aimed at improving regulatory oversight and investor protection. Limiting trusteeship to entities that are |

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| | Trustees, or other entities permitted to be trustees of an SPDE would not subsist. | means that only these specific trustees, who are officially registered and regulated by SEBI, would be permitted to serve in this capacity. Consequently, a broader Board of Trustees or other types of entities would no longer be allowed to act as trustees for SPDEs. This change is aimed at standardizing and likely enhancing regulatory oversight and accountability by ensuring all trustees are SEBI-regulated debenture trustees. | standards and accountability applicable to trustees. By limiting trusteeship to SEBI-registered Debenture Trustees, SEBI seeks to enhance investor confidence by appointing entities that already comply with stringent regulatory requirements and have experience in handling investor protections. | already regulated by SEBI promotes standardization and accountability .SEBI- registered Debenture Trustees are required to meet stringent regulatory standards, conduct thorough due diligence and adhere to high level of fiduciary duty and reporting. These requirements help reduce the risk of non- compliance by ensuring that only experienced entities, familiar with SEBI's specific requirements, are entrusted with this responsibility. Additionally, given their expertise in safeguarding investor interests, Debenture Trustees are well suited to oversee SPDE assets, |

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| | | | | which often involve complex financial instruments and substantial investor funds. By ensuring that only qualified, regulated entities act as trustees, SEBI aims to minimize risk and overall investor confidence in SPDEs.<br><br>However, a drawback of limiting trusteeship to SEBI-registered Debenture Trustees is that it reduces competition and diversity in trustee options. By excluding other potential trustee entities, this restriction may lead to higher costs and limit the availability of customized services that could better suit specific SPDE requirements. |

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| | | | | A solution could involve allowing other qualified entities to register as trustees under SEBI's regulatory framework, which would maintain the same level of oversight while expanding trustee options to increase flexibility and efficiency in SPDE structures. |
| | **REMOVAL OF TRUSTEES** | | | |
| | **2.17.** Requirement of prior approval from SEBI for the removal or replacement of trustees shall be dispensed with. | The proposal includes the following key points regarding the removal or replacement of trustees in a Special Purpose Distressed Entity (SPDE):<br><br>• **Removal of SEBI Approval Require** | The proposal to remove the requirement for SEBI's prior approval in the removal or replacement of trustees, while aligning the process with NCS Regulations and SEBI (Mutual Fund) Regulations, is a positive step toward simplifying regulatory procedures. Specifying the procedure for meetings regarding trustee removal and replacement also | These proposals promote efficiency by reducing regulatory bottlenecks, as issuers and investors no longer need SEBI's prior approval for trustee removal or replacement. Instead, aligning the procedure with the existing NCS and Mutual Fund |
| | **2.18.** Procedure of removal of | | | |

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| | trustee to be aligned with NCS Regulations and/or SEBI (Mutual Fund) Regulations, 1996 (‘MF Regulations’). | **ment**: The current requirement for SEBI's prior approval for the removal or replacement of trustees will be removed. This aims to streamline the process.<br>● **Alignment with Existing Regulations**: The procedure for removing trustees will be | contributes to a clearer, more streamlined process. | Regulations provides a standardized framework that helps ensure consistency across the industry. This approach also empowers stakeholders to act more swiftly and responsively to trustee performance issues, without being delayed by lengthy regulatory approvals. Additionally, specifying the procedures for calling and holding meetings related to trustee changes ensures transparency and clarity, which is essential for maintaining investor trust and confidence.<br><br>However, the removing of SEBI’s approval requirement could lead to situations where |
| | **2.19.** Procedure for calling of and holding of the meeting for trustee removal and replacement shall be specified | | | |

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| | | aligned with the SEBI NCS (Non-Convertible Securities) Regulations and SEBI (Mutual Fund) Regulations, 1996, ensuring consistency with established frameworks.<br>● **Meeting Procedure for Trustee Removal**: A clear and specific | | trustees are replaced without adequate regulatory oversight, increasing the risk of conflicts of interest or unsuitable trustee appointments. This could ultimately affect investor protection, as stakeholders may make changes based on internal dynamics rather than objective suitability. To address potential risks, SEBI could implement a post-removal reporting requirement, where issuers document and submit the rationale and process of trustee removal or replacement. This approach maintains SEBI's oversight without requiring prior approval, ensuring both |

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| | | procedure for convening and holding a meeting to address trustee removal and replacement will be introduced, ensuring transparency and orderly governance in SPDE trustee transitions. | | efficiency and accountability. |
| | **TRUSTEE OBLIGATIONS** | | | |
| | **2.20.** Amend 'Duties of trustees' under SDI regulation to provide | The proposal aims to amend the "Duties of Trustees" section under the SDI regulations to bring greater | The proposal to amend the Duties of Trustees" under SDI regulations, incorporating provisions from NCS and Mutual Fund Regulations, is a step towards enhancing | Clarifying the duties of the trustee and aligning them with established regulations such as NCS and Mutual Fund regulations will |

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| | clarity, increase accountability and transparency and relevant provisions of NCS Regulations and MF Regulations. | clarity, accountability, and transparency to trustee responsibilities. By refining these duties, the objective is to eliminate ambiguity in trustee obligations, making their roles more comprehensible and transparent for all stakeholders. Additionally, the proposal seeks to align these duties with relevant provisions from SEBI's NCS Regulations and Mutual Fund Regulations. This alignment will ensure that trustee obligations for SPDEs are | the clarity, accountability, and transparency of trustee obligations. By aligning trustee duties across regulatory frameworks, SEBI aims to create more cohesive and reliable standards for trustee conduct. | strengthen trustee accountability and ensure consistent standards across financial entities. This move enhances transparency by clearly defining trustee responsibilities, reducing ambiguity, and minimizing the risk of misinterpretation or lapses in duty. Investors benefit from this uniformity, as it assures that trustees will be held to a higher and more transparent standard, promoting confidence and security in the management of SPDE assets.<br><br>However, integrating multiple regulatory provisions could create complex |

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| | | consistent with other SEBI-regulated entities, ultimately strengthening governance and trust in SPDE operations. | | obligations, potentially making compliance challenging for trustees and increased operational costs. To address this, SEBI could provide simplified guidelines or a summary document that outlines key trustee duties in a concise format. This would reduce complexity while ensuring trustees fully understand their obligations and comply effectively. |
| | **TRUSTEES' CODE OF CONDUCT** | | | |
| | **2.21.** Aligning the code of conduct and duties of trustees to the code of conduct and duties of debenture | The proposal suggests aligning the code of conduct and duties of SPDE trustees with the standards set for debenture trustees as outlined in Schedule III (read | The proposal to align the code of conduct and duties of trustees with those of debenture trustees, as outlined in Schedule III (regulation 16) and relevant NCS and Mutual Fund Regulations, is a positive step toward unifying | Aligning the code of conduct for trustees with that of debenture trustees promotes a standardized approach to ethical obligations and duties. This consistency enhances |

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| | trustees provided in Schedule III (read with regulation 16) and relevant provisions of NCS Regulations and MF Regulations | with regulation 16) of SEBI regulations. It also proposes incorporating relevant provisions from SEBI's NCS Regulations and Mutual Fund Regulations. This alignment will create consistency across trustee roles, ensuring that SPDE trustees adhere to the same ethical and professional standards as debenture trustees, thereby reinforcing trust and uniformity in trustee governance. | standards of trustee behavior. This alignment aims to create a consistent regulatory environment, ensuring that trustees across various entities adhere to similar ethical and operational principles | investor protection by ensuring that trustees across different entities are bound by clear, uniform expectations regarding their responsibilities and ethical conduct. It also reinforces accountability and transparency, as investors and regulatory bodies can expect trustees to adhere to well defined and rigorous standards, fostering greater trust and reducing the potential for conflicts of interests or misconduct.<br><br>However, the uniform code of conduct may not account for the unique operational contexts of different types of trustees, |

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| | | | | potentially limiting flexibility in trustee conduct. To address this, SEBI could allow for minor adaptations or supplementary guidelines that trustees can apply based on specific business needs or structural differences, maintaining uniformity in core ethics and duties while accommodating practical variations across entities. |
| **D.** | <u>**Amendments relating to disclosure requirements**</u> | | | |
| | **PERIODIC DISCLOSURE OF INFORMATION** | | | |
| | **2.22.** Mandate disclosure of updated information regarding the SDIs on a semi- | It proposes mandating semi-annual updates on SDI performance metrics to keep investors informed of underlying asset | Amendment to proposal 2.22. Would be to <u>*Introduce Quarterly Disclosures for High-Risk or Complex SDIs*</u> Semi-annual disclosures may not provide adequate transparency for high-risk | <u>*Quarterly Disclosures for High-Risk SDIs*</u> Increasing disclosure frequency for high-risk SDIs improves information flow, allowing investors to |

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| | annual basis. | health and changes. | SDIs or those with complex underlying assets. Complex SDIs may involve- Subprime or Non-Prime Assets, Structured Products with Multiple Tranches, SDIs with High Leverage or Credit Enhancement Mechanisms, Assets with Exposure to Market-Sensitive Industries etc. SEBI could require quarterly disclosures for these specific SDI categories, allowing investors to receive timely updates and make more informed decisions. This aligns with Behavioral Finance Theory, as frequent updates can mitigate investor uncertainty and reduce information asymmetry. | make timely, informed decisions that reduce adverse selection risks (Akerlof's Information Asymmetry Theory). Legally, SEBI's quarterly disclosure for high-risk instruments supports investor protection as outlined in the SEBI Act, 1992, ensuring that riskier investments are closely monitored and that critical information reaches investors more frequently, strengthening market integrity.<br><br>Furthermore, this approach is consistent with SEBI's commitment to tailored compliance based on risk profiles, as seen |

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| | | | | in similar high-frequency reporting requirements for other volatile asset classes under the SEBI (Listing Obligations and Disclosure Requirements) Regulations. |
| | **2.23.**<br>DT/ CRA to update any rating change to stock exchanges on a continuous basis. | It requires that Debenture Trustees (DTs) and Credit Rating Agencies (CRAs) provide continuous updates on rating changes, ensuring that the market quickly reflects any shifts in credit risk. SEBI also recommends implementing a standardized disclosure format, which would help streamline information and | Amendment to proposal 2.23. Would be to<br><br>*<u>Adopt a Periodic Rating Update Framework with Immediate Reporting for Significant Changes</u>*<br>To balance transparency with market stability, SEBI should replace continuous rating updates with periodic updates (e.g., monthly or quarterly), while requiring immediate reporting for substantial rating changes. This approach aligns with the International Organization of Securities Commissions | *<u>Gradual Rating Update Framework</u>*<br>The Gradual Rating Update Framework helps stabilize the market by preventing overreactions to minor rating changes, in line with Behavioral Economics, which shows that frequent updates can drive volatility through emotional trading. Legally, this aligns with SEBI's mandate for market stability and transparency, as significant updates |

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| | | make it easier for investors to compare SDI performance across issuers. These changes focus on boosting transparency and market consistency while providing investors with timely and organized information. | (IOSCO) guidelines, which advocate for structured, through-the-cycle ratings to avoid excessive volatility. Such a framework ensures that investors receive timely information on material changes without overreacting to minor fluctuations.<br><br>. | are disclosed promptly, ensuring investor protection without unnecessary fluctuations. This approach is consistent with IOSCO's CRA standards on reducing volatile updates, balancing transparency and market efficiency. This structured disclosure aligns with the SEBI (LODR) Regulations, 2015, supporting a system where only substantive credit events prompt immediate action, thus balancing legal transparency obligations with practical market stability. |
| **E** | **Clarificatory Changes** | | | |

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| | **2.25**<br>Specify that the defaults should cover defaults in connection with servicing obligations undertaken in the past for any SDI or securitisation notes or SRs. | The suggested change aims to remove the ambiguity regarding the nature of defaults that need to be disclosed. The disclosure of only service obligations related defaults targets only the relevant, past performance that has been defaulted. Hence, the suggestion is to narrow the scope of the defaults.<br>The proposal seeks to remove any extraneous information and along with it, unnecessary reporting burdens. The disclosure obligations assist | <u>*Recency and Relevancy*</u><br><br>The limit for required disclosures must be limited to a specified timeframe.<br><br><u>*Incentivising correction of defaults*</u><br><br>Including a provision allowing servicers to mention the measures taken to correct a past default. | <u>*Recency and Relevancy*</u><br><br>Specifying the time limit would address information asymmetry by ensuring more recent, and relevant data for investors. The disclosures would reveal the current capabilities of the servicer, rather than outdated information.<br><br>*Incentivising correction of defaults*<br><br>Demonstrating proactive risk management boosts investor confidence. Incentivising such risk management aligns the interests of the servicers and the investors and overall contributes to reducing the costs |

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| | | the investors in assessing the reliability of the servicer. | | associated with defaults. |
| | **2.26** Specify that entity(ies) in respect of whom such disclosures should be made are: originator, servicer, or any other parties to the transaction. | The proposal seeks to provide for specifying the parties, in whose respect a disclosure is made. The disclosures should explicitly reefer to the category of the party involved in the transaction whose litigations (or other developments) might have a negative impact on the transaction. | *<u>Proportional disclosure requirements</u>*<br><br>The clause must be amended to require different levels of disclosure, at different levels of relevance, and the potential impact of such litigation on the transaction. | *<u>Proportional disclosure requirements</u>*<br><br>The suggestion aims at removing the disclosure of low-impact data to reduce costs with data collection, analysis, documentation, reporting and regulatory filing and monitoring costs. For example, a high-stakes litigation involving larger financial claims would require detailed closures, whereas, in a minor case, summary information will suffice, saving the costs, and getting rid of low-impact data. |
| | **2.27** | The proposal | *<u>Accountability</u>* | *<u>Accountability</u>* |

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| | Permit declaration to be made by any authorized person of the originator (as authorised by the board or governing board of the originator) where the issuance is done through private placement. | recommends that the declarations should be allowed to be made by any authorized person, rather than restricting the authority to only the directors. The recommendation recognizes the practical role that designated non-director representatives play. The recommendation aims at reducing the procedural burdens that are an operational reality. The suggestion is likely to have a positive impact by making the process more efficient by reducing unnecessary | <u>*Mechanism*</u><br><br>Addition of a provision requiring authorized persons to have documented authorization (raising the threshold of compliance), would ensure the maintenance of integrity. | <u>*Mechanism*</u><br><br>This is an effort in risk mitigation that ensures that individuals that are properly designated, can make such declarations. The measure is likely to help in protecting the originator's liability. |

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| | | administrative delays. | | |
| | **2.28** Deletion of requirement of an application for listing of an SDI by an SPDE since LODR Regulations, 2015 is applicable for all listed entities. | The proposal recommends the removal of the provision, with reference to the broad applicability of SEBI LODR, and its comprehensive coverage of disclosure and governance requirements for listed companies. The proposal aims to simplify the regulatory landscape for listed entities. | The proposal is practically relevant beause it streamlines compliance for listed entities. Fulfilling overlapping obligations can lead to wasted resources. SEBI LODR's comprehensive scope already ensures that high standards are maintained for transparency and governance. | The proposal reduces compliance costs, including staff time, reporting expenses and legal oversight. Cost minimization is achieved when compliance processes are aligned with a single regulatory framework. This results in lowering the marginal cost of compliance. As a result, both operational efficiency, and market productivity will be benefitted. |
| **F** | **<u>Revisions to legislative references</u>** | | | |
| | Meaning of "group" or "under the same management" - references to MRTP | Required adjustments for the repealed acts are done. | No change/ Comment suggested. The Proposal simply revises definitions within the regulations, eliminating outdated references to the Monopolies and Restrictive Trade | < no comment here> |

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| | Act and Companies Act 1956 - regulation 10(3) (Assignment of debt or receivables) | | Practices Act, 1969, and aligning them with the Companies Act, 2013, and the Competition Act, 2002. | |
| **G** | **<u>Amendments to SEBI LODR</u>** | | | |
| | **APPLICABILITY OF SEBI (LODR)** | | | |
| | **2.35.** SPDE/Trustee of an SPDE shall comply with the requirements as provided under Chapter III of the SEBI LODR Regulations. | The issue identified concerns the overlap in compliance obligations under SEBI's LODR (Listing Obligations and Disclosure Requirements) regulations for listed Security Debt Instruments (SDIs). Currently, these entities must adhere to requirements in Chapter III, which applies to | The proposal to centralise compliance responsibilities at the trustee level could simplify regulatory adherence and minimise operational redundancies, however, it may risk reducing oversight at the issuer level. Appointing compliance officers and establishing compliance policies only at the trustee level could dilute issuer-specific monitoring and delay responses to potential regulatory breaches. Additionally, any oversight gaps at the trustee level could have | *<u>Clarity and Efficiency in Compliance Obligations:</u>* The recommendation to centralise compliance for SDIs at the trustee level could help streamline regulatory processes. The current structure, where multiple chapters apply concurrently, leads to duplicated compliance efforts, with Chapter III mandating general governance requirements such as |

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| | | all listed entities, alongside Chapter VIII specifically for SDIs and Chapter VIIIA for Security Receipts (SRs).<br>The proposal seeks clarification from SEBI to streamline these obligations by mandating compliance requirements under Chapter III only at the trustee level, thereby reducing redundant compliance activities for listed SDIs.<br>Furthermore, it is recommended that SEBI should mandate that trustees adopt stringent record-keeping policies to retain detailed | wider implications on investor protections if trustee obligations are not diligently enforced. Furthermore, this consolidation might not accommodate nuanced compliance needs, which vary by instrument type, issuer structure, and market risk factors inherent to both SDIs and SRs. Therefore, while the proposal is efficient in reducing duplicative requirements, it also introduces potential concerns regarding the depth and immediacy of compliance monitoring. | appointing a compliance officer and maintaining policies on disclosure and document retention. Simplifying this to the trustee level clarifies accountability and diminishes redundancy, allowing entities to focus on substantive compliance rather than administrative redundancies.<br>*<u>Enhanced Accountability and Centralization:</u>* Assigning compliance to the trustee level could promote more effective oversight. Trustees are positioned as intermediaries who are already responsible for safeguarding |

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| | | documentation at both the trustee and issuer levels, facilitating effective compliance monitoring. This approach could balance the need for operational efficiency with the maintenance of high regulatory standards across SDIs and SRs. | | investors' interests. This centralized responsibility would help ensure that document preservation and compliance requirements are monitored more rigorously and managed systematically. Such an approach could minimize the risk of non-compliance due to fragmented accountability across different chapters and requirements.<br><br>*<u>Improving the Relevance of Document Preservation Policies:</u>*<br><br>Document preservation policies are integral to corporate governance, yet their applicability and |

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| | | | | scope differ widely across asset classes. For listed SDIs, whose core structure and investor interaction may be limited compared to standard listed corporations, a broad, generalized policy for document preservation could introduce inefficiencies. SDIs, by design, focus on specific asset classes, often operate within controlled investment frameworks, and may not require the same breadth of document preservation as other corporate entities.<br>By enforcing document preservation requirements at the trustee level, SEBI can ensure that |

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| | | | | document retention and management efforts are appropriately focused. Trustees are responsible for safeguarding records directly related to investor interests and compliance with the terms of the SDI. This shift ensures that preservation policies serve their intended purpose without unnecessary expansion, aligning regulatory requirements with the functional needs of SDI governance. |
| | **SCORES** | | | |
| | **2.36.** In terms of LODR regulations, the entity issuing the listed SDIs is required to be registered on | The proposal suggests an amendment to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, specifically | The suggested amendment appears to be a practical solution to reduce compliance costs and administrative overhead for each trust issuing SDIs. However, this shift of responsibility from the issuer level to | The primary rationale behind the proposal is to alleviate the operational and administrative burden associated with requiring each SPE to obtain a |

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| | the SCORES Platform. Accordingly, SCOREs shall permit registration at the Trustee level for all the SPDEs that it is a trustee of. | Para 13(2). Under the current regulations, entities issuing securitised debt instruments (SDIs) must register individually on the SEBI Complaint Redress System (SCORES) platform, which can be administratively burdensome, especially for trusts established as special purpose entities (SPEs) for specific issuances. The amendment proposes that instead of each individual trust obtaining SCORES registration, registration | the trustee level may present certain regulatory and operational challenges. Trustees, while responsible for managing the trust assets and ensuring compliance with issuance covenants, might lack the comprehensive information and direct oversight over the SPE's day-to-day operations, which could affect their ability to address investor complaints efficiently. Furthermore, by centralizing registration at the trustee level, there is a potential risk of bottlenecks in complaint resolution, especially if a trustee is managing multiple trusts or SDIs with varying levels of complexity. This might inadvertently lead to delays in complaint resolution and a reduction in accountability, as the specific issuer (SPE) may | separate SCORES registration. SPEs are often established for the sole purpose of issuing SDIs and may have limited operational capacity, making individual registration impractical. By centralizing the SCORES registration requirement at the trustee level, the proposed amendment leverages the trustee's role as a central authority across multiple transactions, which enhances efficiency. Trustees generally have the oversight and fiduciary responsibility to administer multiple trusts, making them a logical point of contact for investor complaint management on the |

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| | | should be required only at the level of the trustee. This would enable a single trustee registration to cover all transactions managed by that trustee, thus streamlining compliance and reducing the operational burden. | no longer be directly responsible for handling investor grievances on the SCORES platform. | SCORES platform. This approach is also consistent with broader regulatory trends that seek to streamline compliance processes for financial entities, thereby facilitating a more efficient framework for securities transactions without compromising investor protection. |