FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

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website: www.fidcindia.org

November 07, 2019

MR. AJAY TYAGI,
CHAIRMAN,
SECURITIES & EXCHANGE BOARD OF INDIA (SEBI),
SEBI BHAVAN, PLOT NO. C-4A,
'G' BLOCK, BANDRA-KURLA COMPLEX,
BANDRA EAST, MUMBAI 400 051

Respected Sir,

REQUEST FOR APPOINTMENT

Finance Industry Development Council (FIDC) is a Representative Body of the Assets and Loan Financing NBFCs registered with the Reserve Bank of India. FIDC was formed 15 years ago and is the recognized face of the NBFC sector. We have been engaged in regular interaction both with Reserve Bank of India and Govt. of India, which include pre-budget meetings and also important policy related meetings with RBI. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members.

Over the past few years, FIDC has played a constructive role in educating its members on the regulatory and business environment in which NBFCs operate as also act as a spokesperson of the industry in representing the issues faced by NBFCs to the regulatory authorities and the Government. FIDC has also been involved in preparation of several far-reaching schemes such as the Credit Guarantee Trust for Micro & Small Enterprises (CGTMSE) for NBFCs, NABARD refinance schemes for NBFCs, MUDRA etc.

Sir, one of the biggest issues facing NBFCs today is diversification of fund raising. Traditionally, bank finance has been the most important source of funds for NBFCs, with private and public issue of bonds being a significant alternate source.

NBFCs have access to Non-Convertible Debentures ("NCDs") having flexible tenure and rates, both through the private placement (with restrictions) and public issue. While private placements have severe restrictions on the number of investors, the

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frequency of issue etc., public issue of bonds tends to be very expensive, laborious and inflexible.

The recent liquidity crunch faced by NBFCs has necessitated diversification of funding sources for NBFCs. Further, Government of India and Economists have all voiced the need for promoting and strengthening the Corporate Bond Market. It is time to think beyond the traditional modes of bond issuances to make them more flexible, acceptable and cost effective.

It is therefore proposed that NBFCs be allowed an **on-tap facility for issuance of NCDs** to the retail market by making the offering of NCDs through an easy- to-operate and less costly procedure, but with proper governance to provide investor protection and comfort. The features proposed are:

- Bonds/NCDs to be rated minimum BBB- (minimum investment grade). Instruments must be secured and should not fall under the definition of "deposit"
- Company to file umbrella prospectus (valid for one year) with quarterly financial updates. In no event, can the financials be older than 4 months. This document would lay down the overall limits and the type of NCDs to be issued (deep discount/interest bearing etc.)
- Under this, NBFC to be allowed to issue as many NCDs as they wish in whatever frequency they wish to. There should be no need to file an updated prospectus – only updated financials may need to be filed as an addendum.
- There should be no need for a specific issue closure date and issue allotment date. The allotment of bonds to be similar to acceptance of deposits – with tenure being determined from the date of the application.
- NCDs to be marketed similar to deposits. Intermediaries may be allowed
- Tenure may be long term say, 2 or 3 years and upwards
- Given that these are secured instruments, there should be no need to maintain SLR.
- Governance under SEBI guidelines, with overall borrowing cap being permitted by RBI.
- Lead Manager to have responsibility of reporting to SEBI & RBI on quarterly basis

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- Grievance redressal mechanism similar to deposit acceptance regime; access for investors to SEBI and RBI Ombudsman
- Minimum investment amount could be low – say, Rs 10,000/- so that greater retail participation is possible.
- Instruments would be listed and tradeable on a recognised stock exchange to provide liquidity to retail investors.

The idea is to make bond issuance an on-going process, with increased Reporting, more so, since NBFCs are already subject to stringent supervision, both "on site" and "off site".

We request you to kindly give us an opportunity to explain the aforesaid proposal in detail and seek your suggestions in the matter.

Yours Faithfully

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

RAMESH YER
CHAIRMAN