



# Central Depository Services (India) Limited

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## COMMUNIQUÉ TO DEPOSITORY PARTICIPANTS

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CDSL/OPS/DP/POLCY/2021/381

August 31, 2021

### **'SECURITY AND COVENANT MONITORING' USING DISTRIBUTED LEDGER TECHNOLOGY**

DPs are advised to refer to SEBI Circular no. **SEBI/HO/MIRSD/MIRSD\_CRADT/CIR/P/2021/618** dated August 13, 2021, regarding '**Security and Covenant Monitoring**' using **Distributed Ledger Technology** [refer **Annexure**].

DPs are advised to take note of the same.

Queries regarding this communiqué may be addressed to **CDSL – Helpdesk**: on telephone numbers (022) 2305-8624, 2305-8639, 2305-8642, 2305-8663, 2305-8640, 2300-2041 or 2300-2033. Emails may be sent to: [helpdesk@cdslindia.com](mailto:helpdesk@cdslindia.com).

sd/-

**Nilesh Shah**  
**Asst. Vice President - Operations**

SEBI/HO/MIRSD/MIRSD\_CRADT/CIR/P/2021/618

August 13, 2021

To,

All entities who have listed their non-convertible securities or Issuers who propose to list their non-convertible securities

All Debenture Trustees registered with SEBI

All Credit Rating Agencies registered with SEBI

All Registrar & Transfer Agents registered with SEBI

All Depositories registered with SEBI

Sir/ Madam,

**Sub: 'Security and Covenant Monitoring' using Distributed Ledger Technology**

1. SEBI vide circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/218 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/230 dated November 03, 2020 and November 12, 2020 respectively outlined the process of independent 'due diligence' by debenture trustee(s) on assets of an Issuer company for the purpose of creation of security and 'periodical monitoring' of security created and enhanced disclosures on the website by debenture trustee(s) on continuous basis.
2. In order to strengthen the process of security creation, monitoring of security created, monitoring of asset cover and covenants of the non-convertible securities, a working group comprising of officials from SEBI, Depositories, Stock Exchanges and Trustees Association of India (TAI) was constituted by SEBI. Based on the recommendations of the working group, a platform for 'Security and Covenant Monitoring System' ('system') hosted by Depositories shall be developed.
3. The system shall be used for recording and monitoring of the security created and monitoring of covenants of non-convertible securities. The system shall *inter alia* capture the process of creation of security (viz. due diligence, charge creation etc.), continuous monitoring of covenants by Debenture Trustees (as applicable), credit rating of the non-convertible securities by the Credit Rating Agencies (CRAs) etc.

4. Depositories shall create, host, maintain and disseminate the system for security and covenant monitoring using distributed ledger technology. Further, the depositories shall:
  - 4.1. Provide secure login credentials to Issuers, CRAs, debenture trustees (DTs) etc. for recording and verifying requisite information on the system.
  - 4.2. Put in place adequate safeguards to ensure the integrity and security of the data on the system.
  - 4.3. Share information with the other depository for integrating and maintaining a compatible system.
  - 4.4. Develop an alert mechanism to be sent to the stakeholders for submission, acceptance and rejection of information and alerts for periodic and event based compliances.
  - 4.5. Wherever necessary, provide the feature of document upload by the various stakeholders on the system.
  - 4.6. Provide functionality of maintaining a trail/ log of all the communication/ interaction amongst various stakeholders viz. CRAs, DTs, Issuers, depositories etc. and also in the system on account of recording and verification of information by the stakeholders.
  - 4.7. Provide functionality in the system to make changes in already recorded information by stakeholders (in case a change is required to be made for rectifying any discrepancy or recording additional information) and verification of same by responsible stakeholder (as applicable).
  - 4.8. Be responsible for the effective and smooth functioning of the system and shall develop a mechanism to establish accountability/ responsibility for the rectification of various issues and glitches that may hamper the effective functioning of the system.
5. In line with current market practices, related to issuance of non-convertible securities, the system, as per the nature of the non-convertible securities, shall enable various stakeholders to record information for the following aspects:
  - 5.1. Security creation, asset cover and covenants
  - 5.2. Periodical monitoring of security cover, asset cover and covenants

5.3. Interest and redemption payment (part and full) of non-convertible securities

5.4. Credit Rating information

Accordingly, the role and responsibilities of various stakeholders in the system have been defined below.

#### **A. Recording of information related to security creation, asset cover and covenants**

##### **6. Information regarding assets offered as security (Security creation/ Security Cover):**

6.1. Issuer shall record relevant details regarding proposed 'Security creation/ Security Cover' (if applicable) including asset details, other related documents in the system based on the type of asset offered for security creation as per **Annexure A1**. Issuers shall fill all the requisite fields in the system at the time of creation of temporary ISIN/ ISIN.

6.2. The assets offered as security by an Issuer shall be recorded in the system pursuant to validation/ verification by DT(s) in terms of SEBI Circular dated November 03, 2020 or any other relevant circulars.

6.3. In case, the value and details of assets recorded are not in line with the terms of proposed non-convertible securities issuance, DT shall not validate and reject the same on the system while providing remarks on same. The system shall send an intimation to the Issuer to rectify any discrepancy or record additional details regarding assets offered as security before initiating issuance of temporary ISIN/ ISIN.

6.4. DTs shall also upload the reports prepared by itself or its appointed agencies viz. valuation report, ROC search report, title search report/ appraisal report, security cover certificate, due diligence certificate as per Annexure A of the SEBI Circular dated November 03, 2020 issued by the DT, any other report/ certificate as applicable etc. on the system.

##### **7. Recording of charge creation and charge registration details on the system:**

7.1. Pursuant to creation of charge in favour of DT (as per provisions of SEBI Circular dated November 03, 2020), the Issuer shall upload the details of the charge created on the system as per **Annexure A2**. The Issuer shall also upload all the relevant documents supporting the charge such as Pledge Master Report etc.

7.2. The DT shall then validate the details of the charge entered in the system from Sub Registrar, ROC, CERSAI, Information Utility of IBBI or any other independently verifiable source and shall confirm the same on the system and update any subsequent changes, in case of any discrepancy.

7.3. Pursuant to the issuance of due diligence certificate by the DT to the Issuer as per Annexure B of SEBI Circular dated November 03, 2020, the same shall be uploaded on the system by the Issuer.

#### **8. Modification in charge creation, registration details on the system:**

8.1. Any change in already recorded information on the system related to charge creation, registration details etc. due to any discrepancy or any modification in the value or details of the security provided on account of provision of additional security by Issuer or reduction or substitution of existing security provided by the Issuer, shall be made after approval of DT and information on requisite documents and permission/ consent obtained shall also be recorded on the system.

#### **9. Information regarding asset cover**

9.1. Issuer shall record the asset cover details and fill all the requisite fields in the system at the time of creation of temporary ISIN/ ISIN.

9.2. The asset cover offered by Issuer shall be recorded in the system pursuant to validation/ verification by DT(s) only.

#### **10. Recording of covenants in the system:**

10.1. The Issuer shall enter the covenants of the issuance in the system and upload the Debenture Trust Deed within five working days of signing of Debenture Trust Deed, including but not limited to the following:

- a. Covenants as to title of Security/ asset
- b. Covenants as to Security Cover as per terms of Issue
- c. Covenants as to Asset cover
- d. Covenant as to further borrowing/ issues

- e. Covenant as to creation of further encumbrances on the security
- f. Financial covenants including any restrictions on payment of dividends, maintaining Debt/equity ratio, Gross Debt to EBITDA, Debt to Value Ratio etc
- g. Covenants as to any change in nature and conduct of business
- h. Covenants with respect to changes in the composition of its Board of Directors
- i. Monitoring of Debenture Redemption Reserve, Debenture Redemption Fund, Recovery Expense Fund
- j. Other non-financial covenants such as credit rating, negative lien undertaking, etc.

10.2. DTs shall validate the covenants so entered by the Issuer within seven working days of signing the Debenture Trust Deed including in the cases where the same have not been entered by the Issuers.

#### **B. Periodic monitoring of Security Cover, Asset Cover and Covenants**

11. Issuer shall provide the half yearly certificate by the statutory auditor specifying the security cover and asset cover and upload the same on the system within 45 days/ 60 days as specified under the provision of SEBI (LODR) Regulations, 2015 in format as specified vide SEBI Circular(s) from time to time.
12. The Issuer shall upload on a periodic basis the necessary and applicable documents, information within stipulated time so as to enable DT(s) to exercise the above functions as per terms and timelines set out in SEBI Circular dated November 12, 2020 or any other Circular issued by SEBI.
13. In order to carry out periodical monitoring on security created/ covenants or asset cover, the DT shall:
  - 13.1. Upload the security cover certificate and shall validate the asset cover certificate.
  - 13.2. Update the value of the assets in the system based on the periodic valuation carried out by the DT or its appointed agency in terms of SEBI Circular dated November 12, 2020 or any other Circular issued by SEBI.
  - 13.3. Upload the title search reports, valuation reports etc., in terms of SEBI Circular dated November 12, 2020 or any other Circular issued by SEBI.

### C. Interest and redemption payment

#### 14. Interest and principal payment:

14.1. The Issuer shall record information pertaining to interest and principal payment on the system at the time of creation of ISIN/ temporary ISIN. Issuer shall also record the status of payment of non-convertible securities within one working day of payment/ redemption due date after taking requisite details from Registrar and Transfer Agent. The format for the same is as specified in **Annexure A3**.

14.2. In case of receipt of information in the system, the DT shall validate the status of Interest payment/ Redemption in the system after receiving the requisite details from Registrar and Transfer Agent including file prepared for payment of interest and redemption, Bank confirmation etc. Such status shall be validated within two working days on the basis of the documentary evidence submitted by the Issuer and its Registrar and Transfer Agent.

#### 15. No information or Default in interest payment/ redemption of non-convertible securities:

15.1. In case of non-receipt of information in the system viz. the Issuer fails to intimate the status of interest payment or redemption amount, the DT(s) shall seek status of payment from Issuer and/ or conduct independent assessment (from banks, investors, etc.) to determine the same.

15.2. Based on such assessment, DT(s) shall update in the system the status of payment of Non-convertible securities within seven working days of interest payment becoming due or nine working days of the maturity/ redemption date.

15.3. DTs shall update the details in the platform and initiate necessary action as per SEBI circular dated October 13, 2020.

#### 16. Redemption of Non-convertible securities:

16.1. Issuer shall initiate the release of charges along-with the relevant documents in the system including but not limited to Statutory Certificate, No dues from the Debenture Holders (applicable only in case of private placement), ISINs Extinguishment letter, ROC Charge Satisfaction forms/certificate.

16.2. The DT shall release charges in case any debt is repaid and update/ validate the same in the platform.

#### **D. Credit Rating information**

17. Issuer at the time of creation of temporary ISIN/ ISIN shall upload the credit rating information for non-convertible securities including rating action, date of press release and hyperlink for press release of credit rating. CRAs shall access the platform to validate the rating information uploaded by the Issuer. In case of any discrepancy, Issuer or CRAs shall notify the same on system and update the correct information in the system within three working days of such notification.
18. Any subsequent rating actions carried out by CRAs shall be recorded in system by the Issuer within one working day of the press release, which shall inter-alia include rating action including rating outlook, date of press release and hyperlink for press release of credit rating. In case of any discrepancy, Issuer or CRA shall notify the same on system and CRAs shall update the correct information in the system within two days of such notification.
19. **Applicability:** The above system shall come into effect from April 01, 2022. However, testing of the system shall start from January 01, 2022 and therefore, Issuers, Debenture Trustees and Credit Rating Agencies etc. are thereby advised to carry out necessary changes, if any, in order to be ready to execute such functions as required for the proposed platform.
20. To give effect to above system, Depositories are advised to formulate operational guidelines after consultation with various stakeholders.
21. This circular is issued in exercise of the powers conferred upon SEBI under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 2A of the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993, Regulation 55(1) of the Securities and Exchange Board of India (Issue And Listing Of Non-Convertible Securities) Regulations, 2021, Regulation 101(1) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Regulation 29 of the Securities and Exchange Board of India (Issue

and Listing of Municipal Debt Securities) Regulations, 2015 and Regulation 20 of SEBI (Credit Rating Agencies) Regulations, 1999 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

22. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the categories “Legal Framework” and “Circulars”.

Yours faithfully,

**Richa G. Agarwal**  
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**Market intermediaries Regulation & Supervision Department**  
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1. **Registration of assets for initial due diligence**

1.1. **Type and nature of security offered**

- a. Immovable Property
- b. Movable Fixed Assets
- c. Current Assets viz., receivables, book debts
- d. Intangible viz., IPRs, etc.,
- e. Securities / Other Financial Asset
- f. Assignment of rights
- g. Guarantee viz personal corporate, corporate guarantee, government guarantee etc.

1.2. **Details related to security offered** – The required data to be to be filled along-with supporting documents, wherever applicable:

- a. **Asset description**
  - i. Asset name
  - ii. Asset Details (in case of shares, it shall also include ISIN, Quantity, Pledgee Demat ID, Pledgee Instrument ID)
  - iii. Asset Location (including address of the asset)
  - iv. Asset ownership details
- b. **Value of security offered:** Issuer shall submit documents given as per November 03, 2021 circular and other documents given by Issuer for ascertaining the existence, veracity and value of assets.
- c. **Documents related to existing encumbrance on assets/security offered:** Issuer shall record following details on platform or submit documents:
  - i. For unencumbered assets, an undertaking that the assets on which charge is proposed to be created are free from any encumbrances.
  - ii. For encumbered assets, on which charge is proposed to be created, the Issuer shall submit documents in system as per para 4.3 of SEBI Circular dated November 03,2020 and any other document required to be given by Issuer to DT.

**Manner of updation of charge creation details on System:**

1. Issuer shall enter the following details related to charge created on system as and when applicable:
  - 1.1. Asset details
  - 1.2. Type of Charge Creation
  - 1.3. Charge holder
  - 1.4. Amount
  - 1.5. Date on which charge is created
  - 1.6. Modification date
  - 1.7. Charge Closure date i.e. redemption date.
  
2. System shall ensure every charge details recorded in the system shall have a unique number. Therefore, an asset with a unique asset ID shall be mapped against multiple charge IDs.
  
3. After registering the charge creation details on ROC, CERSAI and IU(IBC) or any other independent agency, Issuer, shall update the same on depository platform wherein Issuer will enter the following details:
  - 3.1. Date of application / filing with statutory / government authority
  - 3.2. Details of any receipt or challan obtained by Issuer after filing.
  - 3.3. List of documents submitted to Agency
  - 3.4. Certificate/document obtained from statutory / government authority after successful registration of charge.
  
4. An individual charge created maybe required to be registered with more than one agency, hence depository may enable Issuer to upload the above mentioned information for more than one agency.

**Interest and principal payment details**

1. Issuers shall fill all the requisite fields in at the time of creation of ISIN/ temporary ISIN as specified by filling in the following details:

<b>Item</b>	<b>Details</b>
Interest Payment	<ul style="list-style-type: none"> <li>• Name of Instrument</li> <li>• Date of Information Memorandum</li> <li>• Issue Size</li> <li>• No. of Instrument</li> <li>• Face Value (Rs.)</li> <li>• Rate of Interest</li> <li>• Interest Amount to be paid on due date</li> <li>• Record Date</li> <li>• Frequency</li> <li>• Due date for Interest Payment</li> </ul>
Redemption payment	<ul style="list-style-type: none"> <li>• Name of Instrument</li> <li>• Date of Information Memorandum</li> <li>• Record Date</li> <li>• Frequency</li> <li>• Type of Redemption</li> <li>• If Partial Redemption, then <ul style="list-style-type: none"> <li>○ By Face Value Redemption</li> <li>○ By Quantity Redemption</li> </ul> </li> <li>• If Redemption is based on Quantity, specify whether on: <ul style="list-style-type: none"> <li>○ Lot Basis</li> <li>○ Pro-rata basis</li> </ul> </li> <li>• Reason for redemption</li> <li>• Redemption due to PUT option (if any)</li> <li>• Redemption due to CALL option (if any)</li> <li>• Quantity and Amount Redeemed</li> <li>• Due date for Redemption/ Maturity</li> <li>• Date of early Redemption (if any)</li> </ul>

2. Issuers shall fill all the following requisite fields to update the status of payment within one working day of payment/ redemption date or a change in the due date of interest payment/ redemption payment as under:

Updation by Issue on continuous basis – Payment of Interest	<ul style="list-style-type: none"> <li>• Actual Date for Interest Payment</li> <li>• Amount of interest paid</li> <li>• Date of last Interest Payment</li> <li>• Reason for non-payment/ delay in payment</li> <li>• Change in Frequency of payment (if any)</li> <li>• Date of Change</li> <li>• Details of such change</li> <li>• Change in Record Date</li> </ul>
Updation by Issue on continuous basis – Redemption payment	<ul style="list-style-type: none"> <li>• Actual Date for Redemption</li> <li>• Amount Redeemed</li> <li>• Outstanding Amount (Rs.)</li> <li>• Reason for non-payment/ delay in payment</li> <li>• Date of previous redemption (part redemption), if applicable</li> <li>• Change in Record Date</li> </ul>