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SEBI SUPPLEMENTS THE APPLICATION PROCESS FOR PUBLIC ISSUES OF DEBT SECURITIES BY INTRODUCING THE UPI MECHANISM

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Keeping in line with its focus to streamline the debt public issue process, across the gamut of securities, SEBI issued a circular on 23 November 2020 (Circular), introducing the Unified Payments Interface (UPI) mechanism as an additional mode for making online applications for public issues of various debt securities such as debentures, non-convertible redeemable preference shares, securitised debt instruments and municipal debt securities. The Circular mandates the adding on of the UPI mechanism as an optional application feature for those debt public issues which open for subscription on or after 1 January 2021.

Salient features of the Circular

- (i) In addition to applications through the Applications Supported by Blocked Amount (ASBA) mode (Self-Certified Syndicate Banks (SCSB) ASBA or Syndicate ASBA), investors can make application for up to INR 2 lakhs through UPI mechanism: (i) offered through a web /app interface of stock exchanges; and (ii) through syndicate members, registered stockbrokers, registrar and transfer agent and depository participants (Intermediaries).
- (ii) These new modes of application also provide for real time validation of investor details such as PAN, DP ID / Client ID, provided at the time of bidding, by the stock exchange(s) with depositories. This will reduce the time taken for the overall application process and to ensure completion of listing of securities and commencement of trading by T+6 days.

UPI Application Mechanism

(i) Mode of application -

An investor may submit the bid-cum application form (Form) through the following modes:

Via an SCSB or Intermediary	Via the Stock Exchange
By submitting the Form:	Through the app/web interface of the stock exchange, post which the bid shall

<p>i. physically at the branch of the SCSB, with ASBA as the sole mechanism for making payment; or</p> <p>ii. to an Intermediary along with the bank account details for blocking of funds; or</p> <p>to the SCSB or the Intermediaries and using the bank account linked with the UPI ID to block the requisite funds, provided the application value is upto INR 2 lakhs. In this case, the Intermediary shall upload the bid on the stock exchange's bidding platform and the application amount will be blocked through the UPI mechanism.</p>	<p>be automatically uploaded, and the amount shall be blocked using the UPI mechanism.</p>
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(ii) Processing of application through UPI mechanism-

a. *Bidding and validation process*

- An investor submits the Form, which includes the bid details and UPI ID, to the Intermediaries or uploads the application through the stock exchange app/web interface.
- The Intermediaries thereafter upload the bid details and UPI ID on the stock exchange bidding platform, post which the stock exchange and the depository undertake the validation of PAN and demat account respectively, of the investor (on a near real time basis).
- Thereafter, the stock exchange will send an SMS to the investor regarding the submission of their Form.

b. *Blocking Process*

- Post the validation process, the stock exchange shall on a continuous basis update the Sponsor Bank with the bid details along with UPI ID.
- The Sponsor Bank shall initiate an electronic mandate request to the investor for authorization of blocking of funds or for any modification. Post which the investor can view the bid details and authorize the one-time mandate (given for each application). However, the investor cannot add/modify the Form, but can withdraw the bid and reapply. In case of a mismatch of bids, it will be sent to the Sponsor Bank for further processing by the stock exchange.
- Upon successful validation, the investor's bank shall receive the request to block the requisite funds, equivalent to the application amount and the investor would be intimated regarding the block of funds and the information containing the status of block request is required to be shared with the Sponsor Bank and the stock exchange and displayed on the stock exchange platform. For the purpose of reconciliation, this information shall also be shared with the registrar.

c. *Post Issue Closure*

- Post receipt of bidding and blocking information from the stock exchanges, the registrar shall undertake reconciliation of the bid data and block confirmation corresponding to the bids by all investor category applications and prepare the basis of allotment.
- Post the approval of the basis of allotment, the registrar shall share the debit file with the Sponsor Bank (through stock exchange) or SCSBs, for the credit of funds or unblocking of excess funds, as may be applicable.
- Accordingly, the Sponsor Bank shall liaise with the investor's bank and raise the debit/collect request for movement of funds to the public issue account (PIA) and unblocking of any remaining funds, as applicable and upon confirmation of receipt of funds in the PIA, securities shall be credited to the investor's account in line with full/partial allotment. In case of no allotment being made to an investor, the mandate will be revoked, and the application amount shall be unblocked.

Enhanced responsibilities

The Circular has introduced increased responsibilities on the participants in the UPI process, *inter alia*:

- (i) *Stock exchanges* are responsible for: (a) the accurate, timely and secure transfer of the electronic application file to the registrar along with the periodic dissemination of the information on the exchange's website; and (b) addressing investor complaints arising from applications submitted electronically through the stock exchange app/web interface portal or through its trading members.
- (ii) *Intermediaries* are responsible for: (a) addressing the investor grievances arising out of the applications uploaded by them; and (b) rejection of applications wherein there is a mismatch between the data entered on the stock exchange platform and obtained by the registrar.
- (iii) *Collecting bank* are responsible for (a) addressing investor grievances arising from non-confirmation of funds to the registrar despite the successful realisation of the payment instrument in the PIA; and (b) if there has been any delay or operational lapse in sending the forms to the registrar.

Comments

SEBI's intention with the introduction of the UPI mechanism is (i) reduction in post issue timelines for allotment and listing; and (ii) allowing more modes of participation by investors in public issue of debt securities. With the UPI mechanism, SEBI has sought to (a) digitise the debt public issue process to a greater degree and bring it at par with the equity issuances; and (b) provide platforms for instant fund transfer, real time mandate creation and application submission process. These steps are expected to increase retail participation, investor base for issuers and boost investor confidence.

It may be noted that the UPI mechanism introduced earlier for equity public issues has yet not proven to be the preferred choice for investors. It could be due to the multiple steps required to be undertaken by Investors for uploading their bids. The process faced certain issues in public issues of equity shares. We hope these are teething problems which will get sorted in near future and UPI mechanism will become as

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popular as ASBA. Due to the COVID-19 pandemic, more and more bank account holders are using UPI mechanism for making payment. Overall a very welcome step from SEBI.

- Sudhir Bassi (Executive Director), Aayush Mohata (Principal Associate) and Adrika Dhawan (Associate)

For any queries please contact: editors@khaitanco.com

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Mumbai

One Indiabulls Centre, 13th Floor
Tower 1 841, Senapati Bapat Marg
Mumbai 400 013, India

T: +91 22 6636 5000
E: mumbai@khaitanco.com

New Delhi

Ashoka Estate, 12th Floor
24 Barakhamba Road
New Delhi 110 001, India

T: +91 11 4151 5454
E: delhi@khaitanco.com

Bengaluru

Simal, 2nd Floor
7/1, Ulsoor Road
Bengaluru 560 042, India

T: +91 80 4339 7000
E: bengaluru@khaitanco.com

Kolkata

Emerald House
1 B Old Post Office Street
Kolkata 700 001, India

T: +91 33 2248 7000
E: kolkata@khaitanco.com