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THE RBI MASTER DIRECTIONS 2024: REVAMPING MONEY MARKET REGULATIONS

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Introduction

Money market instruments play a pivotal role in fulfilling working capital requirements of corporates by facilitating acquisition of short-term financing and thereby establishing liquidity across diverse financial markets. The Reserve Bank of India (RBI), as the regulator of the financial market, lays down the regulatory landscape for the growth of these markets. In its most recent stride, with an aim to streamline the regulatory framework on money markets instruments, RBI released the Master Direction – Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity up to one year) Directions, 2024 (Master Directions) on 3 January 2024.

A 'money market instrument' is defined by the RBI to include call or notice money, term money, repo, reverse repo, certificate of deposit, commercial usance bill, commercial paper, and such other debt instrument of original or initial maturity up to one year as the RBI may specify from time to time. The recently introduced Master Directions govern the issuance of those commercial papers, and non-convertible debentures that qualify as money market instruments.

The Master Directions will supersede:

1. the Master Direction on Money Market Instruments: Call/Notice Money Market, Commercial Paper, Certificates of Deposit and Non-Convertible Debentures (original maturity up to one year), 2016 (Money Market Directions); and

2. the Reserve Bank Commercial Paper Directions, 2017 (CP Directions).

They will take effect from 1 April 2024 and bring about greater transparency and consistency across products in the money market.

Regulatory analysis.

The key regulatory changes with respect to the existing legal regime have been highlighted in detail below:

1. <u>Definitions</u>: Under the Master Directions, a non-convertible debenture has been defined to mean only secured money market instrument with an original or initial maturity up to one year (NCD). Under the old regime, the definition included a debt instrument issued by a corporate with original or initial maturity up to one year and issued by way of private placement. On the other hand, the definition of commercial

papers remains the same, except that there is no minimum maturity for the same prescribed now.

2. Eligibility to issue NCDs and commercial papers: Under the Master Directions, NCDs and commercial papers can still only be issued by such entities who have not defaulted on any of their fund-based facilities availed from banks, NBFCs, and all India financial institutions (AIFIs). In addition to companies, they can also be issued by AIFIs, InvITs, REITs, and any other body corporate statutorily permitted to incur debt or issue debt instruments in India with minimum net-worth of INR 100 crores. This minimum net worth requirement was INR 4 crores earlier.

3. Eligible investors for investment into NCDs and commercial papers: The Master Directions have simplified the conditions around eligibility of investors by permitting all residents, and non-residents permitted to invest in NCDs and commercial papers under Foreign Exchange Management Act, 1999, to invest in such instruments. However, no person is permitted to invest in such instruments issued by a related party.

4. Provisions around issuance: Physical issuance of NCDs and commercial papers is no longer permitted. Additionally, instruments cannot be issued with an attached call or put option. The issuance of such instruments continues to have credit rating requirements. Further, an updated set of disclosures is required to be made at the time of issuance and reporting requirements have also been prescribed. The RBI has also prescribed a timeline of 4 days for completion of funding and issuance of such instruments. This timeline is to be counted from the deal date, i.e., the date on which the trade details, including price/rate are agreed by the issuer and the investor(s).

5. Appointment of Issuing and Paying Agent (IPA) / Debenture Trustee: An IPA is now required to be appointed for each issue of NCDs and commercial papers. Similarly, each NCD issuance is required to have a debenture trustee in line with the requirement of debenture trustee for issuance of secured NCDs.

6. Credit enhancement: Earlier, in case of non-bank entities (including corporates) providing guarantees for credit enhancement of NCDs and commercial papers issued by a group entity, the guarantor was required to have a credit rating at least one notch higher than the issuer. This requirement has now been removed under the Master Directions.

7. Subscription and trading: The total subscription by all individuals in any primary issuance of NCDs and commercial papers is now restricted to 25% of the total amount issued. The Master Directions now permit the trading of such instruments on recognised stock exchanges (as approved by RBI) in addition to trading on Over-the-Counter markets.

8. Defaults in repayment: NCDs have now been brought to par with commercial papers in the terms of the consequence of repayment defaults. Issuers are restricted from accessing the market of the relevant instrument for 6 months from the date of such default. Further, the Master Directions now require all default details to be publicly disseminated on F-TRAC platform and on the website of the issuer.

Comment

The Master Directions appear to be welcome change introducing greater transparency and curbing associated risks with enhanced disclosure requirements to ensure the streamlined growth of the money markets. The directions also aim to streamline the money market regulations by harmonizing regulatory requirements for issuance of NCDs and commercial papers. As these directions take root, their successful execution will be pivotal in fostering growth of money markets and boosting investor confidence in the years to come.

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