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Unveiling the New Horizon: Listing of Commercial Papers and Certificates of Deposit in Gift City

The International Financial Services Centres Authority (ISFCA) on 17 October 2024 issued a circular (Circular) on listing of commercial papers (CPs) and certificates of deposits (CDs) on the recognised stock exchanges (Exchange) in the International Financial Services Centre (IFSC).

LISTING OF CPS PERMITTED IN GIFT CITY

Regulation 80 of the International Financial Services Centres Authority (Listing) Regulations, 2024 (IFSCA Listing Regulations) permits an issuer to list CPs on an Exchange in IFSC, subject to compliance with conditions specified by IFSCA.

KEY PROVISIONS FOR LISTING OF CPS IN IFSC

1. **Eligible Issuer:** Issuers must be established in IFSC, India or any foreign jurisdiction, must operate in line with their constitution, and be eligible to issue CPs as per the relevant laws in their home jurisdiction. However, Indian issuers are not eligible to issue a CP under the ECB route.
2. **Eligible Investor:** Both residents of India and non-residents can invest in CPs, subject to compliance with FEMA, 1999, and its rules.
3. **Form:** CPs must be issued in dematerialised form and shall be held with a recognised depository in the IFSC or an international central securities depository.
4. **Maturity:** The minimum tenure is 7 days, and the maximum is 1 year.
5. **Currency:** CPs must be listed and traded in a specified foreign currency¹ (*inter alia* USD, Euro, GBP, CHF, SGD and AED) on an Exchange, and not be INR denominated.
6. **Listing:** Issuers must file a listing application, offer document or information memorandum as per Exchange requirements, and pay a regulatory fee of USD 1,000 to the Exchange.
7. **Buyback:** Buybacks of CPs, either full or partial, must be at prevailing market price and CPs bought back must be extinguished. The buyback offer must extend to all investors with identical terms and cannot be made before 30 days from the issue date, which is a longer timeline as compared to the timeline of 7 days from the date of issue of CPs for buyback of CPs under the regulations for issue and listing of CPs on Indian stock exchanges² (Indian CP Regulations).
8. **Disclosures:** All material disclosures about the issuer viz. risk factors, business description, structure, management, major or controlling shareholder, financial disclosures, material litigations and defaults, and issue-related disclosures must be submitted by the Issuer to an IFSC Exchange.
9. **Other Conditions:** CP issuance cannot be underwritten or co-accepted or with options (call/put), and CPs must be issued at a discount to face value.

Observations

While the guidelines under the Circular are principally in line with the Indian CP Regulations in relation to most aspects, the

¹ As specified in First Schedule of International Financial Services Centres Authority (Banking) Regulations, 2020, as amended.

² Master direction – Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity up to one year) Directions, 2024 dated 3 January 2024 issued by Reserve Bank of India; (ii) Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations,

2021, as amended read with Securities and Exchange Board of India master circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated 22 May 2024 issued by Securities and Exchange Board of India and (iii) operational guidelines issued by FIMMDA, from time to time.

Circular has provided certain relaxations for issue and listing of CPs on the Exchanges in IFSC, in contrast to the Indian CP Regulations:

1. **Face value/Denomination:** Unlike the Indian CP Regulations which mandate CP issuance in minimum denominations of INR 5,00,000, the Circular provides flexibility in terms of face value and denomination of CPs proposed to be listed.
2. **End use restrictions:** While funds availed by way of issuance of CPs pursuant to the Indian CP Regulations are typically raised for financing current assets and operating expenses, the Circular does not impose such restrictions.
3. **Credit rating:** CPs issued on Indian stock exchanges must have a minimum credit rating of 'A3' whereas no minimum credit rating requirement is provided under the Circular.
4. **Credit enhancement:** Unlike the Indian CP Regulations, the Circular is silent on issuers procuring credit enhancements from banks, all-India financial institutions or group entities in the form of irrevocable guarantee, stand-by assistance/credit etc.
5. **Appointment of intermediaries:** The Indian CP Regulations necessitate the appointment of intermediaries, such as a credit rating agency, a registrar and transfer agent (RTA), and an issuing and paying agent for issuance and listing of CPs. The Circular does not specify these requirements.

LISTING OF CDS PERMITTED IN GIFT CITY

Regulation 81 of the IFSCA Listing Regulations permits an issuer to list CDs on an Exchange in IFSC, subject to compliance with conditions specified by IFSCA.

Key provisions for listing of CDs in IFSC

1. **Eligible Issuer:** The Circular permits an IFSC Banking Unit³ (IBU) licensed by IFSCA to list its CDs on an Exchange under the IFSCA (Banking) Regulations, 2020. However, persons resident in India or entities incorporated in accordance with Indian laws are not permitted to list CDs on an Exchange in IFSC.
2. **Form:** CDs must be issued in dematerialised form and shall be held with a recognised depository in the IFSC or an international central securities depository.
3. **Disclosures:** All material disclosures about the issuer viz. general information, brief description of the parent bank and the IBU's business activities, statutory auditor, material defaults and other material events, if any, and issue-related disclosures must be made in the offer document/information memorandum.
4. **Listing:** Issuers must file a listing application, offer document or information memorandum as per Exchange requirements, and pay a regulatory fee of USD 1,000 to the Exchange.

Observations

While the guidelines under the Circular are principally in line with the CD regulations for issue and listing of CDs on Indian stock exchanges⁴ (Indian CD Regulations) in relation to most aspects, the Circular does not provide procedural clarity to stakeholders and monitoring parameters, in contrast to the Indian CD Regulations:

- (i) **Face value/ denomination:** Unlike Indian CD Regulations, which mandate CD issuance in minimum denominations of INR 5,00,000, the Circular provides

³ 'IFSC Banking Unit' means a financial institution under clause (c) of sub-section (1) of Section 3 of the IFSCA Act, 2019 that is licensed by IFSCA to undertake permissible activities under International Financial Services Centres Authority (Banking) Regulations, 2020, as amended.

⁴ Master Direction – Reserve Bank of India (Certificate of Deposit) Directions, 2021; and (ii) Operational Guidelines on Certificate of Deposit dated 29 December 2023 issued by FIMMDA.

flexibility in terms of face value and denomination of CDs proposed to be listed.

- (ii) **Discount/ coupon rate:** Under the Indian CD Regulations, CDs may be issued at either (i) a discount to the face value or (ii) a fixed / floating rate basis provided the interest rate on the floating rate CD is reset at periodic rests agreed to at the time of issue and is linked to a benchmark published by a financial benchmark administrator or approved by the Fixed Income Money Market and Derivatives Association of India (FIMMDA). However, the Circular is silent on this aspect.
- (iii) **Tenor:** While the Indian CD Regulations stipulate a tenor of 7 days to 1 year, the Circular places no restrictions on the tenor of CDs to be listed on an IFSC Exchange.
- (iv) **Eligible investors:** The Indian CD Regulations permit residents of India to invest in CDs listed on an Indian stock exchange. The Circular, however, provides flexibility, allowing both Indian and overseas investors to invest in CDs listed on an IFSC Exchange.
- (v) **Buyback:** The Indian CD Regulations prescribe conditions for CD buybacks

listed on an Indian Exchange. The Circular, however, is silent on this aspect, which may warrant clarification from IFSC, particularly as CDs are often short-term instruments used to meet operating expenses.

CONCLUSION

The Circular opens up new financial avenues and offers flexibility to entities established in GIFT City and foreign jurisdictions, in addition to bonds which are being listed on exchanges in GIFT City. There are many relaxations on procedural aspects for listing of CPs and CDs in GIFT City, in contrast to the Indian CP Regulations and Indian CD Regulations applicable for listing of CP and CDs in India. However, there is a need for clarity on *inter alia* reporting requirements and documentation for CPs and discount/coupon rate and buyback provisions for CDs. The IFSCA should provide further guidance on these aspects to ensure clarity, transparency and investor protection.

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