

# Standardization of No-Objection Certificate (NOC) format for existing charge holders

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## Introduction

The Securities and Exchange Board of India (SEBI) has proposed the introduction of a standardized format for the No-Objection Certificate (NOC) / Consent Letter required from existing charge holders when a company seeks to issue listed debt securities (Issue) and create further encumbrance on its assets to secure the Issue. This initiative of SEBI aims to eliminate inconsistencies in the terms of submission of such consents and make the due diligence exercise to be undertaken by the debenture trustee in respect of an Issue, more objective from the perspective of competing/ pre-existing charges.

## Current Regulatory Framework

As per the provisions of the 'Master Circular for Debenture Trustees' issued by SEBI dated 16 May 2024 (SEBI DT Master Circular), issuers are mandated to obtain NOC / Consent Letter from existing charge holders before creating further charge on the encumbrance assets.

Such NOCs are then required to be submitted to the debenture trustee for the proposed debt issuance to enable the debenture trustee to carry out its due diligence as per the provisions of SEBI DT Master Circular and the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (SEBI NCS Regulations).

## Proposal for Standardisation

SEBI has been actively working towards enhancing transparency and investor confidence in the listed debt securities market. To achieve this, it has sought to regulate and standardize key documents and certificates necessary for debt security issuance. Recently, SEBI published a Consultation Paper on November 4, 2024, which, among other aspects, proposed a standardized template for the debenture trust deed to be executed between the proposed issuer and the debenture trustee.

To proceed further with these efforts, SEBI has now, based on recommendations from the Trustees Association of India and the United Trustee Association of India and basis internal assessments thereon, recognized that there are variations in the contents and text of the NOCs obtained from existing lenders or charge holders which in turn is causing inefficiency in the debenture trustee's due diligence and bringing an element of subjectivity in respect of the consents to be obtained as a part of the due diligence exercise.

Accordingly, recognizing the need for standardization of format of NOC and the importance of streamlining the due diligence process carried out by the debenture trustee, SEBI has published a Consultation Paper dated 12 February 2025 for the draft circular specifying the standardized format of an NOC / consent to be obtained from the existing charge holders/ lender for, (i) further borrowing in terms of the proposed issue (if required under the trust deed of the proposed debt security); and (ii) creation of encumbrance on already charged assets, applicable from the financial year 2025-26 onwards.

## The proposed NOC format includes, inter alia,:

1. Confirmation of
  - (i) maintenance of the security cover;

- (ii) procurement of similar NOCs from other existing secured lenders; and
- (iii) no breach of covenant or event of default has occurred under any existing facilities obtained by the issuer.

2. Declaration of **pari-passu** rights among secured lenders.

## Conclusion

Currently, NOCs are issued on a case-by-case basis, giving lenders and issuers the flexibility to combine consent items under their existing financing arrangements. The format of NOCs are also driven by internal system of the relevant investors/ financial institutions which in most cases has developed over a period of time, subject to some changes in the NOC which are negotiated between the relevant parties.

While a standardized NOC will help streamline regulatory compliance, make due diligence more efficient, make the task of the debenture trustee more objective and create a clearer framework for all stakeholders, some provisions may need further consideration. For instance, requiring issuers to confirm security cover maintenance or obtain similar NOCs from all secured lenders will be deal specific and may not always be relevant and thus abundant precaution should be exercised before duplication of any format of NOC. To prevent unnecessary operational hurdles, SEBI could consider making these provisions deal-specific rather than universally mandatory.

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