

SEBI's incentive push: A new boost for India's Public Debt Market

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Introduction

The Securities and Exchange Board of India (SEBI) vide its circular no. CIR. /IMD/DF/22/2011 - Public issue of Debt Securities- Prohibition on payment of incentives dated 26 December 2011 (Circular) prohibited payment of incentives by a person connected with a public issue of debt securities to a potential investor for making an application for allotment of specified securities. This circular was issued by SEBI as some brokers/ distributors were passing on part of their brokerage or commission to the final investors for subscription to such public issue of debt, giving an unfair advantage to some investors adding to the cost of issuance for the company.

In 2021, when the SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (now the SEBI (Issue and Listing of Non-Convertible Securities), 2021 (NCS Regulations)) were being amended, this Circular was subsumed in the NCS Regulations. However, SEBI, in the early part of calendar year 2024 issued notices to various issuers and investors wherein the issuers and merchant bankers were questioned about the grant of additional coupon to certain identified categories of investors asking them to show cause as to how the grant of such additional coupon is in compliance with the Regulation 31 of the NCS Regulations.

Due to ambiguity in interpreting this clause and subsequent enforcement actions by SEBI against issuers and merchant bankers, products offering special benefits to specific investor categories were no longer offered in public issues. Consequently, only standard products are being offered in the debt public issues, and the lack of variations has affected issuers' interest in debt public issues.

To encourage greater participation in the public debt market, SEBI has released a consultation paper proposing specific legislation to provide clarity on incentives and has invited public comments on the same.

Current market scenario

SEBI, in its consultation paper for permitting debt issuers to offer incentives in public issues to certain category of investors has indicated that in recent years, the public issue market has been losing momentum because of several factors including low investor awareness, lack of suitable offerings, and competition from other investment avenues. This scenario is reflected in the numbers; the market of public issuance of NCDs has seen a drastic fall from ₹19,168 crore in FY 2023-24 to ₹8,149 crore in FY 2024-25. SEBI believes that well-targeted incentives can reverse this trend, and make debt instruments a lucrative investment option attracting greater retail participation.

Proposed incentives and sector comparisons

SEBI proposes to permit the issue of non-convertible securities with incentives viz. higher coupon rates, or discount on issue price for a specific investor groups like senior citizens, women, armed forces personnel, and retail investors. Such benefits would be disclosed upfront and these benefits shall be available only to the original allottee.

The approach follows the footsteps of related industries i.e. retail investors get discounts in equity OFS transactions, banks give higher rates to senior citizens and women, and travel companies offer special offers to armed forces personnel. SEBI hopes similar incentives in the debt market will attract wider retail participation to revive public issuances.

Comments

SEBI's proposal marks a positive and timely step towards revitalizing the public debt market. The regulator, by permitting issuers to offer targeted incentives, is not only addressing the declining trend in public debt issuances but also fostering financial inclusion. If implemented with proper safeguards and adequate transparency, it has the potential to build up investor confidence and deepen the bond market in India.

- Soumya Mohapatra (Partner) and Mishi Malhotra (Associate)



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