

## RBI releases Commercial Paper Directions, 2017

Commercial Paper is a 'money market instrument' under Section 45W of the Reserve Bank of India Act. The Reserve Bank of India (RBI) has released Commercial paper Directions, 2017 which is stated below.

### Definitions

For the purpose of these directions, unless the context otherwise requires:

- a) 'All India Financial Institution' (AIFI) means an all India Financial Institution specified in the RBI Master Direction DBR.FID.No.108/01.02.000/2015-16 and as amended from time to time
- b) 'Bank' means a banking company as defined in clause (c) of Section 5 of the Banking Regulation Act, 1949 (10 of 1949) or a "corresponding new bank", "State Bank of India" or a "subsidiary bank" as defined in clause (da), clause (nc) and clause (nd) respectively thereof and includes a "cooperative bank" as defined in clause (cci) of Section 5 read with Section 56 of the said Act. Banks would also include branches of foreign banks operating in India.
- c) 'Commercial Paper' (CP) is an unsecured money market instrument issued in the form of a promissory note. The original tenor of a CP shall be between seven days to one year.
- d) 'Company' means a company as defined in section 2 (20) of the Companies Act, 2013.
- e) 'Issuing and Paying Agent (IPA)' means a Scheduled Bank acting as an IPA
- f) Related parties' shall be as defined in section 2 (76) of the Companies Act, 2013
- g) 'Scheduled bank' means a bank included in the Second Schedule of the RBI Act, 1934
- h) 'Standalone Primary Dealer' (PD) means a Non-Banking Financial Company (NBFC) that holds a valid letter of authorisation as a PD issued by the Reserve Bank, in terms of the "Guidelines for Primary Dealer in Government Securities Market" dated March 29, 1995, as amended from time to time.
- i) Words and expressions used but not defined herein and defined in the Reserve Bank of India Act, 1934 shall have the same meaning as assigned to them in the said Act.

### Eligible Issuers

- a) Companies, including Non-Banking Finance Companies (NBFCs) and All India Financial Institutions (AIFIs), are eligible to issue CPs subject to the condition that any fund-based facility availed of from bank(s) and/or financial institutions is classified as a standard asset by all financing banks/institutions at the time of issue.
- b) Other entities like co-operative societies/unions, government entities, trusts, limited liability partnerships and any other body corporate having presence in India with a net worth of Rs. 100 crore or higher subject to the condition as specified under (a) above
- c) Any other entity specifically permitted by the Reserve Bank of India (RBI).

**End use** --The exact end use shall be disclosed in the offer document at the time of issue of a CP.

#### **Eligible Investors**

- a) All residents, and non-residents permitted to invest in CPs under Foreign Exchange Management Act (FEMA), 1999 are eligible to invest in CPs; however, no person can invest in CPs issued by related parties either in the primary or secondary market.
- b) Investment by regulated financial sector entities will be subject to such conditions as the concerned regulator may impose.

#### **Form of the instrument, mode of issuance, rating and documentation procedures**

##### Form

- A CP shall be issued in the form of a promissory note (format in Annex I) and held in a dematerialized form through any of the depositories approved by and registered with SEBI.
- A CP shall be issued in minimum denomination of ` 5 lakh and multiples thereof.
- A CP shall be issued at a discount to face value
- No issuer shall have the issue of a CP underwritten or co-accepted.
- Options (call/put) are not permitted on a CP.

##### Rating Requirement

- Eligible issuers, whose total CP issuance during a calendar year is ` 1000 crore or more, shall obtain credit rating for issuance of CPs from at least two CRAs registered with SEBI and should adopt the lower of the two ratings. Where both ratings are the same, the issuance shall be for the lower of the two amounts for which ratings are obtained.
- The minimum credit rating for a CP shall be 'A3' as per rating symbol and definition prescribed by SEBI.

##### Issue of CP-Credit Enhancement, limits etc

- A CP shall be issued as a 'stand-alone' product.
- Banks and FIs may, based on their commercial judgement, choose to provide stand-by assistance/credit, back-stop facility etc. by way of credit enhancement for a CP issue.
- Non-bank entities (including corporates) may provide unconditional and irrevocable guarantee for credit enhancement for CP issue provided the offer document for CP properly discloses the net worth of the guarantor company, the names of the companies to which the guarantor has issued similar guarantees, the extent of the guarantees offered by the guarantor company, and the conditions under which the guarantee will be invoked.

##### Secondary market trading and settlement of CP

- All OTC trades in CP shall be reported within 15 minutes of the trade to the Financial Market Trade Reporting and Confirmation Platform ("F-TRAC") of Clearcorp Dealing System (India) Ltd.
- The settlement cycle for OTC trades in CP shall be T+0 or T+1.
- OTC trades in a CP shall be settled through the clearing corporation of any recognized stock exchange or any other mechanism approved by RBI.

##### Buyback of CP

- The buyback of a CP, in full or part, shall be at the prevailing market price.
- The buyback offer should be extended to all investors in the CP issue. The terms of the buyback should be identical for all investors in the issue.

- The buyback offer may not be made before 30 days from the date of issue
- CPs bought back shall stand extinguished.

Duties and Obligations--The duties and obligations of the Issuer, Issuing and Paying Agent (IPA) and Credit Rating Agency (CRA) are set out below:

Issuer – The issuer of CP shall

- Appoint an IPA for issuance of a CP
- Comply with all relevant requirements under these directions and furnish a declaration in this regard to the IPA.
- Ensure that the proceeds from CP issues are for declared end uses.
- Furnish the board resolution authorizing the company to borrow through issuance of a CP to the IPA.
- Keep the bank(s) from whom it has outstanding fund or non-fund based credit facility(ies) informed of its market borrowings, including through CPs, latest by the end of the month in which a CP was issued.
- Arrange for crediting the CP to the demat account of the investor with the depository through the IPA within 7 days of issue.
- Route all subscriptions/redemptions/buybacks/payments and default details through the IPA.
- Submit a certificate from the CEO/CFO to the concerned IPAs on quarterly basis that CP proceeds are used for disclosed purposes, and certifying adherence to other conditions of the offer document and the CP directions. The certificate may be provided within 15 days from the close of the quarter
- Inform the CRA and IPA on the same day about any default/delay in CP related payments
- The issuer who has defaulted on a CP shall not be allowed to access the CP market for six months from the date of repayment of the defaulted obligation.

Issuing and Paying Agent – The IPA for a CP issuance shall

- Ensure that the borrower is appropriately authorised to borrow through CPs.
- Verify all information disclosed in the offer document before issuance.
- Verify all documents submitted by the issuer and ensure that they are in order and issue a certificate to this effect
- Make available the IPA certificate in electronic form on the website of the depositories for the CPs. IPAs are encouraged to shift to issue of digital signature certificates.
- Verify and hold certified copies of original documents and/or digitally signed documents in its custody.
- Report the details of issuance of a CP, or its buyback and instances of default on the F-TRAC platform (after these functionalities are made operational), by close of business hours, of the day of issuance, buyback or default as the case may be. Until CCIL advises full operationalisation of F-TRAC, the current reporting arrangements shall continue.

**Credit Rating Agency**

- A Credit Rating Agency (CRA) must act responsibly in rating CP issuances and continuously monitor the rating assigned to an issue and disseminate rating revisions, if any, to public through its publications and on its website.
- A CRA must publicly disseminate the ratings of the CP and any subsequent change in the ratings, on the date of rating or change in rating, as the case may be.

Nothing contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 shall apply to the raising of funds by issuance of CP, by any NBFC when such funds are raised in accordance with these directions. The extant directions on Commercial Paper in the Master Directions on Money Market (Section II) are being replaced by these Directions.

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