



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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FMRD.DIRD.2/14.01.002/2017-18

August 10, 2017

To

All market participants

Dear Sir/Madam

Reserve Bank Commercial Paper Directions, 2017

Reserve Bank had issued draft directions on Commercial Paper for public comments on February 02, 2017. Taking into account the comments received, The Reserve Bank Commercial Paper Directions, 2017 have been finalised and enclosed herewith.

Yours faithfully

(T. Rabi Sankar)
Chief General Manager

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हिन्दी आसान है, इसका प्रयोग बढ़ाइए

RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
1st FLOOR, CENTRAL OFFICE, FORT
MUMBAI 400 001

FMRD.DIRD.01/CGM (TRS) - 2017 dated August 10, 2017

Reserve Bank Commercial Paper Directions, 2017

***Whereas** the Reserve Bank of India, in exercise of the powers conferred by Sections 45J, 45K, 45L of the Reserve Bank of India Act, 1934, and of all the powers enabling it in this behalf, notified the Non-Banking Companies (Acceptance of Deposits through Commercial Paper) Directions 1989 vide Notification No.IECD.1/87(CP)-89/90 dated December 11, 1989;*

***And whereas** the said directions having been amended from time to time vide Notification No.IECD.14/08.15.01/96-97 dated September 6, 1996; Notification No.IECD.21/08.15.01/97-98 dated June 17, 1998, Notification No IECD 3/08.15.01/2000-2001 dated October 10, 2000 and IDMD.PCD. 1284 /14.01.02/2012-13 dated October 16, 2012 respectively;*

***And whereas** Section 45W of the Reserve Bank of India Act provides that the Bank may, in public interest, and to promote the development of the financial system of the country to its advantage, determine the policy relating to interest rates or interest rate products and give directions in that behalf to all agencies or any of them, dealing in securities, money market instruments, foreign exchange, derivatives, or other instruments of like nature as the Bank may specify from time to time;*

***And whereas** Commercial Paper is a 'money market instrument' under Section 45W of the Reserve Bank of India Act;*

***Now therefore**, in exercise of the powers conferred under sections 45J, 45K, 45L and 45W, and in supersession of the Notifications referred hereinabove, and all other instructions issued in this behalf, on the subject, the Reserve Bank of India, having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit and financial system to the advantage of the country, hereby issues the following directions:*

1. Short Title and Commencement

These directions shall be called the Reserve Bank Commercial Paper Directions 2017 and shall come into force on the date of their publication.

Provided that the requirement of two ratings as specified in paragraph 6.2.a shall be effective from October 01, 2017.

2. 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. 'RBI' means the Reserve Bank of India.
- g. 'Related parties' shall be as defined in section 2 (76) of the Companies Act, 2013
- h. 'Scheduled bank' means a bank included in the Second Schedule of the RBI Act, 1934.
- i. '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.

- j. 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.

3. 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 ₹ 100 crore or higher subject to the condition as specified under 3 (a) above.
- c. Any other entity specifically permitted by the Reserve Bank of India (RBI).

4. End use

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

5. 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.

6. Form of the instrument, mode of issuance, rating and documentation procedures

6.1 Form

- a. 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.
- b. A CP shall be issued in minimum denomination of ₹ 5 lakh and multiples thereof.
- c. A CP shall be issued at a discount to face value.
- d. No issuer shall have the issue of a CP underwritten or co-accepted.
- e. Options (call/put) are not permitted on a CP.

6.2 Rating Requirement

- a. 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.
- b. The minimum credit rating for a CP shall be 'A3' as per rating symbol and definition prescribed by SEBI.

6.3 Documentation Procedures

Issuers, investors and Issuing and Paying Agents (IPAs) shall follow the standard procedures and documentation prescribed by Fixed Income Money Market and Derivatives Association of India (FIMMDA) as 'Operational Guidelines on CPs'.

6.4 issue of CP-Credit Enhancement, limits etc.

- a. A CP shall be issued as a 'stand-alone' product.
- b. 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.
- c. 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.

7. Secondary market trading and settlement of CP

- a. 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.
- b. The settlement cycle for OTC trades in CP shall be T+0 or T+1.
- c. OTC trades in a CP shall be settled through the clearing corporation of any recognized stock exchange or any other mechanism approved by RBI.

8. Buyback of CP

- a. The buyback of a CP, in full or part, shall be at the prevailing market price.
- b. 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.
- c. The buyback offer may not be made before 30 days from the date of issue.
- d. CPs bought back shall stand extinguished.

9. Duties and Obligations

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

I. Issuer – The issuer of CP shall

- a. Appoint an IPA for issuance of a CP.
- b. Comply with all relevant requirements under these directions and furnish a declaration in this regard to the IPA.
- c. Ensure that the proceeds from CP issues are for declared end uses.
- d. Furnish the board resolution authorizing the company to borrow through issuance of a CP to the IPA.

- e. 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.
- f. Arrange for crediting the CP to the demat account of the investor with the depository through the IPA within 7 days of issue.
- g. Route all subscriptions/redemptions/buybacks/payments and default details through the IPA.
- h. Make disclosures in the offer document as given in **Annex II**.
- i. 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.
- j. Inform the CRA and IPA on the same day about any default/delay in CP related payments.
- k. 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.

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

- a. Ensure that the borrower is appropriately authorised to borrow through CPs.
- b. Verify all information disclosed in the offer document before issuance.
- c. Verify all documents submitted by the issuer and ensure that they are in order and issue a certificate to this effect (**Annex III**).
- d. 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.
- e. Verify and hold certified copies of original documents and/or digitally signed documents in its custody.
- f. 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.

III. Credit Rating Agency

- a. 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.
- b. 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.

10. Applicability of other directions/regulations etc

Issuers of CPs shall abide by any direction/regulation/guideline issued by any regulator or other authority in respect of issue/investment of CPs provided that such directions/regulations/guidelines do not conflict with these directions.

11. Non-applicability of Certain Other Directions

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.

12. The extant directions on Commercial Paper in the Master Directions on Money Market (Section II) are being replaced by these Directions.

(T. Rabi Sankar)
Chief General Manager

Proforma of Commercial Paper (CP)

To be stamped as per the applicable rate in force
in the State in which it is to be issued

(NAME OF THE ISSUING COMPANY/INSTITUTION)
SERIAL NO.

Issued at: _____ Date of Issue: _____
(PLACE)

Date of Maturity: _____ without days of grace.
(If such date happens to fall on a holiday, payment shall be made on the immediate preceding
working day)

For value received _____ hereby
(NAME OF THE ISSUING COMPANY/INSTITUTION)

Promises to pay _____ or order on the
(NAME OF THE INVESTOR)

maturity date as specified above the sum of ₹ _____ (in words) upon presentation
and surrender of this Commercial Paper to

(NAME OF THE ISSUING AND PAYING AGENT)

For and on behalf of _____
(NAME OF THE ISSUING COMPANY / INSTITUTION)

(AUTHORISED SIGNATORY / SIGNATORIES)

ALL ENDORSEMENTS UPON THIS COMMERCIAL PAPER MUST BE CLEAN AND
DISTINCT. EACH ENDORSEMENT SHOULD BE WRITTEN WITHIN THE SPACE ALLOTTED.

Pay to _____ or order the amount within named.
(NAME OF THE TRANSFEREE)

For and on behalf of _____
(NAME OF THE TRANSFEROR)

1. “
2. “

Minimum disclosure in the Offer Document

- i. Details of outstanding CPs and other debt instruments as on date of new issuance including date of issuance, amount issued, maturity date, amount outstanding, credit rating, name of credit rating agency and name of IPA
- ii. Summary of last three years audited financials or if the issuer has not been in existence for three years, available audited financials, material litigation and regulatory strictures
- iii. Details of default of CPs or any other borrowings for past three years.
- iv. Details of current tranche including amount, current credit rating, name of credit rating agency, its validity period and details of IPA
- v. End-use of funds

IPA CERTIFICATE

We have a valid IPA agreement with the _____
(Name of Issuing Company/Institution)

2. We have verified the documents viz., board resolution and certificate issued by Credit Rating Agency submitted by [*Name of the Issuing Company/Institution*] and certify that the documents are in order. Certified copies of original documents are held in our custody.

3.* We also hereby certify that the signatures of the executants of the attached Commercial Paper bearing Sr. No. _____ dated _____ for ₹ _____ (Rupees _____) (in words) tally with the specimen signatures filed by [*Name of the issuing Company/Institution*].

(Authorised Signatory/Signatories)

(Name and address of Issuing and Paying Agent)

Place:

Date:

* (Applicable to Commercial Paper in physical form/Strike out if not applicable)