

# Revision in the Rules on creation of debenture redemption reserve

19 May 2014



**First Notes on:**

Financial Reporting

**Corporate law updates**

Regulatory and Other Information

Disclosures

**Sector:**

**All**

Banking and Insurance

Information, Communication, Entertainment

Consumer and Industrial Markets

Infrastructure and Government

**Relevant to:**

**All**

Audit committee

CFO

Others

**Transition:**

**Immediately**

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

The Companies (Share Capital and Debentures) Rules, 2014 ('Rules') issued by the Ministry of Corporate Affairs (MCA) on 27 March 2014, required companies to create debenture redemption reserve (DRR) equivalent to at least fifty per cent of the amount raised through the debenture issue.

Subsequently, the Rules published in the Official Gazette on 3 April 2014 (effective from 1 April 2014), changed the above requirement for creation of DRR.

The Gazetted Rules exempt certain companies from creation of the DRR and in case of other companies, reduce the percentage of DRR from 50 per cent to 25 per cent of the value of debentures.

Companies would now be required to create DRR on the value of debentures as follows:

Type of companies	Type of debentures	DRR per cent
All India Financial Institutions regulated by the Reserve Bank of India (RBI)	Public and privately placed debentures	Nil
Banking companies	Public and privately placed debentures	Nil
Non banking financial companies (NBFC) and other financial institutions covered by section 2(72) of the Companies Act, 2013	Publicly issued debentures	25
	Privately placed debentures	Nil
Other companies (listed or unlisted)	Public and privately placed debentures, as applicable	25

Further, the Rules require that companies that are required to create DRR should also set aside 15 per cent of the amount of debentures maturing during the financial year in bank deposits or certain other specified securities.

The said amount has to be invested before 30 April of the financial year. Thus, the above classes of companies that are not required to create DRR might not be required to set aside the amount of 15 per cent as well.

### Our comments

The DRR prescribed under the Gazetted Rules are similar to those prescribed by the MCA vide their circular dated 11 February 2013, and would be a welcome change for all the debenture issuers.

### The bottom line

- The Gazetted Rules provide relief to issuers of debentures especially banks, financial institutions and NBFCs from the creation of higher DRR prescribed earlier.
- Further, the requirement to not set aside amounts in deposits of specified securities would also ease the cash flow position of the companies that are now exempt.



## KPMG in India

### Ahmedabad

Commerce House V, 9th Floor 902  
& 903, Near Vodafone House  
Corporate Road, Prahaladnagar  
Ahmedabad 380 051  
Tel: +91 79 4040 2200  
Fax: +91 79 4040 2244

### Bengaluru

Maruthi Info-Tech Centre  
11-12/1, Inner Ring Road  
Koramangala, Bengaluru 560 071  
Tel: +91 80 3980 6000  
Fax: +91 80 3980 6999

### Chandigarh

SCO 22-23 (1st Floor)  
Sector 8C, Madhya Marg  
Chandigarh 160 009  
Tel: +91 172 393 5777/781  
Fax: +91 172 393 5780

### Chennai

No.10, Mahatma Gandhi Road  
Nungambakkam  
Chennai 600 034  
Tel: +91 44 3914 5000  
Fax: +91 44 3914 5999

### Delhi

Building No.10, 8th Floor  
DLF Cyber City, Phase II  
Gurgaon, Haryana 122 002  
Tel: +91 124 307 4000  
Fax: +91 124 254 9101

### Hyderabad

8-2-618/2  
Reliance Humsafar, 4th Floor  
Road No.11, Banjara Hills  
Hyderabad 500 034  
Tel: +91 40 3046 5000  
Fax: +91 40 3046 5299

### Kochi

4/F, Palal Towers  
M. G. Road, Ravipuram,  
Kochi 682 016  
Tel: +91 484 302 7000  
Fax: +91 484 302 7001

### Kolkata

Unit No. 603 – 604, 6th Floor, Tower - 1,  
Godrej Waterside, Sector – V,  
Salt Lake, Kolkata - 700 091  
Tel: +91 33 44034000  
Fax: +91 33 44034199

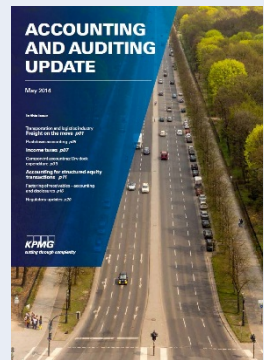
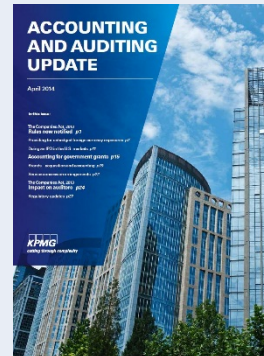
### Mumbai

Lodha Excelus, Apollo Mills  
N. M. Joshi Marg  
Mahalaxmi, Mumbai 400 011  
Tel: +91 22 3989 6000  
Fax: +91 22 3983 6000

### Pune

703, Godrej Castlemaine  
Bund Garden  
Pune 411 001  
Tel: +91 20 3058 5764/65  
Fax: +91 20 3058 5775

## Useful links



Back issues are  
available to  
download from:  
[www.kpmg.com/in](http://www.kpmg.com/in)

[www.kpmg.com/in](http://www.kpmg.com/in)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

This document is meant for e-communication only.