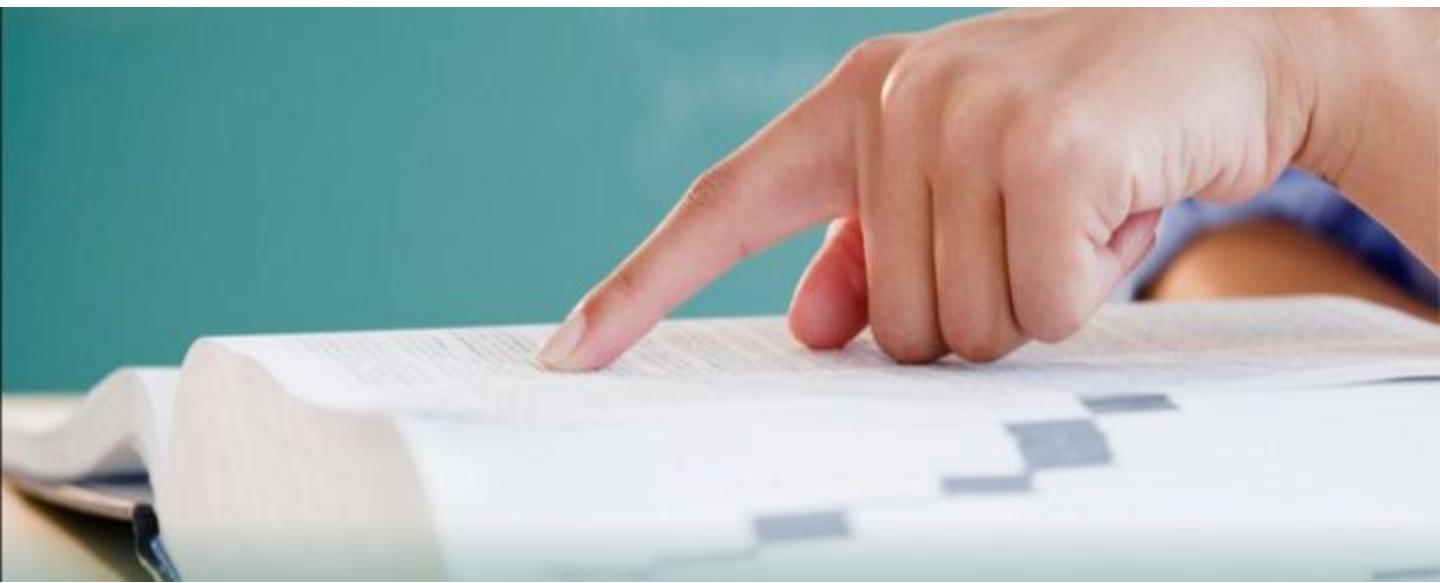


Revision in the Rules on creation of debenture redemption reserve

19 May 2014



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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.



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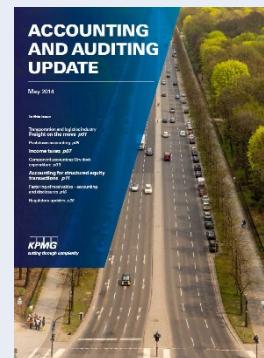
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