

**CIRCULAR**

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**All Registered Merchant Bankers  
All Recognized Stock Exchanges  
All Registered Credit Rating Agencies**

Dear Sir/ Madam,

**Sub: Guidelines for Issue and Listing of Structured Products/ Market Linked Debentures**

1. SEBI had prescribed initial and continuous disclosure norms applicable to issue and listing of debt securities through the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 and the Simplified Listing Agreement for Debt Securities.
2. It has been observed that a variety of hybrid securities that combine features of plain vanilla debt securities and exchange traded derivatives are being issued through private placements and listed on stock exchanges. It is seen that such securities differ from plain vanilla debt securities or debt securities issued with embedded call or put options, i.e., by offering market linked returns obtained through exposures on exchange traded derivatives. Since such returns are linked to equity markets, such securities are also called equity linked debentures or stock linked debentures etc.
3. In view of the fact that such securities are different in their nature and their risk-return relationship, it has been decided to specify additional disclosures and other requirements in offer documents for issue of structured products/ market linked debentures that seek listing on stock exchanges.
4. The following conditions shall be complied with in respect of listing of structured debt/ equity linked debentures:
  - a. Applicability: These guidelines shall be applicable to 'structured products' or 'market linked debentures', by whatever name they are called including all such securities that have an underlying principal component in the form of debt securities as defined under R.2(d) of SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and where the returns are linked to market returns on other underlying securities/ indices.

- b. Securities which do not promise to return the principal amount in full at the end of the tenor of the instrument, i.e., 'principal non-protected' shall not be considered as debt securities under R.2(d) of SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and therefore will not be eligible for issue and listing under the said regulations.
- c. Eligibility criteria for issuers: As such securities expose the issuer to market risk, the issuer should have a minimum net worth of at least ₹100cr.
- d. Minimum Ticket Size: While the issuers are free to determine the face value for such securities, no invitations for subscription or allotments shall be made for an amount less than Rs.10lakh in any issue.
- e. Disclosure Requirements: In addition to the disclosure requirement specified under Schedule I of Debt Regulations read with Regulation 21(1) of the SEBI (Issue and Listing of Debt Securities) Regulations, the following additional disclosures shall be made in all offer documents for such securities:
  - i. Credit rating by any registered Credit Rating Agency shall bear a prefix 'PP-MLD' denoting Principal Protected Market Linked Debentures followed by the standardized rating symbols for long/ short term debt on the lines specified in SEBI Circular No. CIR/MIRSD/4/2011 dated June 15, 2011.
  - ii. A detailed scenario analysis/ valuation matrix showing value of the security under different market conditions such as rising, stable and falling market conditions shall be disclosed in a table along with a suitable graphic representation.
  - iii. A risk factor shall be prominently displayed that such securities are subject to model risk, i.e., the securities are created on the basis of complex mathematical models involving multiple derivative exposures which may or may not be hedged and the actual behavior of the securities selected for hedging may significantly differ from the returns predicted by the mathematical models.
  - iv. A risk factor shall be prominently displayed stating that in case of Principal/ Capital Protected Market Linked Debentures, the principal amount is subject to the credit risk of the issuer whereby the investor may or may not recover all or part of the funds in case of default by the issuer.

- v. Where indicative returns/ interest rates are mentioned in the information memorandum in percentage terms, such figures shall be shown only on annualized basis.
  - vi. It shall be disclosed therein that the latest and historical valuation for such securities shall be made available on the websites of the issuer and of the valuer appointed for the purpose.
  - vii. All commissions by whatever name called, if any, paid by issuer to distributor for selling/ distribution of such securities to end investors shall be disclosed in the offer document.
  - viii. Conditions for premature redemption of such securities, if any, shall be clearly disclosed in the offer document.
- f. Appointment of third party valuation agency
- i. It shall be mandatory for the issuer to appoint a third party valuation agency which shall be a credit rating agency registered with SEBI.
  - ii. This valuer shall publicly publish on its website and provide to the issuer value of the securities at a frequency which is not less than once in a calendar week. Also, the issuer shall arrange to provide to an investor the value whenever investor asks for it.
  - iii. The cost incurred for valuation shall be disclosed in the offer document. At no point in time shall the issuer charge the investor for such services.
  - iv. The issuer shall also make the valuations available on its website.
- g. Primary Issuance and sale of securities to retail investors: The issuer shall ensure that such securities are sold to retail investors with the following safeguards
- i. The intermediary who sells the security to the retail investor shall be a SEBI regulated entity.
  - ii. The intermediary shall ensure that investor understands the risks involved, is capable of taking the risk posed by such securities and shall satisfy itself that securities are suitable to the risk profile of the investor.

- iii. The intermediary shall provide to the investor the offer document, whether or not the investor has made a specific request for the same.
  - iv. The intermediary shall provide the investor guidance on obtaining valuation for the securities, i.e., the locations where such information would be available (issuer or the third party).
  - v. The intermediary shall provide the investor with guidance on exit loads/ exit options/ liquidity support, if any, etc., being provided by the issuer or through the secondary market.
5. The Recognized Stock Exchanges are directed to:
- a. Put in place necessary processes to ensure compliance with the aforesaid disclosure requirements while granting in-principle/ final approval for listing of such securities.
  - b. Create wide publicity among companies listed on the exchange and make available suitable 'Frequently Asked Questions' for information/ education of investors visiting the websites of the exchange.
  - c. Make consequential changes, if any, to the bye-laws of the Exchange and the clearing corporation of the exchange, as may be applicable and necessary.
6. The Merchant Bankers are directed to:
- a. Comply with the conditions specified in the circular.
  - b. Create awareness among issuers of such securities regarding provisions of this circular.
7. The Credit Rating Agencies are directed to comply with the conditions specified in the circular.
8. This circular shall be applicable on all offer documents on which in-principle/ final approval is sought from stock exchanges on or after November 01, 2011.
9. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 31(2)(c) of SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

10. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) under the category "Legal Framework" and under the drop down "Corp Debt Market".

Yours faithfully,

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