



Default by issuers of listed debt securities - SEBI prescribes procedure to be followed by Debenture Trustees

INSIGHTS

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In order to standardize the procedure to be followed by the Debenture Trustees in case of default by issuers of listed debt securities, SEBI has issued the detailed procedure to be adopted by the Debenture Trustees. Following are the summarized action points:

Recognition of event of default

SEBI has clarified that an 'event of default' will be reckoned at the ISIN level, as all terms and conditions of issuance of security are same under a single ISIN even though it might have been issued under multiple information memorandum.

Consent of investors for enforcement of security and signing of Inter-Creditor Agreement (ICA) under RBI circular dated June 7, 2019 which has prescribed prudential framework for resolution of stressed assets

As the resolution plan in the ICA may involve restructuring including roll-over of debt securities, requiring the consent of the investors, the process to be followed for seeking consent for enforcement of security and/or entering into an ICA shall be as under:

- Issue of notice by the Debenture Trustee to the investor within such timelines and such details as prescribed. Different requirements are prescribed in case debt securities were issued by way of public issue;
- Debenture Trustee to convene the meeting of all investors within 30 days of the event of default, unless the default is cured in the interim;
- The Debenture Trustee to take necessary action to enforce security or enter into the ICA or as decided in the meeting of investors, subject to the following:
 - In case where the majority of investors expressed their dissent against enforcement of the security, the Debenture Trustee shall not enforce security;
 - In case, where majority of investors expressed their consent to enter into ICA, the Debenture Trustee shall enter into the ICA;
 - In case, consents are not received for enforcement of security and for signing ICA, Debenture Trustee shall take further action, if any, as per the decision taken in the meeting of the investors;
 - The Debenture Trustee may form a representative committee of the investors to participate in the ICA or to enforce the security or as may be decided in the meeting.

The consent of the majority of investors shall mean the approval of not less than 75% of the investors by value of the outstanding debt and 60% of the investors by number at the ISIN level.

Signing of ICA by Debenture Trustee on behalf of investors

The Debenture Trustees have been permitted to sign the ICA and consider the resolution plan on behalf of the investors, subject to fulfillment of prescribed conditions.

Further details are provided under the SEBI Circular dated October 13, 2020 ([available here](#)).

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com

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