

## Consultation Paper on Review of the SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015

### BACKGROUND

SEBI has issued a consultation paper dated May 13, 2026, proposing significant amendments to the SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 (**ILMDS Regulations**). The proposals seek to review the framework governing municipal debt securities in light of developments in the debt market ecosystem and to align certain provisions of the ILMDS Regulations with the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (**NCS Regulations**).

SEBI noted that municipal corporations play a critical role in urban infrastructure development and service delivery, particularly in light of increasing urbanization. However, despite the introduction of the ILMDS Regulations in 2015, only 22 municipal corporations have accessed the capital markets and raised approximately INR 4540.34 crores through 31 issuances as on March 31, 2026.

SEBI constituted a Working Group (**WG**) in August 2024 to review the ILMDS Regulations. Pursuant to the WG's recommendations and discussions in the Corporate Bonds and Securitization Advisory Committee (**CoBoSAC**), SEBI has proposed the following changes:

### KEY PROPOSALS

- **Re-financing as an Object for Raising Funds:** SEBI has proposed introducing specific disclosure requirements where municipal debt securities are issued for re-financing existing loans or debt obligations. Presently, there is no requirement to disclose details of the existing loans being re-financed. Accordingly, SEBI has proposed that issuers disclose details relating to existing loans being refinanced, including existing lenders, rate of interest, repayment schedule, purpose of existing debt and past restructuring, if any.
- **Utilization of Issue Proceeds towards Working Capital Requirements:** SEBI has proposed introducing conditions regarding the utilization of issue proceeds towards working capital requirements. The proposals provide that not more than 25% of the issue proceeds may be utilised towards working capital requirements of the project being financed, and such proceeds cannot be utilised for general purposes. Further, issuers would be required to disclose the percentage of issue proceeds proposed to be utilised towards working capital requirements in the offer document. The proposed requirements would apply to both original issuances and re-financing transactions.
- **Pooled Financing Framework for Municipalities:** The proposals include introduction of a new "Schedule IB" prescribing disclosures applicable to pooled financing Special Purpose Vehicle (**SPVs**), requirement for constituent municipalities to enter into agreements with the SPV prior to fundraising, introduction of a two-step escrow account mechanism as in the SEBI Circular dated November 13, 2019, permitting various forms of credit enhancement, and requirement for the SPV to obtain a credit rating from a SEBI-registered Credit Rating Agency (**CRA**) undertaking a credit assessment of each constituent municipality in the pool.

- **Alignment with NCS Regulations:** SEBI has proposed aligning several provisions of the ILMDS Regulations with the NCS Regulations to facilitate retail participation and provide greater operational clarity, as follows:
  - **Face Value / Trading Lot Requirements:** It is proposed to permit municipal debt securities issued on a private placement basis to have a face value of either INR 1 lakh or INR 10,000. Municipal debt securities issued at INR 10,000 face value must have a fixed maturity and not contain structured obligations. SEBI has further proposed that the trading lot for listed municipal debt securities, traded on a Stock Exchange, issued on a private placement basis, shall be equal to the face value of such securities.
- **Incentives for Certain Categories of Investors:** It is proposed to permit issuers to offer incentives in the form of additional interest or discounts to the issue price for certain investor categories, including senior citizens, women, serving and retired defence personnel, widows and widowers of defence personnel, retail individual investors, and any other category specified by SEBI. Such incentives would only be available to the initial allottee and not subsequent transferees.
- **Electronic Modes for Public Issue Advertisements:** It is proposed to permit issuers to issue advertisements through electronic modes such as online newspapers, websites of the issuer, and stock exchange websites. Issuers opting for electronic advertisements would also be required to publish a notice in national and regional newspapers containing a QR code and a link to the complete advertisement.
- **ESG Municipal Debt Securities:** It is proposed to enable the issuance of Environment, Social and Governance (ESG) debt securities by municipalities under the ILMDS Regulations. Accordingly, municipalities proposing to issue ESG debt securities would be required to comply with the conditions applicable to such securities under the NCS Regulations and related SEBI circulars. The proposal would enable the issuance of green bonds, social bonds, sustainability bonds and sustainability-linked bonds by municipalities.
- **Definition of “Working Day”:** SEBI has also proposed introducing a definition of “working day” under the ILMDS Regulations in line with the NCS Regulations to provide clarity regarding timelines applicable to municipal debt issuances and listings, and shall mean all days on which commercial banks in the city are open for business, as mentioned in the offer document.



### ELP Comments

*The consultation paper proposes significant changes to the framework governing municipal debt securities, including enhanced disclosure requirements, conditions relating to utilisation of issue proceeds, introduction of a framework for pooled financing structures and alignment of certain provisions of the ILMDS Regulations with the NCS Regulations.*

*The reduction in minimum denomination to INR 10,000 and investor incentive framework facilitates greater retail participation, enabling pooled financing structures for smaller municipalities, and aligning the municipal debt framework with the broader corporate bond regime under the NCS Regulations. In particular, the proposed framework governing pooled financing structures prescribes operational requirements relating to escrow mechanisms, credit enhancement arrangements and disclosures applicable to pooled financing SPVs. Further, the proposals relating to ESG debt securities and denomination issuances may broaden the scope of municipal debt issuances under the ILMDS Regulations.*

*However, the enhanced disclosure and compliance requirements proposed under the consultation paper may increase compliance obligations for issuers and intermediaries involved in municipal debt issuances.*

## SUBMISSION OF COMMENTS

Public comments on the consultation paper may be submitted to SEBI through the web-based public comments form available on SEBI's website, no later than June 03, 2026.

For those interested, they may access the Consultation Paper [here](#).

We hope you have found this information useful. For any queries/clarifications, please write to us at [insights@elp-in.com](mailto:insights@elp-in.com) or write to our authors:

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