

Draft Guidelines for Issue of Commercial Paper (CP)

Introduction

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP was introduced in India in 1990 with a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Guidelines for issue of CP are presently governed by various directives issued by Reserve Bank of India, as amended from time to time. In pursuance of the Statement on Monetary and Credit Policy for the Year 2000 - 2001, to keep pace with several developments in the financial markets, it has been decided to modify the guidelines in the light of recommendations made by an Internal Group. Accordingly, the following guidelines are issued, replacing all earlier directions/guidelines on the subject :

Who can issue Commercial Paper (CP)

2. Highly rated corporate borrowers, primary dealers (PDs) and satellite dealers (SDs) and all-India financial institutions (FIs) which have been permitted to raise resources through money market instruments under the umbrella limit fixed by Reserve Bank of India are eligible to issue CP.

3. A company shall be eligible to issue CP provided - (a) the tangible net worth of the company, as per the latest audited balance sheet, is not less than Rs. 4 crore; (b) the working capital (fund-based) limit of the company from the banking system is not less than Rs.4 crore and (c) the borrowal account of the company is classified as a Standard Asset by the financing bank/s.

Rating Requirement

4. All eligible participants should obtain the credit rating for issuance of Commercial Paper, from either the Credit Rating Information Services of India Ltd. (CRISIL) or the Investment Information and Credit Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE) or the Duff & Phelps Credit Rating India Pvt. Ltd. (DCR India) or such other credit rating agency as may be specified by the Reserve Bank of India from time to time, for the purpose. The minimum credit rating shall be P-2 of CRISIL or such equivalent rating by other agencies. Further, the participants shall ensure at the time of issuance of CP that the rating so obtained is current and has not fallen due for review.

Maturity

5. CP can be issued for maturities between a minimum of 15 days and a maximum upto one year from the date of issue. If the maturity date is a holiday, the company would be liable to make payment on the immediate preceding working day.

Denominations

6. CP can be issued in denominations of Rs.5 lakh or multiples thereof.

Limits and the Amount of Issue of CP

7. The aggregate amount to be raised by issuance of CP by a corporate should not exceed the working capital (fund-based) limit sanctioned to it by bank/banks. Corporates can automatically raise CP to the extent of 50 percent of working capital limits without prior clearance from the bank/s. (The 50 per cent limit would also be inclusive of any outstanding CP). However, companies intending to issue CP in excess of 50 per cent of working capital limits can do so after getting prior clearance from bank/s.

8. The aggregate amount of CP issued by a PD/SD should be within the limits fixed by their respective Boards.

9. An FI can issue CP within the overall umbrella limit fixed by the RBI, i.e., issue of CP together with other instruments, viz., term money borrowings, term deposits, certificates of deposit and inter-corporate deposit should not exceed 100 per cent of its net owned funds, as per the latest audited balance sheet.

10. The total amount of CP proposed to be issued should be raised within a period of two weeks from the date on which the issuer opens the issue for subscription. CP may be issued on a single date or in parts on different dates provided that in the latter case, each CP shall have the same maturity date.

11. Every issue of CP, including renewal, should be treated as a fresh issue.

Investment in CP

12. CP may be issued to and held by individuals, banking companies, other corporate bodies registered or incorporated in India and unincorporated bodies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs). However, investment by FIIs would be within the 30 per cent limit set for their investments in debt instruments.

Mode of Issuance

13. CP can be issued either in the form of a promissory note (Schedule I) or in a dematerialised form through any of the depositories approved by and registered with SEBI. As regards the existing stock of CP, the same can either continue to be held in physical form or can be dematerialised, if both the issuer and the investor agree for the same.

14. CP will be issued at a discount to face value as may be determined by the issuer.

15. Banks and all-India financial institutions are prohibited from underwriting or co-accepting issues of Commercial Paper.

Preference for Dematerialised form

16. While option is available to both issuers and subscribers, to issue/hold CP in dematerialised or physical form, issuers and subscribers, banks and financial institutions in particular, are encouraged to prefer exclusive reliance on dematerialised form of issue/holding.

Payment of CP

17. On maturity of CP, when the CP is held in physical form the holder of the CP shall present the instrument for payment to the issuer through the Issuing and Paying Agent (IPA). However, when the CP is held in demat form, the holder of the CP will have to get it redeemed through the depository and receive payment from the IPA.

Procedure for Issuance

18. (a) For Corporates

(i) Any company proposing to issue CP should submit a proposal incorporating details in the form annexed hereto as Schedule II.A, as modified from time to time, by the Reserve Bank of India, to the financing banking company together with the certificate issued by the credit rating agency. The financing banking company, on receipt of the proposal for issuance of CP, shall scrutinise the same and on being satisfied shall take the proposal on record.

(ii) A Company proposing to issue CP upto 50 per cent of working capital limits may, after submitting the proposal as stated in paragraph 18(i) above, open the issue for subscription.

(iii) However, a company proposing to issue CP in excess of 50 per cent of working capital limits can open the issue for subscription only after the proposal has been taken on record by the financing banking company.

(iv) Companies must ensure that the proposed issue of CP is complete within the period of two weeks from the date of opening of the issue for subscription.

(v) After the exchange of deal confirmation between the investor and the issuer, issuing company shall issue physical certificates to the investor or arrange for crediting the CP to the investor's account with depository. Investors shall be given a copy of IPA agreement, copy of IPA certificate to the effect that documents are in order and a statement of account from depository (in case of demat form).

(vi) The initial investor in CP shall pay the discounted value of the CP by means of a crossed account payee cheque to the account of the issuing company with the financing banking company only.

(vii) The working capital (fund-based) limit of every company issuing the CP shall be correspondingly reduced by the financing banking company, once the CP is issued and the financing banking company shall make necessary adjustments in the account of such company respectively, with the banking company/the other member banking companies.

(viii) Every company issuing CP shall within three days from the date of completion of issue, advise the Reserve Bank of India {Industrial and Export Credit Department, Central Office, Mumbai (IECD)}, through the financing banking company, the amount of CP actually issued.

(b) For Primary Dealer/Satellite Dealer

(i) Every Primary Dealer(PD)/Satellite Dealer(SD) proposing to issue CP should report details of the proposed issue to the Reserve Bank of India (IECD) in the Form annexed hereto as Schedule II.B, as modified from time to time by the Reserve Bank of India.

(ii) Every PD/SD shall thereafter, make arrangements for privately placing the issue and ensure that the proposed issue of CP is complete within a period of two weeks from the date of communication to the Reserve Bank.

(iii) The initial investor in CP shall pay the discounted value of the CP by means of a crossed account payee cheque to the account of the issuing PD/SD.

(iv) Every PD/SD issuing CP shall advise the Reserve Bank of India (IECD) the amount of CP actually issued, within three days from the date of completion of issue.

(c) For All-India Financial Institutions

(i) Every financial institution proposing to issue CP should report details of the proposed issue to the Reserve Bank of India (IECD) in the Form annexed hereto as Schedule II.C, as modified from time to time by the Reserve Bank of India.

(ii) The financial institution should ensure that aggregate amount of CP issued is within the overall umbrella limit fixed by Reserve Bank of India.

(iii) Every financial institution should thereafter make arrangements for privately placing the issue and ensure that the proposed issue of CP is complete within a period of two weeks from the date of communication to the Reserve Bank.

(iv) The initial investor in CP shall pay the discounted value of the CP by means of a crossed account payee cheque to the account of the issuing financial institution.

(v) Every financial institution issuing CP shall advise the Reserve Bank of India (IECD with copy to Financial Institutions Division, Department of Banking Supervision) the amount of CP actually issued, within three days from the date of completion of issue.

Role and Responsibilities

19. The role and responsibilities of issuer, financing banking company, IPA and CRA are set out below :

(a) Issuer

With the simplification in the procedure for CP issuance, corporates/issuers would now have more flexibility. Issuers should ensure the following :

The guidelines and procedures laid down for CP issuance by the Reserve Bank of India/SRO are strictly adhered to. Any violation of procedures/guidelines by issuers of CP shall be viewed very seriously and shall attract penal action by way of debarring the concerned issuer from issuing CP for next one year. Such actions taken by the authorities would also be made public.

(b) Financing Banking Company

The following shall be the responsibilities of a financing banking company:

- (i) The financing banking company, on receipt of the proposal for issuance of CP by the corporate, shall after scrutinising the same and satisfying itself about the eligibility criteria and terms and conditions stipulated herein for issuance of CP, would take the proposal on record.
- (ii) The financing banking company will arrange for corresponding reduction in the working capital fund based limit of the issuer, once the CP is issued.
- (iii) In the event of any discrepancy/non-compliance of guidelines/ procedures, by the issuer, intimate the same to Reserve Bank immediately.

(c) Issuing and Paying Agent

- (i) IPA has to verify all the documents submitted by the issuer, viz., copy of board resolution, certificate issued by credit rating agency, copy of authorised signatures (when CP in physical form) and issue a certificate that documents are in order (Schedule III).
- (ii) Original documents verified by the IPA should be held in the custody of IPA.
- (iii) In addition to the above, other responsibility and standardised procedures/documentation to be followed by IPA would be examined by a Self Regulatory Organisation, to be identified by the Reserve Bank.
- (iv) Any violation of these guidelines and procedures specified by RBI/SRO shall attract punitive action.

(d) Credit Rating Agency

- (i) Code of Conduct prescribed by SEBI for CRAs for undertaking rating of capital market instruments shall be applicable to them (CRAs) for rating CP.
- (ii) Further, the credit rating agency would henceforth have the discretion to determine the validity period of the rating depending upon its perception about the strength of the issuer. Accordingly, CRA shall at the time of rating clearly indicate the date when the rating is due for review.
- (iii) While the CRAs would be given more flexibility in deciding the validity period of credit rating, at the same time CRAs would have to closely monitor the rating assigned to issuers vis-a-vis their track record at regular intervals and intimate the financing banking company (RBI in case of PD/SD and FI) / IPA of any revision in the rating, particularly when there is downgrading of rating.

Non-applicability of Certain Other Directions

20. Nothing contained in the Non-Banking Financial Companies (Reserve Bank) Directions, 1977 and as superceded by Non-Banking Financial Companies Acceptance of

Public Deposits (Reserve Bank) Directions, 1998 shall apply to any NBFC insofar as it relates to acceptance of deposit by issuance of CP, in accordance with these Directions.

ANNEXURE

Definitions

In these guidelines, unless the context otherwise requires :

- (a) "banking company" means a banking company as defined in Clause (c) of Section 5, a "corresponding new bank", "State Bank of India" and "subsidiary bank" as defined respectively in Clauses (da), (n-c) and (n-d) of Section 5 of the Banking Regulation Act, 1949 (10 of 1949) and includes a "co-operative bank" as defined in Clause (cci) of Section 5 read with Section 56 of that Act.
- (b) "company" means a company as defined in Section 45 1(a) of the Reserve Bank of India Act, 1934 (2 of 1934) but does not include a company which is being wound up under any law for the time being in force.
- (c) "non-banking company" means a company other than banking company.
- (d) "working capital (fund-based) limit" shall mean the aggregate fund-based limits, including those by way of purchase/discount of bills sanctioned by one or more banking companies for meeting the working capital requirements.
- (e) words and expressions used but not defined herein and defined in the Reserve Bank of India Act, 1934 (2 of 1934) shall have the same meaning as assigned to them in that Act. Any other words or expressions not defined herein or in the Reserve Bank of India Act, 1934 (2 of 1934) shall have the meaning as assigned to them in the Companies Act, 1956 (1 of 1956).
- (f) "Tangible net worth" shall mean the paid-up capital plus free reserves (including balances in the share premium account, capital and debentures redemption reserves and any other reserve not being created for repayment of any future liability or for depreciation in assets or for bad debts or reserve created by revaluation of assets) as per the latest audited balance sheet of the company, as reduced by the amount of accumulated balance of loss, balance of deferred revenue expenditure, as also other intangible assets.
- (g) The term "Financing Banking Company" shall mean -
- (i) the banking company which provides the working capital facility; or
 - (ii) in the case of lending under consortium arrangement, the leader of the consortium; or
 - (iii) in the case of multiple banking arrangement, the financing bank having the largest share in the working capital limit.
- (h) The term "Primary Dealer" means a financial institution which holds a valid letter of authorisation as a Primary Dealer issued by the Reserve Bank, in terms of the "Guidelines for Primary Dealers in Government Securities Market" dated March 29, 1995, as amended from time to time.
- (i) "Satellite Dealer" means a financial institution which holds a valid letter of authorisation as a Satellite Dealer issued by the Reserve Bank, in terms of the "Guidelines for

Satellite Dealers in Government Securities Market" dated December 31, 1996, as amended from time to time.

(j) All-India Financial Institutions mean those financial institutions which have been permitted by the Reserve Bank of India to raise resources by way of Term Money, Term Deposits and Certificates of Deposit within umbrella limit.

Schedule I

Schedule IIA

Schedule IIB

Schedule IIC

Schedule III

July 6, 2000

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To
**The Chairmen/Chief Executives of
All Commercial Banks, Primary Dealers,
Satellite Dealers and All-India Financial Institutions**

Dear Sirs,

Guidelines for Issue of Commercial Paper

As part of efforts to develop the money market, Commercial Paper (CP) was introduced in India in 1990 with a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowings and also provide an additional financial instrument to investors. As you are aware, the present guidelines for issue of Commercial Paper (CP) by Companies, Primary Dealers and Satellite Dealers are governed by the Directions issued by Reserve bank of India (RBI) vide (i) Notification IECD.No.15/08.15.01/96-97 dated November 4, 1996; (ii) Notification No.IECD.14/08.15.01/96-97 dated September 6, 1996 and (iii) Notification No.IECD.No.21/08.15.01/97-98 dated June 17, 1998, respectively, and as amended from time to time.

2. As indicated in the Statement on Monetary and Credit Policy for the Year 2000-2001, to keep pace with several developments in the financial markets, the current guidelines for issue of CP were reviewed by an Internal Group and it has been decided to modify the guidelines in the light of Group's recommendations (the Group's Report is available on RBI website www.rbi.org.in).

3. The draft guidelines are being circulated for the comments of market participants. Final guidelines will be issued by August 7, 2000 after taking into account the suggestions so received.

4. Suggestions/comments may be sent to Adviser-in-Charge, Monetary Policy Department, Reserve Bank of India, Central Office Building, 24th Floor, Shahid Bhagat Singh Road, Mumbai - 400 001 or through Fax at 270 0850, 265 1685 or e-mail mpdrbi4@bom7.vsnl.net.in

Yours faithfully,

(K. Kanagasabapathy)
Adviser-in-Charge

Encls : As above.