Guidelines for Issue of Commercial Paper

RESERVE BANK OF INDIA
INDUSTRIAL & EXPORT CREDIT DEPARTMENT
CENTRAL OFFICE,
CENTRAL OFFICE BUILDING,
POST BAG - 10030,
MUMBAI - 400 001.
RBInet - bomiecd
E-Mail-rbibiecd@giasbmo1.vsnl.net.in
TELEPHONE 266 1602

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October 10, 2000

To :

The Chairmen/Chief Executives of
All Scheduled 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 No.IECD.1/87(CP)-89/90 dated December 11, 1989, (ii) Notification No.IECD.14/08.15.01/96-97 dated September 6, 1996 and (iii) Notification No.IECD.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 market, the current guidelines for issue of CP had been reviewed by an Internal Group and it was decided to modify the guidelines in the light of the Group’s recommendations.

3. The draft guidelines for issue of CP were released for public comments on July 6, 2000. As announced in the Mid-Term Review of Monetary and Credit Policy for the Year 2000–2001, taking into account the suggestions received from the participants, the guidelines have now been finalised. A copy of the guidelines is attached.

4. As the new guidelines have been issued in supersession of all the earlier guidelines/directions on the subject, banks may substitute paragraph 13.B.1.8 in the Manual of Instructions issued by RBI (DBOD, DBS and IECD) by the enclosed guidelines.

5. Kindly acknowledge receipt.

Yours faithfully,
(S. S. Gangopadhyay)
Chief General Manager

Encls : As above.

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 as a privately placed instrument, 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. Subsequently, primary dealers and satellite dealers were also permitted to issue CP to enable them to meet their short-term funding requirements for their operations. Guidelines for issue of CP are presently governed by various directives issued by the 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 market, it has been decided to modify the guidelines in the light of recommendations made by an Internal Group. Now, the Reserve Bank in exercise of the powers conferred by Sections 45 J, 45 K and 45 L of the Reserve Bank of India Act, 1934 (2 of 1934) issues the following guidelines replacing all earlier directions/guidelines on the subject :

Who can issue Commercial Paper (CP)

2. Corporates, primary dealers (PDs) and satellite dealers (SDs), and the all-India financial institutions (FIs) that have been permitted to raise short-term resources under the umbrella limit fixed by Reserve Bank of India are eligible to issue CP.

3. A corporate would 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) company has been sanctioned working capital limit by bank/s or all-India financial institution/s; and (c) the borrowal account of the company is classified as a Standard Asset by the financing bank/s/ institution/s.

Rating Requirement

4. All eligible participants shall 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 FITCH Ratings India Pvt. Ltd. or such other credit rating agency (CRA) 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. The issuers 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.

Denominations

6. CP can be issued in denominations of Rs.5 lakh or multiples thereof. Amount invested by single investor should not be less than Rs.5 lakh (face value).

Limits and the Amount of Issue of CP

7. CP can be issued as a "stand alone" product. The aggregate amount of CP from an issuer shall be within the limit as approved by its Board of Directors. Banks and FIs will, however, have the flexibility to fix working capital limits duly taking into account the resource pattern of companies' financing including CPs.

8. 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 deposits should not exceed 100 per cent of its net owned funds, as per the latest audited balance sheet.

9. 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.

Every CP issue should be reported to the Chief General Manager, Industrial and Export Credit Department (IECD), Reserve Bank of India, Central Office, Mumbai through the Issuing and Paying Agent (IPA) within three days from the date of completion of the issue, incorporating details as per Schedule II.

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

<u>Who can act as Issuing and Paying Agent (IPA)</u>

11. Only a scheduled bank can act as an IPA for issuance of CP.

<u>Investment in CP</u>

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 limits set for their investments by Securities and Exchange Board of India (SEBI).

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 continue to be held either in physical form or can be demateralised, 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. No issuer shall have the issue of Commercial Paper underwritten or co-accepted.

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 are encouraged to prefer exclusive reliance on dematerialised form of issue/holding. Banks, Financial Institutions, PDs and SDs are advised to invest and hold CPs only in dematerialised form, as soon as arrangements for such dematerialisation are put in place.

Payment of CP

17. 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 issuer through IPA. 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 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.

Stand-by Facility

18. In view of CP being a `stand alone' product, it would not be obligatory in any manner on the part of banks and FIs to provide stand-by facility to the issuers of CP. Banks and FIs would, however, have the flexibility to provide for a CP issue, credit enhancement by way of stand-by assistance/credit backstop facility, etc., based on their commercial judgement and as per terms prescribed by them. However, these should be within the prudential norms as applicable and subject to specific approval of the Board.

Procedure for Issuance

19. Every issuer must appoint an IPA for issuance of CP. The issuer should disclose to the potential investors its financial position as per the standard market practice. 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 a depository. Investors shall be given a copy of IPA certificate to the effect that the issuer has a valid agreement with the IPA and documents are in order (Schedule III).

Role and Responsibilities

20. The role and responsibilities of issuer, IPA and CRA are set out below :

(a) Issuer

With the simplification in the procedures for CP issuance, issuers would now have more flexibility. Issuers would, however, have to ensure that the guidelines and procedures laid down for CP issuance are strictly adhered to.

(b) Issuing and Paying Agent (IPA)

(i) IPA would ensure that issuer has the minimum credit rating as stipulated by the RBI and amount mobilised through issuance of CP is within the quantum indicated by CRA for the specified rating.

(ii) IPA has to verify all the documents submitted by the issuer viz., copy of board resolution, signatures of authorised executants (when CP in physical form) and issue a certificate that documents are in order. It should also certify that it has a valid agreement with the issuer (Schedule III).

(iii) Original documents verified by the IPA should be held in the custody of IPA.

(c) Credit Rating Agency (CRA)

(i) Code of Conduct prescribed by the 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 can decide the validity period of credit rating, CRAs would have to closely monitor the rating assigned to issuers vis-a-vis their track record at regular intervals and would be required to make its revision in the ratings public through its publications and website.

21. Fixed Income Money Market and Derivatives Association of India (FIMMDA), as a self-regulatory organisation (SRO) for the fixed income money market securities, may prescribe, for operational flexibility and smooth functioning of CP market, any standardised procedure and documentation that are to be followed by the participants, in consonance with the international best practices. Till such time, the procedures/documentations prescribed by IBA should be followed.

22. Violation of these guidelines will attract penalties prescribed in the Act by the RBI and may also include debarring from the CP market.

Non-applicability of Certain Other Directions

23. Nothing contained in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 shall apply to any non-banking financial company (NBFC) insofar as it relates to acceptance of deposit by issuance of CP, in accordance with these Guidelines.

24. Definitions of certain terms used in the Guidelines are provided in the Annexure.

Reserve Bank of India,
Industrial and Export Credit Department,
Mumbai - 400 001.

October 10, 2000.

ANNEXURE

Definitions

In these guidelines, unless the context otherwise requires :

(a) "bank" or "banking company" means a banking company as defined in clause (c) of Section 5 of the Banking Regulation Act, 1949 (10 of 1949) or a "corresponding new bank", "State Bank of India" or "subsidiary bank" as defined in clause (da), clause (nc) and clause (nd) respectively thereof and includes a "co-operative bank" as defined in clause (cci) of Section 5 read with Section 56 of that Act.

(b) "scheduled bank" means a bank included in the Second Schedule of the Reserve Bank of India Act, 1934.

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

(d) "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.

(e) "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.

(f) "corporate” or “company" means a company as defined in Section 45 I (aa) of the Reserve Bank of India Act, 1934 but does not include a company which is being wound up under any law for the time being in force.

(g) "non-banking company" means a company other than banking company.

(h) “non-banking financial company” means a company as defined in Section 45 I (f) of the Reserve Bank of India Act, 1934.

(i) “working capital limit” means the aggregate limits, including those by way of purchase/discount of bills sanctioned by one or more banks/FIs for meeting the working capital requirements.

(j) "Tangible net worth" means 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.

(k) 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.
