



SEBI – Disclosures on Defaults
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Brahmayya & co.

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Introduction

Over the past few years Financial Statements of Banks are bleeding on account of large proportion of loans to Corporates turning into stressed assets or Non Performing Assets (NPAs). In order to deal with stressed assets the Government recently came up with a major reform – the Insolvency and Bankruptcy Code, 2016. This reform posed stricter guidelines. With Government and Reserve Bank of India (RBI) strictly monitoring status of NPAs, the Ministry of Finance and RBI earlier contemplated a revival plan for top 50 stressed accounts. Consequently, a list of major defaulters had already been referred to NCLT for initiation of insolvency proceedings under the Insolvency and Bankruptcy Code.

SEBI, has also come up with stricter disclosure norms in July 2017, requiring listed banks to make certain disclosures if additional provisioning assessed by RBI exceeds 15% of Net Profits and/or additional Gross NPAs identified by RBI exceeds 15% of published gross NPA for the period. Further development in this regard is that, SEBI, vide Circular Number CIR/CFD/CMD/93/2017 dated August 4, 2017 issued under Regulation 101 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, has mandated specific disclosures by listed entities w.r.t. defaults of payments of interest or repayment of principal amount of loans from banks/financial institutions/debt securities etc.

Applicability

This disclosure requirement is applicable to all listed entities having listed any of following:

- Specified Securities (Equity and Convertible Securities)
- Non-convertible Debt Securities
- Non-convertible and Redeemable Preference Shares

This circular shall come into effect from October 1, 2017

Default

The term Default is defined as non-payment of interest or principal amount in full on the pre-agreed date.

Disclosure

- A. Disclosure shall be made to Stock Exchanges in the specified format (Clause 1) , within 1 day from the date of default at the first instance of default in payment of interest or instalment obligation on:
- Debt Securities (including Commercial Paper)
 - Medium Term Notes (MTNs)
 - Foreign Currency Convertible Bonds (FCCBs)
 - Loans from Banks and Financial Institutions
 - External Commercial Borrowings (ECBs)

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- B. Moreover certain additional disclosures are required to be made to Stock Exchanges in specified format (Clause 2), within 7 days from the end of the quarter in case there are any outstanding amounts under default as on the last date of any quarter.
- C. Listed entities shall inform concerned Credit Rating Agencies regarding such defaults in a timely manner and as may be specified by SEBI from time to time.

Clause 1 – Format in case of Debt Securities, MTN & FCCB

S.No.	Type of Disclosure	Details
1.	Name of the listed entity	
2.	Date of making the disclosure	
3.	Nature of obligation / Type of instrument (Listed debt securities, MTNs, FCCBs, etc. with ISIN as applicable)	
4.	Number of investors in the security as on date of default	
5.	Date of default	
6.	Details of the obligation (tenure, coupon, secured/ unsecured, etc.)	
7.	Current default amount (Amount in INR crores) (With the breakup of instalment and interest)	
8.	Gross principal amount on which the default above has occurred (Amount in INR crore)	
9.	Total amount of securities issued (Amount in INR crores)	
10.	Any other details	

Clause 1 – Format in case of Loans from Banks and Financial Institutions and ECB's

S.No.	Type of Disclosure	Details
1.	Name of the listed entity	
2.	Date of making the disclosure	
3.	Nature of obligation (Term Loan / ECB)	
4.	Name of Lenders	
5.	Date of default	
6.	Current default amount (Amount in INR crores) (With the breakup of instalment and interest)	
7.	Gross principal amount on which the default above has occurred (Amount in INR crore)	
8.	Details of Obligation (tenure, Coupon rate, secured/unsecured, etc.)	
9.	Total amount of borrowings from Banks / Financial Institutions	
10.	Any other details	

Clause 2 – Format for Quarterly Disclosures

Nature of Obligation	Total Amount Outstanding as on Date	Cumulative Amount of Default as on date
Debt Securities including Commercial Paper, MTNs, FCCB		
Loans from Banks and Financial Institutions, including ECBs		

Conclusion

This additional disclosure requirement will help in timely understanding of the defaults and events leading to such defaults from the investor's view point. It would also reduce inconsistency in the reporting practices under different regulations. The negative impact on immediate disclosures would have to be dealt with appropriately by the Listed Entities. The concerned departments should gear up for effective disclosure mechanism as adequate time has been provided by SEBI to start disclosure compliance.

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