

Annexure B

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1.	<p>Proposal 1: Re-financing as an objective for raising of funds</p> <ul style="list-style-type: none"> · <i>There can be two possibilities – (1) Re-financing of existing project for which already loan taken from Bank, FI or govt body and (2) Re financing of existing Project which already financed through Bond Issue. Kindly confirm.</i> · <i>Disclosure on the “Original Amount of loan / debt” and any other disclosure, if required, may be added and deletion of disclosure on “Purpose of existing debt”.</i> · <i>The purpose of undertaking the refinance be specified. e.g. this could include reducing borrowing cost extending maturity consolidating multiple loans or even improving cash flow by lowering near debt service obligation.</i> · <i>Proposed to include why the refinancing is being undertaken and whether the refinancing materially alters the projects leverage or risk profile. The below can be added as well</i> <ol style="list-style-type: none"> 1. Rationale and purpose of refinancing existing debt 2. Comparison of the key terms of refinanced debt vs existing project including material changes in ROI tenure repayment schedule security package covenants 3. Impact of refinancing on the overall indebtedness of the project including any increase or decrease in aggregate debt exposure 4. Details of extension or revised security or guarantee or charge or credit enhancement created pursuant to refinancing 5. Details of change in lending arrangement or 	<ul style="list-style-type: none"> · The re-financing may be for both the scenarios, i.e. existing loan and bond issue, as mentioned by the respondent. Hence, no restriction/ conditions related to this aspect has been proposed. · As suggested, we may include "Original Amount of loan/ debt" and "Reason for re-finance" in the list of disclosures to be made by the issuer under "Objects of the issue". Disclosure on "Purpose of existing debt" may also be retained since the said debt may have been availed for more than one projects/ objects. · Disclosures related to refinancing of existing debt may also be added in Schedule IB, which is applicable in case of raising of funds by two or more municipalities through a Pooled finance vehicle. · The proposed disclosures already capture the key information related to the existing <i>debt</i> which may be useful to the investors. Mandating the detailed disclosures, as suggested by the respondent, may be overly burdensome without adding significant informational value. · Further, the NCS Regulations, while placing no restrictions on re-financing as an object of the issue, do not have such <i>granular</i>

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	<p>creditor composition including inter creditor arrangements substitutions or additions of lenders</p> <p>6. Whether refinancing constitutes a cash out refinancing or is being undertaken solely for liability management or replacement of existing debt</p> <ul style="list-style-type: none"> · Similar clause should be added in the Schedule IB proposed for Raising of funds by two or more municipalities through a Pooled finance vehicle · In addition to the proposed disclosures it is suggested that the <i>offer</i> document may also include following: Details of security or collateral created for the existing debt including nature of charge and assets encumbered · Further, in addition to the proposed disclosure <i>requirements</i> for refinancing of existing loans the scope of Objects of the Issue may be expanded to include the following <ol style="list-style-type: none"> 1. Recoupment of expenditure already incurred by the Corporation towards the projects from internal accruals <p>Issuers may be permitted to utilize issue proceeds for recoupment of expenditure already incurred from internal accruals or budgetary resources towards projects. Appropriate disclosures may be made regarding</p> <ol style="list-style-type: none"> a. Nature of expenditure b. Period during which such expenditure was incurred and c. Quantum proposed to be recouped. <p>Further it is suggested to include land acquisition for the project as a permissible object under Objects of the Issue as land forms an integral component of infrastructure and project development.</p> <p>In cases where the issue proceeds are proposed to be utilised towards land acquisition and allied costs, appropriate disclosures may be made</p> 	<p>disclosure requirements for corporate bonds. Therefore, it may not be appropriate to impose stricter requirements on municipalities to disclose the same.</p> <ul style="list-style-type: none"> · The proposed amendment includes disclosure on “Past restructuring, if any, on the said project”, so that investors are aware regarding the use of issue proceeds towards refinancing of a distressed/ non-performing loan. · The respondent, while agreeing with the proposal in the consultation paper, has provided additional suggestion related to disclosure of financials by municipalities on their websites. <i>Municipalities</i> are already required to disclose their half yearly un-audited and annual audited financial results to the stock exchange(s), vide Circular dated November 13, 2019.

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	<p>regarding:</p> <ul style="list-style-type: none"> a. the purpose and details of the project for which land is being acquired b. location and brief description of the acquisition process and the land proposed to be acquired c. estimated cost of land acquisition and proportion of issue proceeds proposed to be allocated d. proportion of issue proceeds proposed to be allocated towards rehabilitation and resettlement obligations if any e. key statutory approvals required and status thereof and f. Implementation timeline of the project linked to such land acquisition. <ul style="list-style-type: none"> · Who is accountable - the issuer the merchant banker or debenture trustee - if it emerges post issuance that proceeds <i>were</i> used to pay distressed loans or Non-performing loans What is the remedy available to the investor? · SEBI should make it mandatory for all municipal corporations issuing bonds to create a dedicated investor tab on their web portals, providing detailed information on cash flows, outstanding debt, and financial disclosures. 	
<p>2.</p>	<p>Proposal 2: Utilisation of issue proceeds towards working capital requirements</p> <ul style="list-style-type: none"> · Kindly note that as per Regulation 18B “Issuer Contribution” Issuer contribution shall not be less than 20% of the Project cost which can be used for working capital requirement and capital expenditure along with grant sanctioned for that project. This contribution could be treated as working capital. · DPR and Work order covers Capital as well as working capital <i>requirement</i> for the project. Instead of working capital, we would suggest to allow 25% of the issued proceed as General 	<ul style="list-style-type: none"> · Under ILMDS Regulations, the object of the issue is project-specific. The current Regulations do not specify any limit on use of issue proceeds for general purpose or working capital of the specified project. Comments have been received regarding lack of clarity on what is covered under “General purpose” or working capital. Various challenges have been highlighted with regard to the proposals related to working capital (like fixing a cap, defining its components, etc.). In view of the public comments

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	<p>purpose, and also define what are covered under General purpose. We are suggesting following Expenses-</p> <ul style="list-style-type: none"> I DPR preparation charges II Project Consultant charges III Regulatory approvals and statutory clearances. <p>b) The definition of working capital may be inserted to clearly define components those may considered under working capital.</p> <ul style="list-style-type: none"> · While we support the cap to ensure funds are used for capital expenditure, we recommend a “flexibility clause” for certain essential service projects. Municipalities often face cyclical revenue gaps for operational maintenance of the very infrastructure being financed. A rigid 25% cap might be restrictive for projects like water treatment, or waste management where operational costs are high. We recommend that SEBI allow a higher cap (up to 35%) subject to Credit Rating Agency validation that the working capital is essential for the projects viability. This ensures the “productive deployment” goal of CoBoSAC is met without strangling project operations. · What is the post issuance monitoring mechanism which makes sure where and how the money was used on a specific project. Who is to be held accountable if funds are not spent as intended. As is the bond prospectus provision for leakage of funds as a condition for their inability to meet interest obligation. Additional provisions should not be given to cushion the working capital of the project. A post issuance monitoring mechanism requiring mandatory publicly available information communication should happen to gain the trust of the public. · For efficient working capital utilization, municipal corporations need to appoint a dedicated debt 	<p>received and keeping in mind ease of doing business, it is proposed not to specify limits for project related working capital. Thus, municipalities/ SPV shall use funds for the specified projects or to re-finance specified projects.</p>

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	<p>manager to manage funds effectively. Since these funds are deployed <i>toward</i> day-to-day operations and contractor payments, greater transparency, monitoring, and timely execution are essential to ensure efficient delivery and financial discipline. Allow them to run active treasury management. Allow them to invest surplus cash in Overnight funds and other MF Debt market product.</p>	
<p>3.</p>	<p>Proposal 3: Raising of funds by two or more municipalities through a Pooled finance vehicle</p> <ul style="list-style-type: none"> · Does this mean a separate individual rating has to be assigned to each of the underlying pool? If yes, then do we need to engage with each such municipality for the rating assignment. · The methodologies and criteria used for assigning credit rating to a bond issued by an SPV through pooling of funds should be finalized by the respective credit rating agency, in line with existing regulations and disclosure requirements for the industry. Hence, credit rating agencies should not be mandatorily asked to undertake a credit rating assessment of each constituent municipality in the pool. · The proposed provision allowing SPVs in the form of Trusts or <i>Companies</i> may be expanded to include Societies, Section 8 Companies, State Urban Infrastructure Funds, Pooled Finance Funds and other state-sponsored financing entities, subject to equivalent governance, disclosure and investor protection requirements. · If amortising bonds are being considered, then a stipulation may be needed that prescribes minimum quantum of <i>reserves</i> of both interest and principal obligations. · Regulations should outline and demarcate the roles and responsibilities of both the State Pooled Finance Entity/SPV and constituent municipalities. For instance, responsibilities like hiring market intermediaries, constitution of a Bond Issuance Committee, selection of projects pool and municipalities, ensuring bond's financial closure, 	<ul style="list-style-type: none"> · Considering the feedback received on credit rating, we may not proceed with the proposal regarding credit assessment of constituent <i>municipalities</i> by the CRAs. The rating methodology/ approach for rating of municipal debt security issued through pooled municipal financing may be finalized by CRAs. · Under, the Pooled Finance Development Fund Scheme of the Government of India, the Pooled Finance SPV (Issuer) can be a trust or a company. The Scheme does not provide for other entities, as suggested by the respondent, to act as the SPV. · The extant ILMDS Regulations or NCS Regulations have no stipulations related to <i>amortising</i> bonds in specific. Therefore, it may not be consistent to impose specific conditions related to the same in case of pooled finance by municipalities. · It is proposed that the constituent Municipalities shall enter into an agreement with the pooled finance vehicle (SPV) prior to fund raising and may be required to disclose the same in the offer document. The aspects mentioned by the

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	<p>monitoring of municipalities' escrow accounts for timely debt repayment etc. should be outlined as SPFE/SPV's responsibility. Whereas, municipalities' responsibilities may largely be restricted to selection of projects under combined pool, project implementation and monitoring, timely debt repayment, complying with disclosure requirements.</p> <ul style="list-style-type: none"> · Regulations should clarify that only SPV's pooled bond issuance would require credit rating and not constituent municipalities. Requiring constituent municipalities to be <i>individually</i> credit rated would increase cost and compliance burden reducing interest in pooled bond issuances. InvIT Regulations also do not require credit rating of individual projects' and SPVs' · Modifications in draft <i>Schedule 1B</i>: <ul style="list-style-type: none"> ○ 11(d): Propose deletion. Since pooled bond issuance will involve multiple municipalities, Mayors and Commissioners cannot be expected to attest to other municipalities info as it is beyond their jurisdictions. Seeking this declaration will lead to several months of delays. Based on conversations with Accounts Officers and market intermediaries, this declaration has delayed even single bond issuance as neither elected representatives nor Commissioners are willing to attest easily as several legacy issues unearthed during muni bonds process. To encourage more states towards pooled bonds, regulatory compliance requirements should reduce ULBs compliance burden while protecting investors interests. Advisable to only limit to 11e which seeks a similar declaration from Director of the Companies. ○ Pt 4(l) seeking 'Details of State Finance Commission grant on annual basis' should be deleted since the State Pooled Finance Entities (the 'issuer') do not receive SFC grants directly. Only details that are relevant to the bond issuance should be sought to reduce 	<p>respondent shall be dealt with in the said agreement. Codifying the same through Regulations would result in over-prescription and take away the flexibility from the issuer/ constituent municipalities.</p> <ul style="list-style-type: none"> · Based on the suggestions, proposed <i>Schedule 1B</i> has been appropriately modified.

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	<p>compliance burden on constituent ULBs. – for instance, if any of the constituent ULB’s project’s capital structure depends on debt repayment through SFC grants, then the same would be captured under Point 4(j).</p> <ul style="list-style-type: none"> ○ pt 3e seeks details of Bond Issue Committee. This was a proposed committee under a MoHUA toolkit prepared for PFDF Scheme and was intended to constitute the Heads of Finance Function of each ULB and State Pooled Finance Entity or SPFE (ref. pg 34 of Scheme Toolkit). To provide clarity, Regulations may either mandate formation of a committee by SPFE and outline required composition OR restrict disclosure to any committee constituted by SPFE. ○ pt 8.IV pl seek details of reforms by constituent Municipalities instead of Issuer as reforms relate to municipal functions ○ pt12b expand to include Companies <p>· Disclosure shall be pertaining to Issuer SPV created for <i>the</i> pool bond and not for each constituent municipalities.</p> <p>· In case the disclosures of constituent municipalities are required the proposed framework may require further refinement to accommodate pooled financing structures including where</p> <ul style="list-style-type: none"> a.The bond proceeds are utilised at the SPV level for a common project b.The repayment is through state-level escrow of grants and transfers c. Structures involving large no. of ULBs with small individual exposures <p>Following is suggested: Allowing issuer SPV centric disclosures with limited requirement for granular disclosures for each individual ULB. Clause 4.1.5 be modified to include pooled finance vehicles or SPVs set up under State</p>	

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	<p>Government schemes as well.</p> <ul style="list-style-type: none"> · Where repayment mechanism is structured through state level escrow of grants and transfers rather than cash flows or <i>revenues</i> of individual ULBs all the escrow accounts may be opened and operated at the SPV level and not at the individual ULB level · Further the post issue and continuous disclosure obligations <i>shall</i> be complied with at the SPV level to avoid duplication and ensure consistency · It is suggested to keep that SPV under pool bond structure shall <i>not</i> be considered as deemed NBFC under the regulatory framework of the RBI. · Following are <i>modifications</i> proposed to Schedule IB: <ul style="list-style-type: none"> ○ Disclosures with respect to clause 3c and clause 3d may be removed as it is not be applicable to SPV. ○ With respect to Clause 4a 4f 4l. It may be clarified that disclosures on constitutional documents allotment resolutions. state finance commission grants pertain to the Issuer SPV only ○ With respect to Clause 8 it is suggested that the provision available under Schedule IB permitting issuers with less than three years of existence to disclose financial statements for such period of existence be extended to Schedule I as well ○ With respect to Clause 8.1 For a first time issuer it is suggested that if an issuer undertakes an issue on or before May 31 of a Financial Year and if the audited financial statements for the immediately preceding financial year are not available such issuer may disclose audited financial statements for three financial years immediately preceding such latest financial year. 	

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	<ul style="list-style-type: none"> ○ With respect to clause 8.IV on status of reforms disclosure requirement may be removed considering the pooled nature of the structure ○ With respect clause 9.b.iii 9.d 9.e 9.f clarity may be provided on whether such disclosures are required for the Issuer only ○ With respect to clause 9.b iii It is suggested that the term company may be replaced with Issuer ○ With respect to Clause 11.d the requirement for declaration by the Mayor and Commissioner may be removed ○ With respect to Clause 10 and clause 12 clarity may be provided on disclosures for Government approvals borrowing resolutions and authorised signatories and it is suggested that such disclosures be made at the Issuer level only 	
<p>4.</p>	<p>Proposal 4: Requirements related to face value/ trading lot/ denomination for municipal debt securities</p> <ul style="list-style-type: none"> · In the section on Issuance and trading of municipal debt securities it states that The Municipal debt security issued at a face value of Rs Ten Thousand shall have a fixed maturity and be without any structured obligation. Clarification is required on applying Structured payment mechanisms for municipal bonds. This clause gives an impression that SPMs will not be there. All muni bonds today have SPMs which give enhancement to the debt instrument. · We would propose to include minimum and maximum range of Face <i>value</i> in case of Public Issue of Municipal bonds. We also propose for allowing the municipal bond issue with face value differentiation i.e. out of total issue size, certain identified part may have face value of Rs. 1 Lakh and remaining part may have face value of Rs. 10 thousand. 	<ul style="list-style-type: none"> · The proposed provision restricts <u>structured obligation</u> (i.e. securitised debt) for municipal debt securities issued at a face value of Rs. Ten Thousand. There is no restriction on various forms of credit enhancement. · There is no restriction on the face value/ trading lot for public issues of <i>municipal</i> debt securities. The said proposal for Rs. 10000/ Rs. 1 Lakh face value only relates to privately placed debt, where issuances are targeted towards an identified set of investors, to have some standardization in face value/ trading lot. · Specifying requirements related to fixing of record dates is beyond the scope of the present consultation process and may require separate examination and stakeholder consultation. · The suggestion to include a

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	<ul style="list-style-type: none"> · Trading lot <i>should</i> be INR 5000 for retail and INR1 cr for institutional investor. · Regulation 23.7 of SEBI ILNCS provides that: <ul style="list-style-type: none"> a.The issuer shall fix a record date for the purposes of payment of interest dividend and payment of redemption or repayment amount or for such other purposes as specified by the Board. b.Such record date shall be fixed at fifteen days prior to the due date of payment interest or dividend repayment of principal or any other corporate actions. Incorporating a similar provision in SEBI ILMDS regulation would promote consistency provide operational clarity and ease of implementation for issuers and market participants. · For such retail-focused issuances, the Offer <i>Document</i> must include a “Simplified Key Information Document” to ensure retail investors understand the specific risks associated with municipal revenue streams. 	<p>“Simplified Key Information Document” is beyond the scope of the present consultation process and may require separate examination and stakeholder consultation.</p>
<p>5.</p>	<p>Proposal 5: Permitting issuers to offer incentives in the form of additional interest or a discount to the issue price to certain categories of investors</p> <ul style="list-style-type: none"> · In addition to the categories proposed by SEBI, consideration may be given to including Divyangjan (Persons with <i>Disabilities</i> defined like in Income Tax), Transgender Persons, residents of the issuing municipal area. · SEBI may consider whether the restriction limiting such incentives only to the initial allottee is necessary in the context of municipal debt securities. Given that one of the stated objectives of the proposal is to encourage greater retail participation in municipal bonds, extending the benefit to eligible investors who acquire the securities in the secondary market may further 	<ul style="list-style-type: none"> · The categories of persons suggested by the respondent (namely, Persons with Disabilities, Transgender Persons and residents of <i>the</i> issuing municipal area) are already included under the proposed category "retail individual investors" for investment amounts up to INR 2 Lakh. Therefore, addition of separate categories may not be required. · The intent of the proposal is to encourage retail participation in public debt issues. Permitting the incentives to extend to <i>transferee</i> investors, even though within the same category, may create price

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	<p>support this objective and improve secondary market liquidity.</p> <ul style="list-style-type: none"> Incentives can also be provided to companies and institutions contributing toward urban development within municipal corporation areas. This may include infrastructure companies developing projects in the respective regions, regional cooperative banks, and regional producer organizations working toward economic and social development of the municipal corporation ecosystem. Rather than giving benefit to individuals or senior citizen 	<p>distortion and difficulty in selling bonds that do not carry the incentives. Therefore, incentives may only be offered to the original allottee of the issue. This also aligns with the stipulation under NCS Regulations.</p> <ul style="list-style-type: none"> Since the intent of the proposal is to encourage <i>wider</i> participation in the debt market by certain under-represented categories of investors, in line with similar provision for other non-convertible debentures under the NCS Regulations, it would not be appropriate to provide the incentive to companies and institutions as suggested by the respondent.
	<p>Proposal 6: Permitting electronic modes for making advertisements for public issues</p> <ul style="list-style-type: none"> Official social media handles should also be included since that <i>has</i> the most reach among mass populations. Partnering with online bond trading platforms should also be done since people use these platforms more often. The option to advertise and mode should be with the issuer. Hence, we recommend to change the language suitably as below: “The issuer may make an advertisement through electronic modes such as” 	<ul style="list-style-type: none"> The Regulations do not restrict municipalities from making advertisements through social media <i>platforms</i>, in addition to the modes prescribed. However, making the same mandatory may not be appropriate since all municipalities may not have social media presence. This also aligns with the requirements specified for corporate bonds under NCS Regulations. It may not be appropriate to make advertisement of the issue and mode of the <i>same</i> an optional requirement in order to ensure wider potential investor base. Therefore, the proposal for making advertisement through specified modes may be retained.
6.	<p>Proposal 7: Framework for issuance of Environment, Social and Governance (ESG) debt securities by municipalities</p> <ul style="list-style-type: none"> SEBI may consider enabling entity level ESG 	<ul style="list-style-type: none"> SEBI-registered ESG Rating Providers are already allowed to assign <i>ESG</i> ratings to listed issuers, apart from listed securities. Hence, no further enablement is required.

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	<p><i>assessments</i> of municipalities by ESG Rating Providers (ERPs) in addition to instrument level reviews.</p>	
<p>7.</p>	<p>Proposal 8: Definition of working day</p> <ul style="list-style-type: none"> · Clarification is required on whether Saturdays will be considered as <i>nonworking</i> days as 1st and 3rd Saturdays are working for commercial banks. · We would suggest to include following in ILMDS Regulation to provide practical clarity: (I) Creation of Recovery Expense Fund, and (II) Regulatory Fee 	<ul style="list-style-type: none"> · The proposed definition specifies that - "" "working day" means all days on which commercial banks in the city, as <i>specified</i> in the offer document, are open for business...". Therefore, no further clarification in this regard may be required. · The suggestion related to introduction of Recovery Expense Fund and Regulatory Fees under ILMDS Regulations is <i>beyond</i> the scope of the present consultation process and may require separate examination and stakeholder consultation.

Proposed draft of Schedule IB of the ILMDS Regulations

Amendment shall be notified after following the due process

Draft amendment notification

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