18th August 2026

SEBI Modifies Operational Framework and Relaxes Compliance Timelines under Municipal Debt Securities Regulations

The Securities and Exchange Board of India ("SEBI"), vide Circular No. HO/17/11/24(1)2026-DDHS-POD1/I/18526/2026 dated August 11, 2026, has specified operational modifications and compliance relaxations under the SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 ("ILMDS Regulations"). Following recommendations by a Working Group constituted in August 2024 and public feedback, these operational changes complement the Gazette Notification SEBI/LAD-NRO/GN/2026/305 dated July 08, 2026. The circular aims to address practical data collection and coordination challenges faced by municipalities while establishing robust safeguards and credit structures for investors.

ANALYSIS

- Under the updated framework, SEBI has introduced operational flexibility regarding the face value of municipal debt securities issued on a private placement basis. Issuers can now issue privately placed municipal debt securities with a face value of either ₹1,00,000 (Rupees One Lakh) or ₹10,000 (Rupees Ten Thousand). Securities issued at a face value of ₹10,000 must carry a fixed maturity and cannot incorporate structured obligations. Furthermore, the trading lot on stock exchanges for privately placed securities must always equal the face value of the security. These face-value specifications apply exclusively to private placements and do not extend to public issuances.
- To ensure structured debt servicing where the issuer is a pooled finance vehicle or Special Purpose Vehicle (SPV) established under the Government of India's Pooled Finance Development Fund Scheme, SEBI has mandated a "two-step escrow account mechanism". Constituent municipalities are required to create interest and sinking fund accounts and transfer funds to the corresponding accounts maintained at the SPV level

as per their agreement. Additionally, the SPV/pooled finance vehicle must continuously maintain an amount equivalent to one year's interest obligation in its Interest Payment Account throughout the tenure of the securities. To bolster credit ratings, SPVs are permitted to incorporate credit enhancements such as additional cash collateral, state government program equity, access to state finance commission devolution to Urban Local Bodies (ULBs), or credit guarantees from rated development finance institutions (DFIs).

- Recognizing practical operational hurdles related to interdepartmental coordination and data gathering experienced by municipal bodies, SEBI has relaxed reporting timelines for stock exchange submissions. The deadline for submitting half-yearly audited financial results has been extended from forty-five days to sixty days from the end of the first half-year. Similarly, the submission timeline for annual audited financial results, along with the audit report, has been relaxed from sixty days to ninety days from the end of the financial year.
- These provisions carry immediate effect and are designed to facilitate greater ease of compliance for local bodies while offering robust structural protections to debt market participants.

Key Takeaways

- Issuers can now issue privately placed municipal debt securities at a face value of ₹1 Lakh or ₹10,000 (with fixed maturity and no structured obligations for the ₹10,000 tier), with trading lots set equal to the face value.
- SPVs and pooled finance vehicles must implement a two-step escrow structure and retain a mandatory buffer equivalent to one year's interest obligation in their Interest Payment Account.
- SPVs are permitted to utilize state program equity, collateral, state finance commission devolutions, or DFI guarantees to enhance credit ratings.
- Half-yearly unaudited result deadlines are extended from 45 to 60 days, and annual audited result deadlines are extended from 60 to 90 days.

- All operational updates specified in the circular take effect immediately.

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SEBI Amends Regulatory Framework for Municipal Debt Securities

The Securities and Exchange Board of India (SEBI), vide Circular No. HO/17/11/24(1)2026-DDHS-POD1/I/18526/2026 dated August 11, 2026, has specified certain operational requirements and amended the existing framework applicable to municipal debt securities. The circular follows the SEBI (Issue and Listing of Municipal Debt Securities) (Amendment) Regulations, 2026, notified on July 8, 2026, and is addressed to issuers of listed/proposed-to-be-listed municipal debt securities, recognised stock exchanges, recognised depositories and registered merchant bankers.

Analysis

- The amendments have been introduced pursuant to recommendations of a Working Group constituted by SEBI in August 2024 and public comments received on the proposed changes to the regulatory framework governing municipal debt securities.
- For municipal debt securities issued on a private placement basis, the face value of each security shall be INR 1,00,000 or INR 10,000, as deemed fit by the issuer. Where the face value is INR 10,000, the security must have a fixed maturity and must be without any structured obligations.
- The trading lot of a listed municipal debt security issued through private placement and traded on a stock exchange shall always be equal to the face value of such security. These face-value requirements are applicable only to privately placed municipal debt securities and do not apply to public issues.
- A two-step escrow account mechanism has been introduced for cases where the listed entity is a pooled finance vehicle/SPV established under the Government of India's Pooled Finance Development Fund Scheme. The constituent municipalities are required to create the prescribed accounts, while the SPV/pooled finance vehicle must maintain separate Interest Payment Account and Sinking Fund Account.

- The SPV/pooled finance vehicle is required to maintain, throughout the tenure of the municipal debt securities, an amount equivalent to one year's interest obligation in the Interest Payment Account.
- The framework permits specified forms of credit enhancement, including additional cash collateral, programme equity from the state government, access to State Finance Commission devolutions to Urban Local Bodies, and full or partial credit guarantees from highly rated development finance institutions or multilateral institutions. Other appropriate credit enhancement structures may also be used.
- SEBI has relaxed the timelines for submission of financial results by listed municipal entities, citing practical challenges relating to data collection, interdepartmental coordination and compliance with disclosure requirements.
- The timeline for submission of half-yearly unaudited financial results has been extended from 45 days to 60 days from the end of the first half year.
- The timeline for submission of annual audited financial results has been extended from 60 days to 90 days from the end of the financial year, together with the audit report.

- **Key Takeaways**
    - SEBI has introduced operational changes to the regulatory framework governing municipal debt securities following the 2026 amendments to the ILMDS Regulations.
    - Privately placed municipal debt securities may have a face value of INR 1,00,000 or INR 10,000, with specified conditions applicable to securities having a face value of INR 10,000.
    - A two-step escrow mechanism has been prescribed for pooled finance vehicles/SPVs to strengthen repayment arrangements.
    - Pooled finance vehicles/SPVs may utilise specified credit enhancement mechanisms to improve credit ratings and investor protection.
    - The deadline for half-yearly unaudited financial results has been extended to 60 days, while annual audited financial results must be submitted within 90 days from the end of the financial year.

- The circular is effective immediately and has been issued under Section 11(1) of the SEBI Act, 1992 read with Regulation 29 of the SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015.

➢ The notification is attached herein.

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<u>Supreme Court Excludes Telecom Spectrum from the IBC Estate</u>

In *State Bank of India v. Union of India & Ors.*, 2026 INSC 153, the Supreme Court authoritatively ruled that spectrum allocated to telecom service providers ("TSPs") cannot be subjected to proceedings under the Insolvency and Bankruptcy Code, 2016 ("IBC"), even when recorded as an intangible asset in their financial statements.

The appeals arose from insolvency proceedings involving the Aircel and Reliance Communications groups. The central issue was whether spectrum usage rights could be treated as assets of the corporate debtor and transferred or restructured through the corporate insolvency resolution process.

The Court held that spectrum is a scarce natural resource held and controlled by the Union for the public good. A TSP receives only a conditional and regulated right to use spectrum; neither an auction allocation nor its accounting treatment transfers ownership. Sections 18 and 36 of the IBC permit an insolvency professional to take control only of assets over which the corporate debtor has ownership rights and expressly exclude third-party assets held under contractual arrangements.

The Court further distinguished accounting recognition from legal title. Recording spectrum rights as an intangible asset merely reflects the expectation of future economic benefits and cannot convert a licence into proprietary ownership. It also emphasised that the specialised telecom framework comprising the Telegraph Act, Wireless Telegraphy Act and TRAI Act governs the allocation, use and transfer of spectrum and cannot be rewritten through the IBC.

The judgment materially affects telecom insolvencies: resolution professionals, lenders and applicants cannot treat spectrum as a freely transferable insolvency asset. Any continued use or transfer must remain subject to governmental approval and the applicable telecom regulatory regime.

IBC Moratorium Does Not Shield Promoters from Consumer Proceedings

In *Tejas J. Shah & Amisha T. Shah v. Mantri Technology Constellations Pvt. Ltd. & Ors.*, 2026 INSC 746, the Supreme Court clarified that the moratorium under Section 14 of the Insolvency and Bankruptcy Code, 2016 ("IBC") protects only the corporate debtor and cannot automatically extend to its promoters, directors, associated entities or landowners.

The appellants were homebuyers in the "Mantri Manyata Energia" project who had approached the National Consumer Disputes Redressal Commission ("NCDRC") alleging delayed possession, deficiency in service and unfair trade practices against the developer and other project-related respondents. During the complaint's pendency, the NCLT admitted an operational creditor's application against the developer and imposed a Section 14 moratorium. The NCDRC consequently adjourned the entire consumer complaint *sine die*, including proceedings against respondents who were not undergoing insolvency resolution.

Setting aside that order, the Supreme Court held that the scope of a moratorium is strictly statutory. Section 14 stays proceedings against the corporate debtor alone; courts and tribunals cannot enlarge its protection to other persons not expressly covered by the provision. Since no independent moratorium operated in favour of the remaining respondents, the NCDRC was required to continue adjudicating the complaint against them. Importantly, the Court did not determine whether those respondents were ultimately liable. Questions concerning privity of contract, maintainability and independent obligations were left for the NCDRC to decide on the merits.

The ruling strengthens consumer remedies where a developer enters insolvency. While proceedings against the corporate debtor remain stayed, promoters and other project participants cannot rely solely on the company's moratorium to obtain blanket protection from consumer claims.

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