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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.

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

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