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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