Government removes Debenture Redemption Reserve requirement for Listed Companies, NBFCs and HFCs

The Hon'ble Ministry of Corporate Affairs has amended the Companies (Share Capital & Debentures) Rules by removing Debenture Redemption Reserve (DRR) requirement for Listed Companies, Non-Banking Financial Companies (NCFCs) and Housing Finance Companies (HFCs).

The decision has been taken in pursuance of the Budget announcements for 2019-20 and the government's objectives of providing greater 'Ease of Doing Business' to companies in the country, as part of its 100 Days Action Plan.

Through these amendments, the provisions relating to creation of Debenture Redemption Reserve (DRR) have been revised with the objective of;

- Removing the requirement for creation of a DRR of 25% of the value of outstanding debentures in respect of listed companies, NBFCs registered with Reserve Bank of India and for Housing Finance Companies registered with National Housing Bank (NHB) both for public issue as well as private placements;
- Reduction in DRR for unlisted companies from the present level of 25% to 10% of the outstanding debentures.

Previously, listed companies had to create a DRR for both Public Issue as well as Private Placement of Debentures, while NBFCs & HFCs had to create DRR only when they opted for

Public Issue of Debentures. It is aimed at creating a level-playing field between NBFCs, HFCs and listed companies' on the one hand and also between them and Banking Companies & All India Financial Institutions on the other, which are already exempted from DRR.

The measure has been taken by the Government with a view of reducing the cost of the capital raised by companies through issue of debentures and is expected to significantly deepen the Bond Market. The rules, while retaining DRR requirement for unlisted companies, provide for reduction from a DRR of 25% to a DRR of 10% for such companies, so as to safeguard interests of investors.

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