

**GOVERNMENT OF INDIA
CORPORATE AFFAIRS
LOK SABHA**

UNSTARRED QUESTION NO:875
ANSWERED ON:09.07.2009
SECURITY TO INVESTORS
Muttamwar Shri Vilas Baburao

Will the Minister of CORPORATE AFFAIRS be pleased to state:

- (a) whether the companies raising money through secured bonds/debentures very often do not comply with the requirement of submitting the required documents creating insecurity amongst the investors;
- (b) if so, the details thereof; and
- (c) the steps being taken by the Government for the effective enforcement of the rules in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF CORPORATE AFFAIRS (SHRI SALMAN KHURSHID)

(a) No Sir. The companies raising money through secured bonds/debentures are regulated by SEBI (Issue and Listing of Debt Securities) Regulations, 2008, SEBI (Debenture Trustee) Regulations, 1993 and SEBI (Disclosure and Investor Protection (DIP) Guidelines). Under these regulations, any company issuing debt securities to the public has to be mandatorily listed and draft offer documents are to be filed with Stock Exchanges as well as Registrar of Companies. The permission to list on Stock Exchanges is granted only after all necessary documents pertaining to issue and listing of debt securities are furnished to the exchanges.

(b) Does not arise.

(c) As per the provisions of Section 128 of the Companies Act, 1956 and rules made thereunder, every company raising funds through secured debentures is statutorily required to attach a copy of the debenture trust deed while filing Form 10 with the Registrar of Companies. For listing of secured debt issues, issuers are required to appoint debenture trustee. The debenture trustee is required to submit a due diligence certificate to SEBI before opening of the issue ensuring that the company has made adequate provisions for the security for the debentures to be issued; the company has taken all necessary permissions for creating security on the said property and all necessary disclosures have been made by the company. The responsibility of ensuring that adequate security has been created and is being maintained on continuous basis in respect of the convertible debentures being issued is cast upon the merchant bankers and debenture trustee. The offer document for the public/rights issue is required to contain the disclosures in respect of the security being created and maintained. These disclosures contain information on the assets on which security shall be created, ranking of the charges, risks associated with subsequent charge in case of second or residual charge, security/asset cover to be maintained and basis of its computation, valuation methods etc.

In case of any violation, SEBI is empowered to take appropriate action against the concerned entities in terms of SEBI Act, Regulation and guidelines made thereunder.