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Legal Briefing

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Creation of DRR by NBFCs
May 23, 2014

The Ministry of Corporate Affairs ("**MCA**") has notified the Companies (Share Capital and Debentures) Rules, 2014 ("**Rules**") as has been published in the official gazette. As per Rule 18 of the Rules in relation to debentures, which provide for creation of debenture redemption reserve account ("**DRR**") by companies, the DRR amount required to be set aside by non-banking financial companies ("**NBFC**") has been reduced from 50% to 25%. Further, NBFCs have been exempted from the requirement of creating the DRR for privately placed debentures.

Prior to these Rules being finalized and published in the official gazette, the version of the draft rules as appearing earlier required all Companies to create a DRR to the extent of 50% of the value of the debentures issued, and further did not provide for any exemption or exception to NBFCs and also in case of privately placed debentures unlike the position available to them earlier vide the MCA Circular on 11 February 2013 in this regard.

Therefore, these Rules have retained the position which existed prior to publication of the Rules on 27 March, 2014 and thus the situation remains the same as before. The revised limit and the exemption for privately placed debentures will now draw the NBFCs back to the bond market to raise funds through private placements.

For full text of the Rules please click here.

For further information or for any clarification please contact:

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Trust the above is of assistance.

Kind regards,

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