
DEBT WITH DUTY: THE RISE OF GOVERNANCE STANDARD FOR HVDLEs

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ABSTRACT

High-value debt-listed entities have emerged as a distinct regulatory division under SEBI's framework to govern and enhance corporate governance and investor protection. The recent amendments by the SEBI have made multiple corporate governance regulations mandatory for HVDLE therefore aligning debt market norms and regulations with that of equity market. This article examines and analyses the evolution of the HVDLE regime and the key amendments such as the sunset clause, increasing threshold, appointment of independent directors, and constitution of various committees, made by SEBI and assesses its implication on the debt issuer and debt investors.

This article also explores how these amendments aim to strengthen the debt market in India by improving its corporate governance norms, providing flexibility to board directors by providing them with certain rights, and mitigating the risk of insolvency. It also highlights the transitional changes that arise with the amendment which include compliance costs of the entity, the assumption by the regulatory body SEBI that debt entities function in the same way as equity entities and much more.

In conclusion, this article argues that while the regulatory changes brought in by SEBI may increase the burden for short-term entities in short term, these reforms are necessary to build an investor-friendly and sustainable debt market. A thoughtful implementation, consistent exchange of dialogues between issuers, and investors and periodic review of this regulation will be key to ensuring that handle reforms achieve their intended objective and not restrict legitimate debt-raising activities.

Introduction

Over the past few years, India has seen significant rise in the debt driven financing as companies turn to non-convertible debentures (NCDs), Corporate bonds and various other Debt instruments to meet their long-term capital requirement. The debt market which ensures stable returns to investors and facilitates capital flow to the company without the dilution of ownership has however operated under regulatory forbearance specifically in the area of corporate governance compliance, resulting in reduction in flow of information, inadequate investor oversight. Furthermore, the IL&FS Crisis of 2018 and DHFL Crisis of 2019 revealed loopholes in the regulatory framework for debt-based entities.

Recognising these loopholes SEBI introduced the concept of high value debt listed entities (HVDLEs) in the year 2021 by inserting section 15(1A) in the SEBI (Listing obligation and Disclosure Requirement) Regulations, 2015¹. Section 15(1A)² included rules for HVDLEs related to Board of Directors, number of annual meetings, code of conduct, stipulations related to RPTs, submission of compliance etc.

The recent amendment by SEBI dated May 23, 2025, seeks to promote corporate governance, promote investors' protection and tighten the regulation that governs debt-listed entities, this Decision by SEBI comes after various recommendations of the working group that consisted of industry experts Constituted by SEBI in May 2023, internal deliberation by SEBI and release of the consultation paper by SEBI to get public feedback. Post this process the SEBI released amendments made to LODR which were mainly related to HVDLEs and chapter VA was further added for corporate governance norms that specifically applied to HVDLEs. this article seeks to critically analyse the recent amendment, rationale and implications of the HVDLEs framework.

What are HVDLEs

The two major financial collapses namely IL&FS and DHFL resulted in the formation of HVDLE. DHFL was closed down in 2014 after it was found guilty of committing one of the biggest financial frauds, where the promoters of Diwan Housing Finance Corporation Limited were accused of cheating investors and banks by creating fake loan accounts and transferring

¹SEBI (Listing and Disclosure Requirement), 2015, Reg. 15(1A) (India)

²SEBI (Listing and Disclosure Requirement), 2015, Reg. 15(1A) (India)

money to shell companies, it was found that more than 34000Cr. Was fraudulently taken from the banks through bogus transactions and violations of company law and banking rules, similarly in 2018, IL&FS which had over 300 subsidiaries and was involved in financing and executing large infrastructure projects began defaulting on repayments of loans and commercial projects despite being rated AAA by credit agencies the amount due stood at 91000Cr. These two major financial collapses resulted in the formation of the hedge as these 2 cases raised the question of poor corporate governance and risk management in the debt-listed entities.

High-value debt-listed entities are those entities that have listed their non-convertible debt securities and have an outstanding value of listed non-convertible debt securities of rupees five hundred crore or more, however after the amendment made by the Security Exchange Board of India revised the threshold to one thousand crores.³ So, if any entity has an outstanding value of a thousand crores or more for their listed non-convertible debt security, then that company would be classified as an HVDLE. This move of increasing the threshold was done to decrease the burden of compliance from mid-size issuers and ensure that regulatory attention remains on high-value entities.

Key Regulatory Changes to High Value Debt Listed Entities

While the HVDLEs promise to improve corporate governance among the debt listed entities, evolving market and recommendations from industry experts have triggered recent amendments. these amendments are necessary as they reflect SEBI's efforts to strike a balance between ease of doing business and regulatory compliance.

Below mentioned are some key amendments introduced by SEBI

- (i) Threshold of non-convertible securities increased from 500 crore to 1000 crore, for the identification of HVDLEs.
- (ii) Introduction of sunset clause: provision from section 15-27 and chapter 5A of the SEBI's LODR will cease to apply after 3 years if the outstanding debt remains below than the specified threshold.

³Taxmann, <https://www.taxmann.com/post/blog/analysis-sebis-corporate-governance-for-high-value-debt-listed-entities-hvdles>, (Last visited July. 25, 2025).

(iii) Relaxation with regards to constitution of nomination and remuneration committee (NRC), Risk management Committee (RMC) and Stake holders' relationship committee (SRC), before the amendment it was mandatory for the entity to form NRC, RMC and SRC, however, after the amendment to avoid constitution of multiple committees, the board of director may discharge the functions of the said committees.

(iv) Section 17A⁴ of the LODR sets a limit on how many companies a person can be a director in, the erstwhile provision only accounted for those company whose equity shares are listed on stock exchanges, however after the amendment HVDLEs are also to be included, but there is also an exception to this rule which is that if a person is a director based on contractual basis or because of law, then those directorships will not be counted.

(v) Related party transaction regulations: RPTs are transactions that are between the company and its related entities.⁵ Regulation 23⁶ of the LODR outlines rules for RPTs, which required the companies to

- a. Create policy on materialities of RPTs and on how to deal with RPTs
- b. Get prior approval from the audit committee for all RPTs.
- c. Get prior approval from shareholders through resolution.

In majority of HVDLEs the majority of the shares were held by related parties. So, when these companies need approval for RPTs they must get it from non-related parties, however these non-related parties held few to negligible number of shares making it difficult to get approval for RPTs, so to eradicate this issue and protect debenture holders' new regulations were introduced for RPTs under chapter 5A.⁷

Key amendments made:

V(a). The listed entity shall formulate a policy on materiality of related party transactions

⁴ SEBI (Listing and Disclosure Requirement), 2015, Reg. 17(A) (India).

⁵ Taxmann, <https://www.taxmann.com/post/blog/taxmanns-analysis-related-party-transactions>, (Last visited July. 24, 2025).

⁶ SEBI (Listing and Disclosure Requirement), 2015, Reg. 23 (India).

⁷ KPMG, <https://assets.kpmg.com/content/dam/kpmgsites/in/pdf/2025/05/firstnotes-governance-norms-for-high-value-debt-listed-entities-hvdles.pdf.coredownload.inline.pdf>, (Last visited July. 27, 2025).

and on dealing with related party transactions including clear threshold limits duly approved by the board of directors and such policy shall be reviewed by the board of directors at least once every three years and updated accordingly: Provided that a transaction with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds Rupees one thousand crore or ten per cent. of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower⁸.

V(b). All RPTs must get prior approval from the audit committee, blanket approval can be given to repetitive transactions must they must be reviewed quarterly.

V(c). For RPTs on or after April 1, 2025, material RPTs must get an NOC from debenture trustees, who must at first get approval from debenture holders holding 50% of debentures in value related to listed debt securities, such NOC not required for RPTs on or before 31 March, 2025.

V(d). After getting the NOC, transaction needs approval from shareholders through a resolution

V(e). Exempted transactions under the new regulations

(i) Transaction between 2 govt entities

(ii) Transaction between a holding company and its close subsidiary

(iii) Transaction between 2 wholly owned subsidiary⁹

Strengthening investors and issuers confidence: Impact of HVDLE Amendment

The amendments made to the HVDLEs bring significant advantages to the debt market in context of corporate governance and transparency, this move by SEBI marks a pivotal shift towards having a well-structured regulations for debt listed entities. Given below are few advantages of the amendments.

⁸ SEBI (Listing and Disclosure Requirement), 2015, Reg. 23(1) (India).

⁹ KPMG, <https://assets.kpmg.com/content/dam/kpmgsites/in/pdf/2025/05/firstnotes-governance-norms-for-high-value-debt-listed-entities-hvdles.pdf.coredownload.inline.pdf>, (Last visited July. 27, 2025).

For Issuers

(i) Increasing the threshold: By increasing the threshold from 500 crore to 1000 crore, SEBI seeks to ensure that only entities having huge financial backing and notable financial obligation, are regulated by stricter corporate governance norms, this amendment also tends to reduce compliance burden on small debt entities, thus making them redirect all their efforts and resources on financial and operational improvement.

(ii) Sunset Clause: the Introduction of the sunset clause promises to enhance regulatory certainty, the sunset clause declares that Regulation 15-27 and Chapter 5A of LODR will cease to apply after 3 years if the debt entity falls below the prescribed threshold, this clause ensures that debt entities are not overburdened with strict compliance practices once they fall below the prescribed threshold, hence preventing permanent regulatory burden and also this clause promotes financial growth of the entity by reducing the debt.

(iii) These amendments have given flexibility to the board of directors of the debt company to undertake the functions of various committees such as nomination and remuneration committee (NRC), Risk management Committee (RMC), Stake holders' relationship committee (SRC), reducing financial burden and time of setting the committee on the company and ensuring speedy decision making.

(iv) The amendment also introduced an extensive material RPT approval mechanism, that prioritizes the interest of debt holders through mandatory Non-objection Certificate from debenture trustees with voting requirements. This amendment can potentially prevent misuse of funds by ensuring that RPTs are conducted with transparency and fairness and now with clearly defined regulations, the board of directors will be more accountable for securitizing and justifying RPTs, hence reducing the scope for self-dealing and strengthening ethical obligation of directors.

For Investors

This amendment has also brought in some key advantages for the investors. As companies will now be removed only after 3 years of staying below the threshold, companies are more likely to maintain lower debts, aligning with investors interest which are financial stability and structural solvency.

Introduction of the sunset clause into the framework can prove to be a significant milestone in aligning the debt market regulation with international regulatory framework which in result boost foreign investor confidence in investing in Indian companies by demonstrating a risk-based regulatory framework.

HVDLEs amendment requires company to have risk management system and financial review mechanism. This means that the risk of poor asset management and investment can be significantly reduced, this also reduces the risk of sudden financial collapses such as in DHFL and IL&FS where investors were caught off-guard and suffered huge losses.

Challenges with the Amendments

(i) Compliance burden on debt entities

The administration in the organisation can face difficulties adapting to the corporate governance procedure similar to equity based model as these debt listed entities are not designed to handle board level governance practices, shareholder and committee requirements, increasing the operational cost and administrative practices especially of infrastructure firms as the core focus is on operational efficiency and regulatory compliances from sectoral regulators.

(ii) For approving material RPTs, getting an non-objection certificate from debenture trustees with consent from 50% debentures holders is necessary and this can delay or even block genuine business transactions, especially in urgent fundraising scenarios as debenture trustees and shareholders might have some personal biasness towards the decision, which can be hazardous for the growth of the company

(iii) The period for the sunset clause which allows the exemption of debt entities from regulatory compliance if the debt is below 1000cr for three consecutive years, is viewed as substantially long as many debt entities would have significantly reduced the debt within a year via deleveraging or repayment. But they would still need to adhere to the strict corporate governance norms laid down by the government and incur its costs respectively.

(iv) Current amendment assumes that what's good for equity holders is good for bondholders. In equity listed companies, RPTs between the parent company and wholly owned subsidiary are provided exemption as shareholder benefit either way. Whereas in debt listed companies,

bonds are only tied to subsidiary and not to the parent company, so once the money moves upward to the parent company, bondholders may lose out on money, as debenture holders have no legal claim on the parent company¹⁰.

An illustration to better understand this scenario, ABC steels is a wholly owned subsidiary of XYZ group. ABC issues debenture worth 1000 crores to its investors and gets classified as a high value debt listed entity. The investors who purchased the debentures are only entitled to claim from ABC steels. Now if ABC enters into a RPT agreement with XYZ to transfer 150 crores to them as a corporate loan or anything else. This transaction is exempted from 62K(7)¹¹, which means there is no requirement to get approval from the debenture holders. Hence if ABC defaults in paying its debt obligation, then the debt holders cannot claim repayment from XYZ. hence this exemption completely overrides the pith and substance of the regulation which is to safeguard investors.

Way Forward

The regulatory bodies must focus on balancing corporate governance and ease of doing business. SEBI must focus on fostering and promoting a culture of transparency, board accountability and timely disclosure by the entity through industry specific tools, automation, clear regulatory compliance, introducing the use of regulatory technology can play a pivotal role in reducing manual errors, improve monitoring of data and ensure smoother adoption of governance reforms.

SEBI can adopt a phased regulatory approach, where they can slowly implement the regulation on the debt entities to avoid disruption and decrease the compliance burden on the firm. Continuous exchange of dialogues between HVDLEs, credit rating agencies and debenture holders can further strengthen the relationship and help build trust among each other. Making sure that HVDLEs framework align with environmental, social and governance (ESG) practice will attract more foreign investment from investors and foreign entities that care about environment. In conclusion, the regulatory path for HVDLEs must continue to evolve in a balanced manner which encourages transparency and improve governance standards among the debt entities, this can be achieved by embracing technology, aligning with global standards

¹⁰ Nitu Poddar, Misplaced exemptions in the RPT framework for HVDLEs, Vinod Kothari Consultants, (jul. 26, 2025, 9:10 PM), <https://vinodkothari.com/2025/04/misplaced-exemptions-in-the-rpt-framework-for-hvdle/>

¹¹ SEBI (Listing and Disclosure Requirement), 2015, Reg. 62K(7) (India).

and having consistent dialogues between issuers, debt holders and credit rating agencies, with the right balance of monitoring and flexibility, SEBI framework can achieve its intended goal which is improving corporate governance and ease of doing business.

Conclusion

SEBI's inclusion of chapter VA and refinement to the previous regulations marks a pivotal step in revolutionizing India's debt market space. Sparked by major financial crisis like DHFL and IF&FS, these changes promise to fix the regulatory loophole, promote investor's interest and corporate governance. The new amendments made under the LODR address new concerns such as board meetings, RPTs, committee responsibilities. By enhancing transparency and ensuring stakeholder's responsibility the amendment seeks to realign the balance of power in favour of debt investors.

However, challenges such as implementation and inconsistencies in the exemption must be addressed thoroughly to prevent regulatory arbitrage and to ensure that these regulations are implemented in favour of investors and issuers to promote harmony and equitable treatment. If these regulations are implemented properly then it could significantly boost investor's confidence and long term solvency of debt entities across India. The HVDLE amendments mark a progressive shift in India debt market regulatory space, however the success of these will depend on the thoughtful implementation, consistent exchange of dialogues between issuers, investors and periodic review of these regulation to ensure stability of the market, investor's growth and corporate governance.