



PR No.26/2021

SEBI issues Circular on “Security and Covenant Monitoring using Distributed Ledger Technology”

In order to strengthen the process of security creation and monitoring of security created, asset cover and covenants of the non-convertible securities, a platform for ‘Security and Covenant Monitoring System’ (‘system’) hosted by Depositories is being developed. A circular dated August 13, 2021 in this regard highlighting the roles and responsibilities of all the stakeholders has been issued. The system using Distributed Ledger Technology (DLT) shall be used for recording of the process of creation and monitoring of security (viz. due diligence, charge creation etc.), continuous monitoring of covenants by Debenture Trustees (as applicable), credit rating of the non-convertible securities by the Credit Rating Agencies, etc.

A system using block chain technology for non-convertible securities along with the underlying assets would be created and all charges and asset valuation transactions shall be recorded by the respective entities including Issuers, Debenture Trustees, Credit Rating Agencies, etc. The system will give permissions to the Debenture Trustees, Issuers, Credit Rating Agencies etc. to update the data/ information and would be accessible to other entities like stock exchanges, depositories etc.

The information stored in the system will be cryptographically signed, time stamped and sequentially added to the ledger and it provides verifiable audit trail of transactions. Further, as it would be a permissioned DLT, all the relevant stakeholders will have the

access to their portion of information in the distributed ledger and transaction history on the DLT ledger would be fully encrypted.

Transaction data would be shared only with necessary stakeholders on a need to know basis. DLT has the potential to provide a more resilient system than traditional centralized databases and offer better protection against different types of cyber-attacks because of its distributed nature, which removes the single point of attack. DLT enables programming pre-agreed conditions that are automatically executed once certain conditions hold. Thus, it will enable to program a logic which will not allow additional charge on any asset, if the charge is already created up to the present value of the asset.

Thus this system will be a quasi-registry of charges on full implementation and will achieve the objective viz. “what is the value of security that a charge holder has and who all does it shares with”.

The system shall be implemented by April 01, 2022.

The said Circular can be accessed on the SEBI website www.sebi.gov.in under the link Legal > Circulars.

Mumbai
August 25, 2021