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ADVISORS

Client Update
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SEBI Municipal Debt Securities Regulations and the 2026 Amendments

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1. Introduction: What the Municipal Debt Regulations Do

India's municipal bond market sits at the intersection of urban infrastructure finance and securities regulation. Municipalities and municipal-linked entities need long-tenor capital for water supply, sanitation, roads, transport, waste management, climate resilience and other civic functions. Investors, however, need a reliable legal framework before they can lend through a listed security rather than through a private loan relationship.

The SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015 create that framework. They regulate the issue and listing of debt securities by municipalities and eligible municipal-linked issuers, including public issues and private placements intended to be listed. Their core purpose is to ensure that municipal borrowing from the securities market is transparent, properly documented, credit assessed, dematerialized, subject to listing discipline, and supported by continuing investor protection obligations.

The regulations should not be read merely as a procedural code for selling bonds. They are a market-building instrument. They translate the credit story of a city or a pooled municipal structure into an offer document that investors can diligence: who is borrowing, for what project, with what approvals, backed by what revenues, subject to what risks, and with what payment mechanics.

2. Regulatory Background and Scope

Instrument or concept	Plain-English explanation	Regulatory significance
Municipal debt security	A debt instrument issued by an eligible municipal issuer to raise money from investors, generally for specified municipal or urban infrastructure purposes.	SEBI's framework applies when such securities are issued and listed, bringing the instrument into the securities-market disclosure and listing regime.
Public issue	An offer made to the public, including retail and institutional investors.	Requires an offer document and public-facing disclosures, including rules on advertisements and investor communication.
Private placement	An offer to identified investors, typically institutions or sophisticated investors, with the securities intended to be listed.	Still requires a placement memorandum and prescribed disclosure where listing is sought.
Special Purpose Vehicle (SPV)	A dedicated entity used to raise funds for municipal functions, including pooled finance structures.	The 2026 amendment adds targeted rules for PFDF-scheme SPVs and a new Schedule IB disclosure regime.
Pooled finance	A structure in which multiple municipalities aggregate borrowing through a common issuer	Useful where smaller municipalities may not individually have sufficient scale,

Instrument or concept	Plain-English explanation	Regulatory significance
	or vehicle.	credit visibility or market access.
ESG debt security	A labelled debt security linked to environmental, social, sustainability or governance-related use of proceeds or features.	The 2026 amendment routes municipal ESG debt issuance to the SEBI NCS Regulations, 2021 and related SEBI circulars.

The 2015 regulations were first published in the Gazette of India on 15 July 2015 vide Notification No. SEBI/LAD-NRO/GN/2015-16/006. The 2026 notification records that the regulations had last been amended on 18 August 2023 by the SEBI (Facilitation of Grievance Redressal Mechanism) (Amendment) Regulations, 2023, vide Notification No. SEBI/LAD-NRO/GN/2023/146. The correct baseline for understanding the 2026 amendment is therefore the 2015 framework as amended over time, not the bare 2015 text.

3. The 2026 Amendment at a Glance

SEBI notified the SEBI (Issue and Listing of Municipal Debt Securities) (Amendment) Regulations, 2026 on 1 July 2026. The amendment came into force on the date of its publication in the Official Gazette. Its design is incremental but important: it does not replace the municipal bond framework; it sharpens it for retail participation, ESG-labelled issuance, digital dissemination, pooled finance SPVs, refinancing transparency and SPV-specific disclosures.

Area	What changed in 2026	Practical effect
Definitions	Inserted definitions of retail individual investor and working day.	Clarifies investor categorisation and time computation for issue and listing processes.
ESG municipal debt	Inserted regulation 4F, requiring municipal ESG debt issuers to comply with conditions under the SEBI NCS Regulations, 2021 and related circulars.	Municipal ESG issuance is aligned with the broader listed non-convertible securities ESG framework.
PFDF SPVs	Inserted regulation 5A for SPVs set up under the Government of India's Pooled Finance Development Fund Scheme.	Constituent municipalities must execute agreements with the SPV before fund raising and the arrangement must be disclosed.
Offer-document schedules	Inserted references to new Schedule IB in regulations 6, 14A and 27.	SPV issuers covered by Schedule IB must use a dedicated disclosure architecture.
Advertisements	Amended regulation 9 to permit electronic advertisements, subject to a national daily notice containing a QR code and link.	Supports digital-first investor communication while preserving newspaper notice.

Area	What changed in 2026	Practical effect
Investor incentives	Inserted provisos to regulation 22B permitting specified incentives to certain investor categories.	Issuers may offer additional interest or issue-price discount to eligible categories, but only for initial allottees.
Refinancing disclosure	Inserted new refinancing disclosure item in Schedule I and included refinancing disclosure in Schedule IB.	Investors get visibility into existing loans or debt being refinanced, including rate, repayment schedule and restructuring history.
Schedule IB	Inserted a new SPV disclosure schedule.	Creates a detailed disclosure regime for SPVs raising funds for Article 243W municipal functions.

4. Why These Amendments Matter

The policy logic is straightforward: municipal bonds can become a deeper source of urban infrastructure finance only if issuers are able to reach investors efficiently and investors can assess municipal credit with confidence. The 2026 amendment works on both sides of that equation.

- **Market access**: PFDF SPVs and Schedule IB make pooled structures more usable for smaller or less frequent municipal borrowers.
- **Investor confidence**: the new SPV schedule demands a clearer account of municipal finances, revenue sources, borrowings, property-tax collection, litigation, approvals and risk factors.
- **Distribution**: the retail investor definition and permissible incentives give issuers more room to design public issues for a wider investor base.
- **Communication**: electronic advertisements, QR codes and links reflect the way investors now consume offer information.
- **Sustainable finance**: ESG municipal debt can now sit within SEBI's broader ESG debt securities framework, rather than developing as an isolated municipal label.

5. Key Amendments Explained

5.1 Retail individual investor

The amendment inserts a new definition of retail individual investor in regulation 2(1). It means an individual investor who applies or bids for municipal debt securities for a value of not more than two lakh rupees.

This definition matters because later amendments permit incentives for retail individual investors, among other categories. The two-lakh threshold gives issuers and intermediaries a clean operational test at the application or bidding stage.

Before 2026	After 2026	Implication
No specific definition of retail individual investor in the municipal debt regulations.	Individual applicants or bidders up to Rs. 2 lakh are expressly recognised as retail individual investors.	Issuers can identify retail participation for permissible incentives and issue planning.

5.2 Working day

The amendment inserts a definition of working day in regulation 2(1). In general, it refers to days on which commercial banks in the city specified in the offer document are open for business. The explanation then creates two specific applications: for announcement of the bid or issue period, working day excludes Saturdays, Sundays and public holidays; for the period between issue closure and listing of non-convertible securities on stock exchanges, working day means trading days of the stock exchanges for non-convertible securities, excluding Saturdays, Sundays and bank holidays as specified by SEBI.

This is a technical amendment with real transaction consequences. Municipal bond issues involve tightly sequenced steps: announcement, opening, closure, allotment, demat credit and listing. A clear working-day definition reduces disputes over timelines, especially where bank holidays and exchange trading days do not perfectly overlap.

5.3 ESG debt securities: new regulation 4F

New regulation 4F provides that an issuer desirous of issuing and listing Environment, Social and Governance Debt Securities must comply with the conditions specified for such securities under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and circulars issued thereunder.

The amendment does not create a bespoke municipal ESG code inside the municipal debt regulations. Instead, it connects municipal ESG-labelled debt to SEBI's general ESG debt securities framework for listed non-convertible securities. That approach is important because it avoids a fragmented market in which a municipal green or social bond label could operate under looser or different standards than corporate ESG debt.

Illustration: If an eligible municipal issuer proposes to raise money for wastewater treatment, solarised municipal assets or low-carbon public transport and markets the instrument as an ESG debt security, it must satisfy the municipal debt regulations as well as the applicable SEBI NCS ESG conditions and circular requirements. The ESG label is therefore not just branding; it brings additional conditions around eligibility, disclosure and continuing discipline under the linked SEBI framework.

5.4 Pooled financing through PFDF SPVs: new regulation 5A

New regulation 5A applies where the issuer is an SPV set up under the Pooled Finance Development Fund Scheme of the Government of India. The constituent municipalities must enter into an agreement with the SPV before funds are raised, the arrangement must be disclosed in the offer document, and the SPV must be formed either as a trust or as a company.

This should be read carefully. The 2026 amendment does not newly invent the idea of SPV issuers in the municipal debt framework. The more precise change is that it adds a specific rule for PFDF-scheme SPVs: documented municipal participation before fund raising, disclosure of that arrangement, and permitted legal forms. This improves certainty for pooled municipal bond structures.

Issue	Position after amendment	Why it matters
Constituent municipality commitment	Each constituent municipality must enter into an agreement with the SPV before raising funds.	Investors can see the legal link between the SPV borrower and the municipalities whose projects or functions are being financed.
Disclosure	The agreement/arrangement must be disclosed in the offer document.	Pooled-finance credit analysis depends on knowing who stands behind the structure and on what terms.
Legal form	The SPV must be formed as a trust or a company.	This gives transaction participants a defined legal wrapper for governance, asset holding, covenants and enforcement.

5.5 Schedule IB: the new SPV disclosure architecture

The most extensive amendment is the insertion of Schedule IB, applicable to an SPV set up for raising funds for a person performing one or more functions entrusted under Article 243W of the Constitution of India. The schedule applies to public issues and private placements of municipal debt securities intended to be listed.

Schedule IB is not a cosmetic add-on. It is a detailed investor-information package for pooled or SPV municipal credit. It recognises that investors are not merely assessing an entity called an SPV; they are assessing the underlying municipalities, the civic projects, the revenue streams, the inter-governmental approvals and the payment structure.

Schedule IB disclosure block	Key content
Instructions	Updated information, disclosed source and basis for claims, filled blanks before filing, plain English, cross-references, no unsubstantiated forward-looking statements and consistent drafting style.
General information	Head office, registered office, approving committees, board details where applicable, compliance officer, investor grievance officer, finance officer and issue

Schedule IB disclosure block	Key content
	intermediaries.
Issuer and capital structure	Constitution documents, management structure, shareholding where applicable, borrowing resolutions of the issuer and each constituent municipality, allotment resolutions, reorganisation details, project capital structure and capital grants.
Objects of the issue	Defined project or set of projects, location, project cost, phased implementation, investment plan, implementation schedule, approvals, issue expenses and refinancing details.
Issue-specific information	Applicable laws and guidelines, rating rationale, unaccepted ratings, credit enhancement, stock exchanges, default interest, listing-delay penal interest, reserves, application process, payment dates, allotment timetable and escrow mechanism.
Financial information	Three-year abridged financials, QR/link access to issuer and constituent-municipality financials and budgets, financial parameters, top revenue sources, property-tax collection and detailed borrowings.
Legal and other information	Litigation, regulatory actions, tax claims, creditor dues, material contracts, material events affecting financials or credit quality, statutory-dues defaults and past payment delays.
Undertakings and documents	Submission of disclosed documents to debenture trustee, complaint handling, listing formalities, true/fair/adequate disclosure declaration, separate bank account for issue proceeds, use of prior issue proceeds and specified transaction documents.
Risk factors	Clear 10-point minimum font, classification into project/internal and external risks, materiality analysis, proposed mitigation and comprehensive project, operational, credit and liquidity risks.

5.6 Digital advertisements: amended regulation 9

Regulation 9 previously contemplated an advertisement in a national daily with wide circulation. The 2026 amendment permits the issuer, on or before issue opening, to publish the advertisement through electronic modes such as online newspapers or the website of the issuer or stock exchange, or through a national daily. Where the issuer chooses electronic publication, it must also publish a notice in a national daily with wide circulation displaying a QR code and link to the complete advertisement.

Before 2026	After 2026	Practical result
Public issue advertisement centred on publication in a national daily with wide circulation.	Electronic advertisement permitted through online newspapers or issuer/stock exchange websites, with a newspaper notice carrying QR code and	Reduces friction and may lower publication cost, while preserving a public newspaper trail and easy investor access.

Before 2026	After 2026	Practical result
	link.	

5.7 Incentives to specified investor categories: amended regulation 22B

The amendment inserts provisos to regulation 22B. Nothing in that regulation now precludes an issuer from offering an incentive in the form of additional interest or a discount to the issue price to senior citizens, women, serving and retired defence personnel, widows and widowers of defence personnel, retail individual investors, or any other category of investors specified by SEBI from time to time. The incentive is available only to the initial allottee and not where municipal debt securities are transferred or transmitted after allotment.

This protects both policy design and market integrity. Issuers can use targeted incentives to broaden participation, but the benefit does not become a freely tradable attribute of the security in the secondary market.

Illustration: Assume a public issue carries an 8.00% coupon, and the issuer offers an additional 0.10% interest incentive to retail individual investors. An individual allotted securities for Rs. 1.5 lakh may receive the incentive as initial allottee. If that investor later transfers the bond, the buyer does not inherit the investor-category incentive merely by purchasing the security.

5.8 Refinancing disclosure

The amendment adds refinancing disclosure to Schedule I and repeats comparable requirements in Schedule IB. If a project is refinanced, the issuer must provide details of the lenders and existing project-related loan or debt being refinanced. The information includes the type of loan or debt, original amount, existing lenders, existing rate of interest, repayment schedule, project financed or purpose of debt, past restructuring if any, and reason for refinance.

This is a material credit-risk amendment. Refinancing can be benign, such as replacing expensive debt with cheaper long-term bond funding. It can also indicate stress if the issuer is rolling over obligations because cash flows are weak. The new disclosure requirement forces the issuer to show which story is true.

5.9 Technical amendments to schedules and regulation 23

The amendment inserts references to Schedule IB in regulations 6, 14A and 27 so that the new SPV schedule is picked up in the relevant public issue, private placement and listing/disclosure provisions. It also makes a minor drafting correction to regulation 23(2) by omitting the word of appearing after shall comprise and before independent directors. This is not a substantive governance rewrite.

6. Old vs. New: Regulation-wise Comparison

Provision	Pre-amendment position	2026 amendment	Compliance impact
Reg. 2(1)	No express municipal-debt definition of retail individual investor or working day.	Definitions inserted.	Update issue documents, bidding systems and timetable calculations.
Reg. 4F	No municipal regulation expressly routing ESG municipal debt to the SEBI NCS ESG framework.	New regulation inserted.	ESG-labelled municipal issuances must satisfy linked NCS/SEBI circular conditions.
Reg. 5A	SPV framework existed, but no specific PFDF-SPV agreement/disclosure provision in this form.	PFDF SPV rule inserted.	Constituent municipality agreements must precede fund raising and be disclosed.
Regs. 6, 14A, 27	Offer-document and placement memorandum references did not include Schedule IB.	Schedule IB added as applicable.	SPV issuers must use the new schedule.
Reg. 9	Advertisement route centred on national daily publication.	Electronic modes permitted with QR/link newspaper notice.	Revise public-issue advertisement process and approval checklist.
Reg. 22B	No express carve-out for specified investor incentives in this form.	Additional interest or issue-price discount permitted for specified categories, limited to initial allottees.	Issuer can design targeted participation incentives without secondary-market transfer of the benefit.
Schedule I	Objects-of-issue disclosure did not contain this refinancing detail item.	Refinancing details inserted.	Due diligence must capture existing lenders, rates, repayment, restructuring and rationale.
Schedule IB	No dedicated SPV disclosure schedule.	New schedule inserted.	Major expansion of SPV offer-document and placement memorandum disclosure.

7. Practical Impact by Stakeholder

Stakeholder	What changes in practice

Stakeholder	What changes in practice
Municipal issuers	Need stronger project, refinancing, advertisement and investor-category documentation. ESG-labelled issues require additional alignment with the NCS ESG framework.
PFDF SPVs	Must evidence constituent municipality agreements, choose trust or company form, and prepare Schedule IB disclosures spanning both the SPV and underlying municipalities.
Constituent municipalities	Need resolutions, financial data, revenue information, property-tax collection data, litigation inputs and project information ready for inclusion in SPV disclosure.
Merchant bankers and legal counsel	Must update due-diligence checklists, offer-document templates, advertisement processes and closing-document conditions.
Debenture trustees	Receive broader disclosure materials and should pay closer attention to escrow mechanisms, repayment structures and issuer undertakings.
Retail and other investors	Gain clearer issue information, possible initial-allottee incentives, and better visibility into refinancing and pooled municipal credit risk.
Stock exchanges	Will see new Schedule IB filings and electronic-advertisement workflows, including QR/link-based dissemination.

8. Worked Examples

Example 1: Pooled water-supply project through PFDF SPV

Five municipalities want to finance common water infrastructure but individually lack market scale. A PFDF-scheme SPV is formed as a trust. Before raising funds, each municipality signs an agreement with the SPV. The offer document discloses those agreements, the borrowing resolutions, project capital structure, capital grants, implementation milestones, escrow mechanism, constituent-municipality financial parameters, revenue sources and property-tax collection data. Investors assess one listed bond, but with a transparent view of the underlying municipal commitments.

Example 2: Refinancing an existing project loan

A municipal issuer proposes to issue listed debt to refinance a bank loan taken for a sewage treatment project. Under the amended Schedule I or Schedule IB, it must identify the existing lender, original amount, current interest rate, repayment schedule, project financed, restructuring history if any, and reason for refinancing. If the reason is to reduce interest cost or lengthen tenor after successful project stabilisation, investors can assess that positively. If the loan had been restructured, that history must be visible.

Example 3: Retail incentive in a public issue

A city issues municipal bonds to retail and institutional investors and offers a small issue-price discount to retail individual investors applying up to Rs. 2 lakh. The discount applies only at allotment. If the bond is later sold, the buyer receives the bond's normal economic rights but not a fresh category-based allotment incentive.

Example 4: Digital-first issue advertisement

The issuer publishes the complete advertisement on the stock exchange website and its own website. It also places a short notice in a national daily with a QR code and link to the full advertisement. Investors reading the newspaper can access the complete terms digitally; the issuer is not forced to reproduce the entire advertisement in print.

9. Compliance Checklist

1. Identify whether the issuer is a municipality, an existing eligible municipal-linked issuer, or a PFDF-scheme SPV.
2. For PFDF SPVs, confirm trust or company form and obtain executed agreements with constituent municipalities before fund raising.
3. Select the correct disclosure schedule: Schedule I, Schedule IA or Schedule IB, as applicable.
4. For ESG-labelled debt, map the issue against the SEBI NCS Regulations, 2021 and applicable SEBI circulars.
5. Refresh offer document and placement memorandum templates for refinancing, QR/link, SPV and risk-factor disclosures.
6. Build a working-day timetable for issue announcement, closure, allotment, demat credit and listing.
7. If offering investor incentives, define eligible categories, mechanics and the initial-allottee limitation in the issue documents.
8. Prepare electronic advertisement approvals and the national daily notice with QR code and link.
9. Collect financial and revenue data for constituent municipalities early, particularly property-tax collection and top revenue-source disclosures.
10. Document materiality policies for litigation, creditor dues and risk factors, and make distinct negative statements where no cases exist.

10. Key Takeaways and Broader Market Impact

The 2026 amendment is best understood as a second-generation municipal bond reform. It does not merely ask whether a municipality can issue listed debt; it asks whether the market can understand municipal credit in a form that is comparable, searchable, digitally accessible and robust enough for a wider investor base.

- For issuers, the amendment creates more routes to market but demands better preparation.

- For smaller municipalities, PFDF-linked SPV structures may provide a more credible pooled-finance path.
- For investors, Schedule IB and refinancing disclosures improve visibility into municipal finances and project risk.
- For ESG finance, the amendment avoids label arbitrage by tying municipal ESG debt to SEBI's broader listed debt framework.
- For the market as a whole, the amendment should support a deeper, more transparent municipal bond ecosystem if issuers and intermediaries invest in the underlying disclosure discipline.

The broader impact is therefore developmental as much as legal. Urban infrastructure needs patient capital. Listed municipal debt can provide it, but only if municipal issuers earn investor trust through credible structures and disciplined disclosure. The 2026 amendments move the framework in that direction: more flexible in access, more precise in execution, and more demanding in transparency.

Sources Checked

- Official Gazette notification: Securities and Exchange Board of India (Issue and Listing of Municipal Debt Securities) (Amendment) Regulations, 2026, Notification No. SEBI/LAD-NRO/GN/2026/305, Mumbai, 1 July 2026, Gazette of India Extraordinary, Part III, Section 4, No. 423, CG-MH-E-08072026-274254.
- Regulatory history note in the same Gazette notification: original publication on 15 July 2015 vide Notification No. SEBI/LAD-NRO/GN/2015-16/006; last amendment recorded as 18 August 2023 vide Notification No. SEBI/LAD-NRO/GN/2023/146.

About Atulya Corporate Advisors

Firm Profile

Atulya Corporate Advisors LLP is a multidisciplinary corporate advisory firm offering legal, financial and business advisory services. The firm focuses on research-led, practical and cost-effective solutions across corporate law, transaction advisory, valuation, compliance and allied professional services.

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