Debenture Redemption Reserve

The Corporate Affairs Ministry has **removed the requirement for Debenture Redemption Reserve (DRR) of 25% of the value of outstanding debentures** issued by listed companies, **Non-Banking Financial Companies (NBFCs)** and Housing Finance Companies (HFCs).

- In the case of **unlisted companies,** the DRR requirement has been **reduced to 10% from 25%** of the outstanding debentures.
- The changes would be applicable for public issue as well as private placements.
    - Till now, listed companies had to create a DRR for both public issues as well as private placement of debentures. In the case of NBFCs and HFCs, they had to have DRR when they opted for public issue of debentures.
- The measure has been taken by the government with a view to **reducing the cost of the capital** raised by companies through issue of debentures and is expected to significantly deepen the bond market.
- The amendments are aimed at **creating a level-playing field** between NBFCs, HFCs and listed companies on the one hand and also between them and banking companies and all India financial Institutions on the other, which are already exempted from DRR.

Debenture Redemption Reserve

- Debenture redemption reserve (DRR) is a provision stating that any Indian corporation that issues debentures must create a debenture redemption service in an effort to protect investors from the possibility of a company defaulting.
- This provision was added to the Indian Companies Act of 1956 through an amendment introduced in the year 2000.
- This rule offers investors a measure of protection, because debentures are not backed by an asset, a lien, or any other form of collateral.
    - **Debentures** are debt instruments used to raise capital from the general public, usually backed by the integrity and the creditworthiness of the issuer.

Source: BS

PDF Refernece URL: https://www.drishtiias.com/printpdf/debenture-redemption-reserve