Convertible Notes vs. Compulsorily Convertible Debentures (CCDs)

What Founders Need to Know

What Are Convertible Notes & CCDs?

- A **Convertible Note** is a **debt instrument** that converts into equity when the startup raises its next funding round.
- It accrues **interest** and has a **maturity date** by which it must either be repaid or converted into equity.
- **Hybrid instrument:** Starts as debt but eventually converts into equity.

- A **CCD** is a **debt instrument** that **must** convert into equity at a predefined time (e.g., maturity) or event (e.g., funding round).
- Unlike a Convertible Note, **conversion is mandatory** once the maturity date is reached.
- It can carry **interest**, and the conversion terms are usually defined upfront.

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What About Interest Accrual?

Convertible Notes: May or may not accrue **interest** (typically between 5-8%). Interest is **converted into equity** upon conversion of the note (if applicable).

CCDs: **Interest-bearing** (unless structured otherwise). Interest is treated as income for the investor, and must be paid until conversion.

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Which One Has a Maturity Date?

Convertible Notes: Typically have a **maturity period of 18-24 months**. If conversion doesn't occur, repayment may be required.

CCDs: Have a **fixed tenure,** with **mandatory conversion** once the maturity date is reached. No repayment, just conversion.

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What Are the Regulatory Differences?

Convertible Notes: Recognized under Indian law **only for DPIIT-registered startups** and must comply with **FEMA** for foreign investments.

CCDs: Widely recognized and used in India. Must comply with **FEMA guidelines**, and RBI valuation rules for foreign investments.

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Use Cases

Convertible Notes: Ideal for **early-stage** startups looking for **quick, flexible funding** without agreeing to a valuation immediately.

CCDs: More commonly used in **later-stage rounds** or when **foreign VCs** are involved, providing a structured way of converting debt into equity.

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Summary Table - Key Differences

Feature	Convertible Notes	CCDs
Legal Nature	Hybrid (Debt → Equity)	Debt instrument (Mandatory Equity Conversion)
Conversion Terms	Based on valuation cap/ discount	Predefined ratio/terms
Interest Accrual	Optional (5-8% interest)	Interest-bearing (unless waived)
Maturity Period	18-24 months	Fixed tenure, with mandatory conversion
Repayment	Optional (if not converted)	No repayment, only conversion
Regulatory Recognition	For DPIIT-registered startups	Broadly recognized, including for FDI
Use Case	Early-stage funding	Later-stage funding, foreign investors