Developments in the Corporate Bonds and Securitization Markets

An Update (as on February 24, 2012)

In December 2005, the **High Level Expert Committee on Corporate Bonds and Securitization** submitted its report giving a plethora of recommendations for the development of the corporate bond and securitization markets in India. The Government had set up this committee to look into legal, regulatory, tax and market design issues in the development of the corporate bond and securitization markets. Implementation of the recommendations warranted coordinated action by Government, Reserve Bank of India (RBI) and Securities Exchange Board of India (SEBI).

In February 2006, Finance Minister, in his **Budget speech of 2006-07,** announced that the Government has accepted the recommendations of the Report of the High Level Expert Committee on Corporate Bonds and Securitization and that steps would be taken to create a single, unified exchange traded market for corporate bonds.

In March 2006, Chairman, **SEBI constituted an internal Committee** to prepare an action plan for the purpose of implementation of the Budget proposals on development of the corporate bond market in India.

In May 2006, the **SEBI internal Committee submitted its report** giving a broad plan for implementation of budget proposals on development of the corporate bond market in India.

In May 2006, a copy of the report of the SEBI internal Committee was forwarded to RBI for their perusal and comments.

In May 2006, in its Annual Policy Statement for the year 2006-07, **RBI** announced constitution of a **Working Group** to examine the relevant recommendations of the High Level Expert Committee, having a bearing on Reserve Bank's responsibilities in regard to development of the corporate debt market to suggest a roadmap for implementation.

In July 2006, RBI's "**Working Group** to examine recommendations of High Level Expert Committee on Corporate Bonds and Securitization involving RBI and suggest a roadmap for implementation" **submitted its Report**.

In December 2006, Government issued **clarifications on regulatory jurisdiction** over corporate bond market as the confusion over the same was attributed to be a reason for slow progress in implantation of the High Level Expert Committee's recommendations on corporate bonds and securitization. After hearing the views of RBI and SEBI and perusing the provisions in SCRA, SEBI Act and the RBI Act, Finance Minister desired that the necessary clarifications may be provided to RBI and SEBI so that they could implement expeditiously, the announcement in the Budget that steps would be taken to create a single, unified exchange traded market for corporate bonds.

In December 2006, SEBI permitted BSE to set up a **reporting platform** **from January 1, 2007** to capture all information related to trading in corporate bonds as accurately and as close to execution as possible. SEBI also announced its intention to permit recognized stock exchanges having nationwide access to set up **corporate bond trading platform** to enable efficient price discovery and reliable clearing and settlement in a gradual manner. Access to the platform for reporting was given to all market intermediaries. Non-members of the Exchange were provided connectivity through Virtual Private Network (VPN).

In January 2007, Government discussed the relevant issues of **regulatory jurisdiction** and market design further and decides as under:

(a) **Clarity on the agency responsible for different segments of the corporate debt market**

- (i) SEBI will be responsible for primary market (public issues as well as private placement by listed companies) for corporate debt;
- (ii) RBI will be responsible for the market for repo/reverse repo transactions in corporate debt. However. If it is traded on exchanges, trading and settlement procedure would be determined by SEBI.
- (iii) SEBI will be responsible for the secondary market (OTC as well as Exchange) for the corporate debt;
- (iv) The above framework would apply irrespective of the parties (bank or non bank involved in a transaction;
- (v) The views in respect of trading of unlisted securities and derivatives on corporate debt (other than repo/reverse repo) would be taken as and when the need arises.

(b) **The market design for the secondary market of corporate debt market**

- (i) OTC as well as exchange based transactions need to be reported to reporting platforms(s);
- (ii) All the eligible and willing national stock exchanges need to be allowed to set up and maintain reporting platforms if they approach SEBI for the same. SEBI needs to coordinate among such reporting platforms and assign the job of coordination to a third agency;
- (iii) The trades executed on or reported to an Exchange need not be reported to a reporting platform;
- (iv) The participants must have a choice of platform. They may trade on OTC or any exchange trading platform;
- (vi) Existing exchanges could be used for trading of corporate debts. NSE and BSE could provide trading platforms for this purpose. There is no need to create a separate infrastructure;

(vii) There would be no separate trading platforms for different kinds of investors. Institutional and retail investors would trade on the same platform;

(viii) Only brokers would have access to trading platform of an Exchange. Banks would have the option of becoming a broker or trading through a broker. RBI, may if considered necessary restrict a bank to trade only on proprietary account as a broker.

In January 2007, BSE operationalised its reporting platform to capture information related to trading in corporate bond market.

In March 2007, **SEBI permitted NSE also to set up and maintain a reporting platform** on the lines of BSE. It was also decided that BSE and NSE shall coordinate among themselves to ensure that the information reported with BSE and NSE is aggregated, checked for redundancy and disseminated on their websites in a homogenous manner. As an integral part of development of a database, the two exchanges were advised to provide data pertaining to corporate bonds comprising, issuer name, maturity date, current coupon, last price traded, last amount traded, last yield (annualized) traded, weighted average yield price, total amount traded and the rating of the bond and any other additional information as the stock exchanges think fit.

In March 2007, the **Fixed Income Money Market and Derivatives Association of India** (FIMMDA) proposed to set up a reporting platform for corporate bonds and also provide value added dissemination of information on corporate bonds as in the case of government securities. SEBI decided that till such time that FIMMDA sets up such a platform, it shall disseminate information made available on bond trading by the two exchanges with appropriate value addition.

In March 2007, SEBI rationalized the **provisions of continuous disclosures** made by issuers who have listed their debt securities and not their equity shares on the stock exchanges.

In March 2007, **NSE operationalised its reporting platform** for corporate bonds and starts disseminating information as desired by SEBI.

In April 2007, SEBI permitted both BSE and NSE to have in place corporate bond trading platforms to enable efficient price discovery and reliable clearing and settlement facility in a gradual manner. To begin with, the trade matching platform was to be order driven with essential features of OTC market. It was also announced that eventually a system of anonymous order matching shall be established. BSE and NSE were advised to make use of the existing infrastructure available with them for operating the **trade matching platforms** for corporate bonds with necessary modifications. The exchanges were also advised that on stabilization of the trade matching system, they may move to an **anonymous order matching system** for trading of bonds within an appropriate period of time. Accordingly, both the exchanges were to indicate to SEBI an expected date on which they could move to anonymous order matching system for trading in corporate bonds. With the introduction of anonymous order matching platform, the **clearing and settlement facility** were to be provided by BSE and NSE with a multilateral netting facility for trades executed on the platform. It was also simultaneously decided that orders executed through trading platforms of either BSE or NSE shall not be required to be reported again on the reporting platforms.

In April 2007, SEBI, while permitting both the exchanges viz. BSE and NSE to set up trading platforms, advised them that the stock exchanges may provide their services for **clearing and settlement** of corporate bonds traded or the entities trading in listed corporate debt securities may settle their trades bilaterally.

In April 2007, SEBI decided to **reduce the shut period in corporate bonds** to align it with that applicable for Government Securities.

In April 2007, SEBI decided to reduce **tradable lots** in corporate bonds in respect of all entities including Qualified Institutional Investors to Rs.1 lakh and advises exchanges to have a limited segment for transactions in similar market lots.

In April 2007, SEBI decided to make it mandatory for all new issues of corporate bonds to have an **actual day count convention** similar to that followed in respect of dated Government Securities.

In April 2007, SEBI made amendments to the **listing agreement for debentures** to ensure that services of ECS (Electronic Clearing Service), Direct Credit, RTGS (Real Time Gross Settlement) or NEFT (National Electronic Funds Transfer), are used for payment of interest and redemption amounts as per applicable norms of the RBI along with other existing facilities.

In April 2007, SEBI made amendment to the listing agreement for debentures to ensure that no material modification shall be made to the structure of the debentures issued in terms of coupon, conversion, redemption or otherwise without prior approval of the stock exchanges where they are listed. The stock exchanges shall also ensured that such information relating to modification or proposed modification is disseminated on the exchange website.

In June 2007, SEBI put up Draft Regulations for "**Public Offer and Listing of Securitized Debt Instruments**" on its website for public comments. SEBI Draft Regulations provided for a system of special purpose distinct entities which could offer securitized debt instruments to the public or could seek listing of such instruments. The Draft document also elaborated on the permissible structure for the special purpose distinct entity, conditions for their assignment of debt or receivables from any originator, procedure for launching of schemes, obligation to redeem securitized debt instruments, credit enhancement and liquidity facilities which could be availed by the entity, conditions for appointing servicers, procedure to be followed for public offer of securitized debt instruments, their listing, rights of investors, inspection and disciplinary proceedings and action in case of default.

In July 2007, BSE and NSE **trading platforms became operational**. Initially, trade matching platforms at BSE and NSE were order driven with the essential features of OTC market.

In August 2007, SEBI started placing **information on secondary market trades** (both exchange and OTC trades) on its website on the basis of data provided by the two Exchanges.

In August 2007, SEBI made it mandatory that the **companies issuing debentures and the respective debenture trustees/stock exchanges shall disseminate all information** regarding the debentures to the investors and the general public by issuing a press release and also displaying the details on their respective websites, in the event of:

(i) Default by issuer company to pay interest on debentures or redemption amount;
(ii) Failure to create a charge on the assets;
(iii) Revision of rating assigned to the debentures.

In August 2007, SEBI made it mandatory to make public, **information/reports on debentures issued including compliance reports filed by the companies** and the debenture trustees by placing them on websites of the companies and the debenture trustees. The same was also required to be submitted to the stock exchanges for dissemination through their websites.

In August 2007, SEBI granted approval to **FIMMDA for starting Corporate Bond Trade Reporting Platform**.

In September 2007, **FIMMDA reporting platform became operational** as the third reporting platform after BSE and NSE. Accordingly, for reporting of OTC trades, the concerned parties could opt to report their trades on any one of the three reporting platforms.

In September 2007, SEBI advised BSE and NSE to confirm their **preparedness for going in for introduction of repos** in corporate bonds so that it could request RBI to issue appropriate guidelines for the purpose as suggested by the High Level Expert Committee on Bonds and Securitization.

In October 2007, SEBI obtained confirmations from BSE and NSE on their **preparedness for introduction of repos** in corporate bonds. Since repos in corporate bonds fell under the regulatory purview of RBI, SEBI had requested RBI to initiate action as required.

In November 2007, SEBI issued letters indicating no objection to entities which had approached SEBI for setting up of electronic systems to facilitate price discovery and bringing about transparency into corporate bond trading. The systems was proposed to help display of buy sell quotes of counter parties involved so that the buyers and the sellers in the corporate bond market could strike deals at best prices before they go in for order matching either at the exchange or bilaterally.

In December 2007, SEBI vide circular dated December 03, 2007 **amended the provisions** pertaining to issuances of Corporate Bonds under the SEBI (Disclosure and Investor Protection) **(DIP) Guidelines, 2000.** The changes to the Guidelines were as below:

(a) For public/ rights issues of debt instruments, issuers now needed to obtain rating from only one credit rating agency instead of from two. This was with a view to reduce the cost of issuances.

(b) In order to facilitate issuance of below investment grade bonds to suit the risk/ return appetite of investors, the stipulation that debt instruments issued through public/ rights issues shall be of at least investment grade had been removed.

(c) Further, in order to afford issuers with desired flexibility in structuring of debt instruments, structural restrictions such as those on maturity, put/call option, on conversion, etc had been done away with.

In January 2008, SEBI framed **Draft Regulations on Issue and Listing of Debt Securities** and the places on same on the SEBI website along with a consultative paper for Public Comments. Salient features of the draft regulations included rationalization of disclosure requirements, enhanced responsibilities of merchant bankers for exercising due diligence and mandatory listing of private placement of debt issued as per exemption under S.67(3) of the Companies Act. The paper also made provisions for e-issuances of corporate debt and proposes introduction of rationalized listing requirements for debt of a listed issuer.

In February 2008, In addition to the letters indicating no objection communicated to three entities in November 2007, a similar letter indicating no objection had been communicated to a fourth entity that had approached SEBI for setting up a similar electronic system that will help display buy sell quotes of counter parties involved so that the buyers and the sellers in the corporate bond market could strike deals at best prices before they go in for order matching either at the exchange or bilaterally.

In February 2008, Finance Minister in his **Budget speech of 2008-09** announced that as announced in the Budget Speech of 2006 about **taking steps to create an exchange-traded market for corporate bonds**, both BSE and NSE created platforms for trading in corporate bonds. The Finance Minister proposed to move forward by taking some more measures to expand the market for corporate bonds such as:

• take measures to develop the bond, currency and derivatives markets that will include launching exchange-traded currency and interest rate futures and developing a transparent credit derivatives market with appropriate safeguards;
• enhance the tradability of domestic convertible bonds by putting in place a mechanism that will enable investors to separate the embedded equity option from the convertible bond and trade it separately; and
• encourage the development of a market-based system for classifying financial instruments based on their complexity and implicit risks.

The Finance Minister also announced that supplementing the measures announced in respect of the corporate debt market, it was proposed to exempt from TDS, corporate debt instruments issued in demat form and listed on recognized stock exchanges.

In March-April 2008, SEBI **reviewed a large number of public comments** received on the Draft Regulations on Issue and Listing of Debt Securities and the consultative paper which were placed on the website in January 2008.

In April 2008, on the lines as proposed in the consultative paper placed on the SEBI website in respect of draft Regulations for issue and listing of debt securities, SEBI discussed with stock exchanges, BSE and NSE on **simplifying and rationalizing the listing agreement** for debentures. The underlying philosophy for the same was:

(a) where the equity of a company is listed, and such company wishes to issue debt instruments (whether by way of public offering of private placement), as large amount of company related information is already in public domain and material developments are available as per the equity and listing agreement on a nearly continuous basis minimal incremental disclosures are sufficient; and
(b) where the equity of the issuer is not listed, and such a company raises debt capital (whether by way of public offering of private placement) detailed disclosures, (fewer than equity securities disclosures though), are required

In April-May 2008, SEBI discussed with the stock exchanges BSE and NSE on **introduction of mandatory clearing and settlement for trades** in corporate bonds. This was in line with the discussions had with RBI in December 2007 towards preparing the market for introduction of Repos..

In May 2008, SEBI **received a draft Listing Agreement for debt securities prepared by BSE dand NSE in consultation with SEBI**. The said draft listing agreement suggested only one listing agreement for debt securities irrespective of whether the equity of the issuer is already listed or not and whether debt securities have been issued by way of a public issue or a private placement. The applicability of clauses has been demarcated in the listing agreement as below:

(a) Part A of the debt listing agreement would be applicable in case the issuer has equity shares already listed on the exchange and has complied with the covenants appearing in the equity listing agreement. In such a case, the issuer may comply with minimal disclosure requirements specified in clauses 1 to 4 of the agreement. It is specified that in case the equity of the issuer is delisted from the exchange at a later date, the issuer is mandated to comply with Part B of the agreement.

(b) Part B of the debt listing agreement would be applicable for issuers who do not have their equity listed on the stock exchange or do not otherwise satisfy the requirements to make disclosures as per Part A. Clauses 5 to 21 of the agreement would be applicable for such issuers.

In May 2008, SEBI **gathered information from depositories NSDL and CDSL** on transfers in Corporate Bonds on a monthly summary basis and started placing the information on transfers in corporate bonds at depositories on its website.

In May 2008, SEBI **set up** an Advisory Committee named **"Corporate Bonds and Securitization Advisory Committee" (CoBoSAC)** for making recommendations to SEBI on developing the market for corporate bonds and securitized debt instruments further.

In May 2008, the **SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008** **were notified** in the Official Gazette dated May 26, 2008.

In June 2008, **the SEBI (Issue and Listing of Debt Securities) Regulations, 2008 were notified** in the Official Gazette dated June 06, 2008.

In July 2008, **the first meeting of the newly set up Corporate Bond and Securitization Advisory Committee (CoBoSAC)** was convened under the Chairmanship of Dr RH Patil. The Committee deliberated on streamlining mechanisms for reporting, clearing and settlement and on developments in the Corporate Bond Market to date. The Committee, after deliberation recommended implementation of mandatory DvP-III clearing and settlement on exchanges with RTGS. In the meantime, it was recommended to set up a sub-group that would look into issues related to trade reporting.

In August 2008, SEBI placed **the draft simplified listing norms for 'debt securities'** as defined in the SEBI (Issue and Listing of Debt Securities) Regulations, 2008 prepared in consultation with BSE and NSE on the SEBI Website for public comments.

In October 2008, the **second meeting of CoBoSAC** was convened. Inter alia, the Committee stressed on the importance of stock exchanges having RTGS access in order to introduce clearing and settlement through the stock exchange clearing houses. Also, the SEBI proposal on electronic issuances was discussed in detail at the meeting.

In December 2008, the **third meeting of CoBoSAC** was **convened**. The committee, inter alia, discussed the analysis on privately placed bonds, the report of the sub-group on reporting of corporate bond trades and the policy clarifications that needed to be communicated to the merchant bankers of the proposed issue by Tata Capital Limited.

In December 2008, SEBI communicated its clarifications on policy issues to the merchant bankers to the proposed public issue by Tata Capital Limited who had sought clarifications under the recently notified SEBI (Issue and Listing of Debt Securities) Regulations, 2009.

In February 2009, **the first public issue of non-convertible debt securities** under the Debt Regulations was made by **Tata Capital Limited**. The issue opened on February 02, 2009 and closed on February 24, 2009. The size of the issue was set at Rs.500crore with a green shoe option up to Rs.1000crore. Since the issue was over subscribed, the issuer exercised the green shoe option. The final issue size thus stands at Rs.1500crore.

In May 2009, RBI sent a communiqué to SEBI outlining the norms for granting RTGS access to the clearing corporations of stock exchanges so as to facilitate **DVP-I based trade for trade settlement** for the funds leg of corporate bond trades. The clearing corporations of NSE and BSE submitted their applications for the same through SEBI.

In May 2009, SEBI put in place the **simplified listing agreement for debt securities.** As was proposed in the draft for public comments, issuers with listed equity who are already subject to detailed disclosure requirements, now have to make minimal disclosures while issuers of listed debt alone make reasonably elaborate disclosures but less than those required under the equity listing agreement. The simplified listing agreement has two parts A & B. Issuers with equity listed need to comply with the brief disclosures as per part A while those with unlisted equity or non compliance otherwise with the Equity Listing Agreement would require compliance with Part B of the simplified listing Agreement.

In May 2009, **the fourth meeting of CoBoSAC** was convened. The committee, inter alia, discussed the analysis on reporting of Corporate Bonds prepared by NSDL and learnings from the recent issue by Tata Capital Limited. CoBoSAC also reviewed the preparedness of the clearing houses at NSE and BSE for the RTGS based clearing and settlement.

In June 2009, the applications made through SEBI by the clearing corporations of NSE and BSE for access to the RBI RTGS system were forwarded to RBI for its consideration.

In June 2009, SEBI issued **a circular clarifying the applicability of regulations**/ guidelines of SEBI on privately placed convertible debt securities That the issue of debt securities that are convertible, either partially or fully or optionally into listed or unlisted equity shall be guided by the disclosure norms in terms of SEBI (Disclosure and Investor Protection) Guidelines, 2000. The circular also specified that the issue and listing of non-convertible debt securities, whether issued to the public or privately placed shall be done in accordance with the provisions of the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

In July 2009, SEBI issued a circular to all **Mutual Funds**, AMFI, Stock Exchanges and FIMMDA, making it **mandatory to report inter-scheme transfers of Corporate Bonds** by Mutual funds on either of the reporting platforms of BSE, NSE or FIMMDA.

In August 2009, the **reporting of inter-scheme transfers** of Corporate Bonds by Mutual Funds was started. The data is also updated on the SEBI Website at this link.

In October 2009, SEBI issued **a circular on Mandatory Settlement of Corporate Bonds Trades through Clearing Corporation** according to which, from December 2009, all SEBI, RBI and IRDA regulated entities were directed to clear and settle their trades through the National Securities Clearing Corporation Limited (NSCCL) or the Indian Clearing Corporation Limited (ICCL). The settlement is on T+1 or T+2 on DVP1 basis without any guarantee of settlement from the clearing corporations.

In March 2010, SEBI took up with concerned authorities for pension funds and rural co-operative banks, subsequent to which EPFO also directed all PFs to settle their trades through NSCCL or ICCL; and NABARD and RBI directed all state and rural co-operative banks to settle their trades through NSCCL or ICCL.

In March 2010, SEBI directed exchanges to present **issuer-related information on exchange websites in a uniform format**. This was done with a view to make available a comprehensive database of listed corporate bonds in public domain.

In December 2010, SEBI directed exchanges to ensure that all issuers use **interest rate convention of Actual/Actual**. This was done since it had come to the notice of SEBI that various entities were using different day count conventions like Actual by Actual, 30 by 360 or 30 by 365 for calculating interest rates and present value at the time of issue of bonds.

In February 2011, subsequent to HLCCFM decision, meeting of MCA, RBI and SEBI was held to clarify that RBI would regulate the issuance of instruments of maturity less than one year, SEBI would regulate issuances of listed instruments of maturity more than one year, and MCA would regulate unlisted securities of instruments of maturity more than one year.

In June 2011, SEBI directs exchanges **to do away with shut period** for interest payments or for part-redemptions. This was with a view to bring about uniformity in shut periods for corporate bonds. Further, SEBI directed exchanges to ensure that issuers have a record date not more than 15 days prior to book closure for all prospective privately placed issues of corporate bonds.

In August 2011, SEBI amended the Regulations for Mutual Funds, permitting Mutual Funds to set up **Infrastructure Debt Funds under the Mutual Funds Framework**.

In September 2011, SEBI puts in place **conditions for issue of Structured Products**. This was done with a view to enhance disclosures for issue of debt instruments with returns liked to various market indices. Additional norms include restricting eligible issuers to those that have a net-worth of INR 100cr, minimum ticket size of issue at INR 1 lakh, selling practices, additional disclosures pertaining to riskiness of such instruments, scenario analysis showing its value under various market conditions, commission structure embedded therein, etc. Third party valuation by a credit rating agency was also made mandatory and the same shall be disclosed to public.

In December 2011, SEBI advised that in respect of public issues of debt securities, **no person connected with the issue shall offer any incentive, whether direct or indirect,** in any manner, whether in cash or kind or services or otherwise to any person making an application for allotment of such securities. This was done to prevent the practice in public issues of debt where, some brokers/ distributors are passing on part of their brokerage/ commission to the final investor(s) for subscription to such public issue of debtwhich resulted in an unfair advantage/bargaining power to a certain set of investors and distributors while on the other hand adding to the cost of issuance for the company.

Summary of Corporate Bond Market Data

Trading in Corporate Bonds

Date	No. of Trades	Amount (INR cr)
2007-08	19079	95889.71
2008-09	22683	148166.18
2009-10	38230	401198.04
2010-11	44060	605274.24
Apr-Dec-2011	36620	422147.11

Settlement of Corporate Bonds

Month	Total No. of Trades Settled	Total Settled Value (INR Cr)
2010-11	32662	450123.15
Apr-Dec-2011	27272	291674.19

Inter-Scheme Transfers by Mutual Funds

Month	Total No. of Trades	Total Amount (INR cr)
2010-11	8431	319031.84
Apr-Dec 2011	2477	32835.06

Private Placement Data

Month	No. of Issues	Amount (INR Cr)
2007-08	744	118484.64
2008-09	1041	173281.18
2009-10	1278	212634.92

2010-11	1404	218785.41
Apr-Dec 2011	1404	188530.48

Public Issue Data

Month	No. of Issues	Amount (INR Cr)
2007-08	0	0.00
2008-09	1	1,500.00
2009-10	3	2,500.00
2010-11	10	9,451.00
Apr-Dec 2011 (prov)	12	15045.84