



CIR/MRD/DP/03/2013

January 24, 2013

To

All Stock Exchanges and Clearing Corporations

Dear Sir / Madam,

Sub: Guidelines for providing dedicated Debt Segment on Stock Exchanges.

1. The market for debt securities differs from equity markets in several ways such as risk, returns, liquidity, type of participants and method of trading. While publicly issued debt securities are listed, traded and settled in a manner similar to equity, privately placed debt is usually traded between institutional investors on 'Over the Counter' (OTC) basis. Such OTC transactions are mandatorily reported on reporting platforms at FIMMDA, BSE and NSE. The settlement for such transactions is different from that in equity markets or publicly issued debt securities.
2. Whereas the equity markets in India offer trading infrastructure comparable to the best available globally, the debt markets lack such infrastructure. In order to cater to the unique characteristics of debt markets, it has been decided to provide dedicated a debt segment on the stock exchanges.
3. The debt segment shall offer separate trading, clearing, settlement, reporting facilities and membership to deal in :
 - (i) "debt securities" as defined in Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
 - (ii) Government Securities, Treasury Bills, State Government loans, SLR and Non-SLR Bonds issued by Financial Institutions, municipal bonds, single bond repos, basket repos and CBLO kind of products subject to RBI approval, where required;
 - (iii) Securitised debt instruments as defined in SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008;
 - (iv) any other debt instruments as may be specified from time to time by the competent authority.
4. An existing stock exchange or new stock exchange desirous of setting up debt segment may make an application to SEBI, providing operational, regulatory and any other necessary details.



5. The broad framework /features for debt segment shall be as under-

(A) Listing: This segment shall list all the securities and debt instruments mentioned at para 3 above.

(B) Trading :

- (i) The debt segment shall offer electronic, screen based trading providing for order matching, request for quote, negotiated trades etc.
- (ii) The trading facility may be provided using exchange network including using access methods such as internet trading, mobile trading or any other methods specified by SEBI.
- (iii) The debt segment shall provide separate platforms for the markets described below -
 - a. Retail market - which shall be a market for listing of and trading in publicly-issued debt instruments and where participation by registered trading members can be on their own account or for execution of orders placed their clients.
 - b. Institutional market - which shall be a market for non-publicly-issued debt instruments with a market lot size of minimum Rs 1 crore.
- (iv) In addition to institutional investors, Direct Market Access (DMA) facility shall be extended to other investors to participate in Institutional market of debt segment. In this regard, the provisions as stipulated in SEBI circular MRD/DoP/SE/Cir- 7 /2008 dated April 03, 2008, MRD/DoP/SE/Cir- 03 /2009 dated February 20, 2009 and CIR/MRD/DP/ 20 /2012 August 02, 2012 and modifications thereto shall be applicable.

(C) Trading Rules:

- (i) The trading hours shall be from 9:00 hours to 17:00 hours to be in alignment with trading hours of government securities as issued by RBI.
- (ii) The day count convention of Actual/Actual shall be followed for calculating interest rates.
- (iii) The stock exchange shall facilitate availability of price quotes on clean price, dirty price and yield.
- (iv) There shall be no shut period during which trades/ transfers are restricted for payment of interest or part redemptions. For other corporate actions such as redemptions/ put-call options, issuers may choose to specify a shut period.



- (v) The record date shall be fixed not more than 15 days prior to date of corporate action which shall be displayed on trading terminal by stock exchanges.
- (vi) In case of negotiated trades by members of the debt segment, the trades shall be reported to stock exchange within 30 minutes of the trade.

(D) Clearing and Settlement:

- (i) All trades shall be cleared and settled through a clearing corporation. For this purpose, all trading members shall be self clearing members or may clear through a clearing member.
- (ii) The settlement shall depend on the market type, as given below:
 - a) For institutional market: All trades shall be settled on T+1 rolling settlement on DVP-I basis using RBI RTGS account. Stock exchanges/clearing corporation may opt to provide clearing and settlement on DVP-II or DVP-III basis for this market in future and shall put in place appropriate risk management framework for the same.
 - b) For retail market: The trades shall be settled on T+2 rolling settlement on DVP-III basis with settlement guarantee.

(E) Risk management framework:

- (i) For retail market, a uniform margin rate of 10% shall be applicable on debt instruments with rating of AA or above (or with similar rating nomenclature) by recognised credit rating agencies and 25% for all other debt instruments. Further, in case of shortages, there shall be compulsory close-out with a mark up of 5% in case of debt instruments which are assigned a credit rating of AA and above and 10% in case of other debt instruments.
- (ii) For institutional market, as and when settlement is done on DVP-II or DVP-III basis, appropriate margins may be prescribed after approval by SEBI.
- (iii) The clearing corporation shall specify appropriate risk management framework for each market, wherein it shall, inter-alia, provide for computation and collection of margins, capital adequacy norms and collateral requirements for the clearing members, settlement guarantee fund as applicable. This shall be approved by SEBI.

- (F) Trade repository:** With an objective to have centralised repository for trades in debt instruments, the stock exchanges shall report trade information to a common trade repository as may be specified by SEBI.



(G) Membership:

- (i) Any entity desirous of becoming trading member, self clearing member and/or clearing member of debt segment shall seek registration under SEBI (Stock Broker and Sub-Broker) Regulations, 1992.
- (ii) Institutions such as scheduled commercial banks, primary dealers, pension funds, provident funds, insurance companies, mutual funds and any other investors as may be specified by sectoral regulators from time to time, can trade on the debt segment either as clients of registered trading members or directly as trading member on proprietary basis only (i.e own-account trades only). Such institutions desirous of trading on own account only shall be given trading membership under SEBI (Stock Broker and Sub-Broker) Regulations, 1992 as proprietary trading member.
- (iii) For an interim period of six months from the date of this circular or till the application for registration as per amended SEBI (Stock Broker and Sub-Broker) Regulations, 1992 is refused by the Board or till cessation of membership, whichever is earlier, the transitional provisions shall be -
 - a. **Institutional market of debt segment:** Any existing registered trading member and/or clearing member/self clearing member in derivative segment or currency derivatives segment desirous of trading or clearing trades in debt segment shall be permitted to trade or clear trades.
 - b. **Retail market of debt segment:** Any existing registered stock broker/trading member and /or clearing member/self clearing desirous of trading or clearing trades in debt segment shall be permitted to trade or clear trades.
- (iv) The trading member, proprietary trading member, clearing member and self clearing member of debt segment shall have net worth and deposit as prescribed in SEBI (Stock Broker and Sub-broker) Regulations, 1992.
- (v) The Base Minimum Capital for stock broker/trading member shall be in line with SEBI circular dated December 19, 2012.
- (vi) The stock exchanges and clearing corporation may specify additional membership criteria for trading member/proprietary trading member and clearing member/self clearing member respectively.

- (H) Market Making:** With the view to infuse liquidity in the market, market makers shall be permitted in the debt segment. Market making may be provided by merchant bankers, issuers through brokers or any other entity as may be specified. The rules for market making shall be specified by the stock exchanges with approval of SEBI.



Securities and Exchange Board of India

6. The stock exchanges and clearing corporations desirous of introducing debt segment are advised to -
 - (i) Incorporate /frame separate Bye Laws, Rules and Regulations on debt segment in consonance with aforesaid guidelines
 - (ii) Make necessary amendment to their existing byelaws, rules and/or regulations , if required
 - (iii) Send duly completed application for introducing debt segment to SEBI, along with necessary byelaws and rules.
7. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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