Working Group Report
Improving Price Discovery on RFQ Platform

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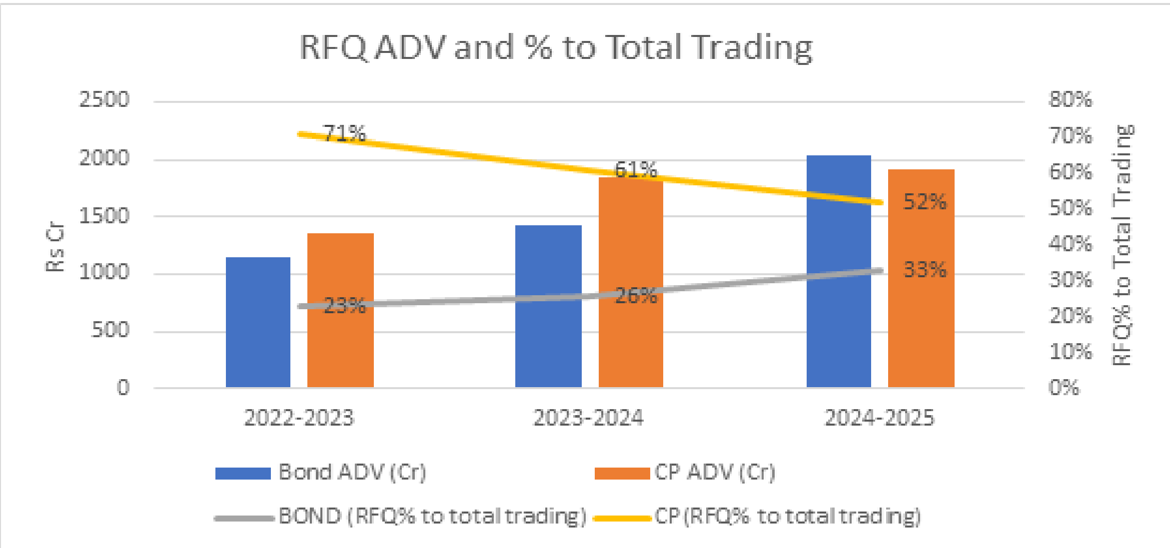
Introduction

The RFQ Platform was created with the goal of transforming corporate bond market trading from traditional OTC based to an electronic trading platform. It is a unified marketplace to trade all types of debt securities namely corporate bond, CP, CD, G-sec, SDL and T-bills etc. It was launched by Exchanges in February 2020, considering the specialized requirement of the bond market and the success received by similar platforms globally.

Within the first 4 years, the platform has witnessed gradual adoption with market participants trading / reporting nearly 30% of corporate bond volumes on RFQ Platform. Regulatory push is the primary driver, but most of the trades on RFQ are Reporting Trades, i.e. the trades are initiated and negotiated outside the RFQ platform, and then are formally consummated and reported via the platform.

The platform offers flexibility including choosing identity of the participant as anonymous/disclosed while initiating quote, sending quote to selected participants/entire market (OTO/OTM), choosing deal parameters fixed/negotiable, quantity conditions with minimum fill parameter. Some of these flexibilities have been introduced to replicate the voice market in corporate bonds. While these flexibilities have been created to aid genuine price discovery and trade initiation and negotiation happen on the platform, the adoption has been weak for genuine trades.

The Platform has seen some traction in corporate bonds and commercial paper (CPs), representing ~26% and ~61% respectively of total trading across exchanges and OTC markets in FY 2024, though most of it is reporting post trade. In value terms, the trades reported through the RFQ Platform represents daily average trading of Rs. 3246 crores covering all debt instruments across exchanges in FY 2024.



Source: Trade Repositories, F-trac

Unlike the equity market and G-sec market at NDS-OM, where trading is anonymous, counterparty risk is managed by clearing corporations, and participants can trade freely without counterparty risk management, the RFQ Platform operates bilaterally, with disclosed counterparties and features for setting counterparty limits, which constrain participants from trading freely.

In the G-sec market, standardized cash flows facilitate the seamless conversion of yields into prices, allowing participants to comfortably finalize deals based on prices. In contrast, corporate bonds with non-standardized cash flows mainly due to holiday adjustments require significant effort from front and back-office teams to convert yields into prices. This process often involves extensive back-and-forth with counterparties, resulting in deals being concluded in two stages: initially on yield and subsequently on price.

Moreover, each issuer and issuance is defined by attributes such as ownership (PSU, PFI, or Private), rating, interest payment and principal repayment conventions, cash flow structures, and covenants, emphasizing the critical role of brokers in finalizing deals. It has been observed that deals facilitated by brokers are initially concluded in the OTC market and subsequently reported by counterparties on the RFQ Platform, effectively reducing it to a reporting platform.

The RFQ Platform must offer distinct advantages over the OTC market, such as complete bond information, a yield-price calculator, tighter bid-ask spreads, and faster deal execution, to enhance participation. Against this backdrop, the committee has identified key issues that are crucial for making the RFQ Platform functionally relevant, ensuring transactions can originate and conclude seamlessly on this platform.

Composition of the Working Group

In an effort to enhance price discovery and liquidity on the RFQ Platform, SEBI has taken the initiative to establish a working group that includes key industry participants and representatives from stock exchanges. This group is tasked with gathering insights and providing recommendations aimed at optimizing the platform's functionality. In line with this objective, the working group has been officially formed as follows:

Member Name	Organisation	Capacity
Amit Tripathi	CIO Fixed Income, Nippon Mutual Fund	Chairman
Elwin Jose	Head Product Strategy, NSE	Member
Ritesh Tatiya	Deputy Head – Debt Capital Market, ICICI Bank	Member
Badrish Kulhali	Head Fixed Income, HDFC Life	Member
Anshul Agarwal	Founder, Wint Wealth	Member
Aakshat Sharma	Associate Manager, BSE	Member
Bhavin Savla	Director Fixed Income, Barclays Capital	Member

Terms of Reference

Objective

The Working Group on the Request for Quote (RFQ) Platform is tasked with evaluating and enhancing the RFQ Platform to improve liquidity and price discovery. The group will identify key challenges, suggest industry best practices, and recommend solutions for operational, and policy improvements tailored to the needs of participants while ensuring regulatory compliance.

Scope of Work:

1. Analysis of Current RFQ Platform Functionality

Assess the effectiveness of current RFQ features, including participant engagement, trade settlement mechanisms, and reporting standards. Examine existing platform metrics, user feedback, and regulatory frameworks to establish benchmarks for platform performance.

2. Benchmarking Against Best Practices

Study RFQ framework along with comparative markets like NDS-OM to identify best practices and features that could enhance RFQ Platform. Compare trade execution mechanism, transparency measures, and user experience with peer platforms. By identifying these aspects, we aim to develop recommendations that could lead to enhanced functionality and user satisfaction within our RFQ Platform.

3. Recommendations for Platform Enhancements

Identify necessary policy and compliance modifications to improve accessibility, transparency, and risk management on the platform. Propose enhancements in platform design, user interface, trade reporting, and execution efficiency.

4. Reporting and Timeline

Develop a comprehensive report that details key findings and presents actionable recommendations based on the analysis conducted. Ensure that the final report is submitted within a clearly defined timeframe, incorporating a strategic action plan designed to facilitate the implementation of the proposed recommendations. This plan should outline specific steps and responsibilities to effectively guide the execution of the enhancements suggested throughout the report.

Executive Summary

The corporate bond market in India has been growing in scale and complexity, with the RFQ Platforms playing a crucial role in its digital transformation. However, evolving market dynamics and prevailing OTC market practices necessitate ongoing enhancements to maintain the platform's relevance and value to institutional participants.

This report by the Working Group on the RFQ Platform provides a comprehensive review of the platform's current state, based on extensive data analysis, stakeholder engagement, and benchmarking with similar platforms and markets. Key areas of focus include price discovery, liquidity, operational efficiency, user experience, and regulatory compliance. The WG has also outlined recommendations to improve accessibility and transparency, which are expected to significantly boost platform adoption and trading activity.

The recommendations are organized into four sections: the first addresses the regulatory actions needed from SEBI, the second focuses on enhancements to the RFQ Platform features, the third outlines actionable steps for depositories, and the fourth discusses joint interventions from all the financial regulators. By addressing these strategic goals, the committee aims to align platform with market needs, further supporting the growing demand for corporate debt trading in India.

Recommendation of the Working Group

Section 1 – Proposals for SEBI's Intervention

1. OTM transactions to be mandatorily anonymous

NSE Corporate Bond OTM/OTO Data:

Year	OTM (Count of Trade)	OTM (Value in Cr)	OTO (Count of Trade)	OTO (Value in Cr)
2021	2514	84,099	2830	1146,76
2022	5360	193,172	2358	813,02
2023	7306	221,433	10171	780,94
2024	8322	277,386	116579	146,900
Grand Total	23502	776,090	131938	420,972

BSE Corporate Bond OTM/OTO Data:

Year	OTM (Count of Trade)	OTM (Value in Cr)	OTO (Count of Trade)	OTO (Value in Cr)
2021	36	1442	9	481
2022	238	1118	211	1307
2023	1147	11356	4275	4015
2024	5022	31372	59525	10552
Grand Total	6,443	45,288	64,020	16,355

It has been proposed to establish a platform, akin to the equity and G-sec markets, where participants can trade seamlessly on-screen without concerns about counterparty risk. Under this proposal, transactions would remain entirely anonymous throughout the process, with clearing corporations (CC) serving as the central counterparty (CCP). This shift from a bilateral to a more institutionalized framework would provide a significant advantage over OTC transactions.

Recommendation

In a general parlance, CC act as CCP when the settlements are guaranteed. Since implementing a settlement guarantee requires extensive structural changes and is a long-term solution, the committee has suggested an intermediate alternative that can be executed without significant alterations to the settlement process. This alternative involves making the existing OTM functionality completely anonymous and adding an option to select counterparty categories (e.g., Banks, NBFCs, MFs, Insurance, etc.). Since this intermediate solution does not guarantee settlement, the inclusion of the counterparty category selection allows the RFQ initiator to engage with categories of participants where the likelihood of settlement failure is lower, based on their internal risk management practices. Once the long-term solution of settlement guarantee is implemented, the category selection feature under OTM may be removed. Overall, this proposal enables participants to trade freely with one another without counterparty limits, under the understanding that the clearinghouse will act as the settlement agent, alleviating concerns around bilateral KYC since transactions are conducted on the exchange. Further, this will also bolster FPI participation, as they are currently constrained by their internal risk management practices, which only allows them to deal with few counterparties.

Parameter	Current	Proposed Anonymous OTM
Identity	Stage -1 Anonymous/Disclosed (Optional) Stage -2 Disclosed	Anonymous
Transaction Process	2 Staged	Single Staged
Deal Ticket	Buyer/Seller – Identity Disclosed	Buyer/Seller – Anonymous
Counterparty Name	Buyer/Seller	Anonymous
Settlement Guarantee	No	No
Shortage – Buyers (Funds)	Securities Returned to Seller (Buyer debarred as per penal mechanism)	Securities Returned to Seller (Buyer to be debarred as per penal mechanism)
Shortage – Seller (Securities)	Funds Returned to Buyer (Seller debarred as per penal mechanism)	Funds Returned to Buyer (Seller debarred as per penal mechanism)
KYC	Counterparties carry KYC (Internal risk management practice)	May not be required
Counterparty Limits	Yes	May not be required

Rationale

The proposed model of having a complete anonymous transaction is a strategic move to enhance market efficiency, increase participation, and support the growth of the corporate bond market. It simplifies the trading process, reduces counterparty risk management burdens, and opens up the market to a wider range of participants, including FPIs.

Regulatory Intervention

It is suggested that SEBI, in line with the RFQ Platform guidelines, may consider making OTM transactions completely anonymous with an optional feature to select counterparties. The optional counterparty selection feature will be required till settlement is not guaranteed. In summary, this anonymous OTM feature will allow participants to do away with bilateral KYC with every participant and setting counterparty limits, enabling them to trade freely with each other, with the Clearing Corporation acting as the settlement agent. The deal tickets generated from the exchange would not disclose the names of counterparties, similar to the practice in equity trading. Currently, RFQ transactions are completed in two stages, but the new model proposes that transactions be finalized in a single stage. The calculation of yield price presents a significant challenge, for which this report proposes a long-term solution centered on the centralization of cash flow. In the short term, exchanges with available cash flows can produce the corresponding yield/price, while participants retain the ultimate right to either accept this price or substitute it with their own calculated value. z

The proposed single stage anonymous trading and settlement option is only an intermediate solution, before implementing a fully guaranteed CCP process for trading and settlement of Corporate bonds.

2. Simplification and Centralization of Cash Flows

In the G-sec market, the standardization of cash flows allows for the seamless conversion of yields into prices, enabling participants to finalize deals based on prices with ease. However, the corporate bond market faces challenges due to non-standardized cash flows, primarily caused by holiday adjustments. This lack of standardization necessitates significant effort from both front and back-office teams to convert yields into prices. Consequently, this process often involves extensive back-and-forth with counterparties, leading to deals being concluded in two stages: initially on yield and subsequently on price.

Recommendation: Simplification of yield price calculation in corporate bonds in line with G-sec. To standardize in line with G-sec, cash flow dates to remain same without adjusting holidays:

As per SEBI NCS regulations 2021, cash flow schedule to get adjusted as per holidays without adjusting the payment values. If the coupon payment dates fall on holiday, it gets paid on next working day and if redemption date falls on holiday, it gets paid on prior working day while payment values remain same. This results in a change in cash flow dates due to holidays unlike G-sec (refer below table).

Example of holiday adjustment in case of half yearly interest payment for a 5-year bond in case of G-sec and Corporate Bond

Existing Practice		Proposed
Corporate Bond	G-sec	Corporate Bond
Tue-02-Jan-24	Tue-02-Jan-24	Tue-02-Jan-24
Tue-02-Jul-24	Tue-02-Jul-24	Tue-02-Jul-24
Thu-02-Jan-25	Thu-02-Jan-25	Thu-02-Jan-25
Wed-02-Jul-25	Wed-02-Jul-25	Wed-02-Jul-25
Fri-02-Jan-26	Fri-02-Jan-26	Fri-02-Jan-26
Thu-02-Jul-26	Thu-02-Jul-26	Thu-02-Jul-26
Mon-04-Jan-27	Sat-02-Jan-27	Sat-02-Jan-27
Fri-02-Jul-27	Fri-02-Jul-27	Fri-02-Jul-27
Mon-03-Jan-27	Sun-02-Jan-28	Sun-02-Jan-28
Mon-03-Jul-28	Sun-02-Jul-28	Sun-02-Jul-28
Tue-02-Jan-29	Tue-02-Jan-29	Tue-02-Jan-29

When G-Sec is priced, interest payment dates are not adjusted as per holidays (for eg: 02 Jan and 02 July half yearly payment dates remain same throughout the tenor of bonds despite holidays falling on those dates) and calculations can be done using excel 'price' function. In case of corporate bond, due to changes in payment dates, (for e.g.: 02 Jan and 02 July half yearly payment dates may get adjusted to 01st Jan or 31st Dec due to holidays) excel 'price' function doesn't work appropriately as it works for G-Sec and thus complicates the yield to price conversion for investors and increases the dependency on the cash flows published by Issuers.

Rationale

The standardization of cash flows in the G-sec market facilitates seamless yield-to-price conversion, enabling easy deal finalization based on prices. In contrast, the corporate bond market faces challenges due to non-standardized cash flows, primarily caused by holiday adjustments. These adjustments complicate the yield-to-price conversion process, requiring significant effort from both front and back-office teams and extensive communication with counterparties. Consequently, deals are typically concluded in two stages: initially on yield and subsequently on price. This two-stage process increases administrative burdens and introduces potential delays. By standardizing cash flows in the corporate bond market, similar to the G-sec market, these challenges can be mitigated.

Regulatory Intervention:

1. **Current SEBI NCS regulations 2021:** For the purpose of standardization, if the coupon/dividend payment date of the non-convertible securities falls on a Sunday or a holiday, the coupon payment shall be made on the next working day. However, the dates of the future

payments would continue to be as per the schedule originally stipulated in the offer document. If the maturity date of the debt securities, falls on a Sunday or a holiday, the redemption proceeds shall be paid on the previous working day

Changes Proposed in NCS regulations: For the purpose of standardization, if the coupon/dividend payment date of the non-convertible securities falls on a Sunday or a holiday, the coupon payment shall be made on the next working day. If the maturity date of the debt securities, falls on a Sunday or a holiday, the redemption proceeds shall be paid on the previous working day. However, cash flows date for the purpose of calculating bond prices shall not be adjusted as per holidays like G-sec (refer above table). If a bond has a half yearly interest payment and is issued on 02 Jan, then all interest payment dates shall be considered as 02 Jan and 02 July despite holidays for the purpose of bond price calculation.

2. **Current SEBI NCS regulations 2021:** The cash flows emanating from the non-convertible securities according to the day count convention (Actual/Actual) shall be mentioned in the offer document, by way of an illustration.

   Changes Proposed in NCS regulations: The cash flows emanating from the non-convertible securities according to the day count convention (Actual/Actual) shall be generated by depositories and should be available publicly for the market consumption on their website and through APIs. (This will ensure cash flows are available centrally at the single place). Issuers will have to ensure such cash flows are updated all the time in case of holidays, corporate actions etc.

3. Manual selection of Brokered Flag to be removed for OTM Transactions

Typically, participants execute deals in the OTC market via brokers and report these transactions on the RFQ to fulfil mandatory reporting requirements. In these prearranged transactions, one participant initiates the deal, designates it as brokered, while the other participant merely accepts the transaction to finalize it on the RFQ. As a result, no price discovery occurs on the RFQ platform in this scenario. To address this, it is proposed that transactions executed via brokers should be initiated and concluded by the brokers themselves on the RFQ platform. This approach would encourage brokers to bring quotes to the platform, thereby enhancing price discovery and liquidity.

Recommendation:

Today, most dealing in OTC market happens through brokers / intermediaries. The reasons being corporate bond a market in total is a heterogenous market with many instruments and many counterparties. Brokers play the role of matching these complex one to one and one to many bids / offers which are very difficult for individual counterparties to do on their own.

With brokers being permitted to execute transactions on behalf of clients on the RFQ Platform, this option of marking deals as brokered should be removed which is effectively making this platform as ‘reporting’.

Institutional investors are free to quote directly for price discovery and execution in OTM mode. However, if they prefer to work with brokers, brokerage firms can quote on their behalf and manage the entire price discovery process on the RFQ Platform, benefiting from a broader reach and improved execution.

Rationale

The OTC corporate bond market is inherently heterogeneous, with numerous instruments and counterparties, making it challenging for individual participants to navigate. Brokers play a critical role in bridging this complexity by matching bids and offers in both one-to-one and one-to-many arrangements. To enhance the RFQ platform's effectiveness as a tool for price discovery and execution, it is recommended to remove the option of marking deals as brokered. This change ensures that the platform is utilized for active trading rather than mere reporting. Institutional investors can still directly quote and execute in the OTM mode for price discovery. Alternatively, brokers can quote and execute transactions on behalf of their clients, leveraging the platform’s capabilities for broader market reach and efficient execution, ultimately fostering transparency and liquidity.

Regulatory Intervention

Regulatory guidance is necessary to address situations where exchanges must turn off the manual selection of the Brokered Flag for OTM transactions. In this scenario, brokers executing transactions on behalf of clients will automatically be classified as 'Brokered.' Meanwhile, participants wishing to conduct brokered transactions will need to request their brokers to execute these transactions via RFQ, similar to the equity market. In case participants willing to trade directly, then those deals will automatically be marked as Direct.

4. Improve FPI participation

Like other market players, FPIs are also required to carry out at least 10% of their trades on RFQ. Usually, FPIs opt to invest through their Asset Managers (AM), who are not registered with SEBI. AM operates in two capacities as managing a fund (including schemes) and act as investment consultant for various FPIs like Govt. Pension funds, institutions etc.

i. To fulfil their fiduciary responsibility of providing fair and equitable pricing, (AM) trades a single block and then allocates to the FPIs managed by them. This facility is not available on RFQ as AMs are not registered in India with SEBI, mainly the Funds that they manage are registered with SEBI as an FPI.
ii. If AMs have to login for each FPI managed by them, concerns are around maintenance of user IDs and passwords of multiple FPIs and execute each deal separately. Some of the AMs have more than 20-30 funds currently managed by them.

Recommendations

To facilitate easier access for FPI participants, it is proposed that globally registered Asset Managers (AMs) in their respective jurisdictions be allowed to place and seek bids on behalf of SEBI-registered FPI schemes. Exchanges can register these AMs using their Legal Entity Identifier (LEI) information, enabling them to operate under the consent provided by the FPI schemes or through existing agreements authorizing them to transact on behalf of the schemes. The settlement process will remain unchanged and continue to be managed by the FPI schemes, ensuring alignment with current practices. The role of AMs will be confined to trade execution, maintaining consistency with their operational scope in OTC and global markets.

Rationale

The proposed framework aims to streamline the participation of FPIs in the RFQ market while maintaining operational consistency with global and OTC markets. By allowing Asset Managers (AMs) to place and seek bids on behalf of FPI schemes, leveraging their Legal Entity Identifier (LEI) information, the process becomes more accessible and efficient. This approach recognizes the global registrations of AMs and their existing agreements with FPI schemes, ensuring seamless execution without disrupting the current settlement procedures managed by the FPIs. Limiting the AMs' role to trade execution aligns with their established function while enabling them to provide enhanced liquidity and execution efficiency, ultimately supporting the broader goal of fostering a transparent and dynamic RFQ market.

Regulatory Intervention

SEBI Circular SEBI/HO/DDHS/DDHS_Div1/P/CIR/2022/142 dated October 19, 2022:

- Para 5 mentions "In February 2020, the RFQ platform was introduced as a 'participant-based' model wherein all regulated entities, listed bodies corporate, institutional investors and all India financial institutions were eligible to register, access and transact".
- Para 6 mentions "SEBI has been receiving representations from market participants to permit stock brokers to place bids on behalf of their clients to facilitate wider market participation in the corporate bond market. After consideration and deliberations, it has been decided to allow stock brokers registered under the debt segment of the Stock Exchange(s)to place/ seek bids on the RFQ platform on behalf of client(s), in addition to the existing option of placing bids in a proprietary capacity.

Changes proposed in this circular:

To promote easier access for FPI participants, it has been determined that Asset Managers registered globally in their respective jurisdictions can place/seek bids on behalf of FPI schemes that are registered with SEBI. Exchanges are allowed to register these asset managers using their LEI information, and they may operate according to the consent granted by the FPI schemes or under the existing agreements that authorize the asset managers to buy and sell on behalf of the FPI schemes. Additionally, the settlement process will remain unchanged and will continue to be managed by the FPI schemes. The role of AM will be limited to execution of transaction while rest of the process will have to be managed by FPI schemes as followed currently.

Section -2 Suggestions for Enhancing RFQ Features for Exchanges

The corporate bond markets are significantly more diverse than government securities markets. There is a wide array of money market and debt instruments with varying conventions, security types, ratings, and lot sizes. For any counterparty seeking quotes for a particular issuer, category, maturity, sector, or lot size, it can be quite challenging to navigate and respond effectively in the current format..

Recommendation: The RFQ screen should enhance capabilities and functionalities to make it user friendly.

S.No.	Enhancement	Details	Dependency	NSE Effort Estimates	BSE Effort Estimates
1	Make OTM Transactions Anonymous	All OTM transactions to be completely anonymous, even the deal tickets generated should not have counterparty names. (For all practical purpose, CC to play the role of counterparty)	SEBI approval (To mandatorily make OTM transactions anonymous and CC to act as CCP without settlement guarantee)	1-3 months	1 – 3 months
2	Straight through processing	1. Real time CPCD reporting via API 2. RFQ to be single staged process	1. RBI Approval - F-trac to allow API mechanism for real time reporting 2. SEBI Approval - Holiday adjustment proposal and Depositories to be centralized place for cash flows	3-6 months	6 months
3	Yield Price Calculator	A calculator can be added which converts a clean / dirty price to yield and vice – versa. This requires the correct / updated cashflows to be available with the exchanges, which has been highlighted in this note separately	SEBI Approval - Centralization of cash flows and holiday adjustment proposal for yield price calculation	3-6 months	6 – 9 months
4	Market Watch Screen Changes	Should have additional fields i.e. Rating of the bond, Type of yield (YTM/ YTC/YTP) and maturity / put /call date of the bond. These are basic features required to evaluate any bid / offer hence should be part of the main screen itself.	NSDL to provide additional fields to make them available on the RFQ Platform	1-3 months	3 months
5	Customized Market Watch	System should be flexible to filter based on Issuer, Sectors, Instrument types, Maturity Buckets, Odd lots/Market lots etc. to have screens / windows carved out for homogenous categories e.g. AAA CPs / Non-NBFC CPs / AA NBFCs 1-3y / AAA PSU 3-5y etc which will make the platform user friendly, and investors can compare all the bids/offers in the basket / segment they are looking to invest / offer.	NSDL to provide additional fields to create custom market watch	3-6 months	3 – 6 months

6	Broad Clubbed Quoting Facility	Ability to make clubbed offers/bids in homogenous assets with total trade requirements defined at issuer, rating and maturity bucket levels.	NSDL to provide rating information to allow clubbed facility at the rating level	1-3 months	3 – 6 months
7	Risk Management	Brokers to upload client holdings/cash position to avoid short sale/trade failure for transactions executed through brokers. This will be an optional feature where client can only disclose the part of portfolio which they would like broker to buy/sell on their behalf		1-3 months	9 – 12 months
8	Integration with global platforms	Exchanges to release APIs so that global platforms such as Tradeweb, Bloomberg etc may integrate with the RFQ Platform	Global Platforms to initiate process of integration	1-3 months	6 months

Kindly note that effort estimates provided are indicative and may vary in practice due to dependencies on various external factors

Section-3 Recommended Actions for Depositories

1. Information Availability on RFQ Platform

RFQ Platforms uses the corporate bond master data from NSDL which contains broad information of all bonds (NSE listed, BSE listed and Unlisted). This helps in providing the required details about the specific ISIN to the market participants for facilitating the transactions. Information with respect to additional key parameters like shut period, put call date, cash flows, rating and sector will help in full information availability for aiding efficient trading. Depositories have already created centralized databases which take inputs from Trustees, Issuers, CRAs, and Exchanges etc. and have all the required bond info for all ISINs.

Recommendation

The depository may facilitate providing critical bond information such as shut period, put-call date, cash flows, rating and sector to the RFQ Platform in a readable format so that participants can get the benefit of the centralized database. The availability of information required for trading may also help in easy migration of the participation from OTC markets to Exchange RFQ platforms.

Rationale

Providing critical bond information such as shut periods, cash flows, ratings, and sector details in a readable format on the RFQ platform can significantly enhance trading efficiency and transparency. By leveraging the depository's capability to supply this data, participants gain streamlined access to essential information, reducing the reliance on fragmented or manual data sources. This centralized approach not only supports informed decision-making but also fosters trust and ease of use among participants. Moreover, the availability of comprehensive trading information aligns with global best practices and encourages the migration of participants from OTC markets to the RFQ platform, thereby promoting liquidity, transparency, and the overall growth of the exchange-traded bond market.

NSDL Response: Corporate bond database hosted by depositories is accessed by stock exchanges for updating listing information. Further, upon request from stock exchanges NSDL has been providing information as available in corporate bond database. NSDL may examine providing the information from corporate of database to RFQ Platform upon receipt of the request from stock exchanges.

2. Depositories to be centralized place for Bond Cashflows

Presently, cash flows are illustrated in the term sheet and accordingly the same are referred for the price calculation. However, as the cash flows undergo changes due to holidays, corporate actions etc. then in most cases it becomes subject to interpretation and point of discussion amongst counterparties to finalize the prices and takes lot of operational efforts.

Recommendation

It has been suggested that there should be a centralized place where all the cash flows should be made available which can be referred for price calculations and other purposes. Considering that depositories already have a centralized bond database where there is already a provision to update cash flows, it is just that regulatory provisioning can be done so that Issuers timely update those cash flows and same will be available for public consumption in a user-friendly format.

Rationale

A centralized repository for bond cash flows is essential for accurate price calculations and efficient market functioning. Since depositories already maintain a comprehensive bond database with provisions for updating cash flows, leveraging this infrastructure can streamline access to critical data. Introducing regulatory provisions to mandate timely updates by issuers will ensure the accuracy and reliability of this information. Making such data publicly available in a user-friendly format not only enhances transparency but also supports better price discovery and valuation practices. This initiative would strengthen market integrity and foster confidence among participants, ultimately contributing to a more robust bond trading ecosystem.

NSDL Response: Cash flow schedules as provided by the issuer to depositories at the time of request for ISIN activation are available on the corporate bond database. Kindly elaborate on the specific requirement in respect of the cash flow of the instrument for further review.

Section-4 – Proposals to all the Financial Regulators

1. Do away with manual reporting of CPCD transactions

Like the reporting requirements of the corporate bonds, the SEBI and RBI have issued circulars mandating reporting of Certificates of Deposit (CDs) and Commercial Papers (CPs) deals to the FIMMDA reporting platform which is now F-TRAC managed by CCIL.

Contrary to corporate bonds, the process of CP/CD trading, reporting and settlement remain cumbersome from the perspective of market participants despite introduction of RFQ platform. The participants execute trades on RFQ platform and are required to manually report such transactions on F-trac platform and then these transactions are transmitted back to clearing corporation of exchanges for settlement.

Recommendations

The information flow in case of CP/CD can also be made seamless & efficient if the need for separate reporting to F-trac by market participants for RFQ transactions can be handled through exchanges. API based mechanism can be jointly developed by exchanges and CCIL Ftrac which will allow seamless reporting of such transactions on F-trac through exchanges. These CP/CD transactions on RFQ platform can be directly transferred to exchange’s settlement system and can be seamlessly reported to the exchange website and CCIL Ftrac system.

Further, the RFQ platform has a provision of penalty mechanism if deals executed on RFQ platform are not settled by the counterparties. However, only in case of CP/CD, the same is not monitored considering that the RFQ platform for CP/CD is not directly linked with settlement system and deals go for settlement only through F-trac reporting. Currently, for instruments other than CPs/CDs, participants who fail to settle transactions executed on the RFQ platform are barred from accessing both exchanges’ RFQ platforms for a period of 15 days, subject to certain policy-defined exceptions.These two issues can also be addressed if separate F-trac reporting by market participants can be eliminated for RFQ CP/CD deals.

Rationale

Streamlining the information flow for CP/CD transactions on the RFQ platform can significantly enhance efficiency and reduce duplication. By integrating an API-based mechanism jointly developed by exchanges and CCIL F-trac, separate reporting by market participants to F-trac can be eliminated. This would enable seamless reporting of RFQ transactions to F-trac directly through exchanges, improving accuracy and reducing administrative burden. Additionally, linking CP/CD transactions on the RFQ platform directly to the exchange's settlement system would ensure automatic reporting to the exchange website and F-trac, while also enabling monitoring of settlements. Addressing these gaps would not only simplify the operational process for participants but also enhance regulatory oversight and promote greater adoption of the RFQ platform for CP/CD trading.

Regulatory Intervention

It is proposed that the CP/CD deals which are executed on the RFQ platform may not be required to be separately reported by the market participants to the F-TRAC platform. Exchanges and CCIL may develop API based mechanism where RFQ CPCD transactions will flow to F-trac system for reporting. While for the settlement purpose, the information can flow directly from the exchanges RFQ Platform to their clearing corporations. This will lead to operational efficiency for the market participants without impacting the desired post-trade transparency.

2. Uniform Valuation Methodology for Corporate Bonds

Adoption of different valuation methodologies for corporate bonds by financial institutions makes fair price discovery a challenge at present. For instance, mutual funds and portfolio management services registered with the Securities and Exchange Board of India (SEBI) adhere to security level valuation (SLV) set by the Association of Mutual Funds in India and Pension funds under Pension Fund Regulatory and Development Authority (PFRDA) have adopted the same. Whereas life insurance companies follow the Insurance Regulatory and Development Authority of India's (IRDAI) prescribed matrix-based methodology. Banks use Fixed Income Money Market and Derivatives Association of India (FIMMDA) & FBIL based approach, which is combination of matrix and SLV, in line with guidance provided by the RBI.

Considering that majority of corporate bonds don't trade often, compounded by inconsistent pricing methodologies, significantly affects secondary market trading. When participants lack confidence in accurate pricing, they tend to hold bonds until maturity rather than engaging in potentially disadvantageous trades. This reduced trading activity can lead to wider bid-ask spreads, increased costs of liquidity, and decreased market efficiency. Ultimately, it discourages new investors from entering the market and perpetuates the cycle of illiquidity.

Improving pricing transparency and standardization could help mitigate these issues, encouraging more active participation in secondary trading.

Valuation Approach followed by Various Participants

Participant	Valuation Model	Valuation Provider
Mutual Funds	Average of Security Level Valuation provide by rating agencies	AMFI appointed valuation agencies
Insurance	Unit linked – Matrix based valuation framework	FIMMDA or Subsidiary/Holding company of any SEBI registered Rating Agency
NPS	Security Level Valuation	Appointed by the NPS Trust
Banks	Matrix based/Security Level Valuation	FIMMDA
PMS	Security Level Valuation	Agencies selected by APMI
AIF	IPEV guidelines for unlisted securities/ listed securities that are non-traded or thinly traded wherein valuation of listed traded securities is as per SLV guidelines (SEBI-MF Valuation guidelines)	• Valuer registered with Insolvency and Bankruptcy Board of India (IBBI) and has a membership with ICAI / ICSI / ICMAI / CFA institute • Partnership entity or company which is registered with IBBI; and, the deputed/authorized person(s) of such 'Registered Valuer Entity', who undertake(s) the valuation of investment portfolio of AIFs, shall have a membership of ICAI or ICSI or ICMAI or a CFA Charter from the CFA Institute Holding company or subsidiary of a Credit Rating Agency registered with SEBI
NBFCs	Need to seek inputs on specific guidelines	Need to seek inputs on specific guidelines
Primary Dealers	Need to seek inputs on specific guidelines	Need to seek inputs on specific guidelines
Corporates	Guidance provided by Ind AS 109 and 113	No specific eligibility criteria for valuation agency
EPFO and exempted	Need to seek inputs on specific guidelines	Need to seek inputs on specific guidelines

provident fund trusts		

Examples of varied valuation practices leading to differences in valuations

ISIN	Security name	Credit Rating	SLV level as on 28-Nov-24	Matrix level Valuations as on 28-Nov-24	Traded level as on 29-Nov-24
INE071G07769	ICICI Home Finance Co. Ltd. 7.75% (option 1) Taxable 24-Nov-2034	AAA	7.76%	7.31%	7.75%
INE976I08417	Tata Capital Ltd. 8.22% (Series A FY 2024-25) Taxable 13-Sep-2034	AAA	8.00%	7.31%	7.95%
INE787H08147	India Infrastructure Finance Co. Ltd. 7.26% (Series I) Taxable 07-Nov-2034	AAA	7.25%	7.31%	7.25%
INE115A07QN4	LICHF 07.69% (Tranche 437) 06-Feb-2034	AAA	7.52%	7.31%	7.44%
INE0KUG08019	National Bank for Financing Infrastructure & Development 07.43% 16-Jun-2033	AAA	7.31%	7.31%	7.25%
INE121A08PP7	Cholamandalam Investment & Finance Co. Ltd. 9.1% Taxable 27-Jun-2031	AA+	9.01%	8.12%	8.88%
INE658F08268	Kerala Infrastructure Investment Fund Board 9.49% Taxable 08-Oct-2032	AA(CE)	9.70%	8.35%	9.80%

Recommendation

It is recommended that all major institutions adopt a consistent valuation methodology. Furthermore, regulators could encourage valuation agencies to make prices publicly accessible, which would help address price discrepancies by providing a standard reference for pricing.

Rationale

The use of different valuation methodologies for corporate bonds by financial institutions creates challenges in fair price discovery. For instance, mutual funds and portfolio management services follow the SLV method set by AMFI, while pension funds adhere to the same. Life insurance companies use a matrix-based approach prescribed by IRDAI, and banks rely on a combination of matrix and SLV methods based on FIMMDA and RBI guidance. These inconsistencies, coupled with the infrequent trading of many corporate bonds, reduce market confidence in pricing, leading participants to hold bonds until maturity. This results in wider bid-ask spreads, higher liquidity costs, and lower market efficiency, ultimately discouraging new investors. Standardizing pricing and improving transparency could encourage more active secondary trading.

Regulatory Intervention

It is suggested that financial regulators (SEBI, RBI, IRDA, PFRDA) work to establish a uniform valuation methodology that all their entities can adopt to improve price discovery in the corporate bond market and facilitate trading on the RFQ Platform. Furthermore, regulators could encourage valuation agencies to make prices publicly accessible, which would help address price discrepancies by providing a standard reference for pricing.

3. Parity in regulations for all entities:

The RFQ Platform is tailored specifically for the debt markets, enabling buyers and sellers to submit market quotes, engage in several rounds of negotiation, and finalize pricing. For active trading on the RFQ Platform, it's crucial that all key participants view it as their primary tool for price discovery. Currently, the platform does not display sufficient active quotes, which hampers interest among the participants.

Regulatory Guidance	Minimum % of Bond Trading in RFQ*
Mutual Funds$	25% (OTM)
Insurance	10% (OTM)
PMS	10%
AIF	10%
FPI	10%
OBPP	100%
Brokers (Prop Only)	25%
Brokers (Client)	0%
BANK	0%
NBFC	0%
Primary Dealers	0%
Listed Corporates	0%
EPFO	0%
NPS	0%

Recommendation

We highly encourage all set of participants to engage in active quoting in OTM (one-to-many) mode on the RFQ Platform. By doing so, they can play a vital role in facilitating effective price discovery and enhancing liquidity throughout the platform.

Active participation in this quoting model not only benefits individual traders by providing access to a wider range of pricing options, but it also contributes to a more transparent and dynamic market. Based on the feedback received, since OBPPs are new entrants in the market, they might be granted an exception for the mandatory OTM Trading and permitted to route their trades using the OTO option.

Rationale

Encouraging all regulated entities to actively quote on the RFQ platform is pivotal for fostering a transparent, efficient, and liquid market. Their participation would bring diverse price points, facilitating robust price discovery and reducing information asymmetry. This collective engagement would enhance the platform's appeal, driving more participants to utilize its features for trading. Regulatory encouragement can act as a catalyst for this shift, ensuring that all stakeholders benefit from a more dynamic and transparent market ecosystem. Active quoting by regulated entities would not only improve liquidity but also establish the RFQ platform as a trusted venue for corporate bond trading, aligning with global best practices.

Regulatory Intervention

We kindly urge the regulatory authority to promote and encourage all regulated entities to begin actively quoting on the RFQ Platform. By doing so, they can significantly contribute to enhanced price discovery and improved liquidity within the platform. Active participation from these entities is crucial in creating a more dynamic and transparent market environment. We believe that regulatory encouragement in this regard can lead to meaningful improvements for everyone involved. The regulator may consider granting exceptions for mandatory OTM trading to new entrants such as OBPPs, taking into account their specific business model.

Thank You