Sub: Introduction of Regulatory framework for Online Bond Platforms

1. **Objective:**

The purpose of this memorandum is to seek the approval of the Board for introducing a regulatory framework governing the operations of Online Bond Platforms.

2. **Background:**

2.1. The framework for issuance and listing of debt securities has been in place since 2008. Corporate bond market in India has been largely dominated by a few institutional investors and professional fund managers. Thus, there is a need to develop the corporate bond market and facilitate the participation of the non-institutional investors.

2.2. In November 2021, SEBI came across certain news articles stating that some online bond platforms **(excised due to confidentiality)** (Table 1 provides a snapshot of some of the platforms currently offering debt securities to investors in India), are selling debt securities, obtained through public issue or on private placement basis, to non-institutional investors for a minimum amount of investment as low as Rs.10,000/-. In India, most of such bond platforms are fintech companies or are backed by brokers/ SEBI registered intermediaries. Table 2 provides analysis of data pertaining to the number and category of users registered and unique investors transacted on such online bond platforms.

Table 1: (excised due to confidentiality)

[1] *Source: data collected from bond platforms*
[2] *Source: data collected from bond platforms*

Table 2: Data pertaining to the number and category of users registered and unique investors transacted on such online bond platforms

Particulars	**FY21**	**FY22**	**FY23**
No. of users registered on the bond platforms	47410	341539	577590
Y-o-Y increase		**720%**	**169%**
Details of users registered:			
Institutional	515	3774	9,282
Non-institutional	46895	337765	5,68,308
Total	**47410**	**341539**	**577590**
Institutional (% of total)	1.09%	1.10%	1.61%
Non-institutional (% of total)	98.91%	98.90%	98.39%
No. of investors (unique) transacted on the bond platform	1834	23719	21051
Details of investors (in unique)			
Institutional	10	59	114
Non-institutional	1824	23660	20,937
Total	**1834**	**23719**	**21051**
Institutional (% of total)	0.55%	0.25%	0.54%
Non-institutional (% of total)	99.45%	99.75%	99.46%

*FY 23 – Data upto July 31, 2022

2.3. It can be observed from the table 2 above that there has been multifold increase in the number of users registered and investors transacted on such online bond platforms specifically led by the rise in participation of the non-institutional investors. On examination, it is understood that many of the above bond platforms entities are affiliates of SEBI registered entities.

2.4. Consequently, Stock Exchanges (BSE and NSE) were tasked to examine such online bond platforms with respect to the legality, mechanism and framework of selling the debt securities on their respective platforms and provide their observations.

2.5. Based on the Joint examination report submitted by the Stock Exchanges and discussions held with various online bond platforms, it was noted that there existed concerns in relation to the operations of such platforms, viz. inadequate transparency and disclosures to the investors dealing with such platforms, protection of investors, absence of redressal mechanism in case of complaints, etc. With the bond market being under-developed particularly in the non-institutional space, indications of such mushrooming online platforms that down sell the debt securities without the above mentioned checks and balances created a regulatory vacuum. The need to develop the bond market, particularly in the non-institutional space, in order to facilitate retail participation put to rest the argument that such online bond platforms require a regulatory framework to mitigate payment and settlement risk in the interests of investors.

2.6. In the meanwhile, the Stock Exchanges made a joint presentation on these platforms to the members of Corporate Bonds and Securitisation Advisory Committee (CoBoSAC) in the meeting held on February 23, 2022. The Committee deliberated on the issues and observed the inherent opacity in the current structure of the online bond platforms and the legality of such platforms in view of being outside regulatory purview. The Committee members also noted that notwithstanding the issues, such platforms indeed give a fillip to the secondary bond market and help investors particularly non-institutional investors access the bond market.

2.7. The CoBoSAC committee members decided to constitute a sub-committee – comprising members from CoBoSAC, to analyse the nuances and provide a report detailing a framework to streamlining the operations of the Online Bond Platforms including examination of legalities and safeguards for investors.

2.8. The sub-committee submitted its report to CoBoSAC which was placed in its meeting dated April 7, 2022. In the said report, a framework was proposed, inter alia, requiring online bond platforms to get registered as a SEBI intermediary i.e as a Stock Broker, in order to streamline the operations of these platforms. It was also suggested in the report that in order to cause minimal disturbance to the existing operations of these platforms, it may be mandated that all the transactions undertaken through such platforms be necessarily routed through the trading and settlement platforms of Stock Exchanges and Clearing Corporations.

2.9. Pursuant to the report and discussion in CoBoSAC, a consultation paper proposing a regulatory framework for online bond platforms was issued on July 21, 2022. Comments were sought from public till August 12, 2022. Comments have been received from market participants including Stock Exchanges, individual investors, intermediaries and online bond platforms. The succeeding paragraphs analyse the comments and propose a framework for regulation of online bond platforms.

2.10. (excised due to confidentiality)

3. Analysis of the comments received from Public on Consultation paper:

3.1. The comments are in favour of the intent of SEBI to regulate the online bond platforms. The following table provides a bird's eye view of the comments for and against the proposals/ issues: **(excised due to confidentiality)**

3.2. Mandatory SEBI Stock-Broker registration:

3.2.1. **Proposal in the Consultation paper**: Online bond platforms should register as stock-brokers (debt segment) with SEBI or be run by SEBI registered brokers.

3.2.2. **Public Comments**: While none of the comments is against the proposal to register bond platforms as an intermediary with SEBI, a few of them have suggested that rather than mandating them to register as stock brokers, a separate class of intermediaries should be created for online bond platforms for the following reasons:

3.2.2.1. Function: Stock brokers act as an agent of the Investor and hold their funds, provide margin funding, etc whereas bond platforms, on the other hand, aim to provide an avenue for investors to discover, compare and invest in debt securities.

3.2.2.2. Revenue model: Stock brokers earn revenue by charging a commission on trades, margin funding etc., whereas the Bond platforms typically earn the revenue through fees from the sellers of the bonds or through the spread on the bonds or revenue share or commission from sellers of the bonds.

3.2.2.3. Compliance formalities: The functioning of brokers and online bond platforms is vastly different. Many provisions of the SEBI (Stock Broker) Regulations, 1992 have no bearing on the functioning of online bond platforms and hence the compliance provisions that apply to Stock brokers will not be applicable on the online bond platforms.

3.2.3. **SEBI's comments**:

3.2.3.1. The contention that the stock brokers have a different role to play vis-a-vis bond platforms has merit. Registering bond platforms as stock brokers would require considerable tweaking of the Stock Broker Regulations to cater to the unique characteristics of these platforms. Further, it might also involve/ may require exemptions and/or relaxations from provisions of the Stock Broker Regulations that may not be applicable to bond platforms. Thus, it would be prudent to have a separate regulatory framework for bond platforms.

3.2.3.2. In this regard, Electronic Communications Networks (ECN) / Alternate Trading System (ATS) of SEC Regulations was referred. It was noted that they function as alternate stock exchanges themselves. Hence, they are not comparable to the online bond platforms and the architecture proposed in the consultation paper.

3.2.3.3. A cue is taken from the RBI (Electronic Trading Platform) Directions issued in October 2018, proposing a framework for authorization of electronic trading platforms (ETPs) for financial market instruments regulated by RBI. The salient features of the directions are given as under:

i. RBI issued the Electronic Trading Platforms (Reserve Bank) Directions, 2018 on October 05, 2018.

ii. These Directions pertains to the framework for for authorization of electronic trading platforms (ETPs) for financial market instruments regulated by the RBI.

iii. The said directions are applicable to the entities operating ETPs to transact trade in eligible instruments defined under the said directions.

iv. As per these Directions, Electronic Trading Platform (ETP) means any electronic system, other than a recognised stock exchange, on which transactions in eligible instruments as specified in the directions are contracted.

v. The said directions inter-alia contains provisions pertaining to eligibility criteria including technological criteria to be complied with by an entity, granting of authorisation and cancellation thereof to an entity operating as ETP operator, risk management, outsourcing of operations, etc.

vi. The ETP operator have an option of providing clearing and settlement services. The aforesaid option needs to be disclosed by an entity while making the application for grant of authorisation to RBI.

vii. A total 13 ETPs[3] are operating in India (As on August 31, 2022). Snapshot of some of ETPs are given below:

SR. No.	Name of the ETP Operator	Name of the ETP	Product(s)	Web URL
1	Clearcorp Dealing	FX-CLEAR (including	i) USD-INR FX Cash	https://www.clearcorp.co.in

[3] *Source: https://rbi.org.in/scripts/bs_viewcontent.aspx?Id=4080*

	Systems (India) Ltd.	FX-RETAIL module)		
			ii) USD-INR FX Tom	
			iii) USD-INR FX Spot	
			iv) USD-INR FX Swap	
			v) USD-INR FX Forward	
2	Clearcorp Dealing Systems (India) Ltd.	NDS-Call	i) Call Money	https://www.clearcorp.co.in
			ii) Notice Money	
			iii) Term Money	
3	Three Sixty Trading Networks (India) Pvt. Ltd.	TEX/SEP	FX Spot, Forwards, Swaps and Options (including NDDCs)	https://www.360t.com
4	Clearcorp Dealing Systems (India) Ltd.	CROMS	Repo in Government Securities	https://www.clearcorp.co.in
5	CAP IL India	i-Stream	INR Interest	-

	Pvt. Ltd.		Rate Swap (MIBOR and MIFOR based)	
6	Refinitiv India Transaction Services Pvt. Ltd.	FXall	FX Spot, Forwards, Swaps and Options (including NDDCs)	https://www.lseg.com
7	Bloomberg Tradebook Singapore Pte Ltd.	BTBS	FX Spot, Forwards, Swaps and Options (including NDDCs)	https://www.bloomberg.com/professional/product/bloomberg- tradebook-singapore

3.2.3.4. These directions are comparable to the framework which SEBI has proposed for Online Bond Platforms in the Consultation paper.

3.2.3.5. In July 2022, SEBI issued a consultation paper proposing a framework for platforms providing "execution-only" services in direct plans of Mutual Funds (MF). The salient features of the consultation paper are given as under:

i. It has been proposed to regulate the technology platforms/digital platforms including platforms provided by Investment Advisors (IAs)/ Stock Brokers (SBs) to non-clients, to provide execution-only services in direct plans of MF schemes and obtain data feeds with respect to such transactions.

ii. Various SEBI registered IAs/SBs have been providing execution services in direct plans of MF schemes through their technology platforms/digital platforms. However, not all investors who are executing transactions in direct plans of MF schemes through these platforms are availing of any advisory/broking services. They are rather using the platform only to execute transactions in direct plans of MF schemes. With respect to such investors, IAs/SBs typically use their respective IA/SB registration codes to have the visibility of data feeds of clients' transactions executed through their platform.

iii. The following three approaches have been proposed to bring such platforms under the regulatory purview of SEBI:
- Approach 1: Mandating the platforms to obtain SEBI registration as an intermediary under separate regulations for providing "execution-only" services;
- Approach 2: Mandating them to obtain registration from AMFI wherein such platforms shall act as an agent of an Asset Management Company (AMC) by entering into a contract with the AMC;
- Approach 3: Mandating them to obtain limited purpose membership with Stock Exchanges;

iv. Such platforms are proposed to provide both financial services viz. purchase, redemption of mutual fund units, etc. and non-financial services viz. change of email id/ contact number/ bank account details, complaints, etc.

v. Additional requirements such as minimum net-worth, compliance of fit and proper criteria, etc. have also been proposed.

vi. It has also been proposed that such platforms may enter into a contractual agreement with AMCs or Registered Transfer Agents/ Depositories (if so authorized by an AMC) to integrate their systems and to provide execution services in direct plans of MFs or may enter into a contractual agreement with Stock Exchanges to integrate their systems and to provide execution services in direct plans of MFs. In turn, the Stock Exchanges shall have a contractual agreement with the AMCs or Registered Transfer Agents/ Depositories (if so authorized by an AMC).

3.2.3.6. Thus, it is observed that the framework proposed for such platforms is on the similar lines with the framework proposed for online bond platforms.

3.2.4. **Proposal**: Considering the public comments and similar platforms as mentioned above, it is proposed to register online bond platforms as a separate class of intermediaries and specify norms suited to the activities carried out on such platforms. These may be modelled on the lines of the said RBI ETP Directions, 2018 and proposal for platforms providing "execution-only" services in direct plans of MF schemes. Additionally, the following shall be incorporated in the proposed regulatory framework:

i. Eligibility criteria including net-worth, etc
ii. Technological criteria - open access, open architecture for both sellers and investors wherein bond platforms may provide their services on a non-discriminatory uniform basis.

iii. Investor grievance redress mechanism
iv. Risk management policies
v. Disclosure requirements
vi. Provisions pertaining to mitigation of conflict of interest
vii. Data Governance norms
viii. Code of conduct
ix. Reporting and Monitoring– submission of periodical reports to the Board

3.3. **Eligible securities**:

3.3.1. **Proposal in the Consultation paper:** The debt securities offered for buy/ sale by the online bond platforms shall be only listed debt securities.

3.3.2. **Public Comments**: Majority of the comments received have stated that transactions in unlisted debt securities should be allowed on online Bond platforms to broaden the Debt market and provide wider investment options to the investors. Further, the market participants have also suggested to permit transactions in other fixed income securities such as government securities, etc through such online bond platforms.

3.3.3. **SEBI's comments**: SEBI has mandated certain requirements for listed debt securities, including disclosures pertaining to risk factors, details/ documents pertaining to the instruments, rating, etc. which help the potential investors to make informed decisions. Unlisted bond offerings do not require companies to provide detailed information relating to the debt securities such as information memorandum, ratings, etc. Clubbing of listed and unlisted debt securities may muddle the risk perception of the investors and also give false notion that unlisted debt securities are being regulated by SEBI if they are offered on the same platform. Since it is proposed that online bond platforms shall be a separate class of intermediaries directly regulated by SEBI, only listed debt securities should be permitted.

3.3.4. **Proposal**: Thus, as proposed in the consultation paper to begin with only listed debt securities shall be offered for buy/ sale by online bond platforms in phase I. Further, as the framework for such online bond platforms mature, other fixed income securities such as Government securities, commercial paper and other permissible securities may be offered on online bond platforms in a gradual manner, subject to approval/ authorisation from the respective financial sector regulators and adherence to such requirements as such financial sector regulators may specify.

3.4. **Proposed Lock-in period for the eligible securities**:

3.4.1. **Proposal in the consultation paper**: Listed debt securities issued on private placement basis, offered for sale on bond platforms shall be locked-in for a period of six months from the date of allotment of such debt securities by the issuer.

3.4.2. **Public Comments**: Majority of the comments are against the proposed requirement of lock-in period of six months from the date of allotment for listed debt securities issued on private placement basis as it is perceived that such lock-in will hamper the liquidity in the said issuances severely. Some market participants have also observed that debt issuances have the highest trading volume (liquidity) in the first 3-6 months from issuance, till it reaches the Hold to Maturity ('HTM') investor.

3.4.3. **SEBI's comments**:

3.4.3.1. As noted in the consultation paper, the said requirement is not stipulated by SEBI and is a mandate under section 25(2) of Companies Act, 2013 which inter-alia, provides as under:

"For the purposes of this Act, it shall, unless the contrary is proved, be evidence that an allotment of, or an agreement to allot, securities was made with a view to the securities being offered for sale to the public if it is shown — (a) that an offer of the securities or of any of them for sale to the public was made within six months after the allotment or agreement to allot"

3.4.3.2. In this regard, part-A of Chapter IV of the Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (ILNCS Regulations, 2021) may be referred to, which prescribes the conditions for listing of privately placed debt securities and Non-Convertible Redeemable Preference Shares (NCRPS). Regulation 44(2) of the ILNCS Regulations, 2021, prescribes the documents required to be filed with the stock exchanges and the debenture trustee along with the listing application. Relevant extract of Regulation 44(2) of the ILNCS Regulations, 2021 is given as under:

"*44. Listing Application. (2) The issuer shall file the following documents along with the listing application to the stock exchange and with the debenture trustee (in case of debt securities):*

(a) Placement Memorandum;

(b) Memorandum of Association and Articles of Association;

(c) Copy of the requisite board/ committee resolutions authorizing the borrowing and list of authorised signatories for the allotment of securities; …

(g) In case of debt securities, an undertaking that permission / consent from the prior creditor for a second or pari passu charge

being created, wherever applicable, in favour of the debenture trustee to the proposed issue has been obtained; and

(h) Any other particulars or documents that the recognized stock exchange may call for as it deems fit…"

3.4.3.3. Therefore, an issuer issuing debt securities on private placement basis and seeking to list its securities is required to inter-alia file a placement memorandum, the memorandum of association, the articles of association, the requisite resolution from the board or committee of the issuer company authorising such borrowing with Stock Exchanges, and the Stock Exchanges may also call upon the issuer company to provide document as it may deem necessary. The private placement memorandum under the ILNCS Regulations, 2021 is very exhaustive and the disclosures prescribed are similar to that of an offer document in a public issue. Thus, the investors subscribing to these debt securities participate through the stock exchanges and have detailed information in the form of information memorandum as they would have under any offer document for public issue. Such disclosure requirements are in addition to the disclosure requirements provided under the Companies Act, 2013 and any other disclosures that may be prescribed by SEBI. Further, Regulation 45(2) of ILNCS Regulations, 2021 requires that the information memorandum for private placement of debt securities shall be made available on the website of the stock exchanges where they seek to have such securities listed. Relevant extract of regulation 45(2) of ILNCS Regulations, 2021 is provided below:

"*45. Disclosure in respect of private placements*

(1) The issuer making a private placement of debt securities and non-convertible redeemable preference shares and seeking listing thereof on a recognised stock exchange shall make the following disclosures in the placement memorandum:

(a) disclosures specified in Schedule II of these regulations;

(b) disclosures specified in the Companies Act, 2013 (18 of 2013), as applicable;

(c) additional disclosures as may be specified by the Board.

(2) the disclosures as provided in sub-regulation (1) shall be made on the websites of stock exchange(s) where such securities are proposed to be listed and shall be available for download in PDF or any other format as may be specified by the Board…"

Further, once such securities are listed, the issuer company is required to comply with the disclosure norms prescribed under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015(LODR Regulations, 2015).

3.4.3.4. As these privately placed debt securities are listed on the stock exchanges, such securities are freely marketable and transferable and can be sold on the stock exchanges by the investors as and when required. Such measure provides the investors with market liquidity, and an opportunity to exit their investment, if so desired.

3.4.3.5. A parallel can be drawn here to a scenario where a mutual fund invests in a listed debt securities issued on a private placement basis, and seeks to liquidate the bond after a month from allotment date. When the fund places a sell order on the exchange, such order may be matched with the buy orders placed by various non-institutional investors, that may breach the threshold of 200 persons prescribed under Rule 14(2) of the Prospectus and Allotment Rules, 2014. Placing of such sell order is not construed as a circumvention of the public issue norms as, once such securities are listed on the stock exchanges, are freely transferable. Further, for public issue of debt securities under ILNCS Regulations, 2021, there is no requirement of minimum number of allottees as is in case of public issuance of specified securities (equity shares and convertibles) under regulation 49 of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

3.4.3.6. In light of the above, there would be no circumvention of certain key public issue requirements as such listing of securities issued on private placement basis would be accompanied with the disclosures by the issuer company under the provisions of the ILNCS Regulations, 2021, and the LODR Regulations, 2015. Thus, offering of listed debt securities issued on a private placement basis on online bond platforms, within six months of their date of allotment, may not be in violation of the deemed public issue norms under Companies Act, 2013.

3.4.4. **Proposal**: Considering the above, the proposal of lock-in period of six-months for listed debt securities issued on private placement basis from the date of allotment may be done away with.

3.5. **Channelizing transactions through either Exchange trading platform – Debt segment or Request for Quote Platform (RFQ)**:

3.5.1. **Proposal in the consultation paper**: The transactions executed on the online bond platforms are to be routed through either the trading platform of the debt segment of Exchanges or RFQ platform of the Stock Exchanges where the transactions will be cleared and settled on a Delivery Versus Payment (DVP-1) basis.

3.5.2. **Public Comments**: Few of the market participants have commented against channelizing transactions through RFQ platform as the same has been devised as a “participant-only” model applicable only for institutional investors. However, majority of the comments received are in support of the transactions on online bond platform being routed through the Stock Exchange platforms.

3.5.3. **SEBI's comments**: Based on the suggestions received and discussions held with multiple bond platforms and stock exchanges, it is observed that the debt securities are made available for purchase by investors on these platforms and are subsequently settled through clearing corporations of stock exchanges. Routing the transactions through debt segment of exchange platform where order matching is anonymous, will result in the orders, placed by bond platforms/ sellers hosted on the online bond platforms, getting matched with anonymous investors other than the investors who have placed order through Online bond platform. Hence, to encourage online bond platforms, it is proposed that the orders placed through online bond platform shall be mandatorily routed through the Request for quote platforms of the Stock Exchanges and settled through Clearing Corporations where the facility to match the orders on one-to-one basis is available.

3.5.4. **Proposal:** In view of the above, it is proposed that the transactions through bond platform shall be mandatorily routed through the Request for Quote platforms (RFQ) of the Stock Exchanges and settled through Clearing Corporations. Consequentially, necessary changes including proving access of RFQ platforms to online bond platform providers, shall be made.

4. Additional proposals on basis of comments received:

4.1. **Face value of Private placed listed debt securities:**

4.1.1. **Public comments:** In order to make privately placed listed securities accessible to small investors, a majority of the market participants have recommended to reduce the face value of listed securities issued on Private placement basis from the currently specified face value of

INR 10 lakhs. While some have suggested to reduce it to as low as Rs. 1/-. A few others have suggested to reduce it to values such as Rs. 1000, Rs. 10,000, Rs.1lac, etc.

4.1.2. **SEBI's comments:**

4.1.2.1. The provisions w.r.t face value and trading lot value of Rs. 10 lac for privately placed listed securities were inserted in the Chapter V of Operational Circular for issue and listing of Non-Convertible Securities (NCS), Securitised Debt Instruments (SDI), Security Receipts (SR), Municipal Debt Securities and Commercial Paper (CP) (Operational Circular) which came into effect in August 2021, post Yes bank AT1 Bonds fiasco. The same was introduced after consulting market participants wherein it was observed that it was a general practice to issue privately placed debt securities for a face value of Rs. 10 lakh. This was based on the then market practices. However, the comments received from the market participants especially individual investors suggest that this ticket size of Rs. 10 lakh is too high for non-institutional investors and makes this segment of the market inaccessible. Further, a substantial (98% in FY 2021-22, as can be observed from table below) number of issuances are through private placement route wherein there is no participation from non-institutional investors as only institutional investors predominantly invest through the EBP platforms.

Period		**FY2021-2022**		**FY2020-2021**		**FY2019-2020**	
Category		**No. of Issues**	**Amt. in INR crore**	**No. of Issues**	**Amt. in INR crore**	**No. of Issues**	**Amt. in INR crore**
Public issues#	(1)	28	11,589.40	18	10,588.02	34	14,984.02

Private Placement*	(2)	1,405	5,88,036.94	1,995	7,71,840.00	1,787	6,74,702.17
Total	**(1)+(2)**	**1,433**	**5,99,626.34**	**2,013**	**7,82,428.02**	**1,821**	**6,89,686.19**
#							
EBP Issues		**784**	**5,22,337.00**	**1,146**	**7,07,679.50**	**713**	**5,94,101.00**

Data for debt public issues have been taken on the basis of final post issuance reports received.

* Listed issues; EBP - Electronic Book Provider platform.

Source: NSE, BSE, CDSL and NSDL

4.1.2.2. The argument against the current high ticket size highlights the inaccessibility of the bond market as an avenue for investment to non-institutional investors. It is pertinent to note that a few individual investors, in their comments, have suggested to reduce the ticket size of listed privately placed debt securities, as at the current level of face value of Rs. 10 lakh, they are not able to invest that much amount to one single financial asset. If the face value and trading lot is reduced, to say Rs. 10,000/-, non-institutional investors for whom the online bond platform is intended, can participate directly in the bond market through the bond platforms, which will enhance liquidity. As seen from the table below, the number of non-institutional investors registered and/or transacted through the bond platforms are significant in number and are only increasing.

Financial	**No. of**	**No.**	**No. of**	**For institutional investors**	**For non-institutional**

Year	issues offered for sale	of issues traded	users registered on the platform				investors		
				No. of Users/ investors who have transacted on bond platform	Volume of trades (Qty)	Volume of trades (Amt in crore)	No. of Users/ investors who have transacted on bond platform	Volume of trades (Qty)	Volume of trades (Amt in crore)
2019-20	0	0	0	0	0	0	0	0	0
2020-21	1	1	9862	0	0	0	2037	189350	19.935
2021-22	25	20	244671	1	2	36.12	5632	443158	120.54

Source: data collected from few bond platforms

4.1.3. **Proposal**: In view of the above, in order to enhance the participation of non-institutional investors in the corporate bond market it is proposed to lower the face value of privately placed listed debt securities to Rs 10,000 and trading amount in the multiples of Rs.10,000. . However, the face value and trading lot of Non-Equity Regulatory Capital (such as AT1 Bonds) shall be kept unchanged at Rs. 1 crore. Accordingly, Chapter V of Operational Circular may be modified to this effect.

4.2. **Disclosures on platform websites:**

Since SEBI is a disclosure based regulator, it is proposed to ensure adequate disclosures on the online bond platforms for each security – listed and proposed to be listed (if it is a public offer) which is available for sale. While a copy of the Private Placement Memorandum (PPM) shall be downloaded from Stock Exchange websites and placed on the online bond platform websites, investors shall also be provided key information/ salient highlights of the offered issue like risk factors, tenure, put/call options (if any), coupon rate, security (if any), and details of debenture trustee, etc. It is also proposed to specifically stipulate that incentives or promotion / highlight or spotlights that are intended to induce/ solicit investor be avoided on the platforms. These may be made part of the circular to be issued on the subject.

5. **Salient features of the proposed draft regulations:**

5.1. **Registration of online bond platforms as a separate class of intermediary**: - Entity intending to operate an online bond platform shall apply to SEBI for granting of registration of certificate. The said registration certificate shall be valid for a period of 3 years and shall be eligible for renewal subject to certain terms and conditions specified under the regulations.

5.2. **Eligible securities** – Only listed debt securities shall be offered on the online bond platforms

5.3. **Net-worth criteria requirement**: An entity seeking registration as an under these regulations shall maintain a net-worth equivalent to an amount of not less than Rs. 5 Crore (Rupees five Crore only) out of which minimum 25% should be maintained in liquid marketable securities and shall continue to maintain such minimum amount specified herein at all the times.

5.4. **Code of conduct for online bond platform providers:** It shall inter-alia include provisions w.r.t investment advice, conflict of interest, requirement relating to disclosure of information, internal control, records to be maintained, etc

5.5. **Know your customer requirements:** - The draft regulations inter-alia proposes that where the KYC records of a user are available online at Central KYC Records Registry then the Online Bond Platform Provider can download the KYC details from this registry and the user is not required to submit the same KYC records or information or any other additional identification documents.

5.6. **Advertisement code**: Provision relating to the advertisement of the eligible securities has been specified for online bond platforms.

5.7. **Issuance of deal sheet and order receipt** – An Online Bond Platform Provider, on execution of order, shall issue without delay to its users/ investors, a deal sheet for all transactions, which shall inter-alia include date and time of order, date and time of settlement, quantity and amount transacted, etc. Further, an Online Bond Platform Provider, on placement of order by a(n) user/ investor, shall issue without delay to its users/ investors, an order receipt which shall inter-alia include date and time of order, quantity and amount transacted, etc.

5.8. **Investor Grievances**: An Online Bond Platform Provider shall obtain SCORES authentication and shall put in place a well-defined mechanism to address any grievance that may arise or likely arise while carrying out Online Bond Platform operations, in the manner as may be specified by the Board from time to time. Online Bond Platform Provider shall take adequate steps for redress of grievances of the investors within one month of the date of the receipt of the complaint. Consequentially SCORES registration shall be provided to the Online Bond Platform Provider.

5.9. **Appointment of compliance officer**: The said compliance officer shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc.

5.10. **Reporting and monitoring:** Reports such as report on complaints, half-yearly results, etc relating to the operations of the online bond forms shall be submitted to the Board on periodic basis.

6. Proposals for consideration of the Board:

6.1. Accordingly, in order to give effect to the above proposals, it is proposed to:

6.1.1. Introduce a regulatory framework in the form of SEBI (Online Bond Platforms) Regulations, 2022. (draft placed at Annex I)

6.1.2. Reduction in the face value of listed privately placed debt securities; and

6.1.3. Issue a procedural circular detailing the specifics and mechanics of the operations of the online bond platforms including disclosure norms, KYC norms, settlement cycle, investor grievance redress mechanism, etc.

6.2. The Board is therefore requested to:

6.2.1. Consider and approve the proposal at para 6.1 and;

6.2.2. Authorize the Chairperson to take necessary steps to implement the proposals including notification of amendments, issuing circulars, wherever necessary with consequential and appropriate changes, as may be required.