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REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

REGULATIONS IN INDIAN CORPORATE DEBT MARKET

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ABSTRACT

Corporate debt can be defined as a debt security issued by a corporation and sold to investors. The backing for the debt is usually the payment ability of the company, which is typically money to be earned from future operations. Corporate debt securities are considered more risky than the government securities. As a result, interest rates are almost always higher, even for top-flight credit quality companies. The aim of this study is to see how Indian Corporate Debt Market is regulated. Well-developed corporate debt market is crucial for a developing country like India to augment the fund requirement for firms and facilitate the much needed infrastructure financing. I have also reviewed the regulatory changes taken by the Securities Exchange Board of India. Over a period of time SEBI has taken many steps to promote the growth of Indian Debt Market. I have presented all the regulatory steps taken by SEBI on yearly basis, this will help the reader to understand how Indian Corporate Debt Market has witnessed growth over a period of time and how the Regulatory body, SEBI has taken steps to stimulate this growth.

KEYWORDS

Corporate debt market, Regulatory Changes, Securitized Debt Instruments.

LIST OF ABBREVIATIONS

BSE	Bombay Stock Exchange Limited
DIP	Disclosure and Investor Protection
FIIs	Foreign Institutional Investor's
FIMMDA	Fixed Income Money Market and Derivatives Association of India
GOI	Government of India
ICCL	Indian Clearing Corporation Limited
IRDA	Insurance Regulatory and Development Authority
MFs	Mutual Funds
NSCCL	National Securities Clearing Corporation Limited
NSE	National Stock Exchange of India Limited
OTC	Over The Counter
QFI	Qualified Foreign Investor's
RBI	Reserve Bank Of India
SEBI	Securities and Exchange Board of India
SLR	Statutory Liquidity Ratio
USD	United States Dollar

INTRODUCTION

The development of debt market has a significant bearing on a country's economic development and its ability to withstand shocks and crises. The debt market supplements the banking system to meet the requirements of the corporate sector for long-term capital investment and asset creation. It provides a stable source of finance when the equity market is volatile and works as an alternative source of finance. It is essential that the government securities market and corporate debt market grow side by side, preferably at a desired rate. Further, it is also advisable to keep the level of total debt within a sustainable limit and the cost composition and risk profiles are managed efficiently.

There are various means of mobilising funds in capital market which include debt issue, public issue, private placement, preferential allotment etc. Bonds, particularly longer tenure ones, are attractive for long-term, large-scale borrowing to finance fixed assets and investments. The corporate bonds can be issued by way of private placements and public offerings. The issuers in these categories are the corporate entities, public financial institutions, banks, public sector undertakings, state owned enterprises etc. Major instruments of mobilising funds include partly/ fully convertible debentures, deep discount bonds, zero coupon bonds, floating rate notes and secured premium notes.

In developed countries, corporate debt market is as developed as the securities market. In USA, the corporate debt market has supplemented the market for Treasury securities by increasing issuance sizes of bonds and periodic regularity to appeal to investor demand. Corporate debt is primarily used as a benchmark to monitor the performance of the market and to evaluate other outstanding corporate debt securities and assist in pricing of new corporate debt issues. In Korea, as well the limited supply of government bonds has been supplemented by dominance of corporate debt issues. India has a very well developed government securities market similar to other developed countries in the world. However, in India the corporate bond market has been lagging behind the government securities market in terms of market infrastructure, trading facilities, number of market participants, etc. Recently, some important measures have been undertaken to develop the corporate bond market in India.

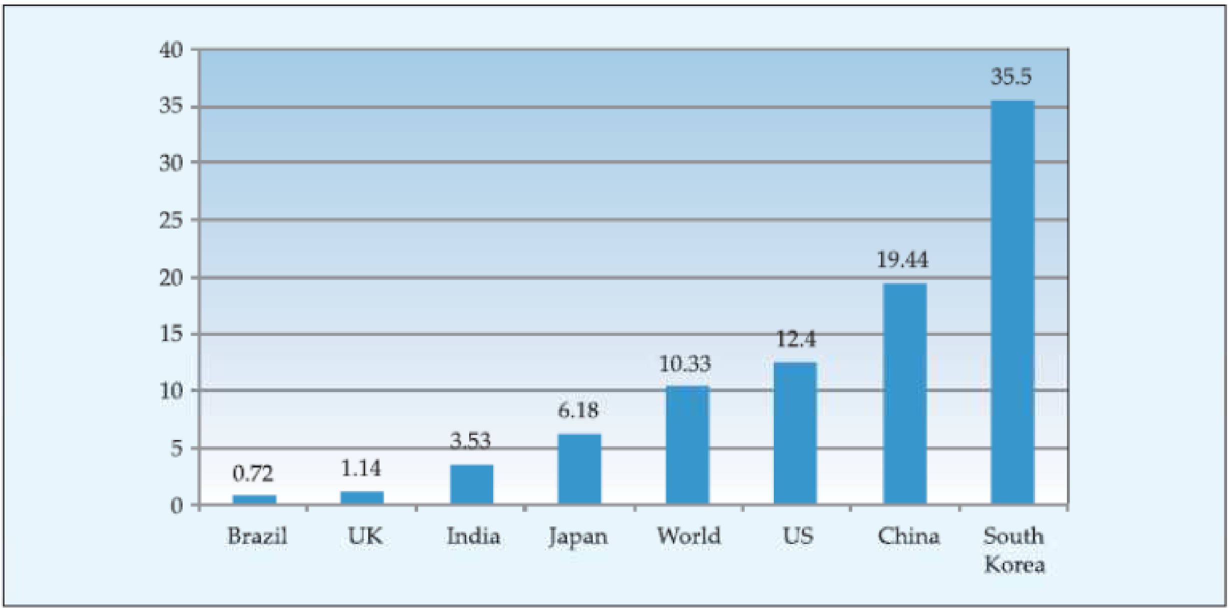
SEBI granted permission to BSE and NSE to set up trading and reporting platforms to capture all information related to trading in corporate bonds. Non-members of the Exchange were, however, provided connectivity through Virtual Private Network (VPN). Later, Fixed Income Money Market and Derivatives Association of India (FIMMDA) were permitted to start Corporate Bond Trade Reporting Platform. The trade matching platform is now order driven with essential features of OTC market. SEBI decided that a system of anonymous order matching shall be established gradually. BSE and NSE provide data pertaining to corporate bonds comprising issuer name, maturity date, current coupon, last price traded, last amount traded, last yield (annualised) traded, weighted average yield price, total amount traded and the rating of the bond and any other additional information. To reduce information asymmetry, the two exchanges co-ordinate among them, check for redundancy and disseminate information on their websites in a homogenous manner. BSE and NSE provide their services for clearing and settlement of corporate bonds traded.

The corporate bond market in India has not kept pace with the developments in the equity market, which has matured and grown to international standards. It has suffered from chronic neglect, both in terms of policy and infrastructure, and has been almost entirely restricted to a set of domestic institutional investors. For an active secondary market, there is a need for a wider range of issuers and of investors, and with different perception for investment and trading in the secondary markets. With continued pace of economic reforms and growing business confidence together with increasing global recognition of India's Technical capabilities and Economic potential, entrepreneurs are willing to invest in large, global scale projects to enhance infrastructure as well as to promote exports. This is expected to result in increased competition for financial resources as companies look to expand. In future, infrastructure development will be a significant growth driver. Broadening and deepening of the bond market is required to provide long tenor project finance. India's financial system is still largely dominated by the banking system with a deposit base largely of less than 3 years tenor. A borrower who requires long term finance (10-15 years) is still dependent upon a few providers of such long maturity loans. As demand for funds from the corporate sector grows rapidly, large government borrowings may create a crowing-out situation for the corporate sector. In several respects the debt market continues to remain highly inefficient especially due to the absence of market infrastructure that would help its development on sound lines.

After, Patil Recommendations in the year 2005 and acceptance of many of them the peculiar issue with the Indian corporate debt market is not that it faces challenges due to a lack of adequate infrastructure. In fact, India is fairly well-placed insofar as the pre-requisites for the development of a corporate debt market are concerned. In spite of this, Indian corporate debt markets are yet to witness the level of activity that an organized financial market should. In India, Corporate Debt Market activity is less as compared to the equity and Government debt bourses. The total corporate bond issuance in India is highly fragmented because bulk of debt raised is through private placements. The private placement route requires that the issuer makes an offer to select a group of investors, no more than 50, to invest in the debt securities for issue. However, corporates are known to circumvent the 49 investor cap in private issuances by making multiple bond issuances for many groups of 49 investors or satisfying the greater demand through immediate secondary market transfers upon the completion of the primary issue, thus diffusing the issue among a greater number of subscribers. Therefore there is a clear need to remove impediments that hinder the development of the institutional side of the market. The dominance of private placements has been attributed to several factors, including ease of issuance, cost efficiency and primarily institutional demand. Furthermore, trading is concentrated in few securities, with the top five to ten traded issues accounting for bulk of the total turnover. The SEBI Issue and Listing of Debt Securities Regulations 2008, lays out conditions for private placement which include, requiring compliance with The Companies Act of 1956, obtaining credit rating, listing of securities, mandating disclosure standards as per Sec 21 that stipulates the documentation and disclosure requirements.

Well-developed corporate bond market is crucial for a developing country like India to augment the long term fund requirement for firms and facilitate the much needed infrastructure financing. The Corporate bond market can also be the alternate source of finance by complementing the available sources of fund raising for corporate like in India. Hitherto, Indian debt markets are dominated by the government securities market. In the recent years, significant policy attention has been showered to revive and nurture the growth of the corporate bond markets in India. But though there have been the signs of the market expanding, the share of corporate bond markets in India remain relatively small vis –a- vis Government Securities market as well as that of other countries as shown below:

CORPORATE ISSUANCES AS PERCENT OF DOMESTIC DEBT SECURITIES



Source: BIS

NEED FOR A WELL-DEVELOPED CORPORATE DEBT MARKET

The 2008 Global Financial Crisis (GFC) highlighted the need to reduce the dominance of the banking system in financing corporate sector by developing a good corporate bond market. India's infrastructure funding requirements (estimated at around 10 per cent of GDP annually) need a robust corporate bond market for diversifying risk, enhancing financial stability, and for better matching of risk-return preferences of the borrowers. Historically, India's financial system has been bank-dominated, supplemented by the Development Financial Institutions (DFIs). However, the financial system has undergone several changes during the recent years and DFIs have been converted into banks. Commercial banks, by nature, are not able to fill the gap in long-term finance, given the asset-liability management issues. A well-developed corporate bond market is critical for Indian economy as:

i. It enables efficient allocation of funds.
ii. It facilitates infrastructure financing.
iii. It improves the health of the corporate balance sheets.
iv. It promotes financial inclusion for the Small and Medium Enterprises (SMEs) and the retail investors.
v. It safeguards financial stability.
vi. It enables development of the municipal bond market.

Accordingly, development of the corporate bond market has been high on the agenda for the regulators. I will cover each of these regulations.

A well-developed corporate bond market provides additional avenues to corporates for raising funds in a cost effective manner and reduces reliance of corporates on bank finance. A deep and liquid debt market augments financial savings and helps match the savers to the borrowers in an efficient manner. By enlarging the financial sector, capital markets promote innovation in financial instruments. In addition, it instils discipline in behaviour of firms leading to increased efficiency of the system. The existence of a well-functioning bond market can lead to the efficient pricing of credit risk as expectations of all bond market participants are incorporated into bond prices. In order to achieve the objective, it is desirable to have diversified issuer and investor base. Issuer profile in India, however, is concentrated among a few category of market participants dominated by financial sector firms including banks, Non-Banking Financial Companies (NBFCs), financial institutions, housing finance companies (HFCs) and Primary Dealers. Similarly, on demand side, majority of investment are made by banks and institutions including Foreign Institutional Investors (FIIs) with very little or negligible part played by retail investors. Thus, there is an urgent need to further develop the Indian corporate debt market.

The Committee on Infrastructure Financing (Chairman: Shri Deepak Parekh) has estimated that Rupees 51.46 trillion would be required for infrastructure development during the 12th Five Year Plan (2012-17) and that 47 per cent of the funds could come through the PPP route. If we add the potential financing needs for upgrading our railways, urban and rural infrastructure, the financing needs could be much larger. As much as the Government security market development has provided a boost to the development of the corporate bond market, the municipal bond market could derive similar benefits from a well-developed corporate bond market. This would provide boost to financing the urban infrastructure in an assured and sustainable manner. In this context, it is important to note that GOI capital expenditure has remained stagnant during the last two years at around 13 per cent. Hence, the role of private sector assumes greater importance in the context of infrastructure development.

Various financial crises have highlighted that even well regulated, supervised, capitalized and managed banking systems may have limitations in mitigating financial vulnerabilities. The crises have underscored that the banking systems cannot be the predominant source of long-term investment capital without making an economy vulnerable to external shocks. It had argued that bond markets could act like a “spare tyre”, substituting for bank lending as a source of corporate funding at times when banks’ balance sheets are weak and banks are rationing credit. The capital inflows to the country through External Commercial Borrowings, while helping the country fund the current account deficits and corporate to raises resources at a lower cost, could become a source of the transmission of severe external shocks to the domestic economy. Therefore, it is important to develop the domestic corporate bond market to enable corporates to meet a substantial part of their funds requirement domestically. Further, credit flow to infrastructure sector by banks has grown manifold in last few years. There is, however, a risk of exposure attached to banks with such long term financing considering ALM mismatch. Moreover, banks’ ability to withstand stress is critical, especially in the context of the recent increase in banks’ non-performing assets on account of their exposure to the infrastructure sector. Bond markets also aids financial stability by spreading credit risks across the economy and thereby shielding the banking sectors in times of stress. Further, a well-developed bond market can also help banks raise funds to strengthen their balance-sheets. Viewed in the above context, a vibrant debt market is critical to meet the funding requirement for infrastructure sector. Hence, going forward, there is a need to increase the reliance on the corporate bond financing so as to reduce macro-economic vulnerability to shocks and mitigate systemic risks.

FRAMEWORK OF CORPORATE DEBT MARKET

With an objective to develop corporate bond market and encourage trading on stock exchange trading platform, it was decided that the stock exchange may create a separate debt segment to provide for trading, reporting, membership, clearing and settlement rules, risk management framework and other necessary provisions in the following:

A. ‘Debt Securities’ are defined in securities and Exchange Bond of India (Issue and listing of Debt Securities) Regulations, 2008.
B. Government securities, Treasury bills, State Government loans, SLR and Non-SLR bonds issued by Financial Institutions, municipal bonds, single bond repos, basket repos and Collateralized Borrowing and Lending Obligation kind of products subject to RBI approval, wherever required.
C. Securitized Debt Instruments as defined in SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008.
D. Any other debt instrument as may be specified from time to time by the competent authority.

The salient features of the Debt Securities as follows:

1. TRADING

i. The debt segment shall offer electronic, screen based trading providing for order matching, request for quote, negotiated trades etc.
ii. The segment shall provide separate segments for the markets described below:-
   - Retail Market – which shall be a market for listing of and trading in publicity -issued debt instruments and where participation by registered trading members can be on their own account or for execution of orders placed their clients.
   - Institutional market – which shall be a market for non-publicly-issued debt instruments with a market lot size of minimum Rupees one crore.

2. 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 the availability of price quotes or 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.

3. 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 upon the market type, as given below :
   - For Institutional market all trades shall be settled on T+1 rolling settlement on DVP-1 basis using RBI Real Time Gross Settlement 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.
   - For retail market the trades shall be settled on T+2 rolling settlement on DVO-III basis with settlement guarantee.

4. RISK MANAGEMENT FRAMEWORK

i. For retail market, a uniform margin of 10% shall be applicable on debt instruments with rating of ‘AA’ or above (or with similar rating nomenclature) by recognized credit rating agencies and 25% for all other debt instruments. Further, in case of shortages, there shall be compulsory close-out with a markup 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 in DVP-II or DVP-III basis, appropriate margins may be prescribed after approval by SEBI.
iii. The clearing corporations 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.

Further, in order to enable direct membership of institutional participants, SEBI Board inter-alia approved the following amendments in SEBI (Stock-Brokers and Sub-Brokers) Regulations, 1992 to –

a) Include debt segment in addition to derivatives segment and currency derivatives segment in the definition of clearing members, self-clearing members, trading members.
b) Introduce definition of “proprietary trading number” to permit specified 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 sectorial regulators from time to time.

PERFORMANCE OF CORPORATE DEBT MARKET

Majority of trades in the corporate bond markets happen Over the Counter. While FIMMDA is the largest reporting platform for the OTC deals in Corporate Bond Market, BSE and NSE serve as both trading and reporting platform. The number of trades reported at FIMMDA had risen in the year 2012-13 to 36,603 and the value of trades reported also rose by 26.9% to Rupees 4,44,904 crore over the previous financial year. During the Year 2012-13, the total value of corporate bond trades at BSE rose by 3.6% to Rupees 51,622 crore from Rupees 49,842 crore in the year 2011-12. In NSE, the value of trades for the year 2012-13 rose by 25.2% to Rupees 2,42,105 crore from Rupees 1,93,435 crore in the year 2011-12 as shown in Table 1.

TABLE 1: SECONDARY MARKETS-CORPORATE BOND TRADES

Month / Year	BSE		NSE		FIMMDA		Total	
	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)
1	2	3	4	5	6	7	8	9
2008-09	**8,327**	**37,320**	**4,902**	**49,505**	**9,501**	**61,535**	**22,730**	**1,48,361**
2009-10	**7,408**	**53,323**	**12,522**	**1,51,920**	**18,300**	**1,95,955**	**38,230**	**4,01,198**
2010-11	**4,465**	**39,581**	**8,006**	**1,55,951**	**31,589**	**4,09,742**	**44,060**	**6,05,274**
2011-12	**6,424**	**49,842**	**11,973**	**1,93,435**	**33,136**	**3,50,506**	**51,533**	**5,93,783**
2012-13	**8,639**	**51,622**	**21,141**	**2,42,105**	**36,603**	**4,44,904**	**66,383**	**7,38,632**
Apr-12	472	2,664	1,232	12,155	1,977	21,219	3,681	36,038
May-12	632	1,904	1,342	14,220	2,140	22,389	4,114	38,512
Jun-12	880	5,036	1,624	18,918	3,092	38,002	5,596	61,956
Jul-12	824	4,829	1,968	19,499	3,391	37,740	6,183	62,068
Aug-12	697	4,147	1,891	18,374	3,034	35,814	5,622	58,335
Sep-12	720	4,802	2,051	23,373	3,244	41,029	6,015	69,205
Oct-12	966	4,792	1,850	25,659	3,853	47,424	6,669	77,875
Nov-12	680	2,317	1,455	18,090	2,454	27,774	4,589	48,182
Dec-12	599	2,900	1,686	19,319	2,715	33,313	5,000	55,532
Jan-13	838	6,533	2,702	31,349	4,517	56,873	8,057	94,755
Feb-13	562	2,829	1,407	19,240	2,511	32,120	4,480	54,190
Mar-13	769	8,869	1,933	21,908	3,675	51,208	6,377	81,985

Source: SEBI annual reports 2012-13

With effect from December 01, 2009, it has been made mandatory for all trades in corporate bonds between mutual funds, FIIs/ Sub-Accounts, Venture Capital funds, foreign venture capital investors, portfolio managers, and RBI regulated entities as specified by RBI to be cleared and settled through the exchange clearing corporations, NSCCL or ICCL. IRDA has also issued similar directions. The value of Corporate Bond trades settled through the clearing corporations has increased by 19% to Rupees 4,78,090 crore in the year 2012-13 from Rupees 4,01,810 crore in the year 2011-12 as shown in Table 2.

TABLE 2: SETTLEMENT OF CORPORATE BONDS

Month	NSE		BSE		Total	
	No. of Trades Settled	Settled Value (₹ crore)	No. of Trades Settled	Settled Value (₹ crore)	No. of Trades Settled	Settled Value (₹ crore)
1	2	3	4	5	6	7
2009-10$	**8,922**	**1,20,006**	**464**	**5,482**	**9,386**	**1,25,488**
2010-11	**30,948**	**4,32,632**	**1,714**	**17,492**	**32,662**	**4,50,123**
2011-12	**34,697**	**3,91,120**	**2,916**	**10,680**	**37,613**	**4,01,800**
2012-13	**36,902**	**4,35,114**	**7,415**	**42,977**	**44,317**	**4,78,090**
Apr-12	2,156	21,800	351	1,036	2,507	22,836
May-12	2,292	22,818	458	1,018	2,750	23,837
Jun-12	3,315	39,800	452	1,087	3,767	40,888
Jul-12	3,676	38,140	432	2,053	4,108	40,194
Aug-12	2,972	34,463	554	3,081	3,526	37,544
Sep-12	3,124	38,090	709	4,431	3,833	42,521
Oct-12	3,708	47,144	891	4,250	4,599	51,394
Nov-12	2,468	26,349	656	2,845	3,124	29,195
Dec-12	2,638	32,163	696	4,050	3,334	36,213
Jan-13	4,387	54,807	826	5,971	5,213	60,778
Feb-13	2,558	31,783	536	3,634	3,094	35,418
Mar-13	3,608	47,755	854	9,518	4,462	57,273

Source: SEBI annual reports 2012-13

TABLE 3: PRIVATE PLACEMENT OF CORPORATE BONDS REPORTED AT BSE AND NSE

Year/ Month	NSE		BSE		Common		Total	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)
1	2	3	4	5	6	7	8	9
2008-09	699	1,24,810	285	17,045	57	31,426	1,041	1,73,281
2009-10	647	1,43,286	597	49,739	34	19,610	1,278	2,12,635
2010-11	774	1,53,370	591	52,591	39	12,825	1,404	2,18,785
2011-12	1,152	1,89,803	783	56,974	18	14,505	1,953	2,61,283
2012-13	1,295	2,06,187	1,094	72,474	100	82,801	2,489	3,61,462
Apr-12	79	17,050	61	3,875	5	2,590	145	23,515
May-12	94	13,528	58	6,865	6	3,600	158	23,993
Jun-12	241	18,258	26	1,882	6	6,110	273	26,250
Jul-12	137	28,873	55	10,188	10	18,685	202	57,745
Aug-12	94	18,558	81	6,967	11	9,367	186	34,892
Sep-12	50	7,965	66	3,414	6	3,040	122	14,420
Oct-12	100	18,357	90	4,556	12	7,580	202	30,493
Nov-12	113	13,666	207	8,441	5	3,989	325	26,096
Dec-12	54	11,477	113	8,700	9	6,062	176	26,239
Jan-13	111	23,339	143	8,478	5	7,207	259	39,025
Feb-13	132	11,763	100	3,711	8	4,150	240	19,624
Mar-13	90	23,353	94	5,395	17	10,422	201	39,170

Source: SEBI annual reports 2012-13

The Private Placement of Corporate Bonds has grown as the preferred route for raising debt money by the corporate entities. About 2,489 issues were made and a total of Rupees 3,61,462 crore was raised through private placement during 2012-13 which is 38.3% higher compared to Rupees 2,61,283 crore in 2011-12 as shown in Table 3. The substantial amount raised as well as the growth in the amount raised through private placement shows the preference for private placement as the mode of fund raising mechanism.

REGULATORY CHANGES IN THE INDIAN CORPORATE DEBT MARKET

In contrast to the rapid pace of change in the equity market, the debt market both for government debt and corporate debt have seen less change and a result have suffered from weakness of market design. In 1996- 97, the SEBI (FII) Regulations, 1995 were amended to permit FIIs who obtain specific approval from the SEBI to invest 100% of their portfolio's in debt securities. Such investment may be in listed or to be listed corporate debt securities or in dated government securities, and is treated as a part of overall limit on external commercial borrowing for the Economy. These measures were taken to encourage investment in rupee denominated debt instruments by FIIs and to further develop the domestic debt markets. Then in the year 1999-2000 SEBI abolished negotiated deals for Corporate Debt Securities to encourage secondary debt trading. The notification by the government on the regulatory jurisdiction of the RBI and SEBI would help the development of debt market. The Government has also abolished stamp duty on dematerialized debt instruments. Then some big changes come in the Year 2007-08 and 2008-09, after which the pace of development in Indian Corporate Debt Market picked up the speed.

REGULATIONS IN THE YEAR 2003-04

With a view to provide greater transparency and protecting the interests of investors' in debt securities, SEBI has prescribed new guidelines for regulating private placement of debt securities issued by the corporates, like:

- The company should made full disclosures as per the Companies Act, 1956, SEBI (Disclosure and Investment Protection) Guidelines 2000, and the listing agreement with the stock exchanges.
- The debt securities should have credit rating from a recognized credit rating agency. Each company shall appoint a debenture trustee registered with SEBI.

REGULATIONS IN THE YEAR 2004-05

A cumulative sub-ceiling of USD 500 million for FIIs investment in corporate debt was announced over and above the sub-ceiling of USD 1.75 billion. Both the sub-ceilings are separate and not fungible. Along with this to further develop the corporate debt market, SEBI prescribed a model debenture listing agreement for all debentures securities issued by an issuer irrespective of the mode of issuance. The model has 3 parts namely:

- Part I, contains clauses which shall be complied by all issuers irrespective of the mode of issuance.
- Part II, Contains clauses which shall be complied only if the debentures are issued either through public issue or rights issue or part.
- Part III, contains clauses which were required to be complied only, if the debentures are issued on private placement basis. In case of issuers whose equity shares were listed and which had already entered into a listing agreement for its equity shares, clauses of equity listing agreement should have an overriding effect over the debenture listing agreement, in case of inconsistency, if any.

REGULATIONS IN THE YEAR 2005- 06

A high level expert committee was constituted under the chairmanship of Dr. R.H.Patil (Chairman of Clearing Corporation of India Limited) to suggest appropriate measures for the development of corporate debt market in India. The recommendations of the committee have been accepted by the Government. SEBI had set up an internal committee for the implementation of Patil Committee Recommendations. The roadmap for developing a vibrant corporate debt market is being drawn up. Corporate Bond Market was at its early stage of development. Although the public issue of bonds were conspicuous by their absence in the year 2005- 06, and corporate sector mobilized large amount of resources by way of private placement.

The cumulative debt investment limit for FIIs investment in debt securities has been revised upward by the government within the overall limit of External Commercial Borrowings, the corporate debt limit was increased from USD 0.5 billion to USD 1.5 billion. The sub- ceilings continued to remain separate and not fungible.

REGULATIONS IN THE YEAR 2006- 07

In April 2006, cumulative debt investment limit of USD 2 billion and USD 1.5 billion for FIIs/ Sub-Accounts in government securities and in corporate debt respectively were allocated as USD 1.75 billion in Government securities/ Treasury bills and USD 1.35 billion for 100% debt. For general 70:30 FIIs/ Sub-Accounts the allocation to be USD 0.25 billion in Government securities/ Treasury bills and USD 0.15 billion in corporate debt. In December 2006, SEBI decided to create a unified platform for trading of corporate bonds in 3 phases. BSE directed to set up and maintain a corporate bond reporting platform. In March 2007, NSE was directed to set up and maintain a corporate bond reporting platform.

REGULATIONS IN THE YEAR 2007- 08

In order to facilitate development of a vibrant primary market for corporate bonds in India, SEBI amended SEBI (DIP) Guidelines concerning issuance of debt securities. The amendments were related to the requirement of credit rating, below investment grade debt instruments and removal of structural restrictions. In order to develop a sound corporate Debt market in India, SEBI took a number of policy initiatives with respect to the following areas:

a) **REPORTING PLATFORM FOR CORPORATE BONDS:** Now along with BSE and NSE reporting platform for corporate bonds to capture all information related to trading in corporate bonds, SEBI granted approval to FIMMDA for starting a similar corporate bond trade reporting platform. The platform subsequently becomes operational in September 2007, and from August 2007, SEBI started placing this information on secondary market trades (both exchanges and OTC trades) on its website.

b) **TRADING PLATFORM FOR CORPORATE BONDS:** SEBI permitted BSE and NSE to put in place corporate bonds trading platforms with effect from July 2007, to enable efficient price discovery and clearing and settlement in a gradual manner. Initially, the trade matching platform would be order driven with essential features of OTC market and once stabilized of the trade matching system, exchange may move towards anonymous order matching for trading of bonds within an appropriate period of time.

c) **ISSUES IN TRADING IN CORPORATE BONDS ADDRESSED:** Dr. Patil committee suggested that the day count convention be introduced on a 30/360 basis and eventually moved towards actual/actual basis, they also recommended the minimum market lot criteria of Rupees 10 lakhs for trading corporate bonds at the stock exchanges should be reduced to Rupees one lakh to enable better access to small investors.

d) **AMENDMENT TO THE LISTING AGREEMENT FOR DEBENTURES:** In April 2007, in line with the recommendations made by the Patil committee to improve transparency SEBI made amendments to the listing agreement for debentures to ensure that services of Electronic clearing service, Direct Credit, Real time gross settlement, or National electronic funds transfers are used for payment of interest and redemption amount as per applicable norms of RBI along with other existing facilities, even no material modification can be made to the structure of debentures issued in terms of Coupon, Conversion, redemption or otherwise without prior approval of the stock exchanges where they were listed.

e) **SECURITIZED DEBT INSTRUMENTS:** In June 2007, SEBI drafted regulations for 'Public offer and Listing of Securitized Debt Instruments'. It provides for a system of special purpose distinct entities which could offer securitized debt instruments to the public or could seek listing of such instruments, it also includes structures for the purpose of special purpose entity, conditions for assignment of debt or receivables, procedure for launching of schemes, obligation to redeem, credit enhancement, conditions for appointing servicers, procedure for public offer and listing, rights of investors, inspection and disciplinary proceedings and action in case of default.

f) **POLICY ON DEBENTURE TRUSTEES:** In lieu of Patil Committee recommendations, In August 2007, SEBI made mandatory that 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 event of: a) Default by issuer company to interest or redemption amount; b) Failure to create a charge on the assets; and c) Revision of rating assigned to the debentures. Along with this, SEBI also made it mandatory to make public, information/ reports on debentures issued including compliance reports filed by companies and debenture trustees by placing them on websites of company's and the debenture trustees. The same should also be submitted to stock exchanges for dissemination through their websites.

g) **ROAD TOWARDS REPOS:** SEBI had initiates necessary steps for early introduction of Repos in corporate bond market and involved closely with RBI, Exchanges and Clearing Corporations in this regard.

h) **QUOTE DISSEMINATION PLATFORMS:** SEBI issued "NO OBJECTION" letters to I-CAP, Bloomberg and Reuters in November 2007 and to Derivium Capital in February 2008 to establish electronic systems to facilitate OTC trades. This system would also help in displaying of buy-sell quotes of counter parties.

i) **SIMPLIFYING ISSUANCE NORMS:** SEBI amended the provisions pertaining to issuance of corporate bonds under the SEBI (DIP) Guidelines, 2000. The changes to the guidelines were as follows:

➢ For Public/ rights issues of bonds, issuers now need to obtain rating from only one credit rating agency instead of two credit rating agencies, so as to reduce the cost of issuance.

➢ 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 would be of atleast investment grade was removed.; along with this some structured restrictions were also removed.

j) **DRAFT ISSUE AND LISTING REGULATIONS:** In January 2008, draft regulations on Issue and Listing of Debt Securities were framed like rationalization of disclosure requirement, and enhanced responsibilities of merchant bankers for exercising due diligence and mandatory listing of private placement of debt by companies which were earlier not listed.

For FIIs/ Sub- Accounts, investment in debt oriented MF units (including units of Money Market and Liquid Market) would be considered as Corporate Debt investment and reckoned within the stipulated limit of USD 1.5 billion, earmarked for FIIs/ Sub- Accounts investments in corporate debt. The following would be applicable in this regard:

➢ There should be no demarcation between 100% debt and normal 70:30 FIIs/ Sub-Accounts for the purposes of allocation of debt investment limits. The individual limits allocated to the 100% debt FIIs/ Sub- Accounts stood cancelled.

➢ The allocation of unutilized or unallocated limits for investment in government securities Treasury Bills

REGULATIONS IN THE YEAR 2008-09

A. **SECURITIZED DEBT INSTRUMENTS REGULATIONS:** SEBI notified the Public Offer and Listing of Securitized Debt Instruments Regulations on May 26, 2008. These regulations provide a system for SPECIAL PURPOSE DISTINCT ENTITIES which could offer securitized debt instruments to the public or could seek listing of such instruments on stock exchanges. The Regulations also provide structure for the special purpose entity, conditions for assignment of debt or receivables, procedure for launching of schemes, obligation to redeem, credit enhancement, conditions for appointing servicers, procedure for public offer and listing, rights of investors, inspection and disciplinary proceedings and action in case of default.

B. **ISSUE AND LISTING OF DEBT SECURITIES REGULATIONS:** SEBI notified the Issue and Listing of Debt Securities Regulations on June 06, 2008. These regulations allow issuers to list their debt securities issued by way of a private placement. However, debt securities that are issued to the public shall necessarily be listed and offer document for public issues shall contain information as per Schedule II of the Companies Act, 1956 and brief Term sheet stipulated under Schedule I of the Debt Regulations, whereas, for Private placements, disclosure as per Schedule I are adequate. Where the draft security would be listed, the draft document is made open to the public comments for a period of 7 days along with this the merchant banker submits a due diligence certificate to SEBI that all public comments have been addressed.

C. **For FIIs** , the investment limit was increased from USD 1.5 billion to USD 15 billion for Corporate Debt on First-Come-First-Serves basis in three faces as under :

(USD Billion)

SR.NO.	MONTH	FROM	TO
1	June 2008	1.5	3.0
2	October 2008	3.0	6.0
3	January 2009	6.0	15.0
Limit at the end of FY 2008- 09			**15.0**

Source: SEBI Annual Report 2008-09

D. **RETAIL PARTICIPATION IN 'F' GROUP CATEGORY**: It is a trading platform where corporate bonds and debentures are dealt in anonymous manner by investors through members and settlement is through clearing house mechanism. Due to this the number of trades has gone up from 27,697 to 4,17,376.

REGULATIONS IN THE YEAR 2009-10

A. **SIMPLIFIED LISTING AGREEMENT FOR DEBT SECURITIES:** In May 2009, SEBI issued a simplified listing agreement for debt securities. The Agreement has 2 parts; Part A for issuers with listed equity and Part B for issuers who have no listed equity.

B. **APPLICABILITY OF DEBT SECURITIES REGULATIONS:** In June 2009, SEBI clarified that the issue of debt securities, convertible, either partially or fully or optionally into listed or unlisted equity, are guided by the disclosure norms in terms of the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009. It was also clarified that the issue and listing of non-convertible debt securities, whether issued to the public or privately placed shall be in accordance with the provisions of the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

C. **CLEARING AND SETTLEMENT OF CORPORATE BONDS SETTLEMENT:** Earlier the settlement of bond trades was being done only on bilateral basis between the counterparties. With a view to remove counterparty risks from the settlement process, SEBI has evolved a clearing and settlement mechanism for corporate bond trades through the clearing corporations which are subsidiaries of NSE and BSE. To facilitate clearing and settlement through the two clearing corporations, real time gross settlement system connectivity was given to the two clearing corporations, that is, National Securities Clearing Corporations Limited (NSCCL) and Indian Clearing Corporation Limited (ICCL) by RBI in June and October 2009 respectively.

In October 2009, SEBI made it mandatory for all trades in corporate bonds between MF, FIIs/ Sub-Accounts, Venture Capital Funds, Foreign Venture Capital Investors, Portfolio managers and RBI regulated entities as specified by RBI to be cleared and settled through NSCCL or ICCL, effective from December 2009. RBI issued a similar circular to all its regulated entities. IRDA also issued similar circular to IRDA regulated entities. Now, clearing and settlement takes place on DvP-1 basis usually on T+1 day and in case of failure by one party to pay, the funds/ securities are returned to the counterparty.

D. **FOR FIIS,** Earlier a combination of two methods, that is, Open Bidding and First-Come-First-Served was used for allocation of debt limits. However during 2009-10, it was decided that all the allocation would be through First-Come-First-Served basis only in Corporate Debt Category. In July 2009, it was decided that , the MFs while reporting their trades in corporate bonds should also report their inter-scheme transfers on the BSE/NSE/FIMMDA reporting platforms.

REGULATIONS IN THE YEAR 2010-11

A. **LISTING AGREEMENT FOR SECURITIZED DEBT INSTRUMENTS:** In March 2011, SEBI put in place the Listing Agreement for Securitized Debt instruments (SDI) issued by the Special Purpose Distinct Entities. Listing of SDI on stock exchanged would help improve Secondary markets for such instruments. Also, the listing agreement provides for continuous disclosure requirements that include pool level, tranche level, and select loan level information that are aimed at enhancing information available in the public domain on performance of assets pools on which the SDI are issued. The enabling framework for listing of such instruments along with the initial disclosure requirements is provided for in the SEBI (Public offer and Listing of Securitized Debt Instruments) Regulations, 2008 notified on May 2008.

B. **REPORTING OF COMMERCIAL PAPERS (CPs) AND CERTIFICATE OF DEPOSITS (CDs):** On July 30' 2010, SEBI directed all its regulated entities to report their OTC transactions in CPs and CDs on the FIMMDA reporting platform within 15 minutes of the trade. This was pursuant to an RBI decision to introduce a reporting platform for all secondary market transactions in CPs and CDs. This circular has been effective since August 16, 2010.

C. Vide Circular dated November 26, 2010, a new category in corporate debt, that is, Long-Term Infra with residual maturity of over 5 years issued by companies in the infrastructure sector was introduced with a limit of USD five billion. In March 2011, SEBI increased the limit of corporate debt Long-Term infrastructure by an additional amount of USD twenty billion, thereby taking the overall limit to USD twenty-five billion for Offshore Derivatives Instruments and Participatory Notes.

D. FIIs were permitted to invest in corporate debt Long-Term infra as per the definition of infrastructure as governed by External Commercial Borrowings policy.

E. The OTC trades in Corporate Bonds for transactions of the value of Rupees one lakhs or above is required to be reported to the Corporate Bond platform either at BSE, NSE, or FIMMDA within thirty minutes of closing the deal.

F. On April 09' 2011, It had been decided to allocate the unutilized limits for investments in corporate debt should also be allocated in similar manner as specified in the SEBI circular IMD/FII & C/37/2009 dated February 06' 2009 providing the modalities for the allocation methodology through the bidding process :

- In partial amendment to clause 3(h) of the aforesaid circular IMD/FII & C/37/2009, no single entity should be allocated more than Rupees Two-Hundred crore of the corporate debt limits.
- In partial amendment to clause 3(c) of the aforesaid circular IMD/FII & C/37/2009, the minimum amount which can be bid for shall be Rupees Two-Thousand crore and the minimum ticket size shall be Rupees Two-hundred Crore.

REGULATIONS IN THE YEAR 2011-12

A. **SHUT PERIOD**: In June 2011, SEBI directed exchanges to do away with shut period for interest payments or for part-redemptions. Further, SEBI directed exchanges to ensure that issuers have a record date not more than 15 days prior to book closure for all perspective privately placed issues of corporate bonds.

B. **STRUCTURES PRODUCTS**: In September 2011, SEBI put in place framework for issue of structured products (In India, these products are issued as debt instruments with returns linked to equity or other underlying assets), like :

- Only issuers that have a minimum net0worth of Rupees 100 crore are eligible to issue such instruments.
- Minimum ticket size for subscribing to such securities is Rupees 10 lakhs.
- Other norms include additional disclosure pertaining to riskiness of such instruments, Scenario analysis showing its value under various market conditions, commission structure embedded therein and requirement for primary issuance and sale of securities to retail investors. Third party valuation of such securities by a credit rating agency has been made mandatory and the same shall be disclosed to public

C. **BAN ON INCENTIVES IN PUBLIC ISSUE OF DEBT:** To prevent the practice of some brokers/distributors who pass on part of their brokerage to the final investor for subscription of public issue of debt which leads to increase in the cost of issuance for the company and the unfair advantage to a certain set of investor. In December 2011, SEBI advised 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.

D. **PARTICIPATION OF MFS IN REPO IN CORPORATE DEBT SECURITIES:** To widen the avenues of investment assets in debt markets, guidelines were issued to enable participation of MFs in Repo of corporate debt securities with the following conditions:

- Only 'AAA' rated corporate debt securities can participate.
- Tenor of the transactions shall not exceed six months.
- Gross expenses shall not be more than 10% of assets of the concerned scheme.
- Details related to such Repos shall be disclosed on half-yearly basis.
- Framework regarding counterparty, its credit rating, tenor of collateral and applicable haircuts in context of transactions would be designed by the Trustees and the Assets Management Company's.

E. **For QFIs investment** in corporate bonds and MF debt securities, GOI has announced a separate sub-limit of USD one billion.

REGULATIONS IN THE YEAR 2012-13

1. **STANDARDISATION OF APPLICATION FORM AND ARBITRAGED PROSPECTUS FOR PUBLIC ISSUE OF DEBT SECURITIES:** In July 2012, SEBI prescribed the structure, design, format, contents and organization of information in the Application Form and Abridged Prospectus so as to provide investors' friendly standardized format and to make it uniform for public issue on debt securities.
2. **ONLINE SYSTEM FOR MAKING APPLICATION TO PUBLIC ISSUE OF DEBT SECURITIES:** In order to reduce the timeliness of the issue process for public issue of debt securities and also to reduce issuer cost while enabling listing of securities in a faster and time bound manner., In July 2012, SEBI issued guidelines in order to facilitate a system for making online applications.
3. To increase the tradability and secondary market liquidity Standardized format for offer Document/Memorandum in Public issue and listing of Non-Convertible debt as well as privately placed debt securities which are listed or proposed to be listed was put in place to facilitate the better understanding and preparation of such documents by issuers as well as to ease investors decision making process.
4. **PROPOSED NOTIFICATION OF REGULATIONS FOR ISSUANCE AND LISTING OF REDEEMABLE NON-CONVERTIBLE PREFERENCE SHARE:** SEBI Board approved the SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013. As in case of SEBI (Issue and Listing of Debt securities) Regulations, 2008, the proposed Regulations provide framework for public issuance of non-convertible redeemable preference shares and also listing of privately placed redeemable preference shares. To reduce risk certain requirements were made mandatory like:

- Minimum tenure of the instrument is 3 years.
- Minimum 'AA' rating or equivalent is required.
- Minimum application size for each investor is fixed at Rupees ten lakhs for listing of privately placed non-convertible redeemable preference shares.
- As per Basel III norms, Banks can issue non-equity instruments such as Perpetual Non-Cumulative Preference Shares and Innovative Perpetual Debt Instruments, which are in compliance with the specified criteria for inclusion in Additional Tier I capital.

The proposed Regulations would also be applicable to aforesaid instruments issued by banks, subject to compliance with the provisions of Compliance Act, 1956 or/and any other applicable laws and such other conditions that may be specified by SEBI and subject to making adequate disclosures and relevant risk factors in the offer document.

5. **INTRODUCTION TO AUCTION CALENDAR:** Vide Circular dated April 27' 2012, it was decided that the auction of debt limits would be conducted on 20th of every month (if 20th is holiday, auction shall be done on the next working day), based on availability of free limits at the end of respective previous month. The auction shall be conducted if the free limit in any category (Government Debt Long-term, Corporate Debt Long-Term Infra) is more than Rupees 1,ooo crore, in the manner summarized below:

Particulars	**Details**
Duration of bidding:	2 hours (15:30 to 17:30)
Access to platform	Trading members or Custodians
Minimum bid	Rupees one crore
Maximum bid	Rupee 250 crore or one-tenth of free limit whichever is higher
Tick Size	Rupees one crore
Allocation methodology	Price time Priority
Pricing of bid	Minimum flat fees of Rupees 1,000 or bid price whichever is higher
Bidding date	20th of every month (if 20th is holiday, auction shall be done on the next working day)
Time period for utilization of the limits	90 days for corporate debt old and corporate debt long term infra category and 45 days for Government debt old and Government debt long term category
Auction platform	Alternatively on BSE & NSE

Source: SEBI Annual Reports 2012-13

6. **FOR FIIS INVESTMENT**

- The corporate Debt Long-Term Infra Category the lock-in period for investment was uniformly reduced to one year while the residual maturity requirements at the time of first purchase were set to 15 months.
- The additional limit for FIIs investment in corporate debt long term Infra category (with one year lock-in and 15 months residual maturity), were allocated through a special auction in July, 2012.
- The time period for utilization of the Corporate Debt limits (for both old and Long-term Infra limits) allocated through bidding process shall be 60 days.
- FIIs/ Sub-Accounts may avail limits in the corporate debt long-term infra category without obtaining SEBI approval till the overall FII investments reaches 90%, after which the auction mechanism shall be initiated for allocation of remaining limits. SEBI will put in place a mechanism to monitor the utilization of the limit.
- An additional limit of USD five billion each was made available under the Government Long-Term category and corporate bond – old (non-infra) category respectively.
- The requirement of 3 years residual maturity under the Government-Long term category was done away with. However, FIIs cannot invest in short-term papers such as treasury bills under this category.

In recent years, multiple committees and reports have looked into the issue of the development of a robust corporate bond market in India, principally:

- Government of India, Ministry of Finance, Dr R.H. Patil Committee 2005. *Report of the High Level Expert Committee on Corporate Bonds and Securitisation.*
- Government of India, Ministry of Finance, Investment Commission 2006.*Report on unified exchange traded corporate bond market.*
- Government of India, Ministry of Finance 2007. *The Report of the High Powered Expert Committee (HPEC) on Making Mumbai an International Financial Centre.*
- City of London report 2008. *The Development of India's Corporate Debt Market.*
- Government of India, Ministry of Finance, Rajan Committee 2008. *The Report of the Committee on Financial Sector Reform.*
- Government of India, Ministry of Finance and Reserve Bank of India, *The Report of the Committee on Financial Sector Assessment*, March 2009.

CONCLUSION

Recommendations of various committees have been implemented by the respective regulators to promote debt market in India. The growth of corporate bond market in India has been aided by existence of a well-developed Government Security market which provides a benchmark yield curve for bond pricing, a well-functioning depository system, credible system of rating agencies and adequate legal framework. Measures, such as, rationalising the listing norms, standardisation of market conventions, reduction in the shut period, setting up of reporting platforms, and implementation of DvP settlement of corporate bond trades have had an encouraging impact on the market resulting in considerable increase in issuance as well as secondary market trading of corporate bonds. Total value of trades (total of BSE, NSE, and FIMMDA trades) has increased from Rupees 1,48,361 crore in the year 2008-09 to Rupees 7,38,632 crore in the year 2012-13. Similarly Number of trades has increased from 22,730 in the year 2008-09 to 66,383 in the year 2012-13.

Government, SEBI and other stakeholders have initiated several measures to develop the corporate debt market. Reserve Bank of India has also taken various initiatives in this regard like Clearing houses of the exchanges have been permitted to have a pooling fund account with RBI to facilitate DvP-I based settlement of trades in corporate bonds, Repo in corporate bonds was permitted under a comprehensive regulatory framework, to promote transparency in corporate debt market, a reporting platform was developed by FIMMDA and it was mandated that all RBI-regulated entities should report the OTC trades in corporate bonds on this platform. Other regulators have also prescribed such reporting requirement in respect of their regulated entities. This has resulted in building a credible database of all the trades in corporate bond market providing useful information for regulators and market participants, etc., but still the corporate bond market in India is nascent. India needs to develop its corporate debt market rapidly to meet the funding needs of its infrastructural development and ensure the momentum of growth of the corporate sector. Debt Market has gained the interest of corporates as well as researchers. SEBI has taken various steps in order to boost the Indian Corporate Debt Market. Corporate Debt Market is very important tool for the growth and development of an Economy. It helps to boost saving and investment of a country and thus it also leads to capital formation in a country, which is very crucial for the growth of an economy. In this article I have studied the various regulatory steps taken by SEBI every year according to the changing needs and requirement of the Corporates, debt market, FIIs, QIP. These changes have resulted in more transparency and disclosure by the corporates and this has resulted into more confidence in Corporate Debt Market. Thus it can be said that the regulatory body SEBI. RBI, and GOI plays very important role in the growth of Corporate Debt Market in India.

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