Policy Issues in Corporate Bond Market in India- Regulator's Perspective

AGENDA

- Need for Corporate Bond Market
- Major developments in Corporate Bonds
- Strengthening of Legal system
- Issues taken up with Other Regulators

NEED FOR CORPORATE BOND MARKET

- Robust corporate bond market can act as a source of stability, during periods of financial stress
- Reduce reliance on bank financing
- Reduce the risk of currency and funding mismatches, particularly for projects with long gestation periods
- Broadening and expansion of the Corporate Bond Market is a pre-requisite to provide for investment in superior quality infrastructure
- Acts as a stable source of finance when the equity market is volatile
- It also helps in the diversification of risks in the system.

MAJOR DEVELOPMENTS IN CORPORATE BONDS: SEBI

May 2008

- SEBI sets up an Advisory Committee named "Corporate Bonds and Securitization Advisory Committee" (CoBoSAC) for making recommendations to SEBI on developing the market for corporate bonds and securitized debt instruments.
- Notification of SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008.

June 2008

- Notification of SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

Feb 2009

- First public issue of non-convertible debt securities under the ILDS Regulations was made by Tata Capital Limited.

May 2009

- SEBI puts in place the simplified listing agreement for debt securities. Issuers with already listed equity have to make minimal disclosures, while issuers of listed debt alone make reasonably elaborate disclosures but less than those required under the equity listing agreement.

Dec 2009

- All SEBI, RBI and IRDA regulated entities directed to clear and settle their trades through the National Securities Clearing Corporation Limited (NSCCL) or the Indian Clearing Corporation Limited (ICCL).

Mar 2010

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

MAJOR DEVELOPMENTS IN CORPORATE BONDS: SEBI

Sep 2011

- SEBI puts in place conditions for issue of structured products such as eligible issuers to have a net-worth of INR 100 Cr, minimum ticket size of issue at INR 1 lakh, disclosures regarding riskiness, commission structure. Third party valuation by a credit rating agency made mandatory and to be disclosed to public.

Jul 2012

- SEBI prescribed the structure, design, format, contents and organization of information in the Application Form and Abridged Prospectus so as to standardize it and to make it uniform for public issues of debt securities.

Jan 2013

- SEBI has provided Guidelines for setting up of dedicated Debt Segment on Stock Exchanges. The debt segment shall offer separate trading, clearing, settlement, reporting facilities and membership to deal in corporate bonds, G-Secs, securitized debt instruments etc. This is a focused approach towards building a vibrant secondary market for debt securities

Sep 2013

- SEBI prescribed risk management framework for dedicated debt segment of stock exchanges.
- prescribed conditions for DVP-3 settlement of corporate bonds by the clearing corporations, thereby guaranteeing the settlement

Oct 2013

- SEBI mandated both depositories to jointly create, host, maintain and publicly disseminate the centralized database of corporate bonds/debentures, which are available in demat form.
- SEBI mandated that the day count convention for calculation of interest payments for listed corporate debt securities shall be Actual/Actual. Cash flows concerning interest payment and redemption of debt securities to be given by way of illustration in the offer document.

Jan 2014

- Certain types of companies allowed to file Shelf Prospectus such as Banks, PFIs, IDF-NBFC etc.
- All trades by SEBI regulated entities in SDI to be reported on exchange reporting platform within 15 minutes.

MAJOR DEVELOPMENTS IN CORPORATE BONDS: SEBI

Jun 2014

- Minimum subscription amount to be 75% of the base issue size. To be disclosed in offer document.
- For public issue of NCDs, issuer to provide granular disclosures with regards to the "Object of the Issue“. Amount earmarked for "General Corporate Purposes", shall not exceed 25% of the amount raised by the issuer .

Jan 2015

- Amendment to ILDS Regulations to enable consolidation and re-issuance of debt securities.
- Amendment to ILDS Regulations to enable right to early redemption by way of puttable and callable bonds.

April 2015

- Amendment to SDI Regulations, incorporating the following two provisions:
  - Standardized Term Sheet
  - Framework for regulating securitisation trustees

July 2015

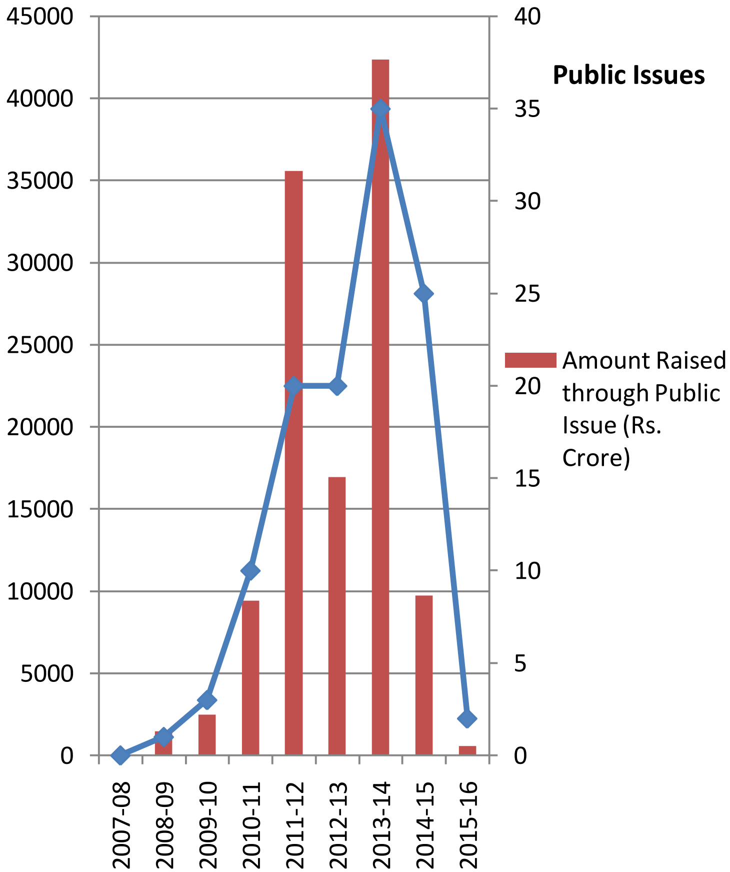
- SEBI notified regulations for Issuance of debt securities by municipalities. i.e SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015.

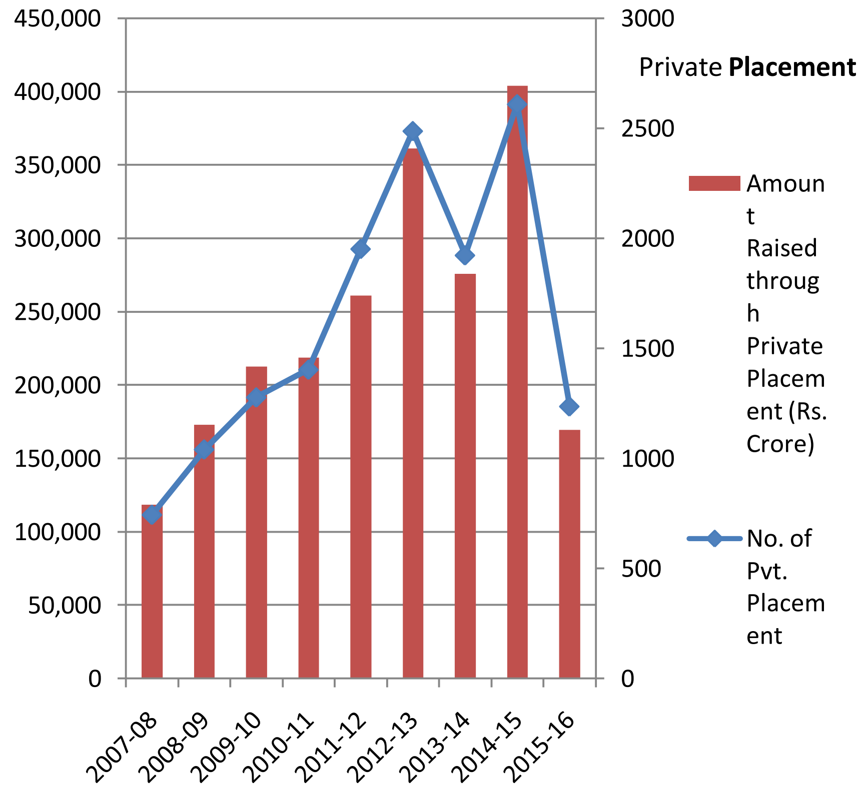
CORPORATE BOND MARKET: ISSUANCES

Financial Year	No. of Public Issues	Amount Raised through Public Issue (Rs. Crore)	No. of Pvt. Placement	Amount Raised through Private Placement (Rs. Crore)	Total Amount Raised through Public Issue and Pvt. Placement (Rs. Crore)
2007-08	0	0	744	118,485	118,485
2008-09	1	1,500	1041	173,281	174,781
2009-10	3	2,500	1278	212,635	215,135
2010-11	10	9,451	1404	218,785	228,236
2011-12	20	35,611	1953	261,283	296,894
2012-13	20	16,982	2489	361,462	378,444
2013-14	35	42,383	1924	276,054	318,437
2014-15	24	9,422	2611	404,136	413,558
2015-16*	2	577	1237	1,69,544	1,70,121

*Upto July 31, 2015

Corporate Bond Market: Growth in Issues

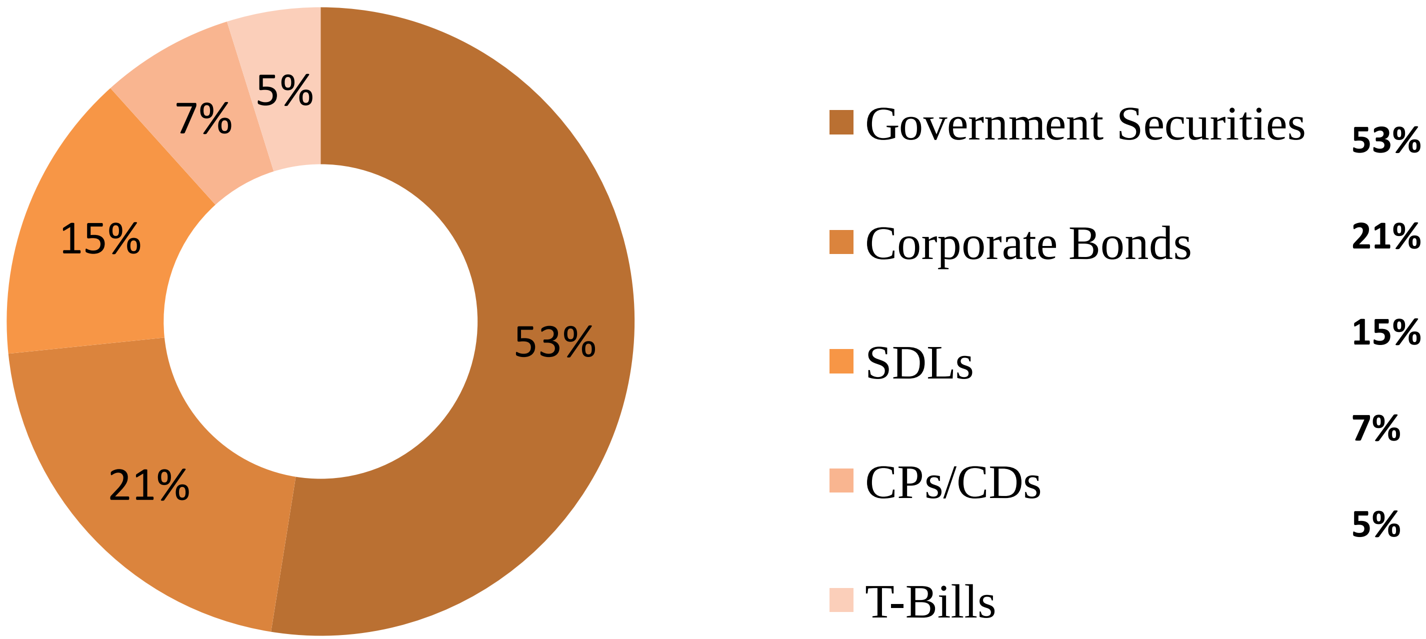




July 31, 2015

COMPOSITION OF INDIAN DEBT MARKET

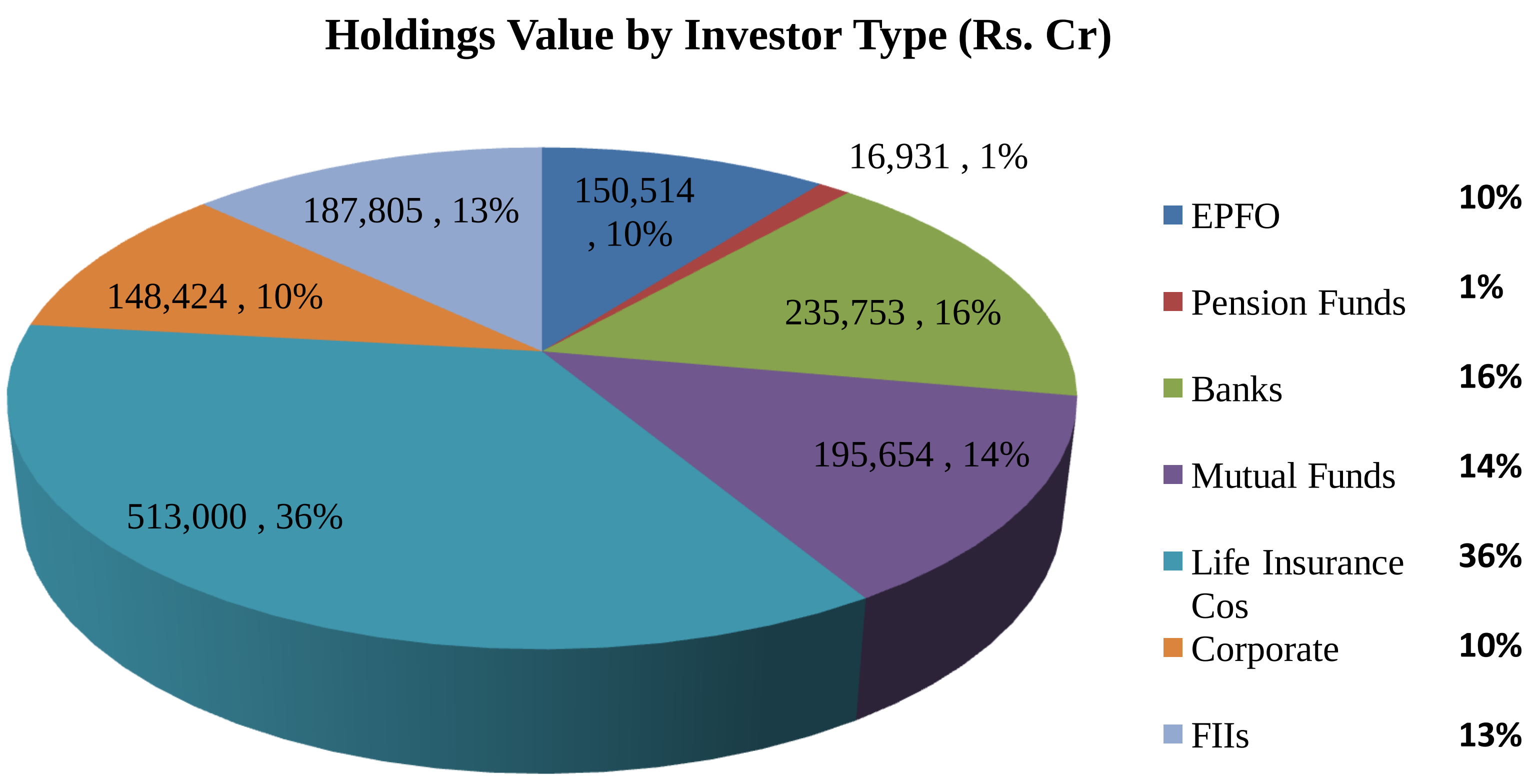
Composition as on March 31, 2014



Total Outstanding: **INR 70,40,547.3 Crores**

Source: CRISIL

INVESTOR-WISE HOLDINGS



Source: CRISIL

Sector-wise Summary of Primary Issuances

	Amount in Rs. Crore							
Sector	**FY2012**	**%age**	**FY2013**	**%age**	**FY2014**	**%age**	**FY 2015**	**%age**
Financial Institutions and others	113,520	45%	109,425	31%	82,434	30%	127,892	30%
Housing Finance Companies	36,367	14%	57,850	16%	55,106	20%	73,938	17%
Private – Non-financial Sector	26,946	11%	60,473	17%	43,291	16%	79,864	18%
NBFCs	26,697	11%	45,777	13%	38,774	14%	64,957	15%
Public Sector Undertakings	27,176	11%	39,851	11%	31,784	12%	31,219	7%
Banks	14,974	6%	24,495	7%	14,388	5%	47,881	11%
State-Level Undertakings	4,184	2%	8,584	2%	3,686	1%	5,207	1%
State Financial Institutions	1,575	1%	5,394	2%	1,482	1%	1,733	0%
Grand Total	**251,437**		**351,848**		**270,946**		**432,692**	

Source: Prime Database

RATING-WISE ISSUANCES: PUBLIC ISSUES

Rating	FY11	%age	FY12	%age	FY13	%age	FY14	%age
AAA	8,290	88%	24,785	70%	12,210	71%	31,352	74%
AA+	661	7%	5,693	16%	2,401	14%	4,796	11%
AA	500	5%	1,775	5%	1,169	7%	3,305	8%
AA-			3,098	9%	1,461	8%	2,334	6%
A+							400	1%
BB+							196	0%
Total	**9,451**		**35,351**		**17,242**		**42,383**	

Source: *CRISIL*

The market depth for public issues has gradually increased over the period as NCDs Issuers with lesser notch ratings have been able to raise funds.

Developments in Corporate Bonds Market: Other Regulators

- RBI allowed repo on corporate bonds for maturity of less than 1 year
- Eligible securities in repo in corporate debt relaxed from AAA to AA
- Permitted FIIs to use corporate bonds (AA rating and above) and G-sec as collateral to meet margin requirements
- SEBI allowed MFs and IRDA allowed insurers to participate in CDS transactions as protection buyers
- EPFO allowed investment in debt of 15 private sector companies against 7 earlier
- IRDA permitted life insurers to invest in housing and infrastructure bonds, with ratings of AA and above
- EPFO extended tenure of investments in AAA rated paper of public sector units (PSUs) to up to 25 years and for AA rated PSUs up to 15 years
- RBI issued guidelines on setting up of IDFs by banks & NBFCs
- IRDA has allowed Insurance Companies to take the Proprietary Trading Membership (PTM) of stock exchanges for trading in debt segment.
- On Feb. 03, 2015, RBI has permitted bonds issued in India by Multilateral finance institutions like IFC, Asian Development Bank, African development bank, as eligible underlying for repo in corporate debt securities.
- On May 14, 2015 , RBI had allowed govt companies u/s 2 (45) of Cos Act, 2013 which adhere to prudential norms prescribed for NBFCs , to undertake ready forward contracts in CDS

Developments in Corporate Bonds Market: Other Regulators

- MOF notifies the new investment pattern for Non-Government Provident Funds, Superannuation Funds and Gratuity Funds with effect from April 1, 2015. For the first time, a minimum investment limit in terms of percentage of corpus is prescribed for types of instruments, including minimum 5% investment for equity/ equity related instruments.
- MOF has proposed the constitution of BGCI along with ADB as a partner
- RBI allowed banks to issue long-term bonds (LTBs) for lending to long-term projects in infrastructure sub-sectors, and affordable housing. Subsequently, RBI also allowed banks to invest in long-term infrastructure bonds issued by other banks.
- RBI liberalized the bond markets by permitting companies to sell rupee-denominated bonds in overseas markets.
- RBI liberalized the private placement regime for NBFCs, subject to certain conditions.
- RBI provided banks an additional limit of 10% of their investments in non-SLR securities as on the end of previous fiscal, to invest in unrated bonds of companies engaged in infrastructure activities within the overall ceiling of 20%.

STRENGTHENING OF LEGAL SYSTEM

- Robust bankruptcy laws required (SARFAESI Act). The applicability of SARFAESI Act may be made enhanced and made available to Debenture Trustees in the interest of investors of corporate bonds.
- Uniformity in Stamp duty on bond issuances across different states.
- Clarity in taxation , Stamp duty and incidence of duty on registration in Securitization.
- Finance Minister has proposed the introduction of a comprehensive Bankruptcy Code in fiscal 2015-16, that will meet global standards and provide necessary judicial capacity.
- In Union Budget for 2015, Finance Minister has proposed that NBFCs registered with RBI and having asset size of Rs. 500 crore and above will be considered for notifications as ‘Financial Institution’ in terms of the SARFAESI Act, 2002.

ISSUES TAKEN UP WITH OTHER REGULATORS

- SEBI has written to RBI to allow primary dealers (PD's) to act as market makers and provide funding to PDs to act as market maker.
- SEBI has written to RBI to allow reporting of trades in Commercial Papers (CP) and Certificate of Deposit (CD) on exchanges.
- SEBI has written to RBI that RBI regulated entities may be mandated to trade in corporate bonds on exchange.
- SEBI had requested RBI to consider enabling trading members in the debt segment of stock exchanges to borrow funds from banking channels and money markets to provide market making in the corporate bond market.
- SEBI had written letters to PFRDA, IRDA, EPFO requesting them to consider relaxing some of the restrictions on investment in corporate bonds and allowing them to seek membership of the institutional market of the dedicated debt segments of stock exchanges.

Thank You

Bond Guarantee Corporation of India (BGCI)-(1)

- A non-government/quasi government entity with 51% stake for the private sector
- Proposed to have net worth of Rs 5000 crores
- BGCI itself to have a AAA rating to enhance credit quality
- BGCI shall underwrite bonds issued by Public and private sector for a fee
- Proposing to rope in ADB as a partner
- Objective to enhance ratings to attract investments from insurance and pension funds
- Capital Structure of BGCI
  - Equity-25% of which govt will hold less than 48%
  - Half Cap through Subordinate Debt from PFIs at concessional rates
  - Remaining Cap in form of Callable Capital

Bond Guarantee Corporation of India (BGCI)-(2)

- Initial Offering of Credit Enhancement Products
- Partial Guarantee Support at lower fees to boost ratings of long term products
- Credit enhancement to bridge gap between low rated papers and long term investors
- Pvt Sector to benefit from limited investment
- Govt’s burden in the vent of non-viability
- For long term viability of BGCI, prudent exposure limits and adequate capital a necessity.
- Guarantees proposed to be offered to investment grade firms, initially towards infrastructure sector