

FIMCIR/2018-19/011

July 16, 2018

To : All FIMMDA Members

Dear Sir/ Madam,

Reg: **Encouraging secondary market in Debt securities.**

As members are aware, SEBI constituted a Corporate Bonds and Securitisation Advisory committee(COBOSAC). Sri. H. R. Khan, former Dy. Governor is presently the Chairman of the committee. In it's last meeting held on 15th May 2018, SEBI Chairman Sri. Ajay Tyagi addressed the members and sought to know the ways to develop Corporate Bond in secondary markets.

The committee discussed steps to be taken for such development and the deliberations are as under:

“Encouraging secondary market for debt securities.

BSE made a PPT on the current trading and reporting platforms of the stock exchange wherein a discussion took place that the privately placed corporate bonds are presently 100% traded in the OTC market but are mandatorily settled through the clearing corporation of the stock exchanges. Further, even the CPs/CDs are not presently traded on the stock exchange platform but are settled through the clearing corporations.

The PPT indicated that presently, there are two trading platforms on the stock exchanges (a) Dedicated Debt Segment (DDS) (b) Capital Market Segment. DDS comprises of trade reporting platform and order matching platform. It was impressed upon the house that trading in publicly issued corporate bonds happen in the capital market segment only and no trade has ever happened in the DDS. The viability of DDS and further improvement to be made to the DDS to make it more vibrant and liquid was left open for discussion and suggestion.

A PPT was made by NSE explaining how it would be a replication of OTC trade on the exchange platform and how it will aid in bringing about transparency in the secondary market as instead of executing trades bilaterally over the phone, quotes would be requested from a wider set of investors and the most effective price would be agreed upon.

The following suggestions were made by the committee on this agenda item:

- i. For both the stock exchanges viz BSE and NSE, the retail segment for trading in corporate bonds to be discontinued from the DDS and made available only in the capital/cash market segment of the stock exchanges.
- ii. CPs/CDs may be included in the list of eligible instruments to be traded, reported and settled on the dedicated debt segment of the stock exchange.
- iii. Additional entities such as NBFCs, HFCs and listed corporates satisfying certain minimum criteria may be permitted to take membership of the DDS of the stock exchanges. It was also opined that AMFI may be requested to encourage all the mutual funds to take membership of the segment and the sectoral regulators may also nudge their regulated entities to take membership of the dedicated debt segment.
- iv. RFQ may be introduced on the reporting platform.
- v. Face value of corporate bonds may be standardized and lot size may be reduced.”

In view of the above, it was desired that the regulated entities may be encouraged to take membership of the Dedicated Debt Segment on the stock exchanges in order to encourage secondary market for debt securities. We understand that RBI has already issued instructions in this regard.

We urge you to do the needful. If you have any regulatory or technical issues relating the membership, please let us know so that we may take up the matter with the exchanges/Regulators suitably.

Yours Truly,

(D.V.S.S.V.Prasad)
Chief Executive Officer.