

Dear Members of FIMMDA,

20<sup>th</sup> September 2017

On behalf of the Board of Directors of FIMMDA and on my own behalf, I extend a warm welcome to all of you at the 19<sup>th</sup> Annual General Meeting of our association.

The Directors report for the year 2016-17, and the related profit& loss statement and balance sheet were sent to the members, and with your permission I shall take them as read.

During our Annual Conference at Sydney, the developments in the market as well as the activities undertaken by FIMMDA till 31<sup>st</sup> March were elaborated. Therefore I will now talk about the developments that have taken place after the event on 14<sup>th</sup> April 2017.

### **Global Developments**

Globally, tensions between North Korea on the one hand, and US, South Korea and Japan on the other, have grabbed headlines in recent months. As the North Korean regime has tested ever more dangerous weapons, accompanied with a belligerent rhetoric, global financial markets have watched and waited with bated breath the reaction from the world's most powerful country. Thankfully till now the actions being talked about have been limited to non-military ones, but we can definitely not be complacent about how this will turn out. If military hostilities do break out, we will surely see a reaction in financial markets.

The other notable has been the behavior of inflation across major economies. In April, inflation numbers had shot up sharply across these economies and had prompted some hawkish commentary from most Central Banks. But now, the whole premise of the return of inflationary pressures has crumbled, and we have seen some adjustment in comments from central banks and the markets. So the futures market no longer expects the US Fed to hike rates till March next year. ECB has indicated that a new QE plan for 2018 may be announced in October, while BOE MPC also voted 7-2 to hold rates. For the latter, since then a number of hawkish comments have been made, and now futures markets are pricing in a hike in October this year.

US yields have once again given hopes of an up move after signs that the Trump administration was looking for support for their tax reform plans across the aisle, after multiple attempts to get enough support from Republicans failed. So the 10yr yield has once again moved up to 2.20%, still far from the post election highs of 2.63%.

On the FX front, Dollar has suffered from these events, especially against the Euro, which has gained as some EU economies have shown signs of a pickup. China's economy also showed signs of strength since April, and we saw the impact on both the Yuan as well as Chinese forex reserves which started to rise in 2017 for the first time since peaking in 2014. But once again, we are seeing some early signs that the Chinese recovery may be faltering once again. It would be very interesting to watch these developments in the coming months.

## Domestic Developments

In India, RBI MPC finally cut the policy rate by 25 bps, but maintained its neutral stance which has disappointed the bond markets. Since then inflation has started to move up mainly due to higher prices of certain vegetables with high weights in the basket. There has also been some impact of the HRA implementation, as well as GST on services part of the CPI, which has pushed up core inflation. On the other hand, GDP growth collapsed to 5.7% YoY in Q2 FY18. Overall GDP growth has remained dependant on government spending, with little enthusiasm seen in the industry to go for capital expenditures.

**Activities at FIMMDA:** Moving on, I will now touch up some of the other market related developments and FIMMDA's activities since Sydney:

As always, regular meetings and Con-Calls are being held with market participants on important matters affecting the functioning of the markets and the synopsis is referred to RBI/Ministry Officials wherever required.

- 1. Code of Conduct for usage of NDS-OM :** DRC is working very well to stop erroneous trades on the NDS-OM platform as well as for reported deals. During April- September 2017, 6 cases worth Rs 1.11 Crores were solved by DRC. The no. of cases and amount has reduced considerably over a period of time. But I take this opportunity to ask our trading community to be more careful and avoid erroneous trades rather than having to settle them through DRC. A new DRC committee will be formed shortly to take up matters for the year 2017-2018 (Oct-Sept).
- 2. Financial benchmarks India Pvt Ltd:** FBIL, the joint venture with FEDAI and IBA has started publication of Certificate of Deposit and Treasury Bill rates wef 23<sup>rd</sup> August 2017. Both the benchmarks give 7 points of reference, 14 day, 1, 2, 3, 6, 9 and 12 months. They are also working on MIFOR, Market Repo rates, etc.
- 3. Code of Fair practices:** In deference to the advice from RBI, we formed a subcommittee of the Board to formulate a Code of Fair practices for debt markets. We had a series of discussions, as well as inputs from RBI, and finalised the code. The same will be shortly circulated to all the members and we expect the members to confirm adherence to the Code by their respective institutions.
- 4. CP Operational guidelines:** RBI issued Directions on Commercial paper(CP) on 10<sup>th</sup> august 2017. FIMMDA again held many rounds of discussions with the IPAs and finalised the operational guidelines. A revised circular is being circulated to all the members for their compliance. These guidelines will apply to all stake holders, Issuers, investors, IPAs etc.
- 5. Uniform Valuation methodology:** As per the recommendations in the Khan Committee report, SEBI had called FIMMDA and AMFI for discussions to have uniform methodologies for valuation of Corporate Bonds. We had 5-6 rounds of talks amongst FIMMDA and Crisil-ICRA teams for achieving the objective. The last meeting was held on 7<sup>th</sup> September 2017 and we expect SEBI to take it forward. The intention is to have uniform valuation for securities across the financial sector.
- 6. Corporate Bond Methodology:** In continuation of our efforts to bring in improvements, we are working on security level valuations and formed a core group to assist us. We are also simultaneously working to start publication of daily spread matrix for Corporate Bond valuation.

7. **Interest rate Options:** RBI issued their guidelines circular on Interest Rate Options. After prolonged discussions with market participants, we submitted to RBI our recommendations. As per the current guidelines, options only on traded Government Securities will be possible where interest rate futures already exist. Members strongly felt that more activity can take place if swaptions are permitted.

**Our future activities:** Some of the important areas are :

1. Interest rate options will be our next point of action and we'll try to bring in the product to the market as soon as possible.
2. Revision of Operational Guidelines on Certificates of Deposit.
3. Benchmarks of MIOIS, MIOCS, INBMK need to be streamlined, and we are in touch with FBIL, CCIL and Reuters in this regard.
4. Corporate Bond Matrix to be extended on a daily basis.

**Acknowledgements:**

I thank the Ministry of Finance for talking to the association on all important matters. We thank the Senior officials of SEBI, IRDA, PFRDA for consulting the association on matters of importance.

I also take this opportunity to express my deep gratitude to Dr. Viral Acharya who agreed to address our members in January 2018. I thank all the Senior executives and officers of RBI with whom FIMMDA worked closely for the betterment of the markets we represent.

I am thankful to CAFRAL, IIBF, Dun & Bradstreet for their role in providing knowledge, training and insights for our members.

My sincere thanks to CCIL and CDSIL for their help and assistance in interactions with our members and successfully running NDS-OM /Call platforms for our members.

My sincere thanks to the service providers M/S Thomson Reuters, M/S Bloomberg, M/S Cogenesis with whose help our member institutions function on a day to day basis.

I am thankful to our sister associations FEDAI, AMFI and IBA who are associated with our activities. I would like to thank and appreciate the services rendered by my esteemed colleagues on the Board and all employees of FIMMDA Secretariat for the efforts put in by them in keeping the association strong and responsive to the needs of the markets and its participants.

I thank each one of you for taking active part in the activities of the association and for attending this afternoon's AGM.

Before I conclude, I request all of you to continue to actively participate in FIMMDA's activities to take it to greater heights.

I WISH YOU ALL SUCCESSFUL, PROFITABLE AND SAFE MARKETS IN THE COMING DAYS.

Thank You