Speech of Mr SK Dubey, Chairman PDAI at 18 th FIMMDA- PDAI Annual conference at Sydney 14-15 April 2017

Mr **H R Khan**, Senior Advisor, KPMG & Ex- Dy. Governor, Reserve Bank of India , Other **dignitaries** from the Reserve Bank of India, **fellow board** members from FIMMDA and PDAI, friends and colleagues from the industry, Ladies and Gentlemen.

I welcome you all to the 18 th FIMMDA – PDAI annual conference which is very aptly titled "Playing Our part in India's Future – Financial Markets." This conference comes at a time when we close the year FY 2016-17 and prepare for the year ahead.

Financial markets in India have evolved, as has the related regulatory framework, historically in the context of a primarily bank-dominated financial system. Only after the financial reform process was initiated in the early nineties and the regulation of banks started getting aligned to the international best practices, gradually different market elements were introduced as part of the market development agenda. This agenda focused, first and foremost, on putting in place the requisite market microstructure in terms of institutions, technology, market participants and appropriate regulations.

Since then the market has grown by leaps and bounds. In the development process, the welfare commitments of the Indian state had to be supported by a large government borrowing program. The outstanding marketable government debt has grown from Rs 4 lac thirty thousand crore in 2000-01 to about Rs 48 lac crore in 2016-17. The size of the annual borrowing of the central government through dated securities has grown from Rs 1 lac crore to Rs 5 lac 80 thousand crore during this period. It is no mean achievement to manage such large issuances in a non-disruptive manner in the post Fiscal Responsibility & Budget Management (FRBM) regime and declining SLR.

A large number of initiatives have been taken over the years. One such major initiative was the establishment of Primary Dealers in 1996. **PDs** were formed in India to act as catalyst to develop an active market in G-Secs (Government Bonds or Securities). PDs are responsible for providing liquidity in the market in their role as market makers and also to act as underwriters for public debt. This has ensured that there is an active continuing market for G-Secs in the country. The Primary Dealers' presence in the Government Securities market has brought about an element of dynamism, both in the primary and secondary segments. **Though the overall borrowing has increased manifold, the Govt. could borrow the same in a non-disruptive manner at a relatively lower cost while elongating the maturity profile.** In the more recent times, there is further focus on increasing the range of maturities. The sovereign yield curve now spans up to 40 years. Primary market issuances have increased resulting in large benchmark issuances. The volumes in secondary market have also surged. The positive thing being that the bid-ask spread of on-the-run securities continues to be low and so are impact costs. In case of corporate bonds too, trading volumes have increased but still lag in comparison with global peers. This is where the role of Primary dealers has become ever more essential. The RBI has been facilitating the operation of Primary Dealers through a variety of measures.

Over more than a decade, the Reserve Bank initiated financial sector reforms have seen active participation of the Government, market bodies like FIMMDA, PDAI and market participants. Specifically in the area of debt markets, these achievements include the introduction of NDS-OM platform, setting up of CCPs like CCIL, introduction of short sale/When-Issued market (WI), repo in G-

Sec/Corp bonds, Trade Repository (TR) for OTC derivatives, etc. and most recently the introduction of 6 year & 13 year IRFs and electronic trading platform for IRS.

As a result, **India's Government securities market -** by whatever criterion – is as developed as any other emerging market. It compares favourably with many advanced economies as well; despite its thin investor base, in terms of instruments, transparency, trading and settlement systems and liquidity, the government securities market has grown in a big way. As we look beyond Govt. securities, we can see that the year that has gone by brought about numerous changes in the **corporate bond market** as well which include proposals for raising the Partial credit enhancement ceiling, allowing masala bonds for infrastructure funding, allowing corporate bond for repo, facilitating direct trade in corporate bonds for FPIs, allowing brokers in corporate bond repo, etc.

But there is still much to do. There are many issues with the existing products which we need to address. I will take this opportunity to highlight those **issues and measures under consideration** within the Reserve Bank of India towards the next phase of reform. The role market bodies like FIMMDA, PDAI and market participants can play in making the market robust, efficient and liquid, could also be important.

- There is a need to **consolidate issuances** and have a higher threshold of outstanding for each bond so that more bonds become liquid. Out of nearly 87 Govt. securities that are outstanding currently, only around 50 securities have an outstanding of more than Rs 50,000 Cr. Buyback and switches within the same maturity bucket could also be planned actively by the RBI and the government to help remove kinks in the curve and help create liquidity across the entire curve.

- We need to create the right incentives and at the same time **remove barriers that constrain the participation of traders**. The recent ‘short squeeze’ in the gilt market strains the market making activities of the primary dealers. We appreciate that markets may have divergent views but the markets may get fractured and dysfunctional if the normal lending and borrowing of funds and securities is hampered.
- In view of the large issuances of **SDLs and constraints** in the re-issuances, staggered issuances across maturities can be considered as a possible option for better price discovery/liquidity in the SDL market.

Discussion on such challenges faced by the fraternity of financial market will bring forth many views. There could not have been a better timing or better place than this beautiful city of Sydney.

PDAI works closely with RBI by giving suggestions/ feedback on issues associated with government borrowing program, auction calendar, underwriting and other related issues. PDAI has in the past many years functioned as a very effective link between RBI on one hand and the market participants on the other. Together with FIMMDA, our endeavor has been that there is adequate representation on developmental efforts that need to be addressed like new products, streamline existing processes and sometimes even over suggestions on conduct of money market operations as and when it is sought for by the regulator. PDAI ensures that the industry is well represented in RBI deliberations and also in FIMMDA’s response or suggestions to RBI.

PDAI's persuasion on various issues for market development and streamlining process were accepted by RBI. These developments were not only aimed at benefit of PD industry but also for wider market participants. The year 2016-17 has been a **stellar year** in numerous ways. **Starting from the ample liquidity in the system fueled by global events, benign inflation and 'Demonetisation' to umpteen reform proposals brought about by the RBI in the corporate bond market, introduction of Interest rate options, money market futures, increasing retail participation by providing them web access etc , it has been a special year of development.**

On behalf of PDAI, I would like to **thank the RBI** for periodical meetings which have provided opportunity to us to discuss our issues as also a forum for appropriate guidance to the members.

I do hope this conference will go a long way further in benefitting the participants.

Thank You.