FIMMDA-PDAI 18th Annual Conference 2017

Good Morning Ladies and Gentlemen,

I am pleased to welcome you all to the 18th Annual FIMMDA-PDAI Conference being held in Sydney, the commercial capital of Australia. To Indian's of-course the most well known attraction of this city would be the Sydney Cricket Ground (SCG). But Sydney is also known for many other attractions like the Sydney Harbour Bridge, Opera House and the Sydney Tower. We'll be visiting these attractions tomorrow. Sydney is known for the World's largest natural harbour, and is the also most populous city in Australia (population of 5 million), which is not saying much for those coming here from Mumbai.

India and Australia share trade relations since the late 18th century. We saw bi-lateral trade between the two countries touch $18 bn in 2011-12, but it has since fallen to $12 bn due to the fall in commodity prices. India and Australia are also both part of G20. Australians are known as a sport loving people, and its long dominance in Cricket is something every Indian is aware of. Right now also we have many Australians playing in the Indian Premier League in India.

Before I move on to FIMMDA's activities, I would like to extend a warm welcome to our Chief Guest Mr HR Khan, Senior Advisor to KPMG, and ex Deputy Governor of the Reserve Bank of India. Mr Khan's seminal contributions to the management of Foreign Exchange markets through some turbulent times during his tenure as the Deputy Governor in charge of Foreign Exchange Markets is well know. He has also played a massive role in the development of Indian corporate bond market. RBI has already accepted most of the recommendations made by a Working Group headed by Mr Khan. I welcome you Sir.

A warm welcome also to all the delegates from various banks and other Financial institutions present today.

Other Welcomes......

I now wish to apprise you of the association's activities after we met at the last Conference in London.

1. **Dispute Resolution Committee:** A new 11 member committee has been constituted and is operating as the DRC from 1st October 2016. In FY17, the DRC received about 28 references and managed to avert losses of Rs 9.1 Crores. We are thankful to RBI for giving us this opportunity. I thank the DRC members for their excellent contribution. But we as community should be more diligent in our affairs and avoid erroneous trades rather than attempting to resolve the same. This is also our theme of the Conference, playing our part in financial markets.

2. **Financial Benchmarks India Pvt Ltd**: FBIL added one more benchmark during the course of this financial year by taking over Forex option volatility polls wef May 2016. FBIL is working on the CD curve, Repo rate Curve and will shortly demonstrate to market these

methodologies for their views. FBIL will have its own CEO and staff shortly. As you are aware, entire FBIL work was looked after by FIMMDA till now.

3. **Pre policy consultations & Finance Bill**: As usual, RBI holds pre-policy consultations with FIMMDA to know our views on the market and our requests. We continue to take up issues with RBI for the development of market activities with particular reference to debt markets. Many of our suggestions are accepted by the Regulator and we thank RBI for indulging our demands.
4. **Waiver of deal confirmations for CD, CP, Corp bond repo etc**: After the last conference, multilateral agreement for waiving the physical exchange of deal confirmations was finalized and executed by as many as 89 RBI regulated entities. They are no more required to physically exchange the deal confirmations. However, the other regulators are yet to permit their respective regulated entities to sign the multilateral agreement. We request the delegates from other regulators like SEBI to expedite the permissions.

5. **Khan Committee recommendations:**

Holiday convention for corporate bonds: The holiday convention being followed for corporate bonds for dealing with interest payments and redemption falling due on holidays was at variance with that followed for Govt securities. FIMMDA held discussions with the market participants and suggested changes in SEBI regulations. We are glad to inform that SEBI accepted our suggestions and issued revised guidelines which are in tune with the Govt securities market.

Uniform Valuation methodology: We had meetings with SEBI, AMFI and some insurance cos on arriving at the Uniform valuation methodology for Corporate Bonds. Two rounds of discussions have taken place. We expect further progress on this issue during this fiscal.

6. **Automation of Valuation of Government Securities**: Methodology for valuation of Govt securities is a complex process evolved over years. The entire process has to be completed as quickly as possible after the market closes at 5:00 p m so that valuations are available to the investors for day end valuation of their portfolios. The automation of this process was successfully completed in May 2016. Once the methodology for valuation of State Loans is approved by RBI, the same will also be automated.
7. **Valuation of Corporate Bonds:**

   FIMMDA follows a poll based spread matrix for valuation of corporate bonds. The calculating agent is CRISIL. The methodology and the problems faced in giving valuations are discussed in the monthly Valuation committee meetings and the process undergoes changes. With extensive consultations with market participants, we have brought in more robustness and transparency to our methodology. Our detailed methodology is published on FIMMDA website thereby implementing one of the recommendations of the Benchmarks Committee. FIMMDA methodology includes traded levels where available and the rest are based on Polls from the RBI regulated entities. The list of submitters is now 21 and the same is revised periodically based on secondary market data. The polls are also subjected to standard deviation and removal of out layers .The matrix is now published on fortnightly basis (twice a month).

Due to the differences between the ratings given by various rating agencies and the market perception of the issuers, valuation based on 'one rating - one spread' principle has seen criticism. In its endeavor to find an alternative methodology, to make the Corporate Bond valuation more robust and realistic, FIMMDA formed a sub-committee which has zeroed in on a scrip wise valuation methodology. The valuation obtained as per that methodology is back tested as of August 2016 with the actual traded data. The exercise is delayed because of the incorrect trade data, especially the traded yield, published by the exchanges. We recently sought data as at end February 2017 and are hopeful that the back testing exercise will be over in a short time and FIMMDA will be able to publish scrip wise valuation of corporate bonds at least for AAA and AA+ rated bonds to start with. FIMMDA acknowledges the contribution made by various member banks in this.

8. **Interest Rate Futures:** After the success of single Bond cash settled futures, more bonds have been added and presently there are seven Bond futures that are being traded on the exchanges.

9. **Interest rate Options:** RBI has permitted trading in Interest Rate Options from 31st January 2017. FIMMDA has been entrusted with the task of identifying the underlying and prescribing the operational guidelines. Several meetings were held with the market participants and CCIL in this regard. Further requirements from RBI for successful launch of the product were identified and sent to RBI for consideration. Once the issues are addressed, IRO can be traded in OTC as well as on Exchange platforms.

10. **Training programmes:** During April'16 till 31st March 2017, we have conducted 11 training programmes benefitting 184 participants from member as well as non-member institutions.

11. **Road map for implementation of Ind-AS**: The working group set up by RBI for implementing IFRS (Ind-AS) in the country identified FIMMDA as a neutral and reputed organization for giving valuations for various categories of investments. At the instance of RBI, FIMMDA formed Ind-AS committee to discuss and suggest valuation methodologies consistent with IFRS. The committee met several times and finalized recommendations for valuing State Loans and Treasury Bills based on traded levels. The same has been discussed in the FIMMDA board and recommended to RBI for consideration.

12. **Regular Bi-monthly meetings with IDMD/FMRD**: We are glad to inform that RBI restarted the practice of regular/bi-monthly interface with the market participants which resolves many issues and helps RBI to understand the market pulse. A meeting was held at RBI on 27th January 2017 and various issues like uniform timings for various market segments, IRO, settlement date accounting, corporate bond valuation, etc were discussed.

13. **Visit by Officials of Bank of Mauritius**: Officials from the Central bank of Mauritius visited FIMMDA to understand our role and

responsibilities.

14. **ISDA meet:** We held a training programme/awareness meet on mandatory margins which was well attended by market participants.
15. **FIMMDA Code of Conduct:** Going ahead, FIMMDA is also in the process of preparing a code of conduct for Indian markets. We already have a code of conduct which is binding to all the users of NDS-OM and the counterparties to all the OTC transactions. But it is more in line with operational guidelines. We are going to come up with a more comprehensive ethical code of conduct for Indian markets.

The Theme for today's conference is "**Playing our part in India's Future – Financial Markets**". The role of Financial Markets in the healthy and sustainable development of any country is well known. Compared to many countries in similar stage of development, Indian Financial Markets are relatively well-developed, albeit with some exceptions. But as the Indian economy continues to grow, financial markets will need to continue to evolve to address the requirements of our economy. This evolution could require the development of some new, even unique products; one of the panel discussions today will try to address the issue of reigniting interest in new products. At the same time, Indian regulators will have to continue to ensure that India has a robust regulatory environment, which not just does not constrain its development, but also facilitates it. Some of these issues will be touched in another panel discussion today. Finally, we have a panel of eminent Indian economists who will be discussing the global economic outlook and its impact on India. I'm really looking forward to hearing and participating in the various deliberations today.

Though we are still in our teens (18th year), we have come a long way and the way forward from here for the FIMMDA and PDAI members is to take up the challenge of developing the Corporate Bond and Derivatives Market through regular interface with market participants, regulators and the Government of India.

I once again extend a hearty welcome to you all, and wish that with your active participation in the Conference today and all the Networking Opportunities before, during and after the conference, we will all return to our desks richer in mind, body and spirit.

I wish you all best of times in this beautiful City, Sydney.