DEBT MARKET

5.65 The Indian debt market has two segments, viz. Government securities market and corporate debt market.

Government securities market

5.66 The fresh issuance of Government of India (GoI) dated securities in 2007 amounted to Rs. 1,62,000 crore as compared to Rs. 1,47,000 crore in 2006. The market capitalization of GoI securities increased from Rs. 11,31,558 crore at end-2006 to Rs. 13,18,419 crore at end-December 2007. The zero-coupon rate on one-year bonds, which ranged between 6.11 per cent and 7.29 per cent during 2006, edged up during 2007 to the range of 6.78 and 8.07 per cent. Similarly, the range of zero-coupon rate on 10-year bonds showed an increase from 7.2-7.97 per cent in 2006 to 7.5-8.37 per cent during 2007.

Corporate debt market

5.67 As in the past, private placements appear to have dominated the mobilization of resources in the corporate primary debt market. The yield rate on corporate debt papers (with AAA rating) for five-year maturity ranged between 7.26 per cent and 8.45 per cent in 2005-06, 8.43 per cent and 9.44 per cent in 2006-07, and 9.19 per cent and 10.80 per cent in 2007-08 (April-December). Figure 5.5 gives the comparative yield rates on zero coupon GoI Bonds and Indian Corporate Debt Papers (AAA rating) during 2007. The market capitalization of corporate bonds which was Rs. 49,155 crore at end-December 2006 rose to Rs. 68,074 crore at end-December 2007.

Policy and Regulatory Changes

5.68 During 2007, several policy initiatives relating to the capital market were taken. The salient developments in the primary and secondary markets, as well as FII investment and mutual funds are delineated below.

Primary Market Regulations

5.69 During 2007, SEBI amended Disclosure and Investor Protection (DIP) Guidelines to

(i) Permit "Fast Track Issues" for well established and compliant listed companies so as to enable such companies to access the capital market in a time effective manner.

(ii) Allow all categories of investors to apply in an IPO of Indian Depository Receipts (IDRs) and reduced the minimum application value in an IDR issue to Rs. 20,000 from Rs. 2 lakh.

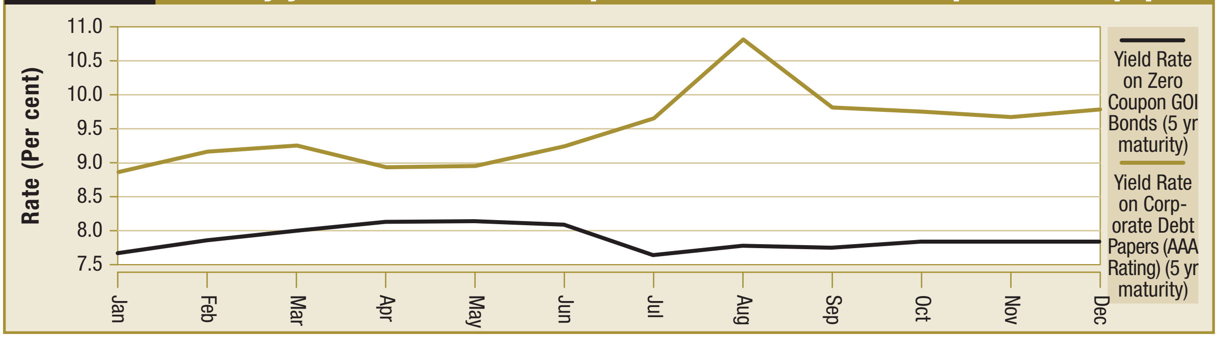
(iii) Mandate use of Permanent Account Number (PAN) in all applications irrespective of value.

(iv) Enable companies making public issues to issue securities to retail individual investors/retail individual shareholders at a discounted price.

(v) Include mandatory grading of IPOs under the eligibility criteria for an IPO.

(vi) Relax certain provisions like minimum dilution requirements and minimum period of holding of pre-issue capital to be issued in an offer for sale, eligibility of shares for the purpose of computation of promoters' contribution, etc., to facilitate Government companies/ corporations, statutory authorities/ corporations or any special purpose vehicle set up by any of them, which are engaged in infrastructure sector, to raise funds in the Indian primary market through IPOs.

Figure 5.5 Monthly yield rates on zero coupon GOI bonds & Indian corporate debt papers



(vii) Remove the stipulation that debt instruments issued through public/rights issues shall be of at least investment grade to widen the corporate bond market. Further, issuers now need to obtain rating from only one credit rating agency instead of two.

5.70 Other initiatives included the following:

Under the overall guidance of SEBI, BSE and NSE jointly launched a common electronic platform at www.corpfiling.co.in [also referred as Corporate Filing and Dissemination System (CFDS)] on April 1, 2007. This portal acts as:

(i) A common place for filing of information on listed companies, and

(ii) A common place for viewing information about listed companies.

5.71 A subcommittee appointed by the SEBI Committee on Disclosures and Accounting (SCODA) has been given the task of integrating initial and continuous disclosures of listed companies. The main objective of this exercise is to reduce duplication of disclosures by issuers/intermediaries/investors and improving access to the information placed on the public domain.

5.72 A group called GRIP (Group on Review of Issue Process) appointed by the Primary Market Advisory Committee has been given the task of reviewing the entire issue process with the objective of making the process

(i) More efficient in terms of time and cost and align it with international standards;

(ii) Widely accessible to all;

(iii) Leverage the existing infrastructure and databases of Indian securities market; and

(iv) Bring more efficiency in discovering price of public issues.

5.73 SEBI registered VCFs, desirous of making investments in offshore venture capital undertakings, can submit their proposal for investment directly to SEBI for prior approval, without separate permission from RBI.

5.74 To provide a better framework for delisting of securities from the stock exchanges, SEBI has initiated work for converting the SEBI (Delisting of Securities) Guidelines, 2003 into Regulations.

5.75 With the objective of developing the corporate bond market, SEBI has proposed the simplification of the primary debt market issuance process. Some of the major features of the proposed regulations include rationalization of disclosure requirements, enhanced responsibilities to merchant bankers for exercising due diligence and issuance of certificates in regard to new issuances, and mandatory listing of private placement of debt.

5.76 SEBI has proposed Regulations for "Public Offer and Listing of Securitized Debt Instruments". The draft regulations provide for a system of special purpose distinct entities which could offer securitized debt instruments to the public or could seek listing of such instruments.

Secondary Market Regulations

5.77 To implement the Budget announcement on creation of a unified platform for trading of corporate bonds, SEBI stipulated that an authorized reporting platform be established to capture all information related to trading in corporate bonds as accurately and as close to execution as possible. Permission was accorded for setting up trading platforms at BSE and NSE for corporate bonds.

5.78 It was made mandatory for companies issuing debentures to disseminate all the required information in the event of: (i) default by issuer company to pay interest on debentures or redemption amount; (ii) failure to create a charge on the assets; and (iii) revision of rating assigned to the debentures.

5.79 SEBI has stipulated that Permanent Account Number (PAN) would be the sole identification number for all participants in the securities market, irrespective of the amount of transaction with effect from July 2, 2007.

5.80 Sixteen stock exchanges successfully completed their demutualization process during August-September 2007 by diluting at least 51 per cent of their equity shareholding to public, other than shareholders having trading rights. Presently, there are 18 corporatized and demutualized stock exchanges in the country.

5.81 On December 20, 2007, SEBI permitted short selling by institutional investors, in addition to the retail investors who were allowed to short sell hitherto.

5.82 SEBI has approved the introduction of seven new products - mini-contracts on equity indices, options with longer life/tenure, volatility index and Futures and Options (F&O) contracts, options on futures, bond indices, exchange-traded currency (foreign exchange) futures & options, and introduction of exchange-traded products to cater to different investment strategies. The mini derivatives contract on index (Sensex and Nifty) with a minimum contract size of Rs. 1 lakh was introduced from January 1, 2008.

5.83 SEBI has proposed additional regulations to the SEBI (Prohibition of Insider Trading) Regulations, 1992, with a view towards incorporating an additional corporate governance measure which aligns the interests of a company's shareholders to that of the company's insiders. This seeks to compel an "insider" to surrender such profits to the company in any of his/her transaction concerning equity based securities of the company (including its parent's or subsidiary's shares) in the event both the buy and sell sides of the transaction are entered into within six months of the other. Such a regulation would check insiders, who have greater access to price sensitive company information, from taking advantage for making short-term profits.

5.84 During the year the investment limit for FIIs in Government Securities was enhanced from US$ 2 billion to US$ 2.6 billion. In October 2007 SEBI prohibited FIIs and their sub-accounts from issuing or renewing Participatory Notes using offshore derivative instruments like futures and options.

5.85 In respect of Mutual Funds, SEBI amended the SEBI (Mutual Funds) Regulations, 1996, to disallow a trustee of a mutual fund to act as a trustee or a director on the asset management company of any other mutual fund and specifying the methodology for the valuation of gold for the purpose of gold exchange traded funds.

5.86 Guidelines were issued restricting the limit of parking of funds by mutual funds to 15 per cent of their net assets in short-term deposits with all scheduled commercial banks with a sub-limit of 10 per cent with any one scheduled commercial bank. Also, SEBI increased the limit for overseas investment by each mutual fund from US$ 200 million to US$ 300 million.

5.87 With effect from January 4, 2008, entry load by mutual funds was waived for investors making applications for investment in mutual fund schemes directly. SEBI has proposed Real Estate Investment Trust Regulations with a view to encourage and facilitate growth of such trusts in India. In pursuance of Budget (2007-08) announcement SEBI has appointed a committee on the launch of dedicated infrastructure funds (DIF) by mutual funds. In consonance with the international practices, SEBI proposes to introduce the fast-track model for the launch of products by mutual funds.