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The Managing Director / Executive Director / Administrator Of All Stock Exchanges

Dear Sirs,

Sub: Corporate Bond Market – Launch of Trading Platform

- I. SEBI vide circulars No. SEBI/MRD/SE/AT/36/2003/30/09 dated September 30, 2003 and No. SEBI/MRD/SE/AT/46/2003 dated December 22, 2003 prescribed the norms to be complied with in respect of private placement of debt securities.
- II. In the first phase of implementing the Union Budget proposals for developing an exchange traded market for Corporate Bonds, SEBI vide circulars No. SEBI/CFD/DIL/BOND/1/2006/12/12 dated December 12, 2006 and No. SEBI/CBM/BOND/1/2007/02/03 dated March 01, 2007 authorized BSE and NSE to set up and maintain corporate bond reporting platforms to capture all information related to trading in corporate bonds as accurately and as close to execution as possible.
- III. In the second phase of development, it has been decided to permit BSE and NSE to have in place corporate bond trading platforms to enable efficient price discovery and reliable clearing and settlement in a gradual manner. To begin with, the trade matching platform shall be order driven with essential features of OTC market. Eventually, a system of anonymous order matching shall be established.
- IV. The order driven trade matching platform for listed corporate debt securities shall be implemented by BSE and NSE with effect from July 01, 2007 on the following lines:
 1. BSE and NSE may make use of the existing infrastructure available with them for operating the trade matching platform for corporate bonds, with necessary modifications.
 2. In the initial stage of usage of the trade matching platforms, the system shall retain the essential features of the OTC market.
 3. Orders executed through trading platforms of either BSE or NSE shall not be required to be reported again on the reporting platforms.
 4. All investors including banks who are desirous of using the trading platform of BSE or NSE shall deal through stock brokers registered with SEBI for their transactions thereon. Respective regulators accordingly have been requested to issue necessary instructions to all entities regulated by them.

5. At the option of the participants, they will also be allowed to undertake Over the Counter transactions. Such Over the Counter transactions shall continue to be reported on the reporting platforms.

6. The trading platforms shall be available from 10.00 am to 5.30 pm on all trading days. BSE and NSE shall ensure that the norms on trading hours, access rights to the trading systems etc. shall broadly follow the norms presently followed in the equity segment. BSE and NSE shall ensure that the norms are harmonious between the exchanges.

7. The entities trading in listed corporate debt securities may settle their trades bilaterally between them. They may also use the services of the stock exchanges for clearing and settlement.

8. BSE and NSE shall ensure that the shut period in corporate bonds shall be reduced and aligned to that applicable for Government Securities within a reasonable period of time.

9. All entities including Qualified Institutional Investors (QIBs), shall trade in corporate bonds subject to a minimum value of Rs.1 lakh. Exchanges may also have a limited segment for transactions in smaller market lots.

10. The Actual/Actual day count convention, presently followed for dated Government Securities, shall be mandatory for all new issues of corporate bonds. For existing bonds, the existing terms may be observed unless agreed to by issuers and holders.

V. On stabilization of the trade matching system, BSE and NSE may move to an anonymous order matching system for trading of bonds within an appropriate period of time. Both the stock exchanges will indicate to SEBI an expected date on which they could move to anonymous order matching system for trading in corporate bonds. Such anonymous order matching system shall be implemented on the following lines:

1. With the introduction of anonymous order matching platform, the clearing and settlement facility shall be provided by BSE and NSE with a multilateral netting facility for trades executed on the platform. The systems used for the purpose shall be designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.

2. BSE and NSE shall devise an appropriate system of margining for trades done on the platform.

3. BSE and NSE may either fully or partially engage the services of entities providing technical support for trading in corporate bonds. Where such service providers are engaged, the concerned stock exchange shall be responsible for the execution of trades and clearing and settlement thereon.

4. The conditions mentioned at point numbers 3, 4, 5, 6, 8, 9 and 10 of para IV above shall, as far as may be, apply to the anonymous order matching system.

VI. Amendments to the listing agreement for debentures

In order to facilitate development of a vibrant market in corporate debt instruments, it has been decided to further amend the listing agreement for debentures issued by circular No. SEBI/

CFD/ DIL/ CIR- 39 /2004/ 11/ 01 dated November 1, 2004 and further amended by circular No. SEBI/ CFD/ DIL/ LA/ 1/ 2007/20/03 dated March 20, 2007, as follows:

1. In clause 1.4, for sub-clause (c), the following sub-clause shall be substituted, namely:

“The issuer agrees to ensure that services of ECS (Electronic Clearing Service), Direct Credit, RTGS (Real Time Gross Settlement) or NEFT (National Electronic Funds Transfer), are used for payment of interest and redemption amounts as per applicable norms of the Reserve Bank of India. In cases where such facilities are not available, the issuer agrees to issue all interest warrants and cheques for redemption money simultaneously, which shall be payable at par at such centres as may be agreed between the exchange and the issuer. Such centres will be disclosed to the debenture-holders. The amounts shall be collectible at par, with collection charges, if any, being borne by the issuer, in any bank within India even in centres other than the agreed centres. The warrants or cheques shall be dispatched so as to reach the debenture-holders on or before the date fixed for payment of interest on debentures or redemption money, as the case may be.”

2. In clause 1.6, after sub-clause (g), the following sub-clause shall be inserted, namely:

“The issuer agrees that no material modification shall be made to the structure of the debenture in terms of coupon, conversion, redemption, or otherwise without prior approval of the stock exchanges where the bond is listed.”

The stock exchange shall also ensure that such information relating to modification or proposed modification is disseminated on the exchange website.

VII. Applicability

The trading platforms may be used for executing all trades in listed debt securities issued by all institutions such as Banks, Public Sector Undertakings, Municipal Corporations, bodies corporate and companies.

VIII. Direction to Stock Exchanges

BSE and NSE are directed to:

- a. Make necessary amendments to the listing agreement, bye-laws, rules and regulations for the implementation of the above decision immediately, as may be applicable and necessary.
- b. Bring the provisions of this circular to the notice of the entities in both equity and debt segments, member brokers, clearing members of the Exchange and also to disseminate the same on the website for easy access to the investors; and
- c. Communicate to SEBI, status of the implementation of the provisions of this circular in the next Monthly Development Report.

IX. This circular is issued in exercise of powers conferred by sub-section (1) of Section 11 of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to

promote the development of, and to regulate the securities market. The provisions of the earlier circulars No.SEBI/MRD/SE/AT/36/2003/30/09 dated September 30, 2003, Circular No.SEBI/MRD/SE/AT/46/2003 dated December 22, 2003 and circular No. SEBI/ CFD/DIL/BOND/1/2006/12/12 dated December 12, 2006 and Circular No. SEBI/ CBM/BOND/1/2007/01/03 dated March 01, 2007 in so far as they are inconsistent with the provisions of the instant circular shall stand superceded.

X. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

Satya Ranjan Prasad