

Consultation Paper on mandating FPIs to route a specific percentage of certain transactions in secondary market trades through Request for Quote (RFQ) platform of stock exchanges

1. Objective:

To increase the liquidity on Request for Quote (RFQ) platform of stock exchanges and enhance the transparency and disclosures pertaining to investments in Corporate Bonds, which shall encourage investment by FPIs in the corporate bond segment.

2. Background:

- 2.1. The framework for a dedicated debt segment on Stock Exchanges was introduced by SEBI vide circular dated January 2013, permitting the stock exchanges to offer electronic, screen based trading providing for order matching, request for quote, negotiated trades, etc.
- 2.2. In the corporate bonds segment, secondary market trades are predominantly an Over the Counter (OTC) market phenomenon, driven by institutional investors. Prices are negotiated offline bilaterally, cleared on a Delivery Versus Payment (DVP-1) basis. Hence, enhancing and coalescing the fragmented liquidity of corporate bonds and improving transparency, has been a felt need of market participants over a period of time.
- 2.3. As a step in this direction, the RFQ platform was launched on BSE and NSE in February 2020. It is an electronic platform that enables sophisticated, multi-lateral negotiations to take place on a centralized online trading platform with straight through processing of clearing and settlement to complete the trade.
- 2.4. By acting as a single interface for price givers and price takers in the debt market from a diverse set of clients, RFQ platform helps in enhancing the price discovery and brings pre-trade transparency in the transactions of eligible securities.
- 2.5. A wide variety of debt securities are available for trading on RFQ platform. The list of eligible securities includes corporate bonds, securitized debt instruments, commercial papers, certificate of deposits, municipal debt securities, government securities, Treasury bills and state development loans. All regulated entities, listed corporates, institutional investors, all India financial institutions can use the RFQ platform.



3. Recent steps taken by SEBI to enhance liquidity on RFQ platform:

3.1. To enhance liquidity on the RFQ platforms of the stock exchanges, SEBI has mandated intermediaries to undertake a certain percentage of their secondary market trades in corporate bonds by value on the RFQ platform. As can be seen from the below table, the measure has yielded results, with RFQ platform witnessing an uptick in trading by the intermediaries wherever mandated:

Intermediary Type	Date of circular mandating trading on RFQ platform	% of total secondary market trades by value mandated on RFQ platform	% of total secondary market trades by value carried out on RFQ platform (during FY 22-23)
Mutual Fund (MF)	October 06, 2021 July 22, 2020	25 (increased from 10)	60.7
Portfolio Management Services (PMS)	Dec 09, 2021	10	24.5
Alternative Investment Funds (AIFs)	Feb 01, 2023	10	Circular is effective from April 01, 2023
Stock Brokers	Jun 02, 2023	10% (from July 01, 2023) 25% (from Apr 01, 2024)	Circular is effective from July 01, 2023

3.2. In order to increase the trades on the RFQ platform, SEBI vide its circular dated October 19, 2022 has allowed Stock brokers registered under the debt segment of the stock exchanges to place/seek bids on the RFQ platform on behalf of clients, in addition to the existing option of placing bids in a proprietary capacity and Stock Exchanges have put in place the necessary infrastructure for the same.

4. Investments by FPIs in corporate bonds market:

4.1. In terms of SEBI (Foreign Portfolio Investors) Regulations, 2019, FPIs are allowed to invest in, inter alia, any debt securities or other instruments as permitted by the Reserve Bank of India (RBI) from time to time. RBI permits FPIs to invest in Corporate Bonds subject to the fulfilment of investment limits and other conditions specified by RBI from time to time.

- 4.2. While RBI has been increasing the investment limits in corporate bonds for FPIs over the years, investments by FPIs in corporate debt has been declining during the same period. As a result, the corporate bond limit for FPIs is grossly underutilized at the moment. Data of FPI investments in corporate bonds over the past 5 years is presented below:

Date	Investment Limit	Investment by FPIs	% of limits utilized
March 31, 2019	2,89,100	2,19,428	75.90
March 31, 2020	3,17,000	1,72,722	54.49
March 31, 2021	5,41,488	1,32,865	24.54
March 31, 2022	6,07,039	1,21,018	19.94
March 31, 2023	6,67,871	1,03,666	15.52
May 31, 2023	6,67,871	98,582	14.76

- 4.3. While the overall corporate bond investment by FPIs is low, the percentage of such trades carried out on the RFQ platform is even lower. During FY 2022-23, FPIs have carried out merely 4.5% of their total trades in Corporate Bonds through RFQ platform. Further, during FY 22-23, FPIs accounted for only 0.78% of total trades in Corporate Bonds on RFQ platform executed by various entities regulated by SEBI/ RBI/ PFRDA/ IRDAI.
- 4.4. Thus, to increase the liquidity on exchange platform and to enhance the transparency and disclosure pertaining to investments by FPIs in Corporate Bonds, it may be appropriate to mandate FPIs to carry out a certain percentage of their transactions in RFQ platform, which may be reviewed subsequently.

5. Proposal:

- 5.1. In the long run, RFQ platform is expected to bring in advantages for trading in the corporate bonds and facilitate investments in this segment.
- 5.2. The RFQ platform reduces information asymmetry and enhances transparency in corporate debt segment by providing disclosures such as term sheets, price information, market quotes etc. This is expected to result in better price discovery lower costs and ease of doing business etc.
- 5.3. The various advantages brought in by the RFQ platform are expected to propel Indian bond markets into a higher growth phase, thereby promoting investments in the segment by all participants, including FPIs. However, the same can be achieved if the participation on the platform is deepened and widened due to adoption by maximum number of participants resulting in greater volume of trades.

- 5.4. In view of the above, similar to the mandate provided for other intermediaries, it is proposed that FPIs may be mandated to undertake at least 10% of their total secondary market trades in Corporate Bonds by value by placing/seeking quotes on the RFQ platform of stock exchanges, on a quarterly basis, to start with.
- 5.5. The requirement may be made applicable after 2 months from the date of issuance of the respective circular.

6. Public Comments

- 6.1. Public comments are invited for the proposals given above. The comments / suggestions may be provided in MS Excel file as per the format given below:

Name of the person/ entity proposing comments:	
Name of the organization (if applicable):	
Contact details:	
Category: whether market intermediary/ participant (mention type/ category such as FPI, law firm, consultant, etc.) or public (investor, investee company, academician etc.)	

Sr. No.	Para. no. of the consultation paper	Extract from the consultation paper	Comments / Suggestions	Rationale

- 6.2. Kindly mention the subject of the communication as, “*Consultation Paper on mandating FPIs to route a specific percentage of certain transactions in secondary market trades through Request for Quote (RFQ) platform of stock exchanges*”.
- 6.3. Comments as per aforesaid format may be sent to the following, latest by July 26, 2023, in any of the following manner:
- (i) Preferably by email to afdconsultation@sebi.gov.in, with a copy to Mr. Arpit Anand, Assistant General Manager (arpit_anand@sebi.gov.in) and Ms. Chitra M, Manager (chitram@sebi.gov.in).



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

(ii) By post to:

Shri Vikash Narnoli,
Deputy General Manager,
Alternative Investment Fund and Foreign Portfolio Investors Department,
Securities and Exchange Board of India,
SEBI Bhavan, C4-A, G-Block, Bandra Kurla Complex,
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Issued on: July 05, 2023.