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Proposal for the establishment of a Debt Dealers Association in India

Financial Institutions Reforms and Expansion (FIRE) Project

July 18, 1997

Financial Institutions Reform and Expansion (FIRE) Project
US Agency for International Development (USAID/India)
Contract #386-0531-C-00-5010-00
Project #386-0531-3-30069

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***Price Waterhouse** LLP*

August 14, 1997

Mr. Peter Thorman
Director, Office of the Economic Growth
US Agency for International Development
B-28, Qutab Institutional Area.
Qutab Hotel Road
New Delhi - 110 016

Subject: Proposal to establish a Debt Dealers Association of India

Dear Peter,

In furtherance of the development of a secondary debt market in India, Price Waterhouse/FIRE Project (PW/FIRE) undertook a study in February, 1997 resulting in the enclosed proposal to establish a Debt Dealers Association of India (DDAI). In the interim, a few of the banks and the primary dealers licenced by Reserve Bank of India, toying with the idea of forming an autonomous association, have since formed an association christened "Fixed Income Money Market and Derivatives Association". (FIMMDA) PW/FIRE Project's enclosed study should serve as a catalyst to this Association and other agencies in establishing a " bond club" of members to facilitate development of the secondary market for debt in India.

I. PURPOSE OF THE ASSISTANCE

The purpose of this proposal is to guide the institutions active in the corporate and other debt market to establish an association such as DDAI to facilitate trading in corporate and other debt securities.

II, CONTENTS OF THE REPORT

The proposal presents a rationale and objectives for a debt dealers association and provides a time line for various tasks to be done to establish the DDAI. It discusses the organisational issues that need to be addressed, membership options, and a financing plan for the proposed association. The proposal also lays down a substantive agenda for the association. Section 6 of the proposal focuses on the potential assistance that PW/FIRE Project may provide to the association in establishing the association and creating an active secondary market for debt market in India.

III. NEXT STEPS

Given that FIMMDA has since been formed and the association has set up a pilot committee of five banks and given that the role PW/FIRE Project has been playing to the sustainable development of the Indian Capital Market, PW/FIRE will like to take the following steps:

1. FIRE meet with the pilot committee at the earliest and review the committees agenda vis-à-vis the FIRE Project's strategy for the development of a secondary market for debt in India, to identify common areas and to direct the resources accordingly;

2. FIRE Project may provide input into reviewing the Articles of Association of the FIMMDA drawing upon the experience of similar successful associations in Asia; provide necessary inputs to draft/review the association's business plans and its agenda to promote the association among potential members;

3. FIRE may serve to facilitate interaction with RBI and SEBI; and

4. FIRE may provide necessary inputs for education and training of RBI and SEBI and creating general awareness amongst the investing public.

Upon reading this proposal and its contents, should you have questions, please feel free to contact me.

With regards,

Sincerely,

W. Dennis Grubb

(W. DENNIS GRUBB)
Principal Consultant to Capital Markets

PROPOSAL FOR THE ESTABLISHMENT OF A DEBT DEALERS ASSOCIATION IN INDIA

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APPENDICES

LIST OF ABBREVIATIONS

BSE	Bombay Stock Exchange
CARE	Credit Analysis and Research of India Ltd.
CRISIL	Credit Rating Information Services of India Ltd.
Crore	Rs.10 million
DDAI	The proposed Debt Dealers Association of India
DFI	Development Financial Institution
FIRE	Financial Institutions Reform and Expansion Project
FI	Financial Institution
FII	Foreign Institutional Investor
GIC	General Insurance Corporation
ICICI	Industrial Credit and Investment Corporation of India
IICRA	Investment Information and Credit Rating Agency of India Ltd.
IDBI	Industrial Development Board of India
LIC	Life Insurance Corporation
NCCL	National Clearing Corporation Ltd.
NSDL	National Securities Depository Ltd.
NSE	National Stock Exchange
OTCEI	Over The Counter Exchange of India
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
REPO	Repurchase Agreement
SEBI	Securities and Exchange Board of India
SGL	Subsidiary General Ledger

EXECUTIVE SUMMARY

This report is a guide for professionals active in the corporate debt market to establish a Debt Dealers Association of India (DDAI) to encourage and facilitate trading among themselves. Although the Indian debt market is dominated by Government securities and Public Sector bonds and the secondary markets for these instruments also needs to be developed, it is recommended that the initial focus of DDAI be to develop secondary trading in corporate bonds. This is because the constraints to secondary trading of Government and Public Sector bonds are more significant than the constraints to trading of corporate debt. In addition, the development of the corporate bond market would provide Indian firms a new avenue through which to access the financial markets in order to raise capital. The trading of Government and Public Sector bonds may be a next step for the DDAI after the development of an active corporate debt market.

Section 1 presents the proposal for a Debt Dealers Association, including the rationale and objectives, potential participants and tasks to be done and timeline. The primary objectives of the DDAI include bringing together members interested in trading corporate bonds and encouraging trading among its members, identifying and removing the constraints to secondary trading of corporate debt and encouraging institutions such as the Unit Trust of India and State owned banks to trade their holdings of corporate debentures. Potential participants such as banks, nonbank financial institutions, Foreign Institutional Investors (FIIs) and broker-dealers are identified and a timetable for tasks to be done in order to establish the Association presented.

Section 2 presents the organizational issues that need to be addressed. These include choice of legal status of the Association, objects that need to be covered in the Memorandum and Articles of Association and powers the Association should have. The organizational structure and staffing an Association like DDAI should have is also recommended.

Section 3 discusses classes of membership options.

Section 4 presents a financing plan and covers start-up costs, long-term costs and revenues.

Section 5 focuses on the substantive agenda for the association, including potential issues that need to be addressed in order to encourage trading and create a market. The design of an action plan is also discussed and the need to prioritize and establish target dates emphasized.

Section 6 discusses the potential assistance that Price Waterhouse LLP, through the USAID funded Financial Institutions Reform and Expansion (FIRE) Project may provide, including explaining the role the proposed Association may play in creating an active secondary market for corporate bonds. Price Waterhouse could also provide technical assistance in the form of input into the Memorandum and Articles of

Association and establishing the substantive agenda and steps required to trade, if requested.

Section 7 discusses the longer-term growth of the Association and the role the Association may play in the development of the secondary market for Government Securities and Public Sector bonds. The role the Association may play in interacting with the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) is also elaborated.

It is envisioned that this report will provide an impetus toward establishing DDAI and be an useful guide to the professionals who are interested in creating DDAI and developing the secondary market in corporate debt. It is also hoped that after the development of an active corporate debt market the Association will consider the trading of Government securities and Public Sector bonds.

SECTION 1

PROPOSAL FOR A DEBT DEALERS ASSOCIATION OF INDIA

A. RATIONALE AND OBJECTIVES

Although the Indian debt market is dominated by Government securities and Public Sector bonds and the secondary markets for those instruments also needs to be developed, it is recommended that the initial focus of the Debt Dealers Association of India (DDAI) be to develop secondary trading in corporate bonds. This is because action can be taken in this segment immediately between existing market players without action by the Ministry of Finance or the Securities and Exchange Board of India (SEBI). A "bond club" of members that are trading or will trade corporate bonds among themselves will facilitate development of the secondary market for corporate debt. Secondary trading of Government and Public Sector Undertaking (PSU) debt is not a suitable starting point for the DDAI as the constraints to secondary trading of such instruments are more significant than the constraints to secondary trading of corporate debt. (An overview of the Indian debt market and constraints to secondary trading is presented in **Appendix A**.) The development of the corporate bond market would also provide new avenues through which Indian companies could access the financial market in order to raise capital. The trading of Government and PSU debt may be a next step for the DDAI after the development of an active corporate debt market.

The purpose of this report is, therefore, to be a guide for professionals active in the corporate debt market to establish an association such as DDAI that would facilitate secondary trading in corporate bonds.

It is recommended that the objectives for DDAI include the following :

Primary Objectives

- Identifying members that are interested in trading corporate bonds and other corporate debt instruments.
- Creating a forum where members may meet.
- Encouraging trading among its members.
- Identifying the constraints to secondary trading of corporate bonds and working with relevant institutions such as the stock exchanges, regulatory authorities and others to remove these constraints. Issues that may need to be addressed include stamp tax, bank financing for broker-dealers, net worth requirements, rules restricting the use of Repurchase Agreements (REPOs) and depository clearance and settlement issues.

- Meeting with and encouraging institutions such as the Unit Trust of India and State owned banks and insurance companies to trade their holdings of corporate debentures.

Long-term Objectives

- Encouraging the trading of Government and PSU debt among members.

- Standardizing market practices.

- Working toward removing the regulatory constraints to secondary market trading of Government and PSU debt. Issues that may need to be addressed include restrictions on REPOs and banning of brokers netting positions in a particular security the same day.

- Working with the Reserve Bank of India (RBI) on the open market operations auction process and the communication of more market information. (The role an association such as DDAI may play in interacting with Government is illustrated in **Appendix B** through examples from regional markets. It is noteworthy, however, that DDAI will be different from the Associations in the countries discussed because no explicit or implicit role is advocated for the Government in establishing DDAI. After an active corporate debt market is developed, DDAI may consider working with the regulatory authorities to develop the Government securities and Public Sector bond markets.)

- Establishing itself as the industry voice and making representations to the Ministry of Finance, when needed, on policy issues that impact the development of the debt securities market. For example, permitting pension funds to invest in corporate debt instruments rated above a stipulated threshold.

- Sponsoring training seminars and workshops for the industry and the general public to promote understanding of debt securities and encourage secondary trading.

- Working with the stock exchanges, National Securities Depository Ltd. (NSDL) and other parties on removing any impediments to clearance and settlement.[1]

B. POTENTIAL PARTICIPANTS

Banks, nonbank financial institutions, India Financial Institutions (FIs), FIIs and broker-dealers are categories of institutions that are potential members.

As detailed in **Appendix C** over 50 individuals representing 30 organizations were interviewed to ascertain the need for a Debt Dealers Association and identify potential participants. As detailed in **Appendix D**, several studies and reports on the Indian debt market were also reviewed. The interviews with the major banks, nonbank financial institutions, FIs, FIIs, broker dealers, unit trusts, credit rating and market research entities, institutional investors and the RBI confirmed both the need to develop the secondary market and the need for the proposed Debt Dealers Association. Institutions such as ANZ Grindlays Bank, Global Trust Bank, Bank of America, Citibank, Jardine Fleming, Securities Trading Corporation of India, Over the Counter Exchange of India, Peregrine India, J.M. Share & Stock Brokers, DSP Merril Lynch, CRISIL, Credence, Mr. Asit Mehta of Nucleus, Skindia Finance, CEAT Financial Services, HDFC Bank and the Life Insurance Corporation of India all expressed a need for the proposed Association.

C. TASKS TO BE DONE AND TIMELINE

The Timetable below outlines the key tasks that need to be done by the debt market professionals and the FIRE Project to establish the DDAI and the approximate timeline. Details of each action are elaborated later in the report.

	Action	By When
(i)	Review of Proposal for the Establishment of a Debt Dealers Association in India by debt market professionals active in the market.	Inception - for one to two weeks.
(ii)	Meetings between debt market professionals and potential members, with the FIRE Project serving as a catalyst.	Two weeks from inception.
(iii)	Work on creating a forum and schedule of regular meetings.	Two weeks from inception through to inaugural meeting.
(iv)	Work on creating a data base of potential members and promoting the Association.	Inception through to inaugural meeting.
(v)	Establish initial five to seven member Governing Council and select name and legal structure.	Two weeks from inception.
(vi)	Prepare Memorandum and Articles of Association.	Five weeks from inception.
(vii)	Incorporation and Registrar of Companies approval.	Ten weeks from inception.

	Action	By When
(viii)	Inaugural Meeting of the Association, election of office holders and establishment of committees.	11 weeks from inception.
(ix)	Membership drive and registration.	11 to 15 weeks from inception.
(x)	Review of steps required to facilitate trading between members of the Association.	Following establishment of the Association.

SECTION 2

ESTABLISHMENT OF DDAI : STEP 1 - ORGANIZATION

A. LEGAL STATUS

The debt market professionals interested in forming the DDAI should obtain advice from suitably qualified persons on the legal form for the DDAI. Some associations and clubs are unincorporated entities, functioning under their own rules. Other associations become a company limited by guarantee, not having a share capital. The advantage of this form is that the Association will have a legal status and limited liability.

The debt market professionals should decide what legal form the Association should have and select a name for the Association at the outset. Advice should also be obtained as to whether use of the word "India" in the name will result in registration delays.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum and Articles of Association will have to be drafted. The assistance of legal officers of the firms of the debt market professionals promoting the Association may be drawn upon for this purpose. If an incorporated status is chosen, then it is important that the Memorandum and Articles of Association be drafted in the form necessitated by Indian Company law and other prescribed steps followed.

It is recommended that the Memorandum and Articles of Association or the rules of the Association, if an incorporated status is not chosen, cover the following:

- Primary Objects of the Association.
- Ancillary powers.
- Liability of members.
- Admission of members.
- Qualification of members.
- Subscriptions and rights of members.
- Governing council.
- Seal.
- Indemnity.
- Winding up.

It is also recommended that the Memorandum and Articles of Association or rules should provide the power for the Association to:

- Promote the trading of corporate and possibly other debt instruments between members and promote the development of the debt market in India.

- Form committees to address specific issues.

- Coordinate and organize meetings whether on regulations, guidelines, agreements, procedures or otherwise whether the same have been prepared by themselves or some other authority or organization.

- Sponsor workshops, seminars, training courses and meetings and to develop periodicals and publications.

- Provide training programs.

- Liase with regulatory authorities.

- Represent the views of its members to the Government.

- Enrol members to the Association and formulate its rules and regulations.

- Improve the standard of the debt securities industry.

- Promote international interest in the Indian debt market.

- Invest the monies of the Association not immediately required for its purposes in investments as may be thought fit subject to conditions that may be required by law.

C. GOVERNING COUNCIL AND OFFICERS

It is suggested that a five to seven member Governing Council be established to manage the DDAI. The Governing Council may comprise of the members committed to establishing the DDAI who will garner support for the DDAI through promoting it to other possible members.

It is suggested that the DDAI have a President, Vice President, Secretary and Treasurer as officers of the Association.

The Governing Council will at the inception have to decide membership criteria and membership status. For example, they would have to decide whether the DDAI should have one class of members or different classes.

A bank account for the DDAI would also have to be established.

At the outset responsibility should also be assigned to members of the Governing Council for the following tasks:

- Coordinating the drafting of the Memorandum and Articles of Association.
- Establishing meetings and the agenda for meetings.
- Identifying members.
- Deciding what steps are required to trade among themselves.

D. COMMITTEES

The DDAI may consider establishing a Market Development Committee to decide what steps are required to facilitate secondary trading of corporate debt and review issues pertaining to standardizing reporting and market practices.

A Membership Committee may be established to promote the DDAI and a Professional Development Committee may be established to conduct training and awareness programs.

E. STAFFING

At the initial stages it is recommended that the members of the Governing Council draw upon the resources of their firms to coordinate the activities of the DDAI. As the DDAI develops, it may want to hire a Secretary or Administrative Assistant(s) and establish an independent office. As the DDAI grows it is important that it not perpetuate a situation where the Governing Council members bear the responsibility to provide secretarial or administrative assistance.

SECTION 3

ESTABLISHMENT OF DDAI : STEP 2 - MEMBERSHIP

A. CORPORATE DEBT DEALERS

Given the primary objective of the DDAI is to develop trading in corporate debt, it is suggested that the membership drive focus on professionals committed to creating an active secondary market for corporate debt. Membership of the DDAI may at the outset be restricted to only corporate bond dealers.

B. OTHER MEMBERS

As the next step for the DDAI may include the trading of Government and PSU debt, after the development of the corporate debt market, consideration may be given to Government and PSU debt dealers as Members or Associate Members of the DDAI. In addition, the DDAI should consider whether it may allow persons with experience in securities and investment analysis or persons who have distinguished themselves in the development of the debt market sector to join the Association.

SECTION 4

ESTABLISHMENT OF DDAI : STEP 3 - FINANCING PLAN

Presentation of a detailed financing plan is beyond the scope of this proposal as a detailed financing plan is dependant on decisions the Governing Council would have to make on staffing, membership fees and other factors. The costs that would have to be taken into account are, however, presented below together with a preliminary financing plan.

A. COSTS

Start-up Costs

- As it is anticipated that the legal officers of the firm of a debt market professional will donate their legal expertise to draft the Memorandum and Articles of association no legal costs are anticipated.

- Cost of Registration and any associated newspaper advertising costs, cost of printing stationery and obtaining a seal are expected to be approximately $ 1,500.

  This cost may be met through initial dues.

Long-term Costs

- Establishing an office will entail purchasing a computer, typewriter, telephone, photocopier, fax machine and some office furniture. This is estimated to cost approximately $ 5,000.

- Long-term annual operational cost will include office space rental cost, telephone, staff (secretary and support person) and office supplies.

  These costs will vary from $ 5,000 to $ 10,000 per year, dependent upon the location of the office and how active the Association is.

B. REVENUES

- Entrance fees and membership fees will be the main source of revenue.

  In addition, some revenue may be obtained from presentations and workshops.

  It is suggested that members pay an entrance fee of $ 1,000 each and an annual membership fee of $ 500 each.

C. FINANCING PLAN

Costs	Revenue
Start-up Costs = $ 1,500	Entrance Fee Revenues = $ 20,000 (Assuming 20 initial members.)
Cost of Establishing an Office = $ 5,000	From Entrance Fee Revenues = $ 20,000
Annual Operational Costs = $ 5,000 to $ 10,000	From Annual Membership Fees = $ 10,000 (Assuming 20 initial members.)

SECTION 5

ESTABLISHMENT OF DDAI : STEP 4 - SUBSTANTIVE AGENDA

A. POTENTIAL ISSUES TO BE ADDRESSED

From the time of inception it is important that the DDAI members focus on the issues that the DDAI should address in the first year. These may include :

- Establishing counter-party risk agreements and other documentation and procedures that would facilitate trading of corporate debt, if necessary.

- Identifying issues that the DDAI needs to address in order to create a market. These may include stamp tax, bank financing for broker-dealers, net worth requirements, rules restricting the use of REPOs, and depository clearance and settlement issues.

- Standardizing market practices and preparing a code of conduct for members of the Association.

B. DESIGN OF AN ACTION PLAN

The issues identified need to be prioritized and target dates for initiating and resolving action established. The parties that need to be involved for resolution of each issue need to be identified and either a member or committee of the DDAI assigned the responsibility of managing the task.

The Action Plan should be formulated within two weeks of the inaugural meeting of the Association.

SECTION 6

POTENTIAL ROLE FOR THE FINANCIAL INSTITUTIONS REFORM AND EXPANSION PROJECT IN ASSISTING DDAI

Although a group of professionals of four to five members committed to establishing DDAI has been identified, they stressed the importance of an independent entity such as the FIRE Project serving as a catalyst at the initial stages for DDAI to come together as an association. Specifically, the FIRE Project assistance may include:

- Presenting this report and responding to questions potential DDAI members may have on the steps necessary to form the Association.

  Timing of FIRE Assistance : At inception.

- Explaining the role such an Association may play in creating an active secondary market for corporate debt and Government and PSU debt, after the development of an active corporate debt market.

  Timing of FIRE Assistance: Workshops to potential members two weeks after this report is distributed to them.

- Input into drafting the Memorandum and Articles of Association drawing upon the experience of similar successful Associations such as the Euro Security Bond Dealers Association, the Thailand Bond Dealers Club and the Sri Lanka Association of Primary Dealers.

  Timing of FIRE Assistance : Five weeks from inception.

- Assistance in establishing a substantive agenda for DDAI and steps required to trade.

  Timing of FIRE Assistance : Following establishment of the Association.

SECTION 7

LONGER - TERM GROWTH OF DDAI

A. DEVELOPMENT OF THE SECONDARY MARKET FOR GOVERNMENT SECURITIES AND PUBLIC SECTOR BONDS

Although the initial focus of the DDAI should be on developing secondary trading in the corporate debt market it is recommended that DDAI consider developing secondary trading in Government securities and PSU bonds in the longer-term. The reasons for this recommendation are :

- Although the primary market for Government and PSU bonds is active and substantial, the secondary market is relatively inactive and needs to be developed.

- The constraints to secondary trading in Government and PSU bonds need to be removed. Although the RBI has formed a Primary Dealers Association and the National Stock Exchange (NSE), has a Debt Committee that may have looked at some of these issues, neither of these groups is suited to address the broader policy issues that need to be resolved for the secondary market in Government and PSU bonds to be active. The Primary Dealers Association of India comprises of only the Primary Dealers and is focused solely on the Government securities market. The NSE Debt Committee is focused on the narrower, albeit important issues, such as settlement rules.

- The potential members of DDAI also trade Government and PSU bonds. They also expressed an interest in the development of an active secondary market in Government and PSU bonds.

B. INTERACTING WITH RBI AND SEBI TO DEVELOP SECONDARY TRADING IN GOVERNMENT SECURITIES AND PUBLIC SECTOR BONDS

Removal of some of the regulatory constraints to trading in Government and PSU debt requires actions on the part of RBI and SEBI. It would, therefore, be necessary for the DDAI to make representations to the RBI, SEBI and possibly the Ministry of Finance on issues such as broader use of REPOs, financing of market intermediaries and banning of brokers netting off positions in a particular security on the same day.

The DDAI may also consider making representations to Government on the lack of trading by the State owned banks and insurance companies. These entities are come of the biggest investors in Government and PSU debt. Lack of trading by these institutions restricts market liquidity.

APPENDIX A

EXISTING DEBT MARKET OVERVIEW AND CONSTRAINTS TO SECONDARY TRADING

EXISTING DEBT MARKET OVERVIEW

A. THE INDIAN DEBT MARKET

Background

The Indian Bond Market has grown significantly over the last five years. In 1992 the total size of the Indian Bond Market was approximately Rs.1,750 Billion ($ 50 Billion). The total size of the Indian debt market today is estimated at over Rs.3,250 Billion ($ 100 Billion). The Indian Bond Market, measured by the estimated value of bonds outstanding, is next only to the Japanese and the Korean bond markets in Asia. The Government securities market itself is estimated to be $ 36 Billion. Banks and institutions, and not the capital markets, have traditionally and still today channel savings and provide credit. The savings rate in India is about 20% even though there are limited financial investment avenues. The Indian debt market is growing, particularly the PSU bond sector. Although the pace of infrastructural development, inflation rate changes, Government policy to the debt market and the establishment of a long-term yield curve will ultimately impact the pace of growth, the outlook for growth in the primary debt market is positive. However, the secondary market is inactive. Table 1 presents the amounts outstanding by type of debt instrument.

The Indian debt market is dominated by Government securities and the main players are the State controlled commercial banks. Active treasury portfolio management is still not prevalent.

TABLE 1

INDIAN DEBT MARKET
AMOUNTS OUTSTANDING AS AT MARCH 1996

DEBT TYPE	AMOUNT OUTSTANDING (RS./CRORE)	PERCENTAGE
Central Government Securities	170,400	
State Government	38,000	
Sub total : Government Securities	208,400	78%
PSU Bonds	45,000	16%
Corporate Bonds	16,000	6%
TOTAL	269,400	100%

Types of Debt Instruments

There are three broad categories of debt instruments: Government Securities, Public Sector Bonds and Corporate Bonds. These are detailed below.

Government Sector

Central Government

- Treasury Bills
- Coupon Bearing Bonds
- Zero Coupon Bonds
- Floating Rate Bonds

State Government

- Coupon Bearing Bonds

Public Sector

Government Agencies & Other Statutory Agencies

- Government Guaranteed Bonds
- PSU Bonds

Public Sector

- Commercial Paper
- PSU Bonds

Development Financial Institutions

- Bonds
- Certificates of Deposit

Corporate Sector

- Commercial Paper
- Corporate Debentures
- Floating Rate Bonds
- Zero Coupon Bonds

B. ISSUERS, MARKET INTERMEDIARIES AND INVESTORS

Issuers

The Government of India, through the Ministry of Finance and the RBI, is the main borrower in the debt market. Investments in gilt edged securities is statutorily prescribed for banks, nonbanking financial institutions, insurance companies and pension funds.

The Central Government raised approximately Rs.270 Billion in fiscal year 1995/96 ($. 7.7 Billion) and is expected to borrow Rs.330 Billion in fiscal year 1996/1997 ($ 9.5 Billion), at rates of 13.80 percent for 10 year paper and 13.5 percent for five year paper. State Governments also issue debt securities, which are also principally subscribed to by banks, nonbanking financial institutions, insurance companies and pension funds.

The Development Financial Institutions (DFIs) are expected to raise Rs.280 Billion ($ 8.0 Billion) in 1997. There is no specified limit on the amount that banks can invest in securities issued by DFIs in contrast to investment by banks in corporate bonds. DFI securities offer yields of 16.0 percent for three to five years and provide investors with a wide range of maturities from one year to 25 years, albeit the longer term bonds have buy back features that typically make them redeemable after five years. The main DFIs are the Industrial Credit and Investment Corporation of India (ICICI) and the Industrial Development Board of India (IDBI).

PSUs raised Rs.20 Billion ($0.57 Billion) from the debt market in fiscal year 1995/1996. Like DFIs, PSUs are able to access banks and provident funds. PSU bonds sometimes have a Government guarantee.

Corporations are increasingly turning to the debt market through private or public placements to access funds. Corporations typically access the debt markets through issues of secured debentures and commercial paper.

Market Intermediaries

These include banks, merchant banks, financial services companies and brokers. There is, however, a need for inter-dealer brokers in the corporate bond market sector.

Investors

The wholesale investors account for the majority of primary market investments. These include the State owned banks, the General Insurance Corporation (GIC) and Life Insurance Corporation (LIC), provident funds, FIIs, unit trusts and corporations. The insurance companies are subject to asset allocation controls, in terms of which only a specified proportion of their funds is permitted for investment in securities issued by corporations. The balance is invested in Government securities and PSU bonds. The Unit Trust of India, a mutual fund set up by the Government, is also a major investor. The retail sector consists of individuals and non-resident Indians. Only a small number of debt oriented unit trusts have been established. However, this is likely to change with new funds entering the market.

FII's are now allowed to invest 100 percent of their money in debt securities as compared to 30 percent before and may also invest in Government debt, subject to certain limitations.

Presented in Table 2 below is a summary of the issuers, instruments and investors.

TABLE 2

INDIAN DEBT MARKET
ISSUERS, INSTRUMENTS AND INVESTORS

ISSUER	INSTRUMENT	ISSUANCE MATURITY	INVESTORS
Central Government	Treasury Bills	3 Months & 1 Year	Banks & Institutions
Central Government	Dated Securities	2 to 10 Years	Banks, Provident Funds, Institutions & FIIs
State Government	State Government Securities	5 to 10 Years	Banks, Provident Funds & Institutions

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ISSUER	INSTRUMENT	ISSUANCE MATURITY	INVESTORS
Government Agencies	Government Guaranteed Bonds	3 to 7 Years –	Banks, Provident Funds, Non-Banking Finance Companies & Institutions
Public Sector Undertakings	PSU Bonds	1 to 25 Years	Banks, Provident Funds, FIIs & Individuals
Corporate Sector	Corporate Debentures	1 to 12 Years	Banks, Institutions, Nonbanking Finance Companies & FIIs

C. THE ROLE OF THE STOCK EXCHANGES

The debt market is primarily a telephone market with a limited number of participants. This is particularly so for the Government debt market. Counter party risk is managed as the participants know each other. The transactions are typically prenegotiated by telephone and posted on the National Stock Exchange (NSE).

The NSE, which was established three years ago by the IDBI and other financial institutions, is the primary exchange for trading in debt. NSE has also promoted the establishment of the NSDL to facilitate scripless trading and the National Clearing Corporation Limited (NCCL) to guarantee trades done on the NSE. The NSE system is an order driven system which provides transparency. Market forces drive the pricing as the identity of the counter party is not known. The NSE Wholesale Debt Segment covers Government, PSU and corporate debt and does not charge listing or trading fees. However, because most debt trading is done via the telephone and then reported to the NSE, the NSE debt screen is historic. The NSE can guarantee settlement and stated that the secondary market for DFI and PSU bonds should be focused on for development as there is a larger retail base in these two instruments than in Government or corporate bonds.

The Over The Counter Exchange of India (OTCEI) has an Initiated Debentures Segment and seeks to get the Unit Trust of India to release some of its corporate debt holdings for trading. It is also having discussions with parties such as ICICI Bank about funding OTCEI market makers. The OTCEI sees its focus on the retail debt sector, as opposed to NSE which may focus on the wholesale debt sector. The OTCEI also has a fund to guarantee settlement.

The Bombay Stock Exchange (BSE) has a quote driven system of price determination. The BSE stated that it is developing a corporate plan over the next few months to capture the debt market and that the plan entails banks and other dealers having a terminal to track the Government securities and PSU bond markets. BSE plans to display real time quotes and provide a clearing house for settlement of such securities.

D. OTHER MARKET PARTICIPANTS

These include the four credit rating agencies in India: Credit Analysis and Research of India Ltd. (CARE), the Credit Rating and Information Services of India Ltd. (CRISIL), the Investment Information and Credit Rating Agency of India Ltd. (IICRA) and Duff & Phelps (India) Ltd. Credit rating is mandatory per SEBI rules, when the maturity period exceeds 18 months.

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THE PRIMARY MARKET

A. GOVERNMENT SECURITIES

These include Government of India Treasury Bills, Government of India Securities and State Government Securities.

Treasury Bills

Treasury Bills are of 91 day and 364 day maturity. The typical auction size for 91 day Treasury Bills is Rs.5 Billion ($ 0.14 Billion) and the auction size for 364 day Treasury Bills varies from Rs.200 Million to Rs.20 Billion ($ 5.6 Million to $ 560 Million). Treasury Bills are issued in the form of discounted promissory notes or by credit to the Subsidiary General Ledger (SGL) account maintained with the RBI. The RBI functions as a depository and maintains SGL accounts of the various banks. Physical script is also available. The auction of 91 day Treasury Bills is held once a week for an amount notified in advance by the RBI. There is no RBI notified amount for the 364 day Treasury Bills auction which is held once in two weeks. The Primary Dealers and RBI underwrite the issue. The major investors are banks, Primary Dealers, insurance companies, provident funds and nonbank finance companies. Non-competitive bids are accepted from pension funds and State Governments. FIIs are not permitted to invest in Treasury Bills.

Government of India Securities

Government of India Securities are coupon bearing bonds, zero coupon bonds and floating rate bonds. Government of India Securities have an average maturity of between two to 10 years. Typical issue size varies between Rs.20 Billion and Rs. 50 Billion ($ 560 Million and $ 1.4 Billion). These securities are registered in the name of the holder at the RBI which also acts as a depository and maintains SGL accounts of the various investors wherein the transaction/holding is represented by a book entry. The securities are issued through an auction, the details of which are announced about one week prior to the auction. The Primary Dealers and RBI underwrite the issue. The main investors are the banks to meet their reserve requirements. RBI is also a substantial holder of Government of India Securities due to devolvements. State owned insurance companies, pension funds and nonbank finance companies are the other large investors. FIIs are permitted to invest in Government of India Securities. FIIs must be registered with SEBI and could be 100 percent debt funds.

In June 1996 the RBI instituted the system of Primary dealers. The six Primary Dealers are the Discount and Finance House of India Ltd., Gilt Securities Trading Corporation Ltd., ICICI Securities Ltd., Securities Trading Corporation of India Ltd., SBI Gilts Ltd. and PNB Gilts Ltd. In addition, the RBI appointed 14 Satellite Dealers in April 1997 from a total of 55

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applications. The RBI appointments were subject to industry criticism as several of the major bond traders were not appointed Satellite Dealers. The responsibilities of Primary Dealers include underwriting of Government security issuances and market making by offering two way quotes. The Primary Dealers have been given two way access to the inter-bank call money and REPO market, RBI financing and underwriting commissions.

State Government Securities

State Governments in India have issued State Government guaranteed bonds to finance infrastructure development and housing projects. Typical maturity is 10 years and typical issue size varies between Rs.10 Billion to Rs. 30 Billion ($ 280 Million to $ 860 Million). State Government Securities are registered in the name of the holder at the RBI which acts as the depository and maintains SGL accounts of various banks and others, wherein the transaction/holding is represented by a book entry. These securities are coupon bearing instruments. The coupon rate on State Government bond issues is normally pre-determined by the RBI. Issuances are two to three times a year and issuance by all State Governments are simultaneous. The major investors in State Government securities are provident funds, banks and insurance companies. FIIs are not permitted to invest in State Government securities.

B. PUBLIC SECTOR BONDS

Public Sector Bonds are issued by public sector enterprises owned by the Government of India or State Governments. PSU Bonds are generally rated and have maturities from one to 25 years. Issue sizes vary for Rs.100 Million to Rs.15 Billion ($ 2.8 Million to $ 420 Million). Some of the recent issues by ICICI and IDBI have incorporated various innovative features in bonds such as put/call options that provide more flexibility to investors in terms of planning cash flows. FIIs are allowed to invest in PSU bonds that are listed or to be listed.

C. CORPORATE BONDS

There are many kinds of corporate debentures including semi-annual coupon bearing bonds, debentures with premium on redemption, discount bonds and convertible bonds. Public issues of debentures are open to all investors. In public issues of debentures, investors apply for debentures and deposit application money upfront for the face value of the debentures applied for. The allotment process takes about two months. The issuers are Indian corporations. Public issues of debt with greater than 18-month maturity have to be rated by at least one of the four credit rating agencies and listed. Typical maturity of corporate bonds is three to 12 years and typical issue size is Rs.50 Million to Rs. 2 Billion ($ 1.40 Million to $ 56 Million). FIIs may invest in listed or to be listed debt securities.

It is noteworthy that till a few years ago Indian companies relied on bank finance rather than debentures to raise capital. However, this is changing and the estimated issuance of corporate debt has increased from less than Rs.30 Billion ($ 0.8 Billion) in 1991 to over Rs. 50 Billion ($ 1.4 Billion) in 1996.

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THE SECONDARY MARKET

A. GOVERNMENT SECURITIES

Treasury Bills

Treasury Bills are traded on the OTCEI and NSE. Daily trading volumes range between Rs.100 Million and Rs.1 Billion ($ 2.8 Million and $ 28 Million), with an average transaction size of Rs. 50 Million to Rs.200 Million ($ 1.4 Million to $ 5.6 Million). Clearing and settlement for Treasury Bills is through the Delivery vs. Payment system that requires the parties to submit a SGL note to the RBI. The RBI then makes entries in the SGL account and current account of the parties concerned. Inter-bank Treasury Bills usually settle on the same business day, whereas trades with nonbank counterparties settle either on the same day or one business day after the trade date.

The secondary market for Treasury Bill constitutes the most liquid segment of the Indian debt market because they have a short maturity and are also eligible for REPO transactions. Secondary trading may take place through the OTCEI or NSE. A bid/offer spread of five to 10 basis points exists, depending on market liquidity. Brokerage averages 0.005 percent of the transaction value. No withholding taxes are applicable.

Government of India Securities

These are traded on the OTCEI and NSE. The Government now requires all noninter-bank deals be routed through the NSE. The daily trading volumes are estimated to be Rs.100 Million to Rs. 300 Million ($ 2.8 Million to $ 8.5 Million). Typical transaction sizes are Rs. 10 Million to Rs. 100 Million ($ 0.28 Million to $ 2.8 Million). A bid/offer spread of Rs.0.03 to Rs.0.08 exists depending on market liquidity and lot size. Brokerage averages 0.01 percent of the transaction costs. Withholding taxes are deducted depending on the tax status of the investor. Inter-bank Government of India Securities trades usually settle on the same business day, whereas trades with nonbank counterparts settle on the same day or up to five business days after the trade date. Clearing and settlement for Government of India Securities is through a Delivery vs. Payment system that requires the parties to submit a SGL note to the RBI detailing the transaction. The RBI will then make entries in the SGL account and current account of the parties concerned. The annual trading volume for Government of India Securities was estimated at Rs. 400 Billion ($ 11.20 Billion) for the first ten months of 1996.

It is noteworthy that the banks hold over 60 percent of the outstanding Government of India Securities. Since the Indian banking system is dominated by the State owned banks and the RBI and State owned insurance companies are also major investors in Government of India Securities, it is the Government that holds the majority of the outstanding stock. It is also noteworthy that the majority of the Primary Dealers are also owned or affiliated to State owned institutions. Although the establishment of the Primary Dealer network has contributed to the turnover in the Government debt securities market, without further efforts by the Ministry of Finance and RBI to ensure two way quotes are provided on all Government securities and Primary Dealers actively trade, the development of the secondary debt market will be constrained. Without secondary trading, the maximum benefit of Government efforts to develop the debt market through allowing money market mutual funds will not be realized. In this context, it is also recommended that the RBI monitor the performance of Primary Dealers and add to the number or replace any non-performing Primary Dealers.

State Government Securities

These may be traded on the OTCEI or NSE. The Delivery vs. Payment system is followed. When a State Government security is sold, the parties prepare a SGL note detailing the transaction. The SGL note is lodged with the RBI which makes entries in the SGL and current accounts of both the parties. There is very little secondary trading in State Government securities and the annual turnover is about one percent of the total outstanding amount. Monthly trading volumes are Rs.150 Million to Rs.200 Million ($ 4.2 Million to $ 5.6 Million). Average transaction size is about Rs.5 Million ($ 0.14 Million). As no two way quotes are offered by dealers, the bid/offer spread is estimated to be Rs.0.50 to Rs.1.50 and brokerage averages 0.25 percent of trade value. Withholding taxes are deducted depending on the tax status of the investor.

B. PUBLIC SECTOR BONDS

The major investors are banks, insurance companies, mutual funds, nonbank finance companies and corporations. Tax free PSU Bonds are particularly favored by corporations and foreign banks. PSU bonds are traded on the OTCEI and NSE. Daily trading volumes average Rs.50 Million ($ 1.4 Million) and transaction size averages Rs.10 Million ($ 0.35 Million). As no two way quotes are offered by dealers, the bid/offer spread is estimated to be Rs.0.15 to Rs.0.50. Brokerage cost averages 0.05 percent of the transaction value, Withholding tax on taxable bonds is applicable depending on the tax status of the investor. Trades settle one or two business days after tradedate, depending on lot sizes. Inter-bank trades settle on the same day. Clearance and settlement is through physical delivery of scrips.

The trading volumes in the secondary market for PSU Bonds is poor and the turnover on outstanding PSU Bonds is about 2.5 percent.

C. CORPORATE BONDS

Corporate debentures placed through public issues are bought from retail investors by institutions and then rarely divested. The institutions are primarily the Unit Trust of India, State owned insurance companies, mutual funds and banks. Trading may be through the OTCEI or NSE. However, monthly trading volumes average only Rs. 100 Million ($ 2.8 Million) with average transaction size of Rs. 50,000 to Rs.25 Million ($ 1,500 to $ 0.70 Million). Secondary trading volumes are negligible because institutional investors do not trade. A bid/offer spread of one percent to two percent is typical. Stamp duty payable on transfer of debentures varies from 0.25 percent to one percent, depending on the State. Withholding tax is levied depending on the investor category. Settlement takes place from two to 14 business days after the trade date and is through physical delivery of scrips.

The potential to develop secondary trading in corporate debt and bring retail investors into the market exists. An example is a Citibank scheme that retails corporate debentures to individual investors. Citibank partitions the wholesale lots into retail lot sizes and provides liquidity by offering two way quotes in these debentures. The OTCEI is represented in over 55 cities in India and it is recommended that it be used to distribute corporate debt to retail investors. The OTCEI requirement of having at least two market makers who will offer two way quotes will also provide liquidity to the secondary market.

CONSTRAINTS TO TRADING

The following are constraints to secondary market trading of Government, PSU and corporate debt instruments.

- The non-availability of credit to market intermediaries and the restrictions on REPOs. The non-availability of credit may be resolved by application of effective net worth requirements. The post-scam banning of REPOs, except inter-bank and between the banks and the RBI in a few securities, inhibits the ability of market intermediaries to finance secondary market trading.

- The post scam banning of brokers netting off positions in a particular security on the same day. This makes it difficult for brokers to offer two-way quotes and provide liquidity to the markets.

- The RBI imposed conditions following the scam which limited the transactions that a bank could channel through one broker to five percent of total transactions. Many banks do not have 20 enlisted brokers and in the case of large transactions, as the limit may be transgressed, banks prefer not to go through brokers/NSE. The RBI limitation, therefore, has the effect of reducing volumes on the organized market/NSE and reducing transparency from the point of view of information on trades available in the market.

- State owned banks have restricted their trading activates following the scam. The treasuries of these banks are not looked upon as profit centers and managers tend to be risk averse and reluctant to trade. For the secondary market to develop, it is imperative that the State owned banks who are major investors also be traders.

- All the major holders of debt, such as the six Primary Dealers, State owned banks, State insurance companies and pension funds, tend to have a similar long-term view. As the number of players is restricted, in the absence of diverse view points, the market moves with all these institutions wanting to buy or sell at a particular period of time.

- All Primary Dealers must be monitored to ensure that they make two way markets in all Government securities. Although this is a RBI requirement, it is alleged that this is not always adhered to by all the Primary Dealers.

- Stamp duty levied by States on corporate debt transactions at registration inhibits secondary market trading. The stamp duty, in particular, inhibits short-term debt trading.

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- Lack of a proper retail distribution system for Government and corporate debt. The development of the retail market for primary issues of Government and corporate debt will add liquidity to the market.

- The absence of sufficient market makers and inter-dealer brokers. This is particular important as the NSE does not have an interactive market.

- A lack of education and market awareness in the retail sector, where retail investors do not understand interest cycles.

- Development of the money markets and the overnight call money market would provide dealers access to finance.

APPENDIX B

LONGER-TERM GROWTH OF DDAI EXAMPLES FROM REGIONAL MARKETS

EXAMPLES FROM REGIONAL MARKETS

Thailand, Sri Lanka and Malaysia are examples of three regional countries where debt securities dealers associations have been established and have played significant roles in the development of the secondary debt markets. Although DDAI will be different from the Associations in the countries discussed because no explicit or implicit role is advocated for the Government in establishing DDAI, the examples demonstrate the potential role DDAI may play in interacting with the Government in the development of secondary trading in Government and PSU bonds.

A. THAILAND - CORPORATE DEBT SECURITIES MARKET

The Association of Securities Companies is the trade association representing the securities industry in Thailand. The Association of Securities Companies has also established a training institute to train brokers, the Bangkok Stock Dealing Center and the Bond Dealers Club. The Bond Dealers Club facilitates trading of debt instruments. The Association of Securities Companies works together with these organizations to promote the development of the securities industry by establishing rules and regulations for member firms. In addition, it represents the securities industry in dealing with regulatory agencies, conducts training and public awareness and has in cooperation with the Thailand Ministry of Finance and financial institutions set up a specialized securities company providing various financing services for funds and securities to support the issuance and trading activities of equity and debt market entities. The Association of Securities Companies works as a self-regulatory organization in enacting regulations for its members to follow in addition to those of the regulatory authorities. The Association of Securities Companies is governed by a member elected Board of Governors. Working with the Board are several committees and subcommittees. The Thailand Bond market is small but growing. In 1995, the total size of the bond market was $ 14 Billion. Government bonds accounted for 20 percent, State Enterprise Bonds accounted for about 55 percent and corporate bonds 25 percent. The Thailand Government has run fiscal surpluses and the Government has not had a need to issue bonds. The Government has, however, encouraged the development of the corporate bond market and developed the retail market. For example, the statutory framework was streamlined to enable issuance of corporate bonds on a competitive basis with other debt instruments. The Securities and Exchange Commission of Thailand has been given the mandate by the Ministry of Finance and the Bank of Thailand to develop the bond market. The bond Dealers Club, which was formed in 1994, include securities companies and institutions with bond trading licenses. There are 62 dealers that market over forty corporate issues. The Bond Dealers Club has been instrumental in facilitating secondary trading in corporate debt securities.

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B. SRI LANKA - GOVERNMENT DEBT SECURITIES MARKET

The Association of Primary Dealers was formed in early 1997 by the Primary Dealers in Sri Lanka to develop the Government securities market. There are eleven bank and seven nonbank Primary Dealers in Sri Lanka. There is a relatively active secondary market for Government debt securities. The Association of Primary Dealers has facilitated the development of open market operations by the Central Bank of Sri Lanka through having a governing council that meets regularly and works closely with the Central Bank. The Association of Primary Dealers works with the Central Bank on designing and implementing detailed procedures for issuing, transferring and collecting Government securities, standardizing the documentation and market practices for REPOs, improving the reporting forms and systems by which Primary Dealers keep the Central Bank informed of their market activities to permit adequate surveillance of Primary Dealers, developing standards for evaluating and quoting two way prices on Government securities and developing a code of conduct and market practices for dealing in debt securities. All Primary Dealers appointed by the Central Bank are members of the Association of Primary Dealers. There are no secondary or Satellite Dealers as yet in Sri Lanka. The Association of Primary Dealers of Sri Lanka has encouraged trading between its members through the standardization of market practices and documents.

C. MALAYSIA

The corporate bond market in Malaysia has grown rapidly since 1988 when the Government realized that using the debt markets to meet the investment needs of State owned institutions such as insurance companies and provident funds was insufficient and launched the Privatization Master Plan and the National Mortgage Corporation. The National Mortgage Corporation, which was started in 1988, had nearly US$ 4 Billion in bonds issued by 1995. The National Mortgage Corporation purchases housing loans from mortgage organizations such as banks and other financial institutions and issues unsecured mortgage backed securities to fund its mortgage portfolio. The National Mortgage Corporation is broadly owned by the financial institutions in Malaysia. Malaysia has been successful in mobilizing large amounts of long-term resources through its debt markets by allowing more autonomy to its provident funds. Malaysia's provident fund managers are now required to invest no more than 50 percent of their assets in Government securities. The Malaysian bond market was $ 40 Billion in 1995. Government securities accounted for about 75 percent, Central Bank 5 percent, State enterprises 10 percent and corporate bonds 10 percent. This has provided a boost to the development of the corporate bond market. The development of the debt market has enabled Malaysia to provide long-term financing for infrastructure development projects.

APPENDIX C

LIST OF PERSONS INTERVIEWED

LIST OF PERSONS INTERVIEWED

Organization Name	Persons Interviewed	Remarks
Housing Development Finance Corporation	Mr. Shailendra Bhandari, Executive Director & Treasurer Mr. Luis Miranda, Vice President & Head Foreign Exchange Mr. Ashish Parthasarthy, Vice President Head & Money Markets	Expressed interest in joining a corporate dealers association. Identified the stamp duty on corporate debt, lack of Repo market and large differential between interest rates on government securities and PSU bonds as a major impediment to trading.
Morgan Stanley	Mr. Victor Garber, Managing Director Mr. Krishna Memani, Principal, Credit Mr. Khalid Azim, Strategy	Expressed concern over the slow movement in the government debt market and the withholding tax.
Credence	Mr. C K Guruprasad Mr. Vivek Simha	Credence is the only debt market research firm in India. Stated that Primary Dealers should not be paid a commission so as to encourage them to do secondary trading to make money.
Alliance Capital Asset Management Co.	Mr. Ajay Kaul, President & Country Manager Mr. Suchet Padhye, Vice President Mr. Vineet Udeshi, Asst. Vice President	Alliance is launching a Liquid Income fund that will be 100 % debt. They hold investments to maturity.

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Organization Name	Persons Interviewed	Remarks
Association of Mutual Fund of India (AMFI).	Presentation by Mr. Augusto Iglesias	Participants were managers of mutual funds. They expressed some interest in secondary trading of corporate debt instruments.
CEAT Financial Services Ltd. & Secura Capital Markets Ltd.	Mr. Aspi T Contractor, Director Mr. Sunil Shah, Director Mr. K Joseph Thomas, Sr. Manager, Money Markets	Agree on the need for a corporate debt dealers association and that they will join such an association. Stated that secondary trading in debt instruments has the potential to improve.

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Organization Name	Persons Interviewed	Remarks
Skindia Finance	Mr. Krishan Chand, Chairman Ms. Monica Mansukhani, Asst. Vice President, Debt Market Mr. Vishal Jain	Actively working towards bringing together parties in the corporate debt market. The need to have an association of corporate debt dealers was stressed.
Advani Share brokers (Pvt.) Ltd.	Mr. Pashupati K Advani, Director	Stated that the government is discouraging tax free bonds. This should encourage the corporate debt market.
Bombay Stock Exchange (BSE)	Mr. J C Parekh, Vice President	Stated that the BSE has a confidential draft business plan for developing BSE debt trading and a clearing house in very near term.

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Organization Name	Persons Interviewed	Remarks
Peregrine India	Mr. Nikhil Johri, Head, Fixed Income	Member of NSE debt sector. One of 5 debt funds that has received approval. Stated that the State owned bank fund managers would need to trade their debt portfolios if the market is to gain liquidity in the secondary market.
Life insurance Corporation of India	Mr. R. N. Tripathi, Executive Director (Marketing)	Stated that the Life Insurance Corporation has over $ 15 B investments in Government and corporate debt securities. Investments are typically held to maturity and not traded in the secondary market.
J. M. Share & Stock Brokers Ltd.	Mr. Kunal Kumthekar, Chief Executive Officer Mr. Anil R. Bhatia, Vice President, Head - Debt Group Mr. Vasun Shridharan, Economist	They were lead managers to the first index bond in India which is being launched by ICICI
Nucleus	Mr. Asit C Mehta, Chairman	Stated that a separate association is needed for government debt securities dealers. Estimated that secondary trading in Government debt securities is less than 1% of outstanding volume.
DSP Merrill Lynch	Mr. Sanjiv H. Shah, Senior Vice President	Have applied to become satellite dealers. Have explored the possibility of forming a corporate debt dealers association and stated that they account for about 75% of PSU bonds and corporate bonds in the primary market constrained by Reg K (USA).
The Credit Rating Information Services of India Ltd.	Mr. Subodh K. Shah, Executive Director, Chief Rating Officer	Stated that the State Bank Of India, Unit Trust of India, GIC and LIC currently hold most of the existing corporate debt and have to be willing to release/trade if the secondary debt market is to become active.
Mecklai Financial & Commercial Services Ltd.	Mr. Jamal Mecklai, Managing Director	Expressed interest in being a inter-institutional broker in the corporate debt market. Sees value in forming a corporate debt dealers association.

Securities Trading Corporation of India Ltd. (Subsidiary of Reserve Bank of India)	Mr. D. Basu, Chairman Mr. R. Venkatesan, Managing Director Mr. S. R. Kamath, Chief Manager (Planning) Mr. Chandar Sinha, Chief Dealer	Stated that a self regulatory association is needed although this may take a while. Stated that the Government and corporate debt securities distribution systems need to be expanded.
Citibank	Mr. G. Shiva, Head - Fixed Income & Money Markets	Citibank's trading in corporate debt is prohibited because of U.S statutes and banking regulations (Reg K). Active in the government debt securities market.

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Organization Name	Persons Interviewed	Remarks
Over the Counter Exchange of India	Mr. M. Pushpangadan, Managing Director	OT€EI considers debt trading a high priority. Stamp tax problems are a barrier to creating national depository and debt trading . "Permitted Segment" allows trading in any security listed anywhere in India.
Jardine Fleming India Asset Management (Pvt) Ltd.	Mr. U. R. Bhatt, Director and Chief Investment Officer	Stated that there is a need to have marking to market, stamp duty uniformity and a set of improved rules for Repos. Expressed interest in a corporate debt dealers association.
State Bank of India Capital Markets Ltd.	Mr. R. C. Mehta, Executive Director Mr. Arun Bhatnagar, Deputy General Manager (Private Placement) Mr. Ashis Agrawal, Securities Research Mr. Ajay Kaushal, Securities Research	Stated that more nonbank dealers are needed. Stated that Indian state owned banks do not trade their debt holdings.
State Bank of India Funds Management Ltd.	Mr. M. P. Radhakrishnan, Managing Director Mr. D. R. K. Patnaik, General Manager	Invest primarily in PSU bonds and corporate bonds
ICICI Securities & Finance Co Ltd.	Mr. V. Srinivasan, Group Manager, Fixed Income Mr. N. Arun, Manager Fixed Income Mr. Sanjay Mansabdhar, Manager, Fixed Income	Member of the Indian Primary Dealers Association that is being established, NSE debt sector member. Open to FIRE attendance at PD Association meeting.
State Bank of India Gilts Ltd.	Mr. N. Gopalkrishnan, Managing Director	Key member of the Indian Primary Dealers Association stated that this association is being formed.
Reserve Bank of India Ltd.	Dr. T. C. Nair, General Manager, Internal Debt Management Cell Mr. M. M. Lal, Assistant General Manager, Internal Debt Management Cell	Said that RBI is now selecting 12 Satellite Dealers. All bidders will continue to be welcome at Govt. auctions, not just Primary Dealers. Expressed a very positive interest in working with the FIRE Project on debt market reforms.

Organization Name	Persons Interviewed	Remarks
National Stock Exchange Of India Ltd.	Dr. R. H. Patil, Managing Director Mr. Ravi Narain, Deputy Managing Director Ms. Chitra Ramkrishna, Senior Vice President	Said that NSE has approximately 100 debt market members with 80 active. Felt that NSE is addressing counterparty risk guarantees and that policy changes are what is needed for corporate debt trading, requiring screeen based trading for deals below Rs. 50 - 100 million.
ANZ Grindlays Bank	Mr. Arvind Sethi, Head of Treasury, India	Instrumental in setting up a working group that plans to form a debt dealers association.
Bank of America	Mr. Vijayan Subramani, Vice-President & Country Treasurer, Global capital Markets Group India	Has met with RBI about the Government securities market and ways to develop it. He is on NSE debt sector committee.
Global Trust Bank Ltd.	Mr. A. Anchan, General Manager Treasury	Is a member of the working group that plans to form debt dealers association. Expressed interest in working with the FIRE project.

APPENDIX D

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