To, 12th August, 2022

Securities and Exchange Board of India
Via email to: pradeepr@sebi.gov.in; nikhilc@sebi.gov.in; and kirand@sebi.gov.in

Sub: Comments on Consultation paper on Online Bond Trading Platforms - Proposed Regulatory Framework"

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **Consultation paper on Online Bond Trading Platforms - Proposed Regulatory Framework.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the consultation paper for Online Bond Trading Platforms - Proposed Regulatory Framework is a positive step and we realize that regulations are a must for the growth of this sector and also for investor protection. These platforms are actually plugging a gap in the existing infrastructure and there is a need to encourage such innovation. A well-designed regulatory framework will be a positive for the end users and the whole ecosystem which is currently in nascent stages. We have some suggestions on refining the proposed mechanism, which we have put forth in our comments.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

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C. Suggestions / Comments:

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Category: Association of Investment Professionals

Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	**6.1. Mandatory SEBI Stock-Broker registration:** Bond platforms play the role of facilitators, thereby facilitating transactions by investors registered on their websites. Therefore, it is proposed that these bond platforms should register as stock-brokers (debt segment) with SEBI or be run by SEBI registered brokers. This will also enhance the confidence among investors, particularly non-institutional investors, as the platforms would be provided by SEBI regulated intermediaries. Additionally, the stock-broker regulations will be applicable to these entities, which would govern their code of conduct and other aspects related to their operations and risk management.	We appreciate the SEBI's effort to design a regulatory framework for the online bond trading platform We strongly believe that licensing of such platforms should be made mandatory, as this will bring all the players under the purview of SEBI. This will help to bring the platforms on a level playing field. Further, will bring more transparency to the market infrastructure. This will also help platforms to grow as a SEBI regulated entity would be more trustworthy for investors. The SEBI licensing requirements can also involve increasing the capital base requirement for any entity looking to obtain the online platform license. We would also recommend that in addition to Broker registration with exchanges, SEBI can look to mandate that for primary issuances these	Licensing requirement of these online bond trading platform entities is important for investor protection and growth of this nascent market. Any mishap or unwarranted incident at this stage, can actually push back the growth of this sector by decades.

		platforms need to appoint registered underwriters or seek relevant category merchant banking license.	
2.	**6.2. Eligible securities:** The debt securities offered for buy/ sale by the online bond platforms shall be only listed debt securities.	We believe that these platforms are filling an important gap by bringing retail participation in the fixed income market. This has been something which the Indian market Indian market participants and regulators together have been trying to encourage for years. Considering the above, limiting these platforms offering would be a big blow and would be counterproductive. We agree that there is definitely be a need to safeguard retail investors and also avoiding that platforms are not circumventing existing regulations, by selling public issues in the guise of private placement. But we suggest that SEBI should allow online bond platforms to provide investors with access to unlisted debt, but strengthen rules around it. We suggest that SEBI has already brought regulations for Accredited Investors in India, so as a first step, SEBI should allow these platforms to provide access to Accredited investors for unlisted debt. This will help also help protect the platforms from future litigations as these investors are sophisticated investors, they are expected to perform their due diligence before investing.	We strongly believe that many of these platforms are doing good work for improving retail access to fixed Income market, which till now was limited to largely Bank FDs, Corporate FDs and to some extent Government bonds. We believe that limiting a part of their offering may kill the market in the nascent stage, instead we suggest that SEBI should look to strengthen the rules and regulations. Limiting the investor class to Accredited investor will make sure that we will only see sophisticated investors accessing these platforms, which will make sure that the retail investors who are most vulnerable are protected.

		Additionally, SEBI can mandate a set of disclosures which will clearly differentiate listed and unlisted debt and the risk associated with investing in unlisted debt and make it mandatory for investors to consent to understand those risks every time before investing in unlisted debt. Further, as an additional measure SEBI may think of mandating credit rating of unlisted debt securities, if the same needs to be offered on online platforms. The rating should also of be of the particular instrument. This will ensure that investors will have more information before making the investment decision. Additionally, many of the listed debt securities have high face value (INR 10L) , which makes it inaccessible to retail investors, to increase retail participation in listed debt space, we would request SEBI to mandate lower face value for bonds, so that it retail investors can easily invest in them.	
3.	**6.3. Proposed Lock-in period for the eligible securities:** To address the issue of DPI mentioned in para 5.7 above, it is proposed that listed debt securities issued on private placement basis, offered for sale on bond platforms shall be locked-in for a period of six months from the date of allotment of such debt securities by the issuer.	This is a welcome step for investor protection and we are in support of this. The lock in will ensure that the existing regulations are not circumvented and public issues are not being done in the guise of private placement. We believe that some of these platforms may lead to parallel market infrastructure creation and any such case should be dealt with quickly.	The lock in will make sure that the existing regulations are not circumvented and this will make sure only genuine issuers and platforms are being accessed by retail investors.

		Having said that, we would recommend that SEBI may look to ease the requirement of lock in period for Accredited investors, as they are expected to be sophisticated and are expected to invest post due diligence. SEBI may also look to ensure that rules like this are same for both online and offline routes, which will make it difficult to implement. SEBI may look to detail the process of applicability of these rules along with the implementation across the players in the final guidelines. But, the success of these platforms in short span of time to onboard both issuers and investors, should force SEBI and existing market participants to rethink, if there is a need to simplify the listing procedure for companies so that the companies find it easier to publicly list debt than to do unlisted debt or private placement.	
4.	**6.4. Channelizing transactions through either of the following two options:** 6.4.1. Exchange Platform – Debt segment: The transactions executed on the online bond platforms are to be routed through the trading platform of the debt segment of Exchanges. Routing their trades through the trading platform of Exchanges, will help in mitigating settlement risk associated with these online bond platforms as the settlement is guaranteed on T+2 basis.	The existing exchange infrastructure for debt has been available for years now and that has not been able to bring retail participation to the debt market. We believe mandating the same infrastructure for these platforms may be detrimental. But instead, we would suggest that SEBI should allow these platforms to have both exchange and OTC transactions, and for OTC transactions, SEBI can mandate additional measures for investor protection i.e. reporting of any such transactions within 15 minutes of execution to the exchanges.	The existing infrastructure for debt market needs improvement as the same has not been able to encourage retail participation. These platforms have been successful in doing that, so there is need to integrate existing infrastructure but at the same time not dismantling the innovation being done by these platforms. SEBI can actually look to bring out measures to reduce the risks associated with OTC transactions on

	6.4.2. Request for Quote Platform (RFQ): Alternatively, the transactions executed on the online bond platforms can be routed through RFQ platform of the Stock Exchanges where the transactions will be cleared and settled on a Delivery Versus Payment (DVP-1) basis. 6.4.3. The APIs of the Exchange platforms can be utilised by the bond platforms for ease of integration with the Exchange systems mentioned above. This will be similar to the trading model followed for equity transactions, where stock brokers build their own front-end for facilitating placing of orders by their clients and the transactions are executed on the Exchange trading platforms. The platforms will, thus, continue to maintain the current web interface (front end), where they will show the list of available debt securities, ratings, risk associated and other information of the debt securities on their website.	Further, regarding RFQ route, we have seen many institutional players struggling to use the RFQ route for debt transactions, this may be too cumbersome for retail investors. One thing which we would suggest that, these SEBI can ask these platforms to have an escrow account for OTC transaction to reduce any settlement or operational risks emanating from these platforms. One concern, we have is that many such platforms are only offering options to buy such debt securities and no option to sell the same. SEBI may look to bring out rules in future for these platforms to include the sell option, as and when liquidity in the market improves. We also see that SEBI can look to improve the debt securities information on the exchange platforms, it needs to be made more user friendly. This can help to increase retail participation. The success of stock markets on exchange is in some part due to the fact that a stock of a company is easy to identify for retail investor and as we have one stock security per company. But, its difficult to find certain bond for a retail investor to invest, as there are many bonds for the same company and the nomenclature of bond is also difficult to understand for a retail investor.	these platforms and just make reporting of transactions, disclosures, investor grievance reporting more robust, so that any issue can be tackled at the initial stage itself.
5.	Platform Agnostic regulations	We would also suggest that SEBI should look to design rules that	This is necessary for a fair market as no player

		should be platform agnostic i.e. these rules should be equally applicable for online and offline, so as to create a level playing field. We can also look to move towards uniform regulatory policies/guidelines for debt and equity market segment gradually, to have a uniform regulatory space for participants and intermediaries.	should have regulatory arbitrage supporting its growth.
6.	Uniform Product details and Disclosures requirement	We believe that a uniform product details and disclosure requirement should be mandated by SEBI for all the platforms. Details of securities should include most of the important aspect of the securities i.e. issuer, rating, date of maturity, interest frequency, amortization schedule, minimum investment, YTM, YTC, last traded date, last trading price etc. Disclosure should also mention that the securities are not available to be sold from the same platform (if not otherwise) with a warning that insufficient liquidity in the market may lead to holding the security till the maturity leading to liquidity risk as well. Disclosures should necessarily include if these platforms are offering or selling securities where the issuer is a related party. Disclosures may also include upfront disclosure of conflict of interest including fees charged for intermediation. There is also a need to define the designated person for these platforms, so that these platforms are not able to offer debt for their own	This has been covered by SEBI as one of the concerns. We believe a uniform set of rules for both product details to be displayed and disclosures will benefit both the platforms and investors.

		related entities or their investor companies.	
7.	Marketing by these platforms	This is something which has not been covered in these regulations, but we are seeing this increasing trend that any many of these platforms have online influencers marketing their products without proper disclosures. There is no doubt that there is a need for marketing, but SEBI can look to mandate that these platforms avoid paying for any celebrity or influencer marketing similar to the case we have in AMCs, or if the same is allowed, platform should ensure that any such paid marketing is disclosed clearly. Also shareholders / associates of any intermediaries should not be allowed to do the same, which is the case in many online platforms.	This issue has come to the fore in recent times, as some investor hard earned money was stuck in a Cryptocurreny wallet and the same was being recommended by many influencers on social media. We believe it's necessary that SEBI curbs this issue, as any such issue related to corporate bond market can actually reverse years of work and efforts being done by the regulator to improve the participation in corporate bond market.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Ravi Gautham, CFA at +91 99021 17087 or at advocacy@iaipirc.org.

Sincerely yours,
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