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Growing Asia's Markets

Re: 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

Name of the person/ entity proposing comments:	Asia Securities Industry & Financial Markets Association's Asset Management Group ("AAMG")
Name of the organization (if applicable)	
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Category: whether market intermediary/participant (mention type/ category such as FPI, law firm, consultant, etc.) or public (investor, investee company, academician etc.)	Public (Industry Association)

Sr. No.	Para. no. of the consultation paper	Extract from the consultation paper	Comments / Suggestions	Rationale
1	2.4	"RFQ platform helps in enhancing the price discovery and brings pre-trade transparency in the transactions of eligible securities."	Our members (most of which are global asset managers) who invest in and trade fixed income instruments agree with the extracted statement in paragraphs 2.4 of the Consultation Paper. We and they believe that electronic trading would not only result in better price transparency but also reduced transaction cost for investors.	
2	4.3	"While the overall corporate bond investment by FPIs is low, the percentage of such trades carried out on the RFP platform is even lower."	As noted in paragraph 4.3 of the Consultation Paper, the current overall corporate bond investment by FPIs is low. The major reasons for this include the following: (a) FPIs, particularly global asset managers, prefer and tend to use global trading platforms (e.g., Bloomberg, MarketAxess and Tradeweb) to do their fixed income trades across different markets; (b) FPIs are not inclined to invest time and resources to adapt their existing global fixed income trading model (i.e., use of global trading platforms) for a single market, especially if that market is not particularly liquid; and (c) FPIs who have used the existing NDS-OM web platform to trade Indian government bonds find it difficult operationally to access and use (e.g., multiple log in requirements, user having to obtain a Digital Security Certificate, pre-funding is required for margin, overdraft in settlement amounts are not allowed for FPIs, and block trading is not supported). If SEBI would like to promote increased investment by FPIs into its corporate bond market, it may be better served by connecting its corporate bond market with global bond trading platforms that are commonly used by institutional investors around the world, like the very successful Mainland China-Hong Kong Bond Connect scheme where foreign investors are able to trade bonds on the highly liquid China interbank bond market (CIBM) directly through Bloomberg, Tradeweb and MarketAxess. We believe that focusing on a way to integrate or connect the local stock exchange RFQ platform(s) with global trading platforms commonly used by global institutional investors would fast track FPI inestments in India's corporate bond market and be an efficient win-win for all stakeholders.	

3	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."	We understand that the main objective of this consultation as stated in paragraph 1 of the Consultation Paper is to increase the liquidity of RFQ platform of the stock exchanges but mandating FPIs to route a certain percentage of their secondary market trades through such RFP platform would not necessarily encourage FPI investment in the corporate bond segment. On the contrary, in addition to the reasons set out in Sr. No. 2 above, requiring FPIs to route a specified percentage of their trades through the RFQ platform of stock exchanges means that FPIs will have to monitor and track their trades to comply with this requirement and this would be an additional burden (in terms of additional costs and expenses) for them and another reason for not investing in the not so liquid India's corporate bond market. Mandating the routing of a certain percentage of FPI trades through the RFP platform of stock exchanges will not increase the liquidity of India's corporate bond market. Ease of access is more likely to attract FPI investment in this market.	
4	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."	For the reasons set out in Sr. No. 3 above, we do not support the proposal to require FPIs to route at least 10% their secondary market trades to the RFQ platform of stock exchanges. Investors should be encouraged and incentivized to use electronic platforms (e.g., ease of access and cost efficient) and not mandatated to do so. As suggested above, a more effective way of increasing FPI participation in the Indian corporate bond market is to improve their ease of access to such market, which could be done by connecting existing domestic trading platforms with those already used by FPIs or overseas instituional investors globally. Developing an integrated and user-friendly electronic trading platform for fixed income (both government and corporate bonds) in India would be a much more compelling basis for increasing FPI investments than regulatory requirements.	

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1	2.4	"RFQ platform helps in enhancing the price discovery and brings pre-trade transparency in the transactions of eligible securities."	Our members (most of which are global asset managers) who invest in and trade fixed income instruments generally agree with the extracted statement in paragraph 2.3 and paragraphs 5.1 and 5.2 of the Consultation Paper.	~~Foreign investors generally leverage platforms that can handle multiple markets across the globe. Mandating FPIs to route a certain percentage of their~~

2	4.3	"While the overall corporate bond investment by FPIs is low, the percentage of such trades carried out on the RFP platform is even lower."	As noted in paragraph 4.3 of the Consultation Paper, the current overall corporate bond investment by FPIs is low. Among the major reasons for the foregoing are: (a) FPIs, particularly global asset managers, prefer to use global	

3	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	We understand that the main objective of this Consultation as stated in paragraph 1 of the Consultation Paper is to increase the liquidity of RFQ platform of the stock exchanges but mandating FPIs to route a certain	

4	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/se	For the reasons set out in the above section, we do not support the mandating of a fixed percentage of trades to be carried out electronically in any market and on any platform. Investors (including FPIs) should be encourage	