Unleashing the potential of the Indian Debt Capital Markets

REPORT 2021

CITY OF LONDON CORPORATION: INDIA-UK CAPITAL MARKETS WORKING GROUP

Contents

City of London Corporation: India-UK Capital Markets Working Group (CMWG)

Purpose:

Capital markets provide an important channel of financing for the real economy. They help allocate risk, support economic growth and promote financial stability. The *City of London Corporation: India-UK Capital Markets Working Group*, hereafter, (CMWG or Working Group) has been established to address the market and policy barriers impeding the realisation of the full opportunity India presents to finance and vice versa. The purpose of the CMWG initiative, is to examine trends in capital markets development and to identify the factors that will encourage the development of a vibrant and resilient capital market in India.

Guiding framework:

- There are a broad range of factors that can support the development of a viable capital markets.
  - **Regulatory independence:** fostering regulatory independence and effectiveness is critical in striking a balance between investor protection and issuer costs.
  - **Market independence:** greater market independence would help with capital market pricing outcomes and funding allocations
  - **Legal and judicial systems:** strengthening the legal and judicial systems so that they are conducive to financial markets development.
  - **Complementary market eco-systems:** develop complementary market eco-systems for derivatives, repo and securities as they help investors in funding and hedging.

The broad objectives of setting up the CMWG:

1. Development of an efficient capital markets eco-system in India: to provide resources and share UK expertise required for the long-term sustainable development

2. Create a platform for accessing global long-term, lower-cost pools of capital from sovereign wealth funds, pension funds, insurance companies and other institutional investors to meet India's significant investment requirements

Areas of focus:

1. **Debt markets:** Facilitating the development of a vibrant corporate bond market in India.

2. **Currency & Derivatives:** To enable the development of the derivatives market and derivatives products.

3. **Policy and Regulation:** To provide enabling framework conditions to ease the flow of finance.

Outputs:

1. Recommend strategic market-making initiatives to increase commitment of investors, capability of investees and knowledge sharing of financial instruments/services used by market players in other markets.

2. Draw upon international experiences through the City of London Corporation network of capital market experts, as well as access international think tanks, research reports and papers.

3. Partnerships between UK and Indian financial stakeholders that contribute to lowering barriers to cross-border finance flows.

Deliverables:

1. Policy Papers/Research Reports: Provide suggestions and recommendations of the CMWG to Indian regulators, policy makers: SEBI, RBI, MoF, FIMMDA, UK Stakeholders such as HM Treasury and the IUKFP.

2. Provide inputs based on market insights to bilateral dialogues, such as the India-UK Economic & Financial Dialogue (EFD).

Foreword

Robust capital markets, including the corporate bond market, are essential for reviving economic growth, in India and worldwide. The ability to raise equity is a crucial building block for a vibrant economy, and an important source of funding for business. As we look to kickstart a strong economic recovery, private capital has a critical role to play in helping us "build back better", especially given the huge fiscal challenges resulting from COVID-19.

Huge amounts of capital are moving, and search for yield means more interest in high growth markets such as India, as evidenced by the continued growth in foreign investment.

The City of London Corporation was among the first international institutions to publish an in-depth report on developing the corporate debt markets in India, back in 2008. Building on this, the City of London Corporation launched the Joint India-UK Capital Markets Working Group to enhance knowledge-sharing, deepen the networks between Indian and UK businesses, and facilitate dialogue between policymakers.

We were pleased that the Ministry of Finance, India and HM Treasury indicated their support for the work of the group during the 10th Economic and Financial Dialogue (EFD), and look forward to the group feeding into the upcoming India – UK Financial Markets Dialogue.

This report, the group's first publication, provides a comprehensive analysis of the current state and outlook for India's debt markets and provides recommendations intended to encourage further development of a vibrant capital market, and deeper corporate bond markets, in India.

There has been enthusiasm and commitment from the group during the development of this report. I would like to thank the Co-Chairs, Ananth Narayan and Shrey Kohli, for ably leading the discussions and driving this agenda forward, and members of the group for their valuable inputs and insights into the report.

Catherine McGuinness
Chair of the Policy and Resources Committee
City of London Corporation

Introduction and Purpose

The City of London Corporation: India-UK Capital Markets Working Group (CMWG or Working Group) was created to assess and help address the market and policy barriers impeding the realisation of the potential for capital markets to finance India's growth and development.

The paper is aimed at deepening the domestic and offshore corporate bond market for India in a post-pandemic world, as well as transforming it into a competitive source of financing for issuers and an attractive investment for a wide range of investors.

The objective of this CMWG Working Paper (Working Paper) is to examine the trends and developments in capital markets and to identify the changes that will encourage the further development of a vibrant capital market in India. This Working Paper is an informal attempt to provide an initial set of recommendations to increase the depth of the corporate bond market in India and to enable a broad-based discussion on the factors that are essential for the development of debt capital markets in India.

It is recognised that the development of a deep, liquid corporate bond market in India across the maturity spectrum could facilitate a competitive source of financing that allows access for a wide range of issuers. It would also benefit the country's large infrastructure investment needs, accentuated by the pandemic – by tapping into the growing pool of long-term funds available through institutional investors domestically and internationally. The development of green and sustainable debt capital markets can also help India facilitate its transition to a low carbon economy consistent with its commitments to the Paris Agreement.

The development of India's bond market has been studied by several expert groups in the past including the Shri Harun R Khan Committee Report (HR Khan Report, 2016) and the India–UK Financial Partnership (IUKFP) 'Development of the Corporate Bond Market Report' (2015). Progress has been registered on the implementation of many of the past recommendations. This Working Paper adds to that literature by taking a practitioner-led view and makes targeted recommendations for policy makers to consider.

Despite various efforts, the size, breadth of issuers and liquidity in the corporate bond markets in India remains smaller than other countries as a percentage of GDP and this prevents it from meeting the needs of firms and investors. This Working Paper considers the issues that prevent the market from achieving scale, including those faced by market participants including issuers, insurance companies, pension funds, mutual funds and foreign investors from accessing debt capital domestically and internationally. It compares the market practices and regulatory approaches between India and other markets, including London, a leading international jurisdiction for global issuers and Indian corporates to access international debt capital and discusses learnings and innovations which will enable the growth of a robust and resilient debt capital markets ecosystem in India.

The recommendations made include those for (i) improving the efficiency and availability of the primary markets, (ii) deepening liquidity in the secondary markets, (iii) developing the ecosystem of products and, (iv) targeted tax, regulatory and reporting interventions to help address issues faced by issuers and investors in accessing domestic and international debt capital markets.

We hope you find this report informative and insightful.

Thank you to all of our participants in particular, the Larsen & Toubro team and Joywin Mathew from DLA Piper UK LLP.

Ananth Narayan
India Co-Chair CMWG
Associate Professor
S.P. Jain Institute of Management and Research (SPJIMR)

Shrey Kohli
UK Co-Chair CMWG
Head of Debt Capital Markets and Funds
London Stock Exchange Group (LSEG)

Executive Summary: 15 Key Recommendations

RECOMMENDATIONS	RESPONSIBLE AGENCY	IMPACTED STAKEHOLDERS
RECOMMENDATIONS RELATED TO INTERNATIONAL (OFFSHORE) DEBT CAPITAL MARKETS		
PRIMARY DEBT MARKETS		
1. **External Commercial Borrowing Guidelines (ECB Guidelines):** 1.1 **All in cost ceiling:** Consider changes to pricing cap of 4.5 per cent. against the relevant benchmark to allow for a wider range of issuers to access the markets. 1.2 **End use restrictions:** Liberalise end use restrictions to allow issuers to be able to raise capital at lower costs. 1.3 **Minimum average maturity:** Align the minimum average maturity requirements for bonds to the RBI regulations governing investment by foreign portfolio investors in Rupee non-convertible debentures. 1.4 **Added focus on ESG labelled issuances:** All project categories aligned with globally accepted green, social, sustainable and sustainability-linked principles should be permitted within the ECB Guidelines, to promote the issuances of green, social, sustainable and sustainability-linked bonds. 1.5 **Eligible issuers:** Clarify eligibility of issuers who are not otherwise able to avail of foreign direct investment (FDI).	Reserve Bank of India.	Issuers.
2. **Credit guarantees schemes:** Develop special credit guarantees by credit-worthy insurance companies, multilateral development banks, contingent credit solutions providers and local development banks, as a route for a wider range of companies to access markets.	Insurance Regulatory and Development Authority of India, Ministry of Finance.	Multilateral Development Banks, ECAs/Insurance companies and Issuers.
3. **Smart Cities:** Make it simpler for smart cities and municipalities to access global markets by developing dedicated guidelines.	Ministry of Finance, Reserve Bank of India.	Issuers (public sector).
4. **Awareness & education on international practices and sustainable finance:** Raise awareness on routes to access global markets, investor familiarity through consistent roadshows and sustainable finance tools including through the IUKFP.	Ministry of Finance, Securities and Exchange Board of India, IUKFP & City of London Corporation.	Issuers, Investors, Advisors.

RECOMMENDATIONS	RESPONSIBLE AGENCY	IMPACTED STAKEHOLDERS
TAX, REGULATORY AND REPORTING REQUIREMENTS		
5. **Withholding Tax:** Make permanent the reduced withholding tax rate. Consider extending the 4 per cent. treatment for bonds listed in the India International Exchange (INX), GIFT City to bonds also listed on other international centres with regulatory convergence such as London.	Reserve Bank of India, International Financial Services Centres Authority (IFSCA).	Investors.
6. **Foreign Portfolio Investors:** It is recommended that the concessional rate of tax deducted at source (TDS) on interest income to encompass other permissible debt securities and discounted instruments.	Ministry of Finance, Central Board of Direct Taxes.	Investors.
RECOMMENDATIONS RELATED TO BOTH DOMESTIC AND INTERNATIONAL MARKETS		
ECOSYSTEM		
7. Markets 7.1. **Market Infrastructure:** Bond forwards regulators should allow bond forwards (which are effectively a combination of a cash transaction and a repo). Besides allowing long term investors to address reinvestment risk, this will help further grow the underlying cash and repo markets.	Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India, IFSCA.	Investors, market makers.
7.2. **Shorting:** To aid liquidity and price discovery, short positions in credit markets may be allowed within limits, along with attendant products such as Securities Lending & Borrowing Mechanism (SLBM).	Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India, IFSCA.	Market makers, investors.
7.3. **Selling Protection via credit default swaps (CDS):** In Feb-2021 the RBI released a draft on Credit Derivatives Directions ('the Draft'). As per this Draft, commercial banks, non-bank finance companies, housing finance companies, specialized financial institutions will be eligible to be Market Makers. Institutional participants including insurance companies, pension fund, mutual funds & Foreign Portfolio Investors (FPIs) can buy or sell protection without having an underlying exposure.	Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India and Ministry of Labour – Employees Provident Fund Office.	Market makers, investors.

RECOMMENDATIONS	RESPONSIBLE AGENCY	IMPACTED STAKEHOLDERS
To include exempt provident funds with a minimum corpus of [Rs.10 billion], under regulation of Ministry of Labour's Employee Provident Fund Office (EPFO) as an institutional investor for the purposes of the proposed guidelines. To issue the final guidelines.		
7.4. **Futures on credit indices:** To promote familiarity and depth in credit markets, trading on futures linked to benchmark credit indices should be encouraged.		
7.5. **Integrated Trading Mechanism:** All regulators to coordinate and encourage common dealing platforms such as RFQ on exchanges/central counterparty clearing houses (CCPs).	Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India, Stock Exchanges, and The Clearing Corporation of India Limited.	Investors, Brokers.
7.6. **Valuations:** All regulators should adopt uniform principles in respect of corporate bond valuations, to remove inconsistencies and improve market transparency.	Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India.	Investors.
7.7. **New Product Structures:** Develop new product structures (e.g. bond insurance, surety bonds) and hedging mechanisms.	Securities and Exchange Board of India, Reserve Bank of India, Stock Exchanges, The Clearing Corporation of India Limited, Self-Regulatory Organizations like Fixed Income Money Market and Derivatives Association of India (FIMMDA), Association of Mutual Funds in India (AMFI), and Primary Dealers Association (PDAI).	All.

RECOMMENDATIONS	RESPONSIBLE AGENCY	IMPACTED STAKEHOLDERS
8. Regulatory 8.1. **Principle based risk regulations:** Regulators should gradually move towards principle-based regulations on credit risk management, rather than prescriptive regulations.	Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India.	Ecosystem.
8.2. **Overall Regulatory Coordination:** Regulators should not only coordinate; they should also be actively seen by market participants as coordinating seamlessly in the collective interest of credit markets.	Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India, Securities and Exchange Board of India, Reserve Bank of India, Ministry of Finance, Financial Stability & Development Council (FSDC).	Ecosystem.
9. **GIFT City:** Develop GIFT City as an intermediary between onshore and offshore markets and promote regulatory convergence between GIFT City and international centres such as London.	International Financial Services Centres Authority (IFSCA), Ministry of Finance.	Government of India.
RECOMMENDATIONS RELATED TO DOMESTIC (ONSHORE) DEBT CAPITAL MARKETS		
PRIMARY DEBT MARKETS		
10. **Anchor Investor:** To encourage further growth, it is recommended that the current method of investor allocation is modified to facilitate the use of an "Anchor Investor" consistent with the use of this concept in the equity capital markets, to provide both issuers and investors with greater execution certainty.	Securities and Exchange Board of India, Reserve Bank of India (RBI) and Ministry of Finance.	Issuers, investors, advisors part of the capital raising process.
SECONDARY DEBT MARKETS		
11. Regulatory Participation in Credit Markets:		
11.1. **RBI entry into credit repo markets:** Necessary legislative changes should be made to allow the RBI to accept specified corporate bonds as collateral for their LAF repo/reverse repo operations.	Ministry of Finance, Reserve Bank of India.	Market makers and investors.
11.2. **Regulatory capacity for intervention in corporate bond markets:** Beyond indirect actions , regulators and the FSDC should have the capacity to directly intervene in corporate bond markets as and when required for maintaining financial stability.	Ministry of Finance, Financial Stability & Development Council (FSDC).	Ecosystem.

RECOMMENDATIONS	RESPONSIBLE AGENCY	IMPACTED STAKEHOLDERS
12. Market makers:	Reserve Bank of India.	Ecosystem.
12.1. **Banks/PDs as market makers:** With the entry of RBI into credit repos, RBI regulated Banks and PDs should be encouraged to deepen activity in both credit repos and in market making, consistent with international best practices.		
12.2. **Market making in corporate bonds:** Issuers should be encouraged to appoint market makers for their debt, providing two-way secondary market liquidity (but not a backstop).	Securities and Exchange Board of India.	Issuers, market makers, investors.
12.3. **Investors providing short term liquidity via repo markets:** With appropriate disclosures and risk management, institutional investors should be encouraged to provide short-term liquidity to market makers via repo markets.	Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority, Insurance Regulatory and Development Authority of India.	Market makers, investors.
TAX, REGULATORY AND REPORTING REQUIREMENTS		
13. **Aligning equity and debt tax:** Over time, the tax treatment for traded debt instruments should converge with that of equity instruments so that activity in corporate bonds is encouraged as much as activity in equities.	Ministry of Finance, Central Board of Direct Taxes.	Ecosystem.
14. **Aligning direct debt and debt fund tax treatment:** As in the case of equities, the tax treatment of direct holdings of debt instruments should be aligned with the tax treatment of debt holdings via debt fund schemes.	Ministry of Finance, Central Board of Direct Taxes.	Retail and HNI investors.
15. **Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs):** There should be stability in the tax treatment of interest and dividend components of the distribution from Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) in relation to investors.	Ministry of Finance.	Investors.

Main Report

Recommendations related to International (Offshore) Debt Capital Markets

Primary Debt Markets

1. TARGETED CHANGES TO THE RESERVE BANK OF INDIA'S (RBI) EXTERNAL COMMERCIAL BORROWING GUIDELINES (ECB GUIDELINES) TO ALLOW MORE ISSUERS AND SUSTAINABLE BONDS TO ACCESS GLOBAL MARKETS

1.1. ALL-IN COST CEILING

The market has warmly received the RBI's updates to the Master Circular on External Commercial Borrowings, Trade Credits and Structured Obligations of 2019 (as recently updated on 12 April 2021), particularly its intention to enhance the ability for Indian companies to access international markets in Indian Rupees (i.e. masala) and other currencies through the automatic route (i.e. without a prior approval from the RBI).

More Indian companies have now accessed the international capital markets through the ECB route – however beyond 30 Indian "blue-chip" and marquee PSUs, banks and conglomerates, the next set of Indian companies on the investment grade credit spectrum still face structural challenges. This Working Group identified deepening the breadth of Indian issuers that have the ability of using the ECB route as a complementary, lower cost source of capital. The top 12 issuers have been involved in a majority of the debt capital raising from the offshore markets.

Under the guidelines, the "all-in costs" of an issuance must be 450 basis points from the benchmark currency – given the recent yield environment, this constraint limits more issuers from considering the ECB route, as previous reports such as the IUKFP's Corporate Bond report from 2015 has highlighted.

Another practical constraint is that pricing in the primary markets is often not certain until the issuer seeks to launch a bond, and undertakes an investor roadshow and a bookbuild. With the recent issuances, we have seen substantial tightening in yields due to investor demand during the bookbuild process. If the issuer and its advisors have reasonable doubt that the all-in threshold may be exceeded, it is often the case that issuers will opt to not launch the bond at all than launch and fail to price.

- **Recommendation:** Our suggestion is that the pricing cap be further liberalised or, for a short pilot period waived entirely, as the other guidelines within the ECB circular ensures the credit worthiness of companies that consider this route. In respect of investment in Rupee non-convertible debentures (NCDs) by FPIs, we note that there are no similar pricing caps. Additionally, such investment only has a mandatory minimum residual period of 1 year. This has increased FPI investment in NCDs issued by Indian companies. A similar relaxation in respect of Rupee-denominated ECBs may incentivise foreign investment in Rupee-denominated ECBs.

We revisit this "all-in" cost ceiling when considering the issue of partial credit guarantees.

Table: Amount raised by top 12, next 30 and other Indian issuers in offshore markets – a clear need to widen access

ISSUERS	AMOUNT ISSUED (USD$ BILLION)	NUMBER OF BONDS
Top 12	120.6 (54 per cent.)	201 (45 per cent.)
Next 30	73.9 (33 per cent.)	158 (35 per cent.)
Remaining	29.0 (13 per cent.)	89 (20 per cent.)

Source: Refinitiv, a LSEG business (includes matured bonds), London Stock Exchange

Table: Top 12 Indian Issuers in international markets by amount raised

ISSUERS	AMOUNT RAISED (USD MM)	NO. BONDS	CREDIT RATING
State Bank of India (London Branch)	16,893	21	IG
Export Import bank of India	15,921	31	IG
Reliance Industries Ltd	15,157	27	IG
ICICI Bank Ltd (Dubai Branch)	13,628	22	IG
Vedanta Resources Ltd	10,700	12	HY
Adani Ports and Special Economic Zone Ltd	8,600	14	IG
Bharti Airtel International Netherlands BV	8,397	8	IG
Indian Railway Finance Corp Ltd	7,405	16	IG
Axis Bank Ltd (Dubai Branch)	6,450	11	IG
ICICI Bank Ltd	6,040	16	IG
REC Ltd	5,923	12	IG
Power Finance Corporation Ltd	5,450	11	IG

Source: Refinitiv, a LSEG business (includes matured bonds), London Stock Exchange

1.2. FURTHER CHANGES TO END-USE RESTRICTIONS, AND AN ADDED FOCUS ON ESG LABELLED ISSUANCES

As the guidelines have developed over the years, a wider range of end-uses have become eligible subject to other guidelines such as issuance size and minimum average maturity period. Eligible end-uses now include general corporate purposes, on-lending for NBFCs and repayment of Rupee loans. This represents progress from previous reports.

- **Recommendation:** practical issues remain in clarifying whether certain activity falls within the end-uses negative list – e.g. standards to determine housing as 'affordable housing' or the need to make investments in company, intellectual property or land, particularly in relation to infrastructure – where the market would benefit from clarification or further liberalisation to the guidelines. This could address areas of sustainable infrastructure such as smart cities and water supply which are not covered adequately within current definitions.
- **Recommendation:** with particular reference to sustainable finance instruments – such as green, social and sustainability bonds, where proceeds are used towards permitted projects consistent with internationally recognised frameworks such as the Green & Social Bond Principles proposed by the International Capital Markets Association (ICMA) and carry an independent verification from third party verifiers such as the Climate Bond Initiative, the Working Group believes that the RBI should specifically allow within the guidelines the use of proceeds for such projects. The Government of India together with the RBI may wish to consider a time-limited carve out for green, social and sustainability bonds as an initial step.

This would create more awareness and focus for sustainable finance in India.

1.3. MINIMUM AVERAGE MATURITY PERIOD

The restrictions on certain uses of proceeds > 5y, 7y and 10y limits the ability of issuers to bring together financing requirements for a larger capital raise typically required of international debt markets. Most bonds from Indian corporates have priced in tenors < 5 years. Investors in the international debt capital markets prefer shorter dated bonds owing to the liquidity inherent in shorter dated bonds.

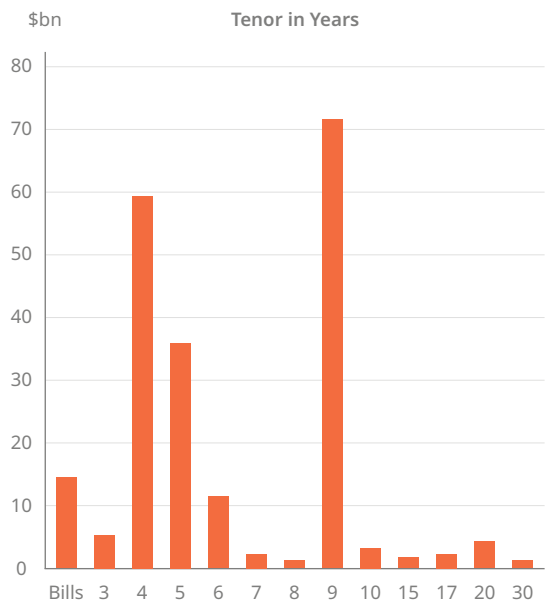
- **Recommendation:** The application of a Minimum Average Maturity Period at 3 years for ECBs should apply for all eligible use of proceeds.

1.4. ELIGIBLE ISSUERS: CLARIFY ELIGIBILITY OF ISSUERS WHO ARE NOT OTHERWISE ABLE TO AVAIL OF FOREIGN DIRECT INVESTMENT (FDI)

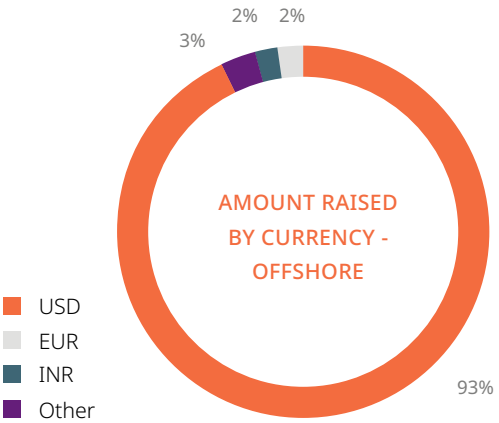
The current version of the ECB guidelines allows those entities eligible to receive FDI, as well as Port Trusts, Units in SEZ, SIDBI and the EXIM Bank of India to raise offshore debt capital in any currency, in addition to microfinance entities, NGOs and non-profits who can raise Rupee-denominated debt.

- **Recommendation:** It is not clear from the ECB Guidelines whether body corporate entities can raise debt via the ECB framework. In addition, for real estate investment trusts (REITs) and infrastructure investment trusts (InvITs), which were previously specifically listed as eligible borrowers, the current ECB Guidelines do not provide any clarity – if such entities can raise ECBs. The ECB Guidelines set out that any entity eligible to receive FDI has the ability to raise ECBs. While REITs and InvITs are eligible to receive foreign investment, they are not eligible to receive FDI. It is now the practice for such issuers to seek specific approval from the RBI to raise debt from the offshore markets. Whilst the intention of the ECB Guidelines was to be more liberal as to the categories of issuer, the present ECB Guidelines could make it clear that any body corporates and REITs/InvITs would be eligible to raise debt via the ECBs.

AMOUNT RAISED BY TENOR OF BOND - OFFSHORE



Source: Refinitiv, an LSEG business (includes matured bonds), London Stock Exchange



Source: Refinitiv, an LSEG business (includes matured bonds), London Stock Exchange

2. A LARGER ROLE FOR (PARTIAL) CREDIT GUARANTEES AND THE INSURANCE MARKET

The CMWG identified the relative limited spread of Indian issuers accessing global markets as a problem to address.

Partial credit guarantees (PCGs) provide a route to unlock significant international capital in offshore markets for Indian companies. It adds the explicit guarantee of a creditworthy guarantor to the outstanding borrowing and/or interest payments, thereby raising the creditworthiness of the bond and a better pricing outcome for the issuers. Such bonds also attract a wider set of institutional investors to subscribe to the bonds which in turn also ends in a wider price discovery process.

- **Recommendation:** The ECB Guidelines allows a limited set of entities to provide a partial credit guarantee, including the multilateral development banks (MDBs), public and quasi-public sector banks. The Working Group feels that this set of participants can be expanded to explicitly include other participants such as insurance companies, international financial institutions and specialised & well-capitalized NBFCs.
- **Recommendation:** The Working Group believes that matters such as the minimum average maturity of three years and restrictions on prepayment and put or call options act as a fetter to the participation of a wider group of credit enhancement providers.
- **Recommendation:** The Working Group also felt that in the event of enforcement of a guaranteed bond, PCG providers should be allowed to repatriate any fees or proceeds of such enforcement without the requirement for approval from the Reserve Bank of India. The ECB Guidelines should make this explicitly clear.
- **Recommendation:** From a structural perspective, the "all-in" costs of borrowings at the benchmark + 450 bps is still considered a hurdle for partially guaranteed issuances and limits the number of Indian issuers able to tap the bond markets (as the insurance cost plus cost of issuing the bond, fees etc. all must fit within the caps). As noted in the previous set of recommendations, other groups before us have requested the RBI to relax this condition, and this group certainly sees some merit in at least widening the pricing cap if not removing it entirely for a certain period of time, or for the cap to only consider the yield at issuance rather than include the costs related to a PCG. The guarantee fee should be excluded from the definition of "all-in" costs.
- **Recommendation:** The Working Group also believes that there is material uncertainty posed by the process of RBI approval for certain credit guaranteed structures - a comprehensive set of RBI guidelines would help provide more certainty to the market.

Finally, the Working Group considers that it is necessary to highlight the role of insurance markets in India to support credit enhancement. Corporate bond instruments, due to their medium to long term characteristics have exposure to emerging risks such as climate change. Climate and ESG assessments are now forming a closer part of credit assessments in international markets. Issuers exposed to such risks may wish to include a layer of support from insurance markets to support their credit rating. Furthermore, for issuances where the use of proceeds involve construction, supply chain projects, domestic and international trade, development of surety bonds in the Indian market would allow to transfer some of the execution related risks to the insurance market.

- **Recommendation:** IRDAI may consider opening participation for surety bonds for a pilot period or via its sandbox.
- **Recommendations:** In early April 2021, the IRDAI issued the Draft Guidelines on Trade Credit Insurance[1]. These guidelines address a key gap in the Indian market – being the lack of trade credit insurance products. Such products could provide protection to sellers of goods and services or to banks and factoring agencies to promote receivable factoring transactions. However, the guidelines do not address the larger need for insurance providers to underwrite the credit risk of companies issuing bonds in the debt capital markets. Such insurance products can provide a way for credit enhancement for issuers and a way of protecting their portfolio of investments while staying invested for investors. This has the potential to deepen the corporate bond market in India and foster investor interest, including to prospects below investment grade ratings.

IRDAI may soon release guidelines for general credit insurance. IRDAI may need to consider the following when formulating such guidelines:

- The definition of obligor should cover Central and State PSUs as well as other state government entities.
- The reference credit, apart from tradeable instruments like corporate bonds, should also include risk participation in bilateral credit limits between banks and companies. This would allow Banks to procure insurance on a portion of the credit exposure they have to an issuer.
- Process for claim settlement in case of bonds being the underlying risk instrument could be by way of payment under the policy with an assignment or transfer of ownership of the bond to the insurance provider while for risk participation in bilateral credit facilities, it could be the assignment of proportionate recovery amounts. However this should be clearly addressed in the guidelines.

1 https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4438.

3. SMART CITIES AND MUNICIPALITIES: ESTABLISHING GROUND RULES

The Government of India has made the "Smart Cities Mission" a cornerstone policy. Despite this initiative, only a handful of municipalities in India have issued municipal bonds.

As smart cities are now able to incorporate themselves under the Companies Act and establish themselves as corporate entities able to accept FDIs, this makes them eligible for international capital raising under the ECB Guidelines.

LIST OF MUNICIPAL BOND ISSUERS IN INDIA

CITY	AMOUNT (IN CRORES)
Amravati	Rs. 2000
Vishakhapatnam	Rs. 80
Ahmedabad	Rs. 200
Surat	Rs. 200
Bhopal	Rs. 175
Indore	Rs. 140
Pune	Rs. 495
Hyderabad	Rs. 200
Lucknow	Rs. 200

* 1 crore = 10 million
Source: London Stock Exchange

Challenges remain for municipalities and smart cities in India to issue overseas bonds in Rupee-denominated and foreign currency format. The biggest consideration is to find the right entity or structure backed by the right receivables to be able to issue a credit worthy instrument. Explicit consent from the regulator is needed for any issuance. Common accounting standards and transparency at municipalities has been attempted to be addressed, but requires further work. There is no single corporate governance standard across such entities.

- **Recommendation:** to scale up the market, RBI, SEBI, MoF and MoUDA should create dedicated ECB Guidelines for smart cities, municipalities and other local authorities. A wider category of issuers should be enabled and encouraged to issue debt in the offshore market. This can be achieved only by clear and unambiguous directions or circulars from the RBI and other authorities. A more considered approach to matters such as the all-in costs ceiling and the restrictions on end use of proceeds and, a clear guidance on the categories of issuers eligible to issue without seeking the approval of the RBI would enable further issuances.
- Smart cities require to make infrastructure investments that are likely to be eligible use of proceeds under green and sustainability bonds – thus could be a strong source of sustainable debt finance from India in the future.

4. RAISING AWARENESS & IMPROVING EDUCATION ON INVESTOR ENGAGEMENT AND SUSTAINABLE FINANCE

The Working Group perceived that the level of awareness among issuers about corporate bond markets and the international practices of making global investors familiar with its strategy and credit story could be further embedded within the corporate culture in India on the supply side.

For example, on the supply side, although non-deal roadshows and capital market days where the management teams at issuer's update investors on their strategy, financials and funding strategy are regular events in international markets; they are however less common in India. Similarly, Indian companies have to answer an increasing number of questionnaires and disclosures on financial and non-financial sustainability and ESG metrics – with best practices yet to develop.

It was also felt that listing bonds on offshore exchanges was still perceived as complicated – where, in practice, if a company has its shares or bonds listed on one of India's domestic exchanges, it is now possible for them to meet the disclosure and regulatory standards of an international listing destination such as London. The Working Group felt that whilst the London proposition is understood by the advisory community, it needs to be further communicated to corporates. Similarly, given the meteoric growth within the sustainable debt markets, the group felt that technical seminars on sustainable finance will be well received by a corporate treasury audience and can support more Indian issuers pursuing the path towards the issuance of green, social, sustainability and sustainability-linked bonds.

- **Recommendation:** Raise awareness on routes to access global markets and enable investor familiarity through consistent roadshows and sustainable finance tools including through the IUKFP. In particular, it is suggested that the City of London Corporation, together with the CII and FICCI, and institutions like the London Stock Exchange Group, run a calendar of quarterly or semi-annual technical workshops for those Indian issuers that could potentially issue their first international bond or first green bond soon after this year's Financial Markets Dialogue.

  On the demand side, it was noted that both institutional investors (real money owners, mutual funds, insurance companies and pension funds) and retail investors would gain if the basics of rates and credit markets, such as yield curves, credit ratings, duration etc., were articulated in a clear and well thought out manner on a neutral platform, supported by an all-India campaign similar to the "Mutual Funds Sahi Hai" campaign.

Tax, Regulatory and Reporting Considerations

5. WITHHOLDING TAX: MAKE PERMANENT THE CONCESSIONAL RATE FOR CERTAINTY, AND INCREASE THE USE OF THE ADVANTAGEOUS WHT RATE FOR GIFT CITY BY EXTENDING IT TO DUAL LISTINGS

Previous reports have commented on how international bondholders expect their return to be issuer-jurisdiction neutral from a tax perspective. Bond terms and conditions always impose the risk of issuer-jurisdiction withholding taxes on the issuer through a tax gross up obligation, i.e. the issuer pays the tax.

India's current imposition of withholding tax on foreign currency bonds deters Indian issuers because, first, the resulting gross up obligation raises the cost of funds for the issuer and, second, taxes are imposed on gross interest instead of the more normal corporate taxation approach of net profit.

- **Recommendation:** The Finance Act provides a reduced withholding rate of 5 per cent., which under current rules applies for a temporary period only. Our recommendation, in line with previous suggestions, is that this be made permanent.

Furthermore, the Government introduced a withholding tax of 4 per cent. for bonds listed in GIFT City in the Budget for 2020. This has been utilised in a very limited manner, as the drafting of the provision requires that the GIFT City listing is a "sole" listing, whereas international investors normally expect a listing in a globally recognised venue such as the London Stock Exchange.

- **Recommendation:** It is recommended that the 4 per cent. withholding tax rate is applied to bonds where there is a dual listing between an exchange in GIFT City and at least another international centres with regulatory convergence such as London.

6. FOREIGN PORTFOLIO INVESTORS: CREATE A LEVEL PLAYING FIELD WITH DOMESTIC INVESTORS, PARTICULARLY CONSIDERING THE POTENTIAL INDEX ELIGIBILITY OF CERTAIN G-SECS

To encourage investment in the Indian debt market by FPIs, a concessional tax regime has been introduced for FPIs. Accordingly, interest income earned by FPIs on Rupee-denominated bonds and government securities is subject to a lower rate of Tax Deducted at Source (TDS) of 5 per cent. with effect from 1 June 2013.

The concessional rate of TDS (5 per cent.) is not applicable in case of interest on debt instruments other than Rupee-denominated bonds and government securities. Interest on other debt is subject to TDS at 20 per cent.

Moreover, as per Notification No. 56/2013 dated 29 July 2013 issued by the CBDT in this regard, the concessional tax rate is available only if the rate of interest on Rupee-denominated bonds is within 500 basis points of the applicable base rate of the State Bank of India. Owing to this condition, it is uncertain if the concessional tax rate of 5 per cent. would be applicable for debentures, discounted securities, etc.

Furthermore, the higher rate of TDS of 20 per cent. on interest income on various debt instruments such as pass through certificates (PTC), securities debt instrument, discounted instruments like treasury bill, commercial papers, certificate of deposit among others, often acts as a deterrent for FPIs as against the concessional TDS rate on selected instruments.

- **Recommendation:** In order to encourage FPI investment in India, it is recommended that the concessional rate of TDS on interest income may be extended to cover all interest earnings by FPIs on security receipts, pass through certificate and other permissible debt securities instruments and discounted instruments like treasury bill, commercial papers and certificate of deposit. In addition, it is recommended that the applicability of the lower rate of TDS be extended beyond 1 July 2020.

This becomes increasingly relevant as the Government of India considers the eligibility of certain classes of G-Secs within global fixed income government bond indices such as the FTSE World Government Bond Indices, JP Morgan Emerging Market Government Bond Indices etc. Eligibility for these indices generally requires a level playing field for tax treatment of international and domestic investors. FTSE Russell recently announced that India was being added to the watchlist for future eligibility given recent policy changes. This change would add to the certainty expected by FPIs.

- **Recommendation:** It is recommended that the concessional rate of tax deducted at source (TDS) on interest income include other permissible debt securities and discounted instruments.

Recommendations related to both Domestic and International Markets

Ecosystem

7. MARKET INFRASTRUCTURE

The Working Group considered various possible enhancements to the market infrastructure – in terms of new products and capabilities and some suggestions around possible regulatory approaches around them.

- **Recommendation:** Regulators should consider allowing corporate bond forwards, i.e., allow corporate bonds to be traded for a forward date and settled on exchanges under margin. Bond forwards are effectively a combination of a cash (T+2) transaction and a corporate bond repo transaction. Besides allowing long term investors such as insurance companies to address reinvestment risk (they are currently addressing this using less liquid OTC derivative transactions), this will help further grow the underlying cash and repo markets.

- **Recommendation:** To aid in secondary market liquidity and price discovery, along the lines of government bond markets, short positions in corporate bond markets may be allowed within system-wide limits, along with attendant products such as Securities Lending & Borrowing Mechanism (SLBM) and special corporate bond repos.

Recent developments regarding credit derivatives:

The Reserve Bank of India (RBI) released a draft on Credit Derivatives Directions (the Draft), in February 2021. This Draft proposes to overhaul the defunct credit derivatives framework, previously introduced in 2011. As per this Draft, commercial banks, NBFCs, housing finance companies and specialised financial institutions will be eligible to be market makers. Institutional participants including insurance companies, pension funds, mutual funds and FPIs can buy or sell protection without having an underlying exposure. Only plain vanilla single-name CDS contracts, Rupee-denominated and settled, either cash settled or physically settled. The Draft recognizes that market liquidity is possible only if hedgers and risk-takers have a level-playing field.

- **Recommendation:** To include exempt provident funds with a minimum corpus of [Rs.10 billion], as regulated by the Ministry of Labour's Employee Provident Fund Office (EPFO) as an institutional investor for the purposes of the proposed guidelines. To truly kick-start the CDS market, we recommend that all the enabling guidelines by the various regulators, such as the RBI, SEBI, Pension Fund Regulatory and Development Authority, IRDAI and Ministry of Labour – Employees Provident Fund Office, be aligned in form and meaning, coordinated and issued simultaneously.
- **Recommendation:** To promote familiarity with, and depth in credit markets, trading on futures linked to benchmark credit indices should be encouraged.
- **Recommendation:** Currently, SEBI has encouraged mutual funds to participate on request for quotes (RFQ) platforms run by exchanges and clearing houses, in the interests of fostering transparency and liquidity. To deepen these platforms, other regulators such as IRDAI, RBI, and PFRDA should similarly encourage participants regulated by them to trade on the same platforms.
- **Recommendation:** All regulators (RBI, SEBI, IRDAI, PFRDA) should adopt uniform principles in respect of corporate bond valuations, to remove inconsistencies and improve market transparency
- **Recommendation:** Regulators (IRDAI, PFRDA) should gradually move away prescriptive risk management regulations (such as specifying what percentage of debt investments should be in which credit rating bucket), to principle-based regulations. These would provide broad guidelines for the governance of the ecosystem of financial institutions to adhere to and be accountable for.
- **Recommendation:** Finally, further to the recommendations above, regulators (RBI, SEBI, IRDAI, PFRDA) should not only coordinate; they should also be seen by market participants as coordinating seamlessly in the collective interest of credit markets. Authorities must take note that amongst some market participants, issues relating to corporate bonds are often perceived as falling between regulatory tables.

8. NEW PRODUCT STRUCTURES: DEVELOP NEW PRODUCT STRUCTURES (E.G. BOND INSURANCE, SURETY BONDS) AND HEDGING MECHANISMS

As has been raised in previous reports, and within this section, issuers exposed to such risks may wish to include a layer of support from insurance markets to support their credit rating. Further, for issuances where the use of proceeds involve construction, supply chain projects, domestic and international trade, development of surety bonds in the Indian market would allow the transfer some of the execution related risks to the insurance market.

- **Recommendation:** Regulators such as SEBI, IRDAI and IFSC should encourage the development of bond insurance and surety bond markets in India.

9. GIFT CITY: DEVELOP GIFT CITY AS AN INTERMEDIARY BETWEEN ONSHORE AND OFFSHORE MARKETS AND PROMOTE REGULATORY CONVERGENCE BETWEEN GIFT CITY AND INTERNATIONAL CENTRES SUCH AS LONDON.

A number of structural issues highlighted in the report can be addressed in GIFT City via the India Financial Services Centre Authority.

- **Recommendation:** As a greater proportion of investors use GIFT City as a route to channel capital as the closest offshore centre to India, the Government of India may wish to consider opening domestic markets for companies with a listing in India, on GIFT City and with a centre of regulatory convergence such as London. This will enable greater use of Rupee based financing globally, and create stronger linkages between India's growing domestic market and international centres for capital.

Recommendations related to the Domestic (Onshore) Debt Capital Markets)

Primary Debt Markets

10. ANCHOR INVESTOR

In primary equity issuances through the book building process, since 2009, SEBI has allowed issuers to allocate up to sixty per cent. of the quota set aside for qualified institutional buyers to 'anchor investors'.

The presence of anchor investors allows issuers to launch issues with a degree of confidence. In turn, anchor investors are provided the assurance of allotment.

SEBI has mandated the use of the Electronic Book Provider (EBP) mechanism for issuance of debt securities on private placement basis. However, unlike equity issues, the concept of 'anchor investors' has not been introduced for debt issuances.

- **Recommendation:** SEBI should consider the introduction of the concept of 'anchor investors' for issuance of debt securities on EBP, to provide additional confidence to issuers, while providing the assurance of allotment to investors who are willing to anchor an issue.

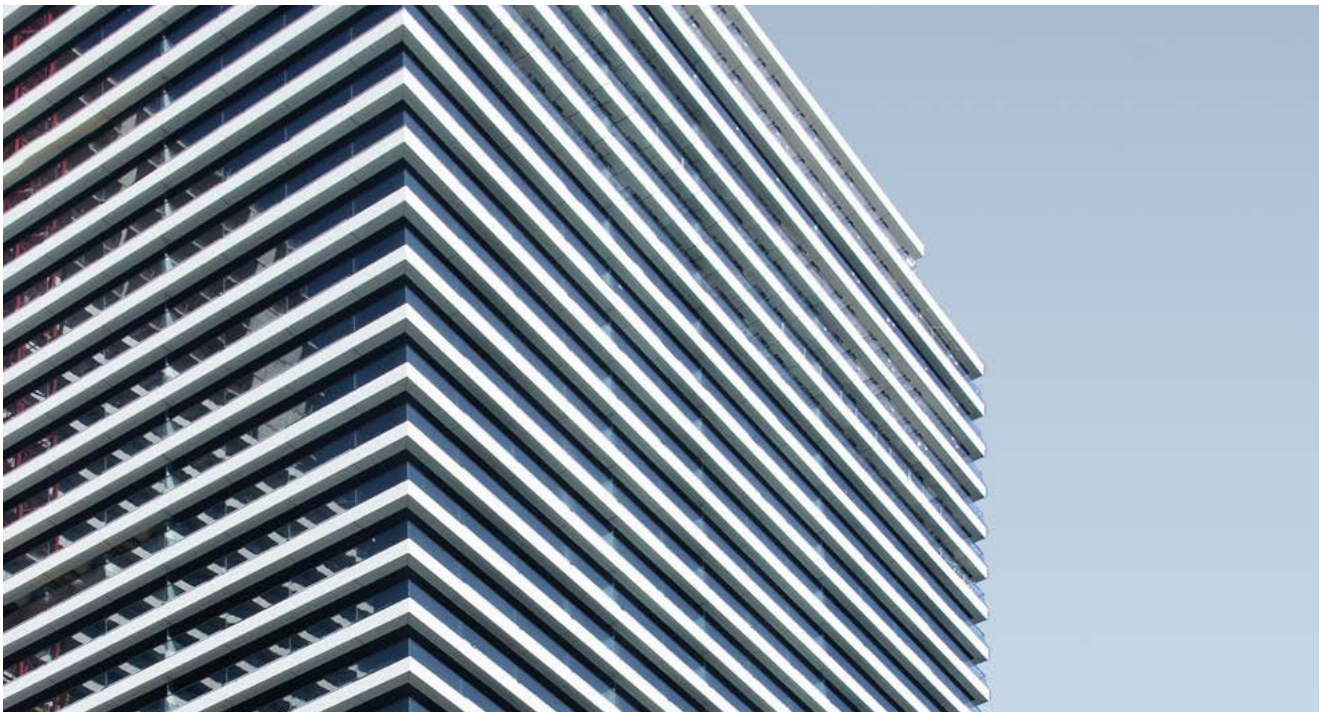
Secondary Markets in Corporate Bonds

11. REGULATORY PARTICIPATION IN CREDIT MARKETS

The monthly volumes in corporate bond secondary markets currently stands at about INR 1.5 trillion. Mutual Funds alone hold Assets Under Management (AUM) of INR 10 trillion in their open-ended debt funds (excluding overnight and liquid funds).

As such, liquidity in corporate bond secondary markets needs to be enhanced significantly, especially given the is to bring more issuers into debt capital markets.

In turn, this requires a series of steps to enhance regulatory participation in corporate bond repo and outright markets. In addition, steps can be taken to encourage banks, primary dealers, institutions, and others to boost their trading and market making operations. Finally, some changes in tax would facilitate retail participation in corporate bonds and encourage institutional investments into products such as REITs and InvITs.



11.1. RBI PARTICIPATION IN CREDIT REPO MARKETS

India is amongst the few countries globally where no regulatory body can participate directly in outright or repo markets for corporate bonds. Specifically, the RBI can only accept securities issued by either Central or State governments for their Liquidity Adjustment Facility (LAF) repo transactions with banks and primary dealers. In turn, this likely incentivises the enthusiasm of banks and primary dealers to make markets in and carry an inventory of corporate bonds.

- **Recommendation:** Consistent with the recommendations of the Khan Committee (2016), to provide to the corporate bond repo markets and to encourage banks to undertake market making in corporate bonds, necessary legislative changes should be made to allow the RBI to accept specified corporate bonds for their Liquidity Adjustment Facility (LAF) repo/reverse repo operations.

11.2. REGULATORY CAPABILITY TO INTERVENE IN CORPORATE BOND MARKETS

Unlike most other large jurisdictions, regulatory bodies in India cannot intervene directly in the corporate bond markets, even when financial stability considerations warrant such intervention. As witnessed during March-April 2020, regulators then must find ways to incentivise other market players to intervene, by using indirect instruments such as Targeted Long Term Repo Operations (TLTROs).

Such indirect intervention is neither comforting to the credit markets nor is it efficient. It may also entail delays in execution. These circumstances may reduce confidence amongst market makers in the corporate bond secondary markets.

- **Recommendation:** Regulators should have the capacity to intervene directly in corporate bond markets in response to any systemic dislocations and threats to financial stability. Either necessary legislative changes must be undertaken allow RBI to do so, or another empowered entity (operating under the guidance of the Financial Stability and Development Council – FSDC) must be created.

11.3. SECONDARY MARKETS IN CORPORATE BONDS – MARKET MAKING

Corporate bond secondary market volumes would sustainably grow if a class of market makers were to emerge from amongst banks, primary dealers, and other financial entities. The participation of the RBI/regulators in corporate bond repo and outright markets could provide a fillip to market making amongst such players.

In addition, issuers perhaps with a threshold minimum outstanding in debt could be encouraged to appoint market makers for their bonds. Such market makers would be required to provide two-way prices for their debt up to a certain extent, under a suitable commercial arrangement with the issuer. In turn, issuers should benefit with a lower liquidity premium on their issuances that such liquidity should foster.

- **Recommendation:** Issuers should be encouraged to appoint market makers for their debt, who would be required to provide two-way secondary market liquidity up to a certain extent.

11.4. LIQUIDITY IN MARKET REPOS FOR CORPORATE BONDS – MUTUAL FUNDS

Market makers in corporate bonds would need the support of a deep market for corporate bond repos, to help fund their inventory of trading stock. While the presence of the RBI in the repo markets could help the cause, eventually, market players themselves will need to grow this market.

Mutual Funds are now mandated to maintain minimum liquidity buffers in their open-ended debt funds, in the form of cash and government securities. A part of this liquidity buffer, beyond a minimum threshold could be allowed in the form of funds lent under select corporate bond reverse repo, under an appropriate risk management framework. This could provide a steady source of funding support to basic corporate bond repo markets, while in turn fostering secondary market liquidity that would benefit the investor ecosystem.

- **Recommendation:** Institutional investors such as mutual funds should be encouraged to set aside some funds to provide short-term liquidity to market makers via repo markets, under an appropriate risk management framework.

12. TAX PROPOSALS

12.1. REMOVING TAX INCONSISTENCY BETWEEN DIRECT DEBT AND FUND-BASED INVESTMENTS

Currently, retail investors face a different tax incidence depending on whether their investments into corporate debt is via direct holdings, or via an investment in a debt fund. Investments via the latter route for beyond 3-years bring in the benefit of inflation indexation and capital gains tax treatment. On the other hand, coupons received on direct holding of corporate debt are subject to marginal income tax rates. This inhibits retail players from directly investing into corporate debt.

It may be noted that such anomalies do not exist in respect of equity investments. Tax treatment for retail investors is identical, whether they invest directly or via equity mutual funds. This in turn has aided the growth of retail participation and interest into equity markets.

- **Recommendation:** As in the case of equities, the tax treatment of direct holdings of debt instruments should be aligned with the tax treatment of debt holdings via debt fund schemes.

12.2. ALIGNING TAXATION FOR DEBT AND EQUITY INVESTMENTS

Post-tax returns on debt investments are perceived as far lower than that offered by equity investments. In large part, this is on account of the higher incidence of tax on income from debt investments referred to above.

Besides removing the anomaly between direct debt investments and investments through debt funds, we would advocate for aligning the tax treatment of debt investments closer to that for equity investments. We would also reiterate that tax considerations should not play a large role in determining the risk that individual investors should assume.

Bringing tax treatment of debt investments closer to that of equity should foster all-round interest and awareness in debt markets, besides allowing for more prudent asset allocation decisions.

- **Recommendation:** Over time, the tax treatment for traded debt investments should converge with that of equity investments, so that activity and awareness in corporate bonds is encouraged as much as in equities.

12.3. STABILITY OF TAX TREATMENT ON DEBT PRODUCTS

Market participants suggested that there have been frequent changes in the tax incidence relating to products such as Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs). There is a general opinion among market participants that such changes dampen investor confidence around such investments.

- **Recommendation:** There should be stability and assurance of stability in the tax treatment of debt products, such as around the interest and dividend components of the distribution from Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs).

Appendix

List of Abbreviations

ABBREVIATION	DESCRIPTION
AMFI	Association of Mutual Funds in India
AUM	Assets Under Management
CBDT	Central Board of Direct Taxes
CCPs	Central Counterparty Clearing Houses
CDS	Credit Default Swaps
CII	Confederation of Indian Industry
CMWG	Capital Markets Working Group
EBP	Electronic Book Provider
ECAs	Export Credit Agencies
ECB	External Commercial Borrowings
ECB Guidelines	External Commercial Borrowing Guidelines
EFD	India-UK Economic & Financial Dialogue
EPFO	Employee Provident Fund Office
ESG	Environmental Social and Corporate Governance
EXIM Bank	Export-Import Bank of India
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce & Industry
FPI	Foreign Portfolio Investment
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FSDC	Financial Stability & Development Council
GIFT City	Gujarat International Finance Tec-City
HNI	High Networth Individual
ICMA	International Capital Markets Association
IFSCA	International Financial Services Centres Authority
InvITs	Infrastructure Investment Trusts
INX	India International Exchange

ABBREVIATION	DESCRIPTION
IRDAI	Insurance Regulatory and Development Authority
IUKFP	India–UK Financial Partnership
LAF	Liquidity Adjustment Facility
MDBs	Multilateral Development Banks
MoF	Ministry of Finance
MoUDA	Ministry of Urban Development Authority
NBFC	Non-Bank Financial Institution
NCDs	Non-Convertible Debentures
OTC	Over the Counter
PCGs	Partial Credit Guarantees
PD	Primary Dealer
PDAI	Primary Dealers Association
PFRDA	Pension Fund Regulatory and Development Authority
PSU	Public Sector Undertakings
PTC	Pass Through Certificate
RBI	Reserve Bank of India
REITs	Real Estate Investment Trusts
RFQ	Request for Quotes
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zones
SIDBI	Small Industries Development Bank of India
SLBM	Securities Lending & Borrowing Mechanism
TDS	Tax Deducted at Source
TLTROs	Targeted Long Term Repo Operations
WHT	Withholding Tax

City of London Corporation: India-UK Capital Markets Working Group (CMWG)

COMPOSITION OF THE INDIA-UK CAPITAL MARKETS WORKING GROUP

India Co-Chair of India-UK Capital Markets Working Group

Ananth Narayan
India Co-Chair, Associate Professor
S. P. Jain Institute of Management and Research (SPJIMR)

India Members

Saugata Bhattacharya
Executive Vice President
Axis Bank Limited

Sandeep Parekh
Founder
Finsec Law Advisors

Nipa Sheth
Founder & MD
Trust Group

Lakshmi Iyer*
President, CIO-Debt & Head-Products
Kotak Mahindra AMC

Jayesh H.*
Partner & Co-Founder
Juris Corp Advocates & Solicitors

Jayen Shah, CFA
Co-Founder & Director
Mavuca Capital Advisors

R. Govindan*
Executive Vice President – Corporate Finance & Chief Risk Officer, *Larsen & Toubro Ltd*

Ashish Ghiya
Managing Director
Derivium Genev

Ritesh Sampat*
Head - Debt Capital Markets & Project Finance
HDFC Bank Ltd

Gautam Verma*
Head of South Asia
Refinitiv

Sridhar Narayan
Managing Director & Head of Global Markets
The Hongkong and Shanghai Banking Corporation Limited, India

** The Capital Markets Working Group also recognises the contributions of these members who have contributed to the recommendations in relation to offshore debt capital markets.*

UK SIDE COMPOSITION OF THE INDIA-UK CAPITAL MARKETS WORKING GROUP

UK Co-Chair of UK-India Working Group on Sustainable Finance

Shrey Kohli
Co-Chair
Head of Debt Capital Markets and Funds
London Stock Exchange Group (LSEG)

UK Members

Srini Sundaram
Founder and CEO
Agvesto Limited UK

Joywin Mathew
Partner, Capital Markets and Structured Investments
Head of India Practice, UK
DLA Piper UK LLP

Dhruva Tandon
Director - International Corporates,
Corporate and Institutional Banking team
Standard Chartered Bank, UK

Secretariat

Anita Nandi-Ray
Chief Representative - India
City of London Corporation

Shraddha Joshi
Executive Officer
City of London Corporation

City of London Corporation: India-UK Capital Markets Working Group (CMWG)

Agvesto is a technology business based in London with a mission to mobilise debt markets and insurance to the agriculture and related sectors.

We work with the sustainable bond issuers (corporates, states and municipalities) in bond issuance and post issuance monitoring. We also work with the project developers, corporations and Agricultural value chain companies to deliver them a blended product containing credit with a back to back risk transfer solutions.

Axis Bank is the third largest private sector bank in India. It offers the entire spectrum of services to customer segments covering Large and Mid-Corporates, SMEs, Agriculture and Retail Businesses. With 4,568 domestic branches (including extension counters) and 11,629 ATMs across the country as on 31st December 2020, Axis Bank's network spreads across 2,521centers, enabling the Bank to reach out to a large cross-section of customers with an array of products and services. The Axis Group includes Axis Mutual Fund, Axis Securities Ltd., Axis Finance, Axis Trustee, Axis Capital, A.TReDS Ltd., Freecharge and Axis Bank Foundation.

For more information, please visit the company's website at *www.axisbank.com*.

Bharatiya Vidya Bhavan's S P Jain Institute of Management and Research (SPJIMR) is a leading school of management in the heart of India's financial centre, Mumbai. SPJIMR is a part of the Bharatiya Vidya Bhavan and functions as an autonomous institute with entrepreneurial agility. It consistently ranks amongst the top ten management institutes in India.

Inaugurated in 1981 by the then British Prime Minister, the Late Hon. Margaret Thatcher, SPJIMR's mission is to Influence Practice and Promote Value-based Growth. It builds on this mission through pedagogic innovations and pioneering programmes, carving a distinctive path in management education.

derivium tradition (india) is India's largest inter-dealer broker for corporate bonds. Along with its sister concern, **genev gapital**, it provides financial & institutional intermediation for G-Secs & Corporate bonds, Structured Credit bonds, Onshore Interest Rate Swaps & Exchange Traded Interest Rate Futures, Investment banking, Money Market Arrangers, Market Making & Bond distribution functions, through a pan-India presence. It also runs an advisory practise in the area of derivatives & risk management.

DLA Piper is one of the largest global law firms in the world, with lawyers located in more than 90 offices across 40 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific.

The firm's practice groups include, corporate, employment, finance, projects and restructuring, intellectual property and technology, litigation and regulatory, real estate and tax. DLA Piper's clients range from multinationals, Global 100 and Fortune 500 enterprises, governments, sub-sovereign entities and public sector bodies to emerging companies developing industry-leading technologies. They include more than half of the Fortune 250 and nearly half of the FTSE 350 or their subsidiaries.

Finsec Law Advisors is one of India's leading financial sector law firms. The Firm specializes in advising clients in the field of financial, securities and investment law. We assist clients on their commercial transactions in the public markets, and advise clients on complex cross border investment matters. Over the years, we have built considerable capability and bandwidth to provide quality service to our clients.

HDFC Bank is one of India's leading private banks and was among the first to receive approval from the Reserve Bank of India (RBI) to set up a private sector bank in 1994. Today, HDFC Bank has a banking network of 5,608 branches and 16,087 ATM's in 2,902 cities/towns. HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional/branch banking on the retail side. The bank has three key business segments: wholesale banking, treasury and retail banking.

HSBC Bank India: The Hongkong and Shanghai Banking Corporation Limited in India offers a full range of banking and financial services through 26 branches across 14 cities. HSBC is one of India's leading financial services groups, with around 39,000 employees in its banking, investment banking and capital markets, asset management, insurance, software development and global resourcing operations in the country. It is a leading custodian in India. The Bank is at the forefront in arranging deals for Indian companies investing overseas and foreign investments into the country.

Juris Corp is a multi-disciplinary law firm which aims to provide unbiased and unmatched legal services in our practice areas. The Firm believes in being the "Preferred Law Firm" for our clients by offering consistent value to them. The Firm has a well-established capital markets team covering the entire spectrum of Indian equity, debt capital and derivatives, who also have expertise in financial regulatory matters. The team provides comprehensive support as regards issue of non-convertible debentures, structured products, Rupee-denominated bonds, hybrid securities, initial public offerings, rights issues, block trades, institutional placements as well as convertible and exchangeable bond issues both in the domestic and in the international markets.

Kotak Mahindra Asset Management Company Limited (KMAMC) – a wholly owned subsidiary of Kotak Mahindra Bank Limited (Kotak), is the Asset Manager for Kotak Mahindra Mutual Fund (KMF). KMAMC started operations in December 1998 and as of 31st December, has approximately 34 lakh investor folios in various schemes. KMF offers schemes catering to investors with varying risk - return profiles and was the first fund house in the country to launch a dedicated gilt scheme investing only in government securities. The company is present in 82 cities and has 87 branches as of 31st December, 2020.

For more information, please visit the company's website at *www.kotakmf.com*.

Larsen & Toubro is an Indian multinational engaged in EPC Projects, Hi-Tech Manufacturing and Services with over USD 21 bn in revenue. It operates in over 30 countries worldwide. A strong, customer-focused approach and the constant quest for top-class quality have enabled L&T to attain and sustain leadership in its major lines of business for over eight decades. L&T is engaged in core, high impact sectors of the economy and its integrated capabilities span the entire spectrum of 'design to delivery'.

LSEG (London Stock Exchange Group) is more than a diversified global financial markets infrastructure and data business. We are dedicated, open-access partners with a commitment to excellence in delivering the services our customers expect from us. With extensive experience, deep knowledge and worldwide presence across financial markets, we enable businesses and economies around the world to fund innovation, manage risk and create jobs. It's how we've contributed to supporting the financial stability and growth of communities and economies globally for more than 300 years.

Mavuca, incorporated in Dec 2018 by Jayen and Kash, is an amalgam of two words:

- The old age Japanese philosophy of "MA", which relates to all aspects of life and is described as a pause in time and also 'uncluttered thinking'
- The current day reality of "VUCA" (Volatile, Uncertain, Complex and Ambiguous) environment.

Our Offerings being categorized under:
- Resource banking – Investment Banking Redefined
- Strategy consulting
- Promoter/Corporate Advisory Services
- Financial Institutions PRACTICE

Further, despite challenging credit environment during the past couple of years, Mavuca has successfully *executed #11 fund-raise transactions for total amounts grossing over INR14 billion*. Our roster of clients for whom we have successfully executed deals include Welspun Group, Raymond Group, Shapoorji Group, L&T Group, JSW Steel, Adani Capital, JM Financial ARC, etc.

Refinitiv, an LSEG (London Stock Exchange Group) business, is one of the world's largest providers of financial markets data and infrastructure. With more than 40,000 customers and 400,000 end users across 190 countries, Refinitiv is powering participants across the global financial marketplace. We provide information, insights, and technology that enable customers to execute critical investing, trading and risk decisions with confidence. By combining a unique open platform with best-in-class data and expertise, we connect people with choice and opportunity – driving performance, innovation and growth for our customers and partners.

For more information, please visit the company's website at *www.refinitiv.com.*

We are a leading international banking group, with a presence in 59 of the world's most dynamic markets, and serving clients in a further 85. Our purpose is to drive commerce and prosperity through our unique diversity, and our heritage and values are expressed in our brand promise, here for good. **Standard Chartered PLC** is listed on the London and Hong Kong Stock Exchanges.

For more stories and expert opinions please visit *Insights* at *sc.com*. Follow Standard Chartered on *Twitter*, *LinkedIn* and *Facebook*.

Incorporated in 2001, **TRUST Group** is a full-service finance house and a significant leader and contributor to the growing Indian financial markets. TRUST Group offers investment banking, capital market services, asset management and advisory and wealth management in fixed income and equity.

TRUST Group is known for its thought leadership, innovation and is consistently ranked as a leading arranger for fixed income instruments in the country. The Group has demonstrated strong execution capability in structuring and mobilizing debt at optimal cost for various categories of issuers across the entire maturity segment.

About the City of London Corporation

The City of London Corporation is the governing body of the Square Mile. The Square Mile is the historic centre of London and is also known as the 'City' – the financial and commercial heart of the UK. Our reach extends far beyond the City's boundaries, supporting a diverse and sustainable London within a globally successful UK.

The City of London Corporation prioritises engaging with important global markets, including those in Asia, to boost two-way investment between Asia and the UK, and to contribute practically to financial policy and reform. The City of London Corporation has a dedicated programme of engagement with India, facilitated through our representative office in Mumbai.

Disclaimer

The report is based upon material in the City of London's possession or supplied to us from reputable sources, which we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any guarantee that factual errors may not have occurred. Neither the City of London Corporation nor any officer or employee thereof accepts any liability or responsibility for any direct or indirect damage, consequential or other loss suffered by reason of inaccuracy or incorrectness. This publication is provided to you for information purposes and is not intended as an offer or solicitation for purchase or sale of any financial instrument, or as the provision of financial advice.

Mayor and Commonalty and Citizens of the City of London Corporation ("the City of London")
PO Box 270 Guildhall London EC2P 2EJ.
Telephone: 020 7606 3030.