

**List of recommendations pending implementation for development of corporate bonds in India**

<b>S. No</b>	<b>Recommendations</b>	<b>Reference Group/Committee</b>	<b>Current Status/Action required</b>	<b>Market Feedback</b>	
	<b>Issuers</b>				
1	There should be a guideline limiting the number of fresh issuances that would include re-issuance of the existing bonds by a corporate in a given time period (say over a quarter). Any new issue should preferably be a reissue so that there are large stocks in any given issue, thereby helping to create secondary market liquidity.	RH Patil Committee	The RBI tried putting a limit on number of private placements in its 2013 Guidelines.	However, there was a major resentment by the NBFC fraternity. Most private placements are based on matching of need and opportunity of a single or small bunch of investors. Hence it is not possible to limit the number of issuances. Secondary markets are should be need-based – they will emerge automatically as the primary market becomes wide and deep	
2	Issuers should be encouraged to consolidate their various existing issues into a few large issues which can then serve as benchmarks.	RH Patil Committee	As above	As above	
4	Legal impediments to consolidation, if any, should be examined and removed.	RH Patil Committee			
5	Re-issuance of the same security should be included for the purpose of the cap suggested for stamp duty, in	RH Patil Committee		Reissuance is currently stamped as a separate issuance; any stamp duty relaxation is welcome	

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	order to encourage re-issuance.				
<b>Investors</b>					
6	The scope of investment by provident/pension/gratuity funds and insurance companies in corporate bonds be enhanced and rating to form the basis of such investments	RH Patil Committee/IUKFP	PFRDA has fairly permissible guidelines, as confirmed by Mr R V Verma during the Bond Market Summit		
7	Investment guidelines for provident/pension/gratuity funds and insurance companies in corporate bonds should provide for fungible/common limits in respect of different issuer categories such as PSUs and private sector corporate entities	RH Patil Committee			
8	Investment in corporate bonds by banks should be considered as part of total bank credit while computing credit deposit ratio by banks	RH Patil Committee	None	Supervisory issue for the RBI	
9	Modify the Mutual Fund Regulations to permit wholesale investors (to be defined to mean an investor who invests not less than Rs 50 lacs in the scheme) to invest in and hold units of a closed-ended passively managed mutual fund scheme	RH Patil Committee	Mutual funds are allowed to invest in PTCs – they are currently being deterred by the pending tax disputes	Tax dispute should be closed soonest. No one is gaining anything by this – the revenue is not losing a single penny, and the revenue cannot be gaining a single penny by mounting pressure on the mutual funds that invested in securitised instruments	

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	whose sole objective is to invest its funds into PTCs and SRs of the designated MBS SPV Trust/ NPA Securitisation Trust			
10	The definition of “Security Receipt” (SR) in Sec 2(zg) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act to be amended to allow SR holders to use SR as evidence to claim right on cash flows from realization of the securitized asset.	RH Patil Committee		This may be counterproductive because a view may then be taken that any instrument evidencing claim on cashflows may be issued only by an ARC. It may be prudent to keep ARCs limited to non-performing assets only.
11	Allow Qualified Institutional Buyers (QIBs) to invest in SRs. Large sized NBFCs and Non-NBFC corporate in India to be permitted to invest in SRs and QIBs. Other SR investors could include PE funds registered with SEBI as VC funds, within limits	RH Patil Committee	SEBI issued a notification permitting QIBs to invest in SRs. No explicit power in case of AIFs, but SEBI may permit AIFs also to be treated as QIBs for this purpose	
12	Develop the wholesale market for securitized assets (not including QIBs). Allow wholesale investors in MF who solely invest in PTCs and SRs of designated MBS SPV	RH Patil Committee		PTC market is currently being killed by the distribution tax. An easy resolution to distribution tax would have been issuance of “bonds” instead of “PTCs”. World-over, most SPVs issue both bonds and pass through

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	Trust/NPA Securitization Trust. Securitized trust SPVs to be allowed to issue PTCs and SRs to mutual funds.			<p>certificates.</p> <p>In India, RBI Guidelines on securitisation of performing assets of 2006 permit SPV to be in the form of a company or a trust.</p> <p>However, surprisingly, if the SPV is formed as a company, to be able to issue bonds, RBI's DNBR has taken as a view that the SPV becomes an "NBFC". This is surprising, since it is well known fact that SPVs are thinly capitalised, while NBFCs need NOF of Rs 2 crores. Besides, SPVs are in no substantive business at all, whereas NBFCs carry financial business.</p> <p>The securitised bond structure would have allowed the market to have variety, while finding an easy way out to distribution tax – the DNBR's view should be re-examined.</p>	
13	SARFAESI for all investors: Currently only banks and HFCs have the power to recover from bad loans using SARFAESI Act. Other institutional investors such as mutual funds, pension funds, insurance companies, NBFCs are at disadvantage given their Loss Given Default will be higher	City of London Report		Vishwanathan Committee has made comprehensive report on relook at the entire law of forcing repayment of debt. SARFAESI is enforcing the secured creditors' rights, while bankruptcy law looks at interest of all creditors. Govt may take a view in light of Vishwanathan Committee's recommendations	

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	than a bank.			
14	Systematic Disclosure of Debt Servicing Performance Information: Banks, NBFCs and all institutional investors may be mandatorily required to report for listed entities to the exchanges a non-payment of debt by a listed borrower within 15 days.	City of London Report	Recent Listing Regulations of SEBI require defaults to be reported. Defaults are also required to be reported on the face of the balance sheet	
15	Respective regulators should place the onus on all regulated entities which use a credit rating provided by CRA with respect to a debt/loan in its books, timely inform the rating agency about the default.	City of London Report	Listing Regulations make it mandatory for listed companies to supply information to “securities intermediaries”, including rating agencies.	
16	All listed entities could be required to provide to a stock exchange a management representation quarterly on whether there are any delays in debt servicing. The format of such disclosure could be prescribed so that it is easy to understand for retail investors.	City of London Report	Listing regulations [reg 30] take care of this.	
17	Restriction on FPIs to invest in bonds with maturities of up to 3 years (a segment largely confined to lower rated issuers),	India – UK Financial Partnership		This is quite a serious limitation and is currently operating so as to restrict FPI investments. However, the RBI may take a pragmatic view looking at the

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	constrains investment by FPIs in bonds rated below AAA.			objective of FPIs to make long term investments.
18	FPIs are currently not permitted to invest in securitisation PTCs which may be allowed	India – UK Financial Partnership		This is a very serious limitation and has existed for virtually no reason. While SEBI’s FPI Regulations seem to be flexible enough permitting FPIs to invest in any “listed security”, Issue and Transfer of Foreign Security Rules made by the RBI seem to be restricting FPIs to invest in securities of “an Indian company” only, thereby excluding any investment done in securities of an SPV. There is no reason for this restriction to remain.
19	Allow FIIs to execute term repos and reverse term repos on an equal footing with domestic investors.	ASIFMA Report		May be considered by the RBI consistent with its objective of maintaining capital account controls.
<b>Intermediaries</b>				
20	Encourage growth of professions Debenture Trustees (DTs)	RH Patil Committee		Currently the provisions about debenture trustees from SEBI, Companies Act requirements for debenture trustees are strong enough. No further regulation is warranted
21	The role of debenture trustees to be strengthened	RH Patil Committee		
	<b>Infrastructure</b>			
22	Creation of a centralized database of all bonds issued by	RH Patil Committee		

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	<p>corporates. It should also track rating migration. Database should be made available free of cost to all the investors.</p>				
23	<p>Enable regulations for the setting up and licensing of platforms for non-competitive bidding and order collection for say upto 10 percent of an issue as also for the facilitation of an electronic bidding process for the primary issuance of bonds and securitized assets</p>	RH Patil Committee		<p>These developments may be left for commercial necessity than regulatory intervention</p>	
24	<p>Disclosure of aggregate loan pricing information from RBI: Since bonds across the rating and maturity spectrum are not regularly available, pricing new bonds efficiently becomes difficult. This in turn leads o limited issuance and availability . This may be partially addressed by creating a proxy credit spread benchmark. RBI along with monthly statistics should endeavour to publish loan pricing data by rating levels and maturity. This would</p>	City of London Report		<p>May throw considerable information burden on the financial institutions; but in view of its benefits, may be considered. Not sure whether a similar reporting requirement exists in other markets.</p>	

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	provide a more relevant pricing benchmark, for the pricing of corporate bonds.				
25	Trading platform similar to NDS-OM be introduced for corporate bonds as well. Given the experience of Clearing Corporation of India Ltd (CCIL) in administering the NDS-OM, they are probably the appropriate entity to introduce a platform for screen based trading of corporate bonds.	India-UK Financial Partnership			
26	The introduction of a DVP3 mechanism, where funds and securities are settled on a net basis, will give a significant boost to the domestic corporate bond market, and make it easier for domestic and foreign institutional investors to trade in rupee corporate bonds.	India – UK Financial Partnership			
27	RBI and Securities and Exchange Board of India (SEBI) may prescribe the use of Crisil bond valuations by all categories of institutional	IUKFP		There is a provision for “registered valuers” in the Companies Act. Once the provision is given effect, valuations may be carried by registered valuers.	



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	investors (or an equally robust valuation matrix prepared by another agency)				
28	Developing standardised bond documentation (Debenture Trust Deeds) with standardised events of default, grace period, covenants, warranties etc.	IFMR		Most bonds are structured by the parties – not sure how standardised term sheets will be of any relevance. However, development of a standard template on the lines of ISDA document may help in reducing the cost of legal documentation.	
29	While exchanges have been allowed to introduce screens for corporate bonds, it has not taken off as volumes will be divided across multiple exchanges. Moreover, exchanges are not the vehicle of choice for bond markets around the world. Mature economies use <b>request for quote systems</b> , which increase liquidity and ease of trading.	ASIFMA			
<b>Incentives</b>					
30	<ul style="list-style-type: none"> <li>The stamp duty on partly secured, and unsecured debentures should be made uniform across states and be linked to the tenor of securities, within an</li> </ul>	RH Patil Committee	.Stamp duty notification by issued by the MoF putting a cap on duty in case of debentures. However, one key issue that remained is – stamp duty on issue of	<b>Stamp duty on securitisation:</b> In case of factoring transactions, stamp duty has been exempted by making an amendment to the Indian Stamp Act. It would have been easy for the Central Govt to make an amendment to Stamp Act to include “an assignment of	

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	<p>overall cap.</p> <ul style="list-style-type: none"> <li>• Re-issuance of the same security should be included for the purpose of the cap, in order to encourage re-issuance.</li> <li>• To promote healthy growth of securitization market, the central government should consider establishing an appropriate institutional process to evolve a consensus across States on the affordable rates and levels of stamp duty on debt assignment, PTCs, security receipts (SRs).</li> </ul>		<p>debentures has been centrally notified; stamp duty on ‘transfer’ of debentures remains completely gray, though most bonds are currently issued in demat format. Additionally, the use of land in Kutch in Gujarat for securing debentures seems to be completely ridiculous, and parity in stamp duty should be brought for secured and unsecured debentures.</p>	<p>receivables to, or by, a special purpose vehicle for the purpose of securitisation of such cashflows”</p>	
	<p>Similar to the case of SEBI Registered VC Funds (which are subject to a restriction on the maximum that they can invest in listed equities), registered debt funds could also be required to invest a maximum of 33.33percent of the investment funds in listed debt securities.</p>	<p>RH Patil Committee</p>	<p>AIF Regulations take care of this</p>		
	<p>Also, as in the case of registered VC funds that have the option to</p>	<p>RH Patil Committee</p>	<p>Cat III AIFs may be listed</p>		

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	list themselves after a certain number of years from the date of closing, Rupee Debt Funds too should be given the option to list themselves on Indian stock exchanges after a period of one year from financial closure. This would provide a liquidity option to those investors that do want to be tied up for the life of the fund.				
31	Provide an explicit tax pass through treatment to securitization SPVs and NPA Securitisation SPVs on par with the tax pass through treatment applied under the tax law to SEBI registered Venture Capital Funds	RH Patil Committee		This is one of the biggest pains of the securitisation market – while sec 115TA to TC were inserted to provide tax pass through, and they were inserted at the instance of the industry, the effort proved counterproductive as distribution tax was imposed. Tax pass through in case of securitisation SPVs must be similar to that in case of REITs – investors are to be taxed, and not the vehicle.	
32	Recognizing the wholesale and QIB character of investors in securitization trusts, there should be no withholding tax requirement on interest paid by the borrowers (whose credit exposures are securitized) to the securitization trust. Similarly, there should be no requirement of withholding tax on	RH Patil Committee		This also needs to be given effect.	

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	distributions made by the securitization trust to its PTC and/or SR holders. However, the securitization trust may be required to file an annual return with the Income-tax Department in which all relevant particulars of the income distributions and the identity of the holders of PTCs and SRs may be included. This will safeguard against any possibility of revenue leakage.				
33	Banks' Investment in IDFs should not be subject to "capital market" exposure limits that applies to equity investments for banks. Further, investments in IDFs should be treated in the same manner as bank investments in bonds and/ or debentures and should be accorded the same risk weightage as applicable to normal infrastructure credit.	RH Patil Committee		May be implemented	
34	Encourage PFs to invest in IDFs	RH Patil Committee		May be implemented	
35	Review interest rates on small savings instruments need to be implemented to ensure that interest rates paid on small	RH Patil Committee		This is a complex macro management issue and may be quite sensitive for states' financing as well. These issues are best examined at a central level.	

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	savings instruments are aligned with market rates. The resultant fiscal savings could be used to provide tax benefits for municipal bonds and for credit enhancements to bonds issued by SPVs for infrastructure development				
36	Allow banks to classify (and reclassify) bond and loan assets into a HTM or AFS bucket based on their declared intent rather than their legal documentation	IFMR		Adoption of IFRS 9 should take care of this	
37	Standardised Debenture Trust Deed (DTD) templates could be developed that may be used by banks for loans as well to improve tradability of loans	IFMR		Already commented above	
38	Create 'credit event infrastructure' on all multiple debt holder obligations, whether in the form of bonds or loans – reporting and dissemination of a credit event across all creditors.	IFMR		Same as above	
39	Require stress Test reporting at bank level	IFMR		Currently, ICAAP reporting under Pillar 2 of Basel II is already requiring stress testing by banks. Not sure about the recommendation	

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40	Gradually bringing down SLR requirements	IFMR		This is a large policy issue	
41	Remove the SLR over time in order to eliminate the HTM bias.	ASIFMA Report		The HTM bias is not merely due to SLR requirements, but also due to the MTM accounting that results for any non-HTM security. IFRS 9 adoption should align accounting to the business model of the bank, and should bring India at par with the rest of the world	
42	In the case of an issuer providing credit enhancement, the requirement of MHP and MRR should be removed as their commitment to the ongoing performance of the facility is established through the credit enhancement. The taxation structure also needs to be changed from distribution tax at SPV level to taxation in the hands of investors as the current regime is not beneficial for banks/NBFCs who have been the dominant investor class in the securitisation market.	ASIFMA Report		While the requirement of MRR has been drawn from global regulations pursuant to the subprime crisis, the MRR requirement itself in India was pegged at double the international requirements – both US and EU require a 5% risk retention, whereas India put a 10% requirement. Having implemented these requirements for over 3 years, there is a need to comprehensively review the MRR requirements. US regulations provide several exemptions to “qualifying” asset classes, particularly prime residential mortgage loans, from MRR requirements. Insisting on an MRR of 10% in case of residential mortgage securitisations, where the default rate has consistently been less than 0.5%, is killing the residential mortgage backed securitisation market.	

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				<p>Likewise, the RBI's current stance in not permitting "resecuritisation", that is, securitisation of loans acquired by a bank/FI, has been a reaction to the global experience in CDO market. But the world is slowly reactivating the CLO/CDO market. CDOs have been particularly instrumental in providing liquidity to bond markets – there is nothing wrong in the instrument itself.</p> <p>The CDS market has been a complete non-starter in India. The very restrictive guidelines of the RBI may have to be reviewed for this.</p>	
43	To create a more attractive environment for investments, the credit rating industry must adhere to international best practices. By doing so, investors can take advantage of an international standardized rating, which will in turn make the market more transparent and reliable which will attract both domestic and foreign investors	ASIFMA Report		Surveillance of rating agencies has become a serious issue in India. Some new rating agencies have also come up: some investors completely disregard the ratings assigned by some rating agencies. The practice of clients "shopping" for the best rating is becoming obvious. Before rating agencies compromise on their rating benchmarks, it is important for SEBI /RBI to set appropriate surveillance mechanism for rating agencies.	
44	If pension funds/other institutions were to use CDS to hedge their exposures to	ASIFMA Report		There is a very serious need to completely review the CDS market in India which has been a complete non	

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	individual issuers, credit risk should be counted as an exposure to the hedge counterparty rather than the issuer.			starter.	
45	Smoothing out tax discrepancies between equities taxed at 0 % compared to bonds taxed at 10 / 20 % may help retail investors get involved in the bond markets.	ASIFMA Report		Equities and bonds are not comparable – equities involve distribution tax; bonds do not.	
46	Keep the 5 % withholding tax for a more extended period of time, perhaps up to five years, to further incentivize foreign investors. the tax could be reduced to zero for purchase of longer tenor bonds in infrastructure.	ASIFMA Report		The present tax provisions are valid only upto 2017. This needs immediate amendment.	
47	Guidance be developed to provide clarity that GAAR rules do not apply to FII capital market transactions where the main purpose of these transactions are to provide investment products to international investors rather than the derive a tax benefit.	ASIFMA Report		This issue has attracted attention right at the top level. No further comments on this.	
<b>Instruments</b>					



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	Introduction of tripartite repo contracts in corporate bonds, securities lending and borrowing and other mechanism for reducing settlement risk. This will allow DVP III settlement be offered for a larger universe of corporate debt securities.	RH Patil Committee			
48	Consider notifying PTCs and other securities issued by securitization SPVs / Trust as “securities” under SCRA.	RH Patil Committee	Already implemented		
49	Securitized structure provides credit enhancements with pooling of assets and selling tranches of these assets with various ratings, allowing investors to acquire assets based on their risk preference. Allow bonds issued by state government or SPVs for the purpose of infrastructure financing, to bring in such enhancements. Willing participants may take part in the under writing process. SPVs floated by Planning Commission and Ministry of Finance could also be	RH Patil Committee	Credit enhanced bonds in the infrastructure space are already being issued	No action required.	

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	considered for such enhancements.				
50	Where the issuers of securitized standard assets are banks and FIs and the same institution is also the credit enhancer, the current draft guidelines indicate that the issuer would require more capital to securitize assets than otherwise. Capital requirements being proposed need review.	RH Patil Committee	2012 Guidelines of the RBI take care of this.	It is high time to implement ratings-based capital requirements in case of securitisation investments too. Globally, the entire world has chosen to apply Basel II standards to securitisation investments.	
51	Credit enhanced Collateralized Loan Obligations (CLOs) and Collateralized Debt Obligations (CDOs) to be considered as approved investment avenues. Insurance firms and PF are not part of the investor base of such debt instruments; their inclusion would improve the demand for such paper.	RH Patil Committee		CLOs and CDO are currently not even possible in India, as regulated financial institutions cannot repackage any loan acquired by them by way of purchase. As mentioned above, there is nothing prima facie wrong in the CLO/CDO mechanism. The subprime crisis and the CDO debacle globally was a product of over-leverage. MRR requirements take care of the skin-in-the-game and overleveraging possibilities.	
52	Municipal bonds may be given some fiscal support with such support taking the form of bond insurance or providing credit enhancement so that municipalities are encouraged to issue such bonds for development of urban infrastructure either on stand alone	RH Patil Committee			

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	or on pooled basis. A plan should be drawn for developing this market in India.				
53	<p>Review of Securitisation guidelines:</p> <p>(i) the minimum holding period requirement be removed or amended to provide for greater flexibility, and</p> <p>(ii) the minimum risk retention requirement be amended to more closely reflect similar requirements that exist in developed markets, which will also facilitate, should it become relevant at a later stage, cross-border compliance.</p>	India – UK Financial Partnership		<p>Point already made above. Indian MRR and MHP requirements are too conservative by global standards, and particularly, there is a need to exclude qualifying residential real estate transactions. The biggest mover of securitisation is residential real estate, which is completely absent in India. Also, globally, <b>covered bonds</b> is yet another instrument for mortgage issuers. Despite NHB Working Group having recommended covered bonds nearly 3 years, no action has yet been taken on this. Covered bonds need to be introduced as an alternative to securitisation.</p>	
54	Launch of corporate bond index products by exchanges	IFMR		Needs to be encouraged	
55	Launch of Ultra-long maturity Fixed Maturity bonds – such as 25 year deep discount bonds	IFMR		<p>Recently, the MCA relaxed the tenure restriction in case of corporate bonds issued by infrastructure financing companies. The MCA rules on secured bonds are serving as a bottleneck in the development of the corporate bond market – these rules need to be aligned to the needs of the capital market. It also needs to be reviewed whether MCA is</p>	

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				an appropriate regulator for the bond market, particularly where the bonds are being issued to QIBs.
56	Allow issuance at all points in capital structure including senior unsecured bond issuances for institutional/accredited investors	IFMR		RBI has permitted unsecured bonds where the ticket size is Rs 1 crore or above. MCA needs to provide a similar relaxation. Also, MCA rules on private placement should be completely inapplicable in case of bonds issued to QIBs.
57	Move from a pledge repo system to a classic repo system	ASIFMA Report		
<b>Innovations</b>				
58	<b>Market makers</b> A market-making scheme for corporate bonds should be evolved by the market participant(s) willing to do so, including large intermediaries – such as banks, primary dealers and investment banks.	RH Patil Committee		These developments should be market-based, rather than regulation-driven. If the markets are well connected by technology, one needs to understand whether any market making is required. We are currently in a technology age of aggregators, rather than market makers.
59	Suitable framework for incentivising efficient market-making and support for this activity including permission to undertake repos in corp bonds.	RH Patil Committee		As above
60	The entities that will provide the trade matching system could also provide a repo facility on	RH Patil Committee		As above

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	lines of CBLO for Government Securities. The activity relating to a platform for trading in repo on corporate bonds in lines of CBLO and /or its settlement will be regulated by RBI				
61	Amend the Bankruptcy Code so that the rights of unsecured creditors are protected	R. Rajan Committee		Draft Bankruptcy Code has already been submitted	
62	Reduce the artificial preference of banks for loans by subjecting loans and bonds to similar mark-to-market requirements, especially for aspects such as interest rate exposure that are easily measured.	R. Rajan Committee		Moving over to IFRS 9 will ensure parity between banks and corporates.	
63	No limits should apply to purchases by foreign clients of INR denominated corporate bonds or bonds issued by sub-sovereign entities (states and metropolitan administrations).	Percy Mistry Committee		Already on the cards in the revised ECB framework. The Guidelines for rupee-denominated bonds have already been issued.	
64	Introduce an index benchmark of the most traded corporate securities for active portfolio managers.	ASIFMA Report		Exchanges may construct such an index.	
65	Each fresh issuance from the same issuer receives a new International Securities	ASIFMA Report		Good suggestion. Should be implemented.	

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	<p>Identification Number (ISIN), hence older bonds in the same maturity become illiquid and trade at discounts. Retapping the same issue for a particular maturity, similar to Government Securities, can help maintain liquidity. A major argument against common ISINs is the bunching of maturities on the same date which can lead to asset-liability mismatch; however, this can be resolved by spreading out the redemption amount across the year through amortizing payment.</p>				
66	<p>Bridging the local settlement system with International Central Securities Depository (Euroclear/Clearstream), ICSDs now allow easier movement of global collateral across borders via their “collateral highway” would constitute a further step in the development of the bond market. Combined with offshore settlements could create the basis for using local bonds as collateral in the event that market participants need</p>	ASIFMA Report			

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	access to USD cash.				
67	Establish benchmarks at every level of the yield curve providing investors and issuers with a tool for better gauging both long-and short-term securities.	ASIFMA Report			
68	Stabilizing the interest rates, eliminating the Statutory Liquidity ratio (SLR), extending the bond holding period (90 days for HFT) and allowing banks to trade government bonds will increase liquidity in the secondary market, drawing a wider pool of investors and freeing up capital for the corporate sector.	ASIFMA Report		This is a monetary policy issue.	
69	A clear change to Indian law is required to recognize close-out netting, an established practice in all advanced financial markets, and to establish an efficient recovery mechanism.	ASIFMA Report		Bankruptcy Code very clearly recognises close out netting.	