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SEBI Push for Bond ETFs and Corporate Bond Index Derivatives

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SEBI Push for Bond ETFs and Corporate Bond Index Derivatives

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WHY IN NEWS:

SEBI Chairman Tuhin Kanta Pandey (who took charge on **March 1, 2025**) announced on **May 26, 2026** that SEBI is developing **bond ETFs, corporate bond index derivatives**, and exploring **Distributed Ledger Technology (DLT) tokenisation of corporate bonds** to deepen India’s corporate debt market and enable retail participation. The derivatives launch is contingent on the **RBI’s nod to the draft guidelines**, while a tokenisation pilot has been proposed with a **6-9 month timeline**.

ABOUT SEBI

The **Securities and Exchange Board of India (SEBI)** is the apex regulator of India’s securities and capital markets.

PARTICULARS	DETAILS
Established	April 12, 1992 (statutory body via SEBI Act, 1992)
Origin	Operational since 1988 as a non-statutory body
Headquarters	Mumbai (Bandra Kurla Complex); 17 local offices
Current Chairman	Tuhin Kanta Pandey (took charge March 1, 2025)
Forward Markets Commission merger	September 28, 2015

Statutory framework

- **SEBI Act, 1992** — primary statute
- **Securities Contracts (Regulation) Act, 1956 (SCRA)**
- **Depositories Act, 1996**

INDIA'S CORPORATE BOND MARKET — CONTEXT

INDICATOR	VALUE
Outstanding corporate bonds (FY26)	~₹50 lakh crore
Corporate bond market as % of GDP (India)	~18%
United States	~120% of GDP
South Korea	~80% of GDP
Annual issuance (India)	~₹10 lakh crore
Sovereign bond market (India)	~75% of GDP

India's corporate bond market is **structurally shallow** compared to advanced economies and even regional peers.

EXISTING SEBI INITIATIVES — CORPORATE BOND MARKET

Bharat Bond ETF

- First Indian bond ETF; launched **December 2019**
- Managed by **Edelweiss Mutual Fund**
- Composed of AAA-rated PSU bonds

Recent measures

- **Minimum ticket size** for privately placed bonds reduced to **₹10,000** (from ₹1 lakh earlier, October 2024)
- **Online Bond Platform Providers (OBPP)** regulated since 2022 — IndiaBonds, Bondskart, GoldenPi
- **Request for Quote (RFQ)** platform on BSE/NSE

NEW INITIATIVES ANNOUNCED MAY 26, 2026

Bond ETFs (expanded)

Beyond the PSU-only Bharat Bond model — to include corporate AAA, AA, and infrastructure bonds, enabling broader retail diversification.

Corporate Bond Index Derivatives

- Derivative instruments where the underlying is a **credit index** (basket of corporate bond yields/spreads)
- Enables institutions to hedge credit risk — **first-of-its-kind in India**
- International parallels: **CDX** (North America) and **iTraxx** (Europe)

DLT Tokenisation of Corporate Bonds

- **Permissioned blockchain** — not public crypto
- Each bond unit represented as a digital token
- **6-9 month pilot** proposed

Benefits

- Faster settlement (T+0 vs T+1)
- Fractional ownership
- Lower custody and servicing costs

Pilot precedents

- **Bank of England DLT** initiative (2025)
- **MAS Project Guardian** — Singapore (since 2022)

ABOUT BOND ETFS

- Exchange-traded baskets of bonds; tradable like stocks
- Provide **diversification + liquidity** for retail investors
- First international bond ETF: **iShares Aggregate Bond ETF (AGG)**, launched 2003

WHY DEEPENING THE CORPORATE BOND MARKET MATTERS

- **Infrastructure financing** — India requires ~**USD 1.5 trillion** by 2030
- Insurance and pension **asset-liability matching**
- Strengthens **monetary transmission** — RBI rate changes flow through bond markets
- Reduces **banking-sector concentration risk** — post IL&FS (2018), DHFL (2019), Yes Bank (2020), Reliance Capital (2021)

COMMITTEE RECOMMENDATIONS (BACKGROUND)

COMMITTEE	YEAR	RECOMMENDATION
Tarun Ramadorai Committee	2024	Flagged retail under-participation as a structural failure
HR Khan Committee	2016	Recommended FII access reforms
Vijay Mathur Committee	2018	Corporate bond market reforms

SEBI REGULATORY ARCHITECTURE (RECENT)

- **SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015**
- **Issue and Listing of Non-Convertible Securities Regulations, 2021**
- **Online Bond Platform Provider Regulations, 2022**
- **SEBI (Mutual Funds) Regulations, 1996**

INVESTOR PROTECTION CONSIDERATIONS

- **Credit rating ecosystem credibility** – repeatedly tested by IL&FS (2018), DHFL (2019), Yes Bank (2020), Reliance Capital (2021)
- **7 active credit rating agencies** accredited by SEBI: CRISIL, ICRA, India Ratings, CARE, Brickwork, Acuité, Infomercials
- Need for a **risk-based suitability framework** before retail roll-out

RBI-SEBI JOINT WORKING GROUP

Established for a unified Indian bond market – covers:

- Cross-listing of debt instruments
- FPI access norms
- Settlement harmonisation between G-sec and corporate bond segments

WAY FORWARD

- Align **tax treatment** of debt instruments (debt fund LTCG removed in 2023 – restoration under debate)
- Deepen **FII participation** (currently <2% of corporate bond holdings)

- Strengthen **bankruptcy resolution** under IBC — FY25 saw 75% recovery timelines stretching
- Move towards a **single bond market regulator** vision

UPSC RELEVANCE

GS Paper 3 — Indian Economy: Mobilization of resources, capital markets, financial regulators, banking sector, infrastructure financing.

Prelims focus: SEBI structure and statutes, Bharat Bond ETF, OBPP, credit rating agencies, DLT/tokenisation basics, CDX/iTraxx benchmarks.

FACTS CORNER

SEBI Chairman: Tuhin Kanta Pandey (took charge March 1, 2025)

SEBI Act: 1992

SEBI established: April 12, 1992 (statutory); operational since 1988 as a non-statutory body

SC@A: 1956; Depositories Act: 1996

FMC merged with SEBI: September 28, 2015

Bharat Bond ETF: launched December 2019 by Edelweiss Mutual Fund; AAA PSU bonds

Privately placed bond minimum ticket: ₹10,000 (since October 2024)

India corporate bond market: ~18% of GDP

India infrastructure financing need: ~USD 1.5 trillion by 2030

Active credit rating agencies: 7 (CRISIL, ICRA, India Ratings, CARE, Brickwork, Acuité, Infomerics)

Online Bond Platform Provider Regulations: 2022

DLT pilot timeline: 6-9 months (proposed May 2026)

Tarun Ramadorai Committee: 2024

First international bond ETF: iShares AGG (2003)

Sources: [SEBI](#), [RBI](#), [PIB](#)

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