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CONSULTATION PAPER FLOATED

Sebi widens QIB definition

SIDDHANT MISHRA
Mumbai, May 16

THE SECURITIES AND Exchange Board of India (Sebi) on Tuesday floated a consultation paper proposing to expand the definition of qualified institutional buyers (QIBs) for investing in debt securities.

At present, QIBs comprise entities such as MFs, VCs, AIFs, public financial institutions, FPIs and provident & pension funds (which are at least ₹25 crore in size), certain insurance funds, systemically important NBFCs and SCBs.

According to the paper, the regulator seeks to include RBI-regulated NBFCs, housing financiers, SFBs, and refinancing agencies such as MUDRA. It also seeks to include pension funds, multi-state cooperatives (minimum ₹500 crore in net worth), government bodies, reinsurers, and higher educational institutes, among others.

For inclusion, the entities could be required to provide self-certification of having the necessary expertise to invest in the bond market, have the required personnel or a committee to undertake due diligence and meet the minimum threshold of an investible surplus to undertake activities as a QIB.

TO AID SUPPLY OF FUNDS

- According to the paper, the regulator seeks to include RBI-regulated NBFCs, housing financiers, SFBs, and refinancing agencies
- For inclusion, the entities could be required to provide self-certification of having the necessary expertise to invest in the bond market

According to the regulator, while the corporate bond market comprises overwhelmingly of private placements (98% of issuances), QIBs subscribed around 94% of the total funds raised via corporate bond issuance by way of private placement on the Electronic Book Provider Platform (EBP) of the exchanges.

"With more institutional investors entering the fray, this will help deepen the bond market. The size of the bond market is ₹7-8 trillion annually in the primary market and up to ₹2 trillion on a monthly basis in the secondary market. With the size growing, it is imperative the institutional players get this recognition, as they'll bring in more capital," said Ajay Manglunia, MD and Head, Investment Grade Group, JM Financial.

He pointed out that debt forms a major part of raising working capital requirements of companies, and corporate bonds being dominated by AAA-rated instruments or PSU bonds (accounting for 70-75% of the market), offer a reliable deal.

According to data with the NSDL, the overall mop-up via corporate bond issuances in 2022 was ₹9.2 trillion. The amount mobilised was ₹3.22 trillion in the first quarter of CY23 till March.

Role of QIBs in the overall development of the bond market has been cited as the major reason behind the proposal to expand the definition.

Based on provisions under the Companies Act, issuers may only send invitations to a limit of 200 entities in a financial year to subscribe in a private placement process — with QIBs being excluded from the cap.

As a result, while QIBs registered with the electronic book platform (EBP) automatically get notified of any proposed private placement, non-QIBs need to be individually notified of any such offer, and are subject to the cap of 200 a year. Further, regulations allow only QIBs to participate in primary issues of Non-Equity Regulatory Capital instruments, such as AT1 bonds.

Sebi also believes there is a need to consider parity for certain categories of Indian investors with FPIs (who are included in the present definition). It is believed this measure could lead to better supply of funds to issuers of debt securities (including issuers of non-equity regulatory capital), and also help in better price discovery that will lower the cost of fundraising.

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