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Sebi issues paper to regulate online bond platforms

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THE SEBI ON Thursday came out with a consultation paper to regulate online bond platforms that sell debt securities to investors, particularly non-institutional ones, via the private placement mode.

Most of such bond platforms are fintech companies or are backed by brokers and include the likes of GoldenPi, Harmoney, BondsKart, Wint Wealth and Indiabonds.

"While these bond platforms do tap a group of investors, particularly non-institutional investors to invest in bonds, they do not come under any regulatory purview i.e. the platform providers are not registered with any regulator. This has given rise to a need to guide and regulate these platforms in order to bring about, inter-alia, regulatory oversight, common standard practices, investor redress, Sebi observed.

The increased use and volumes on such platforms has given rise to a number of concerns. These include lack of regulatory oversight, offering of listed and unlisted debt securities on the same webpage or tab on the websites of these platforms, absence of standard KYC norms, ambiguity in redressing investor grievances and offering of high yield securities to whet the investor appetite.

The paper has proposed that these bond platforms should register as stock-brokers (debt segment) with Sebi or be run by Sebi-registered brokers. "This will enhance the confidence of investors as the platforms would be provided by SEBI regulated intermediaries. Additionally, the stock-broker regulations will be applicable to these entities, which would govern their code of conduct and other aspects related to their operations and risk management," the regulator said.

The debt securities offered for buy/sale by online bond platforms should only be listed debt securities.

There is a concern that down-selling of debt securities issued on a private placement basis by bond platforms to a large number of investors may possess the characteristics of a deemed public issue (DPI). To address this, the paper has proposed that listed debt securities issued on a private placement basis, offered for sale on bond platforms shall be locked-in for a period of six months from the date of allotment of such debt securities by the issuer.

Alternatively, transactions executed on the online bond platforms can be routed through RFQ (request for quote platform) of the stock exchanges where transactions will be cleared and settled on a delivery versus payment (DVP-1) basis.

"The APIs of the exchange platforms can be utilised by the bond platforms for ease of integration with the exchange systems. This will be similar to the trading model followed for equity transactions, where stock brokers build their own front-end for facilitating placing of orders by their clients and the transactions are executed on the exchange trading platforms," Sebi said.

BRINGING REGULATORY OVERSIGHT

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