

Multiple regulators hurting bond market development: RBI official

The need for a robust bond market has increased, thanks to the stressed balance-sheets of banks, M Rajeshwar Rao, an executive director at the central bank, said.

Press Trust of India | Mumbai November 09, 2019 Last Updated at 03:02 IST



A senior Reserve Bank official on Friday blamed the presence of multiple regulators with disparate priorities for the ills plaguing the corporate bond market saying multiple regulators are leading to poor coordination and long delays.

The need for a robust bond market has increased,

thanks to the stressed balance-sheets of banks, M Rajeshwar Rao, an executive director at the central bank, said.

For long, the policymakers have been struggling to make corporate bonds a preferred fund-raising tool for India Inc but without much success. Despite announcing a slew of measures, the bond market lacks liquidity and is barely 17 percent of GDP, while in many developed economies it is much more than their GDPs.

Rao pointed out that the RBI could easily develop the government securities market because it is the single regulator, and it also virtually developed platforms like the Clearing Corporation on which the papers are traded.

"But in the corporate bonds space we have different regulators and we've newer institutional regulators also who want certain prudential requirements for entities they regulate. Perhaps, that actually hinders participation of the institutions in the bond market," Rao told a CII event.

He further said apart from different regulators, there are also different platforms like Clearing Corporation, stock exchanges, etc which are also hurting the development of the corporate bond market.

"Since there are more players, I think the coordination takes a bit more time," he said.

It can be noted that every regulator, be it insurance watchdog Irdai or the pensions regulator Pfrda have specific regulations governing their investments in bonds by the entities under their watch and don't allow investments in low-rated companies, curbing the development of bond market.

Rao said the Financial Stability Development Council and its sub-committee on the subject are seized of the matter, but conceded that a lasting solution will take time to evolve. He said RBI's overall approach is to simplify regulations, and it will also not be insisting on product-specific approvals as it has done in the past.

Apart from multiple regulators, it will be essential to resolve other concerns like supply-side issues, allowing a larger set of investors, creating a credit risk hedging product and generating liquidity through the frequent trading of bonds for popularising the corporate bonds, he said.