Our Views

SEBI's new initiative to smoothen issuance of Corporate Bonds through GID/KID process

When I started out as a young investment banker in 1992, an important conversation in the capital markets was about the need to develop the corporate bond market. Unfortunately, 3 decades later, the conversation continues. Several efforts have been put in by many concerned but it remains a large work in progress item. Areas of improvement include secondary market trading and primary issuances by corporates.

The latest introduction by SEBI of a simplified process for primary issuance of bonds by corporates could be quite helpful. Unlike equity issuances, bond issues are more frequent and very time and cost sensitive. Private placement is the right approach for these kinds of issuances. The new process of SEBI which is called primary issuance on a private placement basis under the "GID/ KID" guideline for issuance of bonds by corporates on a private placement basis is a good attempt in this regard.

In late 1990s when several Indian Financial Institutions such as IDBI, ICICI and IFCI started relying on capital markets for resource mobilisation, they needed to issue bonds to public which required filing of prospectus for each issuance. To facilitate this, SEBI at that time had introduced a mechanism called an Umbrella prospectus or a Shelf Prospectus. The current attempt of GID/ KID guideline is based on a similar concept.

Under the GID/ KID concept, a corporate issuer can issue bonds on private placement basis by filing one comprehensive information memorandum called General Information Document (GID). Once a GID is filed with the Stock Exchange, the corporate is free to issue multiple tranches as per their requirements under the same document. These tranches can be issued at a short notice depending on the market situation. These tranches can be issued just by issuing a brief document called Key Information Document (KID). The idea is fantastic as it will make the corporate bond issuances much smoother.

However, there is still a lot desired to deepen the corporate bond markets. We must look at taking the market to the masses the way we have been able to do in our equity markets. It has indeed provided depth in the equity markets as today the domestic retail and institutional equity investors are very relevant for our markets. We need to repeat the same mantra for the corporate bond markets. I have a few thoughts which may help make the new guideline more relevant:

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First, it would be useful to also implement the GID/ KID concept for a retail public issue which doesn't restrict the number of investors. Given that a debt issue is rated by rating agencies, thereby indicating the health of an issuer, the risk is low. Second, the face value of the bonds issued under these guidelines should be reduced to a more affordable investment size for retail investors. Now via electronic means one can practically issue a bond for just Re 1/-. Today, some of the mutual find units too are of very low amount. Third, the regulations should facilitate that the administrative cost are kept low. Every small cost impacts the yield to investor and therefore the administrative and distribution costs should be minimised with effective use of technology. Overall the GID/KID concept should replace the Shelf Prospectus mechanism.

But one must acknowledge that the GID/ KID concept is innovative and a good start in the private placement space. Introducing it for public issuances can help enhance mass participation in the bond markets.

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