

## ERGO

*Analysing developments impacting business*

### SEBI CIRCULAR FOR DEDICATED DEBT RFQ PLATFORMS – BROKERS ALLOWED TO BID ON BEHALF OF THEIR CLIENTS

21 October 2022

The Securities and Exchange Board of India (SEBI) has, by its circular dated 19 October 2022 and bearing reference number SEBI/HO/DDHS/DDHS\_Div1/P/CIR/2022/142 (2022 RFQ Circular), widened the ambit of its circular dated 24 January 2013 on the creation of a framework for a dedicated debt segment, and in turn for the usage of the request for quote platform of stock exchanges (RFQ Platform). The 2022 RFQ Circular shall come into effect on and from 1 January 2023.

The RFQ Platform is a 'participant-based' system or interface for inviting and giving quotes on an electronic platform which can be placed to an identified counterparty or to all the participants. The platform provides the participants a range of options to seek a quote and to respond to a quote, while keeping an audit trail of all interactions i.e., quoted yield, mutually agreed price, deal terms, etc. The securities which are eligible to be traded on the RFQ Platform include non-convertible securities, securitised debt instruments, municipal debt securities, commercial papers, government securities, treasury bills and state development loans.

Use of the RFQ Platform to transact has historically been restricted to listed body corporates, institutional investors, all India financial institutions, registered mutual funds, portfolio management services [*Registered mutual funds and portfolio management services are mandated to undertake at least 10% of their total secondary market trades by value in corporate bonds per month through the RFQ platform of the stock exchanges.*] and insurance companies. Additionally, stockbrokers were permitted to place bids only in a proprietary capacity. Under the 2022 RFQ Circular, stockbrokers registered under the debt segment of the stock exchanges have now been permitted to participate on behalf of their clients through the RFQ Platform to facilitate wider participation in the corporate bond market. Earlier, SEBI had mandated portfolio managers and mutual funds to undertake certain part of their trades through the RFQ platform and the Insurance Regulatory and Development Authority of India had done the same for insurers to enhance liquidity and with this change, SEBI has taken it one step further.

#### **Comment**

The inclusion of stockbrokers to the RFQ Platform as representatives of their clients is a welcome change in the context of enhancing liquidity on the RFQ platform. This will enable a wider participation from market participants in the corporate bond markets and increase the investor pool which had not included the clients of the stockbrokers until now.

While SEBI has brought about the aforesaid inclusion, it will take time for the stock exchanges to set up the necessary framework and infrastructure to enable the

stockbrokers to access and use the platform. Further, necessary circular(s) covering the modalities for operational aspects will also have to be issued by the stock exchanges. Accordingly, SEBI has directed the stock exchanges to amend relevant regulations and bye-laws to fulfil their directions.

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