

Retail Debt MARKET



**NATIONAL STOCK EXCHANGE
OF INDIA LIMITED**

Retail Debt Market

NSE has introduced a trading facility through which retail investors can buy and sell government securities from different locations in the country through registered NSE brokers and their sub brokers in the same manner as they have been buying and selling equities. This market is known as "Retail Debt Market" of NSE.

Government Securities : Government securities are debt instruments issued by Reserve Bank of India on behalf of the Government of India and is known as G-Secs or Gilts. A government security is direct obligation of the Central Government carries its full backing and is also known as Sovereign Debt. The payment of regular interest and the repayment of face value are assured by the Central Government through the Reserve Bank of India. Once issued, these are traded in the secondary market. Most of the trading in the Government Securities takes place on the wholesale basis in the inter-bank market. The major market participants are banks and financial institutions, mutual funds, insurance companies, primary dealers, provident funds, trusts and individuals. Most of these participants actively trade in government securities due to their statutory requirements.

Prior to introduction of NSE's Retail Debt Market in January 2003, government securities were not available for purchase and sale to the retail investors.

Whom should I approach for buying / selling securities in Retail Debt Market?

To buy / sell securities investors need to approach the same NSE broker through whom they have been dealing for equities or derivative products.

Do I need to register as a client again with NSE broker and what are the formalities?

All investors who have already registered with an NSE broker need not go through any registration process. The existing registration with the broker shall stand valid and may be used for executing trades in Retail Debt Market.

How do I give buy / sell instruction to my NSE broker?

All order instructions are to be passed to the broker in the similar manner as in the case of trading in equity shares.

What is the face value of the government security? What is the minimum order size?

All government securities made available for trading in Retail Debt Market will have a face value of Rs. 100/-. An investor is required to place order for a minimum of 10 units.

How is the pricing done in Retail Debt Market?

When investors buy a government security, they receive interest for the full six months

on the next interest payment date even if the security is not held for six months. For this reason, on the date of purchase, the buyer has to pay the seller the interest accrued on the security from the date of last interest payment until the date of purchase. This accrued interest is added to the price of the security while entering the quote on the system. Price including the accrued interest is called Dirty Price. Price of the security without accrued interest is called Clean Price.

Example : 7.46% GOI 2017 is quoted at a clean price of Rs 112.50

Face Value = Rs. 10,000 (100 Units of Rs. 100 each)

Interest Payment Date = 28th August, 2001

Settlement date : 11th January 2002

Accrued interest = (Rate of interest) x

No. of days since last Int. payment date/360

In the given case Accrued Interest will be $\frac{7.46 \times 133}{360} = 2.76$
(per Rs 100 of FV)

Dirty Price = Clean Price + Accrued Interest = 112.50 + 2.76 = 115.26

Consideration Amount = Dirty Price x Face Value/100 = $\frac{115.26 \times 10,000}{100}$
= Rs. 11,526

How do I know interest payment dates ?

Government securities have interest payment at fixed interval of six months. The interest payment dates are made available on the web-site as also on the trading screen. The Reserve Bank of India announces a shut period three days prior to the interest payment date. NSE shall announce suspension of trading of a security in which the interest payment is due. Similarly, NSE shall announce the re-admission of the security for trading at the end of shut period.

How do I settle my trades? What is the settlement cycle?

Trades in Retail Debt Market are settled in the same manner as in the case of equities on a T+2 (working days) rolling basis. Hence in case of a buy trade, the client is required to make payment to the NSE broker in such a manner that the amount paid is realized well before the pay-in day, and the securities are then credited by the NSE broker to the client's beneficiary account after the pay-out. Similarly, in case of sell trade the client has to give delivery out instructions to the pool account of the NSE broker well before the prescribed settlement day immediately upon getting the contract note for sale, and the NSE broker shall make payment to the client after the pay-out.

What happens if I do not receive/deliver my securities purchased /sold through NSE broker?

As in case of the equities market, the investor is not affected in case the delivering broker fails to meet its obligation, since NSCCL provides financial guarantee for the

net settlement obligation through the Settlement Guarantee Fund separately set up for this purpose.

In case of short deliveries, unsettled positions are not auctioned but are directly closed out at Zero Coupon Yield Curve (ZCYC) valuation prices plus a 5% penalty on the value.

The buyer shall be eligible for the higher of the following as compensation :

- i) Highest traded price from the trade date to the date of close out OR
- ii) Closing price of the security on the close out date plus interest calculated at the rate of overnight FIMMDA-NSE MIBOR for the close out date

Can I use my existing depository account to trade in G-Secs?

Investors can use the existing beneficiary account with depositories for receiving and delivering government securities.

How will I receive interest in case of holding the securities till the next interest payment date?

All investors holding government securities in the dematerialised form in their beneficiary account with depositories shall receive the interest payment from the respective depository.

In case of dispute between me and the broker of NSE, whom should I approach?

The broker client agreement specifies that any dispute between the broker and client should be lodged immediately with Investor Grievance Cell at Mumbai office or the Regional Offices of NSE based on the dealing office where the deals were executed. The investors are required to furnish relevant documents such as contract note or purchase / sale notes in the specified Investor Complaint Form-I available on our website www.nseindia.com

The Exchange also facilitates the process of arbitration between the brokers and their clients. The disputes between clients and brokers are resolved through arbitration in accordance with the Bye-Laws of the Exchange.

What are the returns on a government security?

Government Securities carry a face value, but are traded at a price. When an investor buys securities, he pays its current price which may be higher or lower than the face value. The investor will receive interest at the coupon rate of the security on the face value that the investor holds. Similarly, investor will receive the face value on the maturity date and not the amount invested.

The returns on the security are determined by the yield-to-maturity (YTM) of the investment and not by the interest rate. Investors may visit our website www.nseindia.com and use the yield calculator to find the yield to maturity with the information provided in the contract note issued by NSE broker.

Why should I invest in Government Securities?

Presently, retail investors in fixed income securities have following alternatives for investments :

Option	Liquidity	Safety	Return	Tax incidence
Company deposits	Nil	Low to Medium	Max. 10 % subject to ratings	TDS for income over Rs. 2500/-
Post office / Monthly Income Scheme / NSC	Low	High	8% p.a.	No TDS (Benefit under section 80L)
PPF	Nil	High	8% p.a.	Tax-free
RBI Relief Bonds	Low	High	8% p.a.	Taxable
Tax Free Bonds	Nil	High	6.5% p.a.	Tax-free
Banks Deposits	Medium to High	Medium to High	6% (based on term)	TDS for income over Rs. 5000/- (Benefit under section 80L)
Govt. Securities	High	Highest	6.50 % (approx.) for 20 years	No TDS (add. Rs. 3000 U/S 80L)

An investor may invest in government securities for the following considerations

- Good avenue for investment
- Highest safety
- Regular stream of income every six months
- Assured yield to maturity if held till redemption
- No tax deduction at source
- Additional income tax benefit of Rs.3000/- under Section 80L of Income Tax Act
- Diversification of risk
- Liquidity through trading

Let us consider an example of 12% GOI 2008. As on June 1, 2002, its purchase price is Rs. 122.52 (prices are quoted per Rs. 100). If an investor holding the above security were to sell it on January 14, 2003, he would have received a sale price of Rs. 130.28, amounting to an annualized return of 18.06%, in addition to the half yearly interest payment @ 12 % on the face value received by the investor.

Now, if the investor had put in the bulk money in other alternative means for investment as indicated above, he would have earned lesser returns of between 7-9%.

Secondly, investment in government securities has the added advantage of easy entry and exit routes resulting in more liquidity to the investor as compared to other fixed income investments which have varying periods of lock-in for the holder and would be more beneficial if held to maturity.

Importance of making government securities available to retail investors

- Cost-effective means of raising long term funds for government
- Provide effective and accessible means for long term investments for retail investors
- Develop a stable debt market for different classes of investors

- Create broad base holding pattern and depth
- Provide efficient price discovery mechanism in primary and secondary market thereby strengthening the existing system
- Diversification of risk
- Low cost of intermediation for investors

Advantages of retailing through NSE

- Wide reach on account of nation-wide spread of NSE trading network, with more than 800 active brokers spread across 380 cities.
- Screen based, anonymous order driven system familiar to retail investors for over 8 years.
- Trade matching based on fair and transparent principles of price-time priority
- Intra-day netting of buy and sell trades in the same security allowed (settlement of only net outstanding positions)
- Settlement of obligations on rolling basis (T+2 days)
- Settlement of obligations through NSCCL (wholly owned subsidiary of NSE) which offers financial settlement guarantee through a separate guarantee fund
- Settlement of securities in dematerialized form through depositories only

Future of retailing

1. Retail debt market will expand manifold as the securities get widely distributed
2. NSE's anonymous screen based order driven system will bring transparency and liquidity to trading in government securities.
3. Efficient price discovery on account of wide participation
4. Diversification of risk and income stream for investing public facilitated.



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