

Drawbacks of SEBI's Rule

Why in news?

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Securities and Exchange Board of India is planning to make new changes in the bond market.

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What are the difference between Bond market and Banks?

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- In the bank-based system, banks play a dominant role in mobilising savings, allocating resources among the various sectors of the economy and regions of a country, and providing risk management facilities.
- Developed countries such as Japan, Germany, France and Italy and developing countries such as Argentina, China, India and Pakistan follow Bank based system.

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• In a market-based system, the intermediary role of banks is reduced to a great extent and the investors or the savers directly park their funds with the borrowers (corporates).

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- \bullet Developed countries such as US, UK, Singapore and Korea and developing countries such as Brazil, Mexico and Turkey follow the market-based system. \n
- \bullet Economists have found that financial systems tend to become more market-based as the economy develops. $\mbox{\ensuremath{\backslash}} n$

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What are the concerns with recent decision of SEBI?

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• Stringent regulation - Market regulator makes it mandatory for companies

with over Rs. 100 crore debt and a credit rating of 'AA and above' to compulsorily raise 25 per cent of their debt from the bond market.

- The move seems to be a premature one, Instead of allowing the market to function on its own based on demand and supply, there seems to be an effort to arm-twist firms to go in for a particular type of financing.
- Investor's attitude Indian savers find it comfortable to lend the funds to banks and pass on the risk management to banks.
- For this transfer of risk management, they are willing to accept lower return on their funds, Thus forcing depositors to take the market risk will not work out.

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• If the investors shun the equity or bond market, it is because of their risk aversion.

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- **Structural issues** Given the highly leveraged state of corporates and the banks' huge NPA problem, it is not good idea expect corporates not to default on bonds on maturity or interest payment.
- Any default in interest payment by the company will make the bond price plummet in the market and there may not be buyers, which makes liquidity of the bond unreliable.

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What is the way forward?

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- Market participation has to mature on its own over a period and regulators can only provide conducive environment to facilitate that.
- The basic function of SEBI is to protect the interests of investors in securities market.

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 Thus forced borrowing through bond market cannot be in the interest of the investors or corporates.

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Source: Business Line

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