

National Stock Exchange of India

Circular

Department: Compliance	
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To All Members,

Sub: Registration and regulatory framework for Online Bond Platform Providers

This has reference to SEBI circular SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2022/154 dated November 14, 2022, regarding registration and regulatory framework for Online Bond Platform Providers.

The SEBI circular is attached as Annexure.

All the Members and Market Participants are requested to take note of the above.

For and on behalf of
National Stock Exchange of India Limited

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CIRCULAR

SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2022/154

November 14, 2022

To,

**Entities operating/ desirous of operating as online bond platform providers;
Issuers who have listed and/ or propose to list debt Securities;
Recognised Stock Exchanges and Clearing Corporations;
Registered Depositories;
Stock Brokers and Depository Participants**

Madam/ Sir,

Sub: Registration and regulatory framework for Online Bond Platform Providers (OBPPs)

1. During the past few years, there has been an increase in the number of Online Bond Platforms (OBPs), offering debt securities (obtained through subscriptions to public issues / private placements and through secondary market), to non-institutional investors. Most of such OBPs are *fintech* companies or are backed by Stock brokers/ SEBI registered intermediaries. There has been a significant increase in the number of registered users who have transacted through such OBPs.
2. While OBPs provide an avenue for investors, particularly non-institutional investors to access the bond market, their operations were outside SEBI's regulatory purview.
3. With the bond market offering tremendous scope for development, particularly in the non-institutional space, there is a need to place checks and balances in the form of transparency in operations and disclosures to the investors dealing with such OBPs, measures for mitigation of payment and settlement risk, availability of redress mechanism in case of complaints, etc.
4. Thus, in order to streamline the operations of these OBPs and to facilitate the participation of investors in the bond market, there was a need to provide a regulatory framework for the working of such OBPs.
5. Pursuant to discussions with market participants and stakeholders, vide notification dated November 09, 2022, a framework has been prescribed for entities operating/ desirous of operating as OBPPs under regulation 51A of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 ('NCS Regulations'):
 - 5.1. Such entity shall be a company incorporated in India and register itself as a stock broker in the debt segment of the Stock Exchange(s);

5.2. An entity acting as an OBPP on or prior to this circular coming into force, shall cease to offer products or services or securities on its OBP other than the following:

5.2.1. Listed debt securities and

5.2.2. Debt securities proposed to be listed through a public offering.

Such OBPP shall divest itself of offerings of other products or services or securities.

5.3. Such entities, in addition to complying with regulation 51A of the NCS Regulations, shall ensure compliance with the requirements specified in Annex - A to this circular.

6. The Circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 55 (1) of the SEBI (Issue and Listing of Non-convertible Securities) Regulations, 2021 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

7. This circular shall come into force with immediate effect.

8. An OBPP who fails to comply with any of the provisions of this circular, shall be liable for action under the SEBI Act and any rules, regulations and circulars issued thereunder.

9. The Stock Exchange(s) are directed to :

9.1. bring the provisions of this circular to the notice of the Stock Brokers and also disseminate the same on their websites;

9.2. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above directions in coordination with one another to achieve uniformity in approach and communicate regarding the same to SEBI; and

9.3. monitor the operations carried out by an OBPP.

10. The provisions of this circular shall be incorporated as Chapter XXI of SEBI Operational Circular for issue and listing of Non-Convertible Securities (NCS), Securitised Debt Instruments (SDI), Security Receipts (SR), Municipal Debt Securities and Commercial Paper (CP) dated August 10, 2021 as amended from time to time.

11. This Circular is available at www.sebi.gov.in under the link "Legal→Circulars".

Yours faithfully,

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Any entity operating or desirous of operating an Online Bond Platform (OBP) (*hereinafter referred to as the 'entity'*) shall, after obtaining registration as a stock broker in the debt segment of Stock Exchange(s), apply to a recognized stock exchange to act as an Online Bond Platform Provider (OBPP) as specified under NCS Regulations. In its application, the entity shall ensure that the following requirements are met and confirmations / undertakings are provided:

1. Roles and obligations:

- (a) The entity has appointed a Company Secretary as a compliance officer.
- (b) The entity has appointed at least two qualified key managerial personnel with experience of at least three years in the securities market;

Explanation I. – For the purposes of this circular, “Key managerial personnel” shall have the same meaning as assigned to it in the Companies Act, 2013.

Explanation II. – For the purposes of this circular, a person shall said to be 'qualified' if he/she possesses a professional qualification in finance, accountancy, law, engineering, company secretaryship or management from a university or an institution recognized by the Central Government or any State Government or a foreign university or post-graduation in the Securities Market from National Institute of Securities Markets (NISM) of a duration not less than one year.

- (c) The entity has obtained a SEBI Complaints Redress System (SCORES) authentication and has put in place a well-defined mechanism to address grievances that may arise or likely arise while carrying out OBP operations.

2. Technology:

The entity undertakes / confirms the following:

- (a) The entity owns, operates and maintains robust technology infrastructure with a high degree of reliability, availability, scalability and security in respect of its systems, data and network, appropriate to support its operations and manage the associated risks.
- (b) The entity has adequate and suitable systems in place to disseminate information pertaining to transactions on a real-time or a near real-time basis.
- (c) The entity has the organizational capabilities, technology and systems and safeguards for maintaining data privacy and preventing unauthorized sharing of data.
- (d) The entity shall ensure open access and open architecture to all potential investors/sellers on a non-discriminatory and uniform basis.

3. Operating Framework:

The entity undertakes / confirms the following:

3.1. Access and participation:

It shall:

- (a) have an objective, fair and transparent criteria for registration of users or investors or sellers on its OBP;
- (b) undertake due diligence at the time of registration of users/ investors/ sellers on its OBP;
- (c) establish necessary systems and frame suitable policies, in writing, for registration of users/ investors/ sellers on the OBP, execution of transactions and orders, roles and responsibilities of investors and sellers, risk management and control, liability framework for OBP, investors and sellers in case of breach of the policies, restrictions or other requirements that may apply for accessing the OBP;
- (d) ensure data governance by making information available regarding, but not limited to Price, yield, face value, quantity, coupon, date of maturity, put/call option, copies of the prospectus/ offer documents or any other related literature or such other information, to its investors and sellers in a fair and non-discriminatory basis;
- (e) ensure data integrity and privacy.

3.2. Agreement with sellers of debt securities:

Where the entity allows third party sellers of debt securities to use the OBP to sell such securities, the entity shall, before taking up an assignment of offering of such securities on its OBP, enter into an agreement in writing with such sellers that clearly defines the *inter-se* relationship and sets out their mutual rights, liabilities and obligations relating to such assignments.

3.3. Know Your Client (KYC) for on-boarding investors and sellers:

The entity shall comply with *Know Your Client* (KYC) requirements and verify the identity of its investors and sellers by requiring them to submit necessary documents undertaking necessary steps for this purpose.

3.4. Execution of orders:

The entity shall ensure that:

- 3.4.1. All Orders with respect to listed debt securities placed on OBP are mandatorily routed through the Request for Quote platform (RFQ) of the recognised Stock Exchange(s) and settled through the respective Clearing Corporations.
- 3.4.2. All Orders with respect to debt securities proposed to be listed through a public offering placed on OBP shall be mandatorily routed and settled through the stock exchange mechanism.

3.5. Risk Profiling:

The entity may, on its OBP, evaluate through a set of questionnaires with appropriate risk factors and disclaimers, the optimum level of investment risk an investor or seller is willing to take, taking into account multiple factors such as risk appetite, age, investment horizon, etc.

3.6. Issue of order receipt, deal sheet and quote receipt:

- (a) Order receipt to investor on placement of order: The entity shall, on placement of an order by an investor, shall issue without delay to the investor, an electronic order receipt which shall, *inter-alia*, include date and time of order, details of counter-parties involved, quantity and amount proposed to be transacted, etc.
- (b) Deal Sheet to investor post execution of the order: The entity shall, upon execution of the order, forthwith issue a deal sheet to the investor for all transactions, stating all the relevant information regarding the transaction which shall *inter-alia* include date and time of placing of the order, date and time of settlement of the order, details of counter-parties involved, quantity and amount transacted, as may be applicable.
- (c) Quote receipt to seller post execution of the order: The entity, post execution of order, in case of third party sale of debt securities on the OBP, shall issue without delay to the seller, a quote receipt which shall, *inter-alia*, include date and time of quote, details of counter-parties involved, quantity and amount quoted, etc.

3.7. Issuance of alerts to investors and sellers:

The entity shall ensure that investors and sellers are also regularly updated on the status of transactions electronically through SMS, email etc.

4. Minimum Disclosure Requirements

The entity shall ensure compliance with the minimum disclosure requirements as specified in Annex - B.

5. Advertisements

The entity undertakes to ensure that its advertisements shall be in conformity with the Advertisement Code as specified in Annex - C.

6. Investor grievance redress mechanism:

The entity undertakes to take steps for redress of grievances of the investors within 30 days from the date of the receipt of the complaint, and disclose the number, nature and other particulars of the complaints received, if any, in such form as specified by the Stock Exchange(s).

7. Risk Management

The entity undertakes to ensure that:

7.1. It has a comprehensive risk management framework covering all aspects of its operations and shall ensure that risks associated with its operations are identified properly and managed prudently.

7.2. It shall have a mechanism to:

- (a) ensure access control for its investors and sellers and prevent unauthorised access to the OBP;
- (b) prevent unfair access and avoid all actual, potential or perceived conflicts of interest;
- (c) ensure that all transactions on the OBP, without exception, are dealt within a fair, non-discriminatory, non-discretionary and orderly manner; and
- (d) prevent transactions that are not in compliance with the prevailing legal or regulatory requirements.

7.3. It shall, establish appropriate controls to reduce the likelihood of erroneous transactions such as fat-finger errors, unintended or uncontrolled trading activity by investors and sellers.

8. Handling exigencies:

The entity undertakes to establish appropriate safeguards and procedures to deal with exigencies like suspension or cessation of trading in debt securities, cancellation of orders or transactions by the investors and sellers, malfunctions or erroneous use of its systems by investors and sellers, or other unforeseen situations.

9. Disclosure of conflict of interest:

The entity undertakes to identify and disclose on its OBP, all instances of conflict of interest, if any, arising from its transactions or dealings with related parties.

10. Data integrity - Preservation, access and use of data:

The entity undertakes to:

- (a) maintain all data relating to its activities in an easily retrievable media.
- (b) maintain confidentiality and security of all data relating to its activities and strictly control access to such data.

11. Reporting and disclosure requirements:

11.1. The entity shall, in addition to the information required to be submitted under various SEBI regulations, submit such information as may be required by the Stock Exchange(s) in relation to their operations.

11.2. The Stock Exchange(s) may require OBPPs to disclose information / reports periodically including the following: -

- (a) particulars regarding the transactions executed on the OBP;

(b) particulars regarding the debt securities offered on the OBP;

(c) any change in the information or particulars previously furnished, which have a bearing on their activities as an OBPP;

11.3. An OBPP shall keep the Stock Exchange(s) informed of events resulting in disruption of activities or market abuse without undue delay.

11.4. Stock Exchanges shall ensure periodic monitoring of the OBPPs regarding the compliance with the requirements mentioned in this circular and also bring to the notice of SEBI, any instances of non-compliance.

Minimum Disclosure Requirements for each debt security offered for sale on the OBP

1. Name of the Issuer, Security Name and ISIN
2. Nature of instrument: Listed Secured/ Listed unsecured
3. Seniority: Senior/ non-senior
4. Original Mode of Issue and date of issue: Public issue/ Private Placement
5. Rating of the Instrument – Outstanding Rating; date of rating; Rating agency; latest Rating rationale (pdf available for download)
6. Face Value, Clean price and Dirty price
7. Coupon: fixed/ floating, Rate /value, Frequency
8. Date of maturity/ Tenor
9. Name of Debenture trustee
10. Yield: Current yield and yield to maturity; calculation of such yields
11. Offer documents - Prospectus / Private Placement Memorandum (pdf available for download)
12. Any other documents as may be specified by SEBI from time to time.

Advertisement Code for OBPPs

1. Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise.
2. Advertisements shall not contain statements which are false, misleading, biased or deceptive, or any statements based on assumption or projections and shall not contain any testimonials or any ranking, based on any criteria.
3. Advertisements shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement.
4. Advertisements shall not contain statements which directly or indirectly may induce / mislead the investor.
5. Advertisements shall not carry any slogan that is exaggerated or unwarranted or inconsistent with or unrelated to the nature and risk and return profile of the product being advertised.
6. No celebrities shall form part of the advertisement.
7. Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors.
8. The language used in the advertisements shall be simple and shall not use technical or legal terminology or complex language or excessive details, which may confuse the investors.
9. No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.
10. All advertisements shall be accompanied by a standard warning in legible font stating *"Investments in debt securities are subject to risks. Read all the offer related documents carefully"*. No addition or deletion of words shall be made to the standard warning.
11. Any advertisements in regional language(s) shall contain the standard warning in such regional language.
12. In audio-visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner.