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WHY CORPORATE BOND MARKET IN INDIA IS UNDERDEVELOPED?
A comparative study of the corporate bond market in India with major four Asian countries

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Abstract: Since 2005, most emerging countries' corporate bond markets have grown faster thantheir overall economies. Unlike most emerging countries, such as China, India has solid aggregate demand and a consumer driven economy. Whereas Singapore's debt capital market grew well in 2017 and continued to attract a variety of issuers and investors from around the world. The Singapore dollar (S$) bond market has become the newest destination for Indian companies planning to raise money at cheaper rates. Malaysia's corporate bond market is the largest local currency bond market in the Association of Southeast Asian Nations and it has been achieved through the exceptional growth of the corporate bonds and Sukukmarkets. The corporate bond market in Japan has developed as a free and efficient market and has played an important role in corporate financing. A critical positive is that the turnover in the Indian bond market is second only to Japan.

Key Words: corporate bond market, debt capital market exceptional growth, Sukukmarkets, corporate financing.

1. INTRODUCTION

Corporate bonds are debt securities issued by private and public corporations. Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business. When one buys a corporate bond, one lends money to the "issuer," the company that issued the bond. In exchange, the company promises to return the money, also known as "principal," on a specified maturity date. Until that date, the company usually pays a stated rate of interest, generally semiannually. While a corporate bond gives an IOU from the company, it does not have an ownership interest in the issuing company, unlike when one purchases the company's equity stock.

1.1. Theoretical background

Corporate debt consists of broadly two types – bank borrowings and bond. Corporates borrow from banks and other financial institutions for various business purposes and for varying durations through non-standardized and negotiated bank loans. Bank finance takes the form of project loans, syndicated loans, working capital, trade finance, etc. Certain typical feature of corporate bonds are: a. corporate bonds are issued to the public. b. Listed on stock exchanges and traded in secondary market. c. Transferable. d. Possess a broad base of issuers (ranging from small companies to conglomerates and multinationals) and investors (including retail participants), and e. are under regulation of the securities market other than central bank or other banking supervisor.

There are three main pillars that make up the corporate bond market ecosystem – the institutions, participants and the instruments. The study of corporate bond market is essentially the study of these three pillars, their roles, responsibilities and actions in the corporate bond market. The institutions comprise of the securities

market regulator, the banking regulator, the credit rating agencies, clearing houses, stock exchanges and the regulations and governance norms prescribed by these institutions. The participants comprise of the market players – investors on the demand side and issuers on the supply side. Instruments are the form and features of securities issued in the corporate bond market. Further, interest rate and currency derivatives and government securities play a significant role in ensuring its vibrancy and smooth functioning.

1.2. Corporate bond market size in India

Today, corporate bonds are a $287 billion (about Rs.19 trillion) market—around 14% of gross domestic product (GDP). This is large on an absolute basis but small compared to bank assets (89% of GDP) and equity markets (80% of GDP). This year's (2016) budget proposes six measures for corporate bond market development: an electronic platform for private issuance, a platform for corporate bond repurchase agreement (repo) and a consolidated reporting platform.

1.3. Why is it underdeveloped in India?

Though RBI is trying to encourage bond financing by large borrowers, large companies are already heavily leveraged. If such companies seek additional financing, it will not be through bonds. Somehow, secondary trading, investor participation and new issuance has reduced. Hence, there is a need to develop this market which can be done only by fundamental reforms in financial markets, public finance and regulatory governance, something not easy to achieve. Reasons are:-

First, the basic market infrastructure is not in place. For example, a platform for corporate bond repo, on the lines of collateralized borrowing and lending obligation, has been proposed by SEBI, but not approved by RBI.

Second, the government uses financial institutions as a captive investor pool for government bonds to finance its deficit. This combined with the governance problems of public sector banks and financial institutions constrains domestic financial development and crowds out private sector financing needs.

Third, the thinking on integrated financial markets is still at a nascent stage in India. The repo market which enables secondary liquidity and the credit default swaps market which allows credit risk to be traded do not exist, despite regulatory guidelines for them being in place. The interest rate derivatives market is in its early stages and the currency derivatives market is fraught with frictions in the form of documentation requirements.

Finally, although we have seen changes in major changes after Parliament has passed the Insolvency and Bankruptcy code,2016 (IBC) but issues like Cross border Insolvency and Interplay with Debt Recovery law are yet to be addressed.

1.4. Advantages of corporate bond financing over bank financing

- In bond financing, investors are fully aware of the yields and time horizons of their investments whereas, in bank financing it's not the case.
- Bond market provides a yield curve or a market-determined term structure of interest rates. The yield curve serves as a benchmark for pricing credit risk and other financial products.
- Bond financing lowers funding cost for high quality borrowers as intermediation costs are lower for bond financing than for bank financing.
- A well-developed bond market introduces a healthy competition with the banking sector in providing corporate financing.
- Bond market allows pooling of risks through securitization (such as mortgage backed or asset-backed securities).
- A well-developed corporate bond market increases economic welfare as it complements other financial instruments and provides a full spectrum of investment vehicles.
- While bond financing involves spreading credit risk over a large group of diverse bondholders, banks tend to minimize credit risks of borrowers and manage their risks by monitoring borrowers.

1.5. Factors limiting the development of the corporate bond market in India

Lack of transparency, less liquidity and inefficient intermediation in the process of market are the main factors that limit the growth of corporate bond market in India.

Efficiency in bond market is driven by transparency that allows bonds to be priced for all available information. Systemic flaws in the credit rating process by the Credit Rating Agencies (CRAs) enhance risk and also reduce transparency due to a constellation of a number of factors.

Liquidity in bond market is driven by volume of bonds offered by issuers in the primary market on an on-going basis as well as the circulation of bonds in the secondary market with active investor participation.

Absence of a liquid corporate bond market acts as a key deterrent for investors to participate. With more than 98% of bond placements being private, availability of bonds for trading in secondary market is pre-empted by a handful of investors and limits price discovery in the secondary market. The corporate bond market in India lack a benchmark yield curve across maturities and hence pricing in the secondary market is not observable across all maturities which have a first order impact on liquidity. Long term bonds (>10 years) hinder the development of the benchmark curves. Investor profile and market regulation further limits secondary market liquidity. Lack of quality bond papers in the market reduces the buoyancy of the corporate bond market.

Intermediaries quote both buy and sell side prices and hold inventory to enable market making. Any inefficiency in this process will be automatically reflected in the pricing of bonds and thus will adversely affect costs of borrowing of the issuers.

Besides all this, some of the reasons that are effecting the development of bond market in India are –

1. Corporate bond market in India lacks diversity.
   a) Market consists of fixed rate coupans and is dominated by narrow issuer base by banks, financial institutions and quasi government bodies becoming both the cause and effect of limited liquidity. They cater to a limited set of investors interested in investing in such firms and there is no variation in the kind of instruments. Due to this trend, other investors mostly stay clear of the market since the market is unable to cater to their unique requirements. Considering the limited investor base, it is better for issuers to opt for private placements and have no incentive to list securities. Further, this hampers participation and liquidity in the market. Thereafter we return to the same narrow issuer base which is willing to issue bonds in the illiquid market. There is an urgent need to break this vicious circle. The cycle is often termed as Nelson's Low Level Equilibrium.
   b) Diversity is required not only with respect to the type of instrument but also its investment grade and maturity length. The average age of bonds issued by Indian Corporations is only 5 to 7 years. In the corporate bond market of India, majority of the issuances are of the 1-5 year tenor. Over the years, the issuance of securities in the shorter term 1-5 year bucket has increased, and dominated the total issuance in the corporate bond market.
2. **Restrictions on Foreign Transactions**
   a) At present, any company incorporated in India, even when part of a multinational group, can issue corporate bonds. However, a company incorporated outside India cannot issue corporate bonds in India.
   b) US$ 51 billion can be invested in corporate bond by FIIs [(a) US$ 1 billion for Qualified Foreign Investors (QFIs), (b) US$ 25 billion for investment by FIIs and long term investors in non-infrastructure sector and (c) US$ 25 billion for investment by FIIs/QFIs/long term investors in infrastructure sector].
3. **Taxes –**
   a) A simplified and low stamp duty structure is an ingredient for building up of a vibrant corporate bond market. In India, now-a-days the secondary market transactions in corporate bonds through demat transfers do not require

stamp duties. Nevertheless, stamp duty is still applicable in case of issuance, re-issuance and transfer (if held in physical form) of corporate bonds, and it is higher in comparison with international standards. It is also not uniform across the states.

b) The Tax Deduction at Source (TDS) policy is not uniform for all investors in corporate bonds. In 2009, the Union Budget announced that corporate debt instruments issued in demat form and listed on recognised stock exchanges are exempt from TDS. However, TDS is still applicable in certain cases.

4. **Insolvency Laws-** Although we have seen changes in major changes after Parliament has passed the Insolvency and Bankruptcy code,2016 (IBC) but issues like Cross border Insolvency and Interplay with Debt Recovery law are yet to be addressed.

1.6. Recommendations of the RaghuramRajan Committee

Firstly, it has recommended to create a number of missing markets such as exchange traded interest rate and foreign exchange derivatives contracts to revive the corporate bond market. Secondly, it mentioned to allow domestic financial institutions greater flexibility to invest in corporate bonds. Third, it recommended to reduce transaction costs in issuing and trading corporate bonds. Fourth, to bring all regulation of trading under the Securities and Exchange Board of India (SEBI).Fifth, to set up a working group on financial sector reforms with the Finance Minister as the chairman to monitor progress and to initiate needed actions.

2. OBJECTIVE OF STUDY

The main objectives of this research paper are as follows:

1. To show the comparative performance of the corporate bond market of India with the other four major Asian countries like Japan, Singapore, China and Malaysia.
2. To formulate the reasons for the underdeveloped state of the Indian corporate bond market.
3. To analyse the remedial measures for the development of the corporate bond market of India.

The paper is organized as follows: Section 2 reviews the existing literature in brief. Section 3 explains the database and methodology used for the purpose of analysis. Section 4, analysis the paper and section 5, concludes the paper.

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3. A BRIEF REVIEW OF LITERATURE

The study of the topic has been classified according to different countries such as Singapore, China, Malaysia, and Japan. The literature review of the corporate bond market situation in these countries is as follows:

In the research paper Developing a Viable Corporate Bond Market: The Singapore Experience" by NgiamKee and JinLixiaLoh is a descriptive paper which talks about the bond market condition of Singapore by pointing out the challenges that the market faces even though it's one of the most developed bond market in the world. The study found that Singapore has shown that the building of the debt markets undertaken in close collaboration between government and industry produces highly effective results. The paper "Singapore Bond Market Guide" talks about the overview of the bond market in Singapore with a quick run over the origins of the bond market over there.

The paper "Singapore Corporate Debt Market Development 2015" talks about the reasons why Singapore has developed its bond market to an advanced level. Moreover, Singapore has the right ingredients to build a strong debt market ecosystem, comprising large fixed income asset managers, major global banks with strong franchises and fixed income desks located here, a good mix of trading venues that bring together different user bases and offer different trading protocols.

According to Muhammad bin Ibrahim and Adrian Wong, in the early 1990s Malaysia's strong economic growth created high demand for funds from the corporate

sector. The development of the corporate bond market was aimed at meeting the financing needs of the expanding Malaysian economy, particularly those of privatized infrastructure projects.

Dr. ManasChakraborty have found that equity and debt are two useful sources of financing for corporate sector in India and a corporate bond market helps an economic entity to raise funds at cheaper cost. Unlike other countries, a large chunk of corporate funding in India is done through banking, retained earnings and capital through equity offerings. He tried to analysis development and growth of corporate bond market in India as compare to other developed countries like Malaysia, U.S.A etc. He estimated that after 2008, the share of corporate debt as a percentage of GDP has been declining in the developed countries like Japan, whereas share of some emerging market like India and Malaysia is gradually increasing due to increasing trend of corporate approach towards the market. So the corporate bond in total debt showing an increasing trend in Malaysia.

Jacob Gyntelberg in his paper, 'Corporate Bond Markets in Asia' told these market in Asia differ widely in size. There are four countries first the Japanese market which is $2 trillion in size. Behind Japan, there are three markets that can still be considered relatively large: Korea with $355 billion, China with $196 billion and Australia with $188 billion. After these four, Hong Kong with $62 billion, followed by Malaysia with $50 billion, India with $24 billion. He classified corporate bond market in two market i.e. primary and secondary market.

Frank packer in his paper 'Credit risk in Japan's corporate bond market' says Japan's major corporations have increasingly relied on the corporate bond market as a source of debt finance in the recent years. From 1996 to 1998, the issuance of corporate bonds increased paying closer attention to the credit risk of individual issuers. Such a shift in investor focus would represent a major change in the structure of this market.

Financial Times (12 July, 2012)cites that china's corporate bond market is booming whilechina's economy, profits and its stock market is drifting down.

Jiang, Tang and Law in their paper 'The cost and benefits of developing bond markets: Hong Kong's experience'(2002) point out that one of the principal benefits of a well-developedcorporate bond market is to provide an effective alternative source of financing to bank financing.

Luengnaruemitchai and Ong (2005) in their IMF working paper'An Anatomy of Corporate Bond Markets: Growing Pains and Knowing Gains' opine that core aspects such as benchmarking, corporate governance and disclosure, credit risk pricing, the availability of reliable trading systems, and development of hedging instruments are fundamental for improving the breadth and depth of corporate debt market.

Bose and Coondoo in the paper'A Study of the Indian Corporate Bond Market' (2003) examined the nature of the Indian corporate bond market using monthly data from the secondary market trades from NSE and BSE during the period April 1997 to March 2001 and observed that the Indian corporate bond is characterized by lack of depth and width. Further, the market is characterized by infrequent trading, high liquidity risk, a high degree of dispersion of price over time and a lack of relationship between bond's credit rating (risk) and its market price.

Mitrain the paper, 'Why Corporate bond market in India is in Nelson's low level equilibrium trap for so long' (2009), has argued that the corporate bond market in India is stuck in the *Nelson lowlevel equilibrium trap* due to demand, supply and market structure related issues.

4. DATABASE AND METHODOLOGY

This paper isdescriptive in nature. We have shown a comparative study of the corporate bond market in India with the other major four Asian countries like Japan, Singapore, Malaysia and China. The study is completely based on secondary data. For the purpose of analysis we have used tables to represent the data and simple diagrams are used for analysis of data.

5. ANALYSIS

India's total bond market size is Rs.1,03,49,435crore rupees as of May 2017. Government Securities account for 45.0% of total market and corporate bonds account only 21.7% of the total bond market. Interestingly, for

almost all the countries, the bond market is dominated by the government sector. This is intuitive since a developed government bond market is often considered to be a pre-requisite for the development of the corporate bond market where interest rate benchmarks of G-Sec are used to reckon the spreads. This research paper is a comparative study on the corporate bond market of India with the markets of Singapore, Malaysia China and Japan.

S. No.	*Bond/ Security type*	*Amount (Cr.)*	*Percentage*
1.	Government Security (G-Sec)	46,52,880	45.0%
2.	Special Securities	1,98,704	1.9%
3.	Floating Rate Bonds (FRBs)	61,232	0.6%
4.	Treasury Bills (T-Bills)	3,34,802	3.2%
5.	State Development Loans (SDLs)	20,90,052	20.2%
6.	UDAY Bonds	2,08,055	2.0%
7.	Commercial Papers (CPs)	3,97,970	3.8%
8.	Certificates of Deposites (CDs)	1,55,740	1.5%
9.	Corporate Bonds	22,50,000	21.7%
	Total	1,03,49,435	100%

5.1. The Corporate Bond Market in Singapore

Like most Asian countries, Singapore did not have a well-functioning bond market before 1997. The Singapore Government operated a prudent fiscal policy and consistently ran budget surpluses. Thus, there was no need for debt financing. SGS were then issued mainly to meet financial institutions' statutory requirements, usually held to maturity, and rarely traded. The Asian Financial Crisis highlighted the need to develop a domestic bond market and led to the creation of the bond market.

5.1.1. Framework

Singapore has one of the most developed bond markets in Asia. The Singapore bond market is made up of Singapore Government Securities (SGS), quasi-government bonds, corporate bonds,and structured securities. The SGD bond market is fully accessible to all issuers and investors globally. There are no capital controls, hedging restrictions, or withholding taxes. As a result, the market's profile is international in nature, with foreign entities accounting for more than a quarter of bond issuance. Regulations were fine-tuned in 2009 to qualify high-grade securities issued by foreign entities as regulatory liquid assets. Since then, there has been an increase in issuances by well-known AAA-rated foreign issuers such as the African Development Bank, KfWBankengruppe, International Finance Corp (IFC), and International Bank for Reconstruction & Development (IBRD).

With a conducive business environment, an excellent infrastructure, and a highly skilled workforce, Singapore is well placed as one of the key financial hubs for the region. A key aspect of Singapore's financial Centre is its deep and liquid capital markets. The development of Singapore's financial center began in the late 1960s with the emergence of the Asian Dollar Market (ADM). This allowed Singapore to bridge the gap in market hours between London and New York at a time when funds were flowing strongly into a rapidly industrializing Asia.

With a stable political environment that is backed by an established legal system and a competitive tax regime, Singapore became the center for the ADM. The ADM growth also spurred the development of the foreign exchange market and derivative markets in Singapore.

Based on the Bank for International Settlements' (BIS) Triennial Survey results in 2010, Singapore's foreign exchange market is now the fourth largest in the world after London, New York, and Tokyo.

In the secondary market, trading of SGS has been active, especially in the inter-bank market. The SGS repurchase (repo) market is also relatively deep with a daily volume of about SGD2.0 billion in 2017. Institutional participants could also use the SGD interest rate swap (IRS) and cross currency swap (CCS) markets. The Singapore bond market thus was given highest 'AAA' credit rating by the three main international rating agencies such as Moody's, Standard and Poor's and Fitch.

4.1.2. Development of Bond market

The Singapore bond market has grown in leaps and bounds since when the Monetary Authority of Singapore (MAS) began to actively promote the development of liquid bond markets.

Issues undertaken locally have no local tax filing requirements other than to file a tax return to the Monetary Authority of Singapore (MAS) and Inland Revenue Authority of Singapore after the issue date. Exchange submission for listed bonds is typically expedient and straight forward making the Singapore Dollar Market very cost competitive compared to other alternatives.

MAS also expanded the pool of eligible collateral for the Standing Facility to include AAA rated Singapore dollar debt securities issued by sovereigns, supranationals, and sovereignbacked corporates. MAS signs its first CBCA with De Nederlandsche Bank.

The Singapore experience in building its bond markets offers several valuable lessons for other countries which are striving to build their own bond markets. A primary lesson is that developing an active and viable bond market is an arduous task.

A great deal of painstaking effort and patience is required. Despite putting in so much effort for so many years, the SGS and SDCB markets still suffer from a lack of liquidity in the secondary market. The other lesson is that the lack of an active and viable domestic bond markets in the past has not held back the overall growth and development of Singapore. This is because Singapore has a sophisticated banking system and stock market, which helped to channel funds efficiently from savers to borrowers. Developing the bond markets in Singapore is probably more important for generating income and employment than in providing another channel of finance for the Singapore government and firms.

Issues and challenges associated with Singapore Market

Singapore's bond market is unique in the respect that large numbers of individual investors are bondholders. In western markets, it is usually institutional investors who take up bond issues. A Reuters report reveals that some high-yielding Singapore dollar bonds are held by more than 100 individual investors. There are no institutional investors involved at all.

Individual investors have relatively limited resources and find it difficult to coordinate their efforts to pressurise defaulting bond issuers. The problem is compounded by the fact that individual investors cannot contact others who hold the same notes as only the trustees have the ability to identify all bondholders. The trust deed does not allow a trustee to arrange a meeting of bondholders except in certain circumstances. All these conditions make it difficult for bondholders to get together so that they can make a collective effort to protect their interests.

The problem was encountered when top 5 oil companies defaulted on their bonds.

5.1.3. Comparison with India

To put in a nutshell, the Indian bond market with particular reference to the corporate bond market is often touted to be under developed when viewed in line with the bond markets across the globe. There are demand and supply side issues. There are few issuers in the market which translate into a lower supply for floating debt with a preference for bank loans, regulatory issues on disclosures and other related costs, stamp duty varying across states and so on. On the demand side traditionally high Statutory Liquidity Ratio (SLR) that banks are required to comply with, regulatory asymmetry in treatment of loans and bonds, need to mark the portfolio to market keep the demand for corporate bonds muted. Further the absence of a well-developed secondary market inhibits retail participants as exit is not easy.

The important implication for India is to recognise the importance of foreign investor participation to address its narrow investor base. India has been taking steps in this direction. The Government of India increased the current limit of foreign institutional investment in corporate bonds from $15 billion to US $40 billion. However, increasing the limit of foreign investment alone will not be sufficient to ensure flow of foreign investment into the country. In fact, GoI has been monitoring FIIs subscription under the scheme and as on 31st August 2011, against a ceiling limit of $25 billion, or '1,12,095 crore, investments by FIIs under this scheme were only $109 million or '500 crore. It was concluded that the three-year lock-in period and doubts regarding the interpretation of the requirement of residual maturity of five years were discouraging FIIs from investing in this scheme. The GoI has since reduced the lock-in period

to 1 year for investments up to $5 billion. India, however, needs to do more to solve the "original sin" problem by creating conducive policies like simple disclosure and tax filing requirements.

5.2. The Corporate Bond Market in Malaysia

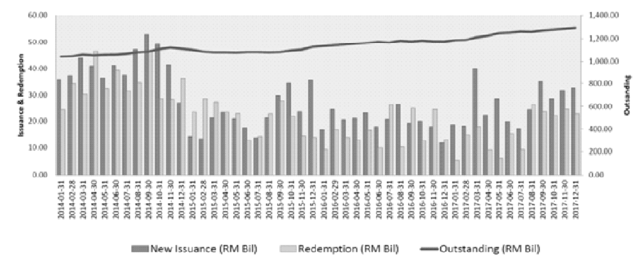
The Malaysian bond market is one of the most developed and dynamic bond markets in the region. It is the largest local currency bond market in the Association of Southeast Asian Nations (ASEAN). The development of the Malaysian bond market has largely been achieved through the exceptional growth of the corporate bonds and Sukukmarkets. The growth of the Malaysian bond market can be traced back to the 1970s, when the government started issuing bonds to meet the massive funding needs of the country's development agenda at the time. By the mid-1980s, the private sector assumed a more important role in the strategic development of the Malaysian economy, with the aim of making it the main driver of growth as well as finance.

Tax incentives have also played a major role in the continuous growth of the corporate debt market. For example, stamp duty waivers and tax exemptions on income earned on securities have been granted to widen the issuer and investor base. In addition, a tax-neutral framework has been introduced, whereby ABS issues and Islamic PDS issues are treated like conventional securities for purposes of taxation.

There are various types of sukuk structures relating to the nature of the underlying asset. The most commonly used is where the sukuk relates to a partial ownership of an asset (sukuk al-ijarah). Other types of these bonds relate to partial ownership in in a debt (sukukmurabaha), project (sukuk al-istisna), business (sukuk al-musharaka), or investment (sukuk al-istithmar). This gives investors a diversity. Besides all this, sukuk bonds are also highly liquid in nature.

5.2.1. Regulatory Framework

In March 1993, the Securities Commission (SC) was established to act as the single regulatory body to promote the development of the capital market. In addition, the Rating Agency Malaysia Berhad (RAM) and the Malaysian Rating Corporation Berhad (MARC) were established in 1990 and 1995, respectively, to provide independent opinions on the potential default risk of debt issuers. The Bond Dealers Association was established in June 1996 to represent the industry's views and work with regulatory authorities to promote the bond market. For the Islamic bond market, an internet-based platform system was launched in September 2004 to provide transparency of information on Islamic financial products. The Malaysian Islamic PDS market has shown remarkable progress since its introduction in 1990. Malaysia has successfully created a niche market in this area: it is estimated that 85% of the total global Islamic bonds(Sukuk) that have been issued were issued in Malaysia, making Malaysia one of the world's largest Islamic bond markets. The growth of Malaysia's Islamic bond market is demonstrated by the issue size of Islamic PDSs. In December 2017, bond and sukuk issuance amounted to 32.4 RM Bil. Through the efforts of the government and market participants, and reinforced by strong economic growth, the Malaysian PDS market has expanded considerably over the years. In that figure we see that private bond is more than the public bond in size. Malaysia has achieved a balance in terms of debt composition between its public and private bond markets.



5.2.2. Comparison with India

The debt market in India is of some age and of some substantial size. Public limited companies have been raising capital by issuing term debt securities mostly through private placement. State owned public sector units (PSUs) began issuing PSU bonds since 1985-86.

When we are looking at the private bond market capitalism as percentage of GDP then the percentage of Malaysia's bond is 58% whereas in India it is too low i.e.

5%. Similarly now we are looking at the share of corporate bond in total debt of India.

From the comparision we can understand why india's corporate bond market is underdeveloped.

In malaysia various system was lauched to oversee the policy direction for the development of the bond market, to identify and recommend appropriate implementation strategies whereas in India a reporting platform was developed by Fixed Income Money market and Derivative Association of India (FIMMDA) to promote transparency in corporate debt market. From this figure we can see that share of corporate bond in total debt (%) in India has increased. It shows an increasing trend in debt market.

Repo in corporate bonds was allowed under a comprehensive regulatory framework to develop Corporate Bond Market in India.

The exposure norms for primary dealers (PDs) have been relaxed to enable them to play a broader role in the corporate bond market. Again, Credit Default Swaps (CDS) have been introduced on corporate bonds since December 01, 2011 to facilitate hedging of credit risk associated with holding corporate bonds and encouraging investors to participate in long term corporate bonds trading.

5.2.3. Policy issues and challenges

Although the Malaysian corporate bond market has undergone tremendous change and growth over the last decade, several issues and challenges remain. In particular, liquidity in the secondary market needs to improve to a level comparable to that in Malaysian government securities. Other areas that require further development include:

- deepening of the swap market;
- Improving liquidity in the secondary market – Includes efforts to enhance market infrastructure, trading and operational procedures for the creation of an organized and active bond market which is efficient and effective towards promoting and attracting active primary as well as secondary market activity.
- Promotion of larger issue size by corporations; and
- Creation of a financial guarantee mechanism to enhance credit ratings.

From these part we can conclude that Malaysia's bond market is developed compared to Indian context. But if we see it from the global perspective then both the countries are at the same level. Many policies were established for the development of Malaysia's bond market as well as Indian corporate bond market. GOI, RBI along with SEBI have initiated several measures to develop the corporate debt market in India. Although India has a world-class equity market, its bond market is still relatively underdeveloped and is dominated by the Government bond market. The share of corporate bond outstanding in India, however, was only 1.6 per cent of GDP in 2010 compared to Malaysia (27 per cent) and South Korea (37.8 per cent) in the Comparable period. On the other hand, the issue of Sukukbonds in Malaysia indicated that India could find innovative ways to improve the retail investor market. The Malaysian experience shows that it is important to find innovative ways of drawing investors into the corporate bond market. One way to address this concern is to structure the bond so that investors feel that they are contributing to the infrastructure development of the country. This will help channel savings, which are currently invested in post office savings accounts or similar safe investments, into corporate bonds.

5.3. The Corporate Bond Market in Japan

5.3.1. Role in corporate financing

Going through various system reforms, the corporate bond market in Japan has developed as a free and efficient market and has played an important role in corporate financing. After the global financial crisis in 2008, despite showing downward trend in the second half of 2008, the corporate bond market has shown relatively steady recovery towards 2009 and 2010. Due to earthquake and tsunami hitting the market resulted in slowdown but as a result of the people's effort for the recovery of the Japanese economy, the corporate bonds market has been in the course of recovery.

However, generally speaking, comparing the Japanese corporate bond market with those in the U.S. and Europe (i.e., Euromarkets), corporate bond issuance is not as robust as that of the U.S. market. The issuance of corporate bonds in Japan is still limited to fairly high-rated companies in specific sectors and for corporate bond holdings in Japan, the main holders are banks (depositoryinstitutions) with individual investors, investment trusts, and foreign investors being relatively minor players.

Since the 2008 global financial crisis, vitalization of the corporate bond market has become a particularly important and urgent issue as vitalization of the corporate bond market will promote the diversification and decentralization of financing methods by private companies, as well as the expansion of asset management opportunities for investors, leading to strengthening of the financial and capital markets.

5.3.2. Development of corporate bond market

Furthermore, developing the infrastructure of the corporate bond market in Japan and creating a more efficient corporate bond market with higher transparency and liquidity will increase the participation of foreign issuing corporations and investors including those from the Asian region. It will also help Japanese financial and capital markets play a role suitable for the economic scale of Japan in the global market.

Earlier japan bond market was not developed like today. The Japanese corporate bond market has developed its flexibility and efficiency through system reforms such as the abolishment of regulations on corporate bond issuance limits and the revision of the trustee company system (1993), the abolishment of grade criteria for corporate bond issuance and deregulation of bond covenants (1996), and the electronic registration of corporate bond certificates (2006). But still the size of corporate bond market here is quite small -while the public sector is significantly short of funds, private non-financial corporations tend to have a surplus of funds which led to restrained investment and sluggish demand for long term funds.

The "Chicken-or-the-Egg" problem, i.e., the inactive issuance of corporate bonds results in and is caused by the low liquidity of corporate bonds, has yet to be solved. Consequently, the liquidity of corporate bonds remains low. Due to corporate bond underwriting practices, flexible issuance in accordance with needs is difficult because the issuable period of corporate bond is limited and the issue timing is concentrated. Due to the small size of the corporate bond market in Japan, some Japanese institutional investors have not established an adequate research system which creates difficulty for individual investors to obtain information on corporate bonds. So the corporate bond market is not a good place to actively invest for investors with a higher risk appetite.

The corporate financing structure in Japan relies heavily on bank loans rather than corporate bond issuance because the risk premium of bank loans is lower than that of corporate bonds. This is particularly significant in Japan. Therefore, the funding cost of borrowing is cheaper than that of corporate bond issuance. This issue needs to be solved by both market participants and banks by tackling their own issues one by one based on their individual viewpoints, as well as through cooperation with each other in establishing more transparent and sound market practice.

Credit default transactions (CDS) has recently increased in large companies in japan just like US and European markets. Also corporate bonds are more specific in nature than shares, and their issuing conditions vary in each case.

Market Scenario

Fortunately, in the past several years the impediments isolating the domestic market from foreign markets have been removed in Japan through the efforts of policymakers and market participants so, Japanese market participants will witness a radical improvement in the mobility and convenience in the Japanese corporate bond market.

The corporate stock market in Japan is currently being influenced by a number of strong bullish and bearish factors like short positions, covering dividends etc. But it seems likely that Japanese investors will turn more and more to American evaluation methods because their own methods have proven costly. Already a trend towards quality and longer range investment has been

noticed, particularly among the institutions. Performance of stocks has recently been much more related to earnings.Japan is unique among the free world markets in the reverse evaluation of the most profitable companies and least profitable.

Japan's Risk Assessment

Sovereign risk

Unchanged Sovereign risk reflects the prevalence of a high ratio of public debt to GDP. At an anticipated 234.9% in 2017, Japan's ratio of public debt to GDP is among the highest in the world.

Banking sector risk

Low interest rates will help firms and households to meet debt-servicing obligations in 2017-18. However, the introduction of a negative interest rate in February 2016 by the Bank of Japan (the central bank) helped to push down the yields of low-risk assets to zero or negative for most of that year, forcing banks to search for higher-risk assets.

5.4. The Corporate Bond Market in China

5.4.1. Overview of china's corporate bond market

After more than 20 years in development, the China's bond market has developed into a multilayered market, comprising of three segments: the national interbankmarket, the exchange market and the bank counters, among which the interbankmarket plays the dominant role accounting for about more than 90% of the trading volume of china's bond market. It is also true for the corporate bonds and only 11% of the corporate bonds were traded in the exchange market.

The interbank bond market was formed in June 1997, when the People's Bank of China (PBC), under the instruction of the State Council, issued *The Notice on Cessation of Repo and BondTrading byCommercial Banks in the Stock Exchanges*, mandating that all commercial banksmove their repo and bond trading out of the Shenzhen and Shanghai stock exchanges and into an interbank market operating through an electronic trading system. It is basically the over the counter market of China.

China's bond market has been rapidly expanding in the recent years, especially corporate bond has a big presence in the market. It is now the third largest in the world behind United States and Japan. Corporate bonds consist of listed corporate bonds, enterprise bonds, and short-term corporate financing bills (CP), Medium-term notes (MTN) and others. Corporate bonds are regulated by China Securities Regulatory Commission (CSRC) in the securities exchange market. Enterprise bonds are regulated by National Development and Reform Commission (NDRC) in bothinterbank market and securities exchange market. Medium-term notes are regulated by People's Bank of China (PBOC) in the interbank market. Short-term corporate financing bills (CPs) are regulated by People's Bank of China (PBOC) and National Association of Financial Market Institutional Investors (NAFMII) in the interbank market.

5.4.2. History of China's corporate bond market

There was very little regulation for corporate bonds in the 1980's. Spontaneous fund raising, both publicly and internally, emerged in the mid-1980s. In 1984, state-owned enterprises (SOEs) were allowed to issue corporate bonds subject to the approval of the PBOC. Due to limited quota and strict administrative controls, the primary market for corporate bonds quickly withered. However, the listing of the first corporate bond took place in 1994 on Shenzhen Stock Exchange, a breakthrough in the secondary market of corporate bonds. Banks have long been the primary source of capital in China but the Asian financial crisis of 1997-98 brought to the forefront the limitations of even a well-managed, regulated and supervised banking system in the Asian countries. The crisis clearly showed that banking systems cannot be the sole source of long-term investment in an economy. There was a need for an alternative way of funding.

5.4.3. Statistics of the market

According to the statistics by BIS, the size of the total bond securities issued in china as of 2017 is 10,367 billion US Dollars. The Asian bonds online reports that the total amount of corporate bond and financial bond of china overtook japan in 2012 and became the largest bond market in Asia.

The rapid expansion of the bond market can be traced back to several factors. First, the government intends to boost the proportion of "direct financing" via bonds and equity issuances, as opposed to "intermediated" bank lending. Second, corporations have turned to the bond market for raising money as funding costs have been more attractive than bank lending. The introduction of MTNs and corporate bonds contributes greatly to the rapid growth of Chinese corporate bond market. CPs and MTNs jointly accounted for 62% of the total issuance.

5.4.4. Present picture of the corporate bond market

Corresponding with the growth and increasing openness of the bond market is an upsurge in risk. Bond defaults in China have historically been quite rare. But things began to change after Chaori, a private solar panel manufacturer, became the first company to default on a domestic bond in March 2014. Over the following two years, several more firms have defaulted, postponed payments or restructured debt, including several large state-owned enterprises. 10 companies have defaulted on bonds so far this year (2016), with more likely to occur in the future. The increase in defaults has led to a negative shift in sentiment regarding the bond market. So far this year, 70 companies have cancelled or post-poned the issuance of new bonds. International Monetary Fund (IMF) reported that China's corporate debt stood at 160% of gross domestic product (GDP), higher than any other country. Investors need to beware of continuedacceleration in debt growth. China is now facing a shrink in its corporate bond market.

5.4.5. Comparison with the Indian corporate bond market

In the last two decades, China's economy has grown at a rate of about 10% per year and its bond market has grown from virtually nonexistent into one of the largest market among the developing countries especially since it has tightened bank lending conditions in 2009-10.

According to data available in BIS (Bank for International Settlements) , total domestic debt securities issued in India is 813 billion US Dollar while for china total domestic debt securities issued is 10,113 billion US Dollar as of 2017.

China's constantly growing market share has made it attractive to foreign investors. The rapid growth of China's corporate bond market mainly benefits from the rapid growth of economy, the changes of social financing structure (tighter liquidity conditions) and the market-oriented reforms.

5.4.6. Significance of the boom

China had a growth in its debt market since the occurrence of the financial crisis which then created a high credit gap. Credit growth has been averaging around 20% per year between 2009 - 2017, much higher than the nominal GDP growth. As a result the Credit-GDP ratio rose from around 150% to 200% which is 20-25% higher than the level in the historical trend, i.e., a very high credit gap. Booms of this size are dangerous. A credit gap above 4% is a good predictor of financial crisis which can be the reason of the negative shift in the bond market. It is also evident that a probability of bad outcome increases if a boom lasts longer than six years, starts at a higher level of financial depth and develops faster. Hence, India must avoid these criteria met by China.

6. POLICIES AND RECOMMENDATIONS FROM THE ABOVE STUDY

A vibrant bond market for the corporations can ease financing constraints both in terms of cost of funds as well as ease of access to funds.

Hence, like China, Japan, Singapore and Malaysia, India can also modernize its corporate bond market but at the same time it should implement some policies to control any boom in the market.India should not let its credit level to exceed the optimal financial deepening as China did. A higher credit-to –GDP ratio can be beneficial for an economy with sound institutions and regulations. Therefore, first there is a need to expand the corporate bond market in India and secondly, there is a need to control the credit level later on.

First, to improve the size of Indian corporate bond market, it needs to be made attractive to issuers. Absence of a liquid corporate bond market is the major factor which acts as a key deterrent for investors to participate. Hence, with high yields, transparent and liquidity

advantages, the bond issues can be made attractive to retail investors. In addition, allowing some tax benefits, liberalizing its financial market and making the bond market more liquid, Indian corporate bond market can also attain heights like other economies bond markets and can attract more foreign investors, however, the growth rate will be steady and slow.

7. CONCLUSION

It is found that Japan with $12,594 billion has the largest bond market among its Asian peers which is not a surprise since it has an extensive bond market analogous to those of western developed countries. However, the Japanese bond market is dominated by government bonds The corporate bond market is miniscule in comparison ($786 Bn) .China stands ahead of India as it has the second largest bond market with net outstanding debt of $10,367Bn which is 50.3% of GDP, higher than India by 7%. The Chinese bond market has experienced a boom in its corporate bond market because of the high credit gap. India should also develop its corporate bond market but should keep the credit gap less than 4%. Malaysia, Thailand and Singapore, the medium sized economies within this Asian group have a bond market worth $ 341Bn, $ 345Bn and $ 376Bn respectively. Hong Kong and Indonesia have a much smaller bond market at $446Bn and $ 108 bn. Vietnam is the smallest in the sample with a bond market size of $ 29 Bn only. The secondary corporate bond market while being comparatively passive is still the second most active within Asian countries. Hence, while over all the secondary market trading appears healthy, the same for corporate bonds can be made more vibrant.

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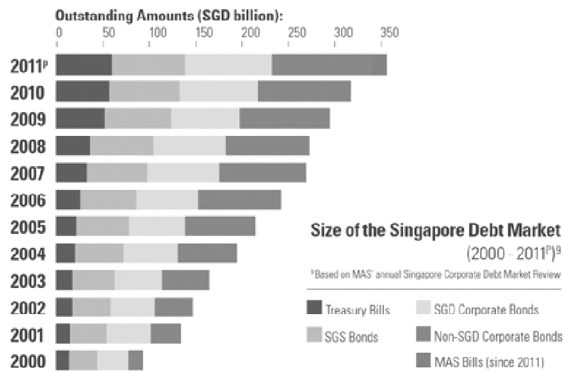
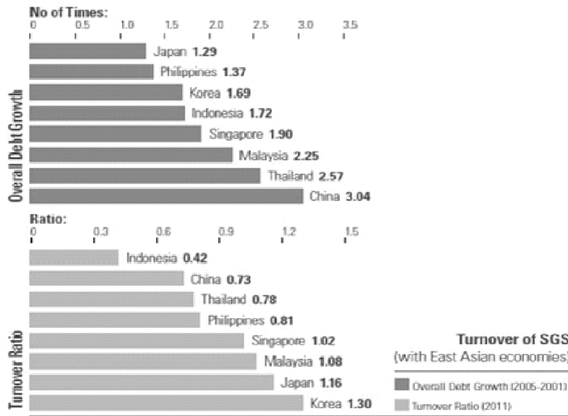
APPENDIX

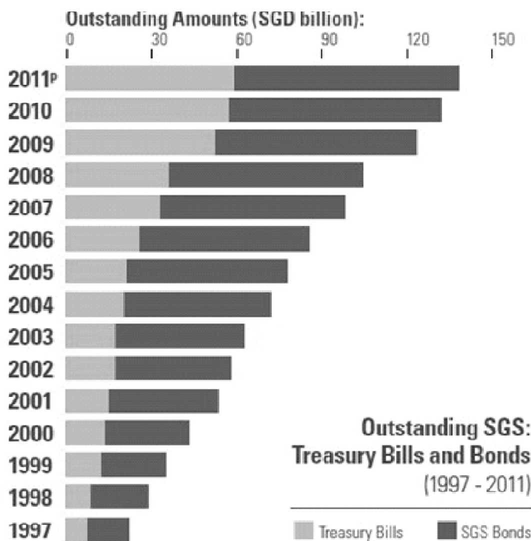
1.1 Size of Singapore Debt Market



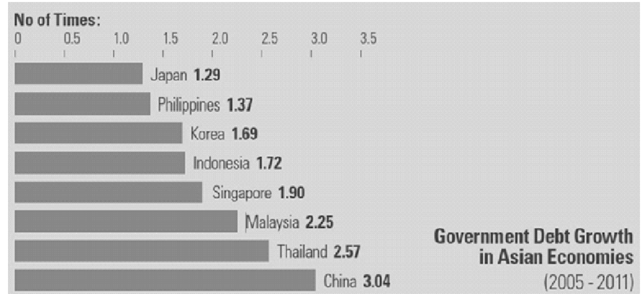
1.2. Overall growth rate and turnover ratio



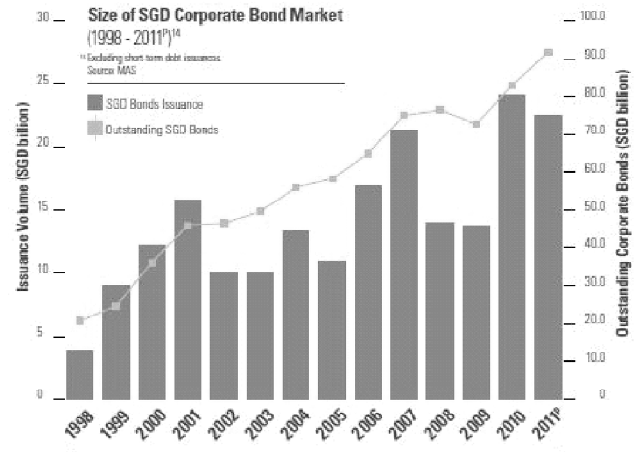
1.3. Outstanding Amount (SDG billion)

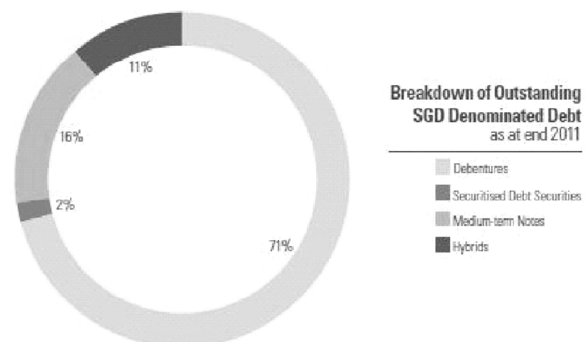


1.4. Government Debt Growth in Asian Economics

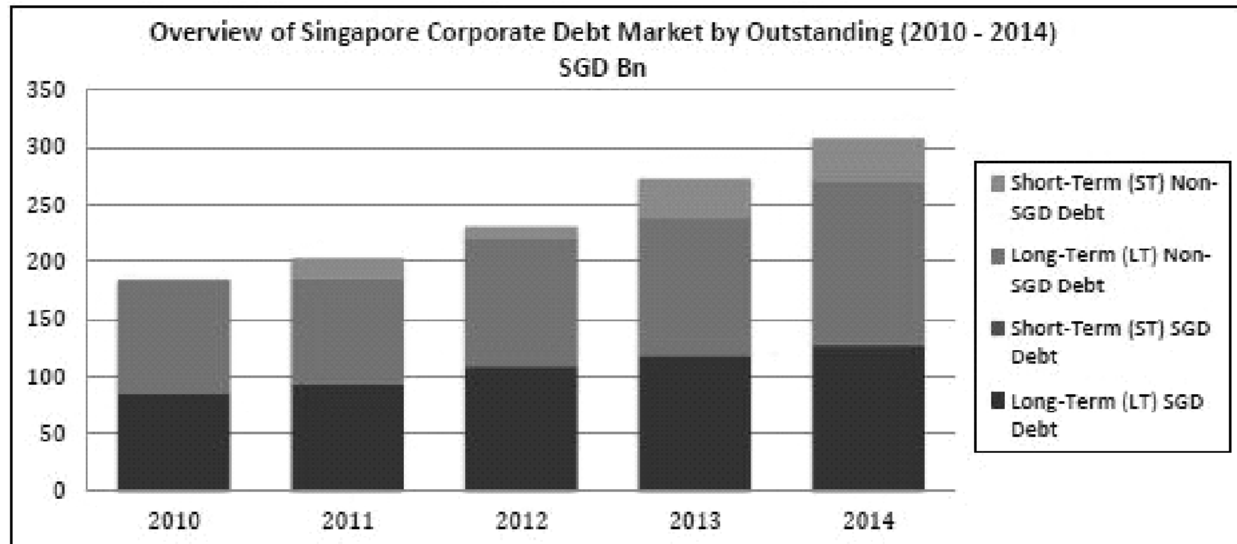


1.5. Breakdown of outstanding SDG Denominated Debt





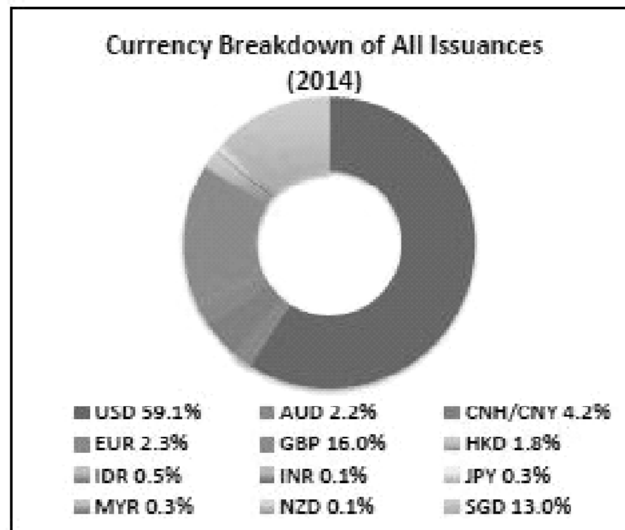
1.6. Overview of Singapore corporate debt market by outstanding (2010-2014) SDG Bn



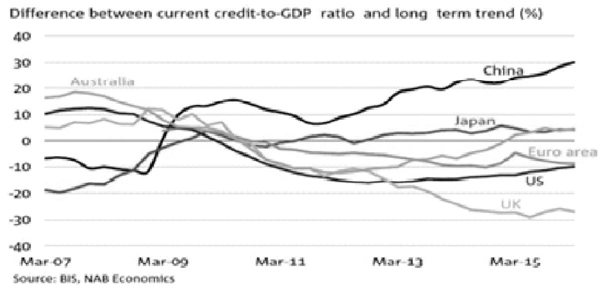
Record debt issuance in 2014

Singapore's corporate debt market grew 13% year-on-year to SGD 308 billion

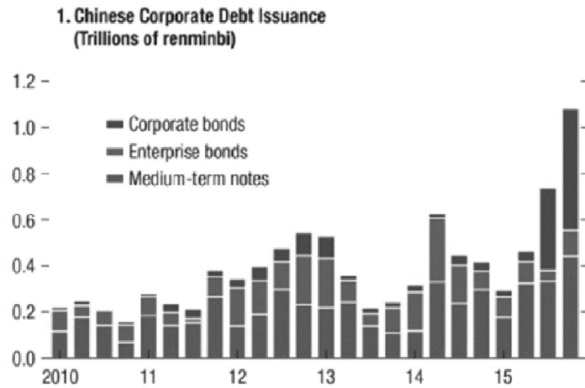
Record number of 149 issuers, including 62 first-time issuers



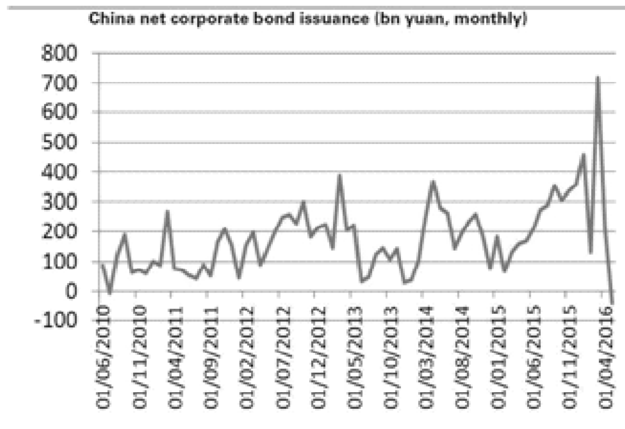
1.7. China's credit gap is increasing.



1.8. Chinese Corporate Debt Issuance



1.9. Decline in china's corporate bond market



1.10. Total bond Outstanding (Malaysia) (2000-2004)

Year	*2000*	*2001*	*2002*	*2003*	*2004*
private sector (MYR billions)	142	161	153	179	188
public sector (MYR billions)	103	117	125	149	175

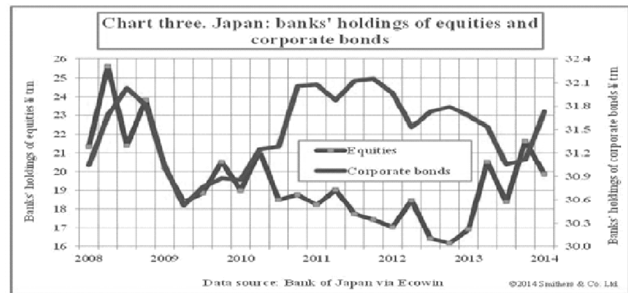
Source: National Monthly Refereed Journal of Research In Commerce & Management

1.11. Share of corporate bond in total debt (%)

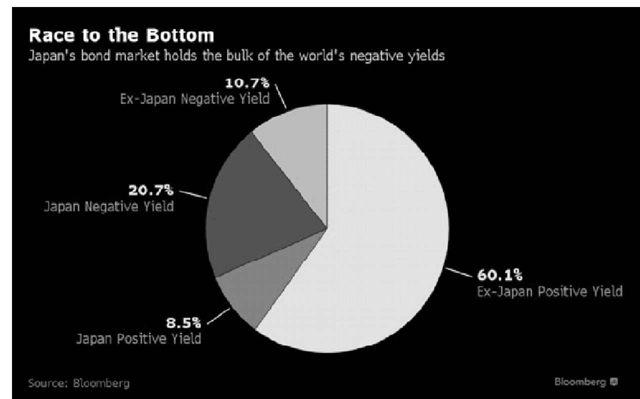
Year	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Share of corporate bond in total debt (%)	1	1	2	2	3	4	6

Source: National Monthly Refereed Journal of Research In Commerce & Management

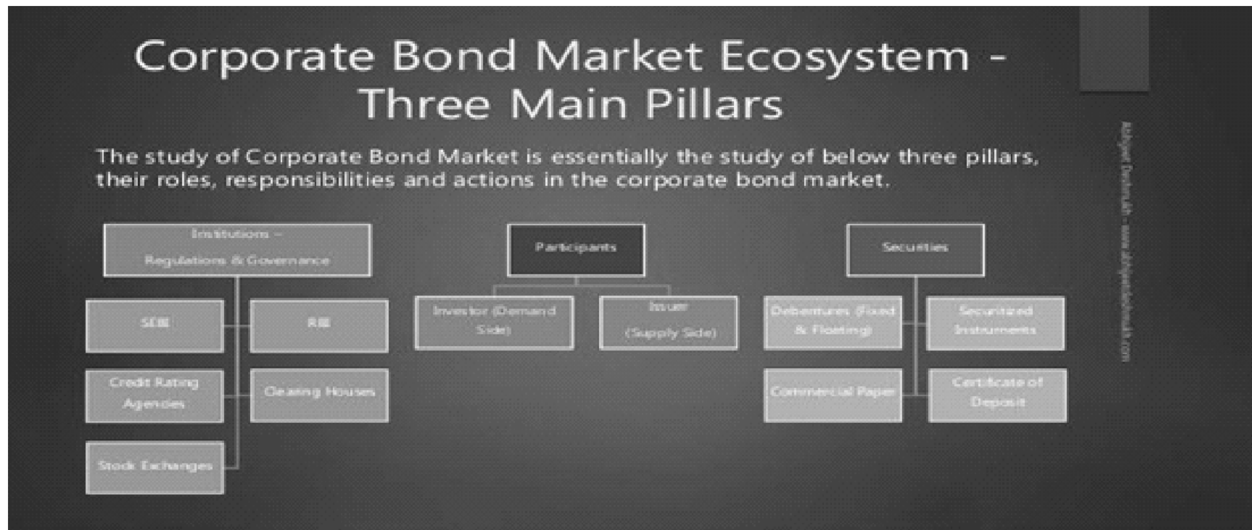
1.12 Corporate Bond in japan



1.13 Japan's Yeild:



1.14 Three Main Pillars



1.15 Asian Government and Corporate Bond Market as% of GDP