Annex 3

C. IMPORTANT DEBT MARKET DEVELOPMENTS

1992: The auction system for facilitating price discovery mechanism was introduced. This was a departure from the earlier fixed price issuances.

1993: To manage short-term liquidity and prove a benchmark security, 91-day T-Bills were launched. The new instruments helped the Government meet its short-term requirements and any unforeseen fund requirements that may arise.

1994:

1. First phase of the process to end automatic monetisation of Government deficits started.
2. New instruments like the Zero Coupon Bonds (ZCBs) were issued.

1995:

1. To improve the institutional infrastructure, Primary Dealers (PDs) system was set up and also improvements in the Trading and settlement systems were expected through the introduction of Delivery-Versus-Payment (DVP) system.
2. Floating Rate Bonds (FRBs) were issued to bring about variety in the instruments traded.

1997:

1. Technical Advisory Committee was set up, to advise to improve the efficiency and depth of the market.
2. The RBI and the Government allowed FIIs to invest in Government securities to ensure flow of funds into the economy.
3. Abolition of automatic monetization through ad-hoc T-Bills and its replacement by Ways and Means Advances (WMA) facility, with limits, to meet temporary cash flow mismatches for the Central Government (Culmination of the process started in 1994). This was considered to be a good move in the context of improving the price discovery mechanism and also to bring discipline to Government borrowing programme, since henceforth Government had to pay market interest rates.
4. Capital Indexed Bonds were introduced.

1999: Over the counter (OTC) interest rate derivatives like Interest Rate Futures (IRFs) and Forward Rate Agreements (FRAs) were introduced to help markets hedge their interest rate risks.

2000: To manage the short-term liquidity, Liquidity Adjustment Facility (LAF) was commenced. As per this arrangement, The RBI modulates the domestic liquidity through daily repos and reverse repos.

2002: Negotiated Dealing System (NDS), the screen based dealing system for Government securities along with the establishment of Clearing Corporation of India Ltd. (CCIL), was started whereby the transparency in Government securities market has been improved. The CCIL was expected to bring about greater efficiency in the clearing process through multilateral netting and novation (central counterparty to deals) while the NDS was expected to improve transparency and also allow as a next step order matching trades for Government securities. The entire system is a straight through process with deals flowing seamlessly through CCIL's clearing mechanism to final settlement in the RBI's records.

2003:

1. Trading of Government securities was introduced on the stock exchanges to promote an active retail market.
2. Non-banks were permitted to participate in the Repo market to bring more funds into the market and thus widen the size and participation of the market.
3. Exchange traded Interest Rate Futures (IRFs) were introduced. to increase the breadth of the market and provide the investor significant opportunities to limit the risk of investment in the debt market

2004:

1. Reserve Bank of India issued final guidelines for securitization of performing assets
2. Prudential guidelines on investment in non-Government securities were issued to Primary Dealers

2005: Reserve Bank of India has announced the launch of the electronic order matching trading module for Government securities on its Negotiated Dealing System (RBI-NDS-GILTS-Order Matching Segment, NDS-OM in short).

2006: Reserve Bank of India allowed intra day short selling in Government Bonds.