

Bharat Bond ETF Gets Cabinet Nod

MORE FUNDS FOR PSUS Move aimed at deepening corporate bond market, reducing cost of borrowing in India

Our Bureau

New Delhi/Mumbai:

The Cabinet Committee on Economic Affairs on Wednesday approved the creation of India's first exchange traded Bharat Bond Exchange Traded Fund (ETF), a move aimed at deepening the corporate bond market and reducing the cost of borrowing in India.

Bharat Bond ETF is expected to create an additional source of funding for Central Public Sector Undertakings (CPSUs), Central Public Sector Enterprises (CPSEs), Central Public Financial Institutions (CPFIs) and other government organisations.

"Now what we have done... is that we are trying to deepen the bond market in India," finance minister Nirmala Sitharaman said.

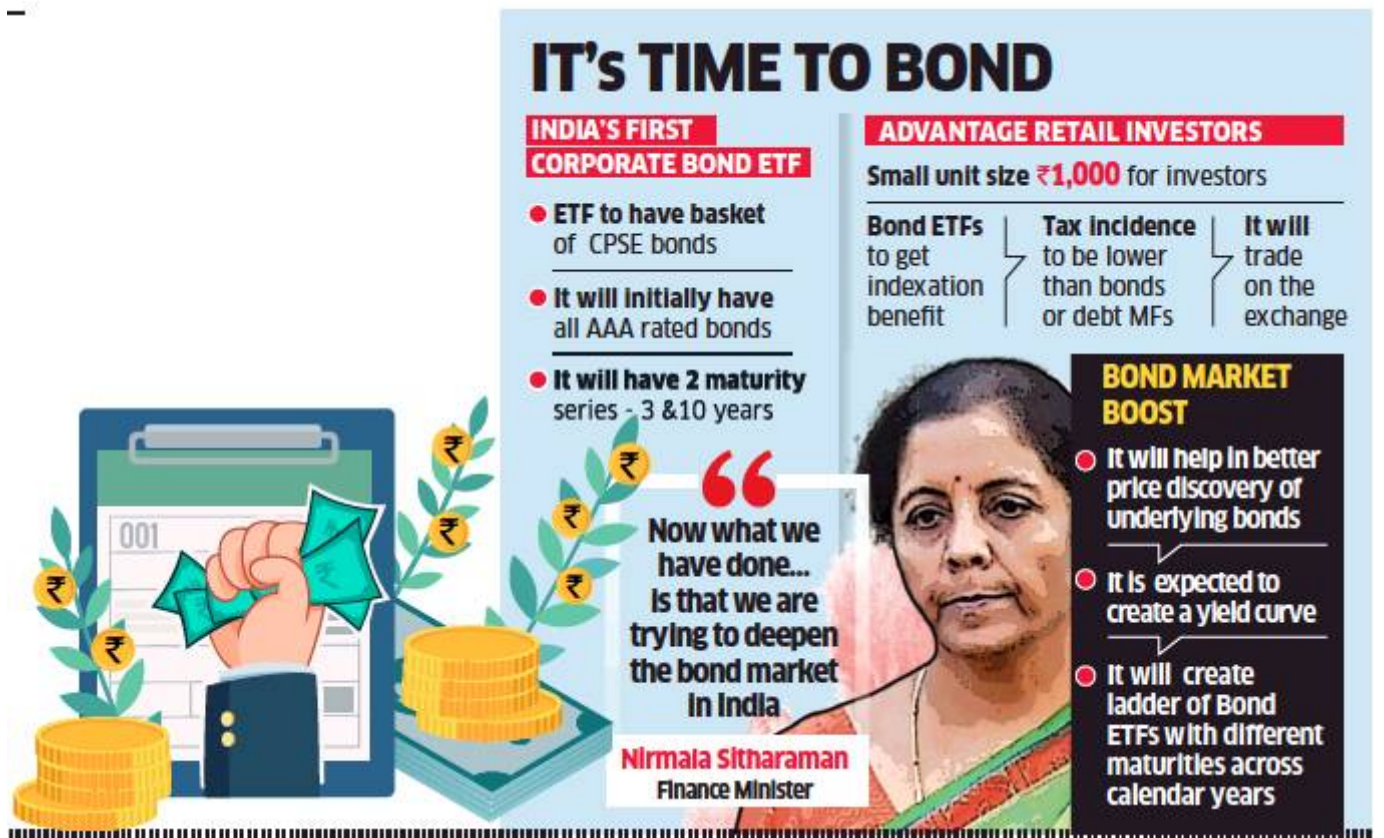
In 2014, the government had launched the first equity based ETF, which has had 'a good success rate,' Sitharaman said. Bond ETF will provide safety, liquidity and predictable tax efficient returns, the government said in a statement. ETF will be a basket of bonds issued by CPSE, CPSU, CPFI or other government organisation bonds which will be tradable on the exchange and have a small unit size Rs 1,000. Initially, all would be AAA rated bonds.

Each ETF will have a fixed maturity date and will track underlying index on risk replication basis, Sitharaman said, adding that for now it will have two maturity series of three and ten years.

It will be more tax efficient compared to bonds as coupons from the bonds are taxed at marginal rates. Bond ETFs are taxed with the benefit of indexation, which significantly reduces the tax on capital gains for investors, the statement said.

Currently, retail investors can invest only in debt mutual funds as corporate debt ETFs are not present in India. Retail assets under management (AUM) in debt funds is just Rs 1 lakh crore compared to a total debt AUM of over Rs. 12 lakh crore.

"The launch of this product will create a regulatory and market ecosystem for the growth of other fixed income passive instruments as well, and global experience has shown that bond ETFs have had a significant contribution to corporate bond market development," said Radhika Gupta, CEO, Edelweiss AMC. "Bharat Bond will also diversify borrowing of public sector companies, bringing new participants such as retail investors and HNIs in the bond markets".



IT'S TIME TO BOND

INDIA'S FIRST CORPORATE BOND ETF

- ETF to have basket of CPSE bonds
- It will initially have all AAA rated bonds
- It will have 2 maturity series - 3 & 10 years

ADVANTAGE RETAIL INVESTORS

Small unit size **₹1,000** for investors

Bond ETFs to get indexation benefit	Tax incidence to be lower than bonds or debt MFs	It will trade on the exchange
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BOND MARKET BOOST

- It will help in better price discovery of underlying bonds
- It is expected to create a yield curve
- It will create ladder of Bond ETFs with different maturities across calendar years

“ Now what we have done... Is that we are trying to deepen the bond market in India **”**

Nirmala Sitharaman
Finance Minister