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FINDINGS

Perception of Corporate Bond Markets

Pricing, Protection, Regulation, Tax and Transparency significantly affect the perception regarding intention to invest in corporate bonds. Liquidity, Returns and Safety do not exert a significant influence on corporate bond investors. When investors are motivated by high return expectations or a strong risk appetite, the safety of their investment may not always have a substantial impact on their decision to purchase corporate bonds in India. For example, investors may be more concerned with possible returns than the underlying dangers of corporate bonds during times of rapid economic expansion or when market sentiment is overwhelmingly optimistic. This is frequently seen in industries or businesses that, despite having comparatively weaker credit ratings, offer bonds with alluring rates. The security of individual assets is also less of a worry for institutional investors, such as mutual funds and insurance firms, who may place a higher priority on portfolio diversity or follow certain investment mandates.

In these situations, regardless of the bond's actual safety, these investors might be more inclined to assume greater risks in order to generate larger returns. In some cases, especially for long-term investors or those looking for steady, predictable returns, the liquidity of an investment may not have a major impact on the decision to purchase corporate bonds in India. For instance, institutional investors like banks, insurance providers, and pension funds frequently place a higher priority on investment security and stability than liquidity. Since their investment horizon usually extends several years, these investors are less concerned about the capacity to buy or sell bonds in the secondary market swiftly.

Regulation of Markets

In India, the regulation of corporate bond markets is primarily governed by the Securities and Exchange Board of India (SEBI), which is responsible for ensuring transparency, fairness, and investor protection. SEBI's regulatory framework for corporate bonds includes stringent disclosure requirements under the Securities Contracts (Regulation) Act and the SEBI (Issue and Listing of Debt Securities) Regulations. Companies issuing corporate bonds are required to disclose key information such as financial statements, risk factors, and the terms of the bonds, which must be vetted by SEBI before the bonds are offered to the public. Additionally, SEBI monitors the activities of market intermediaries, such as bond underwriters and brokers, to ensure compliance with rules that promote ethical conduct and safeguard market integrity. The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) serve as key platforms for the trading of corporate bonds, where rules and surveillance mechanisms are in place to ensure transparency and fair price discovery.

Risk Microstructure Implications

Information asymmetry remains a critical challenge in the Indian corporate bond market, exacerbating risks and inhibiting market development. While regulatory measures have made strides in improving transparency, much work remains to ensure that all market participants have equal access to information. Greater transparency in disclosures, more robust oversight of credit rating agencies, and improved market liquidity are essential steps to reducing the risks posed by information asymmetry. Strengthening investor education and digital platforms can further empower smaller investors, ensuring a more efficient and resilient corporate bond market in India.

Market fragmentation remains a significant risk to the efficient functioning of the Indian corporate bond market. Addressing this risk requires comprehensive efforts across regulatory harmonization, infrastructure development, and the expansion of market participation. A more integrated and less fragmented market will improve liquidity, lower the cost of capital, and make India's corporate bond market more competitive and resilient in the global financial landscape.