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# Cabinet approves launch of Bharat Bond Exchange Traded Fund

🕒 Posted on 05 December 2019

## Fund to provide additional money for CPSUs, CPSEs & other Government organizations

The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi has given its approval for creation and launch of Bharat Bond Exchange Traded Fund (ETF) 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 organizations. Bharat Bond ETF would be the first corporate Bond ETF in the country.

### Features of Bharat Bond ETF:

ETF will be a basket of bonds issued by CPSE/CPSU/CPFI/any other Government organization Bonds (Initially, all AAA rated bonds)

- Tradable on exchange

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- Small unit size Rs 1,000
- Transparent NAV (Periodic live NAV during the day)
- Transparent Portfolio (Daily disclosure on website)
- Low cost (0.0005%)

### **Bharat Bond ETF Structure:**

- Each ETF will have a fixed maturity date
- The ETF will track the underlying Index on risk replication basis, i.e. matching Credit Quality and Average Maturity of the Index
- Will invest in a portfolio of bonds of CPSE, CPSU, CPFI or any other Government organizations that matures on or before the maturity date of the ETF
- As of now, it will have 2 maturity series - 3 and 10 years. Each series will have a separate index of the same maturity series.

### **Index Methodology:**

- Index will be constructed by an independent index provider - National Stock Exchange
- Different indices tracking specific maturity years - 3 and 10 years

### **Benefits of Bharat Bond ETF to investors:**

- Bond ETF will provide safety (underlying bonds are issued by CPSEs and other Government owned entities), liquidity (tradability on exchange) and predictable tax efficient returns (target maturity structure).
- It will also provide access to retail investors to invest in bonds with smaller amount (as low as Rs. 1,000) thereby providing easy and low-cost access to bond markets.

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- This will increase participation of retail investors who are currently not participating in bond markets due to liquidity and accessibility constraints.

- Tax efficiency 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 investor.

### **Bharat Bond ETF Benefits for CPSEs:**

- Bond ETF would offer CPSEs, CPSUs, CPFIs and other Government organizations an additional source of meeting their borrowing requirements apart from bank financing.

- It will expand their investor base through retail and HNI participation which can increase demand for their bonds. With increase in demand for their bonds, these issuers may be able to borrow at reduced cost thereby reducing their cost of borrowing over a period of time.

- Further, Bond ETF trading on the exchange will help in better price discovery of the underlying bonds.

- Since a broad debt calendar to assess the borrowing needs of the CPSEs would be prepared and approved each year, it would inculcate borrowing discipline in the CPSEs at least to the extent of this investment.

### **Developmental impact on Bond Markets:**

- Target Maturity Bond ETF is expected to create a yield curve and a ladder of Bond ETFs with different maturities across calendar years.

- ETF is expected to create new eco-system - Market Makers, index providers and awareness amongst investors - for launching new Bond ETFs in India.

- This is expected to eventually increase the size of bond ETFs in India leading to achieving key objectives at a larger scale - deepening bond markets, enhancing retail participation and reducing borrowing costs.

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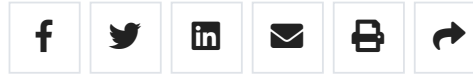
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