Introduction –

Debt market deals with those securities which yield fixed income group . The debt market is any market situation where trading debt instruments take place . Examples of debt instruments include mortgages, promissory notes, bonds, and Certificates of Deposit A debt market establishes a structured environment where these types of debt can be traded with ease between interested parties.

- It issues fixed income financial instruments of various types and facilitates trading thereafter .
- Reduction in the borrowing cost of the Gov. and enable mobilization of resources at a reasonable cost .
- Provide greater funding avenues to public sector and private sectors projects and reduce the pressure on institutional financing .
- Enhanced mobilization of resources by unlocking illiquid retail investment like gold .
- Assist in the development of a reliable yield curve .
- The debt market often goes by other names, based on the types of debt instruments that are traded .
- In the event that the market deals mainly with the trading of corporate bond issues, the debt market may be known as a **bond market** .
- If mortgages and notes are the main focus of the trading, the debt market may be known as a **credit market** .
- When fixed rates are connected with the debt instruments, the market may be known as a fixed income market .

Features of Debt Market –

1. It is competitive in nature , as number of participants is large
2. Strong and safe market , as gov. securities are traded
3. Substantially low transaction cost relative to equity & money market
4. Volume of transaction is huge , relative to equity market
5. Heterogeneous in nature , as a result of different types of participants

Participants Involved –

Prominently Government , Primary dealers , Mutual Fund Firms , Provident Fund Houses , Foreign Institutional Investors , Commercial Banks , Insurance Companies and charitable Institutions are the participants of debt market

Regulatory Bodies –

As debt market trade both government and corporate debt instruments , we have following two regulators

1. **RBI :** It regulates and also facilitates the government bonds and other securities on behalf of governments
2. **SEBI :** It regulates corporate bonds , both PSU (Public sector undertaking) and private sector .

Link with money market –

1. For a strong debt market the prerequisite is a strong money market
2. If debt is long term requirement , then money market serves as short –term requirement
3. For liquidity purpose also money market is needed along with debt market

1. **Primary market –**

   Primary market is that market where the debt instruments are issued for the first time . which can be issued as follows -

   A. **Public prospectus :** invites public to buy
   B. **Private placement :** Invites few selected individuals , as the cost of public issuing is quite a large
   C. **Rights issue :** to the already exciting members , but they can refer to their beneficiaries in case of unwillingness to buy

   However , the issuer has to inform the exchanges in case of issuing debts . to notify the investors , about associated risk changes

2. **Secondary market –**

   Secondary market is where the debt instruments can be traded . it can take place by the following two ways based on the characteristics of the investors and the structure of the market are :

   A. **Wholesale debt market segment of NSE & Over the counter of BSE :** Where the investors are mostly Banks , Financial Institutions , RBI , Primary dealers , Insurance companies , Provident Funds , MFs , Corporates and FIIs .
   B. **Retail debt Market :** involves participation by individual investors , small trusts and other legal entities in addition to the wholesale investors classes .

Types of debt Instruments –

1. **Government Securities –**
    - It is the Reserve Bank of India that issues Government Securities or G-Secs on behalf of the Government of India.
    - These securities have a maturity period of 1 to 30 years. G-Secs offer fixed interest rate, where interests are payable semi-annually.
    - For shorter term, there are Treasury Bills or T-Bills, which are issued by the RBI for 91 days, 182 days and 364 days

2. **Corporate Bonds –**
    - These bonds come from PSUs and private corporations and are offered for an extensive range of tenures up to 15 years.
    - Comparing to Government Securities , corporate bonds carry higher risks, which depend upon the corporation, the industry where the corporation is currently operating, the current market conditions, and the rating of the corporation

3. **Certificate of Deposit** –
    - Certificate of Deposits (CDs), which usually offer higher returns than Bank term deposits, are issued in **Demat** form
    - Banks can offer CDs which have maturity between 7 days and 1 year.
    - CDs from financial institutions have maturity between 1 and 3 years

4. **Commercial Papers -**
    - There are short term securities with maturity of 7 to 365 days.

Structured Debt –

- Structured debt is some type of debt instrument that the lender has created and adapted to fit the needs and circumstances of the borrower .

- A debt package of this type usually includes one or more incentives that encourage the debtor to do business with the lender, rather than seeking to develop a working relationship with other lenders.

- While the overall structure of the debt is adapted to the needs of the borrower, the terms also benefit the lender in the long term.

- The main goal of structured debt is to create a debt situation that provides the debtor with as many benefits as possible, while also keeping the overall debt load as low as possible

- At the same time, the lender receives an equitable return for the structured debt arrangement

Simply understand the types of Debt Instruments by using chart –

Types	Issuers	Instruments
Government Securities	**Central Government :**	1. Zero Coupon bonds 2. Coupon bearing bonds 3. Treasury bills 4. Floating rate bonds 5. STRIPs
	State Government :	1. Coupon bearing bond
Public sectors bonds	Government agencies, statutory bodies, public sector undertakings	1. Debentures 2. Government guaranteed bonds 3. Commercial papers 4. PSU bonds
Private sector bonds	**Corporates :**	1. Debentures 2. Commercial papers 3. Fixed floating rate 4. Zero coupon bonds 5. Inter-corporate deposits
	Bank :	1. Certificate of debentures 2. Debentures 3. Bonds
	Financial Institutions :	1. Certificate of deposits 2. Bonds