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.
Debt market in India

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 –

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