Information Database on Municipal Bonds

written by iasexam.com | 25/01/2023

Context- Recently, Markets regulator SEBI has launched an information database on municipal bonds.

Key Highlights

Programme on municipal bonds and municipal finance:

- As part of efforts to develop the bond markets, an outreach programme on municipal bonds and municipal finance was recently organised by SEBI in New Delhi.

The information database:

- The information database contains a huge range of information in the form of
  - Statistics and regulations,
  - Circulars,
  - Guidance note and
  - Frequently Asked Questions issued by Sebi regarding municipal debt securities.

Municipal Bonds

- A municipal bond or the muni bond is a debt instrument issued by municipal corporations or associated bodies in India.

Utilisation:

- These local governmental bodies utilise the funds raised through these bonds in order to finance projects for socio-economic development through building bridges, schools, hospitals, providing proper amenities to households, etc.

Maturity period & returns:

- Such types of bonds come with a maturity period of three years, whereby municipal corporations provide returns on these bonds either from property and professional tax collected or from revenues generated from specific projects or both.

SEBI's guidelines related to the issuance of municipal bonds:

- The Securities and Exchange Board of India (SEBI) revised the guidelines related to the issuance of municipal bonds in 2015 in order to enable ULBs or local government bodies to raise finances from such sources.
- Following this measure, several cities have capitalised on the new guidelines to fund initiatives such as Atal Mission for Rejuvenation and Urbanisation Transformation (AMRUT) and Smart Cities Mission.

Types of Municipal Bonds in India

There are mainly two types of municipal bonds in India, categorised as per their usage. These are such as

- **General Obligation Bonds:**
    - As the name suggests, General Obligation Bonds are issued in order to raise finances for general projects such as improving the infrastructure of a region.
    - Repayment of the bond, along with interest, is processed through revenue generated from several projects and taxes.
- **Revenue bonds:**
    - Revenue bonds, on the other hand, are issued in order to raise finance for specific projects, such as the construction of a particular building.
    - Repayment of such bonds i.e. principal and accrued interest must be paid through revenues explicitly generated from the declared projects.

Advantages of Municipal Bonds

- **Transparency**:
    - These bonds which are issued to the public are rated by renowned agencies such as CRISIL, which allows investors transparency regarding the credibility of the investment option.
- **Exemption from taxation:**
    - In India, municipal bonds are exempted from taxation if the investor

conforms to certain stipulated rules. In addition to such confirmation, interest rates generated on such investment tools are exempt from taxation policy.

- **Low Risk:**
    - These are particularly issued by municipal authorities, implying involvement of minimal risk with these securities.
- **Significant for ULBs:**
    - These are crucial for the financial independence of the Urban Local Bodies.

Disadvantages

- The yield is very low and the bonds may not be able to beat inflation over the long term.
- The bonds lose value as the interest rate goes up and may get traded at a value less than face value.
- There is a need for State guarantees for the bonds.

More about the Bonds

- A bond is a loan taken out by a company.
- Rather than going to a bank, the company gets the money from investors who buy its bonds.

Interest coupon:

- In exchange for capital, the company pays an interest coupon, which is the annual interest rate paid on a bond expressed as a percentage of the face value.

Interest:

- The company pays the interest at predetermined intervals usually annually or semiannually and returns principal on the maturity date, ending the loan.

Significance:

- The bond market can help investors diversify beyond stocks.
- Some of the features of bonds include their maturity, their coupon (interest) rate, their tax status, and their callability.

Securities and Exchange Board of India (SEBI)

- SEBI is a statutory body established on April 12, 1992 in accordance with the provisions under the Securities and Exchange Board of India Act, 1992.
- Before SEBI came into existence, Controller of Capital Issues was the regulatory authority which derived authority from the Capital Issues (Control) Act, 1947.
- Its aim is to protect the interests of investors in securities and to promote the development of, and regulate the securities market.

- It is the main regulator of the securities and commodity market in India owned by the Government of India.
- At first SEBI was a non statutory body without any statutory power.
- It became autonomous and it was given statutory powers by SEBI Act 1992.