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SUPPLEMENT FOR CAPITAL, COMMODITY AND MONEY MARKET

MODULE 3
ELECTIVE PAPER 9.2

The study material Capital, Commodity and Money Market (Professional Programme) available on the web link: https://www.icsi.edu/media/webmodules/Capital_Commodity_and_Money_Market_March_2017.pdf

Lesson 8

Capital Market Instruments

Types of Bonds

5) Masala Bonds: Masala Bonds are rupee-denominated borrowings issued by Indian entities in overseas markets. Masala means spices and the term was used by International Finance Corporation (IFC) to popularize the culture and cuisine of India on foreign platforms. The objective of Masala Bonds is to fund infrastructure projects in India, fuel internal growth via borrowings and internationalize the Indian currency.

The Masala bonds are directly attached to the Indian currency. So, investors will directly take the currency risk or exchange rate risks. If the value of Indian currency falls, the foreign investor will have to bear the losses, not the issuer which is an Indian entity or a corporate. If foreign investors eagerly invest in Masala Bonds or bring money into India, this would assist in supporting the rupee.

The issuer of these bonds is shielded against the risk of currency fluctuation, typically associated with borrowing in foreign currency. Besides helping in diversifying funding sources, the costs of borrowing via masala bonds could also turn out to be lower than domestic markets.

6) Electoral Bonds: Electoral Bond refers a bond which has its specified face value, mentioned on it like a currency note. These bonds can be used by the individuals, institutions and organizations to donate money to the political parties. The central government introduced electoral bonds worth Rs. 1,000, Rs. 10,000, Rs. 1 lac, Rs. 10 lacs and Rs. 1 crore to bring transparency in the election funding of the political parties in 2018. These bonds can be bought from selected branches of State Bank of India.

7) Green Bonds: A green bond is a bond specifically meant for climate and environmental projects. These bonds are typically asset-linked and supported by issuer's balance sheet, and are also termed as climate bonds. These bonds are aimed at fostering sustainability and championing climate-related or other forms of special environmental projects. In other words, green bonds finance projects aimed at energy efficiency; pollution control; sustainable agriculture, fishery and forestry; preservation of aquatic and terrestrial ecosystems; clean transportation; sustainable water management; and encouraging environment-affable technologies.

The genesis of green bond may be traced back to 2007 when European Investment Bank (EIB) and World Bank issued the green bond. The bond market commenced reacting after the first $1 bn green bonds were sold within an hour of issue by International Finance Corporation (IFC) in

March 2013. November 2013 witnessed a turning point, as the first corporate green bond was issued by Vasakronan, a Swedish property company. Apart from Vasakronan, other big companies that espoused green bonds were: SNCF, Berlin Hyp, Apple, Engie, ICBC, and Credit Agricole.

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