

## **6. Bharat Bond Exchange Traded Fund**

**Prelims Level:** Investments, Investment Models

**Mains Level:** GS-III Investment Models

### **Why in News?**

- The Cabinet Committee on Economic Affairs (CCEA) has given its approval for creation and launch of Bharat Bond Exchange Traded Fund (ETF).

### **Exchange Traded Fund:**

- Exchange Traded Funds (ETFs) are mutual funds listed and traded on stock exchanges like shares.
- Index ETFs are created by institutional investors swapping shares in an index basket, for units in the fund.
- Usually, ETFs are passive funds where the fund manager doesn't select stocks on your behalf. Instead, the ETF simply copies an index and endeavours to accurately reflect its performance.
- In an ETF, one can buy and sell units at prevailing market price on a real time basis during Market Hours.

### **Significance of ETF:**

- ETFs are cost efficient. Given that they don't make any stock (or security choices), they don't use services of star fund managers.
- They allow investors to avoid the risk of poor security selection by the fund manager, while offering a diversified investment portfolio.
- The stocks in the indices are carefully selected by index providers and are rebalanced periodically. They offer anytime liquidity through the exchanges.

### **What is Bharat ETF?**

- Bharat Bond ETF would be the first corporate Bond ETF in the country.
- Bharat Bond ETF will 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.
- ETF will be a basket of bonds issued by CPSE/CPSU/CPFI/any other Government organization Bonds.

### Features of Bharat ETF:

- Tradable on exchange
- Small unit size Rs 1,000
- Transparent Net Asset Value (NAV) i.e. periodic live NAV during the day
- Transparent Portfolio (Daily disclosure on website)
- Low cost (0.0005%)

### Structure of Bharat ETF:

- 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.

## Bonds for funds

**ETF to comprise basket of bonds issued by Central public sector enterprises, other government entities**

■ Fund to constitute AAA-rated bonds initially; price to be kept at ₹1,000 per unit to attract retail investors

■ Each ETF to have fixed maturity date, initially to be issued in two series of 3 years and 10 years



■ On issuer side, bond ETFs expected to offer Central public sector enterprises, other government organisations additional source to meet borrowing requirements