RBI's e-rupee pilot takes off

Day 1 bond trade deals hit ₹275 cr

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The Reserve Bank of India's (RBI's) maiden test of its central bank digital currency (CBDC) being used for secondary market trades in government securities (G-secs) went off without a hitch on Tuesday, with 48 trades being carried out for a total of ₹275 crore.

Sources informed *Business Standard* that the first deal was struck between the country's largest bank State Bank of India (SBI) and another state-owned lender Bank of Baroda (BoB).

SBI was said to have sold securities to BoB using CBDC, or digital rupee, observed sources.

ICICI Bank sold the five-year government paper to IDFC First Bank.

Turn to Page 6

THE WORD IS BOND...

- **Transactions were carried out in 3 government bonds** — current 10-year benchmark bond, previous 10-year bond, and liquid five-year security
- **Overall trading volume in regular bond market** at ₹20,865 crore on Tuesday

nomenon across the country. State-wise collection rose 18 per cent compared to the year-ago period.

CBDC...

"IDFC First Bank executed the first secondary market transaction in G-secs using CBDC settlement on Tuesday," IDFC First said in a statement.

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According to the website of the Clearing Corporation of India (CCIL), the transactions were carried out in three government bonds — the current 10-year benchmark bond, the previous 10-year bond, and the most liquid five-year security. The overall trading volume in the regular bond market was at ₹20,865 crore on Tuesday.

Bank treasury officials described the pilot as a 'landmark moment' and said the testing went off smoothly.

"The most important aspect was there is no settlement risk," said a senior bank executive.

In regular bond market trades, the CCIL acts as the clearing house and the settlement of bonds is on a T+1 basis — which means that the settlement of securities must happen a day after the transaction is carried out.

However, for trades using the digital currency, there is no settlement authority like the CCIL and trades happen on a T+0 basis, implying real-time settlement. Moreover, banks using the digital rupee must open primary CBDC accounts with the RBI.

Earlier this week, the RBI had said that the first pilot for the digital rupee in the wholesale segment would commence from Tuesday. The pilot, which at the moment is only applicable to secondary market trades in G-secs, was tested out between nine banks.

The banks are SBI, BoB, Union Bank of India, HDFC Bank, ICICI Bank, Kotak Mahindra Bank, YES Bank, IDFC First Bank, and HSBC, the RBI said in its release.

A key point of difference between the usual bond trading in the secondary market and the transactions carried out through the digital currency is the settlement of securities. While the trades are displayed on the RBI's anonymous negotiated dealing system-order matching platform, the settlement is not conducted by CCIL.

Crypto...

"We have to understand how multilateral institutions, international financing institutions, are going to be better-reformed institutions. Are they going to serve with better vigour...do they have newer thoughts, are they looking at 21st century ways of leveraging the funds they have? Do they know or do they want to bring in greater resources?" the finance minister said, adding that Prime Minister Narendra Modi had already set the tone of this debate by calling for the reform of institutions like the UN, IMF, and World Bank.

Corporate...

As a result, the companies' net profit margin declined to 6.3 per cent of their revenues in Q2FY23, the lowest in the last nine quarters.

The yield on the benchmark 10-year government of India bond is up nearly 100 basis points since the beginning of calendar 2022 while the Reserve Bank of India has raised its policy rate by 190 basis points in the period, forcing lenders to revise their lending rates.

Analysts expect a further rise in the interest burden as the central bank raises rates to battle inflation and companies increase borrowing either for working capital or to fund capex.