

## Zero coupon, zero principal bond declared securities

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The Finance Ministry has declared zero coupon zero principal instruments (ZCZP) as securities under Securities Contracts (Regulation) Act, 1956.



[ref: The Hindu Business Line]

### Zero coupon zero principal instrument

- Zero coupon zero principal instrument means an **instrument issued by a Not-for-Profit Organisation (NPO)** which will be registered with the social stock exchange segment of a recognised stock exchange.
- It means, **neither any interest is paid nor principal is repaid under ZCZP.**
- These instruments will be governed by rules made by the **Securities and Exchange Board of India (SEBI).**
- **Fund Raising:** Eligible NPOs may raise funds through-
  - equity,
  - zero coupon zero principal bonds,
  - mutual funds,
  - social impact funds, and
  - development impact bonds.
- NPOs keen for raising funds on the SSE will required to be registered with the exchange.

### Zero Coupon Bonds:

- A zero-coupon bond is a **debt security instrument that does not pay interest.**
- Zero-coupon bonds trade at **deep discounts**, offering full face value (par) profits at maturity.
- The difference between the purchase price of a zero-coupon bond and the par value indicates the investor's return.
- The price of a zero-coupon bond can be calculated as:
  - $\text{Price} = M \div (1 + r)^n$  where:
    - M = Maturity value or face value of the bond

- $r$  = required rate of interest
  - $n$  = number of years until maturity
- Zero Coupon Bonds are generally issued by government, private & public corporates.