

SECURITIES LAWS AND COMPLIANCES

PART A — SECURITIES LAWS

STUDEY II- SECURITIES MARKET REFORMS AND DEVELOPMENT

LEARNING OBJECTIVES

The study will enable the students to understand

- Developments in regulatory framework related to Securities Markets in chronological order
- Security Market Reforms and Development since 1997-98 till date
- Various new concepts introduced since 1992 such as dematerialization of shares, book building, buy-back of shares, reforms on disclosure requirements etc.
- Secondary market reforms such as rolling settlement, circuit breakers, price band and introduction of derivatives into India etc.

INTRODUCTION

In the planned economy concept, there were more controls and restrictions than the concept of development to support growth of the capital market in India. Some provisions of the Companies Act, MRTP Act, Capital Issues (Control) Act acted as a dampener of free growth of the market. The pricing of securities for issue was also subject to controls and regulations.

Since 1991, the scenario has changed significantly with the initiation of economic and financial reforms by the Government. As a natural corollary of the liberalisation and globalisation, the Indian Capital Market has undergone a sea change in terms of innovations, growth and de-regulation. A list of series of various major policy reforms and development in the securities market are as under:

January 1992 to March 1996*

- The Securities and Exchange Board of India, set up in 1988 under an administrative arrangement, given statutory powers with the enactment of SEBI Act, 1992
- Capital Issues (Control) Act, 1947 repealed and the Office of Controller of Capital Issues abolished; control over price and premium of shares removed. Companies now free to raise funds from securities markets after filing letter of offer with SEBI
- SEBI introduces regulations for primary and secondary market intermediaries, bringing them within the regulatory framework
- New reforms by SEBI in the primary market include improved disclosure standards, introduction of prudential norms and simplification of issue procedures. Companies required to disclose all material facts and specific risk factors associated with their projects while making public issues.

- Disclosure norms further strengthened by introducing cash flow statements
- Listing agreements of stock exchanges amended to require listed companies to furnish annual statement to the stock exchanges showing variations between financial projections and projected utilisation of funds in the offer document and at actuals, to enable shareholders to make comparisons between performance and promises
- New issue procedures introduced - partial book building for institutional investors - aimed at reducing costs of issue
- SEBI introduces a code of advertisement for public issues for ensuring fair and truthful disclosures
- The power to regulate stock exchanges delegated to SEBI by the government
- SEBI reconstitutes the governing boards of the stock exchanges, introduces capital adequacy norms for brokers and issues rules for making the client/ broker relationship more transparent, in particular, segregating client and broker accounts
- Over the Counter Exchange of India (OTC) set up with computerised on line screen based nation-wide electronic trading and rolling settlement
- National Stock Exchange of India (NSE) set up as a stock exchange with computerised on line screen based nation- wide electronic trading
- The Stock Exchange, Mumbai (BSE) introduces on line screen based trading
- Capital adequacy requirement for brokers introduced
- System of mark to market margins introduced on the stock exchanges
- "Revised carry forward" system introduced in place of "badla"
- National Securities Clearing Corporation Limited set up by the NSE
- SEBI frames regulations for mutual funds. Private mutual funds permitted and several such funds have already been set up. All mutual funds allowed to apply for firm allotment in public issues - also aimed at reducing issue costs
- SEBI introduces regulations governing substantial acquisition of shares and take-overs and lays down the conditions under which disclosures and mandatory public offers are to be made to the shareholders
- Indian companies permitted to access international capital markets through Euroissues
- Foreign Direct Investment allowed in stock broking, asset management companies, merchant banking and other non-bank finance companies
- Foreign Institutional Investors (FIIs) allowed access to Indian capital markets on registration with SEBI

- Guidelines for Offshore Venture Capital Funds announced by the government
- SEBI strengthens surveillance mechanisms in SEBI and directs all stock exchanges to have separate surveillance departments
- SEBI strengthens enforcement of its regulations. Begins the process of prosecuting companies for mis-statements, issues show cause notices to merchant bankers, ensures refunds of application money in several issues on account of mis-statements in the prospectus

During 1997-98

- SEBI advised stock exchanges to set up either Trade Guarantee Fund or Settlement Guarantee Fund to eliminate counterparty risk.
- Upper limit for gross exposure of member brokers of stock exchanges was fixed at 20 times the base minimum capital and additional capital of the member broker.
- SEBI appointed Chandratre Committee on delisting of securities which recommended exchanges to collect listing fees from the companies for three year period in advance. Besides, the companies opting for voluntary delisting should mandatorily provide an exit route to investors by offering buy-back facility to them. These recommendations were accepted and suitable directions were issued to the stock exchanges.
- As on March 31, 1998, 20 stock exchanges in the country, accounting for almost 99.8 per cent of the total all-India turnover, had shifted to on-line screen based trading.
- Rolling settlement of T+5 was made mandatory in the exchanges where trading in dematerialised securities was available since January 15, 1998.
- SEBI appointed J. R. Varma Committee on Modified Carry Forward System which recommended a margin of 10 per cent on carry forward trades instead of earlier 15 per cent, enhancing the over all limit of carry forward trades by a broker to Rs 20 crore from the earlier limit of Rs 7.5 crore, removal of scripwise sub-limits on carry forward positions and removal of limit of Rs 10 crore for badla financier. The recommendations were accepted and suitable directions issued to stock exchanges.
- Brokers were permitted to warehouse trades for firm orders of the Institutional clients.
- SEBI appointed a committee under the chairmanship of Shri G. P. Gupta to study the concept of market making and to revive the institution of market makers. The recommendations are awaited.
- R. Chandrasekharan committee had recommended adequate safety and security features for security certification. The action for its implementation has been initiated.
- All stock exchanges were required to strengthen their Investor Protection Fund and Investor Services Fund. The Stock exchanges

- were advised to provide a special facility for attending investor complaints and dummy terminal for showing the on-line trades.
- SEBI appointed L. C. Gupta Committee which recommended the introduction of derivatives trading in order to provide the facility of hedging in the most cost-efficient way against market risk, and accordingly action for its implementation was initiated.
 - Settlement of trades in the depository was made compulsory from January 15, 1998 in selected scrips for institutional investors namely domestic FIIs, Banks, Mutual Funds and FPIs having a minimum portfolio of securities of Rs 10 crore.
 - SEBI appointed Working Group on Dematerialisation which recommended that securities in dematerialised form should be treated as 'good delivery' in the physical segment with effect from April 6, 1998. Accordingly, action for implementation was initiated.
 - The recognition of the Saurashtra-Kutch and Jaipur Stock Exchanges were further renewed for a period of one year.
 - The Governing Board of Magadh Stock Exchange was superseded on account of its working.
 - The stock exchanges were permitted to expand their trading terminals to those cities where no other stock exchange was located subject to compliance with certain conditions. As for the cities where a stock exchange already existed, the exchanges seeking expansion were required to enter into a MoU with the concerned stock exchanges. Accordingly, the Stock Exchange, Mumbai (BSE) was permitted to expand outside Mumbai. Similar permissions were also granted to stock exchanges at Pune, Kolkata and Rajkot subject to fulfilment of certain conditions by them.
 - The Capital Stock Exchange Kerala Limited and the Inter-Connected Stock Exchange of India were granted "in-principle" recognition subject to compliance with certain conditions.
 - 151 brokers from the 22 stock exchanges across the country were inspected.
 - There was a steep increase in registration of sub-brokers from 1798 to 3760 i.e. by 109 per cent.
 - SEBI permitted unlisted infrastructure companies making a public issue of pure debt instruments/convertible debt instrument and municipal corporations from the requirements of Rule 19(2)(b) of Securities (Contract) Regulation Rules, 1957, allowing them to list their debt instruments on the stock exchanges without the requirement for equity being listed first.
 - The facility of book-building was extended to the entire issue size for issuer companies which propose to make an issue of capital of and above Rs. 100 crore.
 - A Committee was set up to examine the draft regulations on Credit Rating Agencies prepared by SEBI and to recommend suitable

modifications.

- Amendments were made to SEBI (Merchant Bankers) Regulations 1992. Only body corporates were allowed to function as merchant bankers.

- Multiple categories of merchant bankers viz. Category II, III and IV were abolished and henceforth there would be only one category of merchant bankers, i.e. Category I Merchant Banker. This new entity shall undertake only those activities which are related to securities market including issue management activity and which do not require registration/have been granted exemption from registration as NBFC from the RBI. However, such entities shall have to seek separate registration if they wish to act as underwriter or portfolio manager. That is, Merchant Bankers would now require separate registration to act as underwriters as well as portfolio managers.

- Merchant Bankers were prohibited from carrying on fund-based activities other than those related exclusively to the capital market.

- SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 have been amended to provide for an arms length relationship between the issuer and the Registrar to the Issue.

- SEBI appointed a Committee under the Chairmanship of Dr S.A. Dave to draft the Regulations on Collective Investment Schemes. Until the Regulations were notified, the provisions of Section 12(1)(B) of SEBI Act prohibited any new scheme to be sponsored or further fund to be raised by the existing collective investment scheme. Further, SEBI stipulated that all existing schemes would continue to mobilise funds only after obtaining a rating from any of the recognised Credit Rating Agencies. It was decided that all advertisements by existing collective investment schemes would adhere to the advertisement code prescribed by SEBI.

- The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 were amended to address certain issues that are important for investor protection.

- Aggregate investments by a mutual fund in listed or to be listed securities of group companies of the sponsor would not exceed 25 per cent of the net assets of all schemes of the fund.

- Securities transactions with associate brokers would not exceed 5 per cent of the quarterly business done by the mutual fund.

- Unitholders' approval would no longer be required for rollover of schemes and for converting close-ended schemes into open-ended ones, provided the unitholders were given the option to redeem their holdings in full at NAV based prices.

- Independent trustees who are not associated with the sponsor shall now constitute two-thirds of the Board of Trustees instead of earlier provision of 50 per cent.

- SEBI gave an option to the issuers to fix the minimum marketable

lot on the basis of offer price subject to the condition that the marketable lot shall not be more than 100 shares.

— A Committee was set up under the Chairmanship of Mr P.K. Kaul to recommend the manner of discharge of responsibilities by the trustees as laid down in regulation 18 of SEBI (Mutual Funds) Regulations, 1996. The report of the Committee is awaited.

— SEBI set up a working group to work out the modalities and guidelines for investment by domestic mutual funds in overseas markets.

— SEBI regulations for merchant bankers, stock brokers, registrars to an issue, portfolio managers, underwriters, debenture trustees, bankers to an issue, custodian of securities, depositories, venture capital funds were amended to specifically include the concept of "fit and proper person" in their eligibility criteria that an applicant should be a fit and proper person.

— SEBI appointed Justice D.R. Dhanuka Committee which submitted its interim recommendations in respect of working draft of the Companies Bill, 1997.

— SEBI (Annual Report) Rules has been amended to such that SEBI shall submit Annual Report to the Central Government within 90 days after the end of each Financial Year instead of 60 days.

During 1998-99

Dematerialisation of Securities

— To eliminate the risks associated with trading in physical securities such as delay in transfer, bad delivery, theft, fake and forged shares, several new, and far reaching initiatives were taken by SEBI to accelerate dematerialisation and electronic book entry transfer of securities

— Compulsory trading in dematerialised form introduced for the first time for all investors in a phased manner in shares of selected companies which are most actively traded

— the list of companies whose shares are to be compulsorily traded in dematerialised form by institutional investors expanded to cover almost all the actively traded shares accounting for more than 90 per cent of the trading volume

— the Central Depository Services Ltd., a new depository promoted by the BSE and a few commercial banks granted certificate of commencement of business

— the market lots abolished for shares of companies compulsorily traded in dematerialised form by all investors

— the facility of selling small quantities of shares in the physical form of either 500 in number or Rs.25000 in value being introduced in the stock exchanges, to help investors having small holdings to dispose off their holdings easily.

Derivatives Trading

- To provide the facility of hedging and enhance the liquidity in the market, the committee appointed by SEBI on derivatives recommended phased introduction of trading in derivative products beginning with trading in stock index futures, accepted by SEBI. The introduction of derivatives is awaiting the amendment of SCR Act.
- The recommendations of the J.R. Verma Committee for risk containment measures for derivative trading including margin system accepted by SEBI.

Buy-back of Securities

- To help increase the liquidity in the securities and to enable companies to enhance the wealth of shareholders, the facility of buy-back of securities by listed companies introduced for the first time.

Par Value of Shares

- To give the flexibility to the companies to issue shares at any amount and to extend free pricing to its logical conclusion and to benefit the investors, the current requirement for issuing shares with a fixed par value of Rs.10 or Rs.100 abolished for companies whose shares are dematerialised.

Employees Stock Option Scheme

- To provide incentives to employees, the J.R. Verma Committee was constituted by SEBI to formulate the Guidelines for Employee Stock Options and Employee Stock Purchase Scheme. The Board has considered and accepted the recommendations of the Committee and the Guidelines are being issued.

Facilitating the Development of Infrastructure

- To facilitate increased raising of funds by infrastructure companies, SEBI granted several relaxations and exemptions from the existing requirements. These are given below:
 - Exemption from fulfilling eligibility norms.
 - Exemption from meeting profitability norms for free pricing of issues –subject to fulfillment of certain conditions.
 - Exemption from the requirement of offering at least 25 per cent of securities to public.
 - Exemption from the requirement of the minimum number of 5 shareholders for every Rs.1 lakh of capital issued.
 - Exemption from the requirement of minimum subscription of 90 per cent of public offer.
 - Relaxation from requirement of minimum financial participation by appraising agency – a minimum participation of 5 per cent of the project cost can be made either jointly or severally by the specified institutions, irrespective whether they have appraised the project or not.

Continuing Disclosures

- To improve the continuing disclosure standards for companies for quicker dissemination of information to investors, quarterly disclosure

of financial results by listed companies made mandatory for the first time by SEBI through the amendment of the listing agreement, thus taking India to the select list of countries with similar continuing disclosure requirement.

— Continuing disclosures further enhanced by the introduction of the requirement of immediate disclosure of any material event in a company having a bearing on the performance of the company and price sensitive information.

Credit Rating Agencies

— To strengthen the credibility of the ratings of credit rating agencies and enhance the transparency in their reporting and information system, the recommendations of SEBI appointed Committee accepted.

Collective Investment Schemes

— To protect the interest of investors in Collective Investment Schemes and in accordance with the mandate given by the Government, SEBI initiated the process of framing the regulations for collective investment schemes. To protect the interest of the investors, in the interim period, SEBI took several measures with a two pronged approach to discipline and take action against erring entities and at the same time to educate the investors about the risks associated with investing in unregulated schemes. The action taken by SEBI included issuing show cause notices to defaulting entities, initiating court proceedings to obtain appropriate relief in the interest of the investors, conducting a special audit of the books of accounts of the larger entities, making credit rating mandatory for existing schemes, disseminating information to the investors through the issue of press releases/public notices etc.

Relaxation of Norms for IPOs

— To help lower issue cost and time for making public issues and also to simplify procedures, the ceiling of issue size of Rs.100 crore for book-building reduced to Rs.25 crore.

— To bring down the cost involved in public issues, SEBI modified the requirement of mandatory collection centres. The minimum number of collection centres for an issue of capital shall be – (a) the four metropolitan centres and (b) such centres where the stock exchanges are located in the region in which the registered office of the company is situated.

— To encourage the mobilisation of capital by new companies, the entry norms for IPOs further relaxed by substituting the requirement of actual payment of dividend in three out of five preceding years, with the ability to pay dividend as demonstrated by distributable profits in accordance with the provisions of the Companies Act in at least three out of five preceding years.

— To improve the liquidity and to encourage entrepreneurs to raise capital through public issues, the requirement of the lock-in period of

promoters' contribution in full reduced to only 20% of the total capital of the company.

- To help investors make informed investment decisions, credit rating by approved credit rating agencies made mandatory for all public and rights issues of debt instruments irrespective of their maturity or conversion period as against exemption granted for 18 months.

- To facilitate floatation of issues by public and private sector banks, relaxation made in the Disclosure and Investor Protection guidelines of SEBI for the issue of capital, subject to the approval of the issue price by the RBI, as banks are under the regulatory purview of RBI.

Secondary Market Transparency

- To enhance the transparency in the secondary market, automated screen based trading which was introduced in 20 stock exchanges extended to the remaining 3 more stock exchanges to achieve 100 per cent coverage of automated trading.

- To enhance transparency of negotiated deals, stock exchanges directed to ensure that all negotiated deals result in delivery and deals of value of Rs.25 lakh or volume of 10,000 shares are reported on the screens within 15 minutes of transaction and disseminated to the market.

- To increase the competitiveness in the market and prevent market abuse, the facility of "all or one" available in the trading system of the stock exchanges was abolished.

Increase in Market Access

- To increase market access for investors across the country, the Stock Exchange Mumbai and the National Stock Exchange (NSE) further expanded their terminals through VSAT to cover more than 250 cities and towns.

- To increase the access of Indian securities market to NRIs, OCBs and FIIs, the Indian stock exchanges permitted to set up their trading terminals overseas subject to regulatory requirements of the host countries.

Mutual Funds

- In order to strengthen the disclosure by mutual funds, standard offer document and abridged offer document introduced .

- Several mutual funds directed by SEBI to honour their commitment to the investors in assured return schemes thus benefiting millions of investors. By the end of March 31, 1999 the total amount paid to investors was Rs.1350 crore.

- To ensure that the Trustees discharge their responsibilities more effectively, the report of SEBI-appointed Committee under the chairmanship of Shri P.K. Kaul, former Cabinet Secretary submitted to SEBI.

Market Safety and Risk Containment Measures

- To ensure that settlements take place without failure and to reduce

counter party risk, 10 major and medium stock exchanges have set up trade / settlement guarantee funds measuring an increase of 6 exchanges with an amount of Rs.1000 crore .

— To protect market integrity especially under conditions of abnormal price movement and to contain extreme volatility, margin system strengthened by SEBI in consultation with the stock exchanges by introducing additional volatility margin, incremental margin for carry forward transaction and concentration margin coupled with reduction of daily price bands from 10 per cent to 8 per cent and abolition of weekly price bands.

Monitoring, Surveillance and Effective Prevention of Market Manipulation

— To help ensure real time monitoring of price movements and broker positions and to generate real time alerts, 4 major and medium sized stock exchanges implemented the first phase of the Stock Watch System.

— Several enforcement actions taken against intermediaries for various violations of the provisions of SEBI Act and rules and regulations and also for market manipulation and unfair trade practices.

Consolidation of Smaller Stock Exchanges

— To help sustain the activities of smaller stock exchanges, the Inter Connected Stock Exchange of India set up by 14 regional stock exchanges, commenced trading operations in a limited way

Foreign Institutional Investors

— FIIs permitted to directly participate in the public offers in takeover and buyback offer of companies.

— Procedural simplification introduced for registration and operations of the FIIs and the Sub-accounts.

Takeovers and Substantial Acquisition of Shares

— To further protect the interest of investors in takeovers and to enhance equity, fairness and transparency in takeover transactions, the interim recommendations of the reconstituted Committee under the chairmanship of Justice P.N. Bhagwati, former Chief Justice of India accepted.

— The threshold limit for mandatory public offer increased from 10 per cent to 15 per cent of the voting rights of a company.

— The creeping acquisition limit raised from the earlier level of 2 per cent to 5 per cent of the voting rights and also made applicable to persons holding above 51 per cent of voting rights up to 75 per cent.

During 1999-2000

Streamlining of the Disclosure and Investor Protection Guidelines

— The entry point norms for Initial Public Offer (IPO) which form a part of the Disclosure and Investor Protection Guidelines (DIP) relaxed for companies in the Information Technology (IT) sector to enable these companies to list their shares by making public offer of 10 per cent of post issue capital instead of 25 per cent for other sectors, subject to

requirements of minimum number of 20 lakh securities and minimum net offer value of Rs.30 crore. This will encourage IT companies to come to the market.

— The requirement of "ability to pay dividend" substituted for "actual payment of dividend", in the entry point norms for public offers. This will further strengthen the guidelines.

— The DIP guidelines made common for all Initial Public Offers (IPOs) made common in the wake of abolishing of the concept of fixed par value. This will help streamline the guidelines.

Employee Stock Options Scheme

— The revised guidelines for employees stocks options schemes based on recommendations of committee appointed by SEBI under J. R. Varma were implemented.

Book-Building

— The issuers given the option to build either by 90 per cent of the net offer to the public or 75 per cent of the net offer to the public. The balance issue to be offered to the — public at the fixed price determined through book-building exercise. This procedure is in line with the international practices and will aid price discovery and streamline the process of book-building.

— The 15 per cent reservation for individual investors bidding up to 10 marketable lots, merged with 10 per cent at fixed price offer. This will further streamline the process of book-building.

Credit Rating Agencies (CRAs)

— The regulations for CRAs notified. This will bring the CRAs under a regulatory framework for the first time.

Collective Investment Schemes (CIS)

— The Securities Law (Amendment) Bill, 1999 was passed by the Parliament facilitating the regulation of Collective Investment Schemes (CIS) and expanding the definition of securities to include units of CIS. This will help SEBI to regulate the CIS and protect the interest of investors in these schemes.

— Several other measures earlier taken by SEBI to protect investors included:

— the issue of advertisements to warn investors of danger of investing in unregulated CIS and to notify all CIS that their registration of all CIS with SEBI is — mandatory and

— allowing the launching of new CIS schemes only after obtaining the rating from a CRA.

Market Making

— Following the acceptance of the recommendations of the Committee on Market Making appointed by SEBI, guidelines were issued to the stock exchanges to allow brokers to take up market making activity in shares of a company where the average number of trades is more than 50 and the value of trade on daily basis is more than Rs.10 lakh.

Marketing Initial Public Offer (IPO) through Secondary Market

— The facility of marketing IPOs through the use of the available infrastructure of stock exchanges permitted by SEBI to be introduced by the stock exchanges. This will help reduce issue and distribution costs for public issues, reduce delays and speed up allotment.

Internet Trading

— Internet trading under order routing system permitted for the first time in a limited way through registered stock brokers on behalf of clients for execution of trades on recognized stock exchanges. This will further modernize the trading system.

Negotiated Deals

— The long prevalent system of negotiated deals on the stock exchanges (i.e. any transaction which either has a value of Rs 25 lakh / the traded volume is not less than 10,000 shares) which were non transparent and had become the source of much abuse was abolished by SEBI, and guidelines issued by SEBI permitting such deals only if they are executed on the on the screen on the price and order matching system of the exchanges, like any other deal. This will introduce transparency and price discovery in negotiated deals and protect better the investors.

Rolling Settlement

— Phased programme of T+5 rolling settlement introduced for the first time, in 10 scrips from January 10, 2000, and another 34 scrips from March 21, 2000 after shortlisting the scrips on the basis of the criteria that these scrips should be on the list for compulsory dematerialised trading and have a daily turn over of about Rs 1 crore and above. This important measure will increase the efficiency of market microstructure

Measures For Safety And Stability In Stock Market

— The existing margin system further refined and strengthened to enhance the safety of the market.

Dematerialisation of Shares

— The list of scrips to be traded compulsorily in dematerialised form by institutional investors increased in phases to 462 by the end of the financial year and further announcement made for increasing the list to 985 by June 26, 2000; a similar list of scrips for all investors increased to 260 by the end of the year and announced to be increased to 579 by June 26, 2000.

— Procedures for processing of dematerialised requests and opening of accounts for beneficial owners by the depository participants streamlined and facility of simultaneous transfer and dematerialisation introduced.

— Share transfer agents allowed to act as depository participants.

— The ceiling on the value of the portfolio of securities held in custody by the broker depository participants increased to 100 times the net worth of the broker.

- 'No delivery period' for scrips under compulsory dematerialised form by all investors reduced to one week.
- Additional measures taken to enhance the safety standards of the depository system.
- Trading of new IPOs compulsorily in de-materialised form by all investors immediately upon listing.

Corporate Governance

- A Committee was appointed by SEBI under the chairmanship of Shri Kumar Mangalam Birla, member SEBI Board, to enhance the standard of corporate governance. The draft Report of the Committee was widely circulated and deliberated. The recommendations were accepted by SEBI Board and implemented by SEBI through the amendment of the listing agreement of the stock exchanges. The recommendations applicable first to all the listed companies which are included either in group A of the BSE and in S&P CNX Nifty index as on January 1, 2000 to be completed by March 31, 2001 and in the subsequent years to other companies in a phased manner. This will substantially enhance the standard of corporate governance in India.

Financial Disclosure

- The cash flow statement as per the listing agreement required to be mandatorily prepared in accordance with the relevant accounting standard.
- Additional disclosures to be made in the unaudited financial quarterly results of the companies to make these more transparent and meaningful.
- Limited review by auditors for half-yearly results.
- Prior intimation about Board Meeting at which declaration of dividend is considered to be made at least seven days in advance.
- Announcement by the companies on dividend, rights etc. to be made only after the close of the market hours to avoid excessive volatility in stock prices.

Listing of debt before equity

- Listing of debt securities relating to infrastructure and municipal corporation allowed before equity, subject to the condition that the debt instrument is rated not below a minimum rating of 'A' or equivalent thereof.

Foreign Institutional Investors (FIIs)

- FIIs allowed to directly participate in the public offer in takeover and buy-back offer of companies.
- Foreign corporate or high networth individual investors allowed to invest as sub-account to widen the base of FIIs provided provident investment does not exceed 5 per cent of total issued capital of company.

Mutual Funds

- Investment by Mutual Funds in the equity shares or equity related

instruments of a single company in a single scheme restricted to 10 per cent of the NAV of the scheme and investment in index schemes to 15 per cent of NAV of the scheme to allow for diversification of investments by mutual funds. The limits can be extended to 25 per cent of the NAV of the scheme with the prior approval of the board of the asset management company and board of trustees.

— Investment in unlisted shares by mutual funds not to exceed of 10 per cent of the NAV of a scheme, in case of close ended scheme and 5 per cent of the NAV of the scheme in case of open-ended schemes.

— Investments by mutual funds in debt instruments issued by a single issuer which are rated not below investment grade restricted to 15 per cent of a scheme, but could be extended to 20 per cent with the prior approval of the boards of the asset management company and trustees. Investment in un-rated debt instrument of a single issuer in a scheme restricted to 10 per cent of the NAV of the scheme which could be increased to 25 per cent of NAV subject to approval of the boards of the asset management company and trustees.

— Following the recommendations of the P.K. Kaul Committee which were accepted by SEBI Board, the trustees of mutual funds required to file the details of his transaction relating to buying and selling of securities with the mutual fund on a quarterly basis and due diligence is required to be carried out by the trustees in fulfilment of the various obligations as required under the regulations.

Venture Capital Funds

— The recommendations of the Committee appointed by SEBI under the chairmanship of Shri Chandrashekhar, for developing the venture capital industry, were accepted by SEBI Board. These recommendations would go a long way in helping the growth of venture capital in India.

During 2000-01

Streamlining of the Disclosure and Investor Protection Guidelines

— To ensure availability of adequate information to investors, the guidelines issued to companies to disclose the details of utilization and deployment of unutilized part of promoter's contribution, firm allotment and reservation in their balance sheet. Similar requirements also specified in case of monies accrued to the company as a result of a preferential issue. Companies required to indicate the purpose for which such monies are utilised and the form in which such unutilised monies have been invested.

— To address apprehensions about an overly optimistic future performance by the company, no forecast or projections relating to financial performance of the issuer company to be given in the offer document.

Book-building

To further strengthen the book-building and to rationalise the existing

- provisions of book-building guidelines and to introduce greater transparency in the book-building process, following guidelines issued
- 100 percent one stage book-building permitted with bidding centres at all cities having stock exchanges.
 - The provision of 75 percent of the issue to be offered through book-building of which:
 - 60 percent to be allocated to institutional investors such as banks/FIIs and other financial institutions and at least 15 percent to be distributed on proportionate basis to non-institutional investors applying for more than 1000 shares and
 - The remaining 25 percent of shares to be available to small investors.

Entry Norms and Book Building

Book building process further used to strengthen and streamline the entry point norms for public issues and to help investors make better judgement of quality and price of the issue on the assumption that QIBs who would be subscribing first to the offer under the book building have ability to assess the quality of the investment and their investment decision would effectively amount to a market appraisal of the quality and price of the issue.

- Issuers not having net-worth of Rs. 1 crore and distributable profits in 3 out of the immediately preceding 5 years or proposing to raise more than 5 times its pre-issue net worth, required to make issues to be compulsorily through book-building route offering 60 percent to Qualified Institutional Buyers (QIBs).
- Institutional investors under the category of QIBs like banks, FIIs, mutual funds and other financial institutions to be allocated not more than 60 percent of the book-built portion.

Preferential Allotment Disclosures and Lock-in

- To safeguard investors' interest, guidelines on preferential allotment modified requiring companies to include detailed disclosures in the explanatory statement in the notice for the general meeting or AGM of the shareholders. viz. objective of the issue and intention of promoters, directors, key management persons, shareholding pattern etc.
- Lock-in period of one year from the date of allotment stipulated for instruments allotted on preferential basis to any person including promoters/promoter group except for such allotments which involve share swap for acquisitions.

Promoters Contribution and Lock-In

- To ensure promoters' association and commitment to company and to enhance investors' confidence in public issues of unlisted companies, the minimum promoters contribution of 20 percent for unlisted companies required to be locked-in for 3 years and the balance of the entire pre-IPO capital to be locked in for 1 year from the date of commencement of commercial production or the date of

allotment in the public issue which ever is later.

IPOs in Dematerialised Mode

— To eliminate the problems relating to loss of allotment letters, share certificates, etc., and to induce the investors to opt for allotment of dematerialised shares, the trading for all IPOs in dematerialised form made compulsory with an option available to the investors for physical shares.

Guidelines for Issue of Debt Instruments

— To help the development of debt market and to provide a wider variety of debt instruments SEBI (Disclosure and Investor Protection) Guidelines, 2000 amended to allow issuers to issue unsecured/subordinated debt instruments with maturity of less than 18 months in the nature of mezzanine capital.

Public Issues Through Stock Exchange Mechanism

— To reduce issue costs as well as time taken in public issues, guidelines issued for offering securities in public issues through the stock exchange mechanism, giving the issuers the option to issue securities through the on-line system of the stock exchange or through the existing banking channel.

Allotment Procedure

— To speed up the listing process, in-principle approval from the stock exchanges for listing of securities required to be obtained by the lead merchant banker within 15 days of filing of the offer document with the stock exchange.

— To ensure speedier completion of the issue process, and to minimize the risks associated with volatile markets, the time for finalising allotment reduced from 30 to 15 days in book-built issues and the period between finalisation of basis of allotment and listing reduced to 7 working days to impart quicker liquidity to the investments made in primary issues.

— To ensure that investors get the shares/refund orders quickly, the despatch of share certificates/refund orders/cancel stock invest and demat credit required to be completed within two working days of finalisation of the basis of allotment, in place of present requirement of 30 days.

— To further simplify the present allotment procedure, market lots replaced with simple proportionate allotment to the applicants in the respective categories. To prevent fractional allotments and allotments of miniscule value, the minimum allotment to be higher of the following: a) one share or b) smallest integral number of shares that have a value of Rs. 1000/- calculated on the basis of issue price.

Relaxation of Minimum Offer to Public

— To encourage companies in the new economy while ensuring good quality issues with sufficient stock available for trading:

— Indian companies in information technology, media,

entertainment and telecom sectors permitted to access the markets with a minimum offer of 10 per cent of post-issue capital to the public subject to a minimum offering of 20 lakh shares for the amount of not less than Rs.50 crore. This relaxation subsequently extended to all companies with the same conditions and the issue size increased from Rs. 50 crore to Rs. 100 crore.

— The restriction of minimum public issue size of Rs. 25 crore in case of an IPO through book-building removed for all companies.

Listing of Debt Before Equity

— The present facility of listing of debt securities of infrastructure companies and municipal corporations without having listed their equity, extended to all companies subject to investment grade credit rating, promoters' contribution of 20 per cent, three years lock-in, maintaining same standard of continuing disclosures, no partly paid-up shares/ other securities, and book-building option, etc.

Financial Disclosures Requirements for Issuers and Other Entities

To strengthen the financial disclosures norms for the listed entities:

— The unaudited financial quarterly results of the companies made more transparent and meaningful, additional disclosure norms prescribed and half-yearly results subjected to a “limited review” by the auditors,

— The issuers required to prepare cash flow statement referred to in the listing agreement in accordance with relevant accounting standard

— The issuers required to disclose materially significant transactions, i.e., transactions of the company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives, etc. which may have potential conflict with the interests of issuers at large,

— The public disclosure of details of non-compliance, penalties, strictures imposed by the stock exchange or SEBI or any matter of company related to the capital market during the last three years required; and separate disclosure for all material on non-

recurring/abnormal income/gain and expenditure/loss and effect of all changes in accounting practices affecting the profits materially,

— All stock exchanges and subsidiaries of stock exchanges, clearing corporations advised to post their annual accounts in their respective websites, besides making available a copy of their annual accounts to investors, intermediaries and general public.

— Valuation methods standardised for net asset value of mutual funds for debt securities, thinly traded and non-traded debt and equities.

— The ICAI issued accounting standards for consolidation of accounts, segment reporting, related party transactions, deferred tax liability.

— These standards will be mandatory for all listed companies as per the phased programme of corporate governance issued by SEBI.

Corporate Governance

— The recommendations of the Kumar Mangalam Birla Committee on

corporate governance in relation to listing agreement entered into by the companies with the stock exchanges implemented.

— According to the recommendations of the Accounting Standards Committee, the companies required to immediately disclose all material information simultaneously to all the stock exchanges where the securities of the company are listed.

— The regional stock exchanges required to disseminate the information to all stock exchanges where the securities of the company are listed or traded .

— Further, any material event arising out of decisions taken in the board meetings regarding announcement of results, dividends, bonus, rights etc. are to be furnished to the stock exchanges within fifteen minutes of the closure of the board meetings.

— The companies to report extent of compliance of corporate governance in their Annual Reports.

— The stock exchanges directed to monitor corporate governance compliance on quarterly basis.]

Continuous Listing

— Guidelines issued to all listed companies to maintain a minimum level of non-promoter holding on a continuous basis as a measure of investor protection as it would ensure availability of floating stocks.

Rolling Settlement

— Rolling settlement which was first introduced voluntarily from January 1998 on all scrips included in the demat segment and then compulsorily to 163 scrips to be expanded to 414 scrips by covering additional 251 scrips from July 2, 2001 following the announcement made by the Government on March 13, 2001 in Parliament.

— The list of additional 251 scrips to include all scrips having the facility of ALBM/BLESS or MCFS in any stock exchange. In addition if there is any scrip which is included in the BSE 200 scrip but not covered by the above list also to be included in the compulsory rolling settlement on a nation-wide basis.

— All deferral products cease to be available from July 2, 2001 except for the limited purpose of liquidating the outstanding positions till September 3, 2001. However liquidation of outstanding deferral positions as of the date of announcement of SEBI decision to take place by September 3, 2001.

— Simultaneously exchanges permitted to introduce stock options from July 2, 2001.

Risk Containment Measures:

A. Rationalisation and strengthening of Margin System

— Margins of 10 per cent made applicable for exposures up to Rs. 20 crore and 15 per cent made applicable for exposures exceeding Rs. 20 crore and up to Rs.40 crore or a uniform rate of 12.5 per cent margin made applicable under MCFS and ALBM.

- Price band for 200 scrips and scrips under compulsory rolling settlement, was relaxed to 16 per cent.
- Scrip limit in carry-forward position in Modified Carry-Forward System (MCFS) or the trade position in Automated Lending and Borrowing Mechanism (ALBM) was fixed at Rs 5 crore per scrip per member in account period and also in rolling settlement, and the exposure limit was fixed at Rs. 4 crore per broker.
- No volatility margin in compulsory rolling settlement system.
- Cash component to be minimum at 30 per cent of the total margin, to be deposited by the broker.
- To encourage delivery based transactions, the margins to be provided only in the shape of bank guarantees and cash component need not be insisted.
- Several measures taken following the events in the stock market in March 2001.

B. Price Band:

To further strengthen the risk management system the following measures adopted:

- The price bands initially placed at 8 per cent such that once a scrip touched the 8 percent price band in either direction, the trading in that scrip to be restricted upto the price band for half an hour, and thereafter, the price band to be further relaxed by 4 percent in the direction in which the price moved to touch the ceiling .
- The relaxation of the price band could only be done at BSE or NSE. The other exchanges to relax the price band (by 4 percent) only after such relaxation is applied at BSE or NSE.
- Subsequently, the price band was relaxed by further 8 per cent for 200 actively traded scrips jointly decided by BSE and NSE.
- Following the events in the securities markets in March 2001 all transactions to be backed by delivery unless the sale transaction has been preceded by a purchase position of at least an equivalent amount in the name of the same client in the same or any other exchanges. This restriction was temporary, to be removed depending on the condition of the market.

Mandatory Client Code

- To help establish the identity of buyers and sellers of securities and to improve and facilitate market surveillance, the client code made mandatory at the brokers' level operating on all the stock exchanges.
- The unique client code also to be introduced across exchanges.

Abolition of No - Delivery Period

- No-delivery period of seven days abolished for companies whose securities are traded in the compulsory dematerialised mode.

Code of Ethics for Directors and Functionaries of Stock Exchanges

- 'Code of ethics' for directors and functionaries of stock exchanges introduced to raise the professional and ethical standards of

exchanges and their functionaries and also to avoid conflict of interest, and promote market integrity.

Delivery Versus Payment (DVP)

— To bridge the gap between pay-in and pay-out of securities and funds, the DVP Committee set up to look into the mechanism for efficient payment and delivery system for securities and funds simultaneously. The recommendations of the committee awaited.

Trading and Settlement of Securities in Dematerialised Form

— To protect the interest of investors and enhance the safety of the dematerialisation process, additional safeguards introduced. Directives issued to depositories/depository participants to standardize the account opening procedure and to maintain the list of account holders. Additional guidelines also issued for proper verification of the debit instruction slips .

— To enhance the efficiency of the dematerialisation process and to prevent any possible misuse of pool account balances, directives issued to the depositories and depository participants, to reduce the pool account balances, to restrict the use of pool account balances only for effecting deliveries in the particular settlement and to levy penal charges for failure to reduce the pool account balances after the stipulated period.

Derivatives Trading

— To provide liquidity to the market and to enable market to absorb larger shocks for a small change in the prices, the derivatives trading was approved in June 2000 first in index futures contracts, both at NSE and BSE.

— Derivative products were expanded subsequently to include options on indices and thereafter to options on individual stocks.

— The risk containment measures for exchange traded index futures contracts outlined by SEBI under the framework consistent with the risk management guidelines. The exchanges are free to adopt any risk management model available globally.

Internet Trading

— To provide benefits to investors as an added advantage of convenience, transparency and real time trading, the internet based trading allowed through order routing system which will route client orders to exchange trading systems for execution of trades on the stock exchanges.

Securities Lending Scheme

— To facilitate smooth securities settlement, the schemes of ALBM and BLESS transactions of NSE and BSE, respectively, as generic products.

Investor Education

— A Working group appointed on investor education which recommended application of information booklets on dematerialisation,

secondary and primary market operations, imparting education on radio and television.

Mutual Funds

— A common format prescribed for all Mutual Fund schemes to disclose their entire portfolios on half yearly basis so that the investors can get meaningful information on the deployment of funds. Mutual Funds also required to disclose the investment in various types of instruments and percentage of investment in each scrip to the total NAV, illiquid and non performing assets, investment in derivatives and in ADRs and GDRs.

— To bring about transparency in the investment decisions, and ensure due diligence of the AMCs in their investment of public funds, all the AMCs directed to maintain records in support of each investment decision which would indicate the data, the facts and other related opinion leading to an investment decision.

— Further the AMCs required to record the basis for taking individual scrip-wise investment decision in equity and debt securities and report its compliance in their periodical reports to the trustees. After checking its compliance through independent auditors or internal/statutory auditors, the trustees required to report to SEBI in their half-yearly reports.

— To enable the investors to make informed investment decisions guidelines issued to mutual funds to fully revise and update offer document and memorandum atleast once in two years.

— Mutual funds also required to:

— bring uniformity in disclosures of various categories of advertisements, with a view to ensure consistency and comparability across schemes of various mutual funds,

— reduce initial offer period from a maximum of 45 days to 30 days,

— despatch statements of account once the minimum subscription amount specified in the offer document is received even before the closure of the issue,

— invest in mortgaged backed securities of investment grade by Credit Rating Agency,

— identify and make provisions for the non-performing assets (NPAs), according to criteria for classification of NPAs and treatment of income accrued on NPAs and to disclose NPAs in half yearly portfolio reports,

— disclose information in a revised format on unit capital, reserves, performance in terms of dividend and rise / fall in NAV during the half year period, annualized yields over the last 1, 3, 5 years in addition to percentage of management fees, percentage of recurring expenses to Net Assets, investment made in associate companies and payment made to associate companies for their services, details of large holdings etc. since their operation

- declare their NAVs and sale/repurchase prices of all schemes updated daily on regular basis on the AMFI web site by 8:00 p.m. and declare NAVs of their close-ended schemes on every Wednesday
- To give operational flexibility, mutual funds also allowed to constitute committees who can approve proposals for investment in unrated debt instruments after being approved by the AMC board and the trustees

Foreign Institutional Investors (FIIs)

- To avoid discrimination between Indian and foreign fund managers, SEBI (Foreign Institutional Investors) Regulations, 1995 amended on February 29, 2000 to permit domestic fund managers to also manage foreign funds.
- To facilitate investment by FIIs, foreign corporate bodies and foreign individuals permitted to invest upto 5 per cent of the total issued capital of the company.
- To further facilitate the foreign inflows the FIIs and sub-accounts permitted to invest in commercial papers
- To facilitate disinvestment in holding by FIIs which did not desire to renew registration, SEBI (Foreign Institutional Investors) Regulations, 1995 amended.

Venture Capital Funds (VCFs)

- To facilitate automatic transfer of shares from Venture Capital Funds or Foreign Venture Capital Investors to promoters of a venture capital undertaking, exemption granted from applicability of Open Offer requirements based on the recommendations of Shri K B Chandrasekhar Committee on Venture Capital.

During 2001-02

Issue Procedures

- To reduce the time period involved between closure of the issue and listing of securities, the companies were advised to ensure that details regarding the application and application monies received from the investors investing in the issue of a body corporate and the final certificate should be furnished to the Registrar to the Issue, the lead manager and the body corporate, before the expiry of 7 working days after the date of closure of issue.

SEBI (Disclosure and Investor Protection) Guidelines Amended

- To make the price discovery more broad based, the State Industrial Development Corporations and Foreign Venture Capital Investors registered with SEBI were permitted to be eligible to participate in public issues through the book-building route as Qualified Institutional Buyers (QIBs).

Book- Building

- To introduce the facility of 100 percent book-building for companies making a public issue, SEBI approved certain modifications in the

book-building guidelines with effect from December 01, 2001.

Buy-back of Securities

— To enhance transparency and disclosures on buy-back of securities, SEBI issued guidelines that:

— The companies shall be required to give prior notice of atleast 7 days to the stock exchanges about the Board meetings at which the proposal for buy-back of Securities is to be considered.

— The companies shall be required to intimate the stock exchanges within 15 minutes after the board meeting about the decision on Buy-Back of Securities. The stock exchanges were advised to incorporate the above amendments in the Listing Agreement with immediate effect and confirm the same.

Issue of Debt Securities

— To make possible the issue of debt securities without the issue of equity and listing thereof, for unlisted companies desirous of making an issue of non-convertible debt securities (NCDS), SEBI (Disclosure and Investor Protection) guidelines were amended.

Underwriting

— To ensure the success of book-building issues, underwriting was made mandatory with the exception of 60 per cent of the net offer to public which has to be allotted to Qualified Institutional Buyers (QIBs).

Public Offer Clause Amended

— Through the Government Notification, Clause (b) to sub-rule (2) of Rule 19 of the SC(R) Rules, 1957 was amended providing for public offer at least 10 per cent instead of 25 per cent subject to certain conditions and the sector-wise exemptions were withdrawn.

Bankers to Issue

— To reduce the time period involved between closure of an issue and listing of securities, all Bankers to Issues were advised that details regarding application and application monies received from investors investing in the issue of a body corporate and final certificate are furnished to Bankers to the Issue, the Lead manager and Body corporate, before the expiry of 7 working days after the date of closure. Further, SEBI (Bankers to an Issue) Rules and Regulations, 1994 were amended through incorporation of a new Regulation 16A.

Deferral Products in Rolling Settlement and Uniform Settlement Cycle

— To provide adequate time for unwinding the positions for the securities market, SEBI took the following transitional measures:

— All outstanding deferred positions as on May 14, 2001, were compulsorily liquidated by September 03, 2001.

— Any additional deferred positions taken on or after May 15, 2001, in addition to the above were compulsorily liquidated by July 02, 2001.

— No new deferred positions were permitted from July 02, 2001 onwards.

- The exchanges were asked to monitor the positions of their members, phased liquidation of their positions between July 02, 2001 to September 03, 2001.
- Liquidation of outstanding positions as on July 02, 2001, was allowed only for the approved deferral products in the rolling settlement.

Rolling Settlement and Shortening of Settlement Cycle

- To enhance the efficiency of the secondary market, rolling settlement was introduced for additional 251 scrips from July 02, 2001 bringing the total number of scrips under rolling settlement to 414. The stocks, which were not under compulsory rolling settlement from July 02, 2001, were traded under compulsory rolling settlement with effect from January 02, 2002. It was also decided to further shorten the settlement cycle to T+3 for all listed securities from April 1, 2002.

Index- based market-wide circuit breaker in compulsory rolling settlement

- To bring about a co-ordinated trading halt in all equity and equity derivative markets nationwide, SEBI implemented an index-based market-wide circuit breaker system, applied at three stages of the index movement either way at 10 per cent, 15 per cent and 20 per cent with effect from July 02, 2001.

Margin based on VaR.

- To contain the risk associated with scrips in compulsory rolling settlement, the 99 per cent VaR based Margin System was introduced from July 02, 2001 as under:
 - Scrip-wise VaR and index-based VaR calculation by the exchanges for additional 251 scrips included in compulsory rolling settlement from July 02, 2001 and 15 scrips having the facility of CNS, CFRS, ALBRS and BLESS.
 - In addition to the above, additional level of margin was imposed to address the 1 per cent of the cases to supplement VaR based margins.
 - Additional 12 per cent margin imposed to address 1 per cent of the cases.
 - The VaR calculations based either on BSE Sensex or S & P CNX Nifty and other exchanges may calculate their own VaR or follow BSE or NSE pattern.
 - The VaR based margin capped at 100 per cent.
 - The VaR based margin calculated by the exchange at the end of the day to be used for the purpose of margin calculations for the transactions carried out next day.
 - The VaR based margin to be collected on T+1 basis.
 - In addition to margin calculated on VaR basis, exchanges to collect mark-to-market margin.
 - Exchanges to impose additional margin on scrips whenever necessary to contain the risk in the market.

Withdrawal of restriction on short sales

- To facilitate short selling, all restrictions which were temporarily imposed were removed. SEBI withdrew the restrictions on short sales with effect from July 02, 2001.

Securities Lending Scheme, 1997

- To facilitate the use of stock lending following the introduction of rolling settlement in 414 scrips from July 2, 2001 and the ban on all deferral products such as ALBM/BLESS/MCFS/CNS, the restrictions on the Securities Lending Scheme, 1997 were withdrawn.

Scrip-wise price bands

- To introduce scrip-wise price band, SEBI decided that in addition to the market-wide index based circuit filters, there would be individual scrip-wise price bands of 20 per cent either way, for all scrips in the compulsory rolling settlement except for the scrips on which derivatives products are available or scrips included in indices on which derivatives products are available. While in the rest of the scrips that are not in compulsory rolling settlement, the existing price bands would continue to apply.
- Further post-September 11, 2001, as a temporary measure for market stability, a price band of 10 per cent was introduced on all shares on which derivative products are available.

Risk containment measures for Stock Option

- To reduce the risk in trading of Options on Stocks, SEBI implemented the following measures on the basis of the framework consistent with the risk management guidelines recommended by the L.C. Gupta Committee. Also, the exchanges were allowed to decide whether they want to adopt any of the risk management models available globally or else may like to develop their own models for risk management.
- The Stock Option Contracts to be traded on the derivative exchange/ segments shall have prior approval of SEBI. The Contract should comply with the disclosure requirements, if any, laid down by SEBI.
- The exchange to introduce Premium Settled American Style Stock Options, which shall be settled in cash at exercise, for an initial period of six months, thereafter, the Stock Options, at exercise, shall be settled by delivery.
- The Stock Option Contract to have a minimum contract size of Rs. 2 lakh at the time of its introduction in the market.
- The Stock Option contract to have a maximum maturity of 12 months and shall have a minimum of 3 strikes (in the money, near the money and out of the money).
- The initial margin requirements to be based on worst case of loss of a portfolio of an individual client to cover 99 per cent VaR over a one day horizon. The initial margin requirement shall be netted at level of

individual client and it shall be on gross basis at the level of Trading/Clearing Member. The initial margin requirement for the proprietary position of Trading/Clearing member shall also be on net basis.

— A portfolio based margining approach to be adopted which will take an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in derivative contracts.

— Exchanges to disclose scrip-wise deliverable positions grossed across clients for that day's trading session in the specified format.

Unique client code

— To allocate ID to their investor clients, all brokers were directed through the stock exchanges to provide a unique ID to every investor. It was made mandatory for all brokers to use unique client codes for all clients. For this purpose, brokers were advised to collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department for all their clients. Sub-brokers will similarly maintain for their clients. Where an individual client does not have PAN number, such a client shall be required to give a declaration to that effect.

— For FIIs, (where FII, itself is the investing entity) and their sub-accounts, SEBI registration number of FIIs and sub-account to be used until the PAN No. is allotted.

— For tax paying body corporate, the unique registration number issued by the relevant regulatory authority to be used till the time the PAN is allotted.

— The stock exchanges to be required to maintain a database of client details submitted by brokers. Historical records of all quarterly submissions shall be maintained for a period of seven years by the exchanges.

Amendment to the Listing Agreement

— To enhance the level of continuous disclosure by the listed companies in the light of new Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), SEBI decided to amend the Listing Agreement to incorporate the segment reporting, accounting for taxes on income, Consolidated Financial Results, Consolidated Financial Statements, Related Party Disclosures and Compliance with Accounting Standards.

Single Stock futures and the Risk Containment Measures

— To further develop the derivative market and to increase the availability of products, futures on 31 stocks, in which options contracts had been permitted by SEBI was introduced.

— As risk containment measures, SEBI adopted the existing risk management framework in the derivative market for Single Stock Futures.

— A portfolio based margining was adopted taking into account an

integrated view of the risk involved in the portfolio of each individual client comprising of his positions in all derivative contracts i.e. Index Futures, Index Option, Stock Options and Single Stock Futures.

Demutualisation of the Stock Exchanges

— To remove the influence of brokers in the functioning of stock exchanges, SEBI decided that no broker member of the stock exchanges shall be an office bearer of an exchange or hold the position of President, Vice President, Treasurer etc. and amendment to the Rules, Articles, Bye-laws of the stock exchanges were in the process of being amended.

FII's Trading in all exchange traded derivative contracts

— To permit FIIs to trade in all exchange traded derivative contracts, SEBI prescribed position limits for trading by FIIs and their sub-accounts. The FIIs were also permitted by the RBI to trade in all exchange derivative contracts subject to the prescribed position limit for them and their sub-accounts. They are also required to comply with the procedure of trading, settlement and reporting as prescribed by the derivative exchange/clearing house/clearing corporation from time to time.

Trading and Settlement in Dematerialised Securities

— To facilitate the settlement, SEBI prescribed the compulsory dematerialised trading by companies through connectivity with both the depositories. If the companies fail to establish connectivity with both the depositories from the due date, the trading will be on the "Trade for Trade" settlement window of the exchanges from the following settlement period.

Takeovers

— SEBI amended the Take-over Regulations to facilitate disinvestment of government shareholding in the listed Public Sector Undertakings.
— SEBI increased the creeping acquisition limit available for consolidation of existing holdings from 5 per cent to 10 per cent which would be available upto September 30, 2002, subject to review.

Mutual Funds

— To provide investors with meaningful information about the operations of the mutual fund schemes and to help them in taking well informed investment decision; SEBI revised and simplified the present format for un-audited half-yearly results. The mutual funds were asked to disclose performance in terms of rise/fall in NAV, yield, investment made in associate companies, details of large holding etc.
— All Mutual Funds were directed to post their half-yearly results in the prescribed format on their web sites and for investors the same may be displayed on AMFI web site before the expiry of one month from the close of each half-year.
— To make the monitoring more broad based, the Mutual Funds were required to disclose the portfolios on their web sites in the prescribed

format before the expiry of one month from close of each half-year and a copy of the portfolio is required to be filed with SEBI at the time of submission of half-yearly results.

— To provide the investors objective analysis of the performance of the mutual funds schemes in comparison with the rise & fall in the securities market, the mutual funds were advised to disclose benchmark indices.

— To ensure that all personal securities transactions are conducted consistent with the Mutual Funds guidelines and in such manner so as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility, SEBI issued detailed guidelines for investment/ trading in securities by employees of AMCs and mutual fund trustee companies. Further more, Boards of AMCs and trustees are required to review the compliance of guidelines periodically.

— SEBI decided that mutual funds should disclose large unit holdings in the scheme, which are above 25 percent of the NAV. The information on the number of such investors and total holdings by them in percentage terms, shall be disclosed in the allotment letters after the initial public offerings and also in the annual and the half-yearly results.

— To implement the regulations in regard to independent functioning, SEBI decided that relatives of sponsors or directors of sponsor companies or relatives of associate directors of the AMCs and Trustee Companies should be considered as associate directors. The nominees of the companies who are stakeholders in the Sponsor Company or AMC shall be considered as associate directors. Further, a person who is an "associate" in accordance with definition in the regulations cannot be appointed as independent director even after he ceases to be an "associate" unless a cooling off period of three years has elapsed from the date of his disassociation.

— To bring uniformity in calculation of NAVs and to have proper valuation of Government Securities, all mutual funds were advised to use the prices for government securities released by an authorised agency.

Investment in Foreign Securities by Mutual Funds

— To broaden the avenues for investments, Mutual Funds as per the Union Budget 2002-03 proposals, were permitted to make investments in foreign debt securities including government securities in the countries with fully convertible currencies, short term as well as long term debt instruments with highest rating (foreign currency credit rating) by accredited/registered credit rating agencies. The mutual funds may also invest in units/securities issued by overseas mutual funds or unit trusts, which invests in aforesaid securities or are rated and registered with overseas regulators.

During 2002-03

- Implementation of T+3 rolling settlement for all listed securities across the exchanges from April 2, 2002 to move T+2 on April 1, 2003.
- Introduction of scientific model for risk management, based on VaR.
- Introduction of Electronic Data Information Filing And Retrieval (EDIFAR) System to facilitate electronic filing of certain documents/statements by the listed companies and their immediate disclosure to the market participants.
- Launch of Securities Market Awareness Campaign.
- Introduction of rating corporate governance on the principles of wealth creation, wealth management and wealth sharing.
- Introduction of Straight Through Processing (STP) for the securities transaction.
- Implementation of a comprehensive risk management system for Mutual Funds.
- Introduction of the Dual fungibility of ADRs and GDRs.
- Establishment of the Central Listing Authority (CLA).
- Issuance of necessary guidelines/circulars for Corporatization and Demutualization of stock exchanges.
- Introduction of the trading of Government Securities on the Stock Exchanges.
- Posting all the orders passed by the Securities Appellate Tribunal (SAT) and the Board on SEBI website, to bring in regulatory transparency.
- Introducing the consultative process on policy formulation by putting all reports of committees and draft regulations on SEBI website for seeking comments, suggestions and opinions from public.
- Issuance of guidelines on Delisting of Securities from the Stock Exchanges.
- Establishment of inter-depository transfer through on-line connectivity between CDSL and NSDL.
- Review and amendment of the following regulations and guidelines – a measure of regulatory proactiveness
 - SEBI (Insider Trading) Regulations, 1992
 - SEBI (Underwriters) Regulations, 1993
 - SEBI (Debenture Trustees) Regulations, 1993
 - SEBI (Portfolio Managers) Regulations, 1993
 - SEBI (Foreign Institutional Investors) Regulations, 1995
 - SEBI (Mutual Fund) Regulations, 1996
 - SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997
 - SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999.
 - SEBI (Credit Rating Agencies) Regulations, 1999
 - SEBI (Issue of Sweat Equity) Regulations, 2002
 - SEBI (Procedure for Holding Enquiry by Enquiry Officer and

Imposing Penalty) Regulations, 2002.

— Announcement of Accounting Standards and disclosure practices of the Indian companies by ICAI in consultation with SEBI in accordance with International Accounting Standards.

— Expansion of the derivatives products basket.

— Introduction of benchmarking of all the Mutual Funds Schemes to facilitate the understanding of the investors about the performance of the funds. Introduction of nomination facility for the unit holders of mutual funds.

— Simplification of documentation procedure for FII registration and reduction of registration fee for FIIs.

— Memoranda of Understanding (MoUs) for co-operation and information sharing were signed with international regulators like Securities and Finance Commission of Mauritius and Securities and Exchange Commission of Sri Lanka.

During 2003-04

Issue Norms

In order to ensure the high quality of issuers accessing the primary securities market, SEBI has introduced an additional criteria of 'net tangible assets', 'minimum number of allottees in public issue' and 'profitability'.

Disclosure Requirements

With a view to making Indian primary market more disclosure based and comparable with international standards, amendments have been made to the Guidelines to add additional disclosures in the offer documents. The offer documents should contain information relating to financial statements as per the Indian Accounting Standards.

Amendments in Book Building Guidelines

In order to make price discovery process more realistic, immune from artificial demand and more responsive to market expectations, the companies have been provided with some flexibility in the indication of price band either movable or fixed floor price in the Red Herring Prospectus. Qualified institutional buyers (QIBs) have been prohibited from withdrawing their bids after the closure of bidding.

Green Shoe Option

As a stabilization tool for post listing price of newly issued shares, SEBI has introduced the green shoe option facility in IPOs.

Central Listing Authority

The Central Listing Authority has been set up with Shri M. N. Venkatachalaiah, former Chief Justice of India as its President. The aim of CLA is to ensure uniform and standard practices for listing the securities on stock exchanges.

Margin Trading

With a view to providing greater liquidity in the secondary securities market, SEBI has allowed corporate brokers with a net worth of at least

Rs.3 crore to extend margin trading facility to their clients in the cash segment of stock exchanges.

The brokers may use their own funds or borrow from scheduled commercial banks or NBFCs regulated by RBI but the total indebtedness for this purpose should not exceed five times the net worth.

Securities Lending and Borrowing

A clearing corporation/clearing house, after registration with SEBI, under the SEBI scheme for Securities Lending and Borrowing, as an approved intermediary, may borrow securities for meeting shortfalls in settlement, on behalf of the members.

Secondary Market for Corporate Debt Securities

With a view to providing greater transparency and protecting the interests of investors in debt securities, SEBI has prescribed new guidelines for regulating private placement of debt securities issued by the corporates. Full disclosure (initial and continuing) as per Companies Act, 1956, SEBI (DIP) Guidelines, 2000 and Listing Agreement are to be made by the companies.

Credit rating of debt securities, appointment of debenture trustees, separate Listing Agreement, frequent furnishing of periodical reports to SEBI etc. have been made mandatory to enhance the protection of investors in debt instruments.

Central Database of Market Participants

With a view to promoting up-to-date information about all market participants, SEBI has made it mandatory for every intermediary, to make an application for allotment of unique identification numbers for itself and for its related persons, under the SEBI (Central Database of Market Participants) Regulations, 2003).

This will be made mandatory for investors and companies at a later date.

Additional Continual Disclosures

With a view to providing further transparency and mitigating impacts of rumours and speculation, the brokers have been advised to disclose the details of bulk deals. Stock exchanges were advised to amend Clause 41 of the Listing Agreement to make it mandatory for the listed companies to publish the number of investor complaints received, disposed of, unresolved alongwith their quarterly results.

Enhance Market Safety and Reduce Credit Risk

Clearing and settlement cycle time has been further contracted to T+2 with effect from April 1, 2003 and this measure is expected to result in faster settlement, higher safety and lower settlement risk in the Indian capital market.

Mutual Funds

With a view to strengthening the position, specifying accountability and protecting the interest of investors, SEBI has defined the roles of Chief Executive Officer and Fund Manager of mutual funds.

Regulatory practices should be fair to all concerned in the market place. In

order to enhance fairness, a uniform cut-off time for calculating and applying NAVs, both for subscriptions and redemptions have been prescribed.

Skewed holdings in mutual funds schemes may lead to distortion. To avoid any distortion in the unit holding pattern and its impact, minimum number of investors in a scheme has been prescribed. Further, it has been specified that no single investor should hold more than 25 per cent of the corpus of any scheme/plan.

Opportunities for investing have been widened for mutual funds by allowing them to invest in derivative securities. They have also been permitted to invest up to 10 per cent of the net assets as on January 31 of each year in foreign securities with the limit of minimum US \$ 5 million and maximum of US \$ 50 million.

Derivatives Contracts Trading

To make Indian capital market more efficient and world class, new products have been permitted. Interest rate futures contracts were introduced in June 2003 and futures and options contracts on sectoral indices have been introduced in August 2003.

FII and NRIs have been permitted to invest in all exchange traded derivative contracts.

Exchange traded derivatives contracts on a notional 10 year Government bond have been allowed for trading.

Stock brokers have been allowed to trade in commodity derivatives.

Foreign Institutional Investors (FIIs)

To strengthen the “know your client” regime and in the interest of greater efficiency of the market, it has been made mandatory for the FIIs, to report issuance/ renewal/cancellation/redemption of off-shore derivatives instruments against underlying Indian securities. Issuance of such derivatives has been limited only to regulated entities.

FIIs have been allowed to participate in de-listing offers to afford an exit opportunity. They have also been allowed to participate in sponsored ADR/ GDR programmes.

FIIs have also been permitted to participate in divestment by the Government in listed companies.

With a view to making markets more competitive and compliant, SEBI has brought in the following new regulations:

- SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003
- SEBI (Ombudsman) Regulations, 2003
- SEBI (Central Listing Authority) Regulations, 2003
- SEBI (Central Database for Market Participants) Regulations, 2003
- SEBI (Self Regulatory Organizations) Regulations, 2004
- SEBI (Criteria For Fit and Proper Person) Regulations, 2004

As a measure of regulatory pro-activeness, the existing regulations were reviewed and the following amendment to regulations were notified:

- SEBI (Foreign Institutional Investors) (Amendment) Regulations, 2003
- SEBI (Mutual Funds) (Amendment) Regulations, 2003
- SEBI (Depositories and Participants) (Amendment) Regulations, 2003
- SEBI (Debenture Trustees) (Amendment) Regulations, 2003
- SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2003
- SEBI (Issue of Sweat Equity) (Amendment) Regulations, 2003
- SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2003
- SEBI (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations, 2003
- SEBI (Procedure for Holding Enquiry and Imposing Penalty) (Amendment) Regulations, 2003
- SEBI (Ombudsman) (Amendment) Regulations, 2003
- SEBI (Foreign Institutional Investors) (Amendment) Regulations, 2004

During 2004-05

Allocation of Shares to Retail Individual Investors

- Allocation of shares to retail individual investors has been increased from 25 per cent to 35 per cent of the total issue of securities in case of book-built issues. The retail individual investor has been redefined as one who applies or bids for securities of or for a value not exceeding Rs. 1 lakh, as against the earlier limit of Rs. 50,000.

Issue Advertisement

- The SEBI Disclosure and Investor Protection (DIP) Guidelines, 2000 were amended in order to ensure better readability of the issue advertisements appearing on television and to reduce the cost incurred in publishing pre-issue advertisements. The pre-issue advertisement which was mandatory for all public issues (fixed and book-built) should now contain minimum details.

Introduction of Shelf Prospectus

- The facility of shelf prospectus was introduced for public sector banks, scheduled banks and public financial institutions. They can file a draft shelf prospectus in the first instance disclosing the aggregate amount they intend to raise through various tranches. Any amount of over-subscription can be retained by the issuer in each tranche subject to the overall limit set for the year.

Green Shoe Option

- With an objective to widen the facility of Green Shoe Option, the SEBI (DIP) Guidelines, 2000 were amended to make it available in case of all public issues, viz., initial public offerings, follow-on offerings, public issues either through book building or fixed price route. All pre-IPO shareholders (including promoters) in case of IPOs and pre-issue

shareholders holding more than 5 per cent shares (including promoters) in case of follow-on offerings can lend their shares for the purpose of green shoe option.

Issue Norms

— The SEBI (DIP) Guidelines, 2000 on issue norms were amended to provide for a floor face value of Re. 1 per share in order to restrict the pre-IPO splitting of shares. The face value has to be necessarily Rs. 10 per share for issue price below Rs. 500 and in cases where the issue price is Rs. 500 or more, the issuer companies can fix the face value below Rs. 10 per share.

— The definition of the minimum application lot has been changed from Rs. 2,000 to a band of Rs. 5,000-Rs. 7,000. The applications can be made in multiples of such value.

— The DIP Guidelines for preferential allotment were amended to: (a) restrict sale of shares by shareholders who are allotted shares on preferential basis; (b) impose lock-in period on pre-preferential shareholding from the relevant date till six months after the date of allotment; (c) reduce the period for allotment from 30 to 15 days; and (d) facilitate corporate debt restructuring.

Corporate Governance

— To improve the standards of corporate governance, SEBI amended Clause 49 of the Listing Agreement. The major changes in the new Clause 49 include amendments/additions to provisions relating to definition of independent directors, strengthening the responsibilities of audit committees, improving quality of financial disclosures, including those pertaining to related party transactions and proceeds from public/rights/preferential issues, requiring Boards to adopt formal code of conduct, requiring CEO/CFO certification of financial statements and improving disclosures to shareholders. Certain non-mandatory clauses like whistle blower policy and restriction of the term of independent directors have also been included.

— The implementation schedule of the amended Clause 49 which was initially proposed to be effective from April 1, 2005 for listed companies has been extended to December 31, 2005.

Debt Listing Agreement

— In order to further develop the corporate debt market, SEBI prescribed a model debenture listing agreement for all debenture securities issued by an issuer irrespective of the mode of issuance.

Rationalisation of Dematerialisation Charges

— The existing structure of dematerialisation charges has been rationalized to provide benefits to investors. With effect from February 1, 2005, certain charges paid by investors were removed which include charges towards opening of a Beneficiary Owner (BO) account, credit of securities into BO account and custody charge for BO account opened on or after February 1, 2005. With effect from April 1, 2005, the

custody charges are not levied on any investor.

IndoNext

— The first phase of BSE IndoNext trading platform was inaugurated by the Honourable Finance Minister on January 7, 2005 to provide for a nation-wide trading platform for the small and medium enterprises (SMEs).

Implementation of STP

— Mandatory processing of all institutional trades executed on the stock exchanges through the Straight Through Processing (STP) was introduced with effect from July 1, 2004. This was in continuation of the efforts made by SEBI to ensure the inter-operability between the STP Service Providers through the setting up of STP Centralised Hub.

SEBI (STP Centralised Hub and STP Service Providers) Guidelines, 2004

— In order to regulate the STP service, SEBI (STP Centralised Hub and STP Service Providers) Guidelines, 2004 which also prescribed the model agreement between the STP centralized hub and the STP service providers. The STP Guidelines prescribe the eligibility criteria and conditions of approval, obligations and responsibilities and code of conduct for the STP centralized hub and the STP service providers.

— In consonance with the internationally accepted ISO 15022 messaging standards, standardized transaction work flow and messaging format for the STP system in India was specified by SEBI.

Derivatives

— In order to encourage the trading and clearing members of stock exchanges to use infrastructure of special electronic fund transfer (SEFT) facility as laid down by RBI to the extent possible, the members are now given a choice to opt for payment of mark-to-market margins, either before the start of trading next day i.e., on T day, or on the next day i.e., T+1. In case the members opt to pay mark-to-market margin on T day, no scaling up of initial margin would be applicable.

— Units of money market mutual funds and units of gilt funds were permitted to be accepted towards cash equivalent as part of the liquid assets of a clearing member.

— The eligibility criteria for indices on which futures and options are permitted to be introduced was modified to encourage the introduction of derivatives contracts on sectoral indices.

Foreign Institutional Investors (FIIs)

— The Union Government announced, within an overall External Commercial Borrowing (ECB) ceiling of US\$ 9 billion, a sub-ceiling of US\$ 1.75 billion for FII investment in dated Government securities and Treasury Bills, both under 100 per cent debt route and normal 70:30 route. Further, a cumulative sub-ceiling of US\$ 500 million for FII investment in corporate debt was announced over and above the sub-ceiling of US\$ 1.75 billion. Both the sub-ceilings are separate and not fungible.

— FII position limits in the equity index derivative contracts were revised. Accordingly, FII position limit in all index options and futures contracts on a particular underlying index shall be Rs. 250 crore (separately for futures and options) or 15 per cent of the total open interest of the market in index futures and index options, whichever is higher per exchange.

— The frequency of reporting of offshore derivative instruments by registered foreign institutional investors has been made monthly.

— The mutual funds and FIIs have been advised to enter the Unique Client Code (UCC) pertaining to the parent entity at the order entry level and enter the UCCs for their individual schemes/sub-accounts on the post-closing session.

SMILE Task Force

— A Securities Markets Infrastructure Leveraging Expert Task Force (SMILE Task Force) was constituted by SEBI to carry out a thorough 'health check' on the securities markets infrastructure encompassing all segments of the markets (viz. equities, debt, derivatives, fund products) and covering all market participants such as exchanges, trading platforms, clearing and settlement systems, payment systems, depositories, issue houses (registrars) and other intermediaries. The Task Force has submitted reports on "Infrastructure and Process Flow for the Primary Market" and "Infrastructure and Process Flows for Enhancing Distribution Reach in the Mutual Fund Industry". The Reports are under consideration of SEBI for implementation.

MoU Signed with Overseas Regulators

— Securities and Exchange Board of India (SEBI) signed a Memorandum of Understanding (MoU) with United States Commodity Futures Trading Commission (CFTC) at Washington on April 28, 2004. This is the sixth MoU that SEBI had signed with its international counterparts for strengthening communication channels and establishing a framework for assistance and mutual co-operation between the two organizations.

In order to fine-tune the regulatory requirements, regulations amended during

In order to fine-tune the regulatory requirements, regulations amended during 2004-05 are as follows:

— SEBI (Venture Capital Funds) (Amendment) Regulations, 2004.

— SEBI (Foreign Venture Capital Investors) (Amendment) Regulations, 2004.

— SEBI (Central Database of Market Participants) (Amendment) Regulations, 2004.

— SEBI (Portfolio Managers) (Amendment) Regulations, 2004.

— SEBI (Depositories and Participants) (Amendment) Regulations, 2004.

— SEBI (Buy-back of Securities) (Amendment) Regulations, 2004.

- SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) (Amendment) Regulations, 2004.
- SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2004.
- SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) (Second Amendment) Regulations, 2004.
- SEBI (Substantial Acquisition of Shares and Takeovers) (Second Amendment) Regulations, 2004.
- SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) (Third Amendment) Regulations, 2004.

Amendments to the existing laws entail a detailed procedure. Pending amendment to existing laws, regulatory pro-activeness was reflected through the following set of notifications:

- Notification under Sub-Regulation (1) of Regulation 6 of Securities and Exchange Board of India (Central Database of Market Participants) Regulations.
- Notification under Sub-Regulation (2) of Regulation 6 of Securities and Exchange Board of India (Central Database of Market Participants) Regulations.
- Notification under Sub-Regulation (1) and (3) of Regulation 6 of Securities and Exchange Board of India (Central Database of Market Participants) Regulations.
- Notification under Sub-Regulation (1) of Regulation 5A of Securities and Exchange Board of India (Central Database of Market Participants) Regulations.
- Notification under Sub-Regulation (1) of Regulation 4 and Sub-Regulation (1) and (2) of Regulation 6 of Securities and Exchange Board of India (Central Database of Market Participants) Regulations.

During 2005-06

I. Primary Securities Market

Specific Allocation for Mutual Funds

- Within the category of Qualified Institutional Buyers (QIBs), there was no specific allocation for any group in case of book built issues. In order to increase the retail participation through mutual funds, SEBI introduced a specific allocation of 5 per cent within the QIB category with effect from September 19, 2005. The mutual funds are also eligible for allotment from the balance available for the QIB category.

Proportionate Allotment to QIBs

- In an effort to provide level playing field and also to prevent misuse of discretion exercised by the merchant bankers in the process of allocation of shares, it was decided that the allotment to QIBs shall also be made on a proportional basis.

Margin Requirement for QIBs

- Although, there was no regulatory stipulation as regards the

proportion of margin to be collected from the subscribers to a public issue, in practice, 100 per cent margin was collected from the non-institutional investors while the institutional investors did not give any margin. As a move towards level playing field, SEBI introduced a 10 per cent margin on QIB bids.

ECS Facility for Public Issue Refunds

— In order to ensure faster and hassle-free refunds, it was decided to extend the facility of electronic transfer of funds to public issue refunds, initially at 15 centers where clearing houses are managed by RBI.

Minimum Public Shareholding

— In order to maintain uniformity and also for the purpose of continuous listing, it was decided to amend SEBI (DIP) Guidelines, 2000 providing a minimum public shareholding of 25 per cent in case of all listed companies barring a few exceptions.

Introduction of Optional Grading of IPO

— With a view to assisting the investors, particularly the retail investors, SEBI has given in-principle approval for grading of IPOs by the rating agencies at the option of the issuers. SEBI will not certify the assessment made by the rating agencies.

Rationalisation of Disclosure Requirements for the Listed Companies

— Under the Listing Agreement, a listed company is required to make continuous disclosures to the stock exchanges. In order to rationalise the disclosure requirements, it was decided to do away with the repetitive disclosures in case of rights issues and public issues by the listed companies which have a satisfactory track record of filing periodic returns with the stock exchanges and have a comprehensive mechanism for satisfactory redressal of investor grievances.

Abridged Letter of Offer

— In order to bring uniformity in the practice of making available abridged offer documents, it was decided to permit an issuer company making a rights issue, to despatch an abridged letter of offer which shall contain disclosures as required to be given in the case of an abridged prospectus.

Disclosure of Issue Price

— In case of a fixed price issue, a company is required to disclose the issue price or the price band in the offer document filed with SEBI. In order to provide flexibility, it was decided to allow a listed company to fix and disclose the issue price in case of a rights issue any time prior to fixing of the record date in consultation with the designated stock exchange, and in case of public issue through fixed price route, at any time prior to filing of prospectus with the Registrar of Companies.

Further Issue of Shares

— Further issue of capital by a company, after filing a draft offer document with SEBI, was prohibited till the listing of shares that are referred to in the offer document. In order to facilitate additional resource mobilisation, a company has been permitted to issue further shares, provided full disclosures as regards the total capital to be raised from such further issues are made in the draft offer document.

Corporate Governance of Listed Companies

— Under Clause 49 of the Listing Agreement, listed companies were advised to comply with the revised guidelines on corporate governance, including appointment of the independent directors. Initially the compliance date was April 1, 2005, which was subsequently extended to December 31, 2005. Without further extension of the deadline, a few clarifications were given in January 2006 relating to maximum gap between two Board meetings, sitting fees of the non-executive directors and certification on internal control system by the CEO/CFO.

II. Secondary Securities Market

Separate Window for Execution of Block Deals

— In order to facilitate execution of large trades without impacting the market, the stock exchanges were allowed to provide a separate trading window for block deals subject to certain conditions. BSE and NSE activated this window with effect from November 14, 2005.

Review of Dematerialisation Charges

— In order to enable an investor, who is not satisfied with the services of a DP, to shift his Beneficiary Owner (BO) account to another DP, SEBI advised the depositories/DPs not to levy any charges when a BO transfers all his securities lying in his account to another branch of the same DP or to another DP of the same depository or another depository, provided the BO accounts at the transferee DP and at transferor DP are one and the same.

Activation of ISINs of Initial Public Offerings (IPOs)

— There is a time gap of about four to five days between the crediting of securities to a Beneficiary Owner's account and the commencement of trading. The time gap was utilised by a few investors to indulge in offmarket trades prior to the commencement of trading. In order to prevent such transactions, SEBI advised depositories that, in case of IPOs, the ISINs of securities should be activated only on the date of commencement of trading on the stock exchanges.

SEBI (Central Database of Market Participants) Regulations, 2003

— Following recommendations of the Jagdish Capoor Committee, it was decided to resume registration under the MAPIN regulations in phases and obtain the Unique Identification Number (UIN) with biometric impression for a trade order value of Rs. 5 lakh and

above. For trade order of value less than Rs. 5 lakh, a choice is given to the investors (natural persons) to provide either the Permanent Account Number (PAN) of the Income Tax Department or UIN obtained under MAPIN. Pending implementation of the above decision, PAN has been made compulsory for all categories of investors for opening a demat account with effect from April 1, 2006. The existing demat account holders are required to submit details of PAN by September 30, 2006.

Discontinuation of Hand Delivery Bargains/Delivery versus Payment

— In order to streamline the settlement system, consistent with IOSCO recommendations, transactions executed on the stock exchanges would be necessarily settled through the clearing corporation/clearing house of the stock exchanges. The earlier practice of Hand Delivery Bargains/Delivery versus Payment (DvP) was discontinued with effect from September 19, 2005.

Guidelines for Issuing Electronic Contract Notes

— In order to provide further safeguard to the issuance of contract notes, additional conditions were prescribed such as sending of Electronic Contract Notes (ECNs) to a designated e-mail ID and retention of acknowledgements of receipt/proof of delivery only to such clients who have consented for the same. Wherever the ECNs have not been delivered or have been rejected by the e-mail ID of the client, the broker is obligated to send the physical contract note(s) within the stipulated time under the extant SEBI guidelines.

Shifting of Securities from Trade-for-Trade Segment to Rolling Settlement

— On the basis of information as regards connectivity of companies provided by the depositories, stock exchanges were advised to shift the shares of certain companies from trade-for-trade segment to rolling settlement subject to their having at least 50 per cent of non-promoter holdings in demat mode as per Clause 35 of the Listing Agreement.

Committee to Study the Future of Regional Stock Exchanges

— A Committee was set up under the Chairmanship of Shri G. Anantharaman, Whole Time Member, SEBI to review and examine the future of the Regional Stock Exchanges (RSEs) - post-demutualisation. According to the terms of reference, the Committee has to deliberate and advise on the future role of RSEs, manner of dealing with assets in the event of withdrawal of recognition and the process of divestment of shareholding.

Policy Initiatives for Derivatives

— Based on the recommendations of the Secondary Market Advisory Committee, the trading member position limit for stock based derivatives has been revised.

— Derivatives can be introduced on stocks of large companies

undergoing corporate restructuring on the first day of listing subject to certain conditions.

Corporatisation and Demutualisation (C and D) of Stock Exchanges

— In order to expedite the Corporatisation and Demutualisation of stock exchanges, SEBI approved and notified the C and D schemes of 19 stock exchanges during 2005-06. The NSE and OTCEI have been exempted from submitting the C and D schemes as they were already notified as corporatised and demutualised stock exchanges vide notification dated March 23, 2005 and September 15, 2005, respectively.

III. Mutual Funds

Gold Exchange Traded Funds in India

— Pursuant to the announcement made by the Honourable Finance Minister in his Budget Speech for 2005-06, SEBI appointed a Committee for the introduction of Gold Exchange Traded Fund (GETF) in India. Based on the recommendations of the said Committee, the SEBI (Mutual Funds) Regulations, 1996 were amended and notification was issued on January 12, 2006 permitting mutual funds to introduce GETFs in India subject to certain investment restrictions.

Minimum Number of Investors in Scheme(s)/Plan(s) of Mutual Funds

— According to the SEBI Guidelines dated December 12, 2003, every mutual fund scheme should have a minimum of 20 investors and holding of a single investor should not be more than 25 per cent of the corpus. SEBI clarified that this stipulation is applicable at the portfolio level. Moreover, if there is a breach of 25 per cent limit by an investor over the quarter, a rebalancing period of one month would be allowed.

Unique Client Code (UCC) for Mutual Fund Scheme(s)/Plan(s)

— In order to facilitate the unit holders to claim tax benefit associated with the payment of Securities Transaction Tax (STT), it was decided to allow mutual funds to share the unique client code of their schemes/plans with their unit holders.

Investments in ADRs, GDRs and Foreign Securities by Mutual Funds

— Mutual funds were permitted to invest in ADRs, GDRs and foreign securities. In case disclosures to this effect were not made in the offer document, all mutual funds were advised to send a written communication to the investors about the proposed investment.

Review of Time Limit for Updating NAV on AMFI Website

— In view of the difficulties faced by mutual funds, the time limit for uploading the net asset value (NAV) on the AMFI website was extended from 8 p.m. to 9 p.m.

Venture Capital Funds

— The Venture Capital Funds were allowed to invest in securities of

foreign companies subject to the conditions stipulated by RBI and SEBI from time to time.

IV. Foreign Institutional Investors (FIIs)

FII Investment in Debt Securities

— The outstanding limit for FII investment in debt securities for 2006-07 has been revised upward by the Government within the overall limit of External Commercial Borrowings (ECBs). While such limit for Government Securities (including Treasury Bills) was raised from US \$ 1.75 billion to US \$ 2.00 billion, the same for the corporate debt had been increased from US \$ 0.5 billion to US \$ 1.5 billion. The sub-ceilings continued to remain separate and not fungible.

V. Corporate Restructuring

Takeovers

— In order to provide flexibility to corporate restructuring, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 is being amended which include, inter alia, removal of restrictions on market purchases and preferential allotments. The outgoing shareholders can sell entire stake to the incoming acquirer in case of takeover. However, if the target company's minimum public shareholding falls below the prescribed minimum, the restoration should take place through a framework provided by the revised Clause 40A of the Listing Agreement.

Delisting of Securities

— In order to simplify the existing framework, the SEBI (Delisting of Securities) Guidelines, 2003 were amended, making it possible for stock exchanges to delist the shares of errant companies which are not complying with the Listing Agreement.

VI. Regulatory Amendments

— In order to fine-tune the regulatory requirements, following regulations were amended during 2005-06:

- SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) (Amendment) Regulations, 2005.
- SEBI (Mutual Funds) (Amendment) Regulations, 2006.
- SEBI (Custodian of Securities) (Amendment) Regulations, 2006.
- SEBI (Venture Capital Funds) (Amendment) Regulations, 2006.

During 2006-07

I. Primary Securities Market

Continuous Listing Requirement: Minimum Level of Public Shareholding

To enable a minimum level of public shareholding, listed companies will now be required to maintain minimum level of public shareholding at 25 per cent of the total shares issued for continued listing on stock exchanges. Exemptions are provided to companies which are required to maintain at least 10 per cent but less than 25 per cent in accordance

with the Rule 19 (2) (b) of the Securities Contracts (Regulation) Rules, 1957 and to companies that have two crore or more number of listed shares, and market capitalisation of Rs. 1,000 crore or more.

Optional IPO Grading

SEBI framed Guidelines relating to disclosure of grading of the Initial Public Offer (IPO) by issuer companies who may want to opt for grading of their IPOs by the rating agencies. If the issuer companies opt for grading, then they are required to disclose the grades, including the unaccepted ones, in the prospectus.

Guidelines for Issue of Indian Depository Receipts (IDRs)

SEBI issued Guidelines on disclosures and related requirements for companies desirous of issuing IDRs in India. SEBI also prescribed the listing agreement for entities issuing IDRs.

Qualified Institutions' Placement (QIP)

SEBI issued directions for the issuing companies, relating to Qualified Institutions' Placement, to pave the path for a fast and cost-effective way of raising resources from Indian securities market.

Corporate Bond Market – Launch of Reporting Platform

SEBI directed, both BSE and NSE, to introduce a trade reporting platform for corporate bonds.

Common Platform for Electronic Filing and Dissemination of Information Relating to Listed Companies

At the instance of SEBI, BSE and NSE jointly launched a common portal www.corpfiling.co.in on January 01, 2007, for dissemination of filings made by companies listed on these exchanges, in terms of the listing agreement.

II. Secondary Securities Market

Value at Risk (VaR) Margining in Cash Market

It was decided to update the applicable VaR margins in the cash market at least five times in a day instead of only at the end of the trading day and then apply it to the open positions for the subsequent trading day, as practised in the derivatives market.

Mandatory Requirement of PAN for Trading in the Cash Market

In order to further strengthen Know Your Client (KYC) norms in the cash market and to generate a reliable audit trail, PAN was made mandatory for all transactions in the cash market with effect from January 01, 2007.

Mandatory Requirement of PAN for Opening and Operating Demat Accounts

PAN was made mandatory for all demat accounts, opened after April 01, 2006, pertaining to all categories including minors, trusts, foreign corporate bodies, banks, corporates, FIIs, and NRIs. For demat accounts that existed prior to April 01, 2006, time for furnishing and verification of PAN card details was extended upto December 31, 2006.

Standing Committee for Addressing Problems in Computerised Trading

The stock exchanges were advised to set up Standing Committees to investigate the problems in computerised trading system, such as, hanging, slowdown, breakdown, and any other problem. The matter would be referred to respective Standing Committee, even if, the duration of disruption is less than five minutes.

Dissemination of Tariff/Charge Structure of Depository Participants (DPs)

Following the representations made by investors, on different charge/tariff structure of various DPs, it was decided that the DPs will immediately inform respective depositories, about any change in charge/tariff structure. The depositories were directed to display charge/tariff structure of various DPs on their websites to help investors in taking informed decisions.

Safeguards to Address the Transfer of Securities of the Investors

A large number of representations were received from investors relating to transfer of securities from Beneficiary Owners' (BOs) Account without proper authorisation. Accordingly, the DPs were instructed to put in place adequate safeguards.

Policy Initiatives for Derivatives

Procedure for re-introduction of derivatives contracts and modified position limits were reviewed by the Secondary Market Advisory Committee (SMAC). Further, based on a decision taken by SEBI Board, Derivatives Market Review Committee was set up to carry out a comprehensive review of developments and to suggest future directions for derivatives market in India.

Corporatisation and Demutualisation (C & D) of Stock Exchanges

SEBI notified Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006 on November 13, 2006, whereby the recognised stock exchanges were directed to ensure that at least 51 per cent of its equity share capital is held by public, either by fresh issue of equity shares to the public, through issue of prospectus or through (i) offer for sale, (ii) placement of shares to institutions, (iii) issue of equity shares on private placement, and (iv) any combination of the above.

III. Mutual Funds

Rationalisation of Initial Issue Expenses and Dividend Distribution Procedures

To contain frequent churning in mutual fund schemes, close-ended schemes were permitted to charge initial issue expenses to the scheme while open-ended schemes can charge only entry load for the purpose of meeting the expenses connected with sales and distribution of schemes. Dividend distribution procedures were also specified by SEBI. Notice to be issued to public within one calendar day of the decision by the trustees on dividend distribution.

Undertaking from Trustees for New Scheme Offer Document

To address concerns regarding launch of similar products, mutual fund trustees were directed to certify that the scheme approved by them is a new product and it is not a minor modification of existing scheme/product.

Investment in ADRs/GDRs/Foreign Securities and Overseas Exchange Traded Funds (ETFs)

Following the Finance Bill 2006-07 and subsequent raising of limit by RBI, the maximum ceiling for individual mutual funds to invest in ADRs/GDRs issued by Indian companies, equity of overseas companies listed on recognised stock exchanges overseas and rated debt securities was raised from USD 50 million to USD 100 million. Subsequently, the limit was further raised to USD 150 million. Mutual funds were also advised to appoint a dedicated fund manager for making such investments.

Introduction of Capital Protection Oriented Schemes

SEBI (Mutual Funds) Regulations, 1996 were amended to permit launch of Capital Protection Oriented schemes.

Uniform Cut-off Timing for Applicability of Net Asset Value (NAV)

Following the various systemic changes made by RBI in money market the cut-off timings for applicability of NAV, in case of purchases and redemptions of liquid schemes, were revised.

Dispatch of Statement of Accounts

SEBI directed mutual funds to dispatch the statement of accounts to the unit holders under Systematic Investment Plan (SIP) / Systematic Transfer Plan (STP) / Systematic Withdrawal Plan (SWP) once every quarter ending March, June, September and December, within 10 working days of the end of the respective quarter. SEBI also advised mutual funds to provide statement of accounts to the unit holders, who have not transacted during the last six months, to ensure better information dissemination.

Launch of Gold Exchange Traded Funds (GETFs)

SEBI amended SEBI (Mutual Funds) Regulations, 1996 to specify the methodology for valuation of gold for the purpose of GETFs.

Accordingly, the gold held by a GETF scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to prescribed adjustments. Two GETF schemes were launched during the year, offering investors better diversification opportunity.

Real Estate Mutual Fund

SEBI Board approved the draft guidelines for Real Estate Mutual Funds (REMFs). REMF means a scheme of a mutual fund which has investment objective to invest directly or indirectly in real estate property and shall be governed by the provisions and guidelines under

SEBI (Mutual Funds) Regulations.

IV. Foreign Institutional Investors (FIIs)

Investment in Debt Securities

The investment limit for FIIs in Government Securities (including Treasury Bills) was raised from USD 2 billion to USD 2.6 billion by RBI. The list of eligible investment categories of FIIs was enlarged to allow more participation in Indian securities market.

V. Regulatory Development

The following rules were rescinded during 2006-07:

- SEBI Intermediary Rules (Stock Brokers and Sub-brokers, 1992; Merchant Bankers, 1992; Underwriters, 1993; Portfolio Managers, 1993; Debenture Trustees, 1993; Registrars to an Issue and Share Transfer Agents, 1993 and Bankers to an Issue, 1994).
- Amendment to SEBI (Procedure for Holding Inquiry and Imposing Penalty by Adjudicating Officer) Amendment Rules, 1995, to provide for appointment of presenting officer by SEBI in adjudication proceedings.

The following Regulations were framed during 2006-07:

- SC(R) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006
- SEBI (Regulatory Fee on Stock Exchanges) Regulations, 2006

During 2007-08

I. Primary Securities Market

A. Introduction of Fast Track Issues (FTIs)

Fast Track issues has been introduced to enable well established and compliant listed companies to access Indian primary market in a time effective manner through follow-on public offerings and rights issues on satisfying certain specified requirements to make Fast Track Issues (FTIs).

B. Amendments To Equity Listing Agreement

1. Insertion of New Clause 43A

New Clause 43A has been added to the listing agreement, requiring the companies to file deviations in the use of public issue proceeds and to appoint monitoring agency to monitor utilisation of proceeds etc.

2. Clause 49

Clause 49(sub Clause (II)(D) and (IV)(D) has been amended covering the following:

- a. The issuer company is required to place the monitoring report in respect of utilisation of issue proceeds filed with it by monitoring agency before the Audit Committee.
- b. The issuer company shall be required to inform material deviations in the utilisation of issue proceeds to the stock exchange.
- c. The issuer company is required to make the material

deviations/ adverse comments of the Audit Committee/Monitoring Agency public thorough advertisement in news papers.

3. Insertion of New clause 52

- a. SEBI has decided to phase out EDIFAR gradually in view of a new portal viz. Corporate Filing and Dissemination System (CFDS) put in place jointly by BSE and NSE at the URL www.corpfiling.co.in.
- b. Accordingly the listed companies are required to file information with the stock exchange only through CFDS.
- c. The compliance officer, appointed under Clause 47(a) and the company shall be responsible for ensuring the correctness, authenticity and comprehensiveness of the information, statements and reports filed under this clause and also for ensuring that such information is in conformity with the applicable laws and listing agreement. [Clause 52(1)(b)]

C. Grading of IPO has been made mandatory.

II. Secondary Securities Market

A. Short selling and securities lending and borrowing

In order to provide a mechanism for borrowing of securities to enable settlement of securities sold short, it has also been decided to put in place a full-fledged securities lending and borrowing (SLB) scheme for all market participants in the Indian securities market under the over-all framework of “Securities Lending Scheme, 1997”

B. Introduction of mini derivative (Futures & Options) contract on Index (Sensex & Nifty)

Mini derivative contract on Index (Sensex and Nifty) with a minimum contract size of Rs. 1 lakh at the time is introduced.

C. PAN has been made as the sole identification number for all transactions in the securities market.

III. Mutual Funds

— Waiver of load for direct applications

— No entry load will be charged for direct applications received by the Asset Management Company (AMC) i.e. applications received through internet, submitted to AMC or collection centre/Investor Service Centre that are not routed through any distributor/agent/broker.

IV. Regulatory Developments

A. Guidelines for consent orders for considering request for composition of offences has been introduced.

B. Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 introduced.

LESSON ROUND-UP

- As a natural corollary of the liberalization and globalization, the Indian Capital Market has undergone a sea change in terms of innovations, growth and de-regulation.

- New reforms by SEBI in the primary market include improved disclosure standards, introduction of prudential norms and simplification of issue procedures.
- SEBI has brought various rules and regulations for control of primary and secondary market.
- New issue procedures were introduced. • Compulsory trading in dematerialized form introduced.
- Facility of buy-back of securities by listed companies introduced.
- Internet trading under order routing system permitted.
- Various derivative products were introduced and expanded.
- Process of demutualization of regional stock exchanges initiated.

FOOTNOTES

* Compiled on the basis of Annual Reports of the SEBI. For updated position of various developments, the students are advised to read this study lesson in conjunction with latest developments on the subject.