CHAPTER IV

GOVERNMENT AND SEBI POLICIES RELATED TO THE STOCK MARKET
CHAPTER IV

GOVERNMENT AND SEBI POLICIES RELATED TO THE STOCK MARKET

4.1 Introduction

The economic reforms in 1991 changed the face of Indian economy. The new industrial policy 1991 gave the major impetus to industrialization in private sector. The structural reforms even by 1992-93 could not bring down inflation nor improve balance of payment situation. But there was silver lining as industrial growth picked up, FDI flows increased and exports increased. Hence government deepened and widened the reform process in 1992-93 in the areas of fiscal, monetary exchange rate and trade policy. The irregularities in securities trading leading to multi Crore securities scam damaged liquidity in banks and temporarily raised questions of confidence as existing regulatory body was fragmented, ill coordinated and inadequate. Government thought of a vigilant regulatory body and efficient watchdog. (Hence Security Exchange Board of India) SEBI came as solution to this answer.

4.2 SEBI

On 12 April 1998 the SEBI was established through an administrative order; however it became a statutory and really powerful organization only since 1992. The Capital Issue (Control) Act CICA was repealed and the office of the Controller of Capital Issues (CCI) was abolished in 1992, and the SEBI was replaced by the SEBI Act on 4 April 1992. Certain powers under certain sections of Securities Contracts (Regulation) Act (SCRA) and Companies Act (CA) have been delegated to the SEBI. The regulatory powers of the SEBI were increased through the Securities Laws (Amendment) Ordinance of January 1995 which was subsequently replaced by an Act of Parliament. The SEBI comes under the Ministry of Finance, its head office is at Mumbai. It is now a very important constituent of the financial regulatory framework in India.
4.2.1 Preamble

The preamble of the securities and exchange board of India describes the basic function of the securities and exchange board of India as

“...To protect the interests of investors in securities and to protect the development of, and to regulate the securities market and for matters connected therewith.”

**SEBI is managed by the board**

The board consists of the following members, namely:-

1) A chairman
2) Two members from amongst the officials of the Central Government
3) One member nominated amongst the officials of the Reserve bank
4) Five other members of whom at least three shall be the full-time members

4.2.2 Objectives of SEBI

The important objectives of SEBI are;

1. To protect the interests of investors in securities;
2. To promote the development of securities market;
3. To regulate the securities market and
4. For matters connected therewith or incidental there to.

4.2.3 Functions of SEBI

The important functions of SEBI are classified into two, i.e. regulatory and development functions

1. **Regulatory Function;**
   a) Regulating the business in stock exchanges and any other securities markets;
   b) Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issues, merchant bankers, underwriters, portfolio managers, investment advisers and such
other intermediaries who may be associated with securities markets in any manner;
c) Registering and regulating the working of mutual funds.
d) Promoting and regulating self-regulatory organization.
e) Prohibiting fraudulent and unfair trade practices relating to securities markets;
f) Prohibiting insider trading in securities.
g) Levying fees or other charges for carrying out the purposes of SEBI.
h) Inspecting of any books, registers and other documents of any person referred.
i) Suspend the trading of any security in a recognized stock exchange.
j) Restraining persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities;
k) Retain the proceeds or securities in respect of any transaction which is under investigation.

2. Developmental functions;
   a. Promoting investor’s education and training of intermediaries of securities markets;
b. Conducting research and publishing information which is useful to others
d. Promoting self regulatory organizations.
e. Discovery and production of books of account and other documents.

4.2.4 Regulation of stock market prior to establishment of SEBI

Companies Act, 1956

The important objective of the Securities Contracts Regulation Act (SCRA) was to regulate the working of stock exchanges or secondary market with the objective of building a healthy investment market by to prevent undesirable transactions or speculation in securities market. SCRA empowers the government of India to recognize and derecognize the stock exchange, to stipulate laws and by-laws for their functioning, and to make the listing of securities on stock exchanges by public limited companies (PULCOs) mandatory. It prohibits securities
except spot delivery contracts can be entered into only between and through the members of recognized stock exchanges. It prescribes conditions or requirements for listing of securities on the recognized stock exchanges. It empowers the government of India to super cede the governing bodies of stock exchanges, to suspend business on recognized stock exchanges, to declare certain contracts illegal and void under certain circumstances, to prohibit contracts in certain cases, to license the security dealers, and to lay down penalties for contravention of the provisions of the Act. It was administered by the Ministry of Finance, Department of Economic Affairs, Government of India

**Capital Issues (Control) Act, 1947**

It was administered by the Controller of Capital Issues (CCI) in the Ministry of Finance, Department Of Economic Affairs, and Government of India. While the DCRA mainly regulates the secondary market, the CICA mostly regulated the primary or new issue market for securities.

4.3 SEBI Policies to strengthen Primary and Secondary Securities Market in 1992-93

Capital market got a big push with the introduction of 1991 new economic reforms. It was further intensified with the SEBI getting statutory status on 2 April 1992. The controller of Capital issues (CCI) was abolished with a view to have SEBI as a single agency to regulate and develop Capital Market in India. The regulatory and development functions of SEBI are interlinked as it regulates to boost the development of Capital Market.

4.3.1 Primary Security Market

The Capital Issues (Control) ACT, 1947 was repealed on 13 May 1992, due to which the issuers of Securities could raise the capital from the market without seeking the prior consent of the Central Government and to freely price such Securities.

SEBI issued guidelines for disclosure and investor protection which made the issuer to adhere to it, before raising the Capital from the market. The guidelines also covered the eligibility norms for making issues of Capital (both public and rights) at par and at a premium by various types of companies, for example first issues of new companies, first issues by existing
private or closely held companies and by existing listed companies, issues of fully or partly convertible and nonconvertible debentures, reservation in issues and measures for protection of debenture-holders. SEBI Vetting the offer documents ensured that fair and complete disclosure is made in the offer documents. The issues and intermediaries also gradually accustomed to free pricing regime (Market Pricing Regime). SEBI also took may other measure for Investors protection. The important among them are streamlining the Investor complaints handling system within SEBI and smoothening the procedure for the Stock Investment. Due to all these efforts the Primary Market recorded a phenomenal expansion during the year as 1236 offer documents raised the Capital of Rs. 27198 cores vetted by SEBI during the Year.

4.3.2 Secondary Securities Market

SEBI initiated wide ranging reforms in the Secondary Market. These reforms were in the areas of increased trading hours, weekly settlement of the trade in the non-specified shares, transparency in the broker-client relationship, capital adequacy norms for brokers, corporate membership on the Exchanges, restructuring of the Governing Boards and compulsory audit of broker books. The Brokers and Sub-brokers were brought under the regulatory purview for the first time. The dual registration of the brokers with SEBI and the Stock Exchanges and registration of sub-brokers were important steps towards protecting the interest of the investors. SEBI issued registration certificates to over 5000 brokers by the end of the financial year 1992—93. Conducted enquiry into the affairs of 2 Stock Exchanges and inspected 6 stock exchanges during the period.

4.3.3 Foreign Intuitional Investment

In order to globalize the Capital Market, the Government allowed Foreign Institutional Investors (FII) such as Mutual Funds, Pension, Investment Trusts, Asset Management Companies to invest in tradable securities in the Primary and Secondary markets under the Guidelines issued by Government in September 1992. These FII are required to be registered by SEBI under these Guidelines 18 FIIIs were registered by SEBI by end March 1993.
4.4 SEBI Policies to strengthen Primary and Secondary Securities Market in 1993-94

Government further consolidated the economic reforms in 1993-94 with the process of macro stabilization (reduction in fiscal deficit) and micro restructuring (aimed at fostering competition). The benefit of the reform was visible on external sector. Export grew by 19.9 percent in dollar terms. All the same time imports declined by 1.3 percent in first nine months of 1993-94. Trade deficit reduced to US $ 1000 million in 1993-94 against US $ 4100 million in 1992-93. The deficit on current account in 1993-94 was reduced to 0.5 percent of GDP compared to 2.1 percent in 1992-93.

Primary Market

The primary market also gained further momentum during 1993-94. The important development was that public sector banks, public sector enterprises in infrastructure and power sector were permitted to for the first time draw capital directly from the market. This contributed expanding the size and market capitation of the equity market. The year also witnessed diversification in terms of instrument with the introduction of floating rate notes, deep discount and hybrid bonds.

The stock market which was low in the first quarter of 1993-94 picked up in second peak at 4286.20 and finally closing at 3778.99 by the end of financial year of 1993-94.

SEBI introduced several reforms in the issue process during the year namely:

1) SEBI introduced disclosure requirement in offer documents which included disclosures on technology, market potential and projections of future growth of reserves and profits from the projects

2) In order to overcome counter the problems of multiple applications and grey markets in public issues and SEBI introduced proportional allotment of shares in primary issues in
October 1993. The practice of allotment of oversubscribed issues on a weighted basis, in favor of applications for smaller numbers of shares was discontinued.

3) The minimum amount for applying in public issues for longer period had remained at Rs. 1,000 i.e. 100 shares of Rs. 10 at par. This raised to Rs. 5,000 i.e. 500 shares of Rs. 10 at par or such other appropriate number in the case of issues made at a premium.

4) The prevailing procedures made it a obligation to price the issue at the time of filing of draft offer documents to SEBI for vetting. As considerable time often elapsed between this stage and the opening of the issue on account of the procedures involved, early pricing of issues often led to offer prices being not always aligned to market conditions close to the issue date. Hence SEBI ennobled issues to price their issues closer to the issue date, SEBI allowed merchant bankers to indicate a price band in the draft offer submitted to SEBI, instead of specifying the issue price. The issue price has to be specified in the final offer document.

5) With effect from December 1, 1993, issuers were allowed to reserve certain portions of the issues for institutional investors, viz. mutual funds, financial institutions and FIIs registered with SEBI either on the basis of competitive reservation or firm allotment.

6) SEBI laid down the norms for minimum promoters contribution for public and rights issues. These norms were relaxed for promoters contribution in issues made at a premium for highly capital intensive projects. Besides, from August 1993, however, the rates were introduced for promoters contribution varying with project size while maintaining the minimum aggregate promoters contribution at 21 percent of the expanded capital. The minimum contribution of individuals in the category of ‘friends, relatives, etc.’ included as a part of promoters’ contribution was reduced from the existing level of Rs. 50,000 to Rs. 25,000.

7) In order to ensure observance of fair and proper allotment procedures in oversubscribed public issues, SEBI nominated representatives to oversee with the process of finalization of basis of allotment.

8) Since October 8, 1993, securities and exchange board of India (underwriters) rules and regulations were notified in terms of which no person could be associated as an underwriter to an issue unless he is registered with SEBI.
Secondary Securities Market Reforms

The important reforms initiated by SEBI are:-

1) SEBI took recourse to its powers conferred under section 8 of the Securities Contracts (Regulation) Act, 1956, and directed the stock exchanges to amend their rules and articles of association. The restructured governing board were board based and consisted of an equal number of elected member directors and non-elected directors who are public representatives, apart from the executive director of the exchanges, who has a seat on the board and is required to be a non-broker professional.

2) The statutory committees of the stock exchanges consisted of arbitration committee, defaulter’s committee and disciplinary committee used to comprise only members of exchanges. In order to board base these committees, SEBI directed the stock exchanges to amend their bye-laws. The reconstituted committees would now comprise 40 percent member-broker and 60 percent public representatives.

3) SEBI directed the stock exchanges to introduced capital adequacy norms for brokers which comprised two components namely, base minimum capital. The base minimum capital was required to be maintained irrespective of the volume of business of the broker while the additional capital was linked to the volume of business

Foreign Institutional Investment

On September 14, 1992 the Government of India issued the guidelines permitting foreign institutional investors such as mutual funds, investment trusts and asset management companies to invest in primary and secondary markets in India. FIIs picked up from August 1993, and accelerated through October, tapering off slightly from February. At the end of March 1994, the number of FIIs registered with SEBI had risen to 158, and their cumulative net investment stood at US$ 1.66 billion.
4.5 SEBI Policies to strengthen Primary and Secondary Securities Market in 1994-95

The general economic environment and the investment climate improved in 1994-95. The industrial production increased by 8 percent, exports grew 18.3 percent (in Dollars terms) export import ratio climbed to 90 percent, food grain production reached 185 million tones and FOREX increased USD20.8 billion. Six million new jobs were created, current account deficit declined to 0.7 percent of GDP, the net foreign Portfolio inflows on account of foreign Institutional investor issues of GDR and off shore increased to USD3.8 billion. The important development was the equity flow constituted higher percentage of their flow, as net FII grew significantly for the entire year.

RBI also initiated financial sector reforms. The government proposed Rs. 5600 crore for recapitalization of less profitable nationalized banks. The Indian banking act was amended to enable the commercial banks to approach capital market. The Board of Financial Supervision started function from November 16, 1994. The defaulters list would be circulated amongst the banks and financial institutions. New guidelines covering prudential and income recognition norms, accounting standards, provisioning for doubtful debts, capital adequacy, credit/investments diversification norms and credit rating, were issued for non-banking financial companies.

Securities Markets Reforms and Additional Powers to SEBI

The reforms in securities markets continued in 1994-95 also, which aimed at 1) improving market efficiency, 2) enhancing transparency, 3) checking unfair trade practices and 4) raising Indian securities markets to international standards. At the Same time SEBI also tried to attain twin objective namely,

1) Protecting the investors and
2) Developing the capital markets. Section 20 of the securities Contract (Regulation) Act 1956 was deleted which allowed establishing derivative exchanges in India.
Primary Market

The reforms in Primary Market enabled to tighten the disclosure norms. Shri. Y.H. Malegam was appointed as chairman to an expert committee to look into disclosure norms and issue procedure underwriting was made optional. Another high powered committee was formed under the chairmanship of G S Patel an Stock Market Reforms.

SEBI took various measures for development of mutual funds,

SEBI continued its efforts to improve the investor’s protection in Primary Markets through:-

1) Better disclosure of relevant information about the issues
2) Reduce the cost of raising funds from Indian Securities Market

SEBI regulates Primary Markets through the registered Primary Market Intermediaries, who ensure compliance with its guidelines. diligence certificate is made the part of the offer document in order to ensure transparency and sought out pricing issues in the process of preferential issues issued detailed guideline on pricing under section 81(1)(A) of the Companies Act, 1956. The Important guidelines are:-

1) Preferential issues were not to be made at a price less than the higher of two averages, the weekly high and low prices of related shares in the 6 months preceding the relevant date and average.
2) An upfront payment of 10 percent of the price fixed was required in case of issues of warrants. This amount is to be forfeited if the option of acquiring the shares is not exercised.
3) Any financial instrument with a provision for allotment of equity shares at a future date should not have a currency period of more than 18 months.
4) Such the allotted preferential securities should be locked in for a period of 5 years.
If the proposed investment exceed Rs. 50,000 the Permanent Account Number (PAN or General Index Register (GIR) was made mandatory. Similarly the mention of savings current account number was made mandatory in application forms for subscription to the public issue. The underwriting was made optional with a view to reduce cost.

Secondary Market

Many changes were made by the SEBI to regulate the function of Secondary Market.

These involved

1) SEBI encouraged membership of Stock Exchanges
2) Allow the foreigner be on the boards of Director of Corporate Booking firm.
3) The listing agreement was amended to make companies furnish to the stock exchanges the yearly statement on the actual utilization of function and actual profitability and to disclose the same details in newspapers with audited and unaudited results.
4) To grant recognition to stock exchanges and to renew or withdraw recognition

4.6 SEBI Policies to strengthen Primary and Secondary Securities Market in 1995-96

Economic environment further improved with the strengthening of economic reforms GDP grew marginally to 6.5 percent savings as a proportion to GDP increased to 25.7 percent, industries grew by 12 percent agriculture grew by 4 percent, exports grew by 24 percent current account deficit remained at 1.5 percent ratio of eternal debt to GDP fell to 29 percent from 41 percent, the inflation on average basis was 7.7 percent.

Primary market

The important reforms in primary market are discussed in this section.

SEBI had appointed expert committee under the chairmanship for improving the disclosure standards the committee submitted its repos during 1995-96. SEBI accepted the report and implemented during the year. The main recommendations implemented are:-
1) Unlisted companies which are in commercial operation for more than 2 years and whose post issue paid up capital is Rs. 3 core or more, but less than Rs. 5 crore, are eligible for listing only on those stock exchanges where trading of securities is screen based.

2) In the offer document Disclosures regarding expenditure incurred on the project before filing the offer document with SEBI for and proposed to be incurred at later stages is required to be made. The means and source of financing such expenditure are required to be stated.

3) Issuers are required to disclose details of ‘bridge loans’, which were to be repaid from the proceeds of the issue.

4) Issuers were also required to specify details of ‘turnover’ reported in their profit and loss statement.

5) Issuers in the asset and liability statement, were required to deduct ‘revaluation reserves’ from ‘fixed assets’ and from ‘reserves’; and the net worth is required to be arrived at after such deduction.

6) Issuers are required to give details of the shareholding in the issuer company of promoters, and directors of the promoter, where the promoter is a body corporate, as well as details of the transactions by promoters and directors of the promoter in the six months preceding the date of filing of the offer document with SEBI.

7) Issuers are required to give details, inter alia, of technical or financial collaborators, buy back arrangements. Largest shareholders, group companies, the basis for issue price, financial information, accounting ratios and other income.

8) The advertisement code for issues was strengthened to prevent issuers and intermediaries from misleading investors. No corporate advertisement were allowed to be issued between the date of issue of acknowledgement card by SEBI and closure of the issue and the announcement of closure of issue can only be made after getting a certificate from the registrar to the issue that at least 90 percent of the issue has been subscribed.

9) The lead manager to an issue is required to furnish due diligence certificates at five different stages of the issue process.

10) Issuers are required to furnish a list of the persons constituting the promoters of promoters’ group to SEBI.
11) Wherever, statement of assets and liabilities, profit and loss or any other financial information is qualified by the notes of an auditor, all necessary adjustments, wherever quantification is possible, shall be made in the statement itself.

In addition, SEBI also took several measures to simplify the issue process.

Increasing transparency in issues-public access to draft prospectus

In order to enhance the transparency in public issues, the offer document is now a public document even at the draft stage, as soon as it is filed with or submitted to SEBI so that prospective investors and market participants have sufficient time to bring any adverse feature to the notice of SEBI, before the issue opens for subscription. Lead managers and stock exchanges have been instructed to make copies of the draft prospectus available to the public. Such copies can also be obtained from SEBI.

The companies which approached primary market to accumulate more capital was laid eligibility criteria, to improve the quality of issues.

1) In order to issue the first issue to public, company must have good dividend paying track record for at least 3 years.

2) In case if a company do not satisfy the first criteria, it can make the first issue of capital to public provided has to appraised by a public financial institution/commercial bank with participation of at least 5% of the project cost

3) A listed company desirous of making further issue of capital to public and whose equity capital after the issue becomes more than five times the equity capital prior to such issue would have to satisfy the criteria at 1 or at 2 above.

SEBI also simplified the issue process, also it took several steps to it namely:-

1) SEBI dispensed with the requirement of vetting of public issues of listed companies offering pure debt instruments having at least an ‘adequately safe’ credit rating.
2) SEBI also dispensed with the requirement of vetting of rights issues (not accompanied by public issue three months prior or subsequent of the rights issue). Merchant bankers are required to ensure compliance with SEBI rules, regulations, guidelines and requirements of other laws in this respect.

3) The mandatory collection centers for the issues up to Rs. 10 crore were reduced. Along with 4 metropolitan centers, Mumbai, Delhi, Calcutta and Madras the stock exchange centers were recognized as mandatory collection centers.

The employee’s quota which earlier was limited to 200 shares per employee was removed. But the reservation to employees in public issue should not exceed 10% of the size of issue.

The listed companies are permitted to issue securities to employees under employee Stock Option Scheme (ESOPS) subject to two main conditions namely:-

1) Issue of securities to employees under ESOPS should not exceed 5 percent of the paid up capital of the company in any one year, and
2) Pricing of securities should be in accordance with formula contained in SEBI preferential offer guidelines dated August 4, 1994. The companies were given freedom to devise further details of the ESOPS including the terms of payment.

**SEBI in order to safeguard investor’s introduced**

1) System of proportionate allotment. It helped to reduce issue costs for large issues where institutional investors were expected to play a major role in subscribing to the issues. It also addressed the issue of need of small investors as SEBI reserved minimum 50 percent of the net offer to public for individual investors applying for securities not exceeding 1000 and the remaining part of the offer for applications for more than 1000 securities.

2) The number of shares which could be bought back from the original allottees upon listing as a ‘safety net’ has been increased from 500 shares to 1000 shares.

3) Ceilings for different categories for allotment on firm or preferential basis have been removed, except the ceiling of 10% applicable to employees as well as to shareholders and the ceilings specified by the Government and regulatory authorities(fors NRIs/FIIs
etc.). Lead managers have been allowed to take up to 5 percent of the proposed issue of securities on firm basis.

4) Development Financial Institutions (DFIs) have been allowed to utilize the moneys raised by them through public offerings, especially of debt instruments, even before allotment of the instruments and/or listing of the instruments, enabling more effective use of funds.

**Secondary Securities Market**

The improvement and strengthening of market infrastructure, improvement in the quality of intermediaries and in the structural framework within which the stock exchanges and their members function are important for the development of secondary markets. SEBI introduced many measures to strengthen the administration and management of stock exchanges. The governing boards of exchanges have been reorganized and broad based, so that they represent different interests, and not just the interests of their members.

SEBI extended its inspection activity and carried out inspections of all 22 stocks exchanges to review the functions of the exchanges and to determine, inter alia, the extent of compliance the directives issued by SEBI. SEBI met the officials of all exchanges to take stock of progress by the exchanges on the issues which SEBI had raised from time to time by December 1995.

Automation of trading and post trade processing.

Computerized or screen based trading is essential to the achieve transparency, more efficient price formation, and reduction in transaction costs. Screen based trading allowed to access stock exchange even without participating physically in market. Screen based trading also helped to establish audit trails and monitor abnormal price variations. The national stock exchange of India and the over the counter the exchange of India had already introduced computerized on-line trading facilities prior to 1995-96. The remaining stock exchanges were advised by SEBI to work out a definite programme to introduce screen based trading.
Clearing and settlement

SEBI insisted that the stock exchanges should improve their clearing mechanism. Hence the stock exchanges have been directed to undertake the following.

1) A stock exchange should either establish a clearing house or a clearing corporation
2) An inter-exchange co-ordination group of the stock exchanges, set up by SEBI, is to evolve uniform norms for good and bad delivery and the procedure for rectification of the same.
3) In case of bad delivery because of fake or stolen shares, the last buying broker is to send the bad delivery for rectification directly to the introducing broker through the concerned stock exchange and the exchange to which the introducing broker belongs would take necessary action against the introducing member. The stock exchange to which the introducing broker belongs is to ensure that the broker files the necessary First Information Report (FIR) with the police.

The reduction of settlement cycles was done in Mumbai stock exchange. It was decided that trading period of 14 days for ‘B’ group shares would reduce the same to 7 days.

In order to protect the investor, SEBI improved investor service. Hence SEBI initiated grievance cell where grievances against brokers would be redressed. SEBI in order to boost investor’s confidence also tried to check the fraudulent practices. Hence SEBI instructed the exchanges to setup independent and focused market surveillance department in every stock exchange

4.7 SEBI Policies to strengthen Primary and Secondary Securities Market in 1996-97

The impact of reforms on output, investment and growth had begun to show its effect. The GDP grew by 7.8 percent. There was overall development in all the three sectors as agriculture grew by 8.8, Industry grew by 7.7 and Services declined marginally to 7 percent. The Gross Domestic Savings reached new peak of 25.6 percent GDP in 1995-96. The imports grew by 6 percent USD million 38, 548.
Primary Security Market

The important measures taken by SEBI to strengthen Primary Security Market are:-

Eligibility Criteria:- the important changes in the eligibility criteria during the year were.

1) The corporate bodies with a track record of dividend payment for at least 3 years out of preceding five years only allowed to access the securities markets for raising capital through equity or instruments to be converted into equity; however through a subsequent modification, payment of dividend by cash not allowed to be considered for the purpose of this eligibility criteria.

2) The term "track record" of dividend payment defined to mean that the dividend must have been declared in the relevant year itself.

3) A manufacturing company without the three year track record of dividend payment allowed to access the securities market if its project has been appraised by a public financial institution or a scheduled commercial bank and the appraising agency participates in the project by way of loan or equity to the extent of minimum 10% of the project cost Subsequently these norms made applicable to all types of companies.

4) Banking companies which had received approval or license from RBI on or before April 16, 1996 and public sector banks exempted from the entry norms.

5) Public sector banks given relaxation from pricing norms. They could freely price their shares on the basis of two years profitability as against three years track record of consistent profitability for other issuers. These changes were made as banks are regulated by the Reserve Bank of India.

6) A listed company making a further issue of capital to the public, so that its expanded equity capital after the offer becomes more than five times the equity capital prior to the offer, also required to satisfy either the criteria of 3 year dividend payment track record or appraisal of and financial assistance to the project and by a scheduled commercial bank/ public financial institution.
Secondary Securities Market
The important measures taken by SEBI in 1996-97 in the secondary market are:-

1) Mark to market margin system

To ensure integrity and safety of the markets, SEBI advised all the exchanges to introduce daily mark to market margin system and to collect scrip wise, 100% of marked to market notional loss of a broker on a daily basis. This margin is in addition to any other margin that the exchange may be levying and is collected in cash/bank guarantee without netting gain or loss across scrips. The effectiveness of the measure was tested out during the periods of volatility witnessed by the securities markets in early 1997.

2) Price band

To curb undesirable volatility, all exchanges were required to fix uniformly the daily price band at 10% and a weekly overall limit of 25%. However in case of scrips up to the value of Rs. 20, the price bands could be decided by the stock exchanges. The price band would be calculated on the basis of the closing price of the scrip on the previous day, which will be the weighted average price of the last half hour of trading in the scrip on that exchange.

3) Intra-day trading limits

The exchanges were also advised to impose intra-day trading limits on brokers commensurate with their base minimum capital. This limit calculated on a gross basis is 33 1/3 times the base minimum capital of the broker. To trade in excess of this limit, a broker would be required to deposit additional capital with the exchange which cannot be withdrawn for a period of one month. With this the capital adequacy requirement is 3%.

4) Enhancement of base minimum capital for stock brokers

To ensure adequacy of the capital base of stock brokers, SEBI required all the stock exchanges to double the amounts prescribed for the base minimum capital for brokers from January 1996. This amount now stands at Rs.10 lakh for members of the Mumbai and
Calcutta stock exchanges, Rs.7 lakh for brokers who are members of the Delhi and Ahmedabad stock exchanges and Rs.4 lakh for brokers on the remaining exchanges in the country.

5) Establishment of bad delivery cell (BDC)

The process of rectification of bad deliveries from broker to broker was lengthy and gave rise to problems especially in cases of trades involving brokers from different exchanges. Also, there was no time limit in which the investor was assured of rectification/replacement of his shares as the stock exchanges were not handling the bad deliveries.

SEBI directed stock exchanges to establish BDCs and has prescribed the operational procedure for the functioning of BDCs. This procedure has made possible the rectification/replacement of shares within 21 days of receipt of bad deliveries by the introducing member. In case the rectified shares come under objection for the second time, the transaction is closed out. A training program for the officers of the stock exchanges was also conducted by SEBI to train them for the smooth functioning of the BDCs.

4.8 SEBI Policies to strengthen Primary and Secondary Securities Market in 1997-98

The economic activity in 1997-98 took a little back foot as industrial growth declined to 4.2 %, agricultural sector declined to 3.7 % and as a result the growth rate fell to 5 %. Despite this the total gross domestic savings increased to 26.1 % of GDP at current market prices. The economic scenario reflected in primary market too as it should downward trend with the capital declining to Rs. 4, 569.95 crore in 1997-98 from Rs. 14, 275.98 crore in 1996-97. The BSE Sensex which rose from 3755 in May 1997 to high of 4306 in July 1997 and declined to 3224 in January 1998 before climbing to 3893 in March 1998. The financial crisis in the Asian markets had limited impact on the prices on the Indian stock exchanges and on the foreign portfolio flows during the year. The Indian securities markets functioned uninterrupted without trading halts or broker defaults.
Primary Securities Market

In order to strengthen the Primary Securities Market, SEBI undertook many initiatives of which simplification and streamlining of issue procedure and introduction of collective investment schemes were important;

The important steps undertaken by SEBI are:-

1) Generally the equity were required to be listed first before the debt instruments were listed on stock exchanges as per rule 19(2) of securities contracts (regulation) rules 1957 SEBI exempted the infrastructure companies and municipal corporations from the requirement and allowed it to list equity first as they here a long gestation period.

2) SEBI till 1997-98 had restricted the facility of book building to 75 percent of the issue size. This was extended to entire issue sizes which propose to make an issue of capital of above Rs. 100 Crore.

3) Amendments to SEBI (Merchant Bankers) Regulations, 1992 were made. Only body corporate were allowed to function as merchant bankers.

4) Multiple categories of merchant bankers viz. Category II,III and IV was abolished and henceforth there will be only one category of merchant bankers. The merchant banker would now be required to seek separate registration if they wish to act as underwriter or portfolio manager.

5) Merchant bankers were prohibited from carrying on fund-based activities other than those related exclusively to the capital market. In effect, the activities undertaken by NBFCs such as accepting deposits, leasing, bill discounting etc. would not be allowed to be undertaken by a merchant banker.

6) The SEBI (Registrars to an Issue and Share Transfer Agents) Regulations 1993 were amended to provide for an arms length relationship between the issuer and the Registrar to the Issue. It has been stipulated that no registrar can act as registrar to any issue of securities made by anybody corporate, if the Registrar to the Issue and the Issuer are associates.

7) In November 1997, the Central Government decided that entities which issue instruments such as agro bonds, plantation bonds etc. and the schemes through which such
instruments are issued would be treated as collective investment schemes coming under the provisions of the SEBI Act, 1992 and would be regulated by the SEBI.

**Collective investment schemes:**

1) The Government of India vide its press release dated November 18, 1997 directed that entities which issue instruments like agro bonds, plantation bonds etc. would come under the regulatory purview of Securities and Exchange Board of India. Such entities were to be treated as "Collective Investment Schemes" coming under the provisions of Sec.11(2)c of the SEBI Act.

2) Under the proviso to section 12(1)B, the existing schemes were allowed to continue subject to their submitting the information about their schemes with offices of SEBI and complying with code of advertisement as prescribed in the SEBI guidelines on Disclosure and Investor Protection

3) In order to frame the regulations for collective investment schemes, a committee was appointed by the SEBI under the Chairmanship of Dr. S.A. Dave.

4) In response to the Public notice issued by the SEBI, 478 entities who were mobilizing funds under collective investment schemes filed the details of their schemes with SEBI till March 31, 1998. As gathered from the documents filed with the SEBI, the total amount mobilized by these schemes works out to approximately Rs. 2,500 crore.

**Secondary Securities Markets**

SEBI consistently tried to promote efficient and fair market. It tried to improve integrity and credibility. The measures taken by SEBI in 1997-98 are:-

SEBI in order to enhance market safety decided that the SEBI decided that the upper limit for gross exposure of the member brokers of the stock exchanges would be fixed at 20 times the base minimum capital and additional capital of the member brokers. Gross exposure is the sum total of overall open positions of a broker. This was in addition to the existing intra-day trading limits of 33 1/3 times the base minimum capital and the additional capital of the broker, which were implemented by all the stock exchanges in the previous year.
One of the shortcomings of the clearing and settlement process of the Indian stock markets was the absence of a system to reduce counter-party risk. In order to manage the risk SEBI initiated trade or settlement guarantee fund. The principal objective of this Fund is to provide the necessary funds and ensure timely completion of settlements in cases of failure of member brokers to fulfill their settlement obligations. The SEBI had advised all stock exchanges to set up a Trade or Settlement Guarantee Fund.

The National Stock Exchange of India Ltd (NSEIL) operates as Clearing Corporation viz., the National Securities Clearing Corporation Limited which guarantees all trades executed in a settlement. During the year under review, the Settlement Guarantee Funds of stock exchanges at Mumbai, Ludhiana, Calcutta and Bangalore were also granted approval by the SEBI. In addition, the stock exchanges at Delhi, Hyderabad and Cochin were also granted ‘in-principle’ approvals to set up Settlement Guarantee Funds.

The SEBI under the Chairmanship of Dr. K R Chandratre, to principally look into the issue of delisting of securities by the exchanges. Delisting is an extreme measure of disciplinary action which an exchange might take against a company, which if indiscriminately used, would adversely affect the interests of the investors. The Committee prescribed the uniform conditions and norms under which delisting can take place and the manner in which the interests of the investors can be safeguarded in such cases.

In order to enhance efficiency and transparency in the stock exchanges Computerized screen based trading, major thrust was accorded to electronic trading is transparent, cost efficient and faster mode for executing trades. Also it permits spreading of trading facilities and instant dissemination of information. Recognizing this need, the SEBI advised all the stock exchanges in the country to introduce electronic trading system in a time bound manner.

<table>
<thead>
<tr>
<th>Stock Exchange</th>
<th>Commencement of Electronic Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhubaneshwar</td>
<td>20.05.1997</td>
</tr>
<tr>
<td>Saurashtra Kutch</td>
<td>03.10.1997</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>11.11.1997</td>
</tr>
</tbody>
</table>
Till the 1997-98, 16 exchanges in the country had shifted to electronic trading and in the year under review four more exchanges introduced this facility as indicated in the table. With this all 20 stock exchanges in the country shifted to online screen based trading.

Clearing House or Clearing Corporation: To ensure an effective clearing mechanism, the SEBI advised all stock exchanges to set up a clearing house or a corporation and settle all transactions through the clearing house only. In response to the above advice, 20 stock exchanges in the country, had established clearing houses till March 31, 1998.

Rolling settlement: The trading and settlement cycles have been shortened from 14 to 7 days. Rolling settlement is a logical extension to further shortening of the trading and settlement cycles. Further shortening of trading and settlement cycles would generate additional pressure on the clearing mechanism of the stock exchanges on account of the present paper based system.

With the introduction of dematerialized trading, it has now become feasible to contemplate the introduction of rolling settlement. Accordingly, the SEBI introduced T+5 rolling settlement cycles from January 15, 1998 in respect of those securities for which dematerialized trading was made compulsory for institutional investors namely; banks, financial institutions, domestic mutual funds and foreign institutional investors.

Introduction of modified carry forward system: In October 1997, the Modified Carry-Forward System (MCFS) recommended by the J R Verma Committee was approved by the SEBI and all exchanges desirous of implementing Modified Carry Forward System.

**The important features of Modified Carry Forward System are:-**

1) The scrips under carry forward system should have sufficient floating stock and high liquidity
2) 10 per cent margin on the carry forward trades instead of 15 per cent earlier.
3) Members to maintain capital adequacy ratios at such level as SEBI may mandate from time to time.
4) Enhancing the overall limit of carry forward trades by a single brokers to Rs.20 Crore from the earlier limit of Rs.7.5 Crore.
5) Removal of scrip-wise sub-limits on carry forward positions.
6) Removal of limit of Rs.10 Crore for a badla financier.

Warehousing of shares

The SEBI had received requests from institutional investors, stock brokers and stock exchanges permitable permit which had "warehousing" of trades. Warehousing implies execution of firm orders in parts and the execution is done in the same trading cycle. A consolidated contract note at the weighted average price is issued at the end of the trading cycle. This facility is helpful where large orders are to be executed but due to liquidity constraints it is either costly or not possible to execute the orders immediately. The SEBI permitted brokers to warehouse trades for firm orders of the institutional clients only.

Market making

One of the mechanism which is absent in the secondary market was ‘Market Making’. This concept was first introduced by OTCEI, Market making is an important activity which infuses liquidity in the capital market by way of two-way quotes given by jobbers or market makers.

Illiquidity of scrips on our exchanges has been a major concern of the SEBI. In an effort to provide necessary liquidity to the comparatively less traded though fundamentally good scrips, the SEBI constituted 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.

Simplification of share transfer and allotment procedure

The circulation of forged, stolen, counterfeit security certificates and transfer deeds, coupled with inordinate delay on the part of the transfer agents and the issuer companies in effecting transfer of securities, created bottlenecks in the smooth functioning of the secondary capital market. The SEBI appointed a committee under the chairmanship of Shri R Chandrasekaran to recommend speedy transfers of shares.

The important Recommendations of R. Chandrasekaran Committee are:-
1) Standard Operating Procedures and Benchmark Standards for Registrars and Share Transfer Agents.
2) Reclassification of RTA’s, infrastructure, systems and human resources for RTAs.
3) Certificate Authentication Programme.
4) Signature Guarantee programme.
5) Amendment to Listing Agreement to provide for;
6) Appointment of compliance officer for monitoring share transfer.
7) Due diligence survey of RTAs capabilities.
8) RTAs to produce a certificate for completion of transfers within the stipulated time.
9) Furnishing of information regarding the loss and the issue of duplicate share certificates.

4.9 SEBI Policies to strengthen Primary and Secondary Securities Market in 1998-99

East Asian crisis triggered the world economic slowdown during the period. India was not affected seriously, but still the strains were visible on the economy. The flight of capital from emerging market affected foreign portfolio, for the first time in post liberalized period the net portfolio flow by FIIs were negative for the year.

GDP grew at 6.8 percent signaling the revival of economic recovery. The agricultural sector grew by 7.6 percent where as Industrial sector growth declined as its segments basic goods grew at 1.7 percent, intermediate goods grew at 5.8 percent and consumer goods grew at 2.3 percent as against the respectively in previous year. Service sector grew and its contribution to GDP increased from 46 percent to 48.6 percent in 1997-98. Savings rate declined to 23.1 percent in 1997-98. This was reflected in the overall investment rates which slipped from 25.7 percent in 1996-97 to 24.8 percent in 1997-98.

Primary Securities Market

The important policy development and programmes aimed to strengthen primary security market during 1998-99 are:-
1) **Revised eligibility norms for initial public offer:**

Revised eligibility norms for initial public offer eligibility norms were relaxed by SEBI to encourage the initial public offering. The revised eligibility norms are:-

a) New companies having distributable profits in terms of Section 205 of Companies Act for at least three out of immediately preceding five years and a pre-issue net worth of not less than Rs. one crore in three out of preceding five years were allowed to mobilise capital through IPOs.

b) Relaxation of norms for promoters contribution: In continuation of the SEBI’s endeavor of gradual dilution of the norms for lock-in in respect of securities allotted to the promoters/promoter group, the lock-in condition has been restricted to only 20 per cent of the total capital of the company. This would include the capital brought in by way of preferential issue.

c) Relaxation for public issues by banks: The SEBI exempted public and private sector banks from fulfilling eligibility norms in order to come out with public issues. Further, banks have been permitted to come out with equity issues at a price as approved by the Reserve Bank of India. Thus, banks are no longer required to satisfy SEBI norms so as to freely price their issues.

2) **Compulsory rating of debt instruments:**

To raise the standards of disclosures and to help investors make informed investment decisions, every public or rights issue of debt instruments is required to be compulsorily rated by the approved credit rating agency irrespective of their maturity/conversion period as against 18 months.

3) **Relaxation of eligibility norms for infrastructure companies:**

Q The SEBI has granted specific relaxations to infrastructure companies In order to facilitate a greater flow of funds to the infrastructure sector. These relaxations are available to them provided their projects are appraised by a Developmental Financial Institution (DFI) or The Infrastructure Development Finance Corporation (IDFC) or The Infrastructure Leasing & Financial Services Ltd. (ILFS)
The various relaxations granted to infrastructure companies are:-

a) Exemption from the requirement of making a minimum public offer of 25 percent of securities and also from the requirement stipulating 5 shareholders per Rs. 1 lakh of offer made.

b) Exemption from the minimum subscription of 90 per cent provided disclosure is made about the alternate source of funding considered by the company, in the event of under-subscription in the public issue.

c) Permission to freely price the offerings in the domestic market provided the promoter companies along with equipment suppliers and other strategic investors subscribe to 50 percent of the equity at the same price as the price offered to the public or at a price higher than that offered to the public. However, adequate disclosures on justification for the pricing need to be made in the offer documents.

d) Permission to keep the issues open for 21 days to enable the companies to mobilize funds.

e) Exemption from requirement to create and maintain a debenture redemption reserve (DRR) in case of debenture issues as provided in the SEBI Disclosure & investor Protection Guidelines.

4) Revision in book-building guidelines:

The SEBI had framed guidelines for book-building which were applicable for 100 per cent of the issue size and for issues above Rs. 100 Crore. To encourage the use of this facility the SEBI has reduced this limit to issues of Rs 25 Crore.

5) Modification of requirement of mandatory collection centers:

With a view to reduce the cost of the public issues, the SEBI modified the earlier requirement of 30 mandatory collection centres. The minimum number of collection centers for an issue of capital shall now be:

a. The four metropolitan centers and
b. Such centres where the stock exchanges are located in the region in which the registered office of the company is situated.

6) Regulations for credit rating agencies (CRAs):

The credit rating agencies which rate the credit worthiness of the entities which mobilize resources from the market or borrow funds from FIs, were hitherto not subjected to any regulation. The SEBI Act was amended empowering the SEBI to register and regulate CRA. The SEBI constituted a Committee to recommend draft regulations for regulating the CRA. The important recommendations of the committee are:-

1. The regulations should cover rating of securities only and will not cover rating of fixed deposits, LPG dealers, foreign exchange, country ratings and real estates etc.
2. The promoter of CRA should belong to one of the following categories:-
   a. Public financial institutions;
   b. Scheduled commercial banks;
   c. Foreign banks operating in India;
   d. Foreign Credit Rating Agencies recognized in the country of their incorporation, having at least five years experience in rating;
   e. Any other company or a body corporate having continuous net worth of minimum Rs.100 Crore as per the audited annual accounts for the previous five years prior to filing the application with the Board.
3. Disclosure of unaccepted ratings to investors has been made compulsory. Further, an obligation has been cast on the issuer to disclose all the ratings it has got during the previous 3 years for any of its listed securities.
4. Uniform rating symbols for all CRAs should not be imposed.
5. Credit rating agencies would have to carry out periodic reviews of the ratings given during the lifetime of the rated instrument.
6. For all public and rights issues of debt securities of issue size greater than or equal to Rs.100 Crore, two credit ratings from different rating agencies would be made mandatory.
7) Buy-back policy:

The SEBI in order to introduce liquidity in the shares of companies and to help the corporate in enhancing the shareholders wealth, approved the Securities and Exchange Board of India (Buy Back of Securities) Regulation 1998. The major features of the regulations are:-

a) The buy-back could be undertaken by making public offer, book-building (Dutch auction) or purchases through the stock exchange.

b) In case the purchases are made through the stock exchange, the details of such purchases made under the buyback scheme of the company shall be made public through the stock exchange on daily basis. Promoters are not permitted to participate in the buy back through the stock exchange mode.

c) The Regulations provide for extensive disclosures in the Explanatory Statement to be annexed to the notice for the general meeting and the Letter of Offer. Further, adequate care has also been taken to disclose the pre and post buy back holdings of the promoters.

d) Buy back through negotiated deals, spot transactions or private arrangements are not permitted.

e) In order to ensure strict compliance with the provisions of the Regulations, merchant banker will have to be associated with every offer for buy back wherein he would be required to give a ‘due diligence’ certificate.

f) An offer for buy back shall not remain open for more than 30 days unless purchases are through stock exchanges. For example, except in the cases of purchases through stock exchanges, an offer for buy back shall not remain open for more than 30 days. The payment for accepted securities has to be made within 7 days of the completion of verification and the shares have to be extinguished and physically destroyed within 7 days of the date of payment. The extinguishment certificate is required to be filed within 7 days of the physical destruction of the certificates.

g) To ensure security for performance of its obligation, the company making an offer for buy back shall have to open an escrow account on the same lines as provided in the Takeover Regulations.
8) **Companies not complying with the Listing Requirements:-**

SEBI on its own undertook a study on the compliance of listing requirement by the companies which had come out with initial public offerings. On the basis of the information given by the stock exchanges, the study revealed that 80 companies were not complying with the listing requirements of their respective regional stock exchanges and were not traceable at their registered office address.

**Secondary Securities Market**

Modernization of market infrastructure improves market transparency, and improvement of market microstructure increases trading efficiency. The measures taken by the SEBI in 1998-99 in the secondary market are discussed below.

**Depositories and paperless trading**

Dematerialization of securities is one of the major steps for improving and modernizing our markets and enhancing the level of investor protection. Recognizing the far reaching benefits that would accrue to the market through the removal of physical securities, the speeding up of the dematerialization process has therefore been high on the agenda of SEBI. Hence SEBI introduced paperless trading and electronic book entry transfer in a phased manner so as to allow time for the required infrastructure to develop and to gain acceptance of the investors and the market. This approach proved fruitful and within a very short period of less than 12 months, a significant portion of trading volume on the stock exchanges was taken place in dematerialized form.

SEBI undertook many steps to increase the pace of dematerialization and ensure a speedy transition to dematerialized trading:

- The institutional investors (FIs, FIIs, Mutual Funds and Banks) and Overseas Corporate Bodies (OCBs) were required to settle trades in the dematerialized form in respect of 8 scrips from January 1998. Subsequently, the number of scrips was increased in phases to
319 scrips as at the end of financial year under review. This number was be increased to 360 by May 31, 1999.

- Since January 4, 1999, the settlement of trades in the dematerialized form was made mandatory for all classes of investors for shares of 12 companies. Subsequently, the number of companies was increased in phases to 31. This number would be increased to 104 by May 31, 1999 and would thus cover more than 90 per cent of trading volume on the Indian stock exchanges.

- Delivery of dematerialized shares has been permitted in physical securities segment in the stock exchanges.

- The concept of market lot was abolished in the shares of the companies which are in list of compulsory dematerialized trading for all classes of investors.

- Procedures were simplified and several safeguards introduced so that investors could easily dematerialized their holdings in shares and are encouraged to participate in this process of dematerialization.

- SEBI in order to help small investors with small holdings of shares in the physical form, stock exchanges were advised by the SEBI to allow sale of shares up to 500 in number or Rs 25,000 in value in the physical form.

- SEBI in order to bring in high net-worth individuals into dematerialized form, decided that any investor who have a net delivery obligation of more than 5000 shares in respect of 24 select scrips in any settlement commencing from January 4, 1999 shall compulsorily settle in dematerialized form.

- In order to improve the availability of infrastructure for depository, the SEBI took up the matter with the Reserve Bank of India to persuade banks to become depository participants (DPs).

**Strengthening the safety and integrity of the secondary securities market**

In June 1998, the market witnessed abnormal price fluctuation and volatility. In order to contain excessive market volatility, certain risk containment measures were taken by the SEBI in consultation with the Inter-Exchange Co-ordination Group and the stock exchanges.
Volatility margins

To contain the volatility in the market and to enhance safety in the market under conditions of abnormal price movement, the SEBI in consultation with the stock exchanges and market participants evolved a mechanism of imposition of margin on volatile scrips. The price bands for scrips were modified and a varying margining system for volatile scrips was introduced across all the stock exchanges effective from July 06, 1998.

Additional Volatility Margin

<table>
<thead>
<tr>
<th>Price Variation</th>
<th>Margin Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 per cent or more</td>
<td>5 per cent</td>
</tr>
<tr>
<td>24 per cent or more</td>
<td>20 per cent</td>
</tr>
<tr>
<td>32 per cent or more</td>
<td>30 per cent</td>
</tr>
<tr>
<td>40 per cent or more</td>
<td>40 per cent</td>
</tr>
</tbody>
</table>

Source: SEBI

Once a security attracts the volatility margin, the margin will continue on the security at the margin rate as of the last day of the previous trading period for the first two trading days in the subsequent trading cycle also. For the subsequent days of the trading period, margins applicable shall be as per rates prescribed above based on price variation during the current week or 5 per cent whichever is higher. If however, the direction of price variation has reversed in the current week and the price variation in the security has exceeded the threshold limits in the reverse direction, then the margins as per rates prescribed therefore shall apply.

Setting up of trade/settlement guarantee fund by stock exchanges

During the year 1998-99 the settlement guarantee fund schemes of Madras, Ahmedabad, OTCEI, Vadodara, Delhi and Inter-connected Stock Exchange India Limited (ISEIL) in addition to Bombay, Ludhiana, Calcutta and Bangalore (1997-98) have been granted approval by the SEBI, bringing the number of exchanges with settlement guarantee funds to 10. The stock exchanges at Hyderabad, Cochin and Bhubaneswar have been granted an ‘in-principle
approval’ to set up settlement guarantee funds subject to fulfillment of certain conditions. The aggregate corpus of the fund, of all the stock exchanges is over Rs. 1000 crores.

Stock Exchange-wise details of Settlement Guarantee Funds

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of Stock</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bombay May 12, 1997</td>
<td>2. Ludhiana February 27, 1998</td>
</tr>
<tr>
<td>9.</td>
<td>ICSEIL January 6, 1999</td>
<td>10. Ahmedabad February 2, 1999</td>
</tr>
</tbody>
</table>

Source: SEBI

Computerized screen based trading

The OTCEI, which was set up in 1992, was the first computerized exchange in India. The NSE started operations in 1994 with electronic trading, while all other exchanges introduced electronic trading subsequently. Till 1996-97, 16 exchanges in the country had shifted to electronic trading and in the year 1997-98 four more exchanges established these facilities. By March 31, 1999, all the 23 stock exchanges in the country had computerized on-line screen based trading. Details of the stock exchanges which went on-line during the year 1998-99 are:-


<table>
<thead>
<tr>
<th>Stock Exchange</th>
<th>Commencement of Electronic Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jaipur Stock Exchange</td>
<td>December 10, 1998</td>
</tr>
<tr>
<td>Inter-Connected Stock Exchange</td>
<td>February 26, 1999</td>
</tr>
<tr>
<td>Magadh Stock Exchange</td>
<td>March 18, 1999</td>
</tr>
</tbody>
</table>

Source: SEBI
Inter-Connected Stock Exchange Of India Ltd., Mumbai (ICSEIL)

The Inter-Connected Stock Exchange of India Ltd., Mumbai (ICSEIL) has been granted recognition as a Stock Exchange on November 18, 1998 as the 23rd stock exchange in India. ICSEIL has been promoted by 14 regional stock exchanges. The ICSEIL has set-up an interconnected market system and provides its trading members a facility to trade on the national market in addition to the trading facility at the regional stock exchanges. The trading members are required to satisfy the capital adequacy separately as prescribed by the SEBI. The ICSEIL has also established a Settlement Guarantee Fund to ensure settlement of trades. The ICSEIL commenced trading operations on February 26, 1999. Eleven stock exchanges namely Uttar Pradesh, Bangalore, Vadodara, Hyderabad, Cochin, Coimbatore, Bhubaneswar, Mangalore, Madhya Pradesh, Magadh and Saurashtra Kutch stock exchanges have commenced trading on the ICSEIL. The remaining four exchanges at Gauhati, Jaipur, Madras and Ludhiana have not yet joined the ICSEIL.

Online trading terminals abroad

The Finance Minister in his Budget speech 1999-2000 announced a scheme to encourage members of the Indian stock exchanges to open on-line trading terminals abroad. Hence The SEBI formulated guidelines in this respect. The members of Indian stock exchanges would open terminals abroad and will be allowed to open offices in consonance with the norms laid down by the RBI under general permission under the FERA.

Amendment to existing provisions regarding fixed par value of shares

The securities market changed phenomenally since the time the par value of securities was Standardized at Rs. 10/- and Rs. 100/-. The requirement to issue shares with a par value of Rs.10/- and Rs.100/- raised out of the Circular issued by the Government in 1983 following a meeting of the Presidents of all Stock exchanges. Government with drew the circular and gave freedom to issue shares and even price their IPOs below Rs. 10.
4.10 SEBI Policies to strengthen Primary and Secondary Securities Market in 1999-2000

The real GDP growth fell to 6.1 percent (2003-04 prices) in 1999-2000. The decline was largely due to fall in agriculture growth to 1.4 percent, there was a 5.2 percent increase in Industrial sector and service sector grew by 7.7 percent and contributed 52 percent to GDP. The domestic savings declined to 22.3 percent. the FII inflows increased to US$ 2.1 billion whereas FDI inflows stood at US$ 2.17 billion during 1999-2000. The performance of FIIs was supported by the stability of exchange rate policy of the country.

Primary securities market

The important policy developments in primary securities market by SEBI during 1999-2000 are:- Rationalization of guidelines for public issues:- the freedom given to companies by SEBI to issue shares of any denomination (dematerializes shares) as a further measures towards rationalization of existing guidelines, SEBI directed that there would be only one set of disclosures and entry norms for all the issue irrespective of the issue price.

In order to facilitate the public offerings SEBI introduced online securities offer system which extended the benefits of on-line trading in the secondary market to the primary market. The new system would reduce the cost and time involved in process of public issue and did away from blocking of funds of the investors.

All new IPOs will be compulsorily traded in dematerialized form and guidelines of public issues were modified to make admission to a depository for dematerialization of securities, a prerequisite for making a public or rights issue or an offer for sale.

Disclosure of credit rating SEBI based on recommendation of the committee framed following guidelines:-

- All companies making public or rights issue of debt instrument (including convertible instrument) irrespective of their maturity/conversion period, shall obtain credit rating by at least one approved credit rating agency and disclose it in the offer document.
- Where credit rating is obtained from more than one approved credit rating agency, all the credit ratings, including the unaccepted ratings, shall be disclosed.
• The issuer shall give an undertaking in the offer document stating that they would give necessary co-operation to the credit rating agency (s) in providing true and adequate information till the debt obligations in respect of the securities are outstanding

**Lock in of pre-issue capital**

The practice of issuing shares at a price below the public issue price prior to the public issue, prima facie, gives a price advantage to such allottees. In order to discourage such practice, especially in view of high premiums to the issue price at which information technology stocks were being listed, it was decided to lock the entire pre-issue capital in case an allotment

**Disclosure and investor protection guidelines**

The Disclosure and Investor Protection Guidelines of SEBI were amended to provide for enhanced investor protection.

• The appraising agency would bring in the required contribution at least one day before the opening of the issue.

• The promoter’s contribution has been made uniform at 20 per cent irrespective of the issue size.

• Only such securities have to be offered for promoters contribution for which a specific written consent has been obtained from the shareholders for lock-in.

• Mandatory provision made for appointment of registrar for rights issues.

**Amendments of book building guidelines**

Book building is a price discovery mechanism used by the corporate issuing securities, to discover the price of their securities. The mechanism also helps the small investors to subscribe to securities at a price, which is arrived at by a transparent process. The importance of this mechanism was recognized by the SEBI and book-building guidelines were introduced in 1995. However, while book building became an accepted practice in the market for private placement of debt securities, it remained absent in the public issue market despite the regulatory framework being in place.
The SEBI Under the modified guidelines an issuer has been given the option to book build either 90 per cent of the net offer to the public or 75 per cent of the net offer to the public. The balance issue is offered to the public at the fixed price determined through book-building exercise. The book-building mechanism is designed keeping in view the international practices and procedures for book building.

Foreign corporate and individuals were permitted to invest in the Indian capital market through registered FIIs. The total investment made by all investors in this category shall not exceed 5 per cent of the total capital of that company within the aggregate limit for FII portfolio investment of 24/30 per cent. NRIs and OCBs shall be excluded from this category as they have separate investment limit of 10 per cent. The FIIs shall be required to undertake due diligence about the legitimacy of source of funds as well as confirm that the investing entity is registered with the relevant tax authorities and is filing its returns regularly.

Secondary Securities Market

The SEBI extends its oversight to 23 stock exchanges in the country and directs its efforts towards encouraging them to become more effective and efficient self regulatory organizations. The measures taken by the SEBI in 1999-2000 in the secondary market are

Dematerialization of securities is one of the major steps for improving and modernizing market and enhancing the level of investor protection through elimination of bad deliveries and forgery of shares, and expediting the transfer of shares. During the year 1999-2000, the SEBI continued its policy to enhance the growth of paperless trading and electronic book entry transfer but in a phased manner so as to allow time for required infrastructure to develop and to gain acceptance of the investors and the market. The following measures were undertaken by the SEBI during the year:

• The SEBI issued directive to the companies included in the list of securities for dematerialization to effect compulsory dematerialized trading for all investors and institutional investors on the scheduled dates announced and to sign agreements
- Companies, whose shares are being traded compulsorily in dematerialized form by all investors, are required to compulsorily provide for transfer and dematerialization of securities simultaneously.

- The SEBI (Depositories and Participants) Regulation, 1996 was amended to include registrars to an issue or share transfer agents in the eligible category to become a depository participant.

- Introduction of procedures for interconnectivity between the various segments and components involved in the process of dematerialization and its smooth functioning at various levels of participation in dematerialized securities.

- The branch offices of DPs that are handling more than 5000 accounts shall either have direct electronic connectivity with the depository or with office of depository participant that is connected live to the depository.

Important attribute for the development of the market the SEBI has introduced capital adequacy norms. During 1999-2000, most of the major exchanges viz. National, Bombay, Calcutta and Uttar Pradesh Stock Exchanges monitored the exposure and intra-day trading limits on a real time basis.

The risk containment measures from time to time prescribed by the SEBI served the market well by ensuring adequate and timely collection of margins. But there were which became expensive. Hence SEBI undertook the process of simplifying the margin system for which SEBI set up a group on Risk Management System with following terms of references:

1. Reviewing the entire risk management system comprising the margin system, exposure norms, circuit filter, capital adequacy, etc. and also to study the risk management measure in place in the cash markets in the developed and emerging market countries.

2. Rationalizing and simplifying the present risk management system for the account period settlement without compromising the present levels of safety and further strengthening the risk containment measures.

3. Recommending risk containment measures for the securities traded in the rolling settlement.
Modified carry forward system

Till 1998-99, Bombay, Delhi, Ludhiana and Calcutta Stock Exchanges introduced the facility to carry forward trades under the Modified Carry-Forward System. During the year 1999-00, Ahmadabad, Madras and Forward System.

Inter-connectivity between NSDL and CDSL:

In order to establish inter-connectivity of National Securities Depositories Limited (NSDL) and Central Depositories Services Limited (CDSL), it was decided that settlement of market transactions should begin with the clearing members opening accounts in both depositories and the clearing house or corporations for effecting the same pay-out of shares of each depository as a pay-in of shares in that depository.

Revival of small stock exchanges

Over the recent past years, it has been observed that the regional stock exchanges are recording very low/insignificant turnover and the majority of their members have become inactive. The financial health of these exchanges has also been deteriorating. Hence exchanges, a group comprising of NSE, BSE, CSE and some of the smaller stock exchanges was formed, to discuss means and ways to reinvigorate the weak exchanges.

That emerged can be classified into two categories. One, which deals with ensuring the financial viability of the exchanges and the other dealing with the issue of increasing the business opportunities for the brokers and exchanges.

Committee on corporate governance

A committee on corporate governance was formed by SEBI under the chairmanship of Shri Kumar Mangalam Birla, member SEBI Board with the objective of strengthening and promoting the standard of corporate governance of listed companies. The major recommendations of the committee accepted by the board are:
• The board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.

• Board meeting shall be held atleast four times a year with a minimum time gap of atleast four months between any two meetings.

• The Committee recommended the constitution of Audit Committee in a listed company.

• The committee recommended that audit committee shall have minimum three members, all being non-executive directors, with the majority of them being independent, and with at least one director having financial and accounting knowledge, the chairman of the committee shall be an independent director.

• The audit committee shall meet at least thrice a year. One meeting shall be held before finalization of annual accounts and one every six months.

• The committee will review with the management, the external and internal auditors, the adequacy of internal control systems, the adequacy of internal audit function including

• The audit committee will review the company’s financial and risk management policies and will look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders and creditors.

• A director shall not be a member in more than 10 companies or act as chairman of more than 5 companies in which he is a director. He will keep informed the company about the committee positions he occupies in other companies.

4.11 SEBI Policies to strengthen Primary and Secondary Securities Market in 2001-02

The real GDP recovered from 4 percent in 2000-01 to 5.4 percent in 2001-02. Agriculture grew by 5.7 percent; services grew by 6.5 percent and Industry by 3.3 percent. the services sector despite relative fall continued to contribute the share of more than 50 percent to GDP. Domestic savings improved marginally to 23.4 percent in 2000-01. The public sector investment remained at the same level of 7.1 percent but the private sector investment declined from 16.1 percent in 1999-2000 to 15.8 percent in 2000-01. Compared 1999-2000 The investment in shares and debentures registered a decline from 6.4 percent to 2.7 percent whereas share of deposits
increased from 39.1 percent to 44.3 percent and the share of currency decreased from 8.5 percent to 6.4 percent. India’s FOREX increased to US$ 54.1 billion by the end of March 2002. The economy with used easy liquidity conditions and softer interest rate environment during the year.

**Primary Market**

The major reforms and development in the primary securities market during 2001-02 are:-

**Issue Procedures:** in order 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).

**Buy-back of Securities** to enhance transparency and disclosures on buy-back of securities, the SEBI issued guidelines that:

1. 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.

2. 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:** in order 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), the SEBI (Disclosure and Investor Protection) guidelines were amended.

Underwriting in order to ensure the success of book-building issues, underwriting was made mandatory with the exception of 60 percent 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.

**Secondary Securities Market**

The important reforms and development in securities market are:-

SEBI in order 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.

SEBI in order to bring about a co-ordinated trading halt in all equity and equity derivative markets nationwide, the 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.

In order to contain the risk associated with scrips in compulsory rolling settlement, SEBI introduced the 99 per cent VaR based Margin System from July 02, 2001 as under:
(1) 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.

(2) Additional 12 per cent margin imposed to address 1 per cent of the cases.

(3) 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.

(4) The VaR based margin capped at 100 per cent.

(5) 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.

(6) The VaR based margin to be collected on T+1 basis.

(7) In addition to margin calculated on VaR basis, exchanges to collect mark-to-market margin.

(8) Exchanges to impose additional margin on scrips whenever necessary to contain the risk in the market.

Withdrawal of restriction on short sales: SEBI withdrew the restrictions on short sales with effect from July 02, 2001.

(1) Scrip-wise price bands: SEBI decided to introduce scrip-wise price band, the 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.

(2) 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: the SEBI implemented various measures to reduce the risk in trading options on stocks to on the basis of the framework consistent with the risk management guidelines recommended by the L.C. Gupta Committee.
The important among them are:

1. 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 the SEBI.

2. 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.

3. The Stock Option Contract to have a minimum contract size of Rs. 2 lakh at the time of its introduction in the market.

4. 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).

5. 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.

Unique client code: SEBI directed 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. In case of 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. In case of taxpaying body corporate, the unique registration number issued by the relevant regulatory authority to be used till the time the PAN is allotted. The stock exchange was directed by SEBI 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: SEBI in order 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), the 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.

Demutualization of the Stock Exchanges: SEBI took initiative to remove the influence of brokers in the functioning of stock exchanges, the 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.

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 up to September 30, 2002, subject to review.

4.12 SEBI Policies to strengthen Primary and Secondary Securities Market in 2002-03

The GDP growth fell by 4.4 percent the agriculture pulled declaration in the growth as it had negative growth of -5.2 percent. Whereas Industry grew by 6.1 percent and Services grew by 7.1 percent. The gross domestic savings is at 24 percent of India’s GDP. Public sector investment was declined from 6.1 percent to 5.9 percent in 2001-12 but private sector investment was remaining the same 15.7 in 2001-12. The investment in shares and debentures was 0.3 percent in 2001-12. The share of deposit decreased marginally from 5.0 percent to 4.9 in and the foreign exchange reserves of India have been growing at a faster rate over the past few years with growth rates of 11.1 percent, 28.2 percent and 38.1 percent during 2000-1, 2001-02 respectively the total reserves at the end of 2002-03 stood at USD 74.805 billion.
Primary Market

The SEBI annual report (2002-2003) list out the objectives of reviewing the existing policies and for initiating new policies in primary market as:-

a. To help the investors make more informed investment decision.
b. To make regulations more transparent, effective and understandable to the regulated entities.
c. To give confidence to the investors and other participants that the markets are efficient, orderly and clean.
d. To increase the transparency, efficiency of the primary market so as to sustain the confidence of investors and market participants.

In order to achieve the objectives, the important step that was undertaken are:

a. The disclosure requirements in offer documents for Public Issue/Rights Issue/Offer for Sale, were streamlined and strengthened.
b. The existing procedure and process of registration and renewal of registration were reviewed and streamlined.
c. The existing regulations pertaining to intermediaries / other existing guidelines/ regulations were reviewed and amended where necessary.

Accordingly the regulations that were amended /reviewed are:

a. SEBI (Merchant Bankers) Rules and Regulations, 1992
b. SEBI (Debenture Trustees) Rules and Regulations, 1993
c. SEBI (Portfolio Managers) Rules and Regulations, 1993
d. SEBI (Registrars to an Issue and Share Transfer Agents) Rules and Regulations, 1993
e. SEBI (Underwriters) Rules and Regulations, 1993
f. SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999
g. SEBI (Issue of Sweat Equity) Regulations, 2002
Secondary Securities Market

SEBI initiated several structural changes in the securities markets. The major accomplishment of SEBI during the year was:

1. Implementation of T+3 rolling settlement for all listed securities across the exchanges from 2 April 2002 to move to T+2 on 1 April 2003.
2. Introduction of scientific model for risk management, based on VaR.
3. 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.
4. Launch of Securities Market Awareness Campaign.
5. Introduction of rating corporate governance on the principles of wealth creation, wealth management and wealth sharing.
6. Introduction of Straight Through Processing (STP) for the securities transaction.
7. Implementation of a comprehensive risk management system for Mutual Funds.
8. Introduction of the Dual fungibility of ADRs and GDRs.
9. Establishment of the Central Listing Authority (CLA).
10. Issuance of necessary guidelines/circulars for Corporatization and Demutualization of stock exchanges.
12. Posting all the orders passed by the Securities Appellate Tribunal (SAT) and the Board on the SEBI website, to bring in regulatory transparency.
13. Introducing the consultative process on policy formulation by putting all reports of committees and draft regulations on the SEBI website for seeking comments, suggestions and opinions from public.
15. Establishment of inter-depository transfer through on-line connectivity between CDSL and NSDL.
16. Announcement of Accounting Standards and disclosure practices of the Indian companies by ICAI in consultation with SEBI in accordance with International Accounting Standards.
(17) Expansion of the derivatives products basket.
(18) Introduction of benchmarking of all the Mutual Funds Schemes to facilitate the understanding of the investors about the performance of the funds.
(19) Introduction of nomination facility for the unit holders of mutual funds.
(20) Simplification of documentation procedure for FII registration and reduction of registration fee for FIIs.
(21) 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.

**Foreign Institutional Investors (FIIs):**

SEBI (FII) Regulations, 1995 was amended to reduce the requirement for documentation and following list specifies documents required. The registration fee was also reduced to US$ 5,000 from US$ 10,000.

Adoption of Straight through Processing: Straight Through Processing (“STP”) involves capturing and processing transactions in one pass, from the point of first deal to final settlement. This will obviate the need for manual entry and re-entry of data of trade particulars which is time consuming and prone to errors.

In order to examine the feasibility of STP in the Indian markets, SEBI constituted a committee of representatives from various market intermediaries and the Reserve Bank of India. The committee in its report recommended to the following:
- Adoption of ISO 15022 messaging standards by the market participants
- Electronisation of contract notes
- Connectivity among the market participants and implementation of STP

**4.13 SEBI Policies to strengthen Primary and Secondary Securities Market in 2003-04**

The year with used revival of the economy with a tremendous growth of 8.1 percent. There was spectacular growth in all the three sectors. Agriculture grew by 8.2 percent, Industry grew at 7.9 percent and service grew at 11.2 percent.
The gross domestic savings increased to 24.2 percent of the GDP at market prices whereas the share of households investments in bank deposits declined from 39.8 per cent in 2001-02 to 37.4 percent in 2002-03. The investments of households in financial assets as a percentage of GDP at current market prices declined from 11.1 per cent in 2001-02 to 10.3 per cent in 2002-03.

The FOREX including reserve tranche position in IMF increased to US$ 1, 12, 959 million in 2003-04. The market with used availability of wide spectrum of financial products including derivates for the investors leading to stock market boom in the country.

**Primary Market**

SEBI has been proactive and dynamic in responding to national and international challenges in the primary securities market. The important among them are:-

Issue standers: SEBI to ensure quality issues to access capital market introduced several reforms like track record of financial performance, best of accounting policies, introduction of new parameters such as net tangible assets, minimum number of allottees in a public issue, etc. Issuers unable to fulfil these requirements can also access primary market provided:

1. The project has been appraised by financial institutions/scheduled commercial banks who have participated in the project to the extent of 15 per cent; or
2. The issue is made through book building route with participation by QIBs to the extent of at least 50 per cent.

Subject to the fulfilling of other criteria including minimum number of allottees.

Enhanced Disclosure Requirement SEBI mode it mandatory that issues should give all the relevant and necessary information about the firm, growth prospects in the prospects. SEBI tried to ensure that prospects serve as important source of information for investors to make their investment decision.
Transparency and Governance: the confidence of SEBI in order to boost investor confidence imparted corporate governance and transparency in the issue of primary shares. Green Shoe Option: in order to mitigate volatility and enhance inventors confidence SEBI introduced Green shoe option. It is 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.

Secondary Markets
The important measures taken by SEBI to strengthen secondary market are:-

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

SEBI introduced 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: SEBI 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.

Additional Continual Disclosures: SEBI in order to provide 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 along with their quarterly results.

Enhance Market Safety and Reduce Credit Risk: SEBI with a intention of making 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.

Foreign Institutional Investors (FIIs)

SEBI in order 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 were also 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.

4.14 SEBI Policies to strengthen Primary and Secondary Securities Market in 2004-05

The GDP growth was reduced to 6.9 percent in 2004-05 as there was deceleration in agriculture growth to 1.1 percent due to unfavorable monsoon. Industrial sector grew by 8.3 percent and service sector grew by 7.8 percent helped to mitigate the setback by agriculture sector. the share of industries to GDP improved to 21.9 percent whereas the service share to GDP improved to 56.7 percent. Merchandise exports in terms of US dollar withused an impressive
growth of 24.1 percent in 2004-05. The imports grew by 37 percent, highest since 1980-81 led to largest gap in merchandise trade account to 27.8 billion US$.

Net capital inflows continued to maintain its momentum in 2004-05, and were dominated by portfolio investment by FIIs. An increased appetite for foreign direct investment was also observed. India’s foreign exchange reserves to US $ 141.5 billion as on March 31, 2005. India’s foreign exchange reserves (excluding gold) were the fifth largest in the world and the fourth largest among the emerging market economies (EMEs).

Primary Securities Market

SEBI pursued several policy initiatives during 2004-05 in consultation with the Government of India to achieve its statutory objectives. The momentum of resource mobilization from the primary market witnessed in 2003-04 accelerated further in 2004-05. The response of the FIIs, other institutional investors and retail investors to the public issues has been highly encouraging. This was evident from oversubscription to such issues.

Allocation of Shares to Retail Individual Investors:

Allocation of shares to retail individual investors was 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:

In order to ensure post issue price stability Green shoe option facility was introduced this was further widened with amendment. The SEBI (DIP) Guidelines, 2000 were amended to make it available in case of all public issues, viz., initial public offerings, and 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) issued the 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.

**Secondary securities market**

The important features of secondary market the Central Government in the Union Budget 2004-05, proposed to set up a trading platform to enable the small and medium enterprises (SMEs) to raise capital, both debt and equity, as well as provide liquidity to the securities.

Indo Next:

The first phase of BSE Indo Next 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 Centralized Hub.

SEBI (STP Centralized Hub and STP Service Providers) Guidelines, 2004:

174
SEBI in order to regulate the STP service, SEBI issued the SEBI (STP Centralized 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:

SEBI 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.

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 2004-05 are as follows:
e. SEBI (Depositories and Participants) (Amendment) Regulations, 2004.
g. SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) (Amendment) Regulations, 2004.
h. SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2004.
i. SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) (Second Amendment) Regulations, 2004.

**Foreign Institutional Investors (FII):**

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 subceilings 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.

4.15 SEBI Policies to strengthen Primary and Secondary Securities Market in 2005-06

The performance of Indian economy was impressive during 2005-06. The GDP grew by 9 percent which was propelled by the growth in agriculture 5.8 percent, industry 10.1 percent, and services 9.6 percent. Service sector continued to be main driver of growth with 60.7 percent contribution to GDP. The high growth in exports was wiped of by record increase in international prices of crude oil. Hence trade deficit widened significantly in 2005-06. But despite this, India’s foreign exchange reserves rose by US$ 10.1 billion in 2005-06 which was almost equal to net portfolio investment in equity by the FIIs.

Primary securities market

SEBI in constipation with government of India initiated many policies and programmes to strengthen primary securities market. The important among them are:-

**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.

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 mobilization, 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 was 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.

Secondary Securities Market

The important steps undertaken by SEBI in consultation with Government of India are:-

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 Dematerialization 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.

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 utilized by a few investors to indulge in off market 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: SEBI 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: SEBI 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: SEBI 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-demutualization. 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.

Corporatization and Demutualization (C and D) of Stock Exchanges: SEBI in order to expedite the Corporatization and Demutualization 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 corporatized and demutualised stock exchanges vide notification dated March 23, 2005 and September 15, 2005, respectively.

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.

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.

4.16 SEBI Policies to strengthen Primary and Secondary Securities Market in 2006-07

India continued to grow as one of the fastest growing economies of the world. The GDP grew by 9.4 percent. All the three sectors performed well as agriculture grew by 4.6 percent, industry grew 12.7 percent and services sector grew by 9.46 percent. The international crude oil prices increased and though government did not pass the entire burden to its citizens, however the import bill increased significantly. The capital flows was satisfactory, it over came current account deficit due to which foreign exchange reserves rose by 47.6 billion US dollars.

Primary Securities Market

SEBI initiated number of policies in consultation with government of India and the important among them are:-

Qualified Institutions’ Placement (QIP): SEBI in order to facilities fast and cost effective way of raising funds from the Indian securities market, opted for qualified institutional buyers. This is termed as qualified institutions.

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 capitalization 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 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.

**Secondary Securities Market**

The important developments initiated by SEBI are:-

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 practiced 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, corporate, 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 Computerized Trading: The stock exchanges were advised to set up Standing Committees to investigate the problems in computerized 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 authorization. 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.

Corporatization and Demutualization (C & D) of Stock Exchanges: SEBI notified Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognized Stock Exchanges), Regulation, 2006 on November 13, 2006, whereby the recognized 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.

**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.

**Regulatory Developments**

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.

**4.17 SEBI Policies to strengthen Primary and Secondary Securities Market in 2007-08**

Indian economy continued to grow as one of the fastest growing economies of the world. The GDP grow at 9 percent. Industrial grew at 8.8 percent, while services grew at 10.7 percent
agriculture grew at 4.5 percent, the services sector continued to contribute to a greater extent in GDP. It rose to 62.9 percent as agriculture share was reduced while industry share to GDP remained stable at 19.5 percent. Indian’s Gross Domestic Saving as proportion of GDP at current market prices increased to 34.8 percent in 2006-07. The Gross Domestic Capital formation was 35.9 percent of GDP in 2006-07. The liquidity condition remained tight during the greater part of the year as RBI increased cash Reserve Ratio. India’s import bill increased significantly during 2007-08 due to increase of oil prices and increase of non oil imports on the back of strong industrial demand.

India’s foreign exchange reserves rose to US $ 309.7 billion during 2007-08 on account of rising inflow of FDI, FII, external commercial borrowings and remittances.

**Primary Securities Market**

The important policies and programmes initiated by SEBI are:-

Grading of Initial Public offerings (IPOs): SEBI made the grading of all IPOs mandatory. The grading would be done by credit rating agencies, registered with SEBI. It would be mandatory to obtain grading from at least one credit rating agency. The grading would be disclosed in the prospectus, abridged prospectus and in every advertisement for IPOs.

Relaxation for Government Companies in Infrastructure Sector: In order to facilitate government companies / corporations, statutory authorities/ corporations or any special purpose vehicle engaged in infrastructure sector to raise funds in the Indian primary market through IPOs, SEBI relaxed certain provisions of SEBI (DIP) Guidelines.

Introduction of Fast Track Issuances: To enable compliant listed companies to access Indian primary market in a time effective manner through follow-on public offerings and rights issues, SEBI introduced fast track issue mechanism. To make the issuance process fast, the earlier requirement of filing draft offer documents was amended and the need to file draft offer documents with SEBI and the stock exchanges was done away with.
Tightening of Eligibility Requirement for Qualified Institutions’ Placement (QIP): The eligibility criterion for companies desirous of making a QIP was amended. In addition to criteria specified in the guidelines for QIP, such companies were also required to have a listing history of at least one year on the date of issuance of notice to its shareholders for convening a general meeting in terms of Section 81(1A) of the Companies Act, 1956 to consider the QIP.

Relaxation of Provision Relating to Issuance of Debt Securities: In order to facilitate the development of a vibrant primary market for corporate bonds in India, SEBI amended SEBI (DIP) Guidelines concerning Issuance of Debt Securities. The amendments were in regard to: a) requirement of credit rating from one agency as against two earlier, b) permitting below investment grade debt instruments; and c) removal of structural restrictions.

Rationalization of Certain Requirements Pertaining to Indian Depository Receipts (IDRs): Amendments were made to permit all categories of investors to apply in IDR issues, subject to (i) at least 50 per cent of the issue being subscribed by QIBs, and (ii) the balance being made available for subscription to other categories of investors at the discretion of the issuer, which should be disclosed in the prospectus.

Amendments to Guidelines for Preferential Issues: Preferential allotment guidelines were amended to enable companies with listing history of less than six months to raise money through preferential allotment, subject to complying with the modified pricing and disclosure norms. In addition, listed companies planning to make preferential allotment were required to obtain PAN from each applicant.

Electronic filing through Corporate Filing and Dissemination System (CFDS): SEBI decided to phase out EDIFAR gradually in view of a new portal, viz., CFDS put in place jointly by BSE and NSE. In this regard, Clause 52 was introduced in the Equity Listing Agreement. The portal offers a XBRL enabled common platform for listed companies to file their returns with stock exchanges. It also serves as a common place for investors to view information related to listed companies.
Amendments pertaining to Issue Process: The amendments made to issue process were: a) mandatory quoting of PAN in application form, b) permitting of discount in issue price for retail investors/retail shareholders, c) providing definition for “retail individual shareholder” for listed companies, d) giving clarification on the term CEO/CFO, e) deleting of the chapter on “guidelines for issue of capital by designated financial institutions (DFIs), f) monitoring of issue proceeds and g) making of pledged shares eligible for computation of minimum promoters’ contribution.

Amendments to Clause 41 of the Listing Agreement: The Clause 41 of the Listing Agreement was revised to provide an option to the listed companies to furnish either unaudited or audited quarterly and year-to-date financial results to the stock exchange within one month of the end of each quarter (other than the last quarter). In case the company opts to submit unaudited financial results, they will be subjected to limited review by the statutory auditors of the company (or in case of public sector undertakings, by any practicing Chartered Accountant) and a copy of the limited review report will be furnished to the stock exchange within two months from end of the quarter. In case the company opts to submit audited financial results, they will be accompanied by the audit report. The revised clause also specified the manner of approval and authentication of the financial results and formats.

Amendments to Clause 49 of the Listing Agreement: Clause 49 of the Listing Agreement was amended to provide for a monitoring agency on utilization of issue proceeds, the report of which would be placed before the Audit Committee of the issuer company. The Audit Committee, in turn, would make appropriate recommendations to the Board of the issuer company. Issuer Company was also required to state material deviations in the utilization of issue proceeds to the stock exchanges.

Secondary Securities Market

Mandatory Requirement of Permanent Account Number (PAN) for All Transactions in the Securities Market: SEBI stipulated that PAN would be the sole identification number for all participants in the securities market, irrespective of the amount of transaction with effect from
July 02, 2007. The objective was to strengthen the ‘Know Your Client’ (KYC) norms through a single identification number for all participants in the securities market for facilitating sound audit trail.

Short Selling and Securities Lending and Borrowing (SLB): SEBI specified the broad regulatory framework for short selling by institutional investors and a full-fledged securities lending and borrowing scheme. Accordingly, relevant amendments were made to SEBI (FII) Regulations, 1995 and SEBI (Mutual Funds) Regulations, 1996, enabling FIIs and Mutual Funds to participate in short selling and SLB.

Margining of Institutional Trade in the Cash Market: In order to provide a level playing field to all the investors in the cash market as in the case of derivatives market, SEBI mandated that all institutional trades in the cash market would be subject to payment of margins as applicable to transactions by other investors. It was specified that w.e.f. April 21, 2008, trades would be margined on a T+1 basis with margin being collected from the custodian upon confirmation of the trade.

Draft SEBI (Investment Advisers) Regulations, 2007: The draft SEBI (Investment Advisers) Regulations, 2007 were placed on the website inviting public comments and suggestions. The comments/ suggestions received were being examined.

Derivatives Market: SEBI introduced (i) mini contracts in equity indices, (ii) options contracts with longer life/ tenure, and permitted exchanges to compute and disseminate volatility indices and bond indices. Clearing members were permitted to accept Foreign Sovereign Securities as collateral from foreign institutional investors (FIIs) for exchange traded derivative transactions.

Corporatization and Demutualization (C & D) of Stock Exchanges: In conformity with the provisions of SEBI notified Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognized Stock Exchanges) Regulations, 2006 (MIMPS Regulations) and as part of Government of India Foreign Direct Investment (FDI) policy, 16 stock exchanges had completed demutualization process by diluting at least 51 per cent of their
equity shareholding to public other than shareholders having trading rights. SEBI withdrew the recognition of Saurashtra Kutch Stock Exchange Limited and Magadh Stock Exchange Limited for failing to comply with observations in the inspection report and Hyderabad Stock Exchange Limited was derecognized for its failure to complete the demutualization process within the prescribed time.

Corporate Debt Market: In order to develop a sound corporate debt market in India, SEBI took a number of policy initiatives with respect to the following areas: (i) setting up of reporting platforms for corporate bonds, (ii) setting up of trading platform for corporate bonds, (iii) issues pertaining to trading in corporate bonds, (iv) making amendments to the listing agreement for debentures, (v) issuing securitized debt instruments regulations, (vi) evolving policy guidelines on debenture trustees, (vii) introducing Repos in corporate bonds, (viii) facilitating setting up of quote dissemination platforms, (ix) simplifying corporate bond issuance norms and (x) framing of draft issue and listing regulations for corporate bonds.

**Foreign Institutional Investors (FIIs)**

Registration of FII/Sub-Accounts, Issuance of P-Notes, and Investment Limit in Debt Securities: SEBI issued directions modifying the criteria for registration of FII/Sub-Accounts and issuance of P-Notes by them.

The investment limit for FIIs in Government Securities (including Treasury Bills) was enhanced from USD 2.6 billion to USD 3.2 billion.

**4.18 SEBI Policies to strengthen Primary and Secondary Securities Market in 2008-09**

GDP grew at 6.7 percent in 2008-09 despite the recession affecting the rest of the world. The service sector continued to drive the growth rates. It grew at 9.4 percent whereas industrial sector struggled with 2.6 percent growth and agriculture with 1.6 percent growth. The share of services sector rose to 64.6 percent while industry remained stable at 19 percent. India’s Gross domestic savings as a proportion of GDP at market prices increased to 37.7 percent in 2007-08 due to the improved saving performance by the household sector.
The liquidity condition remained tight during July-October 2008-09 as rising bank credit and higher forex demand from demand from importers and oil companies increased on account of a rise in crude oil prices besides outflows by foreign institutional investors (FIIs). Liquidity condition improved in later part of the year 2008-09 on account of 400 basis points reduction in the cash reserve ratio (CRR), 100 basis point reductions in the statutory liquidity ratio (SLR),

Stock prices in India remained subdued during 2008-09 in keeping with the global financial markets. Stock prices were volatile, particularly in the month of October 2008, when global stock markets meltdown was at a peak. With the intensification of global financial turmoil in mid-September 2008, domestic financial markets came under stress as external sources of credit dried up and liquidity conditions tightened abruptly. Corporates withdrew large amount from mutual funds in October-November 2008 and mobilization of funds by way of public issue, rights issue, private placements and offerings of private equities was also subdued. India’s import bill increased significantly during 2008-09 both on account of crude oil as well as non-oil imports.

**Primary Securities Market**

SEBI initiated several policy measures in the primary market. The important among them are:-

1) Application supported by Blocked amount: SEBI introduced a new mode of payment in public issues through book building, it ensure that the funds are debited from the investors’ accounts only upon confirmed allotment of securities and only to the extent of allotment made to the investor. The ASBA process was also extended to rights issues.

2) Reduction in Timelines for Rights issues: with the intention of mitigating market risks faced by issues and investors timelines for rights issues like the notice period required for calling a board meeting of the issuer to consider the rights issue; and the period stipulated for completion of allotment and commencement of listing and trading of the shares so issued.

3) Eligibility for making qualified intuitions placement (QIP): Expansion of the eligibility criteria for listed companies desirous of making Qualified Institutional Placement (QIP)
to cover companies, which have been listed during the preceding one year pursuant to approved scheme(s) of merger/ demerger/ arrangement entered into with companies which have been listed for more than one year in such stock exchange(s).

4) Modifications in QIP: SEBI modified the pricing guidelines for QIP through change in the floor price formula and definition of relevant date and extending these guidelines to preferential allotment to QIBs, provided that the number of QIB allottees in such preferential allotment does not exceed five.

5) Lock in period: SEBI initiated the lock-in period of shares in preferential allotment, pursuant to exercise of warrants to be the full lock-in period of one year or three years, as the case may be, from the date of allotment of such shares.

6) Non convertible Debentures: SEBI accorded permission to a listed company to make a combined offering of Non-Convertible Debentures (NCDs) with warrants through the QIP mechanism. NCDs and warrants issued pursuant to a combined offering can be listed and traded separately. The minimum contract value for trading of NCDs/ warrants was set at Rs.1 lakh.

7) Bonus issues: Timeline for completion of bonus issues by listed companies stipulated at 15 days from the date of approval by the board of directors of the issuer (in case shareholders’ approval is not required) and at 60 days from the date of meeting of the board of directors wherein the bonus was announced subject to shareholders’ approval.

8) A simplified listing agreement for debt securities prescribed, in case the equity of an issuer is already listed.

**Secondary Market**

The salient policy initiatives SEBI introduced concerning the secondary market segment were:

1) Short selling and securities and lending and borrowing: The broad framework for short selling and securities lending and borrowing (SLB) scheme for all market participants was operationalized with effect from April 21, 2008. The key modifications made to SLB Scheme included an increase in tenure for SLB to 30 days from 7 days, extending
the time for SLB session to the normal trade timings of 9:55 am to 3:30 pm, and allowing margins in SLB in the form of cash and cash equivalents.

2) Margining of intuitional trade: SEBI mode the margining of institutional trades was made mandatory with effect from April 21, 2008 and collection of margins from institutional investors on a T+1 basis.

3) Direct Market Access: SEBI introduced for institutional investors, allowing brokers to offer clients direct access to the exchange trading system through the broker’s infrastructure without manual intervention by the broker, subject to proper risk management of clients by the broker.

4) Cross margining facility: SEBI extended to all market participants for offsetting positions in cash and derivatives market.

5) MIMPS Amended: The Securities Contracts “Manner of Increasing and Maintaining Public Share holding in recognized stock exchanges” (MIMPS) Regulation 2006 was amended to allow six categories of shareholders namely, public financial institutions, stock exchanges, depositories, clearing corporations, banks and insurance companies to hold directly or indirectly up to 15 per cent of the paid-up equity share capital of the concerned stock exchange. Any shareholder other than the aforesaid six categories of investors can hold directly or indirectly not more than 5 per cent of the paid-up equity share capital of a stock exchange.

6) MCS stock exchange: SEBI granted approval to NSE and BSE for operationalizing the exchange traded currency derivatives segment; and MCX Stock Exchange Ltd. was recognized as a stock exchange for a period of one year commencing on September 16, 2008 for operationalizing the exchange traded currency derivatives segment only.

7) Exit option: Broad guidelines were approved for providing an exit option to regional stock exchanges whose recognition is withdrawn and/or renewal of recognition is refused by SEBI and those exchanges that are desirous of surrendering their recognition.

8) Framework for recognition and supervision of stock exchanges/platforms of stock exchanges for small and medium enterprises was specified by SEBI.
Foreign Institutional Investment (FII)

The SEBI also brought in few changes with respect to FII and they are:

1. The eligible categories of the Foreign Institutional Investor (FII) applicants were expanded to allow for NRI-owned investment managers to register as FIIs subject to the condition that they did not invest their proprietary funds.

2. It was decided to do away with the quantitative restrictions imposed on Overseas Derivative Instrument (ODI) issuance capabilities and restrictions on ODIs on derivatives with effect from October 7, 2008.

3. In June 2008, the limit for investments in debt by the FIIs in the government securities was increased from US$ 3.2 billion to US$ 5 billion and in corporate debt from US$ 1.5 billion to US$ 3 billion. The corporate bond investment limits were further increased to US$ 6 billion in October 2008 and to US$ 15 billion in January 2009.

4. The restriction on investment of FIIs in the ratio of 70:30 in equity and debt respectively was done away with

4.19 SEBI Policies to strengthen Primary and Secondary Securities Market in 2009-10

The real GDP grew at 7.4 percent in 2009-10. The service sector continued to drive the economy, albeit at a moderate rate of 8.3 percent, the industrial sector grew at 10.4 percent whereas agricultural sector struggled at 0.2 percent. The gross domestic saving as proportion of GDP decreased to 23.5 percent in 2008-09. The Gross domestic capital formation was 34.9 percent of GDP in 2008-09.

Primary Market

The important initiatives undertaken by SEBI in primary market during 2009-10 are:-

ASBA Phase II: SEBI in its continuous endeavour to make the existing public issue facility more efficient, SEBI introduced Applications Supported by Blocked Amount (ASBA Phase I) as a supplementary facility which was available to retail individual investors in public issues only. ASBA Phase I was subsequently extended to rights issues. It has been decided to introduce ASBA Phase II, which will be applicable to all public issues and rights issues with single payment option which are opening on or after January 1, 2010.
Anchor Investor: The amended SEBI (Disclosure and Investor Protection) Guidelines 2000 provide that an unlisted company making an IPO shall list the securities being issued through the IPO on at least one stock exchange having nationwide trading terminals. A concept of Anchor Investor in public issues through book building was introduced.

IDRS Listing: The existing listing requirements for IDRs (Indian Depository Receipts) issued by issuing companies from countries whose securities market regulators are signatories to the Multilateral Memorandum of Understanding (MMOU) of the International Organization of Securities Commissions (IOSCO) were simplified. Accordingly, a Model Listing Agreement containing listing requirements for listing of IDRs of such issuing companies was specified.

Enhancing Disclosures and unclaimed shares and dividends: SEBI decided to introduce a uniform procedure for dealing with unclaimed shares and dividend declarations by listed companies and reduce the notice period for all corporate actions like dividend and bonus for all scrips, whether in demat or physical, whether in the F&O segment or not. The notice period for record dates and board meetings has been reduced to seven and two working days respectively.

Secondary Market

The important initiatives undertaken by SEBI in secondary market during 2009-10 are:-

It is mandatory for the transferee(s), in case of securities market transactions and off-market/private transactions involving transfer of shares in physical form of listed companies, to furnish a copy of the PAN card to the Company/RTAs for registration of such transfer of shares.

Transparency in grievance redressal mechanism: SEBI In order to bring in more transparency in the grievance redressal mechanism available in stock exchanges, it was decided that they will henceforth disclose the details of complaints lodged by clients/investors against trading members and companies listed in the exchange, on their website. The aforesaid disclosure shall also include details pertaining to arbitration and penal action against the trading members.
Transparency in dealings with clients and stock brokers: SEBI With a view to instilling greater transparency and discipline in dealings between clients and stockbrokers, stockbrokers have been advised to register a client by entering into an agreement with him. The registration requirements include both mandatory and non-mandatory documents. The former include (a) a member-client agreement (MCA)/triptite agreement in case a sub-broker is involved, (b) a know-your-client (KYC) form and (c) a risk disclosure document (RDD). A copy of all the documents executed by the client shall be given to him, free of charge, within seven days from the date of execution of the documents by him.

Trading hours: SEBI permitted Stock exchanges to set their trading hours (in cash and derivatives segments) subject to the condition that these are between 9 am and 5 pm and the Exchange has in place a risk-management system and infrastructure commensurate with the trading hours.

Revised charges to be Uniform and transparent: SEBI to bring note Taking note of the fact that stock exchanges had reduced/waived transaction charges, they were advised, while revising such transaction charges, to ensure that their systems were capable of handling additional load and it did not affect the existing risk-management system. The revised charges should be uniformly applied to trades of similar nature and implemented in a fair and transparent manner.

**Access:** SEBI-registered stockbrokers (including trading members) of stock exchanges have been allowed to provide access to clients through authorized persons.

Loss margins not to exceed sale value of transaction: SEBI decided that in case of a buy transaction in the cash market, VaR margins, extreme loss margins and mark-to-market losses together should not exceed the purchase value of the transaction. However, in case of a sale transaction in the cash market, the existing practice would continue, namely VaR margins and extreme loss margins together shall not exceed the sale value of the transaction and mark-to-market losses would also be levied.
Parity between DVCF and FVCI: SEBI decided to bring in parity between domestic venture capital funds and foreign venture capital investors (FVCIs). Applicants desirous of registering with SEBI as FVCIs are required to obtain firm commitment from their investors for contribution of an amount of at least US$ 1 million at the time of submission of applications seeking registration.

FIIIs

The overall limit for investments by FIIs and sub- accounts is US$ 5 billion for government securities and treasury bills and US$ 15 billion for corporate debt. Investments by FIIs/ sub- accounts in debt-oriented mutual fund units (including units of money market and liquid funds) are considered corporate debt. A major part of the debt limit is allocated to FIIs/sub- accounts on an open bidding platform provided by the stock exchanges. The auction process is performed alternatively on NSE and BSE offered platforms. Maximum and minimum limits vary as per the total amount available for auction. The limits availed of in this process need to be utilized within 45 days. The remaining part of debt limit is allocated on a ‘first-come-first-served’ basis subject to ceiling. The limits availed of in this process need to be utilized within 11 working days.

4.20 SEBI Policies to strengthen Primary and Secondary Securities Market in 2010-11

Indian economy cemented its place among the fastest growing economies in the world. The real GDP grew by 9.3 percent in 2010-11. There was overall development in all the three sections as agriculture grew by 7.5 percent industry grew by 9.5 percent and Service grew 8.9 percent. The gross domestic savings as a percentage of GDP increased to 33.7 percent in 2009-10. The Gross Domestic Capital Formation increased to 36.5 percent of GDP in 2009-10.

Global crude oil price increased there was liquidity squeeze in the economy and commercial banks borrowed 1 lakh Crore from the repo window of RBI and increased deposit rates for shorter tenures to augment fund mobilization. Despite this trade deficit narrowed because of increase in exports. The bulk if trade deficit
Primary securities Market

Indian primary market experience a rapid growth in terms of resource mobilization growth in equity markets after the global financial crisis, public sector companies with a disinvestment mandate entered the primary market, investor response to public issues was also encouraging Capital(equity and debt) was raised to the tune of 67,609 Crore through 91 issues during 2010-11

The major policy initiatives taken by SEBI relating to the primary market during 2010-11

1) Encouragement of retail investor:-In order to increase retail increase retail investor participation and to keep pace with inflation monetary limit on retail individual investor application was increased from 1 lakh to 2 lakh

2) Reforms in issue process:-SEBI has been constantly reviewing various rules and procedures to make markets competitive some of the major initiatives are

   a. Reduction in process time lines:- in order to lessen the market risk, infrastructural stress and costs, time between issue closure and listing was reduced from 22 days to 12 working days. Reduction in process timelines help in reducing exposure of issuers/ investors to volatility in market conditions, and help the issuers to raise money quickly

   b. Enhancement in Application Supported by Blocked Amounts (ASBA) Process

   SEBI has introduced Applications Supported by Blocked Amount (ASBA) process is issues. Wherein application money is blocked in a bank account and debited only to the extent of allotment entitlement while continuing to earn interest. Vide Circular dated April 06, 2010, SEBI also extended the ASBA facility to QIBs in public issues, opening on or after May 1, 2010. SEBI also extended the ASBA facility to QIBs in public issues opening on or after May 1, 2010.

   c. Public Announcement by companies proposing to access the capital market: In order to draw the attention of investors about filing of draft offer document so as to elicit timely comments without adversely impacting the issue process, it was mandated that the issuer company may make a simultaneous public announcement about filing of Draft offer document.
d. Lead managers mandated to submit compliance certificate in respect of news reports: In order to ensure that the information that had appeared in the media is consistent with the disclosures made in the offer documents, merchant bankers were mandated to submit a compliance certificate as to whether the contents of the news reports that had appeared after filing of the draft offer document till closure of the issue were supported by appropriate disclosures in the offer document or not.

e. Details of current and past directorship(s) in listed companies whose shares have been / were suspended from being traded on the BSE/NSE: In order to enable investor to assess track record of directors, director of issuer companies have been mandated to disclose in Red Herring Prospectus regarding directorship in other companies whose shares have been de-listed / suspended from trading for a period of 3 months or more in the past 5 years.

3) Preferential Issue of Equity Shares or Convertible Securities or Warrants to Promoters and Promoter Group:- SEBI decided that in case of preferential issues, where any promoter or promoter group entity has previously subscribed to the warrants of the company but failed to exercise the warrants, the promoters and promoter group shall be ineligible for preferential issue of equity shares or convertible securities or warrants in that company for a period of one year from the date of expiry of the currency /cancellation of the warrants. SEBI further decided that if any member of the promoters/promoter group has sold shares in the previous six months, then the promoters/promoter group would be ineligible for allotment on preferential basis.

4) Minimum Promoters’ Contribution in Follow-on Public Offers (FPOs):- In order to enable listed issuers to have more flexibility in raising capital through various instruments, it was decided that the requirement of promoters’ contribution shall not be applicable to FPOs where equity shares of the issuer are frequently traded in a recognized stock exchange for three years and the issuer has a track record of dividend payment for three years.

5) Disclosure of Performa Financial Statements
it was mandated that the issuer companies shall submit Performa financial statements in respect of the last completed accounting year, and the period beginning from the date of the end of the last completed accounting year and ending on the date on which financial statements of the issuer have been disclosed in the offer document.

Amendments to Clause 41 of the Listing Agreement

a) Timelines for Submission and Publication of Financial Results by Listed Entities:-
With a view to streamline the submission of financial results by listed entities, it was mandated that quarterly (audited or un-audited with limited review) financial results on stand alone or consolidated basis shall be submitted within 45 days of the end of every quarter. Also, audited annual results on stand alone as well as consolidated basis, shall be disclosed within 60 days from the end of the financial year for those entities which opt to submit their annual audited results in lieu of the last quarter unaudited financial results with limited review.

b) Voluntary Adoption of International Financial Reporting Standards (IFRS) by Listed Entities having Subsidiaries

In order to familiarize listed entities with the requirements under IFRS, listed entities having subsidiaries were provided an option to submit their consolidated financial results either in accordance with the accounting standards specified in section 211(3C) of the Companies Act, 1956, or in accordance with IFRS.

c) Requirement of a Valid Peer Review Certificate for Statutory Auditors

It has been decided that in respect of all listed entities, limited review/statutory audit reports submitted to the concerned stock exchanges shall be given only by those auditors who have subjected themselves to the peer review process of ICAI and who hold a valid certificate issued by the ‘Peer Review Board’ of the said Institute.

d) Interim Disclosure of Balance Sheet Items by Listed Entities

With a view to have more frequent disclosure of the asset-liability/solvency position of entities; listed entities were mandated to disclose within forty-five days from the end of the half-
year, as a note to their half-yearly financial results, a statement of assets and liabilities in a specified format.

e) Approval of appointment of ‘CFO’ by the Audit Committee

Under Clause 49 of the Listing Agreement, it was mandated that the appointment of CFO shall be approved by the Audit Committee before finalization of the same by the management.

Amendments to Clause 35 of the Listing Agreement – Disclosure Relating to Shareholding Pattern

a) Disclosure of Shareholding Pattern Prior to Listing of Securities

As per Clause 35 of the listing agreement one day prior to the date of listing, in order to ensure public dissemination of updated shareholding pattern. The stock exchanges were also mandated to upload the same on their websites before commencement of trading in the said securities.

b) Disclosure of Shareholding Pattern of Listed Entities Pursuant to Material Changes in the Capital Structure

As per the format specified in Clause 35 of the Listing Agreement along with a footnote on what necessitated the filing of the revised shareholding pattern. The stock exchanges were also mandated to upload the same on their websites immediately.

c) Disclosure in Respect of Depository Receipts

In order to ensure a holistic and true picture of the promoter/promoter group holding in such entities, it was specified that details of ‘shares held by custodians and against which DRs have been issued’ shall be further segregated as those pertaining to the ‘promoter/ promoter group’ and to the ‘public’.

d) Maintenance of a Website by Listed Entities

In order to ensure/enhance public dissemination of all basic information about listed entities, all such entities were mandated to maintain a functional website that contains certain basic information about them, duly updated for all statutory filings, including agreements entered into with media companies, if any.

e) Disclosures Regarding Agreements with the Media Companies
In order to ensure public dissemination of details of agreements entered into by corporate with media companies, listed entities were mandated to disclose details of such agreements on their websites and also notify the stock exchange of the same for public dissemination.

**Secondary Securities Market**

Secondary market experiences a sudden change in the Global financial market. The following are the major policy initiatives taken by SEBI relating to the secondary market during 2010-11.

1) **Separate platform for SME:**- issued guidelines on market maker for small and medium Enterprise(SME) exchange/separate platform of existing exchange having nationwide terminal.

2) **FIIs permitted to offer domestic government securities as collateral:**-
   Reserve Bank of India allowed FIIs to offer domestic government securities and foreign sovereign securities with AAA rating, as collateral to the recognized stock exchanges in India.

3) **AMC:**- Account Maintenance charges collected in advance and opening on annual/half yearly basis on Demat Accounts by Depository Participants. In order to safeguard the interest of investors, SEBI informed that in the event of closing of the Demat account or shifting of the Demat account from one DP to another; the AMC collected by the DP shall be refunded to the BO for the balance of the quarters.

4) **Call Auction in Pre-open Session:**- Based on the recommendation of SMAC and the proposal received from the stock exchanges, SEBI vide circular dated July 15, 2010, introduced call auction in pre-open Session on a pilot basis for securities forming part of Sensex and Nifty. The call auction mechanism is expected to reduce volatility and aids in better price discovery.

5) **Mandatory Requirement of PAN:**- In order to ensure better compliance with the Know Your Client (KYC) norms, it was informed that with effect from August 16, 2010, PAN non-compliant demat accounts would also be “suspended for credit” other than the credits arising out of automatic corporate actions. It was clarified that other credits including credits from IPO/FPO/ Rights issue, off-market transactions or any secondary market transactions shall not be allowed into such account.

202
6) **Wireless technology:-** SEBI registered brokers who provide internet based trading as specified by SEBI shall be eligible to provide securities trading using wireless technology

7) **Change in Activity Schedule for T+2 Rolling Settlement (Auction Schedule):-** SEBI revised auction schedule to the conducted on the same day of the settlement to the conducted on the same day of the settlement, after the pay-in is completed. In order to reduce the time involved in delivery the shares to the buying broker in case of default by the selling brokers.

8) **Policy initiatives for Derivatives:-**
    a) **Exchange traded currency derivatives:-** SEBI permitted exchange to introduce currency futures on Euro-INR, Pound Sterling-INR and Japanese Yen-INR. On February 1, 2010, these currency pairs were introduced at NSE and MCX-SX and at USE on September 20, 2010.
    b) **Derivatives contracts on Volatility Index:-** to introduce derivatives contracts on Index, subject to the condition that the underlying Volatility has a track record of at least one year and the exchange has appropriate risk management framework.
    c) **Physical Settlement of Stock Derivatives:-** SEBI provided stock exchanges flexibility to offer;
        1) cash settlement (settlement by payment of differences) for both stock options and stock futures; or
        2) Physical settlement (settlement by delivery of underlying stock) for both stock options and stock futures
        3) Cash settlement for stock options and physical settlement for stock futures; or
        4) Physical settlement for stock options and cash settlement for stock futures.

9) Options on USD-INR Spot Rate:- SEBI permitted stock exchanges to introduce options on USD-INR spot rate in their currency derivatives segment. Options on USD-INR were introduced at NSE and USE on October 29, 2010.

10) Committee for Review of Ownership and Governance of Market Infrastructure Institutions (MIIs)
Under the Chairmanship of Dr. Bimal Jalan (former Governor of Reserve Bank of India), had been constituted to examine the issues arising from the ownership and governance of Market Infrastructure Institutions. The committee has submitted its final report on November 22, 2010.

11) Disclosure of Regulatory Orders and Arbitration Awards on Stock Exchange Website:-
Based on the feedback and inputs received from investor associations, it was informed vide circular dated April 1, 2010 that stock exchanges shall post all their regulatory orders and arbitration awards issued since April 1, 2007, on their websites within 30 days.

12) Display of Details by Stock Brokers:-
SEBI vide circular dated November 4, 2010 advised the stock brokers that while a stock broker may use the brand name / logo of its group companies, it must display the following

a. its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers in its portal /web site, if any, notice / display boards, advertisements, publications, know your client forms, and member client agreements;

b. its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in the contract notes, statement of funds and securities, and correspondences with the clients.

13) Expansion of Market Access through Authorized Persons

With a view to expand the reach of the markets for exchange traded products, SEBI vide circular dated November 6, 2009 had allowed registered stock brokers to provide market access to clients through Authorized Persons (APs) and provided a broad framework governing the same. Further, vide circular dated July 23, 2010 the certification requirements for APs were rationalized in line with those applicable for stock brokers and sub-brokers. As of March 31, 2011, 63,042 APs have been registered by the stock exchanges, as against 34,767 as on March 31, 2010. Thus, there has been a substantial increase in the number of APs registered with the stock exchanges and thus increasing the reach of the markets for exchange traded products.

14) Granting of Permanent Registration to Intermediaries
SEBI Board approved the proposal to amend the respective Regulations governing the intermediaries to grant permanent registration to the intermediaries. The intermediaries would be granted registration initially for a period of five years. On assessment of the performance of the intermediary and its track record during the initial five years, it will be granted registration on permanent basis.

15. Constitution of Standing Committee for Credit Rating Agencies

In order to bring about coordination among the regulators pertaining to issues related to CRAs, a Standing Committee comprising of representatives of all the regulators (SEBI, RBI, IRDA & PFRDA) has been set up.

**Foreign Institutional Investors (FIIs)**

a) Protected Cell Company (PCC) / Multiply Share Class Vehicle (MCV) Policy

1) All FIIs were advised to provide declarations and undertakings that they conform to the broad based criteria as specified in regulations. Further, all those entities that were broad based and were structured as MCVs were required to seek prior permission before a share class is added for directing investments into India. All registered FIIs were mandated to provide the requisite declarations and the undertakings about their structures to SEBI by September 30, 2010.

   a) FIIs/sub-accounts that did not comply with these provisions were advised not to take fresh positions in cash and derivatives markets while they can retain their current positions or sell off/ unwind.

   b) The status of compliance of providing requisite declaration and undertaking as prescribed by above circular if circular submitted offer September 30, 2010 registration surrendered/applied for surrender /expired/not submitted as on March 31, 2011.

2) **Change in Reporting Format of ODI/ PNs Activity:** The new reporting format was announced

   a) Report the information about the name and jurisdiction of the end beneficial owner of PNs at all times.

   b) Provide information of the PN issuer’s transactions that are hedged and referenced in India.

   c) Compliance of PN issuer with KYC norms for PN end beneficial owner.
d) Provide confirmation on regulatory compliance with the KYC norms.

e) Undertaking by PN issuer that PNs are not issued to Non Resident Indians or Indian Residents.

4.21 SEBI Policies to strengthen Primary and Secondary Securities Market in 2011-12

The Europe debt crisis, sluggish growth in USA did slow down the Indian economy. The GDP grew at modest 6.5 percent in 2011-12. Service sector continued its momentum with 9.2 percent. Service grew at 8.2 percent; agriculture grew at 3.1 percent, whereas industry sector struggled with 3.8 percent growth in 2011-12. The Gross domestic savings reduced to 32.3 percent in 2010-11. The household savings highest saving rate in the world, savings increased marginally to 12.8 percent.

Primary Market

The important policy initiatives undertaken by SEBI in primary market during 2011-12 are:-

Eligibility Criteria under the Profitability Track Record: The eligibility norms for issuers coming out with IPOs through the profitability track record criteria were amended to clarify that the track record of distributable profits for at least three out of the immediately preceding five years should be complied with, both on stand-alone as well as on consolidated basis.

Review of Policy on Allotment to Anchor Investors: The concept of Anchor Investors (AIs) was introduced by SEBI in June 2009 to evolve a class of committed investors who can be relied upon to anchor an issue of capital in all market conditions, adverse or otherwise. With a view to make the concept more effective, a minimum allotment of ’ 5 crore per AI has been prescribed along with a minimum and maximum number of AIs based on issue size. Review of Bid-cum-Application Form and Abridged Prospectus: The structure, design and contents of bid-cum-application form and abridged prospectus were revised so as to provide material information to investors in a user friendly manner.

Syndicate ASBA: With a view to enhance the role of ASBA in public issues and to have a wider reach of ASBA to investors, syndicate / sub-syndicate members were allowed to procure ASBA forms from the investors. For this purpose, syndicate / sub-syndicate members were
mandated to commence this facility initially from 12 bidding centers which account for maximum number of applications in public issues. Reservation for Convertible Security Holders in Rights/Bonus Issuances: On the issue of reservation to convertible debt holders, SEBI clarified that reservation in rights/bonus issuances shall be made only to holders of compulsorily convertible debt securities. Earlier, the regulatory framework mandated a compulsory reservation in case of rights/bonus issue to the entire category of fully or partially convertible debentures. This was done with an objective to curtail the twin benefits arising out of price resetting as well as reservations to such holders.

Regulatory Framework for Rights Issues of Indian Depository Receipts: In order to facilitate simultaneous rights offering by the foreign issuers (who have listed their IDR’s in Indian stock exchanges) in their home jurisdiction and in India, framework for rights issue of IDR’s was notified. To simplify the requirements, it was mandated that for circulation in India, an additional wrap (disclosing information required in Indian jurisdiction and issue process relevant for the IDR holders) can be attached with the letter of offer circulated in their home jurisdiction by the overseas investor.

Secondary Market
The important policy initiatives undertaken by SEBI in secondary market during 2011-12 are:-

Secondary markets are often referred to as the barometer to a nation’s health. The stock prices in the current year have fluctuated owing to its integration with global financial markets which have been equally volatile. Some policy initiatives have though been taken to revive the confidence in the stock market and encourage small investors to invest as well. The policy initiatives taken in the secondary securities market for 2011-12 are as under:

Limitation Period for Filing an Arbitration Reference: In view of streamlining the provisions in the depositories with reference to limitation period for filing an arbitration reference, SEBI has specified that the limitation period for filing an arbitration reference shall be governed by the Law of Limitation i.e. The Limitation Act, 1963. Modification to Investor Protection Fund (IPF) /Customer Protection Fund (CPF) Guidelines: Based on the representations received from stock exchanges, SEBI modified partially the IPF/CPF guidelines, which ‘interalia’ states that stock exchanges shall ensure that the amount realised from the assets
of the defaulter member is returned to the defaulter member after satisfying the claims of the stock exchange and SEBI in accordance with the bye-laws of the stock exchange.

Trade Controls in Normal Trading Session for Initial Public Offering (IPO) and Re-listed Scrips: In light of high volatility and price movement observed on first day of trading and recommencement of trading in case of IPOs and re-listed scrips, SEBI has put in place a framework of trade controls in normal trading session. The normal trading session shall commence only after the conclusion of call auction session for such scrips on BSE and NSE.

Composition of Arbitration Committee: SEBI has notified to do away with the representation of trading members on arbitration committee/panel of all stock exchanges. Accordingly, the arbitration committee/panel of the stock exchange docs not comprise of any trading members. Enhanced Level of Compliance of the Intermediaries: In order to strengthen the monitoring mechanism through periodic reporting by intermediaries, a revised reporting format was prescribed by SEBI for debenture trustees (vide circular dated December 19, 2011) and bankers to an issue (vide circular dated March 29, 2012).

Credit Rating Agencies: Some key developments that occurred in the current year to further smoothen the functioning of the Credit Rating Agencies (CRAs) are as under mentioned:
Standardization of Rating Symbols and Definitions: CRAs registered with SEBI were using different rating symbols and their definitions / descriptions. Multiple rating symbols in the same category of rating products used by different CRAs could confuse the investing community. This also had the possibility of unhealthy competition among the CRAs. For easy understanding of the rating symbols and their meanings by the investors and to achieve high standards of integrity and fairness in ratings, SEBI standardized the rating symbols and definitions in consultation with CRAs.

The CRAs were advised to take following steps for dissemination and implementation of the aforesaid guidelines: (i) disclose new rating symbols and definitions on their websites; (ii) update their rating lists on their websites; and (iii) inform their clients about the change in the rating symbols and definitions. SEBI is probably one of the first regulators in the world to come
up with this investor friendly regulation. Guidelines for Uniform Compliance Standards for Ratings by Credit Rating Agencies: The CRAs play an important role in the securities markets as investors take their decisions for investing in debt instruments issued by the companies based on ratings.

**Foreign Institutional Investors (FIIs)**

Formulation of Qualified Foreign Investors framework: In line with the Union Budget speech 2011 and subsequent press release by GoI, it has been decided to allow foreign investors termed as Qualified Foreign Investors (QFI), who meet the prescribed KYC norms, to invest in equity schemes of Indian mutual funds, permitted Infrastructure Debt Fund (IDF) schemes of mutual funds and Indian equity shares subject to the prescribed terms and conditions. Vide SEBI circulars dated August 9, 2011 and January 13, 2012, the framework for QFI investment in mutual funds and equity shares has been prescribed. The QFI framework has the objectives of reducing regulatory arbitrage on account of different categories, increase in transparency, simplification of account opening, reduction in time taken to make investment, decrease in transaction cost coupled with FATF level KYC for foreign investors to participate in Indian capital market and to encourage indirect participants to directly participate in Indian capital market. All these aspects will enhance the projection of Indian securities markets and help it make a preferred investment destination by global funds.

Revision of Debt Re-investment Policy: Over a period of time SEBI has been fine tuning the allocation methodology of FII debt limits. Initially, the allocation of FII debt limit was done on a quota basis and then on first come first served basis. As a result, these debt limits were allocated to allottees without any cost. Subsequently, the allocation procedure was changed to the open bidding process. Some of the FIIs that were active participants in debt since beginning and had accumulated investment limits over a period of time continued to have opportunity to increase their share in the investment pool by participating in the subsequent bidding processes.