CHAPTER 1

INTRODUCTION
Introduction

A Euro issue is an issue where the securities are issued in a currency different from the currency of the country of issue and the securities are sold internationally to corporate and private investors in different countries. With the new economic reforms and liberalization in India, the Indian corporate sector has now developed a global vision. In addition to the domestic finance available within the countries, the corporate sector has now started mobiling fund from foreign investors specially in Europe, Asia, America etc. at cheaper rate and at less legal formalities. The role of Euro issues in the Economy of the country is bound to become vital in coming years.

1. Meaning-What is Euro Issue

Euro issue is a method or mode of raising funds by an Indian company outside India in foreign currency. The word 'Euro' does not appear to have any significant or special meaning, nor is it a legal term. It simply denotes an issue of securities, which are listed on a European stock exchange. It is generally listed on the Luxembourg Stock Exchange which is one of the smaller stock exchanges in Europe and which has the most lenient listing requirements and in which the costs of listing and operation are relatively low. Although securities or instruments in an Euro issue are listed on a particular stock exchange, outside India (normally on an European stock exchange) subscriptions to the issue can come from any part of the
world except, of course, India. The securities issued in an Euro issue may be listed on the OTC Exchange of London.

A Euro-issue is an issue where the securities are issued in a currency different from the currency of the country of issue and the securities are sold internationally to corporate and private investors in different countries. A Euro-issues is different from a foreign issue where the issuer is not incorporated in the country in which the securities are being issued, but the securities are denominated in the currency of the country of issue and are aimed at domestic investors in the country where the issue is made. Euro securities are transferable securities, which are to be underwritten and distributed by a syndicate. The term Euro markets, of which international capital market and money market are a part, is a mis-name because though the concept of Euro market was first developed in Europe (more particularly, London) the size and geographical diversity of the Euro market draws participants, be it an issuer, underwriter, intermediary or investor, from all over the world, thus making it characteristically international.

The major benefit that a Euro issue provides to the issuer company is the ability to raise funds at a lower cost. Average coupon rates on convertible bonds of five year maturity in the Euro market are 2 ½ % to 4 % as against the domestic long term interest rate of 14% or more. The cost of Euro issue approximates to 4% vis-à-vis domestic cost of 8% to 14%, thus providing a mechanism for raising equity at a cost which is lower than the cost of making rights issue. Also, a Euro issue can be priced at par.
i. **The Nature of Euro Issue:** As mentioned above, in Euro Issues the securities are issued in a currency different from the currency of country of Issues. The exact nature of such an Issue can be well understood from its following features.

ii. **Foreign Currency Denomination:** Euro issues are always denominated in currency other than the currency of country of Issues. The Indian companies if they issues securities on dollar pound sterling it will be Euro-issue. Similarly of from issue securities in D mark London stock Exchange it is Euro issue.

iii. **Foreign Market:** Such issues are flaced for subscription in foreign market and not in home market. They are sold internationally to corporate and private investors in different countries (other than country of issue).

iv. **The name is misname:** Though Euro issues were first issued in Europe markets, more particularly the London market, but subsequently the size and directions grew. Now they are not confined to European market or European currencies, rather they are spread world over with all major world currencies. The concept has become wider and larger with the present size and diversity of the market of Euro-issues. It draws investors, issuers underwriters and intermediaries from al over the world.

v. **Different from Foreign Issue:** A Euro-issue is different from foreign issue. In a foreign issue, the securities are denominated in
the currency of the country of issue similarly like normal issues of-course it is issued in a foreign country, with the aim of mobilising fund from the investors of the foreign countries where they are issued. If Indian companies issue rupee securities in New York a London markets, it will be foreign issue but not Euro-issue.

vi. **Syndicated Issue:** The Euro issue is mostly syndicated issue. A body consisting of intermediaries financial institutions and banks create a syndicate for underwriting and distributing the issues. It facilitates, underwriting, depositing, investing and management of such issues. The issuing country or corporate unit does not issue it directly to the investors. It is always done through this syndicate.

vii. **Two Basic Instruments:** Euro-issue consists of two basic instruments — the Euro bonds and the Euro equities. Euro-bonds are international bonds issued on label of multinational corporations, international agencies and foreign states to investors from throughout the world.
2 Historical background

**Euro Issue-Need of the Hour:** In India, the concept of Euro Issues was identified in the year 1991 when the government started allowing the select Indian Companies to float foreign capital. There were two reasons for this.

Firstly, due to precarious foreign exchange reserve the government was unable to meet the growing needs of the Indian companies which needed to import technology as well as sophisticated Plant and Machinery. Moreover, due to inadequate foreign exchange Reserves, the country’s credit rating had been downgraded which made it difficult to borrow funds from the international source at the reasonable rate of interest. Therefore, it was the time to allow Indian companies, which would be judged by this intrinsic strength rather on the country’s credit rating to tap the equity and bond market in Europe.

Secondly, with the concept of liberalization taking place in the world it was necessary to encourage Indian companies to become global with a view to integrate India with the global economy.

It was in the year 1992 that Indian companies were for the first time allowed to raise funds from overseas market through global depository receipt mechanism. Since country’s economic performance was still not satisfactory and credit rating continued to be of non-investment grade, the first Indian companies like, Reliance Industries, Hindalco, etc., had to discount their Euro issues over the domestic prices. However, the appetite for Indian commercial paper later on
grew and became insatiable. In the year 1993, several Indian companies not only priced their Euro issues at par with domestic price, but also fetched premium. The returns in the emerging capital markets more particularly in South Pacific rim was unquestioned and the American investors pumped in large funds in these emerging markets. However, with the better price realisation, many Indian companies became greedy and jacked up the price of their shares through maneuvering and manipulations. This led to depression in the global market and the overseas investors developed resistance and demanded heavy discounts. The situation came to such an impasse that the sovereign issue VSNL had to be pulled off.

Jain Irrigation was the first company to have issued European Depository Receipt whereas Bharat Forge and SPIC have issued Swiss France denominated Bond Issues.
3 Globalisation and Liberalisation:

As India embarked upon the route of new economic reforms and liberalisation, the India corporate too developed a global vision. These corporates, who until now were restraining themselves to only the home finance available at high interest rates for financing, have come to realize that a host of investors, particularly in Europe, Asia and America, can be roped in for mobilising funds at cheaper coast and fewer hassles. Thus, Indian companies have found their way to global capital markets for meeting their resource requirements.

As a part of globalising the economy, the Government undertook two major steps first of allowing Foreign Institutional investors (FIIs) to invest in the Indian capital market and second permitting Indian companies to float their stocks in foreign markets. Two primary instruments floated by the Indian companies in international markets are Global Depository Receipts (GDRs) and Foreign CurrencyConvertible Bonds (FCCBs) more commonly known as the Euro Issues.

The Impact of Globalisation: The relationship between FDI policies and globalisation runs both ways: each affects the other. Indeed, it was the liberalisation of national policy frameworks that helped unleash one of the key driving forces of globalisation as we know it today: increasing international production by TNCs. At the same time, progress in the liberalisation of trade, as well as technological progress in telecommunications and transportation, permitted TNCs to
pursue increasingly regional and global strategies, which turn creates incentives to liberalise FDI policies. This mutually reinforcing process has in fact shaped international production in recent years and led to its integration at a deeper level that the shallow integration based on arm’s length trade and flows of financial capital.

The accelerating process of FDI liberalisation has led countries to extend more open policies into industries long considered sensitive (e.g. telecommunications, air transportation) and to permit forms of FDI entry previously considered less desirable, such as the establishment of fully owned subsidiaries, M&As and participation in privatisation programmes. This has, in turn, provided TNCs with an ever-increasing choice of locations and they have become more selective and demanding as regards other host country determinants.

The outcome of all this is that, while the liberalisation of FDI frameworks has contributed to an acceleration of FDI flows by creating more “space” for them, a process of diminishing returns has set in. Liberal FDI policy is increasingly losing its effectiveness as locational determinant of FDI. Competing intensely with one another for FDI and finding that liberal policies are no longer enough, host countries have increasingly come to realise the importance of adopting proactive measure to facilitate business transactions by foreign investors and of improving the economic determinations of FDI.
The speeding up of liberalisation and the simultaneous weakling of its effectiveness as a determinant of FDI has extended the scope of FDI policy frameworks. In particular, it has drawn attention to other policies that may affect FDI but that have not been specifically considered in this context in the past. These could be seen as constituting the “outer ring” of policies in the FDI context, as distinct from the core policies directly used to influence FDI, the “inner ring” of policies. (The dividing line between these two types of policies is increasingly being blurred, as outer-ring policies move into the inner ring). Broadly speaking, outer-ring policies can be divided into macroeconomic and macro-organisational policies.

**The Impact of Liberalization:** The principal forces that have driven the globalisation process, alone or in combination with one another — improvements in technology, markets more open to trade, FDI and technology flows, and the resulting competitive pressures — have led to a reconfiguration of the ways in which TNCs pursue their resource-seeking, market-seeking and efficiency-seeking objectives. They have thereby also redefined the determinants of inward FDI. Traditional inward FDI determinants and the types of FDI associated with them have not disappeared in globalising economy but their importance.

Improvements in technology have contributed to the deregulation of a number of important service industries. (e.g. telecommunication), in many cases opening them up to FDI. As most of the technological improvements were carried out by firms, the result was a pool of companies with enhanced ownership-specific advantages that put them in a better position to become TNCs. Technology has become
one of the most important tools for competition; indeed, in a number of industries, technological improvements in products including services, and processes like marketing have become the key to competitiveness. This in turn underlines the importance of access to created assets, i.e. to assets that can provide a competitive edge. Technology and a capacity for continuous innovation is the key to created assets. In addition, technological improvements in transportation and telecommunication technology have also provide TNCs with the ability to coordinate and manage their assets across borders and to service markets anywhere in the world. Combined with their general management expertise, TNCs have now enhanced their internal capacity to manage global complexity, turning it into one of their ownership-specific advantages.

The opening of markets to trade, FDI and technology flows have created enlarged markets for final and intermediate goods and services, and has provided TNCs (and domestic firms) with better access not only to national, regional and international and markets, but also to markets for factors of production and other resources. This has enlarged the range of choice that TNCs have regarding the modalities of serving these markets (especially FDI, trade, licensing, subcontracting, franchising); increased their access to immobile resources (unskilled labour, low-cost skilled labour, marketing expertise embodied in enterprises); and improved the efficiency of their international production systems.

With technology improvements enhancing the ability of firms to expand production and the opening of markets creating space for such
an expansion, firms have sought new opportunities to improve their
growth and competitive positions. Existing TNCs have responded by
making the acquisition of locational assets — and their most efficient
organisation — an important part of their competitiveness-enhancing
strategies. Enterprises that are not TNCs — and no longer as protected
by national projectionist regimes as in the past have responded by
undertaking FDI so as to acquire new locational assets. This is
reflected in the growing number of TNCs large and small from both
developed and developing countries. The number of TNCs in 14
OECD countries rose from about 7,000 in 1968/1969 to about 34,000
by the mid-1990s. The total number of TNCs stood at an estimated
52,000 by the mid-1990s, many of them obviously small and medium-
sized enterprises. The number of TNCs from developing countries
grew from around 4,000 in 1991 to around 9,000 by the mid-1990s.
By 1997, they accounted for 14 percent of world FDI outflows,
compared to 2 percent in the late 1970s.
4 Recent Development in International and Indian Capital Market:

We must study the European movement for unity, of the past half century. It will have far reaching effect on international economic and political relations. With globalization efforts in every sphere, India would undoubtedly feel the effects of further progress in European unity especially the monetary union with a single currency. As in every other phenomenon, India will have many opportunities and also face problems. It calls for adjustment, adaptation and innovation, all of which require planning with close collaboration between government on the one hand and industry, trade commerce and finance on the other. How well the government of India is preparing itself for this task. It is time that the economists take much interest in economic policy making, on the solid foundation of economic theory.

In respect of economic integration, one first modest step was the setting up of the European Coal and Steel community, in early 1950’s. This was followed by steps to facilitate free trade in Europe, leading to the setting of the European Economic Community (EEC), comprising six countries – France, Germany, the Netherlands, Belgium, Luxemburg and Italy, under the Treaty of Rome of 1957. Under the Treaty, a customs union or common market was to be created and the removal of obstacles to the free movement of goods, services, labour and capital was to be achieved in a period of 12 years.
From a single market, the goal moved towards economic union, with common policies in the fields of agriculture, industry, transport, communications and atomic energy. In due course, the scope of cooperation was widened from that of a single market to cover defence and steps that could lead to political union eventually, so that European Economic Community became the European Community.

The European Community recently became the European Union, in 1993, comprising economic as well as monetary union, with the ratification of Maastricht Treaty of 1992, the most important Treaty after the Treaty of Rome of 1957. In between the Treaty of Rome and the Maastricht Treaty came the Single European Act, which came into effect on the 1st July, 1987, reiterating the need for economic integration, with legal and procedural details, for achieving a full-fledged single market by the end of 1992, by removing all legal obstacles to the free movement of goods, services, capital and labour within the Community, By 1995.

The developments with regard to economic integration, leading to free movement of goods, vehicles and people are too numerous even to be mentioned. Before long, it was realised that monetary integration was also essential for economic integration. In short, monetary union was kept as the goal to be achieved. The European Community members where all members of the International Monetary Fund, which provided scope for monetary cooperation and exchange rate stability. But the Community members wanted even more stringent rules for exchange rate stability within the Community, through narrowing of
the permissible exchange rate movements on either side of the par value, through pursuit of fiscal, monetary and general economic discipline, to produce convergence in these areas rapidly.

The collapse of the Bretton Woods system of US Dollar convertibility to gold for monetary authorities and fixed exchange rates (par value system) in the period 1997-73, caused by the large and persistent external payments deficits of the USA and later by the oil price shocks, made monetary cooperation among members of the European Community even more necessary, especially to contain the movements of exchange rates to narrow limits in relation to one another members’ currencies, and stability vis-a-vis the US Dollar too. The arrangements were referred to as ‘snake in The tunnel’ in the beginning; later tunnel was given up, on account of joint float European Community Currencies against the US Dollar following the general system of floating that came to prevail after the 1973 oil shock.

Although the EMS’s performance was like that of the curate’s egg, on the whole there was progress towards monetary stability. It was considered, in 1988, that supply stage was ripe for taking further steps towards a full-fledged monetary union. For the purpose, Committee was appointed under the Chairmanship of Mr. Jacques Delors president of the European Commission, with the Governors of all the central banks of the Community as members. There were also a few outside experts as members. The unanimous report of the committee was ready in April 1989.
**Delors Committee Report:** The Report was a far-reaching document, the two most important recommendations being the introduction of a single currency for the European Community and the establishment of the European Central Bank, as the principal monetary authority, the central banks of member states being a part of the European System of Central Banks. The committee envisaged progress towards full union three stages (1) consolidation of single market for goods services and capital with removal of barriers especially on movements of capital, (2) revision of existing institutions of the community and setting up of new ones, further progress towards fiscal and monetary convergence among members and prescribing criteria for membership of the single currency and (3) fixation of exchange rates of members irrevocably, for exchange into the single currency, and then the introduction of the currency itself.

For implementing the recommendations of the Delors Committee, and in particular to fill in various details of the proposals, when the single European currency was to be introduced, a new major Act was required. This was done in February 1992 at Maastricht, the Netherlands, and the Treaty was ratified in 1993. The European Community then became the European Union.

It should be noted that the fundamental objective of monetary union is to ensure stability-price stability and exchange rate stability which, experience has shown, are vital for economic growth and employment creation. So fiscal and monetary policies have to be
geared to secure stability. On the fiscal side, the main endeavour has to be to keep public sector budget deficit to a low figure, in relation to the gross domestic product and likewise, outstanding public debt should remain low. On the monetary side, action lies in using various instruments open market operations, discount rate, statutory reserve requirements etc. when signals such as money supply growth, and market movements of exchange rates and interest rates, so indicated.

It was essential to make such progress in fiscal and monetary areas before stage III of monetary union commenced. So, a series of policy measures were initiated by the European community, including institutional arrangements, such as:

1. Fixation of fiscal criteria the public sector budget deficit should not exceed 3 per cent of GDP and outstanding public debt should not exceed 60 per cent of GDP.

2. An European central Bank (ECB) was to be set up, for the European Union. This institution together with the various central bank of member countries constitutes the European System of Central Banks (ESCB). The Maastricht Treaty has made elaborate provision for the independence, for political control, of the ECB. However, it remains to be seen how this will work in practice, having regard to general economic objectives, with potential for Government interference and conflict between the central bank and Government. To prepare for the establishment of the ECB, an interim arrangement was
made by means of the establishment of the European Monetary Institute, in 1994, from which date it may be said that Stage II of the monetary union commenced. It may be mentioned here that the European Central Bank started functioning from 1st July, 1998.

3. To highlight the importance of stability, especially fiscal stability, a formal pact was concluded in 1997, especially at the instance of Germany, which has been a staunch advocate and practitioner too, of this objective in the Post-War II years. It was to be called stability pact, but later, as sop to the views of some other member states, it was named as pact for stability and Growth, although it has always been understood that stability is meant for securing growth.

4. Decision was taken in 1995 to name the single currency for Europe as Euro. The date for the commencement of the Euro system was fixed for March 1999. The full-fledged operation of Euro will start from 1st January 2002. By that the change-over of the banking system to Euro should be completed. The tender character of the national currencies will also go by July 2002.

What remarkable progress had been made in European economic and monetary integration. It is most amazing that many countries which were enemies for centuries having caused all kinds of wars small and big are now building a solid foundation for unity, mutual trust and
economic and social progress, and balanced role in international offers.

Watch in contrast to the situation in India, where the states can not agree on matters of mutual interest, big or small, whether it be sharing offer water or defining the boundary of a state or district or Tahsil. All that we have are committees, commissions, reports, notes of dissent, walk-out, morchas, bandhs, rasta roko and riots. We should study the progress of European economic and monetary unity, if for no other reason then of its being a source of inspiration to us to work assiduously for national unity, politically, economically and culturally.

After remaining dormant for nearly two decades since around 1960, resource mobilisation in the primary capital market showed an upturn from the late 1970s. The growth accelerated towards the end of 1980s. The market capitalisation ratio went up from about 5 per cent of GDP in 1980-81 to 63 per cent in 1992-93. In eight year after 1986, the average daily turnover in the secondary market grew at about 35 per cent per year. Between 1980-81 and 1992-93, the RBI index of securities prices increased almost thrice 20.7 per cent per year) as fast as the wholesale price index (7.6 per cent per year). This is principle, reduces cost of equity capital and increases prospects for capital gains.

However, much of the growth is for debt securities, about a third is for convertible debentures. Proportion of equity (or risk) capital in market mobilisation came down from about 90 per cent in the early
1970s to about 30 percent two decades later. However, in absolute terms, nominal value of fresh equity capital raised grew at 18 per cent per year. Promoters contribution in this more than doubled, from 21 per cent per in 1970-71 to 45 per cent in 1990-91. This in principle, is a favourable change as they now have a greater stake in the company’s financial success. Proportion of equity underwritten also rose steadily reflects the stock market’s growing maturity. Moreover, the market witnessed growth of new financial institutions offering a variety of services and treble instruments with arraying components of debt, equity, maturities and risk.

There are series of policy initiatives for capital market growth since around the late 1970 when, the stock market had a marginal role in financing industry. Initially, dilution of equity holding in foreign controlled rupee companies popularly called the FERA companies, was perhaps a conscious effort to stimulate the primary capital market (Morris 1985). FERA companies success was probably significant for further development of the market.

This broadly coincided with the rise in nominal interest rates and the financial sector’s growing resource requirement and priority sector lending targets at consessional interest rates, commercial banks reportedly could not meet the industrial sector’s credit needs. In these circumstances, development financial institutions (DFI) persuaded firms to raise part of the required funds from the capital market. Anticipating corporate sector’s resource constraint in the Sixth Plan
government initiated many steps to encourage flow of household saving into capital market (Planning Commission 1982). These included hike in interest rates on debt instrument, their convertibility into equity, raising of tax exemption limits on dividend income and easing its (and interest) deduction at source. Similarly, corporate tax rates were reduced. Thus capital market reforms since 1991 perhaps reflect a continuation of a trend initiated over decade ago.

For much of the recent literature on financial markets, Mackinnon (1973) and Shaw (1973) form the points of departure. These studies argue that state intervention in setting interest rates and quantitative measures of resources allocation—defined as financial repression—adversely affect not only allocative efficiency but also depress the aggregate saving rate (hence investment) in less developed economies (LDCs). Therefore, they advocated liberalisation of financial markets. However, their arguments are mostly related to interventions in banking programmes of consessional interest rates.

In principle, stock market, as a part of a well organised financial system, has many advantage. It allows efficient risk sharing. Stock market induces gathering of information, which gets reflected in stock prices. These prices are then signals for resource allocation. In the secondary market, stock prices are powerful signals for managerial incentives and corporate governance.
Attribution part of the debt crisis of the 1980 in LDCs to inadequate development of their financial markets, the World Development Report (WDR), 1989 (World Bank 1989) broadly reflects the preceding analytical position. However, recognising information failure that can be acute in financial markets, the report argues for a sound supervisory mechanism and institutions to ensure their efficient functioning. On these considerations, the World Bank (and its affiliate, International Finance Corporation) makes policy-based lending and offers technical assistance of capital market development. Stock market growth in many LDCs in recent years perhaps reflects these policies and financial incentives. In India too, of late, much of the policy discussion seems to follow this dominant thought.

Till some time ago, shortage of long-term capital was believed to be a major constraint on industrialisation, since banks supply only short-term loans. As capital markets were practically non-existent (or reportedly inefficient) in most LDCs state promoted DFIs (often supported by World Bank’s advice and lines of credit) were expected to make up for the absence of an efficient capital market.

The companies (Amendment) ordinance promulgated on October 31, 1998 has empowered companies to perches their own shares or other specified securities, referred to as “buy-back”). As the Companies (Amendment) bill, 1998 introduced in the House of People has not been passed, the ordinance was repromulgated on January 7, 1999. The permission for buy back is subject to the conditions specified by
the ordinance, including the stipulation that it should be in accordance with regulations framed by SEBI. The SEBI regulations on buy-back apply only to listed securities and as such unlisted securities issued through private placement or otherwise fall outside the purview of SEBI regulations.

As per provisions of the Companies (Amendment) Ordinance, companies can issue sweat equity shares subject to authorisation by a resolution passed by a general meeting. The expression 'Sweat Equity' refers to directors or employees at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions. All limitations, restrictions and provisions relating to equity shares shall be applicable to sweat equity shares. It is worth noting here that Guidelines were issued in June 1998 to facilitate issue of GDR/ADR linked stock option to its employees by a company engaged in manufacture or production of software where not less than 80 per cent of the company's turnover is from software activities. In September 1998, this facility was extended to all companies engaged in Information Technology (IT) Software and IT Services.

**Dematerialized Trading**

Several initiatives have been taken by SEBI to promote dematerialized or paperless trading, which can go a long way in eliminating the risks of bad delivery and fake or forged shares. With this end in view, SEBI introduced compulsory trading of shares in dematerialized form in specified scripts by institutional investors.
(FIIs, mutual funds, Banks and Financial Institutions) with effect from January 15, 1998. SEBI also set up a Working Group comprising National Securities Depository Ltd. (NSDL), and various market participants like Custodians, Brokers, FIIs, Stock Exchanges and Mutual Funds to assess the progress in dematerialised trading and suggest further steps. Based on recommendations made by this Working Group, SEBI took the following steps/decision:-

- Rolling settlement on T+5 basis introduced in the dematerialised segment and delivery of dematerialised shares permitted in the physical segment.

- The list of shares for compulsory demat trading was expanded in phases to 103, which is scheduled to increase to 304 by February 15, 1999. These scripts include the shares covered by both the Sensex and the NSE Fifty indices.

- Delivery of shares in dematerialised form has been made compulsory for all investors in 31 scripts with effect from February 15, 1999.

- Delivery in dematerialised form has been made compulsory in 24 scripts with effect from January 4, 1999. For all investors whose net delivery obligation is 5000 shares or more in a settlement.
• The Central Depository Services (India) Ltd. (CDL), the second Depository in the country, has been granted certificate of registration.

Progress in demat trading in terms of companies signing agreements with depository dematerialisation facilities available with companies etc. during 1996-98 is summarised.

The reconstituted Bhagwat Committee considered the provisions of SEBI (Substantial Acquisitions of Shares and Takeovers) Regulations, 1997 relating to consolidation of holdings, threshold limit and acquisitions during the offer period. After details discussions, the Committee decided that (i) creeping acquisition limit be increased from the present level of 2 per cent in any period of 12 months to 5 per cent, (ii) 5 per cent creeping acquisition limit be made applicable even to persons holding above 51 per cent but below 75 per cent of a company's shares and (iii) upon acquiring 2 per cent disclosures be made to stock exchanges. Accordingly, SEBI decided to amend sub regulations (1) and (2) of Regulation 11 to provide for increase in the creeping acquisition from 2 per cent to 5 per cent for all persons holding between 15 per cent and 75 per cent of a company's shares. Acquisition beyond the 5 per cent limit shall mandate an open offer in terms of the regulations. In keeping with the increase in acquisition limit from 2 per cent to 5 per cent, SEBI also decided to amend Regulation 10 so as to provide for an increase in the threshold limit from 10 per cent to 15 per cent.
Secondary Market Developments

Analysis of important share indices in the current financial year revealed considerable volatility in trading, which was maximum in June, 1998 as per the leading indices, namely, the SENSEX (5.2%) and S&PCNX Nifty (5.1%). The movements in share prices during April December, 1998 reflected long bear phases and short bull phases. The BSE Sensex crossed 4000 in April 1998. It declined steadily thereafter and closed at 2934 in August, 1998. Though it rose above the 3000 mark and closed at 3102 in September, 1998 it declined thereafter and remained below the three thousand mark for nearly three months before crossing 3400 in January 1999. Similar movements in share prices were revealed by the NSE (S&PCNX) share index during this period.

The turnover and delivery pattern till November, 1998 in the current financial year are given below.

<table>
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<th>Item</th>
<th>BSE</th>
<th>NSE</th>
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<td>Turnover (Rs. Crore)</td>
<td>182223</td>
<td>235993</td>
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<tr>
<td>Delivery (Rs. Crore)</td>
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<td>38832</td>
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<td>Percentage of Delivery to turnover</td>
<td>19.88</td>
<td>16.45</td>
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Market Capitalisation

As per BSE estimates, the All India Market capitalisation registered a steady decline from Rs. 6,10,777 crore in April 1998 to Rs. 4,89,355 crore in August 1998. Though it rose by 3.2 per cent to reach Rs. 5,04,959 crore in September, decline in share prices led to erosion in market capitalisation in both October and November, 1998 by 5.6 per cent and 1.3 per cent respectively. This meant a decline by about 23 per cent in all-India market capitalisation from Rs. 6,10,777 crore in April 1998 to Rs. 4,70,240 crore in November 1998 in response to a 30 per cent decline in Sensex during the same period. The recent upturned in share prices has improved the situation. The market capitalisation for December 1998 stood at Rs. 5,02,116 crore, which exceeded that in November, 1998 by 6.8 per cent.
As per the Centre for Monitoring the Indian Economy (CMIE), a Bombay based think tank, there was clear evidence of abnormal share price movement on the domestic market ahead of a Euro issue by an Indian company.

CMIE which is independently funded, it studied 24 Indian companies which floated Euro issues from November 1992 until. As per CMIE prices of Indian companies launching a Euro issue rose on average 9.0 per cent ahead of their issue being priced on the international market. Afterwards, their price would fall on the domestic market.

From the pricing date onwards, within eight to nine weeks, the abnormal price rise vanished completely.

There were two possible explanations. Either there was a genuine leak which had an upward effect on the share value, or the management (was) bringing large resources to bear to manipulate the price on the market so as to be able to obtain a good price in the Euro issue.

The fair price for the average GDR (global depository receipt) issue is thus approximately 10 per cent below the contemporary price on the Bombay Stock Exchange.
So far Indian GDRs and convertible bonds have been offered either at a discount or at par with the Bombay Stock Exchange price. The situation is such that lead managers are in the happy position of being able fill a book before an issue opens. Book building in the jargon of ‘European money merchants means creating investor interest in a company and taking in purchase orders. In case of Indian companies global lead managers have been rejoicing as their books have been overflowing with massive subscription world wide. In fact, since September '93 every Indian offering in Euro Issue market has been hugely oversubscribed sometimes by record 15 times. The books of SCICI, Reliance, Mahindra & Mahindra, Jindal strips, Gujarat Ambuja were oversubscribed by eight times and more. Is it because they are being sold cheap? Are the Indian issues under priced? The trend of offering GDRs and bonds at a discount is gradually changing with recent issses being offered at a small premium, e.g. Ranbaxy, CARE, etc.

Collective Investment Schemes

As per Government decision, entities issue instruments like agrobonds, plantation bond etc. come under the regulatory purview of SEBI. Such entities have been prohibited by SEBI from launching any fresh scheme till notification of Regulations for collect investment schemes. However, the exist schemes were allowed to continue provided it submitted the requisite information to SEBI a complied with the code of advertisement prescribed in the SEBI Guidelines on Disclosure and Investor Protection. SEBI also directed the through a public notice to file details of the schemes with SEBI. Based on the
inter recommendations made by the Dave committee SEBI prohibited existing schemes from mobilising money from public/investors unless the instruments were rated by recognised rating agencies. The Draft Regulations on Collective Investment Schemes based on Dave Committee’s deliberations have been circulated to Public for comments.

Lack of sustained buoyancy in the secondary market has contributed to the poor investor interest in the primary market. Measures taken by the Government as well as SEBI in regard to buy-back of shares have therefore been designed to boost investor interest in the share market. Other measures aimed at raising the level of investor confidence in the secondary market include amendment of SEBI Takeover Regulations, extension of demat segment, more stringent disclosure requirements, and stipulation of additional margin requirements aimed at curbing excess volatility in share prices.

The LC Gupta Committee on Derivatives set up by SEBI recommended phased introduction of derivative products, with stock index futures as the starting point for derivatives trading in India. The SEBI Board considered the report of the Committee on regulatory framework for Derivatives Trading in India. Based on the examination by the Board, Including the feedback from the Secondary Market Advisory Committee and responses from the Stock Exchanges, the
major recommendations on Derivatives Trading were accepted. These included the following:

- Phased introduction of derivative products, with the stock index futures as starting point for equity derivative in India.

- Expanded definition of Securities under the Securities Contracts (Regulation) Act (SCRA) by declaring derivative contracts based on index of prices of securities and other derivative contracts as securities.

- Permission to existing Stock Exchanges to trade derivatives provided they meet the eligibility conditions, including adequate infrastructural facilities online trading and surveillance system and minimum of 50 members opting for derivative trading.

- Initial margin requirements related to the risk of loss on the position and capital adequacy norms shall be prescribed.

- Annual inspection of all the members operating in the derivative segment by the Stock Exchanges.

- Dissemination by the exchange of information about the trades, quantities and quotes in real time over at least two information vending networks.
• The clearing corroborating/house to settle deviate trades should meet certain specified eligibility conditions and the clearing corporation/house must interpose itself between both legs of every trade, becoming the legal counter party both, or alternatively provide an unconditioned guarantee for settlement of all trades.

• Two-tier membership: the trading member and clearing member, and the entry norms for the clearing member would be more stringent.

• The clearing member should have a minimum networth of Rs. 3 crore and shall make a deposit of Rs. 50 lakhs with the exchange clearing corporation in the form of liquid assets.

• Prescription of a model Risk Disclosure Decumbent, and monitoring broker dear/client relationship by the Stock Exchange and the requirement that the sales personnel working in the broker dealer office, should pass a certification programme.

• Corporate clients/financial institutions/mutual funds should be allowed to trade derivatives only if and to the extend authorised by their Board of Directors/Trustees.

• Mutual Funds would be required to make necessary disclosures in their offer documents if they opt to trade derivatives. For the existing schemes, they would requirement the approval of their
unit holders. The minimum contract value would be Rs. 1 lakh, which would also apply in the case of individuals.

The Union Budget, 1998-99 proposed amendment of SCRA and the necessary Bill has been introduced in the Parliament. The National Stock Exchange (NSE) has initiated steps to introduce trading in stock index futures at short notice. The J. R. Varma committee set up by SEBI to recommend Risk Containment Measures in the Indian Stock Index Futures market recommended, inter alia, details of the methodology to be adopted by the derivatives exchange and clearing corporation to fix the quantum of margin for index futures, method to estimated volatility, clearing members’ liquid net worth, etc.