

CHAPTER 3

REGULATORY MEASURES AND POLICIES OF SEBI

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3.1 INTRODUCTION:

The Securities and Exchange Board of India (SEBI) was set up as a non-statutory body on April 12, 1988. After the promulgation of the Securities and Exchange Board of India Ordinance on January 30, 1992, SEBI was established as a statutory body on February 21, 1992. Subsequently, the Ordinance was replaced the Securities and Exchange Board of India Act on April 4, 1992. At its founding, SEBI was charged with the twin responsibilities of regulation and development of Indian securities markets.

SEBI has evolved from a non-statutory body into a statutory body, acquiring at various stages additional powers for its effective functioning. It has expanded the scope of its activities, while remaining proactive in its twin roles, by responding to the needs of a growing market and addressing itself to a wide range of issues in investor protection. SEBI has framed rules and regulations covering several areas of the securities markets and various market intermediaries for the first time. It has taken measures to help the development of the market and has been taking action under its powers to enforce its rules and regulations.

SEBI's operations and initiatives in regulating and developing the Indian securities markets in fulfillment of the twin objectives of investor protection and market development set forth in the SEBI Act, 1992. The regulatory and developmental functions of a regulatory body are strongly interlinked. The objectives of the regulations, particularly in growing market, are to regulate and to guide its development. The notifications governing some of the intermediaries, thereby bringing these intermediaries under a regulatory purview for the first time, and the efficient implementation and continuous enforcement of these regulations, are among the important investor protection and development measures taken by SEBI during the year 2001-2012 under given, which underpin its twin role of regulation and market development envisaged under the Act.

Several measures were adopted by SEBI Act was amended, and SEBI to improve investor protection through better disclosure and transparency in the functioning of Indian securities markets. SEBI continued to press for several infrastructural improvements which are required to make Indian securities markets more efficient and to improve investor service. The SEBI Act was amended, and SEBI was given additional powers. SEBI initiated a regulatory measures and policies during 2001-2012 which are presented in this chapter under major heads *viz.*, primary securities market, secondary securities market, corporate debt market, mutual funds, foreign institutional investors, investor awareness/assistance and investor education/protection.

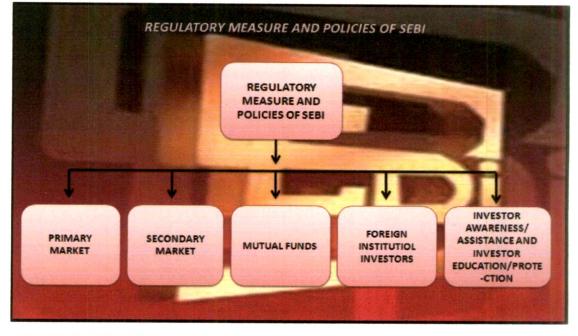


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3.2 PRIMARY SECURITIES MARKET:

With the progress of economic reform, the primary markets have become an important source of mobilizing funds for Indian corporate. With the removal of restrictions on pricing and frequency of issues, which were a part of the erstwhile regime imposed by the Capital Issues (Control) Act, and in response to the increase in output and investment that the reform process has engendered, the primary markets have shown significant growth since 1992-93.

SEBI continued to take measures for improving investor protection in primary markets through better disclosure of relevant information about the issuer and the nature of the securities to be issued. SEBI has also been making efforts to streamline the process of issuing securities so as to reduce the cost of raising funds from Indian securities markets. There is further scope for action in this area, especially with respect to reducing the time involved in raising funds through primary issues.

The SEBI has taken a number of policy initiatives to strengthen and streamline the procedures for raising the resources from the primary market by listed and unlisted companies and allocation of issues to various categories of investors. In order to

facilitate the investment activity, and to improve the quality of issues, disclosure norms, accounting standards and conduct of the intermediaries in the primary market, the SEBI issued several guidelines and amended rules and regulations related to securities market. These policy changes were affected broadly to protect the interests of investors and to promote more healthy and vibrant primary market.

The reforms process continues unabated with significant changes in the capital market. The primary market has witnessed a highly encouraging response from foreign institutional investors (FIIs). For the first time in a single month, that too at the fag end of the fiscal year, a large amount was mobilized by several public and private sector companies, amounting to more than three times the total amount mobilized in the previous year.

The major policy initiatives taken by SEBI relating to the primary market during 2001-2012:

1. Issues through Book-Building:

The SEBI issued further guidelines to be followed by the issuers for rising of capital through book-building and for allocation of these issues among various categories of investors. In case an issuer company makes an issue of 100 per cent of the net offer to public through 100 per cent book-building process, the guidelines stipulated that not less than 25 per cent of the net offer to the public shall be available for allocation to retail individual investors.

2. Issuance of Debt Instruments Prior To Equity Issue Public Issue and Listing of Non-Convertible Debt Securities:

To facilitate the resource mobilization by unlisted companies the SEBI issued the following guidelines:

An unlisted company making a public issue of non-convertible debt securities (NCDS) may, subject to other applicable provisions of these guidelines, make a public issue and make an application for listing its NCDS in the stock exchange/s without making a prior public issue of equity and listing thereof, if the following conditions are fulfilled:

• The NCDS shall carry a credit rating not below investment grade at least from one Credit Rating Agency registered with the SEBI. Where the issue size of the NCDS is Rs. 100 crore or more, such rating shall be obtained from at least two Credit Rating Agencies.

- The promoter's contribution of at least 20 per cent of the project cost i.e. projects proposed to be inter-alia financed through the issue, shall be brought in the form of equity. Where the promoter's contribution exceeds Rs.100 crore, the promoters shall bring in Rs.100 crore before the opening of the public issue and the remaining promoters' contribution shall be brought in on pro rata basis, before calls on the NCDS are made. The promoters' contribution of 20 per cent of equity shall be locked in for a period of 3 years from the date of allotment in the public issue of NCDS.
- The issuer company shall agree to comply with the requirements of continuing disclosures as specified under the listing agreement to be entered into with concerned stock exchanges as is applicable for listing of equity shares.
- The issuer company shall agree to obtain prior consent of the holders of the NCDS through special resolution to be passed at the general meeting of the NCDS holders for change in terms of issue, change in capital structure and change in shareholding pattern.
- There shall be no partly paid-up shares/other securities at the time of filing of draft offer document with the SEBI.
- The issuer company may come out with a public issue of equity/security convertible into equity after allotment during the currency of the NCDS or thereafter, only after complying with the guidelines applicable for an initial public offering of such securities.
- The equity held by the promoters or others at the time of issue of NCDS may be listed only when an initial public offer of equity/securities convertible into equity after allotment is made after complying with the applicable provisions of SEBI (Disclosure and Investor Protection (DIP)) Guidelines, 2000.

3. Debt Securities Convertible into Equity after Allotment:

An unlisted company making a public issue of debt securities convertible into equity (DSCE) may, subject to other applicable provisions of these guidelines, make a public issue and make an application for listing on the stock exchanges without making a prior public issue of its equity and listing thereof, if the following conditions are fulfilled:

• The NCDS shall carry a credit rating not below investment grade at-least from one Credit Rating Agency registered with the Board. Where the issue size of the

NCDS is Rs. 100 crore or more, such rating shall be obtained from at least two Credit Rating Agencies.

- The promoter's contribution of at least 20 per cent of the project cost i.e. objects proposed to be inter alia financed through the issue, shall be brought in the form of equity. Where the promoters' contribution exceeds Rs. 100 crore, the promoters shall bring in Rs. 100 crore before the opening of the public issue and the remaining promoters' contribution shall be brought in on pro rata basis, before calls on the NCDS are made. The promoters' contribution of 20 per cent of equity shall be locked in for a period of 3 years from the date of allotment in the public issue of NCDS.
- The issuer company shall agree to comply with the requirements of continuing disclosures as specified under the listing agreement to be entered into with concerned stock exchanges as is applicable for listing of equity shares.
- The issuer company shall agree to obtain prior consent of the holders of the NCDS through special resolution to be passed at the general meeting of the NCDS holders for change in terms of issue, change in capital structure and change in shareholding pattern.
- There shall be no partly paid up shares/other securities at the time of filing of draft offer document with the Board.
- The provisions of clauses (a) to (e) of clause 8.2.1 shall be mutatis mutandis complied with.
- An issuer company making an initial public offer of DSCE may come out with a subsequent public issue of equity/security convertible into equity after allotment during the currency of the DSCE only after complying with the guidelines applicable for an initial public offering of such securities. Provided that the provisions of Clause 2.6 of SEBI (DIP) Guidelines, 2000 shall not be applicable for an Initial Public Offer of such securities if the floor price for conversion of DSCE is determined and disclosed in the offer document for issue of DSCE.
- The equity held by the promoters and others may be listed along with the listing of equity in initial public offering of equity/security convertible into equity after allotment or at the time of listing if equity arising on conversion of the DSCE.

• If the equity shares held by the promoters is proposed to be listed on conversion of DSCE, it shall be ensured that the number of equity shares allotted to the public (after excluding the allotment of equity shares to holders of DSCE issued on firm allotment/reservation basis) as a percentage of the total paid up equity capital after conversion and listing of the promoters equity, is not less than the percentage specified in clause (b) of sub-rule (2) of Rule 19 of Securities Contracts (Regulations) Rules, 1957.

4. Price Band and Lock-In Period:

The SEBI stipulated that the lead merchant banker can mention a price band of 20 per cent (cap in the coupon rate/ price band should not be more than 20 per cent of the floor coupon rate/price) in the offer document filed with the Board and the specific coupon rate/price can be determined by an issuer in consultation with the lead manager at a later date before filing of the offer document with the Registrar of Companies (ROC).

5. Post-Issue Monitoring Reports:

SEBI laid down the revised requirements for filing the post-issue monitoring reports with the Board for both book-built portion and fixed price portion.

6. Consolidated Financial Results / Statement:

Companies were given the option to publish consolidated quarterly financial results in addition to the un-audited quarterly financial results of the parent company as currently required under the Clause 41 of the Listing Agreement.

Companies were mandatorily required to publish Consolidated Financial Statements in the annual report in addition to the individual financial statements. Audit of Consolidated Financial Statements by the statutory auditors of the company and the filing of Consolidated Financial Statements audited by the statutory auditors of the company with the stock exchanges were made mandatory.

7. Segment Reporting:

Companies were required to furnish segment wise revenue, results and capital employed along with the quarterly un-audited financial results with effect from the quarters ending on or after December 31, 2001 in a prescribed format.

8. Accounting For Taxes on Income:

Companies were required to comply with the accounting standard on "Accounting for Taxes on Income" in respect of the quarterly un-audited financial results with effect from the quarters ending on or after September 30, 2001.

9. Related Party Disclosures:

Companies were required to make disclosures in compliance with the Accounting Standard on "Related Party Disclosures" in the annual reports.

10. Qualifications in Audit Reports:

Companies were required to disclose the audit qualifications along with the audited financial results in addition to the explanatory statement as to how audit qualifications in respect of the audited accounts of the previous accounting year.

11. Compliance with Accounting Standards:

Companies were mandatorily to comply with all the Accounting Standards issued by India of Charted Accountants of India (ICAI) from time to time by incorporating a new clause in the Listing Agreement.

12. Additional Disclosures in the Quarterly Financial Results:

In the light of the issuance of the above Standards and their applicability to the continuous disclosure requirements, the Accounting Standard Committee recommended that the following additional disclosures may be prescribed in the quarterly un-audited financial results.

Companies were required to comply with the accounting standard on "Accounting for Taxes on Income" in respect of the quarterly un-audited financial results with effect from the quarters ending on or after September 30, 2001.

Companies were required to calculate and disclose earning per share in accordance with the accounting standard on "earning per share" with effect from the quarter ending on or after September 30, 2001.

Companies have been required to make disclosures in compliance with the accounting standard on "Related Party Disclosures" in the annual reports.

13. Disclosures and Accounting for "Dot Com" Companies:

The Accounting Standard Committee adopted the report of the Accounting Standards Sub- Committee on "dot com" Companies. The Sub-Committee was of the view that the traditional valuation models applicable to "brick and mortar" companies may not be applicable to "dot com" companies in view of their uncertain revenue streams and unpredictable and rapidly changing business models. Hence, it was felt that instead of prescribing models for valuation of "dot com" companies, sufficient amount of information should be made available to the investors to take well informed investment decision.

14. Issue Standards:

With a view to facilitating quality issuers to access capital market, several reforms have been introduced during the year 2003-04 and they include: 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.

15. Enhanced Disclosure Requirement:

Reliable and dependable information is expected to help investors to take informed decisions about investment in primary market. The prospectus should contain all relevant and necessary information about the issuer and the securities under issue. SEBI aims to ensure that the prospectus is the single most important source of information for investors to base their investment decision.

Towards this objective, offer documents of domestic issuers have been made to contain additional information such as permanent account number (PAN)/ voter identity number/driving license number of the promoters of the company, etc. "Management discussions and analysis (MDA) and accounting and other ratios" are required to be contained in the offer document and these are expected to provide information relating to the management's view on the performance of the company.

16. Definition of Small Investor (Primary Market):

The basis of defining a 'small investor' has been changed from number of shares to value of application made by him. An investor is now considered to be a small investor when he/she invests Rs.50, 000/- or less.

17. Book Building Guidelines:

SEBI has been constantly reviewing and making changes in the book building process so as to make price discovery immune to artificial factors and responsive to the market forces. Companies have now been given flexibility in terms of indicating either a movable price band or a fixed floor price in the Red Herring prospectus. Qualified institutional buyers (QIB) have been prohibited from withdrawing their bids after closure of bids; QIB definition has been enlarged to include insurance companies, pension and provident funds.

18. Green Shoe Option:

Unexpected developments may have an adverse impact on price of newly listed securities. The facility of green shoe option introduced by SEBI facilitates the investment bankers to stabilize the post listing price of the security. This measure is expected to mitigate volatility and enhance investor confidence. The guidelines have been amended to clarify that this facility is available in all public issues, *viz.*, initial public offerings, and follow-on offerings, public issues either through book building or fixed price route. Further, the guidelines have also been amended to permit all pre-Initial Public Offerings (IPO) share holders (including promoters) in case of IPOs and pre issue share holders holding more than 5 per cent shares, (including promoters) in case of follow-on offerings to lend their shares for the purpose of Green Shoe Option (GSO).

19. Debt Instruments and Debenture Trustees:

SEBI has reviewed the role of debenture trustees as well as provisions concerning issuance of debt instruments. Consequently, it has carried out several amendments, for example prohibition of willful defaulters from making further debt issue, requirement of investment grade rating, execution of trust deed within three months, etc.

20. Designated Stock Exchange:

Pursuant to withdrawal of the concept of regional stock exchange, companies have been granted an option to choose one stock exchange as a designated stock exchange, for the purpose of finalization of basis of allotment.

21. Employee Stock Option Scheme:

SEBI (ESOP and ESPS) guidelines have been modified to *inter-alia* include provisions of mandatory disclosures of employee compensation cost using fair value of Employee Stock Option Scheme (ESOPs) / Employee Stock Purchase Scheme (ESPS), calculated based on option pricing model and also the impact of the same on profits and Employee Purchase Scheme (EPS) of the company. This is in addition to expensing of the said cost in the financial statements based on either intrinsic or fair value. The amendments have also included provisions to facilitate faster listing of shares arising out of exercise of ESOP etc.

The SEBI (Employee Stock Option Scheme and Employee Share Purchase Scheme) Guidelines, 1999 were amended to provide that a director, nominated by an institution as its representative on the Board of Directors of a company, is eligible to participate in the employee stock option scheme of the company, if the contract / agreement entered into between the nominating institution and the director so appointed specifically provides for acceptance of the employee stock option scheme of the company.

22. Bonds by Foreign Entities:

Multilateral development institutions and other supra-national organizations have been permitted to access the domestic market and list the rupee denominated securities on Indian stock exchanges. SEBI has prepared a model listing agreement to be signed by such entities before they access and seek listing.

23. Book Closure Date:

The notice period for intimation of record date has been reduced to 15 calendar days from the earlier 30 days in case of demat scrips and to 21 calendar days from 42 days with respect to physical scrips.

24. Central Listing Authority (CLA):

Standardization of listing requirements and implementation of the same across all exchanges is very important prerequisites for a uniform national market. To achieve this objective SEBI has set up a single listing authority called 'Central Listing Authority'. The Regulations for setting up of this authority were notified on August 21, 2003. The CLA has been set up under the president ship of Justice M N Venkatachaliah, former Chief Justice of India.

25. Higher Allocation For Retail Individual Investors:

SEBI amended the Disclosure and Investor Protection (DIP) Guidelines, 2000 relating to the allocation of shares in case of book-built issues. Earlier the allocation of shares to the Retail Individual Investors (RIIs), the Non-Institutional Investors (NIIs) and the Qualified Institutional Buyers (QIBs) has been in the ratio of 25:25:50, respectively. The allocation to RIIs was enhanced to 35 per cent of the total issue of securities while it was reduced to 15 per cent in case of NIIs. Allocation to QIBs remained unchanged at 50 per cent. However, in case of book-built issues that are made pursuant to the requirement of mandatory allocation of 60 per cent to QIBs in terms of Rule 19(2) (b)

of SC(R) R, RIIs and NIIs would receive an allocation of 30 per cent and 10 per cent, respectively. Moreover, the definition of RIIs has been modified. According to the new definition, a retail individual investor (RII) is one who applies or bids for securities of or for a value not exceeding Rs. 1 lakh as against the existing limit of Rs. 50,000.

26. Issue Advertisement:

The extant market practice for all issues including book-built issues was to publish an advertisement in the newspaper having contents of Form 2A under the Companies Act, 1956. However, the cost involved in publishing the entire Form 2A, *i.e.*, abridged prospectus in the newspaper was very high. As the abridged prospectus is otherwise available to the investors along with the application forms, SEBI amended the (DIP) Guidelines, 2000 to ensure better readability of the advertisement and stipulated that preissue advertisement would be mandatory for all public issues (fixed or book-built) and it would contain the minimum details, thereby reducing the issue expense.

27. Order Of Presentation Of Disclosures In Prospectus:

To make the offer documents more user friendly, SEBI prescribed a standard order of presentation of disclosures in the offer documents. Over and above the previous requirements of disclosures while issuing the format, a few requirements / sections like summary, table of contents, and industry review have been added to make the prospectus more effective. The standard order of presentation did not, however, reduce the flexibility given to the issuer to include other disclosures, not mentioned in the guidelines.

28. Data Reporting At Websites Of Stock Exchanges On Book- Building:

In order to ensure availability of relevant information in the public domain, it is now mandated to (i) improve the contents of and to ensure uniformity in data dissemination on the websites of the concerned stock exchanges and (ii) to ensure availability of such data for a further period of 3 days after the closure of the bids/issue.

29. Disclosure Of Price Band/ Floor Price And Bidding Period In Case Of Listed Companies:

The existing guidelines require all issuers (whether listed or unlisted), making a public issue through book building process, to disclose the price band/ floor price in the Red Herring Prospectus (RHP)/application form. The listed issuers have now been permitted to disclose the price band/floor price at least one day before bid opening. Moreover, the

bidding period, which was 5-10 days (including holidays), has been reduced to 3-7 working days.

30. Introduction Of The Facility Of Shelf Prospectus:

As per Sec. 60A of the Companies Act, 1956, the facility of shelf prospectus can be availed by specific entities like public sector banks, scheduled banks and public financial institutions. The SEBI (DIP) Guidelines, 2000 have been amended to provide for the same. These entities can file a draft shelf prospectus with SEBI in the first instance disclosing the aggregate amount the issuer intends to raise through various tranches.

31. Retention Of Over-Subscription By DFIs In Tranche Issues:

Financial institutions, which come out with public issue of unsecured redeemable bonds, regularly file a shelf prospectus with SEBI stating the total amount to be raised during the year 2004-05 through various tranches. These bonds are usually used by investors as a tax-planning mechanism. Over-subscriptions up to 100 per cent in each tranche have been allowed to be retained by the issuers. The Development Financial Institutions (DFIs) often receive heavy over-subscriptions, which exceed the maximum target amount mentioned in the prospectus. In such a scenario, returning the excess subscription to the applicants adversely affects the tax planning drive of the investors. In view of this, SEBI has changed the guidelines so that the issuers can retain any amount of over-subscription subject to the total amount specified in the shelf prospectus for the whole year.

32. Guidelines For Preferential Issues:

The guidelines pertaining to preferential allotment have been amended to restrict sale of shares by shareholders who are allotted shares on preferential basis. This had been done, *inter alia*, by imposing lock-in period on pre-preferential shareholding from the relevant date till six months after the date of allotment, and by reducing the period for allotment from the existing 30 days to 15 days.

33. Restriction On Splitting Of Shares:

The issuers were found to be splitting shares just before an Initial Public Offerings (IPO). On recommendation of the Advisory Committee on Primary Market, the guidelines have been amended to restrict splitting of shares before an IPO. The amendments, *inter alia*, provide for a floor face value of Re.1 per share. For issue price below Rs.500 per share, the face value would be necessarily Rs.10 per share.

However, the issuer companies have been permitted to fix the face value below Rs. 10 per share in those cases where the issue price is Rs. 500 or more.

34. Terms Of The Issue:

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

35. Debt Listing Agreement:

In order to develop the corporate debt market, SEBI prescribed a model debenture listing agreement for listing of all debenture Securities issued by an issuer irrespective of the mode of issuance. The model agreement has three parts. Part (I) of this agreement contains clauses which shall be complied by all issuers irrespective of the mode of issuance. Part (II) contains clauses which shall be complied only if the debentures are issued either through public issue or rights issue and Part (III) contains clauses which are required to be complied only if the debentures are issued on private placement basis. In case of issuers whose equity shares are listed and which have already entered into a listing agreement for its equity shares, clauses of equity listing agreement shall have an overriding effect over the debenture listing agreement, in case of inconsistency, if any.

36. 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.

37. 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.

38. 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.

39. Electronic Clearing and Settlement (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 Reserve Bank of India (RBI).

40. 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.

41. Grading of Initial Public offerings (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.

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.

Grading of all IPOs was made 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.

42. Rationalisation of Disclosure Requirements for the Listed Companies:

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

43. 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.

44. 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.

45. Further Issue of Shares:

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

46. Corporate Governance of Listed Companies:

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

47. Continuous Listing Requirement: Minimum Level of Public Shareholding:

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

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

48. 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 India Depository Receipts (IDRs).

49. 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.

50. Corporate Bond Market – Launch of Reporting Platform:

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

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

At the instance of SEBI, Bombay Stock Exchange (BSE) and National Stock Exchange (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.

52. 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.

53. 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.

54. 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.

55. 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.

56. Rationalisation 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.

57. 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.

58. 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 an Extensible Business Reporting Language (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.

59. 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.

60. 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.

61. 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.

62. Applications Supported By Blocked Amount (ASBA):

SEBI introduced a new mode of payment in public issues through book building wherein the application money remains blocked in the bank account of the applicant till

allotment is finalized. The said process named ASBA is supplementary to the existing process of applying in public issues through cheque/draft.

63. Eligibility Of Shares For Promoters' Contribution And Offer For Sale:

SEBI (DIP) Guidelines provided that only those shares, which are held by shareholders for a period of at least one year at the time of filing of draft offer document for a public issue were eligible

- to be included for computing promoters' contribution (except in cases where the shares have been issued at the same issue price during the preceding one year) and
- (ii) To be offered for sale.

The shares issued pursuant to a restructuring exercise approved by High Court(s), in lieu of business that had been in existence for a period of more than one year prior to the restructuring exercise were excluded. The amendments made permitted such shares as eligible shares for offer for sale and for inclusion in the promoters' contribution.

64. Reduction In Timelines For Rights Issues:

In order to mitigate market risks faced by issuers and investors and to enable listed companies to raise funds from its shareholders in a more time effective manner, SEBI reduced the timelines in rights issues, starting from the notice period for calling a board meeting to the period stipulated for completion of allotment and listing. With these amendments in place time taken for completion of rights issues would reduce from 16 weeks to just about 6 weeks.

65. Extension Of Validity Period Of SEBI Observations:

The validity period of the observations letter issued by SEBI on draft offer documents filed for public/rights issues was increased from three months to a period of twelve months. This measure would give sufficient flexibility to issuer to plan for launching an issue. Every issue is required to file an updated offer document with SEBI and where updating includes significant changes in the offer document, such an updated Red Herring Prospectus/ Prospectus or Letter of Offer shall be filed with SEBI at least one month before filing the same with Registrar of Companies (RoC) or with Designated Stock Exchange as the case may be.

66. Announcement Of Price Band Before Initial Public Offer Opens:

The provisions in SEBI (DIP) Guidelines mandated disclosure of the floor price or price band in an initial public offer through the book building process in the Red Herring Prospectus (RHP) filed with the ROC. Given that there is a time lag of about two weeks between the filing of the RHP with the ROC and issue opening date, this exposed the price band disclosed in the RHP to market conditions. In order to mitigate this, issuers making an initial public offer were permitted to announce the floor price or price band at least two working days before the issue opening date subject to fulfillment of certain disclosure requirements.

67. Strict Enforcement Of Rule 19(2)(B) Of The Securities Contracts (Regulation) Rules, 1957 (Sc(R)R):

In order to enable an unlisted company intending to list its shares issued to the shareholders of a listed company pursuant to a scheme of arrangement approved by a High Court, without making an initial public offer, the SEBI (DIP) Guidelines were amended to provide for relaxation from strict enforcement of requirements of rule 19(2)(b) of SC(R)R in case of proposal for listing of the following securities:

a) Equity shares with differential rights as to dividend, voting or otherwise, offered through rights or bonus issue.

b) Warrants issued along with Non Convertible Debentures through Qualified Institutions Placement.

68. Pricing Of Shares For Preferential Allotment To Qualified Institutional Buyers (QIBS):

In order to facilitate eligible listed companies to raise funds from Qualified Institutional Buyers (QIBs) without going through the elaborate documentation process, it was prescribed that preferential allotment of shares to QIBs shall be priced at the last two weeks' average price. This is subject to the condition that the number of QIB allottee's in such preferential allotment does not exceed five. For all other preferential allotments including those to QIBs exceeding five in number, the existing formula of the higher of six months' average price or two weeks' average price would continue to apply.

69. Lock-In Of Shares Issued Against Exercise Of Warrants Issued On Preferential Basis:

As per the guidelines on preferential issues, warrants issued on preferential basis were subjected to lock-in for a period of one year or three years, as the case may be, and lock-in period of shares allotted on exercise of such warrants was adjusted to the extent of such period for which these warrants had already been locked-in. It was clarified that the shares so allotted pursuant to exercise of warrants would be subject to lock-in period of one year or three years, as the case may be, from the 'date of allotment' of such shares.

70. Enhancement Of Upfront Margin Payment On Allotment Of Warrants Issued On Preferential Basis:

In terms of the guidelines on preferential issues, warrants could be allotted on preferential basis, subject to the allottee's paying upfront amount equivalent to at least 10 per cent of the price fixed. It was decided to enhance the upfront amount so payable from 10 per cent to 25 per cent of the price fixed.

71. Eligibility For Making Qualified Institutions Placement (QIP):

Presently, the eligibility criteria for listed companies desirous of making QIP include a condition that the equity shares of the same class of the companies had been listed on a stock exchange having nation-wide terminals, for a period of at least one year as on the date of issuance of notice to shareholders for considering the QIP. This precluded the companies, which were listed during the preceding one year pursuant to the High Court approved scheme(s) or merger/de-merger/arrangement entered into by such companies with companies which were listed for more than one year in such stock exchange(s), from using the QIP route for raising funds. In order to enable such companies to raise funds through QIP route, it was decided that for the purpose of fulfillment of the above mentioned eligibility criterion, such companies may take into account the listing history of the listed companies with which they have entered into the approved scheme(s) of merger/demerger/ arrangement.

72. Issuance Of Non-Convertible Debentures With Warrants Through QIP:

The guidelines for QIP were amended to enable a listed company to make a combined offering of Non-Convertible Debentures (NCD) with warrants to Qualified Institutional Buyers (QIB). Under this, QIB can subscribe to the combined offering of NCD with

warrants or to the individual instruments, i.e., either NCD or warrants, where separate books are run for NCD/ warrants. The company is, however, required to obtain relaxation from the applicability of the provisions of Rule 19(2) (b), read with Rule 19(4) of the SC(R)R for listing/ trading of the warrants.

73. Reduction In Timelines For Completion Of Bonus Issues:

In continuation of its policy for rationalizing the time required for completion of issues, SEBI reduced the timeline for completion of bonus issues. Accordingly, where no shareholders' approval is required as per the Articles of Association of the issuer, the bonus issue shall be completed within 15 days from the date of approval by the board of directors. Where shareholders' approval is required for capitalization of profits or reserves as per the Articles of Association of the issuer, the bonus issue shall be completed within 60 days from the date of the issuer, the bonus issue shall be within 60 days from the date of board of directors wherein bonus issue shall be within 60 days from the date of meeting of board of directors wherein bonus was announced subject to shareholders' approval.

74. Accounting Treatment For Options Granted Under Graded Vesting In Employee Stock Option Schemes:

The SEBI (Employee Stock Option Scheme and Employee Share Purchase Scheme) Guidelines, 1999 were amended to bring the accounting treatment prescribed by SEBI, for options granted under graded vesting in an employee stock option scheme, in line with the accounting treatment provided by Institute of Chartered Accountants of India in this regard.

75. Provisions Pertaining To Corporate Governance:

To enhance the standards of corporate governance for listed entities, amendments were carried out in Clause 49 of the listing agreement by introducing new provisions such as

- (i) requirement to have at least one-half of the board as independent directors, if the nonexecutive Chairman of the company is a promoter or is related to promoters or persons occupying management positions at the board level or at one level below the board,
- (ii) specifying the minimum age limit of 21 years for independent directors,
- (iii)specifying the maximum time gap (i.e., 180 days) between the retirement and resignation of an independent director and appointment of another independent director in his place, and

(iv)requiring the listed companies to disclose the inter-se relationship between the directors in the filing made with stock exchanges.

76. 'Fairness Opinion' Of Independent Merchant Banker In Schemes Of Arrangement:

In order to safeguard the interest of shareholders, SEBI amended clause 24 of the Listing Agreement to provide that the listed company as well as the unlisted company which are getting merged under a scheme of arrangement under section 391-394 of the Companies Act, 1956 shall be required to appoint an independent merchant banker for giving a 'Fairness Opinion' on the valuation done by valuers. Further, the 'Fairness Opinion' of the independent merchant banker shall be made available to the shareholders at the time of approving the resolution.

77. Amendments To Provisions Pertaining To Submission Of Quarterly Financial Reports By Listed Companies To Stock Exchanges:

In order to bring more transparency in the disclosures of the financial results, SEBI amended Clause 41 of the listing agreement by:

- extending time limit for submission of consolidated financial results, from one month to two months from the end of the quarter;
- requiring the company to publish only consolidated financial results if it opts to submit consolidated financial results in addition to its standalone financial results;
- relaxing the requirement to place the limited review report on un-audited financial results before Board or Committee, only if the variation between un-audited financial results and its limited review exceeds 10 per cent; and
- requiring the company to submit the limited review report for the last quarter also, if it opts to submit un-audited financial results for the last quarter.

78. Disclosure Of Pledged Shares By Promoters/Promoter Group In Listed Companies:

Clause 35 and clause 41 of the Listing Agreement were amended to provide for disclosure of details of shares held by promoters and promoter group entities in listed companies which are pledged or otherwise encumbered. This was done with a view (PRARY BARR, BALASANLA VIEW (PRARY BARR))

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ensure that while deciding to invest in the company, the investors may factor in the information about the pledged or otherwise encumbered shares held by promoter/promoter group in the company, as the extent of pledge/ encumbrance may have a significant impact on the price of the shares .

79. Introduction Of Pure Auction Method In Public Offerings:

In order to enable better price discovery and to maximize the amount which could be raised by an issuer, SEBI introduced the pure auction method in further public offerings by listed entities. In this method the QIB bidders are free to bid at any price above the floor price. The bidder who bids at the highest price is allotted the number of securities that he has bid for and then the bidder who has bid at the second highest price and so on, until all the specified securities on offer are exhausted. Allotment is made on price priority basis and at differential prices. Allotment to retail individual investors, noninstitutional investors and employees of the issuer is made proportionately at the floor price.

80. Introduction Of Concept Of 'Anchor Investors' In Public Offerings:

In order to ensure certain minimum levels of subscription from qualified institutional buyers (QIBs) even in a relatively bearish market, SEBI introduced the concept of 'Anchor Investors' in public offering. Such investors are expected to offer stability to the issue by subscribing to the issue before the bid is open to other categories of the investors.

81. Rationalization Of Regulatory Frame- Work For Issuance Of Indian Depository Receipts (IDRS):

In order to facilitate simultaneous rights offering by the foreign issuers (who have listed their IDRs in Indian stock exchanges) in their home jurisdiction and in India, framework for rights issue of IDRs 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. Disclosure requirements for IDR rights issue were also made more or less in line with the reduced disclosure requirements applicable for domestic rights issues. Further, IDR issuers, who were in compliance with the continuous listing requirements, were provided with the facility of filing the offer document on fast track basis.

82. Making Issue Process More Efficient:

For issuers, capital market access should be easy, cost effective and time efficient. This is all the more necessary when issuers are competing in the markets across the globe. In order to make our markets competitive, SEBI has been constantly reviewing various rules and procedures to make issue process simpler, at the same time safer and cost effective. Some of the major initiatives in this area include:

a) Rationalization Of Disclosure Requirements:

The disclosure requirements for further public issues and rights issues by listed companies were almost as rigorous as those for initial public offerings. Considering that much of the information about listed entities are already in public domain and investors trade day to day on the basis of such available information, it was considered necessary to rationalize disclosure norms for further public issues and rights issues by listed entities so that the time taken for putting together the disclosure documents as well the number of pages is reduced which can result in overall time and cost saving for companies. It is expected that the quantity of disclosures in the letter of offer for a rights issue will come down by about 25 percent on account of the rationalization.

b) Smoothening The Payment/Refund Process In Issues:

In its continuing Endeavour to make the existing public issue process more efficient, SEBI had introduced application supported by blocked amount (ASBA) (ASBA Phase I) as a supplementary facility to retail individual investors for applying in public issues. In order to enable more investors to make use of the ASBA process in public issues, ASBA facility has now been extended to all investors other than qualified institutional buyers. This is expected to further improve the efficiency of the issue process. Additionally, to encourage ASBA, there was a need to have a uniform incentive structure and level playing field between the respective intermediaries, i.e. syndicate members for non-ASBA and self certified syndicate banks (SCSBs) for ASBA. Therefore, SEBI directed merchant bankers to ensure that both ASBA and non-ASBA applications should be treated at par while paying commission to the concerned intermediaries for the work undertaken by them.

83. Strengthening The Regulatory Framework Governing Public Offerings: In order to have a greater enforceability of the regulatory framework relating to issue of capital by companies and to streamline the disclosures while also taking into account changes in market design, the erstwhile SEBI Disclosure and Investor Protection Guidelines (DIP Guidelines) governing public offerings were replaced by the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations). There were certain changes made in the ICDR Regulations vis-à-vis the provisions contained in DIP Guidelines, on account of: (a) removal of redundant provisions of DIP Guidelines, (b) modifications on account of change in market design and (c) bringing more clarity to the existing provisions of DIP Guidelines.

84. Listing Of Securities Issued Through IPO On At Least One Stock Exchange With Nationwide Trading Terminals:

In order to provide greater liquidity in securities of companies after the IPO, it was mandated 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.

85. Prohibition On Issuance Of Shares With Superior Rights:

In order to curb misuse especially by promoter/promoter group to increase their control and voting rights in the company by way of issuing shares with superior voting rights to themselves which could have adversely affected the rights of other shareholders, clause 28A was inserted in the equity Listing Agreement to prohibit listed companies from issuing shares with superior rights as to voting or dividend vis-à-vis the rights on equity shares that are already listed.

86. Disclosure Of Details Of The Allottee's In The Qualified Institutional Placements (Qip) And Shareholding Pattern Of Issuer Companies:

In order to make information regarding details of those allottee's in QIP who have been allotted more than five percent of the securities offered in the QIP as well as on the shareholding pattern of issuers before and after the QIP available to the general public, SEBI directed stock exchanges to make this information available on their websites along with the final placement document.

87. Introduction Of Uniform Margin Payment For All Categories Of Investors In Public Issues:

Retail individual investors and non- institutional investors were required to pay entire application money upfront while applying in public issues while qualified institutional buyers (QIBs) could apply by paying only 10 percent of the application money as margin on their application. This resulted in a non-level playing field for retail individual investors and non-institutional investors vis-à-vis the QIBs. It also resulted in an inflated demand in public issues since the lower margin enjoyed by QIBs led them to put in larger bids than they intended to acquire. In order to address these concerns, SEBI decided that with effect from May 1, 2010, the margin collected shall be uniform across all categories of investors.

88. Encouragement Of Retail Investor Participation:

In order to 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. The limit was enhanced with the objective that retail individual investors who have capacity and appetite to apply for securities worth above `1 lakh should not be constrained.

89. Reforms In Issue Process:

In order to make our markets competitive, SEBI has been constantly reviewing various rules and procedures to make issue process simpler and at the same time safer. Some of the major initiatives in this area include:

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, enable quicker turnaround of money invested and help issuers to raise money quicker.

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

To smoothen the payment/refund process in issues, SEBI has introduced Applications Supported by Blocked Amount (ASBA) Process in issues, wherein application money is blocked in a bank account and debited only to the extent of allotment entitlement while continuing to earn interest.

90. Uniform Procedure For Dealing With Unclaimed Physical Shares:

It was brought to the notice of SEBI that there is a large quantum of physical shares, which remain unclaimed despite the best efforts of the Registrar to Issue or Issuers and that there is no uniform practice for dealing with such shares. In view of this, SEBI decided to provide a uniform procedure for dealing with unclaimed physical shares i.e., shares which could not be allotted to the rightful shareholder. Accordingly, the existing Clause 5A in the equity listing agreement was amended to provide for such a procedure.

91. Introduction Of Pre-Announced Fixed Pay Date For Payment Of Dividends And For Credit Of Bonus Shares:

In order to enable investors to manage their cash/securities flows efficiently and to enhance process transparency, it has been decided to mandate companies to have a preannounced fixed pay date for payment of dividends and for credit of bonus shares. This is in line with prevailing international practice.

92. Preferential Issue Of Equity Shares Or Convertible Securities Or Warrants To Promoters And Promoter Group:

In order to further tighten the preferential allotment framework, 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.

93. 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 recognised stock exchange for three years and the issuer has a track record of dividend payment for three years.

94. Uniform/Single Payment Option In Rights Issues:

In order to ensure uniform treatment for all classes of investors in rights issues, SEBI decided that only one payment option may be given by the issuer to all the investors i.e. either (a) part payment on application with balance money to be paid in calls or (b) full payment on application. SEBI also decided that where the issuer opts for part payment,

it shall be incumbent on them to obtain approvals, if any, as may be necessary for the purpose.

95. Disclosure Of Pro Forma Financial Statements:

In certain cases it was observed that issuer companies had done material acquisition or divestment after the end of the latest disclosed annual financial results in the offer document, due to which certain companies become/ cease to be direct or indirect subsidiaries of the issuer. In such cases, it was mandated that the issuer companies shall submit pro forma 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.

Further, in cases where the acquisition/ divestment is not material, it has been specified that the fact of the acquisition or divestment along with the consideration paid / received and the mode of financing such acquisition shall be disclosed in the offer documents.

96. Amendment To Clause 40a Of The Listing Agreement - Requirements In Respect Of Minimum Public Shareholding In Listed Entities:

In order to align the requirements in Clause 40A of the Listing Agreement with the amended Securities Contracts (Regulation) Rules, 1957 on the captioned subject and to specify the manner in which public shareholding may be raised to the prescribed minimum, it was provided that:

- a. Listed entities shall agree to comply with the requirements specified in Rule 19(2) and Rule 19A of the Rules.
- b. Where the company is required to achieve the level of public shareholding as specified in Rule 19(2) and/or 19A of the Rules, it shall adopt any of the following methods to raise the public shareholding to the required level:
 - issuance of shares to public through prospectus; or
 - offer for sale of shares held by promoters to public through prospectus; or
 - Sale of shares held by promoters through the secondary market.

97. Approval Of Appointment Of 'CFO' By The Audit Committee:

In order to ensure that the CFO has adequate accounting and financial management expertise to review and certify the financial statements as required 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. It was also specified that the Audit Committee, while approving the appointment, shall assess the qualifications, experience and background etc. of the candidate.

98. Amendments To Clause 35 Of The Listing Agreement – Disclosure Relating To Shareholding Pattern:

a. Disclosure of Shareholding Pattern Prior to Listing of Securities:

Entities which seek listing of their securities post-IPO were mandated to submit their shareholding pattern 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:

With a view to ensure public dissemination of the shareholding pattern pursuant to capital restructuring in listed entities, it was specified that in all cases wherein the change in capital structure due to such restructuring exceeds +/- 2 percent of the paid up share capital of the entities, the listed entities shall file a revised shareholding pattern with the stock exchanges within 10 days from the date of allotment of shares pursuant to such change 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 the case of listed entities which have issued Depository Receipts (DRs) overseas, 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'.

99. 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.

100. 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.

101. 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.

102. 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.

103. 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.

104. Disclosure Of Price Information Of Issues Handled By Lead Managers:

In order to apprise investors regarding the performance of issues brought in the past by Merchant Bankers (MBs), it was mandated that the price information of issues handled by MBs in the past be disclosed in the offer documents. The disclosures are to be given for issues during three financial years (current financial year and two financial years preceding the current financial year) subject to maximum 10 issues (IPOs) managed by merchant banker.

105. Disclosures In Offer Document When Funds Are Shown As Promoters Of An Issuer Company:

Considering the constraints in disclosure of details of investee companies of funds (such as venture capital funds, etc.) which are shown as one of the promoters of the issuer, a set of alternate disclosure requirements was specified in such cases in lieu of the existing disclosure requirements. Some of the alternate disclosure requirements include details of the fund manager, total number of investors in the fund, details of companies funded by the said funds, etc.

106. 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.

107. Mandatory Usage Of ASBA Facility By Non-Retail Investors:

In order to increase the spread and enhance the reach of ASBA, the non-retail investors i.e. Qualified Institutional Buyers (QIBs) and Non-Institutional Investors (NIIs), making application in public/ rights issue were mandated to make use of ASBA facility.

108. Adjustment Of Eligible Discount At The Time Of Application:

Investors eligible for discount in public issues have been allowed to make payment at a price net of discount, if any, at the time of bidding. Hitherto, the effect of discount, if any, in public issues to eligible investors was given only at the time of allotment of shares and not at the time of application. The amendment confers certain benefits on the investors such as lower cash outflow at the time of application, the ability to apply for more shares with the same cash outlay etc.

109. Reservation For Convertible Security Holders In Rights/Bonus Issuances

On the issue of reservation to convertible debt holders, it was 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.

110. Requirements In Respect Of Minimum Public Shareholding:

To comply with the amended rule 19(2) (b) of Securities Contracts (Regulation) Rules, 1957, which requires the listed companies to achieve and maintain minimum public shareholding at 25 percent (10 percent for public sector companies), 2 additional methods viz. Institutional Placement Programme (IPP) and Offer for Sale of Shares (OFS) through the stock exchange mechanism were introduced. It was also decided to extend the OFS through the stock exchange mechanism to top 100 companies based on average market capitalization for last completed quarter.

111. Disclosure Of Quarterly Financial Results:

In order to give a better comparative picture of the quarterly financial results, which may aid investors while making investment decisions, it was mandated that companies disclose financial results in respect of immediately preceding quarter as well in addition to the disclosures of financial results pertaining to corresponding periods in the previous year.

112. Mode Of Supplying Annual Reports To Shareholders:

As a green initiative to contain the environmental costs associated with printing and publishing Annual Reports, it has been decided that instead of supplying complete and full annual reports to all the shareholders, listed entities shall supply: soft copies of full annual reports to all those shareholders who have registered their email addresses for the purpose; hard copy of abridged annual reports to others and hard copies of full annual reports to those shareholders, who request for the same.

113. Disclosure Of Voting Results By Listed Entities:

In order to ensure wider dissemination of information regarding voting results, which gives a better picture of how the meetings are conducted and how the different categories of investors have voted on a resolution, listed entities were mandated to disclose in a prescribed format, voting results/ patterns on their websites and to the exchanges within 48 hours from the conclusion of the concerned shareholders' meeting. To begin with, this requirement has been made applicable to top 500 listed entities based on market capitalization.

114. Exemption From Lock-In Requirements To Insurance Companies And Mutual Funds:

Insurance companies and mutual funds are exempted from the provisions of SEBI (ICDR) Regulations relating to restriction on sale and lock-in of their pre-preferential shareholding in the issuer company, as the insurance companies and mutual funds are broad-based investment vehicles representing the interests of the public at large and are primarily engaged in trading (both buying and selling) of securities of numerous companies as part of their daily operations.

115. Redemption Of Indian Depository Receipts Into Underlying Equity Shares:

Considering the fact that the extant regulatory framework did not permit two way fungibility of Indian Depository Receipts (IDRs), but only partial one way redemption and also having regard to the fact that allowing redemption freely in the absence of two-way fungibility could result in reduction in the float and adversely impact the liquidity of IDRs traded in India, it was clarified vide circular dated June 3, 2011 that after the completion of one year from the date of issuance of ID redemption of the IDRs shall be permitted only if the IDRs are infrequently traded on the stock exchanges in India.

116. Forensic Accounting Cell At SEBI:

A Forensic Accounting Cell has been set up to further enhance the monitoring of disclosure of financial information and to assist in detection of financial irregularities by companies.

2.3 SECONDARY SECURITIES MARKET:

In 2001-12, several changes were made by the government and SEBI in regulations relating to the functioning of the secondary markets. Such as changes in the membership rules of the stock exchanges, amendments to the Listing Agreement and the Securities Contracts (Regulations) Act 1956 and amendments to the SEBI act, 1992.

Transparent, efficient and liquid secondary markets are vital for insuring investor confidence and protection. Delays, high transaction costs and inefficiencies in secondary markets have an adverse impact not only on investors, who stay away from such markets, but also on issuers in the primary market. The success of investment institutions such as mutual funds in channelizing the savings of investors into the securities markets is to an extent also dependent on the costs and risks faced by them in

secondary markets. The improvement in the quality of intermediation and intermediaries, and in the structural framework within which the stock exchanges and their members functions, have been the focus of SEBI's efforts for regulation and development of secondary markets.

SEBI has in the past already taken several measures to strengthen the administration and management of stock exchanges. The governing boards of exchanges have been reorganized and board based, so that they represent different interest, and not just the interest of their members. The various committees of stock exchanges have been restructured, for example, their disciplinary, default and arbitration committees now have a majority of non-brokers. The exchanges are now required to appoint a non member professional in the capacity of the capacity of an executive director or principal officer, who is empowered and made responsible for the day-to-day management of the exchange. These efforts are aimed at strengthening the exchange as self regulatory organizations, which would be responsible, under SEBI's final and overall supervision, for regulating their affairs of their members.

SEBI has also made special efforts to make the markets more modern - in terms of infrastructure, practices and attitudes; and more transparent and efficient. Measures were also adopted to maintain the safety and integrity of the market. The comprehensive system of margins and other steps taken to reduce settlement risks helped the process. The clearing and settlement systems were also improved significantly. These measures combined with surveillance and effective implementation of regulations in these areas helped in fostering the confidence of domestic and foreign investors.

Market micro structure of secondary securities market and its robustness are *sine qua non* for promoting investors' confidence and maintaining the integrity of the market. Trading, clearance and settlement are some of the major functions of the secondary market. Globalizations of economies and rapid changes in information technology have made countries and exchanges virtually borderless. Rapid changes in technologies have made transactions less costly and faster. Some of these developments have had significant impact on the way stock exchanges are organized, managed, supervised and monitored. Indian capital market regulator, SEBI, has been continuously responding to changes and challenges offered by macro micro economic forces towards making Indian capital market the most efficient, transparent and clean.

The measures taken by the SEBI in 2001-2012 in the secondary market are as following:

1. Trading of all Scrip's in Rolling Settlement Made Compulsory – from Account Period to T+5 and T+3 Settlement:

One of the far reaching changes for the Indian Securities market in 2001-02 was the introduction of compulsory T+5 rolling settlement for all scrips listed and traded in any Stock exchange in India. Rolling settlement was introduced on voluntary T+5 b asis in the Demat segment of the Stock Exchanges on January 15, 1998 to expedite the trading and settlement process and improve efficiency of the securities market. Based on the recommendations of the Committee on rolling settlement it was decided that trading would be compulsory in rolling settlement by all investors. It was subsequently decided to further shorten the settlement cycle to T+3 for listed scrips from April 1, 2002.

2. Deferral Products:

All deferral products namely ALBM / BLESS / MCFS/ CNS were ceased to be available for all scrips except for transitional measures. In order to give market adequate time for orderly unwinding of positions, a transitional mechanism was put in place: All outstanding deferral positions as on May 14, 2001 were required to be compulsorily liquidated by September 03, 2001 Any additional deferred positions taken on or after May 15, 2001 in addition to point (a) above were required to compulsorily liquidated by July 02, 2001. No new deferred positions were permitted from July 02, 2001 onwards.

3. Settlement Cycle from T+5 basis to T+3 basis:

Further to derive benefits of increased efficiency of the Rolling Settlement, the rolling settlement cycle was shortened from T+5 to T+3 basis with effect from April 01, 2002.

4. Unique Client Identification (ID):

SEBI made mandatory for all brokers and sub-broker to use unique client codes for all clients. For this purpose, brokers would collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department for all their clients. Sub-brokers would similarly maintain for their clients. If a client does not have PAN number, such a client would furnish passport number and place and date of issue. If the client does not have a PAN number or a passport, such a client would furnish driving license number, place and date of issue. If none of the above is available, the

client would give his voter ID number. These requirements have become applicable for clients having order value of Rs.1 lakh or more and shall be enforced w.e.f. August 1, 2001. This would help in easing audit trail.

5. Risk Containment Measures:

• Margins:

a) Value at risk (VaR) margin:

The equity markets moved to margins based on Value at Risk (VaR) as prevalent in the derivatives market. The modalities for the implementation of the margins based on VaR were informed to the stock exchanges. The margins based on VaR replaced all the margins prescribed by SEBI except for mark to market margin.

For the scrips in the compulsory rolling settlement, the 99 per cent VaR based margin system was introduced with effect from July 02, 2001 in the following manner:

- The Stock Exchanges would calculate scrip wise VaR and index based VaR and apply the higher of the two as the margin percentage. Scrip wise daily volatility calculated using the same exponentially weighted moving average methodology that is used in the index futures market and the scrip wise daily VaR would be calculated as 3.5 times the volatility so calculated.
- The index based VaR calculated as the index VaR times a suitable multiplier i.e. the multiplier factor for each of stocks would be calculated on the first trading day of every calendar month based on average stock volatility during previous six months on a rolling basis. The higher of Sensex and Nifty VaR would be used. The multiplier shall not in any case be less than 1.75.
- The multiplier will be rounded up to two decimals and the margin percentage would be rounded up to next integer.
- The minimum daily index VaR shall be 5 per cent as in the index futures market at present. The higher of Sensex and Nifty VaR would be used.
- The VaR based margin would be capped at 100 per cent

b) Additional level of margin:

While the above calculations would address 99 percent of the cases, it would be necessary to have an additional level of margin to address the 1 per cent of the cases to supplement the VaR based margins. Therefore, additional 12 per cent margin was imposed to address 1 percent of the cases. The VaR calculations would be based either

on BSE Sensex or S&P CNX Nifty. Other stock exchanges could make their own VaR calculations based on BSE Sensex and S&P CNX Nifty or freely adopt the VaR calculations available on the sites of BSE and NSE.

c) Margins on institutional trades:

In VaR based margin, institutions like the financial institutions, FIIs, Banks and Mutual Funds etc. would be required to pay margin on the sale side calculated on the basis of differential i.e. positive differential between the minimum VaR (1.75 times index VaR) and the actual margin percentage calculated.

d) Gross margins in the cash market:

The margins in the cash markets were mandated to be calculated on the a gross basis across clients w.e.f.. September 03, 2001.

• Market wide circuit breakers:

SEBI introduced the index based market wide circuit breaker system from July 2, 2001. These circuit breakers would apply at three stages of the index movement either way at 10 per cent, 15 per cent and 20 per cent and would bring about a coordinated halt trading in all equity and equity derivative markets nationwide.

- In case of a 10 per cent movement of either of these indices, there would be a 1 hour market halt if the movement takes place before 1 pm. In case the movement takes place at or after 1 pm but before 2:30 pm there will be a trading halt for ½ hour. In case the movement takes place at or after 2:30 p.m. there will be no trading halt at the 10 per cent level and the market will continue trading.
- In case of a 15 per cent movement of either index, there will be a 2-hour halt if the movement takes place before 1 p.m. If the 15 per cent trigger is reached on or after 1 p.m. but before 2 p.m., there will be a 1 hour halt. If the 15 per cent trigger is reached on or after 2 p.m. the trading will halt for the remainder of the day.
- In case of a 20 per cent movement of the index, the trading will be halted for the remainder of the day.

Movement of either BSE Sensex or the NSE S&P CNX Nifty, whichever is breached earlier, would trigger the market wide circuit breakers.

e) Withdrawal of margins:

In response to the volatility witnessed in the markets in March 2001, margins were levied on the institutional trades and volatility margins were made applicable to the positions of financial institutions, foreign institutional investors, banks and mutual funds. With the implementation of the VaR based margins, the institutional business continued to be margined on their net outstanding sale position which was equivalent to the positive differential between the minimum VaR (1.75 times index VaR) and the actual margin percentage calculated. Considering that the market structure and the overall margin system witnessed a major structural change with the implementation of rolling settlement on T+5 basis and further reduction to T+3, the margins applicable on the financial institutions, FIIs, banks and mutual funds were withdrawn.

f) Removal of price bands:

As a temporary measure, a price band of 10 per cent was imposed on 53 scrips on which the derivatives products were available to address excess market volatility pursuant to the events of September 11, 2001 in the US. The price band on the stocks on which derivatives products were available was subsequently withdrawn.

g) Threshold for maintenance of minimum margin deposit:

The clients have to maintain a margin deposit with the broker which is at least 10 per cent of his net outstanding positions at any point of time. The deposit was to be maintained in the form of cash, bank guarantees, fixed deposit receipts or approved securities. It was represented that this called for continuous monitoring and caused considerable inconvenience to the clients.

The compliance officer appointed by the broker in terms of regulation 18A of the Securities and Exchange Board of India, (Stock Brokers and Sub-Brokers) Regulations, 1992 shall certify the compliance of the broker with this requirement.

h) Risk Management for T+2 rolling settlement:

The risk containment measures were revised and rationalized for the reduced T+2 rolling settlement. Pursuant to the deliberations of the Advisory Committee on Derivatives and Market Risk Management the revised risk containment measures were implemented with effect from April 01, 2003. The scrips were classified into three categories based on their liquidity and volatility. Based on the classification of the scrips, the VaR based margins were applicable for these scrips.

i) Pro-account Trading:

With a view to checking the practice of execution of orders in proprietary account of member and later transferring it into client account, it was mandated that the facility of placing orders on "pro-account" through trading terminals, shall be generally extended only at one location of the members as specified / required by the members.

j) Payment and Deliveries:

Brokers and sub-brokers have been directed not to accept cash from the clients whether against obligation or as margin for purchase of securities and /or give cash against sale of securities to the clients. All the payments received/made from/to clients should be through banking channels.

k) New Trading Segment:

Stock exchanges are required to take prior approval of SEBI before starting any new trading segment.

I) Usage of Software:

To safeguard the interest of securities market, all stock exchanges were advised to obtain an undertaking in the form of an affidavit from the members on the exchange to the effect that the members as well as their sub-brokers use only authorized software.

6. Scrip-wise price bands:

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 scrips on which derivatives products are available or scrips including in indices on which derivatives products are available. For scrips that are not in compulsory rolling settlement, the existing price bands would continue.

7. Enhancement of Financial Disclosure by the Listed Companies:

In order to enhance the level of disclosure by the listed companies in the light of new Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), the Accounting Standards Committee (ASC) of SEBI recommended the following which were implemented through the amendment to the Listing Agreement.

8. Corporatization and Demutualization of the Stock Exchanges:

The Government has announced that the stock exchanges will be corporatized by which ownership, management and trading membership would be segregated from each other and that administrative steps will be taken and legislative changes, if required, will be proposed accordingly. In accordance with the above policy announcement, the SEBI Board decided that henceforth no stock broker member of any stock exchange shall be an office bearer of the exchanges i.e. holds the position of president, vice-president, treasurer etc. All recognised stock exchanges were also directed to amend their rules, articles etc. within a period of two months from the date of order

Corporatization and demutualization of stock exchanges are complex subjects and involve a number of legal, accounting, Companies Act 1970 and tax issues. These issues would need careful examination. Considering this, SEBI constituted a Group under the chairmanship of Justice M. H. Kania, former Chief Justice of India, comprising of eminent personalities, in the fields of law, accountancy, finance, company law affairs and taxation to advise SEBI and recommend the steps that need to be taken to implement the announcement of the Finance Minister.

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 (Over the Counter Exchange of India) have been exempted from submitting the C and D schemes as they were already notified as corporatised and demutualised stock exchanges *vide* notification dated March 23, 2005 and September 15, 2005, respectively.

9. The terms of reference of this Group are as under:

- i. to review and examine the present structure of stock exchanges including stock exchanges which are set up as company and those set up as unincorporated bodies and in this light examine the legal, financial and fiscal issues involved to corporatize and demutualise the stock exchanges,
- ii. to recommend the specific steps that need to be taken for implementation, and to advise on the consolidation and merger of the stock exchanges.

10. Major Amendments to Provisions of the Listing Agreement:

• Non-promoter holding on a continuous basis and minimum number of shareholders:

For the first time, minimum floating stock was made a condition for continuous listing. Following the recommendations of Secondary Market Advisory Committee on the issue of compliance of quantitative continuous listing conditions by the listed companies to maintain a minimum floating stock post listing and approval of SEBI Board on the requirement of quantitative continuous listing conditions as a measure of investor protection as it would ensure availability of floating stock on a continuous basis, the stock exchanges were directed to amend their Listing Agreement.

11. Adoption of Model Rules by the Stock Exchanges:

SEBI had constituted a Committee for examining the existing Articles and Memorandum of Association, Rules, Bye-laws and Regulations of Stock Exchanges and framing a uniform set of Rules and Bye-laws to be followed by all the stock exchanges. The Committee had submitted the model rules for Stock Exchanges to SEBI for implementation across the stock exchanges.

12. Delay in transfer of shares by the companies:

SEBI has given the direction to the stock exchanges for speedy redressal of grievances pertaining to pending transfer of shares, dealing with objection memos in future and duplicate share certificates.

13. Grant of trading terminals:

SEBI had advised the Stock Exchanges to grant trading terminals only at the members' registered office, branch offices and their registered sub-brokers' offices. Trading terminals granted earlier in places other than locations mis-utilised for unregistered sub-broking activities should be withdrawn immediately. The Stock Exchanges were also advised to amend their byelaws to take action against the broker who mis-utilises or lets misutilisation of their trading terminals for unregistered sub-broking activities.

14. No-delivery period:

The stock exchanges were advised that in case of any short delivery by any member in the previous settlement where the delivery of securities is to be given on cum basis, then the Exchange may close out to the extent of the short delivery if the shares cannot be acquired in auction on cum basis and there would be no "no delivery" period on account of book closure/record dates for corporate actions such as issue of dividend and bonus shares in respect of the scrips which are traded in the compulsory dematerialized mode.

15. Reference price for close out:

Since in the rolling settlement the auction and the close out takes place during trading hours, hence the reference price in the rolling settlement for close out procedures would be taken as the previous day's closing price.

16. Fees payable by stock brokers:

Following the judgment of the Hon'ble Supreme Court on the issue of fees payable by Stock Brokers and directing SEBI to amend the regulations incorporating the recommendations of the R. S. Bhatt Committee Report, SEBI has amended the regulations on February 20, 2002.

17. Disclosure of the scrip wise delivery ratio:

For transparency purpose, the stock exchanges were advised to disclose scrip wise deliverable positions grossed across clients for that day's trading session.

18. Practice of granting conditional listing permission:

The stock exchanges were advised to desist from the practice of granting conditional listing to the companies since Section 73 of the Companies Act, 1956 does not envisage any qualified conditional listing permission Group on Risk Management Recommends to Review Corporate Governance and Response to Market Rumors While discussing market related disclosure issues, the Group felt that the corporate governance standards being in place for quite some time, it was time to take a review of the standards of corporate governance and implementation thereof. Very often, rumors appear about companies listed on stock exchanges, which affect their prices. Some of the rumors are price sensitive. Exchanges are required to take steps to verify rumors and check with companies. The Group felt it is important to further strengthen the existing framework to help determine the role of exchanges and corporate in verifying and responding to rumors with regard to price sensitive information in order to enhance.

19. The Securities Lending Scheme, 1997:

The Securities Lending Scheme was introduced by SEBI in 1997. The scheme provides for lending of securities through an approved Intermediary to a borrower under an agreement for a specified period. It also provides for mobilization of idle stock in the hands of lenders such as FIs, MFs, FIIs and large investors. This also gives an additional income to the lender. Securities lending is an essential ingredient element for well functioning of modern securities market. Securities lending contributes to the liquidity in the market. It smoothens the settlement system and improves efficiency of the settlement system by facilitating timely delivery of securities and correcting temporary imbalances between demand and supply.

20. Amendments to SEBI (Insider Trading) Regulations, 1992:

The SEBI constituted a committee under the Chairmanship of Shri Kurnarmangalam Birla to strengthen the existing Insider Trading Regulations and create a framework for prevention of insider trading. The recommendations of the committee were considered and approved by the SEBI Board.

21. Derivatives Trading, Risk Management and New Derivatives Products:

The SEBI has been constantly pursuing the promotion of derivatives market in India. It has made efforts to widen the market by introducing derivative trading, derivative products and risk management associated with derivative trading.

22. Technical group on new derivative products:

The SEBI Technical group on new derivative products discussed the eligibility criterion and risk containment measures for options on individual stocks and decided that stocks to be eligible for options trading should meet the following criteria:

- Stock should figure in the list of top 200 scrips, on the basis of average market capitalization, during the last six months and average free float market capitalization should not be less than Rs. 750 crore.
- Stock should appear in the list of top 200 scrips, based on the average daily volume, during the last six months. Further, average daily volume should not be less than Rs. 5 crore in the underlying cash market;
- Stock has to be traded at least on 90 per cent of the trading days, during the last six months;
- Non-promoters holding in the company should be at least 30 per cent; and
- Ratio of daily volatility of the stock vis a vis daily volatility of index should not be more than 4, at any time during the previous six months.

23. Derivatives trading:

The Advisory Group on Derivatives discussed the modalities for the introduction of stock futures in the Indian securities market and recommended to:

- Device a detailed scheme for the introduction of stock futures on 31 stocks on which options have been permitted.
- Specify a timeframe within which futures on individual stocks could be introduced after assessing the preparedness of the exchanges in terms of infrastructure.
- Specify the risk containment measures, which could include cash settlement of individual stock futures.
- Introduce the risk containment measures and the surveillance measures, which need to be in place before trading in stock futures is permitted.

The previous eligibility criteria was based on the turnover, market capitalization, minimum non-promoter holding and volatility of the stock vis-à-vis the index. These were replaced by liquidity, market capitalization, average daily traded volume and quarter sigma order size.

Simultaneously, the risk containment measures were also modified with the change in the eligibility criteria. It has now been linked to the impact cost of the underlying scrip. The Derivatives Exchange/ Segment can also now determine the manner of adjustment in derivative contracts at the time of corporate actions.

The Advisory Committee on Derivatives had recommended that SEBI and RBI should consider utilizing the exchange platform to introduce Interest Rate and Currency Derivatives. RBI had constituted a committee on Over the Country (OTC) Rupee Derivative where SEBI was also a member. The committee recommended introduction of exchange traded Interest Rate derivative contracts. Steps are underway to introduce such derivatives shortly.

24. Individual stock futures:

The SEBI approved the introduction of individual stock future contract on 31 stocks on which options contracts were permitted by the SEBI. Earlier, the SEBI had granted inprinciple approval for the introduction of futures on 31 stocks. It was decided that the Advisory Committee on derivatives should,

- devise a detailed scheme for the introduction of this product,
- specify the risk containment measures which could include cash settlement of individual stock futures, and

• Specify the time frame in which futures on individual stocks could be introduced after assessing the preparedness of the exchanges in terms of infrastructure.

25. Client level position limits:

The gross open position of a client across all derivative contract on a particular underlying shall not exceed higher of

- 1 per cent of the free flow market capitalization (in terms of number of shares) or;
- 5 per cent of the open interest in derivatives contracts in a particular underlying stock (in terms of number of contracts)

This position limit would be applicable on the combined position in all derivatives contracts on an underlying stock at an Exchange.

26. Market-wide limits:

The market-wide limit of open positions on all derivative contracts on a particular underlying stock would be lower of

- 30 times the average number of shares traded daily during the previous calendar month in cash segment of the Exchange or;
- 10 per cent of the number of shares held by non promoters i.e. 10 per cent of the free float market cap.

27. FIIs allowed trading in derivative products:

FIIs were, hitherto, allowed to trade only in index futures to the extent of their exposure in the cash market according to restrictions laid down by the RBI. In order to encourage FIIs to participate in the derivative market in all products, it was decided that FIIs might be allowed to trade in all derivative products subject to the position limits now applicable to a trading member. These position limits would be monitored by the exchanges as in case of any other trading member. The SEBI took up the matter with RBI and Government of India to issue suitable instructions to allow FIIs to trade in all derivative products. Accordingly the RBI has issued the instructions and permitted the FIIs to trade in all derivatives product.

28. 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.

29. Registration Fees Payable by Stock Brokers:

Pursuant to the judgment of the Hon'ble Supreme Court on February 01, 2001, SEBI has been receiving representations from individual brokers, the Brokers' Forums and the Exchanges on various issues related to interpretation of the term turnover. Legal advice from the Solicitor General of India was sought on the issues raised in these representations. Based on his opinion, a circular clarifying the issues raised was issued.

30. Depositories, Paperless Trading and Other Related Issues:

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, forgery of shares and expediting the transfer of shares. Recognizing the far reaching benefits to accrue to the market and investors through the elimination of trading in physical securities, the speeding up of dematerialization process has been high on the agenda of SEBI. During 2001-02 also 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.

31. Shortening of settlement cycle from T+5 to T+3 to T+2:

Rolling settlement on T+5 basis, which was made compulsory in all stock exchanges for 200 actively traded scrips in BSE and NSE, was extended to cover all scrips from December 31,2001. The settlement cycle was then shortened to T+3 from April 01, 2002. The transition from T+5 to T+3 took place smoothly without any glitches. In order to derive greater benefits of increased efficiency of the rolling settlement and ensure speedier settlement, the need for contracting the rolling settlement cycle from existing T+3 to T+2 was felt. Market participants were intimated about further shortening of the settlement cycle to T+2 from April 1, 2003.

32. Guidelines for Delisting of Securities on Stock Exchanges:

A committee was constituted on delisting of securities to -

a. examine and review the present conditions for delisting of securities of companies listed on recognized stock exchanges and suggest changes in norms and procedures in this regard.

b. examine the concept of listing at regional stock exchange and the establishment of a listing authority across the stock exchanges.

c. suggest ways for effective implementation of listing conditions and penal provisions for non-compliance

33. Model Rules Prescribed For Stock Exchanges:

The committee set up by SEBI to examine the existing Articles and Memorandum of Association, Rules, Bye-laws and Regulations of Stock Exchanges and to frame a uniform set of Rules and Bye-laws to be followed by all the stock exchanges, has submitted its report. The reports along with the recommendations have been put up on SEBI website for public comments. After examining these comments, SEBI issued a circular to the stock exchanges, to amend their rules in line with the recommendations.

34. Trading of Government Securities on the Stock Exchanges:

India is the first jurisdiction, which allows government securities to trade through screen based, automated, anonymous, price time priority system on the stock exchanges. World over the market is limited to select players and is solely a negotiated/ telephone market. All government securities, as notified by RBI from time to time, would be traded along with the equity segment of the eligible exchanges where the minimum order size of 10 units of Rupees One hundred each and multiples thereof and the traded price would be inclusive of interest.

35. Amendments to Listing Agreement:

To compensate the aggrieved party for opportunity losses due to delay in transfer, the clause 12A has been amended to provide for the compensation to the investors in case of delay in transfer of securities and furnishing of objection memo beyond the specified time.

I. Continuous disclosures for Listed Companies:

Accounting Standards Committee of SEBI recommended the following disclosures to further enhance the quality of disclosures and timely availability of information for the investors:

a. Amendment to Clause 41 of the Listing Agreement:

Clause 41 that provides for continuous disclosures and financial disclosures was amended as follows:

i Publication of audited results:

The companies which opt to publish audited results for the entire year within 3 months instead of publishing un-audited results for the last quarter within 30 days are required to publish annual audited results in the prescribed format.

ii Audit Qualification:

The companies would have to make disclosures regarding audit qualification in the audited/unaudited financial results published by the companies along with the impact of audit qualification on their profit & loss.

iii Limited Review for un-audited quarterly results:

The unaudited quarterly results would also be subjected to limited review from the quarters ending on or after June 30, 2003. In this regard, all other provisions relevant to half yearly limited review became applicable to limited review of unaudited quarterly results.

iv Publication of consolidated financial results:

All listed companies would have to publish consolidated financial results along with standalone annual financial results.

b. Clause 32 of the Listing Agreement:

The clause 32 of listing agreement which provides for continuous disclosures was amended to incorporate certain disclosures related to loans/advances and investment in its own share by listed companies, their subsidiaries, associates, etc. This is expected to bring in a greater degree of transparency in the investments made by companies in shares and debentures:

a) Disclosure will have to make in the annual accounts of the parent company about the loans and advances in the nature of loans to subsidiaries and associates by name and amount. The parent company would also have to disclose loans and advances in the nature of loans by name and account where there is no repayment schedule/ repayment beyond 7 years or where there is no interest/interest less than Section 372A of Companies Act. Disclosures will also have to be made on loans and advances in the nature of loans by name and account given to firms and companies where directors of the parent company are interested. The same set of disclosures as applicable to parent company shall also be applicable to subsidiary companies.

b) The investments by the loaned in the shares of parent company and subsidiary company, when the company has made a loan or advance in the nature of loan has to be disclosed in the accounts of parent company. These disclosures have to be made with respect to the amounts at the year end and maximum amount of loan/advances/investments outstanding during the year.

36. Electronic Data Information Filing and Retrieval (EDIFAR):

The Electronic Data Information Filing and Retrieval (EDIFAR) System was launched in July 2002. EDIFAR was set up as a website by SEBI in association with National Informatics Center (NIC) to facilitate filing of certain documents/statements by the listed companies on line in the EDIFAR web-site www. Sebiedifar.nic.in. This would enable electronic filing of information in a standard format by the companies and would benefit various classes of market participants like investors, regulatory organization, research institutions, etc.

37. Review of Corporate Governance:

Meanwhile, SEBI has worked with the credit rating agencies to prepare "Corporate Governance Index" as a measure of wealth creation, management and its distribution by the corporate. Some companies have already been rated on this index. At present the index is voluntary. It is expected that over time, as more and more companies will get themselves rated voluntarily and the rating methodology is refined. This index would be regarded as a valuable indicator of corporate governance of companies and will be widely used by the market.

38. Restructuring of Subsidiary Management:

SEBI, has allowed the stock exchanges to float subsidiaries to obtain the membership of BSE and NSE. Through this measure, the brokers in the same stock exchange which had virtually no trading could trade through NSE and BSE. To ensure that subsidiaries effectively discharge their responsibilities towards investors protection, SEBI mandated certain changes in management structure of the subsidiaries.

39. Arbitration Proceedings:

It has been noted that arbitration proceeding take unduly long time to reach the stage of arbitration awards. The procedure provided under the Bye Laws of the stock exchanges for distributing the assets after the award has been granted, are too cumbersome and further delay the completion of the proceedings.

40. Monitoring Compliance of SEBI Inspection Report:

To simplify the procedures and to ensure that the arbitration proceedings are completed speedily, SEBI issued a directive to the stock exchanges requiring the stock exchanges to form a sub-committee of Governing Board of Stock Exchanges shall comprising of Executive Director/Managing Director, two public representatives, one SEBI nominee and one broker representative to review the actions taken by the stock exchange to implement the suggestions of SEBI's Inspection Report.

41. Private Placements:

SEBI Secondary Market Advisory Committee recommended a regulatory framework for issuance and trading of all corporate debt securities, including those issued through the private placement route. These have been placed on the website of SEBI for public comments.

42. Derivatives:

The previous eligibility criteria was based on the turnover, market capitalization, minimum non-promoter holding and volatility of the stock vis-à-vis the index. These were replaced by liquidity, market capitalization, average daily traded volume and quarter sigma order size.

Simultaneously, the risk containment measures were also modified with the change in the eligibility criteria. It has now been linked to the impact cost of the underlying scrip. The Derivatives Exchange/ Segment can also now determine the manner of adjustment in derivative contracts at the time of corporate actions.

The Advisory Committee on Derivatives had recommended that SEBI and RBI should consider utilizing the exchange platform to introduce Interest Rate and Currency Derivatives. RBI had constituted a committee on OTC Rupee Derivative where SEBI was also a member. The committee recommended introduction of exchange traded Interest Rate derivative contracts. Steps are underway to introduce such derivatives shortly.

43. 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.

Further to extending the contract tenure for securities lending and borrowing, from a period of 30 days to a maximum period of 12 months and providing the facility of early recall and repayment of securities, it was specified vide circular dated October 7, 2010 that, dividend amount would be worked out and recovered from the borrower on the book closure/ record date and passed on to the lender.

44. Secondary Market for Corporate Debt Securities:

With a view to providing greater transparency and protecting the interests of investors in debt securities, SEBI has prescribed new guidelines for regulating private placement of debt securities issued by the corporates.

Full disclosure (initial and continuing) as per Companies Act 1956, SEBI (DIP) Guidelines 2000 and Listing Agreement are to be made by the companies.

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

45. SEBI (Central Database of Market Participants) Regulations, 2003:

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, uncer the SEBI (Central Database of Market Participants) Regulations, 2003).

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

46. Disclosures:

To enhance disclosure standards the following measures have been initiated.

a. Insiders and promoters are required to disclose as per Insider Trading and Takeover Regulations.

b. A broker is required to disclose to his client his proprietary as well as client trading details. All the bulk deals in excess of 0.5 per cent of the number of equity shares of the company listed on the stock exchanges are required to be disclosed to the exchange/public.

c. Members of the stock exchanges are required to obtain risk disclosure documents signed by their clients.

d. Companies are required to publish the status of investor complaints along with the quarterly results.

e. Companies have been asked to speed up redressal of investors grievances and they have been brought under the purview of arbitration mechanism of the stock exchanges.

47. BSE Indo Next Trading Platform:

In the Union Budget 2004-05, the Central Government 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. This trading platform is expected to provide the much needed avenue for financing the SMEs and help redress the present imbalance in this regard. SEBI took the initiative to encourage the BSE and the Regional Stock Exchanges (RSEs) to set up this market. The Government also amended Section 13 of the Securities Contract (Regulations) Act, 1956 to facilitate trading by brokers of RSEs on this market.

48. Securities Transaction Tax (STT):

In the Union Budget 2004-05, Government proposed a package of tax measures relating to securities transactions. The tax on long term capital gains from securities transactions was abolished while the short-term capital gains tax was reduced to a flat rate of 10 per cent. Moreover, it was proposed to levy a tax on buyers at the rate of 0.15 per cent of the value of securities transacted on the stock exchanges in the form of securities transaction tax (STT).

Pursuant to the representations received from the market participants, the STT was modified by the Government in consultation with SEBI.

The STT was notified on September 28, 2004. The stock exchanges have been advised to levy and collect STT on all transactions done by their members and remit the same to the Government of India with effect from October 1, 2004.

49. Investor Protection Measures:

(i) Risk Management Framework for the Cash Market:

A comprehensive risk management framework in T+2 rolling settlement scenarios was specified for the cash market providing for the various types of margins, categorization of stocks for margin purposes and collection of margins on an upfront basis. Value at

Risk (VaR) based margining system was put in place based on the categorization of stocks into Groups I, II and III depending on the stocks' liquidity and volatility. It addresses 99 per cent of the risks in the market. Additional margins were specified to address the balance 1 per cent risks. Further, provisions were specified for shortfall of paying of funds/margin, collections of margins by members from the client etc. The revised framework when implemented will be a step forward in achieving cross-margining between cash and derivative markets.

(ii) Comprehensive Guidelines for Investor Protection Fund (IPF)/Customer Protection Funds (CPF) at the Stock Exchanges:

Comprehensive guidelines were issued for constitution and management of IPF/CPF and disbursement of the funds out of the IPF/ CPF towards settlement of legitimate investor claims against the defaulter members of the stock exchanges. The exchanges are in the process of amending the Trust Deeds for IPF.

(iii) Duration for Transfer of Funds and Securities:

It was mandated that the brokers should transfer funds and securities to the clients within one working day after the pay-out day.

50. Matters Relating to Depositories:

(i) Review of Dematerialization Charges:

Investors have been representing to SEBI seeking a reduction in the charges paid by them for dematerialization of securities. As a first step, it was decided to rationalize the existing charge structure. Accordingly, effective February 1, 2005, (a) no investor is required to pay any charge towards opening of a Beneficiary Owner (BO) account except for statutory charges as may be applicable; (b) no investor is required to pay any charge for credit of securities into his/her BO account; and (c) no custody charge is to be levied on any investor opening a BO account on or after February 1, 2005. With effect from April 1, 2005, the custody charges are not levied on any investor. However, the depositories may levy and collect the charges towards custody from the issuers, on a portfolio (International Securities Identification Number (ISIN) position) basis as at the end of the financial year. Issuers have to pay at the rate of Rs.5.00 (plus applicable service tax) per folio (ISIN position) in the respective depositories, subject to a minimum amount. The issuers are required to pay custody charges to the depository with whom they have established connectivity based on the total number of folios (ISIN

positions) as on 31st March of the previous financial year or the minimum amount, as the case may be, by 30th April of each financial year failing which depositories may charge penal interest subject to a maximum of 12 per cent per annum.

(ii) Proof of Identity (PoI) and Proof of Address (PoA) for Opening a BO Account:

The list of documents as PoI and/or PoA for opening a BO account has been broadened to include MAPIN card, identity card issued by Central/State Governments, Statutory/Regulatory authorities, Public Sector Undertakings (PSUs), Scheduled Commercial Banks, and Professional Bodies etc.

(iii) Mandatory Admission of Debt Securities on both Depositories:

The issuer companies have been advised once again to mandatorily dematerialize their debt securities with both the depositories.

(iv)Exemption from giving hard copies of transaction statements to Beneficiary Owners (BOs) by Depository Participants (DPs):

The DPs have been permitted to provide transaction statements and other documents to the BOs in the electronic format with digital signature, as governed under the Information Technology Act, 2000, subject to the DP entering into a legally enforceable agreement with the BO for this purpose.

(v) Shifting Securities from Trade-for-Trade Segment to Normal Rolling Segment on a Regular Basis:

Based on the information provided by the depositories regarding the establishment of connectivity by the listed companies with both the depositories, the stock exchanges have been advised on a regular basis to shift such companies which had not established dual connectivity from the Trade-for-Trade segment to normal rolling segment of the stock exchanges, upon their establishing dual connectivity, provided there are no other specific grounds for continuation of the trading in these scrips in the Trade-for-Trade segment.

51. Policy Initiatives for Market Intermediaries:

(i) In order to bring about uniformity in documentary requirements across different segments and exchanges and also to avoid duplication and multiplicity of documents, SEBI in consultation with stock exchanges (BSE and NSE) has formulated uniform set of broker client registration and agreement documents. The same have been made applicable from April 1, 2005.

(ii) In order to disseminate information regarding cancellation of registration of brokers and cautioning the investing public not to deal with 70 brokers whose registration has been cancelled by SEBI during 2003-04, a public notice was published in the newspapers. In the interest of investors, it has been decided to publish such information at periodic intervals.

(iii) In order to promote greater disclosure of information in the interest of investors and from the point of view of measuring the adequacy of systems and controls to meet internal as well as external compliance requirements, a draft concept paper on the professional rating of market intermediaries (viz., stock brokers, initially to start with) was placed on SEBI website for public comments.

(iv) SEBI has requested credit rating agencies to develop an appropriate rating model for stock brokers, based on the parameters set out in the concept paper read with public comments. Considering the public response and market acceptance to the rating concept for stock brokers, the concept may be extended gradually to other intermediaries as well.

(v) A review of the existing net worth requirements for stock brokers was taken up and report of the sub-group on Secondary Market Advisory Committee (SMAC) formed for the purpose was uploaded on SEBI website for public comments. The comments received on the paper are being analyzed.

(vi) Guidelines were issued for allowing SEBI registered market intermediaries to float overseas subsidiaries so as to undertake financial services activities/ capital market related activities abroad which have been approved by the SEBI Board.

52. Implementation of STP:

The Straight through Processing (STP) was launched in India on November 30, 2002. To start with, STP was insisted upon to be adopted by the domestic institutions, investors, fund managers, brokers and custodians. However, it was observed that though the market participants had joined the STP services, the system could not be widely used due to various issues like lack of interoperability between the STP Service Providers, lack of message handshake protocols, lack of common authentication of digital signatures across the STP Service Providers, lack of end-to-end compliance to ISO messaging formats from sender to the recipient and absence of standardization of file formats for client's back office development etc.

To resolve the issue of inter-operability between the STP Service Providers and other issues, SEBI in consultation with the stock exchanges and the STP Service Providers decided that a STP Centralized Hub would be set up. Currently, this STP Centralized Hub has been set up and made operational by NSE. NSE obtained the necessary approvals from the Department of Telecommunications (DoT) as an Internet Service Provider (ISP). Subsequently, this STP Centralized Hub would be further developed jointly with BSE.

53. Mandatory Use of STP for all Institutional Trades:

SEBI mandated the use of the Straight through Processing (STP) system for all institutional trades with effect from July 1, 2004. SEBI had prescribed a detailed system flow and the regulatory framework of the STP system by issuing the SEBI (STP Centralized Hub and STP Service Providers) Guidelines, 2004. SEBI also outlined the transaction work flow for the system of Straight Through Processing (STP) and prescribed the messaging formats based on internationally accepted ISO 15022 messaging standards. There are currently four STP service providers and STP centralized hub has been set up by NSE. There has been a steady increase in number of messages passing through STP network with approximately 2,500 STP users registered in the system.

SEBI is the first and perhaps the only regulator in the world to have prescribed and mandated a market-wide STP system, prescribe a regulatory framework along with the system flow, transaction work flow and detailed messaging standards for the STP system.

54. 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.

55. Review of Dematerialisation Charges:

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

56. Activation of ISINs of Initial Public Offerings (IPOs):

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

57. SEBI (Central Database of Market Participants) Regulations, 2003:

Following recommendations of the Jagdish Capoor Committee, it was decided to resume registration under the Central Database of Market Participants and Investors (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.

58. Discontinuation of Hand Delivery Bargains/Delivery versus Payment:

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

59. Guidelines for Issuing Electronic Contract Notes:

In order to provide further safeguard to the issuance of contract notes, additional conditions were prescribed such as sending of Electronic Contract Notes (ECNs) to a designated e-mail ID and retention of acknowledgements of receipt/procf 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.

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

61. Committee to Study the Future of Regional Stock Exchanges:

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

62. 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.

63. Corporatisation and Demutualisation (C and D) of Stock Exchanges:

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

64. VaR Margining in Cash Market:

In cash market, VaR margin rates were calculated at the end of the trading day and then applied to open positions for the subsequent trading day. To ensure market safety, to protect the interest of investors, and to align the risk management framework across the cash market, it was decided that the risk arrays should be updated intra-day in the cash market as is being practiced in derivatives market.

Accordingly, the stock exchanges were advised to update the applicable VaR margin rates, at least five times in a day. This may be carried out by taking the closing price of the previous day- at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m., and at the end of the trading session.

65. Mandatory Requirement of Permanent Account Number (PAN):

In order to further strengthen Know Your Client (KYC) norms in the cash market and facilitate reliable audit trail, PAN was made mandatory for all the entities/persons having transaction in cash market with effect from October 01, 2006. Since, certain operational issues came up for discussion and market participants made representations, the deadline for compliance of KYC norms was extended to December 31, 2006.

The Central government has exempted the persons resident in Sikkim from Direct Income taxes. In view of this, SEBI exempted investors residing in the state of Sikkim from the mandatory requirement of PAN for their investments in mutual funds.

In view of Rule 114 C (1) (c) of Income Tax Rules, requirement of PAN was also relaxed in the case of securities market transactions undertaken on behalf of Central and State Governments and by the officials appointed by the Courts e.g., official liquidator, court receiver etc. (under the category of Government).

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 accounts.

66. Mandatory Requirement of PAN for Opening and Operating Demat Accounts:

PAN was made mandatory for all categories of demat account holders including minors, trusts, foreign corporate bodies, banks, corporate, FIIs and NRIs, in respect of all dematerialized accounts opened by them on or after April 01, 2006. As regards demat accounts which existed prior to April 01, 2006, time for furnishing and verification of PAN card details was granted up to December 31, 2006. The accounts of

those investors who could not comply with the mandatory PAN requirement stood suspended for debit, with effect from January 01, 2007.

67. Standing Committee for Addressing Problems in Computerized Trading:

The stock exchanges were advised to set up Standing Committee to investigate the problems of computerized trading system, such as, hanging / slowdown / breakdown. To ensure compliance on the issue raised during inspection of stock exchanges conducted by SEBI and to bring uniformity in implementation / compliance, the stock exchanges were advised, as under:

a) All instances of hanging /slowdown / breakdown and any other problem in the computerized trading system, even for disruptions less than five minutes, should be reported to the Committee for its consideration.

b) The Committee, upon examination of the issue shall submit a report to the Governing Board / Council of the stock exchange.

c) The Governing Board / Council of the stock exchange shall deliberate on the aforesaid report and take suitable action / remedial measure.

d) In case of stoppage beyond five minutes the exchange should also explain and report to SEBI about the nature of incident as well as the remedial measures taken. The stock exchange shall also issue a press release in this regard for greater transparency and in the larger interest of investors.

68. Dissemination of Tariff/Charge Structure of Depository Participants (DPs):

Following the representations by investors to SEBI that the tariff/charge structure of various DPs should be made available for comparison so as to enable investors to take an informed decision with regard to availing of the services of a particular DP, SEBI advised DPs to submit the tariff/charge structure every year, latest by April 30, to their depositories. Also, DPs should inform their depositories about the changes in their tariff/charge structure, as and when the changes are made.

The depositories were further advised to disseminate the same on their websites so as to enable the investors to have a comparative analysis of the tariff/charge structure of various DPs.

69. Clarification on Comprehensive Investor Protection Fund (IPF)/ Customer Protection Fund (CPF):

It was clarified that in the case of a stock broker, having multiple memberships, being declared defaulter, any amount remaining to his credit, after satisfying the eligible claims at the stock exchange/SEBI/other stock exchanges, shall be credited to the IPF/CPF of respective exchange.

70. Safeguards to Address the Concerns of the Investors on Transfer of Securities in Dematerialized Mode:

Various representations were received from investors regarding transfer of securities from Beneficiary Owner (BO) Accounts without proper authorization by the concerned investor. The following safeguards were put in place to address the aforesaid concerns:

a) The depositories to give more emphasis on investor education particularly with regard to careful preservation of Delivery Instruction Slip (DIS) by the BOs. The depositories to advise the BOs not to leave "blank or signed" DIS with the DPs or any other person/entity.

b) The DPs not to accept pre-signed DIS with blank columns from the BO(s).

c) The DPs to issue only one DIS booklet containing not more than 20 slips for individual account holders and not more than 100 slips for non-individual account holders, at a time.

d) If the DIS booklet is lost / stolen / not traceable by the BO, the same must be intimated to the DP immediately by the BO in writing. On receipt of such intimation, the DP shall cancel the unused DIS of the said booklet.

e) The DPs can issue subsequent DIS booklet to a BO only after the BO has used at least 75 per cent of the slips contained in the previous DIS booklet. The DP shall also ensure that a new DIS booklet is issued only on the basis of the DIS instruction request slip (contained in the previous booklet) duly completed in all respects, unless the request for fresh booklet is due to loss, etc.

f) The DPs not to issue more than 10 loose DIS to one account holder in a financial year (April to March). The loose DIS can be issued only if the BO(s) comes in person and sign the loose DIS, in the presence of an authorized DP official.

g) The DPs to put in place appropriate checks and balances with regard to verification of signatures of the BOs, while processing the DIS.

h) The DPs to cross check with the BOs before acting upon the DIS.

i) The DPs to mandatorily verify with a BO before acting upon the DIS, in case of an account which remained inactive, i.e., where no debit transaction had taken place for a continuous period of six months, whenever all the International Securities Identification Number (ISIN) balances in that account (irrespective of the number of ISINs) are transferred at a time. However, in case of active accounts, such verification may be made mandatory, only if the BO account has five or more ISINs, and all such ISIN balances are transferred at a time. The authorized official of the DP verifying such transactions with the BO, shall record the details of the process, date, time, etc., of the verification on the instruction slip under his signature.

71. Reconstitution of Secondary Market Advisory Committee (SMAC):

SMAC was reconstituted under the Chairmanship of Prof. P.G. Apte in the month of November 2006. In its meetings, SMAC deliberated on various topics, such as, measures to check excess dematerialization of securities, voluntary withdrawal by issuers and / or compulsory deactivation of ISIN by depositories, reduction of minimum contract size in the derivatives market, regulation of Investment Advisers, tightening of entry norms in Future and Options (F&O) segment, cooling off period – post IPO, etc.

72. Initiatives for Derivatives:

a) Procedure for Re-introduction of Derivatives Contracts and Modified

Position Limits:

Issues pertaining to introduction, dropping and re-introduction of derivatives contracts; market wide position limits for stock based derivatives, and position limits for index derivatives were reviewed by the Secondary Market Advisory Committee (SMAC). Based on the recommendations of SMAC, procedure for re-introduction of derivative contracts and modified position limits are as under:

The exit criterion was made more flexible as compared to entry criteria, in order to prevent frequent entry and exit of stocks in the derivatives segment. Accordingly, for a stock to become ineligible, the criterion for market wide position limit was relaxed up to 10 per cent of the criteria applicable for the stock to become eligible for derivatives trading. If a stock fails to meet the eligibility criterion for three consecutive months, then the stock will be dropped out of the derivatives segment.

A stock which is dropped from derivatives trading may become eligible once again. In such cases, the stock is required to fulfil the eligibility criteria for three consecutive months (instead of one month as specified earlier) to be reintroduced for derivatives trading. Derivative contracts on such stocks may be re-introduced by the exchange itself. However, introduction of futures and option contracts on a stock for the first time would continue to be subject to SEBI approval.

a) Position Limits:

• Market-wide Position Limits for Single Stock Futures and Stock Option Contracts:

The market wide position limit is linked to the free float market capitalization and shall be equal to 20 per cent of the number of shares held by non-promoters in the relevant underlying security (i.e. free float holding).

This limit would be applicable on aggregate open positions in all futures and option contracts on a particular underlying stock.

• Trading Member/FII/Mutual Fund Position limits in Equity Index Option Contracts:

The trading member/FII/mutual fund position limits in equity index option contracts shall be higher of Rs. 500 crore or 15 per cent of the total open interest in the market in equity index option contracts. This limit would be applicable on open positions in all option contracts on a particular underlying index.

• Trading Member/FII/Mutual Fund Position Limits in Equity Index Futures Contracts:

The trading member/FII/mutual fund position limits in equity index futures contracts shall be higher of Rs. 500 crore or 15 per cent of the total open interest in the market in equity index futures contracts. This limit would be applicable on open positions in all futures contracts on a particular underlying index.

b) Setting up of Derivatives Market Review Committee:

SEBI decided to set up a 'Derivatives Market Review Committee', under the Chairmanship of Prof. M. Rammohan Rao, for carrying out a comprehensive review of the developments in the derivatives market in India. This committee would also look into the future prospects and possibilities in this area.

73. Restrictions on the number of DIS Booklets Withdrawn:

In the light of various representations received from investors' associations, restrictions on issuance of Delivery Instruction Slips (DIS) booklets to Beneficial Owners (BOs) were withdrawn.

74. Short Selling and Securities Lending and Borrowing (SLB):

Finance Minister of India, in the Union Budget 2007-08, had proposed inter-alia "to allow short selling settled by delivery, and securities lending and borrowing to facilitate delivery, by institutions." Subsequently, after a series of discussions with the stock exchanges, depositories and market participants, SEBI specified a broad regulatory framework for short selling and a full-fledged securities lending and borrowing scheme by institutional investors. Relevant amendments were made to SEBI (FII) Regulations, 1995 and SEBI (Mutual Funds) Regulations, 1996, enabling FIIs and Mutual Funds to participate in the framework for short selling and SLB. RBI also made the necessary amendments to Foreign Exchange Management Act, 1999 (FEMA) and vide circular dated January 01, 2008, enabled FIIs to participate in short selling and SLB. Central Board of Direct Taxes (CBDT) vide circular dated February 22, 2008, clarified that SLB transactions would not attract capital gains tax and STT. The aforesaid framework for short selling and SLB would be operationalised with effect from April 21, 2008.

The broad framework for short selling and securities lending and borrowing scheme for all market participants was specified by SEBI in December 2007. This framework was operationalised with effect from April 21, 2008.

Pursuant to feedback from the market participants, the scheme for Securities Lending and Borrowing was revised. Key modifications made to SLB were: (i) increasing the tenure of SLB, (ii) extending the duration of SLB session (iii) allowing margins in SLB to be taken in the form of cash and cash equivalents and (iv) clarifying how to deal with corporate actions.

75. Margining of Institutional Trades in the Cash Market:

With a view to bring about a level playing field in the cash market among all categories of investors and to strengthen the risk management framework, margining for institutional trades was made mandatory by SEBI w.e.f., April 21, 2008. Margins were collected from institutional investors on a T+1 basis. Institutional investors were permitted to maintain their entire margin in the form of approved securities. Further,

members were allowed to make early pay-in of funds and to adjust pay-in obligations from the cash component of liquid assets deposited by them.

76. Draft SEBI (Investment Advisers) Regulations, 2007:

The draft SEBI (Investment Advisers) Regulations, 2007 were placed on the website inviting public comments and suggestions.

77. Policy for Supervision of Branches of Depository Participants:

In terms of Regulation 46 of the SEBI (Depositories and Participants) Regulations, 1996, every Depository Participant (DP) shall have adequate mechanism for the purpose of reviewing, monitoring and evaluating its internal accounting controls and systems. It had been clarified that these provisions apply to DPs in respect of all their branches also. DPs were, therefore, required in terms of these provisions to put in place appropriate mechanisms to ensure that their branches were carrying on the operations in compliance with the applicable regulations, bye-laws, etc. Further, DPs were also required to put in place suitable internal control systems to ensure that all branches were exercising due diligence in opening accounts, complying with KYC requirements, ensuring systems safety in complying with client instructions, manner of uploading client instructions, verifying signatures and maintaining client records, etc.

Depositories shall examine the adequacy of the above mechanisms during their inspections of DPs. Depositories shall also put in place appropriate mechanisms for monitoring opening of branches by DPs.

78. Exit Option to Regional Stock Exchange:

Broad guidelines were specified by SEBI to provide an exit option to Regional Stock Exchanges (RSEs) whose recognition was withdrawn and/or renewal of recognition was refused by SEBI or for RSEs who would want to surrender their recognition.

79. Introduction of DMA:

With a view to increase liquidity, bring about greater transparency, lower impact cost for large orders and reduce risk of error associated with manual execution of client orders, the facility of Direct Market Access (DMA) was introduced (Box 1.2). This facility allows brokers to offer its clients direct access to the exchange trading system through the brokers infrastructure without manual intervention by the broker.

The DMA framework places onus on the broker to do proper risk assessment of clients before providing DMA facility and broker is responsible for risk management, setting trading/ exposure/ positions limits and maintaining adequate audit trails.

The facility was initially provided to institutional investors. It was clarified that Institutional investors may use DMA facility through investment managers after due authorization and upon furnishing to the broker/exchange suitable agreements/ undertakings between the institution and investment manager stating, inter alia, that the institutional investor shall be responsible for all actions undertaken by its authorized investment manager. Such investment managers may execute necessary documents on behalf of the institutional investor.

80. Amendment to Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006:

SEBI vide notification dated December 23, 2008 amended the Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006 relaxing the shareholding restrictions in recognised stock exchanges. The amendment inter-alia provide for:

a) Six categories of entities, viz., stock exchanges, depositories, clearing corporations, banks, insurance companies; and public financial institutions may hold, directly or indirectly, a maximum of 15 per cent of the paid-up equity share capital of a stock exchange.

b) Any shareholder, other than the aforesaid six categories of investors, may hold either directly or indirectly, not more than 5 per cent of the paid-up equity share capital of a recognized stock exchange.

c) No person shall, directly or indirectly, either individually or together with persons acting in concert with him, acquire and/or hold more than five per cent of the paid up equity capital of a recognised stock exchange, unless he is a fit and proper person and has taken prior approval of the Board for doing so.

d) In respect of exchanges that are not listed, FIIs may purchase shares of such exchanges through transactions outside of the exchange provided it is not an initial allotment. However, if the exchange is listed, transactions by FIIs should be done through the exchange platform.

81. Governance Structure at NSE and OTCEI:

With a view to have uniform regulatory framework across all stock exchanges, SEBI directed NSE and OTCEI to reconstitute their Governing Boards, Statutory Committees, etc., in line with the provisions stipulated for all other stock exchanges.

82. Annual Systems Audit of Stock Exchange:

SEBI stipulated that the exchanges would get audited their systems by a reputed independent auditor on an annual basis. The systems audit should be comprehensive encompassing audit of systems and processes related to examination of trading systems, clearing and settlement systems (clearing corporation/clearing house), risk management, databases, disaster recovery sites, business continuity planning, security, capacity management and information security audit. SEBI also mandated that the systems audit report and compliance status should be placed before the governing board of the exchange.

83. Internal Audit for Stock Brokers/Trading Members/Clearing Members:

SEBI advised stock exchanges to direct their stock brokers/trading members/clearing members to carry out complete internal audit on a half-yearly basis, starting with October 2008. March 2009, by chartered accountants, company secretaries or cost and management accountants who are in practice and who do not have any conflict of interest.

The scope of such audit shall cover, interalia, the existence, scope and efficiency of the internal control system, compliance with the provisions of the SEBI Act, 1992, Securities Contracts (Regulation) Act 1956, SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, circulars issued by SEBI, agreements, KYC requirements, byelaws of the exchanges, data security and insurance in respect of the operations of stock brokers/clearing members.

84. In-person Verification of Clients by their Stock Brokers:

SEBI advised the stock exchanges to direct their stock brokers to ensure in-person verification by the stock broker staff only while registering the clients and that this function is not outsourced.

SEBI in the year 2008 had mandated the "in-person verification" of the clients. It was advised that "in person verification" shall be carried out by the staff of the stock brokers

in case of trading account and by the staff of the depository participant (DP) in case of beneficial owner (BO) account.

SEBI received suggestions from the market participants regarding repeated verification of the same clients by both DP and stock broker which in most cases are either the same entity or holding/subsidiary Company of the other.

85. Trading Hours on Stock Exchanges:

With a view to align Indian markets with those of the international markets to facilitate assimilation of any economic information that may flow in from other global markets, SEBI, vide circular dated October 23, 2009, decided to permit the stock exchanges to set their trading hours (in the cash and derivatives segments) subject to the condition that

• The trading hours are between 9 am and 5 pm, and

• The exchange has in place risk management system and infrastructure commensurate to the trading hours. NSE and BSE have fixed their trading hours in the equity and equity derivatives segment from 9:00 am-3:30 pm as compared to the earlier 9:55 am-3:30 pm.

86. PAN Requirement for Transfer of Shares in Physical Form:

For securities market transactions and off-market/private transactions involving transfer of shares in physical form of listed companies, it was made mandatory for the transferee(s) to furnish copy of PAN card to the company/registrar to an issue and share transfer agent (RTA) for registration of such transfer of shares.

In case of transmission/transposition of physical shares it was made mandatory for the transferees(s) to furnish a copy of PAN card in the following cases:

• Deletion of name of the deceased shareholder(s), where the shares are held in the name of two or more shareholders.

• Transmission of shares to the legal heir(s), where deceased shareholder was the sole holder of shares.

• Transposition of shares – when there is a change in the order of names in which physical shares are held jointly in the names of two or more shareholders.

Transferees shall include all surviving holders, legal heir(s) and all existing shareholders respectively in the above instances.

87. Abolition of No-delivery Period for all Types of Corporate Actions:

'No-delivery period' for all types of corporate actions in respect of the securities which are traded in the compulsory dematerialized mode was done away with and accordingly, short deliveries, if any, of the shares traded on cum-basis shall be directly closed out. In case of such direct close-out, the mark-up price would be 10 percent.

88. Comprehensive Risk Management Framework for the Cash Market:

It was observed that in some instances such as buy transactions, the margins levied exceeded the amount needed to cover the maximum possible risk, thereby leading to a scenario where the buyer ended up paying more margins than his actual pay-in obligation. Therefore, it was clarified that in case of a buy transaction in cash market, VaR margins, Extreme loss margins and mark to market losses together shall not exceed the purchase value of the transaction. In sale transactions, the existing practice will continue.

89. Disclosure of Investor Complaints and Arbitration Details on Stock Exchange Website:

Based on the feedback received from investors and their associations to bring in more transparency in the grievance redressal available in the stock exchanges, it was decided that stock exchanges shall 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.

90. Disclosure of Investor Complaints and Arbitration Details on Depositories: Based on the feedback received from investors and investor associations to improve transparency in the 'grievance redressal mechanism', it was decided that the depositories shall henceforth disclose the details of complaints lodged by beneficiary owners (BO's)/investors against depository participants (DPs) on their website. The aforesaid disclosure shall also include details pertaining to arbitration and penal action against the DPs.

91. Market Access through Authorized Persons:

With a view to enable the investors to access the stock markets, SEBI, vide circular dated November 6, 2009, introduced the concept of Authorized Persons (AP). AP appointed by a stock broker can access the trading platform of a stock exchange as an

agent of a stock broker. A stock broker may appoint one or more APs after obtaining prior approval of the stock exchange concerned for each such person. The approval as well as the appointment shall be for specific segment of the exchange.

92. Transparency in Dealing between a Client and Stock Broker and Strengthening of Know Your Client (KYC) Norms:

With a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers, SEBI, vide circular dated 3rd December, 2009, issued the following guidelines:

a) Unless specifically agreed to by a client, the settlement of funds/securities shall be done within 24 hours of the pay out. However, a client may specifically authorize the stock broker to maintain a running account. In such cases the authorization shall be renewed at least once a year and shall be dated. The client may revoke such authorization at any time. The stock broker shall compulsorily settle the running account on monthly/quarterly basis as desired by the clients and send them a statement of account to that effect.

b) The stock broker shall not create email IDs for the clients desirous of receiving Electronic Contract Notes (ECNs). The client desirous of receiving ECNs shall create/provide his own email ID to the stock broker.

c) The stock broker shall disclose its policy and procedure with regard to applicable brokerage rate, refusal of order for penny stocks, setting up client's exposure limits, deregistering a client, imposition of penalty/delayed payment charges, to avoid complaints from the investors, etc.

d) The stock broker shall clearly distinguish between mandatory and non-mandatory clauses in the registration documents. Any authorization sought in non- mandatory part by the stock broker shall be a separate document and shall have specific consent of the client. The clauses in non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents. All the documents in both mandatory and non-mandatory part shall be printed in a minimum font size of 11 for easy readability for the investors.

e) The client shall indicate in the KYC form, the stock exchange as well as the market segment where it intends to trade so as to avoid complaints of unauthorized trading by the brokers in its account.

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93. Enhanced Supervision of Members:

As part of its continuous pursuit for improving the functioning of the stock brokers and maintaining the integrity of the market, SEBI issued a master circular dated March 17, 2010 updating the earlier circulars concerning the oversight of members. This circular mandates the stock exchanges/ clearing corporations to inspect all active members in various segments every year.

94. Enhancing the Competency Level of the Employees of the Intermediaries

a) Certification of Person Engaged or Employed by Registrar to an Issue and Share Transfer Agent (RTA):

SEBI vide notification dated September 4, 2009 mandated the requirement of obtaining the certification specified by National Institute of Securities Market (NISM) by the employees engaged or to be engaged with the various activities of RTA. This will ensure that only certified persons are employed by the registrar to an issue or share transfer agent and thus, they will be better equipped to carry out the operations effectively.

b) Certification of Approved Users and Sales Personnel of the Trading Members in Interest Rate Futures:

SEBI has been taking steps to enhance the competency level of the employees of the stock brokers, which would enable them to discharge their responsibilities effectively in the interest of investors. In this regard, SEBI assigned the job of creating a certification module for the approved users and sales personnel of the trading members in interest rate futures to NISM.

c) Certification of Approved Users and Sales Personnel of the Trading Members of the Currency Derivatives Segment Trading in Interest Rate Derivatives:

SEBI vide notification dated June 29, 2010 mandated the requirement of series-IV: Interest Rate Derivative (IRD) certification for approved users and sales personnel of the trading members of currency derivatives segment trading in interest rate derivatives. This will ensure that the persons employed by the trading members are certified and thus they will be better equipped to carry out the dealing and sales operations skillfully and effectively.

d) Certification of Persons Associated with Registered Stock Brokers Involved in Risk Management:

SEBI vide notification dated December 10, 2010 mandated the requirement of NISM-Series-VII: Securities Operations and Risk Management Certification for persons associated with a registered stock-broker /trading member/ clearing member in recognised stock exchanges, who are involved in, or deal with assets or funds of investors or clients, redressal of investor grievances, internal control or risk management, or activities having a bearing on operational risk. This will enable them to discharge their responsibilities effectively in the interest of investors.

e) Certification of Associated Persons of Registered Depository Participants: SEBI vide notification dated March 29, 2011 mandated the requirement of NISM-Series-VI: Depositories Operations Certification Examination (DOCE) for associated persons engaged or employed or to be engaged or employed by a registered Depository Participant. An associated person is one who is responsible for dealing or interacting with clients, dealing with securities of clients, handling redressal of investor grievances, internal control or risk management, activities having a bearing on operational risk or maintenance of books and records pertaining to the above activities. This will equip them to discharge their responsibilities effectively in the interest of investors and

95. Credit Rating Agencies:

market.

SEBI has taken various measures to strengthen the functioning of credit rating agencies (CRAs).

a) Vide circular dated 6th January, 2010, SEBI has mandated a half yearly internal audit for credit rating agencies to be conducted by Chartered Accountants, Company Secretaries or Cost and Management Accountants who are in practice and who do not have any conflict of interest with the CRA. The audit shall cover all aspects of CRA operations and procedures, including investor grievance redressal mechanism, compliance with the requirements stipulated in the SEBI Act and Regulations made there under and guidelines issued by SEBI from time to time.

b) SEBI (Credit Rating Agencies), Regulations, 1999 have been amended so that any change in status or constitution in CRAs resulting in their change of control, change in managing director/ whole time director etc. would require prior approval of SEBI.

Some key developments that occurred in the current year 2011-12 to further smoothen the functioning of the Credit Rating Agencies (CRAs) are as under mentioned:

a) 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. Standardized symbols and their definitions have been devised by SEBI for long-term debt instruments; short-term debt instruments; long-term structured finance instruments; long-term mutual fund schemes. 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.

b) 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. CRAs registered with SEBI also carry out rating of other securities/instruments and loans/facilities provided by banks which are not regulated by SEBI. Such ratings are being used by the other regulators or their regulated entities for the specified purposes.

It was felt desirable that in addition to the review/accreditation process put in place by the other regulators; such ratings should also be governed by the same stringent norms as applicable for rating of securities issued by way of public/rights issue.

In consultation with CRAs as well as other regulators, it has been mandated that CRAs shall follow the applicable requirements pertaining to rating process and methodology and its records/transparency and disclosures, avoidance of conflict of interest, code of conduct, as specified in the SEBI Regulations and circulars issued by SEBI from time

to time. These guidelines will bring about better governance and transparency in the operations of the CRAs.

96. Committee for Review of Ownership a n d Governance of Market Infrastructure Institutions (MIIs):

A Committee, under the Chairmanship of Dr. Bimal Jalan (former Governor of Reserve Bank of India), has been constituted to look into the ownership and governance norms for stock exchanges, clearing corporations and depositories (collectively termed as MIIs).

The Committee may also make recommendations on other relevant issues inter-alia as it finds necessary.

The Committee held its first meeting on March 15, 2010. During the meeting, the Committee inter alia decided to form a sub-committee to have a consultative process (through questionnaire) with MIIs, market participants and users on the issue of ownership and governance of MIIs and include depositories under the scope of the committee since they form part of the Financial Market Infrastructure institutions. The committee has submitted its final report on November 22, 2010 and the same is disseminated at SEBI website for public comments.

97. Prior Approval for Re-commencement of Trading on the Stock Exchanges: With the completion of corporatization and demutualization of stock exchanges, some of the stock exchanges on which there was no trading over the past several years, have generated renewed trading interest and are in the process of resuming trading for their revival. It was felt that the regulatory changes introduced by SEBI in the interim may not have been compiled by the exchanges.

In light of the above, SEBI vide circular dated October 7, 2009 has stipulated that the stock exchanges that have no trading for a period of six months or more shall resume trading only after ensuring that adequate and effective trading systems, clearing and settlement systems, monitoring and surveillance mechanisms, risk management systems are in place and have also complied with all other regulatory requirements stipulated by SEBI from time to time. Further, the stock exchanges shall resume trading only after obtaining prior approval from SEBI.

98. Limitation Period for Filing of Arbitration Reference:

a) In terms of the bye-laws of the Stock Exchange the limitation period for referring complaint/claim//difference/ dispute is six months.

b) Based on the feedback received from the market participants and recommendation of Secondary Market Advisory Committee (SMAC), SEBI vide its circular dated December 2, 2009 mandated that the limitation period of six months shall be computed from the end of the quarter during which the disputed transaction(s) were executed. In addition to the above, while computing the said limitation period the time taken in settlement of claims, complaints, differences, and disputes through the Investors Grievances Redressal Committee mechanism of the Exchange will be excluded. Further a period of one month from the date of receipt of complaint by the broker or the actual time taken by the broker to resolve the complaint whichever ends earlier, will also be excluded.

c) Further, it was noted that in certain cases the arbitration application were rejected on the ground of exceeding the limitation period without going into the reasons thereof, which were not in the interest of the investors.

99. Guidelines for Market Makers on Small and Medium Enterprise (SME) Exchange/ Separate Platform of Existing Exchange having Nationwide Terminal:

SEBI put in a framework for setting up of new exchange/separate platform of existing stock exchange having nationwide terminals, for SME. In order to operationalise the said framework, SEBI vide circular dated April 26, 2010, issued guidelines on Market Making for SME.

100. Foreign Institutional Investors (FIIs) Permitted to Offer Domestic Government Securities as Collateral for Margins:

Reserve Bank of India (RBI) vide A. P. (DIR Series) Circular no. 47 dated April 12, 2010, permitted FIIs to offer domestic Government securities and foreign sovereign securities with AAA rating, as collateral to the recognised stock exchanges in India, in addition to cash, for their transactions in the cash segment of the market. However, SEBI has specified that cross-margining of Government securities (placed as margins by the FIIs for their transactions in the cash segment of the market) shall not be allowed between the cash and the derivative segments of the market.

101. Account Maintenance Charges (AMC) Collected Upfront on Annual/Half Yearly Basis on Demat Accounts by Depository Participants:

In the interest of investors, SEBI vide circular no. MRD/DP/20/2010 dated July 1, 2010 informed that in the event of closing of the demat account or shifting of the demat account from one Depository Participants (DP) to another, the AMC collected upfront on annual/half yearly basis by the DP, shall be refunded by the DP to the BO for the balance of the quarter/s.

102. Call Auction in Pre-open Session:

Based on the recommendation of Secondary Market Advisory Committee (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.

Further to introducing call auction mechanism in pre-open session for the scrips forming part of Nifty and Sensex, SEBI has extended the call auction mechanism to IPOs on the first day of trading and to re-listed scrips on the day of recommencement of trading. Duration of the session is set for 60 minutes i.e. 9:00 a.m. to 10:00 a.m

103. Securities Trading Using Wireless Technology:

It was informed that SEBI registered brokers who provide internet based trading as specified by SEBI circular dated January 31, 2000 shall be eligible to provide securities trading using wireless technology. All relevant requirements applicable to internet based trading shall also be applicable to securities trading using wireless technology.

104. Smart Order Routing:

Based on the proposal received from stock exchanges and market participants and the recommendation of Technical Advisory Committee (TAC), SEBI has introduced the facility of Smart Order Routing (SOR) which allows the brokers trading engines to systematically choose the execution destination based on factors viz. price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. This facility would help brokers execute client orders efficiently by providing the best price available across multiple trading venues (stock exchanges).

105. Change in Activity Schedule for T+2 Rolling Settlement (Auction Schedule):

In order to reduce the time involved in delivering the shares to the buying broker, in case of default by the selling broker, SEBI vide circular dated December 28, 2010, revised the auction schedule, to be conducted on the same day of the settlement, after the pay-in is completed. i.e. the auction for trades done on T day shall be conducted on T+2 day after payin is completed and shortfall is crystallized. The settlement of the same would be carried out on T+3 day.

106. 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. Further, all regulatory orders and arbitration awards as and when issued by exchanges from the date of this circular, shall be posted on their websites immediately.

107. Setting Up of a Stock Exchange/ a Trading Platform by a Recognised Stock Exchange having Nation-wide Trading Terminals for Small and Medium Enterprise (SME):

SEBI vide circular dated May 18, 2010 has put in place the framework for recognition and supervision of SME. A company desirous of being recognised as a SME exchange or a recognised stock exchange having nationwide trading terminals desirous to set up a trading platform may apply to SEBI, in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956 read with the provisions of the Securities Contracts (Regulation) Rules, 1957, subject to the applicant fulfilling the conditions, inter alia, stipulates i.e. it shall be a corporatized & demutualised entity, compliant with Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Stock Exchanges) Regulations, 2006, have balance sheet net-worth of at least ` 100 crore, have online surveillance capability, it shall have adequate arbitration and investor grievance redressal mechanism . The minimum lot size for the trading on the stock exchange shall be one lakh rupees.

108. Arbitration Mechanism in Stock Exchanges:

SEBI, vide circulars dated August 11, 2010, August 31, 2010 and February 09, 2011 has streamlined the arbitration mechanism available at stock exchanges for arbitration of disputes arising between a client and a member across various market segments.

A stock exchange shall provide an arbitration mechanism for settlement of disputes between a client and a member through arbitration proceedings.

109. Mandating the Stock Exchanges to credit the penalties levied on their members to their Investor Protection Fund:

Stock exchanges were earlier treating the penalties levied on their member brokers as their revenue. SEBI vide letter dated June 25, 2010 advised all the stock exchanges to credit the penalties levied by them on their members to their Investor Protection Funds (IPFs).

110. Display of Details by Stock Brokers:

It was observed that the stock brokers were making prominent use of brand names / logos of their group companies instead of using their names as registered with SEBI. This was creating confusion in the minds of the investors. Hence, 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 more prominently:

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. This will help the clients to contact the compliance officer of the stock broker in case of any complaints or if any information is required.

111. Enhancing the Competency Level of the Employees of the Market Intermediaries:

a) 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.

112. Granting of Permanent Registration to Intermediaries:

According to Regulations, while the stock brokers and sub-brokers are granted permanent registration, other intermediaries are granted registration for a period of 3-5 years. After the expiry of their registration, the above intermediaries, if they so desire, apply for renewal in order to continue their business.

The purpose of renewal is to check whether the intermediary is complying with the basic requirements such as net worth, infrastructure, key personnel, fit and proper compliance, etc.

The above would streamline the registration process and help SEBI in effective regulation of intermediaries.

113. Dispensed with Prior Approval (Except for Change in Control):

It was decided to do away with the requirement of obtaining prior approval from SEBI by the intermediaries for 'change of their status or constitution' as defined in the regulations.

SEBI receives a lot of such requests in respect of very small and sometimes insignificant changes in the constitution of the intermediaries. It was felt desirable that the time spent on these activities can be focused on inspection and monitoring of intermediaries and their effective regulation.

However, in case of change in control, the intermediaries except the sub-brokers - who do not deal with funds and securities of clients - would continue to seek prior approval of SEBI. SEBI Board approved the proposal and necessary amendments to the regulations are being carried out.

114. Enhanced Transparency and Disclosure Norms for Credit Rating Agencies (CRAs):

Recent events in global financial system have underlined the pivotal role that credit rating agencies play in the financial sector. Effective use of credit ratings by the users is crucially dependent upon quality and quantity of disclosures made by the Credit Rating Agencies (CRAs). There have been widespread consultations on the issue both globally and within India and several documents have been prepared.

In the wake of the above and in order to impart higher credibility to the processes and procedures associated with the credit rating, SEBI prescribed the following norms for transparency and disclosures in consultation with the CRAs:

a. Rating Process:

A CRA shall, in support of each credit rating and review / surveillance thereof, keep till five years after maturity of instruments, the records of:

i. the important factors underlying the credit rating and sensitivity of such credit rating to changes in these factors;

ii. Summary of discussions with the issuer, its management, auditors and bankers which have a bearing on the credit rating;

iii. Decisions of the rating committee(s), including voting details and notes of dissent, if any, by any member of the rating committee.

iv. In case of a quantitative model being a substantial component of the credit rating process, the rationale for any material difference between the credit rating implied by the model and the credit rating actually assigned.

b. Default Studies:

In order to promote transparency and to enable the market to best judge the performance of the ratings, the CRA, shall publish information about the historical default rates of CRA rating categories and the changes in the default rates of these categories over time. For this purpose, the method for calculation of one-year default rate as well as cumulative default rate has been specified. On annual basis, the average one-year and three-year cumulative default rates (based on weighted average), for the last 5 years, shall be disclosed for each credit rating category as well as structured and non-structured instruments, separately.

c. Dealing with Conflict of interest:

For dealing with the conflict of interests, the CRAs shall formulate the policies and internal codes and ensure that (a) its analysts do not participate in any kind of marketing and business development including negotiations of fees with the issuer whose securities are being rated, (b) the employees' involved in the credit rating process and their dependants do not have ownership of the shares of the issuer and there is a prompt review of the credit ratings of the securities as and when any of its employees joins the respective issuer.

d. Obligations in Respect of Rating of Structured Finance Products:

In case a CRA undertakes rating of structured finance products, namely, instruments / pay-outs resulting from securitization transactions, the CRA or its subsidiaries shall not provide consultancy or advisory services regarding the design of the structured finance instrument. Also that the rating symbols shall clearly indicate that the ratings are for structured finance products. While publishing the ratings of structured finance products and their movements, the track record of the originator and details of nature of underlying assets while assigning the credit rating also needs to be disclosed.

e. Unsolicited Credit Ratings:

In case of unsolicited credit ratings, i.e. the credit ratings not arising out of the agreement between a CRA and the issuer, credit rating symbol shall be accompanied by the word "UNSOLICITED" in the same font size. The CRA is required to monitor and disclose credit rating during the life of the rated securities, as if it were a solicited rating. The CRAs shall disclose annually all the unsolicited ratings carried out in the last three financial years.

f. Disclosure of Information:

The CRAs are required to make the following disclosures to bring about transparency in their operations:

• A CRA shall disclose on its website the rating procedure, Credit rating history and defaults, income, structured finance products, unsolicited credit ratings, shareholding and compliance status of International Organization of Securities Commission (IOSCO) Code of Conduct. A CRA shall formulate and disclose its policies, methodology and procedures in detail regarding solicited and unsolicited credit ratings. A CRA shall

disclose the details of new credit ratings assigned as well the movement of the outstanding ratings.

• In case of listed securities, the CRA shall also make disclosures to the stock exchanges as specified in the SEBI (Credit Ratings) Regulations, 1999. For ratings assigned and their periodic reviews, the CRA shall issue press releases which shall also be placed on their websites.

• The CRAs are required to disclose the general nature of its compensation arrangements with the issuers along with the details of conflict of interest with the issuer, if any, and annual disclosure of its total receipt from rating services and non-rating services.

• The half-yearly disclosures stipulated above shall be made by the CRAs within 15 days from the end of the half year (March / September). The yearly disclosures stipulated above shall be made by the CRAs within 30 days from the end of the financial year.

115. Constitution of Standing Committee for Credit Rating Agencies:

The CRAs registered with SEBI also carry out rating of securities and instruments not arising out of public or rights issues which are relied upon by other regulators and investors.

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, Insurance Regulatory and Development Authority (IRDA) & Pension Fund Regulatory and Development Authority (PFRDA)) has been set up. The Committee met twice during the financial year and discussed various issues related to CRAs.

116. Review of Annual Issuers' Charges:

SEBI has modified the methodology for calculating the annual issuers' charges. The calculation for annual issuer charges shall be based on the average number of folios (ISIN positions) during the previous financial year instead of the total number of folios as on 31^{st} March of the previous financial year.

117. Modification to Investor Protection Fund (IPF) /Customer Protection Fund (CPF) Guidelines:

Based on the representations received from stock exchanges, SEBI has modified partially the IPF/CPF guidelines, which 'inter alia' states that stock exchanges shall

ensure that the amount realized 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.

118. Change of Name by Listed Companies:

In view of the representations received from companies and feedback received from the stock exchanges, it was notified that the listed companies seeking change of name shall 'inter-alia' comply with either of the following:

• At least 50 percent of its total revenue in the preceding one year period should have been accounted for by the new activity suggested by the new name (or)

• The amount invested in the new activity/ project (fixed assets + advances + works in progress) is at least 50 percent of the assets of the company. The 'advances' shall include only those extended to contractors and suppliers towards execution of project, specific to new activity as reflected in the new name.

119. 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.

120. Offer for Sale of Shares by Promoters through the Stock Exchange Mechanism:

In order to facilitate promoters to dilute/ offload their holding in listed companies in a transparent manner with wider participation, SEBI has permitted the offer for sale of shares by promoters of such companies through a separate window provided by the stock exchanges. To begin with, the facility of offer for sale of shares is made available on BSE and NSE. All promoter(s)/ promoter group entities that are eligible for trading and not met the requirements under clause 40A (ii) (c) of Listing Agreement, and all promoter(s)/ promoter group entities of top 100 companies based on average market capitalization of the last completed quarter are permitted to participate as sellers. Further, all investors registered with the brokers of BSE and NSE other than

promoter(s)/promoter group entities are allowed to participate as buyers under the scheme.

121. Review of Internet Based Trading and Securities Trading using Wireless Technology:

In a review to the extant guidelines on Internet Based Trading (IBT) and Securities Trading using Wireless Technology (STWT), SEBI has issued certain guidelines for broker's compliance. Under this, broker shall 'inter alia' capture the IP (Internet Protocol) address (from where the orders are originating) for all IBT/ STWT orders, implement secure end to- end encryption for all data transmission between the client and the broker through a secure standardized protocol, and implement two-factor authentication for login session for all orders emanating using internet protocol.

122. Broad Guidelines on Algorithmic Trading:

Based on the recommendations of Technical Advisory Committee (TAC) and Secondary Market Advisory Committee (SMAC), SEBI has put in place broad guidelines for Algorithmic Trading in the securities market. The guidelines define algorithmic trading as any order that is generated using automated execution logic. Further, the guidelines 'inter-alia' specifies that stock exchanges shall put in place effective economic disincentives with regard to high daily order-to-trade ratio of along orders. Stock exchanges shall also have a system to identify dysfunctional along and take suitable measures. In addition, stock brokers have been 'inter-alia' advised to submit an undertaking to the respective stock exchange that, they have real-time monitoring systems to identify algorithms that may not behave as expected.

123. Reporting format under Regulation 11 of Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006 (MIMPS Regulations):

Regulation 11 of MIMPS Regulations inter alia prescribes submission of shareholding report of recognized stock exchanges to SEBI on a quarterly basis. In order to bring uniformity in reporting, SEBI has standardized the format of reporting of shareholding pattern of the recognised stock exchanges under MIMPS Regulations.

124. 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 shall not comprise of any trading members.

125. Activities of Advisory Committees:

i. Secondary Market Advisory Committee (SMAC):

SMAC recommends measures, for changes and improvements in the market structure, for improving market safety, efficiency, transparency and integrity, and for reducing transaction costs. It has recommended review of risk management system. SMAC has been consulted on various matters such as refund of surplus fund to defaulting members, regulatory issues associated with technological advancements, expanding the scope of dematerialization, policy on recognized stock exchanges, etc.

ii. Technical Advisory Committee (TAC):

Technological advancements have brought to the fore several challenges associated with the use and adoption of technology in the securities market. In order to keep pace with such advancements and market dynamics, and to, further, protect the interests of investors and to frame appropriate policies to that effect, TAC has been constituted, comprising of technological experts to advise SEBI. TAC has been consulted on various technological issues viz., Wireless trading, Colocation, Algorithmic trading, Smart Order Routing, etc. Also, TAC has been consulted in the matter of comprehensive review of the mandatory annual system audit by exchanges and depositories, and in the matter of Business Continuity Planning and Disaster Recovery policies and processes at stock exchanges and depositories.

iii. Risk Management Review Committee (RMRC):

With the objective to review the present risk management framework and align the same with the current market infrastructure, RMRC has been constituted to review the extant risk management guidelines of cash and derivatives market.

126. Investor Grievance Redressal Mechanism at Stock Exchanges:

In order to facilitate early redressal of investor grievances, SEBI has mandated that stock exchanges having nationwide terminals (such as NSE, BSE, MCX-SX (MCX Stock Exchange and USEIL), functional stock exchanges having trading volumes, stock exchanges entering into MoU with other exchanges and stock exchanges intending to

recommence trading operations, shall constitute Investor Grievance Redressal Committees (IGRC) at every investor service centre.

127. Standardized lot size for Small and Medium Enterprises (SME) Exchange / Platform:

SEBI has notified the standardized lot sizes for SMEs in case of IPO and secondary market trading on SME exchange/platform.

128. Guidelines for Intermediaries:

a) Guidelines on Outsourcing of Activities by Intermediaries:

Intermediaries regulated by SEBI outsource certain areas of their activities with a view to reduce costs and also for strategic reasons. In order to address the concerns arising from the outsourcing of activities, SEBI has framed principles for outsourcing to be implemented by the intermediaries.

Intermediaries have also been advised not to outsource their core business activities and compliance functions. It has also been clarified that in spite of outsourcing, the primary responsibility of compliance with the regulations shall lie with the intermediary.

b) Review of Networth of Intermediaries:

(i) Registrars to an issue and share transfer agents (RTAs):

The regulations governing RTAs, framed in 1993, prescribed a net worth of `6 lakh for Category I and `3 lakh for Category II RTAs respectively. Keeping in view the present day infrastructure needs for this business, vide notification dated August 16, 2011, the minimum net worth requirement has been enhanced to `50 lakh for Category I and `25 lakh for Category II RTAs respectively. Further, a period of three years has been granted to the existing RTAs to comply with the above requirement.

(ii) Debenture Trustees:

Minimum capital adequacy requirement of net worth of `1 crore was specified by SEBI for debenture trustees in 2003. Considering the long period that had elapsed, the net worth requirement for eligibility for registration as debenture trustees was revised upward to `2 crore. In consultation with the debenture trustees, it was decided to grant them a period of two years from the date of amendment to Regulations to increase their net worth. This will help RTAs and debenture trustees to improve their infrastructure enabling them to discharge their functions in a professional manner.

c) 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). The revised formats along with directives issued to these intermediaries envisage increasing the accountability of their boards in respect of review of regulatory compliance on half-yearly basis and corrective measures initiated to avoid deficiencies in future. This step taken by SEBI would improve the level of compliance of the intermediaries.

d) Enhancing the Competency Level of the Employees of the Market Intermediaries:

Continuing its efforts to improve the competency levels of the employees of the market intermediaries and with a view to improve the quality of intermediation services in the securities market, SEBI on September 6, 2011 issued broad guidelines on Continuous Professional Education (CPE) for revalidation of various certifications issued by NISM. The guidelines required that certifications issued by NISM can be revalidated for a further period of three years by successfully completing relevant CPE program or by obtaining fresh certification in accordance with the provisions of the SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

These guidelines were finalized after receiving comments from public through a consultative process wherein the draft guidelines were placed on SEBI website for obtaining public comments.

129. Simplification and Rationalization of Trading Account Opening and Know Your Client (KYC) Process:

a) SEBI had been getting feedback from the investors that the trading account opening process with the stock broker was very cumbersome and required a large number of signatures on different documents. SEBI simplified the trading account opening process in consultation with the stock exchanges and market participants. In this improved mechanism, all client-broker agreements have been replaced with the 'Rights and Obligations' documents, which shall be mandatory and binding on all parties. There is now no separate requirement for the client to enter into agreements with the stock

broker. Further, the number of client signatures will reduce substantially and the cost of compliance for both clients and brokers will come down.

b) SEBI had been getting feedback from the investors that various SEBI registered intermediaries follow different KYC requirements and documents. With a view to bring in uniformity, SEBI vide circular dated October 5, 2011 standardised the Know Your Client (KYC) requirements for investors while opening accounts with the intermediaries in securities markets.

c) Earlier, if a client intended to open accounts with different intermediaries for the purpose of trading / investment in the securities market, he had to undergo the process of KYC again and again. Therefore, to avoid duplication of KYC process in securities markets, a mechanism for centralization of the KYC records in the securities market has been developed. As a result, the KYC form filled up by the client with an intermediary can be used through the centralized system when the client approaches another intermediary registered with SEBI. The system was made applicable for the new clients with effect from January 1, 2012.

130. More Investor Grievance Redressal Mechanism Centres at Ahmadabad, Hyderabad, Kanpur and Indore:

The stock exchanges have been providing investor grievance redressal mechanism and arbitration facility at the four metro cities (Delhi, Mumbai, Kolkata and Chennai). With a view to increase investor confidence in the securities market and in order to make it more convenient to investors to file their grievances and arbitration cases near to their places, SEBI advised NSE and BSE to step up investor grievance redressal mechanism by opening such centres at Ahmadabad and Hyderabad by March 31, 2012 and at Kanpur and Indore by September 30, 2012. The names of new centres were decided after examining the data on complaints and arbitrations filed by investors from various regions of the country.

131. Mandated Stock Exchanges to send SMS and E-mail Alerts to the Investors on the Transactions carried out by them:

There had been complaints from the investors against the stock brokers that they executed transactions in their accounts without any instructions by them. SEBI has taken certain measures in the past to avoid such complaints. As an additional measure to safeguard against unauthorized trading, SEBI vide circular dated August 2, 2011

mandated that the stock exchanges shall send details of the transactions in cash and derivative to the investors, by the end of trading day, through SMS and E-mail alerts. It is anticipated that the number of instances of unauthorized trading may be reduced.

132. Strengthening the Fund Transfer Mechanism/ Pre-Funded Instruments:

Stock brokers while receiving funds from clients through pre-funded instruments such as pay order, demand draft, banker's cheque etc. were unable to maintain an audit trail of the funds so received, as the details of the name of the client and bank accountnumber are not mentioned on such instruments. This may result in flow of third party funds/ unidentified money affecting the integrity of securities market. Therefore, with a view to address these concerns and in order to ensure that the funds are received from their clients only, SEBI vide circular dated June 9, 2011 mandated that in case the value of pre-funded instruments is more than ` 50,000/- per day per client, the stock broker shall obtain the name of the bank account holder and number of the bank account debited and in case of electronic transfers, the brokers shall maintain an audit trail of the funds received through electronic fund transfers. This step would prevent money-laundering in securities markets.

133. Processing of investor complaints in SEBI Complaints Redress System:

SEBI has commenced processing of investor grievances against the intermediaries and listed companies in a centralized web based complaints redress system, SEBI Complaints Redress System (SCORES). This will assist the investors in easily lodging their complaints as well as track their status. The salient features of this system are: Centralized database of all complaints; online movement of complaints to the concerned entities; online upload of Action Taken Reports (ATRs) by the concerned entities; and online tracking of status of complaints by investors.

134. Due Diligence Records to be Maintained by Merchant Bankers: SEBI (ICDR) Regulations, 2009 inter alia require the merchant bankers (MBs) to exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosures in the offer documents, to co-ordinate with other intermediaries involved in the issue process and to redress investor grievances. Further, MBs are required to submit due diligence certificates to SEBI at various stages of issue, based on examination of certain records and documents. Offer documents that carry disclosures made after an effective due diligence are the basis upon which investment decisions are taken by investors.

3.4 MUTUAL FUNDS:

The year 2001-2012 witnessed manifold regulatory approaches towards the development and growth of mutual funds industry in India. The developmental goals were addressed by providing provisions for infrastructure debt funds, bringing depth in terms of allowing new class of investors i.e. Qualified Foreign Investors (QFIs) and new investment avenues for fund managers by enabling repo transactions in corporate debt securities.

Other regulatory approaches were oriented towards giving fair treatment to all class of investors by providing the overarching and overriding principles of valuation to ensure fair treatment to all investors. SEBI initiated a number of policy measures in the year 2001-2012 to safeguard the interests of investors in mutual funds and to develop and regulate the mutual fund industry and thus achieving the objectives as specified in the SEBI Act, 1992. SEBI had taken the following initiatives to improve the functioning of mutual funds:

1. Disclosure of half-yearly un-audited results and portfolios by mutual funds: In order to provide the investors with meaningful and relevant information on mutual fund schemes, the SEBI simplified the format for the half-yearly un-audited results published by mutual funds. Though the format has been simplified, a lot of information which was not available to investors earlier is now required to be given. The mutual funds are required to publish the disclosures within one month from the close of each half-year instead of earlier requirement of 2 months.

All mutual funds are also required to display their half-yearly financial results on their web sites and also on the web site of the Association of Mutual Funds in India (AMFI) so that the investors may access and compare the performance of different mutual fund schemes at one place. It was also made mandatory for mutual funds to disclose the half-yearly scheme portfolios on their web sites, in the prescribed format before the expiry of one month from the close of each half-year.

2. Disclosure of large unit holdings in scheme:

The SEBI directed mutual funds to disclose large unit holdings (holding of over 25 per cent of the net assets of a scheme by an investor) in their schemes so that the investors are aware of concentration of holdings. The number of such investors and total holdings by them are required to be disclosed in the allotment letter after the initial public offerings and also in the annual and half-yearly results.

3. Brokerage payment not to be made to sponsor's investments in the mutual fund schemes:

The mutual funds were advised not to make payment of brokerage/commission on the subscription of units received from their sponsors in their schemes.

4. Guidelines for investment / trading in securities by employees of Asset Management Company (AMCs) and mutual fund trustee companies:

SEBI issued detailed guidelines for investment/ trading in securities by employees of AMCs and mutual fund trustee companies so as to avoid any conflict of interest and instances of self-dealing or front running by the employees. Guidelines require prior approval by certain category of employees before making personal investment transactions and also prescribe reporting requirements. AMCs Boards and trustees are required to review the compliance of guidelines in their periodical meetings.

5. Certification programme for agents/distributors of mutual funds units and employees of mutual funds:

Recognizing the need for developing well-trained agents and distributors and to professionalize the distribution channel, the SEBI has made it mandatory for all mutual funds to appoint agents/ distributors who have obtained certification by Association of Mutual Funds in India (AMFI). Also the existing agents/ distributors were expected to pass the certification programme by March 31, 2003.

All mutual funds were advised to direct their agents/ distributors to follow the provisions of the SEBI regulations and guidelines pertaining to mutual funds with specific focus on regulations / guidelines on advertisements / sales literature and code of conduct.

6. Revising the definition of independent directors:

According to the SEBI Regulations, 50 per cent of directors of AMC and two-third trustees are required to be independent i.e. who are not associates of the sponsors. With

an objective to improve corporate governance and to bring about transparency in the operations of the mutual funds, the definition of independent directors has been revised. As a result, certain categories of persons can be considered as 'associates' and not as independent directors.

7. Strengthening the role of the compliance officer:

With a view to improving corporate governance, the Compliance Officers of the mutual funds are now required to immediately and independently report to SEBI of any violation of regulation, guidelines or instructions issued by the SEBI.

8. Investor education programme:

To educate the investors to understand the basics of mutual funds and their operations, the SEBI prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. This has been put on the SEBI web site. The mutual funds have been advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, and post offices) and the investors. They have also been advised to publish the same as small booklets and also to display it prominently on their web sites. These brochures have also been circulated to investor associations and various other self-regulatory and professional bodies.

9. Introduction of benchmarks:

In order to provide the investors objective analysis of the performance of the mutual fund schemes in comparison with the rise and fall in the markets, the mutual funds were advised to disclose the performance of benchmark indices also. They were advised to disclose the performance of the benchmark indices in case of equity oriented schemes while disclosing the yields of the schemes in the format for half-yearly results.

10. Guidelines for investments in foreign securities:

Mutual funds were permitted to make investments in foreign debt securities in countries with full convertible currencies on the basis of union budget, 2002-03. They can invest in short-term as well as long-term debt instruments with highest rating (foreign currency credit rating) by accredited / registered credit rating agencies say A-1/AAA by Standard and Poor, P-1/AAA by Moody's, F1/AAA by Fitch IBCA etc. They can also invest in government securities where the countries are AAA rated. Detailed guidelines for such investments were issued to mutual funds which prescribe disclosure and reporting requirements.

11. Collective Investments Schemes:

The SEBI (Collective Investment Schemes) Regulations, 1999 were notified on October 15, 1999. With the notification of the Regulations, no person other than a Collective Investment Management Company which has obtained a certificate of registration under the SEBI (Collective Investment Schemes) Regulations, 1999 can carry on or sponsor or launch a collective investment scheme. Also, no existing collective investment scheme entity can launch any new scheme or raise money from the investors even under the existing schemes, unless a certificate of registration is granted to it under the said Regulations.

12. Corporate Governance/ Professionalism in Operations of Mutual Funds:

SEBI introduced a number of measures to improve corporate governance standards and professionalism in the mutual funds industry. Governance and disclosure standards are important pillars of the industry. Good the investors in mutual fund the industry. The following measures have been taken in this direction.

a) Benchmarks for Mutual Funds Schemes:

In order to provide the investors objective analysis of the performance of the mutual fund schemes in comparison with the rise and fall in the markets, the mutual funds were advised to disclose the performance of benchmark indices also while publishing half yearly results. These benchmark indices can be decided by the AMCs and trustees and any change at a later date is required to be recorded and reasonably justified.

b) Introducing Best Practices Standards - Certification and Code of Conduct for Mutual Funds Intermediaries:

Intermediaries play a very important role in distribution of mutual funds units. They interact with investors and advise them for making investment in various mutual funds schemes. SEBI took a number of measures to improve the quality of intermediaries and also that they do not indulge in unethical practices.

c) Applicability of Insider Trading Regulations (2002):

The trustee companies, asset management companies and their employees and directors have been advised to strictly follow the Securities and Exchange Board of India (Insider Trading) (Amendment) Regulations, 2002.

d) Bi-monthly Trustee Meetings:

A number of responsibilities have been assigned to trustees of mutual funds under SEBI (Mutual Funds) Regulations. Therefore, it has been decided that the trustees should meet on bi-monthly basis to review the performance and compliance related issues of their mutual funds, instead of the earlier requirement of meeting on a quarterly basis.

e) Independent Directors on the Board of AMCs and Trustee Companies:

According to SEBI (Mutual Funds) Regulations, 1996, 50 percent of directors of AMC and two-third of the trustees are required to be independent i.e. who are not associates of the sponsors. With an objective to improve corporate governance and to bring about transparency in the operations of the mutual funds, the definition of Independent Directors was revised so that certain categories of persons could not be considered as 'associates' and not as independent directors.

f) Risk Management System:

Guidelines were issued to all mutual funds to ensure a minimum standard of due diligence or risk management system while undertaking various activities by the mutual funds like fund management, operations, customer service, marketing and distribution, disaster recovery and business contingency, etc. and its purpose is to eliminate/ minimize the risks in operations of mutual funds. A comprehensive risk management manual was issued to all mutual funds.

g) Strengthening Roles of Chief Executives and Fund Managers of Mutual Funds:

Chief executives and fund managers of mutual funds play very important role in the functioning of mutual funds. After taking feedback from chief executives and fund managers from all mutual funds, the SEBI defined their roles in SEBI (Mutual Funds) Regulations, 1996.

From SEBIs report it is close that the Chief Executive Officer (whatever the designation may be) of the asset management company is required to ensure that the mutual fund complies with all the provisions of SEBI (Mutual Fund) Regulations, 1996 and the guidelines issued there under and that the investments made by the fund managers are in the interests of the unit holders.

The objective of these measures is to enable the chief executives and fund managers of mutual funds to play their roles in the interest of investors without any influence and pressures.

h) Transactions of Mutual Funds in the Government Securities in Dematerialized Form and their Reconciliation:

In order to make the transactions in government securities transparent without any scope of misuse, it has been decided in consultation with RBI to introduce a system of monthly reconciliation between RBI and mutual funds maintaining Subsidiary General Ledger (SGL)/ CSGL Accounts in respect of government securities on an ongoing basis. The Public Debt Offices of RBI will issue monthly statement of balances to the mutual funds, which are to be reconciled by the mutual funds for the transactions undertaken by them. The reconciliation procedure shall be made a part of internal audit and the auditors shall check, on a continuous basis, about the status of reconciliation and submit a report to the Audit Committees. These reports are also to be placed in the meetings of boards of AMCs and trustees. These measures would prevent any major loss arising out of non-reconciliation of government securities.

i) Certification and Code of conduct:

With a view to utilizing the services of experienced distributors/agents, the certification standards have been relaxed in certain categories of agents/distributors.

j) Role of Chief Executive Officer (CEO) and Fund Manager (FM):

The positions of CEOs and FMs have been strengthened as they hold a specific accountability to protect the interest of the investors. CEOs are required to ensure mutual fund compliance as per the regulations and the Fund Managers are required to ensure investment as per the objective of the scheme and interest of unit holders.

k) Investment/Trading in Securities by Employees of Asset Management Companies and Mutual Fund Trust Companies:

In consonance with SEBI (Insider Trading) Regulations, the time validity of transactions by employees of AMCs and mutual fund trust companies has been cut down to one week and the time limit for purchase and sale has been reduced to 30 days.

l) Unique Client Code (UCC):

Mutual Funds have been instructed to obtain UCC either from the Bombay Stock Exchange or National Stock Exchange before commencing trading on behalf of the schemes/clients.

m) Uniform Cut Off Time:

One of the main objectives of a regulator is to provide fairness to all concerned in the market place. To achieve this, SEBI has issued the Guidelines for uniform cut off timing for applicability of net asset value (NAV) of mutual fund schemes/plan (s). This is applicable both for subscription and redemption.

n) Minimum Number of Investors:

Skewed distribution of investors may lead to some anomalies in the management and distribution of funds. Therefore, SEBI prescribed that each scheme of and an individual plan should have a minimum of 20 investors and that no single investor should account for more than 25 per cent of the corpus.

o) Bank Account Number and PAN by Investors:

Reliable and up to date information of market participants is essential for regulatory effectiveness. Towards this objective, SEBI has been strengthening the process of "know your client". Mutual funds have also been advised to collect adequate information regarding the investors, wherever the total value of investment is Rs.50, 000/- or more.

13. Prudential Investment and Valuation Norms:

a. Guidelines for Valuation of Unlisted Equity Shares:

SEBI issued guidelines for the valuation of unlisted equity shares with a view to bringing about uniformity in the calculation of NAVs of the schemes by all mutual funds. The guidelines prescribe detailed methodology for valuation of unlisted equity shares based on stringent pricing formula.

b. Treatment and Disposal of Illiquid Securities/ NPAs at the Time of Maturity/ Closure of the Scheme:

Some of the investments made by mutual funds may become non-performing assets (NPAs) or illiquid at the time of maturity / closure of the schemes, which may be realized by the mutual funds in due course i.e. after winding up of the scheme.

c. Investment Valuation Norms:

According to the investment valuation norms specified in the SEBI (Mutual Funds) Regulations, any change in securities and in the number of units are to be recorded in the books not later than the first valuation date the date of transaction. If this is not possible given the frequency of the net asset value disclosure, the recording may be delayed up to a period of seven days the date of the transaction, provided that as a result of non-recording, the NAV calculation shall not be affected by more than two percent.

d. Accuracy and Uniformity in Valuation:

Uniformity and accuracy in valuation by the mutual funds is necessary. If each mutual fund has its own valuation methods, it is very much likely that two mutual funds in spite of having same portfolios would have different NAVs. Therefore, SEBI has been issuing valuation guidelines from time to time.

14. New Products/ Activities:

• Investment in Foreign Securities:

The investments limit on foreign securities has been raised from the earlier limit of four percent of net assets (as on February 28, 2002) to 10 percent of net assets of each mutual fund as on January 31, 2003. However a minimum of US\$ 5 million and maximum of US\$ 50 million is permissible to each mutual fund irrespective of size of assets.

Mutual funds have also been permitted to invest in the equity of listed overseas companies subject to certain restrictions. Necessary guidelines have been issued to mutual funds.

• Clarifications for Participation by Mutual Funds in Trading in Derivatives:

Guidelines for participation by mutual funds in trading in derivatives were issued on February 9, 2002. The SEBI Advisory Committee on Derivatives clarified certain types of transactions with illustrative examples which could be considered by mutual funds as hedging and portfolio balancing. Necessary clarifications were issued to mutual funds.

• Fund of Funds:

A fund of funds (FoFs) is a mutual fund scheme that invests in schemes of other mutual funds instead of investing in securities. They may invest in equity oriented, debtoriented and liquid schemes or sector specific schemes. They may also exit from a particular scheme depending on their perception of market conditions which may not be possible for an investor to decide.

Investors may invest in a particular FoF scheme depending on their investment objectives instead of investing in a number of schemes.

15. Improvement in Disclosure Standards:

SEBI has taken a number of steps over the years in the area of disclosures so that the investors may take well informed investment decisions. During the year 2002-03, SEBI initiated the following measures:

a. Portfolio Disclosure:

While making half-yearly portfolio disclosures, mutual funds have been advised to make certain disclosures in the equity and debt oriented schemes. In case of equity-oriented schemes, the mutual funds are required to disclose the portfolio turnover ratio as a footnote and the name of the industry against the name of each security in accordance with industry classification as recommended by AMFI. The same industry classification can also be followed by the mutual funds while making disclosure of portfolios to investors, distributors and others, which are non-statutory in nature. Further, in case of debt-oriented schemes, the average maturity period is required to be disclosed as a footnote.

b. Simplification of Disclosure in Offer Documents:

The standard offer document for mutual funds prescribed in April 1998 inter-alia requires disclosure of all penalties imposed on the sponsor/AMC or their associates. Many mutual funds who have a very long history or a large number of associate entities with many of them based in various countries had expressed their difficulty in collating the required information and updating the same on a continuous basis.

c. Other Disclosure Requirements:

SEBI also prescribed disclosure requirements for conversion of close ended schemes into open ended schemes and in case of change in controlling interest of mutual funds.

16. Investor Servicing:

a. Nomination Facility for Unit holders of Mutual Funds:

SEBI (Mutual Funds) Regulations, 1996 were amended by including a provision for the AMCs to provide an option to the unit holder(s) to nominate a person in whom the units

held by the unit holder(s) can be vested in the event of the death of the unit holder(s). The format for nomination has also been prescribed.

b. Uniformity in Calculation of Sale and Repurchase Price and Rounding off of NAVs:

All the mutual funds have been advised to follow a uniform method to calculate the sale and repurchase price. The mutual funds must clarify in the offer documents that the loads shall be charged as a percentage of NAV i.e. applicable load as a percentage of NAV will be added to NAV to calculate sale price and will be subtracted from NAV to calculate repurchase price. They are also required to explain the calculation by means of an example.

Apart from bringing about uniformity in the mutual funds industry, it would now be very easy for the investors to calculate their sale / repurchase price.

c. Effective Investor Grievances Redressal Mechanism:

Investor grievances against mutual funds are handled on priority basis by SEBI. Due to regular monitoring and follow-up, the rate of redressal has always been about 99.5 per cent. The difference of 0.5 per cent is because some of the complaints are under processing i.e. being forwarded to mutual funds, reporting by mutual funds and incorporation in our data base. It may be said that all complaints received from investors against mutual funds are redressed promptly.

17. Re-Engineering of Systems and Processes:

Several initiatives were taken by SEBI towards re-engineering of systems and processes in the case of mutual funds.

a. Revised format for Annual Statistical Report (ASR):

The format of Annual Statistical Report earlier running into several pages was revised and simplified to a one page report, so that we may compile and analyze the data received from mutual funds. The analysis of the data in the ASRs gave industry the opportunity to study distribution of holdings of the mutual fund units by individual investor, corporate, Non-Resident Indians (NRI) / Overseas Corporate Bodies (OCBs), FIIs trusts., etc. The ASR is available on the SEBI's web site.

b. New Scheme Reports simplified:

The format for new scheme reports required to be filed by the mutual funds have been simplified and revised. While earlier they were required to file two separate reports, one

after closure of scheme and another after allotment, now they are required to file only one report after allotment. While earlier reports were for the purpose of data collection, new format of the report also covers regulatory compliances by the mutual funds.

c. Quarterly reports on movement in net assets discontinued:

The statement of movement in net assets/ portfolios, in prescribed formats on quarterly basis was discontinued as the purpose was adequately served by other reports submitted by the mutual funds.

d. Transparency in registration of mutual funds and Venture Capital Funds (VCFs)/ Foreign Venture Capital Funds (FVCIs):

In order to further streamline the process and shorten the time taken for registration as a mutual fund, we have taken the initiative to post the entire step by step procedure of granting registration on SEBI website under 'Mutual Funds Section" - 'How to get registered as a Mutual Fund'. All information required in addition to that in the application form has been included. SEBI has also mentioned the benchmark time period within which our observation/replies will be communicated to them.

e. Cross-reference between Regulations and circulars/guidelines:

SEBI (Mutual Fund) Regulations, 1996 have been modified/ amended and guidelines and clarifications, which have the sanctity of Regulation, have been issued from time to time. To avoid the risk of inadvertent non-compliance and to help the funds to have an integrated view of the updated Regulations and inter-related circulars and guidelines, we have indicated suitable linkages and cross-references to the relevant circulars, schedules and guidelines issued till September 30, 2002. The same has been circulated among the mutual funds and has also been posted in our website under "Mutual Funds Section".

f. Clarifications on SEBI Regulations and Guidelines:

SEBI issued certain clarifications/ interpretations of regulations to Association of NSE Members of India (AMFI) for circulation among the mutual funds. This will help the existing as well as new mutual funds to understand and interpret the Regulations and guidelines in their true spirit. This initiative is just the beginning. In future also, such clarifications would be issued from time to time.

g. Conversion of Close ended schemes into open ended schemes:

Guidelines/instructions were issued to the mutual funds to be followed for conversion of close ended schemes into open ended ones. Certain information like past performance of the scheme, comparison with benchmarks, etc must be disclosed in the letter to the unit holders so that they may take well informed investment decisions. Also, the unit holders must be given a period of at least 30 days for the purpose of exercising the exit option.

h. Procedure for Change in Controlling Interest of Mutual Funds:

The entire procedure to be followed for obtaining SEBI's approval was put on SEBI website. In cases where there has been change in controlling interest of mutual funds has been placed with SEBI's website.

18. Prudential Investment:

Mutual funds have been advised that they can invest in short-term deposit with disclosures to trustees along with the reasons for investment. SEBI (Mutual Funds) Regulations, 1996 contain prudential investment norms for investing in debt securities. Government securities issued by the Centre/State Government or on its behalf by the RBI are exempt from the prudential investment norms.

19. Disclosure Standards:

In order to provide effective and appropriate communication to the investors and improve standards of disclosures in advertisement, to implement regulatory intent effectively and to remove difficulties in the application of regulations, the following guidelines have been issued:

- a. Standardization in hoarding/posters;
- b. Advertisements through audio-visual media;
- c. Promotional activities, sales literature;
- d. Performance advertisements; and
- e. Ranking advertisements.

20. For the Investors:

 a. Nomination facility for unit holders of mutual funds SEBI (Mutual Funds) Regulations were amended by including a provision for the AMCs to provide an option to the unit holder(s) so that nomination can also be in favour of the Central Government, State Government, a local authority, any person designated by virtue of his office or a religious or charitable trust.

21. Key Information Memorandum (KIM):

Considering the developments in the securities market in India and abroad and also keeping in view the interests of the investors, SEBI initiated a dialogue with the industry including AMFI for a standardized format of Key Information Memorandum (KIM). Taking into account the inputs received, a revised standardized format of KIM was introduced.

22. Compliance Test Report (CTR):

In order to facilitate smooth operational flow and synchronize the frequency of submission of two different documents by the mutual funds, guidelines were issued to mutual funds for submitting the Compliance Test Report (CTR) from the next financial year (2005-06) to SEBI once in every two months (instead of once in three months).

23. Minimum Number of Investors and Maximum Percentage of Corpus held by the Investors in Scheme/ Plan of Mutual Funds:

SEBI issued guidelines and clarification, that the mutual fund schemes/plans, which existed on December 12, 2003 (the date of the issue of circular) and did not have a minimum of 20 investors or where one investor was holding more than 25 per cent of the corpus of the schemes/plans, were required to be wound up by January 31, 2005. All the schemes/plans are required to comply with both the aforementioned conditions stipulated in the guideline. However, the guideline is not applicable to Exchange Traded Funds. SEBI clarified that this stipulation is applicable at the portfolio level. Moreover, if there is a breach of 25 per cent limit by an investor over the quarter, a rebalancing period of one month would be allowed.

24. Enhancing the Reach of Mutual Funds:

In order to carry out a complete 'health check' of the securities market infrastructure, SEBI had constituted a High Level Task Force namely Securities Markets Infrastructure Leveraging Expert Task Force (SMILE Task Force) which has submitted, *inter alia*, its report to SEBI on "Infrastructure and Process Flow for Enhancing Distribution reach in the Mutual Fund Industry". The report of the SMILE Task Force is under consideration of SEBI.

25. Gold Exchange Traded Funds in India:

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

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

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

27. Investments in American Depository Receipts (ADRS), Global Depository Receipts (GDRS) and Foreign Securities and Overseas Exchange Traded Funds (ETF) By Mutual Funds:

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

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

The aggregate industry-wise ceiling for overseas investments by mutual funds was raised to USD four billion and subsequently to USD five billion and within the overall limit, mutual funds could make overseas investments subject to a maximum of USD 300 million per mutual fund.

28. Review of Time Limit for Updating NAV on AMFI Website:

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

29. Venture Capital Funds:

The Venture Capital Funds were allowed to invest in securities of foreign companies subject to the conditions stipulated by RBI and SEBI from time to time.

30. Rationalisation of Initial Issue Expenses and Dividend Distribution Procedures:

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

31. Undertaking from Trustees for New Scheme Offer Document:

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

32. Introduction of Capital Protection Oriented Schemes:

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

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

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

34. Dispatch of Statement of Accounts:

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

35. Launch of Gold Exchange Traded Funds (GETFs):

SEBI amended SEBI (Mutual Funds) Regulations, 1996 to specify the methodology for valuation of gold for the purpose of GETFs. Accordingly, the gold held by a GETF scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to prescribed adjustments. Two GETF schemes were launched during the year, offering investors better diversification opportunity.

36. Real Estate Mutual Fund:

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

The guidelines for Real Estate Mutual funds were approved by the SEBI Board in June 2006. During 2007-08, steps were taken to address certain residual issues relating to accounting and valuation of assets, in discussion with AMFI, ICAI and Credit Rating Agencies. The necessary amendments to the SEBI (Mutual Fund), Regulations 1996 were thereafter notified on April 16, 2008.

The SEBI (Mutual Funds) Regulations, 1996 were modified to provide a framework for real estate mutual funds. The salient modifications are:

a) For considering eligibility to set up new Mutual Funds for launching only real estate mutual fund schemes, besides fulfilling all other eligibility criteria applicable for sponsoring a Mutual Fund, sponsors shall be carrying on business in real estate for a period not less than five years.

b) An existing mutual fund may launch a real estate mutual fund scheme if it has an adequate number of key personnel and directors having adequate experience in real estate.

c) Every real estate mutual fund scheme shall be close-ended and its units shall be listed on a recognised stock exchange.

d) Every real estate mutual fund shall invest at least thirty five per cent of the net assets of the scheme directly in real estate assets.

e) The AMC, its directors, the trustees and the real estate valuer shall ensure that the valuations of assets held by a real estate mutual fund scheme are done in good faith in accordance with the norms specified.

37. Parking of Funds in Short-term Deposits of Scheduled Commercial Banks by Mutual Funds: Pending Deployment:

In order to ensure that the funds collected in a scheme are invested as per the investment objective stated in the offer document, SEBI issued guidelines restricting parking of funds in short-term deposits of scheduled commercial banks pending deployment.

It was clarified that earlier guidelines for parking of funds in short-term deposits of scheduled commercial banks, pending deployment, shall not apply to term deposits placed as margins for trading in cash and derivatives market. However, disclosures regarding all term deposits placed as margins are required to be made in half-yearly portfolio statements.

38. Reduction in Expenses Charged by Index Fund Scheme:

The limit on investment and advisory fee for index fund schemes was reduced to 0.75 per cent and the total expenses of the scheme including the investment and advisory fees to 1.5 per cent of the weekly average net assets. The reduced expenses and investment and advisory fees were made applicable to exchange traded index funds also.

39. Extension of Time for Uploading of NAVs of Fund of Fund Schemes:

In view of the practical difficulties being faced by the mutual funds in uploading the NAV of Fund of Fund schemes on AMFI's website and their own website, SEBI had decided that the time limit for uploading of NAV for fund of fund schemes will be extended to 10:00 am the following business day.

40. Bi-monthly Compliance Test Reports (CTRs):

With an objective of effective and relevant disclosure to SEBI, it was decided that instead of filing complete CTR with SEBI, the AMCs shall only do exceptional reporting on a bi-monthly basis i.e., the AMCs would report for only those points in the CTR where it had not complied with the same. This exception report would also be placed before the board of trustees.

41. Short Selling and Securities Lending and Borrowing:

Enabling provisions were made for mutual funds to engage in short selling of securities as well as lending and borrowing of securities vide notification dated October 31, 2007.

42. Waiver of Load for Direct Applications:

Keeping in view the interest of the investors, it was decided that no entry load would be charged for direct applications received by the Asset Management Company (AMC) i.e. applications received through the internet, submitted to AMC or collection centre/ Investor Service Centre that were not routed through any distributor/ agent.' broker.

43. Removal of Initial Issue Expenses:

In order to bring in more transparency and clarity to the investors in terms of expenses charged in close-ended Schemes, SEBI decided that there would not be any provision of charging initial issue expenses and amortisation of the same. All mutual funds should meet expenses connected with sales and distribution of schemes from the entry load.

44. Standard Warning in Advertisements by Mutual Funds:

SEBI directed Mutual Funds to enhance the time for display and voice on the standard warning to five seconds in audio visual advertisements. In case of audio advertisements, the standard warning would be read in an easily understandable manner over a period of five seconds.

45. Revised Format of New Scheme Report:

In light of the recent policy developments on account of waiver of entry load for direct applicants and removal of initial issue expense, format of the New Scheme Report was revised.

46. Load on Bonus Units and Units Allotted on Reinvestment of Dividend:

SEBI decided AMCs should not charge entry as well as exit load on bonus units and units allotted on reinvestment of dividend.

47. Dedicated Infrastructure Funds:

Pursuant to the announcement made by Hon'ble Finance Minister in the Union Budget 2007- 08, SEBI set up a four member Committee under the Chairmanship of Mr. U. K. Sinha (CMD, UTI AMC) to suggest a detailed action plan to promote flow of investment to the infrastructure sector through dedicated infrastructure mutual funds.

48. Reduction in Filing Fees for Offer Documents and Deployment of Funds in Short-Term Deposits of Scheduled Commercial Banks:

Filing fees for offer documents i.e. 0.03 per cent of the amount raised in the new fund offer (NFO), subject to a minimum of Rs. one lakh and a maximum of Rs. one crore along with pending deployment of funds of a scheme in terms of investment objectives of the scheme was notified on April 16, 2007. However, vide Gazette Notification dated March 31, 2008, filing fees for offer documents was further reduced to 0.005 per cent of amount raised in New Fund Offer (NFO) subject to minimum Rs. one lakh and maximum Rs. 50 lakh w.e.f. April 01, 2008. Also, the registration fees payable by the mutual funds was also reduced to Rs. 25 lakh in place of Rs. 50 lakh earlier.

49. Simplification of Offer Documents and Key Information Memorandum:

The Offer Document and Key Information Memorandum of Mutual Funds schemes were simplified to make them more reader friendly. The Offer Document was split into two parts i.e., Statement of Additional Information (SAI) and Scheme Information Document (SID) w.e.f., June 1, 2008. All statutory information on mutual fund is incorporated with SAI which is available on website of respective mutual funds.

50. Overseas Investments by Mutual Fund:

In consultation with Government of India and RBI, the aggregate ceiling for overseas investments was raised from USD 5 billion to USD 7 billion.

51. Net Settlement of Government Securities Transactions by Mutual Funds:

To place mutual funds at par with other participants in the government securities market, mutual fund schemes were permitted to sell government securities already contracted for purchase without waiting for actual delivery of government securities in accordance with the guidelines issued by RBI.

52. Abridged Scheme-wise Annual Report Format and Periodic Disclosures to the Unit holders:

In order to ensure uniformity in the contents of abridged scheme-wise Annual Report prepared by mutual funds, a new format was prescribed. It was also decided that the abridged scheme-wise Annual Report be mailed to the investors' e-mail addresses, if so mandated, and also displayed on the website of the mutual fund.

A separate category of "Securitized Debt Instruments" was introduced in the Half-Yearly Portfolio Disclosure format under debt instruments. Further, time period for mailing of scheme wise Annual Report or an abridged summary thereof to unit holders and Annual report to the Board, was reduced to "four months" from "six months".

53. Valuation of Debt Securities by Mutual Fund:

The discretion of -50 basis points (bps) to +100 bps given to fund managers to value debt securities was found inadequate in the market scenario in October, 2008. With a view to ensure that the value of debt securities reflects the true fundamentals the discretion was modified as under:

54. Applicability of Net Asset Value (NAV) for Income/ Debt oriented Mutual Fund Scheme(s)/Plan(s):

To harmonize the NAV applicability with the realization of money and to move away from the NAV based on the application date, it was prescribed that in respect of purchase of units in Income/ Debt oriented schemes (other than liquid fund schemes and plans) with amount equal to or more than Rs. 1 crore, irrespective of the time of receipt of application, the closing NAV of the day on which the funds are available for utilization shall be applicable.

55. Review of Provisions Relating to Close ended Schemes:

With a view to further strengthen the framework for close-ended schemes, launched on or after December 12, 2008 (except Equity Linked Savings Schemes), listing of units along with daily computation of NAV and its publication was made mandatory. It was also mandated that a close-ended debt scheme shall invest only in such securities which mature on or before the date of the maturity of the scheme.

56. Portfolio of "Liquid Schemes":

In order to reduce the tenure of the securities held in the portfolio of liquid schemes from the requirement of one year, it was stipulated that:

a) With effect from February 01, 2009, liquid fund schemes and plans shall make investment in / purchase debt and money market securities with maturity of up to 182 days only.

b) With effect from May 01, 2009, liquid fund schemes and plans shall make investment in/purchase debt and money market securities with maturity of up to 91 days only.

57. Indicative Portfolios and Yields in Mutual Fund Schemes:

There was a practice of mutual funds offering indicative portfolios and indicative yields in their debt/fixed income products. Since such practice has potential to mislead investors, it was decided that no mutual fund should offer any indicative portfolio and indicative yield. No communication regarding the same in any manner whatsoever is issued by any mutual fund or distributors of its products.

58. Disclosure of Portfolio by Debt Oriented Close-ended and Interval Schemes/Plans:

In order to enhance the transparency of the portfolios of debt oriented close-ended and interval schemes/plans, it was decided that AMCs shall disclose the portfolio of such schemes in the format prescribed by SEBI, on a monthly basis on their respective websites.

59. Guidelines for Investment by Mutual Funds in IDRs:

It was clarified that mutual funds can invest in IDRs [Indian Depository Receipts as defined in the Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with the SEBI (Mutual Funds) Regulations, 1996 and guidelines issued there under, specifically investment restrictions as specified in the Seventh Schedule of the Regulations.

60. Money Market Instruments Brought under the Investment Limits:

The Mutual Funds (Second Amendment) Regulations, 2009 prescribed that no mutual fund schemes can invest more than 30 percent of their assets in money market instruments of an issuer. However, such limit shall not be applicable for investments in Government securities, treasury bills and collateralized borrowing and lending obligations.

61. Valuation:

a) Valuation of Debt Securities by Mutual Funds:

Debt securities are valued by Mutual Funds in terms of spread indicated by specified rating agencies. Mutual Funds have been given discretionary mark up or down detailed in guidelines issued in the years 2000 and 2002. These varied from -25 bps to +100 bps (basis points). These discretionary mark ups were increased considerably in 2008 to accommodate for the great variation in the values of securities on account of volatile market conditions. During 2009-10, the discretionary mark ups/downs were returned to

their levels specified in 2000/2002. Further, it was decided that, the Chief Executive Officer (whatever his designation may be) of the Asset Management Company shall give prior approval to the use of discretionary mark up or down limit.

b) Valuation of Debt and Money Market Instruments:

To ensure that the value of money market and debt securities in the portfolio of mutual fund schemes reflects the current market scenario, the provisions regarding valuation of certain securities were modified, as under:

• Valuation of money market and debt securities with residual maturity of up to 91 days:

All money market and debt securities, including floating rate securities, with residual maturity of up to 91 days shall be valued at the weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day, they shall be valued on amortization basis. The floating rate securities with floor and caps on coupon rate and residual maturity of up to 91 days shall be valued on amortization basis taking the coupon rate as floor.

• Valuation of money market and debt securities with residual maturity of over 91 days: All money market and debt securities, including floating rate securities, with residual maturity of over 91 days shall be valued at weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day, they shall be valued at benchmark yield/matrix of spread over risk free benchmark yield obtained from agency (ies) entrusted for the said purpose by Association of Mutual Funds in India.

62. Mutual Funds - Empowering Investors through Transparency in Payment of Commission and Load Structure:

In order to empower the investors in deciding the commission paid to distributors in accordance with the level of service received, to bring about more transparency in payment of commissions and to incentivise long term investment, it was decided that:

a) There shall be no entry load for all mutual fund schemes.

b) The scheme application forms shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.

c) Of the exit load or contingent deferred sales charge (CDSC) charged to the investor, a maximum of one percent of the redemption proceeds shall be maintained in a separate account which can be used by the AMC to pay commissions to the distributor and to take care of other marketing and selling expenses. Any balance shall be credited to the scheme immediately.

d) The distributors shall disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various mutual funds from amongst which the scheme is being recommended to the investor.

63. Exit Load - Parity among All Classes of Unit Holders:

It was observed that the mutual funds were making distinction among the unit holders by charging differential exit loads based on the amount of subscription. In order to have parity among all classes of unit holders, it was decided that no distinction among unit holders shall be made based on the amount of subscription while charging exit loads. Further, it was decided that the parity among all classes of unit holders in terms of charging exit load shall be made applicable at the portfolio level.

64. Systems Audit of Mutual Funds:

Considering the importance of systems audit in the technology driven asset management activity, it was decided that mutual funds shall have a systems audit conducted by an independent Certified Information System Auditor (CISA)/Certified Information Security Manager (CISM) qualified or equivalent auditor. The systems audit shall be comprehensive encompassing audit of systems and processes.

65. Facilitating Transactions in Mutual Fund Schemes through the Stock **Exchange Infrastructure:**

The need for enhancing the reach of mutual fund schemes to more towns and cities was widely felt. To address this issue, units of mutual fund schemes were permitted to be transacted through registered stock brokers of recognised stock exchanges. The convenience of stock exchange mechanism would also be available now to mutual fund investors.

66. Transactions through Some Mutual Fund Distributors and Compliance with the SEBI Circular on Anti Money Laundering (AML):

As all documentation related to the investor, including Know Your Client, Power of Attorney (PoA) in respect of transactions/ requests made through some mutual fund 168 BARR. BALASANEB KNAPSEK IN LIBRARY KOLHAPUR. distributors was not available with the AMC/RTA of the AMC, it was reiterated that the requirements as mentioned in the master circular ISD/AML/CIR-1/2008 dated December 19, 2008 issued by SEBI is applicable to the mutual funds/AMCs and hence maintaining all the documentation pertaining to the unit holders/investor is the responsibility of the AMC. Pending completion of documentation, Mutual Funds are required to exercise great care and be satisfied of investor bonafides before authorizing any transaction, including redemption, on such accounts/folios. The trustees were instructed to confirm to SEBI of the steps taken to address the above.

67. Association of Mutual Funds in India (AMFI) Guidelines for Change of Mutual Fund Distributor:

Unwarranted hardship was caused to investors in mutual fund schemes who wished to switch from an existing mutual fund distributor to either another mutual fund distributor or opt to deal direct, since some AMCs insisted on the investor procuring a 'No Objection Certificate' (NOC) from the existing distributor for this switch over. Therefore, the AMCs were advised to ensure compliance with the instruction of the investor informing his desire to change his distributor and/or go direct, without compelling that investor to obtain a NoC from the existing distributor.

68. Additional Mode of Payment through:

Applications Supported by Blocked Amount (ASBA) in Mutual Funds and Reduction in New Fund offer (NFO) Period

a) In its continuous endeavor to make the public issue process efficient, SEBI has introduced ASBA facility to NFOs of mutual funds which investors have been enjoying for subscription to public issue of equity capital of companies. It shall co-exist with the current process, wherein cheques/demand drafts are used as a mode of payment. The banks which are in SEBI's list shall extend the same facility in case of NFOs of mutual fund schemes to all eligible investors in mutual fund units. Mutual funds shall ensure that adequate arrangements are made by RTA for the implementation of ASBA.

b) It was decided that the present limit of maximum NFO period of 30 days in case of open ended schemes and 45 days of close ended scheme be reduced to 15 days (except ELSS schemes). Mutual funds/AMCs shall use the NFO proceeds only on or after the closure of the NFO period. The mutual fund shall allot units/refund of money and dispatch statements of accounts within five business days from the closure of the NFO

and all the schemes (except Equity Linked Saving Scheme (ELSS)) shall be available for ongoing repurchase/sale/trading within five business days of allotment.

69. Non-availability of Unit Premium Reserve for Dividend Distribution:

Since, it was observed that some mutual funds were using unit premium reserve for distribution of dividend, SEBI clarified that:

a) When units of an open-ended scheme are sold, and sale price is higher than face value of the unit, part of sale proceeds that represents unrealized gains shall be credited to a separate account (unit premium reserve) and shall be treated at par with unit capital and the same shall not be utilized for the determination of distributable surplus.

b) When units of an open-ended scheme are sold, and sale price is less than face value of the unit, the difference between the sale price and face value shall be debited to distributable reserves and the dividend can be declared only when distributable reserves become positive after adjusting the amount debited to reserves as per Para 2(a) (ix) of Eleventh Schedule of SEBI (Mutual Funds) Regulations.

70. Role of Mutual Funds in Corporate Governance of Public Listed Companies:

With a view to improving corporate governance, it was decided that AMCs shall disclose their general policies and procedures for exercising the voting rights in respect of shares held by them on the website of the respective AMC as well as in the annual report distributed to the unit holders.

71. Fund of Funds Scheme:

AMCs were entering into revenue sharing arrangements with offshore funds in respect of investments made on behalf of Fund of Funds schemes which created conflict of interest. It was decided that henceforth AMCs shall not enter into any revenue sharing arrangement with the underlying funds in any manner and shall not receive any revenue by whatever means/head from the underlying fund. Any commission or brokerage received from the underlying fund shall be credited into concerned scheme's account.

72. Disclosure of Investor Complaints with Respect to Mutual Funds:

To improve transparency in 'grievance redressal mechanism', it was decided that mutual funds shall henceforth disclose detailed status of investor complaints received by them in a prescribed format, on their websites, on the AMFI website as well as in their Annual Reports. These details should have been signed off by the trustees of the concerned mutual fund.

73. Certification Programme for Sale and/or Distribution of Mutual Fund Products:

Earlier, agents/distributors of mutual fund units were required to obtain certification from Association of Mutual Funds in India (AMFI). Under Regulation 3 (1) of (Certification of Associated Persons in the Securities Markets) Regulations, 2007, it was decided that from June 01, 2010, the certification examination for distributors, agents or other persons employed or engaged or to be employed or engaged in the sale and/or distribution of mutual fund products, would be conducted by the National Institute of Securities Markets (NISM). Persons who have attained the age of fifty years or who have at least ten years experience in the securities markets in the sale and/ or distribution of mutual fund products as on May 31, 2010, will be given the option of obtaining the certification either by passing the NISM certification examination or qualifying for Continuing Professional Education (CPE) by obtaining such classroom credits as may be specified by NISM from time to time.

74. Extension of Date of Implementation of ASBA Facility:

The requirement of Application Supported by Blocked Amount (ASBA) facility for investors' subscriptions in all mutual fund New Fund Offers (NFOs) that was to be mandated from July 01, 2010 was extended for implementation from October 1, 2010.

75. Alternative Expense Structure for Fund of Funds:

To allow fund of funds choose a suitable expense structure, amendment to regulations (Notification no. LAD-NRO/ GN/2010-11/13/13945 dated July 29, 2010) were specified vide circular dated August 06, 2010 so that fund of fund schemes, may continue with existing total expense structure laid out in Regulation 52(6)(a) of SEBI(Mutual Funds) Regulations or adopt the new expense provisions of charging a total expense of 2.5 percent per annum inclusive of management fees, other administrative expenses and charges levied by the underlying schemes.

Change in expense structure could be carried out with the approval of trustees and after giving unit holders an option to exit.

76. Updating of Investor Related Documents:

Earlier, mutual funds were required to confirm whether all the investor related documents are maintained/ available with them. To ensure that investors have unrestricted access to AMCs, mutual funds were further directed vide circular dated August 12, 2010 that investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature are available with AMCs/ their RTAs and not just with the distributor. AMCs shall be responsible for updating of these documents. It has been observed that due to such incomplete documentation, investors' rights to approach the AMCs directly were restricted and investors were forced to depend on the distributors for executing any financial or non-financial transactions.

77. Review of Norms for Investment and Disclosure by Mutual Funds in Derivatives:

In order to have prudential limits for derivative investments by mutual funds and to bring in transparency and clarity in the disclosure of the same to investors, it was decided to bring in modifications in derivative exposure by mutual fund schemes vide Circular No. Cir/ IMD/ DF/ 11/ 2010 dated August 18, 2010. The highlights of the new provisions are: cumulative gross exposure through equity, debt and derivative positions should not exceed 100 percent of the net assets of the scheme, mutual funds shall not write options or purchase instruments with embedded written options, total exposure related to option premium paid must not exceed 20 percent of the net assets of the scheme, cash or cash equivalents with residual maturity of less than 91 days may be treated as not creating any exposure and mutual funds may enter into plain vanilla interest rate swaps for hedging purposes.

78. Consolidation or Merger of Schemes:

Earlier consolidation or merger of schemes was viewed as changes in fundamental attributes of the related schemes and the mutual funds were required to comply with the requirements laid down in the SEBI (Mutual Funds) Regulations, 1996, for the purpose. To facilitate merger of schemes, it was decided vide circular dated October 22, 2010 that merger or consolidation shall not be seen as change in fundamental attribute of the surviving scheme if:

a) Fundamental attributes of the surviving scheme as per SEBI Circular No-IIMARP/ MF/CIR/01/294/98 dated February 4, 1998 do not change. For the purpose of this circular, the surviving scheme means the scheme which remains in existence after the merger.

b) Mutual funds are able to demonstrate that the circumstances merit merger or consolidation of schemes and the interest of the unit holders of surviving scheme is not adversely affected.

79. Option to hold Units in Demat Form:

In order to facilitate investors, mutual funds/AMCs are advised to invariably provide an option to the investors in all schemes (existing/new) to mention demat account details in the subscription form, in case they desire to hold units in demat form while subscribing. Mutual funds/AMCs are advised to obtain ISIN for each option of the scheme and quote the respective ISIN along with the name of the scheme, in all Statement of Account/Consolidated Account Statement issued to the investors.

80. Intended Portfolio Disclosure in Close Ended Debt Schemes:

In order to enable investors to make a more informed decision regarding the quality of securities and risk associated with different close ended debt oriented schemes, mutual funds/AMCs were advised to make additional disclosures with respect to intended allocation for instruments such as CPs, CDs, NCDs, securitised debt, etc with floor ceiling within a range of five percent against each sub asset class/credit rating without indicating the portfolio or yield, directly or indirectly. This would be accompanied by credit evaluation pelicy for investments in debt securities and list of sectors where the scheme/s would not be investing. Variations between intended portfolio and final portfolio will not be permissible.

81. Transaction Charges:

To enable increased reach of mutual fund products in urban areas and smaller towns, it was decided that a transaction charge per subscription of `10,000/- and above be allowed to be paid to the distributors. For existing investors, the transaction charge paid to the distributors would be of `100/- and as an incentive to attract new investors, the distributor may be paid `150/- as transaction charge for a first time investor in mutual funds. In case of SIPs, the transaction charge shall be applicable only if the total commitment through SIPs amounts to `10,000/- and above. In such cases, the transaction charge shall be recovered in 3-4 installments. However, there shall be no transaction charges on direct investments.

82. Commission Disclosure:

Mutual funds / AMCs have been required to disclose on their respective websites the total commission and expenses paid to 'select' distributors who have either multiple point of presence (more than 20 locations) or have Assets Under Management (AUM) raised over ` 100 crore across industry in the non institutional category but including high networth individuals (HNIs) or received commission of over ` 1 crore p.a. across industry or a commission of over ` 50 lakh from a single AMC. AMFI shall consolidate data on industry basis and disseminate on its website.

83. Due Diligence on Distributors of Mutual Fund Products:

It was felt in the interest of investors, that AMCs, shall, undertake a due diligence process on select 'large' distributors through an assessment of factors like business model, record of regulatory fines and penalties and customer compensations, review of business associates on the said factors; and organizational controls to ensure that certain processes like customer risk evaluation and mutual fund scheme appropriateness evaluation are delinked from sales and relationship management. In that respect, all customer relationship and transactions are to be categorised as either 'advisory' based on principle of 'appropriateness' of products to that customer category or 'execution' only for transactions that are not booked as 'advisory'.

For 'execution only' transactions, the customer is not required to pay the distributor anything other than the standard flat transaction charge.

84. Transparency in Performance Information:

To enable longer horizon term performance information for investors, it was mandated that where scheme has been in existence for less than one year, past performance shall not be provided except for money market schemes and cash schemes and liquid schemes. Performance advertisement to be provided since inception and for twelve month periods for the last three years on Compounded Annual Growth Rate (CAGR) basis. Further, to enable a simple understanding of returns generated in scheme/s, additional returns are to be published in form of point-to-point returns on a standard investment of ` 10,000 and return in rupees and by way of CAGR for respective category of schemes against a common industry wide benchmark. The common benchmark for the scheme categories are returns on Sensex or Nifty for equity funds, returns on 10 year GoI security for long term debt funds and returns on one year T-Bills

for short-term debt funds. When the performance of a particular scheme is advertised, performance data of all schemes by that fund manager or performance data of top three and bottom three schemes of that fund manager shall be advertised.

85. Disclosure on Assets Under Management:

Mutual funds are required to disclose assets under management with bifurcation of the AUM into debt/equity/ balanced etc, and percentage of AUM by geography (i.e. top 5 cities, next 10 cities, next 20 cities, next 75 cities and others) on their respective websites and to AMFI and AMFI shall disclose industry wide figures on its website.

86. De-duplication of Folios:

Mutual funds/AMCs were advised to carry out an exercise of de-duplication of folios across all mutual funds within a period of 6 months from August 22, 2012.

87. Mailing of Annual Report/Abridged Summary and Consolidated Account Statement:

In order to bring cost effectiveness in printing and dispatching the annual reports or abridged summary and as a green initiative measure, the scheme annual reports or abridged summary henceforth would only be sent by email wherever e-mail addresses are available. Where email addresses would not be available, AMCs shall communicate to unit holders to obtain their email addresses. If, however, there is a request from these unit holders for physical copies AMCs shall provide. Investors whose email addresses are not available with the mutual fund; the AMCs shall continue to send physical copies.

88. Trading Desk of Mutual Fund in India:

As per the amendments to Regulation 25 of SEBI (Mutual Funds) Regulations, 1996 notified on August 30, 2011, the following provisions were inserted:

a) The AMC shall not invest in any of its scheme, unless full disclosure of its intention to invest has been made in the offer documents, provided that an AMC shall not be entitled to charge any fee on its investment in that scheme.

b) The AMC shall not carry out its operations including trading desk, unit holder servicing and investment operations outside the territory of India. Provided the AMC having any of its operations outside India shall wind up and bring them within the territory of India within a period of one year from the date of notification of these provisions.

89. Resolving Conflict of Interest in Fund Management:

An AMC may undertake other business activities under provisions of Regulation 24 of Mutual Funds Regulations. The scope of this Regulation was restructured vide notification dated August 30, 2011 to outline a broad based activity vis-à-vis non broad based activity as also to help address potential conflicts of interest between mutual fund and other activities. As per the amended provisions, mutual funds shall not undertake any business activities other than in the nature of management and advisory services provided to pooled assets. To maintain Chinese walls between such activities and mutual fund, AMC shall inter alia ensure segregation of accounts; maintain separate capital adequacy requirements, appoint separate fund manager for each separate fund managed by it unless the investment objectives and assets allocations are the same and the portfolio is replicated across all the funds managed by the fund manager.

90. Enabling Foreign Investors for Investment in Mutual Fund Schemes:

Hon'ble Finance Minister in his budget speech for 2011-12 announced that to liberalize the portfolio investment route, SEBI registered mutual funds shall be permitted to accept subscriptions from foreign investors who meet the KYC requirements for equity schemes. To operationalise the above, SEBI in consultation with the Government and RBI has issued the detailed guidelines vide circular dated August 09, 2011, as per which foreign investors (termed as Qualified Foreign Investor (QFIs)) who meet KYC requirement may invest in equity and debt schemes of mutual funds through the following two routes:

a) Direct route - Holding mutual fund units in demat account through a SEBI registered depository participant.

b) Indirect route- Holding mutual fund units via Unit Confirmation Receipt (UCR).

91. Introduction of Provisions for Infrastructure Debt Fund Schemes:

Hon'ble Finance Minister in his Budget Speech for 2011-12 had announced setting up of Infrastructure Debt Funds (IDFs) in order to accelerate and enhance the flow of long term debt in infrastructure projects for funding the Government's ambitious programme of infrastructure development. To operationalise the above, under extant SEBI (Mutual Funds) Regulations, 1996, SEBI in consultation with the Government, RBI, industry participants, etc. has issued the regulatory guidelines for 'Infrastructure Debt Fund Schemes' under Chapter VI B of Mutual Fund Regulations vide notification dated August 30, 2011. As per the regulatory provisions an "Infrastructure debt fund scheme" would mean a mutual fund scheme that invests minimum 90 percent of scheme assets in the notified infrastructure debt securities. The salient features of such scheme would be either as close-ended scheme maturing after more than five years or interval scheme with lock-in of five years.

92. Participation of Mutual Funds in Repo in Corporate Debt Securities:

To widen the avenues of investment assets in debt markets, guidelines were issued to enable participation of mutual funds in repo of corporate debt securities with primary conditions that participation be only in AAA rated corporate debt securities, tenor of the transaction shall not exceed six months and that gross exposure shall not be more than 10 percent of assets of the concerned scheme. Trustees and the AMCs shall frame guidelines in the category of counterparty, its credit rating, and tenor of collateral and applicable haircuts in context of these transactions. Details related to such repos shall be disclosed on half-yearly basis.

93. Review of Advertisement Code for Mutual Funds:

Focus of advertisement code has been shifted from rule based approach to move more towards principle based approach. To ensure accuracy, fairness, transparency etc. the advertisement code for mutual funds were amended vide notification dated February 21, 2012. As per the amended provisions "advertisement" of mutual funds or its schemes shall include all forms of communication issued by or on behalf of the AMC/mutual fund that may influence investment decisions of any investor/prospective investors. The advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise and shall not contain statements which are false, misleading, biased or deceptive, based on assumption/projections and shall not contain any testimonials or any ranking based on any criteria. The mutual funds and/or the AMC shall be liable for action in case the advertisement issued is in contravention with the advertisement code.

94. Review of Valuation Norms:

The valuation norms were reviewed to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds, accordingly the overarching and overriding principles of fair valuation have been outlined vide notification dated February 21, 2012 and the effort was to move more towards principle based regulations though within the above overarching principles, the

AMCs will be required to follow the valuation guidelines elaborated in the SEBI(Mutual Fund) Regulations. The valuation of investments shall be based on the principles of fair valuation i.e. valuation shall be reflective of the realizable value of the securities/assets. The valuation shall be done in good faith and in true and fair manner through appropriate valuation policies and procedures.

95. Valuation of Debt and Money Market Instruments:

In order to move towards valuation of securities of all maturities reflective of the realizable value/ fair value, it was mandated that all the debt and money market securities across maturity shall be valued at the weighted average price at which they are traded on the particular valuation day and in case such securities are not traded on a particular valuation day then the securities with residual maturity up to 60 days shall be valued at benchmark yield/ matrix of spread over risk free benchmark yield obtained from agencies entrusted for the said purpose by AMFI, provided such valuation shall be reflective of the realizable value/ fair value of the securities/assets.

3.5 FOREIGN INSTITUTIONAL INVESTMENT:

1. Investment Advice in Publicly Accessible Media:

SEBI (Foreign Institutional Investors) Regulations, 1995 were amended on May 29, 2001 wherein FIIs or their employees were restricted to render directly or indirectly any investment advice about any security in the publicly accessible media, whether real-time or non real-time, unless a disclosure of their interest including long or short position in the said security had been made. Further, the employees of the FII were also required to disclose the interest of their dependent family members and their employers including their long or short position in the security.

2. Developments of International Co-operation:

The SEBI continued to play an important role at the international forum by extending cooperation to international regulatory bodies and other international organizations.

The SEBI signed a memorandum of understanding with the Securities Commission, Malaysia in May 2001. The Memorandum of Understanding sets forth a statement of intent of both the regulatory bodies to establish a framework for mutual assistance and to facilitate the exchange of information between the Authorities to enforce compliance with their respective securities and futures laws or regulatory requirements. During the year 2001-02 the following international meetings were attended by SEBI representatives:

- International Organization of Securities Commissions (IOSCO) Annual Conference In Stockholm, Sweden
- Financial Stability Forum (FSF) meeting at London.
- IOSCO Executive and Technical Committee Meeting at Rome
- FSF Asia-Pacific Regional Meeting In Tokyo
- IOSCO Executive and Technical Committee Meeting in Hong Kong
- IOSCO Asian Pacific Regional Committee (APRC) meeting and APRC Enforcement Director's conference at Bali, Indonesia.

3. Substantial Acquisition of Shares and Takeovers:

Consequent to the attack on the twin towers of World Trade Centre in United States of America (USA) on September 11, 2001, the stocks in Indian market had fallen steeply. In view of the extra-ordinary market situation and to propel purchase activity, amendment to Regulations was notified on October 24, 2001 providing fcr an increase in creeping acquisition limit from 5 per cent to 10 per cent for persons holding 15 per cent and above but less than 75 per cent. This enhanced limit is available up to September 30, 2002, subject to review, as and when required depending upon the experience. The amended Regulations also provide for disclosures regarding the acquisition and shareholding of the acquirer when such

Acquisition aggregates 5 per cent and 10 per cent of the voting rights.

4. 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.

5. Regulatory Initiatives with respect to FIIs:

With a view to monitoring the investment through offshore derivatives issued against underlying Indian securities (collectively known as participatory notes), SEBI inserted

Regulation 20A in the FII Regulations, making it mandatory for the FIIs to report the issuance/renewal/cancellation/ redemption of such instruments. The FII regulations have been further amended stating that FIIs can issue offshore derivatives against underlying securities listed or proposed to be listed on any stock exchange in India only in favour of regulated entities subject to compliance with "know your client" requirements. Further, FIIs or sub-accounts have to ensure that no downstream issue or transfer of such offshore derivative instrument will be made to any person other than a regulated entity.

6. FII Investment in Debt Securities:

Earlier, the limit for FII investments in debt securities was US \$ 1 billion. The Union Government announced, within the overall External Commercial Borrowing (ECB) ceiling of US \$ 9 billion, a sub-ceiling of US \$ 1.75 billion for FIIs investment in dated Government securities and Treasury Bills, both under 100 per cent debt route and normal 70:30 route for 2004-05. Further, a cumulative sub-ceiling of US \$ 500 million was announced for FII investment in corporate debt, over and above the sub ceiling of US \$ 1.75 billion. Both the sub ceilings are separate and not fungible.

7. FII Registrations:

Traditionally, most of the institutions registered as FIIs have been from the United States of America and the United Kingdom. Though the trend continues, the registration of FIIs from countries like Denmark, Italy, Belgium, Canada, Sweden, Ireland etc., went up in 2004-05. Category–wise, foreign institutional investors such as mutual funds, investment trusts, managers of such funds, banks have been in dominance.

8. Registration of FII/Sub-Accounts:

a) The "broad-based" criteria to be modified to include entities having at least 20 investors, with no single investor holding more than 49 per cent (instead of 10 per cent at present).

b) Track record of individual fund managers to be considered for the purpose of ascertaining the track record of a newly set up fund, subject to such fund manager providing disciplinary track record details.

c) FII and sub-account registrations to be perpetual, subject to payment of fees and requirement of renewal was removed.

9. Issuance of Participatory Notes (P-Notes):

a) FIIs/ Sub-accounts were prohibited from issuing new Offshore Derivative

Instruments (ODIs) with derivatives as underlying and existing positions with regard to such ODIs to be wound up over 18 months.

b) Sub-accounts were barred from issuing new ODIs with existing sub-accounts required to wind up outstanding instruments within 18 months.

c) With a view to capping the volume of outstanding P-Notes/ODIs, following measures were introduced:

_ Those FIIs currently issuing ODIs with notional value of ODIs outstanding (excluding derivatives) as a percentage of their AUC in India of less than 40 per cent would be allowed to issue further ODIs only at the incremental rate of 5 per cent of their AUC in India.

_ Those FIIs with notional value of ODIs outstanding (excluding derivatives) as a percentage of their AUC in India of more than 40 per cent shall issue ODIs only against cancellation / redemption / closing out of the existing ODIs of at least equivalent amount.

_ The effective date for calculation of the Assets Under Custody (AUC) for the purpose of determining the notional value of ODIs issued as a percentage of AUC, for the above proposals would be September 30, 2007.

d) Issuance of PNs/ODIs would be limited to only "regulated" entities and not "registered" entities.

10. Change in Investment Limit in Debt Securities:

The investment limit for FIIs in Government Securities (including Treasury Bills) was enhanced from USD 2.6 billion to USD 3.2 billion. It was decided that investments by FIIs/Sub-Accounts in debt oriented mutual fund units (including units of money market and liquid funds) would be considered as corporate debt investments and reckoned within the stipulated limit of USD 1.5 billion, earmarked for FII/Sub- Account investments in corporate debt. The following would be applicable in this regard:

a) There should be no demarcation between 100 per cent debt and normal 70:30 FIIs/Sub-Accounts for the purposes of allocation of debt investment limits. The individual limits allocated to the 100 per cent debt FIIs/Sub-Accounts stooc cancelled.

b) The allocation of unutilized/unallocated limits for investment in Government Securities/T-Bills would be on first-come first- serve basis.

11. Restriction and Relaxation on Issuance of Participatory Notes:

a) In October 2007, it was decided to put quantitative restrictions on the quantum of PN issuance by the FIIs. The decision was taken against the backdrop of growing concern/ perception of high inflows in general and particularly through the PN route, as reflected by total value of outstanding P-Note figures visa- vis assets under custody which showed a rising trend. Accordingly, Regulation 15 A was suitably amended to provide for the quantitative restrictions and more concise definitions of "regulated entity" and "overseas derivative instruments".

b) The impositions of these restrictions and its impact, if any, were reviewed in October 2008, and the following factors were considered.

i) The PN positions reported represented an inflated figure because of the following reasons:

• The FIIs were reporting PNs when it was merely referenced to Indian securities, or even when it was referenced to a product with Indian weight age, e.g., MSCI Index.

• In the case of ODI, it was not possible to establish any correlation between inflows and ODIs as some of the FIIs were reporting their ODI positions based on notional positions while others on the premium/ margin paid towards the ODI contracts.

ii) Further clamping down on the ODI issuance capabilities of the PN issuers on the derivatives had led to the unintended effect of exporting markets abroad.

c) In view of the above, the quantitative restrictions imposed on the ODI issuance capabilities and the restrictions on ODI were removed w.e.f., October 07, 2008.

a. Disapproval of Lending/Borrowing Activity Abroad by FIIs:

a) As per the legal framework for lending and borrowing of shares, only exchange offered mechanism was to be availed by the market participants and over the counter deals of such nature were not allowed.

b) However, sales in the Indian market by foreign institutional investors (FIIs) and their sub-accounts are also possible on account of the securities being lent by these FIIs / sub-accounts abroad. In order to lend more transparency to the market, it was decided that the position of the securities lent, if any, by FIIs/ subaccounts abroad shall be

disseminated on a consolidated basis twice a week i.e., on Tuesday and Friday of every week.

c) The first such information was provided on the SEBI website on Friday October 17, 2008 covering the activity for the period October 10, 2008 to October 14, 2008 and periodically thereafter. Further, the scrip-wise position of the FIIs which had the effect of lending shares abroad, as on October 9, 2008 was also disseminated to the public. SEBI continuously reviews data submitted by the FIIs with regard to their stock lending activities abroad.

d) It was observed that the exchange offered stock lending mechanism, though operational in the Indian market, was not being used by the institutions, including FIIs. At the same time, apparently the FIIs were engaged in similar activities in the overseas OTC markets.

e) It was, therefore, decided to disapprove the activity of the FIIs which had the effect of lending of shares abroad in an OTC market, an activity which was not allowed onshore.

12. Enhancement of Debt Investment Limits for FIIs:

a) During 2008-09, the investment limit for FIIs was enhanced from USD 3.2 billion to USD 5 billion for Government Securities (including Treasury Bills) and from USD 1.5 billion to USD 15 billion for Corporate Debt.

b) To enable better utilization of the allocated limits, it was decided to allow the entities five working days to rollover their debt investments upon sale of debt securities held by them.

13. Changes made in the Methodology for Allocation of Debt Investment Limits:

a) SEBI allocated debt investment limits to the FIIs on first-come-first-served basis. This method of allocation was used in June 2008 and October 2008 when the limits for holding government and the corporate debt by FIIs were enhanced.

b) As per this methodology, requests for investment limits were called from the entities in a dedicated mail box thrown open on a particular day subject to a maximum limit per entity. The limits were then allocated based on the time the e-mails were received in the designated mailbox. In the interest of transparency, the list of the entities and the time at which the mails were received in the mail box were disseminated to the public by way of press release.

c) These limits were to be utilized within a specified time; however, if the same were not utilized fully or partially within the specified time, the unutilized limits were withdrawn from the entity and allocated to other entities further down in the list of requests received.

d) This revised system was transparent and considered a step better than the earlier system used for allocation. But there were some inherent drawbacks viz., non-optimal matching of investment opportunity with allocation of limits, inefficient utilization of limits.

e) To address these issues, SEBI introduced an auction based methodology where the registered FIIs/sub-accounts could bid through their trading members for getting the debt limits.

f) In the first such auction conducted, total limits to the extent of Rs 29,350 crore were allocated to 43 bidders. The total bidding premium generated from this allocation amounting to Rs.22,33,535 was remitted to the Consolidated Fund of India.

g) Further to accommodate the FIIs/subaccounts who require smaller debt limit (upto Rs.249 crore), the first-come-first serve methodology is being continued.

14. Efficient Allocation of Debt-Equity in the Portfolio of FIIs:

In order to accord better flexibility for efficient allocation of debt and equity in the portfolio, the restriction of 70:30 ratio of investment in equity and debt was done away w.e.f., October 2008.

15. Allocation of Debt Investment Limits:

SEBI has been following various allocation methodologies over a period of time for allotment of debt investment limits to FIIs and Sub-accounts. For some time, allocation was done on a quota basis. At present, debt limit allocation is done on a periodical basis as and when sufficient limits are available for allotment. Based on the allocations and the utilization of the allocated debt limits by the entities, a status of utilization is drawn. If sufficient limits are available for allocation, the same are again put up for allocation through prevalent allocation procedures. The allocation of the limits and its utilization status is drawn from respective custodians of the entities. A combination of two methods viz. open bidding and first come first served (FCFS) is used for allocation of debt limits. However during 2009-10 in corporate debt category all the allocation was through FCFS only.

a) Vide circular dated November 26, 2010, a new debt category viz. Government debt long term with residual maturity of over 5 years was introduced with a limit of USD 5 billion. Another new category viz. corporate debt – long term infra with residual maturity of over 5 years issued by companies in the infrastructure sector was introduced with a limit of USD 5 billion.

b) In line with the budget proposal made on February 28, 2011 by the Government of India, SEBI, vide circular dated March 31, 2011 increased the limit of corporate debt long term infrastructure by an additional amount of USD 20 billion, thereby taking the overall limit to USD 25 billion.

16. Protected Cell Company (PCC) / Multiply Share Class Vehicle (MCV) Policy:

The intention of FII regulations is that "broad based" funds should have access to Indian securities markets, so as to encourage diverse funds. Eligibility criterion for applicants required applicants to satisfy the broad based criteria. Registration requirements now require applicants to additionally satisfy that the structures of these applicants are otherwise not non-transparent or circumvent the spirit of regulation such as Protected Cell Companies (PCCs) or Multi Class Share Vehicles (MCV). Vide circular dated April 15, 2010, 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.

17. Change in Reporting Format of Offshore Derivatives Instrument (ODIs)/ Participatory Notes (PNs) Activity:

a) Monthly Reporting Format:

Some of the concerns relating to PNs arise from the fact that the PNs represent indirect participation in the market by entities which are not registered with SEBI as FIIs or subaccounts and there may be cases where the identity of the ultimate beneficiary may not be well established. Said concern was addressed with earlier reporting format providing information about name and jurisdiction of PN subscribers of issued PNs by FIIs monthly with effect from Circular No. IMD/CUST/15/2004, dated April 02, 2004. Monthly PN reporting format required the issuer to report the immediate owner of PN and in case the PN is issued onward to another entity then the details of the second level owner of PN.

The new reporting format was announced by Circular - CIR/IMD/FIIC/1/2011 issued on January 17, 2011 ensured that the PN issuing FIIs:

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

• Provide information of the PN issuers' transactions that are hedged and referenced in India.

• Compliance of PN issuer with KYC norms for PN end beneficial owner.

Provide confirmation on regulatory compliance with the KYC norms.

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

b) Reporting of Short Lending:

By issuance of Circular IMD/ FII&C/32/2008 on October 16,2008 FIIs and subaccounts were required to submit information about the quantity of securities which they have lent to entities other than in the Indian securities market, i.e., where the Overseas Derivative Instruments (ODIs) are issued which have the effect of a short sale in the Indian security (including F&O)/synthetic shorts, twice a week. Subsequently, with effect from circular No.IMD/FII&C/34/2008 dated October 20, 2008, SEBI prohibited the activity of the FII lending shares abroad. SEBI continued to monitor the existing outstanding positions which were continuously decreasing over a period of time. Subsequently, on a review on March 04, 2011, it was observed that there were no

outstanding short positions reported by FIIs. As the prohibition on the activity of short lending continued since October 2008, there were no outstanding positions reported in March 2011. Hence, with effect from issuance of circular no CIR/IMD/FIIC/4/2011 dated March 29, 2011, reporting of synthetic shorts in ODI by FIIs was discontinued.

18. 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 Financial Action Task Force (FATF) level KYC for foreign investors to 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.

19. 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 allottee's 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. The FIIs were allowed to re-invest sale proceeds within a period of 5/ 15 days, in order to hold on to their purchased investment limits. This re-investment facility had the following unintended effects:

Hence, vide SEBI circular dated January 3, 2012, it has been decided to discontinue the re-investment mechanism. Henceforth, for all new allocations of debt limits to FIIs/sub-

accounts, no re-investment period shall be allowed and the limits shall come back to the pool once the investment is sold/ redeemed. These limits shall again be allocated in subsequent bidding processes. The FIIs that have already obtained the debt limits or invested in debt were allowed to continue with the re-investment facility i.e. they may re-invest into debt securities within 5 to 15 business days of the sale or redemption of the earlier investments, until the occurrence of any of the following conditions:

a) The total sales made by an FII from its debt portfolio reaches twice the value of the entire debt portfolio (i.e. the total of the utilized and utilized limit available with the FII); or

b) A period of two years has elapsed since from the date of issue of the circular i.e. on January 2, 2014. It is envisaged that once the reinvestment facility is withdrawn, a schedule of auctions calendars would also be possible which would enable the foreign investors to plan their investments based on the bidding session's calendar.

3.6 INVESTOR AWARENESS/ ASSISTANCE AND INVESTOR EDUCATION/PROTECTION:

SEBI has a comprehensive investor grievances processing mechanism. Office of Investor Assistance and Education (OIAE) is the single window interface of SEBI with the investors. OIAE accepts grievances of all investors who prefer to file their complaints with SEBI for matters falling within its jurisdiction. A standardized complaint format is available at all SEBI offices and on the SEBI website for the convenience of investors. Complaints received from investors are acknowledged and a reference number is sent to the complainant. Complaints are taken up with the concerned entities either directly by OIAE or by the Investor Complaint Cell of the concerned department. SEBI officers also hold meetings with the company officials to impress upon them their obligation to redress the grievances of investors. Action u/s 11B and 15C of SEBI Act is initiated against recalcitrant companies.

1. Redressal Of Investors' Grievances:

SEBI has in place a comprehensive mechanism to facilitate redressal of grievances against intermediaries registered by it and against companies whose securities are listed or proposed to be listed on stock exchanges. The Office of Investor Assistance and Education (OIAE) acts as the single window interface, interacting with investors seeking assistance of SEBI.

2. Internet-Based Response System:

As a new Endeavour in investor assistance, a simple and effective internet based response system for investor complaints has been set up. Under this system, on filing of a complaint electronically, a system generated acknowledgement letter is issued to the investor.

3. Securities Market Awareness Campaign (SMAC):

SEBI launched a comprehensive education campaign aimed at investors in securities market, which has been christened - "Securities Market Awareness Campaign" (SMAC). The motto of the campaign is – 'An Educated Investor is a Protected Investor.'

The details of the campaign are enumerated below:

i. Workshop:

The workshops are aimed at reaching out to the common investors and are being held primarily in small and medium towns and cities all over the country. At the workshops, the aim is to educate the investors about the functioning of the securities market, the basic fundamentals of investment and risk management and the rights and responsibilities of an investor. The message is made simple, with lectures and discussions conducted in the local/regional language.

ii. Audio-Visual Clip:

At the time of the national level launch, SEBI had prepared a 4 ½ minute audio-visual clip depicting some of the concerns of the common investor and detailing the theme of the Securities Market Awareness Campaign. The thematic audio-visual is played at the various workshops being organized across the country. This short but extremely effective audio-visual clip helps to set the tone at all the workshops.

iii. Distribution of Educative Materials:

SEBI has prepared standardized reading materials and presentation materials for the workshops. In addition, reference guides on the following topics have been prepared for distribution:

Rights and responsibilities of investors,

_ Substantial Acquisition of Shares and Takeovers,

Simple "dos and dent's" relating to various aspects of the securities market,

_ Mutual funds.

iv. Investor Website:

In order to make the information relevant to the investors and available at one place, a dedicated investor website (http:// investor.sebi.gov.in) has been operationalised and the information content on this website is augmented on a periodic basis.

v. Advertisements:

SEBI has prepared simple "dos and don'ts" for investors relating to various aspects of the securities market. While these simple messages have been put on the investor website and have been printed in the form of leaflets to be distributed across the country, it was felt that these messages could be spread across the investor base by way of advertisements in newspapers, especially in the regional newspapers. Keeping the cost constraint in mind, it was decided that these advertisements could be released in association with market participants, with the name and logo of the market participants appearing in the advertisements along with the name and logo of SEBI. This provided inducement to the market participants to bear the cost of these advertisements and the response has been overwhelming.

vi. All India Radio:

With regard to educating investors through the medium of radio, All India Radio was requested to allot free slots to SEBI on their various programmes. AIR allotted 5 free slots in the month of January 2004 in its programme "People's Corner". Further, 8 free slots were allotted in the programme - Business Pulse - in the months of May and June 2004. These programmes are aimed at creating awareness among the common public regarding the functioning of various public service departments.

vii. Campaign on Television:

SEBI proposes to use the electronic media to reach out to a large number of investors. A forty second film let with a short cautionary message is being aired on television.

viii. Grievances Redressed:

During the period 1991-92 to 2003-2004, SEBI has received 27, 85,660 grievances from investors, of which, a total of 26, and 32,632 grievances have been redressed by respective entities, which indicates a redressal rate of 94.50 per cent.

4. Enabling Investors Through Awareness:

As 'An Educated Investor is a Protected Investor', SEBI continued its Endeavour to enhance investor awareness. Screening of the audio-visual clippings and distribution of educative materials in English, Hindi, and local languages was carried out at the workshops, seminars, camps and lectures organized to increase awareness of the investors.

The objectives of these workshops were twofold: (a) providing enriching experience for the investors having a prior investing experience by interaction with the subject experts and (b) guiding potential investors to take first steps towards their interaction with the stock market. SEBI officers and subject experts regularly interacted with the investors in such events.

5. Recognition To Investor Associations:

For a country like India with a wide geographical spread, a rapidly growing investor population needs many strong investor groups before they are granted the responsibility of standing up for other retail investors. SEBI recognises investor associations and extends financial support for conducting investor education programmes and also addresses various issues raised by them to protect the interest of the investors.

6. National Institute of Securities Markets (NISM):

The Hon'ble Union Finance Minister, in his Budget Speech for 2005-05, authorized SEBI to set up a National Institute of Securities Markets (NISM) for teaching and training intermediaries in the securities market and promoting research.

7. Training for the Financial Journalists:

There has been a long standing request from the financial journalists of the print and electronic media to have an interface with SEBI on issues relating to the capital market. As financial journalists play a critical role for investors' education, SEEI decided to conduct a one-day workshop on capital market for the financial journalists at different centers. The objective of the program was to provide adequate inputs to the financial journalists for balanced reporting of financial events and shoulder the responsibility of accurate dissemination of information on the developments that are taking place on a day to- day basis in the securities market.

8. SEBI Investor Protection And Education Fund:

Empowerment of investors through education and awareness is a key to long term development of securities markets in India. In this regard the need for a dedicated fund to foster investor empowerment was felt.

Accordingly, Union Budget: 2006-07, proposed setting up of an Investor Protection Fund (IPF) funded by fines and penalties recovered by SEBI. At present these amounts are credited to the Consolidated Fund of India as required under securities laws. Hence, the IPF can be established after the relevant laws are amended permitting credit of these amounts to the IPF.

Pending the aforesaid amendment, SEBI set up an 'Investor Protection and Education Fund' (IPEF) by an administrative order dated July 23, 2007.

9. Regulatory Action Against Companies And Its Directors For Non-Redressal Of Investor Complaints:

Top 100 companies in terms of number of unresolved grievances were identified and were vigorously followed up for resolving grievances. Adjudication proceedings under section 15C of SEBI Act were initiated against the companies which failed to redress investor complaints, after having been called upon by SEBI to redress the same.

10. Grievances Against Stock Brokers:

Meetings with top 20 brokers, based on the number of pending grievances, were conducted at Chennai, Ahmedabad, Kolkata, Delhi and Mumbai, to address systemic issues and to expedite resolution of the pending grievances. The feedback received on grounds of grievances and the operational constraints in resolving the same are under consideration for possible policy measures to preempt grievances. During the year 2008-09, 1,270 grievances against stock brokers were resolved.

11. Sardar Sarovar Narmada Nigam Limited (SSNNL):

SSNNL, using the powers conferred on it vide the SSNNL (Conferment of Power to Redeem Bonds) Act, 2008, prematurely redeemed its deep discount bonds although its prospectus dated September 29, 1993 did not provide for the same. Accordingly, SSNNL redeemed bonds @ Rs. 50,000 in January 2009 instead of redeeming them @ Rs. 111,000 in January 2014, leading to investor grievances. SEBI, therefore, instructed SSNNL to disclose to the bondholders the approach followed by it in arriving at the redemption price and the justification for the redemption price.

12. Grievances Arising Out Of Public Issues Of Securities:

During the year, a concerted drive was launched to resolve grievances pertaining to public issue of securities. Apart from the company, the intermediaries to the issues were advised to resolve grievances pertaining to the respective issues intermediated by them. Accordingly, merchant bankers to public issues of companies were identified and were advised to arrange to redress grievances thereof expeditiously. Initially, letters have been issued to top 32 Merchant Bankers on the basis of number of their mandates. During 2008-09, 29,670 grievances pertaining to public issue of securities were resolved.

13. Scores (SEBI Complaints Redress System):

SEBI is in the process of upgrading the investor grievance redressal mechanism. The upgraded mechanism would be a web-based, centralized grievance redress system for SEBI. The software for the new system is being developed by the National Informatics Centre (NIC), Ministry of Information Technology, New Delhi.

The salient features of the new system are:

a) Centralized complaints tracking system for entire SEBI.

b) Grievance pertaining to any of the Regional Offices of SEBI can be lodged from anywhere.

c) All complaints and Action Taken Report to be in electronic mode

d) Action taken and the current status of the complaint can be accessible to the investors, online.

e) Facility for online updating of Action Taken Reports.

14. Business Reply Post Card Exercise:

An exercise was conducted wherein prepaid post cards were sent to 27,319 investors whose grievances had been treated as resolved based on the action informed by the respective companies. Confirmations were sought from these investors whether the grievances were actually resolved. Cases where investors indicated the grievances as yet unresolved were reopened and matter was taken up vigorously with the concerned companies.

15. Issuance Of No Objection Certificate:

Companies raising capital through public issue of securities are required to deposit one percent of the issue amount with the designated stock exchange, which is released by the stock exchange only after SEBI issues a No Objection Certificate (NOC). One of the criteria for issuance of NOC to the companies is the satisfactory recressal of all investor grievances received by SEBI against the company.

In 2009-10, 76 NOCs were issued to applicant companies. In 34 Cases, NOCs were not issued as the applications were incomplete or due to unsatisfactory record of grievance redressal on their part.

16. Investor Grievances Against Suspended Companies:

It was observed that several companies who fail to redress investor grievances and compiling with listing agreement with stock exchanges and letters addressed to them are returned undelivered, are not taking any remedial measures despite trading in their shares have been suspended by the stock exchanges. It was also observed that some of these companies were active in their business and filing their return with Registrar of Companies to avoid declaring them as vanishing companies and subsequent regulatory actions.

As recommended by a sub-committee constituted in this regard, following course of actions are taken:

• BSE and NSE display on their respective websites the names of the companies suspended as on date and the names of directors with their DIN/PAN, compliance officers and promoters of such companies on the date of suspension.

• SEBI would insist on a declaration from the directors of the companies who are coming for public issues that they were not a director of any suspended companies.

• To begin with BSE and NSE shall identify the suspended companies which are active by filing return with Register of Companies and issue notices to them for non-redressal of investor grievances and non-compliance of listing agreement.

• BSE and NSE shall submit a report to SEBI in respect of each such suspended company and their Directors and Compliance Officers which fails to redress the complaints for appropriate regulatory actions by SEBI.

17. Securities And Exchange Board Of India (Investor Protection And Education Fund) Regulations, 2009:

The Regulations governing the administration of the Investor Protection and Education Fund (IPEF) were notified on May 19, 2009. These Regulations inter alia provide for amounts that can be credited to the fund, its utilization and also an Advisory Committee for recommending utilization of the fund. During the year 2009-10, the Advisory Committee met thrice and provided inputs and suggestions which are under various stages of implementation.

18. Investor Awareness Division (IAD):

A separate division namely, the Investor Awareness Division (IAD), was created to rejuvenate and to bring focused attention on the activities of the Board pertaining to investor education and awareness. IAD also handles work pertaining to financial literacy initiatives of the Board.

19. Investor Assistance:

SEBI provides assistance/guidance to investors by replying to their queries received through the following modes:

a) Telephone (Investor Helpline 91-22- 26449188/26449199/40459188/40459199 at Head office and through board lines at the Regional Offices.

b) E-mail (investorcomplaints@sebi.gov.in)

c) Investors visiting SEBI Offices

d) Letters

e) Grievance form in the SEBI Website.

Assistance so rendered to investors was augmented by providing replies to the commonly sought queries by investors on the website as FAQs. Further, SEBI is in the process of launching a toll free helpline to answer the queries of investors.

20. Investors' Associations:

OIAE also recognizes representatives of investors in the form of investors associations. SEBI had collaborated with these investors' associations, which had interest of investors, to spread the message of "Invest with knowledge" to the investing public. The inputs, view and opinions of these associations were considered for policy formulation.

SEBI continued its attempts to approach new bodies working for the welfare of consumers/investors to get recognition as Investors' Associations with itself.

a) Decisions following deliberations in the meeting of Investors' Associations with SEBI Officials:

SEBI conducted periodical meetings with representatives of recognised Investors' Associations which give an opportunity to consider representations/submissions on matters of policy made by the Investors' Associations. Two recent directions were issued taking into consideration the views expressed by these Associations at these meetings:

Removal of earlier instruction mandating issuance of a new DIS booklet to an investor only after the number of DIS in the earlier booklet had reduced to 5 (25 per cent of the total 20); and

Taking note of the fact that the SEBI (DIP) guidelines only require the quotation of the PAN number in issue application forms and not a photocopy of the PAN card as being asked for, SEBI instructed merchant bankers to ensure that no application was rejected for want of a copy of the PAN card.

b) Committee on Transmission of Shares:

During an Investors' association meeting, it was pointed out by some representatives of the Investors Associations that despite the legislative intent to simplify the procedure of transmission of shares, companies had over a period of time evolved varying and diverse documentary compliances on the part of the legal representative of the deceased security holder which make transmission of shares, a long and tedious process. To address this issue and to evolve a uniform procedure and to alleviate and redress complaints received by SEBI in relation to 'Transmission of Shares', a Group headed by Shri R. K. Nair, Executive Director, SEBI was set up.

The Group had submitted its recommendations for simplifying the procedure in relation to 'Transmission of Shares' in the physical and dematerialized environment which are under examination.

Informed investment decisions by investors have been the key thrust of the investor protection initiatives of the Board. Towards educating investors and to spread awareness, SEBI continues it association with Investor's Associations (IA) who play a role in this regard by conducting investor education workshops. Educative material developed by SEBI was distributed in these workshops. At the end of March 2010, there were 22 IAs that were recognised by SEBI.

The feedback/suggestions from the IA are used as inputs for policy decisions of the Board. Some of the measures pursuant to the feedback and suggestions received from the IA include:

a) Disclosure of Complaints details at Stock Exchanges' and Depositories' Websites:

To ensure transparency in grievance redressal and to improve the general functioning of the market by providing investors the wherewithal to make informed choice, stock exchanges and depositories are disclosing in their website the details of complaints lodged by clients/investors against trading members, companies listed in the exchange and depository participants. The aforesaid disclosure also includes details pertaining to arbitration and penal action against the trading members and depository participants.

b) Client Registration Procedure:

With a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers, SEBI has prescribed requirements related to dealings between a client and stock broker. Some of the prescribed requirements are client registration procedure, minimum font size of the agreement, mandatory documents, specific consent from clients for non- mandatory documents, periodic settlement of running accounts, display of all the documents executed by a client, client's position, margin and other related information, statement of accounts on the web-site owned by broker, etc.

c) Sending Clients Trade Details by Exchanges:

To pre-empt the unauthorized trading by some brokers in their client's account, NSE, BSE and MCX-SX have started sending daily client's trade details directly to a few randomly selected clients for their verification and reporting of any unauthorized trade or discrepancies in trade.

d) Disseminating Regulatory Orders and Arbitration Awards by Exchanges:

To ensure transparency and to improve the general functioning of the market by providing investors the wherewithal to make informed choice, all stock exchanges were advised to post all their regulatory orders and arbitration awards issued against listed companies and clearing/trading members on their websites.

e) Guidelines Obtaining Power of Attorney (PoA):

To prevent unfair practice of insisting PoA from all clients and misuse of FoA obtained by some brokers and depository participants, SEBI has issued a set of guidelines to be followed by brokers and depository participants for obtaining PoA only if it is required by clients.

f) Waiver of arbitration fee:

BSE has waived the fees for arbitration proceedings for claims up to Rs.10 lakh for clients as being followed by NSE.

g) Investor Grievance Redressal Committees at Regional Centres:

NSE has set up Investor Grievance Redressal Committees at all its regional centres at par with BSE.

21. Financial Literacy:

a) School Programs:

SEBI initiated financial literacy program for school students jointly with NISM in 2008-09 and positioned it as an important life skill at the school level targeting 8th and 9^{th} standard students.

b) Association with Non-Government Organizations (NGOs):

SEBI explored the possibility of associating with NGOs and other entities, having experience in the field of financial literacy. SEBI has partnered with Meljol, an NGO having experience in the field of promoting child rights and financial education in schools.

c) SEBI is launching its financial literacy drive targeting the following groups:

- School children
- College students
- Middle Income Group
- Executives
- Housewives/Housing Societies
- Retirement Planning
- Self Help Group(s)

The program aims at imparting understanding of financial concepts to the targeted groups. Under the guidance of the Advisory Committee for the IPEF, the material for the aforesaid target group is under preparation and the programs will be conducted by Resource Persons empanelled for the purpose.

22. SEBI Complaints Redress System (Scores):

SEBI is in the process of upgrading the investor grievance redressal mechanism.

The upgraded mechanism SCORES (SEBI Complaints Redress System) would be a web based, centralized grievance redress system for SEBI. All grievances will be in electronic mode with facility for online updating of action taken reports by the users. SCORES will reduce grievance process time at SEBI since physical movements of grievances are not required. Similarly the grievance redressal time will be reduced since the entire process is in electronic mode, including action taken report submitted by the company/ intermediary. Similarly, the problem of physical storage, maintenance and redressal has also been addressed due to the proposed conversion of physical grievances into electronic mode. As investors can track their grievance redressal status online, multiple correspondences from investors to know the status of their grievances are avoided. SCORES has been developed and the system will be fully functional in the financial year 2011-12.

23. SEBI Toll Free Helpline:

To facilitate replies to various queries of the general public on matters relating to securities market, SEBI has undertaken a new initiative and launched toll free helpline service number 1800 22 7575 on December 30, 2011. The toll free helpline service is available to investors from all over India and is in 14 languages viz. English, Hindi, Marathi, Gujarati, Tamil, Bengali, Malayalam, Telugu, Urdu, Oriya, Punjabi, Kannada, Assamese and Kashmiri. The toll free helpline service is available on all working days during Monday to Friday from 9:30 a.m to 5:30 p.m (excluding declared holidays). The following services are available to the investors on the toll free helpline number:

a) Guidance pertaining to viz.:

• Status of companies - whether unlisted, sick, delisted, liquidated /wound up etc.

- Changes in names of companies pursuant to amalgamation/merger/demerger etc
- Details of Registrar and Share Transfer Agent of a listed company.
- Details and information on names and addresses of various registered intermediaries of SEBI
- Information on regulatory action taken by SEBI.
- How to get information on corporate action like Dividend, Bonus, Right issue etc
- How to get latest Net Asset Value for a mutual fund scheme?
- How to lodge a complaint with SEBI?
- Against whom to lodge a complaint on SCORES?
- Status of complaint lodged with SEBI.

• Names and addresses of various Registrar of Companies, Official liquidators, BIFR etc

b) Assistance in procedures viz.:

• How to open demat /client account etc?

- Transfer of shares
- Transmission of shares
- Documents required for transfer/ transmission of shares
- Information on what to do if shares are lost/forged/fake.
- Procedure for applying for duplicate shares
- How to apply in an IPO?
- Names and address of companies of who have filed their offer documents with SEBI.

The helpline service does not offer any legal opinion or investment advice to the investors.

3.7 CONCLUSION:

In this chapter gives SEBI functions within the legal framework of the SEBI Act, 1992. The statutory objectives of SEBI as enshrined in the SEBI Act, 1992 are fourfold:

- Protection of the interests of investors in securities;
- Development of the securities market;
- Regulation of the securities market; and
- Matters connected therewith and incidental thereto.

In keeping with these objectives, SEBI has set for itself strategic aims in the four key spheres which encompass SEBI's activities, namely, investors, issuers, intermediaries and regulatory regime. To the investors, SEBI strives to assure that their rights are protected, they are able to make informed choices and decisions and the market is fair in its financial dealings. To the issuers, SEBI strives to provide a transparent, efficient market where they are able to raise resources at reasonable cost, conduct themselves in accordance with the highest standards of corporate governance, and diligently meet their regulatory obligations. To the intermediaries, SEBI strives to provide a market in which they can compete freely and operate in a manner which gives the investors and market participants' confidence that the market is efficient, orderly and fair. In the regulatory regime, SEBI seeks to ensure transparency - that it always remains appropriate, proportionate and effective. With these strategic aims in view, SEBI has been constantly reviewing and reappraising its policies and programmes, formulating new policies and regulations to cover areas hitherto unregulated or inadequately regulated and implementing them in a manner so as to promote the growth of the market with transparency, fairness, efficiency and integrity.

Our review of SEBI's performance in the twenty one years since its establishment in its current incarnation as an adequately empowered and independent regulator indicates that there has been an all-round improvement in the institutional framework in which the securities trade in India is conducted. Progressively, over time, nearly every actor who is directly connected with the securities trade has been brought under the regulatory ambit of SEBI. A combination of registration, licensing, eligibility conditions, and incentives allows SEBI to rein in non-compliant behavior that could potentially affect the functioning of the securities market adversely. Similarly, many of the important processes have been regulated such as takeover activities, insider trading, manipulative practices, and issuance of employee share options and so on. It is thus reasonable to claim that the regulatory framework is fairly comprehensive in its coverage of the securities trade. Some of these regulatory steps may have played an important part in the orderly growth in activity of certain key categories of players such as FIIs and mutual funds. Prior to the announcement of the regulations governing mutual funds, the industry was beset with the opportunistic behavior of many early players, threatening the very existence of the private sector segment of the asset management business.

In this chapter explained Investor protection is one of the most important elements of a thriving securities market or other financial investment institution. Investor protection focuses on making sure that investors are fully informed about their purchases, transactions, affairs of the company that they have invested in and the like. SEBI had issued guidelines for the protection of the investors through the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000. The measures in practice gave mixed results. On the positive front, many banks sponsored mutual fund had launched assured return schemes and lured the investor's huge contribution. SEBI has introduced a supplementary process of applying in public issues, viz. ASBA process. The application money shall remain blocked in the bank account till finalization of the basis of allotment in the issue or till withdrawal / failure of the issue or till withdrawal / rejection of the application, an initiate that safeguards the interests of both issuing company and the investor. Investor education campaigns have been yielding positive results to some extent, still lot more needs to be done. Indian investors have been steadily fleeing the market, despite the apparent spread of 'equity cult', which calls for immediate attention of the apex body to frame and

effectively implement the measures to protect the interests of small investors, and restore their confidence in the stock market. It may be concluded that SEBI surmounted several obstacles on the way to development of capital market with due care for investors' interests and greater transparency in the affairs of organizations and stock exchanges, though not to the extent of hundred percent. As we have seen that via different guidelines it had made it sure that no stone remains unturned in the path of the mission of protecting the investors. Investor education campaigns have been yielding positive results to some extent, still lot more needs to be done. Indian investors have been steadily fleeing the market, despite the apparent spread of 'equity cult', which calls for immediate attention of the apex body to frame and effectively implement the measures to protect the interests of investors, and restore their confidence in the stock market.

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