

PART I

POLICIES AND PROGRAMMES

This Annual Report of the Securities and Exchange Board of India (SEBI) presents a review of its policies and programmes, its working and operations during the financial year, 2001-02. The Report also gives an account of the operations of the SEBI and describes the manner in which it has been discharging its functions and exercising powers in terms of the Securities and Exchange Board of India Act, 1992; the Securities Contracts (Regulation) Act, 1956; the Depositories Act, 1996; as well as in terms of the delegated powers under the Companies Act, 1956. The Report also provides details of the developments in Indian securities market during 2001-02 and their bearing on and relation with the work of the SEBI. The Report has been prepared in accordance with the format prescribed in the Securities and Exchange Board of India (Annual Report) Rules, 1994, notified in the Official Gazette on April 7, 1994.

The SEBI operates within the legal framework of the SEBI Act, 1992. The statutory objectives of the SEBI enshrined in the SEBI Act are fourfold-

- ? Protection of investors interests in securities
- ? Promotion of the development of the securities market
- ? Regulation of the securities market and
- ? Matters connected therewith and incidental thereto.

In keeping with these statutory objectives, the SEBI has set for itself strategic aims for each of the four key spheres which encompass SEBI's activities in relation to the investors, issuers, intermediaries and the regulatory regime. To the investors, the SEBI strives to assure that their rights are protected, they are enabled to make informed choices and decisions and a market which is fair in the financial dealings.

To the issuers, the SEBI strives to provide a transparent and efficient market where they are enabled to raise resources at low cost, but conduct themselves in accordance with the highest standards of corporate governance and that they are conscious of and meet their regulatory obligations.

To the intermediaries, the SEBI strives to render a market in which they can compete freely and operate in a manner which gives the investors and market participants the confidence that the market is efficient, orderly and fair. In the regulatory regime, the SEBI seeks to ensure that it always remains appropriate, proportionate and effective in which all "stakeholders" have the confidence.

With these strategic aims in view the SEBI has been constantly reviewing and reapprising it existing policies and programmes formulating new policies and regulations to nurture areas hitherto unregulated / inadequately regulated and to implement them in a manner to promote the growth of the market with transparency, fairness, efficiency and integrity.

The major reforms and developments in the securities market during 2001-02 are enumerated in Box 1.1.

Box 1.1: Major Policy Reforms and Developments in Securities Markets during 2001-02

Issue Procedures

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

SEBI (Disclosure and Investor Protection) Guidelines Amended

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

Book- Building

- ? To introduce the facility of 100 percent book-building for companies making a public issue, the SEBI approved certain modifications in the book-building guidelines with effect from December 01, 2001.

Buy-back of Securities

- ? To enhance transparency and disclosures on buy-back of securities, the SEBI issued guidelines that:
 - ✍ The companies shall be required to give prior notice of atleast 7 days to the stock exchanges about the Board meetings at which the proposal for buy-back of Securities is to be considered.
 - ✍ The companies shall be required to intimate the stock exchanges within 15 minutes after the board meeting about the decision on Buy-Back of Securities. The stock exchanges were advised to incorporate the above amendments in the Listing Agreement with immediate effect and confirm the same .

Issue of Debt Securities

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

Underwriting

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

Public Offer Clause Amended

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

Bankers to Issue

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

Deferral Products in Rolling Settlement and Uniform Settlement Cycle

- ? To provide adequate time for unwinding the positions for the securities market, the SEBI took the following transitional measures.
 - ✍ All outstanding deferred positions as on May 14, 2001, were compulsorily liquidated by September 03, 2001.
 - ✍ Any additional deferred positions taken on or after May 15, 2001, in addition to the above were compulsorily liquidated by July 02, 2001.
 - ✍ No new deferred positions were permitted from July 02, 2001 onwards.
 - ✍ The exchanges were asked to monitor the positions of their members, phased liquidation of their positions between July 02, 2001 to September 03, 2001.
- ? Liquidation of outstanding positions as on July 02, 2001, was allowed only for the approved deferral products in the rolling settlement.

Rolling Settlement and Shortening of Settlement Cycle

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

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

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

Margin based on VaR.

- ? To contain the risk associated with scrips in compulsory rolling settlement, the 99 per cent VaR based Margin System was introduced from July 02, 2001 as under:
 - ✍ Scrip-wise VaR and index-based VaR calculation by the exchanges for additional 251 scrips included in compulsory rolling settlement from July 02, 2001 and 15 scrips having the facility of CNS, CFRS, ALBRS and BLESS.
- ✍ In addition to the above, additional level of margin was imposed to address the 1 per cent of the cases to supplement VaR based margins.

- ✍ Additional 12 per cent margin imposed to address 1 per cent of the cases.
- ✍ The VaR calculations based either on BSE Sensex or S & P CNX Nifty and other exchanges may calculate their own VaR or follow BSE or NSE pattern.
- ✍ The VaR based margin capped at 100 per cent.
- ✍ The VaR based margin calculated by the exchange at the end of the day to be used for the purpose of margin calculations for the transactions carried out next day.
- ✍ The VaR based margin to be collected on T+1 basis.
- ✍ In addition to margin calculated on VaR basis, exchanges to collect mark-to-market margin.
- ✍ Exchanges to impose additional margin on scrips whenever necessary to contain the risk in the market.

Withdrawal of restriction on short sales

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

Securities Lending Scheme, 1997

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

Scrip-wise price bands

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

Risk containment measures for Stock Option

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

- ✍ A portfolio based margining approach to be adopted which will take an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in derivative contracts.
- ✍ Exchanges to disclose scrip-wise deliverable positions grossed across clients for that day's trading session in the specified format.

Unique client code

- ? To allocate ID to their investor clients, all brokers were directed through the stock exchanges to provide a unique ID to every investor. It was made mandatory for all brokers to use unique client codes for all clients. For this purpose, brokers were advised to collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department for all their clients. Sub-brokers will similarly maintain for their clients. Where an individual client does not have PAN number, such a client shall be required to give a declaration to that effect.
- ✍ For FII, (where FII, itself is the investing entity) and their sub-accounts, SEBI registration number of FIIs and sub-account to be used until the PAN No. is allotted.
- ✍ For tax paying body corporate, the unique registration number issued by the relevant regulatory authority to be used till the time the PAN is allotted.
- ✍ The stock exchanges to be required to maintain a database of client details submitted by brokers. Historical records of all quarterly submissions shall be maintained for a period of seven years by the exchanges.

Amendment to the Listing Agreement

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

Single Stock futures and the Risk Containment Measures

- ? To further develop the derivative market and to increase the availability of products, futures on 31 stocks, in which options contracts had been permitted by SEBI was introduced.
- ? As risk containment measures, the SEBI adopted the existing risk management framework in the derivative market for Single Stock Futures.
- ? A portfolio based margining was adopted taking into account an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in all derivative contracts i.e. Index Futures, Index Option, Stock Options and Single Stock Futures.

Demutualisation of the Stock Exchanges

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

FIIs Trading in all exchange traded derivative contracts

- ? To permit FIIs to trade in all exchange traded derivative contracts, the SEBI prescribed position limits for trading by FIIs and their sub-accounts. The FIIs were also permitted by the RBI to trade in all exchange derivative

contracts subject to the prescribed position limit for them and their sub-accounts. They are also required to comply with the procedure of trading, settlement and reporting as prescribed by the derivative exchange/clearing house/clearing corporation from time to time.

Trading and Settlement in Dematerialised Securities

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

Takeovers

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

Mutual Funds:

- ? To provide investors with meaningful information about the operations of the mutual fund schemes and to help them in taking well informed investment decision; the SEBI revised and simplified the present format for un-audited half-yearly results. The mutual funds were asked to disclose performance in terms of rise/fall in NAV, yield, investment made in associate companies, details of large holding etc.
- ? All Mutual Funds were directed to post their half-yearly results in the prescribed format on their web sites and for investors the same may be displayed on AMFI web site before the expiry of one month from the close of each half-year.
- ? To make the monitoring more broad based, the Mutual Funds were required to disclose the portfolios on their web sites in the prescribed format before the expiry of one month from close of each half-year and a copy of the portfolio is required to be filed with SEBI at the time of submission of half-yearly results.
- ? To provide the investors objective analysis of the performance of the mutual funds schemes in comparison with the rise & fall in the securities market, the mutual funds were advised to disclose benchmark indices.
- ? To ensure that all personal securities transactions are conducted consistent with the Mutual Funds guidelines and in such manner so as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility, the SEBI issued detailed guidelines for investment/trading in securities by employees of AMCs and mutual fund trustee companies. Further more, Boards of AMCs and trustees are required to review the compliance of guidelines periodically.
- ? The SEBI decided that mutual funds should disclose large unit holdings in the scheme, which are above 25 percent of the NAV. The information on the number of such investors and total holdings by them in percentage terms, shall be disclosed in the allotment letters after the initial public offerings and also in the annual and the half-yearly results.
- ? To implement the regulations in regard to independent functioning, the SEBI decided that relatives of sponsors or directors of sponsor companies or relatives of associate directors of the AMCs and Trustee Companies should be considered as associate directors. The nominees of the companies who are stakeholders in the

Sponsor Company or AMC shall be considered as associate directors. Further, a person who is an "associate" in accordance with definition in the regulations cannot be appointed as independent director even after he ceases to be an "associate" unless a cooling off period of three years has elapsed from the date of his disassociation.

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

Investment in Foreign Securities by Mutual Funds

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

The important measures indicated above and also the steps discussed later in the Report have helped the SEBI in discharging its statutory responsibility of developing and regulating the market and protecting the investors. Besides, the securities market in India has become more modern in terms of infrastructure, adoption of international practices in accounting standards as well as disclosure norms, settlement cycle through rolling settlement, derivatives trading, implementation of corporate governance etc. The SEBI has been striving to enhance fund mobilisation in primary market thus efficiently utilising the domestic savings, diligently protecting the interest of investors and other stakeholders and minimising or eliminating the obstacles and problems particularly resulting from the interpretations of law and regulations that hinder the development and investment in the securities market. The investors' education has been given a priority programme of the SEBI with the objectives to provide the public across the country with the knowledge on basic principles of investment, stimulate domestic savings and to promote understanding on the role and responsibility of regulatory authority in the securities market.

While aiming at achieving such targets, the SEBI has continuously followed open and transparent policy and a consultative approach. It also maintained a close interface with the market participants and professionals, and the feedback, as well as expert advice obtained from them in framing its policies and programmes.

The developments in the securities market following the announcement of the Union Budget for 2001-02, a Joint Parliamentary Committee has been set up and is in progress. In response to these developments, the SEBI also took the following measures to further enhance the safety, transparency and efficiency of the market -

- a. Steps were also taken to implement the program of corporatisation and demutualization announced by the Government, which would result in the segregation of ownership, trading rights and management.
- b. The rolling settlement on T+5 basis was extended to 200 stocks in the erstwhile 'A' group and to those in which any deferral products such as ALBM, BLESS and MCFS were

permitted. This list was further extended to cover all listed securities from December 31, 2001.

- c. It was also announced that the settlement cycle was to be further shortened to T+3 from April 1, 2002 for all the listed securities which has been done.
- d. All deferral products were abolished.

This constituted a set of far reaching reforms for the securities market in India.

In the Annual Report for the year 2000-01, the SEBI had set for itself certain goals in the short and the medium term. The Table 1.1 below shows the performance of the SEBI against these goals.

Table 1.1 Targets and Achievements

Targets Set Out in the Annual Report of 2000-01	Achievements in 2001-02
1. Draw up a plan for successful implementation of corporatisation and demutualisation of all stock exchanges.	The SEBI has appointed a high level committee headed by the former Chief Justice of India Shri M H Kania to suggest the modalities of corporatisation of stock exchanges.
2. Implement successfully the programme of rolling settlement.	In first instance, the SEBI introduced compulsory rolling settlement for 10 scrips in January 2000 and thereafter increased the number of scrips in a phased manner to 163 by May 2000. This list was extended to additional 251 scrips which were eligible for trading under the then existing MCFS or ALBM or BLESS from July 2, 2001. With effect from December 31, 2001, the rolling settlement was extended to the remaining scrips on all exchanges. The SEBI also announced in December 2001 that the settlement cycle for all securities will be shortened to T+3 basis by April 1, 2002 which has been done.
3. Coordinate with RBI for speedy implementation of electronic funds transfer across the country in a time bound manner.	This has been implemented by RBI in phases. SEBI has been coordinating closely with RBI.
4. Introduction of "trading on margin" facility as available in several developed markets.	The proposal has been under examination.
5. Expand the scope of derivative trading by taking measures to encourage trading in existing derivative products and introduce new derivative products.	Trading in index options and trading on options on individual securities were introduced in July 2001. Futures trading in individual stocks was introduced in November 2001.
6. Introduce VaR based margin system for the cash market and gross margining of all transactions.	The VaR margining has been implemented.
7. Streamline further the risk management	The SEBI group on risk management for equity

system across market segments i.e. cash and derivatives market.	market has been continually discussing and deliberating on the issues of risk management in the rolling settlement and several measures have been taken to further streamline the margin system.
8. Introduce unique client code on all stock exchanges for all market participants and investors.	This has been implemented. The SEBI has directed all the stock exchange brokers to Issue ID card mandatorily to their all clients as well as the clients of their sub-brokers.
9. Introduce market-wide index based circuit filters.	The SEBI introduced index based market-wide circuit breakers to apply at 3 stages of the index movement either way at 10 per cent, 15 per cent and 20 per cent, respectively, to bring coordinated halt in trading.
10. Review constantly the existing depository system and take measures to further streamline and simplify the procedures for the benefit of investors and market participants and also introduce further safeguards to protect the interest of investors.	The SEBI has been reviewing the depository system continuously. During 2001-02, it pursued the implementation of inter-connectivity between the depositories and connectivity of listed companies with both the depositories.
11. Take steps for retail participation in Government securities market through trading of such securities in stock exchanges.	SEBI is discussing the matter with RBI.
12. Take steps to encourage securitisation of assets.	This is under discussion. SEBI is awaiting the introduction of the bill by the Government.
13. Further enhance financial disclosures, both initial and continuing disclosure requirements.	The SEBI has been continuously reviewing and widening the scope of financial disclosures in association with ICAI.
14. Introduce delivery versus payment system by enhancing the efficiency of funds settlement.	The matter is being discussed with RBI.
15. Introduce web based system for collecting and disseminating corporate information.	The prototype site has been developed by the National Informatics Centre.

16. Improve disclosure standards for mutual funds and introduce further safeguards to protect interest of investors.	Detailed Guidelines have already been issued by the SEBI to all Mutual Funds .
17. Further strengthening the surveillance system in the stock exchanges by implementing the stock watch system in the stock exchanges.	Stock watch system has been introduced.

A] REVIEW OF THE GENERAL ECONOMIC ENVIRONMENT AND THE INVESTMENT CLIMATE

General Economic Environment

The real GDP growth according to estimates of Central Statistical Organisation (CSO) at 1993-94 prices, was 4.0 per cent in 2000-01 and 5.4 per cent in 2001-02. Though the growth rate during 2001-02 marked some recovery over the growth of 2000-01, it remained noticeably lower than the average growth rate of 6.3 during 1994-1995 to 2000-01. The GDP growth of 5.4 per cent during the year under review was contributed by agriculture and allied sectors by registering an increase of 5.7 per cent, services by 6.5 per cent and industry by 3.3 per cent. The services sector despite the fall in its growth during 2000-01 (7.5 per cent) and 2001-02 (6.5 per cent) continued to have a share of more than 50 per cent in GDP.

Domestic savings, however, improved marginally from 23.2 per cent of GDP in 1999-2000 to 23.4 per cent in 2000-01. The saving ratio, however, compares unfavourably with the achievement of 25.1 per cent in 1995-1996. Consequently domestic investment has shown declining trend from 26.9 per cent in 1995-1996 to 22.7 per cent in 1998-1999. The ratio was somewhat higher at 24.3 per cent in 1999-2000 but declined marginally to 24.0 per cent in 2000-01. Sector-wise, the public sector investment improved from 6.6 per cent in 1998-1999 to 7.1 per cent in 1999-2000 and remained at the same level in 2000-01, but the private sector investment declined from 16.1 per cent in 1999-2000 to 15.8 per cent in 2000-01. (Table 1.2)

Table 1.2: Savings and Investment Trends In Indian Economy

Savings and Investment							
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000 (P)	2000-01 (P)
As per cent of GDP at current market prices							
Gross domestic savings	24.8	25.1	23.2	23.1	21.7	23.2	23.4
Public	1.7	2.0	1.7	1.3	-1.0	-0.9	-1.7
Private	23.2	23.1	21.5	21.8	22.7	24.1	25.1
Households	19.7	18.2	17.0	17.6	18.9	20.3	20.9
Financial	11.9	8.9	10.4	9.6	10.5	10.8	11.0
Physical	7.8	9.3	6.7	8.0	8.4	9.6	9.9
Private Corporate	3.5	4.9	4.5	4.2	3.7	3.7	4.2
Gross domestic investment	26	26.9	24.5	24.6	22.7	24.3	24.0
Public	8.7	7.7	7.0	6.6	6.6	7.1	7.1
Private	14.7	18.9	14.7	16.0	14.8	16.1	15.8
GFCF	21.9	24.4	22.8	21.7	21.5	21.6	21.9

GFCF: Gross Fixed Capital Formation
P: Provisional estimates.
Source : Economic Survey, Government of India,

Table 1.3: Savings of the Households Sector in Financial Assets*(Rs in billion)*

Item	1993-94P	1994-95	1995-96	1996-97	1997-98(P)	1998-99 (P)	1999-2000 (P)	2000-01\$
Savings (Gross) of the Household Sector in Financial Assets of which	1,094.85	1,453.81	1,249.86	1,574.24	1,717.40	2,096.64	2,441.43	2,646.99
Currency	133.67 (12.20)	159.16 (10.90)	165.25 (13.20)	136.43 (8.70)	127.80	218.46	208.22	169.01
Banking Deposits #	362.00 (33.10)	558.34 (38.40)	399.95 (32.00)	573.67 (36.40)	740.99	756.70	901.90	1094.00
Non-banking Deposits	116.54 (10.60)	115.47 (7.90)	131.98 (10.60)	214.11 (13.60)	67.33	76.63	63.50	89.79
Life Insurance Fund**	95.48 (8.70)	113.70 (7.80)	138.94 (11.10)	161.88 (10.30)	194.10	234.28	286.78	344.55
Provident and Pension Fund	182.26 (16.60)	212.95 (14.60)	222.92 (17.80)	262.48 (16.70)	322.67	463.50	547.62	539.37
Claims on Government +	69.08 (6.30)	131.86 (9.10)	95.88 (7.70)	117.01 (7.40)	221.62	282.20	289.51	348.06
Shares and Debentures ++	100.67 (9.20)	134.74 (9.30)	88.39 (7.10)	66.96 (4.30)	44.64	56.26	137.06	85.79
Units of Unit Trust of India	47.05 (4.30)	39.08 (2.70)	2.62 (0.20)	37.76 (2.40)	5.95 (0.30)	18.87	18.11	-13.43

Figures in brackets indicate percentage to Financial Assets of households
Includes deposits with Co-operative non-credit societies.
.. Includes State/Central Government and postal insurance fund.
+ Includes investment in shares and debentures of credit/non-credit societies and public sector bonds.
\$ Preliminary Estimates.
P Provisional
Sources: Report on Currency and Finance Vol. II, RBI

There was a structural change in the composition of financial assets of households. It would be observed from Table 1.3 that share of investment in shares and debentures which had increased from 2.9 per cent in 1997-98 to 6.4 per cent in 1999-2000 declined to 2.7 per cent in 2000-01. On the other hand, the share of contractual savings increased from 30.1 per cent to 33.4 per cent during the same period. When comparison is made between 2000-01 and 1999-2000, investments in shares and debentures registered a decline from 6.4 per cent to 2.7 per cent whereas share of deposits increased from 39.1 per cent to 44.3 per cent, respectively, and share of currency decreased from 8.5 per cent to 6.4 per cent.

India has gained further in external sector as foreign inflows during 2001-02 aggregated to US\$ 11.8 billion and as a result foreign exchange reserves increased to US\$ 54.1 billion at end March 2002 from US\$ 42.2 billion at end March 2001. This is the evidence of strong domestic and international confidence in the economic management of India. On exchange rate front, the foreign exchange markets experienced considerable uncertainty with the rupee depreciating by 6.7 per cent between end-April and end-October 2000 from Rs.46.775. Since November 2000, the situation had shown large improvement and the forex markets were relatively stable. Overall stability in exchange rate and growing amount of foreign exchange reserves has kept up the confidence of foreign investors and the tempo of inflows of foreign portfolio investment. The economy experienced easy liquidity conditions and softer interest rate environment during the year under review. The overall comfortable monetary conditions and liquid funds available

with the banking system as reflected in decline in interest rates on a wide spectrum of financial instruments and low level of call money rates were some positive factors visible in the financial markets.

Investment Climate

The primary market recorded a modest increase in investment activity. In absolute terms, the total capital raised during 2001-02 was Rs.7,544 crore through 35 issues as compared to Rs.6,108 crore through 151 issues in 2000-01. The average size of issues increased from Rs. 40.5 crore in the previous year to Rs.215.5 crore in 2001-02. However the number of IPOs declined significantly to 7 in the financial year 2001-02 as against 114 IPOs in the financial year 2000-01. The funds mobilized through IPOs also decreased drastically by 55.8 per cent to Rs.1,202.3 crore in 2001-02 from Rs.2,722.4 crore during the previous financial year. The IPOs amounted to 15.9 per cent of the total resource mobilized i.e. Rs.7543.07 crore during the year.

Bearish sentiment, however dominated the stock market through 2001-02. Almost all major stock market indicators like market capitalisation, turnover, P/E ratio showed declining trends during 2001-02. However, the fall in major indices and other market indicators was substantially less than that noticed during 2000-01. The BSE Sensex on a point to point basis decreased from 3604 as on March 30, 2001 to 3469 as on March 28, 2002, a fall of 3.7 per cent, the S&P CNX Nifty witnessed a decline of 1.6 per cent from 1148 as on March 30, 2001 to 1129 as on March 28, 2002. On the contrary, the other indices e.g. the BSE Natex, the S&P CNX 500 and the BSE Dollex registered a rise of 1.5 per cent, 2.8 per cent and 2.7 per cent, respectively, during the current year under review. However, the stock prices suffered several reversals on some occasions during the year precipitated by stock market crash in USA following the terrorist attack on September 11, 2001 and attack on Indian Parliament on December 20, 2001. The BSE Sensex dropped to 2641 as on September 17, 2001 and further to 2600 on September 21, 2001 from 3181 as on September 10, 2001, recording a loss of 540 points and 581 points respectively. Following the steps taken by both the government and regulatory authority and recovery of perceptions of investors, the Sensex picked up slowly and reached 3287 by November 21, 2001 and to 3443 by December 10, 2001, before coming down sharply to 3132 by December 27, 2001 on account of the terrorist attack on the Indian Parliament. However, the Sensex reached the level of 3469 by March 28, 2002. These trends were visible in the movement of other indices also.

The gross mobilisation by the mutual funds increased sharply from Rs.92,957 crore in 2000-01 to Rs.1,64,523 crore in 2001-02. But the net mobilisation sharply declined during 2001-02 to Rs. 7175 crore from Rs. 9128 crore in the previous year due to increase in level of repurchases/redemption compared to 2000-01. This fall was on account of heavy disinvestment in equity segment. The total disinvestment in this segment amounted to Rs.3,796 crore as compared to net purchases in debt segment of the order of Rs.10,959 crore. A large part of the decline in the net amount, on account of the problems encountered by the UTI resulting in significant net outflow for UTI.

Net FIIs investment was positive almost for all the months during 2001-02 except the month of September 2001 when net investment was negative at US \$ 113 million on account of sudden

increase in sales which exceeded purchases by about 16 per cent following the terrorist attacks on the USA. However, there has been a gradual increase in the FIIs investment in the country reflecting continued confidence of the FIIs in the Indian securities market .

B] REVIEW OF POLICIES AND PROGRAMMES

The major policies and programmes adopted by the SEBI during 2001-02 have been reviewed below:

i. Primary Securities Market

During 2001-02, the SEBI took 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 major policy changes relating to primary market are set out below:

Issues Through Book-Building

The SEBI issued further guidelines to be followed by the issuers for raising 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 i.e. investors applying for upto 1000 securities and not less than 15 per cent of the net offer to the public shall be available for allocation to non-institutional investors i.e. investors applying for more than 1000 securities. The guidelines also stipulated that not more than 60 per cent of the net offer to the public shall be available for allocation to Qualified Institutional Buyers (QIBs). See Para F (II) section (VI) of Part I for details of amendments.

Issuance of Debt Instruments Prior to Equity Issue

Public issue and listing of non-convertible debt securities

To facilitate the resource mobilisation 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 atleast 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 atleast 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 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 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 (DIP) Guidelines, 2000.

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 atleast 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.

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 ROC.

It has been stipulated by the SEBI, that pre- issue share capital of an unlisted company held by Venture Capital Funds and Foreign Venture Capital Investors registered with the Board shall not be subject to lock in as per SEBI (DIP) Guidelines, 2000. However, the provisions of the SEBI (Venture Capital Funds) Regulations, 1996 and the SEBI (Foreign Venture Capital Investors), Regulations, 2000 and any amendment thereto, in this regard, shall be applicable.

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.

Offer to public

Clause (b) to sub-rule (2) of Rule 19 of the Securities Contracts (Regulation) Rules, 1957 has been amended vide Government notification no. G.S.R. 415(E) dated June 7, 2001, providing for public offer of atleast 10 per cent instead of 25 per cent subject to certain conditions. Accordingly, sector-wise exemption, earlier provided by SEBI has been withdrawn. Further, unlisted companies which have allotted shares to holders of securities in a listed company pursuant to a scheme of reconstruction or amalgamation sanctioned by the appropriate High Court, have been approaching the Board for seeking exemption from making a public offer for listing their shares. Exemptions, subject to fulfillment of certain conditions have already being granted by way of communication to the Stock Exchanges. For the sake of greater transparency, the requirements in this regard have been specified by the SEBI.

Research report

The following stipulations were laid down by the SEBI regarding the publication of research reports by intermediary firms, analysts etc. :

- ? the research report should be prepared only on the basis of published information as contained in the offer document.
- ? no selective or additional information or information extraneous to the offer document shall be made available by the issuer or any member of the issue management team/ syndicate to only one section of the investors in any manner whatsoever including at road shows, presentations, in research or sales reports or at bidding centres etc.
- ? no report or information, other than the contents of the draft offer document shall be circulated by the issuer or any member of the issue management team/ syndicate or their associates, after the date of receipt of observations from SEBI.

- ? the advertisement code is observed while circulating the research reports, and that the risk factors are reproduced wherever highlights are given, as in case of an advertisement

Corporate Governance

The Accounting Standards Committee of the SEBI as well as the Kumar Mangalam Birla Committee on Corporate Governance had recommended the following financial disclosures for listed companies:

- ? Consolidation of Accounts
- ? Segment Reporting
- ? Deferred Taxes
- ? Related Party Transactions
- ? Earning per Share

As part of SEBI's efforts to enhance financial disclosure standards, the SEBI has been closely interacting with the ICAI. The issuance of the accounting standards on the above areas was taken up by the SEBI with ICAI, which is represented in the SEBI's Accounting Standards Committee.

The ICAI stated that standards have been issued in the above areas. They also informed that ICAI would be issuing Accounting Standards in respect of other areas such as 'Intangible Assets', 'Impairment of Assets', 'Discontinuing Operations', 'Accounting for Investments in Associates', etc. by December 2001. The Committee also noted that the issue and adoption of the above Accounting Standards would help to bridge the gap that now exist between International Accounting Standards and Indian Accounting Standards and will raise the level of financial disclosures to the international standards. The Committee was of the view that the impact of the Accounting Standards issued by the ICAI on the above five subjects would be visible in the annual accounts of the companies from the financial year 2001-02.

Consolidated financial results

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

Consolidated financial statement

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.

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.

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.

Related party disclosures

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

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.

Alternative format for un-audited financial results

The manufacturing and trading / service companies which have followed functional (secondary) classification of expenditure in the annual profit and loss account in their most recent annual report were given the facility to furnish un-audited financial results on a quarterly basis in the alternative format as prescribed.

Compliance with accounting standards

Companies were mandatorily to comply with all the Accounting Standards issued by ICAI from time to time by incorporating a new clause in the Listing Agreement.

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.

While ICAI has prescribed that Accounting Standard on Segment Reporting would be applicable from the financial year 2001-02, companies were required to furnish segment-wise revenue, results and capital employed in the quarterly un-audited financial results with effect from the quarters ending on or after September 30, 2001. The format for providing segment information was prescribed by amending the Clause 41 of the Listing Agreement shortly.

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 were mandatorily required to publish consolidated financial statements in the annual report. Companies shall have the option to publish consolidated quarterly financial results in addition to the un-audited quarterly financial results of the parent company as currently required as per the Clause 41 of the Listing Agreement.

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

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.

The Sub-Committee recommended that “dot com” companies shall be required to disclose all relevant qualitative and quantitative business information. These requirements may also be made applicable to all other companies wherever it is relevant. SEBI’s Committee on Disclosure on Offer Documents which is also chaired by Shri Y H Malegam would consider the recommendations of the Sub-Committee for additional disclosures in the offer documents applicable to dot com and other companies.

The Sub-Committee also recommended that the Guidance Note on Accounting by Dot Com Companies issued by ICAI shall be made mandatory for dot com companies and they are required to give a declaration in the offer document confirming their complete compliance with the Guidance Note.

ii. Secondary Securities Market

Trading of all Scrips 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 basis 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 in 163 scrips from May 08, 2000. Thereafter, from July 2, 2001 compulsory rolling settlement was applicable to an additional 251 scrips which were having the settlement deferral facility such as ALBM / BLESS/ MCFS of any exchange and those in BSE 200 went into compulsory rolling settlement w.e.f. July 02, 2001. Thus, the total number of scrips traded on rolling settlement increased to 414. By December 31, 2001 rolling settlement had been extended to the remaining scrips listed on all exchanges. It was subsequently decided to further shorten the settlement cycle to T+3 for listed scrips from April 1, 2002.

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.

In the interim period between July 02, 2001 and January 02, 2002 all the stocks which were not under compulsory rolling settlement were traded on uniform settlement cycle from Monday to Friday with effect from July 02, 2001 on all exchanges. All scrips in all stock exchanges were traded in rolling settlement system on T+5 basis with effect from December 31, 2001.

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.

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 licence number, place and date of issue. If none of the above are 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.

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 upto two decimals and the margin percentage would be rounded upto 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.

These percentages will be translated in to absolute points index variations on quarterly basis and at the end of each quarter would be revised and be applicable for the next quarter. The above mentioned percentages would be translated into absolute points would be calculated on the closing level of the index on the last day of the trading in a quarter and rounded off to nearest 25 points in case of BSE Sensex and nearest 10 points in case of S&P CNX Nifty.

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. However as temporary measure following the market conditions post-September 11, 2001, circuit filters were also introduced for the shares on which derivative products were available.

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.

Demutualisation and Corporatisation of the Stock Exchanges

The Govrenment had announced that the stock exchanges will be corporatised 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. hold 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 i.e. January 10, 2002, to give effect to the decision taken and the policy decision of Government in this regard. Simultaneously, the SEBI also examined the administrative and legal modalities for corporatisation.

Corporatisation and demutualisation 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.

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 un-incorporated bodies and in this light examine the legal, financial and fiscal issues involved to corporatise and demutualise the stock exchanges,
- ii. to recommend the specific steps that need to be taken for implementation, and
- iii. to advise on the consolidation and merger of the stock exchanges.

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. For details see Para G (i) and (ii) of Section [VI] of Part I.

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.

In order to bring about uniformity among stock exchanges and taking into account uniformity already brought about by SEBI through the directives/circulars so far issued to the stock exchanges, the stock exchanges were advised to suitably adopt these rules. Some of the Model Rules have already been implemented by the Stock Exchanges through SEBI Circulars and directives. For some rules suitable provisions already exist in SC (R) Act, 1956, SC (R) Rules, 1957 or in the GOI directives/Circulars and SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 etc. Some of the Model Rules are new amongst which some are related to corporatisation of Stock Exchanges and can be implemented only after all exchanges are corporatised.

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.

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 bye-laws to take action against the broker who mis-utilises or lets misutilisation of their trading terminals for unregistered sub-broking activities.

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 dematerialised mode.

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.

Fees payable by stock brokers

Following the judgement 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.

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.

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 sometime, 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 the transparency and integrity of market. In view of the above issues, it was decided to set up a group under the Chairmanship of Prof. J.R. Varma to look into the above issues. The Committee comprised of representative of Chambers of Commerce, ICSI, ICAI, AMBI, BSE, NSE, CSE and DSE. The Group could also invite senior representatives of the press and other experts.

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 mobilisation 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 smoothen the settlement system and improves efficiency of the settlement system by facilitating timely delivery of securities and correcting temporary imbalances between demand and supply.

Two entities viz. Kotak Securities Ltd. and M/s Infrastructure Leasing and Financial Services Ltd. (IL & FS) were registered as Approved Intermediary under Securities Lending Scheme, 1997 during the year 2001-02.

Amendments to SEBI (Insider Trading) Regulations, 1992

The SEBI constituted a committee under the Chairmanship of Shri Kumarmangalam 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. Details of amendments to insider trading regulations are given in Para E (8), Section (VI) of Part I.

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. The policy initiatives of SEBI taken in 2001-02 are given below:

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. Volatility estimates would be computed as per the Prof. J. R. Varma Committee report on risk containment measures for index futures.

As per the above criteria, it was estimated that initially 30 to 35 scrips would qualify for options trading. Final selection of the scrips, for the options trading, would be made by the exchanges with the approval of SEBI. The eligibility criteria would be reviewed after a period of six months to examine whether in the light of the experience, the list of eligible stocks could be expanded.

It was also decided by the group that for initial period of six months, stock options would be cash settled and after that exchanges would move to physical settlement.

It was also decided to impose limit on the overall open interest in stock options. It was decided that open interest in terms of number of stocks should not exceed twenty times of the average of daily shares traded, during the previous calendar month, in the underlying cash market.

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.
- ? Include, equal access and level playing field to all category of investors and market participant in the securities markets, margin trading, reduction in the minimum contract size of derivative contracts and developing a vibrant stock lending / borrowing mechanism for healthy growth and development of stock futures.
- ? Introduce cash settled stock futures contracts, which would become delivery settled after three to four months. On the risk containment measures, the committee agreed to adopt the existing risk management framework in the derivative market for stock futures also. The committee also proposed imposition of stricter position limits at client / customer level and trading member level.

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 in-principle 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.

Following the recommendations of the Advisory Committee on Derivatives, the SEBI approved the scheme and risk containment measures for the individual stock future contract which are summarized as under :

- ? Initially, the individual stock futures contracts shall be settled in cash. The individual stock futures contracts shall have the same multiplier as the lot size for the option contracts in the same underlying stock. The contract shall have maximum maturity of 12 months, however, initially the contracts for a maturity of three months shall be introduced. In the beginning, three contracts of the maturity of one, two and three months shall be introduced simultaneously such that at any point in time atleast three individual stock futures contract on a particular underlying would be available for trading.

- ? The 'Initial Margin' on the individual stock future shall be computed on the basis of portfolio based margining approach which takes an integrated view of the risk involved in the portfolio of each client consisting of all futures and options contracts. The initial margin requirements are based on worst scenario loss of a portfolio of an individual client to cover 99 per cent VaR over a one day horizon across various scenarios of price change and volatility shifts. The prices can range in the case of individual stock futures would be 3.5 standard deviation (3.5 sigma) and the minimum margin shall not be less than 7.5 per cent of the value of the contract.
- ? The exchanges shall also monitor the exposure limits and in the case of individual stock futures contracts the value of gross open position at any point in time in all the individual stock futures contract shall not exceed 20 times the available liquid networth of a member.
- ? The calendar spread positions in the individual stock futures contract shall be counted for the purpose of margin and exposures in the same manner as in the case of index futures contracts.
- ? The exchanges shall collect mark to market margin in cash settlement in the case of stock futures contract before start of the next day's trading.
- ? In order to deter and detect concentration of positions and market manipulations, the SEBI has prescribed position limits at the client level, trading member level and market level.

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.

Trading member level positions limits

At trading member level, the position limits in derivative contracts on individual stocks would be at 7.5 per cent of the open interest or Rs.50 crore whichever is higher for the derivative contract in a particular underlying at an Exchange.

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 ie. 10 per cent of the free float market cap.

FII's allowed to trade in derivative products

FII's 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 FII's to participate in the derivative market in all products, it was decided that FII's 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 FII's to trade in all derivative products. Accordingly the RBI has issued the instructions and permitted the FII's to trade in all derivatives product.

Margin trading

The committee discussed the issue of introduction of margin trading. In this context the proposal on margin trading submitted by the newly constituted 'Securities Industry Association'(under incorporation) was discussed and further clarifications were sought on the proposal. Suggestions of other models of margin trading were also considered. Proposals have been discussed with RBI, at the SEBI-RBI Standing Technical Committee meeting.

Registration Fees Payable by Stock Brokers

Pursuant to the judgement 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.

The brokers in the cash segment have been given a facility of payment of atleast 50 per cent of the registration fees payable by them as per Schedule III to the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 and balance fees along with interest @ 15 per cent p.a. can be paid within a period of two years.

Further, SEBI has appointed a Committee under the Chairmanship of Dr. D.C.Anjaria for considering revision of fee structure laid down in the R.S.Bhatt Committee Report. Revision, if any, recommended by the Committee and approved by SEBI would be made applicable prospectively.

Depositories, Paperless Trading and Other Related Issues

Dematerialisation of securities is one of the major steps for improving and modernising 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 dematerialisation 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. The following measures were taken by the SEBI during the year under review:

- ? To achieve the goal of complete dematerialisation, the SEBI issued directive to all the companies to establish connectivity with both the depositories by September 30, 2001. Companies which failed to sign the agreements and establish connectivity with both the depositories by that deadline, the shares of such companies can now be traded only on "trade for trade settlement" window of the exchanges.
- ? The exit route to small investors to sell 500 shares in physical form was continued in respect of shares included in the list of compulsory rolling settlement and dematerialised trading.
- ? To facilitate the instant distribution of dividend or other cash benefits, to the investors, it was made mandatory for all the issuers to use ECS facility wherever available.
- ? To avoid fraudulent encashment of dividend and other cash benefits, wherever distributed through warrants, it was made mandatory for all the issuers to print the bank accounts details as furnished by the depositories.
- ? The SEBI set up a Committee chaired by the Managing Director of NSDL to suggest the various ways to reduce the cost to investors in the depository system. The other members of the committee are CDSL, representatives of Depository Participants, representatives from RAIN and investor associations.

iii. Mutual Funds

Policy Initiatives, 2001-02

During 2001-02, the SEBI took a number of policy decisions in consultation with mutual funds industry to protect the interests of investors in mutual funds and to develop and regulate the mutual funds industry. The regulations were amended accordingly and necessary guidelines were also issued to the mutual funds. The details of major policy decisions taken are as follows:

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 now required to disclose performance in terms of rise/fall in NAV during the half-year period, yield for the last 1 year, 3 years, 5 years period and since inception of the scheme, percentage of management fees and recurring expenses to the net assets, investment made in associate companies, payment made to associate companies, details of large holdings, etc. Thus, the investors will get all relevant information in a concise format. Further, 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.

Disclosure of large unitholdings in scheme

The SEBI directed mutual funds to disclose large unitholdings (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.

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.

Guidelines for investment / trading in securities by employees of 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. Boards of AMCs and trustees are required to review the compliance of guidelines in their periodical meetings.

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

Recognising the need for developing well-trained agents and distributors and to professionalise the distribution channel, the SEBI 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. Mutual funds were also advised to monitor the activities of their agents/distributors so that they may not indulge in any kind of malpractice or unethical practice while selling/ marketing mutual fund units. Mutual funds were also advised to encourage their employees to undertake the same certification programme by December 2002.

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.

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.

Investor education programme

In order 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, 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.

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. 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. Subsequently, the disclosure of performance of benchmark indices in case of debt oriented schemes and balanced fund schemes has also been made mandatory.

The SEBI advised that the boards of AMCs and trustees should review the performance of their schemes on periodical basis and compare the performance of their schemes with benchmarks in all of their meetings. They are also required to review the performance of their schemes in the light of performance of the mutual funds industry as published from time to time by independent research agencies and financial newspapers and journals and to take corrective action in case of unsatisfactory performance.

Guidelines for investments in foreign securities

Based on the announcement in the Union Budget, 2002-03, mutual funds were permitted to make investments in foreign debt securities in countries with full convertible currencies. 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.

There is an upper limit of US \$ 500 million for the entire mutual funds industry for making investments in ADRs/GDRs and foreign securities. The investment in foreign securities may be made by existing mutual funds schemes or new schemes launched for this purpose. The mutual funds can also invest in the units/ securities issued by overseas mutual funds or units trusts which invest in aforesaid securities or are rated as mentioned above and are registered with overseas regulators.

Collective Investments Schemes

Government of India vide its Press Release dated November 18, 1997 directed that schemes through which instruments such as agro-bonds, plantation bonds etc. are issued would be treated as Collective Investment Schemes (CISs) coming under the provisions of Sec. 11(2)(c) of the SEBI Act, 1992.

SEBI vide its press release dated November 26, 1997 and its public notice dated December 18, 1997 directed existing collective investment entities to file the details of their schemes with it. SEBI had received information from 657 entities. Later on, after notification of Regulations, 3 more entities who had earlier not filed information with SEBI applied for registration.

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.

iv. Intermediaries Associated with the Securities Markets

Primary Market Intermediaries

Portfolio managers

SEBI has set up a working group to review the provisions of SEBI (Portfolio Managers) Rules and Regulations, 1993. The group has submitted its report. Recommendations of the group are under consideration of SEBI.

Debenture trustees

SEBI (Investment advised by intermediaries) Regulations 2001, were amended vide notification in the Gazette of India dated 29.05.2001. Accordingly, SEBI (Debenture Trustee) Rules and Regulations, 1993 were amended via insertion of a new regulation 17A which states as under:

- ? Every Debenture Trustee shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the Board or the Central Government and for redressal of investors' grievances.
- ? The compliance officer shall immediately and independently report to the Board any non-compliance observed by him.

A new clause was incorporated after clause 7 of schedule III of SEBI (Debenture Trustee) Rules and Regulations, 1993 by the same Gazette Notification, which states as under:

- ? The Debenture Trustee or any of its employees shall not 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 his interest including a long and short position in the said security has been made, while rendering such advice.
- ? In case an employee or the Debenture Trustee is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.

Bankers to an issue

In the interest of development of primary securities market, it has been a continuous endeavour of SEBI to reduce the time period involved between closure of the issue and listing of the securities. In order to attain this objective, SEBI vide its circular BTI(GI Series) Circular No. 1 dated May 11, 2001 advised all 'Bankers to an Issue' that the applications, details regarding the application and application monies received from the investors investing in the issue of a body corporate and the final certificate are furnished to the Registrar to the Issue, the Lead Manager and the Body Corporate, before the expiry of 7 working days after the date of closure.

Further, the SEBI (Investment advised by intermediaries) Regulations 2001 were amended vide notification in the Gazette of India dated May 29, 2001. Accordingly, SEBI (Bankers to an Issue) Rules and Regulations, 1994 were amended via insertion of a new regulation 16A which states as under:

- ? Every Banker to an Issue shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the Board or the Central Government and for redressal of investors' grievances.
- ? The compliance officer shall immediately and independently report to the Board any non-compliance observed by him.

A new clause has been inserted after clause 7 of schedule III of SEBI (Bankers to an Issue) Rules and Regulations, 1994 by the same Gazette Notification, which states as under:

- ? The Banker to an issue or any of its employees shall not 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 his interest including a long and short position in the said security has been made, while rendering such advice.
- ? In case an employee or the Banker to the issue is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.

Registrar to an issue and share transfer agent

SEBI (Investment advised by intermediaries) Regulations 2001, were amended vide notification in the Gazette of India dated 29.05.2001. Accordingly, SEBI (Registrar to an Issue and Share

Transfer Agent) Rules and Regulations, 1993 were amended via insertion of a new regulation 15A which states as under:

- ? Every Registrar to an Issue and Share Transfer Agent shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the Board or the Central Government and for redressal of investors' grievances.
- ? The compliance officer shall immediately and independently report to the Board any non-compliance observed by him.

A new clause was incorporated after clause 7 of schedule III of SEBI (Registrar to an Issue and Share Transfer Agent) Rules and Regulations, 1993 by the same Gazette Notification, which states as under:

- ? The Registrar to an Issue and Share Transfer Agent or any of its employees shall not 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 his interest including a long and short position in the said security has been made, while rendering such advice.
- ? In case an employee or the Registrar to an Issue and Share Transfer Agent is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.

SEBI vide its circular RTI CIRCULAR NO.1 (2000-01) dated May 09, 2001 stipulated norms for:

- ? General norms for processing of documents.
- ? Norms for processing of transfers.
- ? Norms for objection.

v. Foreign Institutional Investors (FIIs)

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.

Developments of International Co-operation

The SEBI continued to play an important role at the international forum by extending co-operation to international regulatory bodies and other international organisations.

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 the following international meetings were attended by SEBI representatives:

- ? International Organisation 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.

The theme of current year's IOSCO Annual Conference, "Securities Markets in the Information Age," provided a platform for regulators and industry participants to address issues inherent in the relationship between technology and the securities markets. In this context IOSCO issued a new report on securities activity on the Internet. The IOSCO members also agreed to undertake new areas of activity, including: an assessment of experiences in implementing full cooperation among securities regulators; an evaluation of the role and conduct of securities analysts; a consideration of the application of fair value accounting for all financial instruments; a study of cross- border issues relating to trading halts; and a review of investor education techniques relating to collective investment schemes in Emerging Markets Committee jurisdictions.

At its meeting held at London in September 2001, the FSF reviewed how key financial systems and markets are responding to the world economic slowdown. The FSF reviewed the actions taken so far to address the concerns raised in the March 2000 FSF Report on Offshore Financial Centres (OFCs). The FSF members re-iterated the importance of OFCs disclosing assessment results and their plans for addressing areas that need improvement. The concern of EMC on the issue of Offshore Financial Centres was conveyed to the Forum. The Forum was informed that in the absence of a prudent regulatory and supervisory setup, the OFCs might become centres for nefarious financial activities, which may have a bearing on the securities markets. The Forum concurred that the OFCs need to improve their supervisory and co-operation practices.

At the IOSCO Executive and Technical Meeting held in Rome in October, 2001, the members discussed their respective regulatory reactions relating to the September 11, 2001 events. They also discussed their co-operation on related enforcement matters. As part of this discussion, IOSCO identified two areas for further enquiry:

- ? Contingency Planning
- ? Expanded Co-operation and Information Sharing

The members also agreed to the formation of a special Project Team to explore actions that securities regulators should take in view of the events of September 11, 2001 and their aftermath.

The FSF held its first regional meeting in the Asia-Pacific region, in Tokyo, in October 2001. During this meeting the participants exchanged views on vulnerabilities in domestic and international financial systems in the current conjuncture. Against the backdrop of a weak prospect for the world and regional economies, especially following the events of 11 September, participants felt that domestic financial systems have displayed resilience but that vigilance on the soundness of the financial sector in individual jurisdictions remains warranted. They also discussed changing patterns of capital flows in the region and noted that the decrease in inflows to the region, if sustained, could constrain the region's growth prospects. Participants also discussed structural issues in the global financial system. They discussed ways to strengthen the domestic and regional financial systems.

The IOSCO- APRC Meeting held in February 2002 in Bali focused upon the issues of international co-operation and enforcement, most notably the latest developments in fighting the proliferation of "cold-calling" scams in the region. The members reiterated their resolve to enhance co-operation in enforcement action against illegal securities activities

vi. Substantial Acquisition of Shares and Takeovers

Consequent to the attack on the twin towers of World Trade Centre in 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 for 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 upto 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.

vii. Other Policies and Programmes Having a Bearing on the Working of the Securities Market

Changes in the Regulatory Framework For:

A. Amendment to the Companies Act,1956

i. Companies (Amendment) Act,200

- ? The buy-back of less than ten per cent of the total paid up equity capital and free reserves of the company is allowed.
- ? Such buy-back is required to be authorised by the Board by means of a resolution passed at its meeting.
- ? No offer of buy-back shall be made within a period of 365 days reckoned from the date of the preceding offer of buy-back, if any.
- ? Prohibition on fresh issue of same kind of securities bought-back reduced from 24 months to 6 months.

ii. The Companies (Amendment) Bill,2001

The Companies (Amendment) Bill,2001 [bill No.80 of 2001] was introduced in Lok Sabha on 30th August,2001 further to amend the Companies Act,1956 to make a provision for setting up of a National Company Law Tribunal (NCLT).

iii. Companies (Second Amendment) Bill,2001

The Companies (Second Amendment) Bill was introduced in the Parliament with the main object of facilitating formation of cooperative business as companies and to convert existing business into companies .

B. Companies Act - Rules /Amendments Rules

i. Investor Education and Protection Fund Rules

Investor Education and Protection Fund (Awareness and Protection of Investors) Rules,2001 was notified vide GSR No.750(E), dated 1st October,2001 issued by DCA.

- ? The Central Government shall establish a Fund under section 205-C of the Companies Act,1956 to be called the ` Investor Education and Protection Fund'. The unclaimed amount in respect of dividend, application money, matured deposits, dividends,etc. shall be credited to the Fund.
- ? Any amount required to be credited by the companies to the Fund, as provided in the Act shall be remitted within a period of thirty days of such amounts becoming due to be credited to the Fund.

- ? The accounts of the Fund shall be audited by internal audit party of the DCA every year and will also be subject to audit by the officer of CAG.
- ? The Central Government shall appoint a Committee under section 205C(4) of the Companies Act to administer the Fund.
- ? The Committee shall consists of ten members, excluding the Chairperson who is Secretary, to the DCA. The members shall be nominated by RBI, the SEBI and /or from any other Ministry or DCA dealing with investor protection activities and experts from the field of investors' education and protection. The non-official members shall hold office for a period of two years. The Official members shall hold office for a period of two years or until they occupy their position whichever is earlier. The constitution of the committee shall be notified in the Official Gazette.
- ? The Committee shall recommend the following activities relating to investors' education, awareness and protection :
 - (a) Education Programmes through Media;
 - (b) Organizing Seminars and Symposia;
 - (c) Proposals for registration of Voluntary Associations or Institutions or other Organisations engaged in Investor Education and Protection activities.
 - (d) Proposals for projects for Investors' Education and Protection including research activities and proposals for financing such projects;
 - (e) Coordinating with institutions engaged in Investor Education, awareness, and protection activities.
- ? The Committee shall have suo motu powers to call upon any company to pay the amount due to the Fund.
- ? Committee shall call upon any company to give estimates of the amounts to be credited to the Fund.
- ? The Committee shall furnish its activity report for every six month's period to the Central Government.
- ? The Committee may register from time to time various Associations or institutions or organisations, engaged in activities relating to investor awareness, education and protection and proposing for Investors programmes; organising seminar, symposia and undertake projects for Investor Protection including research activities.
- ? The Organisations or Associations registered shall be considered for grant of funds as a grant in aid either as one time measure or in stages or by way of reimbursement depending upon the nature of the activity proposed.
- ? The Committee shall be entitled to examine the end use of the grants and assistance before recommending release of funds.

ii. Companies (Passing of the Resolution by Postal Ballot) (Amendment) Rules, 2001

The Companies (Passing of the Resolution by Postal Ballot)(Amendment) Rules, 2001 were notified on 11th October, 2001, inter alia, specifying the following:

- ? Method of sending notice in respect of despatch of postal ballot paper,-The Company may issue notices either under the Registered Post Acknowledgement Due; or under the Certificate of Posting; and with an advertisement published in a leading English Newspaper and in one vernacular Newspaper circulating in the State in which the registered office of the company is situated, about having despatched the ballot papers.
- ? Resolution for election of a director under proviso to sub-section (1) of section 252 of the Act can also be passed by Postal Ballot.
- ? Resolutions in respect of power to compromise or make arrangement with the creditors and the members as specified in section 391(2) cannot be passed through postal ballot and a resolution will be required to be passed in the General Meeting of the shareholders / creditors.
- ? The scrutinizer shall submit his report as soon as possible after the last date of receipt of Postal Ballots.
- ? The consent or otherwise received after thirty days from the date of issue of notice shall be treated as if reply from the member has not been received.

C. Amendment to Securities Contracts (Regulation) Rules, 1957

Securities Contracts (Regulation)(Amendment) Rules, 2001

Securities Contracts (Regulation) Rules, 1957 were amended by Securities Contracts (Regulation)(Amendment) Rules, 2001 which were notified on 7th June, 2001 :

- ? In rule 19, sub-rule (2) for the clause (b) the following has been substituted, namely;-
- ? At least 10 per cent of each class or kind of securities issued by a company was offered to the public for subscription through advertisement in newspapers for a period not less than two days and that applications received in pursuance of such offer were allotted subject to the following conditions.
- ? Minimum 20 lakh securities (excluding reservations, firm allotment and promoters contribution) was offered to the public.
- ? The size of the offer to the public i.e the offer price multiplied by the number of securities offered to the public was minimum Rs.100 crore;

- ? The issue was made only through book building method with allocation of 60 per cent of the issued size to the qualified institutional buyers as specified by the SEBI.
- ? If a company does not fulfil the above conditions, it shall offer at least 25 per cent of each class or kind of securities to the public for subscription through advertisement in newspapers for a period not less than two days and that applications received in pursuance of each offer were allotted.
- ? A recognised stock exchange may relax any of the conditions with the previous approval of the SEBI in respect of a Government company and subject to such instructions as that Board may issue in this behalf from time to time.

D. Amendment to the Procedural Rules

- i. *Depositories (Appeal to Securities Appellate Tribunal) (Amendment) Rules, 2000 [notified on 27th July, 2000]*

In the Depositories (Appeal to Securities Appellate Tribunal) Rules, 2000:

"Registrar" means the Registrar of the Appellate Tribunal and includes an officer of such Appellate Tribunal who is authorised by the Presiding Officer to function as Registrar.'

- ii. *Securities Appellate Tribunal (Procedure) (Amendment) Rules, 2000 [notified on 27th July, 2001]*

In the Securities Appellate Tribunal (Procedure) Rules, 2000:

"Registrar" means the Registrar of the Appellate Tribunal and includes an officer of such Appellate Tribunal who is authorised by the Presiding Officer to function as Registrar.'

- iii. *Securities Contracts (Regulation) (Appeal to Securities Appellate Tribunal) (Amendment) Rules, 2000 [notified on 27th July, 2001]*

In the Securities Contracts (Regulation) (Appeal to Securities Appellate Tribunal) Rules, 2000:-

"Registrar" means the Registrar of the Appellate Tribunal and includes an officer of such Appellate Tribunal who is authorised by the Presiding Officer to function as Registrar.'

E. SEBI Regulations and Amendment to SEBI Regulations

The following new regulations were notified :

1. SEBI (Procedure for Board Meetings) Regulations,2001

These Regulations were notified on 12th June,2001, which provides for procedures for conducting the meeting of the SEBI Board.

2. SEBI (Employees Service) Regulations,2001

The Service Regulations regulating the service conditions of employees of SEBI were notified on 6th September,2001.

3. SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations,2001 was notified on 15th November,2001

- a. 'Self-clearing member' means a member of a clearing corporation or clearing house of the derivatives exchange or derivatives segment of a stock exchange who may clear and settle transactions on its own account or on account of its clients only , and shall not clear or settle transactions in securities for any other trading member.
- b. An applicant who desires to act as a self clearing member, in addition to -complying with the requirements of sub-regulation (1) of regulation 16C, shall have a minimum net worth of Rs. 100 lakh and shall deposit at least a sum of Rs.50 lakh or higher amount with the clearing corporation or clearing house of the derivatives exchange or derivatives segment in the form specified from time to time.
- a. SEBI (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations,2001 : Notified on 20th February,2002
- c. any financial liability of a broker which is due and payable to the Board under the Stock Brokers Regulations will be a factor to be taken into consideration for registration in derivative segment.
- d. It was clarified that the fee shall be computed as under:
 - i. in respect of jobbing transactions that is to say all transactions which are squared off during the same day which have not been undertaken by the broker on behalf of clients, the fees shall be computed at the rate of one two hundredth of one percent in respect of the sale side of such transactions;
 - ii. in respect of transactions in Government securities, the bonds issued by any Public Sector Undertaking and the units traded in a similar manner, the fee payable shall be computed at the rate of one thousandth of one percent of the turnover;
 - iii. in case of carry forward, renewal or badla transactions the fees shall be computed at the rate of one hundredth of one percent of the turnover and the reverse off setting transactions shall not be counted as part of the turnover;

- iv. if brokers are carrying out transactions in securities without reporting them to the stock exchange, those transactions shall be taken into account for the purpose of turnover and the fees shall be computed at the rate of one hundredth of one percent of the turnover;
 - v. the trade put through on other stock exchanges shall be included in the turnover of that exchange if market for that security does not exist on the exchange of which he is a member and the fees shall be computed at the rate of one hundredth of one percent of the turnover;
 - vi. activity such as underwriting and collection of deposits shall not be taken into account for the purpose of calculating the turnover."
- e. It was clarified that the broker-members are required to pay a sum of Rs.5,000/- for every block of five financial years from the 6th financial year after initial registration.
- f. It was clarified that the conversion of individual or partnership membership card of the exchange into corporate entity shall be deemed to be in continuation of the old entity and no fee shall be collected again from the converted corporate entity for the period for which the erstwhile entity has paid the fee as per the regulations."
4. *SEBI (Foreign Venture Capital Investors) (Amendment) Regulations,2001 – Notified on 7th June,2001*
- ? In regulation 8, for the word "fund", the word "investor" has been substituted.
- ? The heading of regulation 29 for the words “Appeal to Securities and Exchange Board of India” shall be substituted by the words “Appeal to Securities Appellate Tribunal”.
5. *SEBI (Investment Advice by Intermediaries) (Amendment) Regulations,2001 – Notified on 29th May, 2001*
- ? Every intermediary shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, Rules and Regulations, Notifications, Guidelines, Instructions,etc. issued by the Board or the Central Government and for redressal of investors’ grievances.
- ? The Compliance officer shall immediately and independently report to the Board any non-compliance observed by him.
- ? An intermediary or any of his employees shall not 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 his interest including long or short position in the said security has been made, while rendering such advice.
- ? In case, an employee of the intermediary is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.”
6. *Securities and Exchange Board of India (Buy Back of Securities) (Amendment) Regulations,2001 – Notified on 28th November, 2001*

- ? A company, authorised by a resolution passed by the Board of Directors at its meeting, to buy back its securities under first proviso to clause (b) of sub-section (2) of section 77A of the Companies Act, 1956 may buy back its securities subject to the following conditions:
 - ? Before making a public announcement under sub regulation (1) of regulation 8, a public notice shall be given in at least one English national daily, one Hindi national daily and a regional language daily, all with wide circulation at the place where the registered office of the company is situated;
 - ? The public notice shall be given within 2 days of the passing of the resolution by the Board of Directors; and
 - ? The public notice shall contain the disclosures as specified in schedule I.
- ? A copy of the resolution, passed by the Board of Directors at its meeting, authorising buy back of its securities, shall be filed with the Board and the stock exchanges where the securities of the company are listed, within two days of the date of the passing of the resolution.

7. *Securities and Exchange Board of India (Collective Investments Schemes) (Amendment) Regulations, 2002: Notified on 17th January, 2002*

The existing CIS has been given two years' time to comply with the requirement of regulation 71 in respect of provisional registration such as getting existing schemes rated, audited, appraised and appointment of trustees.

8. *SEBI (Insider Trading) (Amendment) Regulations, 2002 – Notified on 29th February, 2002*

The said regulations have been renamed as SEBI (Prohibition of Insider Trading) Regulations,1992 and the following amendments are made:

- ? Temporary insiders i.e. who by virtue of professional or business relationship can assess insider information have also been defined as insider.
- ? “Connected person” has been defined to include any person who is a connected person six months prior to an act of insider trading.”
- ? Subscription in primary issue has also been covered in addition to dealing in securities based on insider information.
- ? The earlier definition of Unpublished Price Sensitive Information has been replaced by a new definition of Price Sensitive Information.
- ? Only dealing in securities based on unpublished Price Sensitive Information is sought to be prohibited and communication of price sensitive information per se is not an offence.

- ? By way of clarification the corporate dealing in securities of another company based on inside information has been specifically prohibited.
- ? A model Code of Conduct for prevention of insider trading for listed companies and for other entities such as Merchant Bankers, Law firms, analysts who give advice to the listed companies in respect of trading of securities has also been specified.
- ? Disclosure requirements : initial and continual in respect of shareholding in the listed company has also been specified.

9. *SEBI (Mutual Funds) Regulations, 1996*

In Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 has been amended by:

i. *Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations,2002 : Notified on 23rd July, 2001*

In the Securities and exchange Board of India (Mutual Funds) Regulations, 1996, the following amendments have been made :

- a) "Each director of the asset Management Company shall file the details of his transactions of dealing in securities with the trustees on a quarterly basis in accordance with guidelines issued by the Board".
- b) The dividend warrant shall be despatched to the unitholders within 30 days.
- c) Half-yearly unaudited financial results shall be published before the expiry of one-month from close of each half year.
- d) The half-yearly results must be printed in at least 7 point Times Roman font with proper spacing for easy reading.
- e) In twelfth schedule the existing format containing the details which have to be disclosed in the half-yearly un-audited report shall be replaced by the new format.

ii. *SEBI (Mutual Funds) (Amendment) Regulations,2001 : Notified on 20th February,2002*

Regulation 56 - The Scheme-wise Annual Report or an abridged annual report shall be mailed to all unit holders and the requirement of publication through an advertisement in the newspaper has been dispensed with.

10. i. *SEBI (Substantial Acquisition of Shares and Takeovers) (Second Amendment) Regulations, 2001 : - Notified on 12th March, 2001*

- ? In case of acquisition of shares or voting rights or control of a Public Sector Undertaking pursuant to a public announcement made under the proviso to sub-regulation (1) of regulation 14, the provisions of sub-regulation (8) of Regulation 23 shall be applicable."
- ? The restrictions -
 - (a) for appointment of directors on the Board of the target company by the acquirer under sub-regulation (7) of Regulation 22;
 - (b) for acting on agreement for under sub-regulation (16) of Regulation 22;
 - (c) for appointment of directors by the target company under clause (a) of sub-regulation (3) of this Regulation; and
 - (d) on transfer of securities or changes in the board of directors of the target company under sub-regulation (6) of this Regulation,

shall not be applicable, in case of sale of shares of a Public Sector Undertaking by the Central Government and the agreement to sell contains a clause to the effect that in case of non-compliance of any of the provisions of the Regulations by the acquirer, transfer of shares or the change of management or control of the Public Sector Undertaking shall vest back with the Central Government and the acquirer shall be liable to such penalty as may be imposed by the Central Government."

- ? In Regulation 25, for sub-regulation (2A) the following shall be substituted, namely :
 "(2A) No public announcement for a competitive bid shall be made after an acquirer has already made the public announcement under the proviso to sub-regulation (1) of Regulation 14 pursuant to entering into a Share Purchase or Shareholders' Agreement with the Central Government for acquisition of shares or voting rights or control of a Public Sector Undertaking."

ii. *SEBI (Substantial Acquisition of Shares And Takeovers) (Amendment) Regulations, 2001 :- Notified on 17th August, 2001*

- ? "disinvestment" means the sale by the Central Government, of its shares or voting rights and / or control, in a listed Public Sector Undertaking."
- ? 'Public Sector Undertaking' means a company in which the Central Government holds 50 per cent or more of its equity capital or is in control of the company."
- ? In case of disinvestment of a PSU, an acquirer who together with persons acting in concert with him, has made a public announcement, shall not be required to make another public announcement at the subsequent stage of further acquisition of shares or voting rights or control of the PSU provided :
 - (i) both the acquirer and the seller are the same at all the stages of acquisition, and
 - (ii) disclosures regarding all the stages of acquisition, if any, are made in the letter of offer and in the first public announcement."
- ? In case of disinvestment of a PSU, the public announcement shall be made by the merchant banker not later than 4 working days of the acquirer executing the Share Purchase Agreement or Shareholders Agreement with the Central Government for the

acquisition of shares or voting rights exceeding the percentage of shareholding referred to in Regulation 10 or Regulation 11 or the transfer of control over a target PSU.”

- ? In case of disinvestment of a PSU, the relevant date for the calculation of the average of the weekly high and low of the closing prices of the shares of the PSU, as quoted on the stock exchange where its shares are most frequently traded, shall be the date preceding the date when the Central Government (after receiving the cabinet approval) announces the name of the successful bidder.”
- ? In case of disinvestment of a PSU, the shares of such an undertaking shall be deemed to be infrequently traded, if on the stock exchange, the annualised trading turnover in the shares during the preceding six calendar months prior to the month, in which the Central Government, after receiving the cabinet approval, announces the name of the successful bidder, is less than two percent (by the number of shares) of the listed shares. For this purpose the weighted average number of shares listed during the six months period may be taken.
- ? In case of the acquisition of shares of a PSU pursuant to a public announcement made under the Regulations, the provisions of sub-regulation (8) of Regulation 23 shall be applicable.”
- ? The obligations provided for in the proviso to clause (a) of sub-regulation (3) and sub-regulation (6) of this regulation, shall not be applicable where the agreement to sell shares of a PSU contains a clause to the effect that in case of non-compliance of any of the provisions of the Regulations, the shares or the control of the PSU shall revert back to the Central Government and the acquirers shall be liable to such penalty as may be imposed by the Central Government.”
- ? No public announcement for an offer or competitive bid shall be made after the Central Government has entered into a Share Purchase or Shareholders' Agreement with the acquirer who has made the public announcement for acquisition of shares or voting rights or control of a PSU.

iii. SEBI (Substantial Acquisition of Shares and Takeovers) (Third Amendment) Regulations, 2001 : - Notified on 24th October,2001

- ? Regulation 7(1A) – Disclosures is to be made by the acquirer to the company in respect of the acquisition under regulation 11(1) when acquisition aggregates to 5 per cent or 10 per cent of voting rights.
- ? Reg 11(1) – Creeping limit increased from 5 per cent to 10 per cent.

iv. SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2002 : Notified on January 29,2002.

- ? Exemption shall not be applicable if a Government company acquires shares or voting rights or control of a listed Public Sector Undertaking through the competitive bidding process of the Central Government for the purpose of disinvestment."
- ? After receiving the cabinet approval announces the name of successful bidder" the words "opens the financial bid" shall be substituted.
- ? In case of disinvestment of a Public Sector Undertaking, whose shares are infrequently traded, the minimum offer price shall be the price paid by the successful bidder to the Central Government, arrived at after the process of competitive bidding of the Central Government for the purpose of disinvestment."
- ? "or cum -dividend" shall be inserted after the word "cum-bonus".

F. SEBI (Disclosure and Investor Protection) Guidelines,2000

DIP Amendments

i. DIP Guidelines were amended by a Circular dated 17.7.2001

- ? Foreign Venture Capital Investor, State Industrial Development Corporation were included in the definition of Qualified Institutional Buyers (QIBs).
- ? Pre-issue capital of an unlisted company held by VCF and FVCI shall not be subject to lock in as per provisions in SEBI (DIP) Guidelines, 2000, however the same shall be locked in as per provisions of the SEBI (Venture Capital Funds) Regulation, 1996 and SEBI (Foreign Venture Capital Investors) Regulations, 2000 and any amendments thereto
- ? Due date for submission for post issue monitoring reports specified.
- ? The net offer to public should be atleast 10 per cent or 25 per cent, as the case may be, of the post-issue capital in case of public issue by an unlisted company. The same for public issue by a listed company should be 10 per cent or 25 per cent of the issue size. These requirements are relaxed in respect of public issues by eligible infrastructure companies.
- ? Sector-wise exemptions granted earlier stands deleted.
- ? Conditions required to be fulfilled for exemption for public offer by an unlisted company which have allotted shares to holders in a listed company pursuant to amalgamation have been laid down.
- ? Research report to be prepared on the basis of published information contained in offer document. No report or information other than the contents of other document can be circulated after the date of receipt of observations from SEBI.

- ? Contents of advertisements specified in a separate schedule.

ii. *DIP Guidelines amended by Circular dated 29.11.2001 – 100 per cent Book Building*

- ? Requirements for (I) 100 per cent of the net offer to public through book building process and (II) 75 per cent of the net offer to public through book building process and 25 per cent at the price determined through book building, have been specified. No maximum or indicative price band can be mentioned.
- ? In case, there are more than one book runner names of all of them can be printed on the cover page of the prospectus subject to submission of due diligence certificate to SEBI by all of them.
- ? Disclosure of only the floor price in the Red Herring Prospectus. No maximum or indicative price band can be mentioned.
- ? Online graphical display of demand and bid prices at the bidding terminals.
- ? Compulsory underwriting of the book built portion by the syndicate members/book runners. However, this is not applicable for 60 per cent of the net offer to public, mandatorily to be allotted to Qualified Institutional Buyers (QIBs).
- ? Number of bidding centres in case of 75 per cent/100 per cent book building issue, shall not be less than the specified in guidelines.
- ? Margin collected from categories other than QIBs shall be uniform across the book runners / syndicate members for each such category.
- ? In case of issue through 100 per cent book-building route, at least 25 per cent of the net offer to public shall be available for allocation to retail investors, at least 15 per cent of net offer to public shall be available for allocation to non-institutional investors. Not more than 60 per cent of the net offer to public shall be available for allocation to qualified institutional buyers.
- ? In case of an issue being made through 75 per cent book building route, at least 15 per cent of the net offer to public shall be available for allocation to non-institutional investors and not more than 60 per cent of the net offer to public shall be available for allocation to qualified institutional buyers. The rest 25 per cent, being offered at a price determined through book-building, shall be allocated to retail investors.
- ? However, in case of mandatory book-building, at least 60 per cent of the net offer to public shall be allotted to QIBs.
- ? Under subscribed portion of any category can be allotted to other category. However, in case of mandatory book-building allocation from the QIB category to other category is not permissible.

? Issue schedule of a book-building issue.

iii. Circular dated 11.1.2002

Unlisted company making public issue of Non-Convertible Debentures (NCDs), may apply for listing of NCDs without prior public issue of equity subject to the following :

- i. Credit rating not below investment grade has to be obtained.
- ii. Promoters contributories – 20 per cent of project cost and to be locked in for 3 years.
- iii. Continuing disclosures as per the Listing Agreement to be complied with.
- iv. Prior consent of holders for change in shareholding patterns/capital structure.
- v. There shall be no partly – paid up shares at the time of filing of offer document.
- vi. The issue of equity /convertible debentures during the currency of NCDs, is allowed subject to compliance with guidelines in respect of IPO.
- vii. Equity held by promoters to be listed only along with IPO.

Unlisted company making public issue of Debt Securities Convertible into Equity (DSCE)

- ? Public issue during the currency of DSCE permitted subject to compliance with guidelines in respect of IPO.
- ? Clause 2.6 not be applicable for IPO of equities if floor price for conversion of DSCE is determined and disclosed in offer document of DSCE.
- ? Public holding as per rule 19(2)(b).
- ? Price band of 20 per cent can be mentioned in offer document. Specific coupon rate / price band can be determined by issuer / lead merchant at a later date before filing the document with RoC.
- ? Issuer may adopt book-building process to ascertain coupon rate on conversion price of Non-convertible Debt Securities (NCDS) / DSCE.

iv. Circular dated March 06, 2002

Reservations for persons who have business association as depositors, bond holders and subscriber to services in case of an IPO provided that reservation shall not exceed 5 per cent of the issue size.

- ? Lead Merchant Banker shall act as Lead Book Runner.
- ? Any designation for other merchant bankers is allowed subject to fulfillment of the following conditions:
- ? Disclosure of inter-se allocation of responsibilities among the merchant bankers in the offer document.
 - ? Appointment of a co-ordinator for dealing with the SEBI.

? Mentioning of names of the merchant bankers on the cover page of offer document is allowed only for those merchant bankers who are responsible for due diligence exercise as per inter-se allocation of responsibilities.

? Bidding at cut off price by retail investors is allowed.

G. Amendments to the Listing Agreement

i. Listing Agreement was amended vide Circular No.SMDRP/POLICY/CIR-28/01 dated May 02,2001

Clause 40A of the Listing Agreement has been amended to provide for :

- ? Maintaining on a continuous basis the minimum level of non-promoter holding at the level of public shareholding required at the time of listing.
- ? Raising the level of non-promoter holding to at least 10 per cent if the non-promoter holding of an existing listed company as on April 01,2001 is less than the limit of public shareholding required at the time of initial listing and failing which the company shall buy back the public shareholding as per the Takeover Code.
- ? The Company agreeing not to make preferential allotment or an offer to buy back its securities if such allotment or offer result in reducing the non-promoter holding below the limit of public shareholding specified under DIP Guidelines.
- ? Exempting certain companies from conditions stipulated in sub-clauses (I),(ii),(iii) referred to BIFR.
- ? Other conditions for continued listing :
 - ? Condition to comply with the Takeover Code “ for acquiring or agreeing to acquire 5 per cent or more of the voting rights of any securities.”
 - ? Condition to comply with the Takeover Code for acquiring or agreeing to acquire any securities exceeding 15 per cent of the voting rights in any company; or
 - ? Condition to comply with the Takeover Code for acquiring any securities exceeding 15 per cent of the voting rights of the company if a person holds securities which in aggregate carried less than 15 per cent of the voting rights of the company.
 - ? The requirement of atleast 5 public shareholders for every Rs.1 lakh capital issued has been withdrawn.

ii. Circular No.SMDRP/POLICY/CIR-44/01 dated August 31,2001

Vide above Circular, the amendments to clause 41 and 32 of the Listing Agreement have been directed to be made in order to enhance the level of disclosure by the listing companies in the light of the new Accounting Standards issued by ICAI and the Accounting Standards Committee (ASC) of the SEBI.

Clause 41

Companies are required to furnish quarterly unaudited financial results with regard to :

- i. Segment Reporting :- Companies are required to furnish segment-wise revenue, results and capital employed along with the quarterly unaudited financial results.
- ii. Accounting for taxes on income :- Companies to comply with the accounting standards.
- iii. Consolidated Financial Results :- Companies have option to publish the consolidated quarterly financial results in addition to un-audited quarterly financial results of the parent company.
- iv. Clarification regarding format of annual results :- Publication of annual results in the format.
- v. Limited Review Report – format has been revised.

Clause 32

- vi. Companies are mandatorily required to publish Consolidated Financial Statements in the Annual Report in addition to the individual financial statements.
- vii. The audit and filing of Consolidated Financial Statements are made mandatory.
- viii. Companies required to make disclosures in compliance with the Accounting Standard on “Related Party Disclosures” in the Annual Reports.

Insertion of clause 50 in the Listing Agreement to provide for :-

Companies to mandatorily comply with all the Accounting Standards issued by ICAI from time to time.

iii. Circular No.SMDRP/POLICY/CIR-53/01 dated December 31, 2001

Amendment to sub-clause (1)(A) of Clause 49 of the Listing Agreement “Corporate Governance” has been reframed as to provide for the institutional directors on the Boards of companies should be considered as independent directors whether the institution is an investing institution or lending institution.

iv. Circular No.SMDRP/POLICY/CIR-46/2001 dated September 27,2001

The matters relating to ‘Delay in transfer of shares by the Companies’ and the speedy redressal of grievances pertaining to the pending transfer of shares, procedure for dealing with Company objections and Duplicate Share Certificates to strengthen investor protection.

v. Circular No.SMDRP/POLICY/CIR-47/2001 dated October 04, 2001

The Accounting Standards Committee of the SEBI has recommended certain amendments to clause 41 of the Listing Agreement for the implementation of the same :-

Amendment to clause 41 of the Listing Agreement – Quarterly Un-audited Financial Results :-

- ? furnishing of unaudited financial results on a quarterly basis by the manufacturing and trading / service companies.
- ? Companies required to disclose the audit qualifications along with the audited financial results in addition to the explanatory statement as to how audit qualification in respect of the audited accounts of the previous accounting year have been addressed in the financial results.
- ? The Accounting Standard-17 on Segment Reporting issued by the Institute of Chartered Accountants of India (ICAI) is mandatory w.e.f. April 1,2001.

viii. Assessment and Prospects

The SEBI has been taking measures to modernise the securities market to enhance its fairness, transparency and efficiency. The SEBI had also stepped up its efforts to protect the integrity of the market through various risk containment measures, surveillance system and enforcement actions.

Besides, the developments in the securities market immediately following the Union Budget announcement for the year 20001-2002, have highlighted several concerns about market design and effectiveness for speedy detection and deterrent action in the case of market frauds. In the area of market design, the change of settlement cycles from account period to T+5 rolling and then to T+3 rolling for the entire market constitute a measure with far reaching consequences. In contrast to the rapid pace of change in the equity market, the debt market both for government debt and corporate debt have seen less changes and as a result have suffered from weakness of market design. The fledgling derivatives market in equities is now offering a new opportunity to investors and market participants for hedging, managing risk and as a vehicle for speculation. Growth of this segment will enhance the competitiveness of the entire securities market. Keeping all these aspects and new developments in view, the SEBI has laid down its objectives and initiatives in the short and medium term as follows :

Investor Education

Implementation of real time information sharing system

- ? Introducing electronic filing system - EDIFAR
- ? Enhancing of continuous disclosure standards

Strengthening Primary Market

- ? Implementation of Malegam Committee recommendations
 - ? Disclosure in offer documents
- ? Issue of sweat equity guidelines
- ? Revisiting IPO Guidelines

Strengthening Secondary Market

- ? Enhancing liquidity
- ? Margin trading
- ? Call auction markets
- ? Market making
- ? Surveillance
- ? Risk containment
- ? Insider trading
- ? Investigation and Enforcement

Strengthening Derivative Segment

- ? Surveillance
- ? Introduction of new products
- ? Physical settlements
- ? Enlarging base of companies and intermediaries

- ? Efficiency of derivative market

Review Market Infrastructure

- ? Demutualisation, Corporatisation, consolidation etc.
- ? Processing corporate action through depositories like dividend Interest Payment etc.

Setting up of Centralised Listing Authority

Review of Depositories Services

- ? Fees
- ? Grievances redressal
- ? Perspectives

Debt Market Development

- ? Issues in private placements
- ? Building infrastructure
- ? Operationalise secondary market-retail
- ? Supervision and surveillance

Improving Quality of Intermediaries

- ? Training
- ? Certification
- ? Redefining role and responsibilities
- ? Corporate Governance
- ? Revisiting code of ethics

Review of Regulations

- ? Definition of various terms
- ? Review the following regulations
- ? Fraudulent and Unfair Practices relating to Securities Markets
- ? Portfolio Management
- ? Merchant Bankers
- ? FIIs
- ? Brokers
- ? Takeovers

Strengthening Regulatory Transparency

- ? Putting reasoned orders on the website
- ? Consolidation of case laws
- ? Advance Ruling
- ? Streamlining Enquiry / Adjudication proceedings for speed and quality

Strengthening of Corporate Governance

- ? Evaluation of Form
- ? Measurement and rating on content
- ? Monitoring and Compliance

Revisiting HR Policies**Building Organisational Infrastructure**

- ? Review of organisational design
- ? SEBI House
- ? Residential quarters
- ? Securities market training institute

Upgrading and Enhancing I.T Infrastructure

- ? Enhancing depth
- ? Increasing usage

Re-engineering of Systems and Processes**New Areas**

- ? Introduction of Hedge Funds
- ? Pension funds management
- ? Transition to T+ 1 settlement