



# वार्षिक रिपोर्ट Annual Report

2017-18



भारतीय प्रतिभूति और विनिमय बोर्ड

Securities and Exchange Board of India

# ANNUAL REPORT

2017-18



Securities and Exchange Board of India





This Report is in conformity with the format as  
per the Securities and Exchange Board  
of India (Annual Report) Rules, 1994,  
notified in Official Gazette on April 7, 1994







अजय त्यागी

अध्यक्ष

**Ajay Tyagi**

Chairman

सचिव,

भारत सरकार,

आर्थिक कार्य विभाग,

वित्त मंत्रालय, नॉर्थ ब्लॉक,

नई दिल्ली - 110 001

प्रिय महोदय,

भारतीय प्रतिभूति और विनिमय बोर्ड अधिनियम, 1992 की धारा 18(2) के प्रावधानों के अनुसार, मैं एतद्वारा भारत के राजपत्र, असाधारण के भाग II खण्ड 3 उप-खण्ड (i) में, 7 अप्रैल 1994 को अधिसूचित भारतीय प्रतिभूति और विनिमय बोर्ड (वार्षिक रिपोर्ट) नियम, 1994 में निर्धारित किए गए प्ररूप में, 31 मार्च 2018 को समाप्त वर्ष के लिए भारतीय प्रतिभूति और विनिमय बोर्ड की वार्षिक रिपोर्ट की प्रति अग्रेषित कर रहा हूँ।

भवदीय,

(अजय त्यागी)

संलग्न : उपरोक्तानुसार

The Secretary,  
Government of India,  
Department of Economic Affairs,  
Ministry of Finance, North Block,  
New Delhi -110 001

DEPA/17739/2018

June 22, 2018

Dear Sir,

In accordance with the provisions of Section 18(2) of the Securities and Exchange Board of India Act, 1992, I forward herewith the copy of the Annual Report of the Securities and Exchange Board of India for the year ended March 31, 2018, in the format prescribed in the Securities and Exchange Board of India (Annual Report) Rules, 1994, notified on April 7, 1994, in Part II Section 3 Sub-section (i) of the Gazette of India Extraordinary.

Yours faithfully,

(Ajay Tyagi)

Encl.: As above

सेबी भवन, प्लॉट सं. सी 4-ए, "जी" ब्लॉक, बांद्रा कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - 400 051. • दूरभाष : 2644 9999 / 4045 9999  
फैक्स : 2644 9003 • ई-मेल : chairman@sebi.gov.in • वेब : www.sebi.gov.in



# MEMBERS OF THE BOARD

(As on March 31, 2018)

**Appointed under Section 4(1)(a) of the SEBI Act, 1992 (15 of 1992)**

## AJAY TYAGI

CHAIRMAN

**Appointed under Section 4(1)(d) of the SEBI Act, 1992 (15 of 1992)**

## G. MAHALINGAM

WHOLE TIME MEMBER

## MADHABI PURI BUCH

WHOLE TIME MEMBER

## ARUN P. SATHE

PART TIME MEMBER

**Nominated under Section 4(1)(b) of the SEBI Act, 1992 (15 of 1992)**

## SUBHASH CHANDRA GARG

Secretary, Ministry of Finance, Department of Economic Affairs, Government of India

## INJETI SRINIVAS

Secretary, Ministry of Corporate Affairs, Government of India

**Nominated under Section 4(1)(c) of the SEBI Act, 1992 (15 of 1992)**

## N. S. VISHWANATHAN

Deputy Governor, Reserve Bank of India



# MEMBERS OF THE BOARD



AJAY TYAGI

Chairman



G. MAHALINGAM

Whole Time Member



MADHABI PURI BUCH

Whole Time Member



ARUN P. SATHE

Part Time Member



SUBHASH CHANDRA GARG

Secretary, Ministry of Finance,  
Department of Economic Affairs,  
Government of India



INJETI SRINIVAS

Secretary, Ministry of Corporate  
Affairs, Government of India



N. S. VISHWANATHAN

Deputy Governor,  
Reserve Bank of India



# **Chairman, Whole Time Members and Executive Directors**



(Left to Right)

Sitting: **Shri G. Mahalingam**, Whole Time Member; **Shri Ajay Tyagi**, Chairman;  
**Ms. Madhabi Puri Buch**, Whole Time Member

Standing: **Shri S. Ravindran**, Executive Director; **Shri Nagendraa Parakh**, Executive Director;  
**Shri Ananta Barua**, Executive Director; **Shri S K Mohanty**, Executive Director;  
**Shri SVMD Rao**, Executive Director; **Shri Sujit Prasad**, Executive Director;  
**Shri P. K. Nagpal**, Executive Director; **Shri Amarjeet Singh**, Executive Director;  
**Shri Anand Rajeshwar Baiwar**, Executive Director

## **EXECUTIVE DIRECTORS** (As on March 31, 2018)

P K NAGPAL	Office of International Affairs, Human Resources Department, Internal Inspection Department, Official Language Division, RTI Cell, PQ Cell, Board Cell and Chief Vigilance Officer
ANANTA BARUA	Legal Affairs Department, Enforcement Department, Enquiry & Adjudication Department and Special Enforcement Cell
S RAVINDRAN	Integrated Surveillance Department - 1 & 2 and Information Technology Department
SVMD RAO	Investment Management Department and Collective Investment Schemes
SANTOSH KUMAR MOHANTY	Commodity Derivatives Market Regulation Department, Department of Debt and Hybrid Securities and Facilities Management Division, Establishment Division, Treasury & Accounts Division and Protocol & Security in the General Services Department
NAGENDRAA PARAKH	Market Intermediaries Regulation and Supervision Department, Office of Investor Assistance and Education and Regional and Local Offices
AMARJEET SINGH	Corporation Finance Department, Department of Economic & Policy Analysis and National Institute of Securities Market
SUJIT PRASAD	Executive Assistant to Chairman and Market Regulation Department
ANAND RAJESHWAR BAIWAR	Investigation Department, Foreign Portfolio Investment & Custodians and Recovery Divisions

## **CHIEF GENERAL MANAGERS** (As on March 31, 2018)

PARMOD KUMAR BINDLISH	Commodity Derivatives Market Regulation Department
G GARG P	Registrar, NISM
A RAJAN	Information Technology Department
SURESH B MENON	Enquiry and Adjudication Department
SURESH GUPTA	Enquiry and Adjudication Department
V S SUNDARESAN	Investigation Department and Special Enforcement Cell
AMIT PRADHAN	Enforcement Department - 1
N HARIHARAN	Communication Division, Office of Investor Assistance and Education and Board Cell
PIYOOSH GUPTA	Investment Management Department
G BABITA RAYUDU	Legal Affairs Department
A SUNIL KUMAR	Integrated Surveillance Department - 1
JAYANTA JASH	Corporation Finance Department
PARAG BASU	Market Intermediaries Regulation and Supervision Department

BARNALI MUKHERJEE	Department of Debt and Hybrid Securities
MANOJ KUMAR	Market Regulation Department
SUNIL JAYWANT KADAM	Regional Director - Northern Regional Office
SANTOSH KUMAR SHUKLA	Enquiry and Adjudication Department
PRABHAKAR REDDY PATIL	Integrated Surveillance Department - 2 and Department of Economic and Policy Analysis - 2
SARAT KUMAR MALIK	Department of Economic and Policy Analysis - 1
SATYA RANJAN PRASAD	On Deputation to PFRDA
B RAJENDRAN	Regional Director - Southern Regional Office
JEEVAN SONPAROTE	CPIO, RTI Cell, PQ Cell and Enquiry and Adjudication Department
RUCHI CHOJER	Human Resources Department and Internal Inspection Department
PRAVEEN TRIVEDI	Enforcement Department - 2
BIJU S	Enquiry and Adjudication Department



## Annual Report Team

Dr Prabhakar Reddy Patil	Chief General Manager
Mr Laltu Pore	Assistant General Manager
Mr Tathagata Biswas	Assistant General Manager
Mr Prasad Patankar	Manager
Ms Akriti	Manager
Mr Sumit Kumar Verma	Assistant Manager
Ms Josephine Fernandes	Secretary

# CHAIRMAN'S STATEMENT



The world economy has witnessed faster recovery during 2017-18. A positive investment climate supported by robust macroeconomic performance, easing inflationary pressures, stable FDI inflows, regulatory and structural reforms by the government improved the business confidence and attracted investors to the Indian capital market. Indian stock market scaled new peaks on the back of positive domestic and global sentiments. The broad-based benchmark indices S&P BSE Sensex and Nifty 50 continued its growth momentum in 2017-18, as they gained 11.3 per cent and 10.2 per cent respectively against their closing at the end of 2016-17. As per the annual data for 2017 published by World Federation of Stock Exchanges (WFE), NSE is placed at first position in the World in index options and at second position in stock futures, when ranked in terms of the number of contracts traded.

Mutual funds industry witnessed substantial growth during 2017-18. Backed by strong inflows and increased participation of retail investors, the AUM of MF industry increased to ₹ 21.36 lakh crore at the end of March 2018 from ₹ 17.54 lakh crore at the end of March 2017. The rising global equity markets and accommodative global liquidity conditions coupled with positive business sentiment in India attracted foreign portfolio investors (FPIs) with inflows to the tune of US\$ 22.6 billion.

During 2017-18, SEBI continued to pursue its mandated statutory objectives: protecting the interests of investors in the securities market, promoting the development of and regulating the securities market. The main thrust of various policy measures undertaken

during the year has been aimed towards improving corporate governance, standardising the procedures followed in the primary market, reviewing the risk management framework, strengthening the depository system, developing the mutual funds industry, integration of the commodities and securities markets and strengthening supervision of the intermediaries. Besides, enhancement of cyber security has been one of the priorities during the year.

New policy measures for investors' grievances redressal mechanism to achieve expeditious redressal by prescribing norms for lodging and handling of the investor grievances have resulted in steep decline in pending complaints. Options were launched in commodity derivatives markets besides allowing participation of Category III AIFs for the development of the market. Further, SEBI expanded the list of securities available for trading on stock exchanges at IFSC to enable market participants to trade in a wider set of products.

The assessment of the Indian Financial System was undertaken by the joint IMF-World Bank team during 2017-18. The report acknowledges that SEBI had significantly expanded its regulatory programmes, stretched its on-site inspection programme, developed a risk based matrix and had undertaken measures to quicken the pace of bond market development.

SEBI is committed to work towards bringing greater transparency, better risk management for issuers and investors and more efficient capital raising. Going forward, SEBI will continue its on-going process of reforms in the primary market to improve issuer and

investor confidence. To improve the corporate governance framework, recommendations by the committee set up under the Chairmanship of Shri Uday Kotak, will be taken up for implementation. SEBI also intends to review its regulations in the context of the corporate insolvency resolution process under the Insolvency and Bankruptcy code 2016.

Integration of commodities and securities derivative markets is being actively planned for further streamlining and development of the secondary market. In this direction, there are plans to consider more commodity options contracts to be launched besides working on guidelines for index products. SEBI intends to strengthen the algorithmic trading framework to make the market more fair, equitable and transparent. While protecting investors in securities

market, SEBI is also committed to its objective of promoting awareness about financial markets, making investors aware of financial planning and their rights and obligations regarding investments.

Incidents of cyber security breaches pose a major challenge to market participants across the globe. To deal with this challenge, SEBI will explore the scope for the cyber security initiatives and also look into the operational modalities of implementation. Additionally, aspects relating to data privacy requirements will be examined and necessary eco-system for encouraging applications of new technologies in capital market would be facilitated. SEBI would also endeavor to deploy data analytics and new generation technologies to understand and handle various challenges in the market.



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**This report can also be accessed on internet at: <http://www.sebi.gov.in>**

## **Conventions used in this Report**

₹	: Rupees
Lakh	: Hundred thousand
Crore	: Ten million
Million	: Ten lakh
Billion	: Thousand million/hundred crore
NA	: Not Available
Na	: Not Applicable
p.a.	: Per annum

Differences in total are due to rounding off and sometimes they may not exactly add up to hundred percent.

Source of Charts and Tables where not mentioned is SEBI.

## **ABBREVIATIONS**

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AAJFA	Afro-Asian Journal of Finance and Accounting
AAUM	Average Asset Under Management
ACE	Derivatives and Commodity Exchange
AIF(s)	Alternative Investment Fund(s)
AMC(s)	Asset Management Company/Companies
AMFI	Association of Mutual Funds in India
AML	Anti-Money Laundering
AO	Adjudicating Officer
APRC	Asia- Pacific Regional Committee
ASBA	Application Supported by Blocked Amount
ASE	Ahmedabad Stock Exchange
ATR(s)	Action Taken Report(s)
AUM	Assets Under Management
BgSE	Bangalore Stock Exchange
BhSE	Bhubaneswar Stock Exchange
BOs	Beneficial Owners
C&AG	Comptroller & Auditor General of India
CAD	Current Account Deficit
CBDT	Central Board of Direct Taxes
CCL	Clearing Corporation Limited
CCP	Central Counter Party
CDAC	Commodity Derivatives Advisory Committee
CDIL	Corporate Debt Investment Limit
CDSL	Central Depository Services (India) Limited
CEO	Chief Executive Officer
CFT	Countering Financing of Terrorism
CJM	Chief Judicial Magistrate
CGM	Chief General Manager
CIC	Central Information Commission
CIMC	Collective Investment Management Company
CIS	Collective Investment Scheme
CMs	Clearing Members
CoSE	Cochin Stock Exchange
CoTs	Commodity Derivatives Trainers
CPE	Continuing Professional Education
CPIO	Central Public Information Officer
CRA(s)	Credit Rating Agency/Agencies
CRS	Common Reporting Standards
CSD	Central Securities Depository

CSE	Calcutta Stock Exchange
CSO	Central Statistics Office
CSX	Coimbatore Stock Exchange
CVO	Chief Vigilance Officer
CVC	Central Vigilance Commission
D&U	Declarations and Undertakings
DAC	Department of Agriculture and Cooperation
DB	Dissemination Board
DBT	Direct Benefit Transfer
DDPs	Designated Depository Participants
DFIs	Domestic Financial Institutions
DIP	Disclosure and Investor Protection
DJIA	Dow Jones Industrial Average
DMS	Document Management System
DP(s)	Depository Participant(s)
DPI	Deemed Public Issue
DSE	Delhi Stock Exchange
DT(s)	Debenture Trustee(s)
EBM	Electronic Book Mechanism
EBP	Electronic Book Provider
ELCs	Exclusively Listed Companies
EFD	Enforcement Department
EFI(s)	Eligible Foreign Investor(s)
ELM	Extreme Loss Margin
EMDE(s)	Emerging Market and Developing Economies
EMIR	European Market Infrastructure Regulation
EoW	Economic Offences Wing
EPFO	Employee Provident Fund Organisation
ERP	Enterprise Resource Planning
ESMA	European Securities and Markets Authority
ETCD	Exchange Traded Currency Derivatives
ETF(s)	Exchange Traded Fund(s)
EU	European Union
F&O	Futures and Options
FAQ(s)	Frequently Asked Question(s)
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCD(s)	Fully Convertible Debenture(s)
FCRA	Forward Contracts Regulation Act
FD	Fiscal Deficit

FDI	Foreign Direct Investments
FII(s)	Foreign Institutional Investors
FIs	Financial Institutions
FMC	Forward Markets Commission
FMI(s)	Financial Market Infrastructure(s)
FPI(s)	Foreign Portfolio Investor(s)
FPO(s)	Further Public Offering(s)
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
FSDC	Financial Stability Development Council
FSRB	FATF-Style Regional Body
FVCI(s)	Foreign Venture Capital Investor(s)
GAAPs	Generally Accepted Accounting Principles
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GDR(s)	Global Depository Receipt(s)
GEM	Growth and Emerging Market
GFD	Gross Fiscal Deficit
GIDR	Gujarat Institute of Development Research
GNI	Gross National Income
GoI	Government of India
GSE	Gauhati Stock Exchange
GST	Goods and Services Tax
HFCs	Housing Finance Companies
HRMS	Human Resource Management System
GVA	Gross Value Added
HNI(s)	High Net Worth Individuals
HUFs	Hindu Undivided Families
HySE	Hyderabad Stock Exchange
IA	Investment Advisers
IBC	Insolvency and Bankruptcy Code
ICAI	Institute of Chartered Accountants of India
ICCL	Indian Clearing Corporation Limited
ICD	Inter Corporate Deposits
ICDR	Issue of Capital and Disclosure Requirements
ICEX	Indian Commodity Exchange
ICSI	Institute of Company Secretaries of India
ID(s)	Independent Director(s)
IFRS	International Financial Reporting Standards
IFSC	International Financial Service Centre

IID	Internal Inspection Department
IIP	Index of Industrial Production
ILDS	Issue and Listing of Debt Securities
IMF	International Monetary Fund
INR	Indian Rupee
InvIT	Infrastructure Investment Trust
IOSCO	International Organisation of Securities Commissions
IPF	Investor Protection Fund
IPO	Initial Public Offer
IPSTA	Indian Pepper and Spice Trade Association
IRF(s)	Interest Rate Futures
ISD	Integrated Surveillance Department
ISE	Inter-Connected Stock Exchange
ISIN	International Securities Identification Number
IT	Information Technology
JPY	Japanese Yen
JSE	Jaipur Stock Exchange
KPM	Key Managerial Persons
KRA	KYC Registration Agency
KYC	Know Your Client
LES(s)	Liquidity Enhancement Scheme(s)
LoA	Letter of Approval
LODR	Listing Obligations and Disclosure Requirements
LSE	Ludhiana Stock Exchange
MCCIL	Metropolitan Clearing Corporation of India Limited
MCV	Multi-Class Vehicle
MCX	Multi Commodity Exchange
MCX-CCL	Multi Commodity Exchange Clearing Corporation Limited
MD	Managing Director
MF(s)	Mutual Fund(s)
MFAC	Mutual Fund Advisory Committee
MgSE	Mangalore Stock Exchange
MIIIs	Market Infrastructure Institutions
MIM(S)	Multiple Investment Manager(s)
MoF	Ministry of Finance
MoSPI	Ministry of Statistics and Programme Implementation
MoU	Memorandum of Understanding
MPS	Minimum Public Shareholding
MPSE	Madhya Pradesh Stock Exchange
MSEI	Metropolitan Stock Exchange of India

MWPL	Market Wide Position Limit
NBFC	Non-Banking Finance Company
NCD	Non-Convertible Debenture
NCDEX	National Commodity and Derivatives Exchange
NCFE	National Centre for Financial Education
NCLT	National Company Law Tribunal
NCSC	National Cyber Security Coordinator
NDP	Net Domestic Product
NDU	Non Disposal Undertaking
NED(s)	Non-Executive Director(s)
NISM	National Institute of Securities Markets
NMCE	National Multi-Commodity Exchange of India Limited
NNI	Net National Income
NPA(s)	Non-Performing Asset(s)
NRC	Nomination and Remuneration Committee
NRI(s)	Non-Resident Indian(s)
NRO	Northern Regional Office
NSCCL	National Securities Clearing Corporation Limited
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
NSFE	National Strategy for Financial Education
OCBs	Off-shore Corporate Bodies
ODI(s)	Off-shore Derivatives Instrument(s)
OFS	Offer for Sale
OI	Open Interest
OTC	Over the Counter
OTCEI	Over the Counter Exchange of India
P/B Ratio	Price to Book Ratio
P/E Ratio	Price to Earnings Ratio
PCC	Protected Cell Company
PCD	Partly Convertible Debentures
PE	Private Equity
PF	Pension Fund
PFUTP	Prohibition of Fraudulent and Unfair Trade Practices
PGDM	Post Graduate Diploma in Management
PIT	Prohibition of Insider Trading
PMAC	Primary Market Advisory Committee
PMLA	Prevention of Money Laundering
PPI(s)	Prepaid Payment Instruments
PSE	Pune Stock Exchange

QFI(s)	Qualified Foreign Investor(s)
QIB(s)	Qualified Institutional Buyer(s)
QIP(s)	Qualified Institutions' Placement(s)
QRTA(s)	Qualified Registrars to an Issue / Share Transfer Agents
RA	Research Analyst
RBI	Reserve Bank of India
RCX	Rajkot Commodity Exchange Limited
REIT	Real Estate Investment Trust
RERA	Real Estate Regulatory Authority
RFI	Reporting Financial Institution
RHP	Red Herring Prospectus
RII(s)	Retail Individual Investor(s)
RMC	Risk Management Committee
RMRC	Risk Management Review Committee
ROW	Rest of the World
RP(s)	Resource Person(s)
RPS	Redeemable Preference Share
RPT(s)	Related Party Transaction(s)
RSE(s)	Regional Stock Exchange(s)
RTA	Registrar and Transfer Agent
RTI	Right to Information
SAST	Substantial Acquisition of Shares and Takeovers
SAT	Securities Appellate Tribunal
SCG	School for Corporate Governance
SCI	School for Certification of Intermediaries
SCM	Self-Clearing Member
SCORES	SEBI Complaints Redress System
SCRA	Securities Contracts (Regulation) Act, 1956
SCRR	Securities Contracts (Regulation) Rules
SCSB(s)	Self-Certified Syndicate Bank(s)
SDF	SEBI Discussion Forum
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SECC	Stock Exchanges and Clearing Corporations
SGF	Settlement Guarantee Fund
SHARE	SEBI's Hub for All Resources
SIEFL	School for Investor Education and Financial Literacy
SKSE	Saurashtra Kutch Stock Exchange
SIFIs	Systemically Important Financial Institutions
SLB	Securities Lending and Borrowing

SMAC	Secondary Market Advisory Committee
SMEs	Small and Medium Enterprises
SMS	Short Message Services
SOE	Spices and Oilseeds Exchange
SPV(s)	Special Purpose Vehicle(s)
SOP	Standard Operating Procedure
SRC	Stakeholders Relationship Committee
SRO(s)	Self-Regulatory Organisation(s)
SRMT	Systemic Risk Monitoring Template
SRSS	School for Regulatory Studies and Supervision
SSE	School for Securities Education
SSIR	School for Securities Information and Research
SWF(s)	Sovereign Wealth Fund(s)
TAC	Technical Advisory Committee
TER	Total Expense Ratio
TfT	Trade-for-Trade
TRI	Total Return Index
UK	United Kingdom
UPSE	Uttar Pradesh Stock Exchange Limited
UPSI	Unpublished Price Sensitive Information
US	United States
USD/US\$	United States Dollar
UTI	Unit Trust of India
VCF(s)	Venture Capital Fund(s)
VIX	Volatility Index
VSE	Vadodara Stock Exchange
WDM	Wholesale Debt Market
WEO	World Economic Outlook
WFE	World Federation of Exchanges
WIW	World Investor Week
WPI	Wholesale Price Index
WTM	Whole Time Member

# Part One: Policies And Programmes

The Annual Report of the Securities and Exchange Board of India (SEBI) for 2017-18 delineates the policies and programmes of SEBI and its working and operations during the financial year as per the format prescribed by the Securities and Exchange Board of India (Annual Report) Rules, 1994. During the year, SEBI continued to remain committed to achieve its three statutory objectives, namely: (a) protection of the interests of investors in securities; (b) development of the securities market; and (c) regulation of the securities market.

In alignment with these objectives, this Report provides the manner in which SEBI accomplished its responsibilities and exercised its powers during the year in terms of: (a) the Securities and Exchange Board of India Act, 1992; (b) the Securities Contracts (Regulation) Act, 1956; (c) the Depositories Act, 1996; and (d) certain provisions of the Companies Act, 1956. The

Report also provides a review of the developments in the Indian securities market during 2017-18, in the context of changing market dynamics.

Amidst the challenges of regulating an expanding and rapidly changing securities market, steps were taken to strengthen the regulatory framework by reviewing existing policies and programmes and issuing new guidelines and regulations to promote orderly growth of the securities market. The underlying objectives were to ensure transparency, efficiency, fairness, safety, and integrity of the securities market in India.

Part one of the report covers the general economic environment and the investment climate in India during 2017-18 followed by a review of the policies and programmes adopted by SEBI in the Indian securities market.

## 1. REVIEW OF THE GENERAL ECONOMIC ENVIRONMENT AND INVESTMENT CLIMATE

The global economic activity that began to recover since mid-2016 has gathered further momentum, both in advanced and emerging market economies. World trade growth has also improved in 2017 following two years of sluggishness. Inflation remained subdued and below the target levels across most regions despite improving demand and firming up of crude oil prices. The International Monetary Fund (IMF) in its April 2018 World Economic Outlook (WEO) has projected that the World economy would grow at 3.9 per cent in 2018 as well as in 2019 (Table 1.1). On the downside, renewed fears of protectionism, retaliatory actions and trade wars among advanced economies pose a major challenge to the global economy. The looming fear of trade war may have serious implications particularly for those emerging market economies that are participating in open international trade and relying on foreign capital flows to realise their developmental aspirations.

Growth in advanced economies picked up in 2017 from previous year and continued in the first

quarter of 2018, largely backed by investment spending. The IMF in its latest WEO projected that the advanced economies would grow at a pace of 2.5 per cent in 2018 and at a relatively softer pace of 2.2 per cent in 2019. In the US, growth has been strong during recent quarters with stable inflation and relatively low unemployment rate. The economy is expected to fare better in the coming quarters as the effects of sizeable fiscal stimulus kick in. Nevertheless, an escalation in trade tensions may have a dampening effect on business activities that might offset the positive impulses from tax cuts and higher government spending. In UK, growth is projected to slow in 2018 and 2019, as business investment is expected to remain weak in light of heightened uncertainty about post-Brexit arrangements. In the Euro Area overall economic activity improved with certain exceptions. A consistently falling unemployment rate and elevated consumer confidence may help strengthen the economy. The Japanese economy on the other hand registered eight straight quarters of growth till the fourth quarter of 2017.

**Table 1.1: The World Economy – Recent Trends in Growth (per cent)**

Region / Country	2016	2017	Projections	
			2018	2019
<b>World output</b>	<b>3.2</b>	<b>3.8</b>	<b>3.9</b>	<b>3.9</b>
<b>Advanced Economies</b>	<b>1.7</b>	<b>2.3</b>	<b>2.5</b>	<b>2.2</b>
United States	1.5	2.3	2.9	2.7
Euro-area	1.8	2.3	2.4	2.0
Germany	1.9	2.5	2.5	2.0
France	1.2	1.8	2.1	2.0
Italy	0.9	1.5	1.5	1.1
Spain	3.3	3.1	2.8	2.2
Japan	0.9	1.7	1.2	0.9
United Kingdom	1.9	1.8	1.6	1.5
Canada	1.4	3.0	2.1	2.0
<b>Emerging Markets and Developing Economies</b>	<b>4.4</b>	<b>4.8</b>	<b>4.9</b>	<b>5.1</b>
Brazil	-3.5	1.0	2.3	2.5
Russia	-0.2	1.5	1.7	1.5
India	7.1	6.7	7.4	7.8
China	6.7	6.9	6.6	6.4
South Africa	0.6	1.3	1.5	1.7

Source: International Monetary Fund (IMF), World Economic Outlook (WEO)

Economic activity in the Emerging Market and Developing Economies (EMDEs) improved during 2017-18. As per the IMF projection, the growth rate in the EMDEs would strengthen to 4.9 per cent in 2018 and would further improve to 5.1 per cent in 2019. During 2017, the Chinese economy witnessed faster expansion backed by increase in retail sales as well as industrial production activity. The Brazilian economy, which recovered from a recession, recorded expansion, gained momentum driven by higher commodity prices and improved fiscal outlook. The Russian economy also continued to recover following the recession, benefiting from monetary policy easing, higher oil prices and strong household consumption. The Indian economy, which witnessed a number of reforms also witnessed robust growth during 2017-18.

Looking ahead, there are several factors that might impact global growth in the short and medium term. On a positive side, the overall improvement in the global economy is expected to continue in the short run. On the other hand, downside risks to medium-term growth are stemming from tightening liquidity. In the United States, financial conditions could tighten faster than expected, which would have spill over impact on other economies, including through a reduction in capital flows to emerging markets. With the current account deficit of the US remaining high, a much expansionary fiscal policy in the United States may widen the global imbalances. Recent import restrictions announced by the United States and subsequent restrictions announced by China, potential retaliation by other countries may thwart global trade activity and sentiment. Besides these specific factors, other general factors like climate change, geopolitical tensions, etc. pose additional threats to the subdued medium-term global outlook. International crude oil prices have become elevated and volatile in the recent past. This has adversely impacted the inflationary outlook.

## I. THE INDIAN ECONOMY: RECENT DEVELOPMENTS

India has been among the fastest growing economies in the world in recent years. This robust growth has been an outcome of a plethora of constructive re-

forms in recent years with an aim to make the country more attractive for businesses to expand their operations and raise investment. For example, the implementation of the Goods and Services Tax (GST) with effect from July 1, 2017 is a major reform of the Indian tax system to help create a common national market, as well as help boost jobs and growth. In addition, the government has come up with a major recapitalization plan for the public-sector banks in order to strengthen the balance sheets of the banks. Important legal changes through a new insolvency and bankruptcy law is another measure to strengthen the banking system. The foreign direct investment norms have also been liberalised in various sectors to attract more foreign capital. The provisions of Real Estate (Regulation and Development) Act 2016 (RERA) came into effect from May 1, 2017 to protect home-buyers as well as help boost investments in the real estate industry.

The above mentioned measures were adopted with a view to foster long term growth. Considering the reforms undertaken in India, the Moody's Investors Service ("Moody's") upgraded India's local and foreign currency issuer ratings to Baa2 from Baa3 and changed the outlook on the rating to stable from positive.

Looking forward, economic activity is expected to consolidate further in 2018-19. The benefits of implementation of the GST are gradually surfacing. The process of recapitalisation of public sector banks and resolution of distressed assets under the Insolvency and Bankruptcy Code (IBC) could help improving the business environment. Significant resource mobilisation from the primary market in 2017-18 indicates the improving business sentiment. The added emphasis on rural and infrastructure sectors by the government has the potential to rejuvenate rural demand and attract private investment. On a downside, further weakening of INR against US\$ is going to push up the import bill as crude oil has the highest share among all imported commodities. The Economic Survey of India 2017-18 has predicted the inflation to increase to 4.7 per cent in the first quarter of 2018-19 and then moderate to 4.4 per cent in the remaining three quarters. In 2019-20, the inflation may move in the range of 4.5-4.6 per cent.

Considering all these factors, the Economic Survey 2017-18 forecast that India may record real GDP growth in the range of 7.0 to 7.5 per cent in 2018-19.

IMF, in its April 2018 WEO predicted that the Indian economy would grow by 7.4 per cent in 2018 and 7.8 per cent in 2019.

**Table 1.2: National Income (at 2011-12 Prices)**

Item	2015-16	2016-17	2017-18	Percentage change over previous year	
	(2nd RE)	(1st RE)	(PE)	2016-17	2017-18
<b>A. Estimates at the Aggregate Level</b>					
<b>I. National Product</b>					
1.1 Gross National Income (GNI)	1,12,51,420	1,20,51,525	1,28,64,227	7.1	6.7
1.2 Net National Income (NNI)	99,85,060	1,06,81,594	1,14,05,563	7	6.8
<b>II. Domestic Product</b>					
2.1 Gross Value Added (GVA) at basic prices	1,05,03,348	1,12,47,629	1,19,76,155	7.1	6.5
2.2 Gross Domestic Product (GDP)	1,13,86,145	1,21,96,006	1,30,10,843	7.1	6.7
2.3 Net Domestic Product (NDP)	1,01,19,785	1,08,26,074	1,15,52,178	7.0	6.7
<b>B. Estimate at Per Capita Level</b>					
1. Population (million)	1,283	1,299	1,316	1.2	1.3
2. Per Capita Net National Income (NNI) (₹)	77,826	82,229	86,668	5.7	5.4
3. Per Capita Gross Domestic Product (GDP) (₹)	88,746	93,888	98,867	5.8	5.3

**Note:** PE stands for Provisional Estimates and RE stands for Revised Estimates

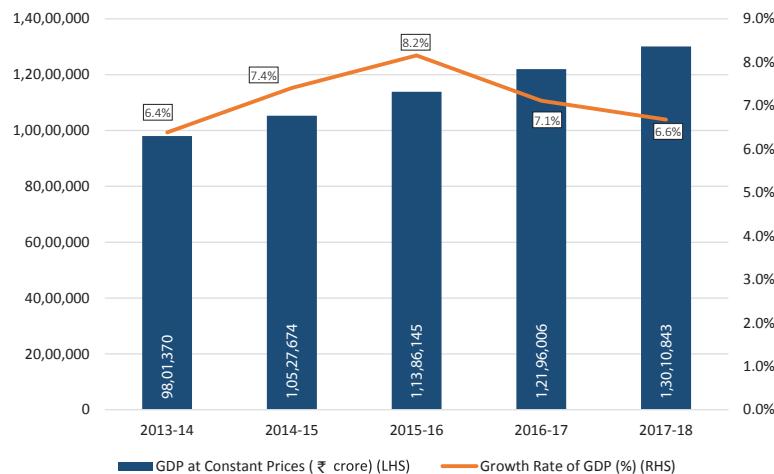
**Source:** CSO, MoSPI

## A. GROWTH

As per the Central Statistics Office's (CSO's) provisional estimates, the Indian economy grew by 6.7 per cent during 2017-18 against a growth rate of 7.1 per cent during 2016-17 (Figure 1.1). Gross Value Added (GVA) at basic prices grew at 6.5 per cent

during 2017-18 against 7.1 per cent in 2016-17 (Table 1.2). Slowdown of the primary and secondary sectors outweighed the faster expansion of the services sector and resulted in a slowdown in overall growth. The Gross National Income (GNI) at constant prices rose by 6.7 per cent in 2017-18 compared to 7.1 per cent growth during 2016-17.

**Figure 1.1: GDP Growth Rates**



The shares of the different sectors of the economy in the overall Gross Value Added (GVA) during 2015-16 to 2017-18 and the corresponding annual growth rates are given in Table 1.3.

**Table 1.3: GDP at Basic Price by Economic Activity (at 2011-12 prices)**

	Industry	2015-16	2016-17	2017-18	Percentage change over previous year	
		(2nd RE)	(1st RE)	(PE)	2016-17	2017-18
1	<b>Agriculture, Forestry &amp; Fishing</b>	<b>16,15,216</b>	<b>17,16,746</b>	<b>17,74,573</b>	<b>6.3</b>	<b>3.4</b>
2	Mining and Quarrying	3,28,453	3,71,066	3,81,965	13.0	2.9
	<b>Primary Sector (1+2)</b>	<b>19,43,669</b>	<b>20,87,812</b>	<b>21,56,538</b>	<b>7.4</b>	<b>3.3</b>
3	Manufacturing	18,98,790	20,48,711	21,66,267	7.9	5.7
4	Electricity, Gas and Water Supply & other utility services	2,24,198	2,44,934	2,62,496	9.2	7.2
5	Construction	8,66,440	8,78,110	9,28,484	1.3	5.7
	<b>Secondary Sector (3+4+5)</b>	<b>29,89,428</b>	<b>31,71,755</b>	<b>33,57,247</b>	<b>6.1</b>	<b>5.8</b>
6	Trade, Hotels, Transport and Communication and services related to broadcasting	19,93,627	21,37,102	23,07,684	7.2	8.0
7	<b>Financing, Real Estate and Professional Services</b>	<b>22,99,913</b>	<b>24,37,857</b>	<b>25,99,927</b>	<b>6.0</b>	<b>6.6</b>
8	Public Administration, Defence and other services	12,76,710	14,13,103	15,54,759	10.7	10.0
	<b>Tertiary Sector (6+7+8)</b>	<b>55,70,250</b>	<b>59,88,062</b>	<b>64,62,370</b>	<b>7.5</b>	<b>7.9</b>
9	<b>GVA at Basic Price (1+2+3+4+5+6+7+8)</b>	<b>1,05,03,347</b>	<b>1,12,47,629</b>	<b>1,19,76,155</b>	<b>7.1</b>	<b>6.5</b>
10	Net Taxes on Products including import duties	8,82,797	9,48,376	10,34,688	7.4	9.1
	<b>GDP at Basic Price (9-10)</b>	<b>1,13,86,144</b>	<b>1,21,96,005</b>	<b>1,30,10,843</b>	<b>7.1</b>	<b>6.7</b>

Note: PE stands for Provisional Estimates and RE stands for Revised Estimates

Source: CSO, MoSPI

## B. PRIMARY SECTOR:

Primary sector (which accounts for around 18 per cent of GVA) consists of agriculture, forestry, fishing and mining & quarrying industries. The GVA growth in primary sector slowed down to 3.3 per cent in 2017-18 from 7.4 per cent in 2016-17.

### i. Agriculture

As per provisional estimates of CSO, the 'agriculture, forestry and fishing' sector has grown at a rate of 3.4 per cent in its GVA during 2017-18, as against the previous year's growth rate of 6.3 per cent. Third Advance Estimates of crop production released by Ministry of Agriculture shows that the production growth of food grains during 2017-18 was higher than what recorded in the previous year.

### ii. Mining and quarrying

The growth in the GVA at basic prices for 2017-18 from 'mining and quarrying' sector is estimated

to be 2.9 per cent as compared to growth of 13.0 per cent in 2016-17. The Index of Industrial Production (IIP) of mining registered growth of 2.3 percent during 2017-18 as compared to 5.3 percent during 2016-17. Key constituents of mining sector, namely, production of coal increased by 2.5 per cent whereas crude oil production contracted by 0.4 per cent during 2017-18.

## C. SECONDARY SECTOR:

Secondary sector (which accounts for around 28 per cent of GVA) includes manufacturing, electricity, gas, water supply & other utility services. This sector witnessed a GVA growth of 5.8 per cent during 2017-18 compared to 6.1 per cent in the previous year. The IIP slowed down to 4.3 per cent in 2017-18 from 4.6 per cent in the previous year. Performance of the constituents of this sector is as follows:

### i. Manufacturing

The growth in the GVA at basic prices for 2017-

18 from 'manufacturing' sector is estimated to be 5.7 per cent as compared to growth of 7.9 per cent in 2016-17. The CSO, using available data of major listed companies, estimated the private corporate sector growth using available data of major listed companies to be 9.0 per cent at current prices during 2017-18. This sector consists of around 70 per cent of the manufacturing sector. IIP from manufacturing sector registered a growth rate of 4.5 per cent during 2017-18 compared to 4.4 per cent in the previous year.

**ii. Electricity, gas, water supply and other utility services**

GVA at basic prices for 2017-18 from 'Electricity, gas, water supply and other utility services' sector grew by 7.2 per cent as compared to growth of 9.2 per cent in 2016-17. The key indicator of this sector, namely, IIP of Electricity registered a growth rate of 5.4 per cent during 2017-18 as compared to growth of 5.8 per cent during previous year.

**iii. Construction**

GVA at basic prices for 2017-18 from 'Construction' sector is estimated to grow by 5.7 per cent as compared to growth of 1.3 per cent in the previous year. Key indicators of construction sector, namely, production of cement and consumption of finished steel registered growth rate of 6.3 per cent and 7.8 per cent, respectively, during 2017-18 as compared to (-) 1.2 per cent and 3.1 per cent respectively, during the previous year.

**D. TERTIARY SECTOR:**

The tertiary sector, which consists of all services, is the largest contributor to India's GVA. This sector accounted for around 54 per cent of the GVA in 2017-18. Growth in GVA in the tertiary sector accelerated to 7.9 per cent in 2017-18 from 7.5 per cent a year ago. The industry wise growth of this sector is as follows:

**i. Trade, hotels, transport, communication and services related to broadcasting**

GVA at basic prices for 2017-18 from this sector is estimated to grow by 8.0 per cent as compared

to growth of 7.2 per cent in 2016-17. The sale of commercial vehicles increased by 19.9 per cent, cargo handled at major sea ports increased by 4.8 per cent, cargo handled by the civil aviation increased by 15.6 per cent and passengers handled by the civil aviation registered growth rate of 16.5 per cent during 2017-18. Indicators of Railways sector, namely, Net Tonne Kilometres and Passenger Kilometres have shown growth of 6.1 per cent and 2.1 per cent, respectively, during 2017-18.

**ii. Financial, real estate and professional services**

As per the estimates, GVA at basic prices for 2017-18 from this sector grew by 6.6 per cent as compared to growth of 6.0 per cent in the previous year. Major component of this industry is the real estate and professional services which has a share of 72.0 per cent. The key indicators of banking are aggregate bank deposits and bank credits. As on March 31, 2018, aggregate bank deposits increased by 6.7 per cent, whereas bank credits have shown growth of 10.3 per cent compared to their values on March 31, 2017.

**iii. Public administration, defence and other services**

GVA at basic prices for 2017-18 from this sector is estimated to grow by 10.0 per cent as compared to growth of 10.7 per cent a year ago. The key indicator of this sector namely, Union government revenue expenditure net of interest payments and subsidies grew by 14.7 per cent during 2017-18.

**E. SAVINGS AND INVESTMENTS**

During 2016-17, gross saving is estimated at ₹ 45.7 lakh crore as compared to ₹ 43.0 lakh crore during corresponding previous year. The rate of gross saving to GDP stood at 30.0 per cent for 2016-17, as compared to 31.3 per cent in 2015-16 (Table 1.4). The household sector continued to be the highest contributor to gross savings with a share of 56.9 per cent in 2016-17 (60.7 per cent in 2015-16). The share of non-financial corporations increased from 35.3 per cent in 2015-16 to 39.8 per cent in 2016-17. The share of saving

of the financial corporations decreased from 8.4 per cent in 2015-16 to 6.8 per cent in 2016-17. The dis-saving of the general Government decreased from 4.4 per cent of gross savings in 2015-16 to 3.5 per cent in 2016-17.

The Gross Capital Formation (GCF) at current prices is estimated at ₹ 46.7 lakh crore for 2016-17 as compared to ₹ 44.4 lakh crore during 2015-16. The rate of GCF to GDP declined from 32.3 per cent during 2015-16 to 30.6 per cent in 2016-17.

**Table 1.4: Gross Domestic Savings and Investments**

Sl. No	Item	(₹ Crore)					(per cent of GDP)				
		2012-13	2013-14	2014-15*	2015-16#	2016-17@	2012-13	2013-14	2014-15*	2015-16#	2016-17@
1	<b>Household Saving of which:</b>	22,35,280	22,85,301	24,39,104	24,47,990	24,79,661	22.5	20.3	19.6	17.8	16.3
	a) Net Financial Assets	7,33,617	8,32,091	8,80,415	11,29,639	10,30,146	7.4	7.4	7.1	8.2	6.8
	b) Physical Assets	14,65,013	14,16,428	15,13,127	12,72,105	13,98,462	14.7	12.6	12.1	9.2	9.2
	c) Saving in Valuables	36,650	36,782	45,562	46,246	51,053	0.4	0.3	0.4	0.3	0.3
2	<b>Non-Financial Corporations</b>	9,92,193	12,03,536	14,17,053	17,13,073	18,72,741	10.0	10.7	11.4	12.4	12.3
3	<b>Financial Corporations</b>	3,00,626	2,93,084	3,39,027	2,90,738	3,33,481	3.0	2.6	2.7	2.1	2.2
4	<b>General Government</b>	-158,897	-173,729	-175,227	-149,853	-113,310	-1.6	-1.5	-1.4	-1.1	-0.7
5	<b>Gross Savings (1 + 2 + 3 + 4)</b>	33,69,202	36,08,193	40,19,957	43,01,948	45,72,573	33.9	32.1	32.2	31.3	30.0
6	<b>Net Capital Inflow from ROW</b>	4,77,920	1,85,942	1,59,822	1,40,399	98,854	4.8	1.7	1.3	1.0	0.6
7	<b>Gross Capital Formation</b>	38,47,122	37,94,135	41,79,779	44,42,347	46,71,426	38.7	33.8	33.5	32.3	30.6

**Notes:** 1. The presentation of the table is as per the new terminology used after the revision in the base year.

2. GDP refers to 'GDP at current prices.'

3. Data have been revised as per the new series of national accounts.

@ 1st Revised Estimates

# 2nd Revised Estimates

\* Third Revised Estimates (New Series)

ROW: rest of the world

Source: CSO, MoSPI

## F. BALANCE OF PAYMENTS

India's trade deficit increased to US\$ 118.9 billion in April-December 2017 from US\$ 82.7 billion in April-December 2016. On the back of this widening of the trade deficit, the current account deficit (CAD), on a cumulative basis, increased to 1.9 per cent of GDP in April-December 2017 from 0.7 per cent in the corresponding period of 2016-17. Net Foreign Direct Investment (FDI) inflows during April-December 2017 moderated to US\$ 23.7 billion from US\$ 30.6 billion during the corresponding period of the previous year. On the contrary, Foreign Portfolio Investment (FPI) recorded a net inflow of US\$ 19.8 billion during April-December 2017 as against a net outflow of US\$ 3.2 billion during the corresponding period in the previous year. During April-December 2017, the level of

foreign exchange reserves (on a BoP basis) went up by US\$ 30.3 billion to US\$ 409.4 billion as on December 29, 2017.

## G. FISCAL DEFICIT

India is returning to the path of gradual fiscal consolidation. This was reflected in the gradual reduction of the fiscal deficit (FD), which was brought down from 4.1 per cent in 2014-15 to 3.5 per cent during 2016-17. The budget estimate of FD was 3.2 per cent for 2017-18, as per the revised estimates, the fiscal deficit for 2017-18 was 3.5 per cent of GDP. The Union Budget has projected the fiscal deficit to be 3.3 per cent of GDP for the year 2018-19. Meanwhile, the gross fiscal deficit (GFD) target of 3.0 per cent of GDP has been deferred to 2020-21. However, on the down-

side the revenue deficit increased to 2.6 per cent of GDP in 2017-18 from the budget estimate of 1.9 per cent of GDP, due to ₹ 1.1 trillion increase in revenue expenditure during the year.

#### H. EXCHANGE RATE

During 2017-18, the US\$-INR exchange rate has remained relatively stable. During the first half of 2017-18, the volatility in the exchange rate remained contained. However, during the second half, the exchange rate recorded fluctuations owing to various factors. For example, the rupee witnessed sharp de-

preciation during September 2017, as a result of selling by foreign investors due to unwinding of stimulus by US Fed. Again, during December '17 – January '18 the INR regained its strength on the back of significant capital flows before witnessing gradual depreciation in the following months. During 2017-18, the rupee touched a low of ₹ 65.8 on September 28, 2017 and a high of ₹ 63.3 on January 8, 2018 against the US\$. The Indian rupee closed at ₹ 65.0 against the US dollar on March 28, 2018 (the last trading day of the year). During the year, forex reserves increased by about US\$ 54.4 billion from US\$ 369.9 billion as on March 31, 2017 to US\$ 424.4 billion As on March 30, 2018.

## 2. REVIEW OF POLICIES AND PROGRAMMES

SEBI initiated a host of policies and programmes during 2017-18 with the objectives of:

- (i) protecting investors' interests in securities;
- (ii) promoting the development of the securities market; and
- (iii) regulating the securities market.

This section presents a brief review of SEBI's policies and programmes during 2017-18.

The policies and programmes are categorized under eight major heads: The Primary Securities Market, Secondary Securities Market, Commodity Derivatives Market, Mutual Funds, Intermediaries Associated with the Securities Market, Foreign Portfolio Investors, Corporate Debt Market and Other Policies and Programmes.

### I. PRIMARY SECURITIES MARKET

A developed primary market is crucial for resource mobilization and capital formation in the country as it brings together investors seeking investment opportunities and issuers seeking to mobilize resources to finance their businesses. SEBI has been adopting various measures to make the primary securities market more efficient and vibrant at every stage of a corporate's financial life cycle, i.e. initial public offering (IPO), follow-on public offering (FPO), offer for sale (OFS), rights issue, qualified institutional placement (QIP), etc. During the calendar year 2017-18, SEBI implemented certain important reforms on delisting, takeover and buy-back. Details of these major initiatives are outlined in the following steps.

#### A. Standard Operating Procedure on non-compliance of Minimum Public Shareholding requirements by listed entities:

SEBI specified the standard operating procedure (SOP) to be followed by the recognized stock exchanges/ depositories, as applicable, in case of non-compliance with minimum public shareholding (MPS) requirements by listed entities. Such SOP includes various actions that are to be taken by stock exchanges/ depositories on observing of non-compliance of MPS norms by the company including imposing fines, freezing of shares of promoters in such company, debarring directors/promoters to take new position of directorship etc. It also provides for enhanced fines and freezing of the entire securities in the demat account of the promoter and promoter group in case of non-compliance continues for more than a year.

#### B. Disclosure of divergence in the asset classification and provisioning by banks:

SEBI mandated listed banks to disclose to the stock exchanges divergences in the asset classification and provisioning wherever the additional provisioning requirements assessed by RBI exceed 15 per cent of the published net profits after tax for the reference period and/or the additional gross non-performing assets (NPAs) identified by RBI exceed 15 per cent of the published incremental gross NPAs for the reference period. This disclosure requirement is in conformity with notification issued by Reserve Bank of India (RBI) in respect of certain cases of divergence in the asset classification and provisioning of Banks.

#### Box 1.1: Committee on Corporate Governance under Shri Uday Kotak

SEBI set up a committee under the Chairmanship of Shri Uday Kotak to advise SEBI on issues relating to corporate governance in India. The terms of reference of the Committee included making recommendations to SEBI on the following issues:

1. Ensuring independence in spirit of Independent Directors and their active participation in functioning of the company;

2. Improving safeguards and disclosures pertaining to Related Party Transactions;
3. Issues in accounting and auditing practices by listed companies;
4. Improving effectiveness of Board Evaluation practices;
5. Addressing issues faced by investors on voting and participation in general meetings;
6. Disclosure and transparency related issues, if any
7. Any other matter, as the Committee deems fit pertaining to corporate governance in India.

The Committee was represented by diversified stakeholders including the Government, industry, stock exchanges, academicians, proxy advisors, professional bodies, lawyers, etc. The Committee analysed the issues in corporate governance in India and submitted its report in October 2017, which was placed on SEBI website for public comments. The report includes more than 80 recommendations for improving corporate governance for listed entities in India.

The SEBI Board in its meeting held on March 28, 2018 considered the recommendations of the Committee and the public comments thereon and approved actions to be taken on the recommendations.

SEBI accepted most of the recommendations of the Committee without any modifications, some of which are mentioned below:

- i. Reduction in the maximum number of listed entity directorships from 10 to 8 by April 01, 2019 and to 7 by April 1, 2020,
- ii. Expanding the eligibility criteria for independent directors,
- iii. Enhanced role of the Audit Committee, Nomination and Remuneration Committee and Risk Management Committee,
- iv. Disclosure of utilization of funds from QIP/ preferential issue,
- v. Disclosures of auditor credentials, audit fee, reasons for resignation of auditors, etc.,
- vi. Disclosure of expertise/ skills of directors,
- vii. Enhanced disclosure of related party transactions (RPTs) and related parties to be permitted to vote against RPTs,
- viii. Mandatory disclosure of consolidated quarterly results with effect from FY 2019-20,
- ix. Enhanced obligations on the listed entities with respect to subsidiaries.
- x. Secretarial Audit to be mandatory for listed entities and their material unlisted subsidiaries under SEBI LODR Regulations.

SEBI accepted several recommendations with modifications, some of which included the following:

- i. Minimum 6 directors in the top 1000 listed entities by market capitalization by Apr 1, 2019 and in the top 2000 listed entities, by Apr 1, 2020,
- ii. At least one woman independent director in the top 500 listed entities by market capitalization by Apr 1, 2019 and in the top 1000 listed entities, by Apr 1, 2020,
- iii. Separation of CEO/MD and Chairperson (to be initially made applicable to the top 100 listed entities by market capitalization w.e.f. April 1, 2019),
- iv. Quorum for Board meetings (1/3rd of the size of the Board or 3 members, whichever is higher) in the top 1000 listed entities by market capitalization by Apr 1, 2019 and in the top 2000 listed entities, by Apr 1, 2020,

- v. Top 100 entities to hold AGMs within 5 months after the end of FY 2018-19 i.e. by August 31, 2019.
- vi. Webcast of AGMs will be compulsory for top 100 entities by market capitalization w.e.f. FY 2018-19,
- i. Shareholder approval (majority of minority) for Royalty/brand payments to related party exceeding 2 per cent of consolidated turnover (instead of the proposed 5 per cent).

SEBI referred certain recommendations to various agencies (i.e. government, other regulators, professional bodies, etc.), considering that the matters involved relate to them. Such recommendations, inter-alia, include strengthening the role of ICAI, internal financial controls, adoption of Ind-AS, treasury stock, governance aspects of PSEs, etc.

SEBI did not accept certain recommendations at this stage. Some of these are - minimum compensation to independent directors, matrix organization structures, minimum number of independent directors, requirement of shareholder approval on appointment in case of casual vacancy of directors, at least two-thirds of the NRC to be independent, information sharing with promoters/ other shareholders, minimum number of board meetings to be increased to five, appointment of lead independent directors, etc.

#### **C. Standard Operating Procedure on non-compliance with certain provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009:**

SEBI specified the Standard Operating Procedure ("SOP") to be followed by the recognized stock exchanges with respect to levying of fines in case of non-compliance with certain provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("ICDR Regulations") related to delay in completion of bonus issue, companies not allotting the shares on conversion of convertible securities within 18 months and issuer not approaching the exchange for listing of equity shares within 20 days from the date of allotment. Alongside, SEBI issued certain clarifications with respect to bonus issue delays.

#### **D. Relaxations for debt restructuring in distressed companies implemented in accordance with the guidelines of Reserve Bank of India and insolvency resolution under the Insolvency and Bankruptcy Code, 2016:**

In respect of debt restructuring and insolvency resolution in distressed companies which are listed on stock exchange(s), certain exemptions have been granted by way of amendments notified to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ('ICDR') and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ('SAST') which have been notified on August 14, 2017.

By virtue of the said amendments, subject to certain conditions, provisions relating to preferential issue as prescribed under ICDR and mandatory open offer obligations under SAST, have been dispensed with for the lenders and new investors who are brought in by such lenders pursuant to a debt restructuring scheme implemented in accordance with the guidelines prescribed by RBI. Earlier, similar exemptions were available only in respect of loan converted into equity by the lenders under the Strategic Debt Restructuring scheme of RBI.

Additionally, resolution plans approved by NCLT under Section 31 of the Insolvency and Bankruptcy Code, 2016 have also been exempted from the preferential issue requirements (subject to lock-in conditions) stipulated under ICDR and the open offer obligations stipulated under SAST.

#### **E. Standard format for exemption applications made under regulation 11(1) of SEBI (SAST) Regulations, 2011 and specific conditions for applications made by Trusts:**

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ('SAST'), gives power to SEBI to grant exemption from the obligation to make an open offer for acquiring shares. Further, as per the said regulations, the acquirer is required to file an application with SEBI, supported by a duly sworn affidavit, giving details of the proposed acquisition and the grounds on which the exemption has been sought.

In order to ensure uniformity of disclosures in such applications, a standard format for filing application with SEBI has been prescribed during December 2017. Further, in case, where Acquirer is a Trust, it has been specifically mandated to submit executed trust deeds. In relation to applications made by Trusts, certain standard conditions have also been laid down which are examined by the Takeover Panel and SEBI. These conditions, if complied with, may significantly reduce the processing time of applications.

#### **F. Strengthening the Monitoring of Utilisation of Issue Proceeds:**

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, required mandatory appointment of 'Monitoring Agency' if the issue size of specified securities exceeds ₹ 500 crore. The purpose for the same was to ensure adequate supervision of the utilization of the funds raised.

SEBI Board considered and approved certain proposals to further strengthen the monitoring of issue proceeds raised in IPOs/FPOs/Rights Issues. Key proposals approved by Board are as under:

- Mandatory appointment of Monitoring Agency where the issue size (excluding offer for sale component) is more than ₹ 100 crore.
- Frequency of submission of Monitoring Agency Report has been enhanced from half-yearly to quarterly.
- Introduction of maximum timeline of 45 days for submission of Monitoring Agency Report from the end of the quarter in conjunction with the submission of the quarterly results.
- Mandating the disclosure of the Monitoring Agency Report on Company's website in addition to submitting it to Stock Exchange(s) for wider dissemination.
- Introduction of new requirement, i.e., comments of Board of Directors and Management on the findings of Monitoring Agency.

Accordingly, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 were suitably amended on May 31, 2017.

#### **G. Extension of Lock-in-relaxation to Category II Alternative Investment Funds (AIF):**

The exemption available to venture capital fund or alternative investment fund of Category I or foreign venture capital investor in respect of lock-in in an IPO has also been extended to Category II AIFs in order to bring about uniformity, ease of doing business and expand the investor base available for capital raising. Accordingly, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2015 were suitably amended on July 31, 2017.

#### **H. Inclusion of RBI registered systemically important NBFCs in the category of QIBs:**

Systemically important NBFCs registered with RBI having a net worth of more than ₹ 500 crore have been included in the category of Qualified Institutional Buyers (QIBs). As NBFCs are well regulated entities, classifying such NBFCs under the definition of QIBs will give Issuers access to a larger pool of funds. Accordingly, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 were suitably amended on May 31, 2017.

#### **I. Exemption under SEBI (ICDR) Regulations, 2009, relating to preferential allotments, to be extended to Scheduled Banks and Financial Institutions:**

SEBI (ICDR) Regulations prohibit the issuer from making preferential issue to any person who has sold any equity shares of the issuer during the six months preceding the relevant date. It also provides that the entire pre-preferential allotment shareholding of the allottees, if any, shall be locked-in from the relevant date up to a period of six months from the date of trading approval. Mutual Funds and Insurance Companies were, however, exempted from both the said requirements. The Board considered and approved the proposal for extending such relaxation to the Scheduled Banks and Public Financial Institutions

as is already being extended to Mutual Funds and Insurance Companies. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 were suitably amended on May 31, 2017.

#### **J. Distribution of cash benefits by listed companies through Depositories:**

SEBI decided to include the option of distribution of cash benefits like dividends through depositories, in addition to the present system of distribution directly by the listed companies or through their registrar to an issue and/or share transfer agents. The option will widen the choice for investors with its benefits such as shorter turnaround time for receiving benefits, ability to get consolidated statements of all such benefits and to receive alerts (SMS / E-mails), etc.

#### **K. Compensation to Retail Individual Investors (RIIs) in an IPO:**

SEBI had made applications supported by blocked amount (ASBA) mandatory from January 1, 2016. While the process of ASBA has resulted in almost complete elimination of complaints pertaining to refunds, there have been instances where the applicants in an Initial Public Offering have failed to get allotment of specified securities and in the process may have suffered an opportunity loss due to failure on part of the self-certified syndicate banks (SCSBs) to make bids, to process the ASBA applications, etc.

To address such situations as mentioned above, SEBI has now laid down a framework which provides a uniform policy for calculation of minimum compensation payable to investors in such situations. It also lays down the procedure for the RIIs to seek redressal of such issues within three months of the listing date with the concerned SCSB and mandates a penalty of 15 per cent per annum in case the SCSB does not resolve the issue within 15 days of the complaint.

#### **L. Regulatory Framework on Schemes of Arrangements:**

In order to streamline and simplify the regulatory framework governing schemes of arrangement

and to prevent the misuse of schemes to bypass regulatory requirements, SEBI had revised the regulatory framework governing schemes of arrangement. Subsequently, during 2017-18, the norms were further revised to provide for the following:

- i. The requirement of seeking SEBI's comments for any merger of a wholly owned subsidiary or its division with the parent company was dispensed with.
- ii. The requirement of filing the scheme again with the Exchanges after sanction of the Scheme by the NCLT was dispensed with.

#### **M. Online Filing System for Offer Documents, Schemes of Arrangement, Takeovers and Buy backs:**

As a part of Go Green Initiative and in order to facilitate ease of operations, SEBI has introduced an online system for filings related to public issues, rights issues, institutional placement programme, schemes of arrangement, takeovers and buy-backs. A web application for this purpose was developed on SEBI website and made operational.

#### **N. Additional methods for listed entities to achieve minimum public shareholding (MPS) requirements:**

SEBI introduced two additional methods-Qualified Institutions Placement (QIP) and Sale of shares up to two per cent held by promoters/promoter group in open market subject to certain conditions for listed companies to comply with the MPS requirement. QIP offers a quick solution to listed entities enabling them to meet MPS requirements apart from meeting their funding requirements. In addition, sale of a certain small percentage of shares through open market would facilitate quicker and cheaper compliance for listed entities where promoters hold shares marginally above the threshold limit. Necessary amendments were also made to ICDR Regulations to provide for the additional methods for meeting MPS requirements.

#### O. Consolidation of shareholding pattern on the basis of PAN:

SEBI has clarified that the details of the shareholding of the promoters and promoter group, public

shareholder and non-public non promoter shareholder must be accompanied with PAN and the shareholding shall be consolidated on the basis of the PAN to avoid multiple disclosures of shareholding.

#### Box 1.2: Revised Framework for non-compliance of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

To address concerns related to non-compliance of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board has decided to revise the existing enforcement framework. Revised framework was approved by the Board to make it more comprehensive and include all measurable provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 such as the requirements pertaining to composition of the listed company's Board and its committees, submission of corporate governance compliance report, financial results etc.

Non-compliance of these regulations will lead to imposition of fines by stock exchanges. It empowers the stock exchanges to freeze the entire shareholding of the promoter and promoter group in such non-compliant entity as well as their shareholding in other securities. If the non-compliance persists, it shall also lead to suspension and initiation of process of compulsory delisting of the non-compliant listed entities. The revised framework is expected to promote a better compliance culture apart from putting in place an appropriate system for effective enforcement of continuous compliance of requirements by listed companies and their promoter/ promoter group.

#### P. Initiative for strengthening transfer of specified securities:

The Board revised the provisions relating to transfer of listed specified securities and decided that requests for effecting transfer of listed specified securities shall not be processed unless the securities are held in the dematerialized form with a depository.

The measure is aimed at curbing fraud and manipulation risk in physical transfer of securities by unscrupulous entities. This measure shall benefit the investors as it shall be easy, convenient and safe and shall prevent loss in transit, bad deliveries, fake securities, delays, mutilation, thefts etc. The proposed change shall further help to avoid the time consuming and complex process of getting shares transferred in the name of buyers in physical mode.

- Matters required to be taken up for changes in legal framework to introduce simplification and transparency in systems and procedures in the primary market.
- Matters relating to regulation of intermediaries for ensuring investor protection in the primary market.

PMAC was reconstituted during the year and comprises of 21 members from various market participants and 3 member from SEBI. The committee is chaired by Shri T. V. Mohandas Pai, Chairman, Manipal Global Education Services Pvt. Ltd. The committee met once during the current financial year to discuss policy issues relating to ICDR Regulations and made a few key recommendations which includes definition of Promoter and Promoter Group, requirement of announcing floor price/price band to be decreased from five to two working days for IPOs, increase in threshold for filing Draft Letter of Offer for rights issue, allowing Foreign Venture Capital Funds to contribute towards minimum promoter's contribution, etc. In view of this, the ICDR Regulations are being proposed to be re-written.

#### Q. Primary Market Advisory Committee:

Primary Market Advisory Committee (PMAC) advises SEBI on:

- Issues related to regulation and development of primary market in India.

## II. THE SECONDARY SECURITIES MARKET

### A. Online Registration Mechanism and Filing System for Stock Exchanges:

SEBI introduced a digital platform for online

filings related to stock exchanges in order to ease the process of application for recognition / renewal, reporting and other filings in terms of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 and other circul- lars issued from time to time.

#### **Box 1.3: Guidelines for Functioning and Development of Securities Market in International Financial Services Centre (IFSC)**

SEBI had a prescribed broad framework with respect to market structure, trading hours and settlement, product category, position limits, trading in rupee denominated bonds issued overseas (masala bonds), risk management framework, dispute resolution mechanism and business continuity plan and disaster recovery for functioning of stock exchanges and clearing corporations in IFSC in 2016. During 2017-18, the following steps have been taken in order to facilitate ease of doing business in IFSC –

- i. SEBI has expanded the list of securities available for trading on stock exchanges in IFSC and thereby, to enable market participants to trade in a wider set of products, “Derivatives on equity shares of a company incorporated in India” was specified as a type of security in which stock exchanges operating in IFSC may permit dealing.
- ii. SEBI has permitted IFSC banking units to act as a trading member of an exchange or a professional clearing member of a clearing corporation without having to form a separate company.
- iii. SEBI has specified the position limits for currency derivatives (not involving Indian Rupee) on ex- changes in IFSC.
- iv. SEBI has amended IFSC guidelines to allow portfolio managers/any alternative investment fund or mutual fund operating in IFSC to invest in securities which are listed in IFSC, securities issued by companies incorporated in IFSC and securities issued by companies incorporated in India or compa- nies belonging to foreign jurisdiction. It was also clarified that such portfolio managers/any alternative investment fund or mutual fund shall invest in India through the FPI route.
- v. SEBI has amended guidelines for participation/functioning of Eligible Foreign Investors (EFIs) and FPIs in IFSC to include trading member of the recognized stock exchange in IFSC to carry out the due diligence on its own.
- vi. SEBI has specified norms related to broad-basing of ownership of stock exchanges and clearing corpo- rations at IFSC.
- vii. SEBI permitted Indian Depositories to set up a branch at IFSC. Further, SEBI registered intermediaries or its international associates in collaboration with such SEBI-registered intermediary have been per- mitted to provide financial services relating to securities market, in IFSC, without forming a separate company.
- viii. SEBI permitted SEBI registered intermediaries (except trading member or clearing member) or its in- ternational associates in collaboration with such SEBI-registered intermediary to provide financial ser- vices relating to securities market, in IFSC, without having to form a separate company.
- ix. SEBI has permitted stock exchanges at IFSC to introduce liquidity enhancement schemes on all prod- ucts traded in IFSC subject to creation of a reserve specifically to meet Liquidity Enhancement Schemes (LES) incentives/expenses and such reserves would not be included in the net worth calculation.
- x. SEBI has specified norms for issuance, listing and trading of debt securities on exchanges in IFSC cov-

ering areas of eligibility criteria for issuers, issue requirements, enabling agreement between issuer and depository/custodian, requirement of credit rating for debt securities and reporting of financial statements by issuers as per IFRS/US GAAP or accounting standards as applicable to such issuers in their place of incorporations.

- xi. SEBI has specified that any entity based in India or in a foreign jurisdiction may form a company in IFSC to act as a trading member of a stock exchange and/or a clearing member of a clearing corporation in IFSC.
- xii. SEBI has broad-based the definition of 'issuer' to also include non-companies and any supranational, multilateral or statutory organizations/institutions/agencies, in addition to companies which as a category were already eligible, as eligible 'issuer' to issue securities in IFSC.
- xiii. In February 2018, SEBI has permitted the clearing corporations at IFSC to accept cash and cash equivalents (which shall include major foreign currencies as may be decided by the clearing corporation from time to time, term deposit receipts and bank guarantees issued by bank branches located in IFSC), Indian securities held with foreign depositories, foreign securities including units of liquid mutual funds and gold, as eligible collateral for trades in all product categories.

**B. Acceptance of Central Government Securities by Clearing Corporations towards Core Settlement Guarantee Fund (SGF) Contribution by Clearing Members:**

Based on the feedback received from the market participants and the recommendation of the Risk Management Review Committee, SEBI advised the clearing members that they may bring their contribution towards Core Settlement Guarantee Fund, in the form of Central Government Securities, in addition to Cash and Bank Fixed Deposits as specified earlier.

**C. Review of the Framework of Position limits for Interest Rate Futures Contracts:**

With a view to ease trading requirements in the Interest Rate Futures contracts, SEBI clarified that the position limit linked to open interest is to be applicable at the time of opening a position and such positions are not required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket. However, such market participants are not allowed to increase their existing positions or create new positions till they fall back within the applicable position limits.

**D. Online Registration Mechanism and Filing System for Clearing Corporations:**

In order to ease the process of application for recognition/renewal, reporting and other filings in terms of the SEBI (Depositories and Participants) Regulation 1996 and other circulars issued from time to time, SEBI in January 2018 introduced a digital platform for online filings related to Depositories. All applicants desirous of seeking registration/renewal of registration as Depositories are required to submit their applications online only through SEBI Intermediary Portal at <https://siportal.sebi.gov.in>. Further, all other filings including monthly development report, annual financial statements and returns, rules, bye-laws etc. are to be submitted online.

**E. Margin Provisions for Intra-Day Crystallized Losses:**

The risk of crystallized obligations (profit/loss on trade) incurred due to intra-day trades was not getting fully captured in the margining system and consequently in the clearing corporation's risk management system, for the purpose of providing further exposure to the clearing member. In order to mitigate such risk, SEBI mandated that the intra-day crystallized losses would be monitored and blocked by

clearing corporation from the free collateral on a real-time basis for those transactions which are subject to upfront margining. Crystallized losses can be offset against crystallized profits at a client level, if any. If crystallized losses exceed the free collateral available with the Clearing Corporation, then the entity shall be put into risk reduction mode.

#### **F. Recording of Non Disposal Undertaking (NDU) in the Depository System:**

SEBI had directed the depositories to develop a separate module/transaction type in their system for recording of non-disposal undertaking (NDU). NDUs are typically undertakings given by a shareholder not to transfer or otherwise alienate the securities and are in the nature of negative lien given in favour of another party, usually a lender. SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, requires promoters of a company to disclose details of their encumbered shares including NDUs by promoters which are covered under the scope of disclosures of 'Encumbrances'. It was observed that some shareholders, primarily promoters, enter into non-disposal agreements/ non-disposal undertaking (NDU) for borrowing funds from various lenders. There was no framework to capture the details of NDU in the depository system as these happen outside the depository system and are not captured and reflected in the records of the depositories. Therefore, in order to enable the shareholders to record the NDUs in the depository system, it was decided that depositories offer a system for capturing and recording the NDUs.

#### **G. Capacity Planning Framework for the Depositories:**

As depositories have been identified as financial market infrastructure institutions (MIIs) which facilitate and perform systemically critical functions in the securities market, based on recommendations of the technical advisory committee (TAC), it was decided to put in place following requirements for depositories while planning capacities for their operations:

- (i) The installed capacity shall be at least 1.5 times (1.5x) of the projected peak load.
- (ii) The projected peak load shall be calculated for

the next 60 days based on the per hour peak load trend of the past 180 days.

- (iii) The Depositories shall ensure that the utilisation of resources in such a manner so as to achieve work completion in 70 per cent of the allocated time.
- (iv) All systems pertaining to Depository operations shall be considered in this process including all technical components such as network, hardware, software, etc. and shall be adequately sized to meet the capacity requirements.
- (v) In case the actual capacity utilisation exceeds 75 per cent of the installed capacity for a period of 15 days on a rolling basis, immediate action shall be taken to enhance the capacity.
- (vi) The actual capacity utilisation shall be monitored especially during the period of the day in which pay-in and pay-out of securities takes place for meeting settlement obligations.

#### **H. Comprehensive Review of Margin Trading Facility:**

SEBI in 2004 had prescribed framework for permitting stock brokers to provide margin trading facility to their clients. The framework for margin trading facility was revised with effect from June 13, 2017 to encourage trading in cash segment. Some of the key changes in the framework are stated below:

- a. Rationalization of initial margin requirement from 50 per cent of transaction value to VaR + ELM framework which is based on the liquidity of the stock;
- b. Permitting stocks to be allowed as collateral for availing funding from stock brokers;
- c. Facilitating onboarding of clients for the purpose of margin trading through standardized "Right & Obligation document"

#### **I. Review of Offer for Sale (OFS) of Shares through Stock Exchange Mechanism:**

SEBI in 2012 had issued comprehensive guidelines on offer for sale (OFS) of shares through stock exchange mechanism. In order to further streamline

the process of OFS, these guidelines have been reviewed with an objective to encourage greater participation by employees. Promoters of eligible companies shall be permitted to sell shares within a period of two weeks from the OFS transaction to the employees of such companies. The offer to employee shall be considered as a part of the said OFS transaction. The promoters may at their discretion offer these shares to employees at the price discovered in the said OFS transaction or at a discount to the price discovered in the said OFS transaction. Promoters shall make necessary disclosures in the OFS notice to the exchange including number of shares offered to employees and discount offered, if any.

#### **J. Participation of Non-resident Indians (NRIs) in the Exchange Traded Currency Derivatives (ETCD) Segment:**

Non-resident Indians (NRIs) have been permitted to participate in the exchange traded currency derivatives market to hedge the currency risk arising out of their investments in India. In this regard, guidelines with respect to trading by NRIs in exchange traded currency derivatives market and permissible position limits were specified.

#### **K. Clarification on Exchange Traded Cross Currency Derivatives Contracts on EUR-USD, GBP-USD and USD-JPY Currency Pairs:**

In 2016 SEBI had laid down the detailed framework for introduction of cross-currency futures and option contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs and introduction of currency option contracts in EUR-INR, GBP-INR and JPY-INR currency pairs. In consultation with RBI and stock exchanges, the limits prescribed vide the aforementioned circular were modified and stock exchanges have been advised to implement a uniform methodology for computing and monitoring of the aforementioned proprietary positions limits in INR, in consultation with each other.

Simultaneously stock exchanges were advised to implement a dynamic price band mechanism based on theoretical price of contracts to determine price bands for currency options in order to bring uniformity in the computation and relaxation of dynamic price bands. Further, stock exchanges have also been advised to take into consideration factors such as movement in the underlying price, volatility in the price of the underlying, any news on concerned foreign currency and its likely impact, movement of the price of the underlying at other stock exchanges, etc. while relaxing such price bands.

#### **L. Outsourcing of activities by Stock Exchanges and Clearing Corporations:**

Guidelines on outsourcing by stock exchanges and clearing corporations have been issued based on recommendations of Technical Advisory Committee (TAC) of SEBI, wherein it was advised that the core and critical activities of stock exchanges and clearing corporations may not be outsourced. Guidelines have also been prescribed with regard to due diligence while selecting a third party for outsourcing, and monitoring and audit of outsourced activities.

#### **M. Review of Block Deal Window Mechanism:**

SEBI in 2005 had prescribed guidelines for execution of large size trades through a single transaction. In order to further facilitate the execution of large size deals, the framework has been revised by providing two block deal windows (i) Morning Block Deal Window and (ii) Afternoon Block Deal Window. The minimum order size for execution of trades in the Block deal window has been increased to ₹ 10 Crore.

#### **N. Review of Securities Lending and Borrowing (SLB) Framework:**

The framework for securities lending and borrowing (SLB) was specified in 2007. The said framework has been modified to encourage more participation in the SLB segment. The key features of revised framework includes the following:

- a. Clarification on tenure of the contract to enable Approved Intermediaries to launch shorter tenure contracts;
- b. Simplification of treatment for corporate action to avoid compulsory foreclosure
- c. Extension of the period for rollover of contracts

**O. Revision of Limits Relating to Requirement of Underlying Exposure for Currency Derivatives Contracts:**

In consultation with RBI, the limits beyond which market participants would be required to establish underlying exposure in the currency derivatives segment were revised. Domestic clients / Foreign Portfolio Investors (FPIs) were permitted to take long or short positions without having to establish existence of underlying exposure, up to a single limit of USD 100 million equivalent, across all currency pairs involving INR, put together, and combined across all the stock exchanges.

**P. Review of Regulations and Relevant Circulars Pertaining to Market Infrastructure Institutions (MIIs):**

In September 2017, SEBI constituted a Committee to review the regulations and relevant circulars pertaining to market infrastructure institutions (MIIs). The Committee held 11 meetings and submitted Part I of its report to SEBI on March 26, 2018. The major recommendations of the Committee are as under:

- i. Harmonization of eligibility criteria for holding shares, across Stock Exchanges, Clearing Corporations and Depositories ('MIIs').
- ii. Stipulation of maximum number of terms for Public Interest Directors in each MII and across MIIs.
- iii. Disclosure of resources committed by MIIs towards strengthening regulatory functions backed by activity based accounting.
- iv. Expansion of definition of Key Management Personnel to include any person who directly reports to CEO or director of the governing board of the MII, or any person as may be identified by Nomination and Remuneration Committee of MII.
- v. Rationalization of the number of Mandatory Committees in MIIs.
- vi. Revision of the net-worth requirement of Clearing Corporations to be higher of INR 100 crore or appropriate mark-up on the capital required

to meet various risks viz. business, credit, operational, wind-down.

**Q. Strengthening of Cyber-Security:**

Taking cognizance of the threat posed by technological developments in the Indian capital markets and the rise of cyber threats in the financial domain across the globe, SEBI had laid down a detailed framework with regard to cyber security and cyber resilience that stock exchanges, clearing corporations and depositories are required to adopt. Additionally a high powered steering committee on cyber security was constituted which was chaired by a Whole Time Member of SEBI and created a cyber-security cell to actively address cyber-security issues.

In 2017-18, SEBI had actively issued 3 advisories in the wake of ransomware attacks. Additionally, advisories were also issued based on inputs from the National Cyber Security Coordinator (NSCS).

SEBI had compiled a list of cyber threat vectors and cyber-attack scenarios which was shared with the MIIs to aid them in dealing with cyber risk. As a pre-emptive measure to further enhance the safeguards placed to protect the systems of the Indian MIIs, SEBI had advised MIIs to put in controls based on its list of Cyber Threat Vectors and Cyber-attack scenarios. SEBI has also advised MIIs to conduct a half yearly Comprehensive Review of Cyber Security at the MII. The audit broadly aims to check the level and adequacy of the controls put in place by the MII to comply with the various circulars and advisories issued by SEBI pertaining to cyber security along with the safeguards put in place by the MII to mitigate the cyber threat vectors and cyber-attack scenarios. In order to further increase cyber awareness SEBI has also advised MIIs to create FAQs and guidance for best practices for internal users, market intermediaries and investors with regard to cyber security and safety against current prevailing threats and scams for circulation.

In November 2017, SEBI had facilitated a cyber-training programme conducted by scientists of CERT-In. The programme was attended by CISOs and officials of all MIIs and major intermediaries under SEBI such as brokers, depository participants, as-

set management companies and registrar and transfer agents (RTAs). To secure the systems and data at the RTAs SEBI has also mandated Cyber Security requirements for RTAs having more than two crore folios.

## R. Activities of Advisory Committees

### i. Secondary Market Advisory Committee (SMAC)

Secondary Marker Advisory Committee (SMAC) is chaired by Prof Jayanth R. Varma, Professor, IIM Ahmedabad. SMAC has been constituted to review the developments in secondary market and to recommend measures for changes and improvements in market structure and for improving market safety, efficiency, transparency and integrity, etc. During the financial year, the advisory committee was consulted to discuss the issues such as review of Securities Lending and Borrowing Framework, Review of Block Deal Window, Safeguards for execution of on-market and off-market transactions, Introduction of Weekly Futures, Review the Call Auction Framework, Code of Conduct for Index Provider, Review of Initial listing norms and introduction of continuous listing requirements, Direct Pay-out of Funds/ Securities to clients, the Framework for Dividend Adjustment of Stock Futures and Stock Options, Interoperability among Clearing Corporations.

### ii. Technical Advisory Committee (TAC)

Technological advances in the securities market has necessitated setting up of a forum for discussing technical issues related to securities market. In view of this, Technical Advisory Committee (TAC) has been set up as an advisory committee of SEBI under the chairmanship of Dr Ashok Jhunjhunwala in order to take informed decisions in areas that may have a bearing on the functioning of the securities market, as far as technology is concerned. TAC, comprising of technological experts, was consulted on matters related to colocation services provided by stock exchanges; outsourcing of activities by stock exchange and clearing corporations; system audit framework; technical issues per-

taining to business continuity planning and disaster recovery, etc., so as to keep pace with technological advancements and frame appropriate policies thereof. A total number of seven meetings were held by TAC during 2017-18.

### iii. Risk Management Review Committee

The Risk Management Review Committee (RMRC) is chaired by Prof Jayanth R. Varma, Professor, IIM Ahmedabad. RMRC has been constituted to review the risk management framework for the cash and derivatives (including commodity derivatives) segment and to recommend changes, if required, in the regulatory framework related to risk management/ margin system, to consider and suggest measures in reducing transmission of risk from other segments, to review the investor protection measure in the stock exchanges related to risk management etc. During 2017-18, one meeting of RMRC was held. RMRC was consulted on matters such as alignment of risk management practices across equity derivatives, currency derivatives and commodity derivatives segments, link with International Central Securities Depositories (CSDs), spread margin permitting benefits across futures contracts in commodity complex, review of surveillance measures on account of market volatility etc.

### iv. High Powered Steering Committee on Cyber Security (HPSC-CS)

HPSC-CS is chaired by Whole Time Member, SEBI. Other members of the committee are a member of SEBI's Technical Advisory Committee (TAC), a cyber-security expert from a government organization and Executive Director - Market Regulation Department of SEBI. The committee guides SEBI on issues related to cyber security in the securities market. During the last financial year under the guidance of HPSC-CS, among other things SEBI has initiated a full cyber security review of all MIIs and a secured intranet portal is being created for information sharing among MIIs. During 2017-18, total four meetings were held by the HPSC-CS.

### III. COMMODITY DERIVATIVES MARKET

#### A. Options in Commodity Derivatives Market:

After approval accorded by SEBI Board, necessary amendments were made to the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 ("SECC Regulations") and were published in Gazette on May 29,

2017. Accordingly, necessary guidelines were issued on product design and risk management framework for options in commodity derivatives market during June 2017.

MCX became the first Indian exchange to launch options on commodity futures by commencing trading in options on gold futures on October 17, 2017. Subsequently NCDEX launched options on Guar Seed Futures on January 14, 2018.

#### Box 1.4: Options in Commodity Derivatives Market

In the Budget Speech for the year 2016-17, the Hon'ble Finance Minister had inter-alia proposed that "new derivatives products will be developed by SEBI in the Commodity Derivatives Market".

Introduction of new products in the commodity derivatives markets has been the subject of deliberation at various forums as it is considered to be conducive for the overall development of the commodity derivatives market, for attracting broad based and institutional participation, enhancing liquidity, facilitating hedging and bringing in more depth to the commodity derivatives market. The issue of new products in the commodity derivatives market was discussed in the commodity derivatives advisory committee (CDAC) and its sub-groups. The recommendations made by the CDAC inter alia, on the subject of introduction of new products was considered by SEBI. Subsequently in September 2016, SEBI in principle decided to permit trading in options subject to the detailed guidelines to be issued in this regard.

In order to allow commodity derivatives exchanges to offer new products a consultation paper on amendments in Stock Exchanges and Clearing Corporations (SECC) Regulations was floated for public comments. After public consultation and on the basis of approval accorded by SEBI Board, necessary amendments to the SECC Regulations were published in Gazette on May 29, 2017. Accordingly, necessary guidelines were issued on product design and risk management framework for options in commodity derivatives market in June 2017 which inter alia included the following:-

- Underlying of the options contract shall be commodity future which is amongst top five contracts in terms of turnover subject to minimum threshold turnover.
- On pilot basis each exchange was allowed to launch options on futures on only one commodity.
- On exercise, options position shall devolve into underlying futures position.

#### B. Permitting Category III Alternative Investment Funds (AIFs) in the commodity derivatives market:

Based on SEBI's internal discussions, the recommendations of CDAC and feedback received from various stakeholders, a consultation paper was released during April 2017. Comments on the said paper were solicited from public regarding permitting participation of Category III AIFs in Commodity Derivatives Market. After considering the comments/observa-

tions of the public / stakeholders, in June 2017 SEBI allowed participation of Category III Alternative Investment Funds (AIFs) in the commodity derivatives market, which marks the beginning of institutional participation in the commodity derivatives market.

#### C. Integration of commodities and securities derivative markets by integrating the participants, brokers, and operational frameworks:

Amendments to relevant provisions in the Securities Contracts (Regulation) Rules, 1957(SCRR) and

SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 have been notified. Further, SEBI operationalized integration at broker level during September

2017. SEBI in December 2017 approved the integration of Commodity Derivatives Market with other segments of securities at the Exchange-level from October 2018 onwards.

#### **Box item 1.5: Integration between Commodity Derivatives Markets and rest of the Securities Markets**

Pursuant to announcement by Hon'ble Finance Minister in Union Budget for 2015-16 through the Finance Act, 2015, Forward Contracts Regulation Act, 1952 ("FCRA"), was repealed w. e. f. September 28, 2015, FMC was merged with SEBI and all recognized associations (i.e. commodity derivatives exchanges) under FCRA have been deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 ("SCRA") and SEBI started regulating the commodity derivatives market with effect from the above date.

SEBI decided that during initial phase, focus should be more on understanding and strengthening the existing micro-structure of the commodity derivatives markets and the market development may be visited thereafter. Accordingly, the two markets viz., commodity derivatives and rest of the securities markets were kept segregated initially. It was also felt that time should be given to commodity derivatives exchanges to come at par with the stock exchanges with respect to certain regulatory norms e.g. net worth requirements, shareholding norms, clearing through separate clearing corporations etc. Accordingly, the commodity derivatives exchanges were provided a timeline to fill those gaps in order to bring them at par with the stock exchanges.

In the budget speech for 2017-18, the Hon'ble Finance Minister inter-alia proposed that:

"The commodities and securities derivative markets will be further integrated by integrating the participants, brokers, and operational frameworks."

For the sake of smoother implementation of the above budget announcement regarding integration between commodity derivatives and rest of the securities markets, it was decided that the integration would be achieved in two phases. In Phase-I, it was proposed to have integration at Intermediary level. In Phase-II, necessary steps would be taken to enable a single exchange to operate various segments such as equity, equity derivatives, commodity derivatives, currency derivatives, interest rate futures & debt etc.

In order to implement Phase I, necessary amendments to relevant provisions of the Securities Contracts (Regulation) Rules, 1957 ("SCRR") were notified in the Gazette of India on June 27, 2017 and necessary amendments to the relevant provisions of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 ("Broker Regulations") were notified and made effective from July 13, 2017. Further, SEBI issued circular dated September 21, 2017 on 'Integration of broking activities in Equity Markets and Commodity Derivatives Markets under single entity' achieving the Phase-I of the integration of commodity derivatives market with rest of the securities markets at intermediary's level.

The next step was to implement phase II i.e. to permit trading of commodity derivatives and other segments of securities market on single exchange. SEBI in its Board meeting dated December 28, 2017 approved the necessary amendments to the SECC Regulations to enable convergence at exchange level which shall be effective from October 1, 2018 i.e. after completion of 3 years since the merger of FMC with SEBI and when clearing corporations are required to be in place for commodity derivatives exchanges, as per the timelines prescribed. Thus w. e. f. October 1, 2018 a single exchange can launch products in all segments of the securities market.

#### D. Guidelines for Liquidity Enhancement Scheme (LES) in Commodity Derivatives Contracts:

Based on the feedback received from commodity derivatives exchanges, SEBI during March 2018 permitted liquidity enhancement scheme (LES) in commodity derivatives contracts subject to the requirements stipulated earlier in equity cash and equity derivatives segments. In addition to the conditions laid down, SEBI also stipulated that:

- Any commodity that is classified as a 'Sensitive Commodity' by the Exchange, shall not be eligible for LES.
- If any commodity derivative product is 'liquid' on any of the exchanges i.e. there is at least one exchange where the average daily turnover in Options or/and Futures on similar underlying commodity is more than or equal to INR 200 crore for agricultural and agri-processed commodity, and INR 1,000 crore for non-agricultural commodity during the last six months, then no other exchange is eligible to launch LES on the same derivative product, unless the exchange where the product is liquid, has itself also launched a LES on said product.

#### E. Framework for Position Limits:

SEBI had an objective to outline a principle based methodology for revising the commodity-wise overall client level open position limits of agricultural commodities with reference to the 'deliverable supply' of such commodity available in the country during any specific year. After discussing this objective with various stakeholders as well as in CDAC, SEBI in July 2017 prescribed a revised comprehensive framework for determination of numerical value of overall client level open position limits for agricultural commodities based on the categorization of the agricultural commodities into broad, narrow and sensitive commodities such that broad commodities have higher position limits as compared to narrow or sensitive commodities.

#### F. Criteria for Settlement Mode of Commodity Derivative Contracts:

Commodity derivative contracts must be anchored to their respective underlying physical markets in order to effectively discharge their hedging function. An appropriate settlement mode and/or presence of other supporting conditions play a crucial role in ensuring convergence of prices between the derivatives market and the spot market. In view of this and in consultation with the CDAC, SEBI during October 2017 issued broad guidelines for deciding appropriate settlement mode for commodity derivatives contracts in which it has been indicated that the first preference shall be given for settlement by physical delivery.

Cash settlement could be permitted under special circumstances such as:

- In cases where commodity is intangible; or
- In cases where commodity is difficult to store due to low shelf life or inadequate storage infrastructure; or
- In cases where it is difficult to physically handle and transport the commodity due to inadequate logistics and transport infrastructure; or
- There is availability of reliable benchmark price of the commodity which can be used as reference for settlement price.

#### G. Transaction charges by the commodity derivatives exchanges:

In order to promote competition in the market and bring in greater efficiencies and lower transaction costs to market participants, SEBI during September 2016 had stipulated certain norms to be followed by the commodity derivatives exchanges while levying transaction charges. The norms inter alia stated that the exchanges are required to ensure that the ratio between highest to lowest transaction charges in the turnover slab of any contract is not more than 1.5:1. Thereafter, in consultation with the exchanges, SEBI during January 2018 widened the ratio between the highest to lowest transaction charges in the turnover slab of any contract to 2:1

#### **H. Comprehensive guidelines for Investor Protection Fund, Investor Service Fund and its related matters at National Commodity Derivatives Exchanges:**

SEBI, in September 2016 had consolidated various norms and guidelines relating to investor protection fund, issued by the erstwhile FMC, applicable to the national commodity derivatives exchanges. With the objective to align with the practices in securities markets, based on the internal deliberations, discussions and feedback as received from the national commodity derivatives exchanges, SEBI during June 2017 modified certain clauses in the consolidated norms. Thereafter on receipt of the representations from the commodity derivatives exchanges for clarification and consideration of their requests with respect to some of the clauses, SEBI issued relevant clarification to the commodity derivatives exchanges in March 2018.

#### **I. Amendment to Investor Grievance Redressal System and Arbitration Mechanism:**

SEBI in November 2015 had mandated investor grievance redressal system and arbitration mechanism for national commodity derivatives exchanges and had directed exchanges to comply with the provisions of circulars as issued by SEBI in this regard. In order to further enhance the effectiveness of grievance redressal mechanism at MIIs, based on the internal deliberations, discussions and feedback as received from MIIs, SEBI during July 2017 added/modified certain provisions in the aforesaid circular. Thereafter on receipt of the representations from the National Commodity Derivatives Exchanges with respect to some of the clauses of the said circular, SEBI in March 2018 issued relevant clarification to them.

#### **J. Spread Margin Benefits in Commodity Futures Contract:**

Earlier in 2015 and 2016 SEBI had prescribed norms inter-alia for providing margin benefits on spread positions in commodity futures contracts. Thereafter, based upon proposals from exchanges and recommendations of the risk management review committee, SEBI in March 2018 decided that commodity exchanges may provide spread benefit in

initial margin across futures contracts in a commodity complex subject to certain conditions.

#### **K. Risk Management Norms for Commodity Derivatives:**

SEBI in March 2018 aligned the norms for commodity derivatives exchanges prescribed with respect to minimum liquid net worth and base minimum capital requirements, acceptance of fixed deposits as collateral, margins provisions for intra-day crystallised losses to those of the norms applicable for equity and currency derivatives.

#### **L. Participation of Foreign Portfolio Investors (FPIs) in Commodity Derivatives in IFSC :**

During September 2017 SEBI permitted FPIs to participate in commodity derivatives contracts traded in stock exchanges in IFSC subject to conditions that:

- The participation would be limited to the derivatives contracts in non-agricultural commodities only,
- Contracts would be cash settled on the settlement price determined on overseas exchanges and
- All the transactions shall be denominated in foreign currency only.

#### **M. Commodity Derivatives Advisory Committee :**

In order to advise SEBI for effectively regulating and developing the Commodity Derivatives Market, an advisory committee known as Commodity Derivatives Advisory Committee (CDAC) was constituted under the chairmanship of Prof Ramesh Chand – Member, NITI Aayog. CDAC in its first meeting had constituted following three sub-groups:

- i. Group-I: Group to examine the impact and utilization of commodity derivatives markets and frame objective criteria for inclusion / exclusion of commodities from derivatives trading
- ii. Group-II: Group for improvement of spot polling prices.
- iii. Group - III: Group to review Position limits

During the financial year 2017-18, CDAC had two meetings on June 07, 2017 and December 19, 2017 and deliberated on various policy issues.

## IV. MUTUAL FUNDS

### A. Disclosure of Executive Remunerations:

In order to promote transparency in remuneration policies, SEBI had earlier issued guidelines w.r.t. disclosure of executive remuneration pertaining to a financial year on their websites under a separate head 'Remuneration'. These guidelines have been modified to make additional disclosures of the name, designation and remuneration received by top ten employees in terms of remuneration drawn for that financial year.

### B. Instant Access Facility (IAF) in Mutual Funds:

To enhance the reach of mutual funds towards the retail investors, guidelines have been prescribed for instant access facility (IAF) to facilitate credit of redemption proceeds in the bank account of the investor on the same day of redemption request. The IAF is allowed only for resident individual investors and is offered through online mechanism.

### C. Use of e-wallet for investment in MFs:

To promote digitalization, MFs/AMCs have been allowed to accept investment by an investor through e-wallets (Prepaid Payment Instruments (PPIs)) subject to certain conditions.

### D. Review of norms for participation in derivatives by Mutual Funds:

SEBI had earlier allowed mutual funds to hedge scheme portfolio by using derivative contracts. With a view to reduce interest rate risk in a debt portfolio, SEBI has allowed mutual funds to hedge the portfolio or part of the portfolio on weighted average modified duration basis by using interest rate futures (IRFs), subject to certain conditions.

### E. Enhancing fund governance for Mutual Funds:

To strengthen the governance structure for mutual funds, SEBI has decided the following:

- An independent trustee and independent director shall hold office for a maximum of two

consecutive terms with each term not exceeding a period of five consecutive years. Such individuals shall be eligible for re-appointment after a cooling-off period of three years. During the cooling-off period, such individuals should not be associated with the concerned MF, AMC and its subsidiaries and / or sponsor of AMC in any manner whatsoever.

- The auditor of a MF, appointed in terms of Regulation 55 (1) of SEBI (Mutual Funds) Regulations shall be a firm, including a limited liability firm, constituted under the LLP Act, 2008.
- No MF shall appoint an auditor for more than two consecutive terms of maximum five consecutive years. Such auditor may be re-appointed after cooling off period of five years.
- Further, during the cooling-off period of five years, the incoming auditor may not include:
  - Any firm that has common partner(s) with the outgoing audit firm.
  - Any associate / affiliate firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

### F. Total Expense Ratio (TER):

SEBI took the following policy actions to rationalise the Total Expense Ratio:

- SEBI had earlier allowed Asset Management Companies (AMCs) to charge additional TER of up to 30 basis points of daily net assets of the schemes, given certain conditions in order to enhance penetration of mutual funds in areas beyond top 15 cities. Now, the additional TER of up to 30 basis points would be allowed for inflows from beyond top 30 cities instead of beyond top 15 cities.
- Asset Management Companies (AMC) were allowed to charge additional expenses not exceeding 20 basis points of daily net assets of the scheme. In this regard, it has been clarified that

- AMCs are not eligible to charge the additional expenses on mutual fund schemes including close ended schemes, wherein exit load is not levied / not applicable. Mutual Fund schemes including close ended schemes, wherein exit load is not levied / not applicable, shall discontinue, with immediate effect, the levy of above mentioned additional expenses, if any.
- iii. SEBI took the following steps to bring uniformity in disclosure of actual TER charged to mutual fund schemes so that investors can take informed decision:
- AMCs were mandated to prominently disclose on a daily basis, the TER of all schemes under a separate head –“Total Expense Ratio of Mutual Fund Schemes” on their website in downloadable spreadsheet format.
  - AMCs are also required to communicate to investors any change in the base TER (i.e. TER excluding additional expens-
- es) in comparison to previous base TER charged to any scheme via email or SMS at least three working days prior to effecting such change. However, any decrease in TER due to decrease in applicable limits as a result of increase in daily net assets of the scheme would not require issuance of any prior notice to the investors. Such decrease in TER are to be immediately communicated to investors of the scheme through email or SMS and uploaded on the website.
- c) The change in the base TER in comparison to previous base TER charged to the scheme is to be intimated to the Board of Directors of AMC along with the rationale recorded in writing. The changes in TER is also to be placed before the Trustees on quarterly basis along with rationale for such changes.

#### **Box 1.6: Benchmarking of Scheme performance to Total Return Index (TRI)**

Every scheme of a mutual fund is mandated to disclose its benchmark index in its offer document. It is also mandated that the performance of scheme of a mutual funds should be compared vis-à-vis the performance of its respective benchmark. The indices that are available for benchmarking and performance comparison are generally of two types, namely, Price Return Index (PRI) and Total Return Index (TRI).

A Price Return Index considers only the price movement of its constituents and thus captures only the capital gains of the constituents. On the other hand, a Total Returns index takes into account all dividends/ interest payments that are generated from the basket of components that make up the index in addition to the capital gains. The cash flows are presumed to be notionally reinvested on their ex-date into the basket of underlying components that make up the index.

A Mutual Fund scheme takes into consideration, capital gains as well as the dividend earnings / interest income of the instruments in which it has invested while calculating the return generated by the scheme. Hence, TRI is more appropriate as a benchmark to compare the performance of mutual fund schemes. Globally most of the funds use TRI as their benchmarks. In view of the same, SEBI stipulated that all Mutual Fund Schemes are to be benchmarked against Total Return Indices from February 01, 2018 onwards.

#### **G. Online registration mechanism for Mutual Funds:**

Pursuant to the Budget announcement for 2017-

18, SEBI has enabled Intermediary Portal for entities to submit Mutual Fund registration applications online.

### Box 1.7: Categorisation and Rationalisation of Mutual Fund Schemes

During the year 2017-18, SEBI issued circulars laying down norms to clearly distinguish open ended schemes launched by a mutual fund and bring uniformity in the characteristics of similar type of schemes launched by different mutual funds. This initiative of categorization and standardization of open ended schemes along with uniform description of a category across the fund houses would ensure better comparability for investors amongst schemes launched by different fund houses. Further, this would also ensure that the scheme names do not carry any misleading word and are in alignment with the category of the scheme.

The norms specified the following:

- i. Categories of Schemes: Schemes have been classified into five groups, namely, Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes and Other Schemes. Each of these groups has been further classified into categories
- ii. Type of scheme: The type of scheme is a uniform description of a scheme which has been laid down to bring in clarity with respect to the investment objective/ strategy of the scheme. This would ensure better comparability amongst similar schemes launched by different Mutual Funds.
- iii. Definition of Large Cap, Mid Cap and Small Cap: In order to ensure uniformity in respect of the investment universe for equity schemes, the definition of large cap, mid cap and small cap have been laid down.
- iv. Process to be followed for categorization and rationalization of schemes:

Mutual Funds would be permitted to offer only one scheme per category except:

- Index Funds/ETFs replicating/ tracking different indices
- Fund of Funds having different underlying schemes; and
- Sectoral/thematic funds investing in different sectors/ themes

Exit option would be given to all the unit holders of the schemes that are either merging with other schemes or are undergoing change of fundamental attributes.

## H. Norms for Shareholding and Governance in Mutual Fund:

SEBI (Mutual Fund) Regulations, 1996 was amended during 2017-18 to address the issue of potential conflict in case of shareholding and governance of Mutual Funds. The sponsor and its associates or any shareholder holding 10 percent or more shares or Board representation in a mutual fund are not allowed to hold 10 percent or more stake or Board representation in asset management company (AMC) and trustee companies of another mutual fund. Any non-conformity with the new requirements has to be aligned within one year from the date of notification of the amended Regulations.

## I. Advisory Committee on Mutual Funds (MFAC):

SEBI has an Advisory Committee on Mutual Funds (MFAC), which comprises industry representatives, investor associations, government representatives and other stakeholders. The committee provides a platform for interaction and deliberations on issues related to the MF industry. It acts as a platform for SEBI to place its various regulatory development activities and at the same time the industry places its agenda before SEBI for further consideration. During financial year 2017-18, the committee under the Chairmanship of Shri Janki Ballabh, met once on September 01, 2017 and pursuant to its reconstitution, the Committee chaired by Ms Arundhati Bhattacharya, met on February 26, 2018 and gave its recommendations on various policy issues encompassing the MF industry.

## V. INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKET

### A. Online Registration Mechanism for Securities Market Intermediaries:

Hon'ble Minister of Finance, Government of India, in his speech while presenting the Budget for 2017-18, announced that the process of registration of financial market intermediaries will be made fully online by SEBI. SEBI had already initiated development its portal with various custom applications, including online registration modules for various intermediaries. Consequently, during May 2017 SEBI operationalized intermediaries' portal for online registration and submission of periodical reports for all intermediaries.

### B. Prevention of Unauthorized Trades:

To strengthen regulatory provisions against un-authorized trades in March 2018, SEBI stipulated that all stock brokers are required to execute trades of clients only after keeping evidence of the client placing such order, *inter alia*, in the following form:

- i. Physical record written & signed by client,
- ii. Telephone recording,
- iii. Email from authorized email id,
- iv. Log for internet transactions,
- v. Record of messages through mobile phones,
- vi. Any other legally verifiable record.

It has also been mandated that wherever the order instructions are received from clients through the telephone, the stock broker are required to use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

### C. Policy for Annual Inspection of Stock Brokers by Stock Exchanges/ Clearing Corporations:

As per SEBI's directions, stock exchanges are required to formulate a policy for annual inspection of their members in consultation with SEBI. In view of this, SEBI after consultation with stock exchanges/ clearing corporations issued guidelines during June

2017, stipulating the criteria for selection of members for annual inspection by stock exchanges/ clearing corporation. Wherever desired, Stock exchanges and clearing corporations shall conduct joint inspections of stock brokers. Stock Exchanges have also been advised to establish an information sharing mechanism with one another on important outcomes of inspection of members who hold multiple memberships in order to improve the effectiveness of supervision.

### D. Instructions to Depositories to enable reporting requirements under amended rule 114G (1) (e) of the Income Tax Rules, 1962:

In terms of Rule 114G (1) (e) (i) of Income Tax Rules, 1962 issued under Section 285BA of Income Tax Act, 1961, the total gross amount of interest, the total gross amount of dividends, and the total gross amount of other income generated with respect to the assets held in the account, in each case paid or credited to the account (or with respect to the account) during the calendar year is required to be reported by reporting financial institution in the case of reportable custodial account. In order to facilitate the reporting, SEBI specified the following requirements in June 2017:

- i. Depositories shall provide additional field in the depository system to the RTAs to enable the RTAs to incorporate the details of corporate action viz. dividend/interest in rupee terms per unit of the security at the time of setting up of corporate action,
- ii. Depositories shall make available such information to DPs to enable them to do necessary reporting,
- iii. The reporting with respect to dividend / interest is to be done by DPs on 'entitlement' basis and not on the basis of actual payment received by the demat account holder.

### E. Cyber Security and Cyber Resilience framework for Qualified Registrars to an Issue / Share Transfer Agents (QRTAs):

With a view to have a robust cyber security and cyber resilience framework for RTAs SEBI issued

guidelines during September 2017. The guidelines focus on identifying possible sources of operational risk, both internal and external, and mitigate the impact through the use of appropriate systems, policies, procedures, and controls. Further it is mandated that systems of qualified registrars to an issue / share transfer agents (QRTAs) should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of its obligation in the event of cyber-attack.

#### **F. Review of the Regulatory Framework for Credit Rating Agencies (CRAs):**

In order to augment the governance of CRAs and mitigate the issues of conflict of interest, a consultation paper on "Review of the Regulatory Framework for Credit Rating Agencies" was placed on SEBI website. Based on the public comments received on the same, SEBI approved the following changes in the SEBI (Credit Rating Agencies) Regulations, 1999:

- a. Minimum net worth requirement of a CRA shall be increased from existing ₹ 5 crore to ₹ 25 crore.
- b. The promoter of a CRA shall maintain a minimum shareholding of 26 per cent in the CRA for a minimum period of three years from the date of grant of registration by the Board.
- c. The foreign CRA eligible to promote a CRA, shall be incorporated in a Financial Action Task Force (FATF) member jurisdiction and registered under their law.
- d. No CRA shall:
  - i. directly or indirectly, hold 10 per cent or more of shareholding and/ or voting rights in any other CRA
  - ii. have representation on the Board of any other CRA.
- e. A shareholder holding 10 per cent or more shares and/ or voting rights in a CRA shall not hold 10 per cent or more shares and/ or voting rights, directly or indirectly, in any other CRA. However, this restriction shall not apply to holdings by pension funds, insurance schemes,

and mutual fund schemes.

- f. Acquisition of shares and/ or voting rights in a CRA by another CRA, beyond 10 per cent, shall be permitted only if such acquisition results in change in control in the CRA with the prior approval of SEBI.
- g. CRAs shall be permitted to withdraw the ratings subject to the CRA having rated the instrument continuously for a stipulated period and in the manner as specified by SEBI from time to time.
- h. CRAs shall segregate the activity other than the rating of financial instruments and economic/ financial research to a separate entity.

#### **G. Monitoring and Review of Ratings by Credit Rating Agencies (CRAs):**

In order to ensure prompt and accurate rating action by credit rating agencies (CRAs), during June 2017 SEBI, issued clarifications in respect of monitoring mechanism, disclosure norms and timelines for rating exercise by the CRAs covering the following broad areas:

- i. Surveillance Mechanism for identifying potential defaults, including:
  - a. Tracking the servicing of debt obligations for each rated instrument, ISIN-wise, and looking for potential deterioration in financials which might lead to defaults/ delays
  - b. Monitoring Exchange websites for disclosures made by the issuer
  - c. Review of ratings upon the occurrence of or announcement/ news of material events such as financial results, corporate debt restructuring etc.
  - d. Obtaining monthly "No Default Statement" from the issuer, confirming that the issuer has not delayed on any payment of interest/ principal in the previous month.
- ii. Timelines for press releases by the CRA in case of initial rating, periodic surveillance of ratings and event-based review of ratings.

- iii. Disclosures to be made vide Press Release in case of considerable delay by the issuer in providing information.
- iv. Strengthening of the rating agreement between the issuer and the CRA with enabling clauses to ensure cooperation from the issuer.

**H. Monitoring of Interest/ Principal repayment and sharing of such information with Credit Rating Agencies (CRAs) by Debenture Trustees (DTs):**

During June 2017, SEBI issued guidelines on monitoring of Interest/ Principal repayment and sharing of such information with credit rating agencies by debenture trustees whereby timelines, procedure, due-diligence and systems have been prescribed for the debenture trustees to effectively monitor repayments by the issuer companies.

**VI. FOREIGN PORTFOLIO INVESTOR**

**A. Easing of Access for Foreign Portfolio Investors (FPIs):**

In order to further ease the investment experience of FPIs in India the extant access and investment norms were fine-tuned as below:

- i. Expansion of eligible jurisdictions for grant of FPI registration to category I FPIs with approval of Government of India
- ii. Rationalization of fit and proper criteria
- iii. Modification in encumbrance obligation to address statutory requirements
- iv. Simplification of broad based requirement
- v. Rationalization of procedure for submission of Protected Cell Company (PCC) / Multi-Class Vehicle (MCV) Declarations and Undertakings (D&U) and Investor grouping requirement at

- the time of continuance of registration of FPIs
- vi. Discontinuance of requirements for seeking prior or approval from SEBI in case of change in local custodian / Designated Depository Participants (DDPs)
- vii. Placing reliance on due diligence carried out by erstwhile DDP at the time of change of Custodian / DDP of FPIs
- viii. Exemption to FPIs having Multiple Investment Managers (MIM) structure from seeking prior approval from SEBI in case of Free of cost transfer of assets
- ix. Simplification of process for addition of share class
- x. Permitting FPIs operating under the Multiple Investment Managers (MIM) structure to appoint multiple custodians
- xi. Permitting FPIs holding FVCI to appoint multiple custodians
- xii. Permitting appropriately regulated Private Bank/Merchant Bank to invest on their behalf and also on behalf of their clients
- xiii. Expansion of entities considered as appropriately regulated persons by including broker-dealer, swap dealers
- xiv. Other Clarifications on further simplification of broad based requirements (viz. 3 months' time to regain broad based status, conditional registration facility to existing funds in addition to newly established India dedicated funds).

**B. Increase in Government debt investment limits for FPIs:**

SEBI in consultation with RBI enhanced the limit for investment by FPIs in Government Securities in December 2017. The limit was enhanced as follows:

**Table 1.5: Revised Limits for Investment by FPIs in Government Securities** (₹ crore)

Type of Instrument	Revised Upper Cap with effect from January 01, 2018	Revised Upper Cap with effect from July 04, 2017	Revised Upper Cap with effect from April 03, 2017	Upper Cap as on March 31, 2017
<b>Government Debt – General</b>	1,91,300	1,87,700	1,84,901	1,52,000
<b>Government Debt – Long Term</b>	65,100	54,300	46,099	68,000
<b>SDL – General</b>	31,500	28,500	27,000	21,000
<b>SDL – Long Term</b>	13,600	4,600	NA	NA
<b>Total</b>	3,01,500	2,75,100	2,58,000	2,41,000

In July 2017, a new sub-category was created under the FPI limits in SDLs. This sub-limit referred to as SDL-Long Term is available exclusively for investment on tap by Long Term FPIs (Sovereign Wealth Funds (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks).

#### C. Investment by FPIs in Corporate Debt:

In July 2017 SEBI defined the procedure to be followed for auction on BSE/ NSE when the FPI investments in Combined Corporate Debt Limit exceeds 95 per cent.

In September 2017 Combined Corporate Debt Limit was renamed as Corporate Debt Investment Limit (CDIL) and Rupee Denominated Bonds issued overseas by Indian Companies were excluded from it. Also, limit freed from exclusion of Masala Bonds was made available to long term FPIs in infrastructure sector.

#### D. Investment by FPIs in Hybrid Securities:

In November 2017, SEBI advised Depositories to put in place system for daily reporting of FPI investment data in hybrid securities (REITs and INVITs) by custodian of the FPI and capture the same on their websites.

#### E. Monitoring Offshore Derivative Instrument (ODI):

In April 2017, an express provision was inserted in Regulation 22 (1) of the SEBI (FPI) Regulations, 2014 to prevent Resident Indians/NRIs or the entities

which are beneficially owned by Resident Indians/NRIs from subscribing to Offshore Derivative Instruments.

In June 2017, the SEBI Board has given approval to following proposals –

- To levy a “Regulatory Fee” of US\$ 1,000 on each ODI subscriber, to be collected and deposited by the ODI issuing FPI of such ODI subscriber, once every three years, starting from April 1, 2017.
- To prohibit ODIs from being issued against derivatives, except on those which are used for hedging purposes.

In July 2017, SEBI advised FPIs who issue ODIs that they are not to issue ODIs with derivatives as underlying, with the exception of those derivatives positions that are taken by the ODI issuing FPI for hedging the equity shares held by it, on a one to one basis.

#### F. Interest Rate Futures for FPIs:

In March 2018, SEBI in consultation with RBI, decided to allocate separate limit of INR 5,000 crore to FPIs for taking long position in interest rate futures. The said limit shall be over and above the prescribed investment limit of INR 3,01,500 crore by FPIs in government securities. This limit will be calculated as follows:

- For each interest rate futures instrument, position of FPIs with a net long position will be aggregated. FPIs with a net short position in the instrument will not be reckoned
- No FPI can acquire net long position in excess of INR 1,800 crore at any point of time.

#### G. Acceptance of e-PAN for KYC purpose:

In June 2017 SEBI clarified that the e-PAN issued by CBDT can also be produced by FPI for KYC compliance.

#### H. Online Registration of Designated Depository Participants (DDPs) and Custodians:

During August 2017, SEBI operationalized online the process of registration of custodian of securities and designated depository participants.

#### I. FATCA/CRS Compliance:

In March, 2018, SEBI advised all reporting financial institutions (RFI) to ensure compliance with the requirements of Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) as specified in Rule 114H of Income Tax Rules and Guidance note on FATCA issued by Central Board of Direct Taxes (CBDT). SEBI advised the DDPs that they should register FPIs only after obtaining valid self-certification/ FATCA/ CRS documentation and subsequently SEBI shall monitor compliance with FATCA/ CRS requirements during the inspection of DDPs/ Custodians.

### VII. THE CORPORATE DEBT MARKET

#### A. Inclusion of REITs and InvITs in the Definition of Debt Securities:

During December 2017 SEBI amended SEBI (Issue and Listing of Debt Securities) Regulations, 2008 to include Real Estate Investment Trusts (REITs) and Infrastructure Investment Trust (InvITs) in the definition of issuers eligible to issue debt securities. Consequently, the definition of "debt securities" under the said regulations have also been amended to include debt securities issued by REITs and InvITs.

#### B. Guidelines on NCRPS / NCDs:

SEBI issued guidelines on "listing of Non-Convertible Redeemable Preference Shares (NCRPS) / Non-Convertible Debentures (NCDs) through a Scheme of Arrangement" during May 2017. The guidelines inter-alia provided for eligibility criteria,

tenure/ maturity, requirement of credit rating and valuation report, disclosure requirements etc. before the scheme of arrangement is submitted for sanction by the National Company Law Tribunal (NCLT). SEBI also laid down additional conditions to be complied with after the scheme is sanctioned by the Hon'ble High Court / NCLT and at the time of making application for relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957.

#### C. Disclosure Requirements for Issuance and Listing of Green Debt Securities:

SEBI in May 2017 issued guidelines on disclosure requirements for issuance and listing of green debt securities, which inter-alia, laid down criteria for the debt securities to be classified as "green" or "green debt securities", disclosure requirements as well as continuous disclosure requirements for green bonds and the responsibility of the issuer of green debt securities.

#### D. Disclosure Norms for the issuers of Municipal Bonds:

In June 2017, SEBI laid down guidelines for continuous disclosures and compliances to be made by the issuers under SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015. In the said guidelines it was inter-alia provided that the issuer shall prepare and submit un-audited financial results on a half yearly basis to the stock exchange and debenture trustee, wherever applicable, as soon as the same is available but not later than three months from the end of the half year. It has also been provided that the issuer shall prepare and submit the annual audited financial results with the stock exchange and debenture trustee, wherever applicable, as soon as the same is available but not later than six months from the end of the financial year. The audited financial results shall be accompanied by the annual report of the issuer.

#### E. Guidelines on Specifications of ISINs for Debt Securities:

During June 2017, SEBI issued guidelines on specifications related to International Securities Identification Number (ISINs) for debt securities issued

under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008. The guidelines are as follows:

- i. A maximum number of 17 International Securities Identification Numbers (ISINs) maturing in any financial year shall be allowed. Additionally 12 ISINs shall also be available for the issuance of the capital gains tax debt securities by the authorized issuers under section 54EC of the Income Tax Act 1961 on private placement basis.
- ii. Out of 17 ISINs maturing in a financial year, the bifurcation of ISINs shall be as under:
  - a) A maximum of 12 ISINs maturing per financial year shall be allowed only for plain vanilla debt securities. Further, within these 12 ISINs, the issuer can issue both secured and unsecured debt securities.
  - b) A maximum of 5 ISINs (i.e. for structured debt securities such as debt securities with call and/or put option, etc.) maturing per financial year shall be allowed only for structured products/market linked debt securities.
- iii. An issuer issuing only structured/market linked debt securities, may utilize the entire bucket of 12 ISINs in a financial year only for structured/market linked debt securities. However, in such a scenario, the additional 5 ISINs as mentioned above shall not be available to an issuer for utilization, either for structured debt securities or for plain vanilla debt securities.
- iv. The guidelines shall be applicable for debt securities issued in 2017-18 i.e. after the issuing of the said guidelines and shall not be applicable to the ISINs maturing in respect of the debt securities issued prior to the 2017-18. However, post 2017-18, whatever issuances are made by the issuer, the issues shall be grouped and consolidated under the ISIN maturing in the same financial year.
- v. The debt securities issued for raising regulatory capital such as Tier II bonds issued by housing finance companies (HFCs), standalone Primary dealers, Additional tier I bonds issued by banks etc. are exempted from the restriction on ISINs.

#### **F. Electronic Book Mechanism for Issuance of Securities on Private Placement Basis:**

SEBI issued detailed guidelines on electronic book mechanism (EBM) for issuance of securities on private placement during January 2018. Following the issuance of the said guidelines, earlier guidelines issued in April 2016 on EBM stands repealed. The guidelines on electronic book provider (EBP) are intended to enhance transparency in the issuance, resulting in better discovery of price.

#### **G. Clarifications on Guidelines related to ISINs:**

SEBI issued clarifications on certain provisions mentioned in the earlier guidelines issued in June 2017 on "Specifications related to International Securities Identification Number (ISINs) for debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008".

#### **H. Real Estate Investment Trusts (REITs):**

During 2017-18, SEBI made a few amendments to the SEBI (Real Estate Investment Trusts) Regulations, 2014, which, inter-alia, included the following:

- a) Allowing REITs to raise debt capital by issuing debt securities
- b) Introducing the concept of Strategic Investor for REITs on similar lines of InvITs
- c) Allowing single asset REIT
- d) Allowing REITs to lend to underlying cent stake in holding companies (Holdcos)/special purpose vehicles (SPVs)
- e) Allowing REITs to invest at least 50 per cent stake in Holdcos/SPVs and similarly allowing Holdco to invest at least 50 per cent stake in SPVs
- f) Rationalizing the definition of Sponsor group in case of REITs
- g) Enabling investments by REITs in unlisted shares under the 20 per cent investment category.
- h) Amending the definition of valuer for REITs

## I. Key Developments in Infrastructure Investment Trust (InvITs):

In 2017-18 few amendments have been made to the InvIT Regulations, which, inter-alia, included the following:

- a) Allowing InvITs to raise debt capital by issuing debt securities
- b) Amending the definition of valuer for InvITs

Further, SEBI also provided framework for investment by Strategic Investors in the public issue of InvITs. The operating guidelines, inter-alia, includes the following:

- a) The strategic investor(s) shall, either jointly or severally, invest not less than 5 per cent and not more than 25 per cent of the total offer size,
- b) A binding unit subscription agreement with the strategic investor(s),
- c) Subscription price per unit payable by the strategic investor(s) shall be set out in the unit subscription agreement etc.

## VIII. OTHER POLICIES AND PROGRAMMES HAVING A BEARING ON THE WORKING OF THE SECURITIES MARKET

### A. Alternative Investment Funds:

In order to further develop the start-up ecosystem in India and to provide ease of doing business for angel funds, SEBI is in the process of notifying the following amendments in SEBI (Alternative Investment Funds) Regulations, 2012 with respect to 'Angel Funds':

- i. Increase in maximum investment amount by an angel fund in any venture capital undertaking from five crore rupees to ten crore rupees.
- ii. The requirement of minimum corpus of an angel fund reduced from ten crore rupees to five crore rupees.
- iii. Increase in maximum period for accepting funds from angel investors from three years to five years.

iv. The requirement of filing of scheme memorandum to SEBI by angel funds replaced with the requirement of filing term sheet containing material information, within the time period specified by SEBI.

v. The provisions of the Companies Act, 2013 shall apply to the Angel Fund, if it is formed as a company.

### B. Investor Grievance Redressal Mechanism:

SEBI has come out with new policy measures on investor grievance redressal mechanism, which will come into effect from Aug 01, 2018. The measures aim at achieving expeditious redressal of grievances by inter alia prescribing norms for lodging and handling of the investor grievances:

- i. For lodging complaints against an intermediary/listed company directly the SCORES platform can be used, even if the complainant has not approached the concerned intermediary/listed company before for their grievances. The complaint will be registered in SCORES when the complaint has not been resolved satisfactorily after taking inputs of investor or 30 days whichever is earlier.
- ii. In order to enhance ease, speed and accuracy in redressal of investor grievance, the investor may lodge a complaint on SCORES within three years from the date of cause of complaint, where;
  - a. Investor has approached the listed company or registered intermediary for redressal of the complaint and the concerned listed company or registered intermediary rejected the complaint or
  - b. The complainant does not receive any communication from the listed company or intermediary concerned or
  - c. The complainant is not satisfied with the reply given to him or redressal action taken by the listed company or an intermediary.

### 3. ASSESSMENT AND PROSPECTS

#### I. ASSESSMENT

During 2017-18, SEBI continued to pursue its three statutory objectives: protecting the interests of investors in the securities market, promoting the development of and regulating the securities market. The main thrust of various policy measures undertaken during the year has been aimed at improving corporate governance, standardising the processes followed in the primary market, reviewing the risk management framework in the secondary market, developing the mutual funds industry, integration of the commodities and securities markets and strengthening supervision of the intermediaries. In addition, enhancement of cyber security of the market infrastructure has been one of the major objectives for SEBI during the year.

Indian securities markets exhibited positive trend during 2017-18. India's broad-based benchmark indices S&P BSE Sensex and NIFTY 50 grew by 11.3 per cent and 10.2 per cent respectively during 2017-18 from their closing in the last financial year. Market capitalisation of BSE and NSE expanded by 17.0 per cent and 17.2 per cent respectively at the end of March 2018 as compared to previous year. In the cash segment, the turnover at NSE and BSE increased substantially by 43.1 per cent and 8.5 per cent respectively, during the same time. Resource mobilisation through issue of equity increased during 2017-18 as compared to the previous financial year. A total of ₹ 1,10,269 crore was mobilised by issue of equity to the public during 2017-18, which was 77.5 per cent higher than the resource mobilised corresponding previous year. Funds raised through qualified institutional placement (QIP) was also nearly 8 times higher than previous year. Resource mobilisation through preferential allotments was also 34.4 per cent higher in 2017-18 compared to the previous year.

Mutual funds industry witnessed substantial growth during 2017-18. The industry saw gross resources mobilization of ₹ 209.99 lakh crore during 2017-18 compared to ₹ 176.16 lakh crore during 2016-17. Backed by strong inflows and increased participa-

tion of retail investors, the AUM of MF industry was ₹ 21.36 lakh crore at end of March 2018 compared to ₹ 17.54 lakh crore at end of March 2017. Further, the AAUM of MF industry was ₹ 21.46 lakh crore for the year 2017-18.

SEBI welcomed the assessment of the Indian Financial System undertaken by the joint IMF-World Bank team conforming to the highest international standards during 2017-18. The report of Financial Sector Assessment Programme acknowledges that SEBI had significantly expanded its regulatory programmes, stretched its on-site inspection programme and developed a risk-based matrix. The report also appreciates the measures undertaken to quicken the pace of bond market development. Further, as per the annual data for 2017 published by World Federation of Stock Exchanges (WFE), NSE is placed at first position in the World in index options and is placed at second position in stock futures, when ranked in terms of the number of contracts traded and/or cleared.

In recent times, pace of change in regulations combined with technology and globalization has introduced many innovations in most markets. In keeping pace with these innovations, SEBI has a system of checks and balances in place so that the perspectives of all parties impacted by any proposed change are brought forth. This is done by way of advisory committee participation, hearings by the committees, public comments on the proposals, internal deliberations, and final board approvals before introducing / modifying any significant proposals / regulations.

Under the Chairmanship of Shri Uday Kotak, SEBI in June 2017, set up a committee to obtain advice on issues relating to corporate governance for listed entities in India. In its report, the committee came up with more than 80 recommendations for improving corporate governance. SEBI decided to accept several recommendations of the Committee. The sweeping changes in governance standards will cover areas including composition of boards, the make-up of board committees, treatment of subsidiaries, disclosure for related-party transactions, audit evaluations and con-

duct of annual general meetings.

Earlier in 2016, SEBI had put in place a broad framework for the functioning of stock exchanges and clearing corporations in International Financial Services Centre (IFSC). In order to facilitate ease of doing business in IFSC, SEBI in 2017-18 continued the reforms for further development of IFSC. SEBI expanded the list of securities available for trading on stock exchanges in IFSC and thereby, enabled the market participants to trade in a wider set of products.

In recent years, cyber threats from different corner of the world have posed major challenge to the Indian capital markets. Taking cognizance of this challenge, SEBI had laid down a detailed framework with regard to cyber security and cyber resilience that stock exchanges, clearing corporations and depositories are required to adopt. SEBI had compiled a list of cyber threat vectors and cyber-attack scenarios which was shared with the MIIs to aid them in dealing with cyber risk. As a pre-emptive measure to further enhance the safeguards placed to protect the systems of the Indian MIIs, SEBI had advised MIIs to put-in controls based on its list of Cyber Threat Vectors and Cyber-attack scenarios.

Since SEBI assumed the task of regulating the commodity derivatives market, several policy measures to further develop and strengthen the market have been taken up. In his 2016-17 Budget Speech, the Hon'ble Finance Minister had inter-alia proposed that "new derivatives products will be developed by SEBI in the Commodity Derivatives Market". In this regard, SEBI issued necessary guidelines on product design and risk management framework for options in commodity derivatives market. To mark the beginning of institutional participation in the commodity derivatives market, SEBI allowed participation of Category III Alternative Investment Funds (AIFs) for the overall development of the markets. Integration of commodities and securities derivative markets by integrating the brokers was also accomplished during the year.

To enhance the reach of mutual funds towards the retail investors, SEBI had prescribed guidelines for instant access facility (IAF) to facilitate credit of redemption proceeds in the bank account of the in-

vestor. To promote digitalization, MFs/AMCs were allowed to accept investment by an investor through e-wallets (Prepaid Payment Instruments (PPIs)) subject to certain conditions. In the current financial year, SEBI had initiated changes to bring uniformity in the characteristics of similar type of schemes launched by different mutual funds and to clearly differentiate schemes launched by the mutual funds. This initiative of standardization of open ended schemes along with uniform description of a category across the fund houses would ensure better comparability for investors amongst schemes launched by different fund houses. Further, this shall ensure that the scheme names do not carry any misleading words and are in alignment with the category of the scheme.

Furthermore, SEBI had mandated use of Total Return Index (TRI) for benchmarking the performance of mutual fund schemes, since TRI takes into account dividends and interest payments on the underlying components of the index along with the capital gains. This would ensure that the scheme performance is compared more realistically against an appropriate benchmark. SEBI (Mutual Fund) Regulations, 1996 were also modified during 2017-18 to incorporate certain provisions to deal with possible conflict of interest. The new provisions would prevent the sponsor or any other shareholder holding substantial shares/Board Representation in one Mutual Fund, from having major stake or Board representation in AMC or Trustee Company of another Mutual Fund. This would ensure a better governance and shareholding in the Mutual Fund industry.

The rising global equity markets and accommodative global liquidity conditions coupled with positive business sentiment in India attracted foreign portfolio investors (FPIs) to invest in India. During 2017-18, the net investment by the FPIs in the Indian market was ₹ 1.5 lakh crore. In US\$ terms, net investments during 2017-18 were US\$ 22,618 million compared to net investments of US\$ 7,177 million during the previous year.

Market oversight through inspections, market surveillance, investigation and effective enforcement actions for violations of provisions under the SEBI Act are important for maintaining market integrity

and promoting overall confidence in the market. SEBI undertook inspections of market infrastructure institutions like stock exchanges, clearing corporations and depositories. A number of inspections were undertaken for various types of market intermediaries identified in terms of their risk assessments.

Protection of interest of investors has not only been a part of the preamble of SEBI Act but also a mainstay for SEBI as a public institution. Education and awareness along with grievance redressal are also key areas for capacity building and for making investors confident and aware while investing in the securities market. During 2017-18, SEBI emphasised on undertaking investor education and awareness programmes, reaching more investors / potential investors for this purpose. Furthermore, during the year, SEBI has come out with new policy measures relating to the investor grievance redress mechanism aimed at achieving expeditious redressal by inter alia prescribing norms for lodging and handling of the investor grievances.

SEBI's persistent efforts to develop and regulate the India securities markets on the back of vigorous policy reforms contributed to the growing statistics of the market. During the year SEBI remained committed to its approach of investor protection and empowerment. While the market fundamentals strengthened as the year progressed, steadfast policy measures encompassing all spheres of market activity further streamlined the regulatory infrastructure and built investor confidence.

## II. PROSPECTS

The World economy has outperformed most predictions and has witnessed faster recovery during 2017-18. The pickup in growth has been broad based, reflecting notable rebound in investment, manufacturing activity, and trade. This improved global growth outlook, was also backed by rising confidence and firming of commodity prices. According to IMF, in its April 2018 World Economic Outlook (WEO), the world economy would grow at 3.9 per cent in 2018 as well as in 2019. The advanced economies recorded faster expansion underlined by pickup in investment, accommodative monetary policy and stronger

balance sheets. The emerging market and developing economies on the other hand experienced robust growth primarily backed by acceleration in private consumption. According to IMF projections, the Indian economy is expected to grow at 7.4 per cent in 2018 and 7.8 per cent in 2019 which is significantly higher than the 6.7 per cent growth in 2017.

Against this backdrop, Indian securities market will continue to evolve on the back of various policy initiatives and strengthened macroeconomic fundamentals. SEBI proposes to continue its on-going process of reforms in the primary market to improve issuer and investor confidence. In this context, SEBI has decided to streamline the Issue of Capital and Disclosure Requirements Regulations, 2009, SEBI (Buy-back of Securities) Regulations, 1998 and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, to incorporate regulatory changes and market practices which have evolved over a period of time. Further, the possibility of reducing the time gap between the closure of bidding period in the public offer and listing of shares of the company on stock exchanges is also being explored. In addition, the regulatory framework for dealing with non-compliance with certain provision of SEBI (LODR) Regulations 2015 and the standard operating procedure (SOP) for suspension and revocation of trading of specified securities is proposed to be further strengthened to make it more effective.

SEBI also proposes to review its regulations in the context of the corporate insolvency resolution process under the Insolvency and Bankruptcy code 2016. SEBI also aims at examining stipulation of timely and detailed disclosures pertaining to defaults on debt obligations by listed entities to enhance transparency.

Corporate Governance is a globally relevant theme. Jurisdictions all across the world are grappling with the ever-increasing challenges being posed in this area. To improve the corporate governance framework, recommendations by the committee set up under the Chairmanship of Shri Uday Kotak, will be taken up for implementation after approval from SEBI Board. Tightening of the disclosure norms for listed companies defaulting on loans taken from banks and other financial intuitions is aimed at helping

ing banks to recognise their stressed assets as non-performing more uniformly and enhance transparency in the securities market.

In respect of the secondary market, the coming year, SEBI intends to strengthen the algorithmic trading framework to make the market more fair, equitable and transparent. SEBI is also planning to introduce physical settlement in stock derivatives in a phased manner and product suitability framework to promote growth and development of derivatives market in India. The Regulator is in the process of developing a framework to enable interoperability among clearing corporations to ensure cost advantages for members in the form of enhanced margin utilization, opportunities of best execution across trading platforms as well as savings on cost associated with membership.

Integration of commodities and securities derivative markets is being actively planned for further streamlining and development of the secondary market. In this direction, integration of operational framework at the exchange level is envisaged. Further, SEBI's focus will be to strengthen the commodity derivatives market by revisiting stress testing, risk management framework and SGF norms in line with the equity markets. Further, SEBI has plans to consider more commodity options contracts to be launched besides working on guidelines for index products which may be considered for launching in consultation with CDAC.

There have been many instances reported of misuse of clients' securities by brokers. To strengthen the supervision of stock brokers additional measures to prevent misuse of client's securities are under consideration. Further, technology based measures will be initiated to streamline the sharing of information amongst the Stock Exchanges, Depositories and SEBI to strengthen the inspection of intermediaries. The last year has also seen cases of shell accounts being used to carry out fraudulent / non-genuine trades. It is also proposed to introduce legal provisions that strengthen the mandate to the broker under Anti Money Laundering provisions to carry out necessary surveillance of client trading activity.

In an effort to make mutual funds industry

more attractive for stakeholders, steps will be taken to bring cost effectiveness in the mutual fund industry by promoting go green initiatives through online transactions and examining the existing expense ratio applicable for various mutual fund schemes. Besides, measures will be taken to bring uniformity in various practices of the mutual fund industry in the areas of governance, risk management, due diligence process, channels of distributions, etc. SEBI will also explore the possibilities of increasing penetration through technology based initiatives by creating awareness through various digital mediums.

SEBI intends to deploy data analytics and new generation technologies to understand and handle challenges arising out of technological advancements in the market. SEBI proposes to introduce measures to address the issue of major announcements by listed companies so as to reduce the element of uncertainty in the market and to dis-incentivize misuse of unpublished price sensitive information by insiders.

Todays, cyber security breaches pose a major challenge to market participants across the globe. To deal with this challenge, SEBI plans to expand the scope for cyber security initiatives for MIIs and also look into the operational modalities of implementation. Further, data privacy requirements are also intended to be put in place.

In this direction, a full cyber security review of MIIs is planned that includes all the cyber security advisories issued by SEBI and full list of cyber security threat vectors. In addition, a cyber-capability index is being developed to assess the cyber security preparedness and resilience of MIIs to ascertain the level of preparedness.

With a view to further strengthen its legal framework, SEBI will be reviewing the SEBI (Settlement of Administrative and Civil proceedings) Regulations. The informal guidance scheme will be reviewed to consider expanding the scope of guidance inter alia allowing persons to seek advance guidance before undertaking securities market activities which require registration, revision of fees for seeking advance guidance etc.

In respect of market integrity, the Fair Market Conduct Committee was set up under the Chairman-

ship of Shri T.K. Viswanathan for identification opportunities for improvement in SEBI (Prohibition of Insider Trading) Regulations, 2015 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003. Further, suggestions were also sought on short term and medium term measures for improved surveillance of the markets.

While protecting investors in securities market, SEBI is also committed to its objective of promoting awareness about financial markets, making investors aware of financial planning and about their rights and obligations regarding investments. SEBI will continue to expand financial literacy and investor awareness programmes and activities directly and in partnership with other stakeholders especially in the emerging commodity derivatives sphere.

Internally, to strengthen its analytics systems, SEBI is aiming to build a Hub-and-Spoke System of data centralization and organization wide access, with a focus on data, analytical tools, and techniques to support both policy making and enforcement.

Over the decades, SEBI has played an integral role in establishing the benchmark of international regulatory practices and promoting fairness, transparency and efficiency of the securities market. SEBI has been an active and leading member of the International Organisation of Securities Commission (IOSCO), which is globally recognised as the international standard setter of securities market. The IOSCO Multilateral Memorandum of Understanding (MMoU) has proven to be an effective tool in cross border cooperation in combating financial fraud and misconduct. In the coming year, SEBI will continue to provide co-operation and facilitate exchange of information with its counterparts in other jurisdictions for the purpose of regulatory enforcement.

During 2018-19, SEBI's priority will be to continue to focus on achieving its mandated statutory objectives through various policy and enforcement initiatives. Throughout the year, it will be SEBI's endeavour to cooperate with other global regulators to meet the mandated objectives of regulating and developing the Indian securities market and protecting interests of the investors.

## Part Two:

# Trends and Operations in the Securities Market

### ■ PRIMARY SECURITIES MARKET

The financial year 2017-18 was a vibrant year for the Indian IPO market. It witnessed the highest ever resource mobilisation through public and rights issues. A positive investment climate supported by robust macroeconomic performance, easing inflationary pressures, stable FDI inflows, regulatory and structural reforms by the government improved the business confidence and attracted investors to the primary market. Several mega issues apart, a number of small companies from diverse growth sectors of the economy entered the market. There is good response to a majority of the public issues from foreign portfolio investors (FPIs), other institutional investors and the retail investors. A large number of the issues were over-subscribed indicating the appetite for public issues by the investors.

Companies from diverse sectors ranging from manufacturing companies to insurance companies, from hotels to new age banks raised funds through the IPO market. There was heightened activity in the insurance sector for the first time with as many as five Insurance IPOs raising 41.3 per cent of the total funds raised. During the year, 31 IPOs out of 45 main board

IPOs raised an amount of ₹ 77,088 crore with an issue size of ₹ 500 crore or more (with the largest issue being for ₹ 11,176 crore).

#### I. RESOURCE MOBILISATION THROUGH PUBLIC AND RIGHTS ISSUES

During 2017-18, ₹ 1,10,269 crore were mobilised through 210 public and 21 rights issues as against ₹ 62,135 crore raised in 2016-17 through 121 public and 13 rights issues (Table 2.1), a jump of 77.5 per cent. There was a significant jump in the number of IPOs and the amount mobilised by them. There were 201 IPOs during 2017-18 compared to 105 in previous year, an increase of 91.4 per cent. Of the total, 156 IPOs were listed on the SME platform. The amount raised through IPOs in 2017-18 nearly tripled to ₹ 83,684 crore from ₹ 29,078 crore in the previous year. While the amount raised through rights issues rose significantly from ₹ 3,720 crore in 2016-17 to ₹ 21,400 crore in 2017-18, further the resource mobilised through public issue of debt declined from ₹ 29,328 crore in 2016-17 to ₹ 5,173 crore in 2017-18.

**Table 2.1: Resource Mobilisation through Public and Rights Issues**

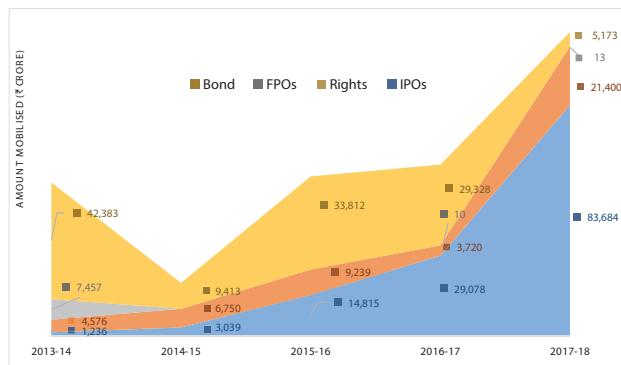
Particulars	2016-17		2017-18		Percentage share in total amount	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	2016-17	2017-18
<b>1. Public Issues (i)+(ii)</b>	<b>121</b>	<b>58,415</b>	<b>210</b>	<b>88,869</b>	<b>94.0</b>	<b>80.6</b>
(i) Public Issues	106	29,088	202	83,696	46.8	75.9
(Equity/ PCD /FCD) of which						
IPOs	105	29,078	201	83,684	46.8	75.9
FPOs	1	10	1	13	0.0	0.0
(ii) Public Issues (Bond / NCD)	15	29,328	8	5,173	47.2	4.7
<b>2. Rights Issues</b>	<b>13</b>	<b>3,720</b>	<b>21</b>	<b>21,400</b>	<b>6.0</b>	<b>19.4</b>
<b>Total Equity Issues (1(i)+2)</b>	<b>119</b>	<b>32,807</b>	<b>223</b>	<b>1,05,097</b>	<b>52.8</b>	<b>95.3</b>
<b>Total Equity and Bond (1+2)</b>	<b>134</b>	<b>62,135</b>	<b>231</b>	<b>1,10,269</b>	<b>100.0</b>	<b>100.0</b>

Notes: 1. The primary market resource mobilisation is inclusive of the amount raised on the SME platform.

2. All offers for sale are already counted under the head of IPOs/FPOs.

3. Both the equity and debt issues have been taken on the basis of their respective closing date.

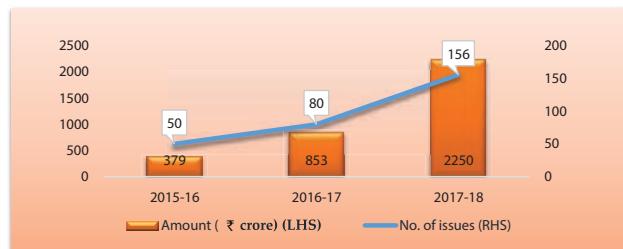
Figure 2.1 gives the relative share of the four modes of resource mobilisation -- IPOs, FPOs, bonds and rights issues - since 2013-14. The share of IPOs has gone up significantly from just 2.2 per cent in 2013-14 to 75.9 per cent in 2017-18. The rights issues saw a significant jump during 2017-18 as its share increased from 8.2 per cent in 2013-14 to 19.4 per cent in 2017-18. On the contrary, the share of public bond issue fell sharply to just 4.7 per cent in 2017-18 from 47.4 per cent in the previous year. After contributing 13.4 per cent to resource mobilisation in 2013-14, the contribution of FPOs remained insignificant thereafter.

**Figure 2.1: Share of Broad Categories of Issues in Resource Mobilisation (₹ crore)**

#### A. Resource Mobilisation on SME Platform

The spectacular performance in public equity issues was not limited to the main board IPOs. A

similar rise in activity was also observed in the SME segment which during the year, raised an amount of ₹ 2,250 crore through 156 issues which was a jump of 1.6 times of the funds raised in the segment during the previous financial year (Figure 2.2). The SME platform of the exchanges are intended for small and medium sized companies with high growth potential and whose post-issue paid up capital is less than or equal to ₹ 25 crore.

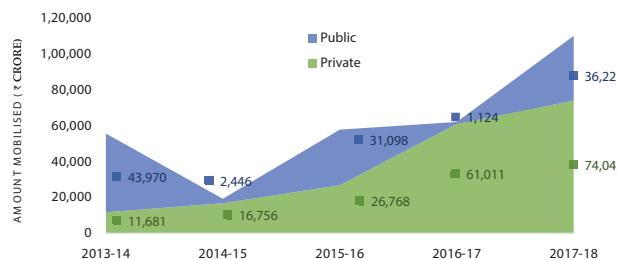
**Figure 2.2: Resource Mobilisation through the SME Platform**

#### B. Sector-wise Resource Mobilisation

Sector-wise classification of the resources mobilisation shows that the private sector dominated resource mobilisation efforts in 2017-18 with a 67.1 per cent share in the total resources mobilised (Figure 2.3). Of the 223 issues, 216 were from the private sector which raised ₹ 68,870 crore compared to 118 issues that raised ₹ 31,683 crore in 2016-17. The seven pub-

lic sector issues garnered ₹ 36,227 crore compared to ₹ 1,124 crore raised in 2016-17 through a single issue. Private sector contributed 67.1 per cent in the total resource mobilisation in 2017-18 as compared to 98.2 per cent in 2016-17.

**Figure 2.3: Sector-wise Resource Mobilisation (₹ crore)**



**Table 2.2: Size-wise Resource Mobilisation**

Issue Size	2016-17		2017-18		Percentage share in total amount	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	2016-17	2017-18
< ₹ 5 crore	27	88	30	115	0.1	0.1
≥ ₹ 5 crore & < ₹ 10 crore	24	163	41	277	0.3	0.3
≥ ₹ 10 crore & < ₹ 50 crore	33	698	91	1,834	1.1	1.7
≥ ₹ 50 crore & < ₹ 100 crore	4	264	7	481	0.4	0.4
≥ ₹ 100 crore & < ₹ 500 crore	17	4,990	21	6,922	8.0	6.3
≥ ₹ 500 crore	29	55,932	41	1,00,640	90.0	91.3
<b>Total</b>	<b>134</b>	<b>62,135</b>	<b>231</b>	<b>1,10,269</b>	<b>100.0</b>	<b>100.0</b>

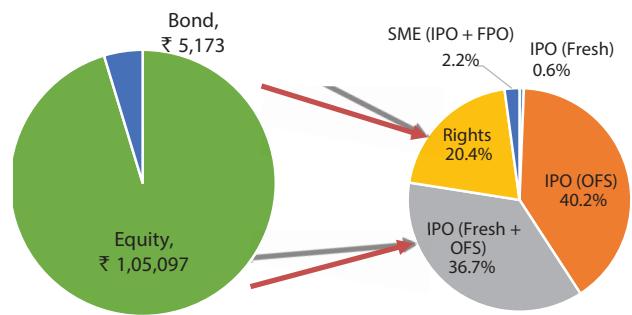
Figure 2.4 gives a further classification of total resource mobilisation during 2017-18. Out of total ₹ 1,10,269 crore raised during 2017-18, ₹ 1,05,097 crore (95.3 per cent of the total) were raised through equity issues whereas ₹ 5,173 crore (4.7 per cent of the total) were raised through debt issues. The further classification of equity issues shows that IPOs through Offer For Sale (OFS) route constituted 40.2 per cent of the total amount mobilised through equity issues during 2017-18, followed by IPO (Fresh Issue + OFS) constituted 36.7 per cent, amount raised through rights issues constituted 20.4 per cent, the amount raised through SME (IPO + FPO) represented 2.2 per cent and finally the amount raised through IPO (Fresh Issues) represented 0.6 per cent. The largest issue raised during 2017-18 was IPO (OFS) issue by General In-

### C. Size-wise Resource Mobilisation

In tandem with the trend observed in the past years, issues above ₹ 500 crore had a major share in the primary market for resource mobilisation. There were 41 large equity issues in 2017-18 within the cluster of the issue size of ₹ 500 crore and more. The amount raised by the 41 large issues constituted 91.3 per cent of the total resource mobilisation through public and rights issues, compared to 90.0 per cent in the previous year. The average size of an issue (including public and rights) in the primary market in 2017-18 was ₹ 477.4 crore as compared to ₹ 463.7 crore in 2016-17. The size-wise distribution of capital raised is presented in Table 2.2.

surance Corporation of India (₹ 11,176 crore), which was followed by another IPO (OFS) issue by The New India Assurance Company Limited (₹ 9,467 crore).

**Figure 2.4: Types of Issues in Resource Mobilisation (₹ crore and per cent)**



#### D. Industry-wise Resource Mobilisation

Insurance companies raised the largest amount in the industry-wise classification of resource mobilisation to the tune of ₹ 43,525 crore (or 39.4 per cent share in the total resource mobilisation), compared to ₹ 6,057 crore (or 9.7 per cent share) during previous year. During 2017-18, the top 5 IPOs by issue size were all made by public and private sector insurance companies. The finance companies raised ₹ 15,019 crore in 2017-18, down from ₹ 35,644 crore in the pre-

vious year. The share of finance companies in total resource mobilisation also fell sharply from 57.4 per cent in the previous year to 13.6 per cent in 2017-18, on the back of steep fall in public bond issues. Banks and Financial Institutions raised ₹ 8,075 crore in 2017-18 as compared to ₹ 3,628 crore in 2016-17, a rise of 122.6 per cent however, number of issues were same. The money raised by information technology industry decreased from ₹ 2,167 crore in 2016-17 to ₹ 1,869 crore in 2017-18, a fall of 13.8 per cent.

**Table 2.3: Industry-wise Resource Mobilisation**

Industry	2016-17		2017-18		Percentage share in total amount	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	2016-17	2017-18
Airlines	0	0	1	4,113	0.0	3.7
Automobiles	2	1,292	4	565	2.1	0.5
Banking/Fis	4	3,628	4	8,075	5.8	7.3
Cement and Construction	9	518	12	635	0.8	0.6
Chemicals	6	69	7	980	0.1	0.9
Consumer Services	7	303	17	897	0.5	0.8
Electronic Equipments/ Products	6	96	15	356	0.2	0.3
Engineering	3	13	5	542	0.0	0.5
Entertainment	3	512	4	759	0.8	0.7
Finance	22	35,644	16	15,019	57.4	13.6
Food processing	6	1,242	13	1,978	2.0	1.8
Healthcare	7	2,133	15	5,500	3.4	5.0
Hotels	0	0	3	2,558	0.0	2.3
Info Tech	5	2,167	18	1,869	3.5	1.7
Insurance	1	6,057	5	43,425	9.7	39.4
Oil & Natural Gas	1	1,039	0	0	1.7	0.0
Plastic	0	0	4	193	0.0	0.2
Power	2	365	4	36	0.6	0.0
Printing	0	0	1	14	0.0	0.0
Roads & Highways	0	0	1	601	0.0	0.5
Telecom	1	11	4	1,287	0.0	1.2
Textiles	19	980	16	749	1.6	0.7
Misc	30	6,068	62	20,118	9.8	18.2
<b>Total</b>	<b>134</b>	<b>62,135</b>	<b>231</b>	<b>1,10,269</b>	<b>100.0</b>	<b>100.0</b>

## II. Resource Mobilisation through QIP

### A. Qualified Institutions Placement (QIP)

QIP is an alternative mechanism introduced in 2006 to facilitate listed companies to raise capital in the Indian securities market. QIP enables a listed

company to issue equity shares, full or/and partly convertible debentures or any securities other than warrants to a qualified institutional buyers (QIBs). During 2017-18, 53 issues garnered a total of ₹ 67,257 crore through the QIP route as compared to ₹ 8,464 crore raised in 2016-17 (Table 2.4)

**Table 2.4: Resource Mobilisation through QIP**

Year	Only NSE		Only BSE		Common		Total	
	No. of issues	Amount (₹ crore)						
2016-17	0	0	0	0	20	8,464	20	8,464
2017-18	0	0	1	36	52	67,221	53	67,257

Source: BSE and NSE.

### B. Offer for Sale through the Stock Exchange Mechanism

Offer for sale (OFS) is a simpler method of share sale through the exchange platform for listed companies. The mechanism was first introduced in 2012 to make it easier for promoters of publicly-traded companies to reduce their holdings and comply with the minimum public shareholding norms by June 2013. This method was used largely by government to divest their shareholding in public sector companies. The mechanism is available to top 200 companies in terms of market capitalisation and only the promoters or shareholders holding more than 10 per cent of the share capital in a company can come up with such an issue.

In 2017-18, there were 29 OFS issues made on the platforms of NSE and BSE. The total resources mobilisation through OFS more than doubled to ₹ 17,085 crore during 2017-18 compared to ₹ 7,843 crore in 2016-17 (Table 2.5).

**Table 2.5: Offer for Sale through the Stock Exchange Mechanism**

Year	No. of Companies	No. of issues	Total Resource Mobilised (₹ crore)
2016-17	23	29	7,843
2017-18	20	29	17,085

Source: BSE and NSE

## III. Resource Mobilisation through Preferential Allotments

Preferential allotments are covered under Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. This mode of resource mobilisation is used by a listed company to issue equity shares/ fully convertible debentures (FCDs)/partly convertible debentures (PCDs) or any other financial instruments which will be converted to or exchanged with equity shares at a later date. The allotments are done on a preferential basis to a select group of investors under Section 81(1A) of the Companies Act, 2013. Further, the issuer is required to take the shareholders' approval and should comply with various provisions as specified in the SEBI (ICDR) Regulations, 2009 vis-à-vis the Companies Act, 2013.

During 2017-18, resource mobilisation through preferential allotment increased by 34.4 per cent to ₹ 59,472 crore through 407 issues as compared to ₹ 44,250 crore through 410 preferential issues in the previous year (Table 2.6).

**Table 2.6: Resource Mobilisation through Preferential Allotments**

Year	Only NSE		Only BSE		Common		Total	
	No. of issues	Amount (₹ crore)						
2016-17	188	2,957	17	1,219	205	40,073	410	44,250
2017-18	189	2,563	18	716	200	56,194	407	59,472

Source: BSE and NSE.

#### IV. Resource Mobilisation through Private Placement of Corporate Debt

Indian companies raised ₹ 5,99,147 crore in 2017-18 through private placement of corporate debt,

which was 6.5 per cent lower than ₹ 6,40,716 crore raised in the previous year (Table 2.7). In terms of the number of issues, 2,706 issuances were made in 2017-18, as compared to 3,377 issues in 2016-17, a decrease of 19.9 per cent.

**Table 2.7: Private Placement of Corporate Bonds Reported to BSE and NSE**

Year	Only NSE		Only BSE		Common		Total	
	No. of issues	Amount (₹ crore)						
2016-17	1,023	2,19,721	2,177	2,54,213	177	1,66,782	3,377	6,40,716
2017-18	721	1,70,835	1,809	2,34,615	173	1,93,698	2,706	5,99,147

Source: BSE and NSE.

## 2. SECONDARY SECURITIES MARKET

### I. Equity Markets

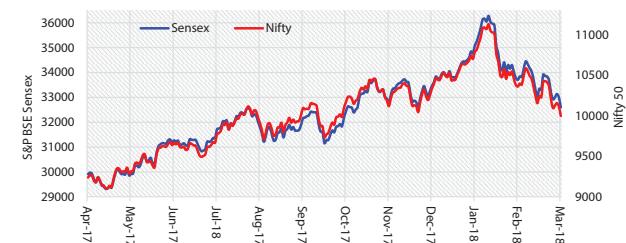
Indian stock market scaled new peaks on January 29, 2018, with Sensex and Nifty touching their respective all-time highs of 36,444 and 11,172, on the back of positive domestic and global sentiments. The mutual fund invested ₹ 5.1 lakh crore whereas foreign portfolio investors (FPIs) invested ₹ 1.45 lakh crore in the Indian equity market during 2017-18.

The improvement in FPI investment was associated with the rising global equity markets and accommodative global liquidity conditions. Apart from liquidity, the economic recovery in USA, Eurozone and Japan, optimistic global growth outlook, contributed to buoyancy in the global stock markets and cross border capital flows. The improvement in the mutual fund investment may be due to reallocation of portfolio towards equity away from traditional physical assets and increased investor awareness.

Further, strong growth rates, benign inflation and contained twin deficits despite the recovery of global crude oil prices, positive policy actions including implementation of key structural reforms like implementation of GST, recapitalisation of public sector banks, progress in resolution on insolvency and bankruptcy matters, a normal monsoon rainfall, reduced geo-political tensions and external vulnerabilities have contributed to investors' confidence in the India growth story that is reflected on positive mood in the markets.

India's broad-based benchmark indices S&P BSE Sensex (henceforth referred to as Sensex) and NIFTY 50 (henceforth referred to as NIFTY) continued its growth momentum in 2017-18, as Sensex and Nifty gained 11.3 per cent and 10.2 per cent respectively during the year (Figure 2.5). The Sensex closed at 32,969 on March 28, 2018, up by 3,348 points or 11.3 per cent higher compared to the close of previous financial year end. The Nifty closed at 10,114 on March 28, 2018, up by 940 points or 10.2 per cent higher compared to the close of previous financial year end.

**Figure 2.5: Movement of Benchmark Stock Market Indices**



Source: BSE and NSE

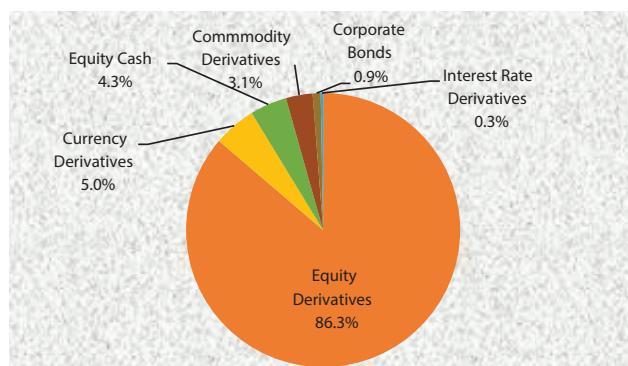
Both Sensex and Nifty reached their respective all-time highs of 36,444 and 11,172 on January 29, 2018. The lowest level attained by the Sensex was 29,319 on April 18, 2017 while the NIFTY recorded its lowest level of 9,105 on April 19, 2017. The biggest gains in benchmark indices were observed on March 12, 2018 when the Sensex appreciated by 1.8 per cent while the NIFTY increased by 1.9 per cent. Further, on February 2, 2018, both the indices recorded a declined by 2.3 per cent over previous day.

In the cash segment, the turnover at NSE increased by 43.1 per cent during 2017-18 compared to 19.3 per cent growth in the previous year. The turnover of BSE too increased by 8.5 per cent during 2017-18 compared to 34.9 per cent growth in the previous year.

In the equity derivatives segment too, the turnover at NSE witnessed spurt in the trading activity. The gross turnover at NSE rose by 74.8 per cent during 2017-18 compared to 45.6 per cent growth in the previous year. The trading activity of equity derivative segment of BSE, however, declined significantly. The gross turnover in the derivatives segment of BSE declined by 53 per cent during 2017-18, compared to decline of 99.8 per cent in the previous year. MSEI recorded very small volumes in the cash segment while no trading was observed in its equity derivatives segment (Table 2.8). The segment-wise composition of the value traded in the secondary market is shown in Figure 2.6. In the secondary market, the highest share in terms of traded turnover was held by equity derivatives at 86.3 per cent, followed by currency

derivatives (5 per cent), equity cash segment (4.3 per cent), commodity derivatives (3.1 per cent), corporate bonds (0.9 per cent) and interest rate derivatives (0.3 per cent).

**Figure 2.6: Percentage share in traded value in the secondary market**



Source: National exchanges.

The market capitalisation of BSE and NSE also witnessed a gain of 17.0 per cent and 17.2 per cent, respectively in 2017-18 over previous year. In terms of PE valuations, the PE ratio of Sensex and Nifty increased modestly to 22.7 and 24.7, respectively, at the end of March 2018 from 22.6 per cent and 24.3 per cent, respectively, at the end of March 2017. The annualized volatility of the Sensex and Nifty registered 10.0 per cent in 2017-18 from 12.1 per cent and 12.3 per cent, respectively, in 2016-17. While the number of companies listed at BSE decreased to 5,619 at the end of March 2018 from 5,834 at the end of March 2017, the number of companies listed at NSE increased to 1,931 at the end of March 2018 from 1,817 at the end of March 2017.

**Table 2.8: Major Indicators of the Indian Securities Markets**

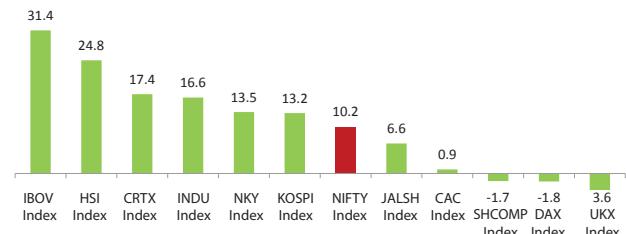
Item	2016-17	2017-18	Percentage Variation over the Previous Year	
			2016-17	2017-18
<b>A. Indices</b>				
S&P BSE Sensex				
Year-end	29,621	32,969	16.9	11.3
Average	27,338	32,397	3.9	18.5
Nifty 50				
Year-end	9,174	10,114	18.5	10.2
Average	8,421	10,030	5.5	19.1
SX40				
Year-end	17,858	19,686	16.5	10.2
Average	16,492	19,395	4.8	17.6
<b>B. Annualised Volatility (per cent)</b>				
S&P BSE Sensex	12.1	10	-28.7	-17.4
Nifty 50	12.3	10	-27.5	-18.7
SX40	12.0	9.7	-27.6	-18.8
<b>C. Total Turnover (₹ crore)</b>				
Equity Cash Segment	60,54,422	83,17,987	21.6	37.4
BSE	9,98,261	10,82,968	34.9	8.5
NSE	50,55,913	72,34,826	19.3	43.1
MSEI	248	193	20.7	-22.3
Equity Derivatives Segment	9,43,77,241	16,49,88,122	36.2	74.8
BSE	6,939	3,263	-99.8	-53.0
NSE	9,43,70,302	16,49,84,859	45.6	74.8

Item	2016-17	2017-18	Percentage Variation over the Previous Year	
			2016-17	2017-18
MSEI	Na	Na	Na	Na
Currency Derivatives Segment	83,26,651	95,80,665	9.7	15.1
BSE	31,71,648	44,36,430	14.8	39.9
NSE	48,57,076	50,28,502	7.9	3.5
MSEI	2,97,928	1,15,733	-8.2	-61.2
Interest Rate Derivatives Segment	4,38,341	5,45,308	-33.9	24.4
BSE	1,27,979	2,23,881	12.1	74.9
NSE	3,07,809	3,21,208	-41.5	4.4
MSEI	2,552	219	-88.8	-91.4
Commodity Derivatives Segment	64,99,637	60,22,530	-2.9	-7.3
NCDEX	5,96,852	5,89,497	-41.5	-1.2
MCX	58,65,661	53,93,350	4.1	-8.1
NMCE	28,442	34,591	-3.2	21.6
ICEX	NA	2,158	Na	Na
Hapur Commodity Exchange	7,923	2,934	-29.2	-63.0
Rajkot Commodity Exchange Ltd	759	Na	-61.6	Na
<b>D. Market Capitalisation (₹ crore)</b>				
BSE	1,21,54,525	1,42,24,997	28.3	17.0
NSE	1,19,78,421	1,40,44,152	28.7	17.2
MSEI	1,18,31,271	1,38,96,724	28.8	17.5
<b>E. No. of Listed Companies</b>				
BSE	5,834	5,619	-1.3	-3.7
NSE	1,817	1,931	0.5	6.3
MSEI	80	270	0.0	237.5

Source: National exchanges.

Most of the equity markets across the globe witnessed good equity market performance during 2017-18, on the back of recovery in the advanced economies and easy monetary conditions. Among selected global equity market indices, Brazil's IBOVESPA Index gained highest by 31.4 per cent during 2017-18 followed by Hong Kong's Hang Seng Index (24.8 per cent), Russia's CRTX index (17.4 per cent), USA's Dow Jones Industrial Index (16.6 per cent), Japan's Nikkei Index (10.2 per cent), South Korea's Kospi Index (13.2 per cent) and India's Nifty Index (10.2 per cent). However, UK's FTSE 100 index fell highest by 3.6 per cent followed by Germany's DAX index (1.8 per cent) and China's Shanghai Composite Index (-1.7 per cent).

**Figure 2.7: Annual Returns of International Indices during 2017-18**



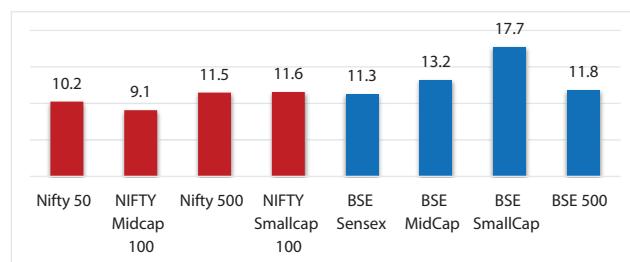
Source: Bloomberg

## II. Performance of Broader Market Indices and Sectoral Indices

During 2017-18, equity markets registered mod-

est growth. India's leading equity benchmark indices Nifty 50 and S&P BSE Sensex grew by 10.2 per cent and 11.3 per cent respectively. Among the broad based indices at NSE, Nifty Small Cap index, NSE 500 index and Nifty Mid Cap index grew by 11.6 per cent, 11.5 per cent and 9.1 per cent respectively during 2017-18. Similarly, the broadband indices at BSE viz. S&P BSE Small Cap index, S&P BSE Mid Cap index and S&P BSE 500 index rose by 17.7 per cent, 13.2 per cent and 11.8 per cent respectively during 2017-18.

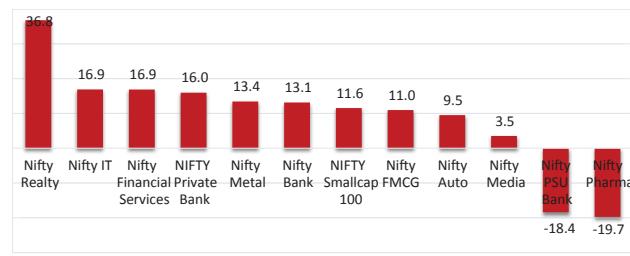
**Figure 2.8: Performance of Major Stock Indices during 2017-18**



Source: NSE and BSE

Among the select sectoral indices at NSE, Nifty Realty Index gained highest (36.8 per cent) followed by Nifty IT Index & Nifty Financial Services (16.9 per cent), Nifty Private Bank (16 per cent), Nifty Metal Index (13.4 per cent) and Nifty Bank Index (13.1 per cent). On the other hand, NSE's Nifty Pharma Index and Nifty PSU Bank Index were decreased by 19.7 per cent and 18.4 per cent respectively during 2017-18.

**Figure 2.9: Annual Returns of NSE's Sectoral Indices during 2017-18**

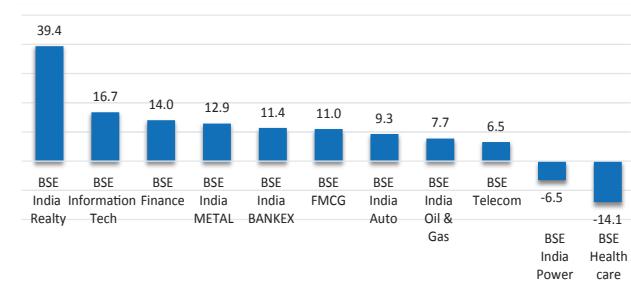


Source: NSE

Among the select sectoral indices at BSE, S&P BSE India Realty Index gained highest (39.4 per cent) followed by S&P BSE IT Index (16.7 per cent), S&P BSE Finance Index (14 per cent), S&P BSE Metal Index (12.9 per cent), S&P BSE Bankex Index (11.4 per cent),

S&P BSE FMCG index (11 per cent) and S&P BSE Auto Index (9.3 per cent). On the other hand, S&P BSE Healthcare Index and S&P BSE India Power Index fell by 14.1 per cent and 6.5 per cent, respectively during 2017-18.

**Figure 2.10: Annual Returns of BSE's Sectoral Indices during 2017-18**



Source: BSE

### III. Turnover in the Indian Stock Market

The turnover of all stock exchanges in the cash segment increased by 37.4 per cent to ₹ 83.2 lakh crore in 2017-18 from ₹ 60.5 lakh crore in the previous year. Of the aggregate turnover, NSE accounted for 87 per cent of the total turnover and BSE accounted for 13 per cent of the total turnover. Reflecting increased activity in the market, NSE's turnover in the cash segment increased by 43.1 per cent to ₹ 72.3 lakh crore in 2017-18 from ₹ 50.6 lakh crore in the previous year. During the same period, BSE too witnessed an increase in turnover by 8.5 per cent to ₹ 10.8 lakh crore from ₹ 9.98 lakh crore in previous year. Annual turnover of MSEI decreased by 22.3 per cent to ₹ 193 crore during 2017-18 from ₹ 248 crore during the previous year (Table 2.9).

**Table 2.9: Exchange-wise Cash Segment Turnover (₹ crore)**

Stock Exchange	2016-17	2017-18	Percentage share in total turnover during 2017-18	Percentage variation over 2016-17
BSE	9,98,261	10,82,968	13.0	8.5
MSEI	248	193	0.0	-22.3
NSE	50,55,913	72,34,826	87.0	43.1
<b>Total</b>	<b>60,54,422</b>	<b>83,17,987</b>	<b>100</b>	<b>37.4</b>

Source: National Exchanges

Meanwhile, the trading activity in GIFT city, a special economic zone in Gujarat which hosts BSE's India INX exchange and NSE's NSE IFSC exchange, has started gaining momentum during 2017-18. BSE's India INX exchange became the first international exchange to start its trading in the GIFT city from January 16, 2017. With more than a year in operation, India INX exchange, emerged as a largest player and recorded a total turnover of US\$ 27,228.2 million during 2017-18, in equity derivatives, currency derivatives

and commodities derivatives segments. NSE IFSC exchange, which commenced its trading from June 5, 2017 recorded gross turnover of US\$ 7,370.4 million in those three segments (Table 2.10). Earlier, in March 2015, SEBI had issued International Financial Services Centres Guidelines, 2015 (IFSC Guidelines) to facilitate and regulate financial services relating to securities market in an International Financial Services Centre set up under Section 18(1) of Special Economic Zones Act, 2005.

**Table 2.10: Notional Turnover at IFSC during 2017-18 (in US\$ Million)**

	Equity Derivatives				Currency Derivatives		Commodities Derivatives
	Index futures	Index Options	Stock Futures	Stock Options	Currency Futures	Currency Options	Commodity Futures
India INX	11,784.7	2,689.8	499.6	-	0.3	-	12,253.9
NSE IFSC	6,636.9	710.4	23.0	0.0	0.0	0.0	0.1

**Source:** India INX and NSE-IFSC exchange

Trading data for the top-20 cities in India shows that 58.6 per cent of BSE's total turnover in the equity cash segment and 62.1 per cent of NSE's total turnover in the equity cash segment was concentrated in Mumbai (including Thane), the financial hub of the country. At NSE, Delhi/Ghaziabad contributed 6.8 per cent to the total turnover, followed by Gurugram (5.1 per cent), Kolkata/Howrah (5.0 per cent), and Bengaluru (4.4 per cent). At BSE, the second highest contrib-

ution came from Gurugram which contributed 7.6 per cent to the total turnover, followed by Kolkata (3.6 per cent), New Delhi (3.0 per cent), and Ahmedabad (2.9 per cent). The top five cities accounted for 83.4 per cent of the turnover at NSE during 2017-18, compared to 82 per cent in 2016-17. At BSE, the top-five cities contributed 75.5 per cent to the turnover 2017-18 as compared to 71.5 per cent in 2016-17 (Table 2.11).

**Table 2.11: City-wise Turnover of the Top-20 Cities in the Cash Segment**

BSE			NSE		
City	Turnover (₹ crore)	Percentage share in cash turnover	City	Turnover (₹ crore)	Percentage share in cash turnover
Mumbai	1,264,317	58.4	Mumbai / Thane	89,78,696	62.1
Gurgaon	164,882	7.6	Delhi/Ghaziabad	9,82,862	6.8
Kolkata	77,181	3.6	Gurgaon	7,39,716	5.1
New Delhi	65,944	3.0	Calcutta / Howrah	7,28,868	5.0
Ahmedabad	63,477	2.9	Bangalore	6,39,412	4.4
Rajkot	37,791	1.7	Hyderabad/Secunderabad/Kukatpally	5,08,173	3.5
Chennai	23,110	1.1	Ahmedabad	4,42,479	3.1
Vadodara	19,110	0.9	Ghaziabad/Noida/Sahibabad	2,52,974	1.7
Ghaziabad	17,778	0.8	Rajkot	1,88,828	1.3

BSE			NSE		
City	Turnover (` crore)	Percentage share in cash turnover	City	Turnover (` crore)	Percentage share in cash turnover
Jaipur	13,901	0.6	Haryana	1,50,950	1.0
Surat	11,666	0.5	Chennai	1,29,684	0.9
Indore	8,534	0.4	Cochin/Ernakulam/Parur/ Kalamserry/Alwaye	1,24,068	0.9
Pune	7,536	0.3	Surat	89,325	0.6
Hyderabad	7,378	0.3	Indore	77,344	0.5
Bengaluru	7,303	0.3	Jaipur	69,446	0.5
Kanpur	6,897	0.3	Baroda	55,683	0.4
Chandigarh	4,330	0.2	Chandigarh/Mohali/Panch- kula	32,164	0.2
Nagpur	4,201	0.2	Jodhpur	25,286	0.2
Thane	3,984	0.2	Faridabad	21,231	0.1
Jodhpur	3,903	0.2	Pune	19,407	0.1
Other	352,711	16.5	Others	2,13,055	1.5
<b>Total</b>	<b>10,82,968</b>	<b>100</b>	<b>Total</b>	<b>72,34,826</b>	<b>100</b>

Source: BSE and NSE

#### IV. Market Capitalisation

Market capitalisation is the total market value of a publicly traded company's outstanding shares at any point. It is a major indicator that reflects the size of the stock market. In consonance with the market uptrend, market capitalisation surged at both the exchanges.

Table 2.12: Market Capitalisation at BSE and NSE

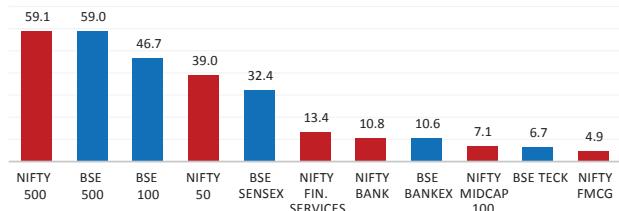
	March 31, 2017	March 31, 2018	Percentage Change
<b>Free Float Market Cap (` crore)</b>			
NSE	54,43,720	63,48,290	16.6
BSE	54,31,644	68,00,679	25.2
<b>Total Market Cap (` crore)</b>			
NSE	1,19,78,421	1,40,44,152	17.2
BSE	1,21,54,525	1,42,24,997	17.0
<b>Free Float Market Cap as % of Total Market Cap</b>			
NSE	45.4	45.2	Na
BSE	44.7	47.8	Na

Source: BSE and NSE

The total market capitalisation at BSE and NSE increased by 17.0 per cent and 17.2 per cent respectively to ₹ 142.2 lakh and ₹ 140.4 lakh crore at the end of 2017-18. The Free float market cap as a percentage of total market capitalisation at BSE and NSE stood at 47.8 per cent and 45.2 per cent, respectively, at the end of March 2018 (Table 2.12).

Amongst all the indices available at BSE and NSE, the free float market cap of NSE's Nifty 500 index was the highest at ₹ 59.1 lakh crore at the end of March 2018, followed by BSE 500 Index (₹ 59.0 lakh crore), BSE 100 Index (₹ 46.7 lakh crore), Nifty 50 (₹ 39 lakh crore) and BSE Sensex (₹ 32.4 lakh crore).

Figure 2.11: Free Float Market Capitalisation of BSE and NSE Indices (₹ lakh crore)



Source: BSE and NSE.

## V. Stock Market Indicators

Market capitalisation to GDP ratio provides an overview of developments in stock markets vis-à-vis growth in the economy. It measures the size of the stock market relative to the economy. After a plunge in 2015-16, market cap to GDP ratio increased significantly during 2016-17 and 2017-18. The BSE's market capitalisation to GDP ratio increased from 79.7 per

cent in 2016-17 to 84.9 per cent in 2017-18. Similarly, the NSE ratio increased from 78.5 per cent in 2016-17 to 83.8 per cent in 2017-18 (Table 2.13). The all-India equity cash segment turnover to GDP ratio increased to 49.7 per cent in 2017-18 from 39.7 per cent in 2016-17. The turnover to GDP ratio for the equity derivatives segment of NSE and BSE increased from 618.7 per cent in 2016-17 to 984.9 per cent in 2017-18.

**Table 2.13: Select Ratios Relating to the Stock Market (per cent)**

Year	BSE Market Capitalisation to GDP Ratio (in %)	NSE Market Capitalisation to GDP Ratio (in %)	Total Turnover to GDP Ratio (in %)	
			Cash Segment (all-India)	Equity Derivatives Segment (BSE+NSE)
2014-15	81.3	79.5	41.5	608.3
2015-16	69.3	68.0	36.4	506.5
2016-17	79.7	78.5	39.7	618.7
<b>2017-18</b>	<b>84.9</b>	<b>83.8</b>	<b>49.7</b>	<b>984.9</b>

**Notes:** 1. GDP figures are taken as nominal GDP at current prices.

**Source:** National exchanges and CSO.

The value of shares with respect to a company's earnings is gauged from the price-earnings ratio (P/E). As on March 31, 2018, BSE S&P Sensex and NIF-

TY 50's P/E ratios were 22.7 and 24.7 respectively as compared to 22.6 and 23.3 respectively on March 31, 2017 (Table 2.14).

**Table 2.14: Price to Earnings Ratio**

Year	S&P BSE Sensex	S&P BSE 100	S&P BSE Teck	S&P BSE Bankex	NIFTY 50	NIFTY Next 50	NIFTY IT	NIFTY Bank
2016-17	22.6	24.7	19.9	25.8	23.3	27.2	16.9	29.3
<b>2017-18</b>	<b>22.7</b>	<b>22.5</b>	<b>21.6</b>	<b>28.5</b>	<b>24.7</b>	<b>34.7</b>	<b>18.6</b>	<b>29.6</b>

**Note:** P/E ratio is as at the end of the respective year.

**Source:** BSE and NSE

The price to book (P/B) ratio is an important indicator which shows the current valuation of stocks with respect to a company's book value. At the end of 2017-18, the P/B ratio for the S&P BSE Sensex re-

mained unchanged at 3.0 while that of NIFTY 50 decreased to 3.4 from 3.5 at the end of 2016-17 (Table 2.15).

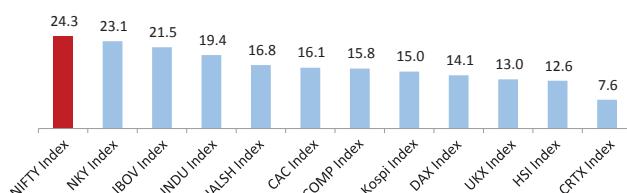
**Table 2.15: Price to Book Value Ratio**

Year	S&P BSE Sensex	S&P BSE 100	S&P BSE Teck	S&P BSE Bankex	NIFTY 50	NIFTY Next 50	NIFTY IT	NIFTY Bank
2016-17	3.0	2.8	3.5	2.2	3.5	3.5	4.7	2.8
<b>2017-18</b>	<b>3.0</b>	<b>3.0</b>	<b>3.8</b>	<b>2.2</b>	<b>3.4</b>	<b>3.3</b>	<b>4.5</b>	<b>2.8</b>

**Source:** BSE and NSE

An international comparison of P/E ratios indicates, at the end of 2017-18, the P/E ratio of India's Nifty Index was recorded to be the highest at 24.7 among other major advanced and emerging markets, followed by Japan's Nikkei Index (23.1), Brazil's IBOVESPA Index (21.5 per cent) and USA's Dow Jones Industrial Index (19.4 per cent). The PE ratio of Russia's CRTX index was lowest at 7.6 per cent (Figure 2.12).

**Figure 2.12: P/E Ratios of International Stock Market Indices as on March 31, 2018**



Source: Bloomberg

**Table 2.16: Annualized Volatility of Benchmark Indices (per cent)**

Annualised Volatility	S&P BSE Sensex	NIFTY 50	S&P BSE 100	S&P BSE Small Cap	NIFTY 500	NIFTY Next 50
2016-17	12.1	12.3	17.3	20.7	12.7	15.3
2017-18	10.0	10.0	10.2	15.6	10.6	13.5

**Note:** Annualized volatility is computed as the standard deviation of the logarithmic returns of the closing levels of the indices multiplied with the square root of the number of trading days during the period.

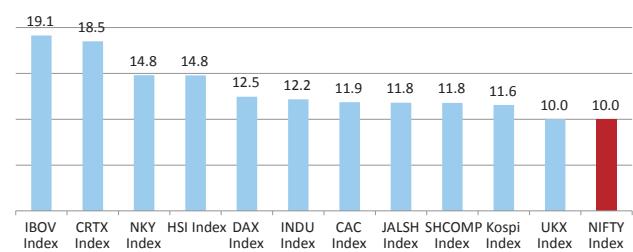
During 2017-18, the Indian equity markets were least volatile compared to its peers in global financial markets. A comparison of stock market volatility across developed and emerging markets is shown in Figure 2.13. Brazil's IBOVESPA and Russia's CRTX index showed highest volatility of 19.1 per cent and 18.5 per cent, respectively, during 2017-18, followed by Japan's Nikkei index (14.8 per cent) and Hong Kong's HSI Index (14.8 per cent). India's Nifty Index has the lowest annualized equity market volatility of 10 per cent during 2017-18.

## VI. Volatility in Stock Markets

The volatility in the Indian equity markets further subsided during 2017-18. India's volatility index (India VIX), which indicates investors' perceptions of the market's volatility in the next 30 calendar days, closed at 15.8 at the end of March 2018 compared to 12.4 at the end of March 2017.

During 2017-18, the S&P BSE Small cap recorded a highest volatility of 15.6 per cent, followed by Nifty Next 50 (13.5 per cent). Annualized volatility of the Sensex, decreased to 10 per cent in 2017-18 from 12.3 per cent in the previous year. A similar trend was observed for NIFTY which moved down from 12.3 per cent to 10 per cent in 2017-18 (Table 2.16).

**Figure 2.13: Annualized Volatility of International Stock Market Indices (per cent)**



**Note:** Annualized volatility is computed as the standard deviation of the logarithmic returns of the closing levels of the indices multiplied with the square root of number of trading days (assumed to be 252).

Source: Bloomberg

## VII. Trading Frequency

Trading frequency of stocks listed at NSE and BSE indicates improvement in the liquidity. Number of companies traded increased from 5,087 in 2016-17 to 5,221 in 2017-18 for BSE whereas the number increased from 1,796 to 1954 at NSE during the same period. At BSE during 2017-18, 3,127 companies (or 59.9

per cent of the total companies) traded for more than 100 days. At NSE, the number of companies traded for more than 100 days increased from 1633 in 2016-17 to 1730 in 2017-18. However, the percentage of scrips traded for more than 100 days decreased from 90.9 per cent to 88.5 per cent during the same period (Table 2.17).

**Table 2.17: Trading Frequency of Listed Stocks**

Trading Frequency (Range of Days)	2016-17				2017-18			
	BSE		NSE		BSE		NSE	
	No. of Stocks Traded	Percentage of Total	No. of Stocks Traded	Percentage of Total	No. of Stocks Traded	Percentage of Total	No. of Stocks Traded	Percentage of Total
<b>Above 100</b>	3,161	62.1	1,633	90.9	3,127	59.9	1,730	88.5
91-100	85	1.7	9	0.5	93	1.8	22	1.1
<b>81-90</b>	93	1.8	9	0.5	93	1.8	18	0.9
71-80	102	2	11	0.6	109	2.1	10	0.5
<b>61-70</b>	103	2	14	0.8	124	2.4	20	1.0
51-60	121	2.4	7	0.4	137	2.6	14	0.7
<b>41-50</b>	135	2.7	14	0.8	147	2.8	16	0.8
31-40	151	3	11	0.6	157	3.0	17	0.9
<b>21-30</b>	178	3.5	11	0.6	213	4.1	21	1.1
11-20	244	4.8	14	0.8	247	4.7	21	1.1
<b>0-10</b>	714	14	63	3.5	774	14.8	65	3.3
<b>Total</b>	<b>5,087</b>	<b>100.0</b>	<b>1,796</b>	<b>100.0</b>	<b>5,221</b>	<b>100.0</b>	<b>1,954</b>	<b>100.0</b>

Note: No of stocks traded includes ETFs and Mutual Fund Units.

Source: BSE and NSE.

The share of the top 100 brokers in the annual equity cash market turnover in 2017-18 at NSE and BSE was 82.0 and 82.8 per cent respectively. While,

the share of the top-100 securities in the annual cash market's turnover in 2017-18 at NSE and BSE was 61.3 per cent and 51.7 per cent respectively (Table 2.18).

**Table 2.18: Share of Top-100 Brokers/Securities in Annual Cash Market Turnover**

S. No.	Particulars	2016-17		2017-18	
		BSE	NSE	BSE	NSE
1	Share of top-100 Brokers in annual cash market turnover	83.8	81.7	82.8	82.0
2	Share of top-100 Scrips/securities in annual cash market turnover	62.3	67.2	51.7	61.3

Source: BSE and NSE

At NSE, the share of participants in the annual cash market turnover in 2017-18 shows that proprietary trades, FPIs and mutual funds had contributed 18, 16.1 and 7.3 per cent respectively, whereas domestic institutions (excluding MFs) contributed 2.9 per

cent. Similarly, at BSE, proprietary trades, FPIs, mutual funds and domestic institutions (excluding mutual funds) contributed 16.7, 15.7, 8.2 and 2.2 per cent, respectively in 2017-18 (Table 2.19).

**Table 2.19: Share of Participants in Annual Cash Market Turnover**

S. No.	Particulars	2016-17		2017-18	
		BSE	NSE	BSE	NSE
1	Proprietary trades	13.5	16.9	16.7	18.0
2	Domestic Institutions (excluding MFs)	1.4	0.1	2.2	2.9
3	FPIs	12.9	20.3	15.7	16.1
4	MFs	4.6	6.2	8.2	7.3
5	Others	67.6	56.5	57.2	55.7
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Notes:**

1. Domestic institutions (excluding mutual funds) include banks, DFIs, insurance companies and the New Pension Scheme.

2. Others include retail, partnership firms, trusts, HUFs, NRIs and QFIs.

Source: BSE and NSE.

### VIII. Activities of Stock Exchanges

During 2017-18, the all-India turnover at the stock exchanges in terms of number of shares traded increased by 36.4 per cent (Table 2.20). In terms of the total quantity of shares traded, NSE had a

share of 83 per cent in 2017-18, followed by BSE (17 per cent). NSE's share in the quantity of shares delivered was 75.5 per cent in 2017-18, followed by BSE (24.5 per cent). During 2017-18, the total value of shares delivered increased by 24.4 per cent to ₹ 24,14,418 crore from ₹ 19,41,465 crore in 2016-17.

**Table 2.20: Trading Statistics of Stock Exchanges**

Stock Exchange	Quantity Traded		Quantity Delivered		Value of Shares Delivered	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
	Quantity in crore				Amount in crore (₹ )	
BSE	7,072	7,716	3,038	3,083	4,64,996	3,95,999
MSEI	1.4	1.5	1.4	0.3	237	44
NSE	26,245	37,718	7,245	9,513	14,76,232	20,18,375
<b>Total</b>	<b>33,319</b>	<b>45,436</b>	<b>10,284</b>	<b>12,596</b>	<b>19,41,465</b>	<b>24,14,418</b>
Category-wise Percentage Share						
BSE	21.2	17.0	29.5	24.5	24.0	16.4
MSEI	0.0	0.0	0.0	0.0	0.0	0.0
NSE	78.8	83.0	70.4	75.5	76.0	83.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: National exchanges.

SEBI notified the exit policy for de-recognized/non-operational stock exchanges in 2012. As on March 31, 2018, 18 regional stock exchanges had been granted exit by SEBI. Three stock exchanges – the Magadh Stock Exchange Ltd., the Ahmedabad Stock Exchange Ltd. and the Calcutta Stock Exchange Ltd. are under the exit process.

### IX. Dematerialisation

Dematerialization has progressed at a fast pace

in India and has gained acceptance amongst the market participants since the introduction of the depository system. All actively traded scrips are held, traded and settled in demat form. The two depositories in India -- National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) -- provide depository services to investors through depository participants (DPs). The depositories do not charge the investors directly, but charge their DPs who in turn charge the clients. However, as per SEBI directive, DPs cannot charge investors to-

wards opening of a beneficiary owner (BO) account (except statutory charges), credit of securities into a BO account and custody charges. Over time, depositories have been reducing their charges along with the growth in volumes.

At the end of March 2018, there were 1.7 crore demat accounts at NSDL and 1.5 crore demat accounts at CDSL; 19,865 companies had signed up for dematerialization at NSDL and 10,628 at CDSL (Table 2.21).

During 2017-18, NSDL dematerialized 18,871 crore additional securities, while CDSL added 2,863 crore securities in the demat format. In other words, NSDL and CDSL added 14.3 per cent and 11.2 per

cent new securities to the demat form during 2017-18. In terms of value of securities held in demat form as on March 31, 2018, NSDL represent 89.7 per cent market share while CDSL represents 10.3 per cent market share. While in terms of number of securities held in demat form as on March 31, 2018, NSDL represents 84.1 per cent market share and CDSL represents 10.3 15.9 per cent market share. At the end of 2017-18, the total number of securities held by NSDL and CDSL in the demat format, stand at 1,50,634 crore and 28,378 crore, respectively. At the end of 2017-18 the ratio of dematerialized equity shares to total outstanding shares of listed companies was 86.7 per cent at NSDL and 12.9 per cent at CDSL.

**Table 2.21: Depository Statistics**

Particulars	NSDL		CDSL	
	2016-17	2017-18	2016-17	2017-18
No. of investor accounts (lakh)	156	171	123	148
No. of companies signed up (listed and unlisted)	17,835	19,865	9,887	10,628
• Of which no. of companies that are listed	6,301	5,916	6,027	6,208
Quantity of securities in demat form (lakh) (at the end of period)	1,31,76,251	1,50,63,392	25,52,274	28,38,051
Value of securities in demat form (₹crore) (at the end of period)	1,46,48,687	1,72,20,167	17,73,585	19,83,981
No. of shares settled in demat (lakh) (during the year)	10,80,712	13,13,733	7,04,738	9,37,973
Value of shares settled in demat (₹crore) (during the year)	26,34,095	32,53,753	6,41,849	9,39,117
Market capitalisation of listed companies joined in demat (₹ crore)	1,22,86,382	1,41,56,713	1,25,31,284	1,46,42,754
Custody Value of shares of listed companies (₹ crore)	1,04,29,665	1,22,69,187	16,47,878	18,44,233
Ratio of dematerialised equity shares to total outstanding shares listed (percent)	85.5	86.7	13.5	12.9

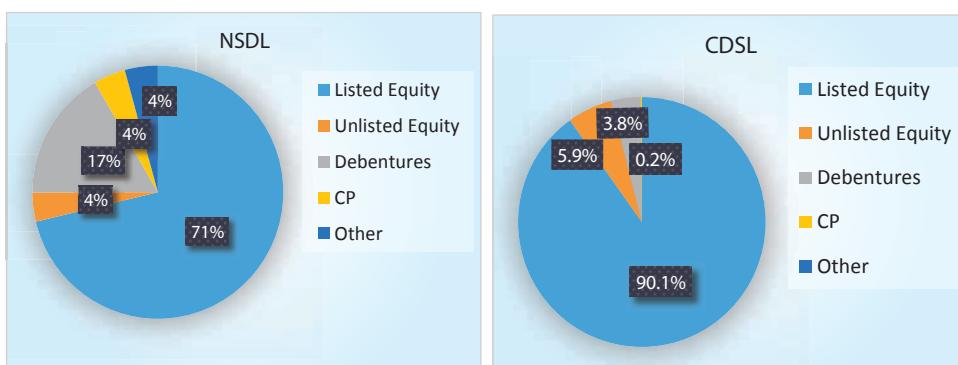
**Note:** Securities includes common equity shares, preferential shares, mutual fund units, debentures and commercial papers.

**Source:** NSDL and CDSL.

During 2017-18, NSDL and CDSL settled stocks worth ₹ 32 lakh crore and ₹ 9.4 lakh crore respectively compared to ₹ 26.4 lakh crore and ₹ 6.4 lakh crore shares settled during previous year, registering a year on year growth of 21.4 per cent and 46.3 per cent, respectively.

Besides equity shares, the dematerialization facility has also been extended to instruments like commercial papers and bonds. At the end of March

2018, the listed equity represents 71.2 per cent of total demat value at NSDL, followed by debentures (16.7 per cent), Commercial Paper (4.1 per cent) and unlisted equity (3.7 per cent). At CDSL, the higher proportion of demat value is concentrated in listed equity. The listed equity represents 90.1 per cent of total demat value at CDSL at the end of March 2018, followed by unlisted equity (5.9 per cent), debentures (3.8 per cent), and commercial paper (0.2 per cent).

**Figure 2.14: Percentage Share of Demat Value Held by NSDL and CDSL on March 31, 2018**

Source: NSDL and CDSL

The total value of commercial papers and debentures, held with NSDL in the demat form, increased by 70 per cent and 18.8 per cent respectively during 2017-18. On the other hand, the total value of commercial papers and debentures, held with CDSL

in the demat form, declined by 39.4 per cent and 1.3 per cent, respectively. While number of active debenture and commercial paper instruments increased significantly at NSDL, their number dropped marginally at CDSL during 2017-18.

**Table 2.22: Depository Statistics: Debentures/Bonds and Commercial Papers**

Particulars	Debentures / Bonds				Commercial Papers			
	2016-17		2017-18		2016-17		2017-18	
	NSDL	CDSL	NSDL	CDSL	NSDL	CDSL	NSDL	CDSL
No. of Issuers	1,698	783	2,177	802	375	24	477	27
No. of Active Instruments	15,044	8,792	16,418	8,503	2,270	156	3,328	123
Demat Value (₹ crore)	24,21,017	74,504	28,75,021	73,538	4,14,634	4,850	7,05,129	2,937

Source: NSDL and CDSL.

**Table 2.23: Geographical Spread of DP Locations:**

No. of DP Locations	NSDL		CDSL	
	2016-17	2017-18	2016-17	2017-18
1 - 10	1,511	1,481	3,466	3,464
10-20	188	203	81	77
21-50	139	144	61	64
51-100	62	68	26	25
> 100	37	44	22	20
Total	1,937	1,940	3,656	3,650

Note: The number of DP locations for CDSL includes locations that have back office connected DP centres.

Source: NSDL and CDSL.

The geographical coverage of NSDL's depository participants (DPs) increased while that of CDSL declined slightly for the second consecutive year. DP locations for NSDL increased to 1,940 cities at the end

of March 2018, up from 1,937 cities at the end of March 2017. On the other hand, during the same period, DP locations of CDSL decreased from 3,656 cities to 3650 cities. (Table 2.23). CDSL has more coverage in small cities, as it has presence in 3464 cities, where less than 10 DPs were present.

## X. The Derivatives Segment

### A. The Equity Derivatives Segment

In comparison to the underlying cash market, India is in the better position of being internationally competitive in equity derivatives and is placed among the best in the world, with state-of-the-art technology, institutional mechanisms, products and market size. The volumes in the Indian derivative segment

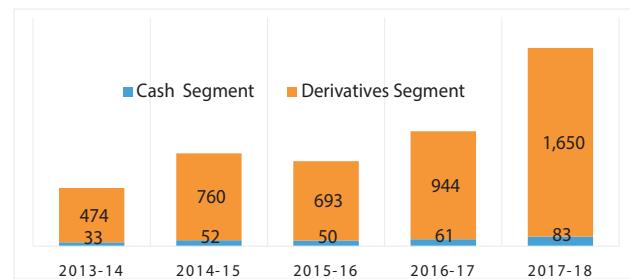
witnessed spectacular growth post its introduction in 2000. Not only growth, there has also been a product shift in favour of more complex products like options since 2009.

Among the three exchanges in the derivative market ecosystem viz, NSE, BSE and MSEI, NSE is the dominant market leader in equity derivatives products. As per the annual data for 2017 published by World Federation of Stock Exchanges (WFE), NSE is placed at first position in the world in index options and is placed at second position in stock futures, when ranked in terms of the number of contracts traded and/or cleared. NSE's equity derivatives turnover to GDP ratio has risen to 984.9 per cent in 2017-18 from 618.8 per cent in the previous year and this is testimony of the volume and liquidity in the segment.

The equity derivatives segment in India has grown exponentially in India over the years and has continued its momentum in 2017-18 as well. In 2017-18, the total turnover in equity derivatives segment rose by 74.8 per cent compared to 2016-17. The ratio of turnover in equity derivatives to that in cash segment has increased from 15.6 times in 2016-17 to 20 times in 2017-18. Almost all the trading in the F&O segment, during 2017-18, happened on NSE, which dominated the F&O market with 99.9 per cent market share. BSE's share has waned gradually over the years from 26.8 per cent in 2014-15 to 6.5 per cent in 2015-16

and further to 0.1 per cent in 2016-17 to 0.002 per cent in 2017-18. (Figure 2.15).

**Figure 2.15: Derivatives' Turnover Vis-À-Vis Cash Market Turnover (in ₹ lakh crore)**



Source: BSE and NSE

During 2017-18, the number of contracts traded increased by 36.7 per cent while the value of the contracts traded increased by 74.8 per cent. The turnover of NSE increased from ₹ 943.7 lakh crore in 2016-17 to ₹ 1,649.8 lakh crore in 2017-18. On the contrary, during the same period, the turnover at BSE decreased from 0.07 lakh crore to 0.03 lakh crore. There was no trading on derivatives segment of MSEI during the past three years. Open interest in NSE's derivatives segment increased by 7.3 per cent from ₹ 2.5 lakh crore at the end of 2016-17 to ₹ 2.7 lakh crore at the end of 2017-18, whereas at BSE, the open interest was ₹ 0.12 crore at the end of 2017-18 as against ₹ 8 crore at the end of 2016-17 (Table 2.24).

**Table 2.24: Trends in Turnovers and Open Interest in the Equity Derivatives Segment**

Year	No. of Contracts traded		Turnover (₹ crore)		Open interest at the end of the year			
					No. of Contracts		Value (₹ crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
2016-17	139,97,46,129	1,23,538	9,43,70,302	6,939	35,42,404	107	2,49,497	8
2017-18	191,38,78,548	44,701	16,49,84,859	3,263	38,00,266	2	2,74,931	0

Source: BSE and NSE

In 2017-18, monthly trends in turnover indicate a steady increase at NSE. The highest turnover was recorded in March 2018 (₹ 174.6 lakh crore), followed by February 2018 (₹ 160.3 lakh crore) and January 2018 (₹ 160 lakh crore). The number of contracts traded was the highest in March 2018 (20.0 crore) followed by February 2018 (18.0 crore) and January 2018 (17.5 crore). On the contrary, trading in BSE's derivatives segment declined significantly and consistently throughout

the year with the highest turnover in March 2018 (₹ 0.013 lakh crore) followed by that in February 2018 (₹ 0.011 crore). The average daily turnover at NSE in 2017-18 increased by 76.3 per cent to ₹ 6.71 lakh crore from ₹ 3.81 lakh crore in 2016-17.

Over the years, index options have emerged as the most traded instrument in the Indian derivatives market. During 2017-18, the share of index options in total turnover at NSE increased further to 81.8 per

cent from 77.1 per cent in the previous year. However, the per cent share of single stock futures, single stock options and index futures declined to 9.5 per cent, 5.9 per cent and 2.9 per cent, respectively, in 2017-18 compared to 11.8 per cent, 6.5 per cent and 4.6 per cent respectively in 2016-17. The category-wise break up shows that the turnover of index options at NSE grew highest by 85.4 per cent year on year during 2017-18, followed by single stock options (57.4 per cent), single stock futures (40.1 per cent) and Index futures (10.8 per cent).

**Table 2.25: Product-wise Market Share in Equity Derivatives Segment (per cent)**

Year	Index Futures	Index Options	Single Stock Options	Single Stock Futures
BSE				
2016-17	32.7	64.4	0.0	2.9
2017-18	98.6	0.3	0.0	1.1
NSE				
2016-17	4.6	77.1	6.5	11.8
2017-18	2.9	81.8	5.9	9.5

Source: BSE and NSE.

**Table 2.26: Trends in Turnover of Derivatives on Foreign Indices at NSE**

Instrument Type	Name of the Underlying Global Index	No. of Contracts Traded	Traded Value (₹ crore)	No. of Contracts Traded	Traded Value (₹ crore)
		2016-17	2017-18	2016-17	2017-18
FUTIDX	DJIA	56,174	3,172	22,785	1,473
FUTIDX	FTSE 100	35	2	19	1.4
FUTIDX	S&P 500	81,225	4,397	44,786	2,725
<b>Total</b>		<b>137,434</b>	<b>7,571</b>	<b>67,590</b>	<b>4,200</b>

Source: NSE

In BSE's index derivatives segment, derivatives are offered on the following indices: S&P BSE Sensex, S&P BSE Bankex, S&P BSE Oil & Gas Index, S&P BSE Teck Index, S&P BSE100 and S&P BSE Sensex Next 50. At BSE, futures on foreign indices are available for the HSI Index, MICEX Index, FTSE/JSE top 40 and the IBovespa Index. However, no trading has been executed in the derivatives contracts of these foreign indices at BSE since 2013-14.

During 2017-18, NIFTY futures and options accounted for 30.2 per cent of the total equity deriva-

At the end of 2017-18, there were 209 stocks at each exchange on which derivatives products were permitted to be traded on NSE and BSE, compared to 208 and 174 stocks, respectively at the end of previous year. The number of index futures on which derivatives were permitted remained unchanged at both NSE and BSE. While, the index futures were permitted on 11 and 10 indices at NSE and BSE, respectively, the index options were permitted on 9 and 6 indices at NSE and BSE, respectively.

At NSE, derivatives are offered on the following domestic indices in the index derivatives segment: NIFTY, NIFTY Midcap 50, NIFTY Bank, NIFTY Infra, NIFTY IT, NIFTY PSE, NIFTY CPSE and India VIX. Index derivatives are also allowed on three foreign indices: the Dow Jones Index, S&P 500 and the UK FTSE 100 Index.

The turnover in futures on the foreign indices decreased by 44.5 per cent to ₹ 67,590 crore during 2017-18 from ₹ 1,37,434 crore in 2016-17. The gross turnover in futures on DJIA, FTSE 100 and S&P 500 decreased by 53 per cent, 30.5 per cent and 38 per cent, respectively. (Table 2.26).

tives turnover at NSE (compared to 54.7 per cent in the previous year). In contrast, Bank NIFTY's share increased to 54.4 per cent (compared to 45.5 per cent in the previous year). At BSE, the BSE Sensex 50 Index contributed nearly 100 per cent of the turnover when classified instrument-wise during 2017-18. However, during the year BSE showed minor turnover in the equity derivatives segment, compared to NSE. Tables 2.27 to 2.30 show product-wise trends in the derivatives market in India during 2016-17 and 2017-18.

**Table 2.27: Trends in Index Futures at NSE and BSE**

Year	No. of Indices		No. of Contracts		Notional Turnover (` crore)		Open Interest at the End of the Year			
							No. of Contracts		Value (` crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
2016-17	11	10	6,65,35,071	32,288	43,35,941	2,267	4,22,593	102	30,190	7
2017-18	11	10	5,76,74,584	44,117	48,10,454	3,218	3,23,534	0	25,464	0

Source: BSE and NSE

**Table 2.28: Trends in Stock Futures at NSE and BSE**

Year	No. of Stocks		No. of Contracts		Notional Turnover (` crore)		Open interest at the end of the Year			
							No. of Contracts		Value (` crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
2016-17	208	174	17,38,60,130	2,901	1,11,29,587	203	13,62,099	5	94,331	1
2017-18	209	209	21,47,58,366	467	1,55,97,520	37	16,81,635	2	1,10,277	0

Source: BSE and NSE

**Table 2.29: Trends in Index Options at NSE and BSE**

Year	No. of Indices		No. of Contracts		Notional Turnover (` crore)		Open Interest at the End of the Year			
							No. of Contracts		Value (` crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
2016-17	9	6	106,72,44,916	88,349	7,27,97,288	4,469	15,58,951	0	1,10,812	0
2017-18	9	6	151,50,34,222	114	13,49,21,876	8	16,54,658	0	1,29,862	0

Source: BSE and NSE

**Table 2.30: Trends in Stock Options at NSE and BSE**

Year	No. of Stocks		No. of Contracts		Notional Turnover (` crore)		Open interest at the end of the Year			
							No. of Contracts		Value (` crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
2016-17	208	174	9,21,06,012	0	61,07,486	0	1,98,761	0	14,164	0
2017-18	209	209	12,64,11,376	3	96,55,009	0	1,40,439	0	9,327	0

Source: BSE and NSE.

Among the various classes of derivative members, transactions undertaken by trading-cum-clearing members were 39.4 per cent of the total turnover, lower than its 43.6 per cent share in the previous year. The percentage share of trading members in traded

value increased from 20.9 per cent in 2016-17 to 23.4 per cent in 2017-18 and that of trading-cum-self clearing members increased from 35.5 per cent to 37.2 per cent during the same period (Table 2.31).

**Table 2.31: Share of Various Classes of Members in Equity Derivative Turnover at NSE**

Year	Trading Members	Trading cum Clearing Members	Trading cum Self Clearing Members	Professional Clearing Members	Total
<b>Turnover (₹ crore)</b>					
2016-17	3,94,30,938	8,22,50,321	6,70,73,223	0	18,87,54,482
2017-18	7,72,15,571	12,99,00,714	12,28,12,901	40,532	32,99,69,718
<b>Percentage Share</b>					
2016-17	20.9	43.6	35.5	0.0	100.0
2017-18	23.4	39.4	37.2	0.0	100.0

Source: NSE

Participant-wise share in NSE F&O's turnover for 2017-18 shows that proprietary trades accounted for a 42.3 per cent share in the annual turnover (Figure 2.16). While FPIs had a share of 11.4 per cent in the total turnover, the 'others' category (comprising retail, HNIs and private and public companies) had an average share of 45.8 per cent in the total turnover; mutual funds constituted a minuscule share of 0.5 per cent. In BSE F&O's turnover, proprietary trades had a share of 90.6 per cent and the 'others' category had a share of 7.8 per cent.

**Figure 2.16: Participant-wise Share in the Equity Derivatives Turnovers**

Source: BSE and NSE

## B. Trends in the Currency Derivatives Market

Currency derivatives are important for firms and other participants to hedge their exposures to exchange rate volatility, which may increase temporarily as monetary policy focuses on stabilizing prices. Manufacturers in traded goods industries, in particular, need to be able to hedge against fluctuations in exchange rates in order to maintain their competitiveness and margins. With the objective of providing such an instrument, trading in exchange traded currency derivatives was launched in India in August, 2008. Presently in Indian markets, currency derivatives are traded on BSE, NSE, and MSEI.

The aggregate turnover in the currency derivatives segment at the exchanges increased by 37.6 per cent to ₹ 95.8 lakh crore during 2017-18 from ₹ 69.6 lakh crore in the previous year. The turnover of BSE and NSE grew by 145 per cent and 3.5 per cent respectively during 2017-18, while that of MSEI declined by 61.1 per cent. During 2017-18, the total turnover was highest at NSE (₹ 50.3 lakh crore), followed by BSE (₹ 44.4 lakh crore) and MSEI (₹ 1.15 lakh crore). NSE accounted for 53 per cent of the total turnover in the currency segment followed by BSE (46 per cent) and MSEI (1 per cent) (Table 2.32).

**Table 2.32: Trends in the Currency Derivatives Segment**

Year	MSEI			NSE			BSE		
	No. of Contracts Traded (Lakh)	Turnover (₹ crore)	Open interest at the end of year (₹ crore)	No. of Contracts Traded (Lakh)	Turnover (₹ crore)	Open interest at the end of year (₹ crore)	No. of Contracts Traded (Lakh)	Turnover (₹ crore)	Open interest at the end of year (₹ crore)
2016-17	441	2,97,928	1,518	7,125	48,57,076	15,222	2,683	18,07,829	6,944
2017-18	178	1,15,733	628	7,650	50,28,502	25,726	6,902	44,36,430	5,919

Source: National Exchanges

The trading activity in currency derivatives segment was concentrated mainly in USD-INR currency pair, with 91.7 per cent of total turnover at NSE and 99.3 per cent of total turnover at BSE happening in USD-INR pair. Product-wise shares in the currency derivatives volume show that the USD-INR options

emerged as a dominant product with 48.4 per cent and 55.1 per cent share in turnover at NSE and BSE, respectively. The share of USD-INR futures stood at 43.4 per cent and 44.2 per cent at NSE and BSE, respectively. At MSEI, USD-INR futures had major share of 84.6 per cent during 2017-18 (Table 2.33).

**Table 2.33: Product-wise Market Share in Currency Derivatives Segment (per cent)**

Year	USD-INR Futures	EURO-INR Futures	GBP-INR Futures	JPY-INR Futures	USD-INR Options
<b>NSE</b>					
2016-17	44.1	2.0	3.8	1.4	48.7
2017-18	43.4	3.2	3.9	0.9	48.4
<b>BSE</b>					
2016-17	56.3	0.3	0.3	0.1	43.0
2017-18	44.2	0.2	0.2	0.0	55.1
<b>MSEI</b>					
2016-17	93.0	0.7	1.5	0.6	4.2
2017-18	84.6	0.6	0.8	0.2	13.8

Source: National Exchanges.

### C. Trends in Interest Rates Derivatives

In an economy like India with an expanding financial sector, interest rate is a key variable that affects firms and individuals across the board. Interest Rate Futures are primarily used to hedge or offset interest rate risks. In India, these products were first introduced in 2003 which were cash settled and based on the zero coupon yield curve. However, after some initial interest, market liquidity waned. In 2008, physically settled futures contracts were introduced on 10-year government bonds. As these also did not

pick up as expected, cash settled single bond futures contracts were introduced in January 2014 and they have been trading since then with reasonable liquidity. The trends observed in turnover and open interest in the interest rate derivatives at NSE, BSE and MSEI are given in Table 2.34.

During 2017-18, the aggregate turnover in the interest rate derivatives (IRD) segment across all exchanges rose by 24.4 per cent. Gross turnover in IRD segment of BSE rose by more than 150 per cent, whereas that of NSE fell by 27.3 per cent. With this strong

growth in the trading volumes, BSE acquired dominant share in the IRD segment in India. The share of BSE in IRD segment rose from 29.2 per cent in 2016-17

to 58.9 per cent in 2017-18, while that of NSE declined from 70.2 per cent to 41.1 per cent, during the same period.

**Table 2.34: Trends in Interest Rate Derivatives at NSE, BSE and MSEI**

Year	Total						Open Interest at the end of the year					
	No. of contracts (in Lakh)			Turnover (₹ crore)			No. of contracts			Value (₹ crore)		
	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI
2016-17	148	62	1	3,07,809	1,27,980	2,552	1,20,422	18,044	0	2,482	378	0
2017-18	113	162	0	2,23,881	3,21,208	219	336	41,032	0	6	781	0

Source: National Exchanges

#### D. Trends in the VIX Futures Segment

NSE launched trading in futures contracts on India VIX in the futures and options segment w.e.f. February 26, 2014. India VIX is a volatility index based on NIFTY's index option prices. India VIX is computed using the best bid and ask quotes of the out-of-the-money near and mid-month NIFTY options contracts

which are traded on the F&O segment at NSE. India VIX indicates investors' perceptions of the market's volatility in the near term. However, the trading activity in VIX contracts has waned subsequently after initial start in 2014-15. No trading was reported in VIX contracts during 2017-18 compared to the turnover of ₹ 0.09 crore in a single contract traded in 2016-17.

### 3. THE COMMODITY DERIVATIVES MARKET

#### I. An Overview of the Indian Commodity Derivatives Market

In 2017-18, the Indian commodity derivative markets were affected by demand and supply imbalances, changes in domestic policies relating to tax, trade and tariffs, geopolitical tensions and commodity-specific factors, including weather conditions. As the financial year 2017-18 ended, there are signs of firming up of geopolitical risks resulting in elevated crude oil prices with potential long-term impact on domestic macro-economic balance. Simultaneously, international commodity outlook is clouded by the headwind towards protectionism and mercantilism in commodity trade.

On the regulatory front, SEBI continued to further reform, support and deepen the commodity derivative markets through various initiatives in 2017-18, which included introduction of commodity options, expansion of futures into more commodities, permission to category III AIFs to participate in commodity derivative trading, principle based methodology to fix open position limits for agricultural commodities vis-à-vis 'deliverable supply' etc., to name a few. The permission granted by SEBI to trade diamond futures and brass futures has resulted in India becoming pioneer in these products in the global commodity derivative trading map.

Trading activity at commodity derivatives exchanges eased down in 2017-18 as compared to previous year. The aggregate turnover at the commodity exchanges witnessed a fall due to lower trading volumes in Bullion, Energy and Agriculture segment during the year. On the other hand, the trading in metal segment exhibited significant increase in 2017-18. Among commodities traded at exchange platform, Crude oil was the highest traded commodity in terms of both volume and value. In 2017-18, crude oil futures accounted for 24 per cent of the total turnover of all commodity exchanges, while it constituted around 70 per cent of the total trading volumes during the year. Improving global growth outlook and extension of agreement to curb oil production by OPEC as well as non-OPEC oil producing states supported the crude oil prices in 2017-18. As per the IMF estimates,

the oil prices may continue to rise in 2018 to moderate in 2019.

As regards trading in agriculture segment, aggregate trading volumes of all exchanges marginally increased during the year, however, turnover declined due to lower commodity prices in 2017-18 as compared to previous year. According to second advance estimates of National Income released by CSO, the growth for agriculture and allied sectors is estimated at 3.0 per cent in 2017-18 as against 6.3 per cent in 2016-17. In spite of better agriculture output, the growth rate moderated in 2017-18 due to high output in base year i.e. 2016-17, after a drought hit low production year 2015-16.

The second advance estimates of production of food grains released by Ministry of Agriculture, estimates that the food grain production is expected to rise by 0.9 per cent to 277.5 million tonnes in 2017-18 compared to a growth of 5.1 per cent in previous year. The pulse production is estimated to rise by 3.5 per cent, while that of cereals is expected to increase by 0.6 per cent in 2017-18. Among the commodities traded at commodity exchanges, production of Chana, Barley, Caster Seed, Maize and Cotton is estimated to increase in 2017-18, on the other hand, Wheat, Jute, Rape/Mustard seed and Soybean are likely to witness a fall in production.

MCX Comdex and NCDEX Dhaanya, are the two benchmark indices in Indian commodities derivatives market, which reflect the broad movement in the commodity prices. While MCX Comdex is a composite index of three sub- indices viz., MCX Metal, MCX Energy, and MCX Agriculture, NCDEX Dhaanya is represented by 10 agri commodities. During 2017-18, MCX Comdex increased by 12.9 per cent to close at 3,663 on March 31, 2018. An increase in MCX Comdex was driven by significant surge in prices of Crude Oil, Nickel, Zinc, Mentha Oil and Crude Palm Oil during the year, which was partially offset by decline in prices of Natural Gas, Cardamom and Cotton. On the other hand, NCDEX Dhaanya declined by 1.4 per cent and closed at 3,037 on March 31, 2018, due to fall in prices of Chana, Castor seed, Jeera, Cotton seed oil cake and Coriander, which outweighed the

gains by Soybean, Guar seed and other constituent commodities during the year.

**Figure 2.17: Movement of Benchmark Commodity Indices**



Source: NCDEX and MCX

During 2017-18, MCX Comdex recorded highest close value of 3,703 on February 01, 2018, while NCDEX Dhaanya reached the highest close value of 3,183 on February 20, 2018. As regards the lowest value, MCX Comdex touched the bottom of 2,972 on

June 21, 2017, while NCDEX Dhaanya reached a low of 2,805 on June 22, 2017.

With average daily volatility of 0.7 per cent during 2017-18, MCX Comdex recorded the highest daily gain of 1.9 per cent on July 25, 2017, while it observed maximum daily fall of 1.8 per cent on September 08, 2017. NCDEX, with comparatively lower daily volatility of 0.6 per cent, recorded highest daily return of 1.7 per cent on February 16, 2018, while it witnessed maximum decline of 1.9 per cent on March 12, 2018. The annualised volatility for MCX Comdex in 2017-18 was 10.9 per cent as compared to 11.7 per cent in previous year. As regards NCDEX Dhaanya, the annualised volatility fell to 9.8 per cent during the year as compared to 10.6 per cent in 2016-17.

Table 2.35 provides a snapshot of the key indicators of the domestic commodities futures segment for year 2016-17 and 2017-18.

**Table 2.35: Major Indicators of the Commodity Derivatives Market**

Items	2016-17	2017-18	Percentage variation over previous year
<b>A. Indices</b>			
NCDEX Dhaanya			
Year-end	3,081	3,037	-1.4
Average	3,134	3,007	-4.1
MCX Comdex			
Year-end	3,243	3,663	12.9
Average	3,154	3,344	6.0
<b>B. Annualised Volatility (in %)</b>			
NCDEX Dhaanya	10.6	10.9	2.8
MCX Comdex	11.8	9.8	-16.9
<b>C. Total Turnover (in Rs. Crore)</b>			
All-India	64,99,637	60,22,530	-7.3
NCDEX	5,96,852	5,89,497	-1.2
MCX	58,65,661	53,93,350	-8.1
NMCE	28,442	34,591	21.6
ICEX	Na	2,158	Na
Hapur Commodity Exchange	7,923	2,934	-63.0
Rajkot Commodity Exchange Ltd	759	Na	Na
<b>D. Average Daily Open Interest Value (in Rs. Crore)</b>			
NCDEX	4,270	4,490	5.2
MCX	10,692	10,535	-1.5

Items	2016-17	2017-18	Percentage variation over previous year
NMCE	51	45	-11.5
ICEX	Na	14	Na
Hapur Commodity Exchange	0.4	0	7.1
<b>E. No. of permitted commodities</b>			
NCDEX	25	26	Na
MCX	16	19	Na
NMCE	13	11	Na
ICEX	0	3	Na
Hapur Commodity Exchange	1	1	Na

- Note:**
1. Annualized volatility is calculated as standard deviation of natural log of daily return in the index for the respective period multiplied with square root of (no. of trading days in a year).
  2. There was no trading at Rajkot Commodity Exchange during 2017-18.
  3. Trading at ICEX commenced from August 28, 2017

**Source:** MCX, NCDEX, NMCE, ICEX, Hapur Commodity Exchange and Rajkot Commodity Exchange Ltd

## II. International Developments in the Commodity Derivatives Market

In 2017-18, global commodity prices continued the growth trend for the second year; however, the growth was much sharper as compared to previous year. As per the commodity price data released by World Bank, the index (annual average) for Energy prices (based on nominal US dollars) increased by 17.0 per cent in 2017-18, as compared to 4 per cent in previous year; while the Metal & Minerals index (annual average) recorded a growth of 19.6 per cent during the year against 6.9 per cent recorded in 2016-17. The global food price and agriculture commodity price indices (annual average) declined by 1.4 per cent and 2.4 per cent, respectively in 2017-18, as compared to an increase of 7.1 per cent and 4.2 per cent, respectively in previous year.

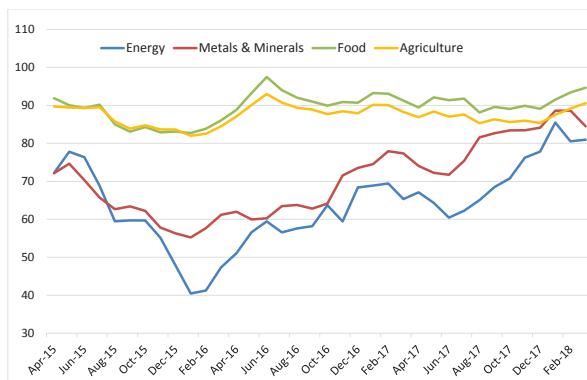
Rise in energy prices during the year was led by substantial increase in Crude oil, Coal and Natural gas prices. During the year, Crude oil and Coal prices continued to increase for the second consecutive year, while Natural gas prices recovered from the declining trend witnessed in past three years. Amid high demand and restraint production, average crude oil prices increased by 16.4 per cent in 2017-18. Specifically, among the three primary benchmark, WTI Crude prices (annual average) rose by 12.2 per cent during 2017-18, while Brent Crude and Dubai crude

increased by 17.6 per cent and 19.5 per cent respectively.

Amid tight supply and strong demand from infrastructure and manufacturing sector, Metal prices surged in 2017-18. Due to reduction in surplus production capacity, higher environmental and safety inspections in China, aluminium and steel supply was constrained during the year. Further, large mine closures in Australia, Ireland and United States tightened the supply of base metal in the market. Other key events like, suspension of nickel mines following environmental audits in Philippines, slower production in Chile and Peru due to labour disputes and bad weather and constrained supply from Indonesia owing to export restrictions and labour protest, kept the metal supply in the market under stress and added to the upward pressure on the prices.

World agricultural (agri) commodities prices softened in 2017-18 amid sufficient supplies in most of the markets. Lower prices for Maize, Rice and other food items during the year led the fall in food price index in 2017-18. As per the World Bank estimates, the agri commodity prices are expected to edge up in 2018 due to reduced grain production in current season. Figure 2.18 represents the monthly movement of World Bank Commodity indices for a period of two years. Indices for Energy, Metal & Minerals and Food have recorded an uptrend since Feb. 2016.

**Figure 2.18: Movement of the World Bank Commodity Indices**



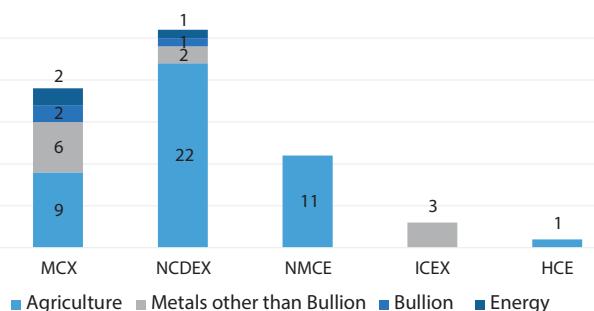
Note: Indices are based on nominal US dollars, 2010=100

Source: World Bank Pink Sheet

### III. Permitted commodities

During 2017-18, the total number of commodities permitted for trading at MCX increased to 19 due to inclusion of two new commodities in Agriculture and one commodity in Metal segment. In 2016-17, 16 commodities were permitted for trading at MCX. At NCDEX, the total number of permitted commodities increased to 26 in 2017-18 from 25 in previous year. NCDEX reported addition of two commodities in agriculture segment, along with reduction of one in Bullion segment. In 2017-18, the number of commodities permitted for trading at NMCE decreased to 11 from 13 in previous year. (Figure 2.19)

**Figure 2.19: Number of Permitted Commodities at Commodity Exchanges in 2017-18**



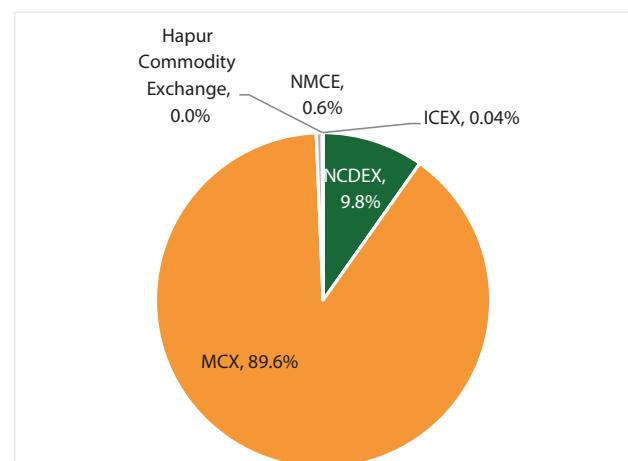
Note: All commodity variants are considered as one commodity

Source: MCX, NCDEX, NMCE, ICEX, Hapur Commodity Exchange

### IV. Turnover/Volume Traded/Open Interest

The aggregate turnover at all the exchanges in commodity derivative segment decreased by 7.3 per cent to ₹ 60,22,530 crore in 2017-18 from ₹ 64,99,637 crore in 2016-17. The lions' share in the all-India turnover was recorded at MCX (89.6 per cent), followed by NCDEX (9.8 per cent) and NMCE (0.6 per cent). In terms of the total volume traded in Commodity futures also, MCX held the dominant position with 82.8 per cent share followed by NCDEX (16.2 per cent) and NMCE (0.9 per cent).

**Figure 2.20: Exchange-wise Share in Commodity Derivatives Turnover in 2017-18**



Source: MCX, NCDEX, NMCE, ICEX, Hapur Commodity Exchange

In 2017-18, the total turnover at MCX decreased by 8.1 per cent (to ₹ 53,93,350 crore), as compared to a decline of 1.2 per cent (to ₹ 5,89,497 crore) at NCDEX and a substantial increase of 21.6 per cent (to ₹ 34,591 crore) at NMCE. Relatively higher decline at MCX lead to shift in percentage share in total turnover from MCX (-0.7 percentage points) to NCDEX (+0.6 percentage points) and NMCE (+0.1 percentage points).

During the year, turnover in Bullion segment recorded the highest decline of 32.7 per cent over 2016-17, followed by 7.2 per cent fall in energy segment and 4.1 per cent drop in Agri segment of all exchanges. On the contrary, Metal segment posted an increase of 20.4 per cent in turnover in 2017-18 as compared to previous year. Open interest at all the exchanges, increased by 18.9 per cent to ₹ 16,353 crore at the end of 2017-18.

from ₹ 13,749 crore at the end of 2016-17. (Table 2.36).

ICEX launched the world's first diamond derivatives contracts on August 28, 2018 and recorded a turnover of ₹ 2,158 crore during 2017-18. While, at

Hapur commodity exchange, the commodity specific exchange for Rape/Mustard seed, the total turnover in 2017-18 was ₹ 2,934 crore, lower by 63.0 per cent from ₹ 7,923 crore in previous year.

**Table 2.36: Trends in Commodity Futures at National Commodity Exchanges**

Year	No.of Trading days	Agriculture		Metals		Bullion and Precious Stone		Energy		Total		Open interest at the end of the period	
		Volume (Lots)	Turn-over (₹ crore)	Volume (Lots)	Turn-over (₹ crore)	No. of Stocks Traded	Percent-age of Total	No. of Stocks Traded	Percent-age of Total	No. of Stocks Traded	Percent-age of Total	No. of Stocks Traded	Percent-age of Total
<b>MCX</b>													
2016-17	260	30,87,740	1,39,312	6,44,21,776	17,53,887	3,71,51,550	20,40,270	11,78,49,477	19,32,191	22,25,10,543	58,65,661	2,84,204	9,230
2017-18	254	23,17,338	1,14,082	6,81,33,042	21,12,532	2,78,40,060	13,63,703	10,76,34,572	17,92,678	20,59,25,012	53,82,996	3,00,172	11,205
<b>NCDEX</b>													
2016-17	260	1,77,50,779	5,96,530	0	0	1,182	322	0	0	1,77,51,961	5,96,852	1,27,272	4,468
2017-18	248	1,51,87,625	5,89,497	0	0	0	0	0	0	1,51,87,625	5,89,497	1,35,902	5,100
<b>NMCE</b>													
2016-17	247	12,30,289	28,442	0	0	0	0	0	0	12,30,289	28,442	3,328	51
2017-18	246	16,53,247	34,591	0	0	0	0	0	0	16,53,247	34,591	3,811	49
<b>ICEX*</b>													
2016-17	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
2017-18	151	0	0	0	0	46	2,158	0	0	46	2,158	6	10

**Note:** 1. NA - Not applicable, Trading at ICEX commenced from Aug, 2017

2. \*Under Precious stone category, only Diamonds are traded at ICEX

3. For Diamond futures traded at ICEX, Volume and Open Interest are in Cents

**Source:** MCX, NCDEX, NMCE and ICEX

**Table 2.37: Trends in Commodity Futures at Regional Commodity Exchanges**

Year	No. of Trading days	Agriculture		
		Volume ('000 tonnes)	Volume (Lots)	Turnover (₹ crore)
2016-17	227	1,702	8,51,234	7,923
2017-18	193	766	3,83,018	2,934

**Source:** Hapur Commodity Exchange (HCE)

In a major development in commodities derivatives market, SEBI permitted trading in options in 2017-18. MCX, launched India's first commodity options in Gold on October 17, 2017. The Gold option contract at MCX are European styled options with Gold futures as the underlying asset. In 2017-18, the notional turnover in Gold Options traded at MCX

stood at ₹ 10,354 crore.

Further, on Jan 14, 2018 NCDEX launched the options trading in Guar seed, which is the first agri-commodity options in India. In 2017-18, the notional turnover in Guar Seed Options traded at NCDEX stood at ₹ 298 crore. (Table 2.38).

Table 2.38: Trading in Commodity Options in 2017-18

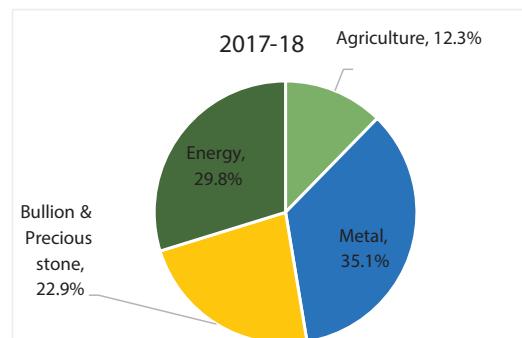
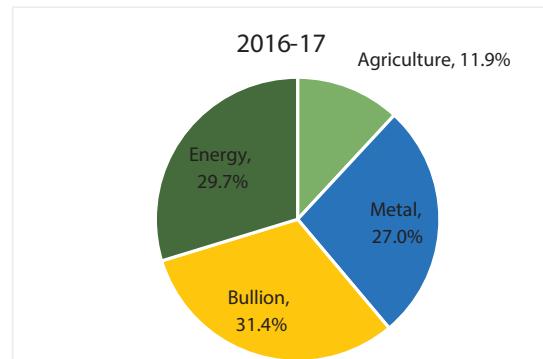
Sr. No.	Name of the Commodity	Exchange	Annual Traded Volume (tonnes)	No. of Contracts traded	Annual Turnover (₹ Crore)	Open interest at the end of the period		
						Open Interest (tonnes)	Open Interest (Lots)	Value
1	Gold	MCX	35	34,752	10,354	0.30	298	92
2	Guar seed	NCDEX	66,090	6,609	298	5,690	569	25

Source: MCX, NCDEX

#### V. Product Segment-wise Turnover/Volume traded

Of the aggregate all India turnover in commodity derivatives, 87.7 per cent was contributed by non-agri commodities and remaining 12.3 per cent by agri commodities in 2017-18. As compared to previous year, share of agri commodities increased to 12.3 per cent in 2017-18 from 11.9 per cent in 2016-17. In 2017-18, Metals accounted for the highest share in total turnover (35.1 per cent) as compared to Bullion in previous year, followed by energy (29.8 per cent) and Bullion & Precious stone (22.9 per cent). (Figure 2.21).

Figure 2.21: Product Segment-wise Share in All-India Commodity Futures' Turnover



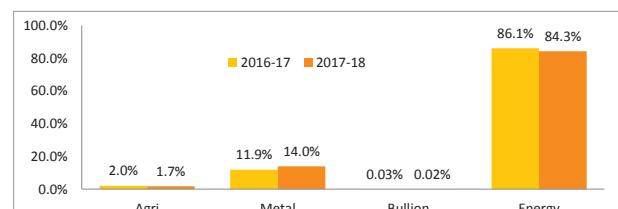
Note: Under Precious stone category, only Diamonds are traded at ICEX. In 2017-18, Diamond accounted for 0.04 per cent share in aggregate turnover of all the exchanges.

Source: MCX, NCDEX, NMCE, ICEX, Hapur Commodity Exchange

In 2017-18, at MCX, the share of Metal segment turnover increased significantly to 39.2 per cent from 29.9 per cent in previous year. Energy contributed 33.2 per cent share in turnover followed by Bullion at 25.5 per cent and agriculture at 2.1 per cent. At NCDEX and NMCE, the entire turnover was contributed by agriculture segment.

In terms of volume traded at MCX, energy segment contributed the highest share at 84.3 per cent in 2017-18, however, the share was lower than 86.1 per cent recorded in previous year. During the year, share of Metal increased to 14.0 per cent, followed by Agriculture segment (1.7 per cent) and Bullion (0.02 per cent) (Figure 2.22).

Figure 2.22: Product Segment-wise Share in Volume Traded at MCX



Source: MCX

#### A. Agricultural Commodities

Overall agriculture segment accounted for 12.3 per cent share in total turnover of all exchanges in 2017-18, while at MCX, the share of agricultural (agri) commodities in the total turnover at the exchange was 2.1 per cent. Crude Palm Oil (CPO) was the most traded agri commodity with a percentage share of 0.8 per cent in the total turnover at the exchange. In terms of traded value, other than CPO, Cotton and Mentha Oil were the major agri commodities traded at MCX, during 2017-18. (Table 2.39).

**Table 2.39: Trends in Agricultural Commodities Traded at MCX in 2017-18**

S. No.	Name of the Commodity	Annual Traded Volume ('000 tonnes)	No.of Contracts traded	Annual Turnover (Rs. Crore)	Percentage Share in total turn-over of the Exchange (%)	Average Daily OI Value (Rs. Crore)	Average Daily OI ('000 tonnes)	Average Stock Warehouse/OI ratio
1	CPO	7,879	7,87,928	42,295	0.8	459.6	85.4	NA
2	Cotton	3,494	8,22,123	41,255	0.8	435.0	37.4	0
3	Mentha Oil	233	6,48,472	29,628	0.6	161.6	1.3	1
4	Cardamom	5	52,336	576	0.0	7.0	0.1	0
5	RBD Palmolein	33	3,326	179	0.0	1.9	0.4	NA
6	Pepper	3	3,146	149	0.0	2.1	0.0	0
7	Castor seed	0	5	0	0.0	0.0	0.0	27
8	Kapas	0	2	0	0.0	0.1	0.0	NA
<b>Total</b>		<b>11,648</b>	<b>23,17,338</b>	<b>1,14,082</b>	<b>2.1</b>	<b>1,067</b>	<b>125</b>	<b>NA</b>

Notes: 1. Conversion factors: Cotton (1 Bale=170 kg),

Source: MCX

At NCDEX, Guar Seed was the most traded agri commodity with a percentage share of 22.2 per cent in the total turnover at the exchange. Soybean with a share of 13.0 per cent, followed by Soy Oil (12.6

per cent), Guar gum (11.0 per cent) and Chana (9.6 per cent) were the other most traded commodities at NCDEX during the year. The top 5 agri commodities contributed 68.2 per cent of the turnover at NCDEX. (Table 2.40)

**Table 2.40: Top Ten Commodities traded at NCDEX in 2017-18**

S. No.	Name of the Commodity	Annual Traded Volume ('000 tonnes)	No.of Contracts traded	Annual Turnover (Rs. Crore)	Percentage Share in total turn-over of the Exchange	Average Daily OI Value (Rs. Crore)	Average Daily OI ('000 tonnes)	Average Stock Warehouse/OI ratio
1	Guar seed	33,122	33,12,231	1,30,686	22.2	555.5	140.9	0.2
2	Soybean	23,669	23,66,879	76,485	13.0	772.3	239.1	0.5
3	Soy Oil	10,847	10,84,724	74,070	12.6	579.7	84.9	0.0
4	Guargum	7,577	15,15,374	64,616	11.0	537.6	63.3	0.4
5	Chana	11,902	11,90,239	56,382	9.6	373.7	85.7	0.0
6	R M Seed	10,860	10,86,020	41,993	7.1	268.4	70.0	0.3
7	Castorseed	9,189	9,18,902	41,212	7.0	444.4	99.2	0.5
8	Jeera	1,710	5,69,869	32,285	5.5	301.9	16.1	0.3
9	Cotton seed oil cake	14,776	14,77,560	25,100	4.3	245.3	146.0	0.2
10	Kapas	3,775	9,43,747	17,719	3.0	127.5	27.6	0.0
	<b>Total</b>	<b>1,27,427</b>	<b>1,44,65,545</b>	<b>5,60,547</b>	<b>95.1</b>	<b>4,206.2</b>	<b>972.7</b>	<b>NA</b>

Source: NCDEX

At NMCE, Rape/Mustard Seed was the most traded agri commodity with a percentage share of 25.6 per cent in the total turnover of the exchange, followed

by Raw Jute at 24.2 per cent and Isabgul seed (20.7 per cent). The top 3 commodities accounted for 70.6 per cent share of total turnover at NMCE. (Table 2.41)

**Table 2.41: Trends in Commodities traded at NMCE in 2017-18**

S. No.	Name of the Commodity	Annual Traded Volume ('000 tonnes)	No.of Contracts traded	Annual Turnover (Rs. Crore)	Percentage Share in total turn-over of the Exchange	Average Daily OI Value (Rs. Crore)	Average Daily OI ('000 tonnes)	Average Stock Ware-house/OI ratio
1	Rape/Mustard seed	2,698	12	8,866	25.6	2.1	0.6	NA
2	Raw Jute	2,116	14	8,375	24.2	2.2	0.6	NA
3	Isabgul seed	658	9	7,173	20.7	3.1	0.3	NA
4	Castor seed 10 MT	1,043	14	4,659	13.5	1.6	0.4	NA
5	Guar seed	822	12	3,186	9.2	1.3	0.3	NA
6	Rubber	175	17	2,306	6.7	34.3	2.6	0.6
7	Pepper Mini	1	13	27	0.1	0.3	0.0	0.0
<b>Total</b>		<b>7,512</b>	<b>91</b>	<b>34,591</b>	<b>100</b>	<b>44.8</b>	<b>4.8</b>	<b>NA</b>

Source: NMCE

#### B. Non-Agricultural Commodities

At MCX, the share of non-agricultural commodities in the total turnover was 97.9 per cent in 2017-18. Crude Oil was the most traded non-agri commodity

with a percentage share of 26.9 per cent in the total turnover at the exchange, followed by Zinc (14.7 per cent), Gold (13.6 per cent) and Silver (11.8 per cent). Table 2.42 below shows statistics on the non-agri commodities traded at MCX during 2017-18.

**Table 2.42: Trends in Non-Agricultural Commodities traded at MCX in 2017-18**

S. No.	Name of the Commodity	Annual Traded Volume ('000 tonnes)	No.of Contracts traded	Annual Turnover (Rs. Crore)	Percentage Share in total turn-over of the Exchange	Average Daily OI Value (Rs. Crore)	Average Daily OI ('000 tonnes)	Average Stock Ware-house/OI ratio
1	Guar seed	33,122	33,12,231	1,30,686	22.2	555.5	140.9	0.2
2	Soybean	23,669	23,66,879	76,485	13.0	772.3	239.1	0.5
3	Soy Oil	10,847	10,84,724	74,070	12.6	579.7	84.9	0.0
4	Guargum	7,577	15,15,374	64,616	11.0	537.6	63.3	0.4
5	Chana	11,902	11,90,239	56,382	9.6	373.7	85.7	0.0
6	R M Seed	10,860	10,86,020	41,993	7.1	268.4	70.0	0.3
7	Castorseed	9,189	9,18,902	41,212	7.0	444.4	99.2	0.5
8	Jeera	1,710	5,69,869	32,285	5.5	301.9	16.1	0.3
9	Cotton seed oil cake	14,776	14,77,560	25,100	4.3	245.3	146.0	0.2
10	Kapas	3,775	9,43,747	17,719	3.0	127.5	27.6	0.0
<b>Total</b>		<b>1,27,427</b>	<b>1,44,65,545</b>	<b>5,60,547</b>	<b>95.1</b>	<b>4,206.2</b>	<b>972.7</b>	<b>NA</b>

- Notes:**
- Top 10 Non Agri Commodities are on the basis of percentage share in total turnover
  - Data for a particular commodity may include data for all the contracts of that commodity.
  - \*Natural Gas volumes and Open Interest are in Trillion BTU and are not added in total.s
  - Conversion factors: Crude Oil (1 Tonne = 7.33Barrels)

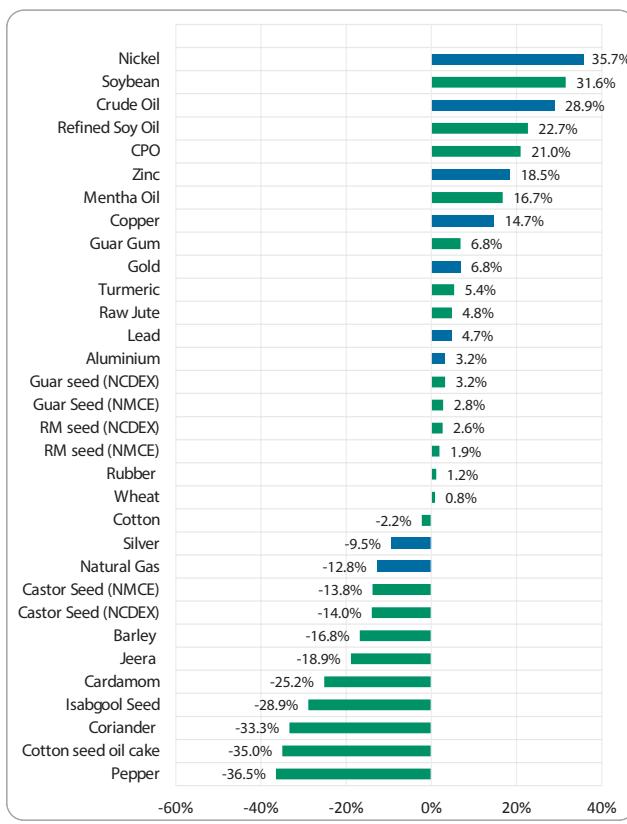
Source: MCX

## VI. Commodity Price Trend

During 2017-18, futures prices of commodities traded at commodity derivatives exchanges witnessed divergent trends. Among Non-agri commodities, Nickel futures traded at MCX reported the highest gain of 35.7 per cent during the year, followed by Crude Oil (28.9 per cent) and Zinc (18.5 per cent). While, Soybean, Refined Soy Oil and Crude Palm Oil were the top gainers in agri segment, recording an increase in futures prices by 31.6 per cent, 22.7 per cent, 21.0 per cent, respectively during the year.

In 2017-18, Natural Gas, Silver, were the only non-agri commodities, which recorded decline in futures prices by 12.8 per cent and 9.5 per cent, respectively. On the other hand, Pepper, Cotton seed oil cake and Coriander were the top losers in agri segment observing a fall of 36.5 per cent, 35.0 per cent and 33.3 per cent in respective futures prices. (Figure 2.23).

**Figure 2.23: Movement in Futures Prices (Year-On-Year) of the Commodities Traded At Commodity Exchanges during 2017-18**



Source: MCX, NCDEX, NMCE

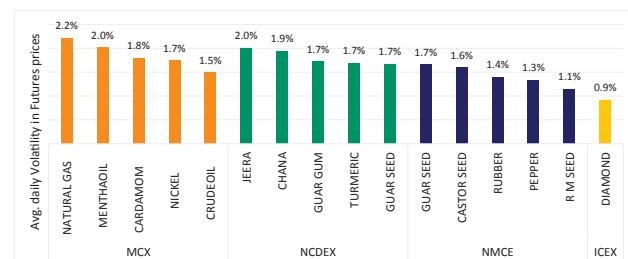
## VII. Volatility in the Commodity Derivatives Market

At MCX, Natural Gas was the most volatile commodity during 2017-18 with 2.2 per cent daily volatility in futures prices, followed by Mentha Oil (2.0 per cent) and Cardamom (1.8 per cent). The volatility in spot prices of Natural gas during the year was 2.3 per cent, while that Mentha Oil and Cardamom was 2.1 per cent and 1.1 per cent, respectively.

In 2017-18, Jeera was the most volatile commodity traded at NCDEX with daily volatility in futures prices at 2.0 per cent, followed by Chana at 1.9 per cent and Guar gum at 1.7 per cent. The spot price daily volatility for Jeera was relatively lower at 0.7 per cent, while it was at the same level in case of Chana and Guar gum.

At NMCE, Guar seed was the most volatile commodity during 2017-18, with a daily volatility of 1.7 per cent in futures prices, followed by Castor seed with futures price volatility of 1.6 per cent and Rubber at 1.4 per cent. (Figure 2.24).

**Figure 2.24: Top 5 Volatile Commodities at the National Commodity Exchanges**



**Note:** 1. Volatility is calculated as standard deviation of natural log of daily return in the near month expiry contract closing prices for respective period

**Source:** MCX, NCDEX, NMCE and ICEX

## VIII. Exchange-wise and segment-wise participation of market participants

At MCX, client trades contributed for 64.6 per cent of the turnover in agri segment in 2017-18, while it was 79.4 per cent for non-agri segment. At the end of 2017-18, clients held 85.1 per cent of the total open interest in agri commodities and 79.0 per cent of the total open interest in non-agri commodities traded at MCX. At NCDEX, 59.0 per cent of the turnover in

2017-18 was from client trades, while remaining 41.0 per cent was from proprietary trades. Client trade accounted for 79.1 per cent of the total open interest at the end of 2017-18. At NMCE, 98.0 per cent of the

turnover during the year was from the client trades. In open interest terms, at the end of 2017-18, 99.2 per cent of the open interest was held by client trades and remaining by the proprietary trades (Table 2.43).

**Table 2.43: Participant-wise Percentage Share in Turnover & Open Interest at MCX, NCDEX and NMCE**

Year	Turnover (Percentage Share)				Open Interest at the end of period (Percentage Share)			
	Agricultural Commodities		Non-Agricultural Commodities		Agricultural Commodities		Non-Agricultural Commodities	
	Proprietary	Client	Proprietary	Client	Proprietary	Client	Proprietary	Client
<b>MCX</b>								
2016-17	35.3	64.7	19.6	80.4	10.7	89.3	18.2	81.8
2017-18	35.4	64.6	20.6	79.4	14.9	85.1	21.0	79.0
<b>NCDEX</b>								
2016-17	41.6	58.4	73.6	26.4	20.7	79.3	NA	NA
2017-18	41.0	59.0	NA	NA	20.9	79.1	NA	NA
<b>NMCE</b>								
2016-17	4.8	95.2	NA	NA	1.0	99.0	NA	NA
2017-18	2.0	98.0	NA	NA	0.8	99.2	NA	NA

Source: MCX, NCDEX and NMCE

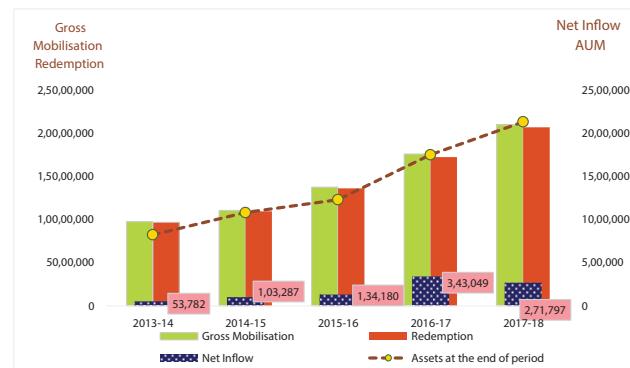
## 4. MUTUAL FUNDS

In the financial market ecosystem, asset management companies facilitate financial intermediation and portfolio diversification. Besides providing financial stability, they help investors diversify their assets more easily and can provide financing to the real economy. The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector. In the last two decades the mutual fund industry has shown impressive growth not just in the scale of assets under management (AUM) but also in terms of number of folios. Buoyed by robust capital inflows and strong participation of retail investors, the asset base of the mutual fund industry again produced record breaking numbers in 2017-18. The average asset under management (AAUM) of MF industry for the year 2017-18 was ₹ 21.46 lakh crore. However, mutual funds AUM to GDP ratio of 12.8 per cent in 2017-18 indicates a large untapped market potential and very low penetration vis-a-vis global and peer benchmarks. There is immense scope for unprecedented growth of the industry with support from innovative technological initiatives and broadened investor participation over time.

### I. Resource Mobilisation by Mutual Funds

The mutual fund industry maintained its growth momentum during 2017-18 as well. The industry saw gross resources mobilisation to the tune of ₹209.99 lakh crore during 2017-18 compared to ₹176.16 lakh crore during 2016-17. The AUM of mutual fund industry grew by 21.7 per cent to ₹ 21.36 lakh crore at the end of March 2018 from ₹ 17.54 lakh crore at the end of March 2017. The net resources mobilised by all mutual funds in India were ₹ 2.72 lakh crore during 2017-18. Of the total ₹ 2.72 lakh crore raised, 63 per cent (or ₹ 1.71 lakh crore) were raised by equity oriented mutual fund schemes and another 37 per cent (or ₹ 1.01 lakh crore) were raised by non-equity mutual fund schemes (Income/debt oriented scheme, balanced scheme, ETFs and fund of funds investing overseas) (Figure 2.25).

**Figure 2.25: Mobilisation of Resources by Mutual Funds (₹ crore)**



### II. Sector-wise Resource Mobilisation

Private sector mutual funds continued to retain their dominance in the mutual fund industry in 2017-18 as well, with a share of 82.8 per cent in gross resource mobilisation and 84.1 per cent in net resource mobilisation. The share of public sector mutual funds in gross resource mobilisation declined to 17.2 per cent during 2017-18 from 19.1 per cent in the previous year. Similarly, the share of public sector mutual funds in net resource mobilisation declined to 15.9 per cent in 2017-18 from 18.6 per cent in the previous year. The gross resource mobilisation by the private sector mutual funds rose by 22 per cent to ₹ 173.8 lakh crore in 2017-18, while that by public sector mutual funds rose by 7.4 per cent to ₹ 36.2 lakh crore compared to last year. The net resource mobilisation by private sector mutual funds decreased by 18.2 per cent to ₹ 2.3 lakh crore in 2017-18, while that by public sector mutual funds decreased by 31.9 per cent to ₹ 0.43 lakh crore during the same period, on account of higher redemption (Table 2.44).

The open ended schemes of private sector mutual funds witnessed a net inflow of ₹ 2.32 lakh crore in 2017-18 compare to ₹ 2.96 lakh crore in the previous year and public sector mutual funds saw a net inflow of ₹ 0.38 lakh crore in 2017-18 compared to ₹ 0.61 lakh crore during previous year. In the close-ended schemes, private sector mutual funds recorded net

outflows, while those of public sector recorded net inflows. The 99.6 per cent of gross resource mobilisation in the mutual fund industry during 2017-18 is

through open ended schemes, compared to 99.8 per cent in the previous year.

**Table 2.44: Sector-wise Resource Mobilisation by Mutual Funds (₹ crore)**

Year	Private Sector MFs				Public Sector MFs				Grand Total
	Open-ended	Close-ended	Interval	Total	Open-ended	Close-ended	Interval	Total	
<b>Mobilisation of Funds</b>									
2016-17	1,42,27,271	20,507	159	1,42,47,937	33,59,950	7,522	140	33,67,612	1,76,15,549
2017-18	1,73,28,249	51,896	2,043	1,73,82,189	35,94,129	22,067	266	36,16,463	2,09,98,652
<b>Repurchases / Redemption</b>									
2016-17	1,39,30,844	34,170	3,536	1,39,68,549	32,98,572	4,910	469	33,03,951	1,72,72,500
2017-18	1,70,95,484	55,597	2,636	1,71,53,718	35,56,776	16,275	86	35,73,137	2,07,26,855
<b>Net Inflow / Outflow of Funds</b>									
2016-17	2,96,427	-13,663	-3,377	2,79,388	61,378	2,612	-329	63,661	3,43,049
2017-18	2,32,765	-3,701	-593	2,28,471	37,353	5,792	181	43,326	2,71,797

### III. Scheme-wise Resource Mobilisation

A scheme-wise pattern reveals that net inflows were positive for equity oriented schemes, balanced schemes, and ETF schemes, and negative for income/debt oriented schemes and fund of funds investing overseas schemes. During 2017-18, equity orient-

ed schemes registered the highest net inflows to the tune of ₹ 1,71,069 crore on the back of buoyant equity market conditions, followed by balanced schemes (net inflow of ₹ 89,757 crore), and ETF schemes (net inflow of ₹ 23,123 crore), while income/debt oriented schemes witnessed outflow of ₹ 11,725 crore.

**Table 2.45: Scheme-wise Resource Mobilisation by Mutual Funds and AUM**

Schemes	No. of Schemes	Gross Funds Mobilised (₹ crore)	Repurchase / Redemption (₹ crore)	Net Inflow/ Outflow of Funds (₹ crore)	AUM as on March 31, 2018 (₹ crore)	Percentage Variation in AUM over March 31, 2017
<b>A. Income/ Debt Oriented Schemes</b>						
i) Liquid/Money Market	52	1,95,02,914	1,95,05,850	-2,936	3,35,525	7
ii) Gilt	38	7,977	11,255	-3,277	11,404	-23
iii) Debt (other than assured returns)	1,258	9,09,073	9,14,924	-5,851	7,85,553	6
iv) Infrastructure development	9	340	0	340	2,468	29
<b>Subtotal (i-iv)</b>	<b>1,357</b>	<b>2,04,20,305</b>	<b>2,04,32,029</b>	<b>-11,725</b>	<b>11,34,950</b>	<b>6</b>
<b>B. Growth/ Equity Oriented Schemes</b>						
i) ELSS	72	22,291	7,976	14,315	80,583	31
ii) Others	442	3,78,160	2,21,406	1,56,754	6,69,207	39
<b>Subtotal (i+ii)</b>	<b>514</b>	<b>4,00,451</b>	<b>2,29,382</b>	<b>1,71,069</b>	<b>7,49,790</b>	<b>38</b>

Schemes	No. of Schemes	Gross Funds Mobilised (₹ crore)	Repurchase / Redemption (₹ crore)	Net Inflow/ Outflow of Funds (₹ crore)	AUM as on March 31, 2018 (₹ crore)	Percentage Variation in AUM over March 31, 2017
<b>C. Balanced Schemes</b>						
Balanced schemes	31	1,19,326	29,569	89,757	1,72,151	103
<b>D. Exchange Traded Fund</b>						
i) Gold ETF	12	31	866	-834	4,806	-12
ii) Other ETFs	56	58,340	34,383	23,958	72,888	64
<b>Subtotal (i+ii)</b>	<b>68</b>	<b>58,372</b>	<b>35,249</b>	<b>23,123</b>	<b>77,694</b>	<b>56</b>
<b>E. Fund of Funds Investing Overseas</b>						
Fund of Funds investing overseas	28	198	626	-428	1,451	-17
<b>TOTAL (A+B+C+D+E)</b>	<b>1,998</b>	<b>2,09,98,652</b>	<b>2,07,26,855</b>	<b>2,71,797</b>	<b>21,36,036</b>	<b>22</b>

The percentage share of assets under management (AUM) of the income/debt oriented schemes had fallen from 61.2 per cent at the end of previous year to 53.1 per cent at the end of March, 2018. On the contrary, the share of AUM of equity oriented schemes has jumped to 35.1 per cent from 31.0 per cent in the previous year.

The AUM of equity oriented schemes rose by 37.9 per cent year on year during 2017-18, on the backdrop of large inflows and about 11 per cent rise in the equity indices. The AUM of balanced schemes more than doubled while that of ETF schemes rose by 55.7 per cent during 2017-18, compared to previous year. The AUM of income/debt oriented schemes however saw modest growth of 5.6 per cent as the 10 year government bond yield hardened further towards the

end of the financial year.

As on March 31, 2018, there were 1,998 mutual fund schemes of which 1,357 were income/debt oriented schemes (compared to 1,675 in previous year), 514 were growth/equity oriented schemes (compared to 484 in previous year), and 31 were balanced schemes (compared to 30 in previous year). In addition, there were 68 ETFs (compared to 63 in previous year), of which 12 were gold ETFs and 56 were other ETFs. There were also 28 schemes operating as fund of funds which invested in overseas securities. As on March 31, 2018, there were 840 open-ended schemes (compared to 829 in previous year), 1,127 close-ended schemes (compared to 1,388 in previous year), and 31 interval schemes (compared to 64 in previous year).

**Table 2.46: Trends in Mutual Fund Transactions on Stock Exchanges (₹ crore)**

Year	Equity			Debt			Total		
	Gross Purchase	Gross Sales	Net Purchase / Sales	Gross Purchase	Gross Sales	Net Purchase / Sales	Gross Purchase	Gross Sales	Net Purchase/ Sales
2016-17	3,76,874	3,20,316	56,559	16,05,937	12,86,084	3,19,853	19,82,812	16,06,399	3,76,412
2017-18	6,67,009	5,25,240	1,41,769	18,25,231	14,54,515	3,70,716	24,92,240	19,79,755	5,12,485

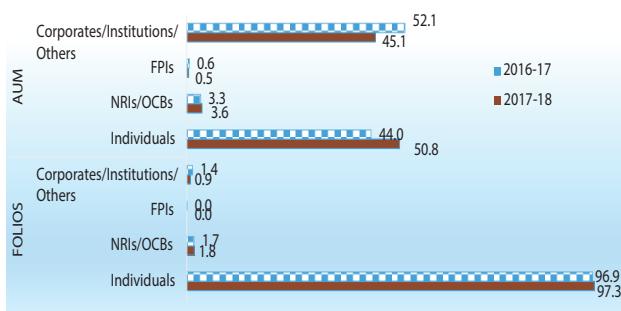
Like in the past years, in 2017-18 too mutual fund investments in debt prevailed over those in equity with net investments in debt being 72.3 per cent of the total mutual fund investments on stock exchanges. During 2017-18, combined net investments by mutual funds were ₹ 5.12 lakh crore as compared to ₹ 3.76

lakh crore in 2016-17, a rise of 36.2 per cent year on year (Table 2.46). Mutual funds invested ₹ 1.42 lakh crore in equity (compared to ₹ 0.57 lakh crore in previous year) and ₹ 3.71 lakh crore in debt (compared to ₹ 3.20 lakh crore in previous year).

#### IV. Unit Holding Patterns

During 2017-18, the share of individual category in total AUM of mutual fund industry has increased from 44 per cent in 2016-17 to 50.8 per cent in 2017-18. On the contrary the share of corporates category has fallen from 52.1 per cent in 2016-17 to 45.1 per cent in 2017-18.

**Figure 2.26: Unit Holding Patterns of All Mutual Funds (Percentage to Total AUM and Folios)**



As on March 31, 2018, 97.3 per cent of the total folios were contributed by the individuals' category whereas 0.9 per cent of the total folios were contributed by the corporates category. NRIs/overseas corporate bodies (OCBs) with a 1.8 per cent share in folios had a 3.6 per cent share in total net assets (Figure 2.26).

Table 2.47 provides data on private and public sector sponsored mutual funds wherein it is evident that the private sector mutual funds dominated with a higher number of folios and greater net assets. As on March 31, 2018, 72.0 per cent of folios with private sector mutual funds hold 82.7 per cent of total AUM of mutual funds whereas 28 per cent folios with public sector mutual funds hold 17.3 per cent of the total AUM.

Though the growth in the AUM of private sector mutual funds was in line with that of public sector (both growing by about 21.7 per cent year on year), the growth in the number of folios with private sector mutual funds (36.1 per cent) was higher than public sector mutual funds (13.1 per cent) at the end of March 2018.

**Table 2.47: Unit Holding Pattern of Private and Public Sector Mutual Funds**

Category	No. of Folios	Percent-age to Total Folios under the Private Sector	AUM (₹ crore)	Percentage to Total Net Assets under the Private Sector	No. of Folios	Percent-age to Total Folios under the Public Sector	AUM (₹ crore)	Percentage to Total Net Assets under the Public Sector
<b>Private Sector Sponsored Mutual Funds</b>					<b>Public Sector Sponsored Mutual Funds</b>			
<b>2017-18</b>								
Individuals	4,97,33,714	96.9	9,05,933	51.3	1,96,76,735	98.3	1,79,562	48.5
NRIs/OCBs	10,72,770	2.1	68,665	3.9	2,17,387	1.1	9,180	2.5
Corporates / Institutions/ Others	5,31,182	1.0	781,194	44.2	1,15,350	0.6	1,81,462	49.0
FPIs	155	0.0	9,949	0.6	8	0.0	91	0.0
<b>Total</b>	<b>5,13,37,821</b>	<b>100.0</b>	<b>17,65,740</b>	<b>100.0</b>	<b>2,00,09,480</b>	<b>100.0</b>	<b>3,70,295</b>	<b>100.0</b>
<b>2016-17</b>								
Individual	3,62,63,778	96.2	6,39,119	44.1	1,73,98,623	98.4	1,32,644	43.6
NRIs/OCBs	7,93,011	2.1	51,128	3.5	1,76,226	1.0	7,046	2.3
Corporates/ Institutions/Others	6,58,422	1.7	7,50,550	51.8	1,09,414	0.6	1,64,514	54.1
FPIs	149	0.0	9,526	0.7	8	0.0	93	0.0
<b>Total</b>	<b>3,77,15,360</b>	<b>100.0</b>	<b>14,50,323</b>	<b>100.0</b>	<b>1,76,84,271</b>	<b>100.0</b>	<b>3,04,297</b>	<b>100.0</b>

## 5. INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKET

### I. Trading Members of the Exchanges

At NSE, in cash market trading, top 100 brokers account for 82.0 per cent in 2017-18 comparing with 81.7 per cent in 2016-17, marginal increase in their activity (Table 2.18). In equity derivatives trading, trading cum clearing member contributed 39.4 per cent in 2017-18 comparing with 43.6 per cent in the previous year. During the same period, trading cum self-clearing member contributed 37.2 per cent comparing with 35.5 per cent. Further, trading member contributed 23.4 percent in 2017-18 comparing with 20.9 per cent in the previous year. The professional clearing mem-

ber contribution is insignificant in equity derivatives segment. In currency derivatives segment, trading members contributed significant share with 48.7 per cent in 2017-18 comparing with 31.6 per cent in 2016-17. Followed by trading cum self-clearing member contribution of 19.6 per cent in 2017-18 comparing with 27.5 per cent in previous year. Trading cum clearing member contributed 17.9 per cent in 2017-18 comparing with 27 per cent in previous year. In this segment, professional clearing member also contributed with 13.8 per cent in 2017-18 over 13.9 per cent in 2016-17 (Table 2.48).

**Table 2.48: Share of Various Classes of Members in Equity and Currency Derivatives Segment of NSE**

Segment	Member Category	NSE			
		2016-17		2017-18	
		Traded Value (₹ crore)	Percentage of Total	Traded Value (₹ crore)	Percentage of Total
Equity Derivatives Segment	TM	3,94,30,938	20.9	7,72,15,571	23.4
	TM_CM	8,22,50,321	43.6	12,99,00,714	39.4
	TM_SCM	6,70,73,223	35.5	12,28,12,901	37.2
	PCM	0	0.0	40,532	0.0
	<b>Total</b>	<b>18,87,54,482</b>	<b>100.0</b>	<b>32,99,69,718</b>	<b>100.0</b>
Currency Derivatives Segment	TM	32,16,393	31.1	35,33,263	33.0
	TM_CM	49,84,901	48.3	42,99,087	40.2
	TM_SCM	21,28,476	20.6	28,67,070	26.8
	PCM	0	0.0	0	0.0
	<b>Total</b>	<b>1,03,29,770</b>	<b>100.0</b>	<b>1,06,99,421</b>	<b>100.0</b>

**Note:** TM means Trading Members, TM\_CM means Trading cum Clearing Members, TM\_SCM means Trading cum Self Clearing Members, PCM means Professional Clearing Members

**Source:** NSE

At BSE, in cash market trading, top 100 brokers account for 82.8 per cent in 2017-18 comparing with 83.8 per cent in 2016-17, marginal fall in their activity (Table 2.18). In currency derivatives segment of BSE, trading members contributed significant share with 48.7 per cent in 2017-18 comparing with 31.6 per cent in 2016-17. Followed by trading cum self-clear-

ing member contribution of 19.6 per cent in 2017-18 comparing with 27.5 per cent in previous year. Trading cum clearing member contributed 17.9 per cent in 2017-18 comparing with 27 per cent in previous year. In this segment, professional clearing member also contributed with 13.8 per cent in 2017-18 over 13.9 per cent in 2016-17 (Table 2.49).

**Table 2.49: Share of Various Classes of Members in Currency Derivatives Segment of BSE**

Segment	Member Category	BSE			
		2016-17		2017-18	
		Traded Value (₹ crore)	Percentage of Total	Traded Value (₹ crore)	Percentage of Total
Currency Derivatives Segment	TM	20,05,913	31.6	43,15,698	48.7
	TM_CM	17,09,560	27.0	15,83,577	17.9
	TM_SCM	17,44,195	27.5	17,33,267	19.6
	PCM	8,83,628	13.9	12,20,232	13.8
	<b>Total</b>	<b>63,43,296</b>	<b>100.0</b>	<b>88,52,775</b>	<b>100.0</b>

Note: TM means Trading Members, TM\_CM means Trading cum Clearing Members, TM\_SCM means Trading cum Self Clearing Members, PCM means Professional Clearing Members

Source: BSE

In currency derivatives segment of MSEI, trading cum clearing member contributed significant share with 55.7 per cent in 2017-18 comparing with 59.1 per cent in 2016-17. Followed by trading member contribution of 38.1 per cent in 2017-18 compar-

ing with 32.5 per cent in previous year. Trading cum self-clearing members contributed 6.2 per cent in 2017-18 comparing with 8.4 per cent in previous year (Table 2.50).

**Table 2.50: Share of Various Classes of Members in Currency Derivatives Segment of MSEI**

Segment	Member Category	MSEI			
		2016-17		2017-18	
		Traded Value (₹ crore)	Percentage of Total	Traded Value (₹ crore)	Percentage of Total
Currency Derivatives Segment	TM	1,95,460	32.5	88,306	38.1
	TM_CM	3,54,884	59.1	1,29,146	55.7
	TM_SCM	50,610	8.4	14,450	6.2
	PCM	0	0.0	0	0.0
	<b>Total</b>	<b>6,00,954</b>	<b>100.0</b>	<b>2,31,903</b>	<b>100.0</b>

Note: TM means Trading Members, TM\_CM means Trading cum Clearing Members, TM\_SCM means Trading cum Self Clearing Members, PCM means Professional Clearing Members

Source: MSEI

In commodities derivatives segment of MCX, trading cum clearing member contributed significant share with 50.6 per cent in 2017-18 comparing with 54.5 per cent in 2016-17. The trading members at MCX contributed 46.0 percent compared to 40.6 per cent in the previous year. On the similar lines, the

market share of trading cum self-clearing members at NCDEX is highest at 72.7 per cent, compared with 70.7 per cent share in 2016-17. The trading members at NCDEX has market share of 23.0 per cent compared to 23.1 per cent in 2016-17 (Table 2.51).

**Table 2.51: Share of Various Classes of Members in Commodities Derivatives Segment of MCX and NCDEX**

Segment	Exchange	Member Category	2016-17		2017-18	
			Traded Value (₹ crore)	Percentage of Total	Traded Value (₹ crore)	Percentage of Total
Commodities Derivatives Segment	MCX	TM	47,64,964	40.6	49,63,549	46.0
		TM_CM	5,74,930	4.9	3,60,453	3.3
		TM_SCM	63,91,428	54.5	54,62,698	50.6
		PCM	0	0.0	0	0.0
		<b>Total</b>	<b>1,17,31,322</b>	<b>100.0</b>	<b>1,07,86,699</b>	<b>100.0</b>
	NCDEX	TM	2,75,877	23.1	2,70,978	23.0
		TM_CM	73,546	6.2	50,327	4.3
		TM_SCM	8,44,281	70.7	8,57,676	72.7
		PCM	0	0.0	0	0.0
		<b>Total</b>	<b>11,93,704</b>	<b>100.0</b>	<b>11,78,981</b>	<b>100.0</b>

Note: TM means Trading Members, TM\_CM means Trading cum Clearing Members, TM\_SCM means Trading cum Self Clearing Members, PCM means Professional Clearing Members

Source: MCX, NCDEX

## II. Portfolio Managers

According to the Asia-Pacific Wealth Report 2017, the Asia-Pacific region is recognized as having the highest net worth individuals (HNIs) and as being the region with the highest HNI wealth. As per the report, India is home to the fourth largest population of HNIs in the Asia-Pacific region. According to report, India's HNI population and wealth increased by 9.6 per cent and 10 per cent respectively during 2016. This is evident in the expanding clientele base of the portfolio management industry. The total number of clients jumped by more than 50 per cent to 1,21,361 at the end of March 2018 from 77,150 at the end of March 2017. Number of clients under discretionary category rose by 60 per cent while those under advisory and non-discretionary category increased by 45.6 per cent and 16.1 per cent respectively, during 2017-18.

The total AUM of the portfolio management industry increased by 19.2 per cent to ₹ 14.7 lakh crore at the end of March 2018 from ₹ 12.3 lakh crore at the end of March 2017. The AUM of discretionary services rose by 19.1 per cent in 2017-18 from ₹ 9.67 lakh crore in the previous financial year to ₹ 11.52 lakh crore in this financial year. The AUM of non-discretionary services rose by 19.6 per cent in 2017-18 from ₹ 0.75 lakh crore in the previous financial year to ₹ 0.90 lakh crore this financial year. The AUM of advisory services rose by 19.5 per cent in 2017-18 from ₹ 1.88 lakh crore in the previous financial year to ₹ 2.25 lakh crore this financial year. The discretionary services offered to the Employees Provident Fund Organization (EPFO)/Provident Fund (PF) constituted 67.8 per cent of the total AUM of the portfolio managers (down from 69.6 per cent in the previous year) (Table 2.52). Portfolio managers' AUM/GDP ratio was recorded at 8.8 per cent in 2017-18.

**Table 2.52: Assets Managed by Portfolio Managers**

Year	No. of Clients				AUM (₹ crore)				
	Discretionary	Non-Discretionary	Advisory	Total	Discretionary (EPFO/PFs)	Discretionary (Non EPFO/PFs)	Non-Discretionary	Advisory	Total
2016-17	70,994	4,674	1,482	77,150	8,55,978	1,11,057	75,061	1,88,385	12,30,482
2017-18	1,13,776	5,427	2,158	1,21,361	9,94,748	1,57,375	89,797	2,25,131	14,67,051

Note: The data has been compiled on the basis of information submitted by portfolio managers to SEBI

### III. Alternative Investment Funds

AIFs are defined in Regulation 2(1)(b) of the SEBI(Alternative Investment Funds) Regulations, 2012. They refer to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a limited liability partnership (LLP). In India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency. The various categories of funds in AIFs, provide stable and long-term capital with a wide range of investment objectives and investment strategies. This is not only a valuable service for both investors and fund managers, but also for the Indian economy as it creates jobs, improves governance and promotes innovation and economic growth. For AIFs to perform this invaluable role, the regulatory framework must be an enabler and foster ease of doing business. In view of this, SEBI has always ensured reforms in this private fund industry so as to pave the way for AIFs much greater contribution to India's development, economic growth and start-up policies.

As on March 31, 2018, 414 AIFs were established under SEBI's AIF regulations, the largest of which are Category II AIFs. The number of registered AIFs increased significantly from 302 at the end of March 2017 to 414 at the end of March 2018.

The commitments raised by AIFs almost doubled from ₹ 84,304 crore at the end of March 2017 to ₹ 1,65,095 crore at the end of March 2018. By the end of March 2018, AIFs have managed to raise almost half of the commitments raised and invest more than one third of the total commitments raised. The cumulative net investment made by AIFs rose to ₹ 61,401 crore at the end of March 2018, from ₹ 35,099 crore at the end of March 2017. Category II AIFs (comprising of private equity funds and debt funds) made additional investment of ₹ 12,950 crore, followed by Category III AIFs (firms investing in complex and leveraged products including in derivatives) which made investment of ₹ 10,975 crore and Category I AIFs which made investment of ₹ 2,378 crore. The cumulative amount mobilised by AIFs as on March 31, 2018 is given in Table 2.53.

**Table 2.53: Cumulative Amount Mobilised by AIFs (₹ Crore)**

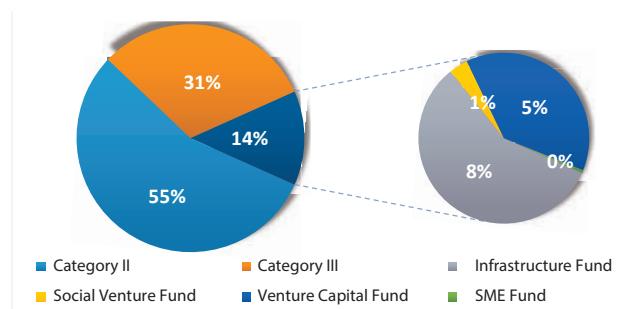
Category	Commitments raised	Funds raised	Investments made	Commitments raised	Funds raised	Investments made
	2016-17			2017-18		
Category I						
Infrastructure Fund	6,829	4,151	3,462	9,527	5,734	4,733
Social Venture Fund	994	551	476	1,135	422	295
Venture Capital Fund	12,570	2,911	1,881	17,148	4,442	3,147
SME Fund	208	175	26	225	196	47
<b>Category I Total</b>	<b>20,601</b>	<b>7,787</b>	<b>5,845</b>	<b>28,035</b>	<b>10,794</b>	<b>8,222</b>
Category II	51,734	24,685	21,073	105,799	50,451	34,023
Category III	11,969	8,483	8,181	31,261	24,031	19,156
<b>Grand Total</b>	<b>84,304</b>	<b>40,956</b>	<b>35,099</b>	<b>165,095</b>	<b>85,276</b>	<b>61,401</b>

**Note:** The data has been compiled on the basis of information submitted by AIFs to SEBI

At the end of 2017-18, the cumulative investment made by category II AIF, category III AIF and category I AIF stand at ₹ 34,023 crore, ₹ 19,156 crore and ₹ 8,222 crore, respectively. In terms of percentage share, Category II AIFs has the highest share of 55 per cent in the total cumulative investment by all AIFs at

the end of March 2018, followed by Category III AIFs (31 per cent) and Category I AIFs (14 per cent). Out of the total 14 per cent share of Category I AIFs, Infra funds have eight per cent share and Venture capital funds (VCFs) have five per cent share in the total cumulative investment by all AIFs (Figure 2.27).

**Figure 2.27: Category-Wise Net Cumulative Investments by AIFs (in %)**



#### IV. Venture Capital Funds and Foreign Venture Capital Investors

On May 21, 2012, SEBI notified SEBI (Alternative Investment Funds) Regulations, 2012, at the same time repealing erstwhile SEBI (Venture Capital Funds) Regulations, 1996 (VCF Regulations). However, existing VCFs continued to be regulated by the VCF Regulations till the existing fund or scheme managed by the fund is wound up. Further, the VCFs were allowed to seek re-registration under AIF regulations subject to approval of 66.67 per cent of their investors by value. Pursuant to this regulation, some VCFs have started to register themselves as Category I AIFs. Resultantly, since 2015-16, the cumulative net investments by existing VCFs and FVCIs have decreased.

The cumulative net investment of VCFs decreased by 24.8 per cent to ₹ 21,679 crore at the end of March 2018 as compared to ₹ 28,813 crore at the end of March 2017. Similarly, the cumulative net investment by FVCIs also decreased by 24.2 per cent to ₹ 34,906 crore at the end of March 2018 as compared to ₹ 46,031 crore at the end of March 2017. The combined cumulative net investment of VCFs and FVCIs decreased by 12.5 per cent (Table 2.54).

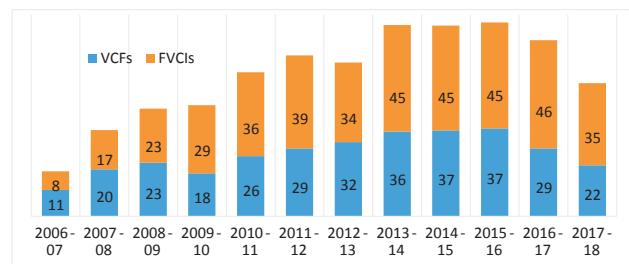
**Table 2.54: Cumulative Net Investments by VCFs and FVCIs (₹ crore)**

Year	VCFs	FVCIs	Total
2016-17 (*)	28,813	46,031	64,670
2017-18	21,679	34,906	56,585

**Notes:** 1. \* Excludes investments by FVCIs through VCFs. 2. The data has been compiled on the basis of information submitted by VCFs/FVCIs to SEBI

The investments of VCFs has shown increase from ₹ 11,000 crore to ₹ 37,000 crore during the period March 2007 to March 2016 whereas these investments have come down to ₹ 22,000 crore in last two years. On a similar trend, investments of FVCIs is also increased from ₹ 8,000 crore to ₹ 45,000 crore during the period March 2007 to March 2016 and decreased to ₹ 22,000 crore as on March 2016 (Figure 2.28).

**Figure 2.28: Trends in the Cumulative Net Investments by VCFs and FVCIs (₹ '000 crore)**



#### V. REITs and InvITs

The introduction of REITs in India is expected to significantly benefit the investors as well as the developers in the real estate industry. REITs are expected to provide an exit route to Indian developers that have struggled to reduce debt with interest rates among the highest in Asia, while giving investors the ability to buy into the country's property market which otherwise may be out of their reach due to the sheer size of such properties. REITs would also enable diversification of the portfolio of the investors and provide them a new product that is regular income generating. The freeing up of developer's capital is expected to bring in more investments in real estate thereby stimulating growth.

REITs will force much needed transparency at least in the commercial sector, and lower the reliance on financing from banks and incentivize developers to own and manage assets with a long-term view. In a market where price data is almost impossible to come by, this will be a revolution. It will help the investors in making more informed investment decisions as returns can actually be analysed rather than be based upon anecdotes. Opening up of REITs for foreign investors with support from the budget on such inflows

is expected to generate substantial foreign interest for investment in REITs. In time, it will help develop a more mature and liquid market with broad participation from investors.

**Table 2.55: Details of REITs and InvITs during 2017-18**

Particulars	REITs		InvITs	
	2016-17	2017-18	2016-17	2017-18
Number of Registered Trusts at the end of the period	0	1	6	7
Of which number of entities listed on stock exchanges	0	0	0	2
Funds Raised during the year (Amount in ₹ crore)	0	0	0	7,282.9

Given the challenging phase of infrastructure in the country today, InvITs are proposed to provide a suitable structure for financing/refinancing of infrastructure projects in the country. Several existing infrastructure projects which are under development in India are delayed and 'stressed' on account of varied reasons including increasing debt finance costs, lack of/locked up equity of private investors in projects precludes them from an interest in undertaking new projects, lack of international finance flowing to Indian infrastructure projects, project implementation delays caused by various factors like global economic slowdown, cost overruns, inability of concessionaire to meet funding requirements on time, etc. InvITs, as an investment vehicle, may aid:

- a. providing of wider and long-term re-finance for existing infrastructure projects.
- b. freeing up of current developer capital for reinvestment into new infrastructure projects.
- c. refinancing/takeout of existing high cost debt with long-term low-cost capital and help banks free up/reduce loan exposure,

Table 2.55 provides details of the activity of REITs and InvITs. As on March 31, 2018 there was only one registered entity and the fund raising activity was nil till the end of 2017-18.

and thereby create bank headroom for new funding requirements.

As on March 31, 2018 there were seven InvITs registered with SEBI as compared to six registered entities as on March 31, 2017. During 2017-18, InvITs raised funds to the tune of ₹ 7,282 crore from the investors (Table 2.55).

## VI. Custodians

Custodians are important registered service providers to the institutional participants in the market. The various categories of clients and their holdings are provided in the table 2.56. At the end of March 31, 2018, total clients of the 18 registered custodians were 25,515 compared to 30,364 clients at the end of March 31, 2017, a decline of 16 percent. The custodial value of the holdings all the clients of custodians amounts to ₹ 78,06,763 crore at the end of March 31, 2018 compared to ₹ 93,15,688 crore clients at the end of March 31, 2017, a decline of 16.2 percent. The top client with custodian is FPI with a holding of 34.7 percent followed by mutual funds with holdings of 19.7 percent.

**Table 2.56: Details of Client Category and their Holdings**

Client Category	No of Clients		Amount (in Rs. Crore)	
	As on March 31, 2017	As on March 31, 2018	As on March 31, 2017	As on March 31, 2018
Banks	114	115	3,52,782	3,03,380
Corporates	459	434	87,065	73,927
FDI Investments	1,651	1,532	7,33,302	5,91,977
Financial Institutions	27	29	1,09,009	74,174

Client Category	No of Clients		Amount (in Rs. Crore)	
	As on March 31, 2017	As on March 31, 2018	As on March 31, 2017	As on March 31, 2018
Foreign Depository	64	64	2,95,548	2,72,830
Foreign Venture Capital Investment	188	188	31,420	31,695
FPIs	9,326	8,956	31,48,349	27,05,729
Insurance Companies	856	766	15,78,987	14,40,523
Local Pension Funds	120	96	3,32,925	2,27,369
Mutual Funds	1,541	1,663	19,78,171	15,36,949
NRIs	415	330	3,249	2,849
OCBs	23	22	2,424	2,175
Others	15,580	11,320	6,62,458	5,43,187
<b>Grand Total</b>	<b>30,364</b>	<b>25,515</b>	<b>93,15,688</b>	<b>78,06,763</b>

Source: NSDL

## VII. Credit Rating Agencies

The number of fresh ratings, assigned by six Credit Rating Agencies (CRAs) to the long term corporate debt securities, increased from 1,204 in 2016-17 to 1,444 in 2017-18, a jump of 19.9 per cent. In value terms, ₹17 lakh crore in 2016-17 compared with

₹ 21.4 lakh crore in 2017-18, a change of 25.7 per cent. During 2017-18, the six CRAs reviewed credit ratings of 5,310 corporate debt securities compared to 3,863 corporate debt securities in previous year, an increase of 37.5 per cent. In terms of value, ₹ 116.9 lakh crore compared to ₹96.3 lakh crore in previous year, a jump of 21.4 per cent (Table 2.57).

**Table 2.57: Credit Rating and Ratings Review of the Corporate Debt Securities by CRAs**

Client Category	No of Issues		Amount (in Rs. Crore)	
	2016-17	2017-18	2016-17	2017-18
Ratings Assigned for Corporate Debt Securities *	1,204	1,444	17,00,856	21,37,637
Review of Accepted Ratings of Corporate Debt Securities *	3,863	5,310	96,26,172	1,16,83,276

Note: \* the data pertains to long term corporate debt securities (with maturity  $\geq 1$  year)

Source: Credit Rating Agencies

## VIII. Other Intermediaries

As on March 31, 2018, the number of registered intermediaries increased to 12,977 compared with 11,978 registered intermediaries at the end of March 31, 2017, a jump of 8.3 per cent. Table 2.58 shows that

there were 9,227 FPIs, 18 custodians, 18 designated depository participants, 414 AIFs, 196 venture capital funds, 225 foreign venture capital investors, 195 merchant bankers, 264 portfolio managers, 885 investment advisers and 476 research analysts registered with SEBI, as on March 31, 2018.

**Table 2.58: Number of Other Registered Intermediaries**

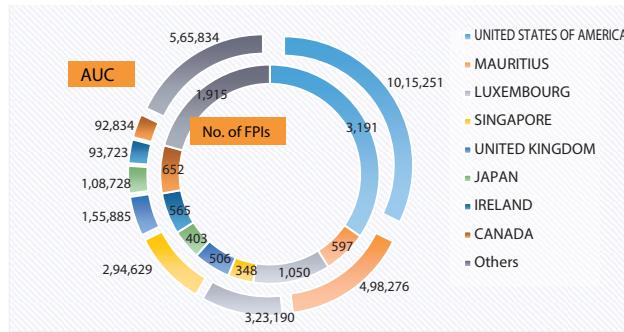
Type of Intermediary	As on March 31, 2017	As on March 31, 2018
Registrars to Issue and Share Transfer Agents	73	73
Merchant Bankers	189	195
Underwriters	2	1
DPS - NSDL	276	276

Type of Intermediary	As on March 31, 2017	As on March 31, 2018
DPs - CDSL	588	600
Credit Rating Agencies	7	7
Bankers to an Issue	64	66
Debenture Trustees	32	31
KYC (Know Your Client) Registration Agency (KRA)	5	5
Number of FPIs (including deemed FPIs)	8,781	9,227
No. of Custodians	18	18
No. of Designated Depository Participants	18	18
Alternative Investments Funds	302	414
Venture Capital Funds	198	196
Foreign Venture Capital Investors	218	225
Portfolio Managers	218	264
Investment Advisers	617	885
Research Analysts	372	476
<b>Total</b>	<b>11,978</b>	<b>12,977</b>

## 6. FOREIGN PORTFOLIO INVESTMENT

The Foreign Portfolio Investors (FPIs) investing in India have increasingly been from diverse locations, with an increase in the number of FPIs registered in India. On the basis of their sources of incorporation, portfolio investments in India were from 56 different countries, as on March 31, 2018. There were 18 registered custodians of securities as well as 18 SEBI approved designated depository participants (DDPs) as on March 31, 2018. Based on the country of incorporation, the number of FPIs registered was the highest from USA (3,191), followed by Luxembourg (1,050), Canada (652) and Mauritius (597) (Figure 2.29). In terms of AUC as well, FPIs from the USA had the maximum AUC (₹ 10.2 lakh crore), followed by Mauritius (₹ 5 lakh crore), Luxembourg (₹ 3.2 lakh crore) and Singapore (₹ 2.9 lakh crore) (Figure 2.29).

**Figure 2.29: Country-wise AUC (₹ crore) and Number of Registered FPIs**



Source: CDSL and NSDL

FPI investments in India has grown remarkably in the last 15 years. During 2017-18, the FPIs net investments were recorded at ₹ 1,47,117 crore in Indian capital market, compared to net investment of ₹ 48,411 crore in 2016-17. In USD terms, net investments during 2017-18 were USD 22,618 million compared to net investments of USD 7,177 million during the previous year. The gross purchases made by FPIs increased by 14.9 per cent to ₹ 17.3 lakh crore in 2017-18 from ₹ 15.1 lakh crore during the previous year. On the other hand, gross sales by FPIs increased by 8.7 per cent to ₹ 15.8 lakh crore from ₹ 14.6 lakh crore during the same period last year (Figure 2.30). The cumulative net investment by FPIs (at the acquisition cost) stands at USD 253,653 million at the end of March 31, 2018.

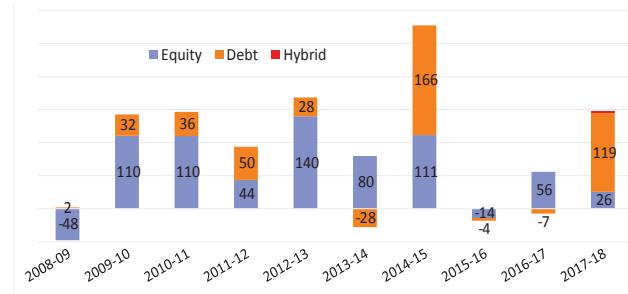
**Figure 2.30: Trends in Investments by FPIs (₹ crore)**



Source: CDSL and NSDL

The net investment by FPI's in the equity segment was modest to the tune of ₹ 25,635 crore during 2017-18 compared to ₹ 55,703 crore investment in the previous year. The debt segment saw buoyant inflows as the year 2017-18 witnessed the second highest net investment by FPI in the debt segment ever to the tune of ₹ 1.19 lakh crore, after record investment of ₹ 1.66 lakh crore in 2014-15. Prior to this, FPIs were net sellers in the debt segments for the two consecutive year (Figure 2.31).

**Figure 2.31: Trends in Net Investments by FPIs (₹ '000 crore)**



Source: CDSL and NSDL

FPIs bought highest in equity segment in the month of November 2017 (net buying of ₹ 19,728 crore) followed by January 2018 (net buying of ₹ 13,781 crore). On the contrary, FPIs sold highest in equity segment in the month of August 2017 (net selling of ₹ 12,770 crore), February 18 (net selling of ₹ 11,423 crore) and September 2017 (net selling of ₹ 11,392 crore).

Further, almost 85 per cent of the debt investment happened during the first six month of 2017-18. The highest investment in debt segment happened during Jun 2017 (net buying of ₹ 25,685 crore) fol-

lowed by April 2017 (net buying of ₹ 20,364 crore) while highest withdrawal happened during March 2018 (net selling of ₹ 9,044 crore).

Details regarding debt investment limits allocated to FPIs through the auction mechanism during 2017-18 are given in Table 2.59.

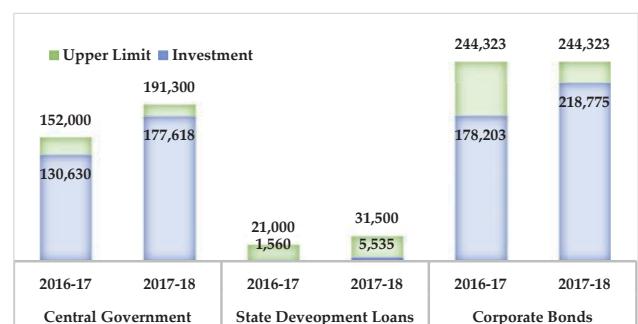
**Table 2.59: Allocation of Debt Investment Limits to FPIs**

Government Debt				Corporate Debt			
S. No.	Date of Auction	Debt Limits auctioned (₹ crore)	Debt Limits allocated (₹ crore)	S. No.	Date of Auction	Debt Limits auctioned (₹ crore)	Debt Limits allocated (₹ crore)
1	15-Jun-17	18,437	16,708	1	26-Jul-17	7,418	7,418
2	5-Jul-17	20,397	20,397	2	14-Aug-17	3,360	3,360
3	25-Jul-17	10,922	10,922	3	5-Sep-17	1,710	1,710
4	14-Aug-17	5,481	5,481	4	22-Sep-17	2,229	2,229
5	4-Sep-17	4,910	4,910	5	17-Oct-17	10,502	10,502
6	25-Sep-17	2,786	2,786	6	7-Nov-17	9,018	9,018
7	16-Oct-17	4,954	4,954	7	24-Nov-17	8,314	8,314
8	6-Nov-17	2,169	2,169	8	14-Dec-17	7,374	7,370
9	27-Nov-17	3,930	3,930	9	3-Jan-18	13,756	13,756
10	18-Dec-17	3,074	3,074	10	22-Jan-18	9,475	9,475
11	8-Jan-18	6,666	6,666	11	9-Feb-18	7,120	7,120
12	29-Jan-18	4,569	4,569	12	5-Mar-18	10,789	10,789
13	20-Feb-18	3,840	3,840	13	22-Mar-18	11,796	11,796
14	13-Mar-18	10,979	10,979				

**Source:** CDSL and NSDL

Figure 2.32 and Tables' 2.60-2.62 provide a glimpse of FPI investment limits in government securities and corporate bonds as well as the re-investment of coupons in government securities as on March 31, 2018. During 2017-18, the overall upper limit for central government securities was increased by 25.8 per cent from ₹ 1.52 lakh crore to ₹ 1.91 lakh crore, while the upper limit for state government securities was increased from ₹ 21,000 crore to ₹ 31,500 crore. On the other hand, the upper limit for corporate bond was kept unchanged at ₹ 2.44 lakh crore during 2017-18. The overall debt utilization limit has reached 94.2 per cent of the total available limit for central government securities, 91.8 per cent for corporate bond and 17.6 per cent for state government securities, at the end of March 2018.

**Figure 2.32: Overall Investment Limits for FPIs (₹ crore)**



**Source:** CDSL and NSDL

**Table 2.60: FPI Investment Limits in Government Securities**

S. No	Instrument Type	Eligible Catego- ries of FPIs	Upper Limit (₹ crore)	Investment (₹ crore)	Unutilised Auctioned Limits available with FPIs (₹ crore) (C)	Total In- vestment including Unutilised	% of Limits Uti- lised (E) = (D)/(A)	Limit Available for Investment (₹ crore)
			(Refer to Note 1) (A)	(B)		Auctioned Limits (₹ crore) (D) = (B) + (C)		(F) = (A) - (D)
				No. of Stocks Traded				
1	Central Government Securities <i>(Refer to Note 2)</i>	All Cate- gories	191,300	177,618	2,637	180,255	94.23	11,045
2	Central Government Securities <i>(Refer to Notes 2, 3)</i>	Long Term FPIs	65,100	53,233	Na	53,233	82	11,867
3	State Development Loans <i>(Refer to Notes 4)</i>	All Cate- gories	31,500	5,535	Na	5,535	18	25,965
4	State Development Loans <i>(Refer to Notes 4)</i>	Long Term FPIs	13,600	0	Na	0	0	13,600
<b>Total Government Securities</b>			<b>3,01,500</b>	<b>2,36,386</b>	<b>2,637</b>	<b>2,39,023</b>	<b>79</b>	<b>62,477</b>

**Notes –**

- Upper Limits are as prescribed vide SEBI circular ref. no. IMD/FPIC/CIR/P/2017/129 dated December 20, 2017.
- Includes Gross Long Positions in Interest Rate Futures as per SEBI circular ref. no. CIR/MRD/DRMNP/2/2014 dated January 20, 2014.
- Limit applicable to FPIs registered with SEBI under the categories of Sovereign Wealth Funds, Multilateral Agencies, Endowment funds, Insurance funds, pension funds and Foreign Central banks as per SEBI circulars ref. no. IMD/FPIC/CIR/P/2017/129 dated December 20, 2017.
- Includes State Development Loans as SEBI circular ref. no. IMD/FPIC/CIR/P/2017/129 dated December 20, 2017.

**Source:** CDSL and NSDL

**Table 2.61: Re-investment of Coupons in Government Securities (Refer to Note 1)**

Sl. No	Type of Instrument	Investment (₹ crore) (A)	Unutilized Limit available with FPIs as per re-investment eligibility (Refer to Note 2) (₹ crore) (B)	Total Investment including unutilized limits (₹ crore) (C) = (A) + (B)
1	Central Government Securities (Coupon Re-investment)	4,760	480	5,240
2	State Development Loans (Coupon Re-investment)	1	0	1
<b>Total</b>		<b>4,761</b>	<b>480</b>	<b>5,241</b>

**Note-**

- Re-investments of coupons in Government Securities as per SEBI circular ref. nos. CIR/IMD/FIIC/2/2015 dated February 5, 2015 CIR/IMD/FPIC/8/2015 dated October 06, 2015.
- Unutilised Limit available with the entity under re-investment eligibility as per SEBI circular ref. no. CIR/IMD/FIIC/2/2015 dated February 5, 2015 & CIR/IMD/FPIC/8/2015 dated October 6, 2015.

**Source:** CDSL and NSDL

**Table 2.62: FPI Investment Limits in Corporate Bonds**

S. No	Instrument Type	Eligible Foreign Investors	Upper Limit (₹ crore) (Refer to Note 1) (A)	Investment (₹ crore) (B)	Unutilized Auctioned Limits available with FPIs/ Undrawn amount under Rupee Denominated Bonds Overseas (₹ crore) (C)	Total Investment including Unutilized Auctioned Limits (₹ crore) (D) = (B) + (C)	per cent of Limits Utilized (E) = (D)/(A)	Limit Available for Investment (₹ crore) (F) = (A)- (D)
1	Corporate Bonds	All Categories	2,25,323	2,18,571	5,631	2,24,202	99.5	1,121
1(a)	Credit Enhanced Bonds (Refer to Note 2)	All Categories	23,953	0	0	0	0	0
1(b)	Unlisted Corporate Debt and Securitised Debt Instruments (Refer to Note 3)	All Categories	35,000	18,412	0	18,412	52.61	0
2	Corporate Bond(Refer to Note 4)	Long Term FPIs	19,000	204	0	204	1.07	18,796
2(a)	Unlisted Corporate Debt and Securitised Debt Instruments (Refer to Note 5)	Long Term FPIs	0	204	0	204	0	0
<b>Total Corporate Debt</b>			<b>2,44,323</b>	<b>2,18,775</b>	<b>5,631</b>	<b>2,24,406</b>	<b>91.85</b>	<b>19,917</b>

**Notes:**

- The limits of foreign investment in corporate bonds as per SEBI circular no. SEBI/HO/IMD/FPIC/CIR/P/2017/112 dated September 29, 2017.
- Limit of INR 23,953 cr within the overall corporate debt limit.
- Foreign investment in Unlisted Corporate Debt and Securitised Debt Instruments (All Categories) is within the overall limit of INR 2,25,323 crore for Corporate Debt as per SEBI circular SEBI/HO/IMD/FPIC/CIR/P/2017/16 dated February 28, 2017.
- The Limit for foreign investment in Corporate Bonds in infrastructure sector by long term FPIs as per SEBI Circular no. SEBI/HO/IMD/FPIC/CIR/P/2017/112 dated September 29, 2017.
- Foreign investment in Unlisted Corporate Debt and Securitised Debt Instruments shall be within the overall limit of INR 35,000 crore as per SEBI circular no. SEBI/HO/IMD/FPIC/CIR/P/2017/112 dated September 29, 2017 and SEBI/HO/IMD/FPIC/CIR/P/2017/16 dated February 28, 2017.

**Source:** CDSL and NSDL

FPIs have been permitted to trade in the derivatives market since February 2002. As on March 31, 2018, the notional value of open interest held by FPIs was ₹ 1.9 lakh crore as compared ₹ 1.5 lakh crore as on March 31, 2017. The open interest position of FPIs

in stock futures was the highest at ₹ 79,121 crore followed by index options (₹ 76,019 crore), index futures (₹ 25,070 crore), stock options (₹ 7,711 crore) and interest rate futures (₹ 379 crore) (Table 2.63).

**Table 2.63: Notional Values of Open Interest of FPIs in Derivatives (₹ crore)**

Items	31-Mar-17	31-Mar-18
Index Futures	22,565	25,070
Index Options	44,645	76,019
Stock Futures	77,907	79,121
Stock Options	150	7,711
Interest Rate Futures	229	379
<b>Total</b>	<b>1,45,496</b>	<b>1,88,301</b>
Change in open position over the last year	41,009	42,805
percentage change	28	29.4

Note: Open interest calculated taking both sides' open positions.

Source: CDSL and NSDL

Offshore derivatives instruments (ODIs) are investment vehicles used by overseas investors for an exposure in Indian equities or equity derivatives. During 2016-17, SEBI reviewed the measures taken for tightening investment norms of ODI issuers. Additional measures were introduced for the purpose of enhancing transparency and control over the issuance of ODIs. The total value of investments in ODIs in-

clusive of equity, debt and derivatives as underlying declined further during 2017-18, as it stood at ₹ 1.1 lakh crore as on March 31, 2018 compared to ₹ 1.8 lakh crore as on March 31, 2017. Excluding ODIs on derivatives, the total value of ODIs on equity and debt was ₹ 1.0 lakh crore in the current year as compared to ₹ 1.2 lakh crore at the end of previous year. Total value of ODIs on equity and debt (including derivatives) has been declining consistently over the years. Since 2009-10, the share of ODI's (including derivatives) has declined from 16.1 per cent to 3.4 per cent at the end of 2017-18. (Figure 2.33).

**Figure 2.33: ODIs as a Percentage of FPIs AUC**



Source: CDSL and NSDL

## 7. OTHER ACTIVITIES HAVING A BEARING ON THE WORKING OF THE SECURITIES MARKET

### I. Corporate Bond Market

Deep and liquid markets for long-term debt securities can provide alternative financing options for growth, leading to greater diversification of the sources of funding beyond bank financing or equity offerings. Though India's corporate bond market has expanded rapidly in recent years, it remains as a limited source of funding, with firms relying predominantly on bank credit. There are various structural impediments in the corporate bond markets, including dominance of issuances by financial sector entities, prevalence of private placements, very limited market liquidity, and restrictions on institutional-investor allocations to non-investment-grade bonds. In view of its looming infrastructural finance requirements, a flourishing corporate bond market is necessary for India. So far, the corporate funding is largely met by bank credit, which may languish given the NPAs and asset quality problems in the banking sector and stringent capital requirements on the implementation of Basel III norms. In the recent years, significant policy attention has been directed towards reviving and nurturing the growth of the corporate bond markets in India. In order to support the corporate debt market, comprehensive reform measures were proposed by the Working Group on Development of the Corporate Bond Market in India in August 2016.

In continuation of the trend observed in the

past, in 2017-18, the private placements of debt issues outnumbered public issues and it continued to be the preferred route among issuers for its advantages like operational ease, minimal disclosures and lower costs. Reporting platforms for corporate bonds have been set up and are maintained by BSE, NSE and MSEI to capture information related to trading in corporate bonds. While the secondary market trading of corporate bonds issued under a public issue takes place on the exchanges along with equities, trading of privately placed corporate bonds in the secondary market happens over the counter (OTC).

Even though NSE's share in total reporting decreased from 80.1 per cent in 2016-17 to 73.5 per cent in 2017-18, it still remains the largest reporting platform for OTC deals in the corporate bond market. The total value of corporate bonds trades reported at BSE rose by 62.9 per cent to ₹ 4.76 lakh crore from ₹ 2.92 lakh crore in the previous year whereas that of NSE rose by 12.2 per cent to ₹ 13.2 lakh crore from ₹ 11.8 lakh crore, during the same period. In terms of number of trades, the trades reported at BSE rose by 19.8 per cent to 29,198 in 2017-18 from 24,372 in 2016-17, whereas that at NSE decreased by 3.0 per cent to 62,215 in 2017-18 from 64,123 in 2016-17. (Table 2.64). The value of corporate bond trades settled through clearing corporations increased by 26.5 per cent from ₹ 10.8 lakh crore in 2016-17 to ₹ 13.7 lakh crore in 2017-18 (Table 2.65).

**Table 2.64: Secondary Market: Corporate Bond Trades (Reported Trades)**

Year	BSE		NSE	
	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)
2016-17	24,372	2,92,154	64,123	11,78,509
2017-18	29,198	4,75,998	62,215	13,21,738

Source: BSE and NSE.

**Table 2.65: Settlement of Corporate Bonds**

Year	NSCCL		ICCL	
	No. of Trades Settled	Settled Value (₹ crore)	No. of Trades Settled	Settled Value (₹ crore)
2016-17	54,814	9,68,481	16,630	1,16,030
2017-18	55,930	11,61,329	17,401	2,10,607

Source: NSCCL and ICCL.

## II. Wholesale Debt Market

During 2017-18, the turnover in the wholesale debt market (WDM) segment at NSE decreased by 24.1 per cent to ₹ 5.2 lakh crore from ₹ 6.8 lakh crore in 2016-17. The average daily turnover also decreased by 24.1 per cent to ₹ 2149 crore from ₹ 2,832 crore in 2016-17. The turnover at NSE's WDM segment de-

creased by 24.1 per cent to ₹ 5.1 lakh crore from ₹ 6.8 lakh crore, however, the turnover in the BSE's WDM segment increased by 16.9 per cent to ₹ 5.7 lakh crore from ₹ 4.8 lakh crore. In terms of number of trades, both BSE's WDM segment and NSE's WDM segment decreased by 15.5 per cent and 26.4 per cent respectively in 2017-18 (Table 2.66).

**Table 2.66: Business Growth in the WDM Segments at NSE and BSE**

Year	No. of Trades	Net Traded Value (₹ crore)	Average Daily Traded Value (₹ crore)	No. of Trades	Net Traded Value (₹ crore)	Average Daily Traded Value (₹ crore)
	NSE			BSE		
2016-17	16,875	6,82,426	2,832	2,80,715	4,84,607	1,954
2017-18	12,419	5,17,889	2,149	2,37,190	5,66,575	2,309

**Note:** Average daily traded value is calculated as net traded value divided by the total number of trading days in the year.  
**Source:** NSE and BSE.

The trend in the instrument-wise share of securities traded in the WDM segment at NSE shows that during 2017-18, the share of G-Secs decreased to 56.4 per cent from 60.0 per cent during 2016-17. On the other hand, share of PSU/institutional bonds increased from 14.2 per cent in 2016-17 to 15.8 per cent during 2017-18. The share of Treasury bills also increased marginally from 10.0 per cent in 2016-17 to

10.4 per cent in 2017-18. (Table 2.67).

At BSE, the instrument-wise share of securities traded in the WDM segment showed a decrease in the share of G-Secs from 41.8 per cent in 2016-17 to 36.9 per cent in 2017-18. On the other hand, share of PSU/institutional bonds increased from 34.5 per cent to 45.5 per cent during the same period

**Table 2.67: Instrument-Wise Share of Securities Traded On the WDM Segments at NSE and BSE (Per Cent)**

Year	Govt. Dated Securities	Treasury Bills	PSU / Institutional Bonds	Others	Govt. Dated Securities	Treasury Bills	PSU / Institutional Bonds	Others
	NSE				BSE			
2016-17	60.0	10.0	14.2	15.8	41.8	4.6	34.5	19.2
2017-18	56.4	10.4	15.8	17.4	36.9	4.0	45.5	13.5

**Source:** NSE and BSE

At NSE, trading member's category has the largest share (39.9 per cent of the total turnover) in the wholesale debt market (WDM) segment of NSE during 2017-18, compared to 30.6 per cent market share in the previous year. The share of both Indian banks and foreign banks decreased from 29.9 per cent

and 16.4 per cent respectively in 2016-17 to 24.8 per cent and 11.1 per cent respectively in 2017-18. During 2017-18, the share of financial institutions/mutual funds/corporates increased to 20.8 per cent from 19.2 per cent. (Table 2.68).

**Table 2.68: Share of Participants in Turnover of NSE's WDM Segment (Per Cent)**

Year	Trading Members	FIs/MFs/Corporates	Primary Dealers	Indian Banks	Foreign Banks
2016-17	30.6	19.2	3.9	29.9	16.4
2017-18	39.9	20.8	3.4	24.8	11.1

**Note:** Category-wise classification not available for BSE.

**Source:** NSE.

### III. Open Offer

During 2017-18, 50 open offers with open offer size of ₹ 1,762.5 crore were made to the existing investors of the listed companies by the acquirers compared to 52 open offers with offer size of ₹ 5,927 crore during 2016-17. Out of the 50 open offers, 40 with

offer size of ₹ 1,502 crore were made with the objective of change in management control, 3 open offers of size ₹ 38.2 crore were made with the objective of consolidation of holdings and 7 open offers with offer size of ₹ 221.7 crore were made with the objective of substantial acquisition of shares (Table 2.69).

**Table 2.69: Trends in Open Offers**

Year / Month	Objectives					Total Open Offers		
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition	No	Amount (₹ crore)	
2016-17	43	5,342.04	6	219.4	3	365.6	52	5,927.0
2017-18	40	1,502.7	3	38.2	7	221.7	50	1,762.5

Note: Figures are for open offers opened during the year.

### IV. Buy-Back

Buy-back is one of the ways in which a company can return money to its shareholders. SEBI started regulating this activity with respect to listed entities from 1998 and accordingly framed the SEBI (Buy-back of Securities) Regulations, 1998.

60 buyback offers were received during 2017-18, of which five were through the open market purchase method and 55 were through the tender offer, compared to 51 buyback applications in 2016-17 (10 through open market purchase method and 41 through tender offer). Out of the five of

fers for buyback through the open market purchase method, three offers have been closed and two offers are yet to close. Further, out of the 55 offers for buyback through tender offer, 51 offers have been closed and four offers have not been closed during 2017-18. The total buyback offer size during 2017-18 was ₹ 50,793 crore compared to the buyback offer size of ₹ 37460 crore during 2016-17 representing an increase of 35.59 per cent. It is also observed from the buyback offers which were opened and closed during 2017-18 that the average utilization was 99 per cent of the total offer size compared to 98 per cent of the buyback offers which were opened and closed during 2016-17. (Table 2.70).

**Table 2.70: Buy-back Cases**

Particular	2016-17			2017-18		
	No. of Cases	Buy-back size (₹ crore)	Actual amount utilized for buy-back of securities (₹ crore)	No. of Cases	Buy-back size (₹ crore)	Actual amount utilized for buy-back of securities (₹ crore)
<b>Buy-back through Open Market</b>						
Cases received and closed	7	1,651	1,628	3	149	139
Cases received but not closed	3	760	480	2	199	NA
<b>Buy-back through Tender Offer</b>						
Cases received and closed	36	31,977	31,382	51	50,220	49,969
Cases received but not closed	5	3,072	3,071	4	225	NA

Note: As on March 31, 2017, there were 3 buyback cases through open market and 5 buyback cases through tender offer which were received but not closed. These buyback cases have been closed during 2017-18.

## V. Nation-Wide Awareness Campaign for Small and Medium Enterprises (SMEs)

SEBI has initiated awareness programmes in coordination with Stock Exchanges to interact with SMEs from different clusters and familiarize them with the various products that are being offered by the stock exchanges for the benefits of SMEs. During the financial year 2017-18 SME meets were held at Raipur, Jaipur, Aurangabad, Mysore and Ranchi.

During these programmes technical sessions

were held, wherein stock exchanges interacted with SMEs in small groups, apprised them about the regulatory parameters for SMEs and addressed their queries and apprehensions. The technical sessions were followed by the main event wherein the senior management of SEBI and stock exchanges addressed the representatives of SMEs. The data with regard to SME listing is given in Table 2.71. The market capitalisation of companies listed on SME platforms and the resource mobilisation by companies on SME platforms are given in Table 2.72.

**Table 2.71: No. of Companies Listed on SME Exchanges**

Particulars	2012	2013	2014	2015	2016	2017	2018 (Till March 28, 2018)	Cumulative Total (Till March 28, 2018)
No. of Companies Listed on NSE SME Platform	2	2	2	5	22	78	22	133
No. of Companies Listed on BSE SME Platform	11	32	39	37	43	54	23	239

**Table 2.72: The Cumulative Capital Raised and Market Capitalisation of Companies Listed on SME Exchanges**

Items	Capital Raised by Companies (₹ crore)	Market Cap of Companies (₹ crore)
NSE SME Platform	1,995.86	10,866.55
BSE SME Platform	2,169.53	11,306.93

## VI. Investor Grievance Redressal

SEBI has been taking various regulatory measures to expedite the redressal of investor grievances. The grievances lodged by investors are taken up with the respective listed company or intermediary and continuously monitored. Grievances pertaining to stock brokers and depository participants are taken up with concerned stock exchange and depository for redressal and monitored by the concerned department through periodic report obtained from them. Grievances pertaining to other intermediaries are taken up with them directly for redressal and continuously monitored by concerned department of SEBI.

The company/intermediary is required to respond in prescribed format in the form of Action Taken Report (ATR). Upon the receipt of ATR, the status

of grievances is updated. If the response of the company/intermediary is insufficient / inadequate, follow up action is initiated. SEBI takes appropriate enforcement actions (Adjudication, 11B directions, Prosecution, etc.) as provided under the law where progress in redressal of investor grievances is not satisfactory.

SEBI Complaints Redressal System (SCORES) has helped the investors in real time knowledge of status of their grievance since investors can log onto SCORES at any time and from anywhere and check the status of the grievance with the help of user-name and password provided to them at the time of lodging grievance. Alternatively, investor can also call the SEBI Toll Free Helpline to check the status of the grievance.

Since SCORES has made receipt of grievance online it helps SEBI to take up issues very fast, including those that may require a policy change. Further, since companies are required to file Action Taken Reports within 30 days of receipt of complaint, in case of any such failure SEBI can initiate action against the company depending on the merit of the case.

The following section highlights SEBI's performance and measures taken in the year 2017-18 for expediting the redressal of investor grievances.

### A. SEBI's COMPLAINTS REDRESS SYSTEM

The number of investor complaints received by SEBI on cumulative basis increased from 30,03,454 as on March 31, 2017 to 30,46,585 as on March 31,

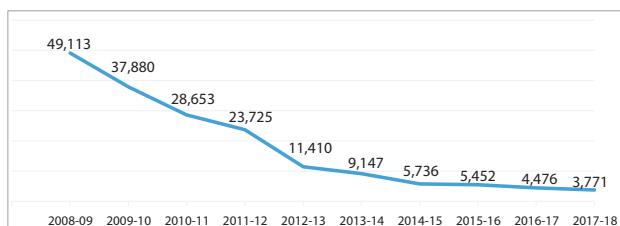
2018. However, during the same period the number of pending actionable complaints has reduced from 4,476 to 3,771 (Table 2.73).

**Table 2.73: Status of investor grievances received and redressed**

Financial Year	Grievances Received		Grievances Redressed		Pending Actionable Grievances*
	Year-wise	Cumulative	Year-wise	Cumulative	
2008-09	57,580	26,74,560	75,989	25,03,560	49,113
2009-10	32,335	27,06,895	42,742	25,46,302	37,880
2010-11	56,670	27,63,565	66,552	26,12,854	28,653
2011-12	46,548	28,10,113	53,841	26,66,695	23,725
2012-13	42,411	28,52,524	54,852	27,21,547	11,410
2013-14	33,550	28,86,074	35,299	27,56,846	9,147
2014-15	38,442	29,24,516	35,090	27,91,936	5,736
2015-16	38,938	29,63,454	35,145	28,27,081	5,452
2016-17	40,000	30,03,454	49,301	28,76,382	4,476
2017-18	4,3131	30,46,585	43,308	29,19,690	3,771

**Note:**\* excludes complaints against which regulatory action has been initiated. SCORES was launched in June 2011. Details of complaints in the table from 2011-2012 onwards are as per SCORES.

**Figure 2.34: Pending Actionable Grievances on SCORES at the end of Financial Years**



The aforesaid table indicates that the number of pending grievances has been steadily declining over the years due to expeditious disposal at the end of SEBI. Moreover, out of the pendency of 3,771 grievances as on March 31, 2018, 3,124 grievances are pending for less than 6 months. Further, only 647 grievances are pending for more than 6 months as on March 31, 2018 as compared to 984 grievances being pending for more than 6 months as on March 31, 2017.

SCORES enables the investor to directly lodge the complaints online and such complaints are con-

sidered as 'e-complaints'. During 2017-18, a total of 32,060 e-complaints were received compared to 22,304 received during the previous financial year. While investors can lodge e-complaints on SCORES, any physical complaint received against any of the entities in the SCORES database is also uploaded on SCORES and thereby converted into an e-complaint and action similar to that with regard to an e-complaint taken thereof.

A review module was implemented in SCORES in 2016-2017 wherein an investor can make a one-time request for review of a complaint closed by a dealing officer of SEBI within 15 days of closure of a complaint. During 2017-18, SEBI received 1,767 complaints for review and the cumulative number of review complaints received stood at 3,875 at the end of the year. Out of the total, 1,958 review complaints were resolved while 1,303 review complaints were pending as on 31 March, 2018.

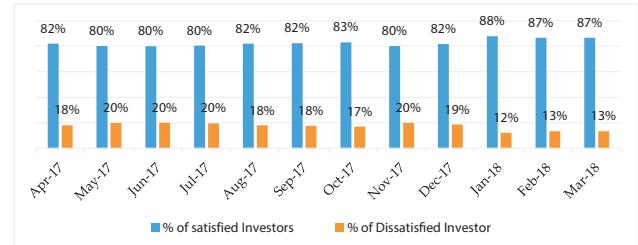
**Table 2.74: Status of Review Complaints**

Financial Year	Review Complaints Received		Review Complaints Redressed		Pending Review Complaints
	Year-wise	Cumulative	Year-wise	Cumulative	
2016-17	2,108	2,108	614	614	1,494
2017-18	1,767	3,875	1,958	2,572	1,303

## B. SEBI TOLL FREE HELPLINE

SEBI had launched toll free helpline service numbers 1800-22-7575/ 1800-266-7575 on December 30, 2011. The helpline service is available every day from 9:00 a.m. to 6:00 p.m. (except on declared public holidays in Maharashtra) to investors from all over India. The helpline service is available in English, Hindi and various regional languages. During 2017-18, SEBI attended to 6,55,845 calls on toll free helpline. The feedback of the calls answered during 2017-18 is given in Figure 2.35.

**Figure 2.35: Investor Feedback for Calls Answered**



# Part Three A: Functions of the Securities and Exchange Board of India with Respect to Matters Specified in Section 11 of SEBI Act, 1992

## 1. REGULATION OF BUSINESS IN STOCK EXCHANGES AND CLEARING CORPORATIONS

A stock exchange is a platform for facilitating price discovery of various instruments available for trading. Stock exchanges play an important role in the efficient allocation of resources in any economy as the prices discovered provide a signal for efficient allocation of financial resources across corporations. Apart from providing platforms for trading, stock exchanges have also been entrusted with various regulatory responsibilities for ensuring market integrity and for protecting investor interests. The stock exchanges' regulatory functions include issuer regulations, member regulations, trading regulations, investor protection, maintaining investor protection funds (IPFs) and product design. They also undertake a wide array of support functions like training and education, information/data services and technology solutions.

### I. RECOGNITION OF STOCK EXCHANGES

Stock exchanges are granted recognition for their operations in the securities market by SEBI under Section 4 of the Securities Contracts (Regulation)

Act (SCRA), 1956. As on March 31, 2018 there were four stock exchanges in India which had permanent recognition. During the year SEBI granted recognition to NSE IFSC Limited for one year commencing on the 29th day of May, 2017 and ending on the 28th day of May, 2018. Further, SEBI granted renewal of recognition to the Metropolitan Stock Exchange of India Ltd for one year, commencing on the 16th day of September, 2017 and ending on the 15th day of September, 2018. SEBI also granted renewal of recognition to India International Exchange (IFSC) Limited for one year commencing on the 29th day of December, 2017 and ending on 28th day of December, 2018.

Out of the four permanent exchanges, the Ahmedabad Stock Exchange and the Calcutta Stock Exchange are in the process of exit. Pursuant to the exit policy for de-recognized/non-operational stock exchanges notified by SEBI in 2012, 18 stock exchanges have exited so far. Of these, 12 exited during 2012-13, 2013-14 and 2014-15, five more stock exchanges exited during 2015-16 and one stock exchange exited in 2016-17 (Table 3.1, 3.2, 3.3).

**Table 3.1: Stock Exchanges with Permanent Recognition**

Sr. No.	Exchanges	Recognition
1	Ahmedabad Stock Exchange	Permanent
2	Bombay Stock Exchange	Permanent
3	Calcutta Stock Exchange	Permanent
4	National Stock Exchange of India	Permanent

Note: Stock exchanges exclude commodity derivatives exchanges.

**Table 3.2: Recognition Granted to Stock Exchanges during 2017-18**

Sr. No.	Exchanges	Date of Notification	Period	Recognition
1.	The Metropolitan Stock Exchange of India Ltd.	September 12, 2017	September 16, 2017 September 15, 2018	Renewal
2	India International Exchange (IFSC) Limited	December 26, 2017	December 29, 2017-December 28, 2018	Renewal
3	NSE IFSC Limited	June 01, 2017	May 29, 2017 to May 28, 2018	New

**Table 3.3: Stock Exchanges Which Have Already Exited**

Sr. No.	Name of Stock Exchange	Date of Exit Order
1	Hyderabad Stock Exchange Ltd (HySE)	January 25, 2013
2	Coimbatore Stock Exchange Ltd (CSX)	April 03, 2013
3	Saurashtra Kutch Stock Exchange Ltd (SKSE)	April 05, 2013
4	Mangalore Stock Exchange Ltd (MgSE)	March 03, 2014
5	Inter-Connected Stock Exchange of India Ltd (ISE)	December 08, 2014
6	Cochin Stock Exchange Ltd (CoSE)	December 23, 2014
7	Bangalore Stock Exchange Ltd (BgSE)	December 26, 2014
8	Ludhiana Stock exchange Ltd (LSE)	December 30, 2014
9	Guwahati Stock Exchange Ltd (GSE)	January 27, 2015
10	Bhubaneswar Stock Exchange Ltd (BhSE)	February 09, 2015
11	Jaipur Stock Exchange Ltd (JSE)	March 23, 2015
12	OTC Exchange of India (OTCEI)	March 31, 2015
13	Pune Stock Exchange (PSE)	April 13, 2015
14	Madras Stock Exchange (MSE)	May 14, 2015
15	Uttar Pradesh Stock Exchange (UPSE)	June 09, 2015
16	Madhya Pradesh Stock Exchange (MPSE)	June 09, 2015
17	Vadodara Stock Exchange Limited (VSEL)	November 09, 2015
18	Delhi Stock Exchange Ltd (DSE)	January 23, 2017

## II. GRANT OF RECOGNITION AND RENEWAL TO CLEARING CORPORATIONS

SEBI, in exercise of the powers conferred by Section 4 read with sub-section (4) of Section 8A of the Securities Contracts (Regulation) Act, 1956, granted

recognition/renewal of recognition to –

- A. National Securities Clearing Corporation Ltd. (NSCCL) for three years commencing on the 3rd day of October, 2017 and ending on the 2nd day of October, 2020.

- B. Indian Clearing Corporation Ltd. (ICCL) for three years commencing on the 3rd day of October, 2017 and ending on the 2nd day of October, 2020.
- C. Metropolitan Clearing Corporation of India Ltd. (MCCIL) for a period of one year commencing on the 3rd day of October, 2017 and ending on the 2nd day of October, 2018.
- D. India International Clearing Corporation (IFSC) Ltd. (India ICC) for a period of one year commencing on the 29th day of December, 2017 and ending on the 28th day of December, 2018.
- E. NSE (IFSC) Clearing Corporation Ltd. for a period of one year commencing on the 29th day of May, 2017 and ending on the 28th day of May, 2018.

The grant of recognition/renewal of recognition to aforementioned clearing corporations has also been notified in the Gazette of India.

### III. EXIT OF STOCK EXCHANGES

SEBI formulated the exit policy for de-recognized/non-operational stock exchanges in 2012. Subsequent to this, SEBI received applications from de-recognized/non-operational stock exchanges seeking voluntary exit as stock exchanges. In order to facilitate the exit process for such exchanges, SEBI has been taking several policy initiatives. Three exchanges have either applied for exit or have been identified for compulsory exit and their process of exit is underway (Table 3.4)

**Table 3.4: Stock Exchanges Which Are Under the Process of Exit**

Sr. No.	Name of Stock Exchange	Status
1	Magadh Stock Exchange Ltd.	<ul style="list-style-type: none"> <li>• SEBI vide order dated September 3, 2007 refused to renew the recognition granted to Magadh Stock Exchange Ltd.</li> <li>• Magadh Stock Exchange Ltd. did not apply for voluntary exit. Compulsory Exit process has been initiated against the stock exchange.</li> </ul>
2	Ahmedabad Stock Exchange Ltd. (ASE)	<ul style="list-style-type: none"> <li>• It is under process of exit.</li> </ul>
3	Calcutta Stock Exchange Ltd. (CSE)	<ul style="list-style-type: none"> <li>• Matter is subjudice in Hon'ble Kolkata High Court.</li> </ul>

### IV. MEASURES ADOPTED FOR REGULATION OF STOCK EXCHANGES

#### A. ACTION AGAINST EXCLUSIVELY LISTED COMPANIES AND ITS PROMOTERS/DIRECTORS PENDING EXIT OFFER TO THE SHAREHOLDERS

SEBI in 2016, provided options to the exclusively listed companies (ELCs) on dissemination board to raise capital for meeting the capital requirement for getting listed on the nationwide stock exchanges or to provide exit to investors. "Exclusively Listed Companies" refer to those companies whose equity shares were exclusively listed at a recognized stock exchange at the time of exit of such exchange and

were subsequently moved to the dissemination board of NSE and BSE and whose shares are available for buying and selling on dissemination board. An exit mechanism for investors in such ELCs was also specified. Further, ELCs were required to furnish the plan of action by January 09, 2017 to the designated stock exchanges (DSEs), which was subsequently extended till June 30, 2017. SEBI stipulated the following action against such ELCs, which remain non-compliant with the above timelines:

- i. The company, its directors, its promoters and the companies which are promoted by any of them shall not directly or indirectly associate with the securities market or seek listing for any equity shares for a period of ten years from the exit from the DB.

- ii. Freezing of shares of the promoters/directors.
- iii. List of the directors, promoters etc. of all non-compliant companies as available from the details of the company with NSE/BSE shall be disseminated on SEBI website and shall also be shared with other related agencies.
- iv. Attachment of bank accounts/other assets of promoters/directors of the companies so as to compensate the investors.

In order to ensure that exit option is provided to the public shareholders of ELCs that are non-compliant with the directions of SEBI issued in 2016 and the ELCs that have not submitted plan of action to the DSEs and in order to protect the interest of investors in ELCs on DB, SEBI directed that:-

- i. Such ELCs and the Depositories shall not effect transfer, by way of sale, pledge, etc., of any of the equity shares and the corporate benefits such as dividend, rights, bonus shares, split, etc. shall be frozen, for all the equity shares, held by the promoters or directors of non-compliant exclusively listed companies till the promoters of such non-compliant exclusively listed companies provide an exit option to the public shareholders in compliance with directions issued by SEBI in 2016, as certified by the concerned designated stock exchanges;
- ii. The non-compliant exclusively listed companies, its directors, its promoters and

the companies which are promoted by any of them shall not be eligible to access the securities market for the purposes of raising capital till the promoters of such non-compliant exclusively listed companies provide an exit option to the public shareholders in compliance with directions issued by SEBI in 2016, as certified by the concerned designated stock exchanges.

- iii. The promoters or directors of non-compliant exclusively listed companies shall not be eligible to remain or become director of any listed company till the promoters of such non-compliant exclusively listed companies provide an exit option to the public shareholders in compliance with directions issued by SEBI in 2016, as certified by the concerned designated stock exchanges.

## V. RECOGNITION OF COMMODITY DERIVATIVES EXCHANGES

Pursuant to the Central Government's notifications and under the powers conferred by the Finance Act, 2015, the Securities Contracts (Regulation) Act, 1956 (SCRA) was amended to include commodity derivatives within the definition of securities. Table 3.5 and 3.6 shows details of national commodity derivatives exchanges and regional commodity derivatives exchanges respectively.

**Table 3.5: National Commodity Derivatives Exchanges**

Sr. No.	Commodity Derivatives Exchanges	Recognition Status
1	Multi Commodity Exchange of India Ltd., (MCX), Mumbai.	Permanent
2	National Commodity & Derivatives Exchange Ltd., (NCDEX), Mumbai	Permanent
3	National Multi Commodity Exchange Ltd., (NMCE), Ahmedabad	Permanent
4	Indian Commodity Exchange Ltd. (ICEX), Navi Mumbai	Permanent
5	ACE Derivatives and Commodity Exchange Limited (ACE), Mumbai	Permanent#

**Note:** 1. # Exit process is underway

2. Exit Order No. WTM/MPB/CDMRD/151/2018, dated March 16, 2018, has been passed in respect of Universal Commodity Exchange Limited (UCX), Navi Mumbai.

**Table 3.6: Regional Commodity Derivatives Exchanges**

Sr. No.	Regional Commodity Derivatives Exchanges	Recognition
1	Hapur Commodity Exchange Limited	Up to Feb 28, 2018@
2	Spices and Oilseeds Exchange Limited (SOE), Sangli.	Exit Order No. WTM/SR/CDMRD/28/04/2017, dated April 12, 2017 has been passed
3	Rajkot Commodity Exchange Limited (RCX), Rajkot.	Exit Order No. WTM/MPB/CDMRD/120/2018, dated January 09, 2018 has been passed
4	India Pepper and Spice Trade Association (IPSTA), Kochi.	Exit Order No. WTM/MPB/CDMRD/121/2018, dated January 10, 2018 has been passed

Note: @ Exit process is underway.

## VI. MEASURES ADOPTED FOR REGULATION OF COMMODITY DERIVATIVES EXCHANGES AND CLEARING CORPORATION

### A. EXIT OF NON-FUNCTIONAL COMMODITY DERIVATIVES EXCHANGES

SEBI has prescribed the minimum criteria of turnover and also specified various terms and conditions that exchanges have to comply failing which exchanges need to surrender their recognition. Accordingly, Spice and Oilseeds Exchange Limited, Sangli, Rajkot Commodity Exchange Limited, India Pepper Spice Trade Association, Kochi and Universal Commodity Exchange Limited were allowed to exit as stock exchanges during 2017-18.

### B. RECOMMENCEMENT OF TRADING OPERATIONS OF INDIAN COMMODITY EXCHANGE LIMITED (ICEX)

SEBI granted approval to the Indian Commodity Exchange Limited (ICEX) for recommencement of its trading operations during 2017-18.

## C. IN-PRINCIPLE APPROVAL TO MCX-CCL

SEBI, during 2017-18, granted in-principle approval to the Multi Commodity Exchange Clearing Corporation Limited (MCX-CCL) to act as a clearing corporation.

## D. STAKEHOLDERS MEETING

SEBI organized various meetings with the stakeholders and market participants such as mutual funds, alternative investment funds (AIFs) and custodian of securities in order to deliberate the issues relating institutional participation in the commodity derivatives markets. A meeting with the warehouse service providers and commodity derivatives exchanges was also held for deliberation on the issues related to warehousing which have impact on the obligations of the exchanges to ensure good delivery.

## 2. REGISTRATION AND REGULATION OF WORKING OF INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKET

Regulation of market intermediaries has three objectives:

- i. To protect client assets from insolvency of the intermediaries and guarding against defaults as well as sudden disruption in the market;
- ii. To ensure that the intermediaries are fair and diligent in dealing with their clients; and
- iii. To reduce conflict of interest.

The regulation sets qualifying standards, prudential standards, internal controls and risk management standards and enforces a code of conduct. In order to enhance investor confidence, it is necessary that all the intermediaries maintain high standards of integrity and fairness and also act with due skill, care and diligence in conducting their business with high levels of compliance. The various intermediaries' regulations have been framed under the SEBI Act, 1992 and the Depositories Act, 1996 for registration and regulation of all market intermediaries. Under these acts, the government

and SEBI issue notifications, guidelines and circulars that market intermediaries need to comply with. SEBI ensures standard and quality of services to clients and investors, fair and sound conduct and compliance practices.

### I. REGISTRATION OF STOCK BROKERS

#### A. CASH SEGMENT

During 2017-18, 44 stock brokers and 47 clearing members were registered with SEBI. Further, 94 stock brokers and 70 clearing members surrendered their certificate of registration during 2017-18. Details of registered stock brokers and clearing members, as on March 31, 2018 segment wise and stock exchange/clearing corporation wise is given in Table 3.7 and Table 3.8 respectively. The data given in these tables pertains only to those exchanges which are active as on March 31, 2018.

**Table 3.7: Registered Stock Brokers**

Details	BSE	NSE	MSEI
Registered Stock Brokers in the beginning of the year (as on 01/04/2017)	1,364	1,328	459
Addition during the Year 2017-18	23	17	4
Cancellation/ Surrender of Memberships	33	27	34
Registered Stock Brokers as on March 31, 2018	1,354	1,318	429

**Source:** Stock exchanges.

**Table 3.8: Registered Clearing Members**

Details	ICCL	NSCCL	MSEI CCL
Registered Clearing Members in the beginning of the year (as on 01/04/2017)	1,364	1,328	459
Addition during the Year 2017-18	26	17	4
Cancellation / Surrender of Memberships	9	27	34
Registered Clearing Members as on March 31, 2018	1,372*	1,318	429

**Source:** Clearing corporations.

**Note:**\*Numbers differ due to members that have sought admission/ surrender in additional segment with ICCL and effect of reconciliation of membership type with exchange.

As on March 31, 2018, 25 applications for brokers' registration and 16 applications for sub-brokers' registration were pending at different stages (Table 3.9).

**Table 3.9: Applications under Process for Registration**

Category of Application	Number of Applications under Process (as on March 31, 2017)	Number of Applications under Process (as on March 31, 2018)
Brokers	7	25
Sub-brokers	18	16
<b>Total</b>	<b>25</b>	<b>41</b>

**Note:** These applications are pending at different stages viz. stock exchanges/stock brokers for want of documents/clarifications or under process in SEBI.

The number of corporate brokers was highest in NSE (1,158) followed by BSE (1,152) and MSEI (398). Corporate brokers constituted 92.8 per cent of the total stock brokers at MSEI whereas at NSE and BSE, their share was 87.9 per cent and 85.1 per

cent respectively. The number of stock brokers in 'proprietorship' category was highest at BSE (160), followed by NSE (70) and MSEI (21). The number of stock brokers in 'partnership' category was highest in NSE (83) followed by BSE (28) and MSEI (10) (Table 3.10).

**Table 3.10: Classification of Stock Brokers**

Year	Stock Exchange	Proprietorship		Partnership		Corporate		Others (include LLPs)		Total
		No.	Per cent	No.	Per cent	No.	Per cent	No.	Per cent	
2016-17	BSE	164	12.0	29	2.1	1,164	85.3	7	0.5	1,364
	NSE	73	5.5	80	6.0	1,171	88.2	4	0.3	1,328
	MSEI	21	4.6	11	2.4	427	93.0	0	0.0	459
2017-18	BSE	160	11.9	28	2.1	1,152	85.1	14	1.0	1,354
	NSE	70	5.3	83	6.3	1,158	87.9	7	0.5	1,318
	MSEI	21	4.9	10	2.3	398	92.8	0	0	429

**Source:** National exchanges.

The number of corporate clearing members was highest in ICCL (1,174) followed by NSCCL (1,158) and MSEI CCL (103). Corporate clearing members constituted 79.2 per cent of the total clearing members at MSEI CCL, whereas at NSCCL and ICCL, their share was 87.9 per cent and 85.6 per cent respectively.

The number of clearing members in 'proprietorship' category was highest at ICCL (158), followed by NSCL (70) and MSEI CCL (3). The number of clearing members in 'partnership' category was highest in NSCCL (83) followed by ICCL (27) (Table 3.11).

**Table 3.11: Classification of Clearing Members**

Clearing Corporation	Proprietorship		Partnership		Corporate		LLP		Others (if any)		
	Total No. of clearing members	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
ICCL	1,372	158	11.5	27	2.0	1,174	85.6	13	0.94	0	0
NSCCL	1,318	70	5.3	83	6.3	1,158	87.9	7	0.53	0	0
MSEI CCL	130	3	2.3	0	0	103	79.2	0	0	25	19.2

**Source:** Clearing corporations.

## B. EQUITY AND CURRENCY DERIVATIVES SEGMENTS

During 2017-18, in cash segment, 23 members were granted registration at BSE, 17 at NSE and four at MSEI. In equity derivative segment, 11 members were granted registration at BSE, 25 at NSE and

three at MSEI. In currency derivative segment, 18 members were granted registration at BSE followed by 14 members at NSE and two members at MSEI. In debt segment, three trading members were granted registration at BSE, five at NSE and one at MSEI (Table 3.12).

**Table 3.12: Number of Registered Stock Brokers (Segment and Stock Exchange-Wise)**

Name of Segment	Registrations granted during 2017-18			Registered Members as on March 31, 2018		
	BSE	NSE	MSEI	BSE	NSE	MSEI
Cash	23	17	4	1,333	1,318	429
Equity Derivatives	11	25	3	975	1,249	424
Currency Derivatives	18	14	2	537	822	661
Debt	3	5	1	147	255	16

Source: National exchanges.

## C. THE COMMODITY DERIVATIVES SEGMENT

During 2017-18, 130 new stock brokers in the Commodity Derivatives segment were granted registration by SEBI. Further, 132 stock brokers

surrendered their certificate of registration during 2017-18. Details of registered stock brokers in the Commodity Derivatives segment, as on March 31, 2018, is given in Table 3.13. The data pertains to those exchanges which are active as on March 31, 2018.

**Table 3.13: Registered Stock Brokers in Commodity Derivative Segment**

Details	MCX	NCDEX	NMCE	ICEX
Registered Stock Brokers in the beginning of the year (as on 01/04/2017)	689	486	41	51
Addition during the Year 2017-18	56	34	5	35
Cancellation/ Surrender of Memberships / Declared as Defaulter / Application withdrawn	62	67	3	0
Registered Stock Brokers as on March 31, 2018	683	453	43	86

The number of corporate brokers was highest in MCX (556) followed by NCDEX (389), ICEX (62) and NMCE (38). Corporate brokers constituted 81.4, 85.9, 88.0 and 72.1 per cent of the total stock brokers at the respective exchanges, at MCX, NCDEX, NMCE and ICEX respectively. The number of stock brokers

in 'proprietorship' category was highest at MCX (69), followed by NCDEX (27), ICEX (14) and NMCE (3). The number of stock brokers in 'partnership' category was highest in MCX (55) followed by NCDEX (34), ICEX (9) and NMCE (2) (Table 3.14).

**Table 3.14: Classification of Stock Brokers in Commodity Derivatives Segment**

Year	Stock Exchange	Proprietorship		Partnership		Corporate		LLP		Others		Total
		No.	Per cent	No.	Per cent	No.	Per cent	No.	Per cent	No.	Per cent	
2017-18	MCX	69	10.1	55	8.1	556	81.4	3	0.0	0	0	683
	NCDEX	27	6.0	34	7.5	389	85.9	2	0.4	1	0.2	453
	NMCE	3	7.0	2	5.0	38	88.0	0	0	0	0	43
	ICEX	14	16.3	9	10.5	62	72.1	1	1.2	0	0	86

#### D. CLEARING MEMBERS/SELF-CLEARING MEMBERS IN EQUITY DERIVATIVES, CURRENCY DERIVATIVES AND DEBT SEGMENTS

During 2017-18, in equity derivative segment, two self-clearing members were granted registration at ICCL and one clearing member and two self-

clearing members were granted registration at NSCCL. In currency derivative segment, one clearing member and two self - clearing members were granted registration at ICCL, one self - clearing member at NSCCL and one clearing member at MSEI CCL. In the debt segment, one clearing and one self-clearing member were granted registration at NSCCL (Table 3.15).

**Table 3.15: Number of Clearing Members/ Self-Clearing Members in the Equity Derivatives, Currency Derivatives and Debt Segments**

Name of Segment	Registrations granted during 2017-18						Registered clearing members as on March 31, 2018					
	ICCL		NSCCL		MSEI CCL		ICCL		NSCCL		MSEI CCL	
	CM	SCM	CM	SCM	CM	SCM	CM	SCM	CM	SCM	CM	SCM
Equity Derivatives	0	2	1	2	0	0	98	35	184	296	47	42
Currency Derivatives	1	2	0	1	1	0	56	32	158	33	74	12
Debt	0	0	1	1	0	0	21	14	50	52	6	0

Source: Clearing corporations.

#### II. REGISTRATION OF SUB-BROKERS

During the year, 54 sub-brokers were granted registration. As compared to last year the number of

registered sub-brokers has declined from 30,909 as on March 31, 2017 to 25,878 as on March 31, 2018 (Table 3.16)

**Table 3.16: Registered Sub-Brokers**

Sr. No.	Exchange	No. of Registered Sub-brokers as on March 31, 2017		No. of Registered Sub-brokers as on March 31, 2018	
		Number of sub-brokers registered	Percentage to Total no. of Sub-brokers	Number of sub-brokers registered	Percentage to Total no. of Sub-brokers
1.	Ahmedabad	71	0.2	71	0.3
2.	BSE	13,788	44.6	11,914	46.0
3.	Calcutta	43	0.1	43	0.2
4.	Delhi	185	0.6	185	0.7
5.	NSE	16,822	54.4	13,665	52.8
	<b>Total</b>	<b>30,909</b>	<b>100.0</b>	<b>25,878</b>	<b>100.0</b>

#### III. REGISTRATION OF OTHER INTERMEDIARIES

As on March 31, 2018, the number of registered

intermediaries other than Stock Brokers and Sub-Brokers are given in Table 3.17.

**Table 3.17: Registered Intermediaries Other than Stock Brokers and Sub-Brokers**

Type of Intermediary	No. of other registered intermediaries as on March 31, 2017	No. of other registered intermediaries as on March 31, 2018
Registrars to Issue and Share Transfer Agents	73	73
Merchant Bankers	189	195
Underwriters	2	1
DPs - NSDL	276	276
DPs - CDSL	588	600
Credit Rating Agencies	7	7
Bankers to an Issue	64	66
Debenture Trustees	32	31
KYC (Know Your Client) Registration Agency (KRA)	5	5

During 2017-18, 20 depository participants, nine merchant bankers, one registrar to issue & share transfer agent, and two bankers to an issue were granted registration (Table 3.18).

**Table 3.18: Process of Registration of Other Intermediaries**

Type of Intermediary	Application received during 2017-18*	Registration Granted during 2017-18	Pending as on March 31, 2018
Depository Participants	27	20	7
Merchant Bankers	17	9	8
Registrars to Issue and Share Transfer Agents	1	1	0
Underwriters	0	0	0
Credit Rating Agencies	1	0	1
Bankers to an Issue	4	2	2
Debenture Trustees	0	0	0
<b>Total</b>	<b>50</b>	<b>32</b>	<b>18</b>

Note: \* Including those applications received in previous year.

#### IV. REGISTRATION OF FOREIGN PORTFOLIO INVESTORS AND CUSTODIANS

As on March 31, 2018 there were 9,227 foreign

portfolio investors (FPIs), 18 custodians and 18 Designated Depository Participants (DDP) registered with SEBI (Table 3.19).

**Table 3.19: Number of FPIs, Custodians and DDPs**

Particulars	As on March 31, 2017	As on March 31, 2018
Number of FPIs (including deemed FPIs)	8,781	9,227
No. of Custodians	18	18
No. of Designated Depository Participants	18	18

## V. REGISTRATION OF VENTURE CAPITAL FUNDS AND ALTERNATIVE INVESTMENT FUNDS (AIFs)

Alternative investment funds (AIFs) are funds established or incorporated in India for the purpose

of pooling in capital from Indian and foreign investors for investing. As on March 31, 2018, 414 AIFs were registered with SEBI compared to the 302 registered AIFs as on March 31, 2017. There were 196 venture capital funds and 225 foreign venture capital investors registered with SEBI as on March 31, 2018 (Table 3.20).

**Table 3.20: Registered Venture Capital Funds and Alternative Investment Funds**

Particular	As on March 31, 2017	As on March 31, 2018
Alternative Investments Funds	302	414
Venture Capital Funds	198	196
Foreign Venture Capital Investors	218	225

## VI. REGISTRATION OF PORTFOLIO MANAGERS, INVESTMENT ADVISERS AND RESEARCH ANALYSTS

A portfolio manager is any person who pursuant to a contract or arrangement with a client, advises, directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the client's funds as the case may be. As on March 31, 2018, there were 264 portfolio managers

registered with SEBI as compared to 218 as on March 31, 2017.

An 'investment advisor' refers to any person, who for consideration is engaged in the business of providing investment advice to clients or other persons or a group of persons and includes any person who holds out oneself as an investment advisor. As on March 31, 2018, there were 885 investment advisers registered with SEBI as compared to 617 as on March 31, 2017 (Table 3.21).

**Table 3.21: Registered Portfolio Managers, Investment Advisers and Research Analysts**

Particulars	As on March 31, 2017	As on March 31, 2018
Portfolio Managers	218	264
Investment Advisers	617	885
Research Analysts	372	476

In a move to safeguard Indian markets from any manipulative research reports or misleading advice coming from any unregulated entity, SEBI notified norms for 'research analysts' i.e. SEBI (Research

Analysts) Regulations, 2014, to ward off any conflict of interest in their activities. As on March 31, 2018, there were 476 research analysts registered with SEBI as compared to 372 in the previous year.

### 3. REGISTRATION AND REGULATION OF THE WORKING OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS

#### I. REGISTRATION OF COLLECTIVE INVESTMENT SCHEMES

As on March 31, 2018 there was only one registered collective investment management company (CIMC), M/s GIFT Collective Investment Management Company Ltd., which was registered during 2008-09. However, no Collective Investment Scheme has been launched by this CIMC till now.

#### II. REGULATORY ACTIONS AGAINST UNAUTHORIZED COLLECTIVE INVESTMENT SCHEMES

During 2017-18, SEBI passed final orders against entities found to be carrying out unauthorised collective investment schemes (CIS) as tabulated below. The final orders, inter-alia, direct the company (and its directors) to wind up its existing collective investment schemes (CIS) and make repayments to investors within a specified time period (Table 3.22).

**Table 3.22: Regulatory Action against Unauthorized CIS**

Year	No. of Final Orders
2016-17	11
2017-18	19*

Note: \* One of the final orders is in the nature of revocation order.

During 2017-18, SEBI referred 151 complaints/references of unauthorised money mobilisation after examination to jurisdictional agency / regulator concerned viz. State Governments, Reserve Bank of India, the Ministry of Corporate Affairs, the Ministry of Agriculture etc., as these cases do not fall under SEBI's purview.

#### III. DEEMED PUBLIC ISSUES

During 2017-18, SEBI passed 79 orders (61 final orders and 18 interim orders) against various entities which had raised money from the public through issuance of non-convertible debentures/

non-convertible preference shares without complying with statutory/regulatory provisions governing a public issue. (Table 3.23)

**Table 3.23: Number of Orders Passed by SEBI in the Cases of Deemed Public Issues**

Year	No. of Interim Orders	No. of Final Orders
2014-2015	103	9
2015-2016	90	80
2016-2017	11	46
2017-2018	18	61

#### IV. REGISTRATION AND REGULATION OF MUTUAL FUNDS

As on March 31, 2018, there were 45 mutual funds registered with SEBI, of which 34 were in the private sector and seven (including UTI) were in the public sector. Out of 45 Mutual funds, four were inactive MFs (Table 3.24).

**Table 3.24: Mutual Funds Registered with SEBI**

Sector	As on March 31, 2017	As on March 31, 2018
Public Sector (including UTI)	7	7
Private Sector	38	38
<b>Total</b>	<b>45</b>	<b>45</b>

Note: \* Out of 45 Mutual funds, four MFs namely i.e. CRB, KJMC, SREI MF (IDF), and JP Morgan are inactive

#### V. REGULATORY ACTION AGAINST MUTUAL FUNDS

During 2017-18, 17 warning letters and 15 deficiency letters were issued to mutual funds and two deficiency letters were issued to trustee of a mutual fund on account of non-compliance with SEBI Regulations / guidelines observed in compliance test reports, inspection reports, etc.

## 4. FRAUDULENT AND UNFAIR TRADE PRACTICES

To protect investor interests and to promote a fair and orderly securities market, SEBI ensures the integrity of the markets by detecting market frauds on a proactive basis, investigating abusive, manipulative or illegal dealings in the securities market and taking punitive action to punish the wrong-doers, while simultaneously reviewing policies and procedures to minimize the risk of recurrence of such practices.

### I. TYPES OF FRAUDULENT AND UNFAIR TRADE PRACTICES

- a. A company came out with an IPO in December 2012 and allotted 30,24,000 shares. The company and its promoters/ directors and 14 other entities belonging to funding group employed a scheme to get the minimum IPO subscription leading to successful listing of the scrip at SME Exchange platform. 85.71 per cent out of the total allotted shares were not genuinely subscribed. Further, from the bank accounts of the company, it was observed that out of ₹ 756 lacs received through IPO, ₹ 385 lacs was transferred to the funding group entities through various layers. The remaining money was transferred to unknown entities and not utilized for the objects stated in the prospectus.
- b. A company came out with an IPO in January 2013 and allotted 45,18,000 shares. The company and its promoters/ directors and 12 other entities belonging to funding group employed a fraudulent scheme to get the minimum IPO subscription leading to successful listing of the scrip at SME Exchange platform of BSE. 51.66 per cent out of the total allotted shares were not genuinely subscribed. Further, from the bank accounts of the company, it was observed that out of ₹ 1129.50 lacs received through IPO, ₹ 946.10 lacs was transferred to the funding group entities through various layers. The remaining money was transferred to unknown entities and not utilized for the objects stated in the prospectus.
- c. A Company, having a capital of 2,10,000 shares, issued 48 lakh shares on preferential basis in May, 2013 to 16 entities. Post lock-in period, these shares were transferred by the allottees through off-market to 13 entities. The holding of these 13 entities constituted 99 per cent of the share capital of the company. Nine of these entities, along with other connected entities manipulated the price of the scrip by placing sell orders in minuscule quantities on a number of days, despite the availability of sufficient buy orders and also by trading among themselves.
- d. A Company with weak fundamentals and low stock price made preferential allotment to certain entities. Afterwards, there was a sharp improvement in financial performance of the company and a significant increase in price and volume in the scrip. Upon forensic audit of accounts of the company, it was observed that the company had falsified its Books of accounts and inflated the revenue and profit of the company for two financial years. Thereafter, entities connected to the company had manipulated the price of the scrip and gave exit to the preferential allottees and promoters of the company.
- e. A company with weak fundamentals made preferential allotment(s) to entities and routed significant portion of allotment proceeds back to certain allottees/their connected entities, in the guise of repayment of loans purported to be taken prior to allotments. However, these loan transactions were not observed to be genuine loan transactions. On the other hand, company connected entities were observed to have manipulated the scrip price and thereafter gave exit to other group entities who were also allottees in the preferential allotments. Thus, the preferential allotments were part of a dubious scheme wherein a significant portion of the allotment money was routed back to allottees and entities connected to them and thereafter, the company connected entities manipulated

the scrip price artificially to facilitate other connected allottees to make significant gains by sale of shares post the lock in period.

## **II. FRAUDULENT AND UNFAIR TRADE PRACTICES CASES DURING 2017-18**

- a. Interim Order in the matter of Tree House Education and Accessories Limited
- b. Interim order in the matter of Amrapali Aadya Trading & Investment Pvt. Ltd

Details of the above orders are available in part III B

## **III. STEPS TAKEN TO PREVENT OCCURRENCE OF FRAUDULENT AND UNFAIR TRADE PRACTICES**

- I. SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 are in place.
- II. Actions have been initiated in terms of provisions of SEBI Act, 1992 which also include adjudication proceedings for levy of monetary penalty. This also acts as a deterrent.
- III. Fair Market Conduct Committee has been set up to review SEBI (Prohibition of Insider Trading) Regulations, 2015 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003.

During 2017-18, two interim orders were passed impounding a total amount of ₹ 126.04 crore.

## 5. INVESTOR EDUCATION AND TRAINING OF INTERMEDIARIES

Section 11(2) (f) of the SEBI Act empowers it to promote investor education and foster training for intermediaries in the securities market. Along with investor education and training, SEBI has also actively pursued investor grievance redressal with a view to protecting investor interests and enhancing the confidence of and increasing the participation of investors.

### I. INVESTOR EDUCATION AND AWARENESS

For its mandate of investor protection, during 2017-18, SEBI's major thrust was on undertaking more investor education and awareness programmes, reaching more investors / potential investors for this purpose. Education and awareness along with grievance redressal were also the thrust areas for capacity building and for making investors confident and aware while investing in the securities market. With the aim of spreading investor education and awareness, SEBI has been undertaking following activities across the country:

#### A. INVESTOR AWARENESS PROGRAMMES/ WORKSHOPS

SEBI continues its association with investors' associations for conducting programmes to synergise and ensure that more areas particularly tier II and tier III cities/towns are covered. SEBI also conducts independent awareness programmes and joint programmes in association with other entities. Since the beginning of these initiatives, over 2,400 awareness programmes have been conducted. During 2017-18, 576 such programmes were conducted. (Table 3.25).

**Table 3.25: Investor Awareness Programmes**

Region	2016-17	2017-18	Cumulative total since launch of initiative
HO	88	53	294
ERO	129	125	542
NRO	162	129	742
WRO	61	202	418
SRO	34	67	409
<b>Total</b>	<b>474</b>	<b>576</b>	<b>2,405</b>

### B. MASS MEDIA CAMPAIGN

In order to reach out to people, SEBI has embarked on a mass media campaign giving relevant messages to investors through popular media. So far campaigns have been carried in mass media (TV/ Radio/Print/bulk SMSes) for spreading awareness about SEBI's grievance redressal mechanism (highlighting SCORES and the toll free helpline), cautioning investors against unregistered CIS/Ponzi schemes by spreading key messages: 'not to rely on schemes offering unrealistic returns' and 'not to go by hearsay while investing and do proper due diligence', and cautioning against indulging in Dabba trading activities. The campaigns were carried out in Hindi, English and 11 major regional languages. These messages were shown in financial education and investor awareness programmes conducted by SEBI and also sent to AMFI, investors' associations, ICAI, ICSI, ICAI (cost accountants), etc. to be shown in their programmes.

In order to increase investor awareness among larger number of people, SEBI continued its efforts in creating awareness through media campaign. During the year 2017-18, SEBI carried a media campaign on "SMS - Hot investment tips". The campaign was undertaken to caution investors about unsolicited investment tips received through SMS so as to safeguard investors from getting lured into promise of unrealistic returns. The campaign was done in print, radio spots, TVCs, Cinema and in Digital media with following salient features:

- **Print media:** advertisements were placed at premium positions in 390 editions of 65 newspapers with total 2,112 insertions covering 13 languages.
- **TV media:** The TVCs were telecast in 50 channels covering 12 languages, and 7980 spots in total.
- **Digital media:** the campaign was live with moving and static banners on 16 websites and received more than 1,96,000 clicks.

- YouTube:** campaign received around 87 lakh views.
- Radio:** the campaign was broadcast in 11 languages in 105 radio stations across 39 cities with over 20,400 spots.
- Cinema:** the campaign was run during anticipated blockbuster movies in 962 screens in four languages. Campaign banners were displayed in waiting hall area of cinema in top eight metros as value additions.

So far, under mass media campaign, more than 67,980 TVCs, around 2,25,040 radio spots, over 5,200 insertions in various print editions, around 962 screens in cinema halls were covered under the campaign. Further, around 53 crore bulk SMSes in various languages were sent cautioning investors against Ponzi schemes/unregistered CIS.

### C. REGIONAL SEMINARS

SEBI, in association with various exchanges, depositories, trade bodies such as AMFI, Commodity Exchanges etc., conducts regional seminars across the country mainly focusing on tier II and tier III cities. These programmes are attended by SEBI officials where investors are provided useful information in securities markets and covers basic concepts of investing in securities markets, mutual fund investments, grievance redressal mechanism etc. More than 500 seminars have been conducted since the beginning of this initiative. During 2017-18, 145 seminars were conducted (Table 3.26). Some of the regional seminars conducted by SEBI in association with other organisations are:

- Regional Seminar for the Army personnel of Eastern Command at Kolkata in association of National Stock Exchange (NSE).
- Senior police officials from Economic Offences Wing (EoW), and officials from RBI were also invited to participate in the Regional investor Seminars being conducted at various places.

**Table 3.26: Regional Seminars**

Region	2016-17	2017-18	Cumulative total since launch of initiative
HO	14	19	59
ERO	26	27	95
NRO	12	39	81
WRO	9	20	128
SRO	29	40	139
<b>Total</b>	<b>90</b>	<b>145</b>	<b>502</b>



*Regional Seminar on Investor Education conducted in association with BSE*

### D. NEW INITIATIVES

- Regional Seminars conducted in association with AMFI for mutual funds: SEBI has recently collaborated in the conduct of various regional seminars for mutual Fund investors with AMFI. The seminars are being organised with the objective of educating people about the concept of mutual funds, how do they function and the process of investment and trading in mutual funds. In 2017-18, SEBI conducted two regional seminars for mutual funds in association with AMFI.
- Regional Seminars conducted for Commodity Derivatives: For creating awareness about commodity derivatives and commodity market, SEBI has initiated the process of conducting awareness programmes in commodity derivatives and their trading in collaboration with commodity derivative exchanges such as

- NCDEX, MCX etc. In 2017-18, SEBI organised joint Investor awareness programmes in association with the commodity exchanges viz., MCX and NMCE. SEBI has conducted two Regional Seminars in association with Commodity Derivatives Exchanges.
- iii. Commodity Derivatives Trainers: With the intention of increasing awareness about newly inducted commodities derivative segment, specifically among farmers, processors, traders, hedgers, etc. so as to increase their participation in this market segment SEBI has developed a Scheme for conduct of Awareness Programmes for Commodities Derivatives. In respect to the Scheme, 16 commodity derivatives trainers (CoTs) spread over 11 states working in the areas of imparting education in the field of Commodity Derivatives have been recognized. These CoTs will undertake investor education and awareness programmes on Commodity Derivatives segment. The target audience for such programmes would be farmers/ producers, farmers' cooperatives/ groups etc. To provide a better understanding of the Scheme for commodities derivatives training programme to CoTs, a joint workshop of SEBI, recognised CoTs and commodities derivatives exchanges (NCDEX, MCX) was conducted on March 06, 2018 at SEBI Bhavan, Mumbai.

## E. WORLD INVESTOR WEEK

With the objective of highlighting the initiatives taken by various financial market regulators in the direction of conducting investor protection and education awareness activities, IOSCO has been organising a week long global campaign referred to as World Investor Week (WIW). In order to contribute and celebrate World Investor Week during October 2-8, 2017 SEBI participated by organising various financial literacy and investor awareness programmes during this Week across the country. Various type of activities undertaken by SEBI during the week were as follows:

- i. Display of bilingual banners about celebration

of WIW in all SEBI offices viz. HO, ROs and LOs.

- ii. A ticker about celebration of World Investor Week was run on SEBI website and investor website along with the websites of stock and commodity exchanges and depositories in the following format:

"World Investor Week Oct 2 – 8 2017 being  
Celebrated under aegis of IOSCO and SEBI."

Throughout the week various investor awareness programmes were conducted by SEBI which may be summarised in Table 3.27.

**Table 3.27: Activities Conducted by SEBI during WIW, 2017**

Type of Entity	Number of Programmes	Number of Participants
Exchanges/Depositories/AMFI	244	13,574
Investor Association	3	425
Resource Person	593	27,751
Visit to SEBI	21	835
<b>Grand Total</b>	<b>861</b>	<b>42,585</b>



Regional Seminar on "Securities market and The Common Man" conducted in association with BSE during World Investor Week

## F. DEDICATED INVESTOR WEBSITE

A dedicated website <http://investor.sebi.gov.in> is maintained for the benefit of investors. The website provides relevant educational/awareness material and other useful information. Further, schedules of various investor education programmes are also displayed on the website for the information of investors. In 2017-18, SEBI's investor website has

received around 2,78,727 total page views.

## G. INVESTOR ASSISTANCE

SEBI provides assistance/guidance to investors by replying to their queries received through e-mail, letters, and on visit to SEBI Offices. In 2017-18, approx. 2,600 queries were replied through e-mails, 117 through letters and 339 through phone-calls.

## H. OTHER INITIATIVES

- i. **SEBI stalls at various Fairs and Exhibitions:** SEBI participated in various fairs/exhibitions to promote investor education and awareness viz. Kullu Dussera Fair (Kullu International Trade Fair) in Himachal Pradesh, Lucknow Mahotsav, Kreta Suraksha Mahotsav in West Bengal.
- ii. **Education and Training being imparted to various Government departments:** SEBI conducted or participated in following training / awareness programmes aiming at various government bodies:
  - 10 training programmes for Police officials of all cadres were conducted throughout the nation.
  - One Regional Seminar was conducted for the Army personnel of Eastern command at Kolkata in association with NSE.
- iii. **Other activities:**
  - Seven Seminars for Women's Economic empowerment were conducted by SEBI to celebrate International Women's Day. International Conference on 'Emerging trends in Corporate Sector' in Association with St: Xavier's College, Aluva was organised.
  - Programmes for SME:
    - a. Seminar on SME Funding- Role of capital markets was conducted on August 22, 2017 in collaboration with NSE.
    - b. Investor Education programme was conducted for 24 delegates from various countries under Ministry of Micro Small

and Medium Enterprises.

- Programmes for Educational Institutions:
  - a. Faculty development programme was conducted for school teachers on the theme "Training the trainers" at Kozhikode.
  - b. Joint Programmes were conducted in educational Institutions for the benefit of students and faculty members.
- Other Educational programmes:
  - a. Quiz programme was conducted for college students.
  - b. Awareness programme was conducted exclusively for lorry drivers in association with CII.
  - c. Session on Investment/ MF was conducted in annual fest organized by BITS, Pilani Goa campus and ITM Raipur.

## II. TRAINING OF INTERMEDIARIES

### A. NATIONAL INSTITUTE OF SECURITIES MARKETS

The National Institute of Securities Markets (NISM) is dedicated towards enhancing the quality of participation in securities market capacity building activities within the broad framework of its vision, mission and philosophy. This involves developing the knowledge and skill base of all stakeholders, which embodies its spirit of commitment to achieve these objectives. NISM has strong linkages with industry and the environment at NISM is conducive for designing and delivering high-quality programmes in the domain of securities markets. NISM's activities are carried out through its six schools: School for Securities Education (SSE), School for Securities Information and Research (SSIR), School for Regulatory Studies and Supervision (SRSS), School for Investor Education and Financial Literacy (SIEFL), School for Certification of Intermediaries (SCI), School for Corporate Governance (SCG) and the National Centre for Finance Education (NCFE).

### i. Academic and International Programmes

Nine academic programmes were conducted in 2017-18, benefitting several students. One of the achievements of the year was the grant of recognition by AICTE for the Post Graduate Diploma in Management (PGDM) in Securities Markets programme from Academic Year 2017-18. NISM was in receipt of the Letter of Approval (LoA) vide the AICTE portal on April 28, 2017 for launch of PGDM. Details of academic programmes offered in comparison to previous year is given in Table 3.28

**Table 3.28: Academic and International Programmes**

Particulars	2016-17	2017-18
No. of full-time, part-time programmes, certificate programmes etc.	7	9
Number of students	214	346

### ii. Training Programmes

NISM provides training to financial market professionals. The training covers various subjects such as Equities, Derivatives, Securities Operations, Compliance, Mutual Funds, Wealth Management, Research and Analysis. During 2016-17, NISM organized 37 programmes/ workshops for SEBI and other market participants. (Table 3.29)

**Table 3.29: Training Programmes**

Particulars	2016-17	2017-18
No. of Training Programmes, workshops etc.	36	37
Number of beneficiaries	1,082	2,527

### iii. Research and Publications

During 2017-18, fourteen research papers were published on various topics such as Option Pricing Models , Circuit Breakers, Commodity Markets, Role of Credit Rating Agencies, Mutual Funds, Macroeconomics and Stock Market Spillovers for BRICS Countries etc. and more in various journals such as the Afro-Asian Journal of Finance and Accounting (AAJFA), MCX Yearbook 2017 to name a few. NISM conducted various conferences and

seminars. The National Seminar on Capital Markets – Thinking Beyond Equities, was conducted on June 6, 2017, at Kolkata in collaboration with the Institute of Cost Accountants of India. Data pertaining to research and publications in comparison to previous year is given in Table 3.30:

**Table 3.30: Research and Publications**

Particulars	2016-17	2017-18
Research papers published	6	9
Research Workshops, conferences, seminars etc.	3	2

### iv. Investor Education and Financial Literacy

During 2017-18, NISM has organized four empanelment and training programmes at centres – Lucknow, Chandigarh, Trichy and Ahmedabad, for the SEBI Financial Education Resource Persons programme in which 217 new resource persons were empanelled and trained during the year. Having completed seven years of its journey in financial education, NISM decided to organize an evaluation study to ascertain the feedback of the programme with particular focus how it has created an influence in the behaviour of the general public. The leading research agency in India – Gujarat Institute of Development Research (GIDR), Ahmedabad is carrying out the research.

NISM has also extended its financial literacy programmes to schools. A programme titled POCKET MONEY was conducted for school students in which knowledge about financial literacy concepts and standard practices was disseminated to students in schools. Total 634 students spread into ten schools were issued proficiency certificates for financial literacy. During 2017-18, 57 programmes have been conducted in various business schools and colleges with an outreach of 5772 students.

IDFC Foundation has entered into an MOU with NISM in 2017-18, wherein NISM would provide capacity building support in creating a cadre of Master Trainers in Financial Inclusion and Literacy for IDFC. NISM has created 32 Master Trainers and 50 Resource Persons for IDFC Group. Summary of activities in comparison to earlier year is given in Table 3.31:

**Table 3.31: Investor Education and Financial Literacy**

Particulars	2016-17	2017-18
No. of SEBI Financial Educations	5	4
Resource Persons (FERPs) workshops & Number of beneficiaries	213	217
No. of Pocket Money Programmes & Number of beneficiaries	14	10
	1,368	634
No. of Refresher workshops for RPs & Number of beneficiaries	1	nil
	36	nil
No. of Investor Education Programmes in colleges & No. of students	23	57
	2,796	5,772
No. of Master Trainers and Resource Persons created Financial Inclusion and Literacy Persons created for IDFC	nil	82

**v. Certification of Associated Persons in the Securities Market**

During the year, 2, 12,185 candidates were enrolled for the NISM Certification examinations at 246 test centres located in 174 cities across India and UAE. Data pertaining number of candidates enrolled for the certification modules in comparison to previous year is given in Table 3.32.

**Table 3.32: Certification of Associated Persons in the Securities Market**

Particulars	2016-17	2017-18
No. of certification modules mandatory	17	17
No. of certification modules non-mandatory	5	5
No. of test centers	214	246
Number of cities	162	174
Number of candidates enrolled	1,56,220	2,12,185

**vi. Development and Administration of the Continuing Professional Education (CPE) Programme**

During 2017-18, NISM along with its CPE providers conducted 1,605 CPE programmes at 121 locations covering 52,742 candidates across various certification modules. For adequacy of CPE Trainers

for conducting CPE programme, across various certification modules and across the country, NISM conducted three rounds of empanelment, in the months of September 2017, December 2017 and March 2018. NISM has empaneled 52 trainers in 2017-18. As on 31st March 2018, NISM has 271 approved / empaneled CPE Trainers. To create awareness about securities market and to promote NISM certification examinations in the students' community, NISM launched six joint certification programmes on capital markets and investment advisory modules with two educational institutes, where in 85 students enrolled for these programmes. (Table 3.33)

**Table 3.33: Development and Administration of the Continuing Professional Education (CPE) Programme**

Particulars	2016-17	2017-18
Number of CPE modules	11	9
Number of programmes	1,471	1,605
Number of locations	117	121
Number of trainers empanelled	216	271
Number of beneficiaries	49,354	52,742

**B. Other Initiatives**

**i. Accreditation of Certification Exams**

Under Regulation 7(2) of the SEBI (Investment Advisers) Regulations, 2013 NISM granted accreditation to the following certifications:

- Chartered Wealth Manager (CWM) Certification of the American Academy of Financial Management India Pvt. Ltd. (AAFM India).
- Certified Financial Planner (CFP) Certification of Financial Planning Standards Board (FPSB) India.
- International Certificate in Wealth & Investment Management (India) (ICWIM India) Certification of Chartered Institute for Securities & Investment (CISI).
- Wealth Management Certification (Advance Level) of Centre for Investment Education & Learning Pvt Ltd (CIEL).

## ii. Joint Certifications

During 2017-18, NISM along with Moody's Analytics jointly launched Certificate in Fixed Income Trading and Sales on March 15, 2018. NISM-Moody's Certificate in Derivatives Market Strategies (CDMS) continued to enhance knowledge and skills required for a variety of roles that employ financial derivatives. NISM also offered the Certified Credit Research Analyst (CCRA) Certification and Certified Alternative Investment Manager (CAIM) in association with the Association of International Wealth Management of India (AIWMI). NISM collaborated with the ICICI Direct Centre for Financial Learning (ICFL) to carry out 'Certification in Equity Trading & Investment' (CETI), wherein 110 candidates were certified, and the 'Foundation of Equity Trading and Investments' (FETI), wherein 54 candidates were certified. NISM and ICICI Securities developed the "Financial Education for Defence Services (FEDS)" Programme wherein 65 programmes were conducted for around 10,000 participants. They also collaborated in the implementation of "Mission Siddhika - Women entrepreneurship" a financial education project for potential women entrepreneurs. (Table 3.34)

**Table 3.34: Joint Certifications**

Particulars	2016-17	2017-18
Number of Joint Certification modules	3	4
Number of candidates enrolled	545	327
Number of joint programmes implemented	1	65
Number of beneficiaries	150	10,000

## iii. Corporate Governance

NISM conducts workshops and round table conferences on matters pertaining to corporate governance. In 2017-18, NISM, in association with the Institute of Company Secretaries of India (ICSI) organized two workshops on the 'Role of Compliance Officers of Listed Companies' for the benefit of concerned stakeholders. Data pertaining to Corporate Governance activities undertaken in comparison to previous year is presented in the Table 3.35.

**Table 3.35: Corporate Governance**

Particulars	2016-17	2017-18
Number of training programmes, workshops etc. conducted	4	2
Number of participants	165	55

## III. FINANCIAL EDUCATION

With a developing financial market in India, there is an increased need for financial education among people, who are not necessarily investors in securities market. Hence, it is important to enable them, depending upon their needs, to understand the role of money, the need and use of savings, the advantages of using the formal financial sector and various options to convert their savings into investments, the protection available to them through insurance and a realistic recognition of the attributes of these options. With the aim of spreading financial literacy, SEBI has been conducting following programmes across the country.

### A. ACTIVITIES OF SEBI TRAINED RESOURCE PERSONS

SEBI has been reaching the masses through an innovative training of trainer's model of resource persons (RPs) to spread financial education across the country by targeting various groups such as school children, college students, middle income groups, executives, homemakers, retired people and self-help group(s).

SEBI empanelled Resource Persons organise workshops for these target segments on various aspects like savings, investments, financial planning, banking, insurance and retirement planning. These Resource Persons conduct programmes in the local language in a particular area. Financial education booklets are also distributed to participants attending the programmes. These programmes are conducted free of cost for the participants.

At the end of March 2018, over 1,300 Resource Persons were empanelled. Since beginning of this initiative, SEBI empanelled Resource Persons have conducted more than 65,400 programmes in

more than 570 Districts in 29 States and four Union Territories. During 2017-18, 14,607 programmes were conducted (Table 3.36).

**Table 3.36: Financial Education Workshops Conducted by Resource Persons**

Region	2016-17	2017-18	Cumulative total since launch of initiative
HO	1,412	1,413	5,996
ERO	2,183	2,506	11,243
NRO	7,275	5,594	21,636
WRO	2,329	2,506	13,083
SRO	2,500	2,588	13,084
<b>Total</b>	<b>15,699</b>	<b>14,607</b>	<b>65,497</b>

#### B. Visits to SEBI

SEBI started the initiative 'Visit to SEBI' where groups of students from schools, colleges and professional institutes who are interested in learning about basic financial education, SEBI and its role as a regulator of the securities market visit its head office, regional offices and local offices. Since beginning of this initiative, 1,918 such programmes have been conducted. During 2017-18, 742 programmes were conducted. SEBI officials have also visited various

educational institutions and conducted Visit to SEBI investor education seminars for students (Table 3.37).

**Table 3.37: Visits to SEBI**

Year	No. of Visits by College / Institutions	No. of students
2016-17	567	21,808
2017-18	742	28,300
Total (Cumulative since launch of initiative)	1,918	74,940

#### IV. ISSUANCE OF NO OBJECTION CERTIFICATES

Companies raising capital through public issue of securities are required to deposit one per cent of the issue amount with the designated Stock Exchange. This deposit is released by the Stock Exchange only.

SEBI issues NOC to companies after satisfactory redressal of complaints received by SEBI against the Companies. During the year 2017-18, NOCs were issued to 117 applicant companies. NOCs to 28 companies were not issued as the applications were incomplete or due to unsatisfactory redressal of investor grievances.

## 6. PROHIBITION OF INSIDER TRADING

### I. Type of Insider Trading Practices

A listed company made two corporate announcements informing that the company has received Notification of Awards for three contracts from a major PSU. The value of these three contracts was significant when compared to annual turnover of the company and both the corporate announcements had a positive impact on the scrip price. On investigation, it was observed that the information of grant of award was available with the company with effect from the date when the company was declared as the L1 bidder i.e, when the company is more than likely to get the award. Hence, the UPSI period with respect to the notification of awards by the company was much before the announcements made by the company.

On analyzing the trading pattern, it was observed that the Managing Director of the company purchased shares of the company during the UPSI period. Further, two other entities (individual and his corporate entity), admitted to be known to the said MD

and also seen to be friends with the MD and his wife on social media, were observed to have purchased shares of the listed company during the UPSI period and sold the entire shares post UPSI period. Pursuant to investigation, an ex-parte interim order has been passed against the said entities impounding their ill-gotten gains, amounting to ₹ 2.40 crore.

### II. Steps initiated to curb insider trading practices

- A. SEBI (Prohibition of Insider Trading) Regulations, 1992 and SEBI (Prohibition of Insider Trading) Regulations, 2015 are in place.
- B. Actions are initiated in terms of provisions of SEBI Act, 1992 which also includes adjudication proceedings for levy of monetary penalties. This also acts as a deterrent.
- C. Fair Market Conduct Committee has; been set up to review SEBI (Prohibition of Insider Trading) Regulations, 2015 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003.

## 7. SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS

### I. OPEN OFFER

During the financial year 2017-18, 76 draft letters of open offers were processed by SEBI, of which 56 draft letters of offer were filed during 2017-18 (four under old takeover regulations). Out of the 76 draft letters of offer, during 2017-18, observations were issued in respect of 59 letters of offers and 17 draft letters were pending with SEBI for issuance of observation as on March 31, 2018 (Table 3.38).

**Table 3.38: Status of Draft Letters of Offers for Open Offers**

Status	2016-17	2017-18
<b>Draft letters of offer for open offer</b>		
Pending draft letters of offer at the beginning of the year	12	20
Draft letters of offer received during (under Old Takeover Regulations)	2	4
Draft letters of offer received during (under New Takeover Regulations)	62	52
<b>Total</b>	<b>76</b>	<b>76</b>
Observations issued by SEBI during	56	59
Draft letters of offer in process at the end of	20	17

Regulation 11 of the Takeover Regulations deals with applications for seeking exemption from open offer obligations (referred to as Takeover Panel Applications). As on March 31, 2017, 23 applications were pending with SEBI. During 2017-18, additional 56 applications were filed with SEBI seeking exemption as compared to 48 applications

filed during 2016-17. Among the 79 applications filed with SEBI, 27 applications were granted exemption from open offer vis-à-vis 20 applications which were granted exemption during 2016-17, 20 applications were returned/withdrawn without passing an order and 29 applications were pending with SEBI as on March 31, 2018 (Table 3.39).

**Table 3.39: Takeover Panel Applications**

Status	2016-17	2017-18
<b>Takeover Panel Applications</b>		
Applications pending at the beginning of	8	23
Applications received during the year	48	56
<b>Total Applications</b>	<b>56</b>	<b>79</b>
Applications disposed of during the year	33	50
<b>Of which</b>		
Exemption granted	20	27
Exemption not granted	1	3
Returned/ withdrawn (without passing order)	12	20
<i>Applications in process at the end of the year</i>	<i>23</i>	<i>29</i>

### II. ISSUANCE OF OBSERVATIONS ON OFFER DOCUMENTS

SEBI has been consistently reducing the time taken for issuance of observations on Offer documents. The average time taken to process an offer document further came down to 63 days for the FY 2017-18 as compared to 80 days for the Financial Year 2016-17.

## 8. INFORMATION CALLED FROM, INSPECTIONS UNDERTAKEN, INQUIRIES AND AUDITS OF STOCK EXCHANGES AND INTERMEDIARIES AND SELF-REGULATING ORGANIZATIONS CONDUCTED BY SEBI

Supervision of intermediaries through on-site and off-site inspections, enquiries and adjudications in case of violation of rules and regulations and administrative and statutory actions are essential features of effective enforcement by SEBI. The basic objective of prudential supervision of market intermediaries is to safeguard the stability of the financial system; protecting client interests from undue risks of losses that may arise from failure, fraud or any opportunist behaviour on the part of the intermediaries; promoting the efficient performance of intermediaries and markets; and ensuring compliance by market intermediaries. SEBI conducts inspections directly as well as through organizations like stock exchanges and depositories. Inspections were also conducted during the year to verify intermediaries' compliance levels.

### I. COMPREHENSIVE OVERSIGHT OF MARKET INFRASTRUCTURE INSTITUTIONS

With the objective of having oversight on the activities carried out by the MIIs, such as stock exchanges, clearing corporations and depositories, SEBI has conducted inspections, periodic compliance analysis and annual system audits of various MIIs over the period of years.

#### A. Oversight of Stock Exchanges and Commodity Derivatives Exchanges

During the oversight of stock exchanges, a review of market operations, organizational structure and administrative control of a stock exchange is conducted through inspections to ascertain as to whether:

- a) It provides a fair, equitable, transparent and growing market to investors,
- b) Its organization system and practices are in accordance with the SC(R) Act, 1956 and the rules framed thereunder,

- c) It has implemented the directions, guidelines and instructions issued by SEBI/Government of India (GoI) from time to time, and
- d) It has complied with the conditions, if any, imposed on it at the time of renewal/ grant of its recognition under Section 4 of the SC(R) Act, 1956/grant of its recognition under Section 4 of the SC(R) Act, 1956.

During 2017-18, comprehensive inspections of Metropolitan Stock Exchange of India Limited (MSEI), National Stock Exchange of India Limited (NSE), Bombay Stock Exchange Limited (BSE), India International Exchange Limited (IFSC) and NSE IFSC Limited (IFSC) were carried out for oversight.

A review of market operations, organizational structure and administrative control of the commodity derivatives exchanges was conducted through periodic reporting as well as carrying out inspections. During 2017-18, SEBI carried out inspections of all the active commodity derivatives exchanges.

Based on certain references, SEBI initiated an examination in the matter of preferential access in dissemination of data to certain stock brokers at NSE Co-location. The examination was conducted under the guidance and on the recommendations of Technical Advisory Committee (TAC) of SEBI. Additionally, SEBI has also engaged forensic auditors to assist SEBI in the said examination.

#### B. Oversight of Clearing Corporations (CCs)

During 2017-18, comprehensive inspections of National Securities Clearing Corporation Ltd. (NSCCL), Indian Clearing Corporation Limited (ICCL), Metropolitan Clearing Corporation of India Ltd. (MCCIL), India International Clearing Corporation (IFSC) Ltd and NSE IFSC Clearing Corporation Limited were undertaken for oversight and grant of recognition.

### C. Oversight of Depositories

During 2017-18, the compliance status of depositories were monitored through a comprehensive inspection undertaken by SEBI. Comprehensive inspections of National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) were undertaken during the year.

### D. System audit of MIIs

An Annual System Audit of MIIs such as stock exchanges, clearing corporations and depositories were conducted during the year through external system auditor, the terms of reference of the same currently include BCP/ DR norms formulated post consultation with SEBI-Technical Advisory Committee.

### E. Special Purpose Inspection

As per requirement, a special purpose inspection of Metropolitan Stock Exchange of India Limited (MSEI) and National Securities Depository Limited (NSDL) has been carried out during the year.

## II. INSPECTION OF MARKET INTERMEDIARIES

The number of inspections conducted during the financial year 2017-18 stands at 271. Selection of intermediaries for carrying out inspections is based on risk assessment of each and every intermediary.

Based on findings of inspections after considering the comments of intermediaries, intermediaries were specifically advised about the areas where improvement was required by them. Intermediaries were also required to report to SEBI about the corrective steps taken by them and also place the same before their board/ partners/ proprietor, as the case may be. These steps taken by SEBI have improved the level of compliance among the intermediaries. Administrative and quasi-judicial actions were initiated based on the deficiencies and seriousness of the violations committed by the intermediaries.

### A. Inspection of Stock Brokers and Sub-Brokers

During 2017-18, 184 stock brokers and sub-brokers have been inspected. The focus of the inspections included themes such as compliance of norms regarding anti-money laundering, investor redressal mechanism, handling of funds and securities of clients, settlement of accounts of clients on timely basis, segregation of clients and proprietary funds/securities, KYC norms, clearing operations, etc. During this financial year, apart from specific purpose inspections & single-theme inspections, the focus has been on comprehensive and combined inspections of stock brokers and depository participants. During inspections, the compliance of specific provisions of SEBI regulations/circulars was verified. The details of inspection of stock brokers and sub-brokers carried out are given in Table 3.40.

**Table 3.40: Inspection of Stock Brokers/Sub-Brokers**

Particulars	2016-17	2017-18
Inspections Conducted – Stock Brokers	164	152
Inspections Conducted – Sub - brokers	26	32
<b>Total</b>	<b>190</b>	<b>184</b>

The stock exchanges carried out inspections as per policy adopted by them in consultation with SEBI. Additionally, stock brokers/ clearing members are required to carry out complete internal audit on a half yearly basis by independent auditors. Stock exchanges are levying penalties for delay in filing the internal audit reports by stock brokers. The system of internal audits of stock brokers by outside professionals, inspections by stock exchanges and by SEBI has improved the compliance level of stock brokers.

The number of entities inspected by the stock exchanges in 2017-18 is given in Table 3.41. Data pertains to those stock exchanges that are active as on March 31, 2018.

**Table 3.41: Inspection of Stock Brokers by Stock Exchanges**

Year	NSE	BSE	MSEI	MCX	NCDEX	NMCE	ICEX
2016-17	625	687	135	550	200	27	0
2017-18	770	673	130	363	238	0	0

Note: The no. of inspections by exchanges also include inspections done by clearing corporations

### B. Inspection of Other Intermediaries

Risk based and special focus inspections of intermediaries are undertaken by SEBI to ascertain the extent of compliance on specific issues. SEBI has been carrying out comprehensive/ thematic inspections of debenture trustees, merchant bankers, credit rating agencies and debenture trustees to check the due

diligence exercised by them.

During 2017-18, inspections were conducted for 64 depository participants, 16 merchant bankers, 4 debenture trustees, 2 credit rating agencies and one registrar to issue & share transfer agent (RTIs & STAs). There was special focus on follow-up action after the inspections so that corrective steps are taken by the intermediaries (Table 3.42).

**Table 3.42: Inspection of Other Market Intermediaries**

Particulars	2016-17	2017-18
Credit Rating Agencies	1	2
Debenture Trustee	2	4
Depository Participants	59	64
Merchant Bankers	12	16
Registrars To an Issue and Share Transfer Agents	69	1
KRA	0	0
<b>Total</b>	<b>143</b>	<b>87</b>

### C. Inspection of Portfolio Manager (PM), Alternative Investment Fund (AIF), Venture Capital Fund (VCF), Investment Adviser (IA) and Research Analyst (RA)

Inspection of books of accounts, records and other documents pertaining to the portfolio managers, alternative investment funds, venture capital funds and investment advisers has been carried out to verify

whether the books of accounts, records and other documents are being maintained in the specified manner including the compliance in respect of AML/CFT and KYC norms.

During 2017-18, inspections of four AIFs, one VCFs, seven portfolio managers, 20 investment advisers and eight research analysts were carried out (Table 3.43).

**Table 3.43: No. of Inspections Conducted**

S. No.	Intermediary/Fund	No. of Inspections conducted during 2016-17	No. of Inspections conducted during 2017-18
1.	Portfolio Manager	10	07
2.	Alternative Investment Fund (AIF)	08	04
3.	Venture Capital Fund (VCF)	02	01
4.	Investment Adviser	20	20
5.	Research Analyst	00	08
<b>TOTAL</b>		<b>40</b>	<b>40</b>

**Table 3.44: Warnings/Deficiency Letters Issued to Portfolio Managers / Alternative Investment Funds / Venture Capital Funds / Investment Advisers / Research Analysts**

Intermediaries	2016-17		2017-18	
	Administrative Warning	Deficiency Letter	Administrative Warning	Deficiency Letter
Portfolio Managers	3	4	0	9
Alternative Investment Funds	2	0	0	8
Venture Capital funds	0	0	1	0
Investment Advisers	2	0	8	8
Research Analysts	0	0	2	0
<b>Total</b>	<b>7</b>	<b>4</b>	<b>11</b>	<b>25</b>

#### D. Inspection of Mutual Funds

A risk based inspection policy has been adopted by SEBI for inspection of mutual funds. The inspection undertaken on the basis of various risk parameters such as liquidity risk, credit risk, financial risk

market risk, technological risk, operation risk etc. and impact parameters such as assets under management of the mutual fund, retail AUM, etc. During 2017-18 inspection of 22 mutual funds and 3 registrars (executing mutual fund transactions) were initiated.

## 9. FEES AND OTHER CHARGES

Details of the amount of fees and other charges (audited by internal auditors) collected by SEBI from market intermediaries on both recurring and non-recurring basis is provided in Table 3.45. During 2017-18, the total amount of fees and other charges received was ₹ 624.44 crore (audited) as against ₹ 518.75 crore in 2016-17 (audited). The recurring fee was 48.90 percent in 2017-18 as compared to 60.70 percent in 2016-17 of

the total fee collected. During the year 2017-18, the largest recurring fee of ₹ 78.00 crore was collected from Derivatives Members registration followed by ₹ 40.82 crore collected from Stock Brokers and Sub-Brokers. In non-recurring fee category, the highest fee was collected from Offer Documents and prospectuses filed (₹ 112.24 crore) followed by Buy Back of Share (₹ 106.12 crore) and Takeover Fees (₹ 29.70 crore).

**Table 3.45: Fees and Other Charges**

(₹crore)

Particulars	2016-17 (Audited)			2017-18 (Audited)		
	Recurring fees #	Non-recurring fees ##	Total Fees Received	Recurring fees #	Non-recurring fees ##	Total Fees Received
	A	B	(A+B)	C	D	(C+D)
Offer Documents and prospectuses filed	-	47.89	47.89	-	112.24	112.24
Merchant Bankers	4.23	1.81	6.04	6.39	1.90	8.29
Underwriters	-	0.05	0.05	-	-	-
Portfolio Managers	2.81	3.71	6.52	3.43	4.32	7.75
Registrars to an Issue and Share Transfer Agents	0.37	0.08	0.45	0.28	0.06	0.34
Bankers to an Issue	0.99	0.83	1.82	0.45	0.02	0.47
Debenture Trustees	0.45	0.41	0.86	0.63	-	0.63
Takeover fees	-	33.55	33.55	-	29.70	29.70
Buy Back of Shares	-	36.39	36.39	-	106.12	106.12
Mutual Funds	11.91	9.75	21.66	13.01	12.13	25.14
Stock Brokers and Sub-Brokers	38.87	-	38.87	40.82	-	40.82
Foreign Portfolio Investors	43.90	25.87	69.77	31.32	22.43	53.75
Conversion Fee - Foreign Portfolio Investors	-	15.78	15.78	-	4.30	4.30
Depositories	3.59	-	3.59	3.53	-	3.53
Deppository Participants	0.11	3.87	3.98	0.66	2.46	3.12
Custodian of Securities	35.82	0.10	35.92	40.64	-	40.64
Approved Intermediaries under Securities Lending Scheme	0.12	-	0.12	0.02	-	0.02
Credit Rating Agencies	0.15	0.01	0.16	0.30	0.56	0.86
Listing Fees Contribution from Stock Exchanges	17.00	-	17.00	20.43	-	20.43
Alternative Investment Scheme	-	10.01	10.01	-	13.00	13.00
KYC Registration Fees	0.02	0.05	0.07	0.03	-	0.03
Foreign Venture Capital	-	0.22	0.22	-	0.90	0.90

Particulars	2016-17 (Audited)			2017-18 (Audited)		
	Recurring fees #	Non-recurring fees ##	Total Fees Received	Recurring fees #	Non-recurring fees ##	Total Fees Received
	A	B	(A+B)	C	D	(C+D)
Derivatives Members registration	89.40	-	89.40	78.00		78.00
Derivatives-Commodity	35.71	0.18	35.89	24.49	0.33	24.82
Investment Advisor	-	3.63	3.63	-	3.50	3.50
Infrastructure Investment Trust	-	7.49	7.49	-	0.13	0.13
Informal Guidance Scheme	-	0.08	0.08	-	0.07	0.07
Regulatory Fees-Stock Exchanges	23.70	-	23.70	22.79	-	22.79
Regulatory Fees-Stock Exchanges commodity	5.08	-	5.08	4.79	-	4.79
Public Issue of Debt	-	0.03	0.03	-	-	-
Private Issue of Debt	0.53	-	0.53	0.66	-	0.66
Delisting of Shares	-	0.01	0.01	-	0.02	0.02
Research Analyst	-	1.96	1.96	-	1.06	1.06
ICDR Exemption Fees	-	0.06	0.06	-	0.51	0.51
Gift City ISFC	0.14	0.03	0.17	0.08	0.03	0.11
FPI Regulatory fees for ODI Subscription	-	-	-	12.60	-	12.60
Scheme of Arrangement fees	-	-	-	-	3.23	3.23
Real Estate Investment Trust	-	0.01	0.01	-	0.11	0.11
<b>Total</b>	<b>314.90</b>	<b>203.85</b>	<b>518.75</b>	<b>305.33</b>	<b>319.11</b>	<b>624.44</b>

**Notes:**

- # Recurring fees: Fees which is received on annual/3-yearly/5-yearly basis (includes Fee/ Service Fee/ annual fee/ Listing Fees from exchanges/ Regulatory Fees from stock exchanges).
- ## Non-recurring fees: Fees which is received on one time basis. Includes fee for Offer Documents Filed/ Registration Fee/ Application Fee/ Takeover Fees/ Informal Guidance Scheme/ FPI Registration/Conversion
- Since the amount realised by way of penalties on or after 29.10.2002 has been credited to the Consolidated Fund of India, therefore, the same has not been included in the fees income of SEBI since 2003-04.
- Stock brokers and sub-brokers fee includes annual fees and turnover fees.
- Stock brokers and derivatives fees are of recurring nature and depend on the trading turnover of the stock brokers and members of derivatives segment.

## 10. RESEARCH AND STUDIES

Section 11(2) (l) of the SEBI Act, 1992 gives SEBI the powers to undertake research activities for effectively fulfilling its functions. The major research activities undertaken by SEBI during 2017-18 encompassed the following:

### I. THE REPORTING MANDATE AND MAINTENANCE OF REPOSITORY OF INFORMATION/STATISTICS

#### A. Regulatory Reporting: The SEBI Annual Report

In accordance with Section 18(2) of the SEBI Act, SEBI is mandated to submit to the government a report providing a full and true account of its activities undertaken during a particular financial year within 90 days of the completion of the financial year. Accordingly, the Annual Report for 2016-17 was prepared and submitted to the Ministry of Finance within the specified timelines. The same has been uploaded under the publication section on August 14, 2017 in [www.sebi.gov.in](http://www.sebi.gov.in)

<https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=4&ssid=24&smid=0>

#### B. Handbook of Statistics on the Indian Securities Market: Repository of Data

As a regulator, SEBI has the onus and obligation to maintain a repository of data for the entire securities market and the commodity derivatives market by collecting data from various sources, verifying their accuracy and maintaining/updating the data on a regular basis. In keeping up with its responsibility of disseminating data and ensuring transparency within its regulatory purview, SEBI has compiled the Handbook of Statistics on Indian Securities Market 2017. The Handbook provides historical data on the Indian securities market at one place arranged in an annual and monthly series. The data for this Handbook has been compiled sourcing from SEBI, Reserve Bank of India, stock exchanges, commodity exchanges, credit rating agencies, depositaries, World Federation of Exchanges and others. The Handbook is available both in hardcover and online in [www.sebi.gov.in](http://www.sebi.gov.in) under the publication section.

<https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=4&ssid=32&smid=0>

### C. SEBI Monthly Bulletins

Monthly bulletins encapsulating all the regulatory developments for the month and aggregating the data/information for the securities and commodities markets are published regularly by SEBI. Apart from a review of the Indian securities market, the bulletin also provides monthly reviews of global financial markets. In addition to this, highlights of developments in the international securities market, data on macroeconomic indicators in India and data/information related to various related segments of the securities market is disseminated in the SEBI Bulletin on a monthly basis. All these publications are available under the publication section in [www.sebi.gov.in](http://www.sebi.gov.in). Over the years, the coverage of information and data in these publications has expanded significantly with an evolving market micro-structure. The publications serve an important purpose of genuine empowerment of stakeholders, researchers, investors and policymakers through equal access to data and information related to the securities market. SEBI has been distributing these publications to various stakeholders like research institutions, investor associations, mutual funds and banks without any charge.

<https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=4&ssid=30&smid=0>

### II. INFORMATION SUPPORT TO VARIOUS REGULATORS/GOVERNMENT AGENCIES

Apart from its publications, SEBI is also responsible for providing regular information to the Ministry of Finance (MoF), the Reserve Bank of India (RBI), the Ministry of Corporate Affairs and the Government of Maharashtra for their frequent updation and for supporting informed policy decisions. This information support includes contributions to the Government of India's Economic Survey, MoF's annual report, the Government of Maharashtra Economic Survey, the IMF Redbook and the Mid-year Economic Analysis. Inputs and

suggestions are also provided to the Standing Committee on Finance, Central Statistics Office, as and when requested.

### III. SYSTEMIC STABILITY UNIT

Systemic Stability Unit (SSU) of SEBI keeps a watch on systemic risks, if any, emanating from the securities market and engages and contributes to various fora under the Financial Stability and Development Council (FSDC) such as the FSDC, FSDC Sub-Committee (FSDC-SC), Inter-Regulatory Technical Group (IRTG), Early Warning Group (EWG), etc.

During 2017-18, potential risks emanating from emerging developments and their likely impact on Indian securities market were analyzed on a case to case basis. Some of the research work undertaken in this regard, inter alia, included - Analysis of the sustainability of fund flows and equity valuations in Indian stock market, Impact of Federal Reserve Balance-Sheet trimming and monetary tightening by major Central Banks on Indian Markets, Emergence of Geopolitical Risks and possible spill over, Correlation analysis of Indian stock market with US Dollar Index and Crude Oil Prices, Global developments relating to MIIs – Market Failures and International best practices, etc.

Additionally, Systemic Risk Monitoring Template (SRMT), an in-house template developed by SSU-SEBI, monitored some of the securities market indicators so as to assess any signs of systemic vulnerabilities in Indian securities market. During the year, the template was reviewed to enhance its usefulness in monitoring of systemic risk in securities market. Further, the need and possible contours of a framework for identification of Systemically Important Financial Institutions (SIFIs) in Indian securities market were also examined.

Inputs were contributed to the Financial Stability Report (FSR) of June and December 2017 published by RBI under the aegis of FSDC Sub Committee. Some of the important topics on which inputs were provided for FSR, inter alia, included those on potential systemic risk issues as well as important measures taken by SEBI to further strengthen systemic stability

and development of securities markets in India. On the systemic risk related issues, topics like redemption pressure from Mutual Funds keeping in view the increasing industry AUM, ownership pattern of Indian stocks in top 500 scrips and index stocks, trend in grading pattern of debt instruments by rating agencies were included in the FSRs published during 2017-18. Some of the other important topics which were published in FSR based on the contribution of SEBI were important emerging trends in securities market viz. primary market, FPI flows and Mutual Funds, commodity derivatives market, initiatives by SEBI in the arena of cyber security, and other important policy measures taken by SEBI towards furtherance of systemic stability.

The Reserve Bank, as part of the macro-prudential framework for assessment of systemic risks, conducts Network Analysis to map the interconnectedness between financial institutions. SEBI provided inputs for the Network Analysis by RBI on periodic basis. SEBI also provided periodic inputs to IMF Data Gap Analysis on Financial Stability Indicators (FSI) being undertaken by RBI.

Inputs were provided on economic and systemic risks related issues discussed in various international forums like IOSCO meetings, FSB meeting as also for the Financial Sector Assessment Programme, as sought by the SEBI Office of International Affairs, from time to time.

SEBI, through the coordination and inputs of SSU, contributed to the meetings of FSDC, FSDC Sub Committee and other committees/ taskforces/ workings groups, including Early Warning Group, Macro Financial Monitoring Group, Inter-Regulatory Technical Group and Committee on Household Finance set up under the FSDC umbrella.

Pursuant to the decision of the FSDC-SC to rotate the Chair of the Early Warning Group (which is constituted under FSDC) among member regulators, SEBI Chaired the meeting of Early Warning Group for the first time and initiated the process of revisiting the mandate of the Group, in consultation with other Members. During the year, the draft report of the Committee on Household Finance, from the capital market perspective was vetted for finalization. This

Committee was set up, in pursuance of the discussions in the Sub Committee of FSDC. Subsequent to the publication of the report, relevant points were identified for suitable action.

#### IV. RESEARCH PAPERS/NOTES

During 2017-18, research papers/notes were prepared and presented on various topics for providing regular information. The research topic/study such as Initial Coin Offerings, Divergence in Economic Fundamentals and Sensex Growth, Conceptualizing and Construction of Securities Transaction Price Index, India's GDP Growth Outlook Assessment, Review of Indian Economy – March 2018 and Current Stock Market Rally: Some Observations were prepared and circulated/forwarded to others department of SEBI for information. Further, a presentation on Financial Statistics was presented by officer of SEBI to the students at Pondicherry University.

#### V. INTERNAL KNOWLEDGE SUPPORT

- A. **Academic Interactions:** Under its SEBI Discussion Forum (SDF), SEBI invites renowned scholars and financial market practitioners to deliver lectures/talks on topics related to the securities market, economics and finance. Discussions between the speaker and SEBI staff members help SEBI officials to gain insights and enhance their knowledge about the latest developments in the marketplace, including market movements, policy requirements and regulations. In 2017-18, SEBI invited experts to speak on topics such as 'Cyber Threat Landscape, Corporate Insolvency Resolution, and Bitcoin & Blockchain Technology, etc.
- B. **Monthly Review of the Global Securities Market's Regulatory Developments:** A monthly review of the global securities market's regulatory developments covering regulatory issues and developments in the global securities markets is prepared and disseminated internally. This endeavour is aimed at keeping SEBI staff members informed about the latest regulatory changes and market developments at the international level.

#### VI. COMMODITY DERIVATIVES MARKET RESEARCH

- A. **Research Support to Operational Departments:** Commodity Research Divisions (CRD) of SEBI, strengthens and supports effective regulation and development of securities market by providing research inputs to operational departments and the management. During 2017-18, CRD conducted study to analyse impact of change in margins on the commodity derivatives market. To supplement policy decisions, research inputs were prepared on various pertinent subjects which inter alia include, revision in position limit of commodity contracts, study on quanto products on commodities, report on alternative trading systems, bitcoins and related regulatory developments in global markets.
- B. **Information Support:** The daily, weekly, monthly, quarterly and annual trends and developments in commodity derivatives market are collated and channelled to various users and publications as information support. As a part of commodity research, CRD prepares reports/comment/feedback on the key issues pertaining to commodity derivatives market, such as inputs for Financial Stability Report, FSDC meetings, inputs on availability of skilled professional in the financial sector, impact of GST on Indian securities market etc.
- C. **Research Collaboration with external agencies:** During 2017-18, under research collaboration with Gokhale Institute of Politics and Economics (GIPE), CRD conducted a study on understanding state of implementation of model APMC Acts in different states, while another study on utility of existing contracts in commodity derivatives market is in progress. In collaborative association with Association of Natural Rubber Producing Countries (ANRPC), a study on "Feasibility of ETFs on Natural Rubber Market" was prepared and the findings were presented at 3rd ANRPC Public Private Meet held at Vietnam.

## 11. SURVEILLANCE

Effective surveillance of the securities market is a pre-requisite for maintaining market integrity to enhance investor confidence. The stock exchanges are on the frontline as far as real time surveillance of the market segments that they operate in are concerned. SEBI is responsible for the surveillance of all the segments of the Indian securities market across the exchanges. Over the years, various amendments to the SEBI Act, 1992 have empowered SEBI to undertake credible surveillance action.

Complementing the surveillance infrastructure of the stock exchanges, SEBI has robust in-house systems in place to monitor activities across all market segments and exchanges and to check unfair trade practices like market manipulation, front running and insider trading. The Joint Fund-Bank Financial Sector Assessment Programme of India noted that building a robust market surveillance system, among others,

allowed SEBI to build a reputation of being a credible enforcement agency.

### I. Surveillance Actions

SEBI and the stock exchanges have robust surveillance mechanisms in place to track the activities on the stock exchange platform and to generate alerts based on dynamic, system-based parameters. The stock exchanges apprise SEBI of surveillance concerns and actions at the regular surveillance meetings. The stock exchanges initiate surveillance measures, like the introduction of periodic price bands, shifting to Trade-for-Trade (TfT), tightening the price bands, etc., on the basis of the alerts and the analysis of trading in the scrips. The stock exchanges also take punitive actions (suspension of the trading in the scrips, debarment of the suspected entities, etc.). Details of actions taken by the Stock Exchanges is given in Table 3.46:

**Table 3.46: Surveillance Action**

Nature of Action	2016-17			2017-18		
	NSE	BSE	MSEI	NSE	BSE	MSEI
Scrips shifted to Trade-for-Trade segment	174	666	88	384	875	322
Number of scrips in which price bands were imposed (2 per cent, 5 per cent & 10 per cent)	959	1831	638	1157	1866	743
Preliminary investigations taken up (Snap)	36	1535	7	54	1202	6
Rumours verified	284	301	1	273	294	3
Letters to Trading Members based on Price/Volume Variation	0	235	0	0	300	0

Source: NSE, BSE, MSEI

### II. Surveillance Measures:

#### A. Graded Surveillance Measures

During 2016-17, to pre-empt the misuse of the trading platform of the stock exchanges it was decided to put in place certain preventive measures, so as to check the abnormal rises in the prices of scrips, more particularly in the case of companies which have poor fundamentals. Taking into consideration the feedback and inputs of stock exchanges and SEBI's experience in dealing with such scrips, in February

2017 the Graded Surveillance Measures (GSM) was introduced.

In 2017-18, feedback was taken from the Stock Exchanges on the effectiveness of the GSM and the existing GSM framework was further enhanced. Scrips identified under the additional criteria, which meet a pre-defined trigger matrix, shall be placed in GSM-Stage I. In GSM-Stage I, the scrips are transferred to TfT category with a price band of 5 per cent or lower, as applicable. The enhanced GSM framework has been implemented with effect from March 16, 2018.

## B. Surveillance actions on stock with surveillance concerns

In consultation with the Stock Exchanges, it was decided that scrips are to be identified, based on surveillance indicators like price variation, client concentration and volatility, and that prompt surveillance action is needed for such scrips. Accordingly, it was decided that for scrips identified for such surveillance action, the following surveillance measures may be applied.

1. To impose 100 per cent margins
2. To be placed in a 5 per cent price band
3. If the scrip triggers actionable indicators, it shall be placed in Trade for Trade category

This surveillance measure was made effective from March 26, 2018.

## C. Surveillance Action on Shell Companies

Pursuant to the letter received from MCA forwarding a list of 331 shell companies, in the interest of investors, SEBI took pre-emptive interim measures with respect to listed shell companies. SEBI vide letter dated August 7, 2017 directed Stock Exchanges to place trading restrictions on promoters/directors so that they do not exit the company at the cost of innocent shareholders and also placed the scrips under Graded Surveillance Measures (GSM) - Stage VI. The said measures were initiated by SEBI pending final determination after verification of credentials and fundamentals by the stock exchanges, including by way of audit and forensic audit, if necessary.

Out of 331 companies, only 52 companies had approached the Hon'ble Securities Appellate Tribunal (SAT) against the aforesaid action by SEBI/

Stock Exchanges. Out of these 52 cases, after hearing the matter, SAT imposed stay on 12 cases. Further, SAT directed SEBI and Exchanges to dispose of the representations made by the companies expeditiously. Till date, SEBI has passed interim orders in 39 cases, out of which forensic audit has been ordered in 31 cases. Similarly, Exchanges have issued interim directions in 112 cases, out of which exchanges have ordered forensic audit in 95 cases.

## D. Additional Surveillance Margins for F&O segment

In the past year, especially given the run-up in the market and run-up in open interest in derivative segment, particularly as a multiple of delivery volumes, SEBI decided to take steps to address surveillance concerns in F&O segment.

To address systemic concerns in view of high levels of exposure in F&O segment, based on the findings of stress testing by Stock Exchanges and Clearing Corporations, and considering possible repercussions to market stability in the event of wild swings in broad-based index movement, it was decided to impose Additional surveillance margins on top loss making clients. Clients have been identified on the basis of pre-defined parameters, taking into consideration inputs from Stock Exchanges and Clearing Corporations.

The additional surveillance margins were implemented with effect from January 23, 2018.

For single stock futures, it has been decided that Additional progressive margins (in the form of additional exposure margin) may be placed on scrips at the breach of certain pre-defined OI levels as a percentage of Market Wide Position Limit (MWPL). The framework for the same is as given in Table 3.47.

**Table 3.47: Framework for Additional Progressive Margins in Single Stock Futures**

Combined MWPL utilization at End of Day across Exchanges	Applicable Exposure margin of the security (ELM)
60 per cent	No additional Margins
70 per cent to less than 75 per cent	To be increased by 50 per cent of the normal applicable Exposure margin from next trading day
75 per cent to less than 80 per cent	To be increased by 100 per cent of the normal applicable Exposure margin from next trading day

Combined MWPL utilization at End of Day across Exchanges	Applicable Exposure margin of the security (ELM)
80 per cent to less than 85 per cent	To be increased by 150 per cent of the normal applicable Exposure margin from next trading day
85 per cent to less than 90 per cent	To be increased by 200 per cent of the normal applicable Exposure margin from next trading day
90 per cent to less than 95 per cent	To be increased by 300 per cent of the normal applicable Exposure margin from next trading day

The change in exposure margin or ELM was made applicable from February 2018, immediately after the expiry of Feb 2018 contracts, from next trading day. The additional margins are applicable till the open interest in the security reduces to below 70 per cent of MWPL at end of the day.

### III. Surveillance Measures – Commodities

Following surveillance measures have been taken during 2017-18:

- A. Framework and parameters for imposing / removing additional / special margins in Commodity Derivative Contracts: Parameters to be considered while imposing surveillance related margins on various Commodity Derivative Contracts have been rationalized in view of the unique characteristics of commodity derivative contracts. Due weightage to various factors such as Price, Volume, Open Interest, Stocks, and Fundaments etc. have been incorporated and a framework has been developed to impose the additional and special margins on Commodity Derivative Contracts.
- B. Surveillance Meetings with Exchanges: To monitor the efficiency and progress of Surveillance mechanism of exchanges, SEBI conducts monthly surveillance meetings with the senior officials of the exchanges. Meetings are aimed at various recent developments in the market and surveillance concerns of the exchanges / SEBI.
- C. Surprise Warehouse Visits: Warehouse inspections are conducted by the commodity derivative exchanges on a regular basis. SEBI has also initiated the process of surprise warehouse visits.
- D. Revision of penalty for Non-Genuine Trades: Exchanges have revised the penalty structure for non-genuine trades to make it more stringent. It has also been decided to impose additional penalty on members for repeated instances of such non-genuine trades. Exchange may also take appropriate disciplinary actions against the member concerned for multiple instances of such non-genuine trades under the Bye-Laws, Rules and Regulations of the Exchange.
- E. Self-Enrolment of VCP (Value Chain Participants) as Polling Participants: NCDEX has made available a facility for value chain participants to self-enrol and become a part of polling universe on its website since August 2017. This facility was made available with a view to strengthen the polling process.
- F. Surveillance system for Options Segment: Exchanges have upgraded their Surveillance systems with necessary alerts and reports for monitoring the trading in options segment.
- G. Training to Registered Members on Surveillance: During the FY 2017-18, Member Meets were conducted by inspection and surveillance team of NCDEX to educate members on new measures taken by Exchange. During the meet, members were educated on "Alerts to members" which Exchange had started providing from the month of December 2016, the types of alerts being provided to members, member's obligation and responsibility w.r.t. such alerts, etc. Further, the members were also educated on the Exchange circular on "Guidelines on Clubbing of Open Positions".
- H. Self-Trade Prevention Check at PAN level: To restrict wash/self-trades at exchange platform,

Self-Trades Prevention check was implemented at PAN level by all national level Commodity Derivative Exchanges.

- I. Information Called From, Inspections Undertaken, Enquires and Audits of Stock Exchanges, Intermediaries and SROs in the Securities Market Conducted by SEBI: During 2017-18, SEBI conducted surveillance inspections of NCDEX, MCX, NMCE and HCE for the FY 2015-16 and FY 2016-17. The inspections were conducted with the objective of improvement in the surveillance systems and procedures of the exchanges.

#### **IV. Surveillance Actions- Commodities**

Following surveillance actions have been taken during 2017-18:

- A. Additional Margins/ Special Margins Payable on Buy and Sell Positions: During the financial year 2017-18, the prices of Sugar, Chana, Jeera, Mentha Oil, Coriander, Cotton Seed oil cake and Castor Seed derivative contracts were found to be volatile in comparison with spot

prices of the respective commodity. In order to maintain the integrity of the market, SEBI had taken regulatory measures such as imposition of additional margins and special margins, on these commodity futures contracts during FY 2017-18. The margins so imposed on certain commodity derivative contracts were also revised/withdrawn as and when required. At NMCE due to non-viability, Coffee Futures contracts had been suspended. Further, margins were withdrawn in cardamom and castor seed.

- B. Trading in Chana Futures reintroduced: As a measure of abundant caution, directions were issued to exchanges in 2016 that no fresh Chana contracts shall be launched. Only squaring off of positions shall be allowed in running contracts and all open positions at the end of the day of July 27, 2016 were to be closed out. Considering the proposal by NCDEX, the situation was reviewed by SEBI and futures trading in Chana was reintroduced w. e. f. July 14, 2017.

A summary of surveillance actions in commodities taken in 2017-18 is given in Table 3.48.

**Table 3.48: Summary of Surveillance Actions - Commodities**

Nature of Action	MCX		NCDEX		NMCE	
	Agri Commodities	Non-Agri Commodities	Agri Commodities	Non-Agri Commodities	Agri Commodities	Non-Agri Commodities
No. of Commodities where further margins are imposed	1 (4)	0 (12)	4 (11)	0 (2)	0 (6)	0 0
No. of Cases taken up for detailed investigation	39 (19)	33 (34)	36 (43)	0 0	0 0	0 0
No. of Observation/ Caution Letters issued	113 (52)	98 (173)	266 (385)	0 0	8 (22)	0 0
No. of Commodities suspended from trading	0 0	0 0	0 (1)	0 0	1 (1)	0 0

**Note:** Figures in parenthesis are for 2016-17

#### **V. Information Called From, Inspections Undertaken, Enquires and Audits of Stock Exchanges, Intermediaries and SROs in the Securities Market Conducted by SEBI**

During 2017-18, SEBI conducted surveillance inspections of NCDEX, MCX, NMCE and HCE for the FY 2015-16 and FY 2016-17. The inspections were conducted with the objective of improvement in the surveillance systems and procedures of the exchanges.

## 12. INVESTIGATION

Timely completion of investigation cases and effective, proportionate and dissuasive action in case of violations of securities laws is important for protection of investors' interest and ensuring fair, transparent and orderly functioning of the market. It is also vital for improving the confidence in the integrity of the securities market. Another important benefit resulting from investigations is contribution to the policy changes with a view to further strengthening the regulatory and enforcement environment. SEBI is therefore constantly striving to upgrade its investigative skills by making use of Information Technology (IT) and other latest investigative tools. Importance of effective and credible use of investigation has also been underscored by IOSCO in its "Principles for the Enforcement of Securities Regulation".

- A. Initiation of Investigations: SEBI initiates investigation based on reference received from sources such as SEBI's integrated surveillance department, other operational departments within SEBI and external government agencies.
- B. Process of Investigation: The steps involved during investigation process include an analysis of market data (order and trade log, transaction statements, etc.) and static data (KYC documents obtained from brokers, depository participants,

bank records, financial results, events around major corporate developments, call data records etc.). The purpose of such investigation is to gather evidence and to identify persons/entities behind irregularities and violations so that appropriate and suitable regulatory action can be taken, wherever required.

- C. Trends in Investigation Cases: During 2017-18, 117 new cases were taken up for investigation and 145 cases were completed compared to 245 new cases taken up and 155 cases completed in 2016-17 (Table 3.49).

**Table 3.49: Trends in Investigations**

Year	Cases taken up for Investigation	Cases completed
2016-17	245	155
2017-18	117	145

- D. Nature of Investigations in the Cases Taken Up: During 2017-18, 34 per cent (40 out of 117) of the cases taken up for investigation pertained to market manipulation and price rigging, while insider trading, takeover violation and "Issue" related manipulation cases accounted for 15 per cent (17 cases) and 51 per cent (60 cases) pertained to other violations of securities laws. (Table 3.50 and Figure 3.1)

**Table 3.50: Category-Wise Nature of Investigations**

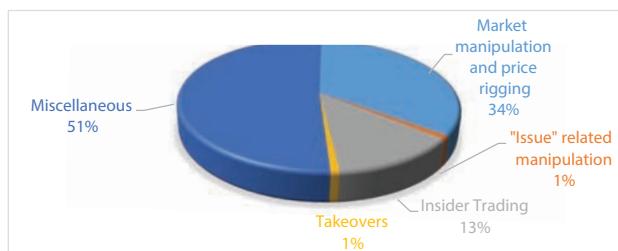
Particulars	Investigations Taken Up		Investigations Completed	
	2016-17	2017-18	2016-17	2017-18
Market manipulation and price rigging	185	40	118	120
"Issue" related manipulation	8	1	5	9
Insider Trading	34	15	15	6
Takeovers	3	1	4	0
Miscellaneous	15	60*	13	10
<b>Total</b>	<b>245</b>	<b>117</b>	<b>155</b>	<b>145</b>

**Note:** \* Miscellaneous includes alleged violations of – i) Listing Conditions ii) Role of Statutory Auditor iii) Disclosure related violation iv) SCRA through off market transfers v) Preferential Allotment process vi) Complaints

Since, several investigation cases involve multiple allegations of violations, water-tight classification under specific category becomes

difficult. Therefore, cases were classified on the basis of main charge / violations.

**Figure 3.1: Category-wise Nature of Investigation Taken up**



**E. Nature of Investigation Cases Completed:**

During 2017-18, 83 per cent (120 out of 145) cases completed pertained to market manipulation and price rigging. The other categories of cases completed pertained to insider trading, takeover violations, "Issue" related manipulation and other violations of securities laws which accounted for 17 per cent (25 cases). (Table 3.50 and Figure 3.2).

**Figure 3.2: Category-wise Nature of Investigation Completed (per cent)**



**F. Regulatory Action Taken:** After an investigation is completed, penal action is initiated as approved by the competent authority wherever violations of laws and obligations relating to the securities market are observed. Action is decided based on the principles of objectivity, consistency, materiality and quality of evidence available after a thorough analysis and appreciation of facts. The action taken includes issuing warning letters, initiating enquiry proceedings for registered intermediaries, initiating adjudication proceedings for levy of monetary penalties, passing directions under Section 11 of the SEBI Act, 1992 and initiating prosecution and referring the matter to other regulatory agencies. Table 3.51 presents various types of regulatory actions taken by SEBI during the year 2017-18. Prohibitive directions under Section 11 of the SEBI Act, 1992 were issued against 1,136 entities which accounts for 61.6 per cent of the total regulatory taken. Followed by, administrative warnings/warning letters were issued against 524 entities (28.4 per cent) and deficiency observations were issued to 116 entities (6.3 per cent).

**Table 3.51: Type of Regulatory Action Taken during 2017-18**

Type of regulatory action taken	Number of entities during 2017-18 against whom regulatory action was taken
Suspension	1
Warnings issued	43
Prohibitive directions issued under Section 11 of the SEBI Act, 1992	1,136
Cancellations	2
Administrative warnings/warning letters issued	524
Deficiency observations issued	116
Advice letters issued	22
<b>Total</b>	<b>1844</b>

G. Regulatory Action Initiated: Table 3.52 presents type of regulatory actions initiated during the year 2017-18. Proceedings under Section 11B of SEBI Act, 1992 were initiated against 1,195 entities which accounts for 41.1 per cent. Followed by, Adjudication proceedings were

initiated against 1,256 entities that is, 43.2 per cent and administrative warnings were issued to 322 entities that is, 11.1 per cent. Further, prosecutions proceedings were initiated against 133 entities that is, 4.6 per cent.

**Table 3.52: Type of Regulatory Action Initiated during 2017-18**

Regulatory Action Initiated 2017-18	No. of entities
Administrative warning issued	322
Proceedings under Section 11B of SEBI Act, 1992	1,195
Proceedings under Intermediaries Regulations	1
Adjudication proceedings	1,256
Prosecution proceedings	133
<b>Total</b>	<b>2907</b>

## 13. OTHER FUNCTIONS

### I. ENFORCEMENT OF REGULATIONS

Effective enforcement lies at the heart of ensuring integrity, transparency and fairness in the market. It not only leads to a better compliance culture but also underscores the point that market misconduct and abuse will not go unpunished. A credible enforcement strategy underpins the importance of consistent, timely and transparent regulatory outcomes which are proportionate, dissuasive and effective. Under the SEBI Act, 1992; SCRA, 1956; and the Depositories Act, 1996 SEBI broadly pursues two streams of enforcement action, that is, administrative/civil or criminal. Administrative/civil action includes issuing directions such as remedial orders, cease and desist orders, suspension or cancellation of certificates of registration and imposition of monetary penalties under respective statutes. Proceedings of a criminal nature involve initiating prosecution proceedings against violators by filing criminal complaints before a competent court.

**A. Enforcement Mechanisms:** SEBI uses five enforcement mechanisms in case of any violation(s) pertaining to laws regulating the securities market.

**Section 11/11B Proceedings:** Under these proceedings, SEBI may issue directions or prohibitive orders in the interest of investors or the securities market, either pending investigation/inquiry or on completion of such investigation/inquiry. Under Section 11B of the SEBI Act, 1992, SEBI may suspend trading of any security in a recognized stock exchange; restrain persons from accessing the securities market; prohibit any person associated with the securities market to buy, sell or deal in securities; and direct any intermediary or any person associated with the

securities market not to dispose of or alienate an asset forming part of any transaction which is under investigation.

**Enquiry Proceedings:** SEBI may suspend or cancel the certificate of registration of an intermediary through the enquiry regulations on the recommendation of the enquiry officer/designated authority appointed for that purpose.

**Adjudication Proceedings:** Under chapter VI A of the SEBI Act, 1992, SEBI may appoint an adjudicating officer for conducting an enquiry and imposing monetary penalties after completing the investigation/inquiry for contravention of any provision of the SEBI Act, 1992 or any rules or regulations made thereunder.

**Prosecution Proceedings:** SEBI may initiate proceedings by filing a criminal complaint against any person, for contravention of any provision of the SEBI Act, 1992 or any rules or regulations made thereunder, before a special court.

**Summary Proceedings:** SEBI may initiate a summary enquiry against SEBI registered intermediaries or may issue a warning and deficiency letter for violation of rules and regulations for intermediaries. Chapter VA of the SEBI (Intermediaries) Regulations, 2008 provides SEBI the power to conduct summary proceedings in certain cases.

#### a. Section 11/11B Proceedings

During 2017-18, SEBI initiated enforcement action in 171 cases under Section 11/11B, while it disposed of 183 cases under Section 11,11B and 11D. At the end of March, 2018, 352 cases were pending for action (Table 3.53).

**Table 3.53: An Age-Wise Analysis of Enforcement Actions- u/s 11, 11b and 11d of the SEBI Act, 1992**

Particulars	Number of cases
Cases pending at the beginning of the period as reported in the annual report 2016-17.	364
Cases added during the period 2017-18	171
Cases disposed of during the year	183
Cases pending at the end of the period	352
Break-up of pending cases at the end of the period	
Cases older than 2 years	173
Cases older than 1 but less than 2 years	67
Cases less than 1 year	112
<b>Total</b>	<b>352</b>

#### b. Enquiry Proceedings

During 2017-18, SEBI initiated 16 enquiry proceedings and disposed of 23 cases after due completion of enquiry proceedings. As on March 31, 2018, 72 cases pertaining to enquiry proceedings were pending (Table 3.54).

**Table 3.54: An Age-Wise Analysis of Enforcement Action - Enquiry Proceedings**

Particulars	Number of Cases
Cases Pending at the beginning of the period	75
Cases added during the period	16
Cases disposed of during the year	23
Cases pending at the end of the period	72*
<b>Break up of pending cases at the end of the period</b>	
Cases older than 2 years	15
Cases Older than 1 but less than 2 years	20
Cases less than 1 year	37
<b>Total</b>	<b>72</b>

**Note:** 1. \*In few matters partial orders passed so part case is still pending.

2. The figures may not match with annual report 2016-17 due to reconciliation

#### c. Adjudication Proceedings

During 2017-18, 888 adjudication proceedings were disposed of by SEBI and 594 fresh cases were initiated. As on March 31, 2018 adjudication proceedings were pending in 1,053 cases (Table 3.55).

**Table 3.55: An Age-Wise Analysis of Enforcement Action - Adjudication Proceedings**

Particulars	Number of Cases
Cases Pending at the beginning of the period	1283
Cases added during the period	594
Cases disposed of during the year	888
Cases pending at the end of the period	1053 #
<b>Break up of pending cases at the end of the period</b>	
Cases older than 2 years	516
Cases Older than 1 but less than 2 years	208
Cases less than 1 year	329
<b>Total</b>	<b>1053</b>

**Note:** 1. # In few matters partial orders passed so part case is still pending.

2. The figures may not match with annual report 2016-17 due to reconciliation

#### d. Prosecution Proceedings

During 2017-18, 56 prosecution cases were launched against 407 persons/entities as compared to 33 prosecutions launched against 237 persons/entities in 2016-17. During 2017-18, 96 cases were disposed of as against 87 cases disposed of during 2016-17.

#### e. Summary Proceedings

During 2017-18, no case for summary proceedings was disposed or initiated by SEBI. The cumulative pending cases as on March 31, 2017 stood at 56. (Table 3.56).

**Table 3.56: An Age-Wise Analysis of Enforcement Action – Summary Proceedings**

Particulars	No. of cases
Cases pending at the beginning of the period	56
Cases added during the period	0
Cases disposed of during the year	0
<b>Cases pending at the end of the period</b>	<b>56*</b>
<b>Break-up of pending cases at the end of the period</b>	
Cases older than 2 years	56*
Cases older than 1 but less than 2 years	0
Cases less than 1 year	0
<b>TOTAL</b>	<b>56*</b>

**Note:**\*Upon reconciliation of records as on date, out of the 2,344 cases of summary proceedings initiated, 56 cases are remaining of which 49 cases (56-7) pertain to 9 regional stock exchanges which have exited or are under the process of exiting.

During 2017-18, SEBI issued 3,403 show cause notices and conducted 3,411 hearings in Enquiry and

Adjudication proceedings (Table 3.57).

**Table 3.57: Enquiries and Adjudications Completed during 2017-2018**

Particulars	Enquiry		Adjudication		Total	
	No. of Entities	No. of Matters	No. of Entities	No. of Matters	No. of Entities	No. of Matters
Orders passed / reports submitted	35	23	2,410*	844*	2,445	867
Hearing Conducted	1	1	3,410	996	3,411	997
Show Cause notices issued	14	10	3,389	772	3,403	782

**Note:**\* Includes settlement cases also.

During 2017-18, SEBI initiated adjudication proceedings against 1 registrar to issue and share transfer agent, 3 merchant bankers, 2 credit rating agencies and 2 depository participants (Table 3.58).

**Table 3.58: Enquiry and Adjudication Proceedings against Other Intermediaries during 2017-18**

Particulars	Adjudication		Enquiry reports	
	No. of Entities	No. of Matters	No. of Entities	No. of Matters
Registrars to Issue and Share Transfer Agents	1	1	4	4
Merchant Bankers	3	3	0	0
Depository Participants	2	2	1	1
Credit Rating Agencies	2	2	0	0
Debenture Trustees	0	0	0	0
<b>Total</b>	<b>8</b>	<b>8</b>	<b>5</b>	<b>5</b>

## II. PROSECUTIONS

### A. Trends in Prosecution

#### a. Number of Prosecutions Launched

During 2017-18, 56 prosecution cases were launched against 407 persons/entities as compared to 33 prosecutions launched against 237 persons/entities in 2016-17 (Table 3.59).

**Table 3.59: Prosecutions Launched**

Year	No. of cases in which prosecution has been launched	No. of persons/entities against whom prosecution has been launched
Up to 2003-04	891	4,332
2004-05	86	432
2005-06	30	101
2006-07	23	152
2007-08	40	185
2008-09	29	114
2009-10	30	109
2010-11	17	67
2011-12	29	60
2012-13	75	150
2013-14	269	652
2014-15	67	157
2015-16	46	268
2016-17	33	237
2017-18	56	407
<b>Total</b>	<b>1,721</b>	<b>7,423</b>

Up to March 31, 2018, region-wise the highest number of prosecutions were launched in the head

office/ western region (1,035) followed by the northern region (375), eastern region (194) and southern region (117) (Table 3.60).

**Table 3.60: Region-Wise Data on Prosecution Cases**

Region	Number of Cases	Percentage to Total	Number of Cases	Percentage to Total
	As on March 31, 2017	As on March 31, 2018		
Head Office/ Western Region	1,004	60.3	1,035	60.1
Northern Region	358	21.5	375	21.8
Southern Region	109	6.5	117	6.8
Eastern Region	194	11.7	194	11.3
<b>Total</b>	<b>1,665</b>	<b>100.0</b>	<b>1,721</b>	<b>100.0</b>

#### b. Nature of Prosecutions

SEBI launches prosecutions for violation of provisions of the SEBI Act, 1992; Companies Act, 1956; Depositories Act, 1996; SC (R ) Act, 1956; and the Indian Penal Code. Up to March 31, 2018, 1,721 prosecution cases had been launched (Table 3.61).

**Table 3.61: Nature of Prosecutions Launched**

Nature of Prosecution Launched	Number of Cases as on March 31, 2017	Number of Cases as on March 31, 2018
Securities and Exchange Board of India Act, 1992 (SEBI Act)	1,415	1,465
SEBI Act & Securities Contracts (Regulation) Act, 1956 (SCRA)	97	97
SEBI Act, SCRA & Companies Act	2	2
SEBI Act & Companies Act	25	28
SEBI Act & Indian Penal Code	5	5
Companies Act, 1956	77	80
Securities Contracts (Regulation) Act, 1956	7	7
Depositories Act, 1996	29	29
Indian Penal Code	8	8
<b>Total</b>	<b>1,665</b>	<b>1,721</b>

#### c. Disposal of Prosecution Cases

As on March 31, 2018, the courts had disposed of 496 prosecution cases filed by SEBI, out of which 199 cases pertained to CIS entities and 297 pertained

to non-CIS entities. Further, out of 496 prosecution cases decided by the courts, 194 cases resulted in convictions and 207 cases were compounded (Table 3.62).

**Table 3.62: Number of Prosecution Cases Decided by the Courts during 2017-18**

Type of Decision by the Courts	CIS	Non-CIS	Total
Convictions	156	38	194
Compounded	8	199	207
Abated	6	8	14
Dismissed/Discharged	27	48	75
Withdrawn	2	3	5
Adjourned Sine Die/Filed for the Present	0	1	1
<b>Total</b>	<b>199</b>	<b>297</b>	<b>496</b>

### III. LITIGATIONS, APPEALS AND COURT PRONOUNCEMENTS

During 2017-18, 263 fresh court cases where SEBI was a party were filed in different courts while 197 cases were disposed of. Of the 197 cases disposed of, 32 pertained to collective investment schemes,

18 pertained to issues and listings and 18 related to investor complaints. As on March 31, 2018 the highest number of cases were pending in the miscellaneous category (320 cases) followed by cases related to issues and listings (301 cases), investor complaint cases (203 cases) and collective investment scheme cases (179 cases) (Table 3.63).

**Table 3.63: Status of Court Cases where SEBI was a Party (Subject Matter)**

Subject	Filed During 2017-2018	Disposed During 2017-2018	Pending as on March 31, 2018
Issue and Listing	91	18	301
Takeover	11	20	18
Stock Exchanges/Clearing corporations/ Depositories	13	8	28
Mutual Fund	1	2	4
Collective Investment Schemes	32	32	179
Surveillance & Investigations	10	20	33
Intermediaries/Broker Fees matters	8	10	54
Cases relating to Investor Complaints	15	18	203
Right to Information	2	0	18
General Services Department	2	2	16
Human Resources	1	2	4
Commodities	1	10	19
Miscellaneous	76	55	320
<b>Total</b>	<b>263</b>	<b>197</b>	<b>1,197</b>

**Note:** Data does not include statutory appeals filed before SAT, High Courts and the Supreme Court

During 2017-18, of the 263 cases filed across various judicial forums, 22 cases were filed in the Supreme Court, 173 cases were filed in High Courts, followed by 34 cases in NCLT and NCLAT and two cases in mediation and conciliation centres. The cases disposed of by the various High Courts were the

highest at 97 and 36 cases were disposed of by NCLT/NCLAT whereas cases disposed by the Supreme Court and civil courts were 23 and 14 respectively. As on March 31, 2018, 1,197 cases were pending at different stages before various judicial forums (Table 3.64).

**Table 3.64: Status of Court Cases where SEBI was a Party (Judicial Forum)**

Subject	Filed During 2017-2018	Disposed During 2017-2018	Pending as on March 31, 2018
Supreme Court	22	23	102
High Court	173	97	773
Civil Courts	8	14	102
Criminal Courts	2	5	10
Consumer Forums	16	8	163
NCLT/NCLAT	34	36	27
The Central Information Commission	0	0	0
Labour Commissioner/Labour Court	1	0	8
Commissioner of GST & CX / Sales Tax Appellate Tribunal	2	0	3
Commissioner of Income Tax	3	0	3
Municipal/Local Bodies	0	0	1
Green Tribunal	0	0	0
Registrar of Companies	0	0	0
Mediation & Conciliation Centres	2	13	4
The Debt Recovery Tribunal	0	0	1
Central Administrative Tribunal	0	0	0
<b>Total</b>	<b>263</b>	<b>196</b>	<b>1,197</b>

**Note-** Data in the table does not include statutory appeals filed before the SAT, High Courts and Supreme Court

During 2017-18, 340 appeals were filed before the Securities Appellate Tribunal (SAT). Further, 306 appeals were dismissed (ruled in favour of SEBI) while 17 were allowed (ruled against SEBI). At the end of March 31, 2018, 223 appeals were pending with SAT (Table 3.65).

**Table 3.65: Status of Appeals before SAT**

Status of Appeals	Number of Appeals
Appeals pending at the beginning of the year	404
Appeals filed during the year	340
Appeals Dismissed	306
Appeals Remanded	37
Appeals Allowed	17
SEBI orders upheld with modifications	49
Appeals withdrawn	112
Appeals Pending at the end of the year	223

**Note:** The figures may not match with annual report 2016-17 due to reconciliation

Against SAT's orders, 13 appeals were filed by SEBI, whereas 42 appeals were filed by parties before the Supreme Court during 2017-18 under Section 15Z of the SEBI Act. Further, 20 appeals which had been filed by SEBI were disposed of and 16 appeals filed by the parties were disposed of. As on March 31, 2018, there were 166 appeals pending before the Supreme Court, out of which 68 appeals were filed by SEBI and 97 appeals were filed by the parties (Table 3.66).

**Table 3.66: Status of Appeals before the Supreme Court**

Subject Matter	2016-17			2017-18		
	Appeals filed during	Appeals disposed of during	Appeals pending at the end of	Appeals filed during	Appeals disposed of during	Appeals pending at the end of
Appeals filed by SEBI	37	35	75	13	20	68
Appeals filed by parties	25	31	71	42	16	97
<b>Total</b>	<b>62</b>	<b>66</b>	<b>146</b>	<b>55</b>	<b>36</b>	<b>166</b>

As on March 31, 2018, there were 28 statutory appeals pending in the High Courts out of which eight appeals were filed by SEBI and 20 were filed by

parties. During 2017-18, one appeal filed by parties was disposed by High Courts and one appeal filed by SEBI was disposed (Table 3.67)

**Table 3.67: Status of Appeals before High Courts**

Subject Matter	2016-17			2017-18		
	Appeals filed during	Appeals disposed of during	Appeals pending at the end of	Appeals filed during	Appeals disposed of during	Appeals pending at the end of March, 2018
Appeals filed by SEBI	0	0	8	1	1	8
Appeals filed by parties	0	2	21	0	1	20
<b>Total</b>	<b>0</b>	<b>2</b>	<b>29</b>	<b>1</b>	<b>2</b>	<b>28</b>

Note: The figures may not match with annual report 2016-17 due to reconciliation

#### IV. SETTLEMENT AND COMPOUNDING

During the financial year 2017-18, SEBI received 241 applications for settlement as compared to 171 applications received in the previous year. During financial year 2017-18, 200 settlement applications were

disposed of by passing settlement orders, whereas 79 applications were rejected. For 200 applications disposed of by way of passing settlement orders, SEBI collected ₹ 30.86 crore towards settlement / legal / administrative / disgorgement charges compared to ₹ 13.51 crore received in 2016-17 (Table 3.68).

**Table 3.68: Settlement Applications Filed with SEBI**

Year	Pending at the beginning of the period	No. of settlement applications received 1	No. of applications disposed of by passing order 2	Settlement charges (₹) 3	No. of applications rejected	Pending at the end of the period
2016-17	187	171	103	13,50,83,822	23	232
2017-18	232	241	200	30,86,70,956	79	194

Note: 1. Under the SEBI (Settlement of Administrative and Civil Proceedings) regulation, 2014 the process is now known as settlement instead of consent  
 2. The number of applications may include disposal of applications filed during previous financial years  
 3. Amount received towards disgorgement, settlement and legal expenses.

Further, out of the 76 applications received for compounding during 2017-18, 53 applications were

compounded, while 19 were rejected (Table 3.69).

**Table 3.69: Compounding Applications Filed by the Accused in Criminal Courts**

Year	Opening Balance as on 01/04/17 (Applications pending as on April 01, 2017)	Applications filed during the year	Applications disposed		Compound- ing charges received by SEBI (₹)	Closing Balance as on March 31, of the respective financial year
			Compounded	Rejected		
2016-17	86	117	72	48	7,82,73,329	83
2017-18	83	76	53	19	2,69,06,459	87

## V. RECOVERY PROCEEDINGS

The Securities Laws (Amendment) Act, 2014 was notified in August 2014 amending the SEBI Act, 1992, SCRA, 1956 and the Depositories Act, 1996 w.e.f. July 18, 2013. As per Section 28A of the SEBI Act and the corresponding provisions of SCRA and the Depositories Act, SEBI is empowered to recover

money from persons who fail to pay the penalty imposed by an adjudicating officer or fail to comply with any directions of the Board for refund of money or fail to comply with the direction of disgorgement order or fail to pay any fees due to the Board. Table 3.70 presents the details of recovery proceedings by SEBI.

**Table 3.70: Recovery Proceedings by SEBI**

Sr. No.	Description	CIS & DPI					Other than CIS & DPI					Total (Cumula- tive)
		2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	
1	Recovery Certificates / Notice of Demand drawn by SEBI	1	14	47	34	33	63	526	244	241	179	1,382
2	No. of Certificates Cancelled	0	1	1	0	1	0	10	26	11	8	58
3	Amount covered under certificates (₹ crore)	1,520	370.2	52,912.1	15,154	1,743.6	74.8	90.8	47.2	182.2	106.7	72,201.66
4	Amount Recovered (₹ crore)	0	2.3	213.2	80.8	187.2	7.8	16.9	11.4	8.4	16.2	545
5	Arrest and detention of defaulter	0	0	0	0	0	0	3	0	0	0	3
6	Cases where recovery is completed	0	0	0	0	0	6	121	80	121	78	406
7	No. of Certificates pending at the year end	1	14	60	94	126	57	452	590	699	792	918

Notes: Amounts in other than CIS & DPI cases includes interest and costs till the date of issuance of Recovery Certificate

## VI. SPECIAL ENFORCEMENT CELL

SEBI constituted the Special Enforcement Cell to specifically handle work relating to the verification process of documents submitted in terms of the

directions of the Hon'ble Supreme Court and matters connected therewith. Developments in the matter of M/s. Sahara India Real Estate Corporation Ltd., (SIRECL) and M/s. Sahara India Housing Corporation Ltd. (SHICL) are given below.

### A. Background:

SEBI is implementing the Hon'ble Supreme Court's judgment dated August 31, 2012 which inter alia upheld SEBI directions to SIRECL and SHICL (collectively referred to hereinafter as the "Saharas") to forthwith refund the money collected by them through RHPs with 15 per cent interest from the date of receipt of money till the date of payment. SEBI has been acting in accordance with the directions contained in the said judgment of the Hon'ble Supreme Court and its actions are overseen by Hon'ble Justice (retd.) B. N. Agrawal. SEBI has filed 19 status reports before the Hon'ble Supreme Court in this respect which have also been furnished to Saharas.

### B. Developments in the Matter during 2017-18:

#### Sale of Aamby Valley city:

Hon'ble Supreme Court, vide its Order dated April 17, 2017, has appointed the Official Liquidator of the Bombay High Court for auctioning the properties at Aamby Valley city situated in Lonavla, near Mumbai. The auction proceedings carried out by the Official Liquidator did not elicit any bid in the first round. However, the Hon'ble Supreme Court, vide its Order dated November 23, 2017, directed re-auction of the said property. Hon'ble Supreme Court also directed that Justice A.S. Oka and the learned Judges of the High Court, Bombay, shall have liberty to adopt any procedure which will facilitate the re-auction.

Further, the Official Receiver of the Bombay High Court was appointed as Receiver in respect of the Aamby Valley city, to see that the property is properly maintained and no encroachment takes place so that valuation does not reduce and auction takes place in a peaceful manner.

During the hearing held on February 07, 2018, the learned senior counsel appearing on behalf of the Official Liquidator has informed the Hon'ble Supreme Court that despite their best efforts, the entire Aamby Valley city is not in a position to be sold and prayed to the Hon'ble Court that the Aamby Valley city shall be demarcated into plots/utilities/fragments and to sell it in individual plots or land parcels or amenities wise. The Hon'ble Supreme Court vide its order

dated February 07, 2018 has inter alia permitted the aforesaid prayers sought by the senior counsel and posted the matter for next hearing on April 19, 2018.

### C. Amount received from the Saharas

Pursuant to various Orders passed by the Hon'ble Supreme Court and the attachment Orders dated February 13, 2013 passed by SEBI, as on March 31, 2018, an aggregate amount of about Rs.14,300 Crore has been recovered by SEBI. As on March 31, 2018, these amounts along with interest earned on them after providing for making refunds to the investors, have been deposited in 'nationalized banks' for an aggregate amount of ₹17,905 Crore in terms of the judgment dated August 31, 2012 of the Hon'ble Supreme Court.

### D. Status of Refunds Made By SEBI

Pursuant to the order of the Hon'ble Supreme Court dated May 08, 2013 permitting SEBI to make refunds to those genuine investors who have lodged their claims with SEBI, a press release was issued on May 28, 2012 followed by two series of advertisements released in August 2014 and December 2014 and the format of the "Application for refund" was put on SEBI's website.

During the meeting held with Justice B N Agrawal on February 05, 2018, it was decided to release a final round of advertisement in the same fashion as issued earlier by fixing the last date for receipt of applications as June 30, 2018. As the said date falls on Saturday, the last date was fixed as July 02, 2018. It was also decided to include an advisory to those bondholders who have not responded to SEBI's letter seeking additional information/documents to submit their reply by July 02, 2018. Accordingly an advertisement was released on March 26, 2018 on the aforesaid lines. As on March 31, 2018, SEBI has received 15,146 applications involving 43,405 accounts, and made refunds with respect to 12,522 applications involving 35,300 accounts for an aggregate amount of ₹98.56 Crore including interest of ₹45.26 Crore. About 535 applications involving 1,634 accounts are referred back to applicants for removal of discrepancies and 82 applications involving 186 accounts fall in the disputed category (Table 3.71).

**Table 3.71: Status of Refunds Made by SEBI**

Sl. No.	Particulars	No of Cases*	Account / Control Nos.	Amount Claimed
1.	Application received with Original Bond Certificates / Passbooks	15,146	43,405	68,45,83,884
2.	Disputed Cases	82	186	27,56,000
3.	Pending at Investors	535	1,634	2,56,29,400
4.	Pending at Sahara	498	1,446	1,87,82,182
5.	Pending at SEBI	956	3,779	88405415
6.	Closed cases (Investor not responded)	553	1,060	1,60,09,287
7.	Cases already refunded	12,522	35,300	(Principal) 53,30,01,600 (Interest) 45,26,48,263

**Note:**\*An application may fall in more than one category, hence the no. of cases are not mutually exclusive.

## VII. REGULATORY CHANGES

Section 30 of the SEBI Act, 1992 empowers SEBI to make regulations consistent with the Act by issuing notifications. Every rule and every regulation made under this Act is to be laid before both Houses of Parliament. During 2017-18, SEBI took various regulatory measures to protect the interests of investors in the securities market, for developing the securities market and for regulating the securities market. It notified various new regulations and various amendments to existing regulations.

### A. AMENDMENTS TO EXISTING REGULATIONS

#### a. SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2018 notified on March 13, 2018

**Details:** Amendment to insert Explanation B in Schedule V, in Part B, in Clause 3, in sub-clause (1), in the Table, in the row dealing with Commodity derivatives, in the column relating to "Remarks" of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

**Rationale:** On introduction of Options contract in Commodity derivatives, the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 is being amended, such that the manner of calculation of turnover fees for Options contracts

in Commodity Derivatives shall be computed the same way as computed for Options contract in Equity Derivatives.

#### b. SEBI (Mutual Funds) (Amendment) Regulations, 2018 notified on March 13, 2018

**Details:** Amendment to insert Regulation 7B and a proviso to clause 2 of Seventh Schedule in the SEBI (Mutual Funds) Regulations, 1996.

**Rationale:** The amendment to the SEBI (Mutual Funds) Regulations, 1996, is to restrict sponsor of a mutual fund, its associate and/or its group company or any shareholder holding 10 per cent or more stake in an Asset Management Company (AMCs)/Trustee Company of a mutual fund operating in India, from having significant stake and/or representation in the board of AMCs/Trustee Companies of other mutual funds operating in India.

#### c. SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2018 notified on February 12, 2018

**Details:** Amendment to omit clause (c) of regulation 82 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

**Rationale:** Regulation 82 of the said Regulations lists out the conditions that are to be satisfied by a listed issuer to make Qualified Institutions

Placement (QIP). Clause (c) thereof requires a listed entity to be compliant with the minimum public shareholding (MPS) norms as required under the Securities Contracts (Regulation) Rules, 1957. As QIP has been approved by the Board as one of the methods for achieving compliance with the MPS norms, clause (c) has to be omitted, which is accordingly done through this amendment regulations.

**d. SEBI (Settlement of Administrative and Civil Proceedings) (Second Amendment) Regulations, 2017 notified on December 27, 2017**

**Details:** Amendment made to provide for an expedited settlement process in certain cases before initiating a proceeding under securities laws.

**Rationale:** To reduce the regulatory burden for some of the common regulatory defaults by encouraging settlement before initiating proceedings.

**e. SEBI (Issue and Listing of Debt Securities) (Second Amendment) Regulations, 2017 notified on December 15, 2017**

**Details:** Amendments made to the definition of the terms "issuer" and 'debt securities'.

**Rationale:** To enable REIT and InvIT to issue debt securities.

**f. SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2017 and SEBI (Infrastructure Investment Trusts) (Amendment) Regulations, 2017 notified on December 15, 2017**

**Details:** 1) Allowing REITs and InvITs to raise debt capital by issuing debt securities, which would be necessarily listed and will be governed under ILDS and LODR Regulations, to the extent applicable; 2) Amending the definition of "valuer" for both REITs and InvITs; 3) Allowing single asset REIT in similar lines of InvIT; 4) Introducing the concept of Strategic Investor for REITs in similar lines of InvITs, subject to compliance with the provisions of

FEMA, if applicable; 5) Allowing REITs to lend to underlying Holdco/SPV, subject to adequate disclosures and compliance with the provisions of the 'Related Party Transactions' in the REIT Regulations. Further, the said disclosures and compliances shall be applicable for InvITs as well.

**Rationale:** 1) The amendments provided that one of the modes for undertaking leverage by REITs and InvITs may be by issuance of debt securities. 2) To provide for the 'valuer' in terms of the Companies Act, 2013 and the Rules issued thereunder. 3) To allow the participation of Strategic Investors in REITs.

**g. SEBI (Intermediaries) (Amendment) Regulations, 2017 notified on November 21, 2017**

**Details:** Amendment made to section 24 of the SEBI (Intermediaries) Regulations, 2008 regarding the approval for initiation of proceedings by the Designated Member and the appointment of the Designated Authority by the Executive Director.

**Rationale:** Amendment made to harmonize the regulations with the power delegated to the Executive Director under the SEBI (Delegation of Powers) Order, 2015 to appoint the Designated Authority.

**h. SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2017 notified on August 14, 2017**

**Details:** Amendments made to regulation 10(1)

**Rationale:** Amendment made to extend the benefit of exemptions from open offer requirements in respect of acquisitions made pursuant to a resolution plan approved by the Tribunal (i.e. NCLT) and acquisition made pursuant to debt restructuring schemes of RBI subject to other conditions as specified.

**i. SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2017 notified on August 14, 2017**

**Details:** Amendment to regulation 70.

**Rationale:** These amendments made to regulation 70 of the Regulations extend the benefit available under the existing provisions of regulation 70 to schemes approved under the Insolvency and Bankruptcy Code and debt restructuring schemes of RBI subject to compliance with other specified conditions.

j. **SEBI (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2017 notified on July 31, 2017**

**Details:** Clause (b) to the proviso under regulation 37 (Lock-in of specified securities held by persons other than promoters) was amended to include Category II Alternative Investment Fund (AIF).

**Rationale:** Some of regulatory requirements with respect to restriction on leverage, sponsor/manager commitment requirement, minimum corpus of Rs.20 crore for each scheme under AIF, close-ended nature of scheme, minimum tenure, investment restriction of 25 per cent of corpus in one investee company, are similar to both Category I and II AIFs.

Pass through taxation is also available to Category II like Category I AIF. Further, Category II AIF commitments are around 62 per cent of total AIF commitments. Therefore, the relaxation from lock-in requirements in case of public issue to Category II AIFs was introduced.

k. **SEBI (Depositories and Participants) (Second Amendment) Regulations, 2017 notified on July 25, 2017**

**Details:** Amendment to regulation 58 – manner of creating pledge or hypothecation of securities.

**Rationale:** Existing sub-regulation (3) of regulation 58 was amended providing that within 15 days of receipt of application, the depository after concurrence of the pledgee through its participant, create and record the pledge and send an intimation of the same to the participants of the pledger and pledgee.

l. **SEBI (Foreign Portfolio Investors) (Fourth Amendment) Regulations, 2017 notified on July 20, 2017**

**Details:** Regulation 22 amended to introduce new sub-regulation (5) mandating the FPI to collect regulatory fee from every subscriber of ODIs issued by it and to deposit the fee with the Board.

**Rationale:** In order to ensure that the Offshore Derivative Instrument (ODI) route is not misused, SEBI has been continuously streamlining the regulatory provisions. In pursuance of such measures, this amendment mandates an FPI to collect regulatory fee (as specified in newly inserted Part C in Second Schedule) from every subscriber of ODI issued by it and deposit the same with the Board.

m. **Securities and Exchange Board of India (Issue and Listing of Debt Securities) (Amendment) Regulations, 2017 notified on July 13, 2017**

**Details:** The Amendment to regulation 20A and insertion of new regulation 20B

**Rationale:** To do Regulation 20A was amended to provide that articles of association of the issuer shall not have any provision, whether express or implied, which is contrary to such consolidation and re-issuance. The amendment also inserted new regulation 20B requiring issuer of debt securities on private placement basis to comply with conditions relating to issue of International Securities Identification Number.

n. **Securities and Exchange Board of India (Debenture Trustees) (Amendment) Regulations, 2017 notified on July 13, 2017**

**Details:** Amendments inter alia to regulations 2, 7, 13A, 14, 15, 17, 17A, 19 and 25.

**Rationale:** The amendments are made to –  
(i) harmonize the SEBI (Debenture Trustees) Regulations, 1993 (“DT Regulations”) with the Companies Act, 2013 and the Companies

(Share Capital and Debentures) Rules, 2014, (ii) harmonize the DT Regulations with the provisions of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, (iii) streamline the provisions regarding duties of Debenture Trustees and liability for action on default/non-compliances.

**o. Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2017, notified on July 13, 2017**

**Details:** Omission of regulation 18C which restricts the activities of brokers.

**Rationale:** This amendment was made to further integrate the commodities and equity markets by integrating the stock brokers and their operational frameworks. Amendment removes the restriction that a stock broker carrying on the activity of dealing in securities other than commodity derivatives, cannot undertake the activity of dealing in commodity derivatives, or vice versa except by setting up of a separate entity.

**p. SEBI(Employees' Service) (Third Amendment) Regulations, 2017 notified on July 13, 2017**

**Details:** New regulation 25A inserted which provides for the determination relevant date of next increment when an employee is promoted to higher grade on or after November 1, 2012 in the following situations – (i) before reaching the maximum of the incremental scale in the pre-promotional grade and (ii) after having reached the maximum of the incremental scale in the pre-promotional grade.

**Rationale:** To bring in clarity with respect to the relevant date of next increment on promotion.

**q. SEBI (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2017 notified on May 31, 2017**

**Details:** Systemically important non-banking financial company' defined and included in the category of QIB. Amendments to provision

relating to Monitoring Agency (regulation 16). Regulation 70(4) amended to bring in Scheduled Bank and Public Financial Institution.

**Rationale:** To strengthen IPO markets and channelize more investments. Amendments to Monitoring Agency made to further tighten the monitoring the utilization of issue proceeds. Benefit already given to Mutual Fund and Insurance Companies and extended to Scheduled Banks and Public Financial Institution in order to reduce NPAs of Banks and Financial Institutions

**r. Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Third Amendment) Regulations, 2017 notified on May 29, 2017**

**Details:** Amendment to inter alia provide for trading in option in securities.

**Rationale:** These amendments were made pursuant to the announcement made by Hon'ble Union Finance Minister for permitting new derivative products in the commodity derivatives markets.

**s. SEBI (Foreign Portfolio Investors) (Third Amendment) Regulations, 2017 notified on May 29, 2017**

**Details:** Amendment to regulation 22 of the FPI Regulations restraining the issuance and transfer of offshore derivative instruments to persons who are resident Indians or non-resident Indians and to entities that are beneficially owned by resident Indians or non-resident Indians.

**Rationale:** To prevent resident Indians and non-resident Indians and entities that are beneficially owned by resident Indians and non-resident Indians from beneficially owning ODIs.

**t. SEBI (Employees' Service) (Second Amendment) Regulations, 2017 notified on May 17, 2017**

**Details:** Amendment inter alia to change the

ratio of Executive Directors appointed on deputation/contract basis.

**Rationale:** To provide for increased promotion avenues for internal candidates on promotion basis.

**u. SEBI (Employees' Service) (Amendment) Regulations, 2017 notified on April 27, 2017**

**Details:** Regulation 71A was inserted to prohibit an employee from participating in auction for sale of movable or immovable properties conducted by the Board in pursuance of recovery proceedings.

**Rationale:** It is undesirable that employees participate in auctions conducted by SEBI for recovering the dues under recovery proceedings.

### VIII. RIGHT TO INFORMATION ACT, 2005

As a public authority in terms of Section 2

(h) of the Right to Information Act, 2005, SEBI has designated one Central Public Information Officer (CPIO) at its Head Office in Mumbai in terms of Section 5 (1) of the RTI Act and twenty Central Assistant Public Information Officers (CAPIOs) for its regional and local offices.

SEBI has also designated a first appellate authority (FAA) for appeals against the order of the CPIO in terms of Section (2)(c) of Right to Information Rules, 2012 (Rules).

In terms of Section 4(1)(b) of the RTI Act, SEBI has made the stipulated disclosures. SEBI continues to disclose orders passed by SEBI under the statutes administered by it. Further, press releases, annual reports, annual financial statements and other publications of SEBI are hosted on the website.

The details of RTI applications, first appeals & appeals before Hon'ble CIC made during 2015-16, 2016-17 & 2017-18 are given in Table 3.72:

**Table 3.72: Details of RTI Applications, First Appeals & Appeals before Hon'ble CIC**

Particulars	2015-16	2016 - 17	2017 -18
No. of RTI applications received (Including applications transferred from other public authorities)	1,312	1,414	3,698
Total no. of issues raised in applications	5,031	5,305	7,651
No. of appeals received by the FAA	302	242	328
No. of orders passed by the FAA	292	248	328
No. of appeals rejected / dismissed by FAA	229	231	234
No. of appeals partially allowed by FAA	63	17	16
No. of appeals at CIC	53	78	16
No. of appeals rejected / dismissed by CIC	21	64	12
No. of appeals partially allowed by CIC	20	25	4

During the year 2017-18, 1,026 RTI applications have been replied through RTI Online Web Portal.

During 2017-18, SEBI invited the Central Information Commissioner Shri Bimal Julka, to address the senior officials of SEBI. While the Information Commissioner shared his experiences of handling appeals/complaints at the Commission, he also stressed on the voluntary disclosure of information that ought to be displayed in the public domain, keeping with the spirit of Section 4 of the RTI Act, 2005 in order to ensure transparency, objectivity

and accountability in the functioning of the Public Authorities.

The Office of CPIO conducted department focused interactive sessions for SEBI officials of respective departments in the Head Office to enable them to become more appreciative of the provisions of the RTI Act more particularly of the duties, responsibilities and statutory obligations therein. Similar workshops were also conducted in SEBI Head Office, Regional Offices and Local Offices.

## IX. PARLIAMENT QUESTIONS

The Parliament Questions Cell interfaces with the various departments in the Government of India for addressing issues relating to Parliament questions, assurances thereof, visits of Parliamentary committees, references from Members of Parliament and other references received through various ministries of the Government of India.

### A. Parliament Questions

During 2017-18, SEBI received a number of Parliament and State Assembly Questions, referred by the Government of India, mainly from Ministry of Finance and Ministry of Corporate Affairs and various departments of the State government. Of the 165 questions referred/ taken-up, 120 questions were admitted and SEBI furnished information and material for replies. The number of parliamentary questions received session-wise is given in table 3.73.

**Table 3.73: Parliament Queries Received and Replied to by SEBI**

Parliament Session	Period	No. of Questions Received/ Taken-Up		Admitted Questions	
		Starred	Unstarred	Starred	Unstarred
Monsoon Session	July 17, 2017 –August 11, 2017	10	37	4	30
Winter Session	December 15, 2017 - January 05, 2018	11	35	6	30
Budget Session 2018 – Part I	January 29, 2018 – February 09, 2018	3	16	1	11
Budget Session 2018 – Part II	March 05, 2018 – April 6, 2018	9	44	6	32
<b>Total</b>		<b>33</b>	<b>132</b>	<b>17</b>	<b>103</b>

In addition, three questions from Chhattisgarh Legislative Assembly was received, whereby, the material was provided for answer by the Ministers in the respective Legislative Assembly.

### B. Responses/Material to Committees

During the year 2017-18, SEBI interacted with and provided the required information and clarifications desired by the following Parliamentary Committees in a time bound manner (Table 3.74).

**Table 3.74: Parliamentary Committees that Raised Queries**

Sr. No.	Parliamentary Committee
1.	Study Visit of the Committee on "Enforcement Directorate and Recovery of Black Money" (June, 2017)
2.	Visit of the Joint Committee on the Financial Resolution and Deposit Insurance Bill 2017 (October 2017)
3.	Study Visit of the Committee on Subordinate Legislation, Rajya Sabha (November 2017)

Sr. No.	Parliamentary Committee
4.	Standing Committee on Finance – Selection of Subjects for examination during the year 2017-18 (November, 2017)
5.	Committee on Subordinate Legislation-Examination of Rules /Regulation framed under SEBI Act, 1992 with particular reference to CIS (December 2017)
6.	Study visit of the Parliamentary Standing Committee on Finance (January, 2018)

During the year, SEBI Officers participated in a training programme in Parliamentary Processes and Procedures conducted by Parliamentary & Administrative Research Institute (PARI), an institute under the aegis of LIGHTS Research Foundation from March 20, 2018 to March 23, 2018. The training aided the officials in dealing with the Parliamentary matters including study visits of Parliamentary Committee.

## X. INTERNATIONAL COOPERATION

SEBI engages with a range of foreign regulators, standard setting bodies and law enforcement agencies to promote international regulatory and enforcement

cooperation. SEBI has emerged as a key member of international standard setting bodies and global forums, where it is making effective contribution to their ongoing work programmes. Some key engagements are as follows:

- 1. Engagement with Financial Stability Board (FSB):** SEBI is one of the three members of FSB from India. SEBI participates in the FSB plenary meetings and Regional Consultative Group Meetings. SEBI contributes in its various work streams through responses to surveys, questionnaires and reviews as carried out by FSB from time to time.
- 2. Engagement with International Organization of Securities Commissions (IOSCO):** SEBI is a member of the IOSCO Board, the governing and standard-setting body of the IOSCO, which is comprised of 34 securities regulators. SEBI is also a member of IOSCO Growth and Emerging Markets Committee (GEMC) and Asia Pacific Regional Committee (APRC). The policy work of IOSCO is conducted by its eight policy committees under the aegis of the Board. SEBI has representation in seven of these policy committees and chairs the Committee 1 on Issuer Accounting, Auditing and Disclosure. Also, SEBI chairs the Assessment Committee of IOSCO.
- 3. Engagement with International Forums:** SEBI provides assistance to other securities regulators by:
  - a. Central Facilitation Cell: Acting as a central facilitation cell for regulatory issues and concerns and regulatory assistance.
  - b. Technical Assistance: Providing technical assistance in various aspects of securities markets regulations.
  - c. Study visits: Hosting a number of delegations to promote mutual co-operation and establish inter-regulatory dialogue.
  - d. Speaker requests: Nominating experts as panelists and speakers at international seminars and conferences.

## I. Financial Sector Assessment Programme (FSAP)

The Financial Sector Assessment Programme (FSAP), a joint programme of the International Monetary Fund (IMF) and the World Bank (WB), is a comprehensive and in-depth analysis of a country's financial sector. Since September 2010, it is being undertaken in 25 jurisdictions (now 29), with systemically important financial sectors, including India, every five years. FSAP assessments encompass financial stability assessment (main responsibility of the IMF) and financial development assessment (main responsibility of the World Bank). The last FSAP for India was conducted in 2011-12 and the report published by IMF on August 29, 2013.

The FSAP mission was initiated by the joint IMF-WB team in December 2016 followed by two more mission visits – in March and June-July 2017. The joint IMF-WB team engaged with officials of various related Ministries/Departments/Agencies and all financial sector regulators, viz., RBI, SEBI, IRDAI and PFRDA and SEBI registered market intermediaries. Subsequently, IMF and WB have released the Financial System Stability Assessment (FSSA) and Financial Sector Assessment (FSA) reports respectively for India on December 21, 2017.

Joint IMF-WB team suggested recommendations for securities markets in the following reports:

- a. Technical Note on Securities Regulation published on March 06, 2018
- b. Detailed Assessment of Observance of Clearing Corporation of India Limited (CCIL) Central Counterparty (CCP) and Trade Repository (TR) published on January 19, 2018

The Technical Note on Securities Regulation examines the changes that have occurred in India's securities markets and the regulatory system overseeing the securities markets since the last assessment in 2011 and the changes that have occurred in the regulation of this market.

The Report notes that:

- SEBI has made significant changes to its regulatory programmes that directly address many findings and recommendations contained

in the detailed IOSCO assessment published in 2013.

- Further, it acknowledges that SEBI has developed, adopted and implemented regulatory policy in virtually every area of responsibility.
- By streamlining and modernizing its regulatory structure, SEBI has contributed to growth and development of India's capital markets.

## II. Bilateral Engagements

SEBI has signed Bilateral Memorandum of Understandings (MoUs) with various securities regulators for enhancing cooperation and exchange of information for regulatory enforcement purposes and bilateral cooperation. The objective of such bilateral MoUs is strengthening cross-border cooperation in the area of securities regulations.

During 2017-18, SEBI and SEO entered into a Bilateral MoU for mutual cooperation and technical assistance. The MoU was signed by Shri. Ajay Tyagi, Chairman, SEBI and Dr. Shapour Mohammadi, Chairman, SEO, Iran on August 10, 2017 in Mumbai. The objective of the bilateral MoU is to strengthen cross border co-operation in the area of securities regulations. This will facilitate mutual assistance, contribute towards efficient performance of the supervisory functions, and enable effective enforcement of laws and regulations governing the securities markets.

As of March 31, 2018, SEBI had signed 23 Bilateral MoUs to facilitate mutual assistance, contribute towards efficient performance of the supervisory functions, aid in imparting technical domain knowledge and enable effective enforcement of the laws and regulations governing the securities markets.



Bilateral MoU Signing Ceremony – India and Iran

## III. Engagement with other international regulators

### 1. Engagement with ESMA (European Securities and Markets Authority) on EMIR (European Market Infrastructure Regulations)

The European Parliament and the Council adopted EMIR effective from August 2012. As per Article 25(1) of the EMIR, "a Central Counter Party (CCP) established in third country may provide services to clearing members or trading venues

established in the Union only where the CCP is recognized by ESMA". Therefore, the securities market CCPs established and operating in India have to seek recognition from ESMA for clearing trades of entities which are originating from European Union (EU).

One of the preconditions, for recognition of Indian CCPs by ESMA was that ESMA had to enter into a MoU with the regulator (SEBI) of the CCPs. SEBI and ESMA signed the MoU in July 2017.

Subsequently, the Indian CCPs i.e., The Indian Clearing Corporation Limited and The National Securities Clearing Corporation Ltd were recognized by ESMA from 27 September, 2017.

## **2. MoU with Financial Services Commission (FSC), Gibraltar concerning consultation, cooperation and the exchange of information related to supervision of Alternative Investment Fund Managers (AIFM) entities**

SEBI entered into a MoU with Financial Services Commission, Gibraltar (FSC) on February 02, 2018 concerning consultation, cooperation and the exchange of information related to supervision of Alternative Investment Fund Managers (AIFM) entities.

This MoU will enable Indian fund managers to manage or market AIFs in Gibraltar and the fund managers in Gibraltar to manage or market AIFs in India thereby mutually benefiting AIF industry of the two signatory jurisdictions.

## **IV. Ministry References- Contribution to Various International Treaties and Dialogues**

SEBI provides its inputs on various issues, agenda items and topics relating to the securities markets for various international bilateral dialogues.

In 2017-18, SEBI contributed its inputs in various bilateral dialogues, such as:

- Meeting of Hon'ble Finance Minister of India with President of Swiss Confederation
- Meetings held between Hon'ble Finance Minister of India with UK Foreign Secretary and UK Chancellor of Exchequer during FM's visit to London, UK

- 5th India - Republic of Korea Finance Ministerial Meeting
- Meeting of Hon'ble Finance Minister of India with H.E. Mrs. Dorris Leuthard, President of Swiss Confederation
- Meeting of Chairperson, Industrial and Commercial Bank of China (Asia) Limited, Hong Kong with Secretary (EA)
- G20 Finance Ministers and Central Bank Governors meeting, Washington, D.C.
- Economic and Financial Dialogue (EFD) between India and Brazil
- Meeting of Secretary (EA) with Vice President, China Investment Corporation (CIC)
- India- USA and India -Canada bilateral meetings

## **V. Association with IOSCO**

### **1. IOSCO Board**

The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO) and is comprised of 34 members. There are 128 ordinary members, 26 associate members and 64 affiliate members of IOSCO. The 42nd Annual Conference of IOSCO took place from 14 May – 18 May 2017, in Montego Bay, Jamaica.

SEBI is a member of IOSCO Board. SEBI participates in the various work streams of IOSCO and makes contributions to the policy decisions on different issues pertaining to the securities market. SEBI has its representation in seven out of the eight Policy Committees of IOSCO.

SEBI is also the Chair of IOSCO Policy Committee 1 on Issuer Accounting, Audit and Disclosure (Chaired by Shri P.K. Nagpal, Executive Director) and IOSCO Assessment Committee (Chaired by Shri Amarjeet Singh, Executive Director).

### **2. Asia- Pacific Regional Committee (APRC)**

APRC is one of the four regional committees constituted by the IOSCO to focus on regional issues

relating to securities regulation. The APRC comprises 24 members including SEBI and representing securities regulators from the Asia-Pacific jurisdictions.

### 3. Growth and Emerging Markets Committee (GEM Committee)

GEM Committee seeks to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programmes and technical assistance for members and facilitating exchange of information and transfer of technology and expertise. SEBI is a member of GEM Committee.

SEBI participated in the IOSCO GEM Committee's online tool – Data Sharing Platform (DSP) - for sharing practical and organizational information among regulators. The purpose of DSP is to offer readily available information at one place, regarding regulatory frameworks and markets' architectures and data across GEM jurisdictions, so that GEM members could consult and consider such information as needed. At its initial stage, the DSP will include two types of data: information on the Regulator (competences and functions, personnel,

revenues and supervisory fees), and other information and statistics on the market for 2016 (market size, mutual funds, SMEs). The DSP will evolve and be adapted over time, reflecting both an increase number of GEM participants and additional data.

SEBI also participated in the GEM Survey on Sustainable Financing in Emerging Markets. The purpose of the survey was to review key issues and challenges in developing sustainable capital markets, and the role that securities regulators can play in sustainable financing including ESG.

During 2017-18, the GEM Committee met twice. The first meeting was held in Jamaica in May 2017 and the second meeting was held in Colombo, Sri Lanka in September 2017. The members discussed several issues relevant for the IOSCO emerging market members such as key emerging risks in global securities markets, cyber security, sustainability in emerging markets, etc.

SEBI actively participated in the meetings of GEM committee and contributed to the discussions held during the meetings. Chairman was invited as a key note speaker on the topic of "Liquidity in Emerging Markets" during GEM Annual Conference.



SEBI Chairman, Shri Ajay Tyagi delivering key note speech during GEM Annual Conference

#### 4. Committee on Emerging Risks

The IOSCO CER was established in 2011 to provide a platform for securities market regulatory experts and economists to discuss emerging risks and market developments; and develop and assess tools to assist regulators in implementing IOSCO's Principles 6 and 7.

With a rich background of research within SEBI and the need to get international perspective on emerging risks SEBI applied for becoming a member of CER in December 2017. SEBI became a member of CER in February, 2018.

#### VI. Study Tours to Overseas Authorities

SEBI on a regular basis enables study tour of SEBI officials to overseas authorities. These study tours help engage with the international regulators and gain deeper understanding of the systems and mechanisms. SEBI in the past has benefitted a lot from these experiences and the knowledge transfer helps improve the processes within SEBI. In 2017-18, following study tours were undertaken by SEBI officials:

1. SEBI organised study tours to Monetary Authority of Singapore (MAS) and Securities and Futures Commission (SFC) Hong Kong to study surveillance capabilities, mechanisms and responsibilities in those jurisdictions.
2. SEBI organised study tours to Securities and Exchange Commission (SEC) USA to understand Early Warning systems.
3. SEBI organised study tours to Australian Securities and Investments Commission (ASIC) and Financial Conduct Authority (FCA) UK to understand migration to fee-based advisory model.
4. SEBI organised study tours to Financial Services Agency (FSA) Japan, Financial Conduct Authority (FCA) UK and Swiss Financial Market Supervisory Authority (FINMA), Switzerland to study Initial Coin offerings and crypto-currencies.

#### VII. MMoU Requests

The IOSCO MMoU has proven to be an effective tool in cross border cooperation in combating financial fraud and misconduct. SEBI is committed towards the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), to which SEBI has been a signatory since April 2003. SEBI thereby provides cooperation and facilitates exchange of information with its counterparts in other jurisdictions for the purpose of regulatory enforcement.

During 2017-18, SEBI received a total of 56 requests for information from the overseas regulators seeking SEBI's assistance. SEBI executed such requests subject to the provisions of the MMoU. Similarly, 23 such requests were made by SEBI to its regulatory counterparts in other jurisdictions. The table 3.75 highlights the past trends of Regulatory Assistance made and received by SEBI over the last 3 years:

**Table 3.75: Trends of Regulatory Assistance Made and Received by SEBI**

Type of References	2015-16	2016-17	2017-18
Requests Received by SEBI from Foreign Authorities	89	61	56
Requests Made by SEBI	44	13	23

In 2016, 3,330 regulatory assistance were made/received by all capital market regulators under the IOSCO MMoU. The Table 3.76 highlights the past trends of Regulatory Assistance made and received by all capital market regulators over the last 3 years under IOSCO MMoU:

**Table 3.76: Trends of Regulatory Assistance Made and Received by All Capital Market Regulators**

Type of References	2014*	2015*	2016*
MMoU Information Requests	3,080	3,203	3,330

Note: \*Calendar Year: January to December

## VIII. Visits of Foreign Delegations / Dignitaries to SEBI

SEBI hosted a number of international organizations including regulatory bodies and business and ministerial delegations in 2017-18. These meetings foster deeper levels of cooperation, facilitate a better understanding of the Indian securities market and facilitate further collaboration with visiting institutions.

### 1. Delegation of Bangladesh Bank

A delegation from Bangladesh led by Mr. S. M. Moniruzzaman, Deputy Governor of Bangladesh Bank on April 19, 2017 to discuss Bond market, Long term Financing and corporate good Governance.

### 2. Delegation of Bangladesh Securities and Exchange Commission (SEC)

A team from Bangladesh SEC led by Joint Secretary, Ministry of Finance, Bangladesh visited SEBI during 11-13 June, 2017 to understand SCORES (SEBI Complaints Redress System) to implement a similar mechanism in their jurisdiction.

### 3. Delegation of French Embassy

Financial and Economic Counsellor from the French Embassy in India met SEBI officials on November 30, 2017 at SEBI to discuss Regulation of non-banking institutions, including mutual funds, foreign portfolio investment, Masala bonds, Regulation of derivatives (p-notes) and role of capital markets in financing infrastructures.

### 4. Delegation of Bangladesh Merchant Bankers Association (BMBA)

SEBI organised a study visit of BMBA delegates to Association of Investment Bankers of India (AIBI), Bombay Stock Exchange Ltd. (BSE), National Institute of Securities Market (NISM), National Stock Exchange Ltd. (NSE) and SEBI from 03 July 2017 to 07 July 2017. The delegation was led by President of BMBA. Following topics were discussed: Capital Market

related issues; Capital Market related exposure; Underwriting, Issue management and portfolio management; Investment in capital market and related regulatory requirements and practices.

### 5. Delegation of Securities and Exchange Commission (SEC) Ghana

SEBI organised a study visit of SEC Ghana delegates to SEBI on 29 September 2017. The delegation led by then Acting Head, Broker Dealer & Advisers Department of SEC Ghana consisted of two members. A working session was conducted on the surveillance systems in SEBI for the delegation.

### 6. Visit of Ambassador of Thailand

SEBI organised visit of Thailand delegation to National Stock Exchange (NSE) and SEBI in February 2018. Delegation was led by H.E. Chutintorn Gongsakdi, Ambassador of Thailand to India. Following topics were discussed: Overview of NSE and SEBI and Fintech initiatives.

### 7. Visit of students of Carleton University, Canada

SEBI organised a visit for students of Carleton University, Canada in collaboration with Jai Hind College, Mumbai. The presentation covered an overview of SEBI and gave an understanding of capital markets in India.

### 8. 2018 US-India Financial Regulatory Dialogue

The 2018 US-India Financial Regulatory Dialogue was held on February 22, 2018 at SEBI Bhavan in Mumbai. Participants included senior officials of RBI, IRDA, SEBI and PFRDA. US delegation was headed by US Treasury and the delegates were from Federal Insurance Office (FIO), Federal Reserve Board (FRB), Federal Deposit Insurance Corporation (FDIC), Commodity Futures Trading Commission (CFTC) and US Consulate.

### 9. Delegation from Kazakhstan

A delegation from Astana International Financial

Centre (AIFC) led by H.E. Mr. Bulat Sarsenbayev, Ambassador of Kazakhstan to India visited SEBI. The topic of discussion was the similarity between AIFC and GIFT City and possible collaborations.

## IX. International Events in India

Pacific Pension Institute (PPI) is a global organization with individual and institutional members from leading pension funds, sovereign wealth funds, endowments, foundations, commercial asset management and other investment experts.

PPI as a part of its Asia meet organized two events viz. PPI Pension Executive Seminar at New Delhi and PPI Asia Roundtable in November 2017 at Mumbai. The theme of the PPI Executive Seminar in New Delhi and the Asia Round Table in Mumbai was "India's Rise as a Regional Power and Destination for Foreign Investment" and "Reforms, Development and Innovation: Fulfilling India's Growth Potential" respectively. Whole Time Member, Smt. M. P. Buch delivered the Opening Remarks at the PPI Executive Seminar, and Executive Director Shri S V M D Rao delivered the Welcome Remarks at the Roundtable in Mumbai.

# PART THREE B:

## REGULATORY ACTIONS

### 1. SIGNIFICANT COURT PRONOUNCEMENTS

#### I. SUPREME COURT OF INDIA

##### A. SEBI versus Kanaiyalal Baldevbhai Patel, SEBI versus Dipak Patel, SEBI versus Sujit Karkera, Pooja Menghani versus SEBI , Vibha Sharma & Anr. versus SEBI

In the aforesaid Civil Appeals, Hon'ble Supreme Court dealt with the issue of liability of a person who is non-intermediary, for the act of 'front running' under SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating) Regulations, 2003 ("PFUTP Regulations").

In all the aforesaid cases, adjudicating officer of SEBI had imposed the penalties on non-intermediaries for violation of Regulations 3(a)(b)(c) & (d) and 4(1) of the PFUTP Regulations as these persons were found to be indulged in the act of 'front running'. These persons filed separate appeals before the SAT mainly alleging that 'front running' is prohibited under regulation 4(2)(q) of the PFUTP Regulations, specifically, in respect of "intermediaries" and therefore, non-intermediaries cannot be charged for the act of 'front running' under the general provisions of PFUTP Regulations like Regulations 3 and 4(1). In the Dipak Patel and Others' matter which was decided first amongst these appeals, SAT agreed with con-

tention of the appellants and set aside the penalties imposed upon them. Subsequently, SAT followed its decision in Dipak Patel matter, and in Sujit Karkera matter. However, subsequently, in the Vibha Sharma matter which was followed by Pooja Menghani matter, SAT changed its view and held that 'front running' by non-intermediaries is also prohibited under regulations 3(a)(b)(c)&(d) and 4(1) of the PFUTP Regulations. Thus in Dipak Patel and Sujit Karkera matters, SEBI had preferred the Civil Appeals whereas in Vibha Sharma and Pooja Menghani matters, the appellants therein had preferred the Civil Appeals, before the Hon'ble Supreme Court challenging the respective SAT orders.

The bench, after analyzing the facts of all the cases in light of the applicable provisions of law, gave two concurrent judgments. Hon'ble Supreme Court in his judgment observed that although the strict construction of penal statutes is a well-established principle, such a construction should not lead to incongruence with the purpose of the regulations and while interpreting PFUTP Regulations, the courts should use an interpretation which will protect unjust claims over just and the true intention behind such law should be found out by the court. It was further observed that the provisions of 'fraud' under common law doctrine cannot deal with the complex

provisions of 'fraud' under securities laws. The provisions of Regulations 3(a), (b), (c), (d), 4(1) of PFUTP Regulations are general in nature and such provisions cover various situations. In case a finding to the effect of commission of fraud while dealing in securities is given, all the said provisions are attracted. The judgment further observed that asymmetry of information available with investors is fraudulent only when such asymmetry is based on bad faith and any such situation created by bonafide investment of resources by investors may not lead to any objection. If a person passes on the confidential information of a company's impending trades to some third person who on the basis of the confidential information enter into trades, the third person has committed fraud. The judgment observes that the trades in the nature of front running by a non-intermediary shall attract Regulation 3 and 4(1).

Hon'ble Supreme Court, while giving a concurrent judgment observed that the essential ingredient of the definition of fraud under PFUTP Regulations is whether such act, expression etc., has the effect of inducing another person to deal in securities. The requirement of proving dishonest intention behind the representation/misrepresentation, as it stands for inducement in criminal law is not a requirement under securities law violation and mere inference that the person induced would not have acted in the manner he did but for the inducement alone, is sufficient. The judgment further observed that Regulation 4 would operate on its own without being diluted by Regulation 3. On the aspect of mens rea, the judgment observed that is not an essential requirement and to attract regulation 3 and 4 of PFUTP Regulations. Degree of proof will be preponderance of probabilities and merely because penal consequences are provided, proof beyond reasonable doubt is not required.

#### **B. Laurel Energetics Private Limited versus SEBI and Arbutus Consultancy LLP versus SEBI**

The question of law involved in these civil appeals was whether the inter-se promoter transfers made prior to completion of three years of listing of the target company are eligible for general exemption from open offer under Regulation 10(1)(a)(ii) of SAST

Regulations, 2011. On 20th October, 2015, the appellants/acquirers i.e. Laurel Energetics Private Limited and Arbutus Consultancy LLP along with various other entities, who were persons acting in concert, made a public announcement under Regulation 15(1) read with regulation 3(2) of the SAST Regulations, 2011 pursuant to acquisition of 35,93,90,094 equity shares of Rattan India Infrastructure Ltd. (the Target Company). The open offer price as calculated by the appellants was ₹ 3.20/- per share. SEBI found that acquirers had previously made certain acquisitions through inter se transfer of promoters which were not exempted from the open offer obligations as the transfers were made on July 9, July 10, 2014, September 5, 2014, and October 20, 2014, at the time when the target company had not completed the three years listing period consequently, making the transfers ineligible from exemption under Regulation 10(1)(a)(ii) of SAST Regulations, 2011. In view of this, acquirers were advised to revise the open offer price to ₹ 6.30/- per share, by taking those trigger dates along with interest at the rate of 10 per cent per annum. Acquirers, challenged the aforesaid advice of SEBI before SAT by filing two appeals. SAT vide its order dated 05.04.2017 held that in terms of Regulation 10(1)(a)(ii) of SAST Regulations, 2011, for an acquisition to be eligible for exemption, inter se transfer should take place amongst those promoters who have been disclosed as promoters pursuant to filings under the listing agreement. Since in the present case, the company itself got listed in the year 2012 whereas the acquisitions through inter se transfer amongst promoters took place in the year 2014, the conditions under Regulation 10(1)(a)(ii) of SAST Regulations, 2011 were not satisfied and thus the acquisitions made in the year 2014 were not exempt from the open offer obligations. Appellants challenged the said order of SAT before Hon'ble Supreme Court in the present Civil Appeals. Hon'ble Supreme Court dismissed these appeals on July 13, 2017 and held that as per Regulation 10(1)(a)(ii) persons named as promoters in the shareholding pattern filed by the Rattan Company in terms of the listing agreement between the two Stock Exchanges is what is to be looked at. And for this purpose persons must be promoters of the Rattan Company for not less than three years prior to the proposed acqui-

sition in order that the exemption under regulation 10 would apply. On the facts of this case, therefore, the information memorandum having been filed on July 19, 2012 pursuant to which listing took place one day later, is the relevant date from which this period is to be computed. This being the case, three years had not elapsed on July 9/10, 2014, which was the date on which the earlier purchase of shares had taken place. Hon'ble Court responding the argument of Appellants, observed that having regard to the objective of regulation 10(1)(a)(ii) of the SAST Regulations, 1997, since, the promoters had all along been same in the Target Company even prior to its listing and continues to remain so even after listing, and hence the target company be treated as compliance with regulation 10(1)(a)(ii), observed that the difference between sub regulations (ii), (iv) and (v) of regulation 10(1) on the one hand, and sub regulation (iii) on the other, shows that it is impermissible for the court to lift the corporate veil, either partially or otherwise, in a manner that would distort the plain language of the regulation. Where the corporate veil is to be lifted, the regulation itself specifically so states. Hon'ble Court further held that the literal language of the regulation was clear and beyond any doubt. The language of sub regulation (ii) becomes even clearer when it is contrasted with the language of sub regulation (iii). Thus there is no need to go to the objective of regulation.

**C. (i) Dushyant N. Dalal & Anr. versus SEBI, (ii) SEBI versus Ashok Ramswaroop Panchariya, (iii) SEBI versus Parsoli Corporation Limited and (iv) SEBI versus Suresh Bharrat and Others**

Liability to pay interest on the penalties imposed by Adjudicating Officers and amounts directed to be disgorged under section 11 of SEBI Act, which were outstanding beyond the time stipulated in the SEBI orders was the issue for consideration by the Supreme Court. Pursuant to non-payment, SEBI demanded interest on the penalties and disgorgement amounts under section 28A of SEBI Act read with section 220 (2) of Income Tax Act from the date of default. On appeal, Securities Appellate Tribunal (SAT) by a common order upheld the demand of interest under the aforesaid provisions and held that in the absence

of a specific direction in the penalty orders on liability for further interest in the event of non-payment, such liability arises only after the date of insertion of section 28A in the SEBI Act by Securities Laws (Amendment) Ordinance, 2013. It was further held that the liability of future interest was implied in the SEBI's disgorgement order and hence on default in payment, interest may be charged from the date of default.

The order of SAT was challenged before the Supreme Court by the defaulter in disgorgement case primarily on the ground that the disgorgement order does not impose liability for future interest. SEBI also filed appeal against the order claiming that interest on the unpaid penalties is payable from the date of default, irrespective of the date when section 28A was inserted.

The Supreme Court, based on the facts of the disgorgement case and on comparing contemporary orders of similar nature issued by SEBI, by order dated October 04 2017 held that liability for future interest is not implied in the SEBI order and hence no interest is payable in the case. In penalty orders it was held that when it seeks to levy interest, section 28A belongs to the realm of substantive law and applies prospectively. Therefore, interest can be demanded only from the date when Securities Laws (Amendment) Act, 2014 was brought into force, until which time section 220 of Income Tax Act was not specifically incorporated in section 28A of SEBI Act. However, since SAT has not considered the provisions of Interest Act, which enable Tribunals such as SAT to award interest from the date on which the cause of action arose, its findings that no interest could be charged from the date on which the penalty became due are set aside.

In another batch of appeals filed by SEBI challenging the common order of SAT holding that interest on unpaid penalties can only be charged prospectively, Supreme Court by order dated February 12 2018 set aside the SAT order in view of its earlier order referred above.

**D. SEBI versus Rakhi Trading Private Limited, SEBI versus Indiabulls Securities Limited & Ors, SEBI versus Tungarli Tradeplace Private Limited**

SEBI had examined trading data of the Futures and Options segment in the National Stock Exchange of India Limited for the period January to March 2007. SEBI observed that some of the stock-brokers trading in F&O contracts at NSE were buying and selling almost equal quantities of contracts within the day and such buy / sell was synchronized in nature. SEBI in terms of Section 11B and 11D of the SEBI Act, vide its order dated June 18, 2007, inter alia directed certain traders and brokers to cease and desist from indulging in such violations till further orders. Subsequently, SEBI had initiated separate adjudication proceedings against the traders and brokers and imposed penalties on them. The said orders of the Adjudicating Officer ('AO') were challenged by the entities before Securities Appellate Tribunal ('SAT') by filing separate appeals. The first appeal which came to be decided by the SAT was of Rakhi Trading (a trader) and wherein the question to be decided by SAT as framed by it was whether the transactions executed by the Rakhi Trading in the derivatives segment of the securities market violated Regulations 3(a), (b) and (c) and 4(2)(a) and (b) of PFUTP Regulations, 2003. SAT held that since the trades are executed through the stock exchange and settled in cash through its mechanism, they cannot be said to be artificial trades creating a misleading appearance of the trading in the options and synchronization is not illegal if the trades are not manipulative in nature. SAT held that there is no change of beneficial ownership in F&O segment since what is traded are contracts and not the underlying stock/index. For violation of provisions of PFUTP Regulations, SAT held that there must be evidence of market manipulation before any charge of violation of these Regulations could be upheld which is not present in these matters and set aside the order passed by SEBI in Rakhi Trading matter. The same order was followed by the SAT in case of two other traders i.e. Tungarli Tradeplace and TLB Securities and three brokers i.e. India Bulls, Prashant Jayantilal and Angel Capital. Thus SAT allowed the appeals filed by the three traders and three brokers.

SEBI preferred Civil Appeal before Hon'ble Supreme Court against all the said decision of SAT. The two judge bench of the Hon'ble Supreme Court pronounced their separate but concurring judgments on

February 02, 2018 wherein the appeals filed against traders were allowed whereas the appeals filed against brokers were dismissed. The following are the important observations of the Hon'ble Supreme Court:

- i. On the issue of beneficial ownership, the Hon'ble Court rejected SAT's stand and observed that though there is no physical delivery of asset as in cash segment, in the derivative segment there is change of rights in a contract and reversal of trades doesn't result in any genuine change of rights as ownership of the rights is restored to the first party.
- ii. Further, it observed that such non-genuine trades by the parties have resulted in a restriction to the free and fair operation of the market forces.
- iii. The Hon'ble Court disagreed with the proposition of the SAT that violation of PFUTP Regulations is established only when the sham transactions result in impacting the market and held that by synchronization and rapid reverse trade, as has been carried out by the traders in the instant case, the price discovery system itself was affected. Except the parties who have pre-fixed the price, nobody was in the position to participate in the trade. It also has an adverse impact on the fairness, integrity and transparency of the stock market.
- iv. The Hon'ble Court observed that upon applying the test laid down in the matter of Kishore R. Ajmera, cumulative analysis of the reversal transactions between parties, quantity, time and significant variation of prices, without major variation in the underlying price of the securities clearly indicate that the respondent's trades are not genuine and had only misleading appearance of trading in the securities market, without intending to transfer beneficial ownership.
- v. With respect to SAT's observation that there should be evidence of manipulation to establish violation, the Hon'ble Court held that if the factum of manipulation is established, it will necessarily follow that the investors in the mar-

ket have been induced to buy or sell and that no further proof in this regard is required and the market is so widespread that it may not be humanly possible for SEBI to track the persons who were actually induced to buy or sell securities as a result of manipulation and SEBI cannot be imposed with a burden which is impossible to be discharged.

- vi. The Hon'ble Court held that the transactions involving only the same two parties within few seconds with huge difference in 'buy and sell' value, though there is no difference in the underlying security, can take place only with prior understanding between the two parties and that SEBI can always lift the veil of such transactions to show the non-genuineness of such transactions.

With respect to the brokers, the Hon'ble Court, after taking into consideration the factors mentioned in Kishore R. Ajmera matter, observed that there cannot be a violation of the Regulations merely because a broker facilitated transaction and no material has been provided to prove the charges against the brokers, particularly regarding aiding and abetting fraudulent or unfair trade practices.

Accordingly, the appeals filed by SEBI against the traders were allowed by the Hon'ble Supreme Court and appeals filed against the brokers were dismissed.

#### **E. SEBI versus Vipra Farms (India) Limited & Ors**

SEBI had filed a criminal complaint, C.C. No. 37/2004 before MM, XXIII, Saidapet, Chennai against Vipra Farms (India) Limited and its directors including Sh. D.R. Gururaj for violation of provisions of SEBI Act, 1992 and SEBI (CIS) Regulations, 1999. Sh. D.R. Gururaj- Accused No. 2 in the said complaint case, filed a petition before the Hon'ble High Court of Judicature at Madras under section 482 of the Code of Criminal Procedure, 1973 seeking quashing of the said complaint inter-alia on the ground that the alleged violation of SEBI Act, 1992 and SEBI (CIS) Regulations, 1999 had not taken place within jurisdiction of MM XXIII, Chennai as none of the accused(s) in the said

complaint case is residing and carrying on business within the jurisdiction of the said Magistrate. Hon'ble High Court of Judicature at Madras vide order dated November 04, 2009 allowed the petition of Sh. D.R. Gururaj holding that the complaint filed by SEBI did not disclose that any part of the cause of action had arisen within the territorial jurisdiction of the Learned Magistrate at Chennai and consequently quashed all further proceedings in C.C. No. 37/2004 in the file of the XXIII Metropolitan Magistrate, Saidapet, Chennai not only against Sh. D.R. Gururaj but against all the Accused(s) in the said complaint case. SEBI preferred SLP No. 2471-2473/2010 before Hon'ble Supreme Court of India against order dated November 04, 2009, passed by the Hon'ble High Court of Judicature at Madras. Hon'ble Supreme Court of India vide judgment and order dated October 10, 2017 allowed the said SLP observing that there are allegations in the complaint to the effect that the offence(s) has been committed at Chennai. The observations in the impugned order that there is no averment in the complaint indicating any act or omission at Chennai is not factually correct.

#### **F. SEBI versus Rasanand Patnaik & Ors**

SEBI had filed a criminal complaint - C.C. No. 2658/2001 before Learned Chief Judicial Magistrate (CJM), Alipore, South 24, Parganas, Kolkata against Surakshya Green Gold (I) Ltd and its director(s) including Sh. Rasanand Patnaik for violation of provisions of SEBI Act, 1992 and SEBI (CIS) Regulations, 1999. Learned CJM vide order dated December 31, 2001 took cognizance of the offence(s) and directed issuance of summons against the Accused(s). The Accused(s) after entering their appearance(s) before Learned CJM filed an application for dropping of proceedings against them on the ground of lack of jurisdiction as the Accused company was situated within jurisdiction of State of Orissa and other Accused(s) were also living in the state of Orissa. Learned CJM vide order dated October 08, 2007 rejected the said application of the Accused(s). Sh. Rasanand Patnaik filed a revision application under section 482 of the Code of Criminal Procedure before Hon'ble High Court at Kolkata seeking quashing of proceedings in the said complaint case including order dated

December 31, 2001 and October 08 2007, passed by Learned CJM in the said complaint case, inter-alia on the ground that no cause of action arose at Kolkata as he is resident of State of Orissa and Surakshya Green Gold(I) Ltd is having its registered office in the state of Orissa. Hon'ble High Court at Kolkata vide order dated September 03, 2010 allowed the said criminal revision holding that cognizance taken by Learned CJM, Alipore in the said complaint case is beyond jurisdiction of Learned CJM, Alipore and also bad in law and quashed the said order dated December 31, 2010 and October 08 2017, passed by Learned CJM, Alipore qua Rasanand Patnaik and other Accused(s) in the said complaint case. SEBI preferred SLP No. 41/2011(Subsequently converted into Crl. Appeal No. 1764/2017) before Hon'ble Supreme Court of India against order dated September 03, 2010, passed by the Hon'ble High Court at Kolkata. Hon'ble Supreme Court of India vide judgment and order dated October 10, 2017 allowed the appeal observing that there are allegations in the complaint to the effect that the offence(s) has been committed at Kolkata. The observations in the impugned order that there is no averment in the complaint indicating any act or omission at Kolkata is not factually correct.

#### G. Barun Kumar Nandi versus SEBI

SEBI vide order dated October 12, 2015 initiated action under Section 19 of the SEBI Act, 1992 read with Section 11(1), 11(4), 11A and 11B against Suraksha Agrotech Industries Ltd and its past and present Directors for issuing Redeemable Preference Shares in violation of the provisions of the Companies Act, 1956 & 2013 and SEBI (DIP) Guidelines, 2000 read with SEBI (ICDR) Regulations, 2009. Barun Kumar Nandi, the appellant was one of the Directors of Suraksha Agrotech Industries Limited. Vide the said order SEBI issued directions for refund against the company and its promoters and directors including the appellant Barun Kumar Nandi. Further, for failure to refund the money in the stipulated time as directed by SEBI, vide Attachment Proceeding No.2446 of 2016 issued by Recovery Officer-SEBI, the bank account of the appellant Barun Kumar Nandi was attached. The appellant Barun Kumar Nandi filed an appeal before the Hon'ble SAT against the abovementioned

SEBI order dated October 12, 2015. However, finding no merit in the contention of the appellant that he was not the Director of the Company at the relevant time when the RPS were issued, the said order of SEBI was upheld by the Hon'ble SAT vide its order dated August 01, 2017. Therefore, the appellant filed an appeal against the SAT Order dated August 01, 2017 under 15Z of the SEBI Act before the Hon'ble Supreme Court. The question of law before the Hon'ble Supreme Court was whether the Director of a Company could be made liable for refund of money of investors raised by the company through issue of Redeemable Preference Shares (RPS) in violation of the provisions of the Companies Act, 1956 and 2013, and SEBI (DIP) Guidelines, 2000 read with SEBI (ICDR) Regulations, 2009. The Appellant Barun Kumar Nandi was a Director of Suraksha Agrotech Industries Limited at the relevant point of time i.e., when the RPS were issued and accordingly SEBI passed an order against him and other Directors along with the Company. However, the Hon'ble Supreme Court allowed the appeal, setting aside the impugned order of SAT holding that the appellant had tendered his resignation which was duly accepted by the Company and that the courts below erred in not accepting this position.

## II. HIGH COURTS

#### A. Ketan Parekh versus SEBI

The discharge application filed by Ketan Parekh was rejected by the SEBI Special Court. Ketan Parekh filed the revision application against the said Court order before the Hon'ble High Court of Bombay.

The Hon'ble High Court of Bombay while rejecting the discharge application filed by Ketan Parekh held that the averments in the complaint as a whole and in addition the adjudication order, *prima facie*, makes out a case under section 24 (2) of the SEBI Act, 1992. Merely on account of the fact that the complaint does not incorporate the words "in charge of", the prosecution does not stand vitiated.

#### B. Radheshyam Surajmal Khandelwal and Anr versus SEBI

The petitioners filed the Criminal Writ Petition

before the Hon'ble Bombay High Court against the criminal complaint filed by SEBI for quashing of the complaint on the ground that there was no specific averment against the Petitioners and the allegations were levelled against them in a mechanical manner.

The Hon'ble Bombay High Court held that section 27 of the SEBI Act, 1992 contemplates a deeming provision and the legislature has laid down that every person who was in charge of and responsible to the company for the conduct of the business of the company at the time when the offence was committed as well as the company shall be deemed to be guilty of the offence. The said person in the capacity of a director shall be liable to be proceeded against and punished according to the Law.

The Hon'ble High court further held that accused cannot get a complaint quashed merely on the ground that apart from the basic averment, no particulars are given in the complaint about his role because ordinarily the basic averment would be sufficient to send him to trial and specific role to be attributed to him could be matter of substantive evidence. The director is to make out the case that would suggest that taking the averments in the complaint by itself and sending him to trial would be an abuse of process of Law. In view of the deeming provision, complaint cannot be quashed for the asking and that it is incumbent upon the courts to follow the statutory provisions and take intention of Legislature to its logical end. In view of the same, the Criminal Writ Petition was dismissed by the Hon'ble Bombay High Court.

#### C. Balvir Singh versus SEBI

SEBI vide order dated June 21, 2013 (in the matter of Alchemist Infra Realty Limited) passed directions inter-alia for winding up of Collective Investment Scheme(s) and refund of monies by the persons mentioned therein. Pursuant thereto, Recovery Officer had drawn a recovery certificate no. 1165 dated March 24, 2013 inter-alia against the Petitioner-Balvir Singh. In furtherance thereto, the Recovery Officer vide notice of attachment dated March 24, 2017 directed immediate attachment of the bank account(s) of the Petitioner. Accordingly, the bank account(s) of the Petitioner stood attached. The Petitioner claiming

to be aggrieved by notice of attachment dated March 24, 2017 (for Short Impugned Order) filed a petition under Article 226 of the Constitution of India before the Hon'ble High Court of Delhi. Hon'ble High Court of Delhi vide judgment dated February 05, 2018 held that as per Clause 2 of Second Schedule to the Income Tax Act, 1961, Recovery Officer after drawing up the recovery certificate is required to serve upon the defaulter a demand notice demanding the payment of money referred to in the recovery certificate. For this purpose, the Recovery Officer is required to give to the defaulter a period of 15 days which commences from the date of service of notice. Hon'ble High Court further held that Recovery Officer can side step the rigour of Clause 2 when he is satisfied that the defaulter i.e. noticee is likely to conceal, remove or dispose of whole or any part of his movable property which is liable to attachment as in the execution of the decree of the Civil Court, and as a result thereof the realization of the amount reflected in the certificate would get delayed or obstructed. The Recovery Officer has to state his reasons in writing to support the order of attachment which is issued without prior notice to the defaulter. Hon'ble High Court further held that the averments made in the Impugned Order shows that in paragraph 2 of Impugned Order, all that the Recovery Officer has stated is that he has reasons to believe that the defaulter, i.e. the Petitioner would dispose of the amounts/proceeds credited to his bank account. The averments therein do not meet the requirement of the proviso to Clause 3 of the Second Schedule to the Income Tax Act, 1961.

#### D. Investor Protection Group & Anr. Versus SEBI & Anr.

In the said Writ Petition, the Petitioners were challenging the SEBI's circulars dated September 26, 2017, November 30, 2017 and January 11, 2018, which were issued in pursuance of Section 11(1) of the SEBI Act, in respect of maintenance of records of orders received from clients, by the brokers, as being violative of the provisions of SEBI Act, SCRA and Article 14 of the Constitution of India. The Petitioners, inter alia, prayed for quashing the aforesaid circulars and for issuance of correct judicial interpretation of section of 3.2.1 & 3.4.2 of NSE Trading Regulation.

During the arguments before the Court, it was submitted on behalf of SEBI that the impugned circulars have been specifically issued to curb the menace of unauthorized trading encompassing the entire securities market across exchanges incorporating important requirements such as mandatory call recording (if order received through phone) etc. keeping in view the interest of investors and therefore, does not in any way set aside the rules and regulations of exchange, while the exchange regulations are specific to its members and therefore no judicial intervention of the circulars is required.

The Petitioner after some arguments, withdrew the petition with liberty to approach the court with specific case of misuse, if any, of the provisions of the impugned circulars. The petition was accordingly, dismissed as withdrawn.

#### **E. In the matter of: India Power Corporation Ltd. & DPSC Ltd. and in the matter of: Dipak Rudra & ors. versus SEBI**

The captioned application was filed for extension of time to sell the shares in terms of the order dated January 27, 2017 of the Hon'ble Calcutta High Court in order to comply with the relevant norms pertaining to Minimum Public Shareholding in a listed company. The applicants contended that since the power industry was facing difficulties, the immediate sale of the shares will result in immense loss to the applicants. This was objected on behalf of Securities and Exchange Board of India inter alia on the ground that since the order permitted the sale to be effected within a particular period of time, the extraneous factors cited by the applicants were of no relevance. Upon hearing the Hon'ble Court directed that the sale of the shares should be completed latest by the end of the said calendar year.

It was also made clear that if for any reason the sale is not concluded by December 31, 2017, the same should be done by the end of February, 2018 beyond which no further time will be granted and accordingly the case was disposed of. Presently another application has been filed by the same applicant seeking further extension of time as they could not sell the shares within the stipulated period of time.

### **III. SEBI Special Court**

#### **A. SEBI versus Panther Fincap and Management Services Limited and Others.**

The criminal complaint was filed u/s 24(2) of SEBI Act, 1992 for non-payment of penalty of ₹6,50,000/- against Panther Fincap and Management Services Limited and others in the matter of Shonkh Technologies International Limited

The Hon'ble SEBI Special Court held Ketan Parekh and Kartik Parekh guilty for the offence of non-payment of aforesaid penalty. The Hon'ble SEBI Special Court sentenced Ketan Parekh and Kartik Parekh rigorous imprisonment of three years and imposed a fine of ₹5,00,000/- each and in default thereof, Ketan Parekh and Kartik Parekh directed to undergo simple imprisonment for three months. Out of the fine amount of ₹ 5,00,000/- each, the Hon'ble SEBI Special Court directed Ketan Parekh and Kartik Parekh to pay an amount of ₹3,25,000/- each to SEBI by way of compensation.

#### **B. SEBI versus Prasad Tandel**

The Criminal complaint was filed u/s 24(2) of SEBI Act, 1992 for non-payment of penalty of ₹5,00,000/- against Prasad Tandel in the scrip of G-Tech Info Training Limited

The Hon'ble SEBI Special Court sentenced Prasad Tandel to undergo rigorous imprisonment of 4 years with fine of ₹10,00,000/- out of which ₹8,00,000/- were awarded to SEBI as compensation. In default thereof, Prasad Tandel was directed to undergo simple imprisonment for six months.

In another matter, the Criminal complaint was filed u/s 24(2) of SEBI Act, 1992 for non-payment of penalty of ₹5,00,000/- against Prasad Tandel in the scrip of Prraneta Industries Limited

The Hon'ble SEBI Special Court sentenced Prasad Tandel to undergo rigorous imprisonment of 4 years with fine of ₹10,00,000/- out of which ₹8,00,000/- were awarded to SEBI as compensation. In default thereof, Prasad Tandel was directed to undergo simple imprisonment for six months.

The Hon'ble SEBI Special Court directed that as both the judgments delivered simultaneously, hence the sentence of 4 years in both the cases shall run concurrently.

The Hon'ble SEBI Special Court in the aforesaid judgments held Prasad Tandel guilty of non-payment of penalty and observed that adjudication orders clearly indicates his role in the market manipulation which is very serious as held by the Hon'ble Supreme Court. If Court does not appropriately punish the accused, it will convey bad message to the investors, securities market, and society at large that anyone can commit manipulations in securities market, then face the trial of the offence, allow the Court to fetch the trial upto the end, then put forth a proposal for compounding and thereafter get himself rescued, scot free and then openly trade and manipulate securities market once again in the same fashion and manner for which he was prosecuted as if nothing has happened. Offences under SEBI Act, 1992 are economic offences.

### C. SEBI versus Ashok Sonu Bhagat

The Criminal complaint was filed u/s 24(2) of SEBI Act, 1992 for non-payment of penalty of ₹5,00,000/- against Ashok Sonu Bhagat in the scrip of Highland Industries Limited

The Hon'ble SEBI Special Court sentenced Ashok Sonu Bhagat to undergo rigorous imprisonment of four years with a fine of ₹6,25,000/- out of which ₹5,62,500/- were awarded to SEBI as compensation. In default thereof, Ashok Sonu Bhagat was directed to undergo simple imprisonment for six months.

The Criminal complaint was filed u/s 24(2) of SEBI Act, 1992 for non-payment of penalty of ₹82,00,000/- against Ashok Sonu Bhagat in the scrip of Empower Industries India Limited

The Hon'ble SEBI Special Court sentenced Ashok Sonu Bhagat to undergo rigorous imprisonment of 5 years with fine of ₹1,02,50,000/- out of which ₹92,25,000/- were awarded to SEBI as compensation. In default thereof, Ashok Sonu Bhagat was directed to undergo simple imprisonment for one year.

The Hon'ble SEBI Special Court directed that as

both the judgments delivered simultaneously, hence the sentence in both the cases shall run concurrently.

The Hon'ble SEBI Special Court in the aforesaid judgments held Ashok Bhagat guilty of non-payment of penalty and observed that this is a typical example of people like accused who are involved in manipulation in the securities market. They always say that they are poor, living in hut, has no source of income. Infact these people are involved in serous manipulation very wisely by preparing plans and strategies with calculated steps to fetch hard earned money from the pockets of the honest investors and earned huge on its basis. Front entities like accused and many people behind the curtain are involved in such strategies. Involvement of accused in this and other pending cases clearly prove how he was manipulating the securities market acting as front entity. That is what held by the Hon'ble Supreme Court as "white collar crime" in the case of State of Gujarat Vs. Mohanlal Jitamalji Porwal {(1987) 2 Supreme Court Cases 364}.

## IV. SECURITIES APPELLATE TRIBUNAL (SAT)

### A. Manoj Agarwal versus SEBI

This appeal was filed challenging the order passed by the Whole Time Member (WTM) of SEBI on January 21, 2016. Vide said order the WTM while confirming the ex-parte order dated December 2, 2014 had, inter alia, directed that the Bharatiya Real Estate Development Limited (BREDL) and its present and past directors including the appellant, shall jointly and severally refund the money collected by it through issuance of Redeemable Preference Shares (RPS), with interest at the rate of 15 per cent p.a., compounded on half yearly intervals, from the date when the repayment became due (in terms of Section 73(2) of the Companies Act, 1956) to the investors till the date of actual payment. BREDL and its directors including the appellant were also restrained from accessing the securities market for a period of four years.

It was found that the appellant became a director of BREDL on August 19, 2010 and resigned on May 1, 2012. During the years 2011-12 and 2012-13, BREDL collected ₹40 Lakh and ₹ 59.06 Lakh (total ₹

99.06 Lakh) respectively from various preferential allottees. This money was collected without complying with the ‘public issue’ norms stipulated under Sections 56 and 60 read with Section 2(36) and Section 73 of the Companies Act, 1956.

Appellant argued that he had no knowledge about the real estate business and had merely lent his name to be a director of BREDL at the instance of one Soumen Majumder and in fact for becoming a director of BREDL, the appellant had neither paid any subscription money to BREDL nor was involved in its the day to day affairs. Appellant also claimed that as non-executive director he never attended any of the board meetings to approve any of the accounts, balance sheets and/or management/policy decisions of BREDL. In these circumstances, the appellant submitted that he could not be said to be an “officer in default” under Section 73(2) of the Companies Act, 1956.

After hearing the matter at length, the Hon’ble SAT vide order dated July 14, 2017, inter alia, held as follows:

- i. argument that the appellant was not a person responsible for RPS and therefore for failure on part of BREDL and its directors to comply with Section 73(2) of the Companies Act, 1956, the appellant could not be made liable is without any merit. In the present case, even though the intention of BREDL was to collect ₹40 Lakh by issuance of redeemable preference shares through private placement and not from the general public, admittedly allotments were made to more than 50 entities and therefore BREDL was obliged to follow the public issue norms specified under the Companies Act, 1956. Since the said norms were not followed, under Section 73(2) of the Companies Act, 1956 BREDL was obliged to refund the money collected within the time stipulated therein. As the money was not refunded to the investors, SAT held that BREDL and every director of it who is an “officer in default” shall refund jointly and severally the money with interest. Therefore, the fact that the appellant was not responsible for issuance of redeemable preference shares does not absolve the obligation of all the direc-
- ii. tors of BREDL including the appellant to refund the money collected from the investors with interest as set out in the impugned order;
- iii. Section 5 of the Companies Act, 1956 defines the expression ‘officer who is in default’ to mean the officers named therein. Section 5(g) provides that where any company does not have any of the officers specified in clauses (a) to (c) of Section 5, then any director who may be specified by the Board in that behalf or where no director is so specified then all the directors would be “officer who is in default”. In the present case, no material is brought on record to show that any of the officers set out in clauses (a) to (c) of Section 5 or any specified director of BREDL was entrusted to discharge the obligation contained in Section 73 of the Companies Act, 1956. In such a case, as per Section 5(g) of the Companies Act, 1956, BREDL and all its directors are liable. Therefore, decision of the WTM that all directors of BREDL including the appellant would constitute “officer in default” cannot be faulted;
- iv. admittedly, the appellant was a director of BREDL when the money was collected by BREDL in contravention of the public issue norms and there is nothing on record to suggest that any particular officer/director was authorised to comply with the public issue norms. In such a case, all directors of BREDL including the appellant would be “officer in default” under Section 73(2) read with Section 5 of the Companies Act, 1956;
- v. fact that the impugned order does not specifically refer to Section 5(g) of the Companies Act, 1956 would not render the impugned order invalid. In the impugned order it is specifically recorded that for non-compliance of Section 73(2), obligation to refund the amount with interest is on BREDL and the “officer in default”. Expression “officer in default” used in Section 73(2) has to be read with Section 5 of Companies Act, 1956 which defines the expression “officer who is in default”. Therefore, argument of the appellant that impugned order does not refer to

- Section 5(g) of the Companies Act, 1956 is without any merit;
- v. from the documents brought on record it is seen that BREDL had filed an Annual Return Form with the Registrar of Companies, wherein, designation of all the persons named therein including the appellant are shown as directors of BREDL, which obviously means that BREDL had not appointed any person as Managing Director or Whole Time Director or Secretary or Manager. Moreover, there is no material to show that any director was authorised to discharge the obligation arising on account of deemed public issue. In these circumstances, decision of the WTM that all directors of BREDL were "officer in default" and that they are jointly and severally liable to refund the money with interest to the investors cannot be faulted;
  - vi. argument that the appellant had not attended any board meeting of BREDL and therefore, the appellant is deemed to have vacated the office under Section 283(g) of the Companies Act and consequently no action could be taken against the appellant is also without any merit. Section 283(g) of the Companies Act, 1956 applies only to a director who in spite of notice absents himself from three consecutive meetings of the Board of Directors or absents himself from all the meetings of the Board for a continuous period of three months. In the present case, it is the case of the appellant that no notice of Board meeting was issued to him. In such a case, question of the appellant remaining absent from the Board meetings does not arise and consequently question of applying Section 283(g) of the Companies Act, 1956 to the case of the appellant does not arise.

For all the aforesaid reasons, the Hon'ble SAT dismissed the appeal with no order as to costs. However, it made clear that the liability of the appellant under the impugned order is restricted to refunding the amount of ₹ 40 Lakh, the amount raised during his tenure as director, with interest jointly and severally with BREDL and other directors of BREDL.

#### B. B. Ramalinga Raju, B. Rama Raju, V. Srinivas, G. Ramakrishna and V. S. Prabhakara Gupta versus SEBI

These appeals were filed before the Hon'ble SAT challenging the common order of WTM dated July 15, 2014, whereby the appellants were restrained from dealing in securities market in any manner for a period of 14 years and were also directed to disgorge the amount of unlawful gain made by each appellant on the sale/pledge of shares while in possession of unpublished price sensitive information (UPSI) in violation of SEBI (Prohibition of Insider Trading) Regulations (PIT Regulations). The appellants were also alleged to have violated the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003(PFUTP Regulations) by manipulating the books of accounts of Satyam Computer Services Ltd. (Satyam).

Hon'ble SAT, after hearing the matter at length, vide its order dated May 12, 2017, inter alia, held as under:

- i. argument of the appellants that the impugned order passed on July 15, 2014 without giving inspection of documents and without permitting the appellants to cross-examine the persons whose statements were relied upon in the show cause notice, is violative of the principles of natural justice cannot be accepted because, admittedly, before commencement of the criminal trial in February 2011 all documents relating to the charge of inflating/ manipulating the books of Satyam were made available to the appellants;
- ii. further, in spite of receiving requisite documents, the appellants (excluding Prabhakara Gupta) failed and neglected to file detailed reply to the show cause notices till May 2014. Moreover, during the period from 2011 till May 2014 the appellants, including Prabhakara Gupta consistently failed and neglected to participate in the proceedings before the WTM even though their request for keeping the proceedings in abeyance till conclusion of the criminal trial was repeatedly rejected and repeatedly the appellants were warned that ex parte order

- would be passed if they fail to avail the opportunity of hearing;
- iii. in the facts of present case, argument of the appellants that the impugned order is violative of the principles of natural justice cannot be accepted;
  - iv. The email admittedly sent by Ramalinga Raju on January 7, 2009 as also the statements of the appellants recorded by SEBI and the documents referred to in the show cause notices issued to the appellants clearly establish that the appellants were instrumental/ involved in inflating/ manipulating the books of Satyam during the period from 2001 to 2008. That information was a price sensitive information and while in possession of that unpublished price sensitive information, appellants had sold/ transferred shares of Satyam and made huge profits. In these circumstances, decision of the WTM that the appellants violated the provisions of SEBI Act, PIT and PFUTP Regulations cannot be faulted;
  - v. the decision of the WTM in uniformly restraining all the appellants from accessing the securities market for 14 years without assigning any reasons is unjustified;
  - vi. the impugned order is set aside to the extent it relates to the period for which the appellants are restrained from accessing the securities market and the quantum of illegal gain directed to be disgorged by the appellants and remand the matter to the file of the WTM of SEBI for passing fresh order on merits and in accordance with law;
  - vii. The appellants shall not access the securities market and shall not buy, sell or otherwise deal in securities, directly or indirectly till fresh order is passed by the WTM of SEBI on merits and in accordance with law.
- C. **Chintalapati Srinivasa Raju, Chintalapati Holding Pvt. Ltd, Late Anjiraju Chintalapati (represented by Chintalapati Srinivasa Raju), B. Appalanarasamma, B Teja Raju, Rama Raju Jr, B. Suryananrayana Raju, B.Jhansi Raju, SRSR Holdings Pvt. Ltd. versus SEBI**

This appeal was filed before Hon'ble SAT challenging the common order of WTM dated September 10, 2015, whereby the appellants were restrained from dealing in securities market in any manner for a period of seven years and were also directed to disgorge the amount of unlawful gain made by each of them on sale of shares /pledge of shares while in possession of unpublished price sensitive information. The appellants were alleged to have violated PIT Regulations by transacting in the shares of Satyam Computer Services Ltd. while in possession of UPSI.

Hon'ble SAT, after hearing the matter at length, vide its order dated August 11, 2017 and order dated August 16, 2017 (through which technical corrections have been carried out by Hon'ble SAT) inter alia, held as under:

- i. in view of the explanation inserted to regulation 2(c) of the PIT Regulations with effect from February 20, 2002, action for insider trading of a connected person can be taken up to a period of six months from the date of that person ceasing to be a connected person. SEBI cannot take action in respect of the insider trading of a connected person beyond the period of six months from the date of that person ceasing to be a connected person;
- ii. the expression 'dealing in securities' defined under regulation 2(d) of the PIT Regulations is wide enough to include pledging of securities. Prohibition contained in regulation 3 of the PIT Regulations is, inter alia, restricted to pledging of securities by an insider when in possession of UPSI;
- iii. impugned order against all the appellants (except against B. Jhansi Rani, the Appellant in Appeal No. 462 of 2015) was upheld to the extent that the appellants were "insiders" under the PIT Regulations and that the appellants had pledged/sold the shares of Satyam when in possession of UPSI and thus, they have violated the SEBI Act and the PIT Regulations;
- iv. however, the uniform restraint order passed against the appellants and the quantum of unlawful gain determined against each appellant and the direction to disgorge the same jointly

- and severally with Ramalinga Raju and Rama Raju are quashed and set aside and restored to the file of the WTM for fresh decision on merits and in accordance with law. Till fresh order is passed by the WTM on the aforesaid issues, the appellants were restrained from dealing in securities or accessing the securities market in any manner whatsoever;
- v. Appeal No. 462 of 2015 filed by B. Jhansi Rani was allowed and directions issued against were quashed and set aside. In this regard, Hon'ble SAT, inter-alia, held as under:
- a) WTM of SEBI could not have applied regulation 2(h)(viii) of the PIT Regulations to the case of B. Jhansi Rani, because that provision was not in existence when B. Jhansi Rani sold the shares of Satyam on January 22, 2001 and on February 5, 2001;
  - b) Jhansi Rani sold the shares of Satyam prior to the amendment of regulation 3 of the PIT Regulations, 1992 on February 20, 2002. On the date on which Jhansi Rani sold the shares of Satyam, the prohibition under regulation 3 was that no 'insider' shall trade in the shares of the company 'on the basis' of UPSI. The words 'on the basis' was substituted by the words 'when in possession' with effect from February 20, 2002. As there is no finding recorded in the impugned order that Jhansi Rani sold shares of Satyam on the basis of UPSI, impugned order passed against Jhansi Rani cannot be sustained.

Further, the majority judgment of Hon'ble SAT also held that having recorded a finding that there is no material to show that the appellants had violated the PFUTP Regulations, the WTM of SEBI could not have issued any direction under regulation 11 of the PFUTP Regulations. Therefore, the restraint order to the extent it is based on exercise of power under regulation 11 of the PFUTP Regulations cannot be sustained.

The summary of directions as held in the Minority Judgment of Hon'ble SAT are as under:

- i. the impugned order qua the appellants in Appeal Nos. 458/2015 (B. Appalanarasamma),

459/2015 (B. Teja Raju), 460/2015 (B. Rama Raju Jr.), 461/2015 (B. Suryanarayana Raju) and 463/2015 (SRSR Holdings Pvt. Ltd.) is upheld and the appeals are dismissed with no order as to costs;

- ii. the impugned order qua the appellants in Appeal No. 451/2015 (Chintalapati Srinivasa Raju), 452/2015 (Chintalapati Holding Pvt. Ltd.), 453/2015 (Late Anjiraju Chintalapati) and 462/2015 (Ms. B. Jhansi Rani) is quashed and set aside and the appeals are, accordingly allowed with no order as to costs.

#### D. Prasad Tandel versus SEBI

These two appeals were filed before the Hon'ble SAT challenging the orders passed by the AO on February 29, 2012 and March 22, 2012, respectively. By the said orders, penalty of Rs.5 Lakh each was imposed on the appellant under section 15HA of the SEBI Act for violation of various provisions of PFUTP Regulations whilst dealing in the shares of Prraneta Industries Ltd. and G-Tech Info Training Limited, respectively. Misc. Application No.107 of 2016 was filed seeking condonation of delay of 1459 days in filing Appeal No.148 of 2016 and Misc. Application No.136 of 2016 was filed seeking condonation of delay of 1475 days in filing Appeal No.195 of 2016. Given the inordinate delay in filing these appeals, both parties were heard on their Applications seeking condonation of delay.

Appellant argued that he did not receive the show-cause notice, notices for personal hearing, etc. and as such the impugned order is an ex-parte order and prayed for an opportunity for presenting the full facts before the Respondent. However, he admitted that the impugned order dated February 29, 2012 was received by him on or about March 5, 2012. But due to financial constraints, he could not file appeal in time and as such the filing of appeal was seriously considered only after receiving summons from the Sessions Court, Mumbai on the criminal proceedings initiated by SEBI in November, 2014 for the same set of violations. SEBI argued that no substantive reason has been brought out by the appellant while seeking condonation of delay of more than four years. On the oth-

er hand, it is only after the initiation of criminal proceedings that the appellant has moved Hon'ble SAT with an ulterior motive to stymie the process of law.

The appellant had relied on two judgments of Hon'ble SAT in the matter of Kaushik Roy vs. SEBI & Ors. (Appeal No.290 of 2016 decided on January 9, 2017) and Bhavana Bipin Shah & Ors. vs. SEBI (Appeal No.197 of 2016 decided on October 24, 2016). However, Hon'ble SAT vide order dated May 9, 2017 held that both the above decisions are distinguishable on facts and circumstances and the delay in those cases were not as huge as in the present appeals. Moreover, delay condoned in the facts of those appeals cannot be a ground to hold that in every case the delay must be condoned.

The Hon'ble SAT also held that it is an admitted fact that the impugned orders were received by the appellant in 2012 itself. The appeal was filed in April, 2016 i.e. after 49 months (1459 days later). Even after the criminal proceedings were initiated in November, 2014, the appellant took 15 more months to file an appeal.

In the facts of present appeals, Hon'ble SAT held that it is satisfied that the gross delay of more than four years does not deserve to be condoned. Accordingly, the Misc. Applications and appeals were dismissed.

#### E. **Paramjit Singh Gill versus SEBI, Vijay Mallya versus SEBI and Sowmiyanarayanan & Ors versus SEBI**

These three appeals arise from a common show cause notice-cum-ad interim ex-parte order dated January 25, 2017 of SEBI and the appeal filed by Vijay Mallya was taken as a lead case.

The said order was passed against Vijay Mallya, a non-independent non-executive director) and certain other Key Managerial Persons (KMP) of United Spirits Limited (USL), namely, Ashok Kapoor (non-independent Managing Director), Sowmiyanarayanan (Assistant Vice President – Accounts), S. N. Prasad (Senior Vice President – Finance and Accounts), P. A. Murali (Executive Director and Chief Financial Officer), Paramjit Singh Gill (President – All India Oper-

ations) and Ainapur S. R. (Divisional Vice President – Accounts). The Appellants were prima facie found to have violated Section 12A(c) of SEBI Act and regulations 3(d), 4(1), 4(2)(e), (f) and (k) of PFUTP Regulations as it was prima facie found that the appellant was instrumental in diverting funds from USL to certain United Breweries Group Companies [hereinafter referred to as "UB Group Companies"] at the behest of appellant (Vijay Mallya), thereby, engaging in an act which operated as a fraud or deceit on the public shareholders of USL. By the said impugned order the appellants were –

- i. restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities in any manner whatsoever, either directly or indirectly;
- ii. restrained from holding position as director or KMP of any listed company ;
- iii. directed to file reply to SEBI within 21 days from the date of receipt of the impugned order and also directed to indicate in the reply whether the Appellant wishes to avail the opportunity of personal hearing in the matter.

After hearing the matter at length, Hon'ble SAT vide order dated August 11, 2018, inter alia, held as under:

- i. Section 11, 11(b) and 11(4) do confer wide discretion on SEBI to pass ad interim orders in order to protect the investors' interest and for a healthy and orderly growth of the capital market. In the instant case, keeping in view the gravity of the matter, SEBI was not unjustified in invoking such extra-ordinary power. Similarly, there is no unnatural or unreasonable delay on the part of the SEBI in passing the impugned order. Further, a perusal of the original file on which the case of appellant was processed reveals that decision to initiate action against the appellant was taken at the highest level in SEBI to look into the matter and take action as per law. So it cannot be argued that no investigation or inquiry was pending against the Appellant when the SEBI invoked powers under Sections 11(1), 11(4)(b) and 11B of the SEBI Act;

- ii. the contention of the Appellant that SEBI did not have material of its own to sustain the impugned order cannot be accepted in the present case. It is a matter of record that SEBI has relied on the documents while passing the ex-parte ad interim order;
- iii. the ex-parte impugned order has been passed on prima-facie view and the appellants, instead of rushing to the Tribunal, should have defended themselves before SEBI by availing of the opportunity granted to them. It is pertinent to note that the impugned order was to effectively operate for 21 days only from the date of its issuance, i.e. January 25, 2017. If the appellant had preferred a reply to SEBI in their defence or had appeared in person to defend the case and pointed out any perversity, irregularity, illegality or irrationality in passing the impugned order by SEBI or any hardship which might have been faced by appellant due to the said ex-parte ad interim order against them and if some substance was found in appellant's defence, SEBI would have passed appropriate orders either modifying or recalling the impugned order against the appellants as per law.

In view of the above facts and circumstances and analysis of law, the Hon'ble SAT dismissed the appeal with a direction to the appellants to appear before SEBI, in person or through a legally authorized representative, and make their submissions before SEBI within 21 days from the date of order. SEBI was directed to consider the same and proceed further in the matter and pass final orders expeditiously and preferably within a period of four months in accordance with law to give finality to the issue.

#### F. Nirmal Singh Bhangoo versus SEBI

This appeal was filed against the order of WTM dated August 22, 2014. Vide said order PACL Ltd. (PACL) and its present and past directors including the appellant were found to be running Collective Investment Scheme (CIS) in contravention of SEBI Act and SEBI (Collective Investment Scheme) Regulations, 1999 [CIS Regulations]. Further, PACL and its present directors were, inter alia directed to wind up

all the existing CISs and refund the monies collected from the investors with promised returns. Till such winding up and refunds, the present and past directors including the appellant were restrained from accessing the securities market and prohibited from buying, selling or otherwise dealing in the securities market.

Appellant was a director of PACL from June 3, 1996 to February 3, 1998. During the said period, PACL had floated certain schemes under which monies were collected from investors with promised returns. Even after the appellant ceased to be a director, various schemes were floated by PACL and huge amounts were collected. Appellant argued that he ceased to be director even before the CIS Regulations, 1999 came into force i.e. October 15, 1999 and therefore he could not be said to have violated the CIS Regulations. Appellant further submitted that he was not involved with the day-to-day management and was merely carrying out his role as an advisor. Moreover, the schemes run during the tenure of the appellant as director have already been closed and no outstanding liability existed on those schemes. Appellant further relied on the decision of the Apex Court in case of SEBI vs. Gaurav Varshney reported in (2016) 14 SCC 430.

Hon'ble SAT vide order dated June 22, 2017 held that it is not in dispute that the appellant ceased to be a director of PACL even before the CIS Regulations came into force and hence, there was no question of the appellant discharging any of the obligations set out in the CIS Regulations. In such a case, fact that PACL and its present directors failed to comply with the obligations set out in the CIS Regulations could not be a ground to hold that the appellant is guilty of violating the CIS Regulations. Further, the fact that the appellant cannot be held guilty of violating the CIS Regulations would not mean that the appellant cannot be held guilty of violating Section 12(1B) of SEBI Act. Admittedly, the schemes run by PACL during the period when the appellant was a director, were without obtaining registration from SEBI as contemplated under Section 12(1B) of SEBI Act. Therefore, Hon'ble SAT held that the WTM was justified in issuing directions, inter alia, against the appellant for violating Section 12(1B) of SEBI Act.

#### G. Sourindra Nath Mukharjee versus SEBI and Kaushik Chattpadhyay versus SEBI

These two appeals were filed challenging the Recovery Officer's (RO) order dated October 27, 2016, passed in pursuance of WTM's order dated February 06, 2015 (final order) by which earlier directions issued in the ex-parte order dated May 16, 2013 were confirmed.

As per para 36(a) of the final Order, Basil International Limited and its present directors, including Manindra Kumar Basu, Jayanta Kumar Basu, Susanta Kumar Jana, Mohammed Afaque Ahmed and Nirmalendu Bhowmik, were jointly and severally directed to refund the money collected by the company through issuance of RPS, with returns that were promised to the investors. Further, the company, its present directors and past directors including the appellants were restrained from accessing the securities market for a period of four years. Appellants did not contest the final order. Rather they challenged the RO's order initiating recovery proceeding against them especially when the final order does not require the appellants to make any payment to the investors.

Hon'ble SAT vide order dated August 18, 2017 held that on a plain reading of para 36(a) of the final order, it is evident that the direction to refund the amount is only against the company and its present directors and not against the past directors like the appellants. Accordingly, Hon'ble SAT quashed and set aside the RO's order.

#### H. Udagsh Kumar Verma versus SEBI

Appellant, a past director in Vee Realties India Ltd.(Vee Realties) had made a representation dated February 17, 2017 challenging the Recovery Certificate and Attachment order dated October 14, 2016 issued by the RO in pursuance of the WTM order dated March 3, 2016, whereby directions were given, inter alia, to refund the money collected in violation of the provisions of SEBI Act, CIS regulations and PFUTP Regulations. RO rejected the said representation of the appellant vide communication dated April 6, 2017. Appellant challenged the said communication of RO.

The grievance of the appellant was that as per the WTM order, the direction to make refund was made against the company and the present directors only. Since he was a past director, it was wrong on the part of RO to initiate action of recovery, attachment etc. against him.

Hon'ble SAT vide order dated August 29, 2017 held that the fact that in the para 26(c) of the WTM order, WTM has held that the company, its present directors and the past directors including the appellant are liable for the contraventions committed by the company in launching and operating unregistered CIS and contravening regulation 4(2)(t) of the PFUTP Regulations, could not be a ground for the RO to hold that if the company and its present directors fail to refund the amount to the investors within the stipulated time, then the past directors including the appellant are also liable to refund the amount to the investors. Hon'ble SAT further held that the fact that there are separate and independent directions against the present and the past directors does not mean that the obligation cast upon the company and its present directors can be shifted to the past directors. Accordingly, for the above reasons, Hon'ble SAT quashed the impugned communication issued by the RO and directed SEBI to lift the attachment levied on the bank accounts of the appellant forthwith.

#### I. Manojbhai Rameshchandra Shah versus SEBI

The AO vide order dated March 12, 2015 imposed varying amounts of penalty against six entities namely Vijay Vora, Hina Vora, Chetan Dogra, Chetan Dogra HUF, Manoj bhai Shah and Minoti Dhawan, inter alia, for violating regulation 3(a) to (d), 4(1), 4(2) (a), (b), (d), (e) of PFUTP Regulations. These six entities were found to be connected on the basis of combination of factors like common address, family relations, off-market transfers, etc.

The appellant was found to have indulged in multiple reversal trade transactions during the investigation period to create false appearance of liquidity in the scrip of Sky Industries Ltd (SIL) impacting the price of the scrip considerably. This was done through first transferring shares of Vijay Vora in the off-market to the appellant herein (as well as to oth-

ers) to circumvent detection of reversal of trade done on-market. On the basis of the above findings, AO imposed penalty of ₹ 25 Lakh on the appellant for the aforesaid violations. Aggrieved by the said order, the appellant preferred the appeal.

The appellant, inter alia, argued that:

- i. no manipulation in the scrip SIL was possible because it was traded in the 'T' scrip category wherein 100 per cent delivery was mandatory and 100 per cent margin has to be paid and there were 5 per cent circuit filter applicable on the price variations;
- ii. there was no reversal of trades as alleged because he sold the shares many days after it was obtained by him. The charge of reversal trades can be alleged only if the reversal takes place on the same day or nearby days;
- iii. the appellant got the shares from one Vijay Vora because Vijay Vora had owed him certain amount on account of certain computer services provided by the appellant to him. Instead of paying money, Vijay Vora paid by means of shares of 35 companies including that of SIL;
- iv. off-market to on-market trade cannot be treated as reversal. Further, meeting of minds between parties is needed for reversal of trades to happen and in the instant case there was no such meeting of minds.

Hon'ble SAT did not find any merit in the aforesaid arguments of the appellant and dismissed the appeal vide order dated September 1, 2017 by holding as under:

- i. though the appellant claims to have received the shares in lieu of certain dues from Vijay Vora for some past computer services rendered, there is nothing on record to substantiate the nature of the past services or the amount allegedly due to the appellant;
- ii. further, when the claim amount was ₹ 1.75 Crore why the appellant accepted ₹ 1.59 Crore worth illiquid scrip which finally got him only ₹ 1.42 Crore by selling it back to mainly Vijay Vora himself is also not explained by the appellant. It is also intriguing to note that while Vijay Vora

had money to buy shares in the on-market, he did not have money to repay his dues to others and others were willing to accept illiquid scrip instead;

- iii. many of the sell orders on-market were placed by the appellant at substantial discount from the last traded price. Sell orders were also placed within a minute from the buy orders of Vijay Vora which would indicate meeting of minds. Given these evidences the argument of the appellant that there was no meeting of minds between Vijay Vora and the appellant is not convincing and hence not acceptable;
- iv. The argument that the penalty imposed is disproportionately high is also without any merit as the penalty imposable under section 15HA of SEBI Act shall not be less than ₹ 5 Lakh but which may extend to ₹ 25 Crore or three times the amount of profits made, whichever is higher. Accordingly, the penalty of ₹ 25 Lakh imposed, given the facts and circumstances of the matter, cannot be held as excessive or harsh.

#### J. United Breweries (Holdings) Limited versus SEBI

The AO vide order dated November 27, 2015 imposed a consolidated penalty of ₹ 15 Lakh for failure to make disclosure in accordance with regulation 31 of the Takeover Regulations in respect of three transactions involving invocation of the pledges which were created by United Breweries (Holdings) Limited (UBHL) on shares of United Spirits Limited held by UBHL on various dates in February and March 2012.

The appellant argued that the pledge transactions were disclosed by way of a Consolidated Disclosure made by the appellant on April 4, 2012 with a delay of 24 days. Further, in certain specific cases, the invocation of pledges were disclosed to the appellant by the intermediary only few days after the actual invocation, and thus the appellant could not be expected to make such disclosure without having knowledge of the same. Also that for calculation of the due-date under regulation 31(3) for making the disclosure on invocation of a pledge, the relevant starting date must be the date of intimation of invocation of the pledge

and not the date of actual invocation of the pledge.

SEBI argued that the purported consolidated disclosure made by the appellant does not contain any disclosure relating to "invocation" of pledges, even though there were three invocation transactions during the relevant period. Regulation 31(3) is unambiguous that the disclosures under sub-regulations (1) and (2) "shall be made within 7 working days from the creation or invocation or release of encumbrance". Further, in light of the provisions of Section 15A (b) which provides a penalty of ₹ 1 Lakh per day, a consolidated penalty of ₹ 15 Lakh is just and reasonable.

After taking into account the arguments of both sides, Hon'ble SAT vide order dated September 25, 2017 held that each of the pledge transactions are distinct events and need to be disclosed within 7 working days from the date of each event, and if not done, would constitute separate violations. Hence, consolidated penalty of ₹ 15 Lakh imposed by the AO cannot be said to be excessive or unreasonable.

#### K. Abhimanyu Exports Ltd. versus SEBI

This Appeal was filed challenging the order dated August 08, 2017 passed by AO imposing a penalty of ₹ 10 Lakh on the appellant for the delay in compliance in filing reports required under regulation 8(3) of Takeover Regulations, 1997 for the years 1998 to 2009.

Earlier, appellant had filed a suo motu settlement application on February 2, 2012 which was rejected by SEBI as the appellant had failed to submit certain documents sought by SEBI. Thereafter, SEBI initiated adjudication proceedings against appellant which resulted in the impugned order.

Appellant argued that the impugned order is unsustainable as it was passed on the basis of facts set out in the settlement application filed by the appellant and as per SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 (Settlement Regulations), SEBI cannot rely upon the information / representation contained in the settlement application in the proceedings initiated after rejection of the settlement application.

Hon'ble SAT vide its order dated October 30, 2017 dismissed the appeal. While upholding the im-

pugned order it held that the restriction under regulation 21 (2) of Settlement Regulations is only in relation to the proposal or information which are exclusively within the knowledge of the applicant (appellant) and the restriction is not applicable to uncontested facts set out in the settlement application. In other words, uncontested facts set out in the settlement application which are easily ascertainable even otherwise, could be relied upon by SEBI in the proceedings initiated after rejection of the same.

#### L. Rajesh Pavithran versus SEBI

This appeal was filed challenging the order of WTM dated September 5, 2017 in the matter of K. Sera Sera Limited. By the said order, several persons including the appellant were restrained from accessing the securities market directly or indirectly, and dealing in securities or instruments with Indian securities as underlying in any manner whatsoever, for a period of ten years from date of the said order.

The appellant sought an interim relief of liquidation of his existing demat holdings and utilization of the proceeds. It was argued on behalf of SEBI that permitting the appellant to sell his demat holdings would amount to infringement of impugned order, which imposed debarment from dealing in securities for 10 years.

Hon'ble SAT vide order dated October 30, 2017 held that fact that the appellant is restrained from accessing the securities market cannot be a ground to deny liquidation of the shares lying in the demat account especially when no amount is recoverable under any order passed by SEBI against the appellant and there is no order passed by SEBI attaching the shares lying in the demat account of the appellant. Further, with respect to the submissions of SEBI that the amount realised by liquidating the shares lying in the demat account should be kept in the ESCROW account, Hon'ble SAT found that there were no reason to 'issue any such direction, because, as on date neither the shares in the demat account are attached nor there is any amount payable by the appellant to SEBI under any order passed by SEBI'.

Accordingly, while upholding the SEBI order, Hon'ble SAT allowed the appellant liquidate

the shares lying in the demat account of the appellant within a period of three months from the date of its order. [In an Appeal filed by SEBI, this order of Hon'ble SAT has been stayed by the Hon'ble SC]

#### **M. Advik Textiles and Realpro Pvt. Ltd. versus SEBI**

This appeal was filed challenging the ad-interim ex-parte order passed by WTM on January 05, 2016 whereby, the bank accounts of seven entities including the appellant were impounded for the purpose of securing the unlawful gains (including interest) of ₹ 1,60,15,443 allegedly made by them jointly and severally in violation of the provisions of section 12A (a), (b), (c), (d) and (e) of the SEBI Act, 1992 and regulations 3 and 4 of the PIT Regulations in the scrip of Bank of Rajasthan.

Further, banks and depositories were directed to freeze all bank accounts and demat accounts held jointly or severally by all the seven entities. The seven entities were also directed not to dispose of or alienate any of their assets or properties till such time that the impounded amount is credited in a designated escrow account. The aforesaid entities were also required to provide a full inventory of all assets and properties of all their bank accounts, etc. in which they hold substantial interest.

Vide order dated October 11, 2017, the Hon'ble SAT ordered that since the impugned order is an ex-parte order and no final order determining the unlawful gains, if any, has been passed, SEBI shall pass final order within a period of six weeks from the date of its order. It was further made clear that the attachment of bank accounts and demat accounts shall continue for a period of six weeks from the date of its order and if final order is not passed within a period of six weeks as aforesaid, then the attachment on the bank accounts and demat accounts of the appellant shall stand vacated.

#### **N. Ram Piari & Ors. versus SEBI and Bikramjit Ahluwalia versus SEBI**

These two appeals were filed challenging the order of AO dated February 25, 2015 whereby a pen-

alty of ₹ 20 Lakh was imposed on 5 entities including the appellants, jointly and severally under Section 15H (ii) of SEBI Act for violation of regulation 11(2) read with 14(1) of the Takeover Regulations in the matter of Ahlcon Parenterals (India) Ltd (APIL). It was found by the AO that promoter group which was already holding 66.15 per cent, had acquired a total of 5.38 per cent of the equity share capital of APIL and thereby crossed the limit of 5 per cent in the month of March 2010, triggering regulation 11(2) read with 14(1) of the Takeover Regulations without making public announcement. Vide order dated November 20, 2017, Hon'ble SAT held that AO has categorically mentioned in the impugned order that the appellants are part of the promoter group and have all along been making disclosures before the Stock Exchanges and SEBI as common promoter group. The appellants have not brought on record anything either before the AO or the Tribunal to point out that there were differences among the promoters in acquiring more than 5 per cent shares either by Bikramjit Ahluwalia or by any other Promoter and therefore, the contention of the appellant as regards non-meeting of minds in the acquisition of shares in violation of Takeover Regulations cannot be countenanced.

The Hon'ble SAT further held that it is pertinent to note that an "acquirer" defined under Section 2(1) (b) includes a person acting in concert with the acquirer where the acquirer is a promoter and persons acting in concert with him are also promoters. There is a presumption in law that they are all acting in concert with each other unless the contrary is proved. In the present case, admittedly, the appellants, as promoters, had from time to time purchased shares of the target company only with a view to consolidate the total promoter holding. The consolidation of the promoter holding is the admitted common objective and purpose of the appellants and consequently, the appellants, in the facts of the present case, are persons acting in concert.

The Hon'ble SAT therefore held that in the facts and circumstances of this case AO is justified in imposing a monetary penalty and accordingly dismissed the appeal.

#### O. Veerhealth Care Ltd. versus SEBI

This appeal was filed challenging the order of AO dated August 07, 2017 imposing a penalty of Rs.5 Lakh under Sections 23A and 23E of SCRA for the violation of Clause 35 of Listing Agreement read with Section 21 of SCRA.

The penalty was imposed on appellant for its failure to disclose Veer Energy & Infrastructure Ltd. (VEIL) under the "Promoter group" [as per the definition of Promoter Group under regulation 2(zb) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations) in the quarterly disclosures of September 2012, December 2012 and March 2013.

Hon'ble SAT vide its order dated November 15, 2017 allowed the appeal and accepted the contention of the appellant that since VEIL does not hold any share in appellant company, the name of VEIL is not required to be mentioned in the shareholding pattern of VCL. Hon'ble SAT while allowing the appeal followed its judgment in the case of Gopalkrishnan Raman vs. SEBI (Appeal No. 281 of 2014 decided on November 20, 2015).

#### P. Mayank Dhanuka versus SEBI

This appeal was filed challenging the ex-parte ad-interim order of the WTM dated August 22, 2016 whereby numerous entities including the appellant was restrained from buying, selling or dealing in securities, either directly or indirectly, in any manner, till further directions. The impugned order alleged that upon investigation on the basis of various references from Directors of Income-tax and internal alerts, the appellant was found to have misused the stock exchange mechanism for evading tax (Long Term Capital Gain) while dealing in the shares of Pine Animations Ltd. The impugned order imposed restrictions on four categories of entities (i) the listed company, its directors promoters and promoter group (ii) beneficiaries such as preferential allottees etc., for whom the scheme was devised to book the illegitimate gains (iii) Last Traded Price contributors who allegedly manipulated the price of the scrip (iv) exit providers who were the entities who provided exit to the beneficia-

ries through the stock exchanges.

Appellant argued that in view of para 7.1 of the Information Memorandum dated December 29, 2016 approved by the SEBI's Board, the proceedings initiated against him is liable to be dropped as he is not involved in the price manipulation.

Hon'ble SAT vide order dated December 15, 2017 rejected the argument of appellant that Information Memorandum was binding on SEBI and any deviation therefrom would be arbitrary/ discriminatory and violative of the principles of promissory estoppel. Hon'ble SAT further noted that, neither the Information Memorandum contemplates dropping the proceedings already initiated nor does it seek to exonerate the beneficiaries who are found to be connected with the persons who have misused the stock exchange platform.

#### Q. Devang Master versus SEBI

This appeal was filed challenging the order dated December 24, 2014 of AO imposing a penalty of ₹ 1 Crore, i.e. ₹ 20 Lakh under Section 15HA, ₹ 75 Lakh under Section 15H(ii) and ₹ 5 Lakh under Section 15A(b) of SEBI Act for violating PFUTP Regulations, Takeover Regulations and PIT Regulations. The impugned order was passed in compliance of an earlier SAT order directing the AO to reconsider the matter afresh.

Appellant being the promoter and director of Empower Industries India Ltd. (EIIL), held 80 per cent of the total shareholding of EIIL. The appellant was found to have handed over 1,25,000 shares, and 2,13,000 shares to Shambhu Agrawal, the finance broker, which in turn were used for market manipulation. Appellant argued that the shares were given to Shambhu Agrawal for arranging loan of ₹ 1 Crore. As the loan transaction did not materialize, the appellant had returned ₹ 5 Lakh to Shambhu Agrawal and thereupon, Shambhu Agrawal returned the shares. The appellant also argued that his signatures on the transfer deeds were forged and he could not be held liable for violation of SEBI Regulations.

Hon'ble SAT vide order dated January 5, 2018 held that there was no direction to the AO to pass fresh order only after recording additional evidence.

The AO had the discretion either to record additional evidence or not to record additional evidence in relation to the plea of forgery raised by the appellant. It was further held that forging the signature of the appellant has no bearing in the present case because penalty is imposed on the appellant for acquiring shares of EIIL from third parties without complying with the provisions contained in the regulations framed under the SEBI Act and not on account of transferring the shares of EIIL belonging to the appellant. Further, it was held that the finding of AO that the appellant was instrumental in issuing misleading corporate announcement cannot be faulted and that acquisition of shares of EIIL in excess of the limits prescribed, without making public announcement/ open offer was in gross violation of regulation 10 and 11(1) of the Takeover Regulations. Similarly, when shares of EIIL in the name of third parties were transferred to the name of the appellant, disclosures ought to have been made, but the appellant failed to make disclosures.

It was therefore held that once it is established that the appellant had adopted a modus operandi for trading in the shares of EIIL belonging to the appellant in violation of the regulations framed by SEBI, then irrespective of the fact that the appellant had received any consideration or not, the appellant is bound and liable to face the consequences for violating SEBI Act and the regulations framed thereunder. Fact that lesser penalty has been imposed on the Agrawal group cannot be a ground to take lenient view towards the appellant, because, the appellant was the chief architect of manipulating a device for committing fraud on the investors in the securities market.

#### R. Krishnendu Das & Ors. versus SEBI

This appeal was filed challenging the order of WTM dated May 6, 2016, whereby he inter alia, directed GBC Enterprise Ltd. and its directors (past and present) to refund the monies collected through issuance of RPS (in violation of Section 56, Section 60 read with Section 2(36), Section 73 read with the SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares), Regulations, 2013) and debarred them from accessing the securities market for four

years. Aggrieved by the said order, the appellant, a past director, challenged the said order.

Appellants argued that RPS were issued on private placement basis. Further, company itself is directed to be wound up by the order of the Hon'ble High Court of Calcutta in C.P. 971/2014 and Official Liquidator is appointed and has taken possession of assets and properties etc. therefore the impugned order passed by SEBI cannot be enforced against the appellants.

Hon'ble SAT vide order dated December 20, 2017 held that admittedly, the appellants were the managing director and director of the company when the monies were collected by the company from the investors. Hon'ble SAT followed its order in Manoj Agarwal vs. SEBI (Appeal No. 66 of 2016 decided on July 14, 2017) and held that the appellants cannot escape joint and several liabilities to refund the monies to the investors. Fact that the company is directed to be wound up would neither absolve the company nor its directors of their obligation to refund the monies to the investors. While the Official Liquidator would liquidate the assets of the company, inter alia, for paying the dues of the investors, order passed against the appellants under the securities laws can be enforced by SEBI. Accordingly, the appeal was dismissed.

#### S. Rencal Chemicals (India) Ltd. versus SEBI

This appeal was filed challenging the order of AO dated November 29, 2017 imposing a penalty of ₹6 Lakh on the appellant under section 15HB of SEBI Act for failing to obtain SEBI Complaint Redressal System ('SCORES') authentication within the stipulated time. In fact, the appellant applied for SCORES authentication belatedly on October 28, 2015 and the same was granted to the appellant on January 21, 2016. Appellant argued that the delay in obtaining SCORES authentication did not in any way affect the investors because at the relevant time no investor grievance was pending. Further, the penalty of ₹6 Lakh is exorbitant and Section 15J factors were not taken into consideration while passing the impugned order.

Hon'ble SAT vide order dated February 5, 2018 held that the fact that no investor grievance were pending at the relevant time cannot be a ground for

the appellant to disobey the circulars issued by SEBI. Whether there was any investor complaint or not, appellant was bound to comply with the circulars issued by SEBI. In none of the circulars issued by SEBI it was stated that SCORES authentication has to be obtained only if there is a pending investor grievance. Therefore, the appellant who is guilty of disobeying the circulars issued by SEBI and who has applied for SCORES authentication after delay of 10 months from the date of issuing last circular dated December 18, 2014 is not justified in contending that no penalty could be imposed on the ground that no investor complaint was pending at the relevant time.

It was further held that quantum of penalty depends upon facts of each case. Therefore, fact that in some cases lesser penalty has been imposed cannot be a ground to hold that even in the present case lesser penalty ought to have been imposed. Hon'ble SAT also held that the penalty of ₹ 6 Lakh as against imposable penalty of ₹1 Crore cannot be said to be harsh, excessive and exorbitant. Accordingly the appeal was dismissed.

#### T. Corporate Strategic Allianz Limited versus SEBI

These two appeals were filed challenging two separate orders of SEBI. First appeal was filed against the order dated August 12, 2016 passed by the WTM whereby the appellant (among others) was prohibited from accessing the securities market directly or indirectly, and was also prohibited from buying, selling or otherwise dealing in securities, directly or indirectly for a period of three years. The appellant was also directed to disgorge the unlawful gain of ₹ 20, 64,745/- along with interest thereon from February 2007 till payment. It was found that the appellant being one of the parties connected to the promoters of Platinum had received shares from one of the promoters of Platinum which it had sold in the market to make a profit. Therefore, the appellant had aided and abetted Platinum Corporation Ltd. and its promoters and directors and thereby violated the provisions of PFUTP Regulations, 2003.

The second appeal was filed against the direction of SEBI vide letter dated December 22, 2016 ad-

vising the appellant to dissociate from discharging the obligations as a merchant banker in view of the three year restraint imposed by the aforesaid order of the WTM. Since the order impugned in the second appeal was a consequential direction to the WTM's order impugned in first appeal, facts in both appeals being common, both the appeals were heard together and disposed of by common decision.

In the second appeal, the appellant argued that in any case the license of the appellant could not have been suspended or cancelled without following the due procedure laid down in the SEBI (Intermediaries) Regulations, 2008, i.e by issuing a separate show cause notice and providing an opportunity of being heard, etc. Further, the order of the WTM did not pass any instruction relating to the suspension / cancellation of the certificate of registration of the appellant as a Merchant Banker nor did it find that the appellant was not a fit and proper person as a Merchant Banker. However, through the letter dated December 22, 2016, SEBI has unilaterally declared the appellant as not fit and proper without following any due process and restrained the appellant from taking any merchant banking business.

Hon'ble SAT vide order dated February 1, 2018 held that a clear reading of Section 12(1) and 12A of SEBI Act and Regulations 2, 3 and 11 of PFUTP Regulations, 2003 make it abundantly clear that a merchant banker who is charged with PFUTP violations and therefore restrained from the securities market cannot discharge its functions as a merchant banker because merchant banking is indirectly dealing in securities market. Argument that the procedure required under the Intermediaries Regulations have not been followed and thereby principals of natural justice have been violated have no merit because the appellant was charged with major violations of conspiring with other entities and thereby violating the provisions of PFUTP Regulations. In such a case, question of observing the principle of natural justice does not arise.

Hon'ble SAT placed reliance on the judgment of the Hon'ble Supreme Court in the matter of Karnataka State Road Transport Corporation and Anr. vs. S.G. Kotturappa and Anr., 2005 3 SCC 409, to hold that the principles of natural justice are not required

to be complied with when it will lead to an empty formality. When the WTM's order has clearly found the appellant liable for violation of PFUTP Regulations and accordingly the appellant was restrained from accessing the securities market and the registration of the appellant as a merchant banker has not been either suspended or cancelled by the impugned letter, the question of following the procedure for suspending or cancelling the license does not arise at all. Accordingly, Hon'ble SAT held that there is no merit in the arguments regarding violation of principles of natural justice and dismissed both appeals with no order as to costs.

#### **U. Abhay Raj Ramphar Shukla versus SEBI**

This appeal was filed challenging the order passed by AO dated May 16, 2017 imposing a penalty of ₹ 1 Lakh on the appellant under Section 15HA of SEBI Act, 1992 for violation of regulation 4(1), 4(2)(a) and 4(2)(e) of the PFUTP Regulations.

The appellant had traded in the scrip of Millennium Cybertech Limited (MCL) through the stock broker M/s Vijay Bhagwandas & Co. during the period from July 01, 2005 to September 30, 2005 and had executed off-market transaction to the extent of 2,70,000 shares with several entities which included transactions with Rajendra Adukia, Ramasudhakaran Menon etc. which were found to be in fraudulent in nature by the AO.

Hon'ble SAT vide order dated February 17, 2018 held that although the appellant himself had traded for limited number of share on market, the appellant had aided and abetted other manipulators by entering into off-market trades with them and even met the pay-in obligation of shares sold by those manipulators in the market trades. It is neither the case of the appellant that the persons to whom he had sold the shares of MCL in off-market had not indulged in manipulative trades nor it is the case of the appellant that he had not met the pay-in obligation of the shares sold by the manipulators in the market trades. Fact that the trades executed by the appellant on market were not responsible for increase in price or liquidity of the scrip of MCL would not absolve the appellant from facing penal consequences for aiding and abetting the

manipulators who had indulged in manipulating the price of the MCL scrip. Apart from selling the shares of MCL in off-market to the manipulators, the appellant has met the pay-in obligation of those manipulators in respect of their on market trades. In such a case, the inference drawn by the AO that the appellant had aided and abetted the manipulators who had created a misleading appearance of trading in the scrip of MCL and manipulated the price of MCL scrip in gross violation of PFUTP Regulations cannot be faulted. Accordingly, the Hon'ble SAT did not find any merit in the appeal and dismissed the same.

#### **V. Shreeyash Industries Ltd. & Ors. versus SEBI**

This appeal was filed challenging the order passed by the AO dated October 31, 2017. By the said order varying amounts of monetary penalty was imposed against three appellants under section 15 HB of SEBI Act and Section 23A (a) of SCRA for violation of Clause 36(7) of Listing Agreement read with section 21 of SCRA and Clause 2.1 of Schedule II of regulation 12(2) of PIT Regulations.

Hon'ble SAT vide its order dated March 6, 2018 upheld the impugned order and held that the appellant had not informed BSE about non-execution of the orders in time and in fact BSE was informed only on November 14, 2014 i.e. after a delay of more than two years in disclosing non-execution of the 4 orders received during February – July 2012.

While upholding the decision, Hon'ble SAT noted that the submission of the appellants that the investigation of SEBI was initiated on a complaint received from one Anil Kumar Sharma, copy of which was not given to the appellants was prejudicial to appellants has no merits since SEBI did a full investigation and the impugned order has been passed after following the due process like issue of show cause notice to the appellants and providing opportunity for reply and personal hearing etc.

#### **W. Ashwin Bhandari versus SEBI**

This appeal was filed challenging the AO order dated December 21, 2017, imposing a penalty of ₹ 2 Lakh on the appellant under section 15A(a) of SEBI Act for violation of Section 11C(2) and Section

11C(3) of the SEBI Act for failure to comply with summonses issued to the appellant for production of certain documents in.

Upon hearing both sides, Hon'ble SAT vide order dated March 21, 2018 held as under:

- i. Admittedly, the appellant, during the course of his statement recorded had specifically agreed to furnish certain information by April 30, 2016, but failed and neglected to furnish the same. Thereupon, summonses were issued again and again calling upon the appellant to furnish requisite information, but the appellant failed and neglected to furnish the information. In such a case, fact that the summonses were served beyond the date prescribed in the summonses for furnishing the information cannot be a ground for the appellant not to furnish the information especially when the appellant himself had agreed to furnish the information by April 30, 2016;
- ii. similarly, fact that the investigation report concludes that the appellant was not involved in the violations relating to the scrip of the company, cannot be a ground to hold that the appellant has not violated Section 11C(2) and 11C(3) of SEBI Act;
- iii. thus, in the facts of present case, since the appellant is guilty of not furnishing the information called for, decision of the AO that the appellant has violated Section 11C(2) and 11C(3) of SEBI Act cannot be faulted.

However, while upholding the impugned order, Hon'ble SAT set aside the penalty of ₹ 2 Lakh imposed on the appellant holding it to be unjustified and issued a warning to the appellant for the following reasons:

- i. appellant on receiving the summons for recording statement had in fact appeared and his statement was recorded;
- ii. admittedly, the two summonses seeking information were served after the date for compliance set out in those summonses. Thus, even SEBI is guilty of not serving the summonses before the date for compliance set out in the sum-

monses;

- iii. it is apparent that the information sought from the appellant was not a vital information, because the investigation continued without the information called for and it is not the case of SEBI that failure on part of the appellant to furnish the information has hampered the investigation;
- iv. on the contrary, the investigation report clearly records that the appellant was not involved in the violation relating to the scrip of the company;
- v. appellant is found guilty of not furnishing the information under the summonses served beyond the date for compliance set out in the summonses for the first time and there is nothing on record to suggest that such violation has been repeated.

**X. Brooks Laboratories Ltd. & Ors., Durga Shankar Maity, Ketan Shah and Parvinder Kaur versus SEBI**

These appeals were filed against the common order of AO dated January 12, 2015 imposing individual penalty on each appellant aggregating to ₹ 11.80 Crore under Section 15HA/ 15HB of SEBI Act for violating PFUTP Regulations and ICDR Regulations in the matter of Brooks Laboratories Limited(Brooks).

The AO found that Brooks along with the Appellants had:

- i. failed to make disclosures of material facts in the Prospectus such as:-
  - a) funds raised through Inter Corporate Deposits ("ICDs") vide Board Resolutions dated May 25, 2011, July 2, 2011 and July 21, 2011, which were in the nature of a bridge loan/short term loan;
  - b) appointment of Suryamukhi Projects Pvt. Ltd as project contractor as also the (ii) an advance payment of ₹ 15.30 Crore (full amount of the contract to Suryamukhi);
  - c) appointment of Neo Power Universal FZ LLC, UAE as Supplier for plant and ma-

- chinery and (ii) making an advance payment of ₹ 13.97 Crore to Neo Power (substantial amount of the contract);
- ii. had indulged in Round Tripping of Funds;
  - iii. siphoned off and diverted IPO proceeds:
    - a) through purchase orders;
    - b) through repayment of ICDs raised from certain related entities prior to the issue.

In view of the above, it was found that the appellants violated the provisions of regulations 3 (a), (b), (c) and (d) and regulations 4 (1), 4 (2) (d), (e), (f) and (k) of PFUTP Regulations read with sections 12 A(a), (b) and (c) of SEBI Act and regulations 57(1), 60 (4) (a), 60(7) (a) and Clauses 2 (VII) (G), 2 (XVI) (B) (2) of Part A of Schedule VIII read with regulation 57(2) (a) of ICDR Regulations.

After hearing both sides at length, vide order dated March 21, 2018 Hon'ble SAT held as under:

- a. decision of the AO that the appellants have indulged in round tripping of funds is correct;
  - b. decision of the AO that receipt of ₹ 8 Crore by way of ICDs from the four connected entities was a fictitious and illusory ICD and hence repayment of ₹ 8 Crore to the four connected entities amounts to siphoning of IPO funds cannot be sustained;
  - c. decision of the AO that the appellants have misutilized ₹ 2.50 Crore from IPO funds by financing Overall Financial Consultants Pvt. Ltd. through layer of entities, to trade in the shares of the company cannot be sustained;
  - d. decision of the AO that failure to disclose material information relating to appointment of Suryamukhi for the project work and failure to
- e. disclose advance payment of ₹ 15.30 Crore made to Suryamukhi was in violation of the PFUTP Regulations and ICDR Regulations is correct;
  - f. decision of the AO that false and misleading statements were made in the RHP and Prospectus relating to the cost of construction in violation of the PFUTP Regulations and ICDR Regulations correct;
  - f. decision of the AO that failure to disclose appointment of Neo Power for supply of plant and machinery and failure to disclose advance payment of ₹ 13.97 Crore made to Neo Power was in violation of PFUTP Regulations and ICDR Regulations correct;
  - g. decision of the AO that even after appointing Neo Power for supply of plant and machinery, false and misleading statements were made in the RHP and Prospectus relating to the purchase of plant and machinery, in violation of PFUTP Regulations and ICDR Regulations is correct;
  - h. decision of the AO that the appellants have failed to disclose raising of funds amounting to ₹ 30.40 Crore through ICDs in the RHP and the Prospectus in violation of PFUTP Regulations and ICDR Regulations is correct;
  - i. decision of the AO that false and misleading statements were made in the RHP/Prospectus that the company has not raised any bridge loan to be repaid from the IPO proceeds in violation of PFUTP Regulations and ICDR Regulations is correct;

In view of the above, Hon'ble SAT modified the penalty on appellants from ₹ 11.80 Crore to ₹ 1.30 Crore.

## 2. SEBI ORDERS

### A. Final order in respect of Price Waterhouse and Others in the matter of Satyam Computer Services Ltd (SCSL).

SEBI investigation found that the published books of account of SCSL audited by Price Waterhouse (PW) contained false and inflated bank balances, fixed deposits and fictitious revenue from sales and debtors' figures for several years and it was alleged that the auditors had colluded with the directors and employees of SCSL in falsifying the financial statements of SCSL. Pursuant to the directions of Hon'ble Supreme Court and upon a thorough appreciation of the evidence, SEBI passed the final order on January 10, 2018 giving the finding that the audit was conducted by the firm in a perfunctory manner and there were several marked departures from Auditing Standards and Guidance Notes in several aspects, including the failure to exercise control over the process of external confirmation of bank balances. The order restrained the Price Waterhouse network of firms practicing as Chartered Accountants in India under the brand and banner of Price Waterhouse from issuing any certificate of audit of listed companies, compliance of obligations of listed companies and intermediaries registered with SEBI for a period of two years. The order also directed Price Waterhouse (ICAI Registration No. 007568S) and its two former partners, S. Gopalakrishnan and Srinivas Talluri, to jointly and severally disgorge the wrongful gain of ₹ 13.09 crore, along with interest 12 per cent per annum from January 7, 2009.

### B. Final order against Nirmal Kotecha in the matter of Pyramid Saimira Theatre Limited (PSTL)

On December 21 and 22, 2008, there were media reports that, SEBI had directed P.S. Saminathan, one of the promoters of PSTL, to make an open offer within 14 days, for allegedly violating creeping acquisition norms under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. As a result, the trading volume in shares of the company shot up on December 22, 2008, specially in the first one hour of trading. On the same day, PSTL first informed BSE and NSE in the morning that the company had not received any such communication from

SEBI. Subsequently, PSTL received the said communication at around 10.30 a.m. the same day i.e. December 22, 2008, which was allegedly forged on SEBI's letter head. P.S. Saminathan informed BSE and NSE on December 23, 2008 about the receipt of the letter from SEBI. On December 23, 2008, SEBI issued a press release clarifying that no order or letter has been issued by SEBI against PSTL.

An investigation was ordered for the purpose of examination of trading in the scrip of PSTL. Based on the investigation, a Show Cause Notice dated December 03, 2013 was issued against Nirmal Kotecha (Noticee) inter alia alleging that using front entities, the Noticee resorted to artificial inflation of the trading volumes and stock price of PSTL scrip by entering into synchronized trades, reversal trades, self-trades and connived with several entities for the publication of the forged SEBI letter for offloading his entire shareholding in the scrip for booking profits.

Accordingly, SEBI passed final order on March 22, 2018 against Nirmal Kotecha debarring him for a period of 14 years from the date of Interim Order dated (April 23, 2009) and directing him to pay an amount of ₹ 32,50,882, along with interest 12 per cent per annum from December 22, 2008 onwards.

### C. Final order in the matter of Anshu's Clothing Limited

The case involved the question as to whether any transfer of shares in demat account from one party to another, as a security for a loan promised by lender, without following the procedure prescribed for creation of pledge, under the provisions of the SEBI (Depositories and Participants) Regulations, 1996 on the said shares, would change the nature of transaction from intended pledge to "acquisition" or transfer of ownership of shares. It was held in the matter that the said question has to be decided in the context of the facts and circumstances specific to each case, rather than merely by literal interpretation of the provisions of the applicable statutes. It was further held that the intention of the parties involved is a very crucial factor which plays an important role in deciding the question either way.

#### D. Final order in the matter of ERIL Mutual Benefit India Limited

The matter involved the question as to whether the allotment of equity shares by a Mutual Benefit Company to more than 50 persons, in a token manner, for the purpose of making the allottees a member of the company would attract the provisions of the Companies Act, 1956 read with SEBI (ICDR) Regulations, 2009 as applicable to a deemed public issue of securities. It was held that a company, which has been incorporated with the object of functioning as a Nidhi and which issues equity shares primarily to make members, has to be treated on a different footing than a company which issues securities primarily to raise money through such issuance per se.

#### E. Final order in the matter of acquisition of the shares of Beryl Securities Limited (BSL).

The shareholding and voting rights of the promoter group (noticees) of BSL, a company listed on the BSE, increased from 23.24 per cent to 25.09 per cent, at the end of June 2013 quarter. However, the noticees failed to make a public announcement for an open offer for the acquisition of shares, as mandated under regulation 3(1) and 3(3) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. In response to the common Show Cause Notice dated June 17, 2016 for the aforesaid violation, the noticees submitted that inadvertently the Beryl Drugs Limited (BDL) another listed company promoted by the noticees were not shown as promoters in the shareholding pattern submitted by BSL with BSE and in view of the same, the noticees are not under an obligation to make an open offer, as their shareholding along with BDL was 36.63 per cent.

None of the public disclosures of shareholding pattern of BSL showed BDL as part of promoter or promoter group prior to or post 2013. Considering the fact and circumstance of the case it was held that BSL having consistently shown BDL as part of "public shareholder" to the stock exchange, it cannot argue that BDL belongs to the category of "deemed PAC" merely by virtue of the definition clause in the Takeover Regulations and project its case to be one of wrongful disclosure. The Whole Time Member re-

fused to accept this contention as it would defeat the object of the Takeover Regulations.

Accordingly, in the final order dated August 24, 2017, the noticees were directed to jointly and severally make a public announcement to acquire shares of BSL, in accordance with the provisions of the Takeover Regulations, 2011, within a period of 45 days from the date of this order and pay interest at the rate of 10 per cent per annum from August 7, 2013 till the date of payment of consideration to the shareholders.

#### F. Final order in the matter of Zenith Infotech Limited (ZIL)

ZIL had issued FCCBs in 2006 and 2007 which were due for redemption in 2011 and 2012 respectively. The company and the promoter directors (excluding those who had deceased in the interregnum) were found to have orchestrated a fraudulent device whereby proceeds from the sale of the company's division/assets were diverted to related entities contrary to the publicly stated intention of repayment to FCCB holders. The fraudulent device included corporate announcements which were found to have not been adhered to as well as material omission to make disclosures. While there had been a proposal to disgorge illegal gains as well, the order concluded that proof of illegal gains made by the Noticees could not be quantified since the case pertains to fraudulent deviation from promises made to the company's shareholders and therefore no orders of disgorgement or invocation of bank guarantee were found to be appropriate. Directions were passed against the company and persons found to have executed the fraudulent device, debarring them from dealing and accessing the securities market and from associating themselves as director or key management personnel in any listed company or registered intermediary for two years.

#### G. Final order in the matter of Kerala Housing Finance Limited (KHFL)

Two interim orders had been passed by SEBI on July 31, 2015 and November 20, 2015 against KHFL and its promoters and directors. The latter order was also passed against the Debenture Trustees appointed by KHFL. The orders were in relation to issue of eq-

uity shares, preference shares and debentures issued by KHFL which were found to be of the nature of a public issue and was therefore in violation of provisions of the Companies Act, 1956, Companies Act, 2013, SEBI (ICDR) Regulations, 2009 and SEBI (ILDS) Regulations, 2008, since the requirements of public issue and listing of securities were not complied with. KHFL was earlier a Housing Finance Institution (HFI) registered with the National Housing Bank (NHB) thereby falling within the criteria of Public Financial Institutions or NBFCs. Therefore KHFL had argued that on account of the second proviso to section 67(3) of the Companies Act, the concept of "deemed public issue" would not apply to it. However the SEBI final order dated August 10, 2017 concluded that though the number of allottees specified in first proviso to section 67(3) i.e. 49 person, would not solely be relevant to determine the 'public' nature of the issue as far as PFIs or NBFCs are concerned, the issue of shares/ debentures could still be considered as 'public', if the criteria specified in clauses (a) and (b) of Section 67(3) of Companies Act 1956, or section 42(7) & (8) of Companies Act 2013, as the case may be, are satisfied. Accordingly, based on available facts (including shareholder approvals/board resolutions, application forms, advertisement on KHFL's website, frequency of allotment and number of allottees) the issue of securities by KHFL was found to be 'public' in nature. Kerala Housing Finance Ltd. and others were directed to jointly and severally refund the money collected through the offer and allotment of equity share, debentures and preference shares of Kerala Housing Finance Limited.

#### **H. Enquiry Proceedings against six brokers in the matter of Gangotri Textiles Ltd including SMC Global Securities.**

Enquiry Proceedings under section 12(3) of the SEBI Act, 1992 read with the SEBI (Intermediaries) Regulations, 2008 were initiated against seven stock brokers who formed part of the 'Vishvas group' for having engaged in synchronised, circular and self-trades. Some of the trades executed by these brokers were proprietary in nature while others were for certain clients, who allegedly also formed part of the same group. While disposing of the enforcement

actions initiated against these brokers, the Learned Whole Time Member substantially relied on the judgment of the Hon'ble Supreme Court in the case of Kishore Ajmera v. SEBI (decision dated February 23, 2016) while giving his findings on the sufficiency of evidence to prove synchronised/circular trades. With respect to SMC Global it was found that there was insufficient evidence to prove that it was connected to the Vishvas Group. The evidence was also found to be insufficient to prove the allegation of aiding and abetting of illegal synchronised trades by brokers. However it was found SMC Global had violated the Code of Conduct specified in the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 since there were ample reasons for the broker to have suspected the trades placed by its client considering inter alia the volume of trades and frequency of orders. SMC Global was found to be the legal successor of SAM Global Securities Limited (Sam Global). The alleged infractions for which enquiry proceedings had been initiated had been carried out by Sam Global prior to its merger with SMC Global. Therefore SMC Global had contended that it would not be responsible for actions carried out by a separate entity prior to its merger. It also contended that such liabilities were not foreseeable at the time of merger. However the order found that the scheme of merger envisaged transfer of all assets, liabilities and obligations from Sam Global to SMC, the nature of such liabilities not having been qualified. Also, in the case of merger of one corporate stock broker into another, as a matter of practice, undertakings were obtained by stock exchanges from the transferee company admitting liability for any statutory defaults by the transferor company. Accordingly the order found SMC to be liable for the violations of securities laws by Sam Global. SEBI imposed a penalty of warning on SMC Global taking into account certain mitigating factors including delay in initiation of enforcement action.

#### **I. Final order in the matter of Rose Valley Hotels and Entertainment Limited (RVHEL)**

SEBI vide ex-parte Interim Order-cum-Show Cause Notice dated June 10, 2013, had prima facie observed that RVHEL and its directors were illegally mobilizing funds from the public through Holiday

Membership schemes which were in the nature of CIS without obtaining certificate of registration from SEBI and thereby, contravened sections 11AA & 12(1B) of the SEBI Act, 1992 and Regulation 3 of the SEBI (Collective Investment Schemes) Regulations, 1999.

RVHEL adopted the stance that it is in 'Time Share' business and the same does not fall within the purview of SEBI. The balance sheet filed by the company for the financial year 2012-13 reflected an amount of ₹5000 crore under other current liabilities (refundable liability under membership plan). From the facts and circumstances of the case it was concluded that RVHEL operated investment schemes under the garb of selling holiday packages through the holiday plans that were offered to the public. The contributions raised from the public in the form of monthly instalments, towards the holiday schemes were ultimately repaid to their subscribers as annuities of varying interest rates, by pooling the contributions thereby partaking of the characteristic of a CIS.

Accordingly, final order under Sections 11, 11(4) and 11B of the SEBI Act, 1992 was passed on November 15, 2017 against RVHEL & Others, inter alia directing them to refund the monies collected from the investors with returns as per the terms of offer within a period of three months from the date of order along with a debarment of four years.

#### J. Interim order in the matter of Tree House Education and Accessories Limited

SEBI had carried out an examination and prima facie observed that the Company had manipulated its books of accounts, misrepresentation including of financials and/or business operations and wrongly diverted company funds to related entities in violation of the provisions of the SEBI Act and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 ("PFUTP Regulations, 2003").

Accordingly, SEBI passed an ad Interim Ex-Parte Interim Order dated March 7, 2018, inter alia restraining the Company and its Directors from accessing the securities market or buying, selling or otherwise dealing in the securities market, either directly or indirectly. Further, SEBI also directed NSE to ap-

point an independent auditor/audit firm for conducting a detailed forensic audit of the books of accounts of the Company.

#### K. Final order in the matter of Imtsons Investments Limited

SEBI had conducted an investigation and inter alia observed that Imtiyazhusain Saiyed, while registered as a Sub-broker of I-Sec and as the Proprietor of Waft Investments, entered into Agreements with different clients for investing their funds in securities market through icicidirect.com and to pay them assured returns i.e. profit 10 per cent of investment each month. The aforesaid amounted to Waft Investments providing services of portfolio management to clients without being registered with SEBI as a Portfolio Manager. Further, Imtiyazhusain Saiyed by misusing the trade name granted as a Sub-broker of I-Sec, was observed to have indulged in fund-based activities involving his personal financial liability to repay the money collected by him.

SEBI issued a Final Order on October 6, 2017, inter alia restraining Imtiyazhusain Saiyed from accessing the securities market or buying, selling or otherwise dealing in the securities market, either directly or indirectly. Further, Imtiyazhusain Saiyed was directed to refund the money collected from his clients/investors with an interest 15 per cent per annum (the interest being calculated from the date when the repayments became due till the actual date of payment).

#### L. Final order with respect to Anirudh Sethi

SEBI observed that Anirudh Sethi was making certain posts on his website [www.anirudhsethireport.com](http://www.anirudhsethireport.com) and certain tweets on his Twitter account "@anirudhsethi71". The question that arose was whether such posts and tweets are in violation of the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013 ("IA Regulations") and the Securities and Exchange Board of India (Research Analyst) Regulations, 2014 ("RA Regulations"), and of the Securities and Exchange Board of India Act, 1992 ("SEBI Act").

Anirudh Sethi had declared in his posts on the aforesaid website that price targets, buy recommen-

dations, advice relating to dealing in securities, etc., were being offered to his subscribers during trading hours. Anirudh Sethi argued that as per the proviso to regulation 2(l) of the IA Regulations, any investment advice given through newspaper, magazines, any electronic or broadcasting or telecommunications medium, which is widely available to the public shall not be considered as investment advice for the purpose of these regulations. However, it was held that the contents of the website indicated that the Noticee was providing advice, tips and recommendations to his subscribers on a private basis, and that fact was being advertised/broadcasted through his posts on the website. Therefore, the proviso to regulation 2(l) of the IA Regulations did not apply in the present scenario.

Further, Anirudh Sethi was offering buy/sell/hold recommendations and giving price targets with respect to the securities which were listed on stock exchange through his Twitter account “@anirudhsethi71”, which was held to be included within the meaning of “research report” as given in the RA Regulations. Anirudh Sethi argued that the said Twitter handle was a parody account and was not owned by him. It was noted that the said Twitter handle was mentioned on his website and was used to disseminate stock recommendations which were then further relayed on the website. Further, the said Twitter handle was not meeting the criteria for it to be considered a parody account, as per the terms and conditions of Twitter. Further, it was noted that Anirudh Sethi had not reported the said parody account to Twitter. Therefore, the buy/sell/hold recommendations and price targets being given by Anirudh Sethi on the Twitter handle could be included within the meaning of research report.

Anirudh Sethi admittedly did not have a certificate of registration with SEBI, either as an investment adviser or research analyst. Therefore, it was held that Anirudh Sethi had violated IA Regulations and RA Regulations for providing unregistered investment adviser services and research analyst services.

Accordingly, Anirudh Sethi has been directed inter alia, to refund ₹7,35,06,557 to the clients within a period of three months. Anirudh Sethi has been

debarred from buying/selling or otherwise dealing in the securities market, either directly or indirectly, from the date of the Order till the expiry of four years after the refund has been completed.

#### M. Final order with respect to Amit Baburao Ahire

Amit Baburao Ahire was the sole proprietor of OSAR Capital whose nature of business as given in its registration certificate was “investment advisory services”. It was observed by SEBI that the said proprietary concern had been formed to provide investment advisory services for the existing clients of HBJ Capital Services Private Limited (“HBJ Capital”) which itself had been debarred by SEBI vide its interim Order dated June 15, 2015 which were prima facie in violation of the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013 (“IA Regulations”).

It was observed that Amit Baburao Ahire had a SEBI Registration certificate as an investment adviser and he allowed HBJ Capital to use his SEBI registration and offer investment advice through the proprietorship concern, OSAR Capital. It was also noted that Amit Baburao Ahire had knowledge of the fact that HBJ Capital had been restrained by SEBI vide an interim order dated June 15, 2015 passed by SEBI. It was noted that Amit Baburao Ahire received a payment of ₹1,20,000/- from Kumar Harendra, Director of HBJ Capital. Therefore, it was held that Amit Baburao Ahire had knowingly and willingly allowed HBJ Capital, to provide investment advisory services using his SEBI registration and in the name of his sole Proprietary concern OSAR Capital.

It was also noted that Amit Baburao Ahire was registered with SEBI as an investment adviser on February 16, 2015 and that OSAR Capital was formed on August 24, 2015. The aforesaid material change in the usage of the certificate of registration of Amit Baburao Ahire, was notified only on October 13, 2015, that too only at the behest of SEBI. It was noted that the law under the IA Regulations, provided that any material change had to be intimated to SEBI “forthwith”, whereas nearly two months had elapsed before Amit Baburao Ahire informed SEBI; that too upon receiving an email from SEBI seeking information.

This aforesaid activities of Amit Baburao Ahire were in violation of regulations 13(a) and 13(b) of the IA Regulations and Clauses 1 and 2 of the code of conduct specified under third schedule of IA Regulations.

Accordingly, Amit Baburao Ahire has been directed inter alia, to surrender the unlawful gain of ₹1,20,000/- received from HBJ Capital, within a period of three months, and has been restrained, either on his own or through anybody corporate, from accessing the securities market, directly or indirectly and Amit Baburao Ahire through his sole proprietary concern including OSAR Capital, are prohibited from buying, selling or otherwise dealing in the securities market, directly or indirectly in whatsoever manner, till the expiry of four years from the date of payment of the money.

#### N. Interim Order in the Matter of Supreme Tex Mart Limited (STML)

It was observed that STML had been a loss making company and its accumulated losses had exceeded its entire net worth as on March 31 2015 and it had become a Sick Industrial Company.

SEBI found that STML's promoters, directors and their relatives along with three other entities allured investors through fake Short Message Services (SMSs) recommending purchasing the loss-making STML's shares, and thereafter, sold a "substantial portion" of their shareholding. It was revealed in SEBI's examination that funds were transferred from the account of STML being operated by three of its directors to certain entities who in turn transferred the fund to the ultimate service provider for the purpose of sending bulk SMSs.

SEBI found that the modus operandi adopted by the entities (10 in total) in the matter was prima facie "fraudulent" and in violation of the provisions of the SEBI Act and SEBI (Prohibition of fraudulent and unfair trade practices relating to securities market) Regulations, 2003. Accordingly, SEBI prohibited the 10 entities including the promoters and directors of STML from buying, selling or dealing in securities, directly or indirectly, in any manner whatsoever, till further directions, and also directed them to cease

and desist from disseminating messages or news in any form related to the securities market, directly or indirectly, by any means whatsoever.

#### O. Interim order in the matter of Amrapali Aadya Trading & Investment Private Limited (AATI-PL)

SEBI had received a reference dated August 10, 2017 from NSE whereby NSE had forwarded the preliminary findings of inspection of AATIPL for the period April 01, 2016-March 31, 2017. Thereafter SEBI also carried out an examination into the matter and found several lapses/violations such as the creation of pledge of its clients' securities and non-disclosure thereof to the stock exchange, falsification of accounts to conceal the creation of pledge of its clients' securities and entries on debtors' liability, failure in segregation of clients' funds and payment of clients' funds to non-clients, transfer of clients' funds and securities to its commodities broking group company, sale of clients' securities for own purposes, failure to carry out running account settlement and failure in reporting DP accounts to the stock exchange. These acts and omissions of AATIPL were prima facie found to be in violation of the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 and Circulars issued by SEBI.

Accordingly, SEBI issued directions including restraining AATIPL, its commodities broking group company and their directors from accessing the securities market and further prohibited them from buying, selling or otherwise dealing in securities, either directly or indirectly, or being associated with the securities market in any manner whatsoever, till further directions. The entities were also directed to cease and desist from undertaking any activity in the securities market, directly or indirectly, in any manner whatsoever till further directions. Further, the entities were also directed not to dispose of or alienate any assets, whether movable or immovable, or any interest or investment or charge in any of such assets excluding money lying in bank accounts except with the prior permission of SEBI.

**P. Final order in the matter of Roofers Infra–Projects Limited and Others:**

SEBI passed an interim order dated March 18, 2016 ("interim order") against Roofers Infra–Projects Limited (RIPL) and its promoters, directors and Debenture Trustees in respect of issue of Secured Redeemable Non-Convertible Debentures ("NCDs"). SEBI prima facie found that RIPL through the offer of NCDs raised an amount of at least ₹74.40 Crore from at least 42,269 allottees during the financial years 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14. The said Offer of NCDs were found to be in the nature of deemed public issue and therefore in violation of the Companies Act, 1956; SEBI Act, 1992 and the Rules and Regulations framed thereunder including the SEBI (Issue and Listing of Debt Securities), Regulations, 2008 ("ILDS Regulations"). It was also observed that RIPL had also created charge for an amount of ₹215 Crore for the offer of NCDs.

Taking into consideration of the facts and circumstances of the case it was concluded that RIPL was engaged in fund mobilizing activity from the public, through the offer of NCDs and has contravened the provisions of section 56(1), 56(3), 2(36) read with 60, 73(1), 73(2), 73(3), and 117C of the Companies Act, 1956, and various provisions of ILDS Regulations. As a natural consequence of not adhering to the norms governing the issue of securities to the public and making repayments as directed under section 73(2) of the Companies Act, 1956, SEBI vide Final Order dated October 06, 2017, inter alia, directed RIPL and its past and present directors to refund the money collected by the Company, during their respective period of directorship through the issuance of NCDs including the application money collected from investors during their respective period of directorship, till date, pending allotment of securities, if any, with an interest of 15 per cent per annum, from the eighth day of collection of funds, to the investors till the date of actual payment along with debarment for a period of four years after completion of refunds.

**Q. Final order in the matter of Wasankar Wealth Management Limited**

SEBI conducted an examination into the

fund-raising activity of Wasankar Wealth Management Limited ("WWML") and found that WWML had made an offer of Non-Convertible Preference Shares ("NCPS") in the financial years 2009-10, 2010-11 and 2012-13 and raised an amount of ₹12.89 Crore from 228 allottees. The same was found to be in violation of provisions of the SEBI Act, 1992 (hereinafter referred to as "SEBI Act") and the Companies Act, 1956. In view of this, SEBI passed an order dated May 18, 2015 wherein inter alia WWML and its promoters and directors viz., Prashant Jaidev Wasankar, Ms. Mithila Vinay Wasankar, Vinay Jaidev Wasankar, Ms. Bhagyashree Prashant Wasankar and Abhijeet Jayant Chaudhari (Noticees) were prohibited from buying, selling or otherwise dealing in the securities market, till the expiry of four years from the date of completion of refunds to the investors.

Pursuant to the aforesaid order, SEBI initiated proceedings against the Noticees in terms of the SEBI (Intermediaries) Regulations, 2008 ('the Intermediaries Regulations') in order to determine whether WWML being a SEBI registered Investor Advisor, continues to satisfy the criteria for 'fit and proper person' in light of the aforesaid SEBI order. On completion of the proceedings, the Designated Authority ("DA") vide Report dated November 25, 2016 recommended cancellation of the certificate of registration granted to WWML. The DA has also recommended that the key management personnel of WWML viz., Prashant Jaidev Wasankar, Ms. Mithila Vinay Wasankar, Vinay Jaidev Wasankar, Ms. Bhagyashree Prashant Wasankar and Abhijeet Jayant Chaudhari be debarred from being employed or associated with any registered intermediary or other registered person in the capital market forever.

Taking into consideration of the facts and circumstances of the case such as restraint order of SEBI against the Noticees, their failure to take effective steps to refund the investors, arrest of some of the Noticees, etc. it was concluded that the Noticees do not qualify to be 'fit and proper persons' in terms of Regulation 6(f) of the IA Regulations read with Regulation 7(2)(e), Schedule II of the Intermediaries Regulations, 2008.

Accordingly, order under Regulation 28(2) of

Intermediaries Regulations was passed against the Noticees wherein the Certificate of Registration granted to Wasankar Wealth Management Limited as an Investment Advisor was directed to be cancelled and further, the directors of WWML viz., Prashant Jaidev Wasankar, Ms. Mithila Vinay Wasankar, Vinay Jaidev Wasankar, Ms. Bhagyashree Prashant Wasankar and Abhijeet Jayant Chaudhari were debarred from being employed or associated with any registered intermediary or other registered person in the capital market for a period of 14 years from the date of completion of refund as directed in SEBI Order dated May 18, 2015.

#### **R. Final order in the matter of Gulshan Nirman India Limited**

SEBI passed Order dated January 24, 2018 in respect of Gulshan Nirman India Limited, its directors and debenture trustee. The order held that the company engaged in fund mobilizing activity from the public, through the offer of Secured Redeemable Non-Convertible Debentures (NCD) and has contravened the provisions of section 56(1), 56(3), 2(36) read with 60, 73(1), 73(2), 73(3), 117B and 117C of the Companies Act, 1956, and provisions pertaining to the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008. It was also held that the debenture trustee dealt in the impugned offer of NCDs without having a certificate of registration as Debenture Trustee in violation of Section 12(1) of the SEBI Act, 1992. The amount mobilized by the Company were estimated to be more than ₹1,60,37,000.

In view of the above violations, the company and directors were, inter-alia, directed to refund the money collected by the Company, during their respective period of directorship through the issuance of NCDs with interest and in case of failure to comply with the applicable directions, SEBI, may recover such amounts, from the company and the directors liable to refund in accordance with section 28A of the SEBI Act. Further, the Company and directors liable to refund were directed not to access the securities market till the expiry of four years from the date of completion of refunds to investors. Other directors and Debenture Trustee were directed not to access

the securities market till the expiry of four years from the date of order respectively.

#### **S. Confirmatory order in the matter of Sharepro Services (I) Pvt. Ltd**

An investigation was started in matter of Sharepro Services (I) Pvt. Ltd., a registered Registrar to Issue and Share Transfer Agent, pursuant to an anonymous complaint. Based on the preliminary findings, ex – parte ad-interim order dated March 22, 2016 under section 11, 11B and 11D of the SEBI Act, 1992 was passed debarring Sharepro, senior management of Sharepro and certain other entities from dealing in securities market. As preliminary findings indicated widespread systematic fraudulent transactions by senior management of Sharepro, the client companies of Sharepro were directed to audit the operations of Sharepro and also advised to consider shifting their operation from Sharepro to other RTAs. In its investigation, SEBI found that Sharepro has been siphoning unclaimed dividends to entities linked with its management instead of transferring the same to IEPF. Shares belonging to genuine shareholders were siphoned off by entities linked with Sharepro's management. Subsequently, confirmatory order dated Nov 03, 2017 was passed in the matter confirming the directions issued vide ex parte ad interim order dated Mar 22, 2016. SEBI is in the process of initiating prosecution against 7 Entities, Enquiry proceedings against 1 entity, proceedings under Section 11B of SEBI Act against 31 entities and Adjudication Proceedings against 70 entities. Further, Administrative Warning to 62 entities and Deficiency Letters to 3 entities have been issued.

#### **T. Directions To HDFC Bank Limited in respect of Leakage Of unpublished Price Sensitive Information relating to its Financials through Social Networking Application – Whatsapp**

SEBI initiated a preliminary examination which revealed that in respect of a company named HDFC Bank, the messages circulated in various WhatsApp groups closely matched with the quarterly financial results of HDFC Bank for June 2017, which were published subsequently. Information in this regard was

also sought from HDFC Bank. An examination of the said information revealed that *prima facie* the financial results of HDFC Bank for quarter ended June 2017 were finalized on or before July 19, 2017, which was before circulation of WhatsApp messages on July 21, 2017. Similarly, in respect of quarter ended December 2015, the financial figures of HDFC Bank were finalized prior to their circulation through WhatsApp.

The resemblance of the information circulated on WhatsApp messages with the actual financial results *prima facie* indicated that the financial figures of HDFC Bank, were in circulation prior to their official announcement / publication by HDFC Bank. It was inferred that the same could not have been possible without leakage of information from the person(s), who were privy to the information relating to financials prior to its official announcement.

Such leakage of unpublished quarterly financial results which eventually led to circulation of messages through WhatsApp is prohibited and is in contravention of regulation 3(1) and (2) of SEBI (Prohibition of Insider Trading) Regulations 2015 read with section 12A(e) of the Securities and Exchange Board of India Act, 1992 which prohibit procurement or communication of UPSI.

The preliminary examination could not ascertain the source / origin of the leakage of UPSI, however, it was *prima facie* inferred on the basis of the facts and circumstances that the UPSI relating to financials of HDFC Bank was leaked, which was *prima facie* attributed to the inadequacy of the processes / controls / systems that HDFC bank as a listed company had put in place.

Accordingly, SEBI directed HDFC Bank to strengthen its processes/systems/controls forthwith to ensure that such instances of leakage of unpublished price sensitive information do not recur in future. HDFC Bank was also directed to submit a report on the present systems and controls and how the present systems and controls have been strengthened, the periodicity of their monitoring and the persons responsible for monitoring such systems. HDFC Bank was also directed to conduct an internal inquiry into the leakage of unpublished price sensitive information relating to its financial figures and take appropriate action against those responsible for the same, in accordance with law.

# Part Four:

# Organizational Matters

## 1. ABOUT SEBI

### I. SEBI'S ESTABLISHMENT

The Securities and Exchange Board of India (SEBI) was constituted on April 12, 1988 as an interim administrative body under the overall administrative control of the Ministry of Finance (MoF) by a notification published in the Gazette of India: Extraordinary. The objective of establishing SEBI was investor protection, and promotion of the orderly and healthy growth of the securities market. SEBI was accorded statutory status on January 30, 1992 by an ordinance. It was formally established on April 12, 1992 in accordance with the provisions of the SEBI Act, 1992.

### II. SEBI'S PREAMBLE

SEBI's preamble describes its core functions as: '...to protect the interests of investors in securities and to promote the development of, and to regulate secu-

rities markets and for matters connected therewith or incidental thereto.'

### III. SEBI'S BOARD

Shri S. Raman, Whole Time Member, relinquished the charge of Office of the Whole Time Member, SEBI on expiry of his term of appointment on September 06, 2017. Shri. Subhash Chandra Garg, Secretary, Department of Economic Affairs, Ministry of Finance was nominated as one of the members on the SEBI Board in terms of Government of India notification dated July 31, 2017 in place of Shri. Shaktikanta Das. Shri. Injeti Srinivas, Secretary, Ministry of Corporate Affairs was nominated as one of the members on the SEBI Board in terms of Government of India notification dated November 23, 2017 in place of Shri. Tapan Ray. Details of the members of SEBI's board are given in Table 4.1.



**Table 4.1: Members on the SEBI Board as on March 31, 2018**

Name	Position	Provision
Shri Ajay Tyagi	Chairman	Appointed under Section 4(1)(a) of the SEBI Act, 1992 (15 of 1992)
Shri G. Mahalingam	Whole Time Member	Appointed under Section 4(1)(d) of the SEBI Act, 1992 (15 of 1992)
Ms Madhabi Puri Buch	Whole Time Member	Appointed under Section 4(1)(d) of the SEBI Act, 1992 (15 of 1992)
Shri Arun P. Sathe	Part Time Member	Appointed under Section 4(1)(d) of the SEBI Act, 1992 (15 of 1992)
Shri Subhash Chandra Garg	Member	Nominated under Section 4(1)(b) of the SEBI Act, 1992 (15 of 1992)
Shri Injeti Srinivas	Member	Nominated under Section 4(1)(b) of the SEBI Act, 1992 (15 of 1992)
Shri N. S. Vishwanathan	Member	Nominated under Section 4(1)(c) of the SEBI Act, 1992 (15 of 1992)

During 2017-18, the SEBI Board met on six occasions. The details of the meetings are given in Table 4.2

**Table 4.2: Board Meetings during 2017-18**

Member	Number of meetings	
	Held	Attended
Shri Ajay Tyagi	6	6
Shri G. Mahalingam	6	6
Ms Madhabi Puri Buch	6	5
Shri Subhash Chandra Garg	4*	2
Shri Injeti Srinivas	3*	2
Shri N. S. Vishwanathan	6	3
Shri Arun P. Sathe	6	6

Note:

- \* Number of meetings held after assuming charge.
- Shri S. Raman attended 2 out of 2 meetings held during the year, prior to his demitting the Office of the Whole Time Member.
- Shri Shaktikanta Das did not attend any meeting held during the year, prior to his demitting the Office of the Member.
- Shri Tapan Ray did not attend any meeting held during the year, prior to his demitting the Office of the Member.

## 2. AUDIT COMMITTEE

In pursuit of high standards of governance and transparency, in its 127th meeting held on September 22, 2009 the SEBI Board constituted an Audit Committee to exercise oversight of SEBI's financial reporting process and disclosure of its financial information.

The committee comprises of three members nominated by the Board. The tenure of the members of the committee is for two years. The committee is chaired by Shri Injeti Srinivas and has Shri N.S. Vishwanathan and Shri G. Mahalingam as the other two members. During 2017-18, the committee held two meetings. The committee has the mandate to review:

- a. Financial statements with the management, internal auditors and/or the Comptroller and Auditor General (C&AG).
- b. The adequacy of SEBI's internal control systems with the management, the internal auditors

and/or C&AG.

- c. Action taken by the management to rectify deficiencies or in implementing suggestions as pointed out by C&AG and internal auditors.

The committee recommended on improving its internal control systems. Further, the committee reviewed and discussed SEBI's annual statement of accounts for 2017-18 with the management and internal auditors. Based on this review and discussions, the Audit Committee was of the view that SEBI's annual statement of accounts is fairly presented in conformity with the Generally Accepted Accounting Principles (GAAPs) in all material aspects. The members of the committee also discussed the information disclosed in the Annual Statement of Accounts without the management or the internal auditors being present. The committee fulfilled its responsibilities in compliance with its charter.

### 3. HUMAN RESOURCES

The Human Resources Department continued to play an important role by discharging its mandate of recruiting suitable candidates, identifying and meeting the training needs of the existing employees, ensuring employee welfare and providing professional working environment. During the year emphasis was given to comprehensive reviewing of each of the key policies, keeping in mind the requirements of an expanding organization.

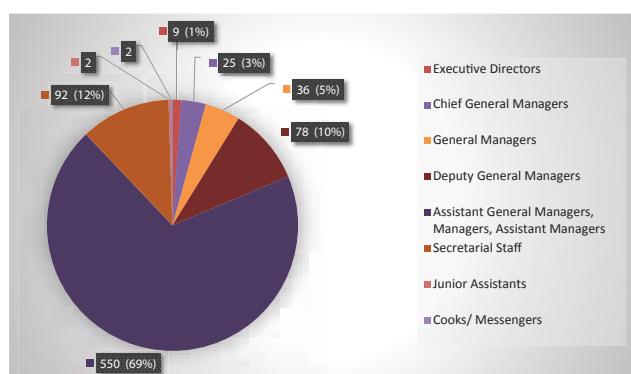
#### I. Staff Strength, Recruitments and Resignations

As on March 31, 2018 the total number of employees in various grades is 794 (including employees on deputation/ contract), out of which 698 employees are officers and 96 employees comprise secretaries and other staff. The male and female composition is 527 and 267, respectively.

##### A. Grade-wise Distribution

Grade-wise distribution of staff members is given in Figure 4.1.

**Figure 4.1: Grade-wise Distribution of Staff Members**



During the 2017-18, 24 officers in Grade A (Assistant Managers) joined the services of the Board. Further, one officer in Grade D (Deputy General Manager) was appointed on contract basis. Besides one Executive Director each was appointed on contract basis and on deputation basis. During the year, 22 staff members, across various grades exited from

the services of the Board either by the way of retirement/resignation/ relieving/ end of deputation/end of contract.

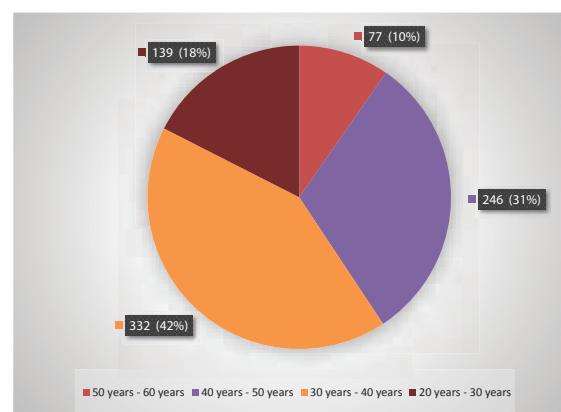
During the year 2017-18, three candidates belonging to SC and five candidates belonging to OBC category joined as officers (Grade A). Further, two candidates belonging to PWD category also joined as officers (Grade A).

Ms. Madhabi Puri Buch was appointed as Whole Time Member, SEBI vide Government of India notification dated March 25, 2017 and assumed charge on April 5, 2017.

##### B. Age Group of Staff Members

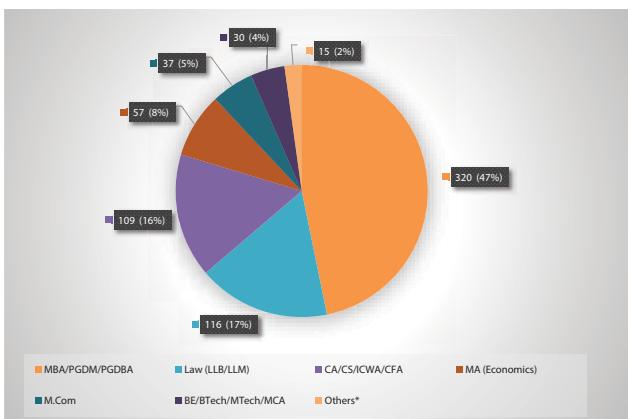
With an existence spanning over more than quarter of a century and with the growth in power and stature over this period, the age profile of staff members exhibits the maturity needed to carry the responsibility cast on SEBI's shoulders. At the same time, the drive and dynamism of youth is also in adequate proportion. The distribution of staff members across different age brackets is given in Figure 4.2.

**Figure 4.2: Distribution of Staff Members (Age Brackets)**



##### C. Distribution of Officers by Qualification

SEBI endeavours to strike a balanced composition of generalists and specialists in the relevant fields. The distribution (in numbers and percentages) of officers by qualification is given in Figure 4.3 (an officer may have more than one qualification).

**Figure 4.3: Distribution of Officers by Qualification**

Note: \* includes MSc, BSc, B.Com, etc.

#### D. Promotions

To preserve the motivation and enthusiasm of the experienced manpower at SEBI and to attract the best available talent from outside, SEBI has believed in providing career progression to its employees in all grades. We believe that an organization can grow only when its aspirations are aligned with the ambitions of its employees. During the year, promotion exercise at various grades was undertaken. Details of the same are provided in Table 4.3.

**Table 4.3: Promotions of Staff Members in Various Grades**

Promoted From	Promoted To	No. of Persons Promoted
Chief General Manager	Executive Director	02
General Manager	Chief General Manager	06
Deputy General Manager	General Manager	10
Assistant General Manager	Deputy General Manager	20
Manager	Assistant General Manager	15
Assistant Manager	Manager	74
Private Secretary - Grade B	Private Secretary - Grade C	01

#### E. Job Rotation

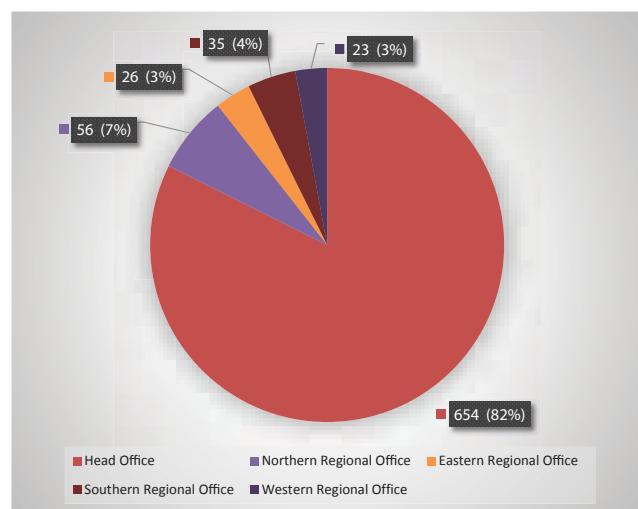
To have all round development of officers, job rotation is taken up regularly and with utmost sincerity. SEBI officials, by way of postings in operational and non-operational departments are groomed to handle all work situations with reasonable efficiency and effectiveness. A total of 290 officers in various grades were transferred as part of inter-departmental and inter-office job rotation measure.

A reallocation of departments for Executive Directors was also undertaken.

#### F. Region-wise Distribution of Staff Members

As on March 31, 2018, 140 staff members (around 18 per cent of total employee strength) in various grades were posted at regional and local offices.

Distribution of staff members in the head office and regional offices, including local offices under them, is given in Figure 4.4.

**Figure 4.4: Staff Deployment in Various Offices**

## II. Policy Initiatives

#### A. Staff Benefits: Revision Benefits and Reimbursements

During the year SEBI has revised certain benefits and reimbursements for all staff members.

## B. Introduction of Flexible Office Timings

SEBI has introduced flexible office timings aiming towards reducing the commute time of staff members thereby increasing the productivity levels and optimum utilization of available resources and also help achieve work-life balance. Keeping in view the government's initiative, it is also a step forward in helping to decongest the already overcrowded roads in our cities.

## C. Training (Domestic and Foreign)

Policies on domestic and foreign training on capacity building and training needs across all grades have been formulated and Office Circulars in this regard have been issued. The objective of training policies are to enhance and update the knowledge of staff members for professional development and thereby enabling higher standards of work performance by enabling the staff members to discharge their duties and responsibilities effectively to ultimately increase the efficiency of the organization.

## D. Job Rotation and Transfers

A policy on transfer, placement and job rotation was formulated after obtaining feedback from the employees and extensive discussions with the management. SEBI would try and ensure to provide wider departmental and regional/ local office exposure to all officers so that they can gain all round experience.

## E. Annual Performance Appraisal System

With a view to evolve a purposeful, objective and effective performance appraisal system, the policy was reviewed after taking feedback from staff members and extensive discussions at various levels.

## F. Creation of New Departments

**Internal Inspection Department (IID):** With a view to ensure greater accountability, efficiency and effectiveness through an independent inspection/review mechanism, IID was formed in August 2017 to carry out periodic inspection or review of the various departments/divisions/offices of SEBI.

## Department of Debt and Hybrid Securities

**(DDHS):** To bring in greater organizational efficiency, for creating greater synergies, the work related to corporate bonds, municipal bonds, REITS, InvITs and other hybrid securities, have been entrusted to a separate department viz. Department of Debt and Hybrid Securities.

## III. Training and Development

Training and Development is critical for helping staff members to develop their skills, knowledge, and abilities. In order to enhance and widen the knowledge base, staff members across all grades were nominated for various domestic and international training programmes. Brief details of various training initiatives undertaken during the year is given below:

### A. Domestic Training/Workshops

During 2017-18, around 485 nominations were made for various domestic training programmes. Some of the workshops/training programmes arranged/conducted for staff members during the year are:

- i. Training on Fixed Income Securities
- ii. Training on Municipal Bonds
- iii. Talk on Integrity
- iv. E-procurement training
- v. Workshop on Manual of Office Procedure
- vi. Workshop on Macro Economics
- vii. Programme on RTI Act and Transparency & Trust Building among SEBI Officers
- viii. Training on Algorithmic Trading and High-Frequency Trading
- ix. Training at Andhra Pradesh Judicial Academy
- x. Workshop on Ethics and Integrity at Workplace
- xi. Workshop on Data Analytics in Government for Development of Economic/ Business Intelligence
- xii. Workshop on Understanding Trading in Equity Markets (Investigator Perspective).

## B. Foreign Training, Seminars, Meetings and Conferences

With a view to carrying out its core functions effectively and efficiently in a globalized market structure and for building adequate capacity, a proper understanding of international best practices on various aspects of securities markets is required. In this context, SEBI nominates staff members for various foreign study tours, seminars, conferences, training programmes, etc. organized by various foreign regulatory/multilateral agencies and organisations. During the year, around 190 nominations were made for various international trainings/seminars/meetings/ conferences.

Moreover, SEBI is also an active member of the International Organization of Securities Commissions (IOSCO) and represents on many of its committees and sub-committees. SEBI officials were nominated to attend a two-phase programme jointly developed by the IOSCO and PIFS-Harvard Law School. The programme was aimed at offering IOSCO members an executive education programme exclusively tailored for securities markets regulators.

## C. Training in Data Analytics

To create a pool of skilled officers having capabilities of data science and analytics, 21 officers were nominated for foreign training in the field of data analytics based on their performance assessed through a test.

## D. Induction of New Batch of Assistant Managers

The newly joined officers in Grade A as Assistant Managers, were made to undergo a comprehensive induction programme. The programme introduced them to SEBI, its roles and functions, various departments of SEBI and technicalities of the securities markets.

## E. In-House Training

In-house training covering procedural aspects of investigation including leveraging of technology for detecting securities market frauds, various meth-

ods of collecting evidence, recording statements, drafting of show cause notices, other procedures adopted in enforcement etc. was imparted to the officers posted in ISD and EFD.

## F. Fellowships, Scholarships and Collaborations

SEBI always endeavours to encourage the employees of the Board to pursue higher studies and upgrade their skills. Temasek Foundation Connects invited SEBI to participate in the Temasek Regional Regulators Scholarship (TRRS) programme for academic year 2017-18. Based on GMAT and interviews, two SEBI employees were selected for one year Master of Science in Wealth Management.

## G. Internships

SEBI, as an integral part of its policy, offers short-duration projects and internships to students of reputed management and law schools. SEBI offered internships to 27 candidates/students during the year.

## H. Internal Complaints Committee

In accordance with its mandate to provide a safe working environment and in compliance with "The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013", an Internal Committee at Head Office and separate such committees for each of the four regional offices (and local offices under their purview) are in place. From time to time, workshops are organized to create awareness on sexual harassment and gender sensitization.

## I. Constitution Day

SEBI celebrated Constitution Day on November 27, 2017 at SEBI Bhawan, Mumbai. The programme was organized with a view to promote constitutional values and to spread thoughts and ideas of Dr. B. R. Ambedkar, the architect of Indian Constitution. Senior officials of SEBI along with other staff members were present on the occasion. As part of the programme, the Preamble to Indian Constitution was read out to the SEBI Employees and a talk on the Constitution of India was arranged.

## J. Recreational Activities for Staff Members

### i. Sports Activities

The SEBI Sports Committee organized various sports activities for SEBI employees throughout the year. For the first time, sports activities like cycling, trekking, corporate cricket and football were organized by SEBI Sports Committee for the employees. The intra-SEBI sports tournaments like the SEBI Premier League (Cricket) etc., saw tremendous enthusiasm and active participation among staff members. Staff members also participated in the Mumbai marathon under the corporate team category.

### ii. Yoga Day

International Yoga Day is celebrated annually on June 21 and was declared by the United Nations General Assembly (UNGA) on December 11, 2014. To celebrate the same, Yoga workshop was conducted at SEBI Bhavan, Mumbai. Teachers from Yoga Institute were invited to conduct the workshop in which various employees participated and benefitted from the workshop.

### iii. Scheme for Recognizing and Rewarding Academic Excellence of Employees' Children

During the financial year, 27 children of employees were rewarded for academic excellence in 10th / 12th standards. They were also presented Certificate of Recognition by the Chairman on Republic Day.

### iv. Disciplinary Matters

One of the employee against whom the Competent Authority has awarded major penalty under SEBI (Employees' Service) Regulations 2001 appealed against the decision of the Competent Authority. In another case, pursuant to findings, the suspension order against the employee was revoked w.e.f the date of the said order. In another matter, the appellate authority has set aside the impugned order of dismissal of the employee and has revived the order of suspension. Disciplinary proceedings were initiated against one staff member during the year.

## 4. PROMOTION OF OFFICIAL LANGUAGE

Various initiatives were taken for implementation of the official language Hindi in SEBI's offices during 2017-18 with a view to ensure compliance with various requirements of the official language policy of the Government of India. These efforts were not limited only to the bilingualization of various documents, but also aimed at extending facilities to the staff members, enabling them to carry out their day-to-day official work in Hindi as well as to contribute towards the implementation of the official language policy in a timely manner. A summary of such initiatives is given below:

### I. Bilingualization

During 2017-18, all notifications, public notices and registration certificates granted to various market participants, intermediaries, etc. were issued in both Hindi and English. All the papers were submitted before various Parliamentary Committees in diglot form. Furthermore, all the Memorandum of Understandings (MoUs) between SEBI and the regulators of other countries were also prepared in diglot form. Further, statutory reports such as the Annual Report and the Audit Report were also brought out in both Hindi and English. Regional offices and local offices of SEBI also issued public notices in diglot form.

### II. Hindi Website

Towards the implementation of the official language policy of the Government of India, SEBI continued its efforts in uploading the information in Hindi on its websites on a regular basis. Hindi replica of the newly launched website was also made available. However, continuous efforts are being made to upload all other information in Hindi. In this direction, efforts are being made to make relevant information / material available in Hindi for the investors, such as Frequently Asked questions (FAQs), on priority basis. Towards this end, some of the FAQs were uploaded in Hindi on its website. Besides, Hindi version of various regulations, amendments and other notifications notified in the Official Gazette were also made avail-

able on SEBI's Hindi website as well as updated Hindi version of some of the regulations were also uploaded. Moreover, the orders passed by the Appellate Authority under the Right to Information Act, 2005 in Hindi were also uploaded on the website. In addition, informative material related to the Right to Information Act, 2005 was also made available in Hindi on the website.

Moving a step forward towards the complete bilingualization of the Investor website, relevant material related to investor education was also uploaded on the investor website.

### III. Portal for Intermediaries

A separate portal is also available for market intermediaries. As per various requirements of the official language policy of the Government of India, various proformas etc. were made available in diglot form on this portal.

### IV. "Rajbhasha Portal" of the Official Language Division

During the year, Rajbhasha Portal was made live on SEBI's Share Portal. This Rajbhasha Portal is aimed at providing single point of access to all the relevant information pertaining to official language Hindi for the staff members of SEBI. With the help of this Rajbhasha Portal, staff members would also be able to learn as to how to use Hindi while working on computer. Salient features of the Rajbhasha Portal are given hereinbelow:

- A. **Information on Official Language Policy:** Complete details of the official language policy of the Government of India were made available on the Rajbhasha Portal, so that the staff members may refer the policy as and when required. Further, the annual programme issued by the Government of India was also made available on this portal.
- B. **Standard Documents:** Various standard documents frequently used in SEBI were also made

available in diglot form on this portal, so that the staff members may use the standard documents (such as office notes, letters, office orders, office intimations, etc.) while carrying out their day-to-day official work with a view to achieve the targets as specified for correspondence in Hindi. In addition, specimen letters and office notes were also made available on this portal.

- C. **Glossary:** A glossary of the terms generally used in SEBI was also made available on the Rajbhasha Portal. With the help of this glossary, the staff members would be able to find Hindi equivalents of English words and vice-versa while carrying out their day-to-day official work.
- D. **Aaj Ka Shabd, Hindi Noting (Aaj Ka Vakyansh) and Hindi Quotes:** Also, one Hindi word (Aaj Ka Shabd), one phrase / noting (Hindi noting) and one motivational quote is also displayed through this portal on daily basis.
- E. **Hindi Typing:** In this era of modern technology, considering the importance of computers in day-to-day official work, helpful material was provided for the staff members on this portal, so that they may learn as to how to use Hindi while working on computer.
- F. **Online submission of Quarterly Progress Reports:** One of the salient features of the Rajbhasha Portal is to facilitate the online submission of Quarterly Progress Reports by each department / division / cell / office to the Official Language Division of SEBI regarding progressive use of official language Hindi. The format of the Quarterly Progress Report has been designed in such a way that at the time of submission of the report, certain data gets auto-populated from the DMS system in order to save the time of staff members in collating the data.
- G. **Frequently Asked Questions (FAQs):** A set of Frequently Asked Questions (FAQs) was also made available on this portal with a view to address the queries frequently raised by the staff members.
- H. **Helpful material:** Apart from this, other helpful

material viz. list of names and designations of all the staff members, list of all departments, divisions etc. and a list of Hindi notings was made available in diglot form on the Rajbhasha Portal, in order to enable the staff members in carrying out their day-to-day official work in Hindi with ease.

- I. **Other information:** In addition, interesting facts about the origin and evolution of Hindi language have also been delineated. Moreover, Rajbhasha publications, information about all the schemes and relevant web-links have also been made available on this portal. Information about various programmes conducted by the Official Language Division from time to time is also made available for the staff members on this portal. A feedback link has also been provided on this portal for the suggestions of staff members.

Rajbhasha Portal would not only facilitate the staff members in timely complying with various requirements of the official language policy of the Government of India, but would also serve as a source of encouragement for the staff members to use official language Hindi in their day-to-day official work.

## V. Training for Newly Recruited Officers

As part of their induction programme, the newly recruited officers were made aware of the various requirements related to the official language policy of the Government of India, so that they may use Hindi in their day-to-day official work and ensure timely implementation of the official language policy of the Government of India while discharging their duties. In addition, an introduction of the Rajbhasha Portal was also given to the newly recruited officers and they were also apprised of the requirements of the Quarterly Progress Report.

## VI. Hindi Workshops

During the year, Hindi workshops for senior officers and nodal officers of other departments were

organized to make them aware of various requirements related to the official language policy of the Government of India. This would enable them to ensure timely implementation of various requirements of the official language policy of the Government of India in their day-to-day official work. Besides, they were also apprised of the mandatory requirements of timely submission of the quarterly progress report and the relevant provisions.

## VII. Rajbhasha Competitions

In order to encourage the staff members to use Hindi in their day-to-day official work, various Hindi competitions were organized for the staff members during the month of September, viz. (1) Katha Lekhan Pratiyogita; (2) Kavita Lekhan Pratiyogita; (3) Ashubhashan Pratiyogita; (4) Prashnottari Pratiyogita; (5) Hindi Karyalayeen Kaamkaaj Pratiyogita; (6) Hindi Tankan Pratiyogita; (7) Varg Paheli Pratiyogita; and (8) Hindi Vaktritva Pratiyogita. A total of 96 participants were declared as winners in these competitions. One of the competitions, namely Hindi Vaktritva Pratiyogita was especially organised for the officers in the rank of General Managers or above, in order to encourage them to use Hindi in their day-to-day official work.

These competitions were designed in such a way that all the staff members including the senior officials contribute towards the implementation of official language Hindi in their day-to-day official work and it was also emphasized that more and more staff members use Hindi in their day-to-day official work, i.e. in correspondence, notings, etc. Furthermore, the objective was to make the staff members conversant with more and more Hindi terms and to encourage them to learn Hindi typing. One of the key objectives of these competitions was to make the staff members aware of various requirements of the official language policy of the Government of India. Apart from this, one of the key objectives behind organizing these competitions was to make the staff members familiar with Hindi terminology, so that they may communicate with the investors in Hindi during the programmes organized for the investors without a hitch.

## VIII. Rajbhasha Samaroh

During 2017-18, a Rajbhasha Samaroh was organized to felicitate the winners and participants of various Hindi competitions organized to encourage the staff members to use Hindi in their day-to-day official work. During the Rajbhasha Samaroh, as a token of appreciation all the winners were awarded with silver coins in addition to cash prize. Hindi books and certificates were also given to all the winners and participants. Considering the importance of the official language Hindi, the Chairman, Whole Time Member and the Executive Directors were also present on the occasion, and thus they encouraged all the winners and participants of the competitions.

## IX. Rajbhasha Meetings

Meetings of the Official Language Implementation Committee were conducted to ensure compliance with implementation of the official language policy of the Government of India in SEBI's Offices. During 2017-18, decisions were also taken with regard to the use of Hindi in the day-to-day official work.

SEBI's representatives took part in a meeting of the Hindi Salahkar Samiti constituted by the Department of Economic Affairs and the Department of Financial Services, Ministry of Finance to suggest various measures for smooth implementation of the official language policy of the Government of India.

## X. Regional and Local Offices

Efforts were also made in regional and local offices towards compliance with the official language policy of the Government of India, including Bilin-gualization and correspondence in Hindi. Thus, during the year, besides compliance with the official language policy in all SEBI's offices, efforts continued for using Hindi in day-to-day official work.

Various competitions were also organized in the Northern Regional Office of SEBI during the month of September, viz. Kavita Path, Hindi Prashnottari Pratiyogita and Hindi-Utkrishta Karya Pratiyogita. In addition, Hindi workshop was also organized.

## XI. SEBI's Moulik Hindi Pustak Lekhan Yojana

During the year 2017-18, with a view to encourage the staff members to explore their constructive talent in the field of writing, it was decided to introduce "SEBI's Moulik Hindi Pustak Lekhan Yojana" to publish the piece of writing in the form of books, gratis, originally written by them in Hindi on the topics related to securities market. Thus, this scheme would not only encourage the staff members to explore their constructive talent, but would also enrich the literature available on the topics related to securities market in Hindi. Since Hindi books on the topics related to securities markets are scarcely available, it is believed that this scheme would significantly contribute towards original book writing in Hindi on the topics related to securities market. The books published under this scheme will be distributed free of cost, and such books may also be distributed during various programmes conducted by SEBI for investors from time to time.

## XII. Usage of Hindi in Seminars / Programmes etc. Conducted by SEBI for Investors

SEBI conducts various seminars / programmes for investors from time to time, such as regional semi-

nars, programmes conducted by SEBI empanelled Resource Persons (RPs), investor awareness programmes etc. During the year, Hindi was used as a means of communication in more than 6,700 programmes conducted by SEBI empanelled resource persons; in more than 60 regional seminars conducted in association with stock exchanges; in more than 300 awareness programmes conducted in association with investor associations as well as in more than 200 "Visit to SEBI" programmes. Thus, Hindi and other regional languages were used as means of communication in around 80 per cent of the programmes conducted during the year, so that the investors participating in such programmes may be apprised of various aspects of securities markets in the languages they feel comfortable with. This will certainly help them to take well-informed decision while making investments. Furthermore, SEBI toll free helpline for investor assistance is also available in Hindi and other regional languages. Apart from this, Hindi and other regional languages were also used for spreading awareness through various mass media awareness campaigns.

## 5. SEBI OFFICES

The following initiative were taken for expanding infrastructure and improving the facilities:

### I. Acquisition of Additional Office Premises at Bandra – Kurla Complex

To meet the immediate and long term requirements of additional office space in Head Office, the Board approved for acquisition of IDBI Building at Plot No. C-7, 'G' Block, bandra – Kurla Compelx, Bandra (E), Mumbai from IDBI Ltd. admeasuring an area of 19,209.86 sq. meter i.e. approx. 2,06,775 sq. ft. (built up) along with appurtenant land and basement of the building. The building comprises of 2 level basements with 153 nos. car parking, ground floor and seven upper floors. The building is constructed on leasehold

land from MMRDA. The period of lease is 80 years w.e.f. May 2006.

Subsequent to the Board's approval a 'Deed of Assignment and Sale' was executed which was registered on April 26, 2018 and the peaceful vacant possession of the subject property was taken over from IDBI bank Ltd. By SEBI on April 26, 2018.

### II. Opening of Jammu Local Office, Jammu

SEBI has acquired and furnished office premises on lease basis for the Local Office in Jammu. The Jammu Local Office was inaugurated on October 27, 2017. And the same is now functioning from the said premises to cater the needs of the investors in the State of Jammu and Kashmir.

## 6. INTERNAL INSPECTION DEPARTMENT (IID)

Internal inspection plays a significant role in assisting the management of any organization in evaluating whether, the duties are being discharged in an effective and efficient manner and steps required to ensure that the checks and balances in the system are achieving the defined purpose. The requirement of such a system within a financial regulator is essential to ensure that they function in accordance with their status as a quasi-legislative and quasi-judicial organization.

In this backdrop, IID was formed by SEBI in August 2017 to carry out periodic inspection/review of the various departments/ divisions/ offices of SEBI to ensure greater accountability, efficiency and effectiveness. The role of IID is to ensure that each department/

division/office is complying with the laid down SEBI benchmarks/timelines, guidelines and procedures. Also, to check whether there are effective supervision systems in the departments/divisions/office and to make recommendations to improve the functioning of the departments/divisions/office.

During the year, IID inspected two of the large departments in SEBI and has also commenced the next round of inspections.

To improve the efficiency and effectiveness within the organization, a guidance note was issued by IID on March 09, 2018 to officers of SEBI which emphasized on timely action in enforcement and other matters.

## 7. VIGILANCE CELL

Vigilance Awareness Week for the year 2017 was observed from October 30, 2017 to November 04, 2017. The observance of Vigilance Awareness Week renews commitment of officials to achieve the goals of promoting integrity, transparency and accountability in public life. The theme for Vigilance Awareness Week was "My Vision – Corruption Free India" ("मेरा लक्ष्य - भ्रष्टाचार मुक्त भारत"). The week commenced with the pledge administered by the Chairman to Whole Time Members, Executive Directors and Division Chiefs, who in turn, administered the pledge to their staff members. The Regional Directors in the four regional offices – Northern Regional Office, Eastern Regional Office, Southern Regional Office and Western Regional Office - also administered the pledge to their staff members. The pledge was also administered to the staff members posted at local offices by the officer-in-charge. A banner on 'Vigilance Awareness Week' was prominently displayed outside SEBI office premises at Mumbai and in all the Regional and Local Offices.

As CVC has envisaged the concept of "Integrity Pledge" to enlist support and commitment of the citizens and organisations, all the departments/ re-

gional offices of SEBI were requested to disseminate and publicize the concept of integrity pledge. Further a hyperlink to CVC website (<https://pledge.cvc.nic.in>) was also provided on the SEBI website to enable the citizens and organizations to take the integrity pledge. All the employees were encouraged to take e-pledge by visiting the website of CVC.

A slogan writing competition on the theme of Vigilance Awareness Week was organised among the employees of SEBI and winners of the competition were felicitated by the Chairman, SEBI. Some of the best slogans were displayed in SEBI's Head Office, Regional and Local offices. A significant response was received from the employees for the said contest.

A message on the theme of Vigilance Awareness Week was also sent by the CVO to all employees in which he stressed the importance of commitment to achieve the goals of promoting integrity, transparency and accountability in public life. CVO extended his wishes to all in the fight against corruption and advised all to be vigilant. SEBI coordinated with Central Vigilance Commission (CVC) and provided investigation reports on the complaints forwarded by them.

## 8. INFORMATION TECHNOLOGY

The following key initiatives relating to information technology were taken during 2017-18:

### I. SEBI'S DIGITAL TRANSFORMATION

Technology is both an enabler for external interactions as well as a productivity tools for the internal functioning of SEBI. In order to achieve the objective of scaling up delivery channels in the securities markets, SEBI has implemented SHARE portal (Shared Hub for All Resources) to digitally transform the organization.

The main components of SHARE Portal that were implemented during the year are:

- A. **SEBI's Complaint Redressal System (SCORES):** It enables market intermediaries and listed companies to receive complaints online from investors, redress such complaints and report redressal online. All the activities starting from lodging of a complaint till its closure by SEBI is online in an automated workflow environment and the complainant can view the status of his complaint on the SCORES portal.
- B. **E-registration:** Online registration of intermediaries is initiated on SHARE Portal to accept applications for registration in electronic form and also to provide post registration activities digitally. Submission of fees through electronic fund transfer from intermediaries to SEBI's account through NEFT and RTGS is also enabled in the E-registration process.
- C. **Electronic Workflows:** An online system for filings related to public issues, rights issues, institutional placement programmes / schemes of arrangement, takeovers and buy backs was implemented.
- D. **Case Management System:** Electronic workflow with information pertaining to investigation, enforcement, litigation, adjudication, etc. with relevant audit trails. The online process starts when a case is taken up for investigation and thereafter every stage of the case is electronically recorded.

- E. **Enterprise Resource Planning (ERP):** Customisation and integration of the Enterprise Resource Planning (ERP) suite including HRMS, finance, budget, reimbursements, procurements and employee self-service was also carried out for internal use by SEBI.

### II. WAY FORWARD:

#### Ease of Doing Business and Digital India Initiatives

- A. Enhance the Case Management System to ensure consistency and create efficiencies in SEBI's functioning.
- B. Implement a single technology strategy to support way of work, enable collaboration across teams and give easier access to data (Private Cloud).
- C. Enhance SEBI's data-driven market supervision by means of extracting detailed analysis on the compliance performance of market operators.
- D. With rising threats posed by hackers, security breaches and data leaks, SEBI continues to enhance security measures through various means (establishment of Network Operations Centre / Security Operations Centre).
- E. Integration of SCORES with a Mobile App for speedy resolution and tracking of investor complaints.
- F. Implementation of Payment Gateway to facilitate market intermediaries for e-payment through SEBI's SHARE portal.



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