

PART THREE: REGULATION OF SECURITIES MARKET

This part of the Report delineates the functions of SEBI as specified in Section 11 of the SEBI Act, 1992

1. PRIMARY SECURITIES MARKET

Market intermediaries play a very important role in development of the market by providing a variety of services. Market intermediaries can be classified on the basis of the services provided by them. Typically, they are classified as: merchant bankers, stock brokers, bankers to issues, debenture trustees, portfolio managers, DPs, registrars to issues, share transfer agents, etc. These entities are regulated by SEBI.

During 2006-07, the number of intermediaries belonging to the group of merchant bankers, portfolio managers, and DPs increased over the previous year. As on March 31, 2007, the number of portfolio managers was 158 as against 132 in the previous year indicating an increase of 19.7 per cent. The number of merchant bankers increased to 152 as on March 31, 2007 as against 130 in the previous year, showing an increase of 16.9 per cent. The number of DPs also increased from 526 to 593, amounting to an increase of 12.7 per cent.

The number of registrar to an issue and

share transfer agents, debenture trustees, bankers to an issue and underwriters, declined in 2006-07 over the previous year. The decline was noticeable in the case of bankers to an issue and underwriters (Table 3.1).

2. SECONDARY SECURITIES MARKET

Similar to increase in activities in the primary market there was an increase in the secondary market activities.

I. Registration of Stock Brokers

During 2006-07, 263 new stock brokers were registered with SEBI (Table 3.2). There were 155 cases of reconciliation/ cancellation/ surrender of membership during 2006-07 which was lower than that, in the previous year. As on March 31, 2007, the total number of stock brokers registered with SEBI was 9,443 as against 9,335 in the previous year, showing a net increase of 108.

The share of corporate brokers was 43.52 per cent of the total stock brokers as on

Table 3.1: Registered Intermediaries

Type of Intermediary	As on March 31		Absolute Variation	Percentage Variation
	2006	2007		
1	2	3	4	5
Registrar to Issue and Share Transfer Agent	83	82	-1	-1.20
Bankers to an Issue	60	47	-13	-21.67
Debenture Trustee	32	30	-2	-6.25
Merchant Banker	130	152	22	16.92
Portfolio Manager	132	158	26	19.69
Underwriter	57	45	-12	-21.05
DPs – NSDL	215	230	15	6.98
DPs – CDSL	311	363	52	16.72
Credit Rating Agency	4	4	0	0.00

March 31, 2007 as against 42.43 per cent in the previous year (Table 3.3).

As on March 31, 2007, among the exchanges, NSE had the highest number of stock brokers (trading members) at 1,077 followed by the Calcutta Stock Exchange at

960, Inter-connected Stock Exchange (ISE) at 925 and BSE at 901. At NSE, corporate brokers constituted 91.7 per cent of the total stock brokers. The proportion of corporate brokers at BSE and OTCEI was 80.1 per cent and 76.3 per cent, respectively.

Table 3.2: Registered Stock Brokers

Registered Stock Brokers as on March 31, 2006	Addition during to the Year 2006-07	Reconciliation / Cancellation/ Surrender of Memberships	Registered Stock Brokers as on March 31, 2007
1	2	3	4
9,335 (9,128)	263 (554)	155 (347)	9,443 (9,335)

Note: Data in parentheses pertains to year 2005-06.

Table 3.3: Exchange-wise Stock Brokers Registered with SEBI

Stock Exchange	As on March 31, 2006			As on March 31, 2007		
	Total Number of Stock Brokers	Number of Corporate Brokers	Corporate Brokers as a Percentage of Total Brokers	Total Number of Stock Brokers	Number of Corporate Brokers	Corporate Brokers as a percentage of Total Stock Brokers
1	2	3	4	5	6	7
Ahmedabad	317	152	47.95	317	153	48.26
Bangalore	256	125	48.83	256	125	48.83
BSE	840	661	78.69	901	722	80.13
Bhubaneswar	219	19	8.68	216	19	8.8
Calcutta	962	204	21.21	960	204	21.25
Cochin	434	79	18.2	432	80	18.52
Coimbatore	135	48	35.56	135	48	35.56
Delhi	375	214	57.07	374	213	56.95
Gauhati	110	4	3.64	104	3	2.88
Hyderabad	304	122	40.13	304	122	40.13
ISE	788	283	35.91	925	336	36.32
Jaipur	507	19	3.75	492	18	3.66
Ludhiana	293	86	29.35	293	85	29.01
MPSE	174	35	20.11	174	35	20.11
Madras	182	71	39.01	181	71	39.23
Magadh	198	22	11.11	197	22	11.17
NSE	1014	922	90.93	1,077	988	91.74
OTCEI	769	588	76.46	752	574	76.33
Pune	192	57	29.69	188	55	29.26
SKSE	426	84	19.72	411	82	19.95
UPSE	463	93	20.09	384	82	21.35
Vadodara	311	64	20.58	311	64	20.58
Total	9,335	3,961	42.43	9,443	4,110	43.52

Brokers can also be categorised as: proprietary, partnership, corporate, institution, composite corporate, etc. Since, the number of broking entities registered under categories of institution and composite corporate was negligible during the recent years; therefore, these categories are clubbed together under corporate brokers. Table 3.4 and Chart 3.1 provide details of the exchange-wise stock brokers on the basis of ownership.

In 17 out of 22 recognised stock

exchanges (barring Ahmedabad, BSE, Delhi, NSE, and OTCEI), as a proportion of total number of members, the number of stock brokers under 'proprietorship' was 50 per cent or above. The percentage of stock brokers in 'proprietorship' category was the highest in Gauhati Stock Exchange Ltd. at 96.2 per cent, followed by 95.1 per cent in Jaipur Stock Exchange. However, stock brokers in 'proprietorship' category were the lowest for NSE at 4.5 per cent of the total stock brokers (Chart 3.2).

Table 3.4: Classification of Stock Brokers on the Basis of Ownership*

Sr. No.	Stock Exchange	Proprietorship				Partnership				Corporate**				Total	
		2006		2007		2006		2007		2006		2007		2006	2007
		Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Nos.
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.	Ahmedabad	142	44.79	142	44.79	23	7.26	22	6.94	152	47.95	153	48.26	317	317
2.	Bangalore	128	50	128	50	3	1.17	3	1.17	125	48.83	125	48.83	256	256
3.	BSE	148	17.62	148	16.43	31	3.69	31	3.44	661	78.69	722	80.13	840	901
4.	Bhubaneswar	200	91.32	197	91.2	0	0	0	0	19	8.68	19	8.8	219	216
5.	Calcutta	712	74.01	710	73.96	46	4.78	46	4.79	204	21.21	204	21.25	962	960
6.	Cochin	345	79.49	342	79.17	10	2.31	10	2.31	79	18.2	80	18.52	434	432
7.	Coimbatore	87	64.44	87	64.44	0	0	0	0	48	35.56	48	35.56	135	135
8.	Delhi	129	34.4	129	34.49	32	8.53	32	8.56	214	57.07	213	56.95	375	374
9.	Gauhati	105	95.45	100	96.15	1	0.91	1	0.96	4	3.64	3	2.88	110	104
10.	Hyderabad	176	57.89	176	57.89	6	1.97	6	1.97	122	40.13	122	40.13	304	304
11.	ISE	496	62.94	562	60.76	9	1.14	27	2.92	283	35.91	336	36.32	788	925
12.	Jaipur	482	95.07	468	95.12	6	1.18	6	1.22	19	3.75	18	3.66	507	492
13.	Ludhiana	205	69.97	206	70.31	2	0.68	2	0.68	86	29.35	85	29.01	293	293
14.	MPSE	137	78.74	137	78.74	2	1.15	2	1.15	35	20.11	35	20.11	174	174
15.	Madras	95	52.2	95	52.49	16	8.79	15	8.29	71	39.01	71	39.23	182	181
16.	Magadh	175	88.38	174	88.32	1	0.51	1	0.51	22	11.11	22	11.17	198	197
17.	NSE	46	4.54	44	4.09	46	4.54	45	4.18	922	90.93	988	91.74	1014	1,077
18.	OTCEI	162	21.07	159	21.14	19	2.47	19	2.53	588	76.46	574	76.33	769	752
19.	Pune	128	66.67	126	67.02	7	3.65	7	3.72	57	29.69	55	29.26	192	188
20.	SKSE	340	79.81	327	79.56	2	0.47	2	0.49	84	19.72	82	19.95	426	411
21.	UPSE	364	78.62	297	77.34	6	1.3	5	1.3	93	20.09	82	21.35	463	384
22.	Vadodara	244	78.46	244	78.46	3	0.96	3	0.96	64	20.58	64	20.58	311	311
	Total	5,100	54.63	5,045	53.43	274	2.94	288	3.05	3,961	42.43	4,110	43.52	9,335	9,443

* As on March 31 of the respective Year.

** The categories of Financial Institutions and Composite Corporate are clubbed within the category of corporate broker.

Chart 3.1: Number of Stock Brokers (by Ownership) (as on March 31, 2007)

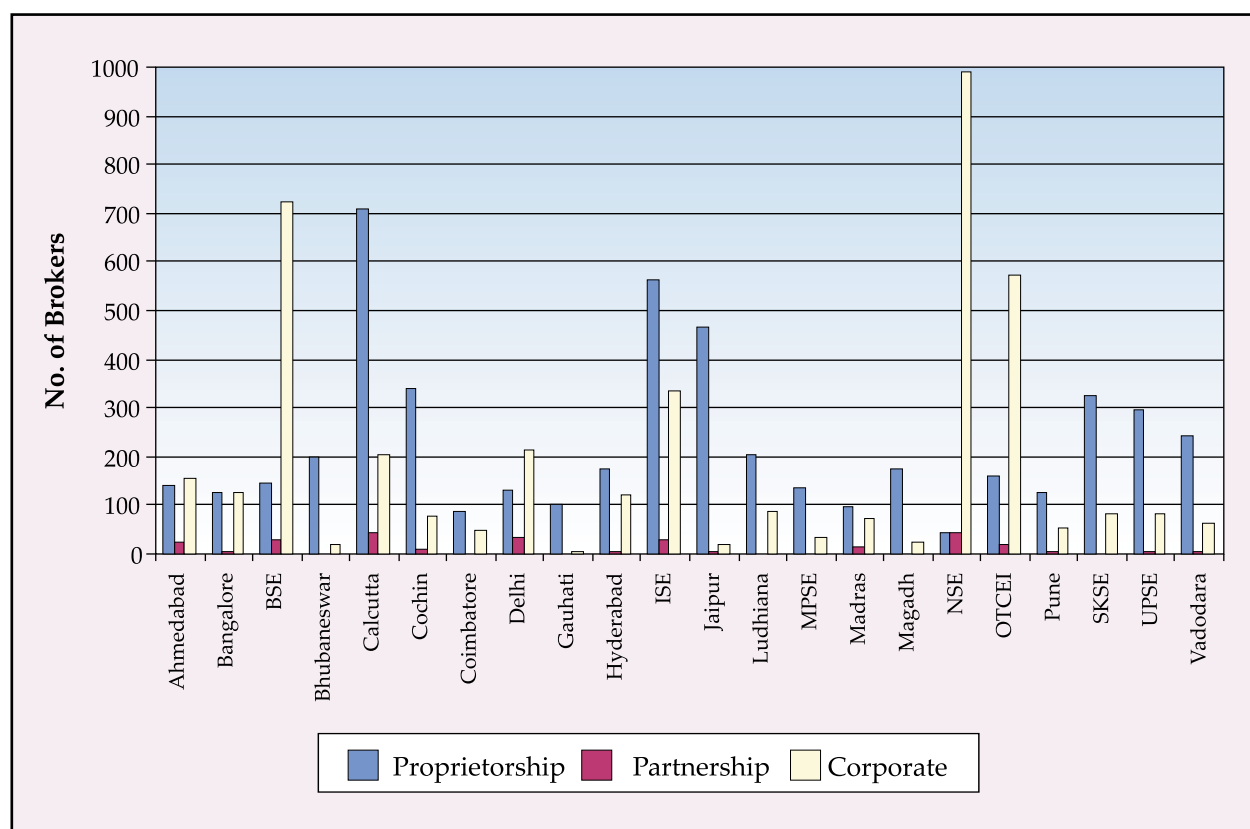
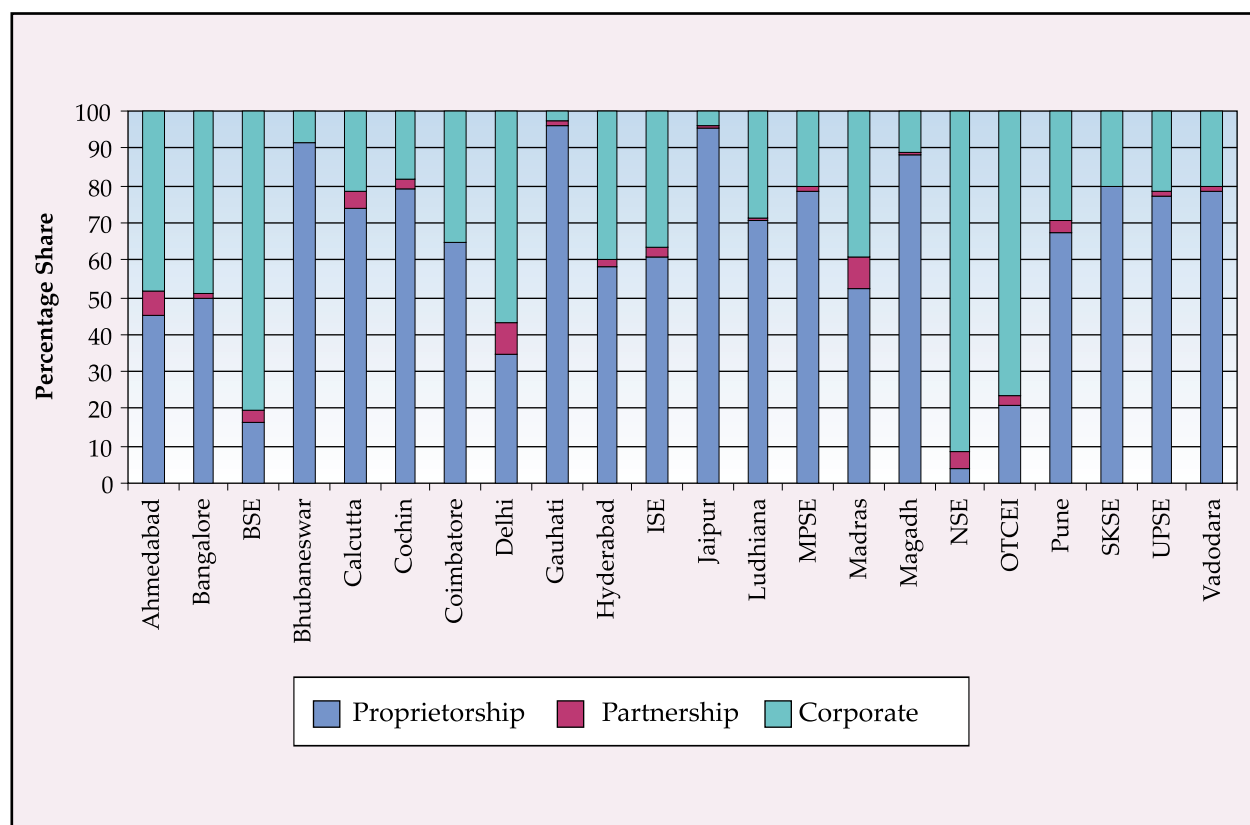


Chart 3.2: Percentage Share of Stock Brokers (by Ownership) (as on March 31, 2007)



As on March 31, 2007, the percentage of stock brokers in 'partnership' category was at the highest in Delhi Stock Exchange Ltd. (8.56 per cent), followed by (8.29 per cent) in Madras Stock Exchange Ltd. There were no stock brokers in 'partnership' category in Bhubaneswar Stock Exchange Ltd. and Coimbatore Stock Exchange Ltd.

II. Registration of Sub-brokers

The number of sub-brokers registered during 2006-07 witnessed a rise as compared to the previous year. The total number of sub-brokers registered at the end of 2006-07, rose

to 27,541, as against 23,479 in the previous year. In effect, there was a net addition of 4,062 sub-brokers during 2006-07, reflecting an increase of 17.3 per cent (Table 3.5). The two major stock exchanges, that is, BSE and NSE accounted for 95.2 per cent of the total sub-brokers operating in the country as compared to 93.9 per cent a year ago.

III. Recognition of Stock Exchanges

SEBI grants recognition to stock exchanges under Section 4 of the Securities Contracts (Regulation) Act, 1956. There were 22 stock exchanges recognised under SC(R)

Table 3.5: Registered Sub-brokers

Sr. No.	Stock Exchange	Sub-brokers as on March 31			
		2006		2007	
		Number	Percentage of Total	Number	Percentage of Total
1	2	3	4	5	6
1	Ahmedabad	119	0.51	97	0.35
2	Bangalore	156	0.66	156	0.57
3	BSE	10,691	45.53	13,482	48.95
4	Bhubaneswar	17	0.07	17	0.06
5	Calcutta	88	0.37	87	0.32
6	Cochin	42	0.18	42	0.15
7	Coimbatore	22	0.09	21	0.08
8	Delhi	343	1.46	292	1.06
9	Gauhati	4	0.02	4	0.01
10	Hyderabad	199	0.85	196	0.71
11	ISE	3	0.01	3	0.01
12	Jaipur	34	0.14	33	0.12
13	Ludhiana	38	0.16	37	0.13
14	MPSE	5	0.02	5	0.02
15	Madras	115	0.49	112	0.41
16	Magadh	3	0.01	3	0.01
17	NSE	11,359	48.38	12,724	46.20
18	OTCEI	19	0.08	19	0.07
19	Pune	161	0.69	158	0.57
20	SKSE	0	0.00	0	0.00
21	UPSE	19	0.08	14	0.05
22	Vadodara	41	0.17	38	0.14
	Total	23,479	100.00	27,541	100

Act. Out of the 22 stock exchanges, eight stock exchanges have been granted permanent recognition. During 2006-07, SEBI granted yearly renewal to 10 stock exchanges. Details of the renewal of recognition granted to the stock exchanges are provided in Table 3.6 and Table 3.7.

In case of two stock exchanges, renewal of recognition was not granted due to following reasons:

- i. Coimbatore Stock Exchange Ltd. (CSX) did not file application for renewal of recognition which expired on September 17, 2006, due to pending litigation before the Hon'ble High Court of Judicature at Madras. However, in terms of order dated September 15, 2006 of the Hon'ble Court, the right of CSX to apply for

renewal is subject to further orders of the court, and the stock exchange is not entitled to oppose the renewal solely on the ground of lapse of time.

- ii. SEBI served a show cause notice dated November 30, 2006 on the Council of Management of Magadh Stock Exchange Ltd. (MSEL) asking why its application for grant/renewal of recognition should not be rejected, and why SEBI should not refuse to grant/renew the recognition to MSEL under Section 4 of SC(R) Act.

IV. Corporate Restructuring: Substantial Acquisition of Shares and Takeovers

During 2006-07, 90 public offers were opened and 104 letters of offer were filed

Table 3.6: Renewal of Recognition Granted to Stock Exchanges during 2006-07

Sr. No.	Exchange	Date of Notification	Period
1	2	3	4
1.	The Ludhiana Stock Exchange Association Ltd.	April 26, 2006	1 year, w.e.f. April 28, 2006 to April 27, 2007
2.	The Gauhati Stock Exchange Ltd.	April 26, 2006	1 year, w.e.f. May 1, 2006 to April 30, 2007
3.	Bhubaneswar Stock Exchange Ltd.	May 26, 2006	1 year, w.e.f. June 5, 2006 to June 4, 2007
4.	The Uttar Pradesh Stock Exchange Association Ltd.	June 1, 2006	1 year, w.e.f. June 3, 2006 to June 2, 2007
5.	Saurashtra Kutch Stock Exchange Ltd.	July 7, 2006	1 year, w.e.f. July 10, 2006 to July 9, 2007
6.	OTC Exchange of India	July 28, 2006	1 year, w.e.f. August 23, 2006 to August 22, 2007
7.	The Pune Stock Exchange Ltd.	August 21, 2006	1 year, w.e.f. September 2, 2006 to September 1, 2007
8.	The Cochin Stock Exchange Ltd.	November 6, 2006	1 year, w.e.f. November 8, 2006 to November 7, 2007
9.	Vadodara Stock Exchange Ltd.	December 21, 2006	1 year w.e.f. January 4, 2007 to January 3, 2008
10.	Inter-connected Stock Exchange of India Ltd.	November 15, 2006	1 year, w.e.f. November 18, 2006 to November 17, 2007

Table 3.7: Status of Recognition Granted to Other Stock Exchanges

Sr. No.	Exchange	Status
1	2	3
1.	National Stock Exchange of India Ltd.	5 years w.e.f. April 26, 2003 to April 25, 2008.
2.	Jaipur Stock Exchange Ltd.	3 years, w.e.f. January 9, 2006 to January 8, 2009.
3.	Bombay Stock Exchange Ltd.	Permanent
4.	Ahmedabad Stock Exchange Ltd.	Permanent
5.	Bangalore Stock Exchange Ltd.	Permanent
6.	The Calcutta Stock Exchange Association Ltd.	Permanent
7.	The Delhi Stock Exchange Association Ltd.	Permanent
8.	The Hyderabad Stock Exchange Ltd.	Permanent
9.	Madhya Pradesh Stock Exchange Ltd.	Permanent
10.	Madras Stock Exchange Ltd.	Permanent

with SEBI. The total number of reports filed under exemption category was 260. However, the transactions, which were not covered under the said category, were submitted to the Takeover Panel for exemption from open offer. During the year, 104 such applications were forwarded by SEBI to the Takeover Panel for consideration, while exemptions from making open offers were granted in respect of 15 cases (Table 3.8).

V. Registration of Foreign Institutional Investors

The total number of FIIs registered with SEBI increased to 997 as on March 31, 2007, compared to 882 a year ago, showing a net increase of 217 over the year. During the year, a distinctive feature of the profile of the newly

registered FIIs was increase in registration from places like Slovenia, Brussels, Guernsey, Cyprus, Oman, Sweden, and Japan.

VI. Registration of Custodians of Securities

As on March 31, 2007, there were 14 custodians registered with SEBI, under SEBI (Custodian of Securities) Regulations, 1996. Three new Custodians, including one for custodial services of gold and gold related instruments, were registered with SEBI, during 2006-07. The registration fee and period of registration for custodians were also revised.

VII. Registration of Collective Investment Schemes (CIS)

Subsequent to the notification of SEBI (Collective Investment Schemes) Regulations, 1999, no CIS entity is registered with SEBI.

VIII. Registration of Mutual Funds

As on March 31, 2007, 40 mutual funds were registered with SEBI, of which 33 were in the private sector and seven (including

Table 3.8: Open Offers and Exemptions

Period	Letters of Offer filed	Exemptions Granted by Panel
1	2	3
2004-05	60	17
2005-06	104	13
2006-07	104	15

UTI) were in the public sector. The Certificate of Registration granted to Bank of India MF was cancelled. Lotus India MF, AIG Global Investment Group MF, and JP Morgan MF were registered with SEBI during 2006-07 (Table 3.9).

Table 3.9: Mutual Funds Registered with SEBI

Sector	March 31, 2006	March 31, 2007
1	2	3
Public Sector (Including UTI)	8	7
Private Sector	30	33
Total	38	40

IX. Registration of Venture Capital Funds

It is generally agreed that venture capital funds play an important role in development of entrepreneurship and help in the technological progress of an economy. These funds provide the capital required for various industries being set up by new generation entrepreneurs who have limited access to conventional sources of finance. Venture Capital Industry has made considerable progress during the last five years. The number of domestic venture capital funds increased to 90 during 2006-07, from 80 in 2005-06. However, the number of foreign venture capital funds doubled to 78 in 2006-07 from 39 in 2005-06 (Table 3.10).

Table 3.10: Registration of Venture Capital Funds

	March 31, 2006	March 31, 2007
1	2	3
VCF	80	90
FVCI	39	78

X. Fees and Other Charges

SEBI collects fees and other charges from different market intermediaries on both

recurring and non-recurring basis as per various SEBI Regulations. Un-audited details of the amount of fees and other charges received by SEBI during 2006-07 are given in Table 3.11.

During 2006-07, the total amount of fees and other charges received was Rs. 201 crore as against Rs. 58 crore in 2005-06, amounting to a net increase of Rs. 143.2 crore. Among the major heads, the largest amount of Rs. 52 crore was collected as takeover fees in 2006-07, followed by Rs. 45 crore from stock brokers and sub-brokers, and Rs. 34 crore fees from offer documents / prospectuses filed with SEBI. Other major sources of fees received during 2006-07 were mutual funds (Rs. 21 crore), derivative members (Rs. 11 crore), and FIIs (Rs. 9 crore).

3. SUPERVISION

Implementation of the Regulations entails a multi-stage process of supervision through on-site and off-site inspections, enforcement through initiation of adjudication, enquiry against violations of rules and regulations, and prosecutions. Inspections of intermediaries were carried out directly by SEBI or by stock exchanges, depositories, etc. SEBI conducted inspections on a periodic basis to verify the compliance levels of intermediaries. It also conducted specific/ limited purpose inspections on the basis of complaints, references, surveillance reports, specific concerns etc. SEBI also directed stock exchanges and depositories to carry out periodic/specific purpose inspections of their members/participants.

I. Inspection of Market Intermediaries

According to the revised inspection policy, approved by the SEBI Board, SEBI conducts risk-based inspection. It does not normally conduct routine inspections of stock brokers/sub-brokers and DPs. Such

Table 3.11: Fees and Other Charges

(Rs. crore)

Particulars	2005-06			2006-07		
	Recurring fees#	Non-recurring fees##	Total Fees Received	Recurring fees	Non-recurring fees	Total Fees Received (Unaudited)
1	2	3	4	5	6	7
Offer Documents and Prospectuses Filed	0.00	3.77	3.77	0.00	34.45	34.45
Merchant Bankers	1.70	0.54	2.24	0.98	1.95	2.92
Underwriters	0.32	0.40	0.72	0.24	0.16	0.40
Portfolio Managers	0.63	2.63	3.25	0.83	3.54	4.36
Registrars to an Issue and Share Transfer Agents	0.04	0.01	0.05	0.26	0.07	0.33
Bankers to an Issue	0.08	0.10	0.18	1.45	0.19	1.64
Debenture Trustees	0.10	0.00	0.10	0.45	0.12	0.57
Takeover Fees	0.00	0.93	0.93	0.00	52.00	52.00
Mutual Funds	1.60	0.26	1.86	1.65	19.27	20.92
Stock Brokers and Sub-Brokers	16.46	0.00	16.46	45.02	0.00	45.02
Foreign Institutional Investors	0.00	7.82	7.82	0.00	9.45	9.45
Sub Account - Foreign Institutional Investors	0.00	5.78	5.78	0.00	802.70	8.03
Depository	0.20	0.00	0.20	0.20	0.00	0.20
Depository Participants	0.05	1.96	2.01	0.06	1.63	1.69
Venture Capital Funds	0.00	1.58	1.58	0.00	0.98	0.98
Custodian of Securities	0.50	0.00	0.50	0.54	0.47	1.01
Approved Intermediaries under Securities Lending Scheme	0.06	0.00	0.06	0.04	0.00	0.04
Credit Rating Agencies	0.12	0.01	0.13	0.00	0.00	0.00
Listing Fees Contribution from Stock Exchanges	1.89	0.00	1.89	2.16	0.00	2.16
Foreign Venture Capital	0.00	1.30	1.30	0.00	3.87	3.87
Derivatives	6.71	0.00	6.71	10.77	0.00	10.77
Informal Guidance Scheme	0.00	0.09	0.09	0.00	0.03	0.03
Total	30.44	27.17	57.61	64.65	136.18	200.83

Recurring fees: Fees which is received on annual/3-yearly/5-yearly basis (includes Renewal Fee/ Service Fee/ annual fee/ Listing Fees from 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/ FII Registration and FII Sub-accounts Registration.

Notes:

1. Since the amount realised by way of penalties on or after 29.10.2002 has been credited to the Consolidated Fund of India, the same has not been included in the fees income of SEBI during 2003-04 and 2004-05.
2. Stock brokers and Sub-brokers registration fee includes annual fees and turnover fees.
3. Stock brokers and Derivatives fees are of recurring nature and depend on the turnover of the stock brokers and Member of Derivatives Segment.

inspections are left to the stock exchanges and depositories concerned, which is in line with international practices. SEBI oversees the quality of such inspections by calling for periodic reports on inspections conducted, violations observed, and actions taken to check whether the quality, content, and coverage of inspections are adequate.

i. Inspection of Stock Brokers / Sub-brokers

During 2006-07, inspections of stock brokers, sub-brokers were carried out as per various regulations of SEBI. During 2006-07, the number of regular inspections conducted on stock brokers was 30, compared to seven in the previous year (Table 3.12). Like 2005-06, no regular inspections of sub-brokers were conducted during 2006-07. However, there was a rise in the number of surprise/limited purpose inspections carried out on stock brokers and sub-brokers.

Table 3.12: Inspection of Stock Brokers/ Sub-brokers

(Numbers)		
Particulars	2005-06	2006-07
1	2	3
Regular Inspections completed – Stock Brokers	7	30
Regular Inspections completed– Sub Brokers	Nil	Nil
Surprise/Limited Purpose Inspections – Stock Brokers/Sub-brokers	32	37 *

* Includes limited purpose inspections of nine subsidiaries of stock exchanges to ascertain the implementation of the model tri-partite agreements and direct settlement of funds and securities by the main stock broker.

ii. Inspection of Other Intermediaries

During 2006-07, regular inspections were carried out in respect of 26 DPs, eight Registrars to Issues, three Merchant Bankers, and one Debentures Trustee. Inspections were also carried out of 14 DPs of National

Securities Depository Ltd. (NSDL) and four DPs of Central Depository Services (India) Ltd. (CDSL) by respective Depositories, as per the directions given by SEBI.

II. Inspection of Stock Exchanges

During 2006-07, 15 stock exchanges were inspected. These exchanges were: Vadodara Stock Exchange Ltd. (VSE), Madhya Pradesh Stock Exchange Ltd. (MPSE), Pune Stock Exchange Ltd. (PSE), Saurashtra and Kutch Stock Exchange Ltd. (SKSE), Bombay Stock Exchange Ltd. (BSE), Calcutta Stock Exchange Association Ltd. (CSE), Jaipur Stock Exchange Ltd. (JSE), Delhi Stock Exchange Association Ltd. (DSE), Madras Stock Exchange Ltd. (MSE), Bhubaneshwar Stock Exchange Ltd. (BhSE), Magadh Stock Exchange Ltd., UP Stock Exchange Association Ltd. (UPSE), Ludhiana Stock Exchange Ltd. (LSE), National Stock Exchange of India Ltd. (NSE), and Hyderabad Stock Exchange Ltd. (HSE).

III. Inspection of Subsidiaries of Stock Exchanges

During 2006-07, inspections of nine subsidiaries of stock exchanges were conducted for limited purpose of ascertaining the implementation of model tri-partite agreements and direct settlement of funds and securities, by the main stock broker.

IV. Inspection of Depositories

An inspection of Central Depository Services (India) Ltd. was carried out during the year.

V. System Audit

A system audit of the two main stock exchanges (NSE and BSE) was carried out by an independent expert agency. The auditor was selected by SEBI through a process of

competitive bidding and expertise evaluation. The terms of reference were also specified by SEBI.

VI. Show Cause Notices Issued

Based on the investors' complaints, regarding delay in dematerialisation of shares and also on the basis of reports submitted by both the depositories, show cause notices (SCNs) were issued to 60 companies as to why actions should not be initiated against them under SEBI (Depositories and Participants) Regulations, 1996 and the Depositories Act, 1996.

4. SURVEILLANCE

I. Mechanism of Market Surveillance

SEBI monitored market movements, analysed trading pattern in stocks and indices, and initiated appropriate action, as necessary, in conjunction with the stock exchanges and the depositories. Towards this end, SEBI also took into account any unusual or suspicious market movements, formal or informal information from the stock exchanges and the depositories, specific complaints from any entities / persons, etc.

The stock exchanges played prime role in detection of market manipulation, price rigging, and other regulatory breaches regarding stock market functioning. SEBI also kept constant vigil on the activities of the stock exchanges to facilitate effective surveillance systems.

II. Surveillance Actions

During 2006-07, SEBI made 44 and 95 references for examination/ investigation to NSE and BSE, respectively. NSE completed examination/ investigation in 44 cases and BSE completed examination/investigation in 112 cases (82 cases + 30 cases of last year) during 2006-07.

NSE shifted 247 stocks to trade-for-trade segment and BSE shifted a total of 1,463 scrips to trade-for-trade segment. During the year, a price band (2 per cent or 5 per cent or 10 per cent) was imposed by NSE in 2,174 instances and by BSE in 1,323 instances, as a surveillance measure. During the same period, 247 and 304 instances of rumours were verified by NSE and BSE, respectively. Details of the surveillance actions taken during 2006-07 are given in Table 3.13.

Table 3.13: No. of Surveillance Actions during 2006-07

Nature of Action	NSE	BSE
1	2	3
Scrips shifted to Trade for Trade Segment	247 (259)	1463 (1169)
No. of Scrips in which Price Bands were Imposed (2 per cent, 5 per cent & 10 per cent)	2174 (850)	1323 (3698)
Preliminary Investigations Taken Up	246 (294)	943 (893)
Rumours Verification	247 (294)	304 (426)

Note: Figures in the parentheses pertain to 2005-06.

III. Surveillance Measures

Several preventive and proactive measures were taken by SEBI during 2006-07 for enhancing market safety and integrity. The surveillance measures taken during the year included: shifting of stocks to trade-for-trade segment, reduction of circuit filter etc. SEBI *suo moto* took the following measures to protect the interests of investors and to safeguard market integrity.

i. Internet Surveillance

It was noticed that various recommendations were being offered by analysts on the internet/websites. SEBI advised the stock exchanges - as a measure to enhance investor awareness - to issue

advertisements advising the investors to exercise caution with respect to recommendations offered by analysts on websites. Special focus was on those stocks whose market price did not seem justified based on fundamentals of the company. Accordingly, investors were alerted to take informed decision while investing in these stocks. SEBI also advised the stock exchanges to keep a track of recommendations made by analysts on the websites.

ii. Relaxation of Circuit Filter

Circuit filter was relaxed by the stock exchanges in certain stocks either due to corporate action or due to resumption of trading (in illiquid stocks). This relaxation of price band often gave rise to volatility on the first day of trading. To address this issue, SEBI advised the stock exchanges to impose a price band of 20 per cent in such cases on experimental basis, basing final view on determination of base price. Further, a draft policy for calculation of base price for imposition of price band was put up on SEBI website for public comments. The policy envisages fixation of the base price based on recommendations made by a merchant banker duly appointed by the company and imposition of price band around that base price.

iii. Surveillance to be Carried Out by the Depositories

- a) As a follow up action of SEBI investigation in the matter of misuse of IPO allotment in retail categories, it was felt that the depositories should also carry out surveillance activities. As such, a group, comprising representatives from SEBI, NSDL, and CDSL was formed to identify the areas for surveillance activities to be carried out by the depositories. Based on the recommendations of the group, SEBI

decided that the depositories should have (i) their own surveillance system, (ii) alerts generation capability, and (iii) a set up for demonstrative action.

- b) In the past SEBI had raised concern over the possibility of multiple demat of shares in the existing system with the same distinctive numbers. SEBI advised depositories to put a system in place to identify the status of the shares that are being dematted/rematted at their end, at the entry level itself, that is, depositories should be able to identify whether given distinctive number(s) were dematted earlier or not.

iv. Consolidation of Stock Exchange Investigation Reports

With a view to reduce delay in information processing and minimising duplication of the efforts made by SEBI and the stock exchanges during the investigation process, SEBI advised the exchanges (NSE and BSE) to share information/findings with each other and give a consolidated report. In order to improve the quality of the reports by making them focused in terms of findings, both the stock exchanges were advised to be in a position to come to prima-facie conclusions about violations, if any, and to give specific findings for future course of action, while preparing their investigation reports.

v. Display of Shareholding Pattern on the Website of Stock Exchanges

- a) SEBI noted the fact that though several off-market deals take place, the information relating to such deals is not reflected in the shareholding pattern which is often not disseminated on a quarterly basis. SEBI, therefore, advised the stock exchanges to display the shareholding pattern on their websites on a monthly basis.

b) SEBI also observed that there was no effective mechanism to verify the authenticity of the information posted by the company/registrar with regard to the shareholding pattern and quantity of shares in demat and physical form. This non-availability of information may give rise to misuse by the company/registrar. Thus, to eliminate the scope for any misuse and to bring transparency in the disclosures, SEBI advised stock exchanges (i) to modify the format for display of shareholding pattern by the company/registrar, (ii) to include the details of holding by the shareholders (both in physical and demat form), and (iii) to direct the company/register to provide the information, such as: total issued capital, total listed capital, total shares in physical form, total shares in demat form with depositories, etc.

vi. Increased Vigilance on Realty Stocks

SEBI observed that some of the realty stocks were showing sharp increase in price/volume bereft of any substantial fundamentals. SEBI advised the stock exchanges to examine the issue and to enhance vigilance on such stocks. SEBI also conducted independent inquiry on some realty stocks. It was observed that certain entities were subscribing to a very large amount of the shares (in some cases, subscription was almost equal to the entire issue size) and there seemed to be recirculation of funds among the entities. SEBI referred the matter to Income Tax Department and other enforcement agencies, for further investigation.

IV. Enforcement

Based on surveillance inputs, SEBI initiated expeditious enforcement action and passed interim *ex parte* orders in the following cases, while final investigation is in process.

i. SEBI order dated April 27, 2006 on IPO Irregularities

SEBI initiated probe and advised BSE and NSE to look into the dealings in the shares, issued through IPOs, before the shares were listed on the stock exchanges. For the purpose of examination, information relating to off-market transactions was obtained from the depositories and the same was provided by SEBI to the stock exchanges. In October 2005, the stock exchanges submitted their preliminary observations on the IPO of Yes Bank Ltd. (YBL), which hinted at the possibility of large scale off-market transactions, immediately following the date of allotment and prior to the listing of shares on the stock exchanges.

SEBI, therefore, carried out a preliminary scrutiny, by calling for data from the depositories and the registrars to the issues. It was found that a large number of multiple dematerialised accounts, with common addresses, were opened by some entities. SEBI acted against the entities that were responsible for the irregularities, by passing interim order restraining them from participating in all future IPOs and also directing the depositories to effectively freeze their dematerialised accounts.

Thereafter, SEBI examined the irregularities in the IPO of IDFC. It was found that the very same players had played a major role in cornering the shares. Based on preliminary scrutiny, SEBI passed an interim order in the case of IDFC on the same lines, as in the case of Yes Bank Ltd.

Since, some of the dematerialised accounts that were used for cornering the IPO shares were opened during 2003, SEBI broadened its investigations to the IPOs that came during 2003-2005. Based on the findings of investigation, vide interim order dated April 27, 2006, SEBI directed 24 key operators and 82 financiers not to buy, sell or deal in

the securities market, including in IPOs, directly or indirectly, till further directions. Besides, directions were also issued against the concerned DPs and the depositories.

ii. Disgorgement of Profits in the Matter of Misuse of IPO Allotment

SEBI Regulations prescribe a quota for small investors wishing to invest in the market. A small investor is defined as one who applies for shares worth Rs. 1,00,000 or less (earlier, the limit was Rs. 50,000). Typically, over-subscription in the retail segment of an IPO is substantially less than the over-subscription in the non-retail segment for a few sought after IPOs.

During preliminary scrutiny, SEBI found that certain entities had cornered IPO shares reserved for retail applicants by making applications in the retail category through the medium of thousands of fictitious/*benami* applicants, with each application being submitted for a small value so as to be eligible for allotment under the retail category. Subsequent to the receipt of IPO allotment these fictitious/*benami* allottees transferred shares to their principals, who in turn transferred the shares to the financiers (either directly or through a web of transactions), who had originally made available the funds for executing the game-plan. The financiers, in turn, sold most of these shares on the first day of listing, thereby realising a windfall gain equivalent to the price difference between IPO allotment price and listing price. The gains made by the financiers and key operators were at the expense of genuine retail investors, who either failed to get an allotment or got allotment of fewer number of shares because of the large number of applications made in the name of fictitious/*benami* demat account holders.

The entire scheme of cornering the retail portion of IPOs would not have succeeded

without the active role played by the depositories and DPs. The depositories and DPs facilitated the opening of numerous demat accounts in fictitious/*benami* names. These accounts were subsequently used for making applications in various IPOs, receiving allotment, and thereafter pooling the same in the demat accounts of the key operators through off-market transfers prior to or immediately after the listing and commencement of trading on the stock exchanges. SEBI held the Depositories and DPs who enabled the opening of numerous demat accounts (affluent accounts) in fictitious/*benami* names, liable for the loss caused to retail investors. Accordingly, SEBI vide order dated November 21, 2006, directed the two depositories and eight DPs to jointly and severally disgorge an amount of Rs. 115.82 crore.

iii. Directions in the Case of Nissan Copper Ltd.

SEBI observed an unusual pattern, in terms of trading volume and price rise, in many stocks on the first day of its listing. A preliminary analysis was undertaken of the trading in the stocks. It was observed that the percentage of price variation between the issue price and the close price on the first day of the listing was highest in Nissan Copper Ltd. as compared to 16 other stocks which were listed after IPOs in the past three months. Further, about 90 per cent of the issue size of the company was delivered on the day of listing. Some clients sold heavily on the day of listing, though they did not appear to be in the list of top 100 allottees in the IPO.

As such, the exchanges were advised to withhold the pay-out of securities and funds for the trading carried out on the first and the second day of listing, that is, December 29, 2006 and January 02, 2007 for a period of 15 days and the trading in the stock to be

shifted to trade-for-trade segment with immediate effect, till further communication. The exchanges accordingly carried out the above directions.

The exchanges were also advised to release the pay-out for the clients who were original allottees under retail category upon confirmation of their status as retail clients. The exchanges were asked to give sufficient time for the funds pay-in of the stock brokers whose pay-out was affected. Also, with regard to the clients who had sold on the second day as against the purchase position on the first day of listing, their securities pay-in position was adjusted without releasing the funds pay-out.

The preliminary analysis of trading pattern in Nissan Copper revealed: (i) cornering of shares by a group of entities, (ii) entry of one share limit orders of buy and sell orders wherein most of such orders translated into trades by stock brokers Matrix Equitrade Pvt. Ltd., (iii) creation of artificial demand by entering very large order quantity at unrealistic prices by RSS Investments Ltd., (iv) involvement of company related entities, (v) sales by FIIs of the entire holding on the first day of trading, and (vi) suspicious activities of Ahmedabad based Vora group of entities. In this case, after preliminary examination, an interim order was passed on January 17, 2007, directing:

- a) BSE and NSE to withhold the profits/gains of 39 entities, including one FII and its two sub-accounts, and 300 entities of Bhansali group, who got allotment through multiple applications in the IPO of the company;
- b) The exchanges to release the funds and securities pay out of December 29, 2006 and January 02, 2007 immediately, and also to ensure withholding of the profit/gains of the clients mentioned in the order;

- c) The stock brokers - Matrix Equitrade Pvt. Ltd., RSS Investments Ltd., Park Light Securities Ltd., Dimensional Securities Pvt. Ltd., Religare Securities Ltd., and H. Nyalchand Financial Services Ltd. - not to buy, sell or deal, directly or indirectly, in the shares of the company.

Detailed investigation, in this case, is in progress.

iv. Orders against Recommendations Given by Shri Anirudh Sethi and the business name 'Stock Market Navigator' (SMN)

Preliminary examination carried out by SEBI revealed that Shri Anirudh Sethi and the business name 'Stock Market Navigator' (SMN), disseminated company specific information through advertisements in print and electronic media. It was found that the company had not sent any notice to the stock exchanges as required under Listing Agreement. Further, Shri Anirudh Sethi and SMN did not confirm that they were disseminating information to investors. In this case, after completion of the preliminary examination, the following directions were passed:

- a) Anirudh Sethi and the business name 'Stock Market Navigator' (SMN) to cease and desist from giving investment advice to a client including any recommendations containing company specific news.
- b) Anirudh Sethi and the business name 'Stock Market Navigator' (SMN) were also directed to cease and desist from acting as an unregistered portfolio manager, until they are registered with SEBI.

- v. **Orders in the Matter of Atlanta Ltd.**
SEBI conducted a preliminary

examination in the matter of Atlanta Ltd. It was *prima facie* found that the company, its promoters, and the entities connected with them have abused the stock exchange mechanism, the listing agreement, and the regulations related to preferential issue of securities to unfairly maximize their wealth at the cost of common investor. It was also observed that Manish Marwah/ Dilip Nabera group were *prima facie* known to the company/promoters and these entities had cornered a large chunk of shares. In this case, after completion of the preliminary examination, the following orders were passed:

- a) The promoters and entities connected with the company, its directors, company secretary of the company were directed not to buy, sell or deal in securities of the company, directly or indirectly, till further directions in this regard.
- b) The company was directed not to issue any equity shares or any other instruments convertible into equity shares, in any manner, or not give effect to any alteration in its capital structure, in any manner, till further directions in this regard.
- c) Manish Marwah /Dilip Nabera and the entities connected with them were directed not to buy, sell or deal in securities of M/s. Atlanta Ltd., directly or indirectly, till further directions in this regard.
- d) The exchanges were directed neither to approve the listing of convertible warrants nor to list shares issued on conversion till further directions.
- e) Further, the depositories were directed neither to de-materialise the convertible warrants and shares issued upon conversion nor to give effect to stock

split, till further directions. Also, the depositories were directed not to give effect to any transfer of shares of the company lying in the beneficial owner accounts of the entities connected with the company, its Directors, Company Secretary of the Company, and Manish Marwa / Dilip Nabera.

Detailed investigation, in this case, is in progress.

V. Integrated Market Surveillance System (IMSS)

Effective surveillance mechanism is one of the primary requirements of a well functioning capital market. As an integral part in the regulatory process, effective surveillance can help in achieving investor protection, market integrity and safety; thus, facilitating overall securities market development. According to IOSCO, “the goal of surveillance is to spot adverse situations in the markets and to pursue appropriate preventive actions to avoid disruption to the markets” (Report of the Technical Committee of IOSCO, May 2000)

In India, the stock exchanges have been entrusted with the primary responsibility of undertaking market surveillance. The regulatory oversight, exercised by SEBI, extends over the stock exchanges through reporting and inspections. In exceptional circumstances, SEBI also initiates special investigations on the basis of reports received either from the stock exchanges or on the basis of specific complaints submitted by stakeholders.

SEBI decided to put in place a world-class comprehensive Integrated Market Surveillance System (IMSS) across stock exchanges (NSE and BSE) and across market segments (cash and derivative markets) to enhance efficacy of surveillance function to protect investors’ interests.

IMSS was made operational with effect from December 01, 2006. The primary job of IMSS is to detect abnormalities, if any, in the trading patterns and market behaviour in a timely manner, and to assist in taking corrective action. The system is also an effective tool available to SEBI to oversee the performance of stock exchanges, so far as surveillance activities being performed by them are concerned. This system also helped in sharing significant findings and observations for taking corrective action.

i. Analysis of Information

The IMSS was put to effective use in a number of cases and orders were passed by SEBI, in recent times. The timely action taken in such cases has led to significant positive impact in ensuring orderly conduct of the market players and improving market integrity. Information requirement and analysis carried out thereafter also led to significant improvement and upgradation of system architecture of stock exchanges, which are primary source of data for IMSS.

**ii. Issuance of Caution Letters/
Explanation Seeking Letters**

Since operationalisation of IMSS, more than 120 caution letters/explanation seeking letters were issued to various market intermediaries and clients cautioning/ seeking explanation about their trading patterns. These letters were issued based on an analysis of trading behavior, as observed from various functionalities made available by the system. The proactive steps taken in this regard had a salutary and significant impact towards achieving the twin objectives of ensuring market integrity and professional conduct.

**iii. Sharing of Information with Stock
Exchanges**

A large number of observations were made and many instances indicating

abnormal behavior patterns were shared with stock exchanges for appropriate action. This fulfilled the regulatory objective of ensuring that stock exchanges continue to act as the first level regulator. This also kept the stock exchanges always on alert to proactively detect and examine abnormal trading patterns on their own.

It may, however, be emphasised that IMSS is in no way expected to be a substitute for regular and on-going surveillance activities being carried out by the stock exchanges. The primary responsibility for surveillance vests and would continue to vest with the stock exchanges. IMSS is intended to help SEBI supplement surveillance activities undertaken by the stock exchanges.

**VI. RBI-SEBI Joint Group on Integrated
System of Alerts**

The Joint Parliamentary Committee (JPC) on stock market scam and other related matters had recommended that an integrated system of alerts should be set up, which would piece together disparate signals from different segments of financial market to spot any unusual activity anywhere in the system that might have a bearing on integrity of the stock market. Accordingly, a SEBI-RBI Group on integrated system of alerts was set up to share information and to recommend suitable measures, so that co-ordinated action may be taken. In accordance with the recommendations made by the Group, appropriate alerts have been identified. The alerts, such as, pay-in alerts at the stock exchange level involving top stock brokers accounting for large pay-in, bank guarantee details of top 25 stock brokers (based on turnover) as well as information on securities pledged by such stock brokers, are being shared. A system, making use of the same, was put in place in February 2004.

Further, during 2006-07, it was decided that in addition to the details of top 25 stock

brokers, the bank details of the top 25 non-institutional trading clients (on net buy basis, across all securities in cash market, for the pay-in alert dates) would also be provided to the RBI. Accordingly, based on the information available from the stock exchanges, SEBI furnished relevant alerts to RBI.

In addition, SEBI regularly kept informed the Ministry of Finance, and the Ministry of Corporate Affairs, Government of India. Apart from these two authorities, SEBI shared special references and information with other enforcement agencies such as Income Tax Department, Enforcement Directorate, and CBI.

VII. Workshops and Trainings Conducted by Integrated Surveillance Department

In collaboration with U.S. Securities and Exchange Commission (USSEC), under the USAID-FIRE program, Integrated Surveillance Department organised/facilitated several training programmes and workshops to enhance the skills and efficiencies of staff members of SEBI, stock exchanges, and depositories in the area of investigation and surveillance. During 2006-07, about 120 participants attended such workshops and training programs.

5. INVESTIGATION

Investigations are undertaken to examine alleged or suspected violations, to gather evidence, and to identify persons/entities behind irregularities and violations, such as: price manipulation, creation of artificial market, insider trading, public issue related irregularities, takeover violations, any other misconduct, etc.

I. Trends in Investigation Cases

Since 1992-93, SEBI has undertaken 1200 investigation cases. In 938 cases investigations are completed. The experience gained during

investigations has contributed significantly to evolution of policies and procedures in strengthening regulatory and enforcement environment. During 2006-07, 127 new cases were taken up and 102 cases were completed (Table 3.14 and Chart 3.3).

Table 3.14: Investigations by SEBI

Year	Cases Taken up for Investigation	Cases Completed
1	2	3
1992-93	2	2
1993-94	3	3
1994-95	2	2
1995-96	60	18
1996-97	122	55
1997-98	53	46
1998-99	55	60
1999-00	56	57
2000-01	68	46
2001-02	111	29
2002-03	125	106
2003-04	121	152
2004-05	130	179
2005-06	165	81
2006-07 (P)	127	102
Total	1,200	938

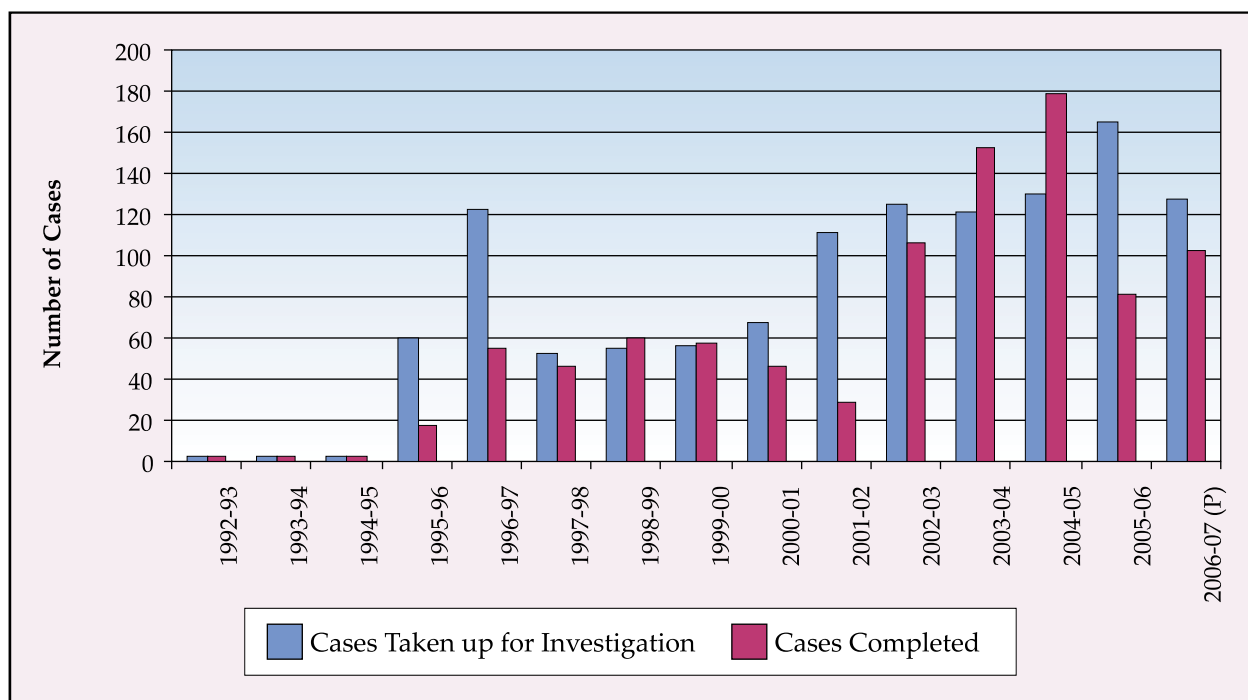
P: Provisional

Note: The pending cases are of the nature of preliminary scrutiny as well as of formal investigations.

i. Nature of Investigation Cases

During 2006-07, about 80 per cent of the cases taken up for investigation pertained to market manipulation and price rigging, as against about 83 per cent of such cases in the previous year. Other cases pertained to insider trading, takeover violations, irregularities in public issues, and other miscellaneous issues. The trend of investigation cases taken up remained almost the same during the last two years. Since, several investigation cases are taken up on

Chart 3.3: Investigation Cases



the basis of multiple allegations of violations, strict classification under specific categories becomes difficult. Such cases are classified on the basis of main charge/violations.

ii. Investigation Cases Completed

During 2006-07, out of the cases in which investigation was completed, about 75 per cent pertained to market manipulation and price rigging. Other cases in which investigation was completed pertained to insider trading, public issue related

irregularities, takeover violations, misleading advertisements, unfair practices, etc. The break up of cases in which investigations taken up and completed during the years 2005-06 and 2006-07 is given in Table 3.15.

II. Regulatory Action

After completion of investigation, further action is initiated by Enforcement Division as per the recommendations of the approving authority. The action may include: issuing warning letters, initiating enquiry

Table 3.15: Nature of Investigations taken up and completed by SEBI

Particulars	Investigations Taken up		Investigations Completed	
	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5
Market Manipulation and Price Rigging	137	102	62	77
"Issue" Related Manipulation	3	0	1	4
Insider Trading	6	18	8	10
Takeovers	4	2	3	3
Miscellaneous	15	5	7	8
Total	165	127	81	102

proceedings for registered intermediaries, initiating adjudication proceedings against levy of monetary penalties, passing directions under Section 11 of SEBI Act, and initiating prosecution.

Based on the investigation reports and with a view to enhancing regulatory effectiveness, consistency, and uniformity, prompt action was taken during the year, against various entities.

During 2006-07, 345 prohibitive directions were issued under Section 11 of SEBI Act against various entities. A total of 52 intermediaries were suspended during the year as given in Table 3.16.

The number of entities against whom action was initiated during 2006-07 went down as compared to the previous year. This decrease was mainly due to a number of interim orders passed in the previous year in various cases to prevent malpractices in the markets (Chart 3.4).

Table 3.16: Type of Regulatory Actions taken

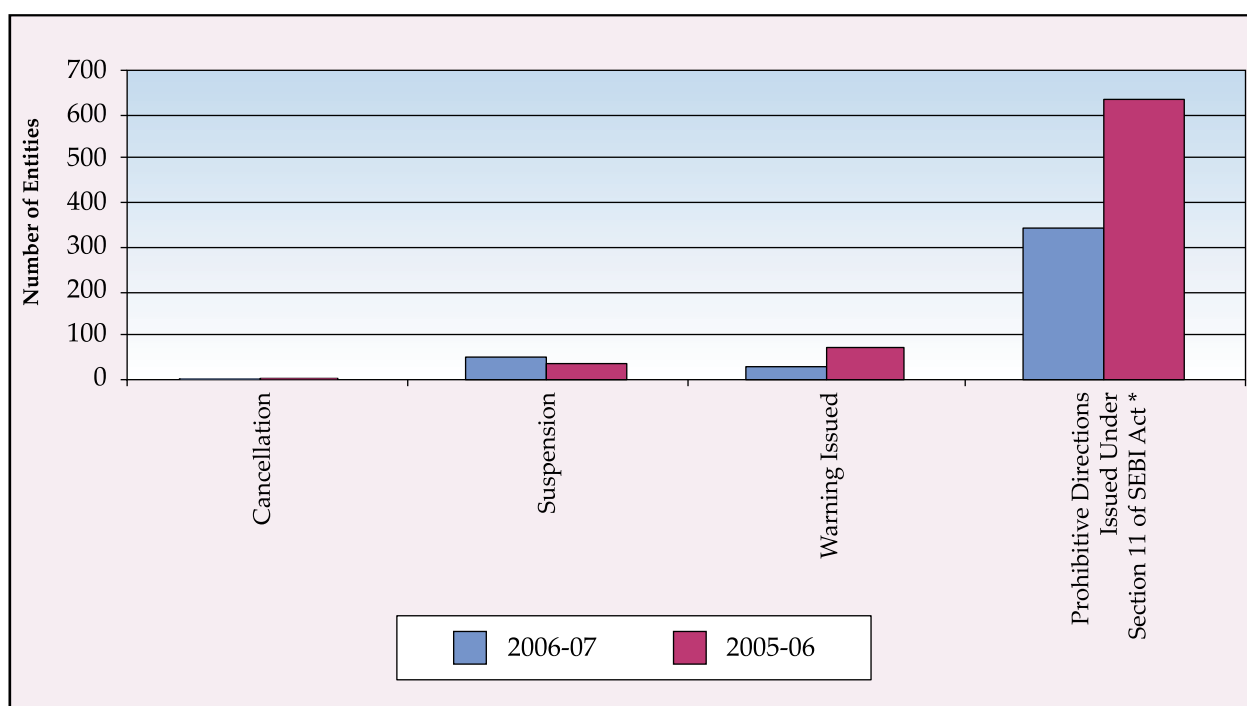
Particulars	No. of Entities 2005-06	No. of Entities 2006-07
1	2	3
Cancellation	2	0
Suspension	36	52
Warning Issued	71	27
Prohibitive Directions Issued under Section 11 of SEBI Act *	632	345
Total	741	424

* Against intermediaries and non-intermediaries.

6. ENFORCEMENT OF REGULATIONS

It is well accepted that enforcement makes a regulatory system effective. Active follow-up of cases of misconduct sends right signals to the market participants. Disciplinary actions in the form of justified penalties are indispensable tools for ensuring market integrity.

Chart 3.4: Type of Regulatory Actions Taken



I. Enquiry and Adjudication

During 2006-07, 346 orders were passed/ reports submitted; of which, 130 pertained to enquiries and 216 pertained to adjudications. During the same period, hearings for 299 cases were conducted; of which, 83 belonged to enquiries and 216 to adjudications. However, 487 show-cause notices were issued to different entities, of which, 113 pertained to enquiries and 374 cases pertained to adjudication (Table 3.17).

Table 3.17: Enquiry and Adjudication during 2006-07

Particular	Enquiry	Adjudication	Total
1	2	3	4
Orders Passed/ Report Submitted	130	216	346
Hearing Conducted	83	216	299
Show Cause Notices Issued	113	374	487

II. Market Intermediaries

Under various regulations, SEBI seeks information from the stock brokers, sub-brokers, and other intermediaries. The number of enquiry proceedings initiated against stock brokers was higher at 11 in 2006-07, as against six in 2005-06 (Table 3.18). 38 adjudication proceedings were initiated against stock broking entities in 2006-07, as compared to 22 in the previous year. During 2006-07, only one warning was issued to stock brokers and sub-brokers, as compared to 45 in the previous year.

During 2006-07, enquiry and adjudication proceedings were initiated against five merchant bankers and six DPs. However, warning letters were issued to 17 DPs, one Merchant Banker and nine Bankers to Issue (Table 3.19).

Table 3.18: Enquiry and Adjudication against Stock Brokers/Sub-brokers

Particulars	2005-06	2006-07
1	2	3
Enquiry Proceedings initiated – Stock Brokers	6	11
Summary Proceedings Initiated – Stock Brokers/Sub-brokers	26	2
Enquiry Proceedings Initiated – Sub Brokers	8	3
Adjudication Proceedings Initiated	22	38
Warning - Pursuant to Chairman/Members Orders	45	1
Suspended	7	32
Registration Cancelled	Nil	40
Censure	34	11

III. Regulatory Actions Against Stock Exchanges under Delegated Powers and Functions

The following regulatory actions were initiated by SEBI, during 2006-07, under delegated powers and functions:

- SEBI, vide order dated April 17, 2006, issued directions to prevent the affairs of Coimbatore Stock Exchange Ltd. being conducted in a manner detrimental to the interests of the investors and to secure proper management of the stock exchange. The Hon'ble High Court of Judicature at Madras, vide its order dated August 25, 2006, dismissed the writ petition and upheld SEBI order dated April 17, 2006. Subsequently, Coimbatore Stock Exchange Ltd. filed a writ appeal before the Division Bench of the Hon'ble High Court of Judicature at Madras and the same is pending.

Table 3.19: Enquiry and Adjudication Proceedings against Other Intermediaries

Intermediary	Adjudication	Enquiry	Warning	Cease and Desist	Warning / Censure Pursuant to Enquiry	Rejection of Application Pursuant to Enquiry
1	2	3	4	5	6	7
Depository Participant	6	0	17	3	0	1
Registrar to an Issue	0	0	0	0	0	0
Merchant Banker	5	0	1	0	2	0
Bankers to Issue	0	0	9	0	0	0

- ii. Show cause notice, dated November 14, 2006, was served on the Governing Board of Madhya Pradesh Stock Exchange Ltd. under sections 11, 5, and 23G of SC(R)A for non-compliance of Corporatisation & Demutualisation Scheme.
- iii. Show cause notice, dated November 30, 2006, was served on the Council of Management of Magadh Stock Exchange Ltd. under sections 4(4) of SC(R)A for refusal to grant/renew the recognition of the said exchange. Personal hearing was granted on January 10, 2007 and the order is reserved.
- iv. Approval for termination of the services of Shri K C Pandey, Executive Director of the Uttar Pradesh Stock Exchange Association Ltd. under suspension since August 26, 2005, was given on September 08, 2006.
- v. The supersession of Governing Boards of the Uttar Pradesh Stock Exchange Association Ltd., Bhubaneswar Stock Exchange Ltd., and the Calcutta Stock Exchange Association Ltd. was extended twice during 2006-07 (Table 3.20).
- vi. Securities Appellate Tribunal, vide its order dated October 04, 2006, upheld/ did not interfere with SEBI order, dated August 31, 2004, against Mangalore Stock Exchange for refusal to grant

renewal of recognition. It was the first instance wherein SEBI had refused to renew the recognition of a stock exchange. Mangalore Stock Exchange accordingly is a de-recognised stock exchange at present.

- vii. Bombay Stock Exchange Ltd. was directed not to allow further trades in four lakh shares of Micro Technologies (India) Ltd., in terms of its bye-laws, till the ruling of Ministry of Corporate Affairs on consequences and validity of the allotment of these shares is received or till further communication in this regard.

IV. Regulatory Actions against Mutual Funds

i. Warning and Deficiency Letters

During 2006-07, nine warning letters were issued to seven mutual funds considering the magnitude and seriousness of violations of SEBI Regulations/ Guidelines. Of these, five warnings were issued for violating advertisement code.

Three deficiency letters were issued, based on the inspection report for the period July 01, 2003 to June 30, 2005, to three mutual funds. These mutual funds were advised to strengthen their systems and to improve compliance standards.

Table 3.20: Supersession of Governing Boards of Stock Exchanges during 2006-07

S. No.	Stock Exchange	Date of Notification	Period
1	2	3	4
1.	The Uttar Pradesh Stock Exchange Association Ltd.	September 26, 2006 March 26, 2007	Supersession extended w.e.f. October 1, 2006 to March 31, 2007. Supersession extended w.e.f. April 1, 2007 to March 31, 2008.
2.	The Calcutta Stock Exchange Association Ltd.	September 29, 2006 March 26, 2007	Supersession extended w.e.f. October 1, 2006 to March 31, 2007. Supersession extended w.e.f. April 1, 2007 to March 31, 2008.
3.	Bhubaneswar Stock Exchange Ltd.	September 29, 2006 March 26, 2007	Supersession extended w.e.f. October 1, 2006 to March 31, 2007. Supersession extended w.e.f. April 1, 2007 to March 31, 2008.

ii. Payment of Penal Interest

SEBI made it mandatory for mutual funds to pay interest at the rate of 15 per cent per annum for delays in the dispatch of repurchase/ redemption proceeds to the unit holders. The mutual funds reported these cases of delays to SEBI on a bi-monthly basis. During 2006-07, 30 mutual funds paid Rs. 5.87 lakh to 1,530 investors for delay in dispatch as against Rs. 2.57 lakh paid to 767 investors in 2005-06 (Table 3.21).

V. Regulatory Actions under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997

During 2006-07, 53 cases were referred for adjudication under Section 15 of the SEBI Act, 1992 for alleged violation of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. During the year, a sum of Rs. 15, 50,000 was received as monetary penalty.

7. PROSECUTION**I. Trends in Prosecution**

Number of prosecutions launched

against individuals was higher at 149 in 2006-07, as against 81 in the previous year (Table 3.22). Region-wise, the highest number of prosecutions launched was at 502 in the Western region (48.9 per cent) followed by 326 (31.8 per cent) in the Northern region in 2006-07 (Table 3.23).

II. Nature of Prosecution

Prosecutions were launched under the Companies Act, SEBI Act, Depositories Act, SC(R) A, and the Indian Penal Code. The total number of cases up to March 31, 2007 was 1,026. Of the 1,026 cases, the 930 prosecution cases were launched under the SEBI Act, followed by 42 cases under different sections of Companies Act, 1956 and 13 under Depositories Act 1996 (Table 3.24).

III. Disposal of Prosecution Cases

Of the 24 court cases decided till March 31, 2007, 15 resulted into convictions, and four were dismissed. Out of the remaining five cases, three were compounded, one abated and another one was withdrawn (Table 3.25).

Table 3.21: Interest Paid by Mutual Funds to the Investors for Delayed Redemptions / Repurchases

Bi-Month	May-06		Jul-06		Sep-06		Nov-06		Jan-07		Mar-07		Fundwise Total	
	Rs.	Investors	Rs.	Investors	Rs.	Investors	Rs.	Investors	Rs.	Investors	Rs.	Investors	Rs.	Investors
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ABN Amro MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	326.00	1	326.00	1
Benchmark MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Birla MF	0.00	0	0.00	0	0.00	0	927.00	6	7,973.82	6	36,106.64	3	45,007.46	15
BOB MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Canbank MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Chola MF	153.38	1	2,961.80	1	5,307.00	2	118.05	1	6,708.00	4	4,101.53	1	19,349.76	10
Deutsche MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
DSP ML	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Escorts MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Fidelity MF	24.83	2	2,455.29	7	4,333.18	4	1,235.51	12	1,596.59	7	212.43	5	9,857.83	37
HDFC MF	8,439.84	57	3,019.38	63	832.66	6	9,544.32	2	3,459.07	2	0.00	0	25,295.27	130
HSBC MF	0.00	0	31,870.48	4	1,883.30	7	15,932.35	4	23,627.26	3	5,749.27	8	79,062.66	26
ING Vysya MF	1,782.83	24	724.00	85	9,370.00	3	1,776.32	5	160.49	1	310.30	3	14,123.94	121
J M Financial MF	524.96	2	0.00	0	50.04	2	111.00	2	343.33	2	399.02	1	1,428.35	9
Kotak Mahindra MF	853.52	10	912.86	22	35.52	2	93.03	2	0.00	0	0.00	0	1,894.93	36
LIC MF	0.00	0	5,537.73	79	2,355.05	93	271.08	7	606.75	23	29.92	2	8,800.53	204
Lotus India MF					0.00	0	0.00	0	0.00	0	0.00	0	—	—
Morgan Stanley MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Principal MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Prudential-ICICI MF	126.21	1	39,717.83	7	4,216.00	5	16,158.62	6	24,838.73	5	10,153.34	8	95,210.73	32
Quantum MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Reliance MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Sahara MF	28.64	1	54.00	1	0.00	0	52.13	1	0.00	0	0.00	0	134.77	3
SBI MF	381.58	6	32,533.30	54	31,608.96	5	6,946.76	4	16,128.45	5	81,928.00	4	169,527.05	78
Standard Chartered MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Sundaram BNP Paribas MF	0.00	0	32.58	1	0.00	0	0.00	0	21.00	1	42.93	1	96.51	3
Tata MF	2,185.38	4	204.34	4	88.25	1	663.51	3	0.00	0	905.72	2	4,047.20	14
Taurus MF	201.00	2	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	201.00	2
Templeton MF	741.00	1	3,698.79	3	0.00	0	6,421.51	6	3,275.42	5	3,677.47	6	17,814.19	21
UTI MF	10,705.25	135	26,547.97	61	1,812.28	28	5,390.69	62	8,696.05	132	41,484.98	370	94,637.22	788
TOTAL	26,148.42	246	150,270.35	392	61,892.24	158	65,641.88	123	97,434.96	196	185,101.55	414	586,815.40	1,530

Table 3.22: Prosecutions Launched

Year	No. of cases in which prosecution has been launched	No. of persons/entities against whom prosecution has been launched
1	2	3
Up to and including 1995-96	10	58
1996-97	13	63
1997-98	11	81
1998-99	15	145
1999-2000	23	121
2000-01	20	98
2001-02	115	613
2002-03	229	848
2003-04	458	2377
2004-05	84	410
2005-06	27	81
2006-07	21	149
Total	1,026	5,044

Table 3.23: Region-wise Data on Prosecution Cases*

Region	Number of Cases	Percentage of Total
1	2	3
Western Region	502	48.93
Northern Region	326	31.77
Southern Region	112	10.92
Eastern Region	86	8.38
Total	1,026	100.00

* Upto March 31, 2007.

IV. Litigations, Appeals and Court Pronouncements

During 2006-07, 120 cases were filed where SEBI was a party. Further, 264 court cases, where SEBI was a party were either withdrawn or allowed or dismissed. During 2006-07, 123 appeals were filed with SAT, compared to 244 in 2005-06. Of the total appeals filed, 144 cases were dismissed, 118

Table 3.24: Nature of Prosecutions Launched*

Nature of Prosecution Launched	Number of Cases
1	2
Securities and Exchange Board of India Act, 1992	930
Sec.73, 77 and 113 of Companies Act, 1956	42
Sec.63, 68 of Companies Act, 1956	20
Securities Contracts (Regulation) Act, 1956	16
Depositories Act, 1996	13
IPC	5
Total	1,026

* Upto March 31, 2007.

Table 3.25: Number of Cases Decided by the Courts*

Type of Decision by Courts	Number of Cases
1	2
Convictions	15
Compounded	3
Abated	1
Withdrawn	4
Dismissed	1
Total	24

* Upto March 31, 2007.

remanded, 31 allowed and 29 modified. As on March 31, 2007, the number of cases pending with SAT was 139 as against 401 a year ago. Table 3.26 and Table 3.27 present details with regard to cases pending before the Courts/ Securities Appellate Tribunal (SAT) and provide information on the nature of violations.

Table 3.28 shows appeals under Section 15Z of the SEBI Act, against the order of the SAT. During 2006-07, SEBI filed 14 appeals of which one case was dismissed / allowed. Number of cases filed against SEBI was 31, of which two cases were dismissed / allowed.

Table 3.26: Court Cases where SEBI was a Party during 2006-07
(Number)

Subject Matter	Cases Filed	Cases Pending	Cases Admitted/ Allowed/Withdrawn
1	2	3	4
Stock Brokers Registration Fees Cases	27	106	2
Collective Investment Schemes	nil	25	nil
Consumer Forum Cases	15	25	6
General Services Department	nil	6	2
Investigations Enforcement and Surveillance Department	30	34	21
Primary Market Department	27	46	6
Secondary Market Department	16	104	225
Takeovers	1	23	nil
Depositories and Participants	2	2	nil
Mutual Funds	2	15	2
OIAE	3	23	nil
Total	123	409	264

Table 3.27: Appeals before the Securities Appellate Tribunal during 2006-07
(Number)

Status of Appeals	Number of Appeals
1	2
Appeals Filed	123
Appeals Dismissed	144
Appeals Remanded	118
Appeals Allowed	31
Appeals Modified	29
Appeals Pending	139

Table 3.28: Appeals under Section 15Z of the SEBI Act against the Order of Securities Appellate Tribunal during 2006-07
(Number)

Subject Matter	Cases filed	Cases pending	Cases dismissed / allowed
1	2	3	4
Appeals Filed by SEBI	14	28	1
Appeals Filed against SEBI	31	34	2
Total	45	62	3

8. RESEARCH ACTIVITIES

The core activities of the Research Department include publication of the SEBI Annual Report, SEBI Bulletin, Handbook of Statistics on the Indian Securities Market,

preparation of regular reviews, policy notes and country profiles etc. Apart from this the department also generates periodic reports for internal and external users.