



# Annual Report 2014 - 15

4.27	25.86
27.2	25.9
25.8	22.71
24.3	23.19
26.9	26.17
27.2	26.73
24.8	27.3



Securities and Exchange Board of India





# **Annual Report**

## **2014-15**



**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







यू.के. सिन्हा  
अध्यक्ष  
U. K. Sinha  
Chairman

भारतीय प्रतिभूति और विनियम बोर्ड  
SECURITIES AND EXCHANGE BOARD OF INDIA

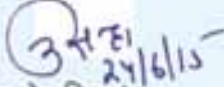
सचिव,  
भारत सरकार,  
आर्थिक कार्य विभाग,  
वित्त मंत्रालय, नॉर्थ ब्लॉक,  
नई दिल्ली - 110 001

डीईपीए/17375/2015  
24 जून, 2015

प्रिय महोदय,

भारतीय प्रतिभूति और विनियम बोर्ड अधिनियम, 1992 की धारा 18(2) के प्रावधानों के अनुसार, मैं एतद्वारा भारत के राजपत्र, असाधारण के भाग II खण्ड 3 उप-खण्ड (1) में, 7 अप्रैल 1994 को अधिसूचित भारतीय प्रतिभूति और विनियम बोर्ड (वार्षिक रिपोर्ट) नियम, 1994 में निर्धारित किये गये प्ररूप में, 31 मार्च 2015 को समाप्त वर्ष के लिए भारतीय प्रतिभूति और विनियम बोर्ड की वार्षिक रिपोर्ट की प्रति अग्रेषित कर रहा हूँ।

भवदीय,

  
(यू.के. सिन्हा)

संलग्न : उपरोक्तानुसार

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

DEPA/17375/2015  
24 June, 2015

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, 2015, 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 (1) of the Gazette of India Extraordinary.

Yours faithfully,

  
(U.K.Sinha)

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, 2015)

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

**U. K. SINHA**  
Chairman

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

**PRASHANT SARAN**  
Whole Time Member

**RAJEEV K. AGARWAL**  
Whole Time Member

**S. RAMAN**  
Whole Time Member

**P. C. CHHOTARAY**  
Part Time Member

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

**ANJULY CHIB DUGGAL**  
Secretary, Ministry of Corporate Affairs, Government of India

**MANOJ JOSHI**  
Joint Secretary, Ministry of Finance, Department of Economic Affairs, Government of India

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

**R. GANDHI**  
Deputy Governor, Reserve Bank of India





## MEMBERS OF THE BOARD

(As on March 31, 2015)



U. K. SINHA  
Chairman



PRASHANT SARAN  
Whole Time Member



RAJEEV K. AGARWAL  
Whole Time Member



S. RAMAN  
Whole Time Member



P.C. CHHOTARAY  
Part Time Member



ANJULY CHIB DUGGAL  
Secretary  
Ministry of  
Corporate Affairs  
Government of India



MANOJ JOSHI  
Joint Secretary  
Ministry of Finance  
Department of  
Economic Affairs  
Government of India



R. GANDHI  
Deputy Governor  
Reserve Bank of India





## Chairman, Whole Time Members and Executive Directors



Left to Right:

Sitting: **Shri S. Raman**, Whole Time Member; **Shri Prashant Saran**, Whole Time Member;  
**Shri U.K. Sinha**, Chairman; **Shri Rajeev K Agarwal**, Whole Time Member.

Standing: **Shri R.K. Padmanabhan**, Executive Director; **Shri Ananta Barua**, Executive Director,  
**Shri J Ranganayakulu**, Executive Director; **Shri S V Murali Dhar Rao**, Executive Director,  
**Shri P K Nagpal**, Executive Director; **Shri Gyan Bhushan**, Executive Director  
and **Shri S Ravindran**, Executive Director.





## **EXECUTIVE DIRECTORS**

**(As on March 31, 2015)**

Shri P K Nagpal	Corporate Finance Department; Official Language Division
Shri J Ranganayakulu	Legal Affairs Department; Enforcement Department
Shri Ananta Barua	Investment Management Department - Division of Funds 1, 2 & 3; Foreign Institutional Investors and Custodians; Collective Investment Scheme
Shri S Ravindran	Investigation Department; Special Enforcement Cell; Facilities Management Division; Establishment Division; Treasury and Accounts Division; Protocol and Security Division
Shri R K Padmanabhan	Market Intermediaries Regulation and Supervision Department; FATF and KYC related matters; Information Technology Department; Regional Offices
Shri SV Murali Dhar Rao	Market Regulation Department; Department of Economic and Policy Analysis; PQ Cell; Board Matters.
Shri Gyan Bhushan	Integrated Surveillance Department, Office of Investor Assistance and Education and Chief Vigilance Officer

## **CHIEF GENERAL MANAGERS**

**(As on March 31, 2015)**

Shri Nagender Parakh	On Deputation to FMC, Mumbai
Shri P. K. Kuriachen	On Deputation to FSC, Mauritius
Shri P.K. Bindlish	Market Regulation Department
Shri D. Ravi Kumar	Enquiry and Adjudication Department
Shri S. V. Krishnamohan	Eastern Regional Office
Shri G. P. Garg	On Deputation to NISM
Shri A. Rajan	Information Technology Department
Shri A.K. Sharma	CPIO, Parliamentary Question Cell, Official Language Division
Shri Suresh B. Menon	Southern Regional Office
Shri Amarjeet Singh	Office of the Chairman
Shri Suresh Gupta	Investigation Department
Shri V. S. Sundaresan	Corporation Finance Department
Shri Sujit Prasad	Market Intermediaries Regulation and Supervision Department
Shri Amit Pradhan	Northern Regional Office
Shri N. Hariharan	Communication Division, Office of Investor Assistance and Education
Shri Piyooosh Gupta	Western Regional Office
Ms. G. Babita Rayudu	Enforcement Department
Shri A. Sunil Kumar	Special Enforcement Cell , Enquiry and Adjudication Department
Shri Jayanta Jash	Human Resources Division, Enquiry and Adjudication Department
Shri Parag Basu	Investment Management Department
Shri R. S. Srivastav	Enforcement Department



### **ANNUAL REPORT TEAM**

Dr. Prabhakar R Patil	General Manager
Ms. Deepthi L S	Assistant General Manager
Mr. Laltu Pore	Assistant General Manager
Ms. Suvidha Nagpal	Manager
Ms. Sneha Nautiyal	Manager
Mr. Prasad Patankar	Manager
Ms. Josephine Fernandes	Secretary



## Chairman's Statement

In a journey that was embarked 26 years ago with the overarching objective of investor protection and the development and regulation of the securities markets in India, SEBI and the Indian capital markets have grown from strength to strength with each passing year. With the advent of SEBI, the Indian markets experienced a sweeping evolution from a highly controlled merit based regulatory regime to a market oriented disclosures based regulatory regime. Over the years, SEBI has been introducing various measures for the betterment and advancement of the Indian securities market.

In the course of this remarkable journey, SEBI has incessantly strived to incorporate and adopt various global standards and international best practices within its regulatory framework. It has also stood the test of time through various domestic as well as global crises and came out stronger every time. This has resulted in enhanced efficiency, integrity and transparency in the Indian securities market and has also catapulted it into the global league. In fact, in international circles today, the Indian securities market is often considered as one of the most developed and highly respected market across the globe.

The year 2014-15 was a year of significant accomplishments across all the functional areas under SEBI and, as always, the mandate of protection of interests of investors, market development and regulation guided all our policy initiatives during the year. A major highlight during the year was the passing of Securities Laws Amendment Act, 2014, endowing SEBI with enhanced regulatory powers including search and seizure, attachment and recovery, power to call for information from any person, powers of

disgorgement etc. A judicious, righteous and fair application of these new powers by SEBI would be crucial for achieving our overall objectives.

One of the major thrust areas during this year was corporate governance reforms and the alignment of these requirements with the provisions of the new Companies Act. Further, the derecognized/non-operational stock exchanges were facilitated with a clear and detailed regulatory framework to enable them to procure a hassle free

**One of the major thrust areas during this year was corporate governance reforms and the alignment of these requirements with the provisions of the new Companies Act.**

and efficient exit. Also, as part of our ongoing focus on a robust risk management system, norms for Core SGE, Default Waterfall and Stress Testing as also a well documented and comprehensive risk management policy at depositories was introduced. The index based market-wide circuit breaker mechanism was also strengthened.

During the year, SEBI also notified three new regulations viz., Research Analysts, REITs and InvITs to bring these newer categories of participants and products within its regulatory purview. Also, the FPI regime that was implemented with a view to rationalise and harmonize the different foreign investment routes has definitely made the Indian markets an attractive investment destination through easier entry norms and operational frameworks. Additionally, the investment avenues for FPIs have been expanded to exchange traded currency derivatives and non-convertible/ redeemable



preference shares or debentures of Indian companies.

The year was also unprecedented in terms of the enforcement actions taken by SEBI against numerous unregulated collective investment schemes sprouting across the length and breadth of the country and duping numerous investors. Severe deterrent actions and penalties have been imposed on erring individuals and entities through enforcement actions throughout the year.

As already mentioned, today the Indian securities market is being hailed as one of the best regulated markets in the world. This indeed is a matter of great pride for us. But, at the same time, this also brings in a huge responsibility on our shoulders to continuously strive to improve the Indian markets as also the quality of our regulations. Accordingly, the goals for 2015-16 have also been well laid out for us.

We plan to strengthen the risk-based supervision framework for all intermediaries, in line with international standards. Given the emerging potential of new age startups like technology, e-commerce etc, in kick starting the faster pace of growth of Indian economy, SEBI is proposing to carve out a regulatory framework for their market based financing. Also, technology will be garnered to its most extensive and intelligent use to facilitate and further ease the investing process in the securities market through

e-IPO, Aadhaar based e-KYC and system driven disclosures. We also propose to significantly increase our investor education and awareness efforts by tapping the increasing stature of social media, through collaboration with other agencies and empanelment of more Resource Persons. We also plan to further streamline our enforcement process and develop capabilities to effectively utilize the additional enforcement powers vested on SEBI.

Further, the recent policy announcement of the Government of India to bring the regulation of commodity futures market under the jurisdiction of SEBI presents to us another set of fresh and unique challenges. As the commodities markets operate in a different ecosystem, SEBI is conducting thorough analysis and due diligence before articulating its vision for the commodity derivatives segment.

Thus, our agenda, going ahead, is definitely ambitious and challenging, particularly in the context of today's dynamic market place. We are often chasing 'moving targets' requiring us to constantly re-align our priorities and strategies to meet the changing systemic needs. Nevertheless, given our commitment, strengths and legacy, SEBI is all geared up to face newer challenges, evolve with the times and also to ensure that the Indian Capital Markets scale greater heights in the years to come. ●

# Contents

List of Boxes .....	xviii
List of Tables.....	xix
List of Charts.....	xxi
List of Abbreviations.....	xxii

## Part 1: Policies and Programmes

<b>1. REVIEW OF THE GENERAL MACRO-ECONOMIC ENVIRONMENT AND THE INVESTMENT CLIMATE.....</b>	<b>1</b>
<b>2. REVIEW OF POLICIES AND PROGRAMMES .....</b>	<b>10</b>
I. Primary Securities Market .....	10
II. Secondary Securities Market .....	16
III. Mutual Funds.....	21
IV. Intermediaries Associated with Securities Market .....	23
V. Foreign Portfolio Investment .....	25
VI. Corporate Debt Market .....	27
VII. Investor Protection and Awareness.....	29
VIII. Other Policies and Programmes Having a Bearing on the Working of Securities Market.	30
IX. Assessment and Prospects .....	31

## Part 2: Review of Working and Operations of the SEBI

<b>1. PRIMARY SECURITIES MARKET .....</b>	<b>36</b>
I. Resource Mobilisation through Public and Rights Issues .....	36
II. Resource Mobilisation through QIP and IPP .....	41

III. Resource Mobilisation through Preferential Allotment.....	41
IV. Resource Mobilisation through Private Placement of Corporate Debt .....	42
<b>2. SECONDARY SECURITIES MARKET .....</b>	<b>42</b>
I. Equity Markets in India .....	42
II. Performance of Major Stock Indices and Sectoral Indices .....	45
III. Turnover in Indian Stock Market .....	47
IV. Market Capitalisation.....	50
V. Stock Market Indicators.....	50
VI. Volatility in Stock Markets .....	52
VII. Trading Frequency.....	54
VIII. Activities of Stock Exchanges .....	55
IX. Dematerialisation.....	56
X. Derivatives Segment.....	58
<b>3. MUTUAL FUNDS.....</b>	<b>64</b>
<b>4. INTERMEDIARIES ASSOCIATED WITH SECURITIES MARKET .....</b>	<b>69</b>
I. Portfolio Managers.....	69
II. Alternative Investment Funds .....	69
<b>5. FOREIGN PORTFOLIO INVESTMENT.....</b>	<b>70</b>
<b>6. OTHER ACTIVITIES HAVING A BEARING ON THE WORKING OF SECURITIES MARKET .....</b>	<b>74</b>
I. Corporate Bond Market .....	74
II. Wholesale Debt Market.....	77

## PART 3: Functions of SEBI in Respect of Matters Specified in Section 11 of SEBI Act, 1992

<b>1. REGULATION OF BUSINESS IN STOCK EXCHANGES.....</b>	<b>79</b>
I. Recognition of Stock Exchanges.....	79
II. Grant of Recognition to Clearing Corporations	80
III. Trading and Settlement Practices at Stock Exchanges .....	80
IV. Regulatory Actions Against Stock Exchanges .....	83
V. Memorandum of Understanding (MoU) between Stock Exchanges .....	83
VI. Exit of Stock Exchanges.....	83
VII. Nation-wide Awareness Campaign for Small and Medium Enterprises (SMEs) .....	84
VIII. Measures adopted for Regulation of Stock Exchanges .....	85





<b>2. REGISTRATION AND REGULATION OF WORKING OF INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKET.....</b>	<b>85</b>	<b>4. PROMOTION AND REGULATION OF SELF REGULATORY ORGANISATIONS.....</b>	<b>93</b>
I. Streamlining the Process of Initial / Permanent Registration of Intermediaries.....	85	<b>5. FRAUDULENT AND UNFAIR TRADE PRACTICES .....</b>	<b>93</b>
II. Measures for Regulation of Intermediaries.....	86	I. Some types of fraudulent and unfair trade practices observed.....	93
III. Registration of Stock Brokers .....	86	II. Fraudulent and unfair trade practices cases during 2014-15 .....	94
IV. Registration of Sub-brokers.....	88	III. Steps taken to prevent the occurrence of fraudulent and unfair trade practices.....	103
V. Registration of Other Intermediaries.....	89	<b>6. INVESTOR EDUCATION AND TRAINING OF INTERMEDIARIES .....</b>	<b>103</b>
VI. Registration of Foreign Portfolio Investors and Custodians .....	90	I. Investor Education .....	103
VII. Registration of Venture Capital Funds and Alternative Investment Funds .....	91	II. Training of Intermediaries .....	105
VIII. Registration of Portfolio Managers, Investment Advisers and Research Analysts...	92	III. Financial Education .....	108
<b>3. REGISTRATION AND REGULATION OF WORKING OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS.....</b>	<b>92</b>	IV. Investor Grievance Redressal.....	110
I. Registration of Collective Investment Management Company.....	92	V. Regulatory action against companies and their directors for non-redressal of investor grievances .....	112
II. Regulatory actions against Unauthorised Collective Investment Schemes.....	92	<b>7. PROHIBITION OF INSIDER TRADING .....</b>	<b>112</b>
III. Registration and Regulation of Mutual Funds.....	92	I. Types of Insider trading practices .....	112
IV. Regulatory Actions against Mutual Funds.....	93	II. Insider trading cases during 2014-15 .....	113
		III. Steps initiated to curb Insider Trading practices	114

<b>8. SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS .....</b>	<b>114</b>
I. Open Offer .....	114
II. Buyback .....	115
<b>9. INFORMATION CALLED FROM, INSPECTIONS UNDERTAKEN, INQUIRIES AND AUDIT OF STOCK EXCHANGES AND INTERMEDIARIES CONDUCTED BY SEBI .....</b>	<b>116</b>
I. Inspection of Stock Exchanges, Depositories and Clearing Corporations.....	116
II. Inspection of Market Intermediaries .....	117
III. Prevention of Money Laundering .....	118
<b>10. DELEGATED POWERS AND FUNCTIONS..</b>	<b>120</b>
<b>11. FEES AND OTHER CHARGES .....</b>	<b>120</b>
<b>12. RESEARCH AND STUDIES .....</b>	<b>122</b>
I. The Reporting Mandate and maintenance of Repository of Information/Statistics .....	122
II. Information Support to various Authorities ...	122
III. SEBI Investor Survey.....	122
IV. Systemic Stability Unit.....	123
V. International Research Conference .....	123
VI. SEBI Development Research Group II .....	124
VII. Research Papers/Notes .....	124
VIII. Regulatory Impact Assessment .....	124
IX. Internal Knowledge Support .....	124
<b>13. SURVEILLANCE.....</b>	<b>125</b>
<b>14. INVESTIGATION .....</b>	<b>128</b>
<b>15. OTHER FUNCTIONS .....</b>	<b>131</b>
I. Enforcement of Regulations .....	131
II. Prosecution .....	142
III. Litigations, Appeals and Court Pronouncements	144
IV. Consent and Compounding .....	158
V. The Recovery Proceedings.....	159
VI. Special Enforcement Cell.....	160
VII. Monitoring of Listed Companies .....	162
VIII. Regulatory Changes.....	162
IX. Right to Information Act, 2005 .....	167
X. Parliament Questions.....	169
XI. International Co-Operation .....	169
<b>Part 4: Organisational Matters of SEBI</b>	
<b>1. ABOUT SEBI.....</b>	<b>179</b>
I. Establishment of SEBI .....	179
II. Preamble of SEBI .....	179

III. SEBI Board .....	179
<b>2. AUDIT COMMITTEE .....</b>	<b>179</b>
<b>3. PROJECT MANAGEMENT OFFICE .....</b>	<b>180</b>
<b>4. HUMAN RESOURCES.....</b>	<b>182</b>
<b>5. PROMOTION OF OFFICIAL LANGUAGE .....</b>	<b>186</b>
<b>6. LOCAL OFFICES.....</b>	<b>187</b>
<b>7. VIGILANCE CELL.....</b>	<b>187</b>
<b>8. INFORMATION TECHNOLOGY .....</b>	<b>187</b>
<b>CHRONOLOGY OF MAJOR POLICY INITIATIVES BY SEBI .....</b>	
	<b>188</b>

## LIST OF BOXES

Box No.	Name	Page No.
1.1	India ranks 7th with respect to protection of minority shareholders as per a World Bank Report .....	10
1.2	Enhancing Governance and Transparency: Unrelenting Initiatives .....	12
1.3	Powers conferred to SEBI vide the Securities Laws (Amendment) Act, 2014 .....	15
1.4	Making Markets: Safe, Fast, Efficient, Simple and Clear .....	17
1.5	Re-Energizing the Asset Management Industry .....	22
1.6	Enhancing Risk Governance and Strengthening Supervision .....	25
2.1	Rejuvenating the Corporate Bond Market.....	75
3.1	Empowering Investors.....	104
3.2	Regulatory Actions against Registered/Unregistered Intermediaries.....	117
3.3	Cases of misuse of Stock Exchange Mechanism for Tax Evasion.....	128
3.4	US SEC appreciates assistance provided by SEBI .....	129
3.5	Reinventing Enforcement Processes .....	132
3.6	Action against Illegal Money - Raising Activities .....	134
3.7	Fortifying Enforcement.....	138
3.8	Review of Adjudicating Officers' Orders by the Whole Time Member pursuant to Securities Laws (Amendment) Act, 2014 .....	142

Box No.	Name	Page No.
3.9	Thematic Review of Money Market Funds.....	170

### LIST OF TABLES

Table No.	Table Title	Page No.
1.1	National Income (at 2011-12 prices) .....	2
1.2	GVA (at Basic Price) by Economic Activity (at 2011-12 prices).....	3
1.3	Index of Industrial Production (Base: 2004-05=100) .....	5
1.4	Gross Domestic Savings and Investment .....	6
1.5a	Demat Statistics .....	9
1.5b	Number of Listed Companies .....	9
1.6	Growth of Turnover in Various Segments in Indian Stock Market .....	9
1.7	Assets under the Custody of Custodians .....	9
2.1	Resource mobilisation through public and rights issues .....	37
2.2	The SME Platform .....	38
2.3	Sector-wise resource mobilisation .....	38
2.4	Size-wise resource mobilisation .....	39
2.5	Large Issues in 2014-15 .....	39
2.6	Industry-wise resource mobilisation .....	40
2.7	Resource mobilisation through QIP and conforming to MPS through IPP .....	41
2.8	Offer for Sale through the Stock Exchange Mechanism .....	41
2.9	Resource Mobilisation through Preferential Allotment .....	42
2.10	Private Placement of Corporate Bonds Reported to BSE and NSE.....	42
2.11	Major Indicators of Indian Stock Markets.....	44
2.12	Major Stock Indices and their Percentage Variation .....	46
2.13	Sectoral Stock Indices and their Returns .....	46
2.14	Exchange-wise Cash Segment Turnover .....	47
2.15	Turnover at BSE , NSE and MSEI: Cash Segment .....	48
2.16	City-wise Turnover of Top 20 Cities in Cash Segment .....	48
2.17	Dissemination Board Statistics at NSE.....	49
2.18	Dissemination Board Statistics at BSE .....	49
2.19	Market Capitalisation at BSE .....	50
2.20	Market Capitalisation at NSE.....	50
2.21	Select Ratios Relating to Stock Market .....	50
2.22	Price to Earnings Ratio .....	51
2.23	Price to book Ratio.....	51
2.24	Annualised Volatility of Benchmark Indices.....	52

Table No.	Table Title	Page No.
2.25	Trends in Annualised Volatility of International Stock Market indices .....	53
2.26	Trading Frequency of Listed Stocks .....	54
2.27	Share of Top 100 Brokers/Securities in Annual Cash Market Turnover.....	54
2.28	Share of Participants in Annual Cash market Turnover .....	54
2.29	Trading Statistics of Stock Exchanges .....	55
2.30	Turnover of Subsidiaries of Stock Exchanges .....	56
2.31	Depository Statistics for Listed Companies .....	57
2.32	Depository Statistics: Debenture/Bonds and Commercial Papers .....	57
2.33	Cities According to Number of DP Locations: Geographical Spread.....	57
2.34	Trends in turnover and open interest in equity derivatives segment.....	59
2.35	Product-wise derivatives turnover at NSE, BSE and MSEI.....	59
2.36	Number of Stocks/Indices in which derivatives are allowed.....	59
2.37	Trends in index futures at NSE, BSE and MSEI.....	60
2.38	Trends in turnover of derivatives on foreign indices at NSE .....	60
2.39	Trends in open interest of foreign indices at NSE.....	61
2.40	Trends in single stock futures at NSE, BSE and MSEI.....	61
2.41	Trends in index options at NSE, BSE and MSEI.....	61
2.42	Trends in stock options at NSE and BSE.....	61
2.43	Shares of various classes of members in derivatives turnover at NSE, BSE and MSEI ....	62
2.44	Trends in the currency derivatives segment ..	63
2.45	Product-wise market share in currency derivatives volume .....	63
2.46	Trends in interest rate derivatives at NSE and BSE .....	63
2.47	Trends in VIX futures segment at NSE.....	64
2.48	Resource mobilisation by mutual funds .....	64
2.49	Sector-wise resource mobilisation by mutual funds .....	65
2.50	Scheme-wise resource mobilisation by mutual funds and AUM .....	66
2.51	Number of schemes by investment objective .....	67
2.52	Trends in transactions on stock exchanges by mutual funds.....	67
2.53	Unit holding pattern of all mutual funds .....	68
2.54	Unit holding pattern of private and public sector mutual funds .....	68

<b>Table No.</b>	<b>Table Title</b>	<b>Page No.</b>
2.55	Assets managed by portfolio managers.....	69
2.56	Cumulative amount mobilised by AIFs .....	69
2.57	Cumulative Net Investments by VCFs and FVCIs.....	70
2.58	Investment by Foreign Portfolio Investors .....	70
2.59	Segment-wise Net Investment by FPIs.....	71
2.60	QFI Investments .....	71
2.61	Allocation of debt investment limits to FIIs and Sub-accounts .....	72
2.62a	Debt utilisation status .....	72
2.62b	Investment of Coupons in Government Securities.....	73
2.63	Notional Value of open interest of FPIs in derivatives .....	73
2.64	Notional value of ODIs versus AUM of FPIs....	73
2.65	Secondary Market: Corporate Bond Trades.....	74
2.66	Settlement of Corporate Bonds.....	77
2.67	Business growth on NSE and BSE's WDM segments .....	77
2.68	Instrument-wise share of securities traded in NSE and BSE's WDM segment .....	78
2.69	Share of participants in turnover of NSE's WDM segment .....	78
3.1	Stock Exchanges in India.....	79
3.2	Stock Exchanges with Permanent Recognition	80
3.3	Recognition Renewal Status .....	80
3.4	Exited Stock Exchanges as on March 31, 2015	84
3.5	Stock Exchanges which have applied for exit as on March 31, 2015.....	84
3.6	Registered Stock Brokers.....	86
3.7	Registered Clearing Members .....	86
3.8	Applications under the Process of Registration in Cash Segment.....	87
3.9	Classification of Stock Brokers in Cash Segment on the Basis of Ownership.....	87
3.10	No. of Registered Stock brokers: Segment-wise and Exchange-wise .....	88
3.11	No. of CMS/SCMs in Equity Derivatives, Currency Derivatives and Debt Segment .....	88
3.12	Registered Sub-Brokers.....	89
3.13	Registered Intermediaries other than Stock Brokers and Sub-Brokers .....	89
3.14	Process of Registration of other Intermediaries.....	90
3.15	Number of Registered FPIs, Custodians and DDPs.....	90
3.16	Status of Registration of FPIs .....	91
3.17	Status of Registration of Custodians .....	91

<b>Table No.</b>	<b>Table Title</b>	<b>Page No.</b>
3.18	Registered Venture Capital Funds and Alternative Investment Funds .....	92
3.19	Registered Portfolio Managers and Investment Advisers .....	92
3.20	Regulatory Action against CIS .....	92
3.21	Registered Mutual Funds.....	93
3.22	Trends in Awareness Programs/ Workshops Conducted by SEBI.....	103
3.23	Regional Seminars Conducted by SEBI .....	105
3.24	CPE Programmes conducted .....	107
3.25	Visits to SEBI .....	109
3.26	Status of Investor Grievances Received and Redressed .....	110
3.27	Failure to Redress Investor Grievances: Adjudication Proceedings.....	112
3.28	Status of Draft Letter of Offers for Open Offers .....	114
3.29	Status of Takeover Panel Applications .....	114
3.30	Trends of Open Offers.....	115
3.31	Buyback cases.....	115
3.32	Inspection of Stock Brokers/Sub-brokers.....	117
3.33	Inspections of Stock brokers by Stock Exchanges .....	117
3.34	Inspection of other Market Intermediaries .....	118
3.35	Actions by stock exchanges and depositories for AML/ CFT related deficiencies.....	119
3.36	Fees and other Charges.....	121
3.37	Surveillance Actions .....	126
3.38	Major Surveillance Orders .....	127
3.39	Trends in Investigations .....	129
3.40	Category-wise Nature of Investigation.....	130
3.41	Type of Regulatory actions taken .....	131
3.42	Age-wise Analysis of Enforcement Actions - u/s 11, 11B & 11D of SEBI Act, 1992 .....	133
3.43	Age-wise Analysis of Enforcement Actions - Enquiry Proceedings.....	135
3.44	Age-wise Analysis of Enforcement Actions - Adjudication Proceedings.....	135
3.45	Age-wise Analysis of Enforcement Actions - Prosecution Proceedings .....	136
3.46	Age-wise Analysis of Enforcement Actions Summary Proceedings .....	137
3.47	Enquiry and Adjudication Proceedings: Trends.....	138
3.48	Enquiry and Adjudication Proceedings against other Intermediaries .....	138
3.49	Prosecutions Launched .....	142
3.50	Region-wise Data on Prosecution Cases .....	142
3.51	Nature of Prosecutions Launched .....	143

Table No.	Table Title	Page No.
3.52	Number of Prosecution Cases decided by the Courts .....	143
3.53	Status of Court Cases where SEBI was a Party (Subject Matter).....	144
3.54	Status of Court Cases where SEBI was a Party (Judicial Forum).....	145
3.55	Status of Appeals before the Securities Appellate Tribunal.....	145
3.56	Success rate in Securities Appellate Tribunal.....	145
3.57	Status of Appeals before the Hon'ble Supreme Court .....	146
3.58	Status of Appeals before the Hon'ble High Court.....	146
3.59	Receipt and Disposal of applications under Consent and Compounding Process.....	158
3.60	Consent Applications filed with SEBI .....	159
3.61	Compounding Applications filed by the accused in criminal courts .....	159
3.62	Details of Recovery Actions .....	160
3.63	Status of refunds made by SEBI .....	161
3.64	Trends in RTI applications and First Appeal to SEBI AA.....	168
3.65	Trends in Appeals before Central Information Commission.....	168
3.66	Parliament Queries Received and replied by SEBI .....	169
3.67	Data on Various References Received and Responded to .....	169
3.68	Data on Queries / Points Raised .....	169
3.69	Trends of Regulatory Assistance given and received by SEBI.....	176
4.1	Members of SEBI Board.....	180
4.2	Board Meetings .....	180
4.3	Grade-Wise Distribution of Staff .....	182
4.4	Distribution of Staff by Qualification.....	182
4.5	Promotion of Staff in Various Grades.....	183
4.6	Common Taxonomy of Officers.....	183

Table No.	Table Title	Page No.
-----------	-------------	----------

## LIST OF CHARTS

Chart No.	Chart Title	Page No.
1.1	Share of Components of GVA (at Basic Price) ...	4
2.1	Share of Broad Category of Issues in Resource Mobilisation .....	37
2.2	Sector-wise Resource Mobilisation .....	38
2.3	Movement of Benchmark Stock Market Indices	42
2.4	Value traded in Secondary Market .....	43
2.5	Year-on-Year Returns of International Indices .	45
2.6	Movement of Sectoral Indices of BSE .....	46
2.7	Movement of Sectoral Indices of NSE .....	47
2.8	P/E Ratio of International Stock Market Indices	51
2.9	Annualised Volatility of International Stock Market Indices in 2014-15.....	52
2.10	Derivatives Turnover vis-à-vis Cash Market Turnover	58
2.11	Product-wise Share in Equity Derivatives Turnover at NSE and BSE.....	60
2.12	Participant-wise average share in F&O equity turnover in 2014-15 .....	62
2.13	Trends in Resource Mobilisation by Mutual Funds	64
2.14	Trends in Investments by Foreign Portfolio Investors	70
2.15	Trends in Net Investments by Foreign Portfolio Investors .....	71
2.16	ODIs as percent of FPI AUC.....	74
3.1	Country-wise Origin of Registered FPIs/Deemed FPIs	91
3.2	Trends in Number of Resource Persons (RPs) ...	108
3.3	Districts Represented by Resource Persons .....	109
3.4	Redressal rate of SCORES .....	111
3.5	Cumulative Pending Grievances on SCORES .....	111
3.6	Trends in Investor Feedback for Calls Received in SEBI Helpline .....	112
3.7	Category-wise Nature of Investigation Taken up	130
3.8	Nature of Investigation Cases Completed.....	131
3.9	Trends in Enforcement Actions u/s 11, 11B and 11D of SEBI Act, 1992.....	133
3.10	Trends in Adjudication Proceedings .....	136
3.11	Trends in Prosecution Proceedings.....	137
3.12	Trends in SAT Appeals .....	146
4.1	Distribution of Staff by Qualification.....	182
4.2	Distribution of Staff in Various Offices .....	183
4.3	Communication of Appreciation Received from PMO	185

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

### Conventions used in this Report

₹	: Rupees
Lakh	: Hundred thousand
Crete	: 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

AA	Appellate Authority
AGM	Assistant General Manager
AIF(s)	Alternative Investment Fund(s)
AM	Assistant Manager
AMBI	Association of Merchant Bankers of India
AMC(s)	Asset Management Company/Companies
AMFI	Association of Mutual Funds in India
AML	Anti-Money Laundering
ANMI	Association of NSE Members of India
AO	Adjudicating Officer
APRC	Asia- Pacific Regional Committee
APs	Authorised Persons
ASE	Ahmedabad Stock Exchange
ATR(s)	Action Taken Report(s)
AUM	Assets Under Management
BgSE	Bangalore Stock Exchange
BhSE	Bhubaneswar Stock Exchange
BI	Business Intelligence
BOs	Beneficial Owners
BPM	Business Process Monitoring
BRLM	Book Running Lead Manager
BSDA	Basic Services Demat Account
BSE	Bombay Stock Exchange Limited
BSEC	Bangladesh Securities and Exchange Commission
CAD	Current Account Deficit
CAPIO	Central Assistant Public Information Officer
CAS	Consolidated Account Statement
CCD	Completely Convertible Debenture
CCL	Clearing Corporation Limited
CCP	Central Counter Party
CDR	Call Data Record

CDSL	Central Depository Services (India) Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFT	Countering Financing of Terrorism
CGM	Chief General Manager
CIC	Central Information Commission
CIMC	Collective Investment Management Company
CIS	Collective Investment Scheme
CMD	Chairman and Managing Director
CMs	Clearing Members
CoBoSAC	Corporate Bonds and Securitization Advisory Committee
Core SGF	Core Settlement Guarantee Fund
CoSE	Cochin Stock Exchange
CPE	Continuing Professional Education
CPF	Customer Protection Fund
CPI	Consumer Price Index
CPIO	Central Public Information Officer
CPMI	Committee on Payments and Market Infrastructure
CPSS	Committee on Payments and Settlement Systems
CRA(s)	Credit Rating Agency/Agencies
CRFR	Committee on Rationalisation of Financial Resources
CRS	Common Reporting Standards
CSE	Calcutta Stock Exchange
CSO	Central Statistics Office
CSX	Coimbatore Stock Exchange
DDPs	Designated Depository Participants
DEA	Department of Economic Affairs
DFIs	Domestic Financial Institutions
DGM	Deputy General Manager
DIP	Disclosure and Investor Protection
DIS	Delivery Instruction Slip
DJIA	Dow Jones Industrial Average

DMS	Document Management System
DoR	Department of Revenue
DP(s)	Depository Participant(s)
DRG	Development Research Group
DSE	Delhi Stock Exchange
DSRC	Depository Systems Review Committee
DWBIS	Data Warehousing and Business Intelligence System
EAG	Eurasian Group on Combating Money Laundering and Financing of Terrorism
ECB	European Central Bank
ED	Executive Director/Enforcement Directorate
EMIR	European Market Infrastructure Regulation
EPFO	Employee Provident Fund Organisation
ERP	Enterprise Resource Planning
ESMA	European Securities and Markets Authority
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
FCDs	Fully Convertible Debentures
FDI	Foreign Direct Investments
FEW	Financial Education Website
FIIs	Foreign Institutional Investors
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FIs	Financial Institutions
FIU	Financial Intelligence Unit
FLIS	Financial Literacy and Inclusion Survey
FMC	Forward Markets Commission
FMI	Financial Market Infrastructure
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
FSLRC	Financial Sector Legislative Reforms Commission
FSRB	FATF-Style Regional Body
FSS	Financial Supervisory Service, South Korea
FUTP	Fraudulent and Unfair Trade Practices
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)
GDS	Gross Domestic Saving
GEM	Growth and Emerging Market
GM	General Manager
GNI	Gross National Income
GoI	Government of India
GSE	Gauhati Stock Exchange
GVA	Gross Value Added
HFT	High Frequency Trading
HNIs	High Net Worth Individuals
HUFs	Hindu Undivided Families
HySE	Hyderabad Stock Exchange
IA	Investment Advisers
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICAI	Institute of Chartered Accountants of India
ICCL	Indian Clearing Corporation Limited
ICD	Inter Corporate Deposits
ICDR	Issue of Capital and Disclosure Requirements
ICSI	The Institute of Company Secretaries of India
IDFs	Infrastructure Debt Funds

IEPF	Investor Education and Protection Fund
IFC	Infrastructure Finance Companies
IFRS	International Financial Reporting Standards
IIP	Index of Industrial Production
ILDS	Issue and Listing of Debt Securities
IMF	International Monetary Fund
IMSS	Integrated Market Surveillance System
INR	Indian Rupee
InVIT	Infrastructure Investment Trust
IOSCO	International Organisation of Securities Commissions
IPF	Investor Protection Fund
IPO	Initial Public Offer
IPP	Institutional Placement Programme
IRFs	Interest Rate Futures
ISB	Indian School of Business
ISD	Integrated Surveillance Department
ISE	Inter-Connected Stock Exchange
ISIN	International Securities Identification Number
IT	Information Technology
ITP	Institutional Trading Platform
IVD	Investigation Department
JF	Joint Forum
JPY	Japanese Yen
JSE	Jaipur Stock Exchange
KRA	KYC Registration Agency
KYC	Know Your Client
LES(s)	Liquidity Enhancement Scheme(s)
LSE	Ludhiana Stock Exchange
LTP	Last Traded Price
M	Manager
MB(s)	Merchant Banker(s)
MCA	Ministry of Corporate Affairs

MCX-SX	MCX Stock Exchange
MCX-SX CCL	MCX Stock Exchange Clearing Corporation Limited
MD	Managing Director
MF(s)	Mutual Fund(s)
MFAC	Mutual Fund Advisory Committee
MgSE	Mangalore Stock Exchange
MHRD	Ministry of Human Resource Development
MMoU	Multilateral Memorandum of Understanding
MoF	Ministry of Finance
MOSPI	Ministry of Statistics and Programme Implementation
MoU	Memorandum of Understanding
MPS	Minimum Public Shareholding
MPSE	Madhya Pradesh Stock Exchange Limited
MSEI	Metropolitan Stock Exchange of India Limited
NAV	Net Asset Value
NBFC	Non Banking Finance Company
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NCD	Non Convertible Debenture
NCFE	National Centre for Financial Education
NDP	Net Domestic Product
NDTL	Net Demand and Time Liabilities
NFLAT	National Financial Literacy Assessment Test
NFLIS	National Financial Inclusion Survey
NFO	New Fund Offer
NISM	National Institute of Securities Markets
NNI	Net National Income
NoC	No Objection Certificate
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	Offshore Corporate Bodies
OCRES	Online CPE Registration and Enrolment System
ODI(s)	Offshore Derivatives Instrument(s)
OECD	Organisation for Economic Co-operation and Development
OFCD(s)	Optionally Fully Convertible Debenture(s)
OFS	Offer for Sale
OTC	Over the Counter
OTCEI	Over the Counter Exchange of India
P/B Ratio	Price to book Ratio
P/E Ratio	Price-earnings Ratio
PCD	Partly Convertible Debentures
PE	Private Equity
PFI	Public Financial Institution
PFMIs	Principles for Financial Market Infrastructure
PFs	Pension Funds
PFUTP	Prohibition of Fraudulent and Unfair Trade Practices
PIT	Prohibition of Insider Trading
PMAC	Primary Market Advisory Committee
PMI	Purchasing Managers Index
PMLA	Prevention of Money Laundering
PMO	Project Management Office
PN	Participatory Notes
PSE	Pune Stock Exchange
PSUs	Public Sector Unit(s)
QARC	Qualified Audit Review Committee
QFI(s)	Qualified Foreign Investor(s)
QIB(s)	Qualified Institutional Buyer(s)
QIP(s)	Qualified Institutions' Placement(s)
RA	Research Analyst
RAIN	Registrars Association of India
RBI	Reserve Bank of India

RBSTF	Risk Based Supervision Task Force
RCG	Regional Committee Group
REIT	Real Estate Investment Trust
RHP	Red Herring Prospectus
RIA	Regulatory Impact Assessment
ROW	Rest of the World
RP(s)	Resource Person(s)
RSE(s)	Regional Stock Exchange(s)
RTA	Registrar and Transfer Agent
RTI	Right to Information
SA(s)	Sub Account(s)
SAARC	South Asian Association for Regional Co-operation
Saral AOF	Saral Account Opening Form
SAST	Substantial Acquisition of Shares and Takeovers
SAT	Securities Appellate Tribunal
SC(R)A	Securities Contracts (Regulation) Act
SCG	School for Corporate Governance
SCI	School for Certification of Intermediaries
SCM	Self Clearing Member
SCN	Show Cause Notice
SCORES	SEBI Complaints Redress System
SCRR	Securities Contracts (Regulation) Rules
SDI(s)	Securitised Debt Instrument(s)
SE	Stock Exchange
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SECC	Stock Exchanges and Clearing Corporations
SECL	Securities and Exchange Commission of Sri Lanka
SECP	Securities and Exchange Commission of Pakistan
SGF	Settlement Guarantee Fund
SGX	Singapore Exchange
SIDBI	Small Industries Development Bank of India

SIEFL	School for Investor Education and Financial Literacy
SKSE	Saurashtra Kutch Stock Exchange
SLB	Securities Lending and Borrowing
SMAC	Secondary Market Advisory Committee
SMEs	Small and Medium Enterprises
SMS	Short Message Services
SRO(s)	Self Regulatory Organisation(s)
SRSS	School for Regulatory Studies and Supervision
SSE	School for Securities Education
SSIR	School for Securities Information and Research
TAC	Technical Advisory Committee
TER	Total Expense Ratio
TFT	Trade For Trade
TSP	Telecom Service Provider
UAT	User Acceptance Test
UK	United Kingdom
UPSE	Uttar Pradesh Stock Exchange Limited
UPSI	Unpublished Price Sensitive Information
US	United States
USD	United States Dollar
USE	United Stock Exchange
UTI	Unit Trust of India
VCF(s)	Venture Capital Fund(s)
VIX	Volatility Index
VPN	Virtual Private Network
VSE	Vadodara Stock Exchange
WDM	Wholesale Debt Market
WFE	World Federation of Exchanges
WPI	Wholesale Price Index
WTM	Whole Time Member

# Part One:

## Policies and Programmes

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

Financial year 2014-15 brought new optimism for the Indian economy on the back of strong policies, controlled inflation, decline in oil prices, rise in domestic demand and increased investments. The International Monetary Fund (IMF) in its assessment of the Indian economy under the Article IV Consultation Process described the Indian economy as a bright spot in the global landscape for becoming one of the fastest-growing big emerging market economies in the world. To achieve this, however, the Indian economy needs to revitalise the investment cycle and accelerate structural reforms. Implementation of stalled projects, particularly in the agriculture, power and transport sectors and recovery in the industrial sector on higher external demand are expected to aid this recovery. The prospect of recovery in the service sector in 2014-15, led by higher exports as well as a positive influence from higher industrial growth, will help in taming inflation as well as in cushioning growth. Nonetheless, there are possible risks on the horizon, both external and domestic. High inflation expectations and a wide fiscal deficit remain key macroeconomic challenges, limiting the policy space for adopting countercyclical policies. On the domestic front, the spillovers from below normal agricultural growth, challenges relating to the massive requirements of skill creation, and on the external

front, weak global growth and potential global financial market volatility could pose challenges to the growth scenario.

The Ministry of Statistics and Programme Implementation (MOSPI), Government of India (GoI), has released the new series of national accounts revising the base year from 2004-05 to 2011-12 for estimating national income. As per international practices, industry-wise estimates are now presented as gross value added (GVA) at basic prices instead of factor cost, while 'GDP at market prices' is referred to as GDP. The economic scenario as depicted by the new series (with 2011-12 as the base year) reveals that there was perceptible improvement in some of the macro-aggregates of the economy in 2013-14, which got further strengthened in 2014-15. India's general index of industrial production (IIP) picked up in 2014-15, reversing the stagnating trend of the last two years. Its services sector remained the major driver of economic growth contributing 72.4 percent of the GDP in 2014-15.

Several key reforms were implemented during 2014-15 in financial markets. As a part of the financial inclusion initiative, the Pradhan Mantri Jan Dhan Yojana was launched in August 2014 with the intention of providing atleast one basic bank account for every household.

### GROWTH

The provisional estimates released by the Central Statistical Office (CSO) reflect the renewed

growth momentum in the Indian economy. Economic growth as measured by the growth in GDP at constant prices (2011-12) was 7.3 percent for 2014-15 as compared to 6.9 percent in 2013-14. As per provisional estimates, GVA at basic constant prices (2011-12) increased from ₹ 91,69,787 crore in 2013-14 to ₹ 98,27,089 crore in 2014-15. The growth rate in 2014-15 was 7.2 percent as compared to 6.6 percent in 2013-14. (Table 1.1)

The comprehensive coverage of the corporate sector using Ministry of Corporate Affairs (MCA)

database MCA21 and comprehensive coverage of the financial sector in the new series of national accounts turned out to project the pace of growth of manufacturing and services sectors. The base revision has also shown that the percentage share of agriculture and allied activities was moderately higher in the new series while that of industry witnessed a downward revision. Going forward, the decline in crude oil prices by about 50 percent can be envisaged as a positive for the growth prospects of the Indian economy as India has so far been a large importer of crude oil.

**Table 1.1: National Income (at 2011-12 prices)**

(in ₹ crore)

Item	2012-13	2013-14	2014-15
	(New Series Estimates)	(New Series Estimates)	(Provisional Estimates)
<b>A. Estimates at Aggregate Level</b>			
<b>1. National Product</b>			
1.1 Gross National Income (GNI)	91,72,925	98,00,813	1,05,13,163
	(4.8)	(6.8)	(7.3)
1.2 Net National Income (NNI)	81,93,427	87,51,834	93,88,992
	(4.4)	(6.8)	(7.3)
<b>2. Domestic Product</b>			
2.1 Gross Value Added (GVA) at basic prices	85,99,224	91,69,787	98,27,089
	(4.9)	(6.6)	(7.2)
2.2 Gross Domestic Product (GDP)	92,80,803	99,21,106	1,06,43,983
	(5.1)	(6.9)	(7.3)
2.3 Net Domestic Product (NDP)	83,01,305	88,72,127	95,19,811
	(4.8)	(6.9)	(7.3)
<b>B. Estimates at Per Capita Level</b>			
1. Population (million)	1,235	1,251	1,267
	(1.2)	(1.3)	(1.3)
2. Per Capita Net National Income (NNI) (₹)	66,344	69,959	74,104
	(3.2)	(5.4)	(5.9)
3. Per Capita Gross Domestic Product (GDP) (₹)	75,148	79,305	84,009
	(3.8)	(5.5)	(5.9)

Notes:

1. Figures in parentheses are percentages change over the previous year.
2. Growth rates in 2012-13 are based on the figures of 2011-12.
3. Data for previous years has been changed according to the new series.

Source: Central Statistics Office.

While in the previous year the agriculture sector supported the growth rate while there was sluggishness in industry and the services sector, the current financial year witnessed a pick-up in the industrial and manufacturing sectors. As per the new series of national income, agriculture sector growth is estimated at 0.2 percent in 2014-15 against a

target of 4.0 percent set in the 12<sup>th</sup> Five Year Plan for agriculture and allied sectors. The revival in overall growth could be attributed primarily to the services sector in 2014-15, which is estimated to have grown by 9.4 percent. The manufacturing sector is estimated to grow at 7.1 percent in 2014-15. (Table 1.2)

**Table 1.2: GVA (at Basic Price) by Economic Activity (at 2011-12 prices)**

(in ₹ crore)

Industry	2012-13	2013-14	2014-15	Percentage Change over Previous Year	
	(New Series Estimates)	(New Series Estimates)	(Provisional Estimates)	2013-14	2014-15
1	2	3	4	5	6
1. Agriculture, Forestry & Fishing	15,23,470	15,79,290	15,82,851	3.7	0.2
2. Mining and Quarrying	2,62,253	2,76,380	2,83,062	5.4	2.4
3. Manufacturing	15,74,471	16,58,176	17,76,469	5.3	7.1
4. Electricity, Gas, Water Supply and Other Utility Services	2,02,224	2,11,846	2,28,579	4.8	7.9
<b>Industry (2+3+4)</b>	<b>20,38,948</b>	<b>21,46,402</b>	<b>22,88,110</b>	<b>5.3</b>	<b>6.6</b>
5. Construction	7,40,518	7,58,887	7,95,066	2.5	4.8
6. Trade, Hotels, Transport and Communication and Services related to Broadcasting	15,48,739	17,20,513	19,04,200	11.1	10.7
7. Financing, Real Estate and Professional Services	16,75,405	18,07,338	20,15,912	7.9	11.5
8. Public Administration, Defence and Other Services	10,72,144	11,57,357	12,40,950	7.9	7.2
<b>Services (5+6+7+8)</b>	<b>50,36,806</b>	<b>54,44,095</b>	<b>59,56,128</b>	<b>8.1</b>	<b>9.4</b>
GVA at Basic Price	85,99,224	91,69,787	98,27,089	6.6	7.2

Note: Data for previous years has been changed according to the new series.

Source: Central Statistics Office.

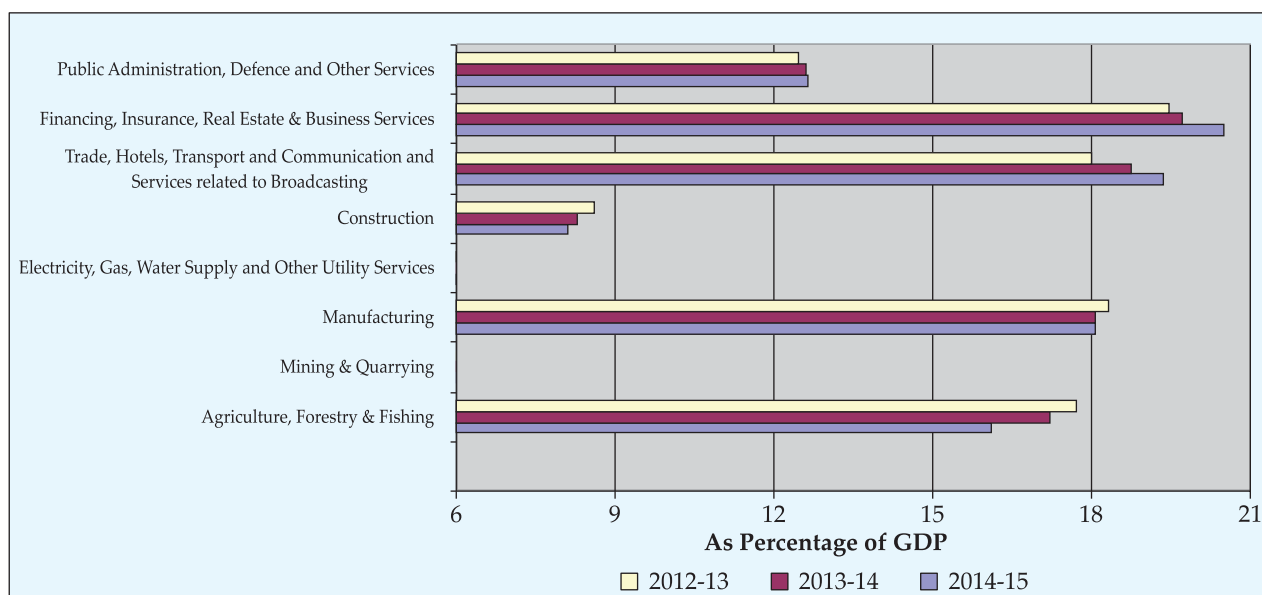
## I. AGRICULTURE

The delayed onset of the southwest monsoon, its uneven distribution and low intensity, especially in the early part of the season, affected Kharif crops which slowed down agricultural activity throughout the year. Agriculture registered a growth of 0.2 percent in 2014-15 as compared to 3.7 percent in 2013-14. Estimates released by the Ministry of Agriculture also indicate a decline in production of foodgrains by 3.2 percent in the current year as compared to a growth of 5.6 percent in the previous year. This decline is on account of lower production of rice by 3.4 percent and lower production for pulses by 6.8 percent. However, among the horticultural

crops, production of fruits and vegetables is expected to increase by 1.1 percent during 2014-15 as compared to an increase of 3.5 percent in the previous financial year.

The total share of agriculture and allied sectors (including the forestry and fishing sub-sectors) in terms of percentage of GDP was 16.1 percent during 2014-15 at 2011-12 prices. The 12<sup>th</sup> Five Year Plan's estimates of expanding the storage capacity to 35 million tonnes and the target of achieving an overall growth of 4.0 percent will also go a long way in boosting agriculture sector growth in the following years. (Chart 1.1)

**Chart 1.1: Share of components of GVA (at Basic Price) (at 2011-12 prices)**



## II, INDUSTRY

As per CSO estimates, the industrial sector showed positive signs of development with a growth rate at 6.6 percent in 2014-15 as compared to 5.3 percent in 2013-14. Mining continued to record a downfall similar to the previous year, in contrast to the electricity sector which witnessed a significant growth of 7.9 percent in 2014-15 as opposed to 4.8 percent in 2013-14. Structural constraints alongwith fluctuating capital goods production led to persistent contraction in the mining and quarrying sectors.

The IIP figures, which had slowed down since 2011-12, started picking up with a growth rate of 2.8 percent in 2014-15. (Table 1.3) The growth in IIP was primarily on account of impressive growth recorded by the electricity sector at 8.4 percent as compared to a 6.1 percent growth in the previous year. The improved performance in the sector was primarily due to the high growth in thermal generation. On the other hand, manufacturing and mining sectors, with weights of 75.5 percent and 14.1 percent in IIP, recorded growth rates of 2.3 percent and 1.4 percent respectively in 2014-

15 as compared to a decline of 0.8 percent and 0.6 percent in 2013-14. The contraction in the mining and quarrying sectors in the IIP highlights the steep decline in production in core industries such as steel, natural gas, crude oil and fertilisers. The growth in the manufacturing sector is imminent and it is also desired to improve the sector's contribution to GDP. It has been observed that the sector's contribution to GDP has stagnated at 15 percent and is relatively lower compared to emerging and developed economies. As per the National Manufacturing Policy, the manufacturing sector's contribution to GDP should be improved by 2022 in order to fill the gap.

Based on the index of eight core industries, the infrastructure sector recorded a growth of 3.5 percent in 2014-15 as compared to 4.2 percent in 2013-14. As per the use-based classification, the growth in industrial production was driven by basic and capital goods. While the growth in intermediate goods remained sluggish in 2014-15, consumer goods witnessed a contraction of 3.5 percent, primarily on account of the consumer durables sector.

**Table 1.3: Index of Industrial Production (Base: 2004-05=100)**

Month	Mining (141.57)		Manufacturing (755.27)		Electricity (103.16)		General (1000.00)	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
<b>Average</b>								
April-March	124.7	126.5	181.9	186	164.7	178.6	172.0	178.6
<b>Growth over the corresponding period of previous year</b>								
March	0.5	0.9	-1.3	2.2	5.4	2	-0.5	2.1
April-March	-0.6	1.4	-0.8	2.3	6.1	8.4	-0.1	2.8

Source: Central Statistics Office

### III. SERVICES

The striking aspect of India's recent growth has been the dynamism of the services sector. The services sector accounted for a share of 60.6 percent in the GVA (at basic price) in 2014-15 as reflected in the new series of national accounts. This shows a substantial decline in the share of the services sector under the new method. There was a major change in the share of 'trade, repair, hotels, and restaurants' from 17.2 percent in 2012-13 using the old factor cost method to 11.3 percent using the new basic price method in 2014-15. The growth picked up steam from Q2 and strengthened further in Q3 led by 'financial, real estate and professional services' and 'public administration and defence', which registered an overall growth of 11.5 percent. This sub-sector contributed 20.5 percent of the sector's share in GVA (at basic price).

The growth in the services sector was recorded at 9.4 percent in 2014-15 as compared to 8.1 percent in 2013-14; this is much higher than the other two sectors of the economy. The 'trade, hotels, transport and communication and services related to broadcasting' sub-sector recorded 10.7 percent growth in the current year compared to 11.1 percent in the previous financial year. The 'public administration, defence and other services' sector witnessed a growth of 7.2 percent as compared to 7.9 percent registered in the previous year. While 'trade, hotels, transport and communication and services related to broadcasting' contributed 19.4 percent to GVA at basic price, 'public administration, defence, and other services' contributed 12.6 percent.

The research and development sector grew in double digits registering a growth of nearly 20 percent in 2014-15. Also, consultation services are

emerging as one of the fastest growing services in India cutting across different sectors. The estimates of HSBC's services PMI (Purchasing Managers Index) data also indicate an improvement in the services sector's growth in 2014-15. Overall, India's services sector has emerged as a prominent sector over a decade in terms of its contribution to national and states' incomes, FDI inflows and employment.

### IV. SAVINGS AND INVESTMENTS

The economic scenario presented by the new series, with 2011-12 as the base year, reveals a fall in India's gross domestic savings as a percentage of GDP from 33.9 percent in 2011-12 to 30.9 percent in 2013-14. The share of household savings in physical assets stood at 10.7 percent in 2013-14, down from 15.1 percent in 2011-12 while the total contribution of household savings in GDP stood at 18.2 percent in 2013-14 as compared to 22.8 percent in 2011-12. Financial liabilities as a percentage of gross capital formation (GCF) were recorded at 12.6 percent in 2013-14 as compared to 8.6 percent in 2012-13.

The household sector was the highest contributor to gross savings with a share of 59.4 percent in 2013-14. This percentage however was a decline from 67.3 percent in 2011-12 and 63.4 percent in 2012-13. This decline can be attributed to a fall in household savings in physical assets from ₹ 3,37,552 crore in 2011-12 to ₹ 12,12,302 crore in 2013-14. On the other hand, the share of non-financial corporations in GDS increased from 29.3 percent in 2011-12 to 34.5 percent in 2013-14. The share of financial corporations was around 9 percent in all these years, while the dis-saving of the general government decreased from 5.4 percent in 2011-12 to 3.2 percent in 2013-14.

In absolute terms, gross savings at current prices in 2013-14 stood at ₹ 34,75,935 crore as against ₹ 31,81,262 crore in 2012-13, registering a growth of 9.3 percent. The savings of the household sector increased by a mere 2.4 percent from ₹ 20,16,122 crore in 2012-13 to ₹ 20,65,179 crore in 2013-14. While savings in physical assets witnessed a decline of 5.6 percent to ₹ 12,12,302 crore in 2013-14 from ₹ 12,84,620 crore in 2012-13, financial savings increased by 18.0 percent from ₹ 6,94,234 crore in 2012-13 to ₹ 8,19,450 crore in 2013-14. Savings by non-financial corporations saw an increase of 22.7 percent from ₹ 9,78,732 crore in 2012-13 to ₹ 12,00,632 crore in 2013-14

while financial corporations recorded a growth of 2.3 percent in absolute terms from ₹ 3,14,424 crore in 2012-13 to ₹ 3,21,752 crore in 2013-14. (Table 1.4)

Improvement in the saving-investment gap to 1.6 percent this year as compared to 4.8 percent in the previous financial year could be attributed to curbs on gold imports, a sharp slowdown in domestic demand pulling down consumption and investment goods' imports, and a weak rupee. However, an improvement in saving-investment gap can be unsustainable in the future unless major structural reforms are implemented to make use of productivity gains.

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

S. No.	Item	(Amount in ₹ crore)			(Percent of GDP)		
		2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
	1	2	3	4	5	6	7
1	Household Saving	20,14,613	20,16,122	20,65,179	22.8	20.2	18.2
	of which :						
	a) Financial Assets	6,43,426	6,94,234	8,19,450	7.3	7.0	7.2
	b) Physical Assets	13,37,552	12,84,620	12,12,302	15.1	12.9	10.7
	c) Saving in Valuables	33,635	37,267	33,427	0.4	0.4	0.3
2	Non-financial corporations	8,77,386	9,78,732	12,00,632	9.9	9.8	10.6
3	Financial corporations	2,62,905	3,14,424	3,21,752	3.0	3.1	2.8
4	General Government	-1,60,978	-1,28,016	-1,11,628	(1.8)	(1.3)	(1.0)
5	Gross Savings	29,93,926	31,81,262	34,75,935	33.9	31.8	30.6
6	Net Capital Inflow from ROW	3,76,171	4,77,920	1,86,555	4.3	4.8	1.6
7	Gross Capital Formation	33,70,097	36,59,182	36,62,490	38.2	36.6	32.3
8	Total Consumption Expenditure (a+b)	60,78,042	69,68,241	80,49,533	68.8	69.8	71.0
	a) Private Final Consumption Expenditure	50,90,822	58,75,111	67,72,066	57.6	58.8	59.7
	b) Government Final Consumption Expenditure	9,87,220	10,93,130	12,77,467	11.2	10.9	11.3
	Memo Items						
	Saving-Investment Balance (5-7)	-3,76,171	-4,77,920	-1,86,555	(4.3)	(4.8)	(1.6)
	Household Sector	6,77,061	7,31,502	8,52,877	7.7	7.3	7.5
	Non-Financial Corporations	-6,06,127	-6,97,457	-6,25,278	(6.9)	(7.0)	(5.5)
	Financial Corporations	2,16,742	2,71,114	2,82,542	2.5	2.7	2.5
	General Government	-4,79,552	-4,73,981	-5,78,290	(5.4)	(4.7)	(5.1)

Notes:

1. The presentation of the table is as per the new terminology used after the base year revision.
2. GDP refers to 'GDP at market prices'.
3. The data has been revised as per the new series of national accounts

Source: Central Statistics Office.

The expenditure side of GDP reveals that the government's final consumption expenditure, which includes consumption expenditure by the centre, states, local bodies and autonomous bodies, stood at 11.3 percent as per CSO estimates, mainly on account of faster expenditure growth by the states as indicated in Budget estimates. The contribution of private final consumption expenditure, a principal component, to GDP further accelerated to 59.7 percent in 2013-14 from 58.8 percent in 2012-13.

## V. BALANCE OF PAYMENTS

India's external sector position improved considerably on the back of higher growth in merchandise exports and a marginal rise in merchandise imports, with a sizeable increase in net financial flows financing the current account deficit (CAD) and enabling a large build-up of reserves. India's CAD shrank to USD 27.5 billion in 2014-15 (1.3 percent of GDP) from USD 32.4 billion (1.7 percent of GDP) in previous financial year. The reduction in the deficit can be attributed to a lower trade deficit along with moderate growth in invisibles accompanied by a surge in capital inflows. This surge was enabled by higher portfolio investment, foreign direct investment (FDI) and external commercial borrowings. There has been a significant deceleration in valuables with curbs on gold imports and this is expected to positively impact household financial savings and help restrain CAD.

With imports exceeding exports in 2014-15, India's trade deficit widened, although only modestly. In 2014-15, the value of total exports was USD 310.5 billion as against USD 314.4 billion in the previous fiscal, a fall of 1.2 percent. Imports too contracted in 2014-15 to USD 447.5 billion. Consequently, India's trade deficit for the current fiscal is estimated at USD 137.0 billion, compared to USD 135.8 billion in 2013-14. The trade deficit was contained primarily on account of a fall in international oil prices which compensated for a contraction in exports. Hence, a policy focus on enhancing productivity and competitiveness is not only desired for the revival of exports but this is also essential for gradually reducing its dependence on imports.

Capital inflows, largely portfolio flows, into domestic debt and equity markets and foreign direct investment have enabled accretion to the foreign exchange reserves which reached an all-time peak of USD 341.3 billion as on March 27, 2015, indicating a rise of USD 37.7 billion from the level of USD 303.7 billion observed at end March 2014. The increase in reserves reflects a steady improvement in India's growth trajectory in terms of an increase in the import cover accompanied by a decline in short-term external debt to reserves ratio.

## VI. FISCAL DEFICIT

As the elevated fiscal deficit posed a major challenge to the economy, the government remained committed to the path of fiscal consolidation. However, with an improving economic scenario, the pressure to accelerate fiscal consolidation too has decreased. The budgeted target of gross fiscal deficit as a percentage to GDP at 4.1 percent was achieved with the help of expenditure reduction amid sluggish non-debt receipts.

In the Union Budget 2015-16, the government indicated that it aimed at high growth, although the pace of cutting the fiscal deficit would be slow as the government seeks to boost investments. The Budget has set India's fiscal deficit target for the 2015-16 at 3.9 percent of GDP to be achieved in three years rather than in two years and is estimated to decline to three percent by 2017-18.

## VII. LIQUIDITY AND CREDIT GROWTH

Liquidity conditions in Indian financial markets remained comfortable in 2014-15. These were supported by an enabling monetary policy. In September 2014, RBI revised its liquidity management framework to include facilities like more frequent auction of term repos and flexibility to banks to alter their liquidity assessment so as to enable transparency and predictability in liquidity management operations. Liquidity conditions remained balanced throughout the financial year, barring temporary pressures due to cutbacks in government spending and pick-up in credit demand, reflecting a confluence of structural and frictional factors. Easing inflationary pressures strengthened the impact of comfortable liquidity conditions on market interest rates, leaving sovereign and corporate bond yields to decline by 50 basis points.

At the end of 2014-15, the policy repo rate under the liquidity adjustment facility (LAF) stood at 7.75 percent. To provide smooth liquidity, the overnight repos were allowed at 0.25 percent of bank-wise NDTL. During 2014-15, SCBs' cash reserve ratio (CRR) remained unchanged at 4.0 percent of NDTL.

In order to create space for banks to expand credit, the statutory liquidity ratio (SLR) of SCBs was reduced from 22.0 percent of NDTL to 21.5 percent which will help increase their lending to productive sectors on competitive terms so as to support investment and growth. The outlook for growth is improving gradually. Comfortable liquidity conditions should enable banks to transmit the recent reductions in the policy rate to their lending rates thus improving financing conditions for the productive sectors of the economy.

### VIII. INFLATION

The barometer of headline inflation, the wholesale price index (WPI) (base year 2004-05=100) had remained persistently high at around 6.0 to 9.0 percent during 2011-13. However, it moderated to an average of 3.4 percent in 2014-15 on the back of lower food and fuel prices. Following sharp corrections observed in vegetable prices, food inflation which remained high at 9.4 percent in 2013-14 moderated to 4.8 percent in the current fiscal. The major developments driving the inflation down were falling global commodity prices, especially of crude oil; decline in the growth rate of rural wages; moderation in the increase in minimum support prices; and slack in economic activity. To sustain low inflation levels and to rein in an increase in food inflation, it is imperative to enhance the resilience of the agriculture sector and eliminate leakages, inclusion and exclusion errors and other distortions.

CSO, MOSPI revised the base year of the consumer price index (CPI) from 2010=100 to 2012=100 with effect from the release of indices for the month of January 2015. CPI inched down to 5.3 percent in March 2015, while the consumer food price index stood at 6.1 percent. CPI inflation is estimated to be around 5.0 percent by the end of 2016-17 assuming an unchanged economic structure, fiscal consolidation in line with the recalibrated path, a normal monsoon and no major exogenous or policy shocks.

### IX. EXCHANGE RATE

After experiencing bouts of depreciation in the currency with intense pressure followed by the tapering announcement by the US Fed, the rupee's movement with respect to the US dollar broadly remained stable during the year on account of the huge inflow of FDI and FPI in the equity and bond markets. The rupee depreciated by 4.2 percent from ₹ 60.1 per USD on March 28, 2014 to ₹ 62.6 per USD as on March 31, 2015, though it reached a high of ₹ 58.43 per USD on May 19, 2014.

Uncertainties in the exchange rate persist. The key risk arises from normalisation of monetary policy by the US Fed which may spark off safe haven capital flows into US Treasury securities and spur further appreciation of the US dollar.

### X. CAPITAL MARKETS

In 2014-15, the Indian securities markets rallied strongly with benchmark indices, BSE Sensex and NSE Nifty, registering all-time highs reflecting the confidence of investors in the fundamental strengths and prospects of the Indian economy. During the year, Sensex and Nifty increased by 24.9 and 26.7 percent respectively over March 31, 2014. Sensex and Nifty closed at 27,957 and 8,491 on March 31, 2015. On the whole, the markets displayed buoyancy during the second half of 2014-15 against the backdrop of improved domestic fundamentals and a global appetite for risk.

The market capitalisation of BSE and NSE recorded an increase of 36.9 and 36.4 percent respectively in the current financial year and stood at ₹ 1,01,49,290 crore for BSE and ₹ 99,30,122 crore for NSE as on March 31, 2015. The market capitalisation to GDP ratio, commonly referred to as the m-cap ratio, exhibited a positive outlook for Indian markets as it increased in 2014-15. Taking into account the advance estimates of GDP (at current prices) as per the 2011-12 series, the m-cap ratio for BSE was 65.4 percent in 2014-15; it was 64.1 percent for NSE. The demat statistics at depositories, NSDL and CDSL, exhibited an accelerating trend and number of demat accounts at CDSL witnessed a growth of 9.5 percent over the previous year. (Table 1.5a) Moreover, the number of listed companies on NSE and BSE continued to increase. (Table 1.5b)

**Table 1.5 (a): Demat Statistics**

Year	NSDL	CDSL	NSDL	CDSL
	Demat Quantity (in lakh)	Demat Quantity (in lakh)	Demat Accounts (in lakh)	Demat Accounts (in lakh)
2013-14	79,55,034	17,73,105	131	88
2014-15	92,73,570	20,60,123	137	96

Source: NSDL and CDSL.

**Table 1.5 (b): Number of Listed Companies**

Year	NSE	BSE
	No. of Companies Listed	No. of Companies Listed
2013-14	1,688	5,336
2014-15	1,733	5,624

Source: NSE and BSE.

Trading activity in both cash and derivative segments witnessed an uptrend during 2014-15. The turnover in the cash segment increased by 51.2 percent in 2014-15, while that in equity derivatives was 59.7 percent higher than the previous year. In currency derivatives, among exchanges the turnover at NSE was the highest. The total turnover in interest rate derivatives registered an increase of nearly 10 times with the maximum share (89.0 percent) being contributed by NSE again. (Table 1.6) NSE introduced

futures contracts on India VIX in its Futures & Options segment with effect from February 26, 2014. India VIX is India's first volatility index which is a key measure of market expectations in the near-term. In 2014-15, an additional safety net in the form of a Core Settlement Guarantee Fund was introduced to mitigate risks from possible defaults in settlement of trades and for strengthening the risk management framework in domestic capital markets.

**Table 1.6 Growth of Turnover in Various Segments of Indian Stock Market**

Year	Turnover (in ₹ crore)			
	Cash Segment	Equity Derivatives	Currency Derivatives	Interest Rate Derivatives
2013-14	33,41,337	4,75,75,571	69,80,855	39,944
2014-15	51,84,500	7,59,69,290	50,33,096	4,73,783

Source: BSE, NSE, MSEI and USE.

The FPI regime which started from June 1, 2014 specified stringent 'Know Your Client' norms for issuance of offshore derivative instruments (ODIs). While foreign participation in Indian stock markets adds to depth and liquidity, it also increases the risks of sudden episodes of heightened volatility due to several global and domestic factors. During the reviewed phase of high growth in Indian stock

market valuations, investments through ODIs also saw rapid growth and the notional values and assets under custody touched the highest levels in 2014-15. The net FPI investments in India witnessed an increase of over five times in 2014-15 with investments in debt securities constituting 60 percent of the overall portfolio investments. (Table 1.7)

**Table 1.7 Assets under the Custody of Custodians**

Year	FPIs	Foreign Depositories	FDI Investments	Foreign Venture Capital Investments
	(in ₹ crore)	(in ₹ crore)	(in ₹ crore)	(in ₹ crore)
2013-14	15,93,869	1,90,529	2,94,945	48,854
2014-15	24,11,810	2,54,124	4,55,033	52,184

Note: With the commencement of the FPI regime, the erstwhile FIIs, sub-accounts and QFIs are merged into FPIs.

Source: Custodians.

During the year, SEBI took a number of policy initiatives in accordance with approved Budget proposals which were in consonance with the three mandated statutory objectives of SEBI: protecting the interests of investors in securities markets and promoting the development of and regulating securities markets. The major thrust of these policy initiatives, inter-alia, was on enhanced investor awareness and education, spreading reach to investors and enhancing investor confidence through effective market surveillance and maintaining high standards of integrity, fairness, skills and diligence among the market intermediaries.

## 2. REVIEW OF POLICIES AND PROGRAMMES

A proactive and evolving regulatory regime is integral to dynamic financial markets, participants and investors. SEBI initiated several policies and programmes in financial year 2014-15. This section presents a brief note on these developments.

The developments are categorised under nine major heads: Primary Securities Market, Secondary Securities Market, Mutual Funds, Intermediaries associated with Securities Market, Foreign Portfolio

Investors, Corporate Debt Market, Investor Assistance and Education, Other Policies and Programmes having a bearing on the working of securities markets. The section ends with a note on 'Assessment and Prospects'.

### I. PRIMARY SECURITIES MARKET

A healthy and regulated primary market is vital for maintaining the confidence of issuers, intermediaries and investors. In order to keep pace with the changing economic environment and to address concerns of various market participants, especially issuers and the investing community, regulations governing the primary market have been amended from time to time. Such reviews are intended to facilitate easy capital mobilisation by industry while ensuring adequate investor protection. A review of the pricing mechanism of the preferential issue, norms on corporate governance and notification of SEBI (Share Based Employee Benefits) Regulation, 2014 were some important developments that took place in 2014-15. This section discusses policy measures initiated by SEBI pertaining to the primary market during the financial year:

#### **Box 1.1: India ranks 7th with respect to protection of minority shareholders as per a World Bank Report**

On October 29, 2014 the World Bank released a report titled 'Doing Business 2015 Going Beyond Efficiency'. This World Bank Group publication is the 12th in a series of annual reports measuring regulations that enhance business activity and those that constrain it. The recent report which compares business regulations for domestic firms in 189 economies inter-alia observed, 'India has strengthened minority investor protections by requiring greater disclosure of conflicts of interest by board members, increasing the remedies available in case of prejudicial related-party transactions and introducing additional safeguards for shareholders of privately held companies.'

It is observed from the report that India ranks seven in respect of minority investor protection. Based on a quick study of previous World Bank reports on doing business, a comparative perspective over the last three years with respect to ranking for protecting investors is given in Table 1.

**Table 1: Ranking for protecting investors over the last three years**

	2012	2013	2014
India	49	34	7

**Source: Based on a World Bank report.**

### A. Revisiting the Norms on Minimum Offer to Public

In order to make regulatory requirements consistent across companies irrespective of post-issue capitalisation and to facilitate mid-size issuers who may not be in need of large funds, the following norms were prescribed by way of amendments to Rule 19(2)(b) of the Securities Contracts (Regulations) Rules, 1957 and Regulation 41 of the ICDR Regulations, 2009:

- a. Minimum dilution to public in an IPO shall be 25 percent or ₹ 400 crore, whichever is lower for companies with post-issue capitalisation of less than or equal to ₹ 4,000 crore. This will remove the anomaly that a company just short of ₹ 4,000 crore market capitalisation was required to dilute about ₹ 1,000 crore while another company with more than ₹ 4,000 crore market capitalisation was required to dilute only ₹ 400 crore.
- b. In case of dilution being less than 25 percent, a minimum public shareholding of 25 percent is required to be achieved within three years of listing.

### B. Review of Minimum Public Shareholding Requirement in Public Sector Companies

Earlier, while listed private sector companies were required to have at least 25 percent public shareholding, listed public sector companies were required to maintain a minimum of only 10 percent public shareholding. This was inconsistent with the broader market design. Therefore, Rule 19A of the Securities Contracts (Regulations) Rules, 1957 was amended to align the norms by increasing the minimum public shareholding requirement in listed public sector companies to 25 percent. Listed public sector companies with existing public shareholding below this level are required to increase this to at least 25 percent within a period of three years i.e. by August 22, 2017.

### C. Review of Corporate Governance Norms in India for Listed Companies

SEBI reviewed the extant regulatory framework for corporate governance in India. Towards this end,

a discussion paper was put up on SEBI's website for public comments on January 4, 2013. The proposals were further discussed in several meetings of the PMAC. Final norms were approved by the SEBI board on February 13, 2014. Subsequently, Clause 49 of the Listing Agreement was revised by aligning the provisions with the Companies Act, 2013 and also prescribing additional conditions in this regard. The major changes are:

- a. Principles on corporate governance have been incorporated based on OECD principles.
- b. At least one woman director on the board of every listed company.
- c. Exclusion of nominee director from the definition of independent director.
- d. Prohibition of stock options to independent directors.
- e. Maximum tenure of independent directors restricted to two terms of up to five years each.
- f. Performance evaluation of independent directors by the entire board of directors.
- g. Limit on number of directorships for independent directors to seven.
- h. Definition of 'related party' extended to cover persons in control and having significant influence.
- i. Pre-approval of related party transactions by the audit committee.
- j. Approval of shareholders for material related party transactions through special resolution with related parties abstaining from voting.
- k. Mandatory nomination and remuneration committees.
- l. Board responsible for framing, implementing and monitoring the risk management plan for the company.
- m. Disposal of shares in a material subsidiary which would reduce its shareholding to less than 50 percent or ceasing the exercise of control over the subsidiary through approval of shareholders by a special resolution in the general meeting.

### **Box 1.2: Enhancing Governance and Transparency: Unrelenting Initiatives**

Good corporate governance standards are essential for the integrity of corporations, financial institutions and markets. They also have a bearing on the growth and stability of the economy. SEBI is of the view that any code of corporate governance must be dynamic, evolving and should change with changing contexts and times. To keep pace with the changing expectations of investors, shareholders and other stakeholders, necessary amendments are carried out to the regulatory framework. Recent policy initiatives like periodic disclosures of pledged shares, voting rights and agreements with media companies have come a long way in further strengthening investor confidence in the market. Broadly, the regulatory framework in India is in compliance with OECD principles, an international benchmark used worldwide. As a part of a bilateral cooperation agreement between SEBI and OECD in the area of corporate governance, a policy dialogue on 'Minority Protection- Related Party Transactions (RPTs)' was held in 2011 and a policy dialogue on the role of institutional investors was held in 2014.

The enactment of the Companies Act, 2013, which replaced the Companies Act, 1956, was a major development in corporate governance to improve governance standards, simplify regulations and enhance the interests of minority shareholders. SEBI also reviewed Clause 49 of the Listing Agreement during 2014 to align it with the provisions of the Companies Act, 2013 and to also prescribe additional conditions in this regard. The governance framework now comprises of revised norms with regard to the board of directors, audit committee, subsidiary companies, risk management, related party transactions and disclosures, a compulsory whistle blower mechanism, requirement of at least one woman director on the board, mandatory constitution of a nomination and remuneration committee, performance evaluation of independent directors and prohibition of stock options to independent directors, maximum tenure of independent directors and limit on the number of independent directorships. These are some of the key provisions that were made applicable to all listed companies. The scope of RPTs was widened to include elements of both the Companies Act and Accounting Standards.

As a regulator, SEBI and its policy have always endeavoured to communicate transparency and ethical conduct at all levels for stakeholders. To ensure this, SEBI mandated the top 100 listed companies to include a business responsibility report as a part of their annual reports focusing on environmental, social and governance issues. It also implemented the concept of general information document (GID) containing generic information thereby eliminating the repetition of common information in the abridged prospectus thus helping investors to better understand the nuances of public offers.

To comply with the Government of India (GoI) notification requiring listed companies to achieve and maintain minimum public shareholding (MPS) norms, SEBI specified various methods for ensuring timely compliance by non-compliant companies. SEBI also initiated a consultative process with companies which were not meeting the MPS requirement to impress upon them the importance of achieving timely compliance and eliciting a concrete plan of action in this regard. The companies were also made aware of the penal actions that might result in case of non-compliance. With respect to non-compliant companies, SEBI issued interim directions against the promoters/promoter groups and directors of 107 listed companies including one state PSU. Further, to remain consistent with the broader market design, Securities Contracts (Regulations) Rules, 1957 was amended during 2014 to bring the MPS requirement for listed public and private sector companies at par at 25 percent. This was earlier 10 percent in the case of public sector companies.

Even as too many stock exchanges fragment liquidity that might stifle growth and innovation, too frequent exits of stock exchanges will jeopardise the interests of investors and disrupt the stability of the markets. Further, technology has altered the marketplace so much that the need for multiple stock exchanges has been reduced largely. In this regard, SEBI formulated an exit policy keeping in mind the interests of shareholders of exclusively listed companies by providing an exit option and by providing trading members a trading opportunity through the subsidiary route. Subsequently, in 2014 SEBI introduced measures to facilitate the exit of de-recognised/non-operational stock exchanges subject to certain conditions. Indian markets are vibrant and a timely review of the corporate governance system is inevitable in the light of the new technological developments, introduction of new products, growth of financial markets, trade and capital flows and global integration.

#### **D. Eligibility of Shares for Offer for Sale in an IPO with respect to Bonus Issues on Shares held for more than a year**

Bonus shares issued on securities held for a period of at least one year prior to filing of the draft

offer document, have been permitted to be offered for sale, provided that these bonus shares were issued out of the free reserves or share premium and not by utilizing revaluation reserves or unrealised profits of the issuer.

### **E. Increased Investment Bucket for Anchor Investors**

In order to increase the participation of serious, committed investors in IPOs, the anchor investors' bucket has been increased to 60 percent of the overall qualified institutional buyers (QIB) bucket from 30 percent, which was the norm earlier.

### **F. Revised Norms on Pricing in Preferential Issues**

A distinction has been made for pricing of non-frequently traded shares. It has been prescribed that for such shares, the price determined by the issuer for allotting shares in a preferential issue shall take into account valuation parameters including book value, comparable trading multiples and such other parameters as are customary for the valuation of shares of such companies. This has to be certified by an independent merchant banker or an independent chartered accountant in practice having a minimum experience of 10 years. Further, in case of frequently traded shares, the pricing is now based on volume weighted average price vis-à-vis closing price previously.

### **G. Notification of SEBI (Share Based Employee Benefits) Regulations, 2014**

SEBI (Share Based Employee Benefits) Regulations, 2014 have replaced the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. The new regulations have a larger scope compared to the earlier guidelines as they also cover general employee benefit schemes framed by companies in addition to employee stock option schemes, employee stock purchase schemes and stock appreciation rights schemes. The schemes have also been permitted to acquire shares from the secondary market under certain conditions so as to avoid dilution of capital and to be in line with international practices subject to certain safeguards like a limit on acquisition from the secondary market, requirement of trust for secondary market transactions, norms on trustees, restriction on voting rights of trustees and sale permitted only for specified purposes.

### **H. Revised Norms Relating to Investment in Partly Paid Shares and Warrants**

In order to harmonise the norms on receipt of upfront payments and tenure of partly paid shares/warrants between the ICDR Regulations, 2009 and the Foreign Exchange Management Act, the following changes were effected in the ICDR Regulations, 2009:

- a. In case of partly paid shares issued through public/rights issues, a minimum 25 percent of the issue price shall necessarily be received upfront. The balance consideration shall continue to be received within 12 months if the issue size is less than ₹ 500 crore. Where the issue size exceeds ₹ 500 crore and the issuer has appointed a monitoring agency, the period can be decided by the issuer as per the existing regulatory framework.
- b. With respect to warrants issued along with a public or rights issue of specified securities, 25 percent of the consideration shall be received upfront by the issuer and the tenure of such warrants shall be 18 months as against 12 months presently.

### **I. Revised Format for Disclosures under Regulation 30 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011**

Format for continual disclosures as specified under Regulations 30(1) and 30(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 has been revised to ensure greater transparency.

### **J. Amendments to Regulations on Delisting**

As a part of SEBI's constant endeavour to review the existing regulatory framework to align with changing market realities, amendments to SEBI (Delisting of Equity Shares) Regulations, 2009, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and SEBI (Buyback of Securities) Regulations, 1998 were notified on March 24, 2015. The salient amendments are:

- a. Delisting shall be considered successful only if at least 25 percent of the number of public shareholders, holding shares in a dematerialised mode as on the date of the board meeting which approves the delisting proposal, tender in the reverse book building process. However, if the acquirer and the merchant banker are able to demonstrate to the stock exchanges that they have delivered the letter of offer to all public shareholders then this will not be applicable.
- b. The offer price to be determined through the reverse book building process shall be the price at which the shareholding level of the promoter, after including the shareholding of the public

- shareholders who have tendered their shares, reaches the threshold limit of 90 percent.
- c. The promoter/promoter group shall be prohibited from making a delisting offer if any entity belonging to the said group has sold shares of the company during a period of six months prior to the date of the board meeting which approves the delisting proposal.
  - d. Use of the stock exchange platform for offers made under delisting, buyback and takeover regulations.
  - e. The board of the company shall approve the proposal for delisting only after satisfying itself that delisting is in the interest of shareholders and that the company is in compliance with applicable securities laws.
  - f. Companies whose paid-up capital does not exceed ₹ 10 crore and networth does not exceed ₹ 25 crore as on the last day of the previous financial year are exempt from following the reverse book building process. The exemption will be available only if:
    - i) there was no trading in the shares of the company in the last one year from the date of the board resolution authorizing the company to go for delisting and
    - ii) trading of shares of the company has not been suspended for any non-compliance during the same period.
  - g. The acquirer has an option to delist the shares of the company directly through the delisting regulations pursuant to triggering open offer obligations under the takeover regulations. However, if the delisting attempt fails the acquirer will be required to complete the mandatory open offer process under the takeover regulations and pay interest at 10 percent per annum for the delayed open offer.
  - h. SEBI may, for reasons recorded in writing, relax the strict enforcement of any requirement of the provisions of the delisting regulations or exempt from compliance, in line with the provisions existing in ICDR Regulations, 2009 and Takeover Regulations, 2011.

#### **K. Activities of the Qualified Audit Review Committee**

During the financial year 2012-13 SEBI put in place a mechanism to process qualified annual

audit reports filed by listed companies with stock exchanges. Under the mechanism, a Qualified Audit Review Committee (QARC) comprising representatives of ICAI and stock exchanges has been constituted to review the cases received from the stock exchanges and guide SEBI in processing the qualified annual audit reports.

Seven meetings of QARC took place during the financial year 2014-15 and around 100 qualified audit report cases were dealt with in these meetings apart from considering the additional submissions filed by various companies with respect to the recommendations made by QARC during the previous year.

#### **L. Activities of the Primary Market Advisory Committee (PMAC)**

A PMAC has been constituted with the objective of advising SEBI on:

- a. Issues related to regulation and development of the primary market in India.
- b. Matters required to be taken up for changes in the legal framework to introduce simplification and transparency in systems and procedures in the primary market.
- c. Matters relating to regulation of intermediaries for ensuring investor protection in the primary market.
- d. PMAC comprises 18 members from various market participants. The committee is being chaired by Shri T.V. Mohandas Pai, Chairman, M/s Manipal Global Education Services Private Limited. The committee held three meetings during financial year 2014-15 to discuss various proposals.

#### **M. SEBI Group on IFRS Exposure Drafts**

A SEBI group on IFRS Exposure Drafts comprises of industry representatives, ICAI, auditors and other stakeholders. The group attempts to have greater engagement with the International Accounting Standards Board (IASB) in the standard setting process and to convey the concerns/issues of the Indian corporate sector for consideration before finalisation of the International Financial Reporting Standards (IFRSs).

During 2014-15, the group met five times under the Chairmanship of Mr Y. H. Malegam, former managing partner, M/s S.B. Billimoria & Co. and gave its comments on eight exposure drafts which were conveyed to IASB for consideration during finalisation of IFRSs.

### **Box 1.3: Powers conferred to SEBI vide the Securities Laws (Amendment) Act, 2014**

The Securities Laws (Amendment) Act, 2014 was notified on August 25, 2014. This amended the Securities and Exchange Board of India Act, 1992, the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996. The salient features of the Amendment Act, 2014 are:

#### **1. Power to call for information.**

The Amendment Act empowers SEBI to call for information from any person and not just persons associated with securities markets, in relation to any investigation or inquiry by SEBI with respect to any transaction in securities.

#### **2. Power to call for or furnish information to other authorities.**

The Amendment Act empowers SEBI to obtain or furnish information to other regulators abroad who have similar functions to those of SEBI in matters relating to prevention, detection, enforcement and investigation of violations with respect to securities, subject to the stipulation that for the purpose of furnishing any information to any authority outside India, a MoU will be signed between SEBI and the overseas regulator with the prior approval of the central government.

#### **3. Collective Investment Scheme (CIS).**

- (a) Deemed CIS: As per the amended definition of CIS, any pooling of funds under any scheme or arrangement, involving a corpus amount of ₹ 100 crore or more which is not registered with SEBI or otherwise not specifically exempted is deemed to be a CIS.
- (b) Clarification in the definition of CIS: The Amendment Act enables SEBI to deal with CIS which are made or offered by any person.
- (c) Power to define CIS in regulations: SEBI has been empowered to define additional parameters by regulations to bring in any activity within the ambit of CIS on a case to case basis if the said activity is not regulated either as a CIS or by any other regulator or authority.
- (d) Power to exempt CIS: The central government has been empowered to exempt any scheme or arrangement in consultation with SEBI from the ambit of CIS.

#### **4. Explicit power to disgorge ill-gotten gains and power to credit disgorgement amount to Investor Education and Protection Fund and its utilisation.**

SEBI has been explicitly empowered to disgorge ill-gotten gains and credit these to the Investor Education and Protection Fund and utilise the money in accordance with the regulations made on this behalf.

#### **5. Power to conduct search and seizure.**

The Amendment Act permits conducting of search and seizure with authorisation from the designated court in Mumbai.

#### **6. Explicit powers for settlement.**

The Amendment Act expressly empowers SEBI to settle administrative and civil proceedings on such terms as may be determined by it in accordance with procedures specified in the regulations.

#### **7. Minimum monetary penalties.**

The Amendment Act introduces minimum penalty amounts in securities laws.

#### **8. Power of review of orders passed by Adjudicating Officers**

The SEBI board has been empowered to suo-moto review any order passed by an adjudicating officer and impose a higher penalty in cases where it deems fit.

#### **9. Attachment and recovery.**

SEBI has been empowered to attach and sell movable and immovable property and attach bank accounts of defaulters in pursuance of any order or direction passed by SEBI or to recover fees due to it or recover penalties which are outstanding

#### **10. Special courts and deemed public prosecutors.**

The Amendment Act provides for constitution of special courts for prosecution of offences under securities laws. The Amendment Act further provides that councils engaged by SEBI in a trial before the special/sessions court shall be deemed to be public prosecutors for such prosecution proceedings.

## II. SECONDARY SECURITIES MARKET

Trading activity in the secondary securities market witnessed upsurge in line with global developments with the Indian benchmark indices, Sensex and Nifty, scaling new heights in the current financial year. During 2014-15, various initiatives were taken up to revive investor confidence and encourage the participation of small investors. Other policy measures like the Core Settlement Guarantee Fund (Core SGF) norms, OFS through the stock exchange mechanism and the risk management framework at depositories were introduced to further strengthen the secondary securities market. This section presents the major policy initiatives taken by SEBI relating to the secondary market during 2014-15.

### A. Allowing Mutual Fund Distributors to use Stock Exchange Infrastructure for Mutual Fund Distribution

To enable mutual fund distributors to leverage the stock exchange platform so as to improve their reach, SEBI allowed mutual fund distributors to use the infrastructure of recognised stock exchanges for purchases and for redeeming mutual fund units directly from mutual funds/assets management companies on behalf of their clients. In order to broad-base the reach of this platform, SEBI also permitted non-demat transactions in mutual fund transactions through the stock exchange platform.

### B. Core Settlement Guarantee Fund, Default Waterfall and Stress Test

SEBI prescribed the norms for the Core Settlement Guarantee Fund (Core SGF), Default Waterfall and Stress Testing to bring greater clarity and uniformity and for aligning them with international best practices while enhancing the robustness of the present risk management system in clearing corporations to enable them to deal with defaults of clearing members much more effectively by achieving the following:

- a. Creating a core fund (called Core Settlement Guarantee Fund) within SGF against which no exposure is given and which is readily and unconditionally available to meet settlement obligations of clearing corporations in case clearing member(s) fail to honour settlement obligations.

- b. Aligning Stress Testing practices of clearing corporations with CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs) (norms for stress testing for credit risk, stress testing for liquidity risk and reverse stress testing including frequency and scenarios).
- c. Capturing the risk due to possible default in institutional trades in stress testing.
- d. Harmonizing Default Waterfalls across clearing corporations.
- e. Limiting the liability of non-defaulting members in view of the Basel capital adequacy requirements for exposure towards central counterparties (CCPs).
- f. Ring-fencing each segment of clearing corporations from defaults in other segments.
- g. Bringing in uniformity in stress testing and risk management practices of different clearing corporations especially with regard to default by members.

Norms for contribution to Core SGF as well as Default Waterfall were specified with a view that all the stakeholders (clearing corporations, stock exchanges and clearing members) are incentivised to adequately monitor the risks brought into the system.

### C. Position Limits for Mutual Funds in 10-year Interest Rate Futures (IRFs)

SEBI prescribed a framework for trading of cash settled interest rate futures (IRFs) on 10-year Government of India security on stock exchanges wherein it was clarified that the following position limits in IRF shall be applicable for mutual fund and scheme levels:

Mutual funds shall have position limits as applicable to trading members presently.

Mutual funds schemes shall have position limits as applicable to clients presently.

### D. Modification to Index Based Market-wide Circuit Breaker Mechanism of Stock Exchanges

With a view to further strengthening the mechanism of index based market-wide circuit breaker implemented by stock exchanges, the following directions were issued to NSE and BSE:

- a. To compute market-wide index (Nifty and Sensex) after every trade in the index constituent stocks and to check for breach of market-wide circuit breaker limits after every such computation of the market-wide index.
- b. In the event of a breach of the market-wide circuit breaker limit, matching of orders to be stopped in order to bring about a trading halt. All unmatched orders present in the system are to be purged by the stock exchange.
- c. To give higher priority to messages related to market-wide index circuit breakers over other messages.
- d. Further, the systems (including the network) for computation of a market-wide index, checking for breach of circuit breaker limits and initiating a message to stop matching of executable order and acceptance of fresh orders are not to be used for any other purposes.

#### **Box 1.4: Making Markets: Safe, Fast, Efficient, Simple and Clear**

In recent years, securities markets have deepened with a slew of initiatives and simplified norms. Simplification and streamlining of various processes has created a conducive environment for stakeholders in securities markets. Simultaneously, the market micro-structure has undergone many changes with the underlying objective of making the market more accessible, transparent and efficient. The key developments here include the world's best practices across various segments being adapted to India with the objective of making markets more open and efficient.

SEBI introduced the e-IPO facility to submit application forms for public issues as an additional mode for investors to submit applications using the nation-wide stockbroker network of stock exchanges and where there is a presence of the brokers' terminals (broker centre), who may not be the syndicate or sub-syndicate members in an issue. It is also intended to reduce the timeline for listing of shares to 2-3 days as against 12 days. The mechanism is aimed at simplifying the IPO process and cutting costs while meeting its objective of reaching more and more retail investors. Further, with a view to encouraging retail participation in OFS, enabling other large shareholders to use the OFS mechanism and expanding the universe of companies to use OFS, the OFS framework was modified and made available to the top 200 companies by market capitalisation in any of the last four completed quarters where non-promoter shareholder of eligible companies holding at least 10 percent of the share capital were also allowed to offer shares through the OFS mechanism with a minimum 10 percent of the offer size reserved for retail investors. Sellers were permitted to offer discount to retail investors and also an option to retail investors to place their bids at cut-off prices in addition to placing price bids.

To aid companies with high growth potential in raising capital, SEBI set up a separate dedicated platform for the listing and trading of SME securities in 2012-13. This platform is for small and medium sized companies whose post-issue paid up capital is less than or equal to ₹ 25 crore. In addition, SEBI has also introduced the institutional trading platform (ITP), enabling start-ups and SMEs to list on the SME platform without having to make an IPO while informed investors can find suitable companies to invest in. The possible eligibility route includes a minimum investment of ₹ 50 lakh in the equity of the company by registered VCFs, AIFs, merchant bankers, etc. Companies seeking to list on this platform should not be older than 10 years or having revenues more than ₹ 100 crore or a paid up capital of more than ₹ 25 crore.

To enable mutual fund distributors to leverage the stock exchange platform so as to improve their reach, on October 4, 2013 SEBI allowed mutual fund distributors to use the infrastructure of recognised stock exchanges to purchase and redeem mutual fund units directly from mutual funds/AMCs on behalf of their clients. In order to broad base the reach of this platform on December 9, 2014, SEBI decided to permit non-demat transactions also in mutual fund transactions through the stock exchange platform.

SEBI has prescribed norms for the Core Settlement Guarantee Fund (Core SGF), Default Waterfall and Stress Testing which will bring greater clarity and uniformity and also align them with international best practices while enhancing the robustness of the present risk management system in clearing corporations to enable them to deal with defaults of clearing members much more effectively. This is achieved by creating a core fund, Core SGF, within SGF, against which no exposure is given and which is available for meeting settlement defaults by clearing members. Norms for contributions to the Core SGF as well as Default Waterfall have been specified with a view that all the stakeholders (clearing members, stock exchanges and clearing members) are incentivised to adequately monitor the risks brought into the system.

As interest rate futures have become a fundamental risk management tool for financial markets worldwide, after consultation with RBI and taking into account feedback from market participants, on December 5, 2013 SEBI permitted stock exchanges to introduce cash settled interest rate futures on a 10-year GoI security. SEBI has also permitted NSE to introduce derivatives on India VIX, which is India's first volatility index and is a key measure of market expectations of near-term volatility. India VIX indicates investors' perceptions of the market's volatility in the near term. It enables participants to hedge, trade and arbitrage the expected volatility more easily. SEBI has also specified disclosures and other requirements in offer documents for issue of structured products/market linked debentures that seek listing on stock exchanges as such securities differ from plain debt securities or debt securities issued with embedded call or put options, that is, by offering market linked returns obtained through exposures on exchange traded derivatives.

Easing the operational requirements in registration of intermediaries, SEBI allowed a single registration process for stock brokers and clearing entities that allows them to operate across stock exchanges. The new requirements will ease the cost burden and also avoid duplication of the registration process. For a registered entity, trading in other segments will also be easy as now a direct exchange/clearing corporation approval may be sought. SEBI has also put in place a one-time single registration process for depository participants to operate at both the depositories. To enable two-way information sharing between debenture trustees and credit rating agencies (CRAs), SEBI allowed debenture trustees to seek information from CRAs making it easier for both the intermediaries to effectively perform their functions.

In order to enable easy understanding by investors, standardisation of rating symbols and definitions used by CRAs has been done. SEBI has decentralised the process of filing draft offer documents with issues upto ₹ 100 crore. These are now to be filed with SEBI's concerned regional office under the jurisdiction of which the registered office of the issuer company falls. The supervisory and monitoring roles of the depositories and their participants were strengthened with respect to the issuance and processing of delivery instruction slips (DIS). The depositories had to put in place measures to ensure standardisation, monitoring and scanning of DIS to safeguard the interests of investors. Further, making the transmission of securities efficient and investor friendly in both the dematerialised and physical modes, SEBI has also simplified the procedure for transfer of securities from the account of a deceased person and raised the threshold limit for such transactions in demat format to ₹ 5 lakh.

SEBI has enabled a single consolidated view of all the investments of an investor in mutual funds and securities held in demat form with the depositories. With a view to simplifying and rationalizing the account opening process, SEBI reviewed, consolidated and updated all the documents/requirements while devising a uniform documentation to be followed by all stock brokers/trading members. Similarly, to make the KYC process easier for investors, SEBI notified a set of norms that allow entities such as brokers and mutual funds to get details from centralised KYC agencies rather than carrying out fresh KYC verification procedures. SEBI prescribed the base minimum capital deposit for members holding registration as 'trading members' in any derivative segment which will be enhanced for members holding registration as 'stock-brokers' in the cash segment to be commensurate with the risks, other than market risks, that a broker may bring to the system.

SEBI (Foreign Portfolio Investors) Regulations, 2014 were notified and made effective from June 2014. Existing FIIs and QFIs were merged into one category called FPI. The regime hence simplified investment and registration norms for foreign investors and has made Indian securities markets more attractive for foreign investors.

SEBI notified the SEBI (Real Estate Investment trusts) Regulations, 2014 and SEBI (Infrastructure Investment trusts) Regulations, 2014 for providing a framework for registration and regulation of REITs and InvITs in India. REITs/ InvITs are mutual fund like institutions that enable investments in the real estate/infrastructure sector by pooling small sums of money from multiple individual investors for directly investing in real estate properties so as to return a portion of the income (after deducting expenditures) to unit holders of REITs/InvITs who pooled in the money. REITs provide a highly liquid method of investment in real estate to all kind of investors.

With a view to achieving wider financial inclusion, encouraging holding of demat accounts and reducing the cost of maintaining securities in demat accounts for retail individual investors, SEBI provided for all DPs to make available a BSDA with limited services and reduced costs. With respect to purchase of units in equity and income/debt oriented schemes (other than liquid schemes) for an amount equal to or more than ₹ 2 lakh, irrespective of the time of receipt of application, the closing NAV of the day on which the funds are available for utilisation shall be applicable. This will ensure fair treatment being meted out to all investors of mutual fund schemes.

**E. Expansion of Offer for Sale (OFS) of Equity Framework through Stock Exchange Mechanism**

With a view to encouraging retail participation in OFS, enable other large shareholders to use the OFS mechanism and expanding the universe of companies to use OFS, an OFS framework was modified as:

- a. The OFS mechanism was made available to the top 200 companies by market capitalisation in any of the last four completed quarters.
- b. Non-promoter shareholders of eligible companies holding at least 10 percent of the share capital were also allowed to offer shares through the OFS mechanism.
- c. Minimum 10 percent of the offer size is to be reserved for retail investors. For this purpose, a retail investor shall mean an individual investor who places bids for shares of total value of not more than ₹ 2 lakh aggregated across the exchanges.
- d. Sellers were permitted to offer discounts to retail investors.
- e. Sellers were permitted to give an option to retail investors to place their bids at a cut-off price in addition to placing price bids.

**F. Review of the Securities Lending and Borrowing (SLB) Framework**

Based on the representations received from market participants, the requirement of agreement between clearing member and client for the purpose of lending and borrowing of securities was replaced with the requirement of a right and obligations document of CMs and clients for the purpose of facilitating lending and borrowing of securities.

**G. Review of Guidelines of the Liquidity Enhancement Scheme (LES) in the Equity Cash and Equity Derivatives Segments**

Based on the experience of stock exchanges in offering LES in the equity cash and equity derivatives segments and based on the discussions held in the Secondary Market Advisory Committee, the framework for providing LES was revised.

**H. Modification of Client Codes of Non-Institutional Trades Executed on Stock Exchanges (All Segments)**

Based on the representations received from stock brokers and stock exchanges to review the penalty structure for client code modifications of non-institutional trades, stock exchanges were permitted to waive penalty for client code modification in cases where the stock broker is able to produce evidence to the satisfaction of the stock exchange to establish that the modification was on account of a genuine error. However, stock exchanges were directed not to give more than one such waiver per quarter to a stock broker for modification in a client code. Proprietary trades were not allowed to be modified as client trade and vice versa.

**I. Modification to Investor Protection Fund (IPF)/Customer Protection Fund (CPF) Guidelines**

Based on the representations received from the stock exchanges and the recommendations of the SMAC, the guidelines for the IPF/CPF at stock exchanges were modified relating to eligible claims arising within three years from the date of expiry of the specified period.

**J. Risk Management Policy at the Depositories**

Based on the recommendation of DSRC, the depositories were advised to establish a comprehensive and well-documented risk management framework on the basis of the following:

- a. An integrated and comprehensive view of risks to the depository including those emanating from participants, participants' clients and third parties to whom activities are outsourced etc.;
- b. Listing all relevant risks, including technological, legal, operational, custody and general business risks and the ways and means to address them;
- c. The systems, policies and procedures to identify, assess, monitor and manage the risks that arise in or are borne by the depository ;
- d. The depository's risk-tolerance policy; and

- e. Responsibilities and accountability for risk decisions and decision making processes in crises and emergencies.

The depositories were also advised to appoint a risk management group/committee which shall be headed by a chief risk officer.

#### **K. Consolidated Account Statement (CAS) for all Securities Assets**

Pursuant to the interim Budget announcement in 2014 of creating one record for all financial assets of every individual, directions for the CAS were issued to enable a single consolidated view of all the investments of an investor in mutual funds (MFs) and securities held in demat form with the depositories. The main features of CAS are:

- a. Consolidation of account statement is done on the basis of PAN and CAS is dispatched on a monthly basis. Depositories were made responsible for the timely dispatch of demat account information and CAS to investors serviced by them.
- b. CAS was implemented from March 2015 with respect to the transactions carried out during February 2015.
- c. AMCs/RTAs were made responsible for sharing the requisite information with the depositories on a monthly basis to enable generation of CAS. Depositories were made responsible for generating and dispatching of single CAS for investors having mutual fund investments and holding demat accounts.

Depositories and AMCs/MF-RTAs were advised to implement a grievance redressal mechanism and to ensure data integrity and confidentiality with respect to the shared information.

#### **L. Dispatch of Physical Statements to Beneficial Owners (BOs) having Zero Balance and Nil Transactions**

The guidelines for sending one annual physical statement of holding to BOs having zero balance and nil transaction under the facility of the basic services demat account (BSDA) were modified and DPs were directed to send at least one annual physical statement of holding and discontinue sending physical statements after informing the BO if the

account continues to remain zero balance even after one year. For services to regular accounts, DPs were directed to discontinue the dispatch of the physical statement if no annual maintenance charges are paid by the BOs.

#### **M. Secondary Market Advisory Committee (SMAC)**

The Secondary Market Advisory Committee (SMAC) is chaired by Professor Jayanth R. Varma, Professor, at IIM Ahmedabad. SMAC was constituted to review developments in the secondary market and to recommend measures for changes and improvements in the market structure and for improving market safety, efficiency, transparency and integrity, etc. During the last financial year, SMAC was consulted on matters such as measures for rationalisation of LES, IPF/CPF guidelines, modification of the system of index based market-wide circuit breaker mechanism, review of the SLB framework, etc.

#### **N. Technical Advisory Committee (TAC)**

Technological advances in securities markets have necessitated the setting up of a forum for discussing technical issues related to securities markets. In view of this, a TAC comprising of technological experts was set up as an advisory committee of SEBI to take informed decisions as far as technology is concerned in areas that may have a bearing on the functioning of securities markets. TAC was consulted on matters related to cyber security for FMIs, capacity planning for stock exchanges, clearing corporations and depositories, technical issues pertaining to BCP-DR, etc., so as to keep pace with technological advancements and to frame appropriate policies.

#### **O. Depository System Review Committee (DSRC)**

SEBI constituted an expert committee, the DSRC under the Chairmanship of Mr M. Balachandran (Chairman, National Payments Corporation of India and former CMD of Bank of India) with Professor H. Krishnamurthy (IISc Bangalore), Mr R.S. Loona (Ex-ED SEBI) and Professor Vikram Kuriyan (ISB) as members to undertake a comprehensive review of the Indian depository system and to benchmark it against global best practices.

The committee inter-alia reviewed and assessed the depository system on the basis of CPSS-IOSCO principles so as to benchmark it with global best practices and suggest areas for improvement. The committee gave its interim recommendations in the area of IT governance and the oversight and inspection framework which were accepted and implemented by SEBI.

The committee submitted its final report to SEBI in August 2014. The recommendations of the committee in the final report inter-alia were on risk management, financial inclusion and expanding the reach of depository services, IPF of the depositories, outsourcing policy and IT Infrastructure. The board in its meeting on November 19, 2014 accepted the recommendations given in the final report after deliberations.

#### **P. Sub-group on Regulating Index Providers in India**

Based on the recommendations of SMAC, a sub-group was constituted to frame a code of conduct for index providers in order to: mitigate concerns of misuse of information associated with rebalancing/reconstitution of indices; to provide for a greater level of disclosures and transparency regarding stocks moving in and out of indices; and to provide a broad framework to be followed by the index providers while managing/maintaining indices and licensing indices or products based on indices in foreign jurisdictions.

### **III. MUTUAL FUNDS**

The Indian mutual fund industry is one of the fastest growing segments of the financial sector. Buoyed by robust capital inflows and strong participation of retail investors, the asset base of the mutual fund industry reached all-time highs during 2014-15. On its part, SEBI initiated regulatory reforms like introducing seed capital and increasing the limit on cash transactions for the development and growth of the industry. The policies initiated for the mutual fund segment during 2014-15 are:

#### **A. Increase in Minimum Net Worth Requirement**

SEBI has increased the networth requirement for asset management companies (AMCs) to

launch and manage new schemes from ₹ 10 crore to ₹ 50 crore. Mutual funds specializing only in infrastructure debt funds (IDFs) have been exempt from this increase. SEBI-registered AMCs which presently have a net worth less than ₹ 50 crore have been given a three-year time frame to achieve the same. Till the net worth is raised to ₹ 50 crore, only two new schemes per year shall be allowed to be launched by such AMCs, provided the board is satisfied that the concerned AMC is taking necessary steps to meet the networth requirement within the specified time period.

#### **B. Introduction of Seed Capital**

The concept of seed capital was introduced for mutual fund schemes. As per this concept, one percent of the amount raised (subject to a maximum of ₹ 50 lakh) is to be invested by AMCs in all open ended schemes in the growth option of the scheme and such investments shall not be redeemed unless the scheme is wound up during its lifetime. A time period of one year from the date of notification of these regulations has been given for compliance with existing schemes.

#### **C. Minimum Assets Under Management (AUM) prescribed for Debt Oriented Schemes**

SEBI has mandated that:

- a. The minimum subscription amount for debt-oriented and balanced schemes shall be at least ₹ 20 crore and for other schemes it shall be at least ₹ 10 crore at the time of the new fund offer.
- b. Further, open ended debt-oriented schemes have been mandated to maintain a minimum average AUM of ₹ 20 crore on a half-yearly rolling basis.
- c. The existing open ended debt-oriented schemes which do not comply with these requirements have been given a time frame of one year to scale up their AUMs after which the trustees will have to take a view whether to merge or wind up such schemes if AMCs are unable to scale up their AUMs.

### Box 1.5: Re-Energizing the Asset Management Industry

Globally, asset management companies have facilitated financial intermediation. They help investors to diversify their assets more easily and can provide financing to the real economy besides providing financial stability. As per the latest IMF report, 'In recent years, credit intermediation has been shifting from the banking to the nonbank sector, including the asset management industry.'

The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector. As of March 31, 2015, total AUM stood at ₹ 10,82,757 crore. The actual average growth of AUM for the last four years was 17 percent, which was much higher than the growth in other countries (Table 1).

**Table 1: Trend in Equity Inflows / AUM**

Year	Gross inflow (in ₹ crore)	Net inflow (in ₹ crore)	AUM (in ₹ crore)
2010-11	66,592	(13,138)	1,95,322
2011-12	50,619	121	1,82,076
2012-13	43,364	(14,587)	1,72,508
2013-14	46,093	(9,269)	1,91,107
2014-15	1,48,171	71,030	3,45,139

The AUM of equity schemes increased to ₹ 3.45 lakh crore in 2014-15 from ₹ 1.95 lakh crore in 2010-11. Further, in the last five years, there were net outflows during three financial years while there was a net inflow of ₹ 71,000 crore during the current financial year in equity schemes.

Though mutual funds have seen overall growth in the last 10 years, they have faced a significant challenge with respect to penetration into new markets and increase in the number of investors. Urgency was felt for scaling up mutual funds beyond Tier I cities besides retaining existing customers. In this light, SEBI implemented a two-pronged approach: increasing awareness among investors and improving accessibility of mutual fund products. Hence, SEBI directed mutual funds/AMCs to annually set apart at least two basis points on daily net assets within the maximum limit of TER for investor education and awareness initiatives. In order to improve the geographical reach of mutual funds and bring in long term money from smaller towns, AMCs were allowed to charge additional TER if the new inflows from beyond the top 15 cities were at least within specified limits. While these efforts will go a long way in enhancing the reach of mutual funds, SEBI further made available to the public printed literature on MFs in regional languages in consonance with its broader investor education initiatives. Mutual funds were also encouraged to introduce investor awareness campaigns, both in print and electronic media and in regional languages.

In improving the accessibility of mutual fund products, the role of a distributor assumes importance as this is the touch point between mutual funds and investors and it is critical that distributors undertake efforts to educate investors and increase their awareness levels. In order to energise the distribution system and to increase the 'feet-on-street' in distribution, a new cadre of distributors was enabled by including postal agents, retired officials from government, banks, retired teachers etc. with NISM certification for distribution of simple products. The distributors were also allowed to leverage the stock exchange platform so as to improve their reach by allowing them to purchase/redeem mutual fund units directly from AMCs through stock exchanges. They were also permitted non-demat transactions.

In spite of SEBI's best efforts there have been recurrent episodes of mis-selling in the markets. To give a better understanding about a product/scheme and the suitability of the investment, 'Product Labelling in Mutual Funds' has been introduced. In addition, mis-selling has been included as a 'fraudulent and unfair trade practice' as per SEBI (FUTP) Regulations and a system of identifying actual sales personnel of distributors has been implemented. In order to encourage long term holdings and to reducing churn, it has been mandated that entire exit loads will be credited to the scheme and additional TER on account of inflows from beyond the top 15 cities charged would be clawed back in case the investment is redeemed within a period of one year from the date of investment.

SEBI reviewed the valuation norms for money and debt funds and redefined the principles of fair valuation, that is, valuation shall be reflective of the realizable value of the securities/assets. The objective of fair valuation is to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds in all schemes at all points of time.

In order to enable investors to take informed decisions, SEBI has continuously increased transparency and disclosure norms of mutual funds. Transparency was furthered when mutual funds were mandated to disclose monthly average AUM of various scheme categories and various investor types. Mutual funds were also mandated to disclose contribution to monthly average AUM from B-15 and T-15 cities, from sponsors and their associates and others, alongwith data on state-wise/union territory-wise monthly average AUM and monthly average AUM garnered through sponsor group/non-sponsor group distributors.

As a class of domestic institutional investors, mutual funds play an important role in ensuring corporate governance in listed companies. To increase transparency and encourage mutual funds to diligently exercise their voting rights in the best interest of unitholders they are required to disclose voting data along with rationale supporting the decision on a quarterly basis on their websites.

While enabling regulatory frameworks are being put in place continuously, SEBI has also widened the scope of the industry by allowing enhanced participation of larger categories of investors and introducing innovative product-mixes. To attract foreign funds for the financing of infrastructure, SEBI (Mutual Funds) Regulations were amended to increase the investment universe of IDFs, permitting private placement as an alternative to new fund offers for IDFs, increasing the IDF-NFO period up to 45 days and permitting extension of the original tenure of the IDF Scheme by up to two years. Regulatory frameworks for setting up and listing of REITs and InvITs on stock exchanges opens the way for fresh investments in the real estate and infrastructure sectors. Gold ETFs floated by mutual funds have been allowed to invest in the gold deposit schemes of banks to the extent of 20 percent of the total AUM of such schemes.

While all these reforms have invigorated and energised the mutual fund industry, the potential for the future is much larger. There is immense scope for unprecedented growth of the industry with the support from innovative technological initiatives and broadened investor participation over time.

*Source: IMF report on 'The Asset Management Industry and Financial Stability'.*

#### **D. Investment/Trading in Securities by Employees of AMCs and Trustees of Mutual Funds**

Transactions in liquid schemes by employees of AMCs and trustees of mutual funds have been exempted from the requirement of employees reporting to compliance officers within seven calendar days from the date of transaction.

#### **E. Cash Investments in Mutual Funds**

The limit on cash transactions in mutual funds has been increased to ₹ 50,000 per investor, per mutual fund, per financial year subject to compliance with applicable PMLA and AML rules.

#### **F. Advisory Committee on Mutual Funds (MFAC)**

MFAC comprises of industry representatives, investor associations, government representatives and other stakeholders. The committee provides a platform for interaction and deliberation on issues related to the mutual fund industry. It acts as a platform for SEBI to place its various regulatory development activities. At the same time the industry places its agenda before SEBI for further

consideration on this platform. During financial year 2014-15, the committee under the Chairmanship of Shri Janki Ballabh, former Chairman of the State Bank of India, met on December 22, 2014 and gave its recommendations on various policy issues concerning the mutual fund industry.

#### **IV. INTERMEDIARIES ASSOCIATED WITH SECURITIES MARKET**

A large number of intermediaries providing diverse services operate in the Indian securities markets. SEBI regulates the conduct of these intermediaries and also ensures high service standards from them as they are responsible for protecting the interests of investors. The process for streamlining market intermediaries amidst increased levels of accountability and transparency continued during 2014-15 as well. To further simplify registration requirements for intermediaries, a policy of granting a single registration to stock brokers/clearing members and depository participants was introduced. With the prime objective of developing fair market practices and further strengthening of the compliance mechanism, the following policy reforms were implemented during the year:

### **A. Single Registration to Stock Brokers/ Clearing Members**

With a view to further simplifying the registration requirements for stock brokers/clearing members, the board in its meeting on August 10, 2014 approved single registration for stock brokers/clearing members for operating in all stock exchanges/clearing corporations.

Accordingly, an initial certificate of registration as stock broker/clearing member shall be granted by SEBI and subsequent permissions for operation in other stock exchanges/clearing corporations shall be granted by the respective stock exchange/clearing corporation after following the procedure prescribed by the board.

The amendment to the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 in this regard was notified on October 8, 2014.

### **B. Single Registration to Depository Participants**

With a view to further simplifying registration requirements for depository participants (DPs) and for reducing the regulatory burden and saving cost and time, SEBI approved the policy of granting a single registration to an entity making an application for initial or permanent registration for operating with both the depositories. As per the new policy, SEBI will process the registration application only for the first time whether for initial or permanent registration, as the case may be, through one depository and subsequent permissions to act as a participant of the other depository shall be granted by the concerned depository after complying with the prescribed requirements. The amendment to the SEBI (Depositories and Participants) Regulations, 1996 in this regard was notified on December 24, 2014.

### **C. Review of Certification Examinations**

Based on representations received from market participants, SEBI has clarified that the requirement of certification examination for employees of stock brokers and depository participants doing basic elementary/clerical level work and whose work is supervised by a certified personnel is optional. Further, with a view to removing the difficulties faced by approved users and sales personnel of stock brokers in giving three separate certification examinations in currency, interest rate and equity derivatives segments,

SEBI introduced a common derivatives examination on March 10, 2015 as an optional examination for approved users and sales personnel operating across the three derivatives segments.

### **D. Limited Liability Partnerships Allowed to Become Sub-Brokers**

SEBI has informed the stock exchanges about a clarification regarding admission of limited liability partnerships as sub-brokers. In this regard, it was clarified that a limited liability partnership is eligible to be registered as a sub-broker under Regulation 11A (5) (ii) of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992, subject to the condition that the partners comply with the other requirements specified in the regulations, as applicable.

### **E. Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)**

The Department of Revenue, Ministry of Finance (DoR-MoF) has formed a working group with participants from the Government of India – the Ministry of Finance, Department of Revenue, Department of Economic Affairs, Department of Financial Services, Department of Legal Affairs, RBI and SEBI to discuss the modalities for formulating rules/guidelines for reporting of information by financial institutions under CRS under automatic exchange of information and under the proposed inter-governmental agreement for the purposes of the Foreign Accounts and Tax Compliance Act of USA (FATCA).

Final regulations in this regard are awaited from DoR-MoF. Further, DoR-MoF had given its advice on registration for Indian financial institutions with US revenue authorities. Based upon this advice, SEBI issued clarifications on matters relating to registration with US-Internal Revenue Service to get a global intermediary identification number under FATCA.

### **E. Inclusion of 'ISIN' Details in the Bills/ Contract Notes / Statements Issued by Stock Brokers to their Clients**

The stock exchanges have been advised to take necessary steps to ensure that 'ISIN' details of the securities are included in the bills/contract notes/statements issued by stock brokers to their clients in the cash segment by June 30, 2015.

### **Box 1.6: Enhancing Risk Governance and Strengthening Supervision**

SEBI has been playing a dominant role in ensuring a robust risk management framework across market infrastructure institutions and in introducing policies that strengthen the supervision of market players.

In order to improve existing supervisory mechanisms, a risk based supervision task force was set up and assigned the task of understanding the objective of supervision for each class of SEBI registered intermediaries so as to identify and define various risk metrics, both quantitative and qualitative to explore and lay down the methodology for assigning ratings of various risk metrics. The task force studied both the risk-based supervision framework in other jurisdictions and the framework adopted in India. It sought comments from market participants and accordingly finalised its report. The report seeks to provide necessary guidance to supervisory divisions to formulate their policies for supervision and inspection in the future. The approach recommended providing a combination of onsite and offsite monitoring of the intermediaries by SEBI and SROs. The entities falling in the high risk group are subjected to stricter monitoring (offsite) and comprehensive inspections. Thematic inspections, as a supervisory tool, are to be utilised for specific purposes such as verifying compliance with recently issued regulatory requirements on references received from departments within SEBI, regulatory bodies, etc. or where a focused review of assessing compliance in a particular area of operations is needed.

To maintain consistency and uniformity of approach by stock exchanges for taking action against listed entities for non-compliance with certain important listing conditions, SEBI prescribed the standard operating procedure for suspension and revocation of suspension of trading in the shares.

With a view to streamlining and strengthening the process of testing software used in or related to trading and risk management, the process of testing involves testing in a simulated test environment provided by the stock exchange, mock testing in close-to-real trading environment, a UAT by the stock broker and submission of a system audit report to the stock exchange. In view of the risk caused by the inability on the part of software vendors to provide software or related services in a timely and continuous manner, it was suggested that stock exchanges may advise stock brokers to consider exploring the possibility of establishing a 'software escrow arrangement' with their existing software vendors.

## **V. FOREIGN PORTFOLIO INVESTMENT**

SEBI notified the Foreign Portfolio Investors (FPIs) Regulations which became effective from June 1, 2014. Easier entry norms and an operational framework for foreign entities in the new FPI regime have made the Indian market a more attractive investment destination. During the year, SEBI issued details regarding the risk management framework for further development of the FPI regime. Subsequently, FPIs were also allowed to participate in the exchange traded currency derivatives segment. Major policy changes made during 2014-15 for bolstering the FPI segment are:

### **A. Foreign Portfolio Investor (FPI) Regime**

#### **a. No Direct Registration with SEBI**

No direct registration with SEBI is required. SEBI authorised designated depository participants (DDPs) grant registration to eligible applicants as FPIs on behalf of SEBI.

#### **b. Uniform Eligibility Criteria**

A uniform eligibility criterion is prescribed for all types of investors, including Category III investors (which includes foreign individuals and foreign corporates).

#### **c. No Requirement of being Broad Based or Regulated**

Funds which are unregulated and not broad based are eligible to register as Category III FPIs.

#### **d. No Requirement to Register Clients as Broad Based FPIs**

Investment managers/investment advisors are not required to mandatorily register their clients as broad based FPIs.

#### **e. Sharing of KYC Documents with Banks**

DDPs can share relevant KYC documents of FPIs with the banks concerned based on written authorisation from the FPIs. This will avoid duplication of KYC for FPI.

---

**f. Know Your Client Requirements for Foreign Portfolio Investors**

- i. SEBI modified the KYC norms for eligible foreign investors investing under the Portfolio Investment Scheme (PIS) route. Accordingly, FPIs have been classified into three categories: Category I, II and III. The approach to KYC has been made risk based where the documentary requirements are the simplest for Category I and the most stringent for Category III.
- ii. RBI has also issued a circular on risk based KYC for FPIs. With this, SEBI and RBI's FPI KYC documentation requirements have been aligned.
- iii. SEBI has allowed DDPs to share relevant KYC documents of FPIs with the banks concerned based on written authorisation from the FPIs. As per the KYC regulation amendment 2014, the KRA system shall be accessible by entities regulated by other financial services regulator.

**B. Risk Management Framework for FPIs under the SEBI (Foreign Portfolio Investors) Regulations, 2014**

Pursuant to FPI Regulations, 2014 notification, details regarding margining of FPIs' trades in Category I, II and III have been issued. Category I and II FPIs were given position limits as available to FIIs and Category III FPIs were given position limits as applicable to the clients. Details regarding facility for allocation of trades of a FPI to other FPIs have also been issued.

**C. Permitting FPIs to Participate in the Exchange Traded Currency Derivatives Segment**

Pursuant to the announcement by the Hon'ble Finance Minister in his Budget 2013-2014 speech, FPIs were permitted to participate in the currency derivatives segment of a recognised stock exchange in consultation with RBI, subject to the following terms and conditions:

- a. Position limits for FPI-I/FPI-II: Gross open positions for trading members across all contracts not to exceed 15 percent of the total

open interest or USD 100 million, whichever is higher.

- b. FPIs allowed to take long as well as short positions in permitted currency pairs upto USD 10 million per stock exchange without having to establish the existence of any underlying exposure.
- c. FPIs directed to ensure that their short positions in a stock exchange across all contracts in a permitted currency pair do not exceed USD 10 million.
- d. To take long positions in the permitted currency pair in excess of USD 10 million FPIs are required to have an underlying exposure in Indian debt or equity securities, including units of equity/debt mutual funds.

**D. Revision in the Position Limits for Exchange Traded Currency Derivatives Segment**

Position limits in the permitted currency pairs per exchange were revised as follows:

- a. **Client/FPI-III:** Gross open positions of the client across all contracts not to exceed 6 percent of the total open interest or USD 10 million, whichever is higher.
- b. **Proprietary positions of a non-bank stock broker:** Gross open proprietary positions of a non-bank broker across all contracts not to exceed 15 percent of the total open interest or USD 50 million, whichever is higher.
- c. **Trading member/FPI-I/FPI-II/domestic institutional investors:** Gross open positions of a trading member across all contracts not to exceed 15 percent of the total open interest or USD 100 million, as applicable, whichever is higher.

Further domestic clients were permitted to take long or short positions in the permitted currency pairs upto USD 10 million per stock exchange without having to establish the existence of any underlying exposure. To take positions in the permitted currency pairs in excess of USD 10 million, establishing the existence of an underlying exposure was made mandatory.

### **E. Restriction on Investments in Government Debt Securities**

With effect from April 7, 2014, FPIs have been permitted to invest only in dated government securities having residual maturity of one year or above. FPIs have been prohibited from making further investments in T-Bills.

### **F. Permitting FPIs to Invest in Non-Convertible/Redeemable Preference Shares or Debentures of Indian Companies**

With effect from June 12, 2014, FPIs have been permitted to invest on repatriation basis in non-convertible/redeemable preference shares or debentures issued by an Indian company and listed on recognised stock exchanges in India. Investments by FPIs in these securities shall be reckoned against the corporate debt investment limits (USD 51 billion).

### **G. Change in Residual Maturity under Government Debt Investment Limits**

With effect from July 23, 2014 the government debt limit of USD 25 billion (that is, other than the sub-limit of USD five billion for long term investors) shall be required to be invested in government bonds with a minimum residual maturity of three years.

### **H. Clarification Circular on Government Debt Investment Limits**

SEBI clarified that all investments by long term FPIs (sovereign wealth funds, multilateral agencies, endowment funds, insurance funds, pension funds and foreign central banks) in the USD five billion government debt limit shall continue to be made in government bonds having a minimum residual maturity of one year.

The guidelines for auction mechanism, which will be initiated once either the government or the corporate debt limits crossed 90 percent utilisation, were also issued.

### **I. Change in Investment Restrictions in Corporate Debt Securities**

With effect from February 3, 2015, FPIs are required to invest in corporate bonds having a minimum residual maturity of three years. Further, FPIs have been prohibited from investing in liquid and money market mutual fund schemes. Since

commercial papers are short term instruments having maturities of less than one year, FPIs have also been prohibited from investing in them.

### **J. Change in Investment Conditions in Government Debt Securities**

With effect from February 5, 2015, FPIs have been permitted to invest in government securities and in coupons received on their investments in government securities. Such investments shall be kept outside the applicable limit (currently USD 30 billion) for investments by FPIs in government securities.

### **K. Conditions for Issuance of Offshore Derivative Instruments (ODIs)**

SEBI has aligned applicable eligibility and investment norms between the FPI regime and subscription through the ODI route. FPIs shall issue ODIs only to those subscribers who meet the eligibility criteria as laid down in Regulation 4 of the FPI Regulations, 2014.

Further, FPIs shall issue ODIs only to those subscribers who do not have opaque structure(s) as defined under Explanation 1 of Regulation 32(1)(f) of FPI Regulations, 2014.

Investment restrictions applicable to FPIs under Regulation 21(7) of FPI Regulations, 2014 have been made applicable to ODI subscribers. Two or more ODI subscribers having a common beneficial owner (BO) shall be considered together as a single ODI subscriber in the same manner as is being done in the case of FPIs. Where an investor has investments as a FPI and also holds positions as an ODI subscriber, these investment restrictions shall apply on the aggregate of FPI investments and ODI positions held in the underlying Indian company. In other words, investments as a FPI and positions held as an ODI subscriber will be clubbed together with reference to the said investment restrictions.

## **VI. CORPORATE DEBT MARKET**

Developing corporate debt markets is essential for India's infrastructural financing needs and for the development of an alternative financing mechanism for corporates. Through various policy measures, SEBI endeavours to spur and nurture the market and encourage issuers and investors. A regulatory framework on 'Security based Crowdfunding' in

---

India was proposed by SEBI in 2014-15 through a consultation paper. The paper provides for access to capital markets for start-ups and SMEs for their early stage funding needs and intends to balance this with investor protection. The potential of the market can be realised on the back of policy and regulatory reforms accompanied by initiatives to increase retail investor participation. The following section gives details of the measures taken in the corporate debt segment in 2014-15.

#### **A. Disclosure of Minimum Subscription Amount**

SEBI has made it mandatory for the issuers of debt securities to disclose the minimum subscription amount with respect to public issue of debt issuances in the offer document and this is specified at 75 percent. If the issuer does not receive minimum subscription of its base issue size (75 percent), then the entire application monies shall be refunded within 12 days from the date of the closure of the issue. In case there is a delay by the issuer in making the refund, then the issuer shall refund the subscription amount along with interest at the rate of 15 percent per annum for the delayed period.

SEBI has provided that the entities coming out with public issues of NCDs shall provide granular disclosures in their offer documents with regard to the 'object of the issue' including the percentage of the issue proceeds earmarked for each 'object of the issue. Further, the amount earmarked for 'general corporate purposes' shall not exceed 25 percent of the amount raised by the issuer in the proposed issue.

Issuers coming out with public issues of NCDs need to make disclosures in accordance with disclosure requirements as specified in Schedule II to Companies Act, 1956 and disclosure requirements as specified in Schedule I of ILDS Regulations, 2008. Since Companies Act, 1956 required detailed disclosures, these have not been repeated in ILDS Regulations, 2008. However, it has now been mandated that the issuers shall make additional disclosures not provided for in the Companies Act, 2013. Some of these additional disclosures pertain to provisions relating to fictitious applications, reservation in issues and utilisation details regarding previous issues.

It is understood that NBFCs are the most frequent users of the debt channel and most of the NBFCs utilise the issue proceeds for onward lending. In view of this, NBFCs shall have to disclose in their offer documents details with regard to the lending done by them out of the issue proceeds of previous public issues. This will keep the investors informed about the application/usage of the money borrowed from them by NBFCs.

#### **B. Amendments to the SEBI (Issue and Listing of Debt Securities) Regulations, 2008**

SEBI has amended the SEBI (Issue and Listing of Debt Securities) Regulations, 2008 vide notification dated March 24, 2015 to provide enabling provisions for 'consolidation and re-issuance of debt securities' and 'right to call or redeem prior to maturity'.

#### **C. The Corporate Bonds and Securitisation Advisory Committee (CoBoSAC)**

The committee had recommended the constitution of a sub-committee for enhancing liquidity in corporate bond markets. Hence, a sub-committee, comprising of various market participants has been constituted. A few meetings of the sub-committee have been held, wherein the members' inter-alia discussed the ways to enhance liquidity in corporate bond markets. SEBI, on the recommendations of the sub-committee, has provided enabling provisions for 'consolidation and re-issuance of debt securities' in the regulations governing such issuance of debt securities. The sub-group is still in the process of having discussions with various market participants on working out ways and means that could provide an impetus to liquidity in corporate bond markets.

CoBoSAC had also recommended the constitution of a sub-committee to deliberate on appropriate disclosures that may be required to be made by NBFC for public issuance of debt securities under the ILDS Regulations, 2008. CoBoSAC has also opined that the sub-committee so constituted may also look into the aspect of prescribing a framework and appropriate disclosure norms for retail issuance of perpetual debt instruments (Additional Tier 1) by banks.

## VII. INVESTOR PROTECTION AND AWARENESS

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/intermediary and are monitored on a regular basis. SCORES has helped investors access real time status of their grievances since they can log onto SCORES at any time and from anywhere and check the status of the grievance with the help of a username and password provided to them at the time of lodging the grievance. Towards the mandate of investor protection, a major thrust during 2014-15 was on enhanced investor awareness and education and reaching out to more investors through a mass media campaign. To further accentuate retail investors' confidence in the Indian capital market, KYC norms were simplified by introducing a one-time KYC policy. This section highlights the major policy initiatives taken during the year to further enhance investor interest in securities markets.

### A. Rationalisation of the KYC Process

#### a. Rationalisation of KYC norms for eligible foreign investors

Pursuant to the report submitted by a committee set up under the Chairmanship of Shri K. M. Chandrasekhar on 'Rationalisation of Investment Routes and Monitoring of Foreign Portfolio Investments', SEBI rationalised KYC norms for eligible foreign investors investing under the portfolio investment scheme route.

Intermediaries are now required to follow risk based KYC norms depending on the category of the investors. Further, clarifications in the form of a FAQ were issued on May 23, 2014 based on representations received from market participants.

#### b. Amendment to SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011

KRA Regulations were amended on August 11, 2014 to provide for sharing of KYC information with other regulators. Entities regulated by other regulators in the financial sector may access the system of KRA for undertaking KYC of their clients who engage them for financial services.

### c. Ticker on one-time KYC

To create awareness amongst investors on the one-time KYC, SEBI has advised stock exchanges/depositories to display the following ticker on their websites:

*'KYC is one time exercise while dealing in securities markets - once KYC is done through a SEBI registered intermediary (broker, DP, Mutual Fund etc.), you need not undergo the same process again when you approach another intermediary.'*

### d. SARAL account opening form

With a view to facilitating the entry of new resident individual investors and encouraging them to participate in the cash market, including the disinvestment of PSUs through the OFS process, SEBI has prescribed that individual investors can open a trading and demat account by filling a simplified one page account opening form termed as 'SARAL AOF'.

## B. Investor grievance handling mechanism

SEBI has been taking various measures to create awareness about the investor grievance handling mechanism and the various modes available to an investor. To increase visibility of the available mechanism, SEBI has made it mandatory for all intermediaries to prominently display the contact details of the escalation levels in all their offices. The details that are required to be displayed are the contact details and email ID of the compliance officer/key management person of the intermediary, stock exchanges/depositories and SEBI.

## C. Ticker for awareness about unauthorised trades

To create investor awareness about unauthorised trades, SEBI has advised the stock exchanges, stock brokers, depositories and depository participants to display the following ticker on their respective websites:

### For stock exchanges and stock brokers:

*Attention Investors*

*Prevent Unauthorised transactions in your account  
--> Update your mobile numbers/email IDs with your stock brokers. Receive information of your transactions directly from Exchange on your mobile/email at the end of the day*

*..... Issued in the interest of investors'*

---

**For depositories and depository participants:**

*Attention Investors*

*Prevent Unauthorised Transactions in your demat account --> Update your Mobile Number with your Depository Participants. Receive alerts on your Registered Mobile for all debit and other important transactions in your demat account directly from depositories on the same day.*

*.....Issued in the interest of investors'*

**Updation of email IDs and contact details of investors**

SEBI has been taking various measures to curb unauthorised trading. One of these initiatives requires stock exchanges to send SMS and email alerts directly to investors for the transactions carried out in their accounts by the end of the trading day. In order to ensure that clients whose mobile numbers/email-IDs have not been updated in the exchange database, SEBI advised the stock exchanges to direct their members to obtain these updated details from their respective clients. Accordingly, NSE and BSE issued circulars to their members advising them to update the email-IDs and mobile numbers of their clients.

Further, depositories were advised to instruct their participants to ensure that a separate mobile number/email address was uploaded for each client. Under exceptional circumstances the participants may at the specific written request of a client, upload the same mobile number/email address for more than one client provided such clients belong to one family.

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

During 2014-15, regulatory frameworks were notified with a view to bringing in more participants under the regulatory purview, introducing new investment avenues to investors and for maintaining higher standards of governance and transparency. This section throws light on the regulations notified during 2014-15 to further widen and deepen the capital market.

**A. SEBI (Research Analysts) Regulations, 2014**

A consultative paper for the proposed Research Analyst Regulations was placed on the SEBI website

for public comments in 2013. The SEBI (Research Analysts) Regulations, 2014 were notified on September 1, 2014 and came into effect from December 1, 2014. These regulations seek to register and regulate individual research analysts and entities engaged in issuance of research reports or research analyses and/or publication of substance of research reports or those who provide research reports or who make 'buy/sell/hold' recommendations of a security or who make recommendations on public offers such as brokerage houses, merchant bankers and proxy advisors. These regulations specify requirements to foster objectivity and transparency in research and provide investors with more reliable and useful information to make informed decisions. Also, they seek to address various conflicts of interest while making research recommendations as specified in the board memorandum and in the consultation paper published on RA Regulations.

**B. Regulations on the Real Estate Investment Trust (REIT)**

SEBI (Real Estate Investment Trusts) Regulations, 2014 were notified on September 26, 2014. REITs are vehicles which enable investments in the real estate sector. A REIT in India is allowed to invest mainly in completed and revenue generating assets and other approved investments. Further, REITs will have to distribute a majority of their income among unitholders.

**C. Regulations on Infrastructure Investment Trust (InvIT)**

SEBI notified the InvIT Regulations on September 26, 2014. InvIT Regulations provide a framework for registration and regulation of infrastructure investment trusts in India. 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. InvITs, as an investment vehicle, may aid:

- i. Providing wider and long-term refinance for existing infrastructure projects.
- ii. Freeing up of current developer capital for reinvestment in new infrastructure projects.
- iii. Refinancing/takeout of existing high cost debt with long-term low-cost capital and help banks

free up/reduce loan exposure thereby creating bank headroom for new funding requirements.

#### **D. SEBI (Foreign Venture Capital Investors) Regulations, 2000**

Amendments to the SEBI (Foreign Venture Capital Investors) Regulations, 2000 were notified on December 30, 2014 allowing FVCIs to invest in a core investment company like NBFCs investing in infrastructure companies. Allowing investments by FVCIs in infrastructure core investment companies is expected to boost investments in the infrastructure sector which will have further positive spillover effects on the economy. Amendments have also been made for greater clarity and realignment of the negative list in third schedule of the Regulations.

### **IX. ASSESSMENT AND PROSPECTS**

#### **A. ASSESSMENT**

In the current financial year SEBI, as a regulator, continued to pursue its prime objective of investor assistance and investor education through various policy initiatives targeted at investor protection, market development and effective regulation. Good corporate governance standards are essential for the integrity of corporations, financial institutions and markets and they also have a bearing on the growth and stability of the economy. 'Protecting minority investors' is considered an important indicator of corporate governance. India strengthened minority investor protections by requiring greater disclosure of conflicts of interest by board members and increasing the remedies available in case of prejudicial related party transactions. According to a World Bank report, India ranked seventh globally in the attribute 'Protecting minority investors'.

SEBI is committed to fulfilling its responsibilities and ensuring compliance with the PFMIs by CCPs through regular evaluations for the level of compliance. To enhance existing supervisory mechanisms, a risk based supervision task force has been set up and assigned the task of understanding the objective of supervision for each class of SEBI registered intermediaries; to identify and define various risk metrics, both quantitative and qualitative; and to explore and lay down the methodology for assigning ratings of various risk metrics.

SEBI remained active in engaging and contributing as a key member of various international standard setting bodies and global forums in their on-going work programmes. The major international engagement continues to be with IOSCO, an international standard setting body for securities markets and with the Financial Stability Board (FSB), a body set up to promote financial sector reforms in the world. SEBI plays a key role in IOSCO committees which are responsible for IOSCO principles and standards across IOSCO membership. During the year, SEBI signed MOUs with various counterparts to facilitate mutual cooperation and ease in exchange of information.

SEBI believes in the value of consultations with all the stakeholders and has set up advisory committees in all major areas of work to advice proactively on the development and regulation of securities markets. Policy decisions are taken after consultations with the stakeholders and by disseminating policy papers for public comments. Further, agenda papers submitted to the board and their decisions are also placed on the website. During the year, consultation papers on areas like 'security based crowdfunding in India' and 'revisiting the capital raising process' were placed on the SEBI website for public comments. With a view to enhance its online presence and disseminate information about SEBI's international engagements, a special section has been hosted on the SEBI website.

During the year, SEBI was vested with additional enforcement powers vide the Securities Laws (Amendment) Act, 2014. With these additional powers, SEBI has been empowered to call for information from any person, disgorge ill-gotten gains and credit them in IPEF and conduct search and seizure operations. SEBI aims to focus on developing capabilities to effectively utilise the new powers thus helping in further streamlining the enforcement process.

The year also witnessed the launch of new investment avenues for investors with notification of appropriate regulatory framework. Regulations on REIT and InVIT were notified during the year. In addition, SEBI notified new regulations on research analysts that seek to promote objectivity and transparency in research and help investors to make

useful and informed decisions. SEBI's endeavours in setting up a credible regulatory framework were lauded by other jurisdictions as well. On the lines of REIT regulations framed by SEBI, the Securities and Exchange Commission of Sri Lanka sought technical assistance from SEBI to review its draft REITs guidelines.

Equity markets are a quintessential representation of the functioning of a market economy. Indian securities markets benchmark indices, Sensex and Nifty, registered newer peaks in 2014-15 with the Sensex closing at 27,957 on March 31, 2015, breaching the 22,000 mark touched during 2013-14. Nifty too crossed the 6,704 mark of 2013-14 and logged to a new lifetime high by closing at 8,491 at the end of March 2015. On a point-to-point basis, the Sensex registered an increase of 5,571 points over 22,386 as on March 31, 2014, while Nifty increased by 1,787 points. Further, during the year, both Sensex and Nifty registered their new highest level of 29,682 on January 29, 2015 and peak of 8,996 attained by Nifty on March 3, 2015. The turnover and market capitalisation of benchmark indices replicated an upward trend with a rise of 63.9 percent at BSE and 54.2 percent at NSE in the cash segment turnover. During the year, BSE and NSE's market capitalisation increased by 36.9 and 36.4 percent respectively.

Apart from the large volumes attained in equity markets, the Indian derivative market continued to reflect commendable growth. The equity derivatives segment has become the most traded segment in India with a total volume of ₹ 7.59 lakh crore in 2014-15, which is approximately 15 times the turnover of the cash segment in the corresponding year. Nonetheless, Indian derivatives featured in global rankings as well. The WFE report, 2014 states that on account of a 33 percent increase in the number of index options traded in India, there was an increase in volume of exchange traded derivatives traded worldwide.

In an economy with an expanding financial sector, the interest rate is a key variable that affects firms and individuals across the board. In 2013-14, exchanges were permitted to launch interest rate futures contracts on coupon bearing Government of India security as underlying helping the interest

rates derivatives segment to rise. The total turnover in this segment observed an increase of 10 times when compared to the previous year, with NSE being the major contributor followed by BSE. In the currency derivatives segment, a total turnover of ₹ 50,33,096 crore was registered in 2014-15.

In recent years, the capital raising trend has shifted towards an increased use of the private placement route by the corporate sector. Further, with effect from April 1, 2014, the reporting of secondary market transactions in corporate debt market was discontinued at FIMMDA and subsequently SEBI directed stock exchanges to report all OTC trades in corporate bonds on any one of the reporting platforms provided in the debt segment of stock exchanges. In the wake of an inactive primary market, private placements contributed the maximum share in the total resource mobilisation during the year. At BSE and NSE both the number and amount of issues raised through this increased and the total mobilisation by the corporate sector in 2014-15 stood at ₹ 4,81,001 crore. While private placement of equity, which includes preferential allotments, QIP and IPP, raised ₹ 57,362 crore, private placement of corporate bonds raised ₹ 4,04,136 crore, registering an increase of 46.4 percent.

In 2014-15, the primary market mobilised ₹ 19,502 crore through 89 issues. Resource mobilisation through the QIP and IPP route registered an increase of more than two times in 2014-15, while capital mobilisation through the OFS mechanism increased by nearly four times in the current year. In an endeavour to give further impetus to the primary market, SEBI continued to usher in a series of reforms in this year as well. To further ease the IPO process, the e-IPO facility is being introduced. E-voting rights to shareholders have made it easier for them to participate in the decision making processes of companies in which they own shares. To address the funding requirements of SMEs and to help them in expansion, SEBI in coordination with SIDBI and the stock exchanges initiated an awareness programme.

With the commencement of the FPI regime, foreign investments too strengthened reflecting the return of investor confidence in the markets. The

cumulative net investment of FPIs in Indian markets amounted to USD 226,103 million at the end of March 2015 compared to USD 180,405 million in 2013-14, showing an increase of 25.3 percent. The assets under the custody of custodians across the different asset classes stood at ₹ 61,87,619 crore as at March 31, 2015. The net resource mobilisation of the mutual funds industry rose by 92.0 percent in 2014-15 amidst new highs observed in the asset base of the industry.

SEBI's persistent efforts to promote and regulate Indian securities markets on the back of vigorous policy reforms were evident in 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 emboldened the regulatory infrastructure and reposed investor confidence.

## **B. PROSPECTS**

The world economy showed signs of moderate growth in 2014-15 with uneven prospects across various regions. It is perceived that global financial stability risks are shifting from advanced to emerging economies. Against the backdrop of the present global scenario Indian securities markets continued to evolve on the back of various policy initiatives and strengthened macroeconomic fundamentals. The impetus was instrumental in new peaks being achieved by certain segments of securities markets during the year.

A developed primary market is essential for providing a base for a vibrant secondary market. SEBI continued the on-going process of reforms in the primary market to improve issuer and investor confidence. In 2014-15, SEBI reviewed the extant Corporate Governance Framework (Clause 49 of the Listing Agreement) to align with the provisions of the Companies Act, 2013 which became effective in 2014. Renewed focus on corporate governance has made the standards dynamic, evolved and in tune with the times. The focus in the coming year will be on supervising the implementation of these standards by listed entities along with monitoring of listed companies, while also creating awareness

among listed companies for ensuring a better compliance culture. To help investors understand the nuances of public offers and ensure adequate and quality disclosures, SEBI reviewed the disclosures and application form in public issues. While SEBI implemented the concept of a general information document, a review of disclosure requirements in the Red Herring Prospectus is proposed to be realised in the next year. The concept of system driven disclosures is also proposed with a view to integrating disclosures made under different regulations to reduce the number of times that the same disclosure is required to be made by an individual/company. Such system-driven disclosures could significantly help in monitoring compliance on a real-time basis while reducing the burden of compliance on individuals.

Indian securities markets stand at par with global standards in terms of trading and surveillance mechanisms. However, challenges persist in view of on-going technological advancements paving the way for increased innovations and complexities in the market and in its products. In the face of these, SEBI endeavours to maintain the integrity of the market and promotes seamless trading, clearing and settlement processes in securities markets. In view of this, the key reforms implemented include Core SGF, Default Waterfall and Stress Testing norms for risk management, measures for facilitating exit from stock exchanges, risk management policy at the depositories, modified IPF guidelines and the index based circuit breaker mechanism. In the coming year, SEBI is planning a slew of initiatives in the secondary market. To enable raising of capital by knowledge based start-ups, a consultative process has been initiated by issuance of a discussion paper and the final guidelines on this are under preparation. Given the criticality of cyber security among FMIs in Indian securities markets, SEBI assessed the adequacy of the technology risk management framework deployed by FMIs. SEBI intends to lay down the broad principles that FMIs will be required to comply with while designing and implementing their IT/cyber security policies. Leveraging technology, SEBI is in the advanced stages of introducing Aadhaar based e-KYC for capital markets to enable simpler processing and for setting up a benchmark KYC across the financial

---

sectors. To bring in index providers/activities of index providers under the regulatory purview, a regulatory framework with Code of Conduct and disclosures and transparency is being reviewed by SEBI. Further with a view to having all securities related benefits at a single point, a proposal for enabling depositories to distribute all cash benefits, including dividend, interest and redemption proceeds to their investors is under consideration.

In its effort to make Indian securities markets more attractive to foreign investors, SEBI has simplified the investment and registration norms for foreign investors by notifying FPI Regulations with focus on creating an investor conducive environment. With a view to improving accessibility of mutual fund products, re-energising the distribution system, ensuring greater transparency and addressing issues concerning investor protection and efforts to increase their awareness levels, SEBI has taken a number of steps over the last few years. While being a regulator, SEBI undertakes a continuous regulatory review; it also aspires to utilise the huge potential given that industry has allowed enhanced participation of larger categories of investors and introduced innovative product-mixes. In an attempt to bring in research analysts under the regulatory purview, Research Analysts Regulations were notified. New products have been launched with notification of real estate investment trusts and infrastructure investment trusts. Considering its nascent stage, the regulatory frameworks for REITs/InvITs will be followed up during 2015-16 so as to develop market interest. Introduction of debt securities by municipalities is underway as the draft regulations for these have been put in public domain as part of the public consultative process.

SEBI's surveillance mechanisms have been effectively monitoring the markets and aberrations have been investigated to ensure a free and fair market. While the present SEBI surveillance capabilities are equipped for generating alerts to facilitate detection of market manipulations, the dynamic nature of securities markets calls for upgradation of surveillance systems with enhanced skill sets. To this end, SEBI aims to conduct a comprehensive review of its surveillance systems by engaging external expertise in order to make

the systems more transparent and competitive. The process for a comprehensive upgradation of DWBIS through a world class data centre to ensure data storage and processing requirements is proposed for 2015-16.

Over the years, SEBI has built a reputation of being a credible enforcement agency. In order to align with international standards, SEBI has revamped its insider trading regulations and notified regulations on settlement of administrative and civil proceedings. SEBI has been taking various regulatory actions especially those pertaining to ponzi schemes/CIS to make Indian securities markets more secure and regulated. SEBI aims to continuously upgrade its human and technological potential so that it can effectively utilise the additional enforcement powers vested by the amendment to the SEBI Act that was carried out recently.

SEBI has in recent years not only modernised its operations, but it has also put in place modern surveillance systems and an investor friendly complaints redressal system that has achieved significant accomplishments. The process for investors to enter securities markets has been eased. KYC centralisation, revisiting capital raising norms, an increased investment bucket for anchor investors, a single registration process for market intermediaries and increase in cash investments in mutual funds are some of the steps taken by SEBI to ensure more investor participation in securities markets.

While protecting investors in securities markets, SEBI is also committed to its objective of promoting awareness about financial markets in the public domain and has continued its efforts at educating and protecting investors through workshops, the Grievance Redressal Mechanism Centre, seminars and more local offices. To this end, SEBI aims to promote financial education through National Strategy of Financial Education (NSFE), released by FSDC to create a financially aware and empowered India. SEBI continues to evolve its investor education and awareness campaign pan-India to impart financial education that will help people manage money more efficiently and thus achieve financial well-being by accessing appropriate financial products and services through regulated entities. In addition, SEBI is looking at adopting other media

such as outdoor media/advertising as well as social media to make learning about securities markets easy and fun-based. With a view to further enhancing the efficiency and reach of SCORES, SEBI aims to conduct a user satisfaction survey and align SCORES with comparable systems across the agencies. The undergoing project of having a new NISM campus at Patalganga with state-of-the-art education facilities in the field of finance is expected to accelerate capacity building and talent acquisition in capital markets. It will also bolster financial education initiatives and further help in spreading the reach of capital markets in India.

Pursuant to the announcement in Union Budget 2015-16 the commodities market regulator FMC is being merged with SEBI so as to strengthen the commodities derivative market and facilitate the launch of new market infrastructure institutions

with a wide range of products to participate in the commodities space. SEBI has initiated an assessment of regulatory concerns and utilisation of appropriate human, infrastructure and technological capabilities to ensure a smooth and timely transition.

Amidst the dynamic and developing financial landscape, SEBI has the difficult and complex task of maintaining market integrity and investor protection while being uncompromising in its strides to embrace new market developments. In the coming year, SEBI will continue to be guided by its mandate and recently acquired powers to expand its regulatory ambit and provide an orderly market while simultaneously tackling the issues that have been the root cause of investor grievances in some sections of the market. While embracing international best practices in some areas, SEBI will endeavour to make Indian securities markets global leaders in others.

---

# Part Two:

## Review of Working and Operations of the Securities and Exchange Board of India

### 1. PRIMARY SECURITIES MARKET

In 2014-15, the primary market remained subdued as was reflected in resource mobilisation. Trading in the secondary market touched new heights on the back of global cues. Strengthening of the rupee exchange rate, positive macroeconomic data and easing inflation contributed to the positive sentiment in the primary securities market. Review of minimum public shareholding requirements in public sector companies, introduction of e-IPO, an increased investment bucket for anchor investors in IPOs and notification of SEBI (Share Based Employee Benefits) Regulation, 2014 were some important developments that took place in 2014-15.

#### I. Resource Mobilisation through Public and Rights Issues

During 2014-15, 88 companies accessed the primary market and raised ₹ 19,202 crore through public (70) and rights issues (18) as against 90 companies which had raised ₹ 55,652 crore in 2013-14 through public (75) and rights issues (15)

(Table 2.1). At 46, the number of IPOs in 2014-15 was higher as compared to 38 in 2013-14. Of the 46 IPOs, 39 have been listed on the SME platform. The amount raised through IPOs in 2014-15 was higher at ₹ 3,039 crore as compared to ₹ 1,236 crore during 2013-14. ₹ 1,141 crore was mobilised through offers for sale by existing shareholders and seven IPOs and FPOs used this mechanism to raise resources. There was no FPO in 2014-15 as compared to two FPOs worth ₹ 7,457 crore in 2013-14. The share of public issues in the total resource mobilisation decreased to 64.8 percent during 2014-15 from 91.8 percent during 2013-14 while the share of rights issues increased from 8.2 percent in 2013-14 to 35.2 percent in 2014-15. (Chart 2.1) The share of debt issues in total resource mobilisation stood at 49.0 percent and that of equity issues was 51.0 percent in 2014-15.

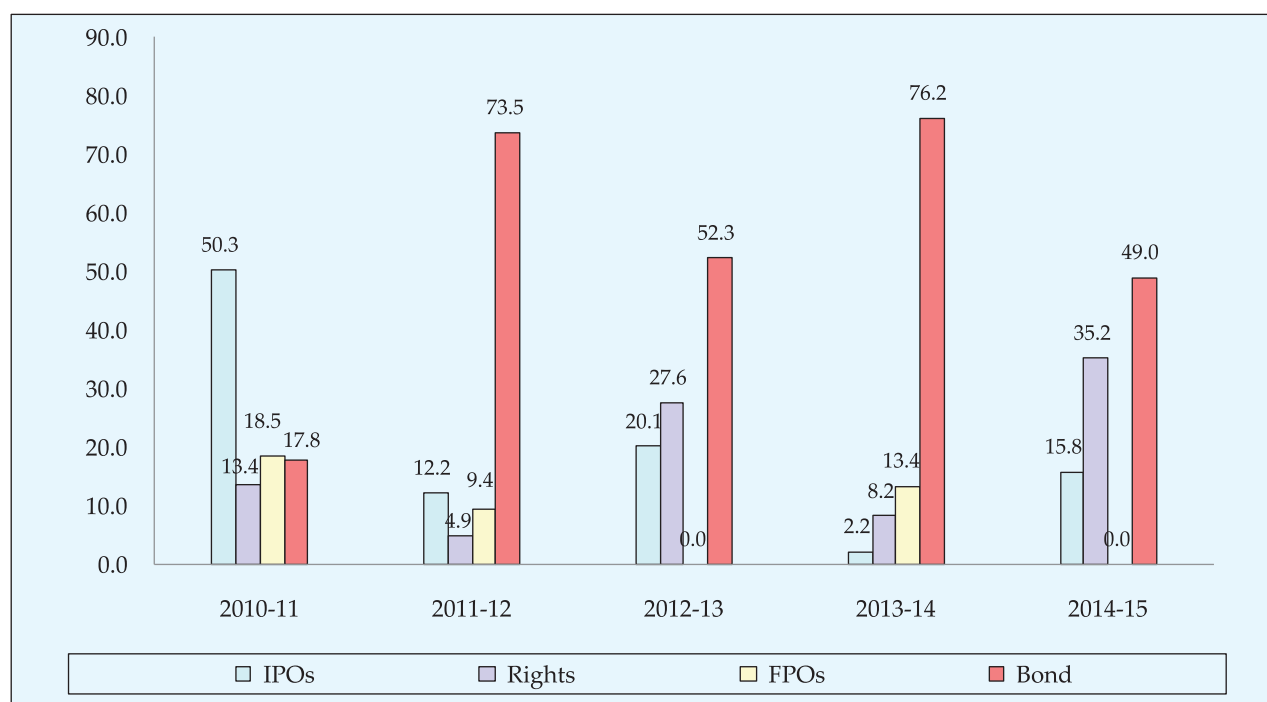
Chart 2.1 represents the relative share of the four modes of resource mobilisation namely, IPOs, FPOs, bonds and rights issues since 2010-11. The share of bonds is seen to be the highest for the current as well as the preceding three years.

**Table 2.1: Resource mobilisation through public and rights issues**

Particulars	2013-14		2014-15		Percentage share in total amount	
	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	2013-14	2014-15
1	2	3	4	5	6	7
<b>1. Public Issues (i)+(ii)</b>	<b>75</b>	<b>51,075</b>	<b>70</b>	<b>12,452</b>	<b>91.8</b>	<b>64.8</b>
(i) Public Issues (Equity/ PCD /FCD) of which	40	8,692	46	3,039	15.6	15.8
IPOs	38	1,236	46	3,039	2.2	15.8
FPOs	2	7,457	0	0	13.4	0.0
(ii) Public Issues (Bond / NCD)	35	42,383	24	9,413	76.2	49.0
<b>2. Rights Issues</b>	<b>15</b>	<b>4,576</b>	<b>18</b>	<b>6,750</b>	<b>8.2</b>	<b>35.2</b>
<b>Total Equity Issues (1(i)+2)</b>	<b>55</b>	<b>13,269</b>	<b>64</b>	<b>9,789</b>	<b>23.8</b>	<b>51.0</b>
<b>Total Equity and Bond (1+2)</b>	<b>90</b>	<b>55,652</b>	<b>88</b>	<b>19,202</b>	<b>100.0</b>	<b>100.0</b>
Memo Items: Offer for Sale	4	3,096	7	1,141	4.9	5.6

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.

**Chart 2.1: Share of broad category of issues in resource mobilisation**



### A. Resource Mobilisation via the SME Platform

The SME platform of the exchange is 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. In 2014-15, 39

companies were listed on the SME platform raising a total amount of ₹ 278 crore as compared to ₹ 317 crore raised through 37 issues in the 2013-14 registering a decrease of 12.4 percent in resource mobilisation. (Table 2.2)

**Table 2.2: The SME Platform**

Year	Total	
	No. of issue	Amount (in ₹ crore)
2013-14	37	317
2014-15	39	278

### B. Sector-wise Resource Mobilisation

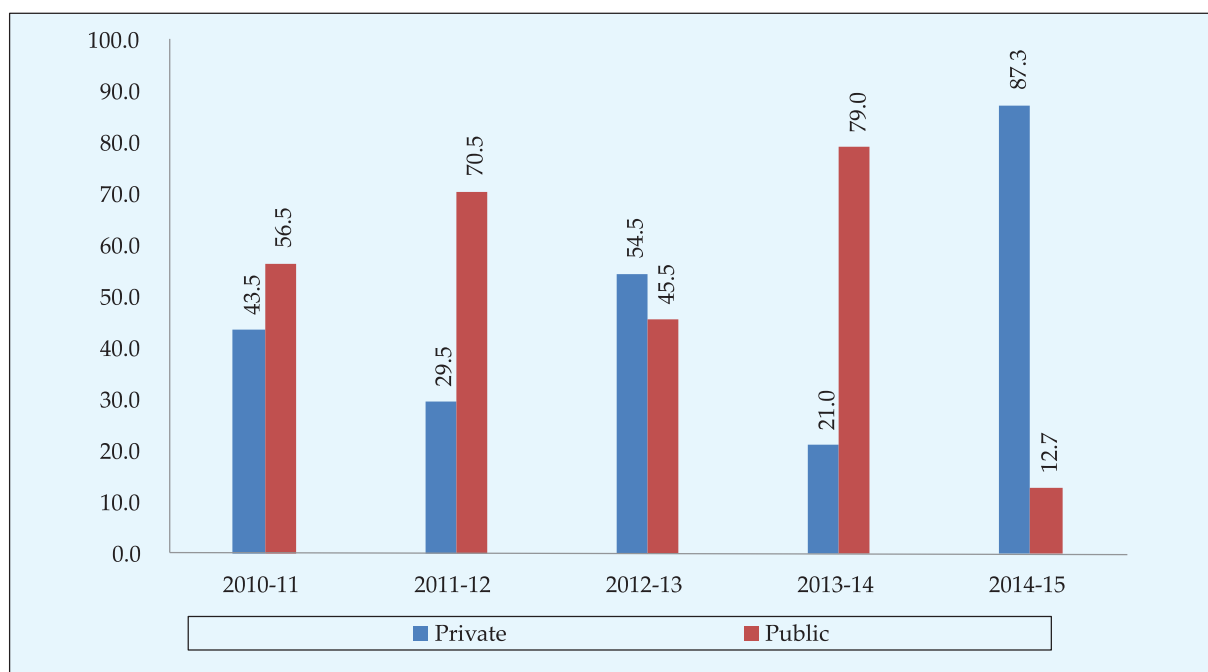
A sector-wise classification of the resource mobilisation shows that 85 private sector issues and three public sector issues were mobilised through the primary market in 2014-15 as compared to 70 private sector issues and 20 public sector issues in 2013-14. In 2014-15, private sector issues mobilised

₹ 16,756 crore compared to the ₹ 2,446 crore mobilised by the public sector companies. (Table 2.3) The private sector contributed 87.3 percent to the total resource mobilisation in 2014-15 as compared to 21.0 percent in 2013-14 (Chart 2.2). The amount raised through public sector issues was 12.7 percent of the total resource mobilisation as compared to 79.0 percent during 2013-14.

**Table 2.3: Sector-wise resource mobilisation**

Sector	2013-14		2014-15		Percentage share in total amount	
	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	2013-14	2014-15
1	2	3	4	5	6	7
Private	70	11,681	85	16,756	21.0	87.3
Public	20	43,970	3	2,446	79.0	12.7
<b>Total</b>	<b>90</b>	<b>55,652</b>	<b>88</b>	<b>19,202</b>	<b>100.0</b>	<b>100.0</b>

**Chart 2.2: Sector-wise resource mobilisation**



### C. Size-wise Resource Mobilisation

In tandem with the trend observed in past years, issues above ₹ 500 crore had a major share in the primary market for resource mobilisation. These larger issues had a share of 55.5 percent in resource mobilisation in 2014-15 as compared to 91.3 percent in 2013-14. (Table 2.4)

The average size of an issue (including public and rights) which accessed the primary market in 2014-15 decreased to ₹ 218 crore as compared to ₹ 618 crore in 2013-14. In 2014-15, the mean public issue size was ₹ 178 crore as compared to ₹ 681 crore in 2013-14. However, the mean IPO size increased from ₹ 33 crore in 2013-14 to ₹ 66 crore in 2014-15.

**Table 2.4: Size-wise resource mobilisation**

Issue Size	2013-14		2014-15		Percentage share in total amount	
	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	2013-14	2014-15
1	2	3	4	5	6	7
<₹ 5 crore	14	41	22	73	0.1	0.4
≥₹ 5 crore & <₹10 crore	17	122	11	85	0.2	0.4
≥₹10 crore & <₹50 crore	10	174	12	233	0.3	1.2
≥₹50 crore & <₹100 crore	3	221	2	109	0.4	0.6
≥₹100 crore & <₹ 500 crore	19	4,261	31	7,882	7.7	41.0
≥₹ 500 crore	27	50,832	10	10,821	91.3	56.4
<b>Total</b>	<b>90</b>	<b>55,652</b>	<b>88</b>	<b>19,202</b>	<b>100.0</b>	<b>100.0</b>

**Table 2.5: Large Issues in 2014-15**

No.	Name of the entity	Type of issue	Type of instrument	Offer size (in ₹ crore)	Percentage share in total amount
1	2	3	4	5	6
1	Shriram Transport Finance Company Limited	Public	Bond	1,975	13.6
2	Future Retail Limited	Rights	Equity	1,539	10.6
3	GMR Infrastructure Limited	Rights	Equity	1,402	9.6
4	IFCI Limited	Public	Bond	1,209	8.3
5	Inox Wind Limited	IPO (Fresh + OFS)	Equity	1,021	7.0
6	The Indian Hotels Company Limited	Rights	CCD	1,000	6.9
7	ECL Finance Limited	Public	Bond	789	5.4
8	IFCI Limited-Tranche II Prospectus	Public	Bond	763	5.2
9	NCC Limited	Rights	Equity	599	4.1
10	State Bank Of Travancore	Rights	Equity	474	3.3
11	Muthoot Finance Limited	Public	Bond	466	3.2
12	The Lakshmi Vilas Bank Limited	Rights	Equity	410	2.8
13	ECL Finance Limited	Public	Bond	400	2.7
14	Muthoot Finance Limited	Public	Bond	400	2.7
15	Muthoot Finance Limited	Public	Bond	398	2.7
16	Adlabs Entertainment Limited	IPO (Fresh + OFS)	Equity	375	2.6
17	Sharda Cropchem Limited	IPO (OFS)	Equity	352	2.4
18	Monte Carlo Fashions Limited	IPO (OFS)	Equity	350	2.4
19	SREI Infrastructure Finance Limited	Public	Bond	326	2.2
	<b>Total</b>			<b>14,247</b>	<b>100.0</b>

Note: Large issues include issues above ₹ 300 crore.

There were 19 large issues in 2014-15 as compared to 30 such issues in 2013-14 (large issues consider issues of size above ₹ 300 crore). These large issues mobilised ₹ 14,247 crore which amounts to 74.2 percent of the ₹ 19,202 crore worth of total resource mobilisation during the year. (Table 2.5)

The largest issue during 2014-15 was M/s Shriram Transport Finance Company Limited's debt issue (₹ 1,975 crore) which was followed by right issues of M/s Future Retail Limited (₹ 1,539 crore) and M/s GMR Infrastructure Limited (₹ 1,402 crore) and debt issue of M/s IFCI Limited (₹ 1,209 crore).

#### D. Industry-wise Resource Mobilisation

During 2014-15, the finance industry raised the largest amount in the industry-wise classification of resource mobilisation, that is, 28 issues contributed 40.4 percent to the total resource mobilisation (Table 2.6). The miscellaneous industries sector with 26 issues mobilised 22.7 percent of the total resource mobilisation. Banks/financial institutions had a relatively lesser share of 15.0 percent in 2014-15 as compared to 53.3 percent in the previous year.

**Table 2.6: Industry-wise resource mobilisation**

Industry	2013-14		2014-15		Percentage share in	
	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	2013-14	2014-15
1	2	3	4	5	6	7
Banks/Fls	14	29,700	7	2,873	53.3	15.0
Cement & Construction	4	731	7	2,035	1.3	10.6
Chemical	0	0	1	8	0	0.0
Electronics	0	0	1	33	0	0.2
Engineering	5	591	1	525	1.1	2.7
Entertainment	2	602	6	884	1.1	4.6
Finance	26	6,058	28	7,756	10.9	40.4
Food Processing	0	0	2	25	0	0.1
Healthcare	0	0	0	0	0	0.0
Information Technology	1	19	3	137	0	0.7
Paper & Pulp	1	28	0	0	0	0.0
Plastic	3	18	2	8	0	0.0
Power	4	11,702	0	0	21	0.0
Printing	0	0	0	0	0	0.0
Telecom	1	5	1	175	0	0.9
Textile	3	14	3	388	0	2.0
Miscellaneous	26	6,184	26	4,357	11.1	22.7
<b>Total</b>	<b>90</b>	<b>55,652</b>	<b>88</b>	<b>19,202</b>	<b>100.0</b>	<b>100.0</b>

## II. Resource Mobilisation through QIP and IPP

### A. QIP and IPP

The process of qualified institutions' placement (QIP) was introduced by SEBI in 2006 to enable listed companies to raise capital in the form of equity shares, fully and partly convertible debentures or any securities other than warrants to a qualified institutional buyer (QIB).

The IPP route was introduced by SEBI under Chapter VIII-A of SEBI (ICDR) Regulations, 2009 during the financial year 2011-12 for the purpose of achieving minimum public shareholding in terms of

Rule 19(2) (b) and 19A of the Securities Contracts (Regulation) Rules, 1957. Under Chapter VIII-A of the ICDR Regulations, any offer, allocation and allotment of securities under the IPP route shall be made only to QIBs.

During 2014-15, 51 issues raised a total of ₹ 29,102 crore through the QIP and IPP route, which was more than twice from the ₹ 13,663 crore raised in 2013-14. (Table 2.7)

There was one IPP issue in 2014-15 as compared to 10 in 2013-14. The total amount raised through the IPP issue was ₹ 419 crore in 2014-15 as compared to ₹ 4,101 crore in 2013-14.

**Table 2.7: Resource mobilisation through QIP and conforming to MPS through IPP**

Year/ Month	NSE		BSE		Common		Total	
	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)
1	2	3	4	5	6	7	8	9
2013-14	1	160	0	0	16	13,503	17	13,663
2014-15	2	725	8	2,326	38	26,051	51	29,102

Source: BSE and NSE.

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

The offer for sale (OFS) through the stock exchange mechanism was introduced in February 2012 in order to facilitate promoters to dilute their holdings in listed companies in a transparent manner with wider participation. In 2014-15, promoters

of 22 companies used this route through BSE and NSE to conform to public shareholding norms as compared to 71 companies in 2013-14. Twenty-two companies came out with 26 OFS issues during 2014-15. The allotted value through offer for sale increased from ₹ 6,993 in 2013-14 crore to ₹ 26,875 crore in 2014-15. (Table 2.8)

**Table 2.8: Offer for Sale through the Stock Exchange Mechanism**

Year	No. of Companies	Total Allotted Value (in ₹ crore)
2013-14	71	6,993
2014-15	22*	26,875

Note: \* Indicates companies undertaking 26 issues.

Source: BSE and NSE.

## III. Resource Mobilisation through Preferential Allotment

Preferential allotment is the allotment of securities/shares on a preferential basis to a select group of investors which is covered under Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. It provides the framework for preferential issues of 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 by listed companies whose equity share capital is listed on any stock exchange to any select group of persons as per the Section 62(1) (c) of the Companies Act, 2013.

During 2014-15, 419 preferential issues raised ₹ 28,260 crore compared to 411 preferential issues which raised ₹ 46,463 crore in 2013-14. (Table 2.9)

**Table 2.9: Resource Mobilisation through Preferential Allotment**

Year/ Month	NSE		BSE		Common		Total	
	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)	No. of issues	Amount (in ₹ crore)
1	2	3	4	5	6	7	8	9
2013-14	222	3,789	24	1,029	165	41,645	411	46,463
2014-15	206	4,407	75	5,984	186	19,569	419	28,260

Source: BSE and NSE.

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

Resource mobilisation through private placement of corporate debt has been increasingly used by corporate entities in recent years. In

2014-15, 2,611 issues were made and a total of ₹ 4,04,137 crore was raised through private placements which is 46.4 percent higher as compared to ₹ 2,76,054 crore raised through 1,924 issues in 2013-14 (Table 2.10).

**Table 2.10: Private Placement of Corporate Bonds Reported to BSE and NSE**

Year/ Month	NSE		BSE		Common		Total	
	No. of Issues	Amount (in ₹ crore)	No. of Issues	Amount (in ₹ crore)	No. of Issues	Amount (in ₹ crore)	No. of Issues	Amount (in ₹ crore)
1	2	3	4	5	6	7	8	9
2013-14	837	1,40,713	997	78,805	90	56,536	1,924	2,76,054
2014-15	1,094	1,69,726	1,386	1,17,949	131	1,16,461	2,611	4,04,137

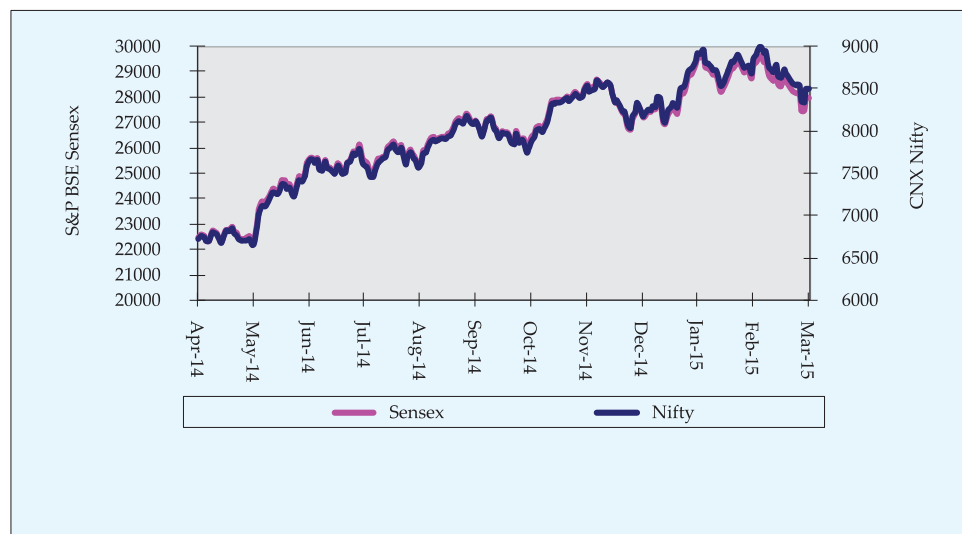
Source: BSE and NSE.

## 2. SECONDARY SECURITIES MARKET

### I. Equity Markets in India

Indian equity markets reached new heights during 2014-15 as a result of positive macroeconomic data and global cues witnessed by its benchmark indices S&P BSE Sensex (henceforth referred to as Sensex) and CNX Nifty (henceforth

referred to as Nifty) increased by 24.9 and 26.7 percent respectively over March 31, 2014 (Chart 2.3). The Sensex closed at 27,957 on March 31, 2015 registering an increase of 5,571 points over 22,386 as on March 31, 2014. The Nifty increased by 1,787 points and closed at 8,491 on March 31, 2015 over 6,704 as on March 31, 2014.

**Chart 2.3: Movements of benchmark stock indices**

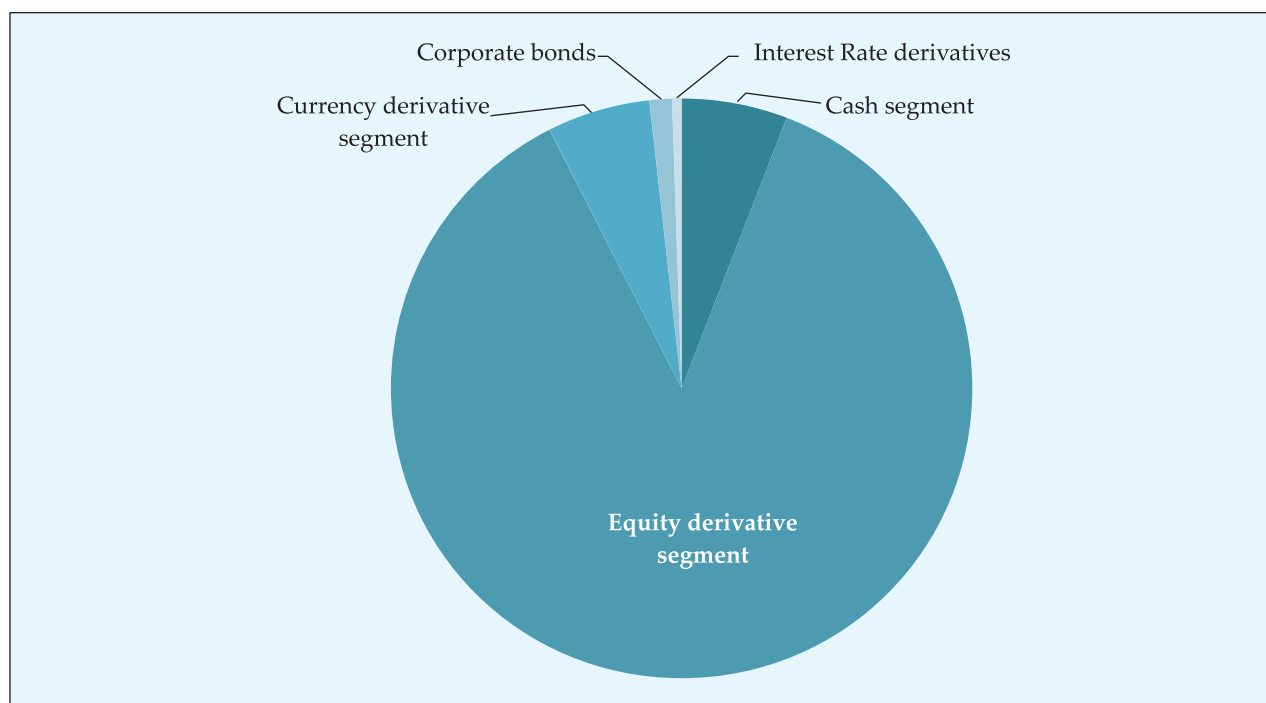
The benchmark index Sensex reached its highest level of 30,025 while Nifty reached its peak of 9,119 on March 4, 2015. The respective levels were also the newest maximum levels that these indices have ever attained. The lowest level attained by Sensex was 22,198 on April 7, 2014 during the financial year while Nifty touched a low of 6,639 on May 8, 2014 during the year. Sensex and Nifty recorded a highest gain of 2.9 and 3.0 percent respectively on May 9, 2014. Both the indices observed the highest fall of the financial year on January 6, 2015 when the BSE Sensex fell by 3.1 percent while Nifty fell by 3.0 percent.

In the cash segment, the turnover at BSE increased by 63.9 percent while the turnover at NSE increased by 54.2 percent during 2014-15 as compared to a decline of 4.9 percent at BSE and a

3.7 percent increase at NSE during 2013-14. In the derivatives segment, the turnover at BSE increased by 120.9 percent while the turnover at NSE increased by 45.5 percent during 2014-15 as compared to an increase of 28.7 percent at BSE and 21.2 percent at NSE during 2013-14. The Metropolitan Stock Exchange, MSEI (earlier the MCX-SX) recorded insignificant volumes in the cash segment and in the equity derivatives turnover (Table 2.11).

The segment-wise composition of the value traded in the secondary market is shown in Chart 2.4. In the Indian secondary market, in terms of traded turnover equity derivatives led with a dominant share of 86.6 percent followed by the equity cash segment (5.9 percent), currency derivatives (5.7 percent), corporate bonds (1.2 percent) and interest rate derivatives (0.5 percent)

**Chart 2.4 Value traded in secondary market (percent)**



Source: BSE, NSE, MSEI and USE.

The market capitalisation of BSE and NSE attained an increase of 36.9 and 36.4 percent respectively in 2014-15. P/E ratios increased during the year similar to the trend that was seen in the previous year. Volatility at the Sensex, measured by

the annualised standard deviation declined to 13.5 in 2014-15 compared to 17.5 in 2013-14. For Nifty the volatility declined to 13.5 in 2014-15 compared to 18.1 in 2013-14. The P/E ratios for Sensex and Nifty stood at 19.5 and 22.7 respectively in 2014-15.

**Table 2.11: Major Indicators of Indian Stock Markets**

Item	2013-14	2014-15	Percentage Variation over the Previous Year	
			2013-14	2014-15
<b>A. Indices</b>				
S&P BSE Sensex				
Year-end	22,386	27,957	18.8	24.9
Average	20,120	26,557	10.5	32.0
CNX Nifty				
Year-end	6,704	8,491	18	26.7
Average	6,010	7,967	8.9	32.6
<b>B. Annualised Volatility (percent)</b>				
S&P BSE Sensex	17.5	13.5	39.6	-22.6
CNX Nifty	18.1	13.5	40.3	-25.4
<b>C. Total Turnover (in ₹ crore)</b>				
Cash Segment (All-India)	33,41,337	51,84,500	2.6	55.2
<i>of which</i>				
BSE	5,21,664	8,54,845	-4.9	63.9
NSE	28,08,488	43,29,655	3.7	54.2
MSEI	11,185	Na	33,793*	Na
Equity Derivatives Segment	4,75,75,571	7,59,69,290	22.9	59.7
<i>of which</i>				
BSE	92,19,434	2,03,62,741	28.7	120.9
NSE	3,82,11,408	5,56,06,453	21.2	45.5
MSEI	1,44,729	95	1,698*	-99.9
Currency Derivatives Segment	69,80,855	50,33,096	-19.9	-27.9
<i>of which</i>				
BSE	2,44,312	13,07,077	Na	435.0
NSE	40,12,513	30,23,908	-23.9	-24.6
MSEI	24,22,410	6,49,925	-26.7	-73.2
USE	3,01,620	52,186	127.0	-82.7
Interest Rate Derivatives Segment	39,944	4,73,783	Na	1,060.3
<i>of which</i>				
BSE	7,191	41,913	Na	482.9
NSE	30,173	4,21,558	Na	1,297.1
MSEI	2,580	10,312	Na	299.7
<b>D. Market Capitalisation (in ₹ crore)</b>				
BSE	74,15,296	1,01,49,290	16.1	36.9
NSE	72,77,720	99,30,122	16.6	36.4
<b>E. No. of Listed Companies</b>				
BSE	5,336	5,624	2.4	2.4
NSE	1,688	1,733	1.3	1.3
<b>F. P/E Ratio</b>				
S&P BSE Sensex	18.3	19.5	8.3	6.6
CNX Nifty	18.9	22.7	7.4	20.1

Notes: 1. All India cash segment turnover includes BSE and NSE.

2. MSEI recorded insignificant volumes in the cash and equity derivatives segment.

3. \* indicates incremental turnover on a low base as MSEI commenced operations in Feb'13

4. USE stopped providing trading facilities to its members from December 29, 2014 vide circular number: USE CMPL/628/2014

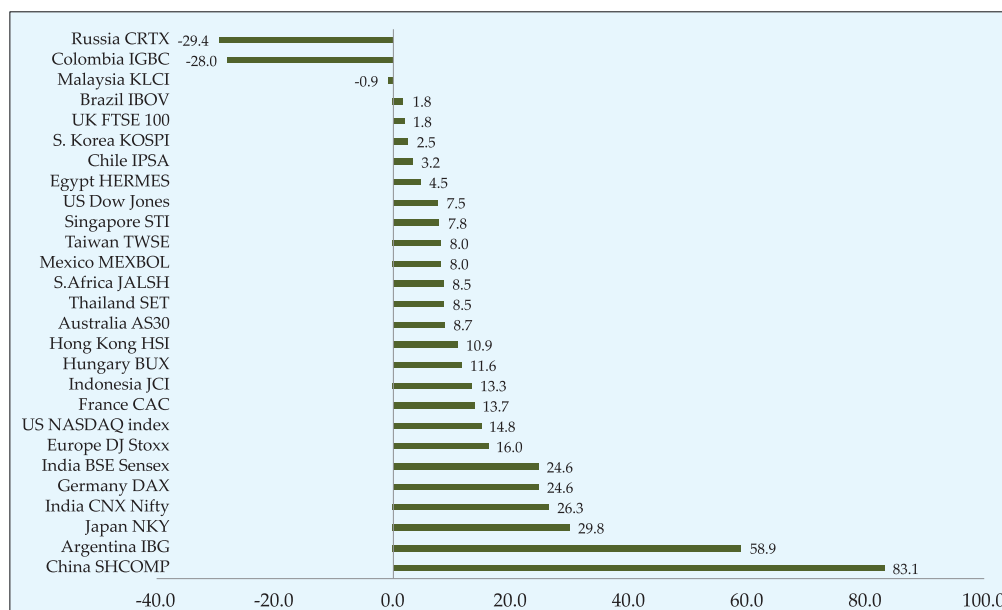
Source: BSE, NSE, MSEI and USE.

Global markets registered moderate growth in 2014-15, similar to the trend observed in previous years though they received a boost in the form of lower oil prices. US experienced stronger than expected growth on the back of improved consumption and consumer confidence. While the other advanced and emerging economies exhibited weaker performances, the markets in Asia Pacific performed modestly better than the others on account of domestic vulnerabilities, effects of aging populations and infrastructure bottlenecks. The growth in the Euro area was weaker than expected. Domestic issues in Japan and China that surfaced last year resulted in diminished growth rates with Japan falling into technical recession in Q3 of 2014. Lower oil prices and increased geopolitical tensions hampered the growth in Russia and in other economies in the Commonwealth of Independent States group.

While the US Federal Reserve ended its quantitative easing stimulus programme that began in 2008 in October 2014, ECB and Japan continued with their stimulus programmes in the second half of 2014-15. In comparison to last year, a majority of the indices considered showed positive returns. Among the emerging markets the year-on-year index change was the highest in China (83.1 percent) followed by Argentina (58.9 percent) and India (26.3 percent) (Chart 2.5).

Among the developed equity markets, the year-on-year index changes were the highest in Japan (29.8 percent) followed by Germany (24.6 percent) and Europe (16.0 percent). Declines were registered in Russia (29.4 percent), Colombia (28.0 percent) and Malaysia (0.9 percent).

**Chart 2.5: Year-on-Year index return of international indices**



Source: Bloomberg Services.

## II. Performance of Major Stock Indices and Sectoral Indices

Along with the benchmark indices, sectoral and other indices also showed increasing trends during 2014-15 (Tables 2.12 and 2.13 and Charts 2.6 and 2.7). Among the broad-based BSE indices, BSE 100, BSE 200 and BSE 500 recorded year-on-year index

changes of 28.3, 31.8 and 32.9 percent respectively over the previous year. The BSE small-cap index recorded an increase of 53.2 percent during 2014-15. Similarly, among the NSE indices, the CNX 500, CNX Nifty Junior and the CNX midcap recorded an increase of 33.6, 44.8 and 51.4 percent respectively in 2014-15.

**Table 2.12: Major Stock Indices and their Percentage Variation**

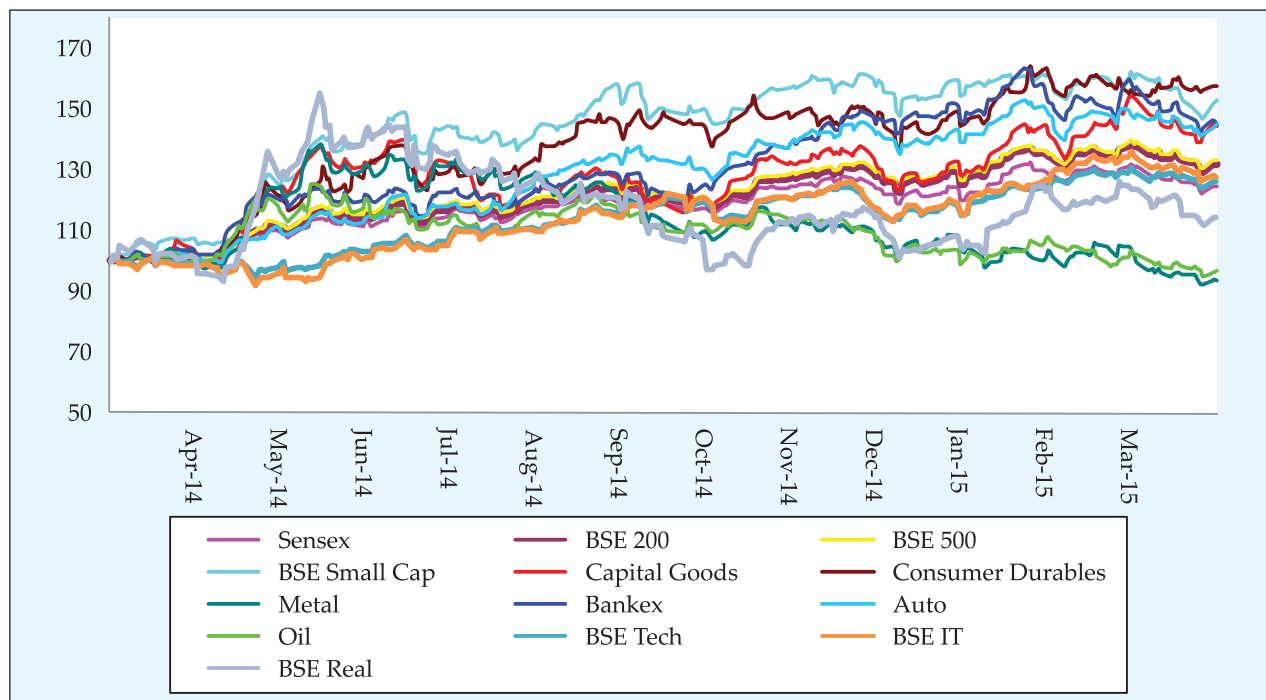
Year/ Month	S&P BSE Sensex	Percentage Variation	S&P BSE 100	Percentage Variation	CNX Nifty	Percentage Variation	CNX 500	Percentage Variation
1	2	3	4	5	6	7	8	9
2013-14	22,386	18.8	6,707	18.1	6,704	18.0	5,225	17.7
2014-15	27,957	24.9	8,607	28.3	8,491	26.7	6,978	33.6

Source: BSE and NSE.

In sectoral indices, mixed trends prevailed in the year-on-year returns. The highest increase among sectoral indices during 2014-15 was registered by the S&P BSE auto index (33.9 percent) followed by the S&P BSE capital goods index (31.0 percent) and the S&P BSE IT index (27.2 percent)(Chart 2.6).

In NSE, among the sectoral indices the highest growth of 78.3 percent was registered in CNX petrochemicals followed by the CNX pharma index (68.9 percent), the CNX finance index (62.0 percent), the CNX MNC index (53.7 percent) and the CNX midcap index (51.4 percent) (Chart 2.7).

**Chart 2.6: Movement of sectoral indices of BSE**



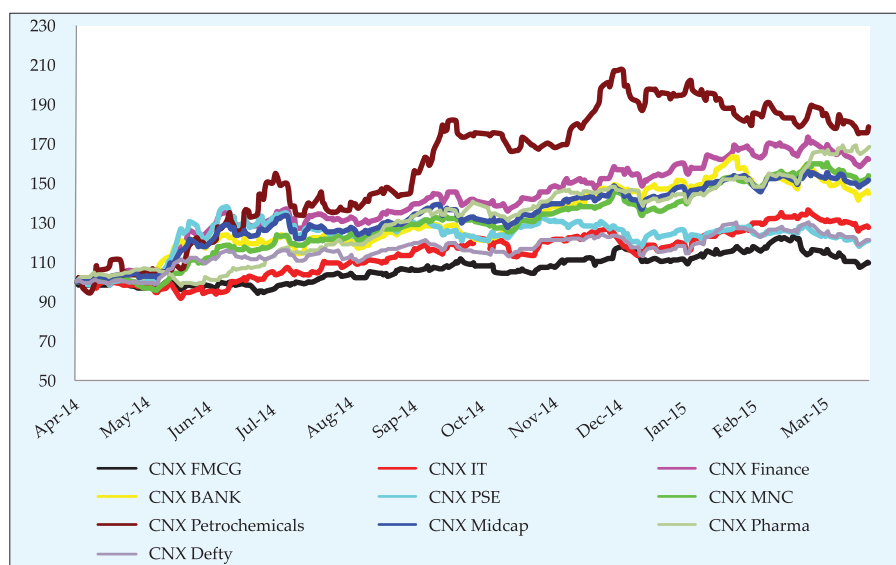
Source: BSE.

**Table 2.13: Sectoral Stock Indices and their Returns**

Year/ Month	CNX IT	Percentage Variation	CNX Bank	Percentage Variation	CNX PSE	Percentage Variation	S&P BSE Oil and Gas	Percentage Variation	S&P BSE FMCG	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11
2013-14	9,298	28.8	12,742	12.1	2,843	3.4	9,486	13.9	6,971	17.8
2014-15	12,083	30.0	18,207	42.9	3,460	21.7	9,312	-1.8	7,773	11.5

Source: BSE and NSE.

**Chart 2.7: Movement of sectoral indices of NSE**



Source: NSE.

### III. Turnover in the Indian Stock Market

Total trading volumes increased in 2014-15 similar to the trend observed in the previous year. The turnover of all stock exchanges in the cash segment increased by 51.2 percent to ₹ 51,84,500 crore in 2014-15 from ₹ 33,41,416 crore in 2013-14. (Table 2.14) BSE and NSE together contributed 100 percent to the turnover, of which NSE accounted

for 83.5 percent of the total turnover in the cash market whereas the BSE accounted for 16.5 percent of the total turnover. MSEI had negligible trading volumes during 2014-15. The turnover at the other stock exchanges was practically nil. At BSE and NSE, the turnover increased by 63.9 and 54.2 percent respectively in 2014-15 over the previous year. (Table 2.15) BSE and NSE recorded the highest monthly turnover in May 2014 followed by June 2014.

**Table 2.14: Exchange-wise Cash Segment Turnover (in ₹ crore)**

Stock Exchange	2013-14	2014-15	Percentage Share
Ahmedabad	Na	Na	Na
BSE	5,21,664	8,54,845	16.5
Calcutta	79	Na	Na
Madras	Na	Na	Na
MSEI	11,185	Na	Na
MPSE	Na	Na	Na
NSE	28,08,488	43,29,655	83.5
Pune	Na	Na	Na
UPSE	Na	Na	Na
Vadodara	Na	Na	Na
<b>Total</b>	<b>33,41,416</b>	<b>51,84,500</b>	<b>100.0</b>

Notes: 1. The Inter-Connected SE, the Cochin SE, the Bangalore SE, the Ludhiana SE, the Gauhati SE, the Bhubaneswar SE, the Jaipur SE and the OTC SE have been granted exit by SEBI vide orders dated December 08, 2014; December 23, 2014; December 26, 2014; December 30, 2014; January 27, 2015; February 09, 2015; March 23, 2015 and March 31, 2015 respectively.

2. The Delhi SE was derecognised on November 19, 2014.

Source: Various stock exchanges.

**Table 2.15: Turnover at BSE, NSE and MSEI: Cash Segment**

Year/ Month	BSE		NSE		MSEI		Total Turnover (in ₹ crore)
	Turnover (in ₹ crore)	Percentage Variation	Turnover (in ₹ crore)	Percentage Variation	Turnover (in ₹ crore)	Percentage Variation	
1	2	3	4	5	6	7	8
2013-14	5,21,664	-4.9	28,08,488	3.7	11,185	Na	33,41,337
2014-15	8,54,845	63.9	43,29,655	54.2	Na	Na	51,84,500

Source: BSE, NSE and MSEI.

Widening the geographical reach of capital markets is one of the important aspects of developing of securities markets in India (Table 2.16). About 60.5 percent of the total turnover of BSE and 58.4 percent of the total turnover of NSE was concentrated in Mumbai and Thane. In addition, at NSE the highest turnover was recorded in Delhi/Ghaziabad which contributed 10.9 percent and in Calcutta/Howrah

which accounted for 6.6 percent of the turnover. On the other hand at BSE, Kolkata and others accounted for 9.6 and 7.2 percent of the total turnover respectively. The top five cities accounted for 80.2 percent of the turnover at NSE during 2014-15 compared to 83.9 percent in 2013-14. At BSE, 85.3 percent of the turnover was contributed by top five cities during 2014-15 compared to 78.2 percent in 2013-14.

**Table 2.16: City-wise Turnover of Top 20 Cities in Cash Segment**

BSE			NSE		
City	Turnover (in ₹ crore)	Percentage Share in Cash Turnover	City	Turnover (in ₹ crore)	Percentage Share in Cash Turnover
1	2	3	4	5	6
Mumbai	9,28,416	60.5	Mumbai / Thane	49,45,993	58.4
Kolkata	1,46,457	9.6	Delhi/Ghaziabad	9,23,932	10.9
Others	1,10,053	7.2	Calcutta / Howrah	5,62,203	6.6
Ahmedabad	63,589	4.1	Hyderabad/ Secunderabad/ Kukatpally	3,64,579	4.3
Rajkot	60,225	3.9	Gurgaon	3,35,590	4.0
New Delhi	57,462	3.7	Bangalore	3,04,329	3.6
Int City	48,908	3.2	Ahmedabad	2,50,206	3.0
Vadodara	21,170	1.4	Noida	2,01,710	2.4
Surat	14,723	1.0	Cochin/Ernakulam/ Parur/Kalamerry/ Alwaye	1,17,666	1.4
Jaipur	14,489	0.9	Rajkot	1,14,600	1.4
Kanpur	11,160	0.7	Chennai	1,08,484	1.3
Ghaziabad	8,376	0.5	Jaipur	57,100	0.7
Chennai	8,232	0.5	Indore	50,030	0.6
Pune	7,548	0.5	Chandigarh/ Mohali/Panchkula	44,215	0.5
Indore	6,848	0.4	Baroda	32,120	0.4
Jodhpur	6,649	0.4	Gajuwaka/ Vishakhapatnam	15,868	0.2
Hyderabad	5,569	0.4	Coimbatore	14,362	0.2
Bengaluru	4,875	0.3	Pune	14,707	0.2
Nagpur	4,692	0.3	Ludhiana	6,600	0.1
Udaipur	4,132	0.3	Ghaziabad	6,020	0.1
<b>Total</b>	<b>15,33,573</b>	<b>100.0</b>	<b>Total</b>	<b>84,70,313</b>	<b>100.0</b>

Source: BSE and NSE.

SEBI had notified the exit policy for de-recognised/non-operational stock exchanges vide circular no. CIR/MRD/DSA/14/2012 dated May 30, 2012. As on March 31, 2015, 12 regional stock exchanges had been granted exit by SEBI. Exclusively listed companies of RSEs, which failed to obtain a listing on any other stock exchange, would be listed companies and will be moved to the dissemination board by the exiting stock exchange. The exiting stock exchanges are required to enter into an agreement with at least one of the stock exchanges with nationwide trading terminals providing a dissemination

board. In 2013-14, shares of 171 exclusively listed companies at RSE were made available for buying/selling on the dissemination board at NSE while in 2014-15, 198 exclusively listed companies at RSE were made available for buying/selling on the dissemination board at NSE. Similarly, at BSE while in 2013-14 the shares of only three exclusively listed companies at RSE were made available for buying/selling on the dissemination board at BSE, in 2014-15 the shares of 93 exclusively listed companies were made available for buying/selling on the dissemination board at BSE. (Tables 2.17 and 2.18)

**Table 2.17: Dissemination Board Statistics at NSE**

S. No.	Name of the Regional Stock Exchange (RSE)	No. of companies exclusively listed on RSEs (shares available for buying/ selling on Dissemination Board)	No. of vanishing companies (As categorised by RSEs) (shares not available for buying/ selling on Dissemination Board)
<b>2013-14</b>			
1	Ludhiana Stock Exchange Limited	19	1
2	Madras Stock Exchange Limited	150	45
3	Madhya Pradesh Stock Exchange Limited	2	14
4	Pune Stock Exchange Limited	0	0
<b>Total</b>		<b>171</b>	<b>60</b>
<b>2014-15</b>			
1	Madras Stock Exchange Limited*	9	0
2	Madras Stock Exchange Limited*	81	7
3	Madhya Pradesh Stock Exchange Limited	3	0
4	Uttar Pradesh Stock Exchange Limited	105	18
<b>Total</b>		<b>198</b>	<b>25</b>

Note: \* The number of companies as per different circulars by NSE  
Source: NSE.

**Table 2.18: Dissemination Board Statistics at BSE**

S. No.	Name of the Regional Stock Exchange (RSE)	No. of companies exclusively listed on RSEs (shares available for buying/ selling on Dissemination Board)	No. of vanishing companies (As categorised by RSEs) (shares not available for buying/ selling on Dissemination Board)
<b>2013-14</b>			
1	Hyderabad Stock Exchange Ltd.	3	1
<b>Total</b>		<b>3</b>	<b>1</b>
<b>2014-15</b>			
1	Bangalore Stock Exchange Ltd.	24	6
2	The Gauhati Stock Exchange Ltd.	21	60
3	Inter-connected Stock Exchange of India Ltd.	1	Na
4	Jaipur Stock Exchange Ltd.	1	Na
5	OTC Exchange of India	46	3
<b>Total</b>		<b>93</b>	<b>69</b>

Source: BSE.

#### IV Market Capitalisation

Market capitalisation is the total value of a publicly traded company's outstanding shares at any point. The market capitalisation at BSE rose by 36.9 percent to ₹ 1,01,49,290 crore in 2014-15 from ₹ 74,15,296 crore in 2013-14. (Table 2.19) On the other hand, at NSE market capitalisation increased by 36.4 percent to ₹ 99,30,122 crore in 2014-15 from ₹ 72,77,720 crore in 2013-14. The increase at both BSE and NSE was the highest in May 2014.

At BSE, the market capitalisation of the shares included in the BSE benchmark index, the S&P BSE

Sensex increased by 22.0 percent in 2014-15 (Table 2.19). Among the sectoral indices considered, the S&P Bankex observed the most rise of 42.2 percent in market capitalisation as compared to the previous year. During the year, market capitalisation of the shares included in the CNX Nifty index increased by 31.1 percent (Table 2.20). Market capitalisation increased for all the indices analysed for NSE in 2014-15 as compared to the previous year. At NSE, among the sectoral indices analysed, the increase in market capitalisation was the highest for CNX Midcap (49.4 percent) followed by CNX Bank (48.1 percent).

**Table 2.19: Market Capitalisation at BSE**

(in ₹ crore)

Year/ Month	All Listed Companies	Percentage Variation	S&P BSE Sensex	Percentage Variation	S&P BSE-Teck	Percentage Variation	S&P Bankex	Percentage Variation	S&P BSE PSU	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11
2013-14	74,15,296	16.1	19,55,490	21.7	5,15,301	31.7	5,07,014	15.1	14,27,356	-0.8
2014-15	1,01,49,290	36.9	23,86,658	22.0	6,44,962	25.2	7,20,914	42.2	17,24,456	20.8

Note: All listed companies' market capitalisation is the total market capitalisation while the indices market capitalisation is free float market capitalisation.

Source: BSE.

**Table 2.20: Market Capitalisation at NSE**

(in ₹ crore)

Year/ Month	All listed Companies	Percentage Variation	CNX Nifty	Percentage Variation	CNX Mid Cap	Percentage Variation	CNX IT	Percentage Variation	CNX Bank	Percentage Variation
1	2	3	4	5	6	7	8	9	10	11
2013-14	72,77,720	16.6	22,45,632	23.2	4,12,676	44.9	4,04,413	37.4	4,91,133	17.2
2014-15	99,30,122	36.4	29,44,480	31.1	6,16,709	49.4	5,32,259	31.6	7,27,377	48.1

Note: All listed companies' market capitalisation is the total market capitalisation while the indices market capitalisation is free float market capitalisation.

Source: NSE.

#### V Stock Market Indicators

Ratios such as market capitalisation to GDP (m-cap ratio), traded value to GDP (traded value ratio) and price to earnings per share (P/E ratio) were observed to estimate the extent of development of the stock market. After declining for three successive years market capitalisation ratios had improved in 2013-14. These continued to improve further during 2014-15. The BSE market capitalisation to GDP ratio increased from 65.4 percent in 2013-14 to

80.2 percent in 2014-15. Similarly, at NSE the ratio increased from 64.1 percent in 2013-14 to 78.5 in 2014-15. (Table 2.21) The all-India cash turnover to GDP ratio increased in 2014-15 in contrast to a decline that was observed during preceding years. The ratio increased to 41.0 percent from 29.5 percent in 2013-14. In the derivatives segment there was an increase in the turnover-GDP ratio from 419.4 percent in 2013-14 to 600.4 percent in 2014-15.

**Table 2.21: Select Ratios Relating to Stock Market**

Year	BSE Market Capitalisation to GDP Ratio	NSE Market Capitalisation to GDP Ratio	Total Turnover to GDP Ratio	
			Cash Segment (All-India)	Derivatives Segment *(BSE+NSE)
2013-14	65.4	64.1	29.5	419.4
2014-15	80.2	78.5	41.0	600.4

Notes: 1.\* indicates the equity derivatives segment. 2. GDP figures have been taken at current prices as per revised CSO methodology; historical figures have been accordingly revised.

Source: Various stock exchanges, CSO.

**Table 2.22: Price to Earnings Ratio**

Year/ Month	S&P BSE Sensex	S&P BSE 100	CNX Nifty	CNX Mid Cap	CNX IT	CNX Bank	CNX PSE	SX40
1	2	3	4	5	6	7	8	9
2013-14	18.3	17.8	18.9	14.3	21.3	14.3	9.6	20.3
2014-15	19.5	20.0	22.7	21.4	21.8	19.0	12.3	Na

Source: BSE, NSE and MSEI.

The price-earnings ratio (P/E) is reflective of the valuation of shares (Table 2.22). As on March 31, 2015 the P/E ratios of Sensex and Nifty were 19.5 and 22.7 respectively as compared to 18.3 and 18.9 respectively on March 31, 2014. Month-wise data indicate that the P/E ratios of the Sensex were

the lowest in May 2014 while that of Nifty were the lowest in April 2014. During 2014-15, there was an increase in the P/E ratios of all the indices analysed. The P/E ratio of Nifty was high as compared to other sectoral and mid-cap indices.

**Table 2.23: Price to book Ratio**

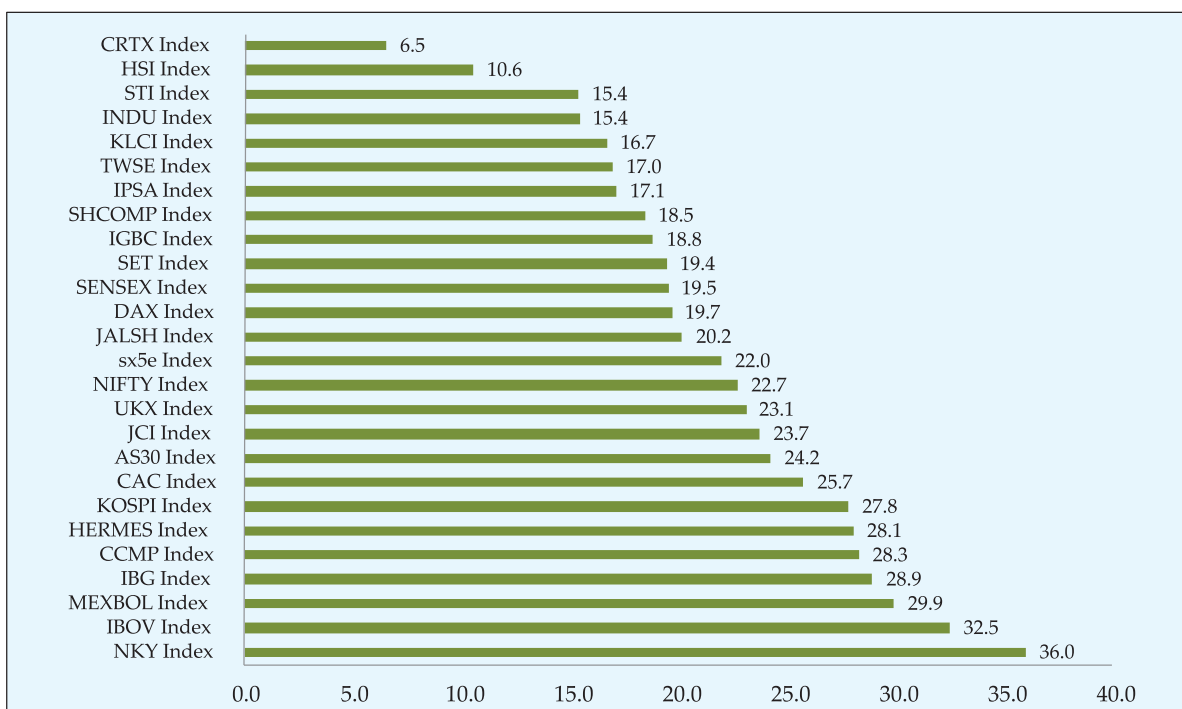
Year/ Month	S&P BSE Sensex	S&P BSE 100	CNX Nifty	CNX Mid Cap	CNX IT	CNX Bank	CNX PSE	SX40
1	2	3	4	5	6	7	8	9
2013-14	2.7	2.4	3.2	2.0	6.6	2.2	1.7	3.6
2014-15	3.1	2.9	3.7	2.4	6.8	2.9	2.0	Na

Source: BSE, NSE and MSEI.

The price to book (P/B) ratio is another important indicator which measures the returns left for shareholders after providing for the liabilities of a company. The P/B ratio at the end of 2014-15

was the highest for the CNX IT index at 6.8, followed by Nifty at 3.7, Sensex at 3.1 and BSE 100 at 2.9 (Table 2.23).

**Chart 2.8: P/E ratio of international stock market indices**



Source: Bloomberg Services.

An international comparison of P/E ratios indicates that the Indian markets have ratios falling in between the lower and higher range of all advanced and emerging economies taken together. Among the developed markets, Japan's Nikkei index had the highest P/E ratio followed by the US' NASDAQ Composite and France's CAC 40 index. In the emerging markets category, Brazil's Bovespa index had the highest P/E ratio followed by Mexico's MEXBOL index and Argentina's Indice Bolsa general index (Chart 2.8).

## VI. Volatility in Stock Markets

In 2014-15, the Indian equity markets reached newer heights outshining the peaks observed in the previous year. The benchmark indices and market capitalisation in the secondary market attained all-time high figures. On the back of a pick-up in advanced economies and a slowdown in emerging markets global growth remained moderate. Robust recovery figures in the US and outperformance in the markets in Asia Pacific as compared to other regions

led global growth amid weak growth in Europe, Latin America, the Commonwealth of Independent States and the Middle East. Strengthening of currency in real effective terms, policy reforms, a pick-up in investments and lower oil prices all propelled India's growth engine in 2014-15.

India VIX, India's first volatility index, indicates investors' perceptions of the market's volatility in the next 30 calendar days. The India VIX index had closed at 21.6 on March 31, 2014 compared to 14.5 on March 31, 2015 registering a decline of 32.9 percent, indicating investors' expectation of falling volatility.

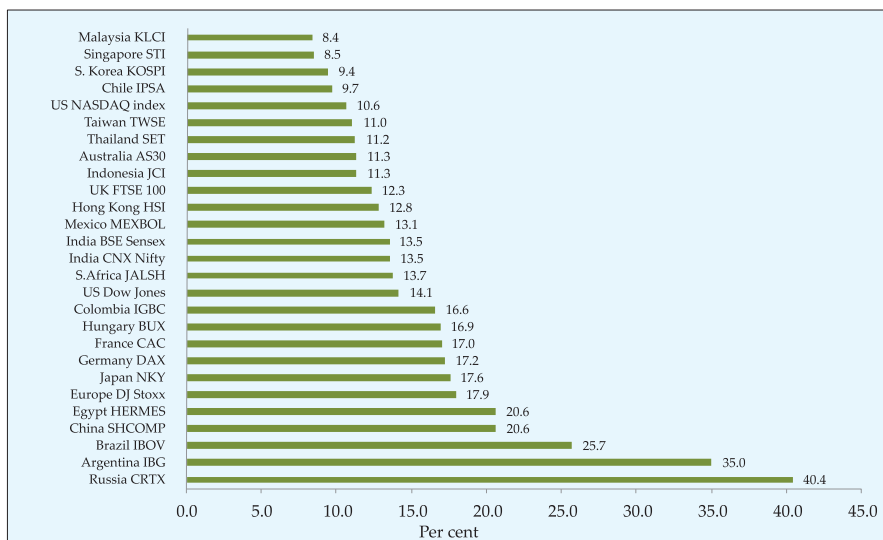
The annualised volatility of the Sensex, measured by the standard deviation of log returns, decreased to 13.5 percent in 2014-15 from 17.5 percent in 2013-14. A similar trend was also observed for Nifty which moved down from 18.1 to 13.5 percent during the same period (Table 2.24). The highest volatility among the other indices was observed in the CNX Bank index followed by the S&P BSE small cap and the CNX Nifty junior index.

**Table 2.24: Annualised Volatility of Benchmark Indices**

Annualised Volatility	S&P BSE Sensex	CNX Nifty	S&P BSE 100	S&P BSE Small Cap	CNX 500	CNX Nifty Junior	CNX BANK	SX40
1	2	3	4	5	6	7	8	9
2013-14	17.5	18.1	17.6	13.1	16.9	17.9	30.5	16.5
2014-15	13.5	13.5	13.9	19.8	13.9	17.8	20.8	12.8

Note: Annualised 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.

**Chart 2.9: Annualised volatility of international stock market indices**



Note: Annualised volatility is computed as 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.

Source: Bloomberg Services.

A comparison of volatility of indices across developed and emerging market indices is shown in Table 2.25 and Chart 2.9. Among the emerging markets, Russia depicted the highest volatility (40.4 percent), followed by Argentina (35.0 percent) and Brazil (25.7 percent). Volatility in Indian benchmark

indices was on the lower side as compared to last year. Among the developed markets, annualised volatility was the highest in Europe (17.9 percent) followed by Japan (17.6 percent) and Germany (17.2 percent).

**Table 2.25: Trends in annualised volatility of international stock market indices**

Country	Index	2013-14	2014-15
<b>DEVELOPED MARKETS</b>			
USA	DJIA	10.8	14.1
USA	NASDAQ	13.1	10.6
UK	FTSE 100	12.2	12.3
Europe	DJ Stoxx	15.9	17.9
France	CAC	15.5	17.0
Germany	DAX	15.3	17.2
Australia	AS30	11.8	11.3
Japan	NKY	26.9	17.6
Hong Kong	HIS	15.9	12.8
Singapore	STI	10.5	8.5
<b>EMERGING MARKETS</b>			
Taiwan	TWSE	11.6	11.0
Russia	CRTX	25.8	40.4
Malaysia	KLCI	8.7	8.4
South Korea	KOSPI	12.5	9.4
Thailand	SET	21.1	11.2
China	SHCOMP	16.9	20.6
S. Africa	JALSH	14.9	13.7
Brazil	IBOV	21.4	25.7
Colombia	IGBC	13.4	16.6
Hungary	BUX	17.3	16.9
Egypt	HERMES	19.7	20.6
Indonesia	JCI	21.8	11.3
Argentina	IBG	25.5	35.0
Chile	IPSA	15.7	9.7
Mexico	MEXBOL	16.4	13.1
India	S&P BSE Sensex	17.4	13.5
India	CNX Nifty	18.1	13.5

*Note: Annualised volatility is computed as 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.*

*Source: Bloomberg Services.*

## VII. Trading Frequency

The trading frequency of stocks at NSE and BSE is symbolic of the liquidity prevalent in the stock market. The number of companies listed at BSE and NSE at the end of March 2015 was 5,624 and 1,733 respectively. Trading frequency improved slightly at both the stock exchanges in 2014-15 over the previous year. During 2014-15, the number of stocks traded at BSE was 4,814 as compared to 4,333 in 2013-14 (Table 2.26). Similarly, the

number of stocks traded at NSE was higher at 1,691 in 2014-15 as compared to 1,648 in 2013-14. The percentage share of stocks traded at BSE for above 100 days increased from 66.8 percent in 2013-14 to 70.2 percent in 2014-15. At NSE too, this percentage increased from 89.1 percent in 2013-14 to 92.5 percent in 2014-15. The percentage share of stocks traded for 10 days or less in 2014-15 was 12.0 percent at BSE and 3.4 percent at NSE.

**Table 2.26: Trading frequency of listed stocks**

Trading Frequency (Range of Days)	2013-14				2014-15			
	BSE		NSE		BSE		NSE	
	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total
1	2	3	4	5	6	7	8	9
Above 100	2,893	66.8	1,469	89.1	3,381	70.2	1,564	92.5
91-100	93	2.2	17	1.0	74	1.5	6	0.4
81-90	77	1.8	15	0.9	68	1.4	8	0.5
71-80	89	2.1	15	0.9	91	1.9	10	0.6
61-70	108	2.5	25	1.5	96	2.0	8	0.5
51-60	98	2.3	15	0.9	72	1.5	5	0.3
41-50	97	2.2	17	1.0	98	2.0	-	-
31-40	113	2.6	13	0.8	106	2.2	15	0.9
21-30	126	2.9	14	0.8	113	2.4	7	0.4
11-20	162	3.7	13	0.8	128	2.7	11	0.7
0-10	477	11.0	35	2.1	587	12.0	57	3.4
<b>Total</b>	<b>4,333</b>	<b>100</b>	<b>1,648</b>	<b>100</b>	<b>4,814</b>	<b>100</b>	<b>1,691</b>	<b>100</b>

Note: MSEI data is not significant and is not included.

Source: BSE and NSE.

**Table 2.27: Share of top 100 brokers/securities in annual cash market turnover**

S. No.	Particulars	Percentage Share		
		BSE	NSE	MSEI
1	Share of Top 100 brokers in annual cash market turnover	77.7	79.5	100.0
2	Share of Top 100 scrips/securities in annual cash market turnover	54.6	70.9	100.0

Source: BSE, NSE and MSEI

**Table 2.28: Share of participants in annual cash market turnover**

S. No.	Particulars	Percentage Share		
		BSE	NSE	MSEI
1	Proprietary trades	20.2	21.1	24.9
2	Domestic Institutions (excluding MFs)	2.1	4.3	0.0
3	FPIs	20.1	20.5	0.0
4	MFs	2.5	4.5	0.0
5	Others	55.1	49.7	75.1
<b>Total</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, NSE and MSEI.

The share of the top 100 brokers in the annual cash market's turnover in 2014-15 at NSE and BSE was 79.5 and 77.7 percent respectively (Table 2.27). The share of the top 100 securities in the annual cash market's turnover in 2014-15 at NSE and BSE was 70.9 and 54.6 percent respectively. At NSE, the share of participants in the annual cash market turnover in 2014-15 shows that proprietary trades, domestic institutions (excluding mutual funds), FPIs and mutual funds contributed 21.1, 4.3, 20.5 and 4.5 percent respectively whereas others (including individuals, partnership firms, HUFs, trusts, NRIs, etc.) contributed 49.7 percent. Similarly the data for the BSE annual cash market turnover for 2014-15 shows that proprietary trades, domestic institutions (excluding mutual funds), FPIs and mutual funds contributed 20.2, 2.1, 20.1 and 2.5 percent respectively whereas others (including individuals, partnership firms, HUFs, trusts, NRIs, etc.) contributed 55.1 percent. (Table 2.28)

### VIII. Activities of Stock Exchanges

Over the years, NSE and BSE have emerged as nation-wide stock exchanges contributing more than 99 percent of the total turnover (Table 2.29).

During 2014-15, the all-India turnover at the stock exchanges in terms of number of shares traded increased by 60.2 percent on top of a decline of 10.1 percent during 2013-14. The number of shares traded, number of shares delivered and the value of shares delivered increased at both BSE and NSE as compared to the previous year. In the total quantity of shares traded, NSE had a share of 73.1 percent while BSE's share was 26.9 percent. NSE had a share of 59.6 percent in the quantity of shares while BSE had a share of 40.4 percent. In the total value of shares delivered, NSE's share was 81.0 percent while that of BSE was 18.0 percent.

**Table 2.29: Trading statistics of stock exchanges**

Stock Exchange	Shares				Value of Shares Delivered (in ₹ crore)	
	Traded (lakh)		Delivered (lakh)		2013-14	2014-15
	2013-14	2014-15	2013-14	2014-15		
1	2	3	4	5	6	7
Ahmedabad	Na	Na	Na	Na	Na	Na
BSE	4,79,951 (24.2)	8,56,755 (26.9)	2,31,247 (35.3)	4,32,113 (40.4)	1,80,243 (18.0)	2,99,836 (19.0)
Calcutta	37 (0.00)	Na	35 (0.01)	Na	52 (0.01)	Na
Madras	Na	Na	Na	Na	Na	Na
MSEI	1,971 (0.10)	Na	48.2 (0.01)	Na	267 (0.03)	Na
MPSE	Na	Na	Na	Na	Na	Na
NSE	15,05,133 (75.7)	23,25,818 (73.1)	4,23,330 (64.7)	6,38,683 (59.6)	8,22,386 (82.0)	12,76,859 (81.0)
Pune	Na	Na	Na	Na	Na	Na
UPSE	Na	Na	Na	Na	Na	Na
Vadodara	Na	Na	Na	Na	Na	Na
<b>Total</b>	<b>19,87,092</b>	<b>31,82,573</b>	<b>6,54,661</b>	<b>10,70,796</b>	<b>10,02,948</b>	<b>15,76,695</b>

Notes: 1. The Inter-Connected SE, the Cochin SE, the Bangalore SE, the Ludhiana SE, the Gauhati SE, the Bhubaneswar SE, the Jaipur SE and the OTC SE have been granted exit by SEBI vide orders dated December 08, 2014; December 23, 2014; December 26, 2014; December 30, 2014; January 27, 2015; February 09, 2015; March 23, 2015 and March 31, 2015 respectively.

2. The Delhi SE was derecognised on November 19, 2014.

3. Figures in parentheses indicate percentage share to total.

Source: Various stock exchanges.

SEBI had notified the exit policy for de-recognised/non-operational stock exchanges vide circular no. CIR/MRD/DSA/14/2012 dated May 30, 2012. As on March 31, 2015, 12 RSEs had been granted exit by SEBI. As many of the RSEs are dormant, their activities are mainly routed through subsidiaries which have taken up trading membership of BSE and NSE. With respect to the

exiting exchanges, the turnover in subsidiaries is considered upto the date of the exit order. During 2014-15, approximately all of the subsidiaries recorded a decline in the volume of transactions. The total turnover of all the subsidiaries recorded a decline of 11.3 percent to ₹ 1,40,793 crore during 2014-15 from ₹ 1,58,646 crore during 2013-14. (Table 2.30) Some of the subsidiaries recorded nil turnovers.

**Table 2.30: Turnover of Subsidiaries of Stock Exchanges**

Stock Exchange	No. of Subsidiary/ies	Name of the Subsidiary	Turnover of Subsidiary (in ₹ crore)		Percentage Variation
			2013-14	2014-15	
1	2	3	4	5	6
Ahmedabad	1	ASE Capital Markets Ltd.	NA	NA	NA
Bangalore	1	BGSE Financials Ltd. <sup>1</sup>	31,350	30,314	-3.3
Calcutta	1	Calcutta Stock Exchange	0	0	0
Cochin	1	Cochin Stock Brokers Ltd. <sup>2</sup>	3,905	3,963	1.5
Delhi	1	DSE Financial Services Ltd.	2,148	2,242	4.4
ISE	1	ISE Securities and Services Ltd.	23,174	20,197	-12.8
Jaipur	1	JSEL Securities Ltd.	2,661	0	-100.0
Ludhiana	1	LSE Securities Ltd.	81,702	69,258	-15.2
Madras	1	MSE Financial Services Ltd.	468	0	-100.0
MPSE	1	MPSE Securities Ltd.	0	0	0.0
OTCEI	1	OTCEI Securities Ltd.	42	0	-100.0
Pune	1	PSE Securities Ltd.	1,831	0	-100.0
UPSE	1	UPSE Securities Ltd.	2,872	3,944	37.3
Vadodara	1	VSE Stock Services Ltd.	8,535	10,875	27.4
<b>Total</b>			<b>1,58,688</b>	<b>1,40,793</b>	<b>-11.3</b>

Notes: 1. <sup>1</sup> and <sup>2</sup> indicate period from April 1, 2014 to December 26, 2014.

2. The Inter-Connected SE, the Cochin SE, the Bangalore SE, the Ludhiana SE, the Gauhati SE, the Bhubaneswar SE, the Jaipur SE and the OTC SE have been granted exit by SEBI vide orders dated December 08, 2014; December 23, 2014; December 26, 2014; December 30, 2014; January 27, 2015; February 09, 2015; March 23, 2015 and March 31, 2015 respectively.

3. The Delhi SE was derecognised on November 19, 2014.

Source: Various stock exchanges.

## IX. Dematerialisation

Dematerialisation is the process through which securities in physical form are converted to electronic form. Dematerialisation allows investments to be handled in an effective manner by investors. Dematerialisation of shares has been an important milestone in the record of Indian capital markets as it has stirred the micro-structure of markets in general and of stock exchanges in particular.

At the end of March 2015, there are 137.1 lakh demat accounts at NSDL and 96.1 lakh demat accounts at CDSL; 5,943 companies had signed up for dematerialisation at NSDL and 6,486 at CDSL

as on March 31, 2015 (Table 2.31). The quantity of dematerialised securities at NSDL increased by 9.0 percent to 38,51,852 lakh in 2014-15 from 35,33,376 lakh in 2013-14. At CDSL, the quantity of dematerialised securities increased by 22.8 percent from 9,82,724 lakh in 2013-14 to 12,06,908 lakh in 2014-15. The number of shares settled in demat form and the value of shares settled in demat form increased at both NSDL and CDSL. Similarly the quantity of securities in demat form and their value observed an increase at both NSDL and CDSL in 2014-15. At NSDL the total value of demat settled shares increased by 54.5 percent from ₹ 13,39,802 crore in 2013-14 to ₹ 20,69,409 crore in 2014-15.

However, at CDSL the value of shares settled in demat increased by 77.1 percent from ₹ 3,09,767 crore in 2013-14 to ₹ 5,48,511 crore in 2014-15. The ratio of dematerialised equity shares to total outstanding shares of listed companies was 85.0 percent at NSDL and 13.6 percent at CDSL at the end of 2014-15.

Dematerialisation facility is also extended to instruments like commercial papers and bonds apart from equity shares. The total dematerialised value of commercial papers increased at both

NSDL and CDSL (Table 2.32). At NSDL, the dematerialised value of commercial papers rose from ₹ 1,10,214 crore in 2013-14 to ₹ 1,88,375 crore in 2014-15. The dematerialised value of commercial papers at CDSL also increased from ₹ 143 crore in 2013-14 to ₹ 413 crore in 2014-15. The number of active instruments and the dematerialised value of debentures/bonds increased at NSDL and CDSL in 2014-15 over 2013-14.

**Table 2.31: Depository Statistics for Listed Companies**

Particulars	NSDL		CDSL	
	2013-14	2014-15	2013-14	2014-15
No. of Investor Accounts (lakh)	130.6	137.1	87.8	96.1
No. of Companies Signed up	5,668	5,943	6,119	6,486
No. of Companies Available for Demat	5,668	5,943	6,119	6,486
Quantity of Securities in demat form (lakh) [at the end of period]	35,33,376	38,51,852	9,82,724	12,06,908
Value of Securities in demat form (₹ crore) [at the end of period]	62,93,419	86,95,844	10,15,753	13,17,187
No. of Shares Settled in Demat (lakh) [during the year]	6,58,747	9,94,044	4,00,159	7,38,781
Value of Shares Settled in Demat (₹ crore) [during the year]	13,39,802	20,69,409	3,09,767	5,48,511
Market Capitalisation of Companies in Demat (₹ crore)	75,32,989	1,02,20,679	74,54,885	1,02,66,671
Ratio of dematerialised equity shares to total outstanding shares	83.8	85.0	13.8	13.6

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

Source: NSDL and CDSL.

**Table 2.32: Depository Statistics: Debentures/Bonds and Commercial Papers**

Particulars	Debentures / Bonds				Commercial Papers			
	2013-14		2014-15		2013-14		2014-15	
	NSDL	CDSL	NSDL	CDSL	NSDL	CDSL	NSDL	CDSL
1	2	3	4	5	6	7	8	9
No. of Issuers	878	519	1,123	593	165	15	251	16
No. of Active Instruments	9,503	6,807	11,353	8,481	1,108	82	1,502	113
Demat Value (₹ crore)	14,56,175	38,734	17,38,302	48,728	1,10,214	143	1,88,375	413

Source: NSDL and CDSL.

**Table 2.33: Cities according to Number of DP Locations: Geographical Spread**

No. of DP Locations	NSDL		CDSL	
	2013-14	2014-15	2013-14	2014-15
0 > 10	1,385	1,353	1,541	1,413
10-20	78	85	72	69
21-50	66	69	62	55
51-100	17	23	20	18
> 100	19	19	119	13
<b>Total</b>	<b>1,565</b>	<b>1,549</b>	<b>1,714</b>	<b>1,568</b>

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

Source: NSDL and CDSL.

The geographical coverage of depository participants (DPs) of CDSL and NSDL declined in 2014-15. DP locations for NSDL were available in 1,549 cities in 2014-15 as compared to 1,565 cities in 2013-14 (Table 2.33). The number of DP locations for CDSL stood at 1,568 in 2014-15 up from 1,714 in 2013-14.

## X. Derivatives Segment

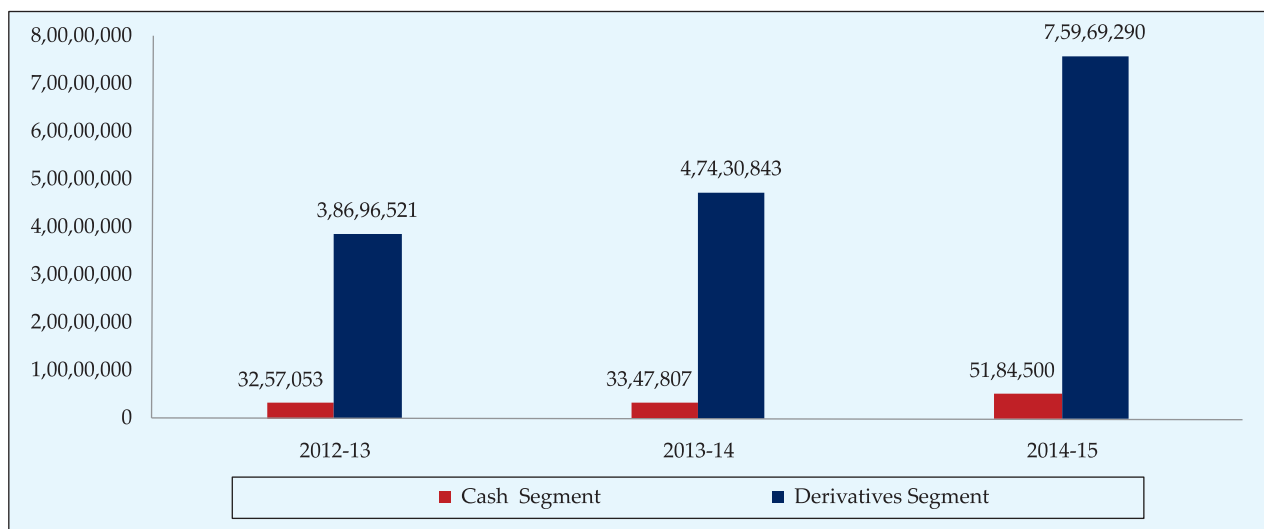
A derivative as defined in the Securities Contracts (Regulations) Act is a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security. With Securities Laws (Second Amendment) Act, 1999, derivatives have been included in the definition of securities. During the year, in the currency derivatives segment USE stopped providing trading facilities to its members from December 29, 2014 vide circular number USE/CMPL/628/2014. USE is in the process of amalgamating with BSE Limited subject to statutory

approvals. The equity derivatives market contributes approximately 93 percent of the total traded value in the secondary market.

### A. The Equity Derivatives Segment

In recent years the equity derivatives segment has been the most traded and valued segment. The turnover to GDP ratio for 2014-15 was at an all-time high of 600, which in itself illustrates the kind of liquidity that this market has. The World Federation of Exchanges (WFE) in its 2014 report said that there was a slight increase in global equity derivative volumes (1.7 percent) which was mainly due to an increase in the number of index options traded in India. The total turnover in 2014-15 in the derivatives segment was approximately 15 times the turnover in the cash market and was 59.7 percent higher than the total turnover recorded in 2013-14. (Chart 2.10) NSE had a majority share in trading volumes at 73.2 percent while BSE contributed 26.8 percent.

**Chart 2.10: Derivatives turnover vis-à-vis cash market turnover**



Source: BSE and NSE.

The total number of contracts traded in NSE's derivative segment increased by 43.0 percent to 183.7 crore in 2014-15 from 128.4 crore in 2013-14, whereas, at BSE the number of contracts traded increased by 67.4 percent from 30.2 crore in 2013-14 to 50.5 crore in 2014-15. The value of the contracts traded in the derivative segment at NSE increased by 45.5 percent to ₹ 5.56 crore in 2014-15 from ₹ 3.82 crore in 2013-14, whereas

the turnover in the derivatives segment at BSE more than doubled to ₹ 2,03,62,741 crore in 2014-15 from ₹ 92,19,434 crore in 2013-14. MSEI recorded a negligible turnover of ₹ 95 crore during the year. The open interest in NSE's derivative segment increased by 44.2 percent to ₹ 1,79,344 crore at the end of 2014-15 up from ₹ 1,24,378 crore at the end of 2013-14 (Table 2.34).

**Table 2.34: Trends in turnover and open interest in equity derivatives segment**

Year/ Month	No. of Contracts			Turnover (in ₹ crore)			Open Interest at the End of the Year / Month					
							No. of Contracts			Value (in ₹ crore)		
	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI
1	2	3	4	5	6	7	8	9	10	11	12	13
2013-14	1,28,44,24,321	30,19,42,441	50,30,177	3,82,11,408	92,19,434	1,44,729	36,88,003	18,692	2,916	1,24,378	603	97
2014-15	1,83,70,41,131	50,54,78,869	2,809	5,56,06,453	2,03,62,741	95	68,37,326	26,719	9	1,79,344	1,001	0.3

Source: BSE, NSE and MSEI.

The monthly turnover in the derivatives segment at NSE recorded an encouraging trend during 2014-15. The highest turnover was recorded in March 2015 (₹ 56,91,524 crore) followed by January 2015 (₹ 55,89,904 crore) and February 2015 (₹ 54,32,152 crore). Growth in BSE's derivatives turnover was the highest in November 2014 (₹ 31,40,459 crore) followed by September 2014 (₹ 24,74,709 crore) and July 2014 (₹ 22,54,389 crore). The average daily turnover at NSE in 2014-15 increased by 50.3 percent to ₹ 2, 28,833 crore from ₹ 1, 52,237 crore in 2013-14 while at BSE it more than doubled from ₹ 36,371 crore to ₹ 83,797 crore.

Index options have gained a share among various derivative products traded in the Indian derivatives market. Calendar year 2014 saw a surge

in turnover in index options to the extent that WFE contributed the positive increase in derivatives globally to this growth without which the growth would have been negative (Table 2.35).

During 2014-15, index options accounted for a major share at NSE and BSE at 71.8 and 98.9 percent respectively. The share of single stock futures at NSE was 14.9 percent while it was 0.8 percent for the MSEI and nil for BSE. The share of index futures constituted 7.4 percent of the turnover of the NSE derivatives market in 2014-15 while it contributed 0.2 percent at BSE. In 2014-15 the share of stock options at NSE was 5.9 percent while at BSE it was 0.9 percent (Chart 2.11). Tables 2.35 and 2.36 cover the trends in all the derivative instruments mentioned here.

**Table 2.35: Product-wise derivatives turnover at NSE, BSE and MSEI (Percent)**

Year / Month	Index Futures	Index Options	Single Stock Options	Single Stock Futures
<b>BSE</b>				
2013-14	0.7	98.2	0.5	0.6
2014-15	0.2	98.9	0.9	0.0
<b>NSE</b>				
2013-14	8.1	72.7	6.3	13.0
2014-15	7.4	71.8	5.9	14.9
<b>MSEI</b>				
2013-14	35.6	43.3	0.2	20.9
2014-15	99.2	0.0	0.0	0.8

Note: MSEI recorded insignificant volumes in 2014-15.

Source: BSE, NSE and MSEI.

**Table 2.36: Number of Stocks/Indices in which derivatives are allowed**

Month	Index Futures	Index Options	Stock Options	Stock Futures	Index Futures	Index Options	Stock Options	Stock Futures
1	2	3	4	5	6	7	8	9
<b>NSE</b>				<b>BSE</b>				
2013-14	10	8	154	154	Na	Na	Na	Na
2014-15	10	8	147	147	9	5	147	145

Note: MSEI recorded insignificant volumes in 2014-15.

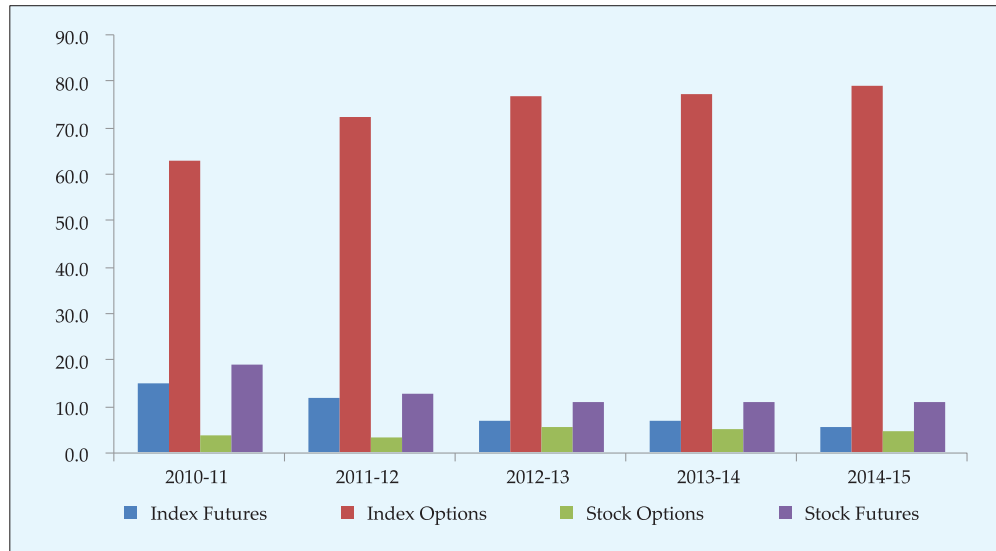
Source: BSE and NSE.

Table 2.36 shows the number of stocks/indices in which derivatives are allowed at NSE and BSE. NSE and BSE both had 147 stocks in the stock options segment while in stock futures BSE had 145 stocks while NSE had 147 stocks. Index futures and options are allowed on 10 and 8 indices respectively at NSE while they are allowed on nine and five indices at BSE.

In the index derivatives segment at NSE, derivatives are offered on the following indices: Nifty,

Nifty Midcap 50, Bank Nifty, CNX Infra, CNX IT and CNX PSE. Index derivatives are also allowed in three foreign indices: the Dow Jones index, S&P 500 and UK FTSE 100 index. The turnover in the F&O of these foreign indices decreased by 25.1 percent from ₹ 10,327 crore in 2013-14 to ₹ 8,256 crore in 2014-15. The turnover decreased in futures of DJIA, FTSE100 and options of FTSE100 and S&P 500 while it increased slightly for futures of S&P 500 (Tables 2.38 and 2.39).

**Chart 2.11: Product-wise share in equity derivatives turnover at NSE, BSE and MSEI**



Source: BSE and NSE.

**Table 2.37: Trends in index futures at NSE, BSE and MSEI**

Year/ Month	No. of Contracts			Notional Turnover (in ₹ crore)			Open Interest at the End of the Year / Month					
	NSE	BSE	MSEI	NSE	BSE	MSEI	No. of Contracts			Value (in ₹ crore)		
							NSE	BSE	MSEI	NSE	BSE	MSEI
1	2	3	4	5	6	7	8	9	10	11	12	13
2013-14	10,52,70,529	21,36,269	17,73,025	30,85,297	63,494	51,595	4,35,684	8,518	2,916	14,585	286	97
2014-15	12,93,14,318	12,27,926	2,782	41,09,472	48,632	94	9,20,979	8,055	9	21,800	338	0.3

Note: MSEI recorded insignificant volumes.

Source: BSE, NSE and MSEI.

**Table 2.38: Trends in Turnover of derivatives on foreign indices at NSE**

Instrument Type	Name of the Underlying Global Index	No. of Con- tracts Traded	Traded Value (in ₹ crore)	No. of Contracts Traded		Traded Value (in ₹ crore)	
				2013-14		2014-15	
				3	4	5	6
FUTIDX	DJIA	1,74,060	6,689	1,14,844	4,902		
FUTIDX	FTSE100	10,150	326	1,646	55		
FUTIDX	S&P500	77,753	3,292	66,602	3,297		
OPTIDX	FTSE100	40	1	0	0		
OPTIDX	S&P500	423	18	31	1		
<b>Total</b>		<b>2,62,426</b>	<b>10,327</b>	<b>1,83,123</b>	<b>8,256</b>		

**Table 2.39: Trends in open interest of foreign indices at NSE**

Name of the Underlying Global Index	Open Interest (No. of Contracts)	Traded Value (in ₹ crore)	Open Interest (No. of Contracts)	Traded Value (in ₹ crore)
	2013-14		2014-15	
S&P500	1,063	49	744	39
DJIA	1,515	62	865	39
FTSE100	18	1	19	1

**Table 2.40: Trends in single stock futures at NSE, BSE and MSEI**

Year / Month	No. of Stocks Traded			No. of Contracts			Notional Turnover (in ₹ crore)			Open Interest at the End of the Year / Month					
										No. of Contracts			Value (in ₹ crore)		
	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2013-14	136	136	15	17,04,14,186	19,01,877	11,86,079	49,49,282	54,609	30,189	10,50,412	3,584	0	36,117	105	0
2014-15	147	145	Na	23,76,04,741	3,05,714	27	82,91,766	9,794	0.7	21,99,054	4,955	Nil	63,994	142	Nil

Note: MSEI recorded insignificant volumes.

Source: BSE, NSE and MSEI.

**Table 2.41: Trends in index options at NSE, BSE and MSEI**

Year/ Month	No. of Contracts			Notional Turnover (in ₹ crore)			Open Interest at the End of the Year / Month					
							No. of Contracts			Notional Turnover (in ₹ crore)		
	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI
1	2	3	4	5	6	7	8	9	10	11	12	13
<b>2013-14</b>	92,85,65,175	29,63,59,575	20,63,446	2,77,67,341	90,55,201	62,719	20,00,930	5,544	0	66,909	186	0
<b>2014-15</b>	1,37,86,42,863	49,82,34,687	Nil	3,99,22,663	2,01,29,226	Nil	34,33,267	9,932	Nil	85,327	417	Nil

Note: MSEI recorded insignificant volumes.

Source: BSE, NSE and MSEI.

**Table 2.42: Trends in stock options at NSE and BSE**

Year / Month	No. of Stocks		No. of Contracts		Notional Turnover (in ₹ crore)		Open Interest at the End of the Year / Month			
							No. of Contracts		Value (in ₹ crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
1	2	3	4	5	6	7	8	9	10	11
<b>2013-14</b>	136	136	8,01,74,431	15,44,720	24,09,489	46,131	2,00,977	1,046	6,767	26
<b>2014-15</b>	145	147	9,14,79,209	57,10,542	32,82,552	1,75,088	2,84,026	3,777	8,223	105

Note: MSEI recorded insignificant volumes.

Source: BSE and 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 and S&P BSE100. At BSE, futures are available on foreign indices the HSI index, MICEX index, FTSE/JSE top 40 and the Bovespa index. However, no trading was executed in the derivatives contracts of these indices at BSE for the period 2013-14 and 2014-15.

At the end of March 2015, Nifty futures and options accounted for around 83.9 percent of the turnover when classified instrument-wise. Bank Nifty gained share when compared to last year which stood at 16.1 percent. At BSE, however, at the end of March 2015 the Sensex contributed 100 percent of the turnover when classified instrument-wise, though during the year BSE100 showed prominence in two months.

Tables 2.35 to 2.42 show product-wise trends in the derivatives market in India during recent years.

Among the various classes of derivative members, the transactions undertaken by trading-cum-clearing members contributed 37.1 percent to the total turnover of the F&O segment in 2014-15. The percentage share in traded value by trading members and trading-cum-self clearing members was 34.9 and 28.0 percent respectively (Table 2.43).

Participant-wise share in NSE F&O turnover for

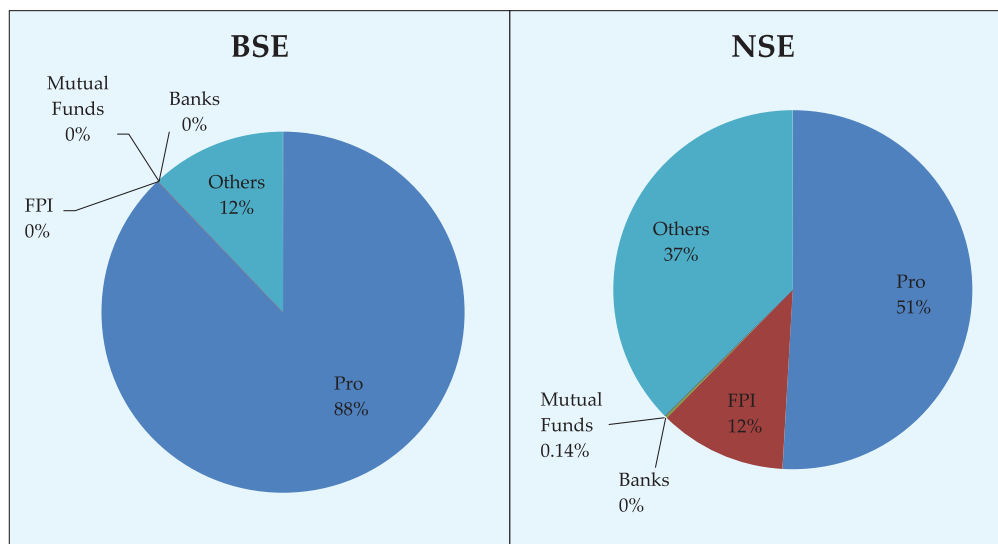
2014-15 shows that proprietary trades accounted for an average 50.9 percent share in the total turnover (Chart 2.12). While FPIs accounted for a share of 11.4 percent in the total turnover the others category comprising retail, HNIs and private and public companies had an average share of 37.4 percent in the total turnover; mutual funds constituted a miniscule share of 0.3 percent. In the BSE F&O turnover, proprietary trades accounted for an average share of 87.8 percent followed by others at 12.1 percent.

**Table 2.43: Shares of various classes of members in derivative turnover at NSE, BSE and MSEI**

Year/Month	Turnover (in ₹ crore)				Percentage Share		
	Trading Members	Trading cum Clearing Members	Trading cum Self Clearing Members	Total	Trading Members	Trading cum Clearing Members	Trading cum Self Clearing Members
1	2	3	4	5	6	7	8
2013-14	2,76,69,006	4,14,70,627	2,60,11,510	9,51,51,143	29.1	43.6	27.3
2014-15	5,29,73,653	5,63,54,429	4,26,10,307	15,19,38,389	34.9	37.1	28.0

Source: NSE, BSE and MSEI.

**Chart 2.12: Participant-wise average share in F&O equity turnover (percent)**



Source: BSE and NSE.

## B. Trends in the Currency Derivatives Market

Currency derivatives in Indian markets are traded on BSE, NSE, MSEI and USE. The United Stock Exchange of India Ltd. (USE) started currency futures trading on September 20, 2010. USE, however, has stopped providing trading facilities to its members from December 29, 2014 vide circular number USE/CMPL/628/2014. During 2014-15, the total

turnover was the highest at NSE (₹ 30,23,908 crore) followed by BSE (₹ 13,07,077) and MSEI (₹ 6,49,925 crore). USE registered a turnover of ₹ 52,186 crore till December 2014. NSE accounted for 60.1 percent of the total turnover in the currency segment followed by BSE (26.0 percent), MSEI (12.9 percent) and USE (1.0 percent) (Table 2.44).

**Table 2.44: Trends in the currency derivatives segment**

Month/ Year	MSEI			NSE			USE			BSE		
	No. of Contracts Traded	Turno- ver (in ₹ crore)	Open interest at the end of Month (in ₹ crore)	No. of Contracts Traded	Turno- ver (in ₹ crore)	Open interest at the end of Month (in ₹ crore)	No. of Contracts Traded	Turno- ver (in ₹ crore)	Open in- terest at the end of Month (₹ crore)	No. of Con- tracts Traded	Turno- ver (in ₹ crore)	Open interest at the end of Month (in ₹ crore)
1	2	3	4	5	6	7	8	9	10	11	12	13
2013-14	39,85,84,890	24,22,410	2,156	66,01,92,530	40,12,513	6,409	4,74,79,296	3,01,620	217	3,91,57,195	2,44,312	253
2014-15	9,64,78,369	6,49,925	2,292	48,06,64,694	30,23,908	6,912	81,61,866	52,186	58	21,24,34,540	13,07,077	4,161

Source: MSEI, NSE, USE and BSE.

**Table 2.45: Product-wise market share in currency derivatives volume (percent)**

Year	USD-INR Futures	EURO-INR Futures	GBP-INR Futures	JPY-INR Futures	USD-INR Options
1	2	3	4	5	6
<b>NSE</b>					
2013-14	65.8	3.3	2.9	1.3	26.7
2014-15	66.1	3.4	3.8	1.0	25.7
<b>BSE</b>					
2013-14	85.2	0.7	0.7	0.3	13.1
2014-15	68.0	0.2	0.1	0.2	31.5
<b>MSEI</b>					
2013-14	78.1	4.1	3.7	1.9	12.3
2014-15	85.9	4.0	5.9	1.4	2.8
<b>USE</b>					
2013-14	18.7	5.1	4.6	3.1	68.5
2014-15	7.8	1.4	1.4	0.6	88.8

Notes: 1. Trading at BSE started in November 2013. 2. USE stopped providing trading facilities to its members from December 29, 2014 vide circular number USE/CMPL/628/2014

Source: MSEI, NSE, USE and BSE.

**Table 2.46: Trends in interest rate derivatives at NSE, BSE and MSEI**

Year/ Month	Total						Open Interest at the end of the year/ month					
	No. of contracts			Turnover (in ₹ crore)			No. of Contracts			Value (in ₹ crore)		
	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI
1	2	3	4	5	6	7	8	9	10	11	12	13
2013-14	15,02,148	1,28,549	3,56,555	30,173	7,191	2,580	55,710	9,829	2,596	1,113	197	52
2014-15	2,05,87,036	20,33,275	4,95,869	4,21,558	41,913	10,312	3,38,372	80,078	56,017	7,071	1,671	1,170

Source: NSE, BSE and MSEI.

The product-wise share in currency derivatives volume shows that while at NSE, BSE and MSEI the USD-INR futures dominated, at USE USD-INR options had a dominant share. (Table 2.45)

### C. Trends in Interest Rates Derivatives

Interest rate futures contracts are contracts based on a list of underlying as may be specified by the exchange and approved by SEBI from time to time. The underlying asset for interest rate futures is an interest bearing instrument. BSE, NSE and

MSEI started interest rate derivatives trading in their respective exchanges during the last financial year.

The trends in turnover and open interest in interest rate at NSE, BSE and MSEI are shown in Table 2.40. During 2014-15, the total turnover in the interest rate derivative segment registered an increase of nearly 10 times. NSE witnessed a turnover of ₹ 4,21,558 in 2014-15 as compared to ₹ 30,173 crore in 2013-14. At BSE the turnover increased from ₹ 7,191 crore in 2013-14 to ₹ 41,913 crore in 2014-15. MSEI also recorded a surge in turnover

from ₹ 2,580 crore in 2013-14 to ₹ 10,312 crore in 2014-15. NSE contributed a major share to the turnover at 89.0 percent while BSE contributed 8.8 percent and MSEI contributed 2.2 percent (Table 2.46).

#### D. Trends in 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 index options prices of Nifty. 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 the investors' perceptions of the market's volatility in the near term. The turnover in India VIX was recorded at ₹ 2,256 crore in 2014-15 compared to ₹ 2,193 crore in 2013-14 (Table 2.47).

**Table 2.47: Trends in VIX futures segment at NSE**

Year	Volume (No. of Contracts traded)	Turnover (Value)	Open Interest (quantity)
2013-14	17,546	2,193	471
2014-15	11,274	2,256	0

Source: NSE.

### 3. MUTUAL FUNDS

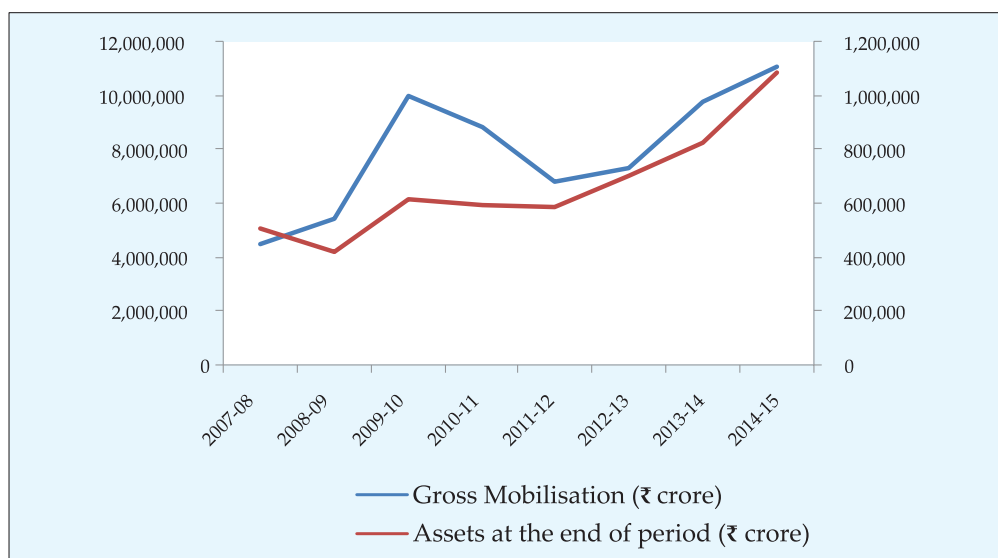
The Indian mutual fund industry has been one of the fastest growing and most competitive segments of the financial sector. Its net inflow has been highest since 2007-08 and the assets under management are at an all-time high. This growth may be contributed both to a positive outlook as well as well-timed and paced initiatives by SEBI to re-energise the mutual

fund industry from time to time. The year 2014-15 saw the introduction of the concept of seed capital, increase in cash transaction limits for investors and increase in minimum net worth for asset management companies (AMCs) to launch and manage new schemes as some of the regulatory reforms undertaken by SEBI.

**Table 2.48: Resource mobilisation by mutual funds (in ₹ crore)**

Year	Gross Mobilisation	Redemption	Net Inflow	Assets at the end of period
2013-14	97,68,100	97,14,318	53,782	8,25,240
2014-15	1,10,86,259	1,09,82,971	1,03,287	10,82,757

**Chart 2.13: Trends in Resource Mobilisation**



In 2014-15, mutual funds showed encouraging growth in terms of net resource mobilisation. The gross mobilisation of resources by all mutual funds during 2014-15 was ₹ 1,10,86,259 crore compared to ₹ 97,68,100 crore during the previous year showing an increase of 13.5 percent over the previous year (Table 2.48). Correspondingly, redemption increased by 13.1 percent to ₹ 1,09,82,971 crore in 2014-15 from ₹ 97,14,318 crore in 2013-14. The net resources mobilised by all the mutual funds in 2014-15 was ₹ 1,03,287 crore compared to net mobilisation of ₹ 53,782 crore in 2013-14, showing a rise of 92.0 percent.

The cumulative net assets of all mutual funds as on March 31, 2015 was ₹ 10,82,757 crore as against ₹ 8,25,240 crore on March 31, 2014, representing an increase of 31.2 percent.

#### I. Sector-wise Resource Mobilisation

Private sector mutual funds retained the dominant place in the mutual fund industry in 2014-

15, similar to last year with 82.5 percent share in gross resource mobilisation and 100.4 percent in net resource mobilisation. The corresponding share of UTI mutual funds and other public sector mutual funds was 10.2 and 7.4 percent respectively in gross resource mobilisation. While other public sector mutual funds contributed 0.8 percent to the net resource mobilisation, the UTI mutual funds had net redemption of 1.2 percent.

In absolute terms, gross resource mobilisation by private sector mutual funds rose by 13.6 percent to ₹ 91,43,962 crore in 2014-15 from ₹ 80,49,397 crore in 2013-14 (Table 2.49). Net resource mobilisation by private sector mutual funds more than doubled to ₹ 1,03,700 crore in 2014-15 compared to ₹ 48,838 crore in 2013-14. Net resources raised by other public sector mutual funds were much lesser at ₹ 865 crore in 2014-15 representing a decline of 80.9 percent.

**Table 2.49: Sector-wise Resource Mobilisation by Mutual Funds (in ₹ crore)**

Month/ Year	Private Sector MFs				Public Sector MFs				Grand Total
	Open- ended	Close- ended	Interval	Total	Open- ended	Close- ended	Inter- val	Total	
1	2	3	4	5	6	7	8	9	10
<b>Mobilisation of Funds</b>									
2013-14	79,12,853	1,21,634	14,909	80,49,397	16,94,672	22,733	1,296	17,18,703	97,68,100
2014-15	90,97,753	43,785	2,423	91,43,962	19,28,467	13,760	69	19,42,297	1,10,86,260
<b>Repurchases / Redemption</b>									
2013-14	79,19,832	70,564	10,161	80,00,559	16,98,146	14,061	1,550	17,13,758	97,14,318
2014-15	89,46,880	87,004	6,378	90,40,262	19,24,059	18,071	579	19,42,710	1,09,82,972
<b>Net Inflow / Outflow of Funds</b>									
2013-14	-6,979	51,069	4,748	48,838	-3,474	8,672	-254	4,943	53,782
2014-15	1,50,874	(43,219)	(3,955)	1,03,700	4,408	(4,310)	(510)	-412	1,03,288

Note: UTI figures are reported with public sector mutual funds.

In contrast to the trends observed in the past, during 2014-15, while open-ended schemes witnessed net inflows (except UTI mutual funds), close-ended schemes recorded net outflows.

A scheme-wise pattern reveals that net inflows were positive for all the scheme categories except the fund of funds investing overseas schemes. Growth/equity oriented schemes registered the highest net inflows amounting to ₹ 71,030 crore followed by income/debt oriented schemes at ₹ 22,556 crore in 2014-15. Other schemes under growth/equity oriented schemes registered an inflow of ₹ 68,121 crore followed by balanced schemes at ₹ 9,826 crore and liquid/money market schemes at ₹ 9,781 crore (Table 2.50).

AUM was the highest for income/debt oriented schemes at ₹ 6,94,128 crore with a growth of 15.5 percent while AUM for growth/equity oriented schemes increased by 80.6 percent to ₹ 3,45,139 crore. AUM of gilt schemes in 2014-15 increased by 139 percent, followed by a rise of 84.6 percent in 'others' schemes of growth/equity oriented schemes and a 78.0 percent increase in 'other' ETF schemes. Except the fund of funds investing overseas schemes and gold ETFs, all the schemes registered an increase in AUM over the previous year. The highest decline in AUM was registered for fund of funds investing overseas schemes at 24.5 percent.

**Table 2.50: Scheme-wise resource mobilisation by mutual funds and AUM**

Schemes	Gross Funds Mobilised (in ₹ crore)	Repurchase/Redemption (in ₹ crore)	Net Inflow/Outflow of Funds (in ₹ crore)	Assets Under Management as on Mar 31, 2015 (in ₹ crore)	Percentage Variation over March 31, 2014
1	2	3	4	5	6
<b>A. Income/ Debt Oriented Schemes</b>					
i) Liquid/Money Market	1,04,05,265	1,03,95,484	9,781	1,62,562	22.0
ii) Gilt	13,133	5,421	7,711	14,614	139.0
iii) Debt (other than assured returns)	4,93,503	4,88,627	4,876	5,15,772	12.0
iv) infrastructure development	188	-	188	1,179	34.1
	<b>1,09,12,088</b>	<b>1,08,89,532</b>	<b>22,556</b>	<b>6,94,128</b>	<b>15.5</b>
<b>B. Growth/ Equity Oriented Schemes</b>					
i) ELSS	8,343	5,434	2,908	39,470	54.5
ii) Others	1,39,829	71,703	68,121	3,05,669	84.6
<b>Sub-total (i+ii)</b>	<b>1,48,171</b>	<b>77,142</b>	<b>71,030</b>	<b>3,45,139</b>	<b>80.6</b>
<b>C. Balanced Schemes</b>					
Balanced schemes	15,417	5,591	9,826	26,368	57.0
<b>D. Exchange Traded Fund</b>					
i) Gold ETF	118.27	1,593	-1,475	6,655	-23.3
ii) Other ETFs	9,856	7,605	2,251	8,060	78.0
<b>Sub-total (i+ii)</b>	<b>9,974</b>	<b>9,198</b>	<b>776</b>	<b>14,715</b>	<b>11.4</b>
<b>E. Fund of Funds Investing Overseas</b>					
Fund of Funds investing overseas	609	1,509.00	-899.9	2,408	-24.5
<b>TOTAL (A+B+C+D+E)</b>	<b>1,10,86,259</b>	<b>1,09,82,972</b>	<b>1,03,288</b>	<b>10,82,757</b>	<b>31.2</b>

As on March 31, 2015, there were 1,884 mutual fund schemes of which 1,346 were income/debt oriented schemes, 434 were growth/equity oriented schemes and 25 were balanced schemes (Table 2.51). There were 48 ETFs, of which 14 were gold ETFs and 34 were other ETFs. Also, there

were 31 schemes operating as fund of funds which invested in overseas securities. In terms of the investment objective, there were 810 open-ended schemes and 1,002 close-ended schemes as on March 31, 2015.

**Table 2.51: Number of schemes by investment objective**

Schemes	Open-ended	Close-ended	Interval	Total
<b>A. Income/ Debt Oriented Schemes</b>				
i) Liquid/ Money Market	52(53)	0(0)	0(0)	52(53)
ii) Gilt	45(44)	0(0)	0(0)	45(44)
iii) Debt (other than assured returns)	267(259)	906(753)	72(65)	1,245(1,077)
iv) Debt (assured returns)	0(0)	0(0)	0(0)	0(0)
v) Infrastructure Development	0	4(4)	0	4(4)
<b>Sub-total (i+ii+iii)</b>	<b>364(356)</b>	<b>910(757)</b>	<b>72(65)</b>	<b>1,346(1,178)</b>
<b>B. Growth/ Equity Oriented Schemes</b>				
i) ELSS	39(38)	16(14)	0(0)	55(52)
ii) Others	303(287)	76(24)	0(0)	379(311)
<b>Sub-total (i+ii)</b>	<b>342(325)</b>	<b>92(38)</b>	<b>0(0)</b>	<b>434(363)</b>
<b>C. Balanced Schemes</b>				
Balanced schemes	25(29)	0(1)	0(0)	25(30)
<b>D. Exchange Traded Fund</b>				
i) Gold ETF	14(14)	0(0)	0(0)	14(14)
ii) Other ETFs	34(26)	0(0)	0(0)	34(26)
<b>Sub-total (i+ii)</b>	<b>48(40)</b>	<b>0(0)</b>	<b>0(0)</b>	<b>48(40)</b>
<b>E. Fund of Funds Investing Overseas</b>				
Fund of Funds investing overseas	31(27)	0(0)	0(0)	31(27)
<b>TOTAL (A+B+C+D+E)</b>	<b>810(777)</b>	<b>1,002(796)</b>	<b>72(65)</b>	<b>1,884(1,638)</b>

Notes:

1. Figures in parentheses indicate corresponding figures for 2013-14.
2. Number of schemes also includes serial plans.

**Table 2.52: Trends in transactions on stock exchanges by mutual funds**

(in ₹ 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
		2	3	4	5	6	7	8	9
<b>2013-14</b>	1,12,131	1,33,356	-21,224	15,38,087	9,94,842	5,43,247	16,50,219	11,28,197	5,22,023
<b>2014-15</b>	2,31,409	1,90,687	40,722	17,17,155	11,30,138	5,87,018	19,48,565	13,20,825	6,27,741

Over the past years, mutual fund investments in equity had been outweighed by investments in debt. During 2014-15, combined net investments by mutual funds in debt and equity were ₹ 6,27,741 crore as compared to ₹ 5,22,023 crore in 2013-14, accounting for an increase of 20.3 percent (Table 2.52). Net investments by mutual funds in the equity segment were ₹ 40,722 crore, whereas their net investments in the debt segment were ₹ 5,87,018

crore during the same period. After five consecutive years, 2014-15 had positive flows by mutual funds in the equity segment. Net investments were the highest in March 2015 (₹ 81,240 crore) followed by August 2014 (₹ 78,852 crore). Net investments of mutual funds in the debt and equity segment were positive for all the months during the year except for April 2014 in the equity segment.

## II. Unit Holding Pattern

As on March 31, 2015, 97.3 percent of the total folios were subscribed by the individual's category, their share in the total net assets being 46.9 percent. On the other hand, corporate/institutions had a miniscule share of 0.9 percent in the total number of folios and their share in total net assets was significant at 47.6 percent. In comparison to 2013-14, the share of corporate in total net assets declined while their share in folios was almost the same. NRIs/OCBs with 1.8 percent share in folios had 3.8 percent share in total net assets (Table 2.53).

Table 2.54 provides data on private and public sector sponsored mutual funds wherein it can be seen that private sector mutual funds dominated with a higher number of folios and total net assets. While private sector mutual funds had a 65.2 percent share in total folios of around ₹ 4.2 crore, the corresponding share of public sector mutual funds was 34.8 percent as at end March 2015. In total net assets worth ₹ 10.8 lakh crore as on March 31, 2015, the share of private sector mutual funds stood at 84.8 percent as compared to 15.3 percent for public sector mutual funds.

**Table 2.53: Unit Holding Pattern of all Mutual Funds**

Category	No. of Folios	Percentage to Total Folios	NAV (in ₹ crore)	Percentage to Total Net Assets
<b>2014-15</b>				
Individuals	4,06,06,623	97.3	5,08,032	46.9
NRIs/OCBs	7,31,081	1.8	41,363	3.8
FPIs	19,798	0.0	17,546	1.6
Corporates/Institutions/Others	3,82,704	0.9	5,15,816	47.6
<b>Total</b>	<b>4,17,40,206</b>	<b>100.0</b>	<b>10,82,757</b>	<b>100.0</b>
<b>2013-14</b>				
Individual	3,90,42,636	97.2	3,70,905	44.7
NRIs/OCBs	7,83,048	1.9	22,597	4.0
FPIs	432	0.0	13,675	1.6
Corporates/Institutions/Others	3,45,525	0.9	4,11,681	49.6
<b>Total</b>	<b>4,01,71,641</b>	<b>100.0</b>	<b>8,29,858</b>	<b>100.0</b>

**Table 2.54: Unit holding pattern of private and public sector mutual funds**

Category	No. of Folios	Percentage to Total Folios under Private Sector	NAV (in ₹ crore)	Percentage to Total Net Assets under Private Sector	No. of Folios	Percentage to Total Folios under Public Sector	NAV (in ₹ crore)	Percentage to Total Net Assets under Public Sector
1	2	3	4	5	6	7	8	9
<b>Private Sector Sponsored Mutual Funds</b>					<b>Public Sector Sponsored Mutual Funds</b>			
<b>2014-15</b>								
Individuals	2,62,85,069	96.6	4,25,238	46.3	1,43,21,554	98.6	82,794	50.2
NRIs/OCBs	6,01,263	2.2	37,200	4.1	1,29,818	0.9	4,163	2.5
FPIs	19,788	0.1	17,502	1.9	10	0.0	44	0.0
Corporates/ Institutions/Others	3,15,761	1.2	4,37,822	47.7	66,943	0.5	77,994	47.3
<b>Total</b>	<b>2,72,21,881</b>	<b>100.0</b>	<b>9,17,762</b>	<b>100.0</b>	<b>1,45,18,325</b>	<b>100.0</b>	<b>1,64,995</b>	<b>100.0</b>
<b>2013-14</b>								
Individual	2,48,85,093	96.3	3,04,711	44.1	1,41,57,543	98.8	66,194	47.6
NRIs/OCBs	6,62,677	2.6	30,181	4.4	1,20,371	0.8	3,415	2.4
FPIs	207	0.0	7,776	1.1	225	0.0	5,898	4.2
Corporates/ Institutions/Others	2,94,932	1.1	3,48,018	50.4	50,593	0.4	63,662	45.7
<b>Total</b>	<b>2,58,42,909</b>	<b>100.0</b>	<b>6,90,688</b>	<b>100.0</b>	<b>1,43,28,732</b>	<b>100.0</b>	<b>1,39,170</b>	<b>100.0</b>

#### 4. INTERMEDIARIES ASSOCIATED WITH SECURITIES MARKET

##### I. Portfolio Managers

A portfolio manager is a body corporate which, pursuant to a contract or arrangement with a client, advises or 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. Portfolio managers are registered and regulated under SEBI (Portfolio Managers) Regulations, 1993.

While the total number of clients declined to 46,706 in 2014-15 from 57,477 in 2013-14, the assets under management (AUM) increased. While the number of clients utilising discretionary, non-discretionary and advisory services all declined in 2014-15, the net assets managed by all services

increased. Among the clientele base, the dominant share was that of clients taking discretionary services and constituted 86.8 percent of the total number of clients (Table 2.55).

Assets under management of the portfolio management industry rose by 20.7 percent to ₹ 9,27,385 crore in 2014-15 from ₹ 7,68,326 crore in 2013-14. Discretionary services provided to EPFO/PFs constituted 68.1 percent of the total assets under management of the portfolio managers whereas advisory services constituted 19.4 percent. AUM of discretionary portfolio managers managing EPFO/PF funds increased by 16.5 percent in 2014-15 over the previous year. The AUM/GDP ratio of portfolio managers was 7.3 percent in 2014-15 while that of the mutual fund industry was 8.6 percent, indicating a growth over their previous year's ratios.

**Table 2.55: Assets managed by portfolio managers**

Year	No. of Clients				AUM (in ₹ crore)				
	Discretionary	Non-Discretionary	Advisory	Total	Discretionary (EPFO/PFs)	Discretionary (Non EPFO/PFs)	Non-Discretionary	Advisory	Total
1	2	3	4	5	6	7	8	9	10
2013-14	42,771	4,932	9,774	57,477	5,41,655	43,939	39,728	1,43,004	7,68,326
2014-15	40,558	3,297	2,851	46,706	6,31,091	68,213	47,957	1,80,123	9,27,385

##### II. Alternative Investment Funds

SEBI notified the SEBI (AIF Regulations) on May 21, 2012 providing for three categories of AIFs which subsumed the existing VCFs and FVCIs. AIFs Regulations endeavoured to extend the perimeter of regulation to unregulated funds with a view to systemic stability, increasing market efficiency, encouraging formation of new capital and consumer protection.

Since the implementation of the regulations, 135 AIFs have been registered with SEBI as on March 31, 2015. The figures show that while Category I made an investment of ₹ 961 crore, Category III made an investment of ₹ 1,528 crore. Category II comprising of private equity funds and debt funds made the highest investment of ₹ 4,868 crore. The total investments made by AIFs in 2014-15 were ₹ 7,357 crore. The cumulative amount mobilised by AIFs as on March 31, 2015 is shown in Table 2.56.

**Table 2.56: Cumulative amount mobilised by AIFs**

(in ₹ crore)

Category	Commitments raised	Funds raised	Investments made
	(in ₹ crore)		
Category I			
Infrastructure Fund	6,861	1,077	502
Social Venture Fund	565	236	129
Venture Capital Fund	1,102	459	330
SME Fund	135	104	0
<b>Category I Total</b>	<b>8,663</b>	<b>1,875</b>	<b>961</b>
Category II	12,085	5,946	4,868
Category III	1,864	1,683	1,528
<b>Grand Total</b>	<b>22,612</b>	<b>9,504</b>	<b>7,357</b>

Note : The above report is compiled on the basis of quarterly/monthly information submitted to SEBI by registered Alternative Investment Funds

Source: AIFs

The cumulative net investment of domestic VCFs increased by 1.6 percent in 2014-15 to ₹ 36,563 crore from ₹ 35,987 crore in 2013-14. Net investments by FVCIs, however, decreased by 1.6 percent to ₹ 44,516 crore in 2014-15 from ₹ 45,262 crore in 2013-14. The investment details of these VCFs/FVCIs are given in Table 2.57.

**Table 2.57: Cumulative net investments by VCFs and FVCIs (in ₹ crore)**

Year	VCFs	FVCIs	Total (*)
2013-14	35,987	45,262	70,054
2014-15	36,563	44,516	71,008

Note: \* Excludes investments by FVCIs through VCFs.

## 5. FOREIGN PORTFOLIO INVESTMENT

SEBI (Foreign Portfolio Investors) Regulations, 2014 were framed and notified on January 7, 2014 and the FPI regime commenced from June 1, 2014. Under the new regime, existing FIIs, sub-accounts and QFIs were merged into a new investor class

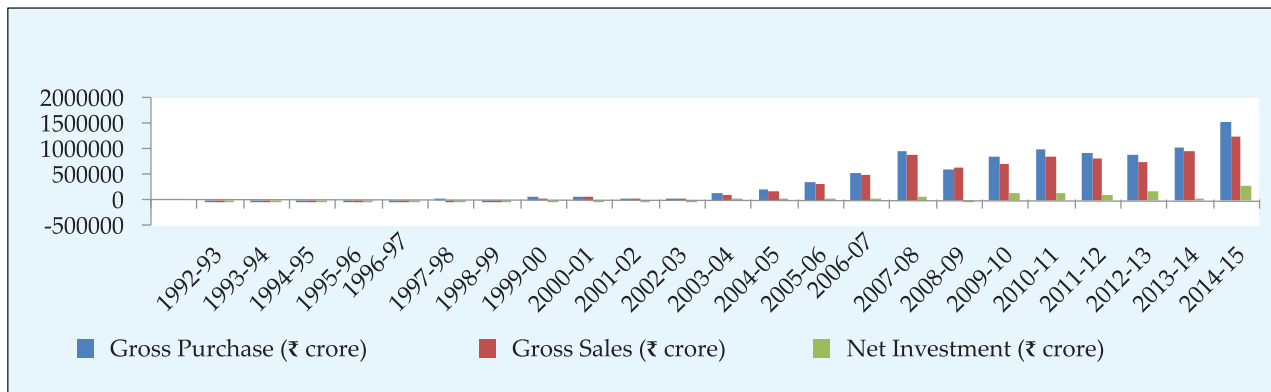
termed as FPIs. SEBI approved designated depository participants (DDPs) to register FPIs on behalf of SEBI subject to compliance with KYC requirements.

FPI investments into India have seen a significant jump in recent years. India received FPI net investments of ₹ 2,77,460 crore during 2014-15 compared to ₹ 51,649 crore in 2013-14, showing an increase of over five times. In US dollar terms, the net investments amounted to USD 45,698 million in 2014-15 compared to USD 8,876 million in 2013-14. The combined gross purchases of debt and equity by FPIs increased by 49.0 percent to ₹ 15,21,346 crore in 2014-15 from ₹ 10,21,010 crore in 2013-14 (Table 2.58). The combined gross sales by FPIs increased by 28.3 percent to ₹ 12,43,886 crore in 2014-15 from ₹ 9,69,361 crore during the previous year. The cumulative net investments of FPIs in Indian markets amounted to USD 226,103 million as at the end of March 2015 compared to USD 180,405 million in 2013-14, registering an increase of 25.3 percent.

**Table 2.58: Investments by Foreign Portfolio Investors**

Year	Gross Purchase (in ₹ crore)	Gross Sales (in ₹ crore)	Net Investment (in ₹ crore)	Net Investment (USD mn.)	Cumulative Investment (USD mn.)
1	2	3	4	5	6
2013-14	10,21,010	9,69,361	51,649	8,876	180,405
2014-15	15,21,346	12,43,886	2,77,460	45,698	226,103

**Chart 2.14: Trends in Investments by Foreign Portfolio Investors**



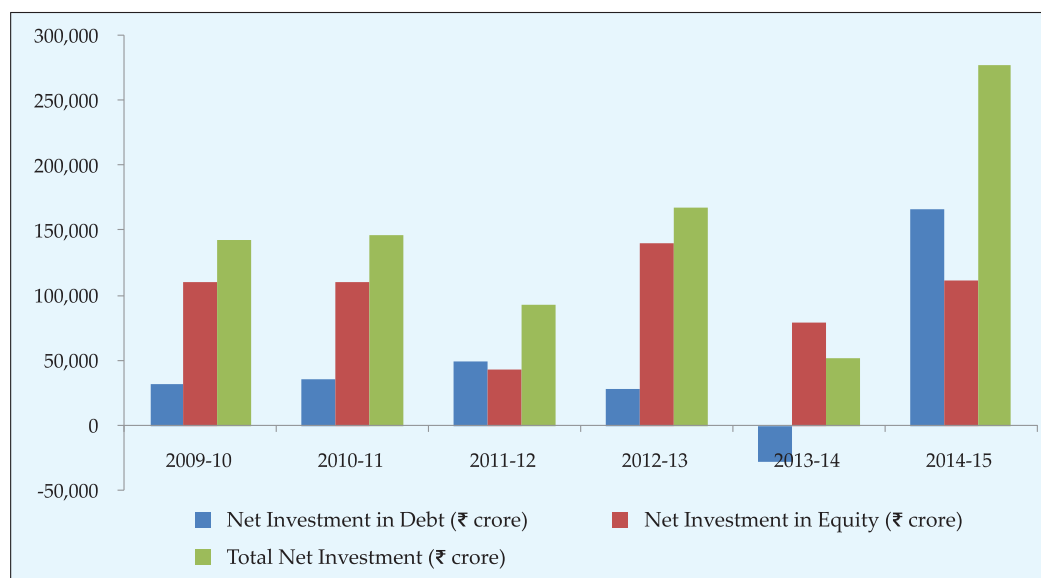
An analysis of FPI net investments reveals that a majority of the investments were made in debt in 2014-15. This was an exception to the trend of the last few years except 2011-12. In 2014-15, FPI net investments into the equity segment increased by 39.7 percent to ₹ 1,11,333 crore from ₹ 79,709 crore in 2013-14 (Table 2.59). In the debt segment, FPI net investments were ₹ 1,66,127 crore in 2014-15 as compared to net outflow of ₹ 28,060 crore in 2013-14.

Net FPI investments were the highest in the second quarter of 2014-15. The highest net investments were registered for July 2014 (₹ 36,046 crore) followed by May 2014 (₹ 33,778 crore) and January 2015 (₹ 33,688 crore). In the equity segment the highest investments were seen in May 2014 (₹ 14,006 crore) and in debt segment the highest investments were in July 2014 (₹ 22,935 crore).

**Table 2.59: Segment-wise Net Investment by FPIs** (in ₹ crore)

Year	Net Investment by FPIs		
	Equity	Debt	Total
2013-14	79,709	-28,060	51,649
2014-15	1,11,333	1,66,127	2,77,460

**Chart 2.15: Trends in Net Investments by Foreign Portfolio Investors**



**Table 2.60: QFI Investments**

Year	Instrument	Gross Purchase (in ₹ crore)	Gross Sales (in ₹ crore)	Net Investment (in ₹ crore)	Net Investment (USD million.)*	Cumulative Investment (USD million)
1	2	3	4	5	6	7
2013-14	Equity	685	102	583	97	218
	Corporate Debt	1,925	404	1,520	253	333
2014-15	Equity	179	574	(395)	(64)	221
	Corporate Debt	2,111	610	1,501	242	625

Notes: 1. \* RBI reference rate as on February 25, 2015 was 1 USD = ₹ 62.0468 as taken from the RBI website.

2. Through SEBI (FPI) Regulations, 2014, FIIs/sub-accounts/QFIs were merged to create a new category of foreign investors, the foreign portfolio investors (FPIs).

3. As per the FPI regulatory framework, QFIs were permitted to buy, sell or deal in securities for a period of one year from the date of notification of the SEBI (FPI) Regulations, that is, till January 6, 2015.

Total net investments of QFIs in equity and corporate debt, were ₹ 395 crore and ₹ 1,501 crore respectively in 2014-15. In USD terms, this corresponds to USD 64 million and USD 242 million respectively (Table 2.60).

The debt investment limits prescribed for FPIs and sub-accounts for 2014-15 are given in Table 2.61.

The framework for FPI debt limits was simplified and the existing debt limits were classified as: government debt (auction) of USD 25 billion and government debt (on tap) of USD 5 billion and corporate bonds of USD 51 billion. Tables 2.62a and 2.62b provide a glimpse of the debt utilisation status and investment of coupons in government securities as on March 31, 2015.

**Table 2.61: Allocation of debt investment limits to FPIs and Sub-accounts (in ₹ crore)**

S No	Date	Govt. Debt
1	June 11, 2014	7,152
2	July 01, 2014	5,516
3	July 21, 2014	2,521
4	August 22, 2014	3,208
5	September 11, 2014	3,117
6	October 01, 2014	4,176
7	October 21, 2014	646
8	November 10, 2014	1,488
9	December 01, 2014	3,041
10	December 22, 2014	2,674
11	January 12, 2015	1,285
12	February 02, 2015	310
13	February 23, 2015	617
14	March 16, 2015	893

**Table 2.62a: Debt Utilisation Status**

S. No	Type of Instrument	Upper Cap (in USD billion)	Upper Cap (in ₹ crore) * (A)	Investment as reported by Custodians (in ₹ crore) (B)	Unutilised Limit available with the entity acquiring limits (₹ Cr) (C)	Total Investments including limits acquired by the entity (in ₹ crore) (D) = (B) + (C)	% of limits exhausted (E) = (D)/ (A)	Free Limit (in ₹ crore) (F) = (A)-(D)
1	2	3	4	5	6	7	8	9
1	Government Debt (auction) <sup>[1]</sup>	25	1,24,432	1,23,801	200	1,24,001	100	431
	Government Debt (on tap) <sup>[2&amp;3]</sup>	5	29,137	29,137	NA	29,137	100	0
2	Corporate Debt <sup>[5]</sup>	51	2,44,323	1,88,994	NA	1,88,994	77	55,329
2 (a)	Commercial Paper (Fresh Investments not permitted w.e.f. February 4, 2015)	2 <sup>[6]</sup>	9,978	7,213	0	7,213	72	2,765
2 (b)	Credit Enhanced Bonds	5 <sup>[7]</sup>	23,953	0	-	0	0	23,953
	<b>Grand Total</b>	<b>81</b>	<b>3,97,892</b>	<b>3,41,933</b>	<b>200</b>	<b>3,42,133</b>	<b>86</b>	<b>55,759</b>

Notes: <sup>1</sup> While the government announces the limits on debt investments to FIIs and QFIs in USD terms, for allocation and monitoring purposes, these limits are converted into INR terms using the RBI reference rate as on the date of the announcements/effective dates. Increase/Decrease in sub limits are computed proportionately on basis of debt limits announced by Government of India.

<sup>2</sup> Includes investment in Interest Rate Futures by FIIs registered with SEBI inclusive of investment as per SEBI circular ref. no. CIR/ MRD/DRMNP/2/2014 dated January 20, 2014.

<sup>3</sup> Investments by FIIs 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 circular ref. no. CIR/IMD/FIIC/ 17/2014 dated July 23, 2014.

<sup>4</sup> USD 5.5 billion within the limit of US\$ 30 billion for Government Debt

<sup>5</sup> Beginning April 01, 2013, FIIs can invest in Corporate Debt without purchasing debt limits till the overall investment reaches 90 percent after which the auction mechanism would be initiated for allocation of the remaining limits. As per SEBI circular ref. no. CIR/IMD/FIIC/1/2015 dated February 03, 2015 all investments within the USD 51 billion Corporate Debt limit category shall be required to be made in corporate bonds with a minimum residual maturity of three years.

<sup>6</sup> USD 2 billion within the limit of USD 51 billion for Corporate Debt

<sup>7</sup> USD 5 billion within the limit of USD 51 billion for Corporate Debt

**Table 2.62b: Investment of coupons in Government securities**

S.No.	Type of Instrument	Investment as reported by Custodians (in ₹ crore) (A)	Unutilised Limit available with the entity as per reinvestment facility (in ₹ crore) (B)	Total Investments including unutilised limits as per reinvestment facility (in ₹ crore) (C) = (A) + (B)
1	Government Debt (Coupon Investment)	179	Na	179

Notes: 1. Investments of coupons in Government securities as per SEBI circular ref. no. CIR/IMD/FIIC/2/2015 dated February 5, 2015.

2. Unutilised Limit available with the entity as per re-investment facility as per SEBI circular ref. no. CIR/IMD/FIIC/2/2015 dated February 5, 2015.

**Table 2.63: Notional value of open interest of FPIs in derivatives (in ₹ crore)**

Items	2014-15
Index Futures	14,251
Index Options	50,064
Stock Futures	54,351
Stock Options	1,300
Interest rate Futures	0
<b>Total</b>	<b>1,19,966</b>
Change in open position	-3,377
percentage change	-2.74

Note: Open interest calculated taking both sides' open positions.

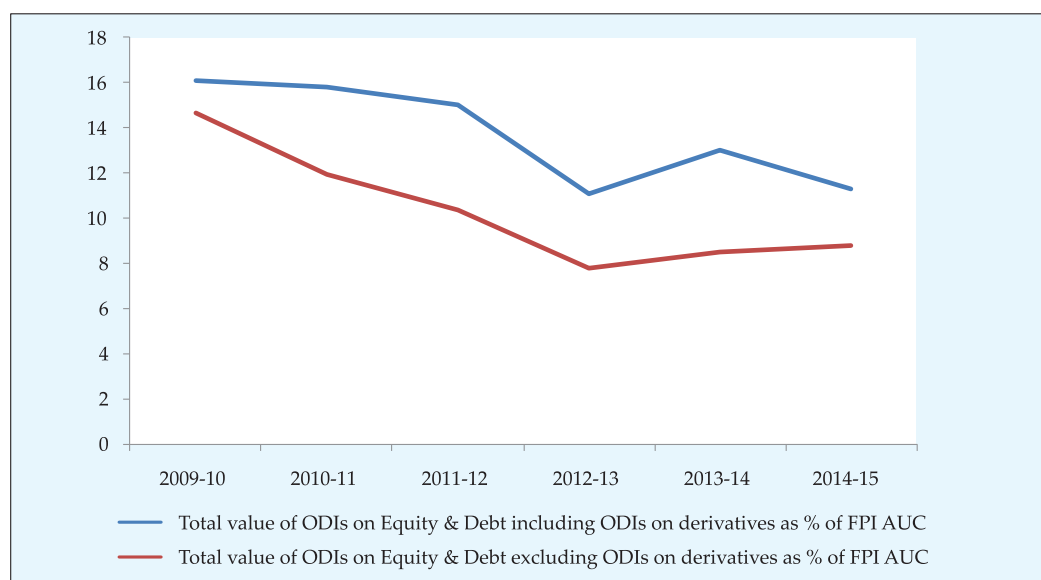
FPIs are permitted to trade in the derivatives market since February 2002. The notional value of open interest held by FPIs in derivatives was ₹ 1,19,966 crore as on March 31, 2015. The open interest position of FPIs in stock futures was the highest at ₹ 54,351 crore followed by index options (₹ 50,064 crore), index futures (₹ 14,251 crore) and stock options (₹ 1,300 crore) (Table 2.63)

Offshore derivatives instruments (ODIs) are investment vehicles used by overseas investors for an exposure in Indian equities or equity derivatives. The total value of investment in ODIs inclusive of equity, debt and derivatives as underlying stood at ₹ 2,72,078 crore as on March 31, 2015 compared to ₹ 2,07,639 crore as on March 31, 2014 (Table 2.64). In 2014-15, the value of ODIs inclusive of derivatives stood at 11.3 percent of AUC of FPIs. Excluding derivatives as underlying, the value of ODIs as a proportion of AUC of FPIs stood constant at 8.8 percent in 2014-15.

**Table 2.64: Notional value of ODIs versus AUM of FPIs**

Year	Total value of ODIs on Equity & Debt including ODIs on derivatives (in ₹ crore)	Total value of ODIs on Equity & Debt excluding ODIs on derivatives (in ₹ crore)	Assets Under Custody of FPIs (B) (in ₹ crore)	Total value of ODIs on Equity & Debt including ODIs on derivatives as percent of B	Total value of ODIs on Equity & Debt excluding ODIs on derivatives as percent of B
1	2	3	4	5	6
2013-14	2,07,639	1,35,821	15,93,869	13.0	8.5
2014-15	2,72,078	2,11,605	24,11,810	11.3	8.8

**Chart 2.16: ODIs as percent of FPI AUC**



## 6. OTHER ACTIVITIES HAVING A BEARING ON THE WORKING OF SECURITIES MARKET

### I. Corporate Bond Markets

A well-developed corporate bond market is supportive of the economic developments in a country. In the Indian context, corporate bond markets have steadily shown encouraging trends in recent times. In 2014-15 too, in line with previous years, the private placement of debt issues out scored that of public issues. Private placement continued to be the preferred route by investors for its perceived advantages of operational ease, minimal disclosures and lower costs.

Reporting platforms for corporate bonds were set up and maintained by BSE, NSE and FIMMDA. RBI vide its circular no. RBI/2013-14/500/IDMD. PCD.10/14.03.06/2013-14 dated February 24, 2014 directed its regulated entities to report their OTC trades in corporate bonds and securitised debt instruments on any one of the stock exchanges

(NSE, BSE and MSEI) with effect from April 1, 2014. However, reporting of secondary market transactions in corporate bonds has been discontinued at FIMMDA with effect from April 1, 2014. MSEI started the reporting in July 2013, but the volumes reported at the platform are insignificant for 2014-15.

NSE has hence emerged as the largest reporting platform for OTC deals in corporate bond markets in 2014-15. NSE's share in total reporting increased from 28.4 percent in 2013-14 to 81.3 percent in 2014-15. The number of trades reported at NSE more than doubled in 2014-15 to 58,073 and the value of trades more than tripled to ₹ 8,86,788 crore over the previous financial year. During 2014-15, the total value of corporate bond trades reported at BSE approximately doubled to ₹ 2,04,506 crore from ₹ 1,03,027 crore in 2013-14, while the number of trades increased by 73.8 percent over the previous financial year (Table 2.65).

**Table 2.65: Secondary Market: Corporate Bond Trades**

Year	BSE		NSE		FIMMDA		MSEI	
	No. of Trades	Amount (in ₹ crore)	No. of Trades	Amount (in ₹ crore)	No. of Trades	Amount (in ₹ crore)	No. of Trades	Amount (in ₹ crore)
1	2	3	4	5	6	7	8	9
2013-14	10,187	1,03,027	20,809	2,75,701	39,891	5,92,071	758	28,139
2014-15	17,710	2,04,506	58,073	8,86,788	Na	Na	8	1

Note: Reporting of secondary market transactions in corporate bonds has been discontinued at FIMMDA with effect from April 1, 2014.

Source: BSE, NSE, FIMMDA and MSEI

### **Box 2.1: Rejuvenating the Corporate Bond Market**

The corporate Bond market in India has received constant and improved policy impetus in the last few years and from being in the nascent stage it has now turned into a vibrant market. However, scope of the corporate bond market is still vast. A well-developed corporate bond market not only supports economic development but also balances excessive reliance on the bank finance sector for raising money. SEBI has injected a few procedural and strategic initiatives in the last few years that have provided the desired momentum to the corporate bond market.

SEBI notified the SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares), Regulations, 2013 to provide a regulatory framework for public issuance of non-convertible redeemable preference shares and also for listing of privately placed redeemable preference shares. Considering the risks involved in the instrument, certain requirements like minimum tenure of the instrument (three years) and minimum rating (AA or equivalent) were specified in case of public issuances. For listing of privately placed non-convertible redeemable preference shares, the minimum application size for each investor was fixed at ₹ 10 lakh. The regulations were also made applicable to non-equity instruments such as perpetual non-cumulative preference shares and innovative perpetual debt instruments, issued by banks (as per Basel III norms), which are in compliance with the criteria specified by RBI for inclusion in additional tier I capital.

As a further measure for cost effectiveness and timeliness, SEBI allowed listed entities, including non-banking financial institutions and issuers authorised by the Central Board of Direct Taxes to file shelf prospectuses for public issuance of debt securities while limiting the number of issuances to four to keep the issue of fragmentation under control. As a step towards making the bond market more transparent, SEBI advised that with respect to public issues of debt securities, no person connected with the issue shall offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person making an application for allotment of such securities.

In August 2011, SEBI amended the regulations for mutual funds, permitting mutual funds to set up infrastructure debt funds under the mutual funds framework. In September 2011, SEBI put in place conditions for issue of structured products. This was done with a view to enhancing disclosures for issue of debt instruments with returns linked to various market indices. Additional norms included restricting eligible issuers to those who have a net-worth of ₹ 100 crore, a minimum ticket size of issue at ₹ 1 lakh, selling practices, additional disclosures pertaining to riskiness of such instruments, scenario analysis showing its value under various market conditions and the commission structure embedded therein. Third party valuation by a credit rating agency was also made mandatory and this has to be disclosed to the public.

To help develop the market of securitised debt instruments (SDIs) and improving transparency, SEBI directed trades in SDIs to be reported within 15 minutes on the trade reporting platforms of exchanges (NSE, BSE or MSEI). SDIs are instruments created out of a pool of loans with mutual funds, FPIs, AIFs, etc. As a measure to boost investor confidence in securitisation transactions, SEBI approved stricter norms for trustees managing SDI issuances.

In order to provide retail investors an opportunity to invest in corporate bonds on a liquid and transparent exchange platform, and institutions to buy and sell corporate bonds, a dedicated debt segment at the exchanges was provided for by SEBI. The segment intends to boost liquidity in the trading of corporate bonds. In view of the fact that historical data on all corporate bonds issued is very crucial for an investor to take informed investment decisions, SEBI mandated both the depositories, NSDL and CDSL to jointly create, host, maintain and disseminate the centralised database of corporate bonds/debentures which are available in demat form. The database can be accessed by the public or any other users without paying any kind of fees or charges.

As a significant step to fill the gap in urban infrastructure requirements, SEBI issued norms on issuance of debt securities by municipalities (municipal bonds). This step also brings India in line with advanced nations which use this innovative segment for raising capital. With growth envisaged for the economy as a whole municipal bonds have a significant role to play in meeting the infrastructure needs of urbanisation.

#### **Issuances in the Corporate Bond Market: Trends**

In the primary market, the total issuance amount increased from ₹ 1,18,485 crore in 2007-08 to ₹ 4,13,558 crore in 2014-15 implying a CAGR of 19.5 percent. There was a gradual rise in the total number of issues from 744 to 2,611 during the same period. In the public issue market, the issuance amount increased from ₹ 1,500 crore during 2008-09 to ₹ 42,383 crore during 2013-14 and decreased to ₹ 9,422 crore during 2014-15. The sudden increase in the amount raised through public issues during 2011-12 to 2013-14 was due to the issuance of tax free bonds by infrastructure companies (see Table 1).

Among the types of issuers, financial institutions, housing finance companies and NBFC have been frequently tapping into the corporate bond market. During 2011-12 to 2013-14, there was an increase in the proportion of private sector companies tapping into the corporate bond market, which is a good signal.

**Table 1: Growth in Issuance of Corporate Bonds**

Year	No. of Public Issues	Amount Raised through Public Issue (in ₹ crore)	No. of Private Placement	Amount Raised through Private Placement (in ₹ crore)	Total Amount Raised through Public Issue and Private Placement (in ₹ crore)
2007-08	0	0	744	118,485	118,485
2008-09	1	1,500	1041	173,281	174,781
2009-10	3	2,500	1278	212,635	215,135
2010-11	10	9,451	1404	218,785	228,236
2011-12	20	35,611	1953	261,283	296,894
2012-13	20	16,982	2489	361,462	378,444
2013-14	35	42,383	1924	276,054	318,437
2014-15	24	9,422	2611	404,136	413,558

With regard to rating of issues, there has been an increase in issue depth as lower rated issues have been successful in accessing corporate bond market. In the public issue market, the proportion of issues rated lower than the AAA rating grew from 12 percent in 2010-11 to 26 percent in 2013-14. In the private placement market, issues with ratings lesser than the investment grade have also been able to raise funds. (Tables 2 and 3).

**Table 2: Rating-wise Public Issuances**

Rating	2011-12	Percent	2012-13	Percent	2013-14	Percent	2014-15	Percent
AAA	8,290	88	24,785	70	12,210	71	31,352	74
AA+	661	7	5,693	16	2,401	14	4,796	11
AA	500		1,775	5	1,169	7	3,305	8
AA-			3,098	9	1,461	8	2,334	6
A+							400	1
BB+							196	0
<b>Total</b>	<b>9,451</b>	<b>100</b>	<b>35,351</b>	<b>100</b>	<b>17,242</b>	<b>100</b>	<b>42,383</b>	<b>100</b>

Source: CRISIL.

**Table 3: Rating-wise Private Placement Issuances**

Rating	2011-12	Percent	2012-13	Percent	2013-14	Percent	2014-15	Percent
AAA	132,075	68.7	189,447	75.3	226,311	64.2	189,396	69.9
AA+	18,775	9.8	28,054	11.2	54,742	15.5	36,917	13.6
AA	10,851	5.6	12,587	5.0	25,351	7.2	15,360	5.7
AA-	13,856	7.2	6,237	2.5	16,946	4.8	9,404	3.5
A+	8,178	4.3	2,167	0.9	3,735	1.1	5,880	2.2
A	5,844	3.0	6,175	2.5	12,015	3.4	5,207	1.9
A-	890	0.5	3,414	1.4	2,536	0.7	2,243	0.8
BBB+	150	0.1	918	0.4	208	0.1	453	0.2
BBB	507	0.3	32	0.0	884	0.3	1,104	0.4
BBB-	445	0.2	323	0.1	518	0.1	2,501	0.9
BB+	250	0.1		0.0	192	0.1	450	0.2
BB		0.0	495	0.2	95	0.0	98	0.0
BB-	84	0.0		0.0	2,935	0.8	791	0.3
B+				0.0	198	0.1	444	0.2
B				0.0	155	0.0	6	0.0
B-				0.0		0.0	17	0.0
C			53	0.0	477	0.1	571	0.2
A1+				0.0		0.0		0.0
A1				0.0		0.0		0.0
Not Rated	222		1,535	0.6	4,977	1.4	103	0.0
<b>Grand Total</b>	<b>1,92,127</b>	<b>100</b>	<b>2,51,437</b>	<b>100</b>	<b>3,52,275</b>	<b>100</b>	<b>2,70,945</b>	<b>100</b>

Source: CRISIL/Prime Database.

Since 2009, all trades in corporate bonds between specified entities, namely, mutual funds, foreign institutional investors, venture capital funds, foreign venture capital investors, portfolio managers and RBI regulated entities as specified by RBI have mandatorily been cleared and settled through the clearing houses of exchanges on a DVPI basis namely the National Securities Clearing Corporation Limited (NSCCL) or the Indian Clearing Corporation Limited

(ICCL) and now the MSEI Clearing Corporation Limited (MSEI CCL). This provision is applicable to all corporate bonds traded over the counter or on the debt segment of stock exchanges on or after December 1, 2009.

The value of corporate bond trades settled through clearing corporations increased by 7.4 percent to ₹ 6,93,903 crore in 2014-15 from ₹ 6,46,288 crore in 2013-14. (Table 2.66)

**Table 2.66: Settlement of Corporate Bonds**

Year	NSE		BSE		MSEI	
	No. of Trades Settled	Settled Value (in ₹ crore)	No. of Trades Settled	Settled Value (in ₹ crore)	No. of Trades Settled	Settled Value in (₹ crore)
1	2	3	4	5	6	7
2013-14	39,695	5,54,682	7,440	64,218	736	27,389
2014-15	46,107	6,51,423	7,737	42,480	8	1

Source: NSE, BSE and MSEI.

## II. Wholesale Debt Market

During 2014-15, turnover in the wholesale debt market (WDM) segment at NSE decreased to ₹ 7,72,369 crore from ₹ 8,51,434 crore in 2013-14, showing a decline of 4.5 percent in the financial year (Table 2.60). The net traded value of ₹ 91,036 crore and the number of trades at 1,931 was the highest in May 2014. The second highest turnover was recorded in January 2015 (₹ 79,877 crore) followed by June 2014 (₹ 76,103 crore). Similar to the net traded value, the number of trades at

NSE's WDM segment witnessed a decline in 2014-15 to 18,789 from 21,143 in 2013-14. At BSE, the turnover for 2014-15 increased by 51.0 percent to ₹ 3,81,328 crore in 2014-15 from ₹ 2,52,559 crore in 2013-14 with the number of trades also registering an increase of 60.4 percent to 13,132 in 2014-15 from 8,189 in 2013-14. The net traded value was the highest in July 2014 (₹ 40,700 crore) while the number of trades was the highest in September at 1,269 (Table 2.67).

**Table 2.67: Business growth on NSE and BSE's WDM segments**

Year	No. of Trades	Net Traded Value (in ₹ crore)	Average Daily Traded Value (in ₹ crore)	No. of Trades	Net Traded Value (in ₹ crore)	Average Daily Traded Value (in ₹ crore)
1	2	3	4	5	6	7
2013-14	21,143	8,51,434	3,504	8,189	2,52,559	2,533
2014-15	18,789	7,72,369	3,017	13,132	3,81,328	1,477

Source: NSE and BSE.

The trend in the instrument-wise share of securities traded in the WDM segment at NSE shows that during 2014-15, the share of G-Sec increased to 53.2 from 40.3 in 2013-14. On the other hand, the share of treasury bills decreased from 34.2 percent in 2013-14 to 21.6 percent in 2014-15. The share

of PSU/institutional bonds declined slightly to 17.4 percent in 2014-15 from 18.0 percent in 2013-14 and 'others' which mainly include corporate debt securities, increased to 7.9 percent in 2014-15 from 7.5 percent in 2013-14 (Table 2.68).

At BSE, the instrument-wise share of securities traded in the WDM segment shows an increase in the share of G-Sec from 7.8 percent in 2013-14 to 36.6 in 2014-15. Treasury bills accounted for a share of 12.5 percent in 2014-15, up from 11.2 percent in 2013-14. PSU/institutional bonds and the others category had a combined share of 51.0 percent.

Trading members captured the largest share in the WDM segment at NSE at 56.0 percent in the total turnover in 2014-15 as compared to 62.8 percent in 2013-14. While the share of Indian banks increased to 13.6 percent in 2014-15 from 8.1 percent in 2013-14, the share of foreign banks and primary dealers declined to 20.6 and 2.7 percent respectively in 2014-15. The share of financial institutions/ mutual funds/corporate increased from 3.3 percent in 2013-14 to 7.2 percent in 2014-15. (Table 2.69)

**Table 2.68: Instrument-wise share of securities traded in NSE and BSE's WDM segments (percent)**

Year	Govt. Dated Securities	Treasury Bills	PSU / Institutional Bonds	Others	Govt. Dated Securities	Treasury Bills	PSU / Institutional Bonds	Others
	NSE				BSE			
1	2	3	4	5	6	7	8	9
2013-14	40.3	34.2	18.0	7.5	7.8	11.2	81.0	0
2014-15	53.2	21.6	17.4	7.9	36.6	12.5	Na	51.0

Note: BSE has categorised 'PSU/ International Bonds' and 'Others' combined in the others category.

Source: NSE and BSE.

**Table 2.69: Share of participants in turnover of NSE's WDM segment (percent)**

Year	Trading Members	FIs / MFs / Corporates	Primary Dealers	Indian Banks	Foreign Banks
1	2	3	4	5	6
2013-14	62.8	3.3	3.7	8.1	22.0
2014-15	56.0	7.2	2.7	13.6	20.6

Note: Category-wise classification not available for BSE.

Source: NSE.

# Part Three:

## Functions of Securities and Exchange Board of India in Respect of Matters Specified in Section 11 of SEBI Act, 1992

### 1. REGULATION OF BUSINESS IN STOCK EXCHANGES

A stock exchange is a platform for facilitating price discovery of various instruments available for trading. Stock exchanges play an important role in efficient allocation of resources in any economy as prices discovered provide a signal for efficient allocation of financial resources across corporations. Apart from providing platforms for trading, stock exchanges have been entrusted with various regulatory responsibilities for ensuring market integrity and for protecting the interests of the investors. The regulatory functions of stock exchanges include issuer regulation, member regulation, trading regulation, investor protection, maintenance of IPF 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 operations in securities markets by SEBI under Section 4 of SCRA, 1956. As on March 31, 2015 there were 13 stock exchanges in India, of which six have been granted permanent recognition, one stock exchange, the Metropolitan Stock Exchange Ltd. (earlier MCX-SX), has been granted renewal of recognition while the remaining six stock exchanges have not been granted recognition (Tables 3.1, 3.2 and 3.3).

Among the 13 stock exchanges, the Bombay Stock Exchange (BSE), the National Stock Exchange (NSE) and the Metropolitan Stock Exchange (MSEI) have been granted permission for carrying out trade in four segments - equity, equity derivatives, currency derivatives and interest rate derivatives.

**Table 3.1: Stock Exchanges in India**

Year	Total Stock Exchanges at the beginning of	Exited during the Year	Exchanges with Permanent Registration at the end of	Renewal Granted during the Year	Renewal not Granted during the Year	Total Stock Exchanges at the end of
1	2	3	4	5	6	7
2013-14	24	3	8	8	5	21
2014-15	21	8	6	1	6	13

**Table 3.2: 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	Madhya Pradesh Stock Exchange	Permanent
5	Madras Stock Exchange	Permanent
6	National Stock Exchange of India	Permanent

**Table 3.3: Recognition Renewal Status as on March 31, 2015**

Sr. No.	Exchanges	Recognition	Status
1	Metropolitan Stock Exchange Ltd. (MSEI)	Notification of renewal of recognition on Sept 15, 2014	Recognition granted for Sept 16, 2014- Sept 15, 2015
2	Magadh Stock Exchange Ltd.	Derecognised	Derecognised on September 03, 2007. Under Compulsory exit
3	U.P. Stock Exchange Ltd. (UPSE)	Renewal not granted	Exit under process
4	Vadodara Stock Exchange Ltd.	Renewal not granted	Under Compulsory exit
5	Delhi Stock Exchange Ltd. (DSE)	Derecognised	Had permanent recognition. Derecognised on November 19, 2014
6	United Stock Exchange Ltd.	Not applied for Renewal.	To be amalgamated with BSE. SEBI issued NOC on August 21, 2014

SEBI vide letter dated August 21, 2014 issued no objections to the proposed scheme of amalgamating the United Stock Exchange of India Ltd. (USEIL) and BSE Ltd. (BSE), subject to approval of all relevant authorities and compliance with applicable laws, rules and regulations in this regard. USEIL halted its trading platform on December 29, 2014 at 12.30 p.m. and consequently concluded its trading operations.

## II Grant of Recognition to Clearing Corporations

SEBI has by exercising the powers conferred by Section 4 read with sub-section (4) of Section 8A of SCRA, 1956, granted recognition to the National Securities Clearing Corporation Ltd. (NSCCL), the Indian Clearing Corporation Ltd. (ICCL) and the MCX-SX Clearing Corporation Ltd. (MCX-SXCCL) for a period of one year commencing on the 3rd day of October, 2014 and ending on the 2nd day of October, 2015 subject to compliance with certain conditions. The grant of recognition has also been notified in the Gazette of India.

## III Trading and Settlement Practices at Stock Exchanges

### A. Trading systems

With a view to further strengthening the mechanism of index based market-wide circuit

breaker implemented by stock exchanges, the following directions were issued to NSE and BSE:

- To compute market-wide indices (Nifty and Sensex respectively) after every trade in the index constituent stocks and to check for breach of market-wide circuit breaker limits after every such computation of the market-wide index.
- In the event of breach of the market-wide circuit breaker limit, stop matching of orders in order to bring about a trading halt. All unmatched orders present in the system are to be purged by the stock exchange.
- To give higher priority to messages related to market-wide index circuit breakers over other messages.
- Further, the systems (including the network) for computation of the market-wide index, checking for breach of circuit breaker limits and initiating messages to stop matching of executable orders and acceptance of fresh orders, are not to be used for any other purposes.

### B. Cash Market and the Equity Derivatives segment

1. Expansion of offer for sale (OFS) of the shares framework through the stock exchange mechanism: With a view to encouraging retail

participation in OFS, enabling other large shareholders to use the OFS mechanism and expanding the universe of companies to use OFS, the OFS framework was modified as under:

- The OFS mechanism was made available to the top 200 companies by market capitalisation in any of the last four completed quarters.
  - Non-promoter shareholders of eligible companies holding at least 10 percent of the share capital were also allowed to offer shares through the OFS mechanism.
  - Minimum 10 percent of the offer size is to be reserved for retail investors. For this purpose, a retail investor shall mean an individual investor who places bids for shares of total value of not more than ₹ two lakh aggregated across the exchanges.
  - Sellers were permitted to offer discounts to retail investors.
  - Sellers were permitted to give an option to retail investors to place their bids at cut-off prices in addition to placing price bids.
2. **Review of the Securities Lending and Borrowing (SLB) Framework**  
Based on the representations received from market participants, the requirement of agreement between clearing member and client for the purpose of lending and borrowing of securities was replaced with the requirement of right and obligations documents of CMs and clients for the purpose of facilitating lending and borrowing of securities.
  3. **Review of guidelines of the Liquidity Enhancement Scheme (LES) in the equity cash and equity derivatives segments**  
Based on the experience of stock exchanges in offering liquidity enhancement schemes in the equity cash and equity derivatives segments, and based on the discussions held in the Secondary Market Advisory Committee, the framework for providing liquidity enhancement schemes was revised.
  4. **Modification of client codes of non-institutional trades executed on stock exchanges (all segments**

Based on the representations received from stock brokers and stock exchanges to review the penalty structure for client code modifications of non-institutional trades, stock exchanges were permitted to waive penalty for client code modifications in cases where the stock broker is able to produce evidence to the satisfaction of the stock exchange to establish that the modification was on account of a genuine error. However, stock exchanges were directed not to give more than one such waiver per quarter to a stock broker for modification in a client code. Proprietary trades were not allowed to be modified as client trade and vice versa.

5. **Risk management framework for foreign portfolio investors (FPIs) under the SEBI (Foreign Portfolio Investors) Regulations, 2014**

Pursuant to SEBI's (Foreign Portfolio Investors) Regulations, 2014 notification details regarding margining of the trades of FPIs in Category I, II and III were issued. Category I and II FPIs were given position limits as available to FIIs and Category III FPIs were given position limits as applicable to clients. Details regarding facility for allocation of trades of a FPI to other FPIs were also issued.

6. **Modifications in the Investor Protection Fund (IPF)/Customer Protection Fund (CPF) guidelines**

Based on the representations received from the stock exchanges and recommendations of the Secondary Market Advisory Committee (SMAC), the guidelines for the Investor Protection Fund (IPF)/Customer Protection Fund (CPF) at stock exchanges were modified relating to eligible claims arising within three years from date of expiry of the specified period.

### **C. The Currency Derivatives Segment**

1. **Permitting FPIs to participate in the exchange traded currency derivatives segment**

Pursuant to the announcement by the Hon'ble Finance Minister in his Budget 2013-14 speech, FPIs were permitted to participate in the currency derivatives segment of a recognised stock exchange in consultation with the Reserve Bank of India (RBI), subject to the following terms and conditions:

- a. Position limits for FPI-I/FPI-II: Gross open positions for trading member across all contracts not to exceed 15 percent of the total open interest or USD 100 million whichever is higher.
  - b. FPIs were allowed to take long as well as short positions in permitted currency pairs upto USD 10 million per stock exchange without having to establish the existence of any underlying exposure.
  - c. FPIs were directed to ensure that their short positions at a stock exchange across all contracts in a permitted currency pair not to exceed USD 10 million.
  - d. To take long positions in the permitted currency pair in excess of USD 10 million, FPIs were required to have an underlying exposure in Indian debt or equity securities, including units of equity/debt mutual funds.
2. Revision in the position limits for exchange traded currency derivatives segment Position limits in permitted currency pairs per exchange were revised as follows:
- a. Client/FPI-III: Gross open positions of the client across all contracts not to exceed 6 percent of the total open interest or USD 10 million whichever is higher.
  - b. Proprietary positions of non-bank stock brokers: Gross open proprietary positions of non-bank stock brokers across all contracts not to exceed 15 percent of the total open interest or USD 50 million whichever is higher.
  - c. Trading member / FPI-I / FPI-II / domestic institutional investors: Gross open positions of the trading member across all contracts not to exceed 15 percent of the total open interest or USD 100 million, as applicable, whichever is higher.

Further domestic clients were permitted to take long or short positions in permitted currency pairs upto USD 10 million per stock exchange without having to establish the existence of any underlying exposure. To take positions in the permitted currency pairs in excess of USD 10 million, establishing the existence of an underlying exposure was made mandatory.

## **D Risk Management**

SEBI issued a circular CIR/MRD/DRMNP/25/2014 dated August 27, 2014 prescribing norms for the Core Settlement Guarantee Fund (Core SGF), default waterfall and stress testing which will bring greater clarity and uniformity as well as aligning the same with international best practices while enhancing the robustness of the present risk management system in clearing corporations to enable them to deal with defaults of clearing members much more effectively by achieving the following:

1. Creating a core fund (called the Core Settlement Guarantee Fund), within SGF against which no exposure is given and which is readily and unconditionally available to meet settlement obligations of clearing corporations in case clearing member(s) fail to honour settlement obligations.
2. Aligning stress testing practices of clearing corporations with CPSS-IOSCO principles for financial market infrastructures (PFMIs) (norms for stress testing for credit risk, stress testing for liquidity risk and reverse stress testing including frequency and scenarios).
3. Capturing in stress testing the risk due to possible default in institutional trades.
4. Harmonizing default waterfalls across clearing corporations.
5. Limiting the liability of non-defaulting members in view of the Basel capital adequacy requirements for exposure towards central counterparties (CCPs).
6. Ring-fencing each segment of the clearing corporations from defaults in other segments.
7. Bringing in uniformity in stress testing and risk management practices of different clearing corporations especially with regard to default by members.

Norms for contribution to Core SGF as well as default waterfall have been specified with a view that all the stakeholders (clearing members, stock exchanges and clearing members) are incentivised to adequately monitor the risks brought into the system.

#### **IV. Regulatory Actions Against Stock Exchanges**

##### **A. Orders passed against stock exchanges:**

1. Order passed on April 25, 2014 in the matter related to the Ahmedabad Stock Exchange Ltd. (ASE).
2. Order passed on September 11, 2014 in the matter related to the Jaipur Stock Exchange Ltd. (JSE).
3. Order passed on September 11, 2014 in the matter related to the Bombay Stock Exchange (BSE).
4. Order passed on October 10, 2014 in the matter related to the National Stock Exchange (NSE).
5. Order passed on November 19, 2014 in the matter related to the Delhi Stock Exchange Ltd. (DSE).
6. Order passed on January 7, 2015 in the matter related to the Vadodara Stock Exchange Ltd. (VSE).
7. Order passed on March 19, 2015 in the matter related to Mr. P. J. Mathew (former Managing Director of the Interconnected Stock Exchange).

##### **B. Adjudication proceedings initiated during 2014-15**

1. M/s Financial Technologies (India) Ltd.
2. Pune Stock Exchange Ltd. and 19 others

#### **V. Memorandum of Understanding (MoU) between Stock Exchanges**

As per Section 13A of Securities Contracts (Regulation) Act, 1956, a stock exchange may establish additional trading floor offered by a recognised stock exchange outside its area of operation to enable investors to buy and sell securities through the trading floor under the regulatory framework of that stock exchange with the prior approval of SEBI. Under this provision, the Madhya Pradesh Stock Exchange entered into a MoU with BSE and NSE and the Madras Stock Exchange and Calcutta Stock Exchange had MoUs with NSE.

However, in terms of provisions of para 4.2 of the SEBI circular dated May 30, 2012 (Exit

Circular), the MoU mechanism, if any, between a stock exchange not having a nation-wide trading terminal and a stock exchange having a nation-wide trading terminal, shall be discontinued.

Accordingly, pursuant to the voluntary exit applications by Madras Stock exchange and Madhya Pradesh Stock Exchange, the MoU arrangement between Madras Stock Exchange and National Stock exchange discontinued with effect from January 31, 2015 and MoU arrangement between Madhya Pradesh Stock Exchange and BSE and Madhya Pradesh Stock Exchange with NSE discontinued with effect from March 26, 2015.

#### **VI. Exit of Stock Exchanges**

SEBI issued circular CIR/MRD/DSA/14/2012 dated May 30, 2012, regarding the Exit Policy for de-recognised/non-operational stock exchanges. Subsequent to the Exit Circular being issued, SEBI received applications from de-recognised/non-operational stock exchanges seeking voluntary exit as a stock exchange. In order to facilitate the exit process for such exchanges, SEBI took several policy initiatives. It inter-alia issued the following instructions to the non-operational stock exchanges/exclusively listed companies of such stock exchanges to comply with:

- A. Exclusively listed companies of non-operational stock exchanges may opt for listing at nation-wide exchanges. Nation-wide stock exchanges have been advised to create dedicated cells to deal/facilitate requests for listing from such companies.
- B. Exclusively listed companies of non-operational stock exchanges may opt for voluntary delisting from such stock exchanges. For this purpose, SEBI has waived the minimum public shareholding requirements. Further, exchanges having nation-wide trading terminals were advised to provide for a platform to facilitate reverse book building for voluntary delisting.
- C. Non-operational stock exchanges to refer the non-traceable companies to the respective Registrar of Companies for declaring them as vanishing companies.

D. Non-operational stock exchanges to shift those companies that have not opted to list in nation-wide stock exchanges or voluntarily delist from the non-operational stock exchanges, to dissemination boards of the nation-wide stock exchanges.

SEBI also advised the exchanges having nation-wide trading terminals to facilitate shifting of such companies to the dissemination board for a one-time fee of ₹ 5,000 per company. Further, in order to

facilitate the listing of companies which have already moved to the dissemination board and in the interest of the investors in such companies, the SEBI Board in its meeting on January 22, 2015 decided to allow a timeline of 18 months within which such companies shall obtain listings after compliance with the listing requirements of the nation-wide stock exchange. Pursuant to these measures, 12 de-recognised/non-operational stock exchanges have exited as on March 31, 2015. (Table 3.4)

**Table 3.4: Exited Stock Exchanges (as on March 31, 2015)**

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	Gauhati Stock Exchange Ltd. (GSE)	January 27, 2015
10	Bhubaneswar Stock Exchange Ltd. (BhSE)	February 09, 2015
11	Jaipur Stock Exchange Ltd. (JSE)	March 20, 2015
12	OTC Exchange of India (OTCEI)	March 31, 2015

Further, Table 3.5 gives details of six exchanges which have either applied for exit or have been identified for mandatory exit and their process of exit is underway.

**Table 3.5: Stock Exchanges which have applied for exit (as on March 31, 2015)**

Sr. No.	Name of the Stock Exchange
1	Madras Stock Exchange Ltd. (MSE)
2	Pune Stock Exchange Ltd. (PSE)
3	Madhya Pradesh Stock Exchange Ltd. (MPSE)
4	UP Stock Exchange Ltd. (UPSE)
5	Ahmedabad Stock Exchange Ltd. (ASE)
6	Delhi Stock Exchange Ltd. (DSE)

Notes: 1. DSE, derecognised on November 19, 2014 and the voluntary exit applications under process. 2. The Magadh Stock Exchange Ltd. and the Vadodara Stock Exchange Ltd. did not apply for voluntary exit within the given time limit. 3. The Calcutta Stock Exchange Ltd. (CSE) filed a petition before the Hon'ble High Court of Kolkata against the SEBI letter advising CSE to ensure compliance with its Exit Circular.

## VII. Nation-wide Awareness Campaign for Small and Medium Enterprises (SMEs)

SMEs have emerged to become one of the most vibrant and dynamic sectors of the economy which play a crucial role in providing employment opportunities across the country. They have also catalysed socioeconomic growth and development. In order to cater to the SMEs' need of funding and visibility, SEBI introduced a framework for a separate exchange/platform for SMEs thereby facilitating fund raising from the market. Further, SEBI has also facilitated listing of securities through the institutional trading platform.

SEBI has initiated an awareness programme in coordination with SIDBI and stock exchanges to interact with SMEs from different clusters and familiarise them with the various products that are being offered by the stock exchanges for the benefits of SMEs in addition to

showcasing the initiatives of SIDBI for the SME sector. This awareness programme is being carried out to create awareness about the availability of the platforms provided by the exchanges which can help in addressing the funding requirements of SMEs and help them in their expansion plans. The inaugural programme in this series was held at Coimbatore in July 2014 which was attended by representatives of around 300 SMEs. Subsequently, programmes were held at Rajkot, Ahmedabad, Bhubaneswar, Jamshedpur, Pune and Faridabad which received good response from the SME industry.

During these programmes, technical sessions were held wherein officials of SEBI, stock exchanges, SIDBI and merchant bankers interacted with SMEs in small groups, apprising them about the regulatory parameters for SMEs and addressed their queries and apprehensions. The technical sessions were followed by the main event in which the senior management of SEBI, SIDBI and the stock exchanges addressed the representatives of SMEs. As on March 31, 2015, BSE had 92 companies listed on its SME platform and 18 companies in ITP and NSE had seven companies listed in the SME platform and nine companies in ITP.

### **VIII. Measures adopted for Regulation of Stock Exchanges**

During 2014-15, with a view to further strengthening the mechanism of index based market-wide circuit breaker implemented by stock exchanges, the exchanges were directed to compute market-wide indices (Nifty and Sensex) after every trade in the index constituent stocks and to check for breach of market-wide circuit breaker limits after every such computation of the market-wide index. In the event of a breach of the market-wide circuit breaker limit, stock exchanges were asked to stop matching of orders in order to bring about a trading halt.

Exchanges have also been advised to take necessary steps to ensure that 'ISIN' details of the securities are included in the bills/contract notes/statements issued by stock brokers to their clients in the cash segment. With a view to enhancing the visibility of the investor grievance mechanism, it has been made mandatory for all the intermediaries to prominently display the contact details of escalation levels in all their offices.

## **2. REGISTRATION AND REGULATION OF WORKING OF INTERMEDIARIES ASSOCIATED WITH SECURITIES MARKETS**

Regulation of market intermediaries has three objectives: protecting client assets from insolvency of the intermediaries and guarding against defaults and sudden disruptions in the market, ensuring that the intermediaries are fair and diligent in dealing with their clients and reducing conflicts of interest. Regulation, therefore, 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 the conduct of their business with high levels of compliance. Various intermediaries' regulations have been framed under the SEBI Act, 1992 and the Depositories Act, 1996 for the registration and regulation of all market intermediaries. Under these Acts, the Government and SEBI issue notifications, guidelines and circulars that the market intermediaries need to comply with. SEBI ensures the standard and quality of services to clients and investors, fair and sound conduct and compliance practices.

### **I. Streamlining the Process of Initial/Permanent Registration of Intermediaries**

The process for streamlining the registration and approvals by enhancing transparency continued during 2014-15. With a view to rationalizing the time taken, documentation involved and to avoid duplication of efforts, registration requirements for stock brokers/clearing members were simplified and the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 were amended and notified vide Notification no. LAD-NRO/GN/2014-15/15/1671 dated October 8, 2014. Similarly, registration requirements for depository participants were simplified and the SEBI (Depositories and Participants) Regulations, 1996 were amended and notified vide Notification no. LAD-NRO/GN/2014-15/18/1952 dated December 24, 2014.

The policy of sending responses to applicants in a time-bound manner, that is, within 30 days has been adhered to. The status of processing of each application for initial/permanent registration of intermediaries clearly indicating why it is pending and also whether

pending with SEBI or with the intermediary, is being displayed on the SEBI website on a monthly basis.

With a view to ensuring a higher level of transparency and accountability within SEBI, it is also mentioned on the website that in case any application remains unattended, the applicant should not hesitate to approach the concerned division chief or the head of department or the Executive Director of the Market Intermediaries Regulations and Supervision Department. The respective email IDs of concerned officials are also displayed.

The practice of seeking details of corrective measures taken by the applicants where administrative and quasi-judicial actions have been initiated by SEBI against them or their associate companies at the time of processing the applications for registration or other approvals has greatly improved the compliance culture among intermediaries.

## II. Measures for Regulation of Intermediaries

In order to create awareness among investors on the one-time KYC, stock exchanges have been advised to display a ticker on their websites. Also with a view to simplifying the registration requirements for stock brokers/clearing members, a single registration for stock brokers/clearing members for operating in all stock exchanges/clearing corporations has been approved by SEBI. A single registration for operating with both depositories has also been approved for depository participants.

## III. Registration of Stock Brokers

### A. Cash Segment

During 2014-15, 105 new stock brokers and 83 new clearing members were registered with SEBI. Further, 96 brokers and 76 clearing members surrendered their certificates of registration during 2014-15. The total number of registered stock brokers (on the three nation-wide stock exchanges) as on March 31, 2015 was 3,744. Details of registered stock brokers and registered clearing members as on March 31, 2015 are given in Tables 3.6 and 3.7.

**Table 3.6: Registered Stock Brokers**

Details	2013-14	2014-15			
		BSE	NSE	MSEI	Total
1	2	3	4	5	6
Registered Stock Brokers in the beginning of the year (as on April 01, 2014)	10,128	1,355	1,420	960	3,735
Addition during the Year 2014-15	217	71	32	2	105
Cancellation/ Surrender of Memberships	934	30	33	33	96
Registered Stock Brokers as on March 31, 2015	9,411	1,396	1,419	929	3,744

*Note: Pursuant to SEBI circular no. CIR/MRD/DSA/14/2012, dated May 30, 2012 w.r.t. exit policy for de-recognised/non-operational stock exchanges, 12 regional stock exchanges have been granted exit and the remaining regional stock exchanges are either under the process of exit or under compulsory exit. Therefore, the data of stock brokers for 2013-14 pertains to all recognised stock exchanges while data for 2014-15 pertains only to nation-wide active stock exchanges and for 2014-15 data of stock brokers pertaining to active stock exchanges only is provided in the table.*

**Table 3.7: Registered Clearing Members**

Details	ICCL	NSCCL	MCX-SX CCL	Total
Registered Clearing Members in the beginning of the year (as on April 1, 2014)	1,337	1,385	582	3,304
Addition during the Year 2014-15	55	26	2	83
Cancellation / Surrender of Memberships	39	32	5	76
Registered Clearing Members as on March 31, 2015	1,353	1,379	579	3,311

As on March 31, 2015, eight applications for brokers' registration and 14 applications for sub-brokers' registration were pending at different stages (Table 3.8). Pursuant to an amendment to SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 segment-

wise and category-wise registration for stock brokers has been done away with. Instead single registration is being granted to stock brokers/clearing members, that is, single registration across all stock exchanges irrespective of any particular segment.

**Table 3.8: Applications under the Process of Registration in Cash Segment**

Category of Application	As on March 31, 2014	As on March 31, 2015
Brokers	17	8
Sub-brokers	35	14
<b>Total</b>	<b>52</b>	<b>22</b>

*Note: These applications are pending at different stages, which is, with stock exchanges/stock brokers for want of documents/clarifications or are under process in SEBI.*

**Table 3.9: Classification of Stock Brokers in Cash Segment on the Basis of Ownership**

Year	Stock Exchange	Proprietorship		Partnership		Corporate		LLP		Total
		No.	Percent	No.	Percent	No.	Percent	No.	Percent	
1	2	3	4	5	6	7	8	9	10	11
<b>2013-14</b>	BSE	167	12.7	29	2.2	1,120	85.1	Na	Na	1,316
	NSE	70	5.3	79	6.0	1,167	88.7	Na	Na	1,316
	MSEI	22	4.2	14	2.6	493	93.2	Na	Na	529
<b>2014-15</b>	BSE	178	12.8	28	2.0	1,189	85.2	1	0.1	1,396
	NSE	79	5.6	83	5.9	1,256	88.5	1	0.1	1,419
	MSEI	53	5.7	31	3.3	845	91.0	Na	Na	929

*Note: The categories of financial institutions and composite corporates are clubbed within the category of corporate brokers. Percent ownership represents category-wise percent share for a particular exchange.*

As on March 31, 2015, the number of registered brokers was the highest at NSE (1,419) followed by BSE (1,396) and MSEI (929). In the major stock exchanges, corporate brokers dominated the trading segment. The number of corporate brokers was the highest at NSE (1,256) followed by BSE (1,189) and the MSEI (845). The highest number of stock brokers in 'proprietorship' category was at BSE (178) followed by NSE (79) and the MSEI (53). Stock brokers in the 'partnership' category were the lowest in numbers amongst other categories. There were 83 partnership firms registered as brokers on NSE's platform compared to 28 and 31 on BSE's and MSEI's platforms respectively. (Table 3.9)

## **B. The Equity and Currency Derivatives Segment**

Pursuant to an amendment to SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 segment-wise and category-wise registration for stock brokers has been done away with. Instead single registration is being granted to stock brokers/clearing members, that is, single registration across all stock exchanges irrespective of any particular segment.

During 2014-15, in the equity cash segment, 46 members were granted registration at BSE, 26 at NSE and two at MSEI. In the equity derivatives segment, 55 trading members were granted registration at BSE, 29 at NSE and one at MSEI. In the currency derivative segment, 69 trading members were granted registration at BSE, 27 at NSE and one at MSEI. In the debt segment, five trading members were granted registration at BSE and one at NSE (Table 3.10).

**Table 3.10: Number of Registered Stock Brokers : Segment-wise and Stock Exchange-wise**

Name of Segment	Registrations granted during 2014-15			Registered Members as on March 31, 2015		
	BSE	NSE	MSEI	BSE	NSE	MSEI
1	2	3	4	5	6	7
Cash	46	26	2	1,353	1,334	535
Equity Derivatives	55	29	1	973	1,245	535
Currency Derivatives	69	27	1	410	831	793
Debt	5	1	0	133	241	16

**Table 3.11: Number of Clearing members / Self-Clearing Members in Equity Derivatives, Currency Derivatives and Debt Segments**

Name of Segment	Registrations granted during 2014-15						Registered clearing members as on March 31, 2015					
	ICCL		NSCCL		MCX-SX CCL		ICCL		NSCCL		MCX-SX CCL	
	CM	SCM	CM	SCM	CM	SCM	CM	SCM	CM	SCM	CM	SCM
1	2	3	4	5	6	7	8	9	10	11	12	13
Equity Derivatives	1	8	3	9	Na	Na	104	31	235	333	73	69
Currency Derivatives	6	13	1	3	Na	Na	33	22	162	22	104	16
Debt	1	0	0	0	Na	Na	20	12	49	45	6	1

Source: Clearing Corporations.

### C. Clearing members/self clearing members in Equity Derivatives, Currency Derivatives and Debt Segments

During 2014-15, in the equity derivatives segment, one clearing member (CM) and eight self-clearing members (SCMs) were granted registration at ICCL and three CMs and nine SCMs at NSCCL. In the currency derivative segment, six CMs and 13 SCMs were granted registration at BSE-ICCL while at NSCCL one CM and three SCMs were granted registration during 2014-15. Further, in the debt segment, one CM was granted registration at ICCL (Table 3.11).

### IV. Registration of Sub-brokers

The number of registered sub-brokers declined by 18.4 percent from 51,885 as on March 31, 2014 to 42,351 as on March 31, 2015. However, the number of authorised persons (APs) as approved by the stock exchanges in accordance with SEBI guidelines increased by 13.5 percent during the year from 1,62,679 as on March 31, 2014 to 1,84,553 as on March 31, 2015. With a view to expanding the reach of the markets for exchange traded products, stock brokers along with sub-brokers were allowed to provide market access to clients through APs. Thus, while the number of sub-brokers declined, the increased presence of APs ensured that the reach of the markets for exchange traded products increased (Table 3.12).

**Table 3.12: Registered Sub-brokers**

Stock Exchange	2013-14		2014-15	
	Number	Percentage of Total	Number	Percentage of Total
Ahmedabad	71	0.1	71	0.2
BSE	22,652	43.7	18,559	43.8
Calcutta	47	0.1	43	0.1
Delhi	186	0.4	185	0.4
Madhya Pradesh	5	0	5	0
Madras	103	0.2	103	0.2
NSE	28,362	54.7	23,226	54.8
Pune	152	0.3	145	0.3
Uttar Pradesh	2	0	2	0
Vadodara	24	0	12	0
Others*	281	0.5	Na	Na
<b>Total</b>	<b>51,885</b>	<b>100</b>	<b>42,351</b>	<b>100</b>

Note : 1 \*the category "Others" include sub-brokers at Bangalore SE, Bhubaneswar SE, Cochin SE, Coimbatore SE, Gauhati SE, ISE, Jaipur SE, Ludhiana SE and OTCEI which have already exited, pursuant to SEBI circular no. CIR/MRD/DSA/14/2012, dated May 30, 2012 w.r.t. exit policy for de-recognised/non-operational stock exchanges.

#### V. Registration of Other Intermediaries

Pursuant to the amendments to the regulations in 2011-12, applicants found eligible are granted 'initial registration' valid for a period of five years from the date of issue of certificate of registration to the applicant. Before the expiry of their initial registrations, if they so desire, applicants may apply for 'permanent registration' in order to continue their businesses. As on March 31, 2015, 72 registrars to an issue and share transfer agents, 197 merchant bankers, two underwriters, 854 depository participants (both at CDSL and NSDL), six

credit rating agencies, 60 bankers to issue, 32 debenture trustees and five KRAs were registered with SEBI (Table 3.13).

As per the SEBI (Foreign Portfolio Investors) Regulations, 2014 circular regarding the implementation of the foreign portfolio investor (FPI) regime, SEBI-approved designated depository participants (DDPs) will grant registration to FPIs on behalf of SEBI and also carry out other allied activities. FPIs should engage a DDP before making investments in Indian securities markets. As on March 31, 2015, 18 DDPs had been registered with SEBI.

**Table 3.13: Registered Intermediaries other than Stock Brokers and Sub-Brokers**

Type of Intermediary	2013-14	2014-15
Registrar to Issue and Share Transfer Agent	71	72
Merchant Banker	197	197
Underwriter	3	2
DPs - NSDL	281	282
DPs - CDSL	576	572
Credit Rating Agency	6	6
Bankers to an Issue	59	60
Debenture Trustee	31	32
KYC (Know Your Client) Registration Agency (KRA)	5	5
Designated Depository Participants (DDPs)	14	18

**Table 3.14: Process of Registration of Other Intermediaries**

Type of Intermediary	Application received during 2014-15		Registration Granted during 2014-15*		Pending as on March 31, 2015	
	Initial	Permanent	Initial	Permanent	Initial	Permanent
1	2	3	4	5	6	7
Registrar to Issue and Share Transfer Agent	5	2	1	5	4	2
Merchant Banker	9	12	9	19	5	7
Underwriter	0	0	0	0	0	0
Depository Participant	30	146	39	177	6	34
Credit Rating Agency	1	0	0	0	2	0
Bankers to an Issue	1	4	1	5	2	3
Debenture Trustee	0	3	1	4	0	1
KRAs	0	0	0	0	0	0
<b>Total</b>	<b>45</b>	<b>168</b>	<b>51</b>	<b>210</b>	<b>19</b>	<b>47</b>

Note: \* Including applications received in the previous year.

As on March 31, 2015, 19 applications received for initial registration were pending across various classes of intermediaries while 47 applications were awaiting clearance for permanent registration.

#### VI. Registration of Foreign Portfolio Investors and Custodians

The FPI Regulations were notified by SEBI on January 7, 2014 and accordingly, the foreign portfolio investor regime revamping the existing FII and sub-account structure commenced from June 1, 2014. As per the new regime, all existing FIIs, sub-accounts and QFIs are merged into new single category 'foreign portfolio investors' (FPIs).

The FPI Regulations define a 'foreign portfolio investor' (FPI) as a person who satisfies the eligibility criteria prescribed under Regulation 4 of the FPI Regulations, 2014 and has been registered under Chapter II of the FPI Regulations, 2014. Any foreign institutional investor (FII),

sub-account or qualified foreign investor who holds a valid certificate of registration shall be deemed to be a FPI until the expiry of the block of three years for which fees has been paid as per the SEBI (Foreign Institutional Investors) Regulations, 1995.

As on March 31, 2015, there were 8,214 FPIs registered with SEBI. This included 1,444 newly registered FPIs and 6,770 deemed FPIs (1,414 erstwhile registered FIIs and 5,356 erstwhile registered sub-accounts, whose registration validity period had not expired). (Table 3.15)

During 2014-15, DDPs/custodians received 2,422 applications for fresh registrations/renewal of FPI registrations, of which 2,205 applications were granted fresh registrations/renewal while 53 applications were returned by SEBI/DDP. As on March 31, 2015, 164 applications were pending for registration/renewal with DDP. (Table 3.16)

**Table 3.15: Number of FPIs, Custodians and DDPs**

Particulars	2013-14	2014-15
Number of FPIs (including deemed FPIs)	NA	8,214
a) No. of registered FPIs	NA	1,444
b) No. of FIIs (deemed FPIs)	1,710	1,414
c) No. of SAs (deemed FPIs)	6,344	5,356
No. of Custodians	19	19
No. of Designated Depository Participants	14	18

Source: NSDL.

**Table 3.16: Status of Registration of FPIs during 2014-15**

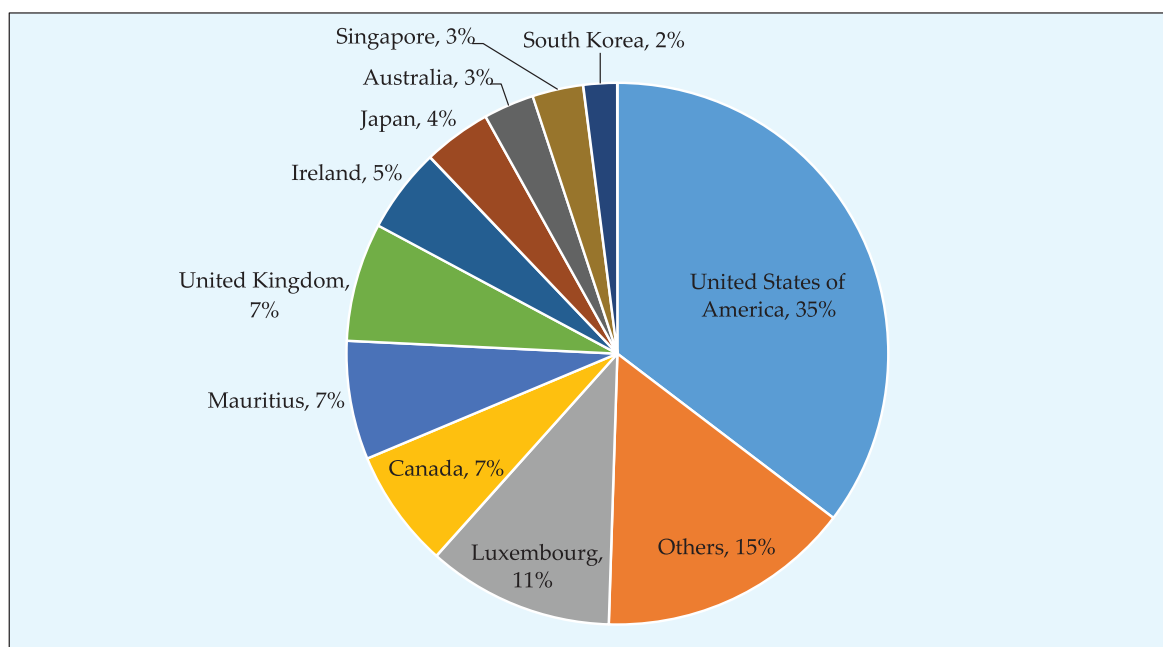
Particulars	FPI		
	Registration	Renewal	Total
Applications received by DDP/custodian for registration/renewal	1,005	1,417	2,422
a. Applications registered/renewed by SEBI/DDP	843	1,362	2,205
b. Applications pending with DDP	130	34	164
c. Applications returned by SEBI/DDP	43	10	53

Note: Figures include the number of applications received by SEBI during the previous year(s) for which registration/renewal was granted during the current year.

**Table 3.17: Status of Registration of Custodians during 2014-15**

Particulars	2013-14			2014-15		
	Registration	Renewal	Total	Registration	Renewal	Total
1	2	3	4	5	6	7
Applications received by SEBI for registration/renewal	2	3	5	0	0	0
a. Applications registered/renewed	0	2	2	0	1	1
b. Applications pending	2	1	3	1	0	1
c. Applications withdrawn/rejected/returned	Na	Na	Na	1	0	1

**Chart 3.1: Country-wise Origin of Registered FPIs/Deemed FPIs**



As on March 31, 2015, FPIs (including deemed FPIs) from 55 different jurisdictions had been registered with SEBI, out of which FPIs from USA were the most (2,905), followed by Luxembourg (873), Canada (591), Mauritius (579), UK (567), Ireland (399) and Japan (319) (Chart 3.1).

## VII. Registration of Venture Capital Funds and Alternative Investment Funds

There were 201 domestic and 204 foreign venture capital funds registered with SEBI as on March 31, 2015 compared to 207 domestic and 192 foreign funds as on March 31, 2014 (Table 3.18).

**Table 3.18: Registered Venture Capital Funds and Alternative Investment Funds**

Particular	2013-14	2014-15
VCFs	207	201
FVCIs	192	204
AIFs	101	135

### VIII. Registration of Portfolio Managers, Investment Advisers and Research Analysts

As on March 31, 2015, 188 portfolio managers were registered with SEBI compared to 212 during 2013-14. An investment adviser 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 himself as an investment adviser. As on March 31, 2015, 271 investment advisers were registered with SEBI as compared to 129 as on March 31, 2014 (Table 3.19).

**Table 3.19: Registered Portfolio Managers and Investment Advisers**

Particulars	2013-14	2014-15
Portfolio Managers	212	188
Investment Advisers	129	271
Research Analysts	Na	26

Further, in a move to safeguard Indian markets from any manipulative research reports or misleading advice coming from any unregulated entity, SEBI has notified norms for research analysts to ward off any conflict of interest in their activities. As on March 31, 2015, there were 26 research analysts registered with SEBI.

### 3. REGISTRATION AND REGULATION OF WORKING OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS

#### I. Registration of Collective Investment Management Company (CIMC)

As on March 31, 2015, there was only one registered CIMC, M/s Gift Collective Investment Management Company Ltd. which was registered during 2008-09. However, no Collective Investment Schemes have been launched by the entity till now.

#### II. Regulatory actions against Unauthorised Collective Investment Schemes

During 2014-15, 51 interim orders were passed compared to 17 during 2013-14. The interim directions inter-alia restrain a company (and its directors) from collecting any fresh monies under its existing schemes and from launching any new schemes/plans etc. (Table 3.20).

**Table 3.20: Regulatory Action against CIS**

Year	Total No. of Interim Orders	Total No. of Final Orders
2013-14	17	7
2014-15	51	14

Further, 14 final orders were passed in 2014-15 as compared to seven during 2013-14. The final order inter-alia includes directions to a company (and its directors) to wind up its existing CIS and make repayments to investors within a specified time period. Some of the major final orders passed during 2014-15 are:

#### A. M/s PACL Ltd.

The Hon'ble Supreme Court vide its order dated February 26, 2013, inter-alia, directed SEBI to carry out necessary inspection, investigation, inquiry and verification of the accounts and other records of the company as to whether it fell under the category of CIS or not and pass an order. It was found that the business/activities/schemes/plans offered and operated by M/s PACL Ltd. were collective investment schemes. M/s PACL Ltd. mobilised ₹ 49,100 crore from 5,85,40,150 customers, without transferring any rights in the land or even identifying the plot of land that they may ultimately own.

Accordingly, SEBI passed an order on August 22, 2014 in the matter of M/s PACL Ltd., wherein, inter-alia, M/s PACL Ltd., its promoters and directors were directed to wind up all the existing collective investment schemes of M/s PACL Ltd. and refund the monies collected by the said company under its schemes with returns which were due to its investors as per the terms of offer within a period of three months from the date of the order. M/s PACL Ltd. and its directors have filed an appeal before the Hon'ble Securities Appellate Tribunal (SAT).

### **B. M/s Rose Valley Real Estates and Construction Ltd.**

Vide final order dated June 18, 2014, SEBI inter-alia directed M/s Rose Valley Real Estates and Constructions Ltd. to wind up its existing collective investment schemes and refund the money collected by it under the schemes with returns which were due to the investors as per the terms of offer within a period of three months. The company filed an appeal against SEBI's final order before the Hon'ble SAT.

The tribunal vide its order dated December 15, 2014, disposed of the appeal directing the company to sell its properties expeditiously (under the supervision of SEBI) within a period of six months from the date of order, by expressly making it clear that the proceeds received on sale of the properties shall be utilised only for the purpose of making payments to investors.

### **C. M/s Sai Prasad Properties Ltd.**

An order u/s 11B of the SEBI Act, 1992 was issued on January 14, 2015, inter-alia directing the company and its directors to wind up the existing 'collective investment schemes' and refund the monies collected by the said company under the schemes with returns which were due to its investors as per the terms of offer/ agreement within a period of three months from the date of the order.

### **III. Registration and Regulation of Mutual Funds**

As on March 31, 2015, 47 mutual funds were registered with SEBI, of which 40 were in the private sector and seven (including UTI) were in the public sector. During 2014-15, schemes of Morgan Stanley Mutual Fund, ING Mutual Fund and Pinebridge Mutual Fund were acquired by HDFC Mutual Fund, Birla Sunlife Mutual Fund and Kotak Mahindra Mutual Fund respectively. Following this, the Morgan Stanley Mutual Fund, ING Mutual Fund and Pinebridge Mutual Fund were deregistered (Table 3.21).

**Table 3.21: Mutual Funds Registered with SEBI**

<b>Sector</b>	<b>As on March 31, 2014</b>	<b>As on March 31, 2015</b>
<b>1</b>	<b>2</b>	<b>3</b>
Public Sector (including UTI)	7	7
Private Sector	43	40
<b>Total</b>	<b>50</b>	<b>47</b>

### **IV. Regulatory Actions against Mutual Funds**

During 2014-15, 49 warning letters and 56 deficiency letters were issued to mutual funds on account of non-compliance with SEBI regulations/guidelines observed in compliance test reports, inspection reports, etc. Further, adjudication proceedings were initiated against one mutual fund during 2014-15.

#### **4. PROMOTION AND REGULATION OF SELF-REGULATORY ORGANISATIONS**

SEBI (Self-Regulatory Organisations), 2004 was notified on February 19, 2004 with the objective of promoting organisation of intermediaries representing a particular segment of the securities market as a self-regulated entity/organisation. For recognition of an organisation of intermediaries as SROs, SEBI held discussions with various bodies like the Association of Merchant Bankers of India (AMBI), the Association of NSE Members of India (ANMI) and the Registrars Association of India (RAIN).

SEBI has decided to have a single SRO for distributors of mutual fund products and a two-stage procedure for granting recognition as SRO for distributors of mutual fund products, that is, grant of in-principle approval and grant of recognition.

#### **5. FRAUDULENT AND UNFAIR TRADE PRACTICES**

To protect investor interests and to promote a fair and orderly securities markets, SEBI ensures the integrity of markets by detecting market frauds on a proactive basis, investigating abusive, manipulative or illegal trading practices in securities markets and taking punitive steps to punish the manipulators. Market surveillance helps in ensuring integrity of markets by enabling a safe and sound environment where buyers and sellers are willing to participate confidently.

##### **I. Types of fraudulent and unfair trade practices observed:**

- A. A company and its directors made false and misleading reporting of financial results amounting to manipulation of the price of the scrip.
- B. An employee of a big client group who was responsible for placing orders for trading in shares in his employer's account was observed

to be front-running the trades of group entities of his employer. Subsequently, such a position was being squared off with the employer to make unfair gains. Further, the dealer who was placing orders for the front-runner was also observed to be front-running its clients.

- C. Certain connected entities were observed to be manipulating the price of scrip of a company. The promoters of the said company were observed to be paying money and transferring shares without consideration to certain entities who were manipulating the price of the scrip.
- D. Certain group of entities purchased shares in a scrip, transferred them to its group entities in the off-market and bought the same shares from the market thereby creating artificial volumes.
- E. Entities that had taken positions in call options, increased the price of the scrip in the last few minutes of trading hours thereby affecting the closing price of the scrip on the day. Thereafter, the call options were exercised after closing of the market, which resulted in unlawful profits.
- F. Certain entities entered into synchronised trades/reversal of trades/circular trades within the group resulting in artificial volumes and price rise.
- G. Certain entities increased the price of the scrip by executing repeated self-trades resulting in no change in beneficial ownership.
- H. Certain entities indulged in order book manipulation by repeatedly placing and deleting orders so as to display false volumes in the order book.

## **II. Fraudulent and unfair trade practices cases during 2014-15**

### **A. Interim Order in respect of Mr. Mansoor Rafiq Khanda (Proprietor of M/s Indian Trading Company, M/s Option & M.C.X. King, M/s A To Z Solution and M/s Fullon Corporation) and Mr. Firoz Rafiq Khanda (Proprietor of M/s Fullon Corporation)**

SEBI passed an interim order on June 5, 2014, in the matter of giving trading tips by Mr. Mansoor Rafiq Khanda proprietor of M/s Indian Trading Company,

M/s Option & M.C.X King, M/s A to Z Solution and M/s Fullon Corporation and Mr. Firoz Rafiq Khanda (proprietor of M/s Fullon Corporation). The directions passed in the order included prohibiting Mr. Mansoor Rafiq Khanda and Mr. Firoz Rafiq Khanda from buying, selling or dealing in securities markets in any manner whatsoever or accessing securities markets, directly or indirectly, till further direction; ceasing and desisting from acting as investment advisors and not to solicit or undertake such activities or any other unregistered activity in securities markets, directly or indirectly, in any manner whatsoever; immediately withdrawing and removing all advertisements, representations, literatures, brochures, materials, publications, documents, websites, etc. in relation to their investment advisory or any unregistered activity in securities markets.

### **B. Interim Order in the matter of M/s Kelvin Fincap Ltd.**

SEBI had carried out an examination in the scrip of M/s Kelvin Fincap Ltd. (Kelvin) pursuant to the detection of a huge rise in the traded volumes and price of Kelvin's shares. It was observed that it deliberately and actively concealed the actual number of allottees so as to avoid compliance of issuance of prospectus and detailed disclosures therein. Further, the shares of Kelvin were transferred among M/s Kelvin Fincap Group entities in physical as well as dematerialised mode which started to trade heavily among themselves in Kelvin with huge trading volume concentration at BSE. This created artificial volumes and significantly exerted an upward pressure on the price, an act inconsistent with normal investor behaviour.

Accordingly, SEBI passed an ad interim ex-parte order dated August 7, 2014, restraining M/s Kelvin Fincap Ltd., its promoters Mr. Keyur M. Shah, Mr. Keyur M. Shah (HUF), Ms Kavita K. Shah and M/s Dahyabhai Shares and Stock Brokers Pvt. Ltd., besides seven directors and 13 other entities, from accessing securities markets and prohibiting them from buying, selling or dealing in securities in any manner whatsoever till further directions in the matter of dealing in the scrip of M/s Kelvin Fincap Ltd.

### **C. Interim Order in the matter of M/s Rasoya Protein Ltd.**

It was prima facie observed that M/s Rasoya Protein Ltd. (RPL) and persons in charge of its affairs, created a

facade of GDR issuance in connivance/collusion with Mr. Arun Panchariya, Pan Asia, Vintage and Mr. Mukesh Chauradiya wherein global depository receipts (GDRs) and underlying equity shares were created without receipt of consideration by RPL. Such a facade apparently enabled them to, at least partly, induce and allure Indian investors to buy additional equity created in the form of underlying equity shares. Thus, they indulged in employing a fraudulent plan/arrangement, device, artifice and contrivance with regard to the subscription of GDRs and creation of underlying shares using the facade of the GDR issue, monetizing those GDRs through the sale of underlying shares of the GDRs and inducing and alluring Indian investors to deal in shares of RPL. RPL and persons in charge of its affairs also made false/misleading disclosures and misrepresentations and did not co-operate with an inquiry during the preliminary examination and furnished false information to SEBI/BSE.

Accordingly, SEBI passed an order dated September 24, 2014 under Sections 11(1), 11(4) and 11B of the SEBI Act, 1992 in the matter of M/s Rasoya Protein Ltd. (RPL), its directors namely, Mr. Prashant Duchakke, Mr. Anil Lonkar, Mr. Sameer Damle and Mr. Ajay K. Singh and foreign based entities namely, Mr. Arun Panchariya, M/s Pan Asia Advisors Ltd. (now known as the M/s Global Finance and Capital), M/s Vintage FZE (now known as the M/s Alta Vista International FZE), India Focus Cardinal Fund and Mr. Mukesh Chauradiya, inter-alia, restraining them from accessing securities markets and further prohibited them from buying, selling or dealing in securities or any instrument exchangeable or convertible into securities, directly or indirectly, in any manner whatsoever till further directions.

#### **D. Interim Order in the matter of M/s Transgene Biotek Ltd. (Transgene)**

SEBI received certain complaints alleging, inter-alia, fraud in the global depository receipts issued by Transgene and mis-utilisation of the proceeds thereof. These GDR proceeds of USD 40.5 million were transferred to certain entities abroad for purposes other than informed to the shareholders. Thus, the disclosure in the 2011-12 annual report that the fund had been paid as advances out of GDR proceeds for acquiring new drug technologies and getting clinical technology services from technology/strategic partners abroad was false and misleading.

Transgene and its directors had deliberately shown a rosy picture to investors in Indian securities markets by making a GDR issue and then making false and misleading disclosures about the utilisation of GDR proceeds. Further, prima facie, they actively concealed the fact that Transgene had never received the technology and other purportedly agreed services from the entities to which the GDR proceeds were transferred. The false and misleading disclosures and active concealment of material information as prima facie found in this case had potential to influence investment decisions of the investors in shares of Transgene and to induce them to buy or sell its shares.

Accordingly, SEBI passed an ad interim ex-parte order dated November 20, 2014 in connection with GDR issues of Transgene, restraining Mr. K. Koteswara Rao and other directors/promoters of Transgene from accessing securities markets and prohibiting them from buying, selling or dealing in securities in any manner whatsoever till further directions. Also, Transgene was restrained from issuing any securities till further directions.

#### **E. Interim Order in the matter of M/s Moryo Industries Ltd.**

Pursuant to the receipt of a complaint in the dealings in the shares of M/s Moryo Ltd. (Moryo), SEBI undertook a preliminary inquiry for the period of the complaint. It was found that Moryo had made preferential allotments to 42 persons. The shares allotted on a preferential basis to the aforesaid allottees were locked-in for a period till November 8, 2013. On January 15, 2013, Moryo's shares were split in the ratio of 1:2. On analysis, it was observed that the preferential allottees made a profit of ₹ 141 crore on account of sale in the shares of Moryo to generate fictitious LTCGs (long term capital gains). It was observed that the profit was made on account of the price rise contributed by a group of suspected entities who were also the counterparties to the allottees. It was observed that this group of suspected entities was also connected to M/s Moryo Industries Ltd.

Accordingly, SEBI passed an interim order dated December 4, 2014, restraining 99 persons/entities (including the company M/s Moryo Industries Ltd., its directors, promoters, the preferential allottees who sold their holdings and entities connected to the company) from accessing securities markets and buying, selling or

dealing in securities, either directly or indirectly, in any manner till further directions.

**F. Interim Order in the matter of M/s Radford Global Ltd. (RGL)**

Pursuant to a preliminary examination by BSE in the dealings in the shares of M/s Radford Global Ltd. (RGL), SEBI undertook a preliminary inquiry in the dealings in the shares of the company for the period January 28, 2013 to March 24, 2014. It was found that RGL allotted 91 lakh equity shares on a preferential basis (subject to a one year lock-in) to 48 allottees. RGL and its connected entities and/or suspected entities manipulated the price and volume in the scrip and then provided exit to the preferential allottees who generated huge long term capital gains. Just prior to the expiry of the lock-in of shares, RGL announced a stock-split (1:5) as it would reduce the per share price and increase liquidity. On expiry of the lock-in, the 46 preferential allottees sold their holdings in RGL and made a collective profit of ₹ 313 crore.

SEBI passed an interim order dated December 12, 2014, restraining 108 persons/entities (including the company, its directors, promoters, the preferential allottees who sold their holdings and entities connected to the company) from accessing securities markets and buying, selling or dealing in securities, either directly or indirectly, in any manner till further directions. The matter was also referred to the Enforcement Directorate, IT Department and FIU.

**G. Interim Order in the matter of M/s First Financial Services Ltd. (FFSL)**

SEBI conducted a preliminary inquiry in the dealings in the scrip pursuant to detection of a huge rise in the traded volumes and price of the shares of FFSL on BSE during the period May 15, 2012 to March 31, 2014. It was found that FFSL made two preferential allotments (subject to a one year lock-in) to 83 persons/entities. FFSL and its connected entities manipulated the price and volume in the scrip and then provided exit to the preferential allottees who generated huge long term capital gains; 80 of the 83 preferential allottees sold their holdings in FFSL making a collective profit of ₹ 172.21 crore.

Accordingly, SEBI passed an interim order dated December 12, 2014, restraining 152 persons/entities (including the company, its directors, promoters, the

preferential allottees who sold their holdings and entities connected to the company) from accessing securities markets and buying, selling or dealing in securities, either directly or indirectly, in any manner till further directions. The matter was also referred to the Enforcement Directorate, IT Department and FIU.

**H. Interim Order in the matter of GDR issue of M/s Cals Refineries Ltd.**

SEBI passed a final order dated October 23, 2013, in the matter of market manipulation using GDR issues against M/s Cals Refineries Ltd. (Cals). Cals was directed not to issue equity shares or any other instrument convertible into equity shares or any other security for a period of 10 years.

SEBI also investigated the role of other entities connected to Cals in the manipulations related to the GDR issuance by Cals. It was revealed that certain promoters of Cals siphoned its funds to their accounts fraudulently and certain directors and promoters of Cals enabled it to provide financial assistance in the form of guarantee to create an illusion of successful GDR subscriptions. All these activities were done without the knowledge of other shareholders of Cals.

In view of the fraudulent activities by entities connected with Cals, SEBI vide order dated December 30, 2014, prohibited eight entities from accessing the capital market, directly or indirectly and dealing in securities or instruments in Indian securities as underlying, in any manner whatsoever, for a period of 10 years.

**I. Interim Order in the matter of M/s Kamalakshi Finance Corp. Ltd.(KFCL)**

SEBI passed an interim order dated February 20, 2015, restraining 33 persons/entities (including the company, its directors, promoters and entities connected to the company) from accessing securities markets and buying, selling or dealing in securities, either directly or indirectly, in any manner till further directions.

SEBI conducted a preliminary inquiry in the dealings in the scrip pursuant to the detection of a huge rise in the price of the shares of M/s Kamalakshi Finance Corp. Ltd. at BSE during January 15, 2014 to December 26, 2014. It was found that KFCL made three preferential allotments in November 2013, February 2014 and June 2014 thereby allotting

2,83,40,00,000 equity shares (in accordance with the provisions of SEBI (ICDR) Regulations, 2009) to 137 persons/entities. Prior to the preferential allotments, KFCL had a share capital of only 50,000 shares. Between January 15, 2014 to December 26, 2014, the price of KFCL's shares increased from ₹ 10.20 to ₹ 489 (48 times) with an average of 2, 3 or 4 trades per day. There were no genuine reasons to justify the price rise. A group of entities (connected to KFCL along with some suspected entities) had contributed to the price rise by manipulating the price in the scrip when substantial number of shares, were locked-in and were non-transferable/tradable.

Accordingly by way of an interim order dated February 20, 2015, the company, its directors, promoters and the entities connected to the company (24 entities) were restrained from accessing securities markets and buying, selling or dealing in securities, either directly or indirectly. Also, nine suspected entities were restrained from buying, selling or dealing in the scrip of M/s Kamalakshi Finance Corp Ltd. In addition, trading in the securities of M/s Kamalakshi Finance Corp Ltd. was suspended.

#### **J. Adjudication Order against 27 entities in the matter of M/s Spectacle Infotek Ltd.**

SEBI, pursuant to the detection of a huge rise in the traded volumes and/or price of the shares of M/s Spectacle Infotek Ltd. (SIL/company), a company listed at BSE and NSE, conducted an investigation into the alleged irregularity in the trading in the shares of SIL and into the possible violation of the provisions of the SEBI Act, 1992 and various rules and regulations made during May 29, 2009 to April 30, 2010. It was found that 26 entities were connected to each other by one way or the other, who had dealt in the SIL scrip through multiple brokers in a fraudulent and manipulative manner, without real change in ownership of shares by indulging in number of synchronised trades and heavily traded amongst themselves thereby creating artificial volumes and price rise in the scrip. The said entities were also observed to have done off-market transactions among themselves for the purpose of meeting the settlement obligations of one another. These entities were also found to have indulged in trades which were self-trades in nature while trading on both the exchanges, that is, BSE and NSE, through multiple brokers, one of them being M/s Arcadia Share

and Stock Brokers Pvt. Ltd., a registered intermediary with SEBI thereby creating artificial volumes which gave a false and misleading appearance of trading in SIL's scrip at the exchanges.

The adjudicating officer vide order dated September 26, 2014, imposed a consolidated monetary penalty of ₹ 1.27 crore on the 26 entities for violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a), (b) & (g) of the SEBI (PFUTP) Regulations, 2003 and Clauses A(1), (2) & (3) of the Code of Conduct as specified under Schedule II read with Regulation 7 of the Broker Regulations (against M/s Arcadia Share and Stock Brokers Pvt. Ltd. ) under Sections 15HA and 15HB of the SEBI Act, 1992.

#### **K. Adjudication Order against 20 entities in the matter of M/s Spectacle Infotek Ltd.**

SEBI conducted investigations into the alleged irregularity in the trading in the shares of M/s Spectacle Infotek Ltd. which revealed that 19 entities connected to each other had indulged in fictitious/artificial trading activities such as synchronised trades/self-trades/off-market transactions while trading through multiple brokers one of them being M/s Arcadia Share and Stock Brokers Pvt. Ltd. and created artificial volumes which gave a false and misleading appearance of trading in the scrip of M/s Spectacle Infotek Ltd. The investigation also revealed that the entities themselves were counterparties to many such trades.

The adjudicating officer passed an order dated December 22, 2014, imposing a total penalty of ₹ one crore on the 19 entities for violation of Regulations 3 (a), (b), (c), (d), 4 (1) and 4 (2) (a), (b), (e) & (g) of SEBI (PFUTP) Regulations, 2003 under Section 15 HA of the SEBI Act, 1992 and Clauses A (1), (2) & (3) of the Code of Conduct specified under Schedule II read with Regulation 7 of SEBI (Broker) Regulations, 1992 under Section 15 HB of the SEBI Act, 1992.

#### **L. Adjudication Order against 31 entities in the matter of M/s Gemstone Investments Ltd.**

SEBI conducted investigations into the alleged irregularity in the trading in the scrip of M/s Gemstone Investments Ltd. and into the possible violation of the provisions of the SEBI Act, 1992 and various rules and regulations made thereunder during January 6,

2009 to December 30, 2009. It was observed that the price of the scrip unusually increased from ₹ 21.20 to ₹ 78.35 and the daily high-low traded volume was one share to 2,46,015 shares. The investigation, inter-alia, revealed that certain entities connected to each other by one way or the other, had dealt in the scrip of M/s Gemstone Investments Ltd. through multiple brokers in a fraudulent and manipulative manner, without real change in ownership of shares by indulging in synchronised trades thereby creating artificial volumes and price rise in the scrip.

The adjudicating officer passed an order dated November 28, 2014 imposing a total penalty of ₹ 1.49 crore on the 29 entities for violation of Regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a), (b), (e) & (g) of the SEBI (PFUTP) Regulations, 2003 under Section 15HA of the SEBI Act, 1992.

#### **M. Adjudication Order against 58 entities in the matter of M/s Well Pack Papers & Containers Ltd.**

SEBI conducted investigations into the alleged irregularity in the trading in the scrip of M/s Well Pack Papers & Containers Ltd. which revealed that 57 entities connected to each other had indulged in fictitious/artificial trading activities such as synchronised trades/self-trades/off-market transactions while trading through multiple brokers one of them being M/s Arcadia Share and Stock brokers Pvt. Ltd. and created artificial volumes which gave a false and misleading appearance of trading in the scrip of M/s Well Pack Papers & Containers Ltd. The investigation also revealed that the entities themselves were counterparties to many such trades.

The adjudicating officer passed an order dated February 16, 2015, imposing a total penalty of ₹ 3.03 crore on 56 entities for violation of Regulations 3 (a), (b), (c), (d), 4 (1) and 4 (2) (a), (b), (e) & (g) of SEBI (PFUTP) Regulations, 2003 under Section 15 HA of the SEBI Act, 1992 and Clauses A (1), (2) & (3) of the Code of Conduct specified under Schedule II read with Regulation 7 of SEBI (Broker) Regulations, 1992 under Section 15 HB of the SEBI Act, 1992.

#### **N. Adjudication Order against M/s Bharatiya Global Infomedia Ltd. and three Others**

SEBI, upon noticing wide fluctuations in the price of the scrip of M/s Bharatiya Global Infomedia Ltd. (BGIL) initiated a preliminary investigation. It was noticed

that BGIL had come out with an initial public offering (IPO) during the period July 11, 2011 to July 14, 2011. It was prima facie revealed that BGIL had suppressed material facts in the offer document like utilisation of IPO proceeds, payment for inter corporate deposits (ICD), payment to vendors etc. Upon scrutiny of the Red Herring Prospectus (RHP)/prospectus and the fund utilisation, certain discrepancies/manipulations were observed: 1) wrong/inadequate disclosures with respect to utilisation of IPO proceeds as stated in RHP and prospectus; 2) Non-disclosure of source of funds already deployed and to be repaid from the IPO proceeds; 3) Investments done in contradiction with RHP/prospectus; 4) Non-disclosure of related party transactions; 5) Diversion of IPO proceeds to promoters and promoter related entities; 6) Funding certain clients out of the IPO proceeds who had in turn indulged in creation of false and misleading appearance of trading in securities markets by creating artificial volumes in the scrip of BGIL on the listing day by indulging in structured/synchronised/reversal and circular trades and giving exit to certain allottees and other entities; and 7) Wrong certification by the audit committee.

The adjudicating officer vide order dated April 17, 2014 imposed a consolidated monetary penalty of ₹ 15.5 crore on BGIL and its three directors for violation of Sections 12A (a), (b) and (c) of the SEBI Act, 1992 read with Regulations 3(a),(b), (c),(d), 4(1), 4(2) (a), (d), (e), (f) and (k) of the SEBI (PFUTP) Regulations, 2003 under Section 15HA of the SEBI Act, 1992 and for violation of Regulations 57(1), 60(4)(a), 60(7)(a) and Clauses 2(VII)(G), 2(VIII)(B)(5)(b) and (6), 2(IV)(H)(18), 2(VIII)(B)(5)(a) and 6((a) and 2(XVI)(B)(2) of Part A of Schedule VIII read with Regulation 57(2)(a)(ii) of the SEBI (ICDR) Regulations, 2009 under Section 15HB of the SEBI Act, 1992.

#### **O. Adjudication Order against M/s Taksheel Solutions Ltd. and 15 Others**

SEBI conducted an investigation into the alleged irregularity in the IPO of M/s Taksheel Solutions Ltd. (TSL). Trading in TSL's scrip commenced on October 19, 2011, and witnessed major fluctuations in the price during the first day of its listing. Further, it was found that TSL had tried to fraudulently project a misleading picture by suppressing vital information from prospective investors and made incorrect statements in the offer document which were highly misleading for the investing

public. TSL had siphoned off the IPO proceeds to vendors Kyros Tech Systems Inc., CYMA Network Solutions Inc., Crest Solutions Inc. and Helia Software Solutions Inc. and then transferred to its clients and received back revenue from its clients. Also, TSL had manipulated its books of accounts by accounting the transfers to its vendors as expenditure, which was then circulated to its clients and transferred back to it and shown as revenue, thereby inflated its books of accounts. TSL diverted the funds of the IPO through different entities namely, Silverpoint Infratech, and also diverted the proceeds of the IPO to M/s Baba Bhoothnath Trade and Commerce Pvt. Ltd., M/s Shreya Multitrade Pvt. Ltd., M/s Rose Valley Merchandise Pvt. Ltd. and M/s Overall Financial Consultants Pvt. Ltd. to deal in the shares of TSL on the day of listing and supporting the demand and thereafter the price of the scrip. Further, TSL had also diverted the IPO proceeds to certain entities, namely, Asiarch Ventures, KTP Exports, Brindille Holdings Inc. and M/s East Fortune Industrial Ltd., located outside India. It was also noted that TSL had not complied with the SEBI ad-interim ex-parte order dated December 28, 2011. TSL was also associated/created/incorporated fictitious entities as vendors/clients in the US. These entities in the US were used for transfer of funds/IPO proceeds and accounted these transfers as expenditure and revenue.

The adjudicating officer vide order dated June 30, 2014, imposed a consolidated monetary penalty of ₹ 76 crore on M/s Taksheel Solutions Ltd. and 15 other entities for violation of Sections 12A(a), (b) and (c) of SEBI Act read with Regulations 3(a),(b),(c),(d) and Regulations 4(1), (2) (a),(d),(e), (f), (k) and (r) of SEBI (PFUTP) Regulations, 2003 and Regulations 57(1), 58(1), 60(1), 60(4) (a) and 60(7) (a) of SEBI (ICDR) Regulations, 2009 and Clauses 2(VI) (B) (4), 2(VII) (G), 2(IX) (12) and 2(XVI) (B) (2) of Part A and Clause IX of Part D of Schedule VIII read with Regulation 57(2) (a) of SEBI (ICDR) Regulations, 2009 under Section 15HA and 15HB of the SEBI Act, 1992.

**P. Order in the matter of complaints of Mr. Kimsuk Krishna Sinha in respect of M/s DLF Ltd. and M/s Sudipti Estates Pvt. Ltd. against M/s DLF Ltd. and seven other entities**

SEBI conducted an investigation into the allegations levelled by the complainant, Mr. Kimsuk Krishna Sinha in respect of M/s DLF Ltd. and M/s Sudipti Estates Pvt. Ltd. The investigation inter-

alia revealed that the M/s DLF Ltd. and seven other entities (its directors/CEO/CFO) (noticees) employed a scheme by camouflaging the association of M/s Sudipti Estates Pvt. Ltd. with DLF as dissociation. They failed to ensure that the RHP/prospectus contained all material information which was true and adequate so as to enable the investors to make informed investment decisions with respect to the issue. The noticees actively and knowingly suppressed material information and facts in the RHP/prospectus leading to mis-statements in the RHP/prospectus so as to mislead and defraud investors in securities markets in connection with the issue of shares of DLF.

SEBI vide order dated October 10, 2014 (impugned order) had restrained M/s DLF Ltd., its directors/CEO/CFO from accessing securities markets and prohibited them from buying, selling or otherwise dealing in securities, directly or indirectly, in any manner whatsoever for a period of three years for violations of the provisions of Clauses 6.2, 6.9.6.6., 6.10.2.3, 6.11.1.2, 6.15.2 and 9.1 of DIP guidelines read with Regulation 111 of SEBI (ICDR) Regulations, 2009 and Section 11 of the SEBI Act, 1992 and also the provisions of Sections 12 A(a), (b) and (c) of SEBI Act read with Regulations 3 (a), (b), (c), (d), 4(1), 4 (2)(f) and (k) of SEBI (PFUTP) Regulations, 2003.

M/s DLF Ltd. and six others filed appeals challenging the impugned order before SAT. SAT vide its order dated March 13, 2015, set aside the impugned order against DLF and others. However, the presiding officer (PO) of SAT, while upholding the impugned order, reduced the debarment to six months from three years. Presently the matter is pending in the Supreme Court.

**Q. Order u/s 11 & 11B of SEBI Act, 1992 in the matter of M/s Satyam Computer Services Ltd. against Mr. B. Ramalinga Raju, Mr. B. Rama Raju, Mr. Vadlamani Srinivas, Mr. G. Ramakrishna and Mr. V. S. Prabhakara Gupta**

SEBI carried out an investigation into one of the biggest corporate accounting frauds and market manipulations after it was disclosed by the then Chairman of M/s Satyam Computer Services Ltd., Mr. B Ramalinga Raju. It was found that Mr. B Ramalinga Raju had managed the entire exercise of inflation of revenue,

misreporting of financial performance, fabrication and manipulation of the records of M/s Satyam Computers in connivance with Mr. Rama Raju (Managing Director), Mr. Vadlamani Srinivas (chief finance officer), Mr. G Ramakrishna (vice-president, finance) and Mr. Prabhakar Gupta (head – internal audit). They were deliberately conveying a false picture about the financials of the company to the public and concerned authorities. Further, these persons had taken advantage of the inside ‘unpublished price sensitive information’ that they were privy to and sold their holdings in M/s Satyam Computers at a high price when its financials did not warrant such high valuation.

Therefore, SEBI vide order dated July 15, 2014 held that these persons had violated Section 12A of the SEBI Act and Regulations 3(b), 3(c) and 3(d) and Regulations 4(1) and 4(2), (a), (e), (f), (k), and (r) of the SEBI (PFUTP) Regulations, 2003 and Regulations 3 and 4 of the SEBI (PIT) Regulations, 1992. SEBI restrained them from accessing securities markets and prohibited them from buying, selling or otherwise dealing in securities, directly or indirectly or being associated with securities markets in any manner whatsoever for a period of 14 years. They were also directed to disgorge the wrongful gain made by them from their contraventions with simple interest at 12 percent per annum from January 7, 2009, till the date of payment.

**R. Order in the matter of M/s Sky Industries Ltd. against seven entities and one stock broker**

SEBI conducted an investigation with respect to trading in the scrip of M/s Sky Industries Ltd. for the period January 1, 2009 to May 10, 2010. The investigation observed that certain entities had executed reversal/synchronised trades with connected clients/self-trades. Further, the overall impact of the trading of these entities on the price of the scrip was found to be positive. Two of the entities were also observed to have transferred shares in the off-market that were used in manipulative trades.

The adjudicating officer passed two separate orders dated March 12, 2015 imposing a total penalty of ₹ 4.82 crore for violation of Regulations 3 (a), (b), (c) (d), 4 (1), 4(2) (a), (b), (d), (e) and (g) of SEBI (PFUTP) Regulations, 2003, Regulation 13(3) of SEBI (PIT) Regulations, 1999, Regulation 7(1) of Takeover

Regulations and for violation of Clause A (2) of Code of Conduct for stock brokers as specified under Schedule II read with Regulation 7 of Stock Brokers Regulations, as applicable, under Sections 15HA and/or Section 15 HB and/or Section 15A(b) of the SEBI Act on a total of seven entities and one stock broker.

**S. Order in respect of Mr. Purshottam Khandelwal in the matter of M/s Gangotri Textiles Ltd.**

SEBI conducted an investigation in respect of buying, selling and dealing in the shares of M/s Gangotri Textiles Ltd. (Gangotri), during April 7, 2006 to May 31, 2006. The role of the entities who had traded in Gangotri’s scrip was scrutinised. It was observed during the investigation that certain entities including Mr. Purshottam Khandelwal (a part of the Vishvas Group) had executed synchronised trades, circular trades and reversal trades among themselves and traded in significant variation to the last traded price (LTP) in the shares of Gangotri. Out of Mr. Purshottam’s total trading volume, 7,89,063 shares were synchronised and 19,17,098 shares were circular with other members of Vishvas Group. Also, Mr. Purshottam had indulged in 711 self-trades for 65,025 shares. Vide order dated July 22, 2014, the adjudicating officer held that Mr. Purshottam had violated the provisions of Sections 12A(a), 12A(b), 12A(c) of the SEBI Act and Regulations 3(a), 3(b), 3(c), 3(d), 4(1), 4(2)(a), 4(2)(e) & 4(2)(g) of SEBI (PFUTP) Regulations, 2003 and imposed a penalty of ₹ one crore.

**T. Orders against M/s Yes Investments and M/s Blue Peacock Securities Pvt. Ltd. in the matter of dealings of Mr. Vishal Kishore Bhatia**

SEBI conducted investigations against M/s Yes Investments (Proprietor--Mr. Vishal Kishore Bhatia) and M/s Blue Peacock Securities Pvt. Ltd. (noticees), in which Mr. Vishal Kishore Bhatia was one of the directors, into his dealings. It was observed during the investigation that the noticees were continuously entering and deleting orders and then taking reverse positions in the cash market. The investigation further revealed that on various trading days the noticees placed huge buy/sale orders away from the market price. These large buy/sale orders were placed by the noticees at below/above prevailing prices most of which remained unexecuted and/or were subsequently deleted, acted as BAIT to other

market participants and such orders were placed with the sole motive of fraudulently inducing other lay investors to deal in those scrips. While the aforementioned orders were still pending in the market for execution, the noticee sold/bought shares in the market (SWITCH). It was further noted during the investigation that the buy orders placed by the noticees (which were placed significantly below the market prices and subsequently deleted) were with fully disclosed quantities whereas the sell orders were placed at partially disclosed quantities.

The adjudicating officer passed two separate orders dated August 27, 2014 imposing a penalty of ₹ two crore each on M/s Yes Investments and M/s Blue Peacock Securities Pvt. Ltd. under Section 15HA of the SEBI Act, 1992, for violations of Regulations 3 (a), (b), (c), (d), and 4(1) and (2) (a) of SEBI (PFUTP) Regulations, 2003.

**U. Order in the matter of M/s Onelife Capital Advisors Ltd. against M/s Onelife Capital Advisors Ltd. and two others**

On noticing suspicious transfers of the proceeds of the IPO to certain entities, SEBI conducted an investigation into the matter of M/s Onelife Capital Advisors Ltd.'s (OCAL) IPO. The investigation, inter-alia revealed that OCAL had made mis-statements in its Red Herring Prospectus (RHP)/prospectus, had failed to disclose certain material developments in the (RHP)/prospectus and had also utilised the IPO proceeds for purposes other than the objects stated in the RHP/prospectus. It was also revealed that OCAL had transferred ₹ 15.55 crore (42 percent of the IPO proceeds) to M/s Fincare Financial and Consultancy Services Pvt. Ltd.; a sum of ₹ 12 crore (32 percent of the IPO proceeds) to M/s Precise Consulting & Engineering Pvt. Ltd. and a sum of ₹ 7.7 crore (21 percent of the IPO proceeds) to M/s KPT Infotech Pvt. Ltd.

The adjudicating officer passed an order dated November 28, 2014, imposing a total penalty of ₹ 3.5 crore on three entities for violation of the provisions of Section 11C (5) of SEBI Act, 1992 (under Section 15A(a) of the SEBI Act); for violation of the provisions of Sections 12A(a), (b) and (c) of the SEBI Act and Regulations 3(a),(b),(c),(d), 4(1), 4(2) (f) and (k) of the SEBI (PFUTP) Regulations, 2003 (under Section 15HA of the SEBI Act); for violation of the provisions of Regulations 57(1), 60(4)(a) and 60(7)(a), Clauses 2(VII)(G)and (XVI) (B) (2) of Part A of Schedule

VIII read with Regulation 57 (2) (a) of SEBI (ICDR) Regulations, 2009(under Section 15HB of the SEBI Act); and for the violation of the provisions of Clauses 43A(1), (3) and 49 (IV) (D) of the Listing Agreement (under Section 23A(a) of SCRA, 1956).

**V. Order in the matter of M/s DLF Ltd. and M/s Sudipti Estates Ltd. against M/s DLF Ltd. and seven other entities**

SEBI conducted an investigation into the allegations levelled by one Mr. Kimsuk Krishna Sinha (KKS) in his complaints dated June 04, 2007 and July 19, 2007 in respect of M/s DLF Ltd. (DLF) and M/s Sudipti Estates Ltd. (Sudipti). The investigation revealed that DLF, its non-independent directors and the CFO had employed a scheme by camouflaging the association of Sudipti with DLF as dissociation and failed to ensure that the offer documents (RHP/prospectus) contained all material information which was true and adequate so as to enable the investors to make an informed investment decision in the issue. It was also revealed that DLF and its top management had actively and knowingly suppressed certain material information and facts in the offer documents namely, history and nature of business of subsidiary, related party transactions, financial information pertaining to subsidiaries and outstanding litigations/FIR against Sudipti leading to mis-statements in the offer documents.

The adjudicating officer passed an order dated February 26, 2015, imposing a total penalty of ₹ 52 crore on eight entities/persons for violations of the provisions of Clauses 6.2, 6.9.6.6, 6.10.2.3, 6.11.1.2, 6.15.2 and 9.1 of SEBI (DIP) Guidelines, 2000 read with Regulation 111 of SEBI (ICDR) Regulations, 2009 and the provisions of Sections 12A(a), (b) and (c) of the SEBI Act read with Regulations 3 (a), (b), (c), (d), 4 (1), 4 (2) (f) and (k) of SEBI (PFUTP) Regulations, 2003 under Sections 15HB and 15HA of the SEBI Act respectively.

**W. Order in the matter of M/s DLF Ltd. and M/s Sudipti Estates Pvt. Ltd. against M/s Sudipti Estates Pvt. Ltd. and 33 other entities**

SEBI conducted an investigation into the allegations levelled by one Mr. Kimsuk Krishna Sinha (KKS) in his complaints dated June 04, 2007 and July 19, 2007 in respect of M/s DLF Ltd. (DLF) and M/s Sudipti Estates Ltd. (Sudipti), as per the directions issued by SEBI vide order dated October

20, 2011. KKS, in his complaints, inter-alia, alleged that Sudipti had duped him of ₹ 34 crore (approx.) in relation to a transaction between them for purchase of land, and he had registered an FIR against Sudipti. KKS also stated in the said complaints that Sudipti, M/s DLF Housing Development Ltd. (DHDL) and M/s DLF Estate Development Ltd. (DEDL) were sister concerns and inextricably linked; DHDL and DEDL were controlling the entire shareholding of Sudipti and that all the three companies (DHDL, DEDL and Sudipti) were part of the DLF Group.

The investigation inter-alia revealed that DLF and seven others (noticees) had employed a scheme by camouflaging the association of Sudipti with DLF as dissociation and failed to ensure that the offer documents (RHP/prospectus) contained all material information which was true and adequate so as to enable the investors to make an informed investment decision in the issue. It was also revealed that DLF, its non-independent directors and CFO had actively and knowingly suppressed certain material information and facts in the RHP. The investigation further revealed that Sudipti and 33 entities/persons had aided and abetted DLF, its non-independent directors and CFO in the said camouflage.

The adjudicating officer passed an order dated February 26, 2015, imposing a total penalty of ₹ 34 crore on Sudipti and 33 entities for violating the provisions of Sections 12A(a), (b) and (c) of SEBI Act read with Regulations 3 (a), (b), (c), (d), 4 (1), 4 (2) (f) and (k) of SEBI (PFUTP) Regulations, 2003.

#### **X. Adjudication order against M/s Teakwood Management Services Ltd. in the matter of M/s Edserv Softsystems Ltd.**

SEBI has conducted an investigation into M/s Edserv Softsystems Ltd.'s (ESL) IPO. The investigation report observed that M/s Nirman Management Services Pvt. Ltd. – currently known as M/s Teakwood Management Services Pvt. Ltd. (noticee/company) was a major trader in the shares of ESL at NSE and BSE. The investigation period in ESL's scrip was taken from March 2, 2009 to March 13, 2009. After considering the evidence, it was observed by the AO that the noticee had executed buy orders at a higher price than the prevailing market price despite the availability of sufficient sell orders at the lower

price in the market at NSE and thereby manipulated the price of the scrip. The noticee executed self-trades/fictitious trades which resulted in no change in beneficial ownership of shares. The noticee had created an artificial volume in the shares of ESL by placing purchase and sale orders of the same number of shares at the same price within negligible time at the lower circuit limit and thereby created a misleading appearance of trading. In view of this, a penalty of ₹ one crore was imposed on the noticee for violations of Regulations 3 (a) & (d) and 4 (1), 4 (2) (a), (e) & (g) of the SEBI (PFUTP) Regulations, 2003 under the provisions of Section 15 HA of the SEBI Act.

#### **Y. Adjudication Order in the matter of M/s Brooks Laboratories Ltd. against M/s Brooks Laboratories Ltd. and five others**

SEBI conducted an investigation into the alleged irregularities in M/s Brooks Laboratories Ltd.'s (BLL) IPO covering the period from June 2011 to September 2011. The investigation revealed that BLL along with its CEO, Chairman, Managing Director, CFO and company secretary had indulged in irregularities/fraudulent exercise including siphoning off funds to the tune of ₹ eight crore from the IPO proceeds. The allegations against BLL in the SCN were regarding accepting of inter corporate deposits (ICDs)/repayments of ICDs from IPO proceeds, round tripping/siphoning off funds received in the IPO, awarding the contracts to Mr. Suryamukhi at a price higher than the quote given by M/s Syal & Associates, diversion of IPO proceeds in the equity market, non-disclosures of vital information in the RHP/prospectus. It was alleged that BLL and its other aforementioned officials deliberately indulged in such fraudulent exercises and were complicit with other entities with an intention to defraud the investing public.

The adjudicating officer passed an order dated January 12, 2015 imposing a total penalty of ₹ 11.8 crore on BLL and five other entities for violation of provisions of Sections 12A(a), (b) and (c) of SEBI Act read with Regulations 3 (a), (b), (c) and (d) and Regulations 4(1), 4(2) (d), (e), (f) and (k) of the SEBI (PFUTP) Regulations, 2003, 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 SEBI (ICDR) Regulations, 2009.

**Z. Adjudication Order against Mr. Deepak Khurana in the matter of front running activity by Ms. Pooja Menghani**

SEBI conducted an investigation relating to the trading of Ms. Pooja Menghani during the period June 1, 2008 to January 12, 2009 in the shares of M/s Amtek Auto Ltd., M/s Amtek India Ltd., M/s Ahmednagar Forgings Ltd. and M/s Monnet Ispat Ltd. The investigation found that Ms. Pooja Menghani had done front running in these scrips by obtaining prior knowledge of large buy orders to be placed by M/s Live Star Marketing Pvt. Ltd., M/s SRS Portfolio Ltd. and M/s MSR Marketing Pvt. Ltd. Mr. Deepak Khurana (who was heading a branch of M/s Religare Securities Ltd. (Religare) at Pitampura Delhi, had aided and abetted Ms. Pooja in her trading activities ahead of the large buy orders placed by Live Star, SRS Portfolio and MSR Marketing by communicating information regarding the large buy orders and thereby violating Regulations 3(a),(b),(c),(d) and 4(1) of the SEBI (PFUTP) Regulations, 2003.

The adjudicating officer passed an order dated April 29, 2014 imposing total penalty of ₹ 50 lakh on Mr. Deepak Khurana for violations of the provisions of Regulations 3(a),(b),(c),(d) and 4(1) of the SEBI (PFUTP) Regulations, 2003.

**III. Steps taken to prevent the occurrence of fraudulent and unfair trade practices**

SEBI has taken the following steps to prevent the occurrence of FUTP practices:

- A. SEBI (PFUTP) Regulations, 2003 are in place.
- B. Actions are taken in terms of provisions of the SEBI Act, 1992 which also includes adjudication proceedings for levy of monetary penalty. This also acts as a deterrent.

The total penalty imposed by SEBI in adjudication proceedings for the violations of SEBI (PFUTP) Regulations, 2003, was ₹ 241.7 crore in 2014-15 compared to ₹ 134.7 crore in 2013-14. The total penalty imposed for 2014-15 includes ₹ 23.3 crore imposed under SEBI (PFUTP) Regulations, 2003, SEBI (ICDR) Regulations, 2009 and SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 as common orders were passed in certain matters during 2014-15.

**6. INVESTOR EDUCATION AND TRAINING OF INTERMEDIARIES**

Section 11(2)(f) of the SEBI Act empowers SEBI to promote investors' education and foster training for

intermediaries in securities markets. Along with investor education and training, SEBI has also actively pursued investor grievance redressal with a view to protecting investor interests, enhancing their confidence and increasing their participation.

**I. Investor Education**

Education and awareness along with grievance redressal were thrust areas as a part of capacity building and to make investors confident and aware while investing in securities markets.

**A. Investor Awareness Programmes/Workshops**

Various investor awareness programmes were conducted by SEBI with the help of exchanges, depositories etc. SEBI also reimburses the cost of the approved programmes conducted by investor associations that it recognises, subject to certain limits. Most of these programmes also try and sensitise people against unregistered collective investment schemes which offer unrealistic returns (Table 3.22).

**Table 3.22: Trends in Awareness Programmes/Workshops Conducted by SEBI**

Particular	2013-14	2014-15
Number of Programmes	224	223

**B. Mass media campaign**

As part of SEBI's multimedia investor education and awareness campaign, during 2014-15 campaigns aimed at spreading awareness against unregistered collective investment schemes (CIS)/ponzi schemes were undertaken through mass media covering print, television and radio in Hindi, English and 11 major Indian languages. Through these campaigns, investors were cautioned to not go by hearsay and not to rely on schemes offering unrealistic returns, and to do proper due diligence. More than 840 insertions in print, 90,000 radio spots and 17,000 television spots were covered in the campaigns undertaken in 2014-15.

Considering the menace of schemes offering unrealistic returns to dupe unsuspecting investors, a bulk SMS campaign was initiated on a pilot basis to caution people in the states of Assam, Bihar, Jharkhand, Odisha and West Bengal. More than two crore SMSs were sent cautioning investors not to invest in such schemes.

### **Box 3.1: Empowering Investors**

Investors are the bedrock of capital markets. The primary mandate of SEBI is to protect the interests of investors in securities markets. SEBI's investor protection mandate as stated under Section 11 of the SEBI Act provides for a three pronged strategy: proactive investor protection measures and enforcement, investor grievance redressal mechanisms and investor awareness programmes.

In the recent period, there has been a focused endeavour towards implementing innovative methods to make investors aware, foster policies for the protection of investor interests, simplify the processes to attract increased participation and launching technologically advanced modes of grievance redressal mechanisms.

Protecting the interests of investors is embedded in almost all the laws, rules and policies enacted by SEBI for promoting, developing and regulating markets. A step further in this direction has been envisioned through recent policy measures which include inter-alia single KYC for securities markets, increase in the cash investment limit by mutual funds, basic services demat accounts, e-voting facility, mandatory authentication of listed companies on the SCORES platform, Saral account opening form for resident individual investors, interim monetary relief for investors from IPF of stock exchanges, simplification of processes in securities markets, enhanced disclosures and transparency by listed companies and exchanges, revised corporate disclosure norms, product labelling in mutual funds and IPEF regulations.

While investor interests are ensured through various policies, checks and balances, the expeditious redressal of their grievances is a pre-requisite for retaining their confidence in markets and for regulation. In 2011, SEBI commenced a new web-based centralised grievance redress system, SCORES (SEBI complaints redress system) which has now emerged as the cornerstone of SEBI's efforts to redress the grievances of investors in a time-bound manner. The SCORES system has been working satisfactorily and has helped in making the complaint handling and redressal mechanism more efficient. Additional safeguards include mandating intermediaries to put systems in place to address investor complaints and make investor grievance redressal mechanism centres functional in various cities across the nation. Apart from the assistance provided to investors through traditional modes like emails and letters, SEBI also launched two dedicated toll free helpline numbers available to investors from all over India in 14 languages on all days from 9.30 a.m. to 5.30 p.m. throughout the week except on declared holidays in Maharashtra.

Knowledge empowers investors. The focus on inclusive policy recognises that financial literacy and education play a crucial role in financial inclusion. Since 2011-12, SEBI has gone a step further by altering the modes of awareness and by relying more on the media and also involving schools and colleges to spread financial education.

SEBI maintains a comprehensive website for educating investors to guide and enlighten investors and to make them aware of their rights and remedies. (<http://investor.sebi.gov.in>). The education material designed by SEBI is periodically updated and the schedules of various programmes such as workshops for investor education/financial education are uploaded on the investor website. SEBI also grants financial assistance to 15 recognised investor associations for investor education.

A financial education drive was launched through the creation of a separate class of information disseminators called resource persons (RPs), where teachers and lecturers were trained and empanelled for conducting financial education workshops. The study material developed for this target group is presently available in English, Hindi and 11 vernacular languages. Another mode of spreading awareness was the 'Visit to SEBI' programme, wherein students from schools, colleges and professional institutes who are interested in learning about SEBI and its role as a regulator of securities markets, visited SEBI. Educational institutions from 20 states, three union territories and 60 districts visited SEBI under this programme.

As a measure to protect investors, since December 2012 SEBI has been pursuing a massive investor education and awareness campaign through mass media on relevant topics of investor awareness. As a part of the campaign, advertisements on relevant topics of investor awareness are released through popular media vehicles TV, radio and print on a pan-India basis in Hindi, English and 11 major regional languages. Through such campaigns, investors are cautioned not to rely on schemes offering unrealistic returns and not to invest by hearsay and do proper due diligence. In addition, the regional seminars initiative was started in 2011-12 which has expanded its scope and reach significantly in terms of investor population and geographical landscape. At present it primarily concentrates on Tier II and Tier III cities. Further, to create more awareness regarding unauthorised collective investment schemes (CIS), a CD containing media campaigns has been sent to all resource persons and all offices of SEBI. In order to develop a pan-India securities market, SEBI embarked on a policy to strengthen its regional offices and open local offices in various state capitals. It was felt that physical proximity of a SEBI office to investors and intermediaries would promote deepening and broadening of securities markets.

As envisaged in the National Strategy for Financial Education, with a vision of 'a financially aware and empowered India', the National Centre for Financial Education (NCFE) incubated in the National Institute of Securities Markets (NISM) continues to undertake various activities for financial education. These include the following:

- A national financial literacy and assessment test was conducted consecutively for the second year covering one lakh students across the country.
- A national portal (ncfe.org) has been hosted to include various contents covering savings, pensions, insurance and investments for empowering people. Various regulators have been updating the contents on the portal.
- National survey for financial inclusion and education.
- Efforts to include financial education in the CBSE curriculum.

It has been formed as a part of the technical group for financial inclusion and literacy under the Financial Stability and Development Council formed and funded by all financial market regulators.

SEBI's role as investor protector is not limited to educational programmes and redressal mechanisms. SEBI also has vigorous and comprehensive enforcement mechanisms, particularly against unregulated collective investment schemes defrauding millions of investors in the country. SEBI aggressively pursues violators of securities laws, imposes severe monetary penalties, imposes disgorgement and prevents them from operating in securities markets.

### C. Regional Seminars

This initiative started in 2011-12 and has been extended to reach out to more people; it concentrates primarily on Tier II and Tier III cities. During 2014-15 efforts were made to cover towns and cities not covered in previous years (Table 3.23).

**Table 3.23: Regional Seminars Conducted by SEBI**

Particular	2013-14	2014-15
Number of Seminars	77	51

### D. Dedicated investor website

SEBI maintains an updated, comprehensive website for education of investors (www.investor.sebi.gov.in). The website has been revamped to make it more user friendly and educative material is being updated. The schedule of various programmes is also updated on the website.

### E. Investor Assistance

SEBI provides assistance/guidance to investors by replying to their queries received through the following modes:

- Email (asksebi@sebi.gov.in)
- Investors visiting various offices
- Letters to SEBI

SEBI replied to around 3,500 queries during April 1, 2014 to March 31, 2015. Assistance so rendered to investors was augmented by gathering details from FAQs, circulars etc. available on the SEBI website and from the details gathered through email and phone calls from market intermediaries.

### F. Other initiatives

#### a) SEBI stalls at various fairs and exhibitions

SEBI associated with exchanges where stalls were put up by the min fairs and exhibitions for engaging in conversation with general public, explaining the grievance redressal mechanism and taking suggestions from the public for instance, the Book Fair in New Delhi, the 34th India International Trade Fair, 2014 in New Delhi, the Lucknow Mahotsav, the Kreta Suraksha Mela in Kolkata, the Book Fair in Chandigarh and the Invest Expo in Chennai.

#### b) Awareness programmes for complainants at various offices

SEBI educated investors when groups of complainants visited local offices regarding complaints against ponzi schemes or schemes offering unrealistic returns etc. These sessions were appreciated by the participants and they said that they would be careful in the future while investing and would also advise their friends/relatives to exercise caution.

## II. Training of Intermediaries

### A. National Institute of Securities Markets

Pursuant to the announcement made by the Finance Minister in his Budget speech in February 2005 for the setting up of an institution of national importance to cater to education about securities markets and training of intermediaries, SEBI established the National Institute of Securities Markets (NISM). The activities of NISM are dedicated towards

enhancing the quality of participation in securities markets within the broad framework of its vision, mission and philosophy. This involves developing the knowledge and skill base of all stakeholders.

The activities of NISM 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 of Certification of Intermediaries (SCI), School for Corporate Governance (SCG) and the National Centre for Finance Education (NCFE). In addition, NISM publishes various materials with a view to enhancing the knowledge levels of participants in the securities industry. Over the years, NISM has also developed and implemented certification examinations for professionals employed in various segments of the Indian securities markets.

**a. Education and Training of**

**Intermediaries:** SCI at NISM develops and administers certification examinations and continuing professional education programmes for professionals employed or preparing for employment in various segments of the Indian securities markets. NISM programmes cover various subjects such as equities, derivatives, securities operations, compliance, mutual funds, wealth management and research.

**b. Certification of Associated Persons in the Securities Markets:**

NISM launched two certification examinations in 2014-15 - Common Derivatives Certification Examination and Research Analyst Certification Examination. As a part of its periodic examination review, NISM launched revised exams for 12 certification examinations in 2014-15. During 2014-15, 107,305 candidates appeared for NISM certification examinations at 209 test centres located in 161 cities across India.

**c. Development and Administration of Continuing Professional Education (CPE):**

NISM launched a one-day CPE programme for NISM-Series-X-A: Investment Advisor (Level 1) certification examination during 2014-15. NISM also revised and updated the course content of six CPE modules. As on date, NISM has accredited eight entities as CPE providers for the delivery of its CPE programmes. In addition to the CPE programmes delivered in the classroom format, NISM also offers an online mode of the CPE programme, that is, e-CPE for the mutual fund distributors module. To increase the frequency and penetration of CPE programmes, NISM has initiated the process of giving accreditation to more CPE providers. Details of the CPE programmes conducted in 2014-15 are given Table 3.24. During 2014-15, NISM along with its CPE providers conducted 1,101 CPE programmes at 103 locations accommodating 40,441 candidates across various modules. NISM also conducted two-day management development programmes on securities operations, risk management and equity derivatives. For adequacy of CPE trainers across all modules (including the newly launched CPE modules) and across the country, NISM undertook an exercise to approve and empanel CPE trainers. Accordingly, 88 individuals were approved/empanelled as CPE trainers during 2014-15. NISM organised 'Contact Programmes for Trainers in the Securities Markets' to encourage fraternity among trainers and enhance their understanding of the various segments of the market. Three such programmes were conducted (two in Mumbai and one in Chennai) in which NISM CPE trainers, members of training and development teams of market intermediaries and academicians participated; 68 trainers/ academicians benefitted from these programmes.

**Table 3.24: CPE Programmes Conducted During 2014-15**

Sr. No.	CPE Segment	Number of Programs	Number of CPE Participants
1	Mutual Fund Distribution	532	19,477
2	Securities Intermediaries Compliance	18	544
3	Currency Derivatives	35	662
4	RTA – Corporate	6	208
5	RTA - Mutual Funds	6	199
6	Depository Operations	145	4,083
7	Securities Operations and Risk Management	60	1,781
8	Mutual Funds Foundation	2	50
9	Equity Derivatives	291	13,323
10	Securities Operations and Risk Management, Management Development Programme	2	12
11	Equity Derivatives Management Development Programme	4	102
	<b>Total</b>	<b>1,101</b>	<b>40,441</b>

**d. Other Initiatives**

**i. Accreditation of Certification Exams:**

Under Regulation 7(2) of the SEBI (Investment Advisors) Regulations, 2013, NISM has granted accreditation to the following certifications: Chartered Wealth Manager (CWM) Certification of the American Academy of Financial Management India Pvt. Ltd., Associate Financial Planner (AFP) Certification of Financial Planning Standards Board India (FPSB India), Certified Financial Planner (CFP) Certification of FPSB India and International Certificate in Wealth and Investment Management India (ICWIM India) Certification of Chartered Institute for Securities & Investment (CISI).

**ii. Joint Certifications:** During 2014-15, NISM launched two joint certifications - Certified Credit Research Analyst (CCRA) Certification in association with the Association of International Wealth Management of India (AIWMI) and Certification in Equity Trading and Investment in association with ICICI Direct Centre for Financial Learning (ICFL).

**iii. Training Programmes:** NISM has developed and conducted multiple training programmes for securities market professionals including training on stock broker operations, equity derivatives and financial planning and wealth management.

**iv. E-learning initiative:** NISM launched e-CPE programme for mutual fund distributors module at the NISM test centre in Vashi on November 2015. The e-CPE (MFD) will be made available at NISM test centres at Vashi, Nariman Point and Chennai shortly.

**v. Online CPE Registration and Enrolment System (OCRES):** OCRES, a web based online system for registration, enrolment and issuing of certificates to participants of continuing professional education (CPE) programmes was successfully developed and made live on the NISM website.

**vi. Skills Registry:** This web based system is made available on the NISM website to provide access to members of the public to the database of all certificates issued by NISM.

**School for Corporate Governance (SCG):**

The School for Corporate Governance (SCG) undertakes activities in the corporate governance space. SCG conducts workshops and round table conferences on matters pertaining to corporate governance. It has undertaken many initiatives for capacity building in the corporate governance space. In 2014-15, SCG mainly focused its efforts on ethics and corporate governance, creating awareness about the revised Clause 49 of the Listing Agreement and initiatives to promote gender balance and board leadership for

women directors programmes. During this process, NISM worked in close collaboration and built partnerships with institutes such as the Institute of Company Secretaries of India (ICSI), ICSI-CCGRT, the Indian Institute of Corporate Affairs (IICA), the IL&FS Academy of Applied Development and international organisations/networks such as the International Corporate Governance Network (ICGN) and Deutsche Gesellschaft für Zusammenarbeit (GIZ). NISM organised 11 programmes in corporate governance during 2014-15.

**e. NISM Campus Project –Patalganga:** The new 70 acre state-of-the-art, NISM campus is coming up at Patalganga near Panvel. The estimated cost of construction is ₹325 crore. Since NISM is a public private partnership, ₹225 crore is being contributed by SEBI and ₹100 crore is being mobilised from other regulators and market participants. The campus will be a green, energy efficient and environment friendly one. The commemorative plaque launching the campus was unveiled by the then Hon'ble Prime Minister of India Dr Manmohan Singh on 24th May, 2013 at SEBI's silver jubilee function. Among the main features of the campus are modern classrooms equipped with latest technology, a 400 seater auditorium, library, amphitheatre and a recreational block. Having the potential of accommodating 5,000 students, the campus is being developed for 900 students in the first phase. The 'Financial Markets Conclave on Capacity Building and Talent Acquisition' was

held at Patalganga on 20 February, 2015. As per present projections, work on the campus is likely to be completed by December 2015.

### III. Financial Education

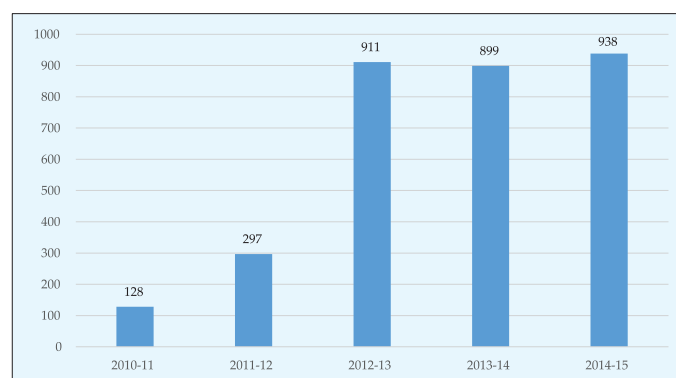
SEBI has taken up various programmes across the country with the aim of spreading financial literacy. The resource person model developed by SEBI has been well appreciated internationally as well as domestically by other regulators and various ministries.

#### A. Through SEBI trained Resource Persons

SEBI launched a financial education drive through resource persons (RPs) in June 2010, where teachers and lecturers were trained and empanelled for conducting workshops on financial education. The workshops conducted through the resource persons are usually for 2-3 hours. SEBI study material is also distributed free of cost to the participants. The participants in the workshops are divided in the following target groups: financial education for school children, financial planning for young investors, financial education for middle income groups, investment planning for executives, investment planning for home makers, investment planning for retired people and financial education for self-help groups. The study material developed for these target groups is available in various vernacular languages.

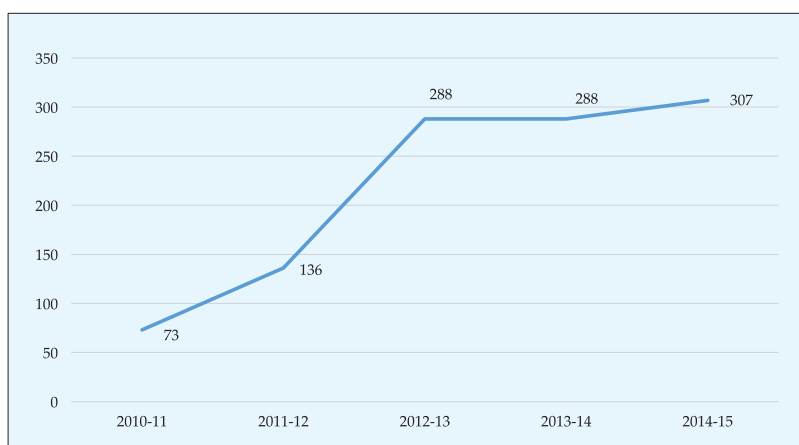
There were 938 RPs as on March 31, 2015 representing 307 districts across 27 states and four union territories. With the current empanelment, all districts in the three southern states of Kerala, Telangana, Andhra Pradesh and the union territory of Puducherry are represented by a SEBI empanelled RP. (Chart 3.2 and 3.3)

**Chart 3.2: Trends in Number of Resource Persons (RPs)**



Note: Data for 2011-12 and 2012-13 has been revised.

**Chart 3.3: Districts Represented by Resource Persons**



Through these resource persons, around 7,702 financial education workshops in around 450 districts covering 28 states and six union territories were conducted during 2014-15; there have been over 24,000 programmes since 2010.

With a view to addressing issues related to conducting workshops, difficulties and constraints faced by RPs, refresher training was organised in February 2015 in Hyderabad for existing resource persons in the southern region and in Maharashtra. Refresher training updated all RPs on the content of the study material and also about the new developments in SEBI's policies regarding financial education initiatives and investor protection.

### B. Visit to SEBI

SEBI hosts 2-3 hour programmes for students from schools, colleges and professional institutes who are interested in learning about SEBI and its role as a regulator of securities markets. The programme was started in February 2011 and has been quite popular. Till date, SEBI had hosted 336 such visits with participants visiting from different parts of the country and from different courses (company secretaries, management, commerce, banking, law, arts, science, etc.). Further, visits have also been initiated in SEBI's various local and regional offices (Table 3.25).

**Table 3.25: Visits to SEBI's offices**

Financial Year	2013-14	2014-15
Total Visits to SEBI	90	167

### C. Others

As a part of financial education initiatives, various programmes have been conducted by various offices of SEBI for specific target groups, including women and police personnel. The programmes include:

- A women centric programme inaugurated by the inspector general of police on March 21, 2015 at Ranchi, Jharkhand.
- Programme for members of Mahila Samakhya, a programme run under MHRD on March 25, 2015 at Ranchi, Jharkhand.
- Financial literacy quiz in Chandigarh for a commerce fest.

### D. National Strategy for Financial Education

With a vision of 'a financially aware and empowered India', the National Strategy for Financial Education is under implementation by the National Centre for Financial Education (NCFE). As envisaged in the strategy, a national financial inclusion survey (NFLIS) has been completed. A national level exam for school students, the national financial literacy assessment test (NFLAT) was conducted for the second year which was taken by over one lakh students. The results have been published on the NCFE website.

#### NCFE-Financial Education Website (NCFE-FEW):

A portal, [www.ncfefindia.org](http://www.ncfefindia.org), which has information about various aspects of financial markets including banking, pension, insurance and securities markets with content inputs from various regulators including SEBI has been launched. The first phase of the NCFE website has been completed. Content related

to financial literacy developed by all financial sector regulators is made available on the website. This is updated with videos, audio and other materials. Unbiased product and company neutral content developed by the private sector has also been made available on the website. Efforts are on to make content available in various regional languages in a phased manner.

#### **NCFE- Financial Literacy and Inclusion Survey (NCFE-FLIS):**

The NCFE financial literacy and inclusion survey has been completed and draft reports submitted to the technical group on financial inclusion and financial literacy of the FSDC sub-committee for review. These reports are expected to provide valuable inputs to the government, regulators and other stakeholders of the financial sector as well as academicians about the current state of financial literacy and financial inclusion in the country, paving the way for policy interventions at the micro level to address specific issues and challenges.

#### **IV. 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 are continuously monitored. Grievances pertaining to stock brokers and depository participants are taken up with the concerned stock exchange and depository for redressal and monitored by the concerned department through periodic reports obtained from them. Grievances pertaining to other intermediaries are taken up with them directly for redressal and continuously monitored by the concerned department at SEBI.

The company/intermediary is required to respond in a prescribed format in the form of an 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.

SCORES has helped investors in getting real time information about the status of their grievances since investors can log onto SCORES at any time and from anywhere and check the status with the help of a username and password provided to them at the time of lodging the grievance. Alternatively, investors can also call the SEBI helpline to check the status of their grievances.

Since SCORES has made it possible to receive grievances online this helps SEBI to take up issues fast, including those that may require a policy change. Further, since companies are required to file ATRs within 30 days of receipt of complaint, in case of any failure SEBI can initiate action against the company depending on the merit of the case.

The following paragraphs highlight SEBI's performance and measures taken in 2014-15 for expediting the redressal of investor grievances.

#### **A. SEBI Complaints Redress System**

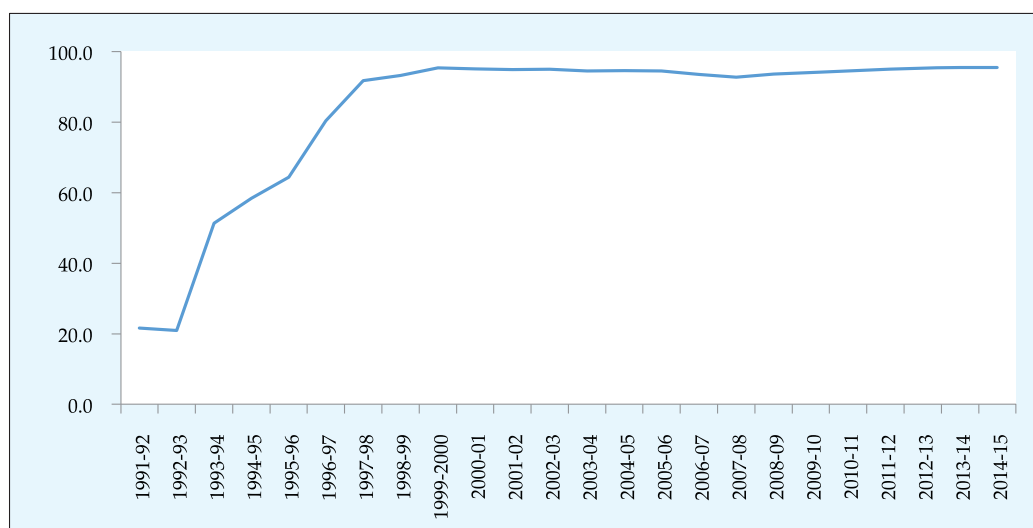
SEBI received 38,442 complaints during 2014-15 and resolved 35,090 grievances cumulatively as compared to 33,550 grievances received and 35,299 grievances resolved in 2013-14. The number of investor complaints received by SEBI on a cumulative basis increased from 28,86,074 as on March 31, 2014 to 29,24,516 as on March 31, 2015. During the same period the number of pending actionable complaints reduced from 9,147 to 5,736 (Table 3.26 and Chart 3.4 and 3.5).

**Table 3.26: Status of Investor Grievances Received and Redressed**

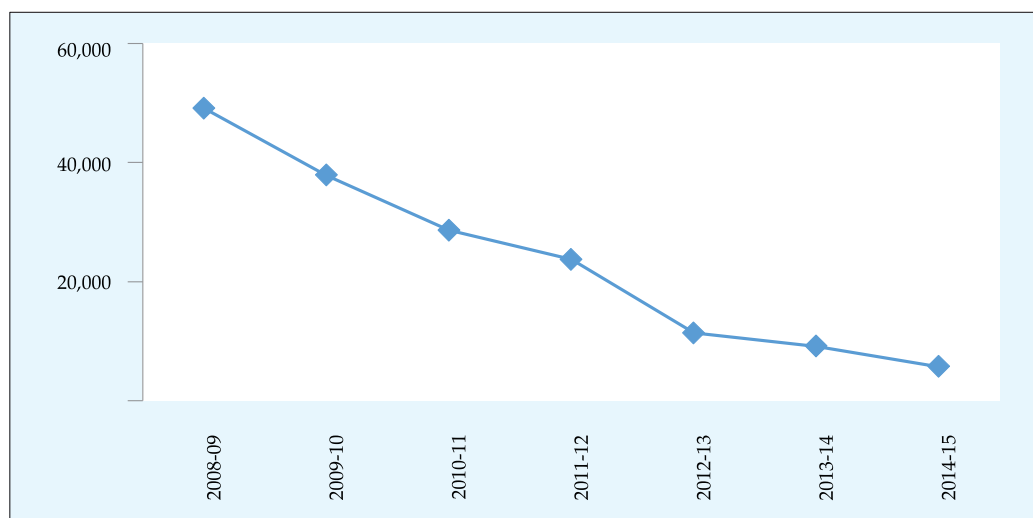
Financial Year	Grievances Received		Grievances Redressed		Pending Actionable Grievances*
	Year-wise	Cumulative	Year-wise	Cumulative	
1	2	3	4	5	6
2013-14	33,550	28,86,074	35,299	27,56,846	9,147
2014-15	38,442	29,24,516	35,090	27,91,936	5,736

Note: \* excludes complaints against whom regulatory action has been initiated. Further, the data does not include complaints received by SEBI in the matter of Sahara OFCDs.

**Chart 3.4: Redressal rate of SCORES (in percent)**



**Chart 3.5: Cumulative Pending Grievances on SCORES**



SCORES enables investors to directly lodge complaints online and such complaints are considered as 'e-complaints'. During 2014-15, 23,035 e-complaints were received compared to 18,811 received during 2013-14. 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 thus converted into an e-complaint and action similar to that with regard to an e-complaint is taken.

The SCORES system has been working satisfactorily and has helped in making the complaint handling and redress mechanism more efficient. SEBI

conducted a sample survey on SCORES in March 2015 when feedback was sought from investors. Some of the important findings of the survey are:

- Around 53 percent of the grievances were resolved within 90 days.
- 83 percent of the investors did not face any difficulty in filing a complaint on SCORES.

**B. Issuing No Objection Certificates**

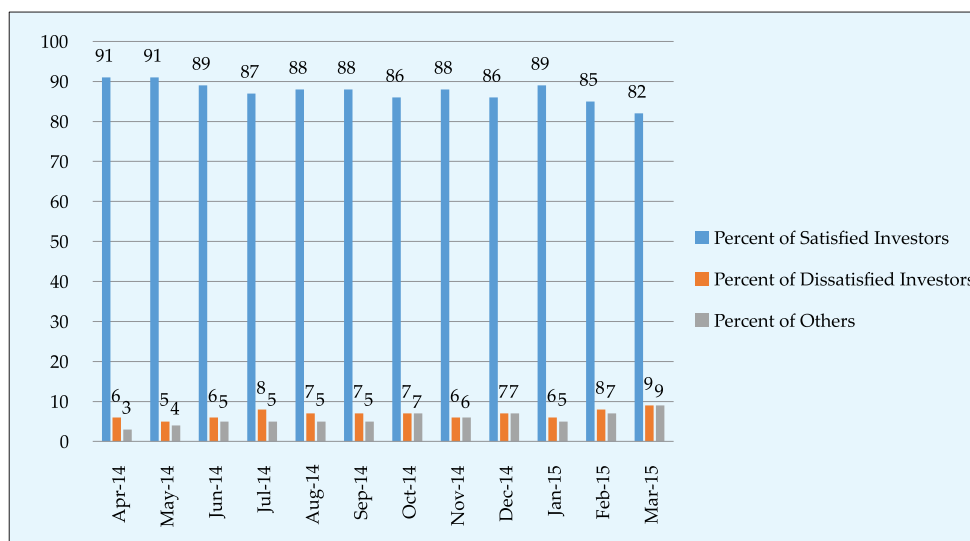
Companies raising capital through public issues of securities are required to deposit one percent of the issue amount with the designated stock exchange. This deposit is released by the stock exchange only after No objection certificate is received.

SEBI issues NOCs to companies after satisfactory redressal of complaints received by SEBI against the companies. During 2014-15, NOCs were issued to 70 applicant companies. NOCs to 25 companies were not issued as the applications were incomplete or due to unsatisfactory redressal of investor grievances.

### C. SEBI Toll Free Helpline

SEBI launched toll free helpline service numbers 1800 22 7575/1800 266 7575 on December 30, 2011. The helpline service is available every day from 9:30 a.m. to 5:30 p.m. (except on declared public holidays in Maharashtra) to investors from all over India. During 2014-15, SEBI attended 1,60,081 calls on the toll free helpline. Feedback from the calls answered during 2014-15 is given in Chart 3.6.

**Chart 3.6: Trends in Investor Feedback for Calls Received in SEBI Helpline ( in percent)**



Towards the mandate of investor protection, a major thrust in 2014-15 was on enhanced investor awareness and education and in spreading the reach to include more investors through mass media campaigns.

### VII. Regulatory action against companies and their directors for non-redressal of investor grievances

SEBI takes appropriate enforcement actions when progress in redressal of grievances is not satisfactory. Enforcement actions include adjudication, directions and prosecution. During 2014-15, SEBI levied penalty of ₹ 34.25 lakh against 17 entities through adjudication proceedings for failure to redress investor grievances.

Further, regulatory actions were initiated against 620 entities in 2014-15 for their failure to redress investor grievances.

**Table 3.27: Failure to Redress Investor Grievances: Adjudication Proceedings**

Year	No. of Entities	Penalty Amount (₹ lakh)
2013-14	20	120
2014-15	17	34.25

### 7. PROHIBITION OF INSIDER TRADING

#### I. Types of insider trading practices

- One insider who was privy to unpublished price sensitive information (UPSI) passed this information to a connected person, who in turn passed it to another person and to the son-in-law of a connected person, who traded in the scrip while in the possession of UPSI and made unlawful gains.
- The Managing Director of a company and his wife sold shares, trading before the announcement of quarterly results while

he was in possession of unpublished price sensitive information.

- C. A company did not adopt the Model Code of Conduct as specified in SEBI (PIT) Regulations, 1992.
- D. Directors of a company did not make disclosures of the shareholding.
- E. Directors of a company did not follow the Model Code of Conduct as specified in SEBI (PIT) Regulations, 1992.
- F. The compliance officer of a company failed to implement the code of corporate disclosures and the directors failed to supervise the implementation of the Code of Conduct.

## II. Insider Trading Cases during 2014-15

### A. Interim Order in the matter of M/s L&T Finance Holdings Ltd.

On March 11, 2014, M/s L&T Finance and Holdings was up by almost 5 percent on the news of its inclusion in the F&O segment from March 13, 2014. On March 13, 2014 after moving to a high of ₹ 88, it closed at ₹ 79.20 with volumes doubling the previous day. In the evening, a release by M/s L&T and M/s L&T Finance to stock exchanges announced that M/s L&T would offer sale of 5.55 crore shares (or a 3.23 percent stake) in M/s L&T Finance to comply with SEBI's minimum public holding norms. Within minutes of the release, the floor price (for the offer for sale) was announced at ₹ 70 a share. On examination, a hedge fund was suspected of executing trades based on unpublished price sensitive information regarding the floor price thereby taking undue advantage of the price disparity between F&O and the cash segment. The fund cornered more than 85 percent of the market volume and locked a substantial profit.

It was also observed that the fund took a reverse position of nearly the same number of shares in the cash segment by subscribing to OFS on the very next day thus locking a profit for itself, prima facie suggesting a device or artifice by M/s Factorial to deceive investors in securities markets and make a profit in a manner which was disruptive to the market equilibrium. Thus, in order to protect the interest of the investors and the integrity of securities markets, SEBI passed an ad interim ex-parte order dated June 5, 2014, restraining

M/s Factorial Master Fund from dealing in securities in Indian securities markets (including through ODIs) and/or accessing Indian securities markets, directly or indirectly, in any manner whatsoever till further orders.

### B. Interim Order in respect of Mr. Abhijit Rajan, Ex-Chairman and Managing Director of M/s Gammon Infrastructure Projects Ltd. (GIPL)

During a preliminary inquiry, it was observed that on September 3, 2013, M/s GIPL made a disclosure to the stock exchanges regarding termination of shareholders agreement dated April 26, 2012 with M/s Simplex Infrastructures Ltd. (SIL). Prior to this announcement, on August 9, 2013, the decision to terminate the shareholders agreement was approved in the board meeting chaired by Mr. Abhijit Rajan. Thereafter, on August 22, 2013, Mr. Abhijit Rajan, the then CMD of M/s GIPL sold 1,43,81,246 shares held by him in GIPL at BSE and NSE. Mr. Abhijit Rajan, being an insider traded in GIPL shares while he was in possession of unpublished price sensitive information. Therefore, Mr. Abhijit Rajan had, prima facie, violated provisions of Sections 12A (d) and (e) of the SEBI Act, 1992 and Regulation 3(i) read with Regulation 4 of the SEBI (PIT) Regulations, 1992.

Accordingly, SEBI passed an ad interim ex-parte order dated July 17, 2014 restraining Mr. Abhijit Rajan from buying, selling or dealing in securities and accessing the securities markets, either directly or indirectly, in any manner whatsoever till further directions in the matter of dealing in the scrips of M/s GIPL.

### C. Orders against M/s PVP Energy Pvt. Ltd. (Now known as M/s PVP Global Ventures Pvt. Ltd.) and Mr. Prasad V Potluri in the matter of M/s PVP Ventures Ltd.

SEBI conducted an investigation in the scrip of the M/s PVP Ventures Ltd. (PVP) for the period September 1, 2009 to October 30, 2009. It was observed from PVP's quarterly results for the quarter ended September 30, 2009, published by the exchanges on October 31, 2009, that it had suffered a net loss of ₹ 599.12 crore as against a net loss of ₹ 4.48 crore for the quarter ending June 30, 2009. An investigation revealed that

the net loss was mainly due to exceptional items of ₹ 593.65 crore representing a write-off in the value of investments in equity shares and debentures amounting to ₹ 542.05 crore and advances amounting to ₹ 51.60 crore extended to its subsidiary M/s PVP Energy Pvt. Ltd. (noticee no.1) for which provisions were made by PVP on September 30, 2009. The investigation also revealed that notice no. 1 was a wholly owned subsidiary of PVP and Mr. Prasad V. Potluri (noticee no. 2) was the CMD of PVP and also director of noticee no. 1. Since the financial results of PVP for the quarter ended September 2009 were published on the NSE website on October 31, 2009, the period of September 30, 2009 to October 30, 2009 was taken as the period of UPSI. Investigations revealed that 1,89,09,881 shares were sold during the period of UPSI by noticee no. 1 and noticee no. 2 traded on behalf of noticee no. 1 during the UPSI period.

The adjudicating officer passed an order dated March 27, 2015 imposing a penalty of ₹ 15 crore each on M/s PVP Energy Pvt. Ltd. and Mr. Prasad V. Potluri under Section 15G of SEBI Act, 1992 for violation of Sections 12A (d) and (e) of SEBI Act, 1992 and Regulations 3(i) and (ii) read with Regulation 4 of PIT Regulations, 1992.

### III. Steps initiated to curb Insider Trading practices

- A. SEBI (PIT) Regulations, 1992 and SEBI (PIT) Regulations, 2015 are in place.
- B. Actions are initiated in terms of provisions of SEBI Act, 1992 which also include adjudication and proceedings for levy of monetary penalty. These also act as a deterrent.

The total penalty imposed by SEBI in adjudication proceedings for violations of SEBI (PIT) Regulations, 1992 was ₹ 37.6 crore in 2014-15 compared to ₹ 20.4 crore in 2013-14. The total penalty imposed for 2014-15 includes ₹ 34.1 crore imposed under SEBI (PIT) Regulations, 1992 & SEBI (SAST) Regulations, 1997 as common orders were passed in certain matter during 2014-15 as against ₹ 0.45 crore in 2013-14.

### 8. SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS

The existence of an efficient and smooth-functioning market for takeovers plays an important

role in the economic development of a country. Existence of an efficient and well-administered set of takeover regulations ensures that the takeover markets operate in a fair, equitable and transparent manner. The SEBI Act, 1992 expressly mandates SEBI to regulate substantial acquisition of shares and takeovers by taking suitable measures. Accordingly, SEBI provided a legal framework by notifying the Takeover Regulations in 1994. The new SEBI (SAST) Regulations were notified in 2011.

#### I. Open Offer

During the financial year 2014-15, 87 draft letters of open offers were processed by SEBI, of which 61 draft letters of offer were filed during 2014-15 (two under old takeover regulations). Out of the 87 draft letters, observations were issued for 68 letters during 2014-15 and 19 draft letters were pending with SEBI for issuance of observations as on March 31, 2015. (Table 3.28)

**Table 3.28: Status of Draft Letter of Offers for Open Offers**

Status	2013-14	2014-15
Pending draft letters of offer at the end of	21	26
Draft letters of offer received during (under Old Takeover Regulations)	1	2
Draft letters of offer received during (under New Takeover Regulations)	70	59
<b>Total</b>	<b>92</b>	<b>87</b>
Observations issued by SEBI during	66	68
Draft letters of offer in process at the end of	26	19

**Table 3.29: Status of Takeover Panel Applications**

Status	2013-14	2014-15
<b>Takeover Panel Applications</b>		
Applications pending at the end of	9	7
Applications received during	28	15
<b>Total Applications</b>	<b>37</b>	<b>22</b>
<i>Applications disposed of during</i>	30	7
of which		
Exemption Granted	13	2
Returned/ withdrawn (without passing order)	17	5
<i>Applications in Process at the end of</i>	7	15

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, 2015, 15 applications were pending with SEBI compared to seven applications as on March 31, 2014. During 2014-15, 15 applications were filed with SEBI seeking

exemption as compared to 28 applications as on March 31, 2014. Among the 22 applications with the takeover panel, two applications were granted exemption for open offer, five applications were returned/withdrawn without passing an order and 15 applications were pending with SEBI as on March 31, 2015. (Table 3.29)

**Table 3.30: Trends of Open Offers**

Year/Month	Open Offers							
	Objectives						Total	
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition		No.	Amount (in ₹ crore)
	No.	Amount (in ₹ crore)	No.	Amount (in ₹ crore)	No.	Amount (in ₹ crore)		
1	2	3	4	5	6	7	8	9
2013-14	59	7,721	10	37,644	6	46	75	45,411
2014-15	51	5,442	1	11,449	8	350	60	17,241

Notes: 1. SEBI has introduced the voluntary open offer under regulation 6 of SEBI (SAST) Regulations, 2011. 2. Data w.r.t voluntary open offers are added to consolidation of holdings. Since the introduction of the voluntary open offer (2011), 10 open offers were under Regulation 6 (that is, voluntary offer) amounting to an offer size of ₹ 11,414 crore. 3. Figures are for open offers opened during the year/month.

During 2014-15, 60 open offers with open offer size of ₹ 17,241 crore opened compared to 75 open offers with offer size of ₹ 45,411 crore during 2013-14. Out of the 60 open offers, 51 with offer size of ₹ 5,442 crore were with the objective of change in management control, one open offer of size ₹ 11,449 crore was made with the objective of consolidation of holdings and eight open offers with offer size of ₹ 350 crore were with objective of substantial acquisitions (Table 3.30).

## II. Buyback

Nine buyback offers were received during 2014-15, of which five were through the open market purchase method and four were through the tender offer compared to 33 buyback applications in 2013-14 (25 through the open market purchase method and eight through tender offer). Out of the five offers for buyback through the open market purchase method, four offers have been closed and one offer has not been concluded. Further, all four offers for buyback through tender offer were closed during 2014-15 (Table 3.31).

**Table 3.31: Buyback Cases**

Particular	2013-14			2014-15		
	No. of Cases	Buyback size (in ₹ crore)	Actual amount utilised for buyback of securities (in ₹ crore)	No. of Cases	Buyback size (in ₹ crore)	Actual amount utilised for buyback of securities (in ₹ crore)
1	2	3	4	5	6	7
<b>Buyback through Open Market</b>						
Cases received and closed	13	2,225.6	1,267.4	4	219.6	55.2
Cases received but not closed	12	6,241.9	1,497.7	1	6.0	Na
<b>Buyback through Tender Offer</b>						
Cases received and closed	7	2,913.4	2,900.4	4	147.5	143.4
Cases received but not closed	1	231.3	231.3	Nil	Nil	Nil

Note: As on March 31, 2014, there were 12 buyback cases through the open market and one buyback case through tender offer which were received but not closed. All these buybacks closed during 2014-15.

Eight buyback offers (including both open market offers and tender offers) have been received and closed during 2014-15 compared to 20 buyback offers during 2013-14. The total buyback offer size during 2014-15 was ₹ 373.1 crore compared to the buyback offer size of ₹ 11,612 crore in 2013-14. It is also observed from the buyback offers which were opened and closed during 2014-15 that the average utilisation was 54.1 percent of the total offer size compared to 81.1 percent in 2013-14.

## **9. INFORMATION CALLED FROM, INSPECTIONS UNDERTAKEN, INQUIRIES AND AUDIT OF STOCK EXCHANGES AND INTERMEDIARIES CONDUCTED BY SEBI**

Regulation of intermediaries is an essential part of the framework for regulation of securities markets. The basic objective of prudential supervision of market intermediaries is to safeguard the stability of the financial system, protect client interests from undue risks of losses that may arise from failure, fraud or any opportunist behaviour on the part of the intermediaries, promote the efficient performance of intermediaries and markets and ensure compliance by market intermediaries. Supervision of intermediaries through on-site and off-site inspections, enquiries and adjudications in case of violations of rules and regulations and administrative and statutory actions are essential features of effective enforcement by SEBI.

SEBI conducts inspections of market intermediaries directly as well as through institutions like stock exchanges and depositories. Inspections were conducted during the year to verify the compliance levels of intermediaries. Special purpose (theme based) inspections were also conducted on the basis of investor complaints, references, surveillance reports and specific concerns. Special purpose inspections of major stock exchanges as well as the depositories were also carried out in order to examine the effectiveness and quality of their audits/inspections and action taking processes.

### **I. Inspection of Stock Exchanges, Depositories and Clearing Corporations**

#### **A. Inspection of Stock Exchanges**

During the inspection of stock exchanges, a review of market operations, organisational structure and administrative control of the stock exchange is conducted to ascertain as to whether:

- a. It provides a fair, equitable, transparent and growing market to investors,
- b. Its organisation system and practices are in accordance with the SC(R) Act, 1956 and 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 2014-15, comprehensive inspections were carried out at BSE, NSE and MSEI. Moreover, SEBI's integrated surveillance department also carried out a detailed examination of the surveillance systems at NSE, BSE and the MSEI for the period 2010-11 to 2013-14.

#### **B. Inspection of Depositories**

During the inspection of depositories, a review of market operations, organisational structure and administrative control of the depository is conducted to ascertain as to whether:

- a. The procedures and practices of the depository are in compliance with the Depositories Act, 1996, SEBI (Depositories and Participants) Regulations, 1996, SEBI circulars, bye-laws etc.,
- b. The books of account are being maintained by the depository in accordance with SEBI (Depositories and Participants), Regulations, 1996, and
- c. Complaints received by depositories from participants, issuers, issuers' agents, beneficiary owners or any other person are redressed.

During 2014-15, a comprehensive inspection of the National Securities Depositories Ltd. (NSDL) and the Central Depository Services Ltd. (CDSL) was conducted to ascertain the systems, procedures and practices in conducting the inspection of depository participants by depositories and desirability of adopting the practices by depositories.

## II. Inspection of Market Intermediaries

The inspection process of intermediaries has been further streamlined with a view to improving quality such as selection of themes for inspections, questionnaire for inspections and follow up action.

Based on the findings of the inspections after considering the comments of intermediaries, they were specifically advised about the areas where improvements were required. They were also required to report to SEBI about the corrective steps taken and also place these 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 2014-15, 202 stock brokers and sub-brokers were inspected. The focus of the inspections included themes such as compliance of norms regarding anti-money laundering, the investor redressal mechanism, handling funds and securities of clients, settlement of accounts of clients on a timely basis, segregation of clients and proprietary funds/securities, KYC norms and clearing operations. Along with specific-purpose, single-theme inspections during 2014-15, 30 comprehensive inspections of stock brokers were ordered out of which 20 inspections were carried out. During inspections, compliance of specific provisions of SEBI regulations/circulars was

verified. The details of inspections of stock brokers and sub-brokers carried out during the year are given in Table 3.32.

**Table 3.32: Inspection of Stock Brokers/Sub-brokers**

Particulars	2013-14	2014-15
Inspections Completed – Stock Brokers	160	162
Inspections Completed - Sub-brokers	57	40
<b>Total</b>	<b>217</b>	<b>202</b>

In compliance with the requirement of inspecting active members by stock exchanges, the number of entities inspected by the stock exchanges is given in Table 3.33.

**Table 3.33: Inspection of Stock Brokers by Stock Exchanges**

Year	NSE	BSE	MSEI
2013-14	889	442	490
2014-15	590	492	430

The stock exchanges carried out risk based inspections as per the new policy adopted by them in consultation with SEBI. Additionally, stock brokers/clearing members are required to carry out complete internal audits on a half yearly basis; these audits have to be done by independent auditors. Stock exchanges levy penalties for delay in filing 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 compliance levels of stock brokers.

### **Box 3.2. Regulatory Actions against Registered and Unregistered Intermediaries**

In addition to the various policy measures undertaken by SEBI to strengthen the regulatory and supervisory framework for intermediaries, SEBI, during the course of financial year 2014-15, has passed a series of ex-parte - ad-interim orders against various entities/intermediaries for serious violations and misconducts.

Interim orders have been passed against M/s Kassa Finvest Pvt. Ltd, M/s Wasankar Wealth Management Limited and Mr. Sameer S. Joshi for raising funds by way of promising high assured returns to their clients ;against M/s Unickon Securities Pvt. Ltd. for mis utilising the clients funds and securities for own purposes; against M/s Shri Balaji Investments, for indulging in illegal trading and settlement and carrying out transactions outside the stock exchange platform; and against Mr.Vaibhav Gandhi & Others for claiming themselves to be stock brokers and depository participants as per their websites and making misrepresentations thereby inducing investors to deal in securities.

It was prima facie observed that the entities concerned were acting / conducting their business which was not in accordance with the regulatory framework governing them as well as was detrimental to the interest of investors. In order to prevent such above mentioned entities from causing further damage to the market and investors at large, SEBI passed ad-interim orders against the entity, its Promoters / Directors inter-alia directing, restraining them from accessing the securities market, prohibiting it from buying, selling or dealing in securities market, dispose off or alienate any assets, mobilizing or pooling funds from its clients etc.

## B. Inspection of Portfolio managers

Inspection of books of accounts, records and other documents pertaining to a portfolio manager was carried out to verify whether the books of accounts, records and other documents were being maintained in the specified manner including compliance with respect to AML/CFT and KYC norms. It may be noted that a pre-registration/renewal visit is conducted before granting registration/renewal of registration to a portfolio manager. During the visit, compliance in respect of KYC norms is verified. During 2014-15, 11 portfolio managers were inspected.

## C. Inspection of VCFs/FVCIs/AIFs

An inspection of books of accounts, records and other documents pertaining to venture capital funds was carried out to verify whether the books of accounts, records and other documents were being maintained in the specified manner including compliance with respect to AML/CFT and KYC norms. A total of 14 inspections were conducted during 2014-15, out of which four inspections were carried out for VCFs, two for FVCIs and eight for AIFs.

## D. Inspection of Collective Investment Funds

During 2014-15, inspection was done of one CIS to ascertain compliance with SEBI (CIS) Regulations, 1999 regarding repayment to investors.

## E. Inspection of Mutual Funds

As per SEBI's policy regarding inspection of mutual funds, a risk based approach has been adopted. Inspections are undertaken based on assets under management and other factors including number of complaints received against the mutual fund. During 2014-15, inspections of 30 mutual funds and three registrars (executing mutual fund transactions) were initiated.

## F. Inspection of Other Intermediaries

In order to ascertain the extent of compliance on specific issues, SEBI has been carrying out comprehensive/thematic inspections of merchant bankers as well as of registrars for an issue and share transfer agents to check the due diligence exercised by them.

SEBI conducted inspections of debenture trustees based on the number of public issues handled by them to confirm compliance with applicable regulatory and statutory requirements

with a focus on their systems and controls with respect to monitoring of payment of interest/redemption amount, processing of investor grievances and action taken in cases of defaults by issuer companies.

During 2014-15, inspections were completed for 66 depository participants, 39 merchant bankers, one credit rating agency, six debenture trustees and 31 RTIs & STAs. The total number of inspections of these intermediaries conducted by SEBI was 133 in 2013-14, which increased to 148 in 2014-15. (Table 3.34) There was special focus on follow-up action after the inspections so that corrective steps were taken by the intermediaries.

**Table 3.34: Inspection of Other Market Intermediaries**

Particulars	2013 -2014	2014 -2015
Credit Rating Agencies	5	1
Debenture Trustee	4	6
Depository Participants	57	66
Merchant Bankers	42	39
Registrars To an Issue and Share Transfer Agents	25	31
KRA	0	5
<b>Total</b>	<b>133</b>	<b>148</b>

## III. Prevention of Money Laundering

Money laundering is considered one of the serious issues facing the financial systems around the world. Combined with the financing of terrorist activities, the issue of money laundering has been at the heart of regulations worldwide to ensure transparent, fair and smooth financial markets. Last year SEBI made modifications to its anti-money laundering/countering the finance of terrorism norms. Intermediaries were permitted to depend on third parties for carrying out due diligence of their clients. Policy measures coupled with a robust surveillance mechanism ensured smooth functioning of the financial markets.

During 2014-15, similar to past trends, SEBI continued its focused efforts to strengthen the regulatory framework and minimise the risks emanating from money laundering and terrorist financing in securities markets. The following steps were taken in this regard:

### A. Inspections on AML/CFT related issues

SEBI has appropriately included AML/CFT risks as part of its inspection of intermediaries such as stock brokers, depository participants and mutual funds. SEBI also carried out specific theme based inspections of intermediaries focusing on compliance with KYC norms (which includes client due diligence) and AML/CFT guidelines. In 2014-15, with respect to stock brokers SEBI carried out 35 and 24 special purpose inspections to check their compliance with AML/CFT and KYC norms respectively. Further, with respect to depository participants, 21 and 15 inspections were carried out to verify compliance with AML/CFT and KYC norms respectively. With regard to portfolio managers, SEBI officials visited the entities for verification of compliance with KYC norms before granting registration/renewal of registration. With respect to mutual funds, 30 inspections were carried

out wherein compliance with AML/CFT and KYC related norms was reviewed.

In addition to these special purpose inspections conducted by SEBI, compliance with AML/CFT norms is also verified by the stock exchanges and depositories during their inspections of stock brokers and depository participants and also at the time of half yearly internal audits by independent professionals. Depository participants are also required to undergo concurrent audits with respect to their operations, which includes account opening/KYC/AML norms. Appropriate sanctions are applied where AML/CFT violations/ discrepancies are observed.

Table 3.35 provides data on the number of members/participants against whom action for AML/CFT discrepancies were taken by exchanges and depositories in 2014-15.

**Table 3.35: Actions by Stock Exchanges and Depositories for AML/CFT Related Discrepancies**

Particular	NSE	BSE	MSEI	CDSL	NSDL
1	2	3	4	5	6
No. of members/ participants against whom AML/ CFT related discrepancies were observed during inspections	27	166	9	169	9
<b>Actions taken by Exchange/ Depository</b>					
Warnings/ advisory letters issued	25	152	Nil	169	9
Monetary penalty imposed	8	14	8	2	Nil
Value of fines imposed (in ₹)	2, 70, 000	2, 86, 250	5, 000	5, 000	Nil

Note: The discrepancies as well as action taken include only those cases where the action decided by relevant authority has been completed.

Stock exchanges and depositories also conducted trainings/seminars for their members to sensitise them towards the significance of the AML/CFT framework and the need to ensure continuous compliance with it.

### B. Risk Assessment for Securities Markets to identify ML/TF risks

The Ministry of Finance has set up different working groups to carry out risk assessments of every financial sector in India to identify the various money laundering and terrorist financing risks faced and to suggest measures to mitigate these risks. A group for the securities sector has also been set up comprising of representation from SEBI, stock exchanges, depositories, associations of intermediaries and FIU-IND. Work on risk assessment is expected to be carried out in the 2015-16.

### C. International Co-operation on AML/CFT related issues

SEBI has consistently been in touch with global bodies and other Indian regulators in its attempt to keep the regulatory framework for AML robust in the Indian securities markets. As part of the Indian Government delegation SEBI officials participated in the plenary and working group meetings of FATF and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), which is a FATF-style regional body (FSRB), for setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

In order to protect the international financial system from money laundering and financing of terrorism (ML/FT) risks and to encourage greater compliance with AML/CFT standards, FATF identifies jurisdictions that have strategic deficiencies and works with them to address those deficiencies that pose a risk to the international financial system. The names of these jurisdictions are made public as part of FATF public statements. As required by FATF recommendations, the Ministry of Finance, Government of India circulates FATF public statements to all regulators with an advice to disseminate them to all financial institutions under their supervision for applying enhanced due diligence measures when dealing with clients from these high-risk jurisdictions. In 2014-15, SEBI circulated three FATF public statements dated June 27, 2014, October 24, 2014 and February 27, 2015 to registered intermediaries for their compliance. A special public statement dated October 24, 2014 regarding the 'Islamic State of Iraq and Levant' was also issued by FATF, which was circulated by SEBI to all registered intermediaries.

## **10. DELEGATED POWERS AND FUNCTIONS**

Section 29A of SCRA, 1956 permits the central government to delegate powers exercisable by it under any provision of SCRA, 1956 to SEBI also by order published in the official Gazette except the power to make rules. The Central Government has delegated certain powers to SEBI with respect to regulation of contracts in securities and stock exchanges and clearing corporations.

The delegated powers with respect to contracts in securities include the power to notify permissible contracts in securities, power to prohibit contract in securities in certain cases and power to extend the application of Section 17 with respect to spot delivery contracts. To prevent undesirable speculation in securities markets in exercise of such delegated powers, SEBI vide notification dated October 3, 2013 superseded the notification dated March 1, 2000 and declared that no person in the territory to which the SC (R) Act extends, shall, save with the permission of the board, enter into any contract for sale or purchase of securities other than a contract falling under any one or more categories specified therein. The said notification, inter-alia, permitted contracts for pre-emption including right of first refusal, tag-along

or drag-along rights contained in the shareholders agreements or articles of association of companies. SEBI has also permitted contracts containing an option for purchase or sale of securities subject to:

- The title and ownership of the underlying securities are held continuously by the selling party to such a contract for a minimum period of one year from the date of entering into the contract;
- The price or consideration payable for the sale or purchase of the underlying securities pursuant to the exercise of any option contained therein, is in compliance with all the laws for the time being in force, as applicable; and
- The contract has to be settled by way of actual delivery of the underlying securities.

The contracts permitted under the said notification are mandated to be in accordance with the provisions of the Foreign Exchange Management Act, 1999. Further, it was declared that the said notification would not affect or validate any contract which has been entered into prior to the date of the said notification. The said notification is also in line with the proviso to Section 58(2) of the Companies Act, 2013 which states that 'any contract or arrangement between two or more persons in respect of transfer of securities shall be enforceable as a contract.'

Delegated powers to SEBI with respect to stock exchanges and clearing corporations include the power to grant or withdraw recognition, power to approve additional trading floor, new segments and new products in stock exchanges, power to enquire into the affairs of a stock exchange, licensing of dealers in securities, power to direct rules to be made or make rules, power to supersede or reconstitute the governing board and suspend the business.

## **11. FEES AND OTHER CHARGES**

Details of the amount of fees (un-audited) collected by SEBI from market intermediaries on both recurring and non-recurring basis is provided in Table 3.36. During 2014-15, the total amount of fees received was ₹ 322.85 crore (Unaudited) as against ₹ 175.35 crore in 2013-14 (Audited). The recurring fee was 59.45% of total fee income in 2014-15 as compared to 46.38% in 2013-14. During 2014-15, major amount of ₹ 70.61 crore was collected from

Stock Brokers - Derivative Members, while the second largest recurring fee of ₹ 32.31 crore was collected from Stock Brokers - Equity Members and Sub Brokers. In non-recurring fee category, the major fee of ₹ 44.29

crore was collected from Takeovers followed by fees from Offer Documents & prospectuses filed (₹ 17.99 crore), fees from Foreign Portfolio Investors (₹17.63 crore) and Mutual Funds (₹ 16.37 crore).

**Table 3.36: Fees and other Charges (₹ crore)**

Particulars	2013-14 (Audited)			2014-15 (Unaudited)		
	Recurring fees #	Non recurring fees ##	Total Fees Received	Recurring fees #	Non-recurring fees ##	Total Fees Received (Un-audited)
<b>1</b>	<b>2</b>	<b>3</b>	<b>4 = 2+3</b>	<b>5</b>	<b>6</b>	<b>7 = 5+6</b>
Offer Documents and prospectuses filed	-	3.98	3.98	-	17.99	17.99
Merchant Bankers	1.80	2.40	4.20	6.19	1.03	7.22
Underwriters	0.10	-	0.10	-	-	-
Portfolio Managers	3.20	1.18	4.38	3.40	2.56	5.96
Registrars to an Issue and Share Transfer Agents	0.25	0.13	0.38	0.27	0.10	0.37
Bankers to an Issue	0.72	0.54	1.26	0.33	0.36	0.69
Debenture Trustees	0.55	0.07	0.62	0.77	0.35	1.12
Takeover fees	-	10.58	10.58	-	44.29	44.29
Buy Back of Shares	-	9.30	9.30	-	0.48	0.48
Mutual Funds	2.48	15.01	17.49	2.54	16.37	18.91
Stock Brokers and Sub-Brokers	12.47	-	12.47	32.31	-	32.31
Foreign Institutional Investors	-	22.21	22.21	-	9.40	9.40
Sub Account - Foreign Institutional Investors	-	20.28	20.28	-	7.11	7.11
Foreign Portfolio Investors	-	-	-	9.34	17.63	26.97
Depositories	0.20	-	0.20	2.58	-	2.58
Depository Participants	0.09	1.57	1.66	0.09	4.05	4.14
Designated Depository Participant	-	0.71	0.71	-	0.20	0.20
Venture Capital Funds	-	-	-	-	-	-
Custodian of Securities	11.13	0.01	11.14	27.60	0.03	27.63
Approved Intermediaries under Securities Lending Scheme	0.07	0.20	0.27	0.06	-	0.06
Credit Rating Agencies	-	0.11	0.11	0.45	0.36	0.81
Listing Fees Contribution from Stock Exchanges	7.64	-	7.64	11.75	-	11.75
Alternative Investment Scheme	-	3.48	3.48	-	3.87	3.87
KYC Registration Fees	-	0.04	0.04	-	0.07	0.07
Foreign Venture Capital	-	1.27	1.27	-	1.20	1.20
Derivatives Members registration	34.41	-	34.41	70.61	-	70.61
Investment Advisor	-	0.90	0.90	-	2.21	2.21
Informal Guidance Scheme	-	0.05	0.05	-	0.03	0.03
Regulatory Fees - Stock Exchanges	6.22	-	6.22	23.16	-	23.16
Filing & Regulatory Fee -Public Issue of Debt	-	-	-	0.02	0.02	0.04
Regulatory Fee -Private Issue of Debt	-	-	-	0.47	-	0.47
Research Analyst	-	-	-	-	1.21	1.21
<b>Total</b>	<b>81.33</b>	<b>94.02</b>	<b>175.35</b>	<b>191.94</b>	<b>130.91</b>	<b>322.85</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/ FII Registration and FII Sub -Accounts Registration.

1. Since the amount realized 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.

2. Stock brokers and sub-brokers fee includes annual fees and turnover fees.

3. Stock brokers and derivatives fees are of recurring nature and depend on the trading turnover of the stock brokers and members of derivatives segment.

## **12. RESEARCH AND STUDIES**

SEBI's research function is delineated under Section 11(2) (l) of the SEBI Act, 1992. The major research activities undertaken by SEBI during 2014-15 encompassed the following:

### **I. The Reporting Mandate and maintenance of Repository of Information/Statistics**

#### **A. Regulatory Reporting: 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 2013-14 was prepared and submitted to the Ministry of Finance within the specified timelines.

Besides the annual report, three quarterly reports detailing all the policy developments and information for Indian securities markets for each quarter was presented before the respective SEBI board meeting for information.

#### **B. Handbook of Statistics on Indian Securities Markets: Repository of Data**

As a regulator, SEBI has the onus and obligation to maintain a repository of data for the entire capital/securities markets by collecting data from various sources, verifying their accuracy and continuously maintaining/updating the data. In keeping with its responsibility of disseminating data and ensuring transparency within its regulatory purview, SEBI published the Handbook of Statistics on Indian Securities Market 2014. This handbook serves as a central repository of data on the securities markets providing historical data on multifarious parameters.

#### **C. Monthly Bulletins**

Monthly bulletins encapsulating all the regulatory developments for the month and aggregating the data for capital markets is published on a regular basis by SEBI. Apart from the Indian capital market review, the bulletin also provides a monthly review of global financial markets.

All these publications are available under the publication section on the SEBI website ([www.sebi.gov.in](http://www.sebi.gov.in)) in user friendly versions. Over the

years, the coverage of information and data in these publications has expanded substantially with the evolving market micro-structure. The publications serve an important purpose of genuine empowerment of stakeholders, researchers and investors through equal access to securities markets related data and information. SEBI has been distributing these publications to various stakeholders like research institutions, investor associations, mutual funds and banks gratis.

### **II. Information Support to various Authorities**

Apart from the publications, SEBI is 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 updation and for supporting informed policy decisions. The information support includes contributions in the preparation of GoI's Economic Survey, Government of Maharashtra's Economic Survey, the IMF Redbook, etc. Inputs and suggestions were also provided to the working group constituted by RBI to study the rationalisation and harmonisation of taxation practices of financial instruments in India.

### **III. SEBI Investor Survey**

SEBI, in its short journey of 25 years, has made a remarkable impression on investors as well as the securities markets. The Indian securities markets have evolved manifold in terms of size, reach, diversity of investors and product complexity. SEBI has conducted three investor surveys till now in 1998-99, 2001-02 (quick survey) and 2008-09.

The 2008-09 investors' survey was conducted immediately after the global recession. Since 2008-09, the markets have undergone changes. There has been an upswing in the markets which has resulted in the growth of the markets. Further, several policy initiatives and new products have been introduced in the securities markets. These developments are likely to have an influence on the investment pattern and investment behaviour of households. Thus, during 2014-15 SEBI initiated an exercise to conduct a comprehensive investor survey and a survey of market participants for the base year 2014-15. The survey will cover the entire country, that is, 29 states and seven union territories. The sample size will be

approximately 50,000 investors and 1,000 market participants. The objectives of the proposed survey are:

**A. Household Investors**

- a) To understand socioeconomic characteristics of households
- b) To study financial savings/investment behaviour of households
- c) To determine a risk profile of investors and relate it to investment behaviour
- d) To estimate the size, concentration and distribution of household investors in the securities markets
- e) To find out the reasons for non-investment in securities markets
- f) To find out the response of investors/non-investors to public issues
- g) To understand the interface between investors and market participants and impact of regulatory policies
- h) To find out the impact of investor education/financial literacy programmes on investments, investor grievances and awareness about the redressal mechanism
- i) To compare the results of the previous survey with the current one to find out the changes in investor population (growth/decline), investment behaviour/patterns, etc.

**B. Survey of Market Participants**

A new dimension of surveying market participants has been added to this investor survey with the objective of understanding market participants' responses to dynamic market situations, their perspective on investor awareness and behaviour, penetration of securities markets and reasons for the low participation of investors, business environment, views on regulatory aspects, etc.

**IV. Systemic Stability Unit**

The CPSS-IOSCO has issued a comprehensive set of 24 principles and five responsibilities in the report 'Principles for Financial market

Infrastructure' (FMI). The process of monitoring the implementation of the PFMI including both the principles and responsibilities has started. To this end, SEBI coordinated sharing of information on securities markets for India's participation in Level 1 assessments which seeks to assess 'Whether jurisdictions have completed the process of adopting the legislation and other policies implementing the 24 Principles for FMIs and four of the five responsibilities for authorities within the regulatory framework that applies to FMI.'

SEBI is also coordinating the implementation of the non-legislative recommendations of the Financial Sector Legislative Reforms Commission (FSLRC).

SEBI also contributed in the Financial Stability Report, June and December, 2014, published by RBI under the aegis of the FSDC sub-committee covering issues like core SGE, default waterfall and stress test, holding pattern in the mutual fund industry, concentration in equity portfolio holdings in mutual funds, systemic risks from mutual funds in the Indian context, faster growth in the derivatives segment of equity markets, trends in offshore derivatives instruments (ODIs), REITs, asset managers as a source of systemic risk, trends in the IPO market and FII investments and FSB reforms on reducing reliance on CRAs.

**V. International Research Conference**

SEBI organised its Second International Research Conference (IRC-II) on March 20, 2015 in Mumbai. The theme of the conference was 'Real Estate Investment Trusts' (REITs). SEBI invited speakers from academia, corporates, market practitioners and policymakers from countries including Australia, Hong Kong, India, Malaysia, Singapore, Switzerland, UK and USA for the conference. Mr. U. K. Sinha, Chairman, SEBI, delivered the keynote address. More than 250 participants, including corporates, academicians, market participants, researchers and representatives from the real estate sector attended the conference. The one-day conference witnessed four sessions on different themes like structure, performance and impact of REITs, taxation for REITs, valuation of REITs, managing REITs.

The initiative of organizing an international research conference is aimed at commencing a dialogue and contributing clarity to the newer challenges faced by the securities markets by harnessing the pool of research talent from around the world.

#### **VI. SEBI Development Research Group II**

During 2014-15, five research studies were taken up under the Development Research Group (DRG)-II. The topics taken under DRG-II are:

- i. Effectiveness of SEBI's complaints redress system (SCORES) in India.
- ii. Has HFT improved market quality and financial stability in India?
- iii. The elusive retail investor: How deep can (and should) India's stock markets be?
- iv. Impact of pre-open call auction on volatility and price discovery in Indian securities markets.
- v. A critical analysis of the impact of day trading on futures and options - testing the vulnerability facet.

These studies are underway and are being carried out under the guidance of external experts from premier educational institutions along with an internal SEBI research team.

#### **VII. Research Papers/Notes**

During 2014-15, SEBI's research paper titled 'Natural Experiments in Derivatives Market' was accepted for presentation at the World Finance Conference, 2015 to be held at Buenos Aires, Argentina. Internally research papers/notes were prepared and presented on a wide array of topics including:

- a) Unusual Stock Returns: Is This Just A Bull Run?
- b) Financial Inclusion in Indian Securities Markets
- c) Infrastructure Financing - Market Based Solutions
- c) Bank Based versus Market Based Financing,
- d) Modes of Raising Capital
- e) Financial Markets - Issues & Challenges
- f) Global Inequality - Review of 'Capital in the Twenty First Century'

- g) Financing for Economic Growth - A Policy Roadmap,
- h) Challenges and Prospects for India's Economy
- i) Adequacy of Investor Protection Fund
- j) Synthetic Exchange Traded Funds
- k) Foreign Equity Flows in India
- l) Has HFT Improved Market Quality and Financial Stability?
- m) Interconnectedness of the Mutual Fund Industry in the Financial System
- n) International Comparison of Enforcement Mechanisms
- o) Corporate Governance Initiatives and Institutional Investor Activism

#### **VIII. Regulatory Impact Assessment**

One of the six major recommendations of the report of the high powered expert committee on making Mumbai an international financial centre was conducting a rational cost-benefit analysis in the form of regular 'regulatory impact assessments or RIAs' (standard practice in most OECD countries) to compare the cost of inefficient resource allocations. In this regard, comments on RIA were prepared for the IOSCO Annual Conference in Brazil in October 2014. Similarly, comments on RIA in SEBI were prepared and submitted to the Ministry of Finance for its use.

#### **IX. Internal Knowledge Support**

- A. Academic Interactions:** SEBI invites renowned scholars and financial market practitioners to deliver lectures/talks on topics related to securities markets, economics, finance etc. Interactions between the speaker and SEBI staff help SEBI officials to gain insights and enhance their knowledge about the latest developments in the marketplace, including market movements, policy requirements and regulations. During the year, SEBI invited experts to speak on topics such as: 'Do capital inflows and inward remittances affect exchange rate and economic activity in India?', 'Financial Inclusion in the Indian Capital Markets', 'Navigating Professional Challenges' and 'Indian Mythology and its Impact on Balancing Work and Life.'

**B. Monthly Review on Global Securities Markets' Regulatory Developments:**

A monthly review on 'Global Securities Markets Regulatory Developments' covering regulatory issues and developments in global securities markets is prepared and disseminated internally. This endeavour is aimed at keeping the SEBI staff informed of the latest regulatory changes and market developments at the international level. During 2014-15, 12 issues of this review were prepared.

**13. SURVEILLANCE**

A strong and robust surveillance mechanism is one of the prime requirements for the proper functioning of securities markets. This mechanism is needed in order to safeguard the integrity of the markets and to ensure that the markets perform in accordance with stipulated norms and practices. Surveillance is a vital link in the chain of activities performed by the regulator to protect investors and for developing the markets. The stock exchanges, as a primary regulator, are entrusted to act as the first level source of detecting market frauds, suspicious activities and any aberrations in the market movement; these are then reported to SEBI for further examination.

At SEBI, the integrated surveillance department (ISD) monitors market activity through its market alert systems and is in charge of overall market surveillance. The various processes and systems that help in detecting FUTP are now discussed.

**A. An Integrated Market Surveillance System (IMSS)**

An integrated market surveillance system (IMSS) keeps track of market aberrations and generates alerts on a daily basis. The alerts are analysed periodically so as to identify any manipulative trading in the market. During the year, SEBI redesigned the IMSS system's software to handle more than two billion messages in a day by implementing the market splitting and streaming mechanism. To further enhance the system's capability and performance of alert generation process, implementation of alerting on multiple market stream are underway.

**B. Data Warehousing and Business Intelligence System (DWBIS)**

DWBIS comprises of a data warehouse, data mining and business intelligence tools. Presently, DWBIS has three phases:

- a. Phase I: A single source of market data which enables users to generate multi-dimensional reports dynamically (fully operational).
- b. Phase II: Several pattern recognition modules and predictive modelling scenarios (fully operational).
- c. Phase III: Various reports to help research initiatives (released for user acceptance test (UAT)).

**C. Surveillance Measures**

- a. Alert generation based upon the data on disclosures by members regarding their and group entities holdings in various scrips.
- b. Revision in the criteria for shifting scrips to trade for trade. The key changes implemented are:
  1. Period of review of shifting scrips into and out of the TFT segment standardised to a frequency of one month.
  2. Price variation to be compared to the price variation observed in the respective sectoral index of the industry to which the concerned scrip belongs or the price variation observed in a broader based index representative of the market as a whole.
  3. Scrips coming out of the TFT segment will be placed under a fixed price band until the next review.
- c. Implementation of RBI's mandate for NBFCs with an asset size of ₹ 100 crore and above to disclose to stock exchanges the shares pledged with them.
- d. Suspension of companies by exchanges which satisfies more than one of the criteria of: (a) non-existent on the addresses mentioned, (b) misuse of preferential allotment, (c) weak fundamentals not supporting price rise.
- e. Exchanges were mandated to put an advisory on their websites for investors with respect to trading in equity derivatives.

#### D. ISD preparedness for expected volatility during General Elections 2014

Considering the need for coordinated action by RBI and SEBI in case of excessive volatility or market disruptions due to the general elections and their outcome, a joint committee of RBI-SEBI was constituted. SEBI prepared a comprehensive report, 'Contingency Measures for General Election 2014' highlighting a historical perspective, data analysis and action plan for addressing the concerns arising out of unexpected volatility during general elections 2014. Additionally, a high level crisis management group was constituted within SEBI to develop a comprehensive plan under various market scenarios and stress conditions so as to address any eventuality. Two cross-functional operational teams were also constituted to keep a close watch on market developments in India as well as abroad during the pre- and post-election period. Extensive consultations were also held with RBI, exchanges, clearing corporations, brokers and other relevant market intermediaries to identify all possible scenarios in the aftermath of exit polls/results. Based on these, corresponding measures to strengthen the

risk management framework and the surveillance mechanism so as to address any possible disruptions to the market were put in place.

During the election process, especially after the last phase of the elections, the control room at ISD kept constant vigil over markets and took stock of the situation (including international markets, especially SGX Nifty at Singapore) at regular intervals during the day. The exchanges were also involved in the process.

#### E. Surveillance Actions

During 2014-15, NSE and BSE initiated preliminary examination and investigation of 53 and 1,325 cases respectively. In addition, as surveillance action during 2014-15 NSE shifted 472 scrips to the trade to trade (T to T) segment, BSE shifted 1,371 scrips to the T to T segment and the MSEI shifted 315 scrips to the trade to trade segment. In this segment, scrips are traded and settled through mandatory delivery and no netting off positions are allowed. This leads to reduction in the amount of speculation as only those who can deliver the securities can enter into sale transactions thereby reducing day trading (Table 3.37).

**Table 3.37: Surveillance Actions during 2014-15**

Nature of Action	2013-14			2014-15		
	NSE	BSE	MSEI	NSE	BSE	MSEI
1	2	3	4	5	6	7
Scrips shifted to Trade to Trade segment	586	1,509	236	472	1,371	315
No. of scrips in which price band were imposed (2 percent , 5 percent & 10 percent )	1,093	2,002	603	889	3,604	863
Preliminary Investigation taken up (Snap)	56	792	33	53	1,325	NIL
Rumours Verified	116	122	1	187	191	NIL

With a view to dampening the amplitude of prices, scrips that have shifted to the T to T segment attract applicable circuit filters. NSE reduced circuit filters in 889 instances, BSE in 3,604 instances and the MSEI in 863 instances. NSE and BSE verified 187 and 191 rumours respectively (Table 3.39). Further, as a soft enforcement measure, NSE and BSE issued

observation letters to 1,136 entities and caution letter to two entities. Interim orders were passed pursuant to surveillance monitoring and detection.

During 2014-15, ISD issued 12 interim orders barring 465 entities from accessing securities markets or dealing in securities markets till further directions (Table 3.38).

**Table 3.38: Major Surveillance Orders during 2014-15**

Particulars	Date of Order	No of Entity barred in Interim order
M/s L&T Finance Holdings Ltd.	05/06/2014	1
Mr. Mansoor Rafiq Khanda and Mr. Firoz Rafiq Khanda	05/06/2014	2
M/s Astrazeneca Pharma India Ltd.	24/06/2014	1
M/s Gammon Infrastructure Projects Ltd.	17/07/2014	1
M/s Kelvin Fincap Ltd.	14/08/2014	44
M/s Rasoya Proteins Ltd. - GDR issue	24/09/2014	10
M/s Transgene Biotek Ltd.	20/11/2014	6
M/s Moryo Industries Ltd.	04/12/2014	99
M/s First Financial services Ltd.	19/12/2014	152
M/s Radford Global Ltd.	19/12/2014	108
M/s Cals refinery Ltd.	31/12/2014	8 ( 4 warned)
M/s Kamalakshi Finance Corp. Ltd.	01/02/2015	33

### **Box 3.3: Cases of Misuse of Stock Exchange Mechanism for Tax Evasion**

During the surveillance of the markets abnormal price rise was noticed in shares of some companies with weak fundamentals. Detailed examination of dealing in shares of these companies uncovered similar pattern of price movement, corporate actions, behaviour of participants, etc. revealing the modus operandi wherein certain entities misused the stock exchange mechanism to create bogus Long-term Capital Gains to take advantage of the tax concessions as the long term capital gains are exempt from capital gain tax. The detailed examination also revealed that many of these companies were only paper compliant companies.

To protect the interests of investors, preserve the safety and integrity of Indian securities market and at the same time to send a strong deterrent signal to the market, SEBI, based on the prima-facie evidence, took swift proactive action by passing four ex-parte Interim orders against 392 entities including 18 listed companies, 30 promoters/directors, five trading members and 108 private corporate bodies restraining them from accessing the securities market and buying, selling or dealing in securities, either directly or indirectly, till further directions. Considering possible case of tax evasion and money laundering, the same have also been referred to Income Tax department, Enforcement Directorate, Financial Intelligence Unit and the Ministry of Corporate Affairs.

In addition, trading in the shares of 36 companies where similar violations are suspected has been suspended by SEBI/ Stock Exchanges.

The following illustrates the unearthed modus operandi in brief:

- Key Operator/s along with the syndicate identifies an illiquid company on exchange. The companies identified are characterized by very poor fundamentals, small number of share holders and small promoter holding with less equity capital. Also, some of these companies appear to exist only on paper.
- As a part of the scheme, the company issues shares on preferential basis to these entities which have a lock-in period of one year. In few cases, it is seen that utilisation of proceeds of preferential allotment does not appear to be for any of the purposes as mentioned in the company's special resolution for preferential allotment.
- During the lock-in period, a group of connected entities contribute significantly to the volume traded and pushes the price up by contributing to positive Last Traded Price through first trades with negligible order quantity like even 1 or 2 shares. Astronomical price rise was observed in the shares of the identified companies even extended to 7000 percentage in a case.
- On the expiry of lock-in period, the other group of related entities provides exit to preferential allottees by buying their shares at such increased price. In many instances, it was observed that some of the entities forming part of the group appeared to be lacking the means for their purchases made. There was significant layering by way of funds transfer in order to hide the real owners of fund. Further, fund flow examination indicates routing of money by the preferential allottees through various channels to the exit providers.
- It is prima-facie observed that the preferential allottees acting in concert with group of suspected entities misused the stock exchange system to generate fictitious Long-term Capital Gains so as to convert their unaccounted income into accounted one with no payment of taxes as Long-term Capital Gains is tax exempt.

SEBI passed Interim orders for misuse of stock exchange system for prima-facie dubious plans and fraudulent dealing in securities in respect of following companies:

- a. Moryo Industries Limited
- b. Radford Global Limited
- c. First Financial Services Limited
- d. Kamalakshi Finance Corp. Limited

## **14. INVESTIGATION**

Timely completion of investigation cases and effective, proportionate and dissuasive action in case of violations of securities laws are important for the protection of investors' interests and ensuring fair, transparent and orderly functioning of the markets. It is also vital for improving the confidence

in the integrity of securities markets. SEBI is therefore constantly striving to upgrade its investigative skills by making use of information technology (IT) and other latest investigative tools. The importance of effective and credible use of investigations has also been underscored by IOSCO in its 'Principles for the Enforcement of Securities Regulation'.

Keeping these objectives and principles of securities regulations in view, SEBI initiates investigations to examine alleged or suspected violations of laws and regulations relating to securities markets. Possible violations may include price manipulation, creating an artificial market, insider trading, capital issue related irregularities, takeover related violations, non-compliance of disclosure requirements and any other misconduct in securities markets.

#### A. Initiation of Investigation

There are various sources of information for initiating an investigation. SEBI initiates investigations based on references received from sources such as stock exchanges, SEBI's integrated surveillance department, other government departments and information submitted by market participants and complainants. In appropriate cases, investigations may also be initiated suo-moto, where there are reasonable grounds to believe that investors' interest are being adversely affected or there are suspected violations of the provisions of securities laws.

#### B. Process of Investigation

The steps involved during an investigation include an analysis of market data (order and trade log, transaction statements, etc.) and the existing database

(KYC documents obtained from brokers, depository participants, etc., bank records, financial results, events around major corporate developments, etc.) The purpose of such investigations is to gather evidence and to identify the persons/entities behind irregularities and violations so that appropriate and suitable regulatory action can be taken wherever required. The outcome of the investigation in the form of enforcement action is a clear signal to market players to comply with existing legal provisions and expected standards of conduct in the market.

#### C. Trends in Investigation Cases

During 2014-15, 70 new cases were taken up for investigation and 122 cases were completed compared to 108 new cases taken up and 120 cases completed in 2013-14 (Table 3.39). Apart from enforcement action, an important attendant benefit resulting from such investigations is their contribution to policy changes with a view to further strengthening the regulatory and enforcement environment.

**Table 3.39: Trends in Investigations**

Period	Cases taken up	Cases completed
2013-14	108	120
2014-15	70	122

#### **Box 3.4: US SEC appreciates assistance provided by SEBI**

A website was offering a high-yield investment programme (HYIP) with extraordinary returns of 180, 210, or 240 percent in 120 business days which far exceeded the returns that investors could reasonably expect on legitimate investments. The US Securities Exchange Commission (SEC) requested SEBI for assistance in establishing the identities of the entities responsible for setting up and running the website offering the HYIP. SEC informed SEBI that the details provided while registering the website were fictitious and therefore prevented the discovery of persons who were responsible for it.

SEC investigations revealed that certain entities were using fictitious names and they were responsible for the website. These entities had created various email ids to disguise their association with the website and for concealing their identities. Based on the information obtained and forwarded by SEBI to SEC and the inputs provided by SEBI, SEC passed an order instituting administrative and cease and desist proceeding pursuant to Section 8A of The Securities Exchange Act, 1933. SEC, in its press release dated November 12, 2014, appreciated the assistance provided by SEBI in the matter.

#### D. Nature of Investigation Cases Taken Up

During 2014-15, 59 percent (41 out of 70) of the cases taken up for investigation pertained to market manipulations and price rigging compared to 62 percent (67 out of 108) cases in 2013-14. Insider trading and takeover violation cases accounted for 14 percent (10 cases) and 4 percent (three cases) respectively. 'Issue'

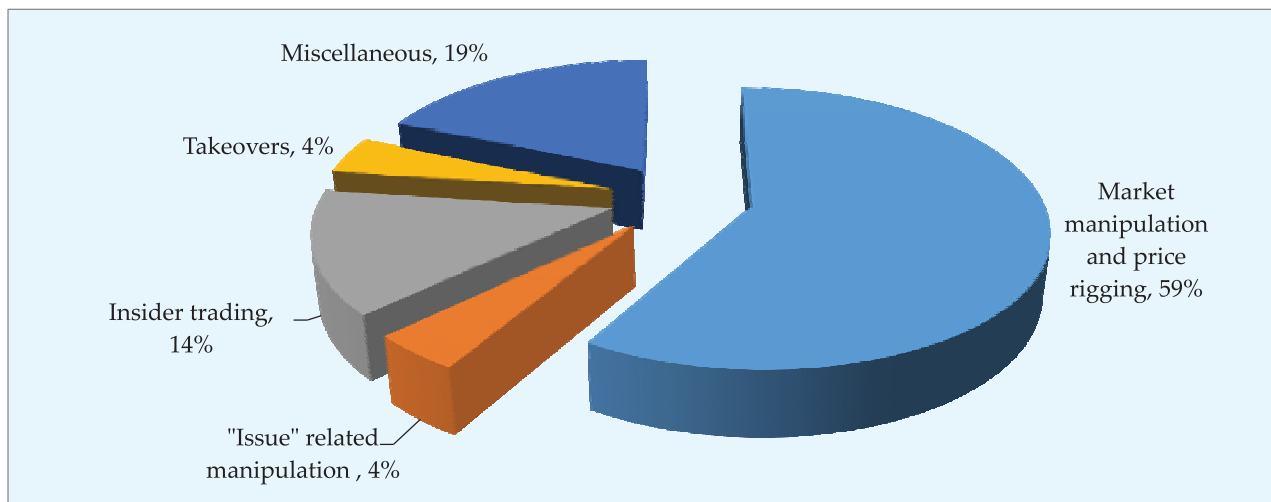
related manipulation and other violations of securities laws accounted for 4 percent (three cases) and 19 percent (13 cases) respectively (Table 3.40 and Chart 3.7).

Since, several investigation cases involved multiple allegations of violations, a water-tight classification under a specific category becomes difficult. Therefore, cases were classified on the basis of main charge/violations.

**Table 3.40: Category-wise Nature of Investigation**

Particulars	Investigations taken up		Investigations completed	
	2013-14	2014-15	2013-14	2014-15
Market manipulation and price rigging	67	41	73	86
'Issue' related manipulation	6	3	12	3
Insider Trading	13	10	13	15
Takeovers	6	3	6	3
Miscellaneous	16	13	16	15
<b>Total</b>	<b>108</b>	<b>70</b>	<b>120</b>	<b>122</b>

**Chart 3.7: Category-wise Nature of Investigations Taken up**

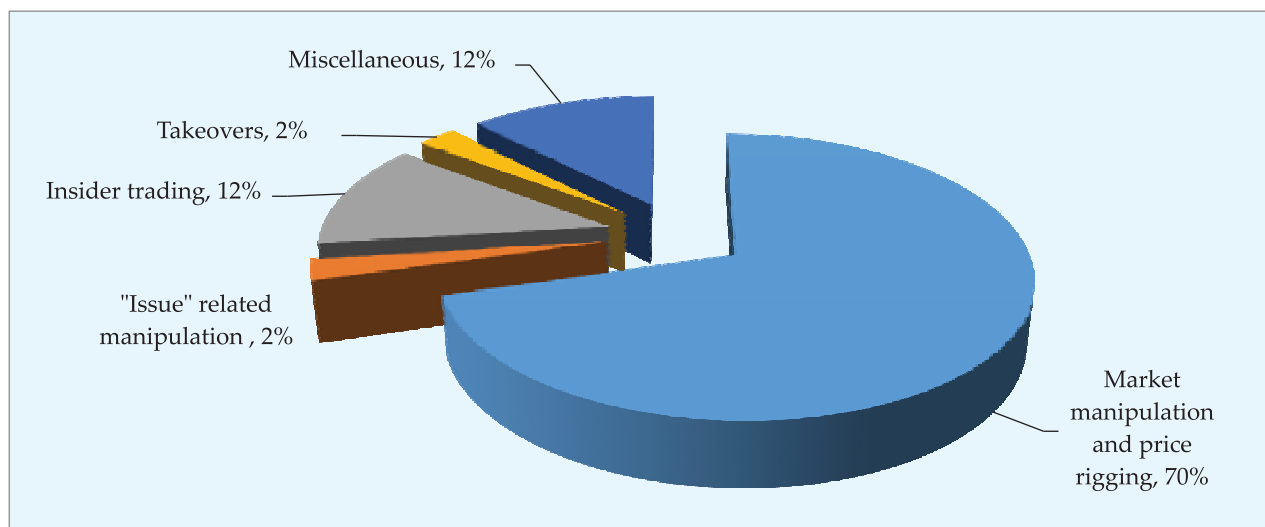


#### E. Nature of Investigation Cases Completed

During 2014-15, about 70 percent (86 out of 122) cases pertaining to market manipulation and price rigging were completed as compared to 61 percent (73 out of 120) cases in 2013-14. In addition,

the other category of cases completed pertained to insider trading, takeover violations, 'Issue' related manipulation and other violations of securities laws accounted for 12 percent (15 cases), 2 percent (three cases), 2 percent (three cases) and 12 percent (15 cases) respectively (Table 3.40 and Chart 3.8).

**Chart 3.8: Category-wise Nature of Investigation Completed**



#### F. Regulatory Action Taken

After completing the investigation, penal action is initiated as approved by the competent authority wherever violations of laws and obligations relating to securities markets 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 actions include 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 3.41).

**Table 3.41: Type of Regulatory Action Taken during 2014-15**

Regulatory Actions Taken	No. of entities
Suspension	1
Warning Issued	41
Prohibitive directions issued under Section 11 of SEBI Act	1,620
Cancellation	0
Administrative Warning/Warning letter issued	274
Deficiency Observations issued	94
Advice letter issued	139
<b>Total</b>	<b>2,169</b>

#### G. Regulatory Action Initiated

During 2014-15, proceedings under Section 11 of the SEBI Act, 1992 were initiated against 112 entities, proceedings under intermediaries regulations were initiated against three entities, adjudication proceedings were initiated against 882 entities and administrative warnings were given to 129 entities.

### 15. 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 actions: administrative/civil or criminal. Administrative/civil actions include issuing directions such as remedial orders, cease and desist

orders, suspension or cancellation of certificates of registration and imposition of monetary penalty under the respective statutes. Proceedings of a criminal nature involve initiating prosecution proceedings against violators by filing criminal complaints before a competent court.

### **Box 3.5: Reinventing Enforcement Processes**

Effective enforcement lies at the heart of ensuring market integrity, transparency and fairness. It not only leads to 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. As a measure to improve effectiveness of enforcement, SEBI has completely revamped its enforcement processes during 2014-15.

This important step was taken pursuant to a recommendation made by M/s Oliver Wyman (consultant) for complete handing over of enforcement matters to the Enforcement Department (EFD) by the Investigation Department (IVD) upon completion of investigation and approval of the recommended enforcement actions. The same principle of handover for enforcement proceedings to EFD has also been extended to the enforcement matters initiated by other departments as well.

An internal task force set out the framework, process and roadmap for the transfer of all enforcement matters by all departments concerned to EFD. The handing over process, which began in April 01, 2014, involved transfer of 11,406 files relating to 776 cases and involving 10,537 entities as on March 31, 2015.

Under the new arrangement, the issue of show cause notice, analysis of responses to notices, organization of hearing before the competent authority etc. is exclusively handled by EFD as compared to the earlier system which involved dual responsibility and significant overlaps between EFD and operations department. Strict timelines have also been prescribed for completion of various activities within EFD to push towards fast disposal of cases. The reorganized EFD represents a major shift in handling of enforcement. The new enforcement processes have already started showing significant increase in operational efficiency. The new system has inter alia;

- Imparted greater objectivity to the enforcement processes, as the department (EFD) taking forward the enforcement actions is different from the one (IVD) proposing the same.
- Brought about clearer ownership and accountability for enforcement actions to EFD as against lack of clarity on ultimate responsibility in the previous arrangement.
- Enabled greater focus by EFD and IVD on their respective core areas i.e. enforcement and investigation, without any overlaps leading to qualitative improvements in their work
- Facilitated creation of a central database of all approved enforcement actions singularly by EFD for efficient follow-up and monitoring of the progress of such actions.

Having been fortified with statutory powers, the recovery wing in EFD has taken up an intensive drive to recover unpaid penalties and other dues. About 600 cases were taken up, out of which full recovery has been made in 127. Further, 1,927 attachment orders have been issued and even some defaulters have been detained or committed to civil imprisonment.

## **A. Enforcement Mechanisms**

There are five enforcement mechanisms that SEBI uses in case of any violation(s) pertaining to the laws regulating securities markets.

### **a. Section 11/11B Proceedings**

Under Section 11/11B/11D of the SEBI Act, 1992, SEBI may issue directions or prohibitive orders such as debarment from accessing securities markets or not to deal in securities. While exercising

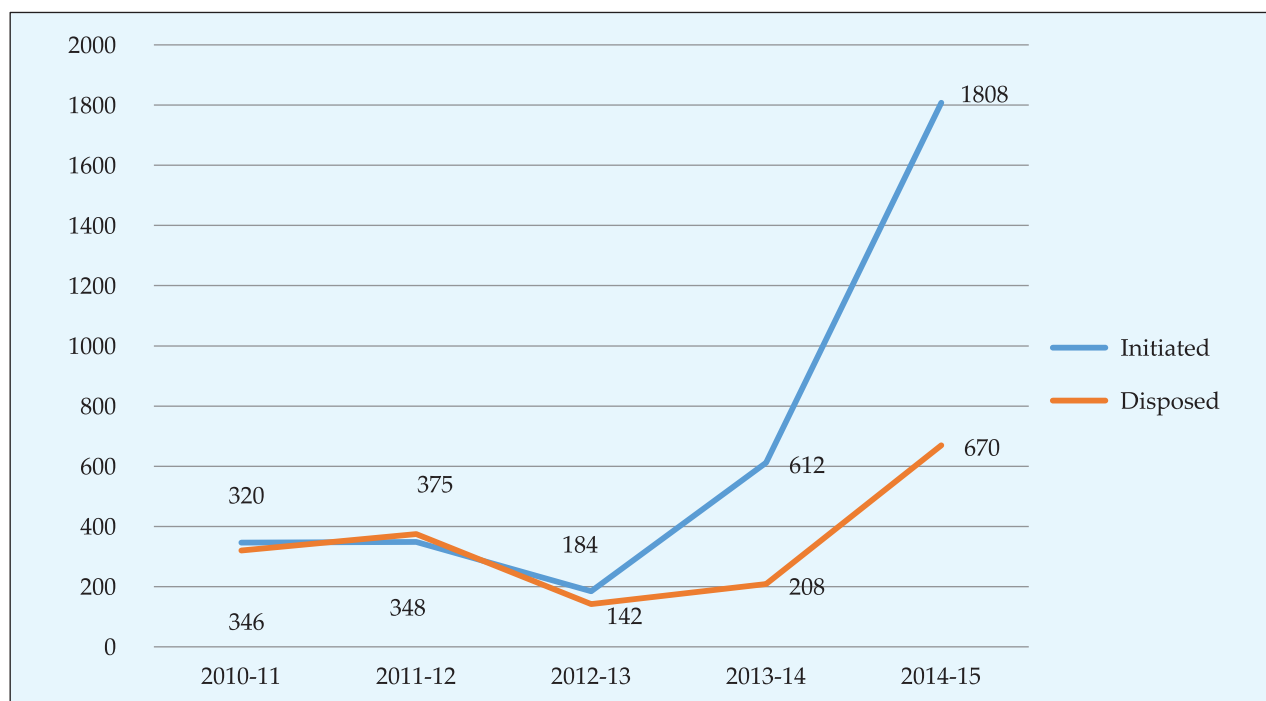
powers under Section 11,11B/11D of the SEBI Act, 1992, SEBI restrains/prohibits entities from doing certain activities or directs the entities to act in a particular manner in the interest of investors and securities markets. During 2014-15, 670 actions under Section 11/11B were disposed by SEBI. In the same year, 1,808 fresh actions under the Section 11/11B of the SEBI Act, 1992 were initiated by SEBI. The cumulative pending actions as on March 31, 2015 were 2,558 (Table 3.42 and Chart 3.9).

**Table 3.42: Age-wise Analysis of Enforcement Actions - u/s 11, 11B and 11D of SEBI Act, 1992**

Year	No. of Actions Initiated	No of Actions Disposed											Ag-gregate Disposal	Pending Actions
		04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
As on 2003-04	2,158	1,364	68	104	237	94	85	46	55	5	0	15	2,073	85
2004-05	522	2	38	39	168	105	85	19	46	3	5	0	510	12
2005-06	196	Na	1	12	31	65	69	18	0	0	0	0	196	0
2006-07	402	Na	Na	34	67	65	119	54	15	1		0	355	47
2007-08	374	Na	Na	Na	58	75	61	61	48	6	7	0	316	58
2008-09	75	Na	Na	Na	Na	8	44	23	0	0		0	75	0
2009-10	376	Na	Na	Na	Na	Na	30	69	114	45	2	21	281	95
2010-11	346	Na	Na	Na	Na	Na	Na	30	87	37	28	56	238	108
2011-12	348	Na	Na	Na	Na	Na	Na	Na	10	35	58	218	321	27
2012-13	184	Na	Na	Na	Na	Na	Na	Na	Na	10	43	32	85	99
2013-14	612	Na	Na	Na	Na	Na	Na	Na	Na	Na	65	197	262	350
2014-15	1,808	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	131	131	1677
<b>Total</b>	<b>7,401</b>	<b>1,366</b>	<b>107</b>	<b>189</b>	<b>561</b>	<b>412</b>	<b>493</b>	<b>320</b>	<b>375</b>	<b>142</b>	<b>208</b>	<b>670</b>	<b>4,843</b>	<b>2,558*</b>

Note: \*Arising out of 456 cases

**Chart 3.9 : Trends in Enforcement Actions u/s 11, 11B and 11D of SEBI Act, 1992**



**Box 3.6 : Action against Illegal Money- Raising Activities**

*(Companies collecting money in violation of SEBI (Collective Investment Schemes) Regulations, 1999, SEBI (Disclosure and Investor Protection) Guidelines, 2000, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, SEBI (Issue and Listing of Debt Securities), Regulations, 2008 and SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares), Regulations, 2013 read with Companies Act, 1956 and the Companies Act, 2013)*

The illegal money-raising activities in past few years have been a major source of concern. During 2014-15, SEBI promptly and vigorously pursued this matter and took punitive and preventive actions against companies found to be falling within its purview.

It is seen that because of such prompt action by SEBI, there is huge expectation among people and as a result, SEBI is receiving complaints against companies/activities not falling under its jurisdiction but that warranting action under Protection of Interest of Depositors Act (PID) / Prize Chit and Money Circulation Banning Act (PCMCB) / IPC which comes under the domain of State Governments or relating to mobilization of deposits which comes under the domain of Reserve Bank of India / Ministry of Corporate Affairs. Since overwhelming majority of complaints were seen to be falling within PCMCB Act with inter-state ramifications, SEBI took up the matter with Department of Financial Services (DFS) and Inter-Ministerial Group (IMG- formed to identify gaps in the regulatory framework for deposit taking activities) for effective policy on inter-state complaints under PCMCB Act, 1978.

SEBI faces a slew of difficulties while dealing with these illegal money raising schemes. The first being, the artful way in which the perpetrators camouflage their nefarious designs under layers of sale of goods or services to make the issues look like innocent business activities but actually raise the money through deposit/investment instrument. This makes it difficult to uncover the true nature of their activities and ascertain the correct jurisdictional regulator. Second being the lack of information. The activities (pooling of money from public) of such companies are spread in small towns and remote parts of the country and there is limited information flow from such areas. Further, the companies most often close down after collection of monies and become traceless/ incommunicable. Many companies also do not file their annual report/ financial statements with Registrar of Companies. Cooperation during enquiry is, of course non-existent, though it is not even expected. Yet, this shows that most of these companies are on wrong side of law as they employ every trick in the trade to avoid giving information. Third, these outfits flush with funds, go to extreme lengths in fighting legal battles. One famous case has still not attained finality, even after 16 years. In other cases, the companies have managed to get injunctions from lower courts. Even though it was without jurisdiction, it took SEBI considerable time and effort to get them vacated.

It is also seen that many companies, subsequent to passing of directions by SEBI, start operating as a Single-State/ Multi-State Co-operative Society/Producer company (co-operative business in corporate framework). In this regard, wherever it comes to the notice of SEBI, suitable references are made to the State Government concerned or the Central Registrar of Co-operative Societies, Ministry of Agriculture or RoC as applicable.

To deal with this menace, SEBI proposed reconstitution of State Level Coordination Committee (SLCC) in FSDC-SC on August 07, 2013 with the Chief Secretary of the state chairing the inter-regulator coordination meeting in state for more effective action upon such illegal money mobilization. Thus far 71 meetings of the reconstituted SLCC have taken place across different states, state machineries have been appraised of their prominent role in tackling this menace and taking the battle against these companies right to their countryside offices.

*Deemed Public Issues*

One of the techniques that such companies have adopted is to issue equity shares, preference shares and debentures on ostensibly private placement basis. These are marketed to large number of people, even crores, with a disclaimer that the offer is on private placement basis. Even though the Companies Act restricted such placement to 49 (now 200) persons. The issues are made in flagrant violation or under a fig leaf of repeated issues to 49 persons or more. Gullible people are taken in by impressive norms as ‘non convertible debenture’ or ‘cumulative redeemable preference shares’ and part their monies in exchange for a piece of glossy paper, worth nothing.

Despite the heavy odds, SEBI has been successful in passing a number of orders under CIS/DPI Regulations to stop money mobilisation as under:

Year	Collective Investment Schemes		Deemed Public Issue	
	No. of Interim Orders	No. of Final Orders	No. of Interim Orders	No. of Final Orders
2013-14	17	7	4	1
2014-15	51	14	118	14

The interim order inter-alia debars the entities and their directors from collection of any fresh money from investors and the final order inter-alia directs the entities and their directors to refund the monies mobilized along with interest or returns due to the investors and also, debar them from accessing capital market for a specified time period.

SEBI also issued caution notes to investors informing them not to subscribe to issues/schemes floated by such companies against whom SEBI had taken action and also cautioning the companies not to issue securities/mobilize monies from the public without complying with the relevant provisions of law.

**b. Enquiry Proceedings**

SEBI may suspend or cancel the certificate of registration of an intermediary through enquiry regulations on the recommendation of the enquiry officer/designated authority appointed for that purpose. It may also issue a warning to an intermediary if it considers that the violations committed by the intermediary do not warrant suspension or cancellation of registration.

During 2014-15, 11 actions were disposed by SEBI after the due completion of enquiry proceedings. Further, 23 fresh actions were initiated where enquiry proceedings are being followed. The cumulative pending actions as on March 31, 2015 stood at 125. (Table 3.43)

**Table 3.43: Age-wise Analysis of Enforcement Actions - Enquiry Proceedings**

Year	No. of Actions Initiated	No of Actions Disposed											Aggregate Disposal	Pending Actions
		04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
As on 2003-04	1,816	1,249	155	148	117	44	52	28	14	9	0		1,816	0
2004-05	190	3	17	3	57	70	30	10	0	0	0		190	0
2005-06	80	Na		9	31	19	8	13	0	0	0		80	0
2006-07	122	Na	Na	4	8	28	22	27	20	3	3	2	117	5
2007-08	89	Na	Na	Na	3	11	8	14	4	11	2	2	55	34
2008-09	20	Na	Na	Na	Na			4	3	1	2		10	10
2009-10	23	Na	Na	Na	Na	Na	1	5	0	4	1		11	12
2010-11	24	Na	Na	Na	Na	Na	Na	8	1	5	6		20	4
2011-12	8	Na	Na	Na	Na	Na	Na	Na	0	0		2	2	6
2012-13	27	Na	Na	Na	Na	Na	Na	Na	Na	2	1	4	7	20
2013-14	12	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na		0	12
2014-15	23	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	1	1	22
<b>Total</b>	<b>2,434</b>	<b>1,252</b>	<b>172</b>	<b>164</b>	<b>216</b>	<b>172</b>	<b>125</b>	<b>108</b>	<b>40</b>	<b>36</b>	<b>13</b>	<b>11</b>	<b>2,309</b>	<b>125*</b>

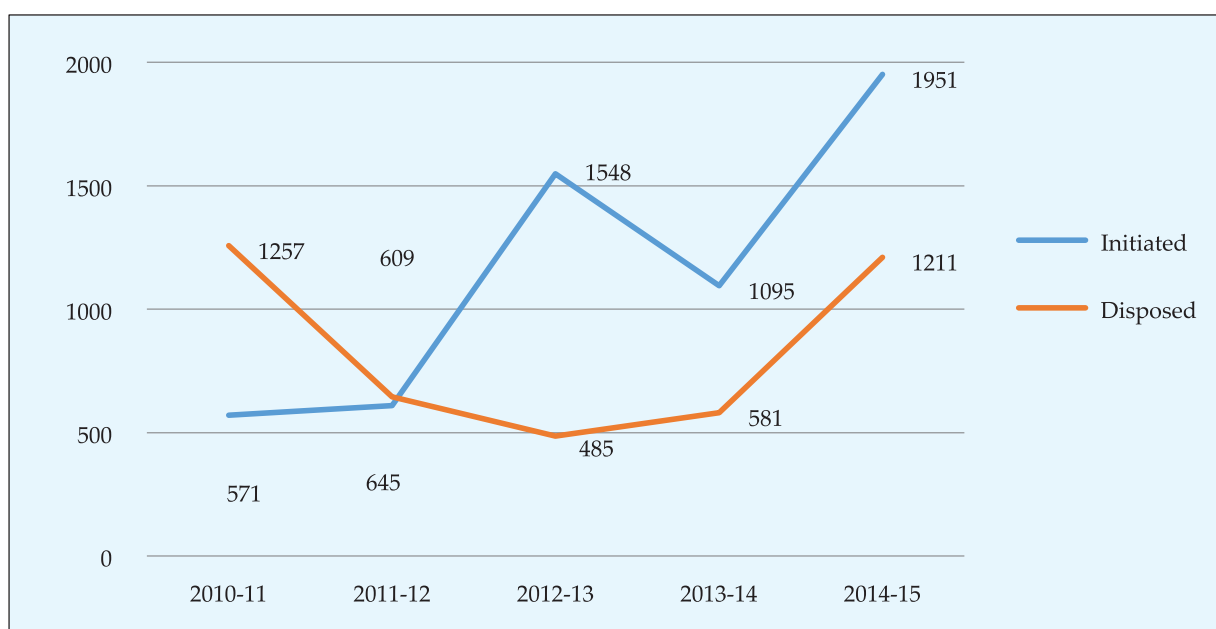
Note: \* Arising out of 53 cases

**Table 3.44: Age-wise Analysis of Enforcement Actions - Adjudication Proceedings**

Year	No. of Actions Initiated	No of Actions disposed											Aggregate Disposal	Pending Actions
		04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
As on 2003-04	956	633	89	88	29	66	12	9	5	0	0	5	936	20
2004-05	418	145	126	45	28	17	21	23	2	0	0	0	407	11
2005-06	283	Na	27	47	22	66	23	56	10	6	1	5	263	20
2006-07	578	Na	Na	34	82	102	120	106	18	5	0	15	482	96
2007-08	1,215	Na	Na	Na	24	152	373	295	47	8	9	48	956	259
2008-09	546	Na	Na	Na	Na	70	101	255	42	51	0	0	519	27
2009-10	644	Na	Na	Na	Na	Na	114	229	121	80	49	12	605	39
2010-11	571	Na	Na	Na	Na	Na	Na	284	257	30	0	0	571	0
2011-12	609	Na	Na	Na	Na	Na	Na	Na	143	118	122	63	446	163
2012-13	1,548	Na	Na	Na	Na	Na	Na	Na	Na	187	174	109	470	1,078
2013-14	1,095	Na	Na	Na	Na	Na	Na	Na	Na	Na	226	869	1,095	0
2014-15	1,951	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	85	85	1,866
<b>Total</b>	<b>10,414</b>	<b>778</b>	<b>242</b>	<b>214</b>	<b>185</b>	<b>473</b>	<b>764</b>	<b>1,257</b>	<b>645</b>	<b>485</b>	<b>581</b>	<b>1,211</b>	<b>6,835</b>	<b>3,579*</b>

Note: \* Arising out of 1,381 cases

**Chart 3.10: Trends in Adjudication Proceedings**



**c. Adjudication Proceedings**

Under Chapter VIA of the SEBI Act, 1992, SEBI may appoint an adjudicating officer for conducting enquiry and imposing penalties. During 2014-15, 1,211 actions were disposed by SEBI under adjudication proceedings; 1,951 fresh actions were initiated under adjudication proceedings. The cumulative pending actions as on March 31, 2015 stand at 3,579 (Table 3.44 and Chart 3.10).

**d. Prosecution**

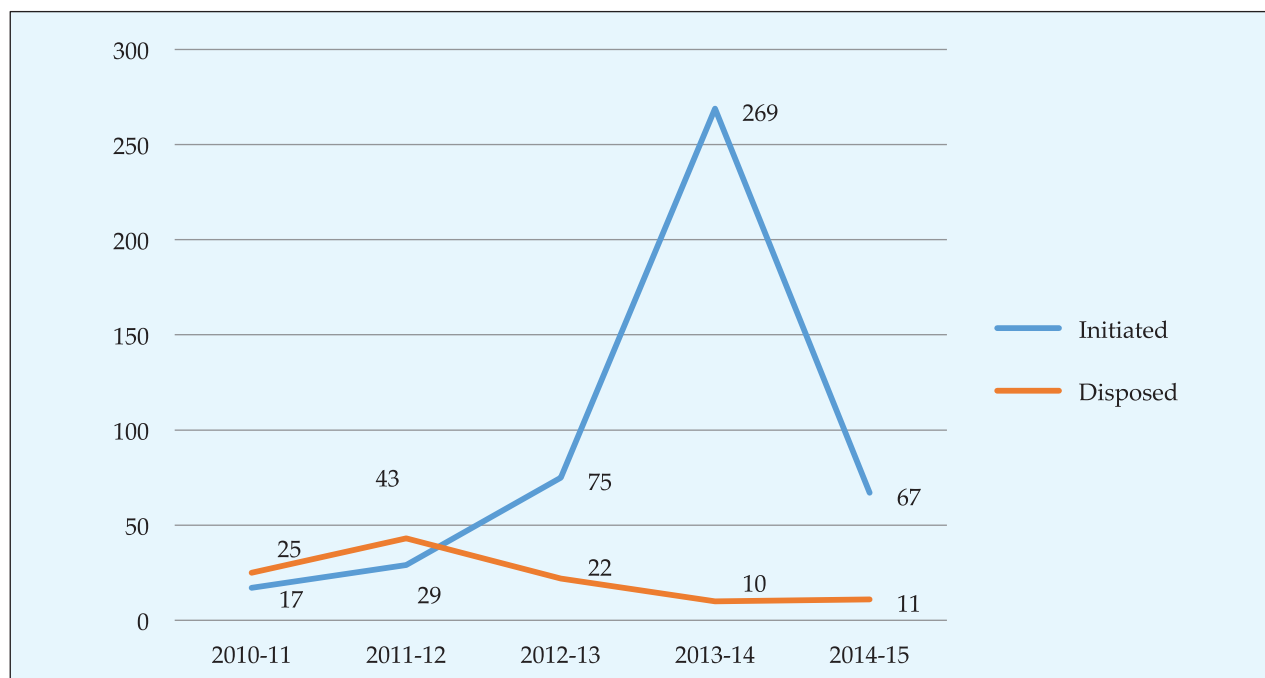
Section 24 of the SEBI Act, 1992 empowers SEBI to launch prosecution against any person for contravention of any provision of the SEBI Act, 1992 or any rules or regulations made thereunder before a court of criminal jurisdiction. During 2014-15, 11 prosecution cases filed by SEBI were disposed of by courts and 67 new cases were initiated. The cumulative pending cases as on March 31, 2015 stood at 1,303 (Table 3.45 and Chart 3.11).

**Table 3.45: Age-wise Analysis of Enforcement Actions - Prosecution Proceedings**

Year	No. of Cases Initiated	No of Cases disposed											Aggregate Disposal	Pending Cases
		04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
As on 2003-04	891	6	6	39	50	12	21	22	39	20	9	11	235*	608
2004-05	86	0	0	1	13	6	2	3	3	1	1	0	30	56
2005-06	30	Na	0	3	2	1	0	0	0	0	0	0	6	24
2006-07	23	Na	Na	0	0	0	0	0	0	0	0	0	0	23
2007-08	40	Na	Na	Na	0	0	1	0	1	0	0	0	2	38
2008-09	29	Na	Na	Na	Na	0	0	0	0	0	0	0	0	29
2009-10	30	Na	Na	Na	Na	Na	0	0	0	0	0	0	0	30
2010-11	17	Na	Na	Na	Na	Na	Na	0	0	1	0	0	1	16
2011-12	29	Na	Na	Na	Na	Na	Na	Na	0	0	0	0	0	29
2012-13	75	Na	Na	Na	Na	Na	Na	Na	Na	0	0	0	0	75
2013-14	269	Na	Na	Na	Na	Na	Na	Na	Na	Na	0	0	0	269
2014-15	67	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	0	0	67
<b>Total</b>	<b>1,586</b>	<b>6</b>	<b>6</b>	<b>43</b>	<b>65</b>	<b>19</b>	<b>24</b>	<b>25</b>	<b>43</b>	<b>22</b>	<b>10</b>	<b>11</b>	<b>283</b>	<b>1,303</b>

Note: \*In addition, 9 cases were disposed of till March 31, 2004.

**Chart 3.11: Trends in Prosecution Proceedings**



**e. Summary Proceedings**

Chapter VA of the SEBI (Intermediaries) Regulations, 2008 provides SEBI the power to conduct summary proceedings in certain specific cases. During

2014-15, no action for summary proceedings was disposed or initiated by SEBI. The cumulative pending actions as on March 31, 2015 stood at 83 (Table 3.46).

**Table 3.46: Age-wise Analysis of Enforcement Actions - Summary Proceedings**

Year	No. of Actions Initiated	No. of Actions disposed											Aggregate Disposal	Pending Actions
		04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
As on 2003-04	47	0	0	2	3	0	19	4	2	0	0		30	17
2004-05	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2005-06	2,296	Na	0	230	79	11	1,820	90	0	0	0	0	2,230	66
2006-07	1	Na	Na	0	0	0	1	0	0	0	0	0	1	0
2007-08	1	Na	Na	Na	0	0	1	0	0	0	0	0	1	0
2008-09	91	Na	Na	Na	Na	0	91	0	0	0	0	0	91	0
2009-10	0	Na	Na	Na	Na	Na	0	0	0	0	0	0	0	0
2010-11	0	Na	Na	Na	Na	Na	Na	0	0	0	0	0	0	0
2011-12	0	Na	Na	Na	Na	Na	Na	Na	0	0	0	0	0	0
2012-13	0	Na	Na	Na	Na	Na	Na	Na	Na	0	0	0	0	0
2013-14	0	Na	Na	Na	Na	Na	Na	Na	Na	Na	0	0	0	0
2014-15	0	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	0	0	0
<b>Total</b>	<b>2,436</b>	<b>0</b>	<b>0</b>	<b>232</b>	<b>82</b>	<b>11</b>	<b>1,932</b>	<b>94</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,353</b>	<b>83</b>

During 2014-15, SEBI issued 1,351 showcause notices and conducted 1,244 hearings in the enquiry and adjudication. (Table 3.47)

**Table 3.47: Enquiries and Adjudications**

Particulars	Enquiry	Adjudication	Total	Enquiry	Adjudication	Total
	2013-14			2014-15		
1	2	3	4	5	6	7
Orders Passed/ Report Submitted	15	619	634	21	1,211	1,232
Hearings Conducted	2	1,305	1,307	6	1,231	1,237
Show Cause Notices Issued	11	1,516	1,527	15	1,336	1,351

During 2014-15, SEBI issued 48 warning/ deficiency/advice letters to other intermediaries of which eight were issued against RTI & STAs, four against merchant bankers, 31 against depository participants, two against credit rating agencies and three against debenture trustees. Moreover,

SEBI initiated adjudication proceedings against six merchant bankers and one each against depository participants, registrars to an issue & share transfer agents and debenture trustees. There were two enquiry proceedings initiated during 2014-15 against other intermediaries (Table 3.48).

**Table 3.48: Enquiry and Adjudication Proceedings Against Other Intermediaries**

Intermediaries	2013-14			2014-15		
	Adjudication	Enquiry	Warning/deficiency/advice	Adjudication	Enquiry	Warning/deficiency/advice
1	2	3	4	5	6	7
Registrar to an Issue & Share Transfer Agents	0	0	9	1	0	8
Merchant Bankers	1	0	3	6	2	4
Depository Participants	1	0	24	1	0	31
Credit Rating Agencies	0	0	0	0	0	2
Debenture Trustees	0	0	11	1	0	3
<b>Total</b>	<b>2</b>	<b>0</b>	<b>47</b>	<b>9</b>	<b>2</b>	<b>48</b>

**Box 3.7: Fortifying Enforcement**

As we preserve healthy markets, it is also crucial to promote fair practices that align with the best in class through stronger enforcement measures and in harmony with technological developments worldwide. Over the years, SEBI has built its reputation as a credible enforcement agency. Enforcement actions taken by SEBI are designed to be appropriate in a holistic sense. SEBI has used warnings and letters of deficiency to address findings from inspection reports which are trivial. In other cases severe measures such as suspension or cancellation of registration, prohibitory orders, disgorgement, criminal prosecution and adjudication for imposition of monetary penalty have also been resorted to.

At the same time, SEBI has provided a mechanism for settlement of administrative and civil proceedings except in cases of certain serious violations like insider trading. The settlement mechanism refers to the settlement of securities laws violations as per the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 without the individual or company involved admitting or denying guilt. As per these regulations, settlements of violations are arrived at by issuing a settlement order on conclusion of the settlement process. The alleged party gets absolved of the charges by paying a settlement amount and/or non-monetary terms as per the settlement order. Further, in order to avoid delay in concluding enforcement proceedings, augmenting administrative efficiency and for optimizing resources, SEBI has enabled submission of settlement applications even prior to receipt of detailed show cause notices in certain securities laws violations.

In order to make securities markets safe and a level playing field and to align them with the best practices globally, SEBI reviewed the insider trading regulatory regime. On the basis of the recommendation of the high level committee appointed in this regard, the new regulations on prohibition of insider trading were notified on January 15, 2015.

Further, the Securities Laws (Amendment) Act, 2014, inter-alia, conferred powers on SEBI to call for information from any person in relation to matters under investigation or enquiry, powers of attachment and recovery. The Amendment Act also enabled establishing special courts for speedy trial of offences relating to securities laws.

With these special powers and improved human and technological capabilities, SEBI aims to further streamline the enforcement process by focusing on increasing the efficiency of enforcement proceedings across the organisation. During 2014-15, there was a significant increase both in the number of orders and penalty amounts. SEBI issued a large number of orders in cases of deemed public issues and illicit fund-raising activities. The total penalty imposed by SEBI in adjudication proceedings for the violations of SEBI (Prohibition of Insider Trading) Regulations, 1992, went up by 84.3 percent to ₹ 37.6 crore in 2014-15 as compared to ₹ 20.4 crore in 2013-14 and by 1943.5 percent compared to ₹ 1.84 crore in 2012-13. For violations under SEBI (PFUTP) Regulations, 2003 the total penalty imposed increased by 79.5 percent to ₹ 241.7 crore in 2014-15 compared to ₹ 134.65 crore in 2013-14 and by 504.6 percent compared to ₹ 39.98 crore in 2012-13.

Armed with increased powers under Section 28A of the SEBI Act, the regulator is empowered to recover money from persons who fail to pay the penalty imposed by the AO or fail to comply with any direction of SEBI for refund of money or fail to comply with a direction of disgorgement order or fail to pay any fees due to SEBI. A recovery and attachment cell has been created in SEBI for enforcing this. As on March 31, 2015, notices for attachment were issued against 822 bank lockers, 1,087 demat accounts and 18 other asset categories. In two cases, the defaulters were arrested and kept in detention and in one case civil imprisonment was awarded. Recovery was completed in 127 cases and the amount recovered as on March 31, 2015 was ₹ 27 crore.

SEBI constituted a special enforcement cell to handle work related to the matter of Sahara India, against which SEBI had passed a final order in 2011. The case relates to optional fully convertible debentures (OFCDs) that the two unlisted companies issued in 2008, collecting around ₹ 25,000 crore from 30 million investors. The other major enforcement action taken by SEBI was in the matters of M/s DLF Ltd. and M/s Satyam Computer Services Ltd. While the DLF case was for alleged active and deliberate suppression of material information so as to mislead and defraud investors in securities markets in connection with DLF's IPO, the latter case was a sophisticated white collar financial fraud with a premeditated and well thought out plan and deliberate design for personal gains and to the detriment of the company and investors in its securities.

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. To sum up, the way forward for securities markets is in creating an atmosphere of trust in the market, confidence in investors and efficiency in the system. SEBI continues its endeavours towards stricter and prompter enforcement, spreading financial education and upgrading technology to meet these objectives.

## **B. Important Adjudication Orders passed during 2014-15**

### **A. Order in the matter of Initial Public Offer of M/s Credit Analysis and Research Ltd. (CARE) against six Book Running Lead Managers (BRLMs)**

In the matter of Initial Public Offer of M/s Credit Analysis and Research Ltd. (CARE), the book running lead managers (BRLMs) M/s Kotak Mahindra Capital Company Ltd., M/s DSP Merrill Lynch Ltd., M/s Edelweiss Financial Services Ltd., ICICI Securities Ltd., M/s IDBI Capital Market Services Ltd. and M/s SBI Capital Market Services Ltd. had filed the Red Herring Prospectus (RHP) of CARE with SEBI on November 27, 2012 for an initial public offer of 7,199,700 equity shares of a face value of ₹ 10 each of the company through an offer for sale (the Offer). The Offer opened for subscription to public on December 7, 2012 and closed on December 11, 2012.

SEBI observed that CARE had received a letter dated September 26, 2012 from the Reserve Bank of India (RBI), in response to CARE's letter dated August 31, 2012 agreeing to exempt non-resident investors participating in the offer for sale from the requirement

of obtaining a no objection certificate (NoC) from their respective regulators in relation to their participation in the Offer, subject to certain conditions. One of the conditions stipulated by RBI while exempting non-resident investors participating in the Offer from obtaining NoCs from respective regulators was that minimum capitalisation norms applicable to non-banking financial companies (NBFCs) were strictly adhered to by CARE. SEBI observed that inadequate disclosures were made in CARE's RHP with respect to the conditional exemption granted by RBI vide the aforementioned letter. Hence, adjudication proceedings were initiated against the six BRLMs.

The adjudicating officer vide order dated November 28, 2014 imposed the maximum penalty prescribed under Section 15 HB of the SEBI Act: ₹ 1 crore on the BRLMs/noticeses viz. M/s Kotak Mahindra Capital Company Ltd., M/s DSP Merrill Lynch Ltd., M/s Edelweiss Financial Services Ltd., M/s ICICI Securities Ltd., M/s IDBI Capital Market Services Ltd. and M/s SBI Capital Market Services Ltd. (to be paid jointly and severally) for the violation of Clause 1 of Form C of Schedule VI of Regulation 8(2)(b), Regulation 57 (1), Regulation 57(2)(a)(ii) and Regulation 64(1) of ICDR Regulations and Regulation 13 of Merchant Bankers

Regulations read with Clauses 1, 4, 6, 7 and 20 of the Code of Conduct for Merchant Bankers as specified in Schedule III.

#### **B. Orders in the matter of M/s Alderbrooke Portfolio Management Services Pvt. Ltd.**

SEBI on receipt of a complaint came to know that a company, M/s Alderbrooke Portfolio Management Services Pvt. Ltd. (APMS) was offering financial products/services for individual/corporate clients with guaranteed returns. A preliminary examination of the matter revealed that APMS was not registered with SEBI in any capacity. APMS was a private limited company incorporated on March 3, 2010 and investors interested in availing the services of APMS were made to enter into a MoU with APMS, enabling it to manage their funds. Trading activities were carried out either through the trading account of APMS or through the individual account of the client. Having prima facie found that APMS was collecting funds and indulging in unauthorised portfolio management activities by entering into an agreement/MoU with the clients and managing their portfolios/funds without obtaining registration from SEBI, SEBI issued an ad interim ex-parte order dated December 20, 2013 (interim order) against APMS and its directors Mr. Jalpesh Kumar Amrutlal Makwana (Jalpesh Kumar) and Mr. Anand Kumar Kanubhai Ravat (Anand Kumar). Subsequent to the interim order and submissions by APMS, Jalpesh Kumar and Anand Kumar SEBI issued an order dated April 1, 2014 (final order) in which APMS, Jalpesh Kumar and Anand Kumar were directed to cease and desist from acting as an unregistered portfolio manager and not to solicit or undertake such activity or any other activities in the securities markets, directly or indirectly, in any manner whatsoever without proper authorisation/registration. In the said final order, APMS, Jalpesh Kumar and Anand Kumar were restrained from accessing the securities markets and further prohibited from buying, selling or dealing in the securities markets, either directly or indirectly or being associated with the securities markets in any manner whatsoever for a period of five years. In view of the seriousness of the violations, adjudication proceedings were also initiated. The adjudicating officer held

that APMS was carrying out its activity of portfolio management services without obtaining registration from SEBI. Therefore, APMS was held to have violated provisions of Section 12(1) of the SEBI Act, 1992 read with Regulation 3 of SEBI (Portfolio Managers) Regulations, 1993. Vide three separate orders dated September 24, 2014; a penalty of ₹ one crore each was imposed on APMS, Anand Kumar and Jalpesh Kumar.

#### **C. Adjudication Order in respect of M/s Reliance Industries Ltd.(RIL)**

Pursuant to the special resolution passed by the members of RIL on 12 April, 2007, RIL's board of directors allotted 12 crore warrants on a preferential basis exercisable into an equal number of equity shares of ₹ 10 each of RIL to the entities belonging to the promoter group of RIL. The said warrants were exercisable at any time during 18 months from the date of issue (12th April 2007) at an exercise price of ₹1,402 per share (exercise price). On 3 October, 2008, RIL's board of directors allotted 12 crore equity shares of ₹ 10 each to the allottees, upon exercise of warrants at the exercise price.

RIL in its quarterly financial results for the quarters ended June 2007 to September 2008 disclosed the basic earnings per share (EPS) and diluted earnings per share (DEPS) which were allegedly in violation of Section 23 A (a) Section 23 E of SCRA, 1956, hence adjudication proceedings were initiated. The adjudicating officer after due compliance of the procedure found that RIL should have disclosed separate figures for basic and DEPS in the quarterly financial statements for the aforesaid period and imposed a monetary penalty of ₹ 13 crore.

#### **D. Adjudication Order against M/s Varun Shipping Company Ltd. for non-redressal of investor grievances.**

M/s Varun Shipping Company Ltd. (VSCL) had not redressed 34 investor grievances pending on SCORES, out of which one investor grievance was pending against it for more than two years. The complaints were regarding non-payment of dividends by the company. During the adjudicating proceedings, VSCL undertook to resolve the pending complaints

regarding the non-receipt of dividend. Thereafter, VSCL deposited ₹ 4,66,58,106 in the dividend account for payment of dividend to non-promoter shareholders of the company to resolve the 32 investor grievances. VSCL also sent letters to the complainants of two complaints in response to their complaints seeking clarifications.

It was concluded by the adjudicating officer that VSCL had delayed taking steps to resolve the investor grievances and therefore had failed to redress their grievances within the stipulated time. The adjudicating officer passed an order on March 25, 2013 and levied a penalty of ₹ 5 lakh on VSCL for violation of Section 15C of the SEBI Act, 1992.

#### **E. Adjudication Order in the matter of M/s RDB Rasayans Ltd. against Mr. Mohib Noman Khericha and Mr. Manoj Kumar Ramrakhyani**

SEBI conducted an investigation of the IPO of M/s RDB Rasayans Ltd. (RDB) and its subsequent trading on and around the listing days as the RDB scrip witnessed wide fluctuations in price at BSE.

It was observed that RDB had failed to disclose in the prospectus the proposal and approval for passing on the IPO proceeds in the form of an inter-corporate loan to a group company. Further, RDB had not only violated the statements made in the prospectus but also mis-utilised the IPO proceeds by giving away the entire IPO proceeds as a loan to a group company. It was also alleged that a part of the IPO proceeds were routed in a circuitous manner by RDB to four trading clients in order to enable them to make payments to their stock brokers on time. Moreover it was alleged that Mr. Sandeep Baid being the whole time director for RDB chaired the audit committee meeting.

The adjudicating officer passed an order dated August 6, 2014 imposing a penalty of ₹3.05 crore on five entities/persons for violations of the provisions of Regulations 57 (1) and (2) (a) read with Schedule VIII Part A (16) (b) and Regulation 60 (4) (a) of ICDR Regulations, 2009 and Sections 12A (a), (b) and (c) of the SEBI Act, 1992 read with Regulations 3 (a), (b), (c), (d), 4 (1), 4 (2) (a), (d) and (e) of PFUTP Regulations, 2003 and Section 23H of SCRA, 1956.

#### **E. Adjudication Order against M/s Apollo Tyres Ltd. (ATL) in the matter of buyback shares of M/s Apollo Tyres Ltd. (ATL)**

SEBI received complaints wherein it was alleged that shares of M/s Apollo Tyres Ltd. (ATL) were bought back by ATL and its promoters in contravention of Section 77A of the Companies Act, 1956 and SEBI (Buyback of Securities) Regulations, 1998.

ATL was supposed to take out a public advertisement regarding buyback of shares before May 11, 2003 but the public notice was issued on May 13, 2003, hence ATL failed to comply with Regulation 19 (7) of the SEBI Buyback Regulations. It was further observed that in the said public notice, ATL had failed to disclose the pre- and post-shareholding pattern as specified under Regulation 19 (7) (v) of the SEBI Buyback Regulations. Hence the noticee has failed to comply with Regulation 19 (7) (v) of the SEBI Buyback Regulations.

The adjudicating officer passed an order dated July 9, 2014 imposing total penalty of ₹1.03 crore on ATL in terms of the provisions of Section 15HB of the SEBI Act, 1992.

#### **G. Order against Mr. Sendhaji J Thakor in the matter of M/s SEL Manufacturing Co. Ltd.**

SEBI conducted an investigation into the alleged irregularity in the trading of the shares of M/s SEL Manufacturing Co. Ltd. The investigating authority (IA) served summonses on the entity to appear before him and submit books of accounts/documents/reports/information/records. However, the entity neither appeared before the IA nor provided documents/information/records as sought during the investigation within the stipulated timeline, hence it had failed to comply with the same. The said non-appearance before IA and non-furnishing of the information/documents resulted in violation of the provisions of Section 11C(3) and Section 11C(5) of the SEBI Act, 1992. Adjudication proceedings were initiated. The entity neither replied to the SCN nor attended any of the personal hearings granted by the adjudicating officer in spite of service of the notices.

The adjudicating officer passed an order dated March 25, 2015 under Section 15A(a) of SEBI Act, 1992 imposing a penalty of ₹ 50 lakh on the entity for violation of Section 11C (3) and also a penalty of ₹ 50 lakh for violation of Section 11C (5) of the SEBI Act, 1992.

**Box 3.8: Review of Adjudicating Officer's Orders by the Whole Time Member pursuant to Securities Laws (Amendment) Act, 2014**

Section 15I (3) was inserted in the Securities and Exchange Board of India Act, 1992 vide notification dated March 28, 2014 which states 'The Board may call for and examine the record of any proceedings under this section and if it considers that the order passed by the adjudicating officer is erroneous to the extent it is not in the interests of securities markets, it may, after making or causing to be made such inquiry as it deems necessary, pass an order enhancing the quantum of penalty, if the circumstances of the case so justify.'

In the matter of Bharatiya Global Infomedia Ltd.'s IPO, adjudication proceedings were initiated inter-alia against Crosseas Capital Services P. Ltd., Adroit Financial Services Ltd. and AKG Securities and Consultancy Ltd. for executing self-trades. The adjudicating officer vide orders dated April 30, 2014 disposed of the proceedings without any monetary penalty.

The order of the adjudicating officer was reviewed and the Whole Time Member vide orders dated November 13, 2014 and January 13, 2015 levied monetary penalty of ₹ 5 lakh each against of them. Further, Crosseas Capital Services P. Ltd. and Adroit Financial Services Ltd. were also directed to review their own systems and take appropriate steps to ensure that self-trades and other categories of trades which are prohibited under SEBI Regulations/Guidelines are avoided and get their systems verified by the stock exchanges to their satisfaction.

**II. PROSECUTION****A. Trends in Prosecution****a. Number of Prosecutions started**

During 2014-15, 67 prosecution cases were started against 157 persons/entities as compared to 269 prosecution cases against 652 persons/entities in 2013-14 (Table 3.49).

**Table 3.49: Prosecutions Launched**

Year	No. of cases in which prosecution has been started	No. of persons/entities against whom prosecution has been started
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
<b>Total</b>	<b>1,586</b>	<b>6,511</b>

As on March 31, 2015, region-wise, the highest number of prosecutions were started in the head office/western region (970) followed by the northern region (347), eastern region (171) and southern region (98) (Table 3.50).

**Table 3.50: Region-wise Data on Prosecution Cases**

Region	Number of Cases	Percentage of Total	Number of Cases	Percentage of Total
	As on March 31, 2014		As on March 31, 2015	
Head Office/Western Region	906	59.7	970	61.2
Northern Region	347	22.8	347	21.9
Southern Region	96	6.3	98	6.2
Eastern Region	170	11.2	171	10.8
<b>Total</b>	<b>1,519</b>	<b>100</b>	<b>1,586</b>	<b>100</b>

**b. Nature of Prosecution**

Prosecutions have been launched by SEBI for violation of provisions of the SEBI Act, 1992, Companies Act, 1956, Depositories Act, 1996, SC(R) Act, 1956 and the Indian Penal Code. As on March 31, 2015, 1,586 prosecution cases had been launched. (Table 3.51)

**Table 3.51: Nature of Prosecutions Launched as on March 31, 2015**

Nature of Prosecution Launched	Number of Cases
1	2
SEBI Act, 1992 (SEBI Act)	1,366
SEBI Act & SCRA, 1956	94
SEBI Act, SCRA, 1956 & Companies Act	2
SEBI Act & Companies Act	3
SEBI Act & Indian Penal Code	5
Companies Act, 1956	72
SCRA, 1956	7
Depositories Act, 1996	29
Indian Penal Code	8
<b>Total</b>	<b>1,586</b>

**c. Disposal of Prosecution Cases**

SEBI has launched prosecution for violations of provisions of the SEBI Act, 1992, Companies Act, 1956, Depositories Act, 1996, SC(R) Act, 1956 and the Indian Penal Code. These may be broadly classified as CIS entities and non-CIS entities. As on March 31, 2015, the courts had disposed 283 prosecution cases filed by SEBI, out of which 189 cases pertained to CIS entities and 94 prosecution cases pertained to non-CIS entities.. Further, out of 283 prosecution cases decided by the courts, 163 cases resulted in convictions and 62 cases were fully compounded (Table 3.52).

**Table 3.52: Number of Prosecution Cases decided by the Courts as on March 31, 2015**

Type of Decision by the Courts	CIS	Non-CIS	Total
1	2	3	4
Convictions	153	10	163
Compounded (fully)	8	54	62
Abated	0	4	4
Dismissed/Discharged	26	24	50
Withdrawn	2	2	4
<b>Total</b>	<b>189</b>	<b>94</b>	<b>283</b>

**B. Significant Court Pronouncements in Prosecution cases in 2014-15**

**SEBI vs. M/s Timberworld Resorts & Plantations India Ltd. & Ors. - Before Ld. Additional Sessions Judge, Tis Hazari Courts, Delhi**

A complaint was lodged for violation of the provisions of Section 12 (1B) of the SEBI Act and Regulations 5 (1), 68(1), 68(2), 73 and 74 of SEBI (CIS) Regulations wherein it was alleged that M/s Timberworld Resorts & Plantations India Ltd. (accused company) had floated collective investment schemes (CIS) and raised an amount of approximately ₹ 22 crore from the general public in violation of the provisions of the SEBI Act and SEBI (CIS) Regulations.

The accused raised a common contention that the present criminal complaint was bad due to lack of jurisdiction because as per the Securities Law (Amendment) Ordinance 2013, all the offences were exclusively triable by the special court and where the special court had not been constituted, the offences shall be triable by the court of sessions. It was contended that since all evidence was recorded by the court of the learned ACMM, the proceedings conducted by learned ACMM were void ab-initio. It was contended that the matter required a fresh trial.

The court held that from perusal of Section 26B of the SEBI Act which was inserted by way of Amendment Act 27 of 2014, it became clear that all the offences whether committed prior to the commencement of the Amendment Act or after the date of its commencement,

shall be triable by the special court, that is court of sessions. Thus, by virtue of Section 26B of the SEBI Act, all SEBI cases whether instituted prior to the enactment of Amendment Act 27 of 2014 or thereafter become triable by the court of sessions. Accordingly, this case was transferred to this court.

Mr. Sanjeev Sood, Accused No.3 admitted that he was one of the directors of accused company but took the plea that he had resigned from the directorship in February 1995 and denied all other incriminating evidence led by SEBI.

The Hon'ble court held that the resignation letter was on non-judicial stamp paper and bore the date February 24, 1995 below the signature of accused Mr. Sanjeev Sood. This meant that he had tendered his resignation on February 24, 1995 whereas the counsel had contended that accused No.3 ceased to be a director w.e.f. March 24, 1995. At the left side of the said letter, the word 'accepted' and below the said word 'accepted', 'R. Sud' were written. But this resignation letter nowhere bore the seal of the company accused or the designation seal of Rajesh Sud (Managing Director). Even the date of acceptance of said resignation letter was not mentioned. Perusal of the resignation letter further revealed that the same was not even addressed to anyone; rather it was in the form of a declaration. From the resignation letter it became clear that it neither bore the seal of the accused company nor the seal of the MD of the company. It even did not have the date when it was accepted. Nor was it addressed either to the company or to the MD of the company or to the board of directors. As already stated that a director

can be removed only by way of passing an ordinary resolution but during the trial no such evidence was produced before the court that any such resolution was ever passed.

In these circumstances, the Hon'ble court was of opinion that no reliance could be placed on the resignation letter. In other words, accused No. 3 failed to establish that he had ceased to be a director.

In view of the aforesaid discussion, the Hon'ble court sentenced accused No. 2 Ashwani Sud and accused No.3 Sanjeev Sood to rigorous imprisonment for a period of one year and a fine of ₹ 5 crore each in default further three months simple imprisonment for the offence punishable under Section 24(1) of SEBI Act. A fine of ₹ 15 crore was imposed on accused No.1 M/s Timber World Resort & Plantation (I) Ltd.

### III. LITIGATIONS, APPEALS AND COURT PRONOUNCEMENTS

#### A. Litigations and Appeals

During 2014-15, 237 cases were filed in different courts, 131 cases were disposed, cumulative 856 cases are pending where SEBI is a party (Tables 3.53 and 3.54). While 56 cases filed belonged to the miscellaneous category, 22 cases related to investor complaints and 63 cases pertained to CIS. Of the 131 cases disposed, 47 pertained to CIS, 35 were miscellaneous and 16 related to investor complaints. As on March 31, 2015, the highest number of cases were pending in the miscellaneous category followed by investor complaint cases, CIS matters and cases related to issue and listing.

**Table 3.53: Status of Court Cases where SEBI was a Party (Subject matter)**

Subject	Filed during 2014-15	Disposed during 2014-15	Pending as on March 31, 2015
Issue and Listing	60	11	112
Takeover	12	6	20
Secondary Market	2	2	37
Mutual Fund	1	0	5
Collective Investment Schemes	63	47	178
Surveillance & Investigations	8	8	37
Stock Broker Registration Fee	1	0	47
Depository Participants	1	2	2
Intermediaries	10	4	17
Cases relating to Investor Complaints	22	16	169
Right to Information	1	0	6
General Services Department	0	0	8
Miscellaneous	56	35	218
Total	237	131	856

Note: Table includes all the cases pending before any judicial/quasi-judicial forum pertaining to respective subject matters excluding the statutory appeals filed before SAT, the Hon'ble HC and the Hon'ble SC under SEBI Act/SCRA/Depositories Act.

During 2014-15, of the 229 cases filed across various judicial forums, 163 cases were filed in the High Court, followed by 23 in BIFR/AAIFR and 17 in the Supreme Court. The cases disposed at various high courts were the highest at 83 and that in the Supreme Court and consumer forums were 20 and 10 respectively. As on March 31, 2015, 856 cases were pending at different stages in the judicial fora with the

highest number of pending cases in the high courts (546) followed by consumer forums (95). During 2014-15, 520 appeals were filed before the Securities Appellate Tribunal (SAT), whereas 103 appeals were dismissed and as on March 31, 2015, 381 appeals were pending. During 2014-15, 16 SEBI orders were upheld with changes. (Table 3.55 and 3.56 and Chart 3.12)

**Table 3.54: Status of Court Cases where SEBI was a Party (Judicial Forum)**

Subject	Filed during 2014-15	Disposed during 2014-15	Pending as on March 31, 2015
Supreme Court	17	20	52
High Court	163	83	546
Civil Courts	6	1	63
Criminal Courts	8	8	6
Consumer Forums	7	10	95
Company Law Board	3	3	13
Central Information Commission	0	0	0
BIFR/AAIFR	23	9	68
Labour Commissioner/Labour Court	1	0	11
Municipal/Local Bodies	0	0	0
Green Tribunal	0	0	1
Registrar of Companies	1	0	1
<b>Total</b>	<b>229</b>	<b>134</b>	<b>856</b>

Note: Statutory appeals filed before the Hon'ble SAT, High Court and Supreme Court not included.

**Table 3.55: Status of Appeals before the Securities Appellate Tribunal**

Status of Appeals	Number of Appeals
Appeals Pending as on March 31, 2014	66
Appeals filed during 2014-15	520
Appeals Dismissed	103
Appeals Remanded	36
Appeals Allowed	18
SEBI Orders upheld with modifications	16
Appeals Withdrawn	32
Appeals Pending as on March 31, 2015	381

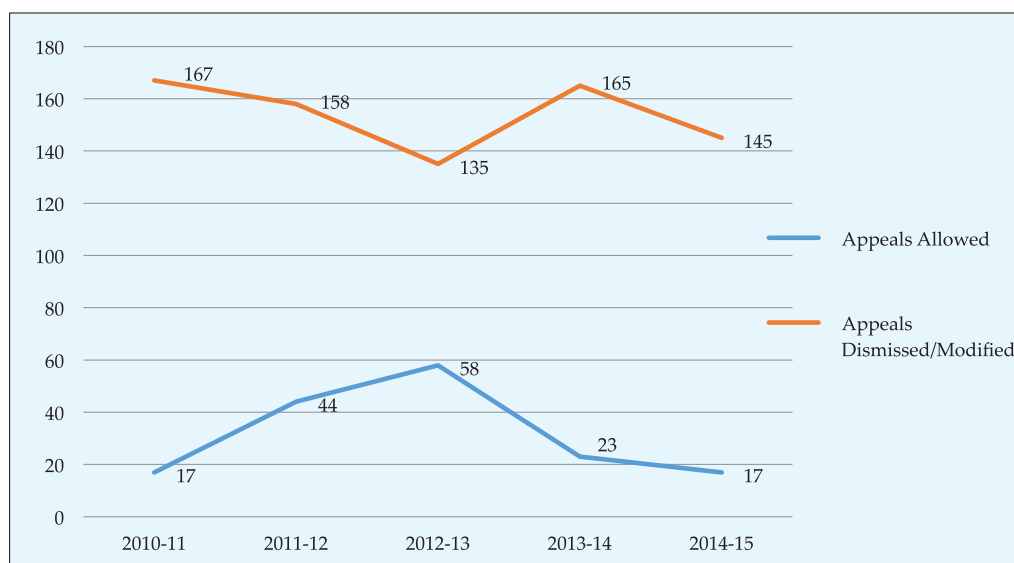
The success rate in Securities Appellate Tribunal for 2014-15 stood at 90 percent compared to 88 percent in 2013-14.

**Table 3.56: Success Rate in Securities Appellate Tribunal**

Year	Appeals allowed	Appeals dismissed/modified	Total Disposal	Success Rate* (percent)
2011-12	44	158	202	78
2012-13	58	135	193	70
2013-14	23	165	188	88
2014-15	17	145	162	90

Note: \* Appeals remanded are not considered for calculation of Success Rate

**Chart 3.12 : Trends in SAT Appeals**



Against SAT's orders, five appeals were filed by SEBI, whereas 31 appeals were filed against SEBI in the Supreme Court during 2014-15 under Section 15Z of the SEBI Act. Nine appeals were disposed where the appeals were filed by SEBI and 25 appeals were disposed where the appeals were filed against SEBI (Table 3.57).

**Table 3.57: Status of Appeals before the Hon'ble Supreme Court**

Subject Matter	Appeals Pending as on March 31, 2014	Appeals filed during 2014-15	Appeals Disposed	Appeals Pending as on March 31, 2015
Appeals filed by SEBI	86	5	9	82
Appeals filed against SEBI	84	31	25	90
<b>Total</b>	<b>170</b>	<b>36</b>	<b>34</b>	<b>172</b>

During 2014-15, no appeal has been filed in the High Court. Further, one appeal was disposed off and 13 are pending as on March 31, 2015. (Table 3.58)

**Table 3.58: Status of Appeals before the Hon'ble High Court**

Subject Matter	Appeals Pending as on March 31, 2014	Appeals filed during 2014-15	Appeals Disposed	Appeals Pending as on March 31, 2015
Appeals filed by SEBI	5	0	0	5
Appeals filed against SEBI	9	0	1	8
<b>Total</b>	<b>14</b>	<b>0</b>	<b>1</b>	<b>13</b>

## B. SIGNIFICANT COURT PRONOUNCEMENTS

### a. SUPREME COURT OF INDIA

#### i. SEBI vs. Akshya Infrastructure Pvt. Ltd.

The issue of law before the Hon'ble Supreme Court was whether 'an open offer voluntarily made through a public announcement for purchase of shares of the target company can be permitted to be withdrawn at a time when the voluntary open offer has become uneconomical to be performed,' which it answered in the negative.

M/s Akshya Infrastructure Pvt. Ltd., which is part of the promoter group of M/s MARG Ltd. (the target company), made certain acquisitions of further shares in the target between 2006 and 2011 that caused it to breach the creeping acquisition limits under the SEBI (SAST) Regulations, 1997 (the Takeover Regulations). Subsequently, on October 20, 2011 Akshya made a voluntary open offer under Regulation 11 of the Takeover Regulations at a price of ₹ 91 per share, which represented a 10 percent premium over the prescribed floor price. Upon making

the public announcement, Akshya filed the draft public offer document with SEBI for its comments. There was an exchange of correspondence between SEBI and Akshya that primarily related to Akshya's prior trigger of the mandatory offer requirements due to its breach of the creeping acquisition limits. Due to this, there had been a delay of 13 months in SEBI's clearance of the offer documents. After SEBI conveyed its comments on November 30, 2012, Akshya challenged them before SAT, including on the ground that the delay in SEBI's response rendered the offer unviable and academic. By its order, SAT allowed Akshya's appeal and allowed it to withdraw the open offer and the escrow amount deposited in support thereof.

On appeal by SEBI, the Supreme Court reversed SAT's order and disallowed Akshya from withdrawing its open offer, thereby once again upholding the sanctity of an open offer made under the Takeover Regulations. The Supreme Court relied extensively on the ruling in *M/s Nirma Industries* to interpret Reg. 27 again limiting the circumstances in which an open offer, once made, can be withdrawn.

**ii. M/s Discovery Wealth Management Services Pvt. Ltd. & Ors. vs. M/s Padmini Engineering Pvt. Ltd. & Ors**

*M/s Hella India*, a public limited company had shares listed at BSE and the Delhi Stock Exchange (DSE) pursuant to a Listing Agreement dated October 17, 1986. The promoter of Hella India held 51 percent of its share capital. In July 2005, Hella India decided to have its shares delisted from both the stock exchanges in accordance with the provisions contained in the SEBI (Delisting of Securities) Guidelines, 2003 (the guidelines). In January, 2006, a voluntary offer was made to public shareholders to acquire their shares as per the guidelines. The offer was made by a public announcement through *M/s Padmini Engineering Pvt. Ltd.* (respondent No. 1), which is an affiliated entity of the promoter of Hella India.

The promoter of Hella India determined the floor price of ₹ 52.39 per share, which later turned out to be the exit price for delisting of securities in accordance with the book building process prescribed by the guidelines. Pursuant to the exercise, the quantity of shares accepted by the said respondent together with the holding of the promoters came to 81.37 percent

of the total equity share capital of Hella India, as a consequence of which, the level of public shareholding in Hella India was brought down to 18.63 percent.

After accepting the shares at the price aforesaid, respondent No. 1 through merchant banker UTI Securities approached the BSE by a letter dated February 15, 2006 for completing the settlement of transactions and permission was sought to release advertisements regarding the final price as discovered by the reverse book building process. BSE declined to proceed with the merchant banker by a communication dated February 15, 2006. Vide the said communication, it was informed that the threshold limit for delisting on the exchange would be triggered only if the acquirers' holdings together with promoters' holdings exceeded 90 percent.

Being aggrieved by the aforesaid communication, respondent No. 1 preferred the appeal before SAT. SAT referred to Section 30 of the SCRA, 1956, Rule 19 (2) (b) of the SCRR, 1957, which was substituted w.e.f. June 7, 2001. While allowing the appeal, SAT proceeded on the presumption that there was no clause w.r.t. maintaining of minimum continuous public shareholding in the Listing Agreement.

Being aggrieved by the SAT order an appeal was preferred by the appellant, who was one of the shareholder though it was not before SAT preferred appeal before Supreme Court. The issue before the Supreme Court was whether the company, Hella India, was required to maintain a 10 percent benchmark for public shareholding to remain a listed company. The Supreme Court while dismissing the appeal inter-alia held as follows:

- Clause 8.8 of the 2003 Guidelines stipulates that required level of public shareholding must fall below the level of continuous listing. Clause 12.1 of the 2003 Guidelines states that the offer of delisting would fail if the public shareholding does not fall below the minimum limit specified by the listing conditions or the Listing Agreement. It is quite clear that the 2003 Guidelines do not prescribe or fix the required level of public shareholding of continuous listing though the said limit must be breached for an offer of delisting to succeed. It is condign to note that Clause 12.1 refers to the minimum limit specified by the

Listing condition or the Listing Agreement. Since the amended rule 19(2) (b) read with Listing Agreement require a listed company to maintain minimum public shareholding at the level of public shareholding required at the time of initial listing which is 25 percent in the matter. Hence, it would not be proper to hold that company M/s Hella India was required to maintain 10 percent benchmark to remain listed.

- The opening words of sub-rule (2) of Rule 19 gives primacy to the terms and conditions as may be laid down by the recognised stock exchange and the company in question must satisfy the condition imposed by the stock exchange in that regard.

## **ii. BSE vs. Kandalgaonkar & Ors.**

The matter was filed against the order dated March 27, 2003 passed by Hon'ble High Court of Bombay (the High Court). The matter arose as a result of a member of a stock exchange being declared a defaulter. The income tax department claimed that it had priority over all debts owed by the defaulter member, whereas the stock exchange, Bombay claimed otherwise.

The High Court held that the assets deposited (securities and cash) by the member at the time of granting membership were attachable and recoverable under provisions of Section 226(3)(i)(x) read with Rule 26(1)(a)(c) of Schedule II to the Income Tax Act. Government dues had priority over the exchange's dues as per Section 73(3) of Civil Procedure Code. The High Court further held that a defaulting member had no interest in a membership card and that the IT department was not right in attaching the sale proceeds of such card, still money which was likely to come in the hands of the garnishee, that is, the exchange for and on behalf of the assessee was attachable because the requisite condition was the subsistence of an ascertained debt in the hands of the garnishee which was due to the assessee.

The Hon'ble Supreme Court allowed the appeal. The important findings of the Hon'ble Supreme Court are:

- The proceeds of the broker membership card, which has been auctioned cannot be paid to the income tax department for the dues of the

member as such member at no point owns any property capable of attachments.

- The exchange is a secured creditor and has precedence over the income tax department.
- The rules made by stock exchanges in exercise of power conferred by SCRA, 1956 are equally rules and therefore subordinate legislation. The lien spoken of by Rule 43 is a lien, conferred by rules under a statute.
- Rules made under Section 7-A, 8 or 30 of SCRA are statutory in nature.
- The Income Tax Act does not provide for any paramountcy of dues by way of income tax.
- The stock exchange being a secured creditor, would have priority over government dues.

## **iv. M/s Alchemist Infra Reality Ltd. & Anrvs. SEBI; M/s Alchemist Infra Reality Ltd. & Anrvs. SEBI; and Mr. P. Nanda Kumar vs. SEBI**

SEBI passed an order dated June 21, 2013 inter-alia restraining M/s Alchemist Infra Reality Ltd. (the company) from collecting money from investors or launching or carrying on any scheme which had been identified as a collective investment scheme in the said order. The said order also directed the company and its directors to wind up the collective investment schemes and refund the money collected under the schemes with the returns due to its investors within a period of three months from the date of the said order. The company applied for consent, which was returned. The rejection of consent application was also challenged before the Hon'ble SAT by the company along with the order dated June 21, 2013. The Hon'ble SAT disposed of both the appeals and upheld the finding of SEBI. However, a timeframe of 18 months was given to the company to wind up its schemes and file half yearly reports to SEBI.

The order of the Hon'ble SAT has been challenged before the Hon'ble Supreme Court of India by way of captioned appeals. However, the appeals were dismissed as withdrawn vide order dated September 5, 2014.

## **v. M/s I.P. Holding Asia Singapore Pvt. Ltd. & Anr. vs. SEBI**

The matter was filed assailing the order dated September 12, 2014 of the Hon'ble SAT. SEBI had directed the appellants who were the acquirers of M/s

Andhra Pradesh Paper Mills Ltd., to revise the offer price by adding ₹ 130.73, paid as non-compete fees to the sellers in excess of the price which is to be paid to all public shareholders. The said letter was challenged before the Hon'ble SAT. However, the said appeal was dismissed by the Hon'ble SAT. Aggrieved by this, the appeal was filed under Section 15 Z of the SEBI Act, 1992.

The Hon'ble Supreme Court while allowing the appeal vide its order dated August 20, 2014 observed the following:

- Jurisdiction of SAT is triggered only when the non-compete fee is in excess of 25 percent of the offer price.
- Ordinarily when there is a gap of 25 percent between consideration paid to outgoing promoters and non-compete fee, SEBI ought not to conduct any inquiry. However, if it appears to SEBI that the difference between the offer price and the non-compete fee is less than 25 percent but that is nevertheless a disguise or a camouflage for reducing the cost of acquisition through a public offer, then SEBI can certainly delve further into the matter.
- If the non-compete fee is less than 25 percent of the offer price, the jurisdiction of SEBI would be exercisable only in an extremely rare case and only if SEBI was in a position to ex-facie conclude that the transaction involving the takeover of the target company was not bona fide.
- The threat perception of giving competition in future cannot be decided on the basis of SEBI's hindsight (unless the perception is found to be perverse) but must be left to the commercial wisdom of the players on the field.

**vi. M/s React Investment & Financial Pvt. Ltd. vs. SEBI; M/s Seed Securities & Services Pvt. Ltd. vs. SEBI; M/s Epitome Holdings Pvt. Ltd. vs. SEBI; Liquid Holdings Pvt. Ltd. vs. SEBI; Scope Credit & Financial vs. SEBI**

The appellant companies were promoter/promoter group of M/s Blue Coast Hotels and Resorts Ltd. (the company). Shares of the company were pledged by the appellant companies with two banks. The bank invoked the pledge and the shares kept as

collateral for the loan were transferred to the banks' demat account. Pursuant thereto, the companies entered into communication with the banks and as result of a settlement, the shares of the company were transferred back by the banks to the demat account of the appellants, resulting in triggering provision of SEBI (SAST) Regulations 1999 (Takeover Code).

Accordingly, adjudication proceedings were initiated. After compliance of the due procedure, the adjudicating officer (AO) imposed a penalty of ₹ 3 lakh each on the appellants for violation of provisions of the Takeover Code. The Hon'ble SAT dismissed the appeal filed challenging the order passed by the AO. The appellants preferred appeals before the Hon'ble Supreme Court of India against the order dated March 11, 2013 passed by the Hon'ble SAT, which came to be dismissed by the Hon'ble Supreme Court of India vide order dated September 10, 2014 observing that there were no merits in the appeal. Hence, the order passed by the AO was upheld and attained finality.

**vii. M/s Rose Valley Hotels and Entertainment Ltd.**

SEBI issued an interim order cum show cause notice dated July 10, 2013, against the company for prima facie violation of the SEBI Act and the SEBI (CIS) Regulations, 1999. The company challenged the said order before the Hon'ble Gauhati High Court by filing a writ petition no. 4298 of 2013. The Hon'ble Gauhati High Court vide an ex-parte order dated August 1, 2013, imposed a stay on the said order of SEBI. The said stay is in continuance till date. An SLP (3725 of 2014) was filed before the Hon'ble Supreme Court seeking directions for the High Court to dispose of the writ petition or to vacate the interim order. The Hon'ble Supreme Court vide order dated April 15, 2014 while dismissing the SLP requested the Gauhati High Court to expeditiously dispose the matter. Despite the said order of the Hon'ble Supreme Court, the hearing in the matter was being adjourned by the Hon'ble Gauhati High Court on some ground or the other.

Another SLP (34105 of 2014) was filed before the Hon'ble Supreme Court to appraise the Hon'ble court about this and to seek a direction for expeditious disposal of the matter by the Hon'ble High Court. Vide order dated January 6, 2015 the Hon'ble Supreme Court directed the Hon'ble High Court to dispose the

writ petition within a period of two months from the date of communication of the order to the Hon'ble High Court.

**viii. M/s Videocon International Limited vs. SEBI**

The appellant had filed an appeal before the Hon'ble Supreme Court against the common order dated October 13, 2003, passed by the Hon'ble Bombay High Court in the following appeals:

- i. SEBI vs. M/s Sterlite Industries (India) and Anr. (SEBI Appeal No. 1/2002)
- ii. SEBI vs. M/s Videocon International Ltd. and Anr. (SEBI Appeal No. 9/2002)
- iii. Mr. Pravin Kumar Tayal vs. Mr. Ram Prasad Somani and Ors. (SEBI Appeal No. 10/2002)
- iv. SEBI vs. Mr. Roopam Sharma (SEBI Appeal No. 1/2003)

In terms of the said order, the abovementioned appeal nos. 1/2002 and 9/2002 were held to be maintainable as they were filed prior to coming into force of the amendment (October 29, 2002) to Section 15Z of the SEBI Act. However, with regard to appeal nos. 10/2002 and 1/2003, the Hon'ble High Court observed that the same were not maintainable as they were filed after the coming into force of the amendment. Subsequently, appeal no. 10/2002 was dismissed as not maintainable and 1/2003 was allowed to be withdrawn for being presented in the Hon'ble Supreme Court.

While deciding on the appeal, the Hon'ble Supreme Court decided on the following questions:

- i) Whether an order passed by SAT before October 29, 2002 would be appealable under the unamended provision of Section 15Z of the SEBI Act before the Hon'ble High Court or alternatively, whether the same would be appealable under the amended provision of Section 15Z of the SEBI Act before the Supreme Court?
- ii) Whether the date on which SEBI had preferred the appeals, was a relevant consideration in the facts and circumstances of the present case.

On the first question, the Hon'ble Supreme Court observed that the amended Section 15Z, while altering the appellate forum from the High Court to the Supreme

Court, curtailed and restricted the scope of the appeal against an order passed by SAT, by expressing that the remedy could be availed of '...on any question of law arising out of such order.' Further, the court observed that '...the amendment to Section 15Z of the SEBI Act, having reduced the appellate package, adversely affected the appellate right vested of the concerned litigant. The right of appeal being a vested right, the appellate package, as was available at the commencement of the proceedings, would continue to vest in the parties engaged in a lis, till the eventual culmination of the proceedings. Obviously, that would be subject to an amendment expressly or impliedly, providing to the contrary. Section 32 of the SEBI (Amendment) Act, 2002, which has been extracted in paragraph 12 hereinabove reveals, that the "repeal and saving" clause, neither expressly nor impliedly, so provides.' Therefore, it concluded that appellate remedy available to the respondent prior to the amendment must continue to be available despite the amendment and accordingly, all the appeals preferred by SEBI before the High Court were maintainable in law.

On the second question, the Hon'ble Supreme Court observed that '...neither the date of filing of the second appeal, nor the date of hearing thereof, is of any relevance. Legal pursuit of a remedy, suit, appeal and second appeal, are steps in a singular proceeding. All these steps are deemingly connected by an intrinsic unity, which are treated as one singular proceeding. Therefore, the relevant date when the appellate remedy (including the second appellate remedy) becomes vested in the parties to the lis, is the date when the dispute/lis is initiated.' Therefore, it was held that in the appellant's matter, the order was passed by SAT well before the amendment and hence, the dispute between the parties, out of which the second appellate remedy was available, came to be initiated before the amendment.

It was contended by the appellant that in the absence of a saving clause, the pending proceedings (and the jurisdiction of the High Court), cannot be deemed to have been saved. While rejecting the contention of the appellant, the court observed that a law which brought about a change in the forum would not affect pending actions unless the intention was clearly shown. It held that since the amending provision herein does not so envisage it had to be

concluded that the pending appeals (before the amendment of Section 15Z) would not be affected in any manner.

**ix. Mr. Subrata Roy vs. UoI and Ors**

The petitioner impugned the order dated March 4, 2014 passed in contempt proceedings initiated by SEBI, directing that the petitioner be held in judicial custody to ensure compliance of its earlier order dated August 31, 2012 passed against the Sahara.

The court held as follows:

That there was no merit in the contention that the judges should recuse themselves from the hearing of this case and that calculated psychological offensives and mind games adopted to seek recusal of judges needed to be strongly repulsed. While deprecating such tactics the bench recommended a similar approach to other courts when they experience such behaviour.

In support of the principle that imprisonment under contempt jurisdiction can be a mode for compliance of its orders, the court relied upon its order in the Mr. Maninderjit Singh Bitta vs. UoI case and noted that this principle has been applied in the United States and Australia as well.

The court noted that the two companies of which the petitioner was a promoter, flouted orders passed by SEBI, SAT, the High Court and the Supreme Court, with impunity. Facts and information solicited were never disclosed. The position adopted by the two companies was always projected on the basis of unverifiable material. The court referred to its order dated August 31, 2012 in which it was recorded that the factual assertions made on behalf of the two companies seemed to be totally unrealistic and could well be fictitious, concocted and made up, and that the affairs of the two companies seemed to be doubtful, dubious and questionable. It noted that this position had remained unaltered since no authentic and verifiable material sought had ever been furnished by the two companies which remained adamant while frittering away repeated opportunities granted by this court to comply with the orders dated August 31, 2012 and December 5, 2012 and instead adopted a demeanour of defiance constituting rebellious behaviour not amenable to the rule of law.

It noted that after the order dated August 31, 2012, the bench had heard the contempt applications

etc. on approximately 36 occasions, issued a notice on February 6, 2013 and dispensed with the personal appearance of the petitioner, but Sahara abused the judicial process by approaching SAT and the Lucknow Bench for relief, which were subsequently transferred to it. The attempt to furnish properties as security could only have been with the petitioner's express approval and the stance now adopted showed that the petitioner was in absolute charge of all the affairs of the companies and nothing could move without his active involvement. In the affairs of the Sahara Group, Mr. Subrata Roy Sahara was the only person who mattered and therefore the other individual directors, may hardly have any say in the matter. In view of the rejection of the defence of alleged redemption by the full bench headed by the CJI vide its order dated December 5, 2012, it was not permissible in law for the Sahara to raise the defence. However, to ensure that no injustice was done the court permitted them to substantiate the factum of redemption. Yet, no material worth the name was ever produced before the court to establish the defence of redemption. The two companies had not been able to pay anything for the last one and a half years from the court's order dated December 5, 2012, whereas in a period of three/four months, SIRECL claimed to have unilaterally refunded ₹ 17,443 crore and SHICL claimed to have on its own redeemed ₹ 5,442 crore, to their investors and that if the money could be easily collected and disbursed to the investors then why not now?

The court referred to Section 51 of the Code of Civil Procedure, 1908, which expressly contemplates arrest and detention for the enforcement of a money decree by the executing court and that Sections 125-128 of the Code of Criminal Procedure, 1973, envisage arrest and detention as a mean for enforcing financial liability to discount the argument of the petitioner that execution of a money decree or enforcement of a financial liability by way of arrest and detention was a procedure unknown to law. The court also noted that arrest and detention were only to coerce compliance and that the liability to pay would stand discharged only by actual payment of the amount due. Remaining in jail would not discharge the liability to pay.

The court noted that SEBI had filed interlocutory application nos. 68 and 69 of 2013 in Civil Appeal no. 9813 of 2011, inter-alia, seeking the arrest and

detention of the petitioner and two other contemnors and deposit of the contemnors' passports. The court noted that the petitioner filed a personal reply by way of an affidavit in which all possible legal and factual defences were raised. Different orders were passed from time to time in furtherance of the prayers made in the aforementioned interlocutory applications, including the order preventing the petitioner (and the other contemnors) from leaving the country, as also an order restraining the two companies from parting with any movable or immovable property in view of the false evaluation report and the order of the Bombay High Court depicting the main properties to be in a 'no development zone', where no construction was possible. A number of opportunities of hearing were given to prove the source of alleged redemptions and to furnish the required bank statements in view of their averments in SAT appeals 48-49/13 in which they had placed reliance upon the bank accounts of Sahara India. Finding the attitude of the contemnors defiant and non-cooperative, the petitioner, was directed to be present on February 26, 2014, but he did not make a personal appearance. His personal presence was enforced through non-bailable warrants on March 4, 2014. During the course of their personal presence in court, the petitioner and the other contemnors were afforded an opportunity of oral hearing. Hence, the impugned order was passed after following the rules of natural justice and affording the petitioner an opportunity of hearing.

The court noted that all along, most ridiculous and absurd defences were raised. It was even contended that the earlier position adopted by the two companies in the two appeals was the result of a typographical error which was done to avoid furnishing the information sought and perhaps there was no information to supply. The court noted that the order dated August 31, 2012 read with the order dated December 5, 2012 was final and binding and no proceedings were pending before this court either at the hands of the two companies or the petitioner herein, for their reconsideration on merits and that the court had neither the jurisdiction nor the authority to relax the terms and the court would be committing contempt if it were to, on its own, interfere with these directions. As a matter of fact, it is not open to the court, to relax the order dated December 5, 2012, which was passed by a three-judge division bench,

requiring the contemnors to deposit the first instalment of ₹ 10,000 crore, in the first week of January 2013. The court further noted that as of now the amount payable in furtherance of the directions issued by this court (on August 31, 2012 and December 5, 2012), had swelled up to ₹ 36,608 crore.

The defence raised by the petitioner that the two companies had already substantially redeemed the OFCDs, was examined under two different perspectives. Firstly, the above defence was unavailable to the two companies in law, after the same was rejected on December 5, 2012 by a three-judge division bench. Secondly, the said defence had been examined from various factual perspectives and had been found to be untenable. Sole reliance on general ledger entries without any other authentication had been held to be insufficient proof of the refunds claimed to have been made by the two companies to the investors, especially because such cash redemptions had not been affirmed in the certificates dated January 31, 2014 issued by a firm of chartered accountants, which had audited the accounts of the two companies. The firm of chartered accountants, therefore, did not choose to confirm the redemption of OFCDs made by way of cash. This action must be deemed to be conscious, otherwise it was not necessary even to confirm the redemptions made by way of cheque. The court observed that either the submissions made to the court on the subject of refunds made by the two companies were false or the present projection of the two companies of their inability to pay the investors was false considering they had collected monies from other group concerns and redeemed almost ₹ 15,500 crore on a single day. The court noted that its interim order dated January 9, 2012 stayed only the direction to refund contained in the order of WTM dated June 23, 2011 but did not vary the manner of making the refunds. Since WTM had clearly directed that such repayment could only be made 'in cash through demand draft or pay order', hence cash conversion in any other format was not permitted.

The court pointed out that the very submission now made by the companies that the investors were refunded their deposits by way of cash, was another tactic in a series of manoeuvres, adopted by the two companies to defeat the process of law. Only one bond of SIRECL was redeemable before the year

2013 and that too, only to the extent of ₹ 351 crore. No company can unilaterally redeem debentures before the prescribed period and hence the theory of redemption propounded by the two companies was in clear violation of law. The court noted that SEBI had pointed out that Sahara did not furnish the details of the source of funds of the alleged repayment sought by it. The court observed that the audacity and the fearlessness of the two companies was apparent from the reason expressed to the court for not furnishing this information. The court was informed that it had not passed any express direction to the companies to furnish the information. Therefore the companies were not obliged to provide the information to SEBI. The court observed that ordinarily, an honest person would immediately provide the information sought to obviate any adverse impression. Moreover, SEBI had not only the authority, but also every reason to seek the said information. Even after the court vide its order dated January 9, 2014 directed that bank account details be furnished, the position remained the same. The two companies never provided any authentic information. SEBI, SAT and the Supreme Court, were required to accept the factum of redemption just because the companies were asserting the factum of redemption.

The court noted the divergent views of the counsels of the petitioners: (i) the petition was maintainable under the maxim of *ex debito justitiae* (in the interest of justice), and not under any article of the Constitution, (ii) the petition was maintainable under Article 32 of the Constitution (writ jurisdiction for violation of fundamental rights), and (iii) the petition was maintainable under Article 129 (Supreme Court's power to punish for contempt) r/w Article 142 (power of the Supreme Court to do complete justice in the matter).

The court held that as a 'superior court', no matter could be held to be beyond the jurisdiction of the Supreme Court. Since this was not the case of the petitioner that some legislative or constitutional provision had curtailed the jurisdiction of this court from passing an order of the nature which is impugned through this criminal writ petition, there can be no doubt that the order sending the petitioner to judicial detention had been passed by this court in legitimate exercise of its jurisdiction. The court further noted that the principles of natural justice had been followed to

the hilt in the present matter and hence prejudice to the petitioner by reason of the judicial order was not made out and hence the principle of *ex debito justitiae* could not be invoked. The court further held that it is well settled that a writ petition under Article 32 r/w Article 21 is not maintainable against the order of imprisonment passed by a court of competent jurisdiction. The court further rejected the argument that the petition was maintainable under Article 129 r/w 142 as inherent powers could have only been invoked by way of a curative petition. Since the petitioner had placed reliance on the aforesaid judgment, the court held that the petitioner was aware of the jurisdiction of this court under Article 137 of the Constitution of India for filing a review petition, as also the permissibility of filing a curative petition after the concerned party had not succeeded in the review petition. Unfortunately, the petitioner had not chosen either of the jurisdictions. The instant petition had been styled as a criminal writ petition. Thus the court rejected the petition as not maintainable.

On the basis of these reasons the court held that there was no merit in the petition and it was not maintainable and dismissed it accordingly.

## **b. HIGH COURT**

### **i. Mr. Nikhil T. Parikh & Ors. vs. Union of India & Ors.**

The petitioners, inter-alia, challenged the legality and validity of SEBI circulars on exit policy for stock exchanges dated May 30, 2012 and December 13, 2012 and SECC Regulations, 2012 in a writ petition before the Hon'ble High Court Gujarat, that the impugned circulars, regulations, etc., were ultra vires the Constitution of India and were contrary to the provisions of SCRA, 1956 and the Companies Act, 1956 and were unreasonable, unconstitutional, discriminatory, inequitable, unjust, harsh and illegal. The Hon'ble court in this regard held that:

The circular issued by SEBI, had been issued in exercise of powers conferred under Sections 11(1) and 11(2)(j) of the SEBI Act, 1992, read with Section 5 of SCRA. Whether a circular issued by a statutory authority would be binding or not, or whether the same had a statutory force or not, would depend upon the nature of the statute. For the said purpose, the intention of the legislature must be considered. It was clear that the

circular dated May 30, 2012 issued by SEBI which was the subject matter of challenge in this petition, could be termed as a statutory circular having a force of law and binding to all the stock exchanges in the country.

The scope of Regulation 11(1) was sufficiently wide to meet situations for which measures were not specifically provided in the regulation. Merely because in Section 11(2) it is provided that 'the measures referred to therein may provide for' cannot be taken to mean that such measures have to be laid down in advance. It is a matter of common knowledge that SEBI has to regulate a speculative market and in the case of a speculative market varied situations may arise and all such exigencies and situations cannot be contemplated in advance and, therefore, looking to the exigencies and the requirement, it has been entrusted with the duty and function to take such measures as it thinks fit.

SECC Regulations, 2012 as well as the impugned Exit Circular dated May 30, 2012 were issued by SEBI after due consultations with all the stakeholders including the recognised stock exchanges although there is no such statutory mandate for SEBI to make such consultations before framing regulations or issuing circulars.

SCRA and the SEBI Act are special acts and have an over-riding effect over some of the provisions of the Companies Act.

There should be judicial restraint in fiscal and economic regulatory measures. The state should not be hampered by the court in such measures unless they are clearly illegal or unconstitutional. The state must therefore be left with wide latitude in devising ways and means of imposing fiscal or regulatory measures, and the court should not, unless compelled by the statute or by the Constitution, encroach into this field.

The denial of right to be on the board of management and/or denial of right to vote for shareholders' directors is because with the experience gained it has been found by SEBI that there is total conflict of interest if trading members are on the board of directors. It was found that trading members were influencing the decision making process. The importance of net worth has been explained in the Bimal Jalan report. Even as a shareholder, the petitioner's other rights are protected. Petitioners have a right to attend the general meeting, special meeting,

and by majority, can also participate in the decision making policy in the general board. Public interest directors are independent directors and it is erroneous to suggest that only trading members can provide for greater turnover and/or net worth.

For the said reasons, the petition was dismissed.

## **ii. Indian Council of Investors vs. Union of India & Ors.**

The petitioner filed a public interest litigation alleging violation of the fundamental right of citizens to privacy by SEBI for intercepting and monitoring calls and calling for call data records (CDRs) and details of tower locations from telecom service providers (TSPs). It was also alleged by the petitioner that SEBI was prevented/prohibited from calling CDR from any TSP by virtue of Section 5(2) of the Indian Telegraph Act, 1885. The Hon'ble Bombay High Court held that SEBI's power is very wide even de hors the amendments by the ordinances and it is entitled to take such measures as it deems fit to protect investors. The power in SEBI to call for CDRs from TSPs was always available and in case there was any doubt or ambiguity, the same was removed by the Securities Law (Amendment) Ordinances issued in 2013 and 2014. The calling of static information like CDRs from a TSP did not in any manner violate Section 5(2) of the Indian Telegraph Act, 1885. SEBI is authorised under SEBI Act to call for CDRs from TSPs but such information can be called under certain safeguards such as only by an officer duly authorised by SEBI to call for information and such a power cannot be exercised by SEBI for conducting a fishing enquiry, therefore this power can only be exercised by SEBI with respect to any person against whom any investigation or enquiry is being conducted.

## **iii. UPSE Brokers Association and Ors. vs. SEBI & Anr.**

The petitioners challenged SEBI circulars on exit policy for stock exchanges and SECC Regulations, 2012 and sought restraint on SEBI from interfering in any manner with the management of the stock exchanges and their governing boards in pursuance of the SECC Regulations, 2012 in a writ petition before the Hon'ble Allahabad High Court. The Hon'ble court while dismissing the writ petition held as follows:

SCRA, as it was originally enacted, conferred over-arching regulatory powers upon the central government. With the establishment of SEBI and the enactment of the SEBI Act, 1992, the Parliament envisioned that SEBI would be an expert regulator for the regulation of the markets in securities and for defining and regulating the activities of stakeholders who had a vital bearing on the transparent and accountable functioning of the securities markets.

Stock exchanges are market organisers. Apart from the function of being market organisers, stock exchanges are: (i) information distributors; (ii) regulators of the market which they organise; (iii) involved in setting standards of corporate governance through their listing rules; and (iv) at an institutional level, business enterprises.

The Jalan Committee was set up on January 6, 2010. The committee's report was submitted on November 22, 2010 after a wide ranging consultation involving all stakeholders. The report was placed on SEBI's website on November 23, 2010. The Federation of Indian Stock Exchanges furnished its response on December 25, 2010 to SEBI. The agenda for the SEBI board meeting of April 2, 2012 included comments made by the Jalan Committee and the responses of various stakeholders. SEBI made its recommendations and eventually the regulations were notified with effect from June 20, 2012.

Viewed in this background, it was not possible to accede to the submission that the SECC Regulations supplanted or were *ultra vires* SCRA, 1956 or the rules which had been framed under it. The regulations which had been framed by SEBI were in exercise of powers conferred by Sections 4, 8A and 31 of SCRA, 1956. Section 31 of SCRA, 1956 expressly confers power upon SEBI to make regulations which are consistent with the Act and the rules, to carry out the purposes. SEBI, in framing the SECC Regulations, 2012 acted in pursuance of the statutory powers conferred upon it and had not travelled beyond the bounds of the statute.

Where an expert body is the maker of delegated legislation, the experience which it gains particularly in areas such as financial administration and resource allocation, enables it to cope with myriad different situations which may emerge in the practical implementation of the legislation. It is left to the delegate of the legislature to find answers to

strategies which are utilised to defeat the norms laid down by law in order to secure public interest. The reason why courts grant a degree of autonomy and discretion to the financial regulator is because of the realisation of the enormous challenges before the regulator in designing regulatory measures and continuously updating them in the light of experiences gained, challenges presented and developments envisioned for the future. So long as the regulator has kept within the bounds of the statute, the court would defer to its expertise.

Regulations such as those which have been framed by the SECC Regulations, insofar as they define the conditions for recognition, of minimum net worth, composition of the board of directors and dispersal of ownership and norms for governance, do not infringe the right under Article 19(1)(c). The regulations govern the antecedents of the business or activity and do not infringe the right to form the association under Article 19 (1) (c).

Once, it is held as a matter of principle that the imposition of a minimum net worth requirement is not unreasonable or *ultra vires*, the fixation of a particular threshold in terms of value must lie in the expert determination of SEBI when it made the subordinate legislation. Nothing had been indicated before the court to establish that the determination of the threshold or the manner of its computation was untenable and was so disproportionately high so as to constitute the very negation of the right to carry on business.

With regard to the challenge to fit and proper person criterion: Financial integrity, reputation, character and honesty are matters which have a serious bearing on the objective, transparent and fair functioning of the securities markets. When SEBI rejected an application for want of satisfaction of the fit and proper criterion, it must, record reasons which would be amenable to the appellate jurisdiction of the Tribunal under Section 15T. Recording of reasons would ensure that the exercise is not based on a subjective assessment but is based on an objective analysis.

The ratio between shareholder directors and public interest directors is designed to ensure a sense of balance in the governing board. The provisions which are contained in Chapter V are unexceptionable and cannot be held *ultra vires*.

#### **iv. BTL Holding Company Ltd. vs. SEBI**

Vide an order passed by the Delhi High Court on March 16, 2012, 22 promoter/promoter group companies of SRS Ltd. merged with BTL Industries Ltd. As a result of the merger, shares of SRS Ltd. held by 20 out of the 22 promoters/promoter groups stood vested in BTL Industries Ltd. As per the merger scheme, all liabilities and duties of the 22 merged companies were to be transferred to BTL Industries Ltd. On April 19, 2013 name of BTL Industries Ltd. was changed to SRS Holding India Ltd. Further, vide an order passed by the Delhi High Court on July 18, 2013 SRS Holding India Ltd. merged with BTL Investments and Securities Ltd. In the said order it was specifically recorded that all liabilities and duties of SRS Holding India Ltd. would stand transferred to BTL Investment and Securities Ltd. Thereafter, the name of BTL Investment and Securities Ltd. was changed to BTL Holding Company Ltd. (the appellant). Therefore, due to successive mergers, the obligations arising out of merger of the 22 promoter/promoter group companies with BTL Industries Ltd./SRS Holding India Ltd., were to be discharged by the appellant.

It was observed by the Hon'ble SAT that while approving the merger of the 22 entities with BTL Industries Ltd., the Hon'ble Delhi High Court had expressed that the rights and obligations of the merged entities shall be the responsibility of BTL Industries Ltd.. Thereafter, the name of BTL Industries was changed to SRS Holding India Ltd.. Later on, while approving the merger of SRS Holding India Ltd. with BTL Investments and Securities Ltd., the Hon'ble Delhi High Court once again expressly recorded that the rights and obligation of SRS Holding India Ltd. shall be discharged by BTL Investments and Securities Ltd. The Hon'ble SAT noted that the shares of SRS Ltd., that were held by the merging promoter/promoter group companies, were transferred to SRS Holding India Ltd., that is, the merged entity after the effective date of merger. It was held by the Hon'ble SAT that the obligation to disclose arising on account of such transfer of shares had to be discharged by SRS Holding India Ltd. Further, it was observed that SRS Holding India Ltd. has accepted its obligation to make the disclosure and had in fact, made disclosures belatedly. Therefore, it was not open to the appellant, which was a subsequently merged entity of SRS Holding India Ltd., to deny obligation to discharge

the penal liability imposed on SRS Holding India Ltd. for the delayed disclosures.

#### **c. SECURITIES APPELLATE TRIBUNAL**

##### **i. M/s Nitta Gelatin India Ltd. vs. SEBI**

The issue under consideration was whether SEBI was justified in not favourably considering the request of the appellant company for grant of extension of time for the allotment of bonus shares to one of the promoters of the appellant company under Regulation 109 read with Regulation 95 of the SEBI (ICDR) Regulations, 2009.

The facts of the matter are that the appellant company decided to increase the public shareholding to the required 25 percent level of its total equity shareholding. The board of directors of the appellant company M/s Nitta Gelatin India Ltd. vide resolution dated May 3, 2013 for complying with the minimum public shareholding requirements resolved the issue of 1,00,000 equity shares under the Employee Stock Purchases Scheme-I to the employees of the company and additionally issued 5,79,160 equity shares in the ratio of 1:3 to the existing shareholders of the company other than the promoters. However, the only other promoter Kerala State Industrial Development Corporation decided not to forego its entitlement of bonus issue of shares and it intended to subscribe to it. The appellant vide its letter dated August 31, 2013 sought relaxation from SEBI under Regulation 109 of the SEBI (ICDR) Regulations, 2009 with respect to Regulation 95, that is, extension of time for the allotment of bonus shares to one of the promoters. SEBI turned down the request by its letter dated February 14, 2014 by stating that the said allotment to bonus shares constituted modification of the earlier resolution, the said resolution also had an implication on the price movement of the shares of the company and trades had been executed on the stock exchanges based on the disclosures already made by the company and if the request of the company was granted then the interest of the investors would be adversely affected. SEBI's letter was challenged by the appellant in the captioned appeal.

The Hon'ble SAT after hearing both the parties at length vide its order dated November 5, 2014 dismissed the said appeal by recording inter-alia the following reasons :

- The appellant's case did not fall under any of the categories under Regulation 109 of the ICDR Regulations. Neither was the grant of extension of time in the interest of the public investors nor it was for the development of securities markets.
- SEBI turned down the request of the appellant in order to achieve the objective of various provisions like Section 19 A (a) of the SCRR, SEBI circular and the amended Clause 40 A of the Listing Agreement.
- Granting of the extension of the time to the appellant company for the purpose of extending the benefit of bonus issue to one of the promoters would amount to permitting it to circumvent the abovementioned provisions of law.

The Hon'ble SAT in its order also recorded that SEBI had exercised the powers conferred to it by Sections 59 to 84 of the Companies Act, 1956 read with relevant provisions of ICDR Regulations as well as SC(R)R, 1957 in an objective and fair manner. The appeal was dismissed.

#### **ii. M/s Pancard Clubs Limited vs. SEBI and Ms. Shobha Ratnakar Barde and others vs. SEBI**

It was held by the Hon'ble SAT that if a prompt decision, be it judicial, quasi-judicial or administrative, needs to be taken in a given case, excluding the duty of giving an opportunity of pre-decisional hearing to the person affected by the said decision, then it must be shown that there is an imminent act to be prevented or a danger to be averted, which necessitated the dispensation of the requirement of the pre-decisional hearing. In the absence of such urgency, exercising the discretion under Sections 11(1), 11(4) and 11B of the SEBI Act, 1992, to pass an ex-parte interim order will be unfair. Further, it was observed by the Hon'ble SAT that where a decision has to be reached by a body acting judicially, there must be a balance between the need for expedition and the need to give full opportunity to the person against whom the charges had been levelled.

#### **iii. M/s SICOM Limited vs. SEBI**

SICOM, a public financial institution (PFI), had provided financial assistance to Raj Oil Mills (ROM) in 2010 by way of bill accounting facility up to a limit of ₹ 15 crore (facility) for which the promoter/director of ROM had pledged equity shares of ROM as

security towards the facility. As ROM failed to repay the amounts due under the facility, SICOM invoked the pledge on September 28, 2011 aggregating 6.39 percent of the total share capital and on February 24, 2012 aggregating 15.35 percent of the total share capital requiring disclosure under Regulation 29(2) of SAST, 2011.

The question dealt with by SAT related to the interpretation of Regulation 29(4) of SAST, 2011 and the proviso thereto, specifically whether a scheduled commercial bank (SCB) or a PFI are exempted from disclosure pursuant to the invocation of a pledge or with the exemption restricted to the deemed acquisition of shares, that is, creation and release of pledge.

SICOM submitted to SAT that the exemption under the proviso to Regulation 29(4) was available to a PFI even when shares were acquired by the PFI on invocation of pledge in the ordinary course of business. SCB/PFI in the ordinary course of business acquired shares on invocation of pledge to recover their loan and not to take over the management/control of the company and hence Regulation 10(1)(b)(viii) of SAST, 2011 exempted SCB/PFI from making an open offer on the invocation of the pledge and the same principle applied for exemption for disclosure under Regulation 29(4) of SAST, 2011.

SAT in its order upheld SEBI's orders and held that exemption to SCB/PFI under Regulation 10(1)(b)(viii) of SAST, 2011 was for making an open offer and exemption under Regulation 29(4) was specific to the disclosures pursuant to deemed acquisitions, that is, creation and release of a pledge and not to actual acquisition of shares pursuant to invocation of the pledge. Regulation 29(4) creates legal fiction - to assume existence of a fact which does not exist, by a deeming fiction the pledgee is treated to have acquired shares and is required to make disclosures. Where the shares are acquired on invocation of a pledge, the question of introducing deeming fiction would not arise because in such a case shares are actually acquired on the invocation of a pledge. Further the proviso to Regulation 29(4) exempts SCB/PFI from such deemed acquisition since shares are acquired by it in ordinary course of business and not when there is actual acquisition of shares pursuant to invocation of the pledge.

**iv. Mr. Kimsuk Krishna Sinha in respect of DLF Ltd. and Sudipti Estates Private Ltd. against DLF Ltd. and 7 other entities**

SEBI conducted investigation into the allegations levelled by complainant Mr. Kimsuk Krishna Sinha in respect of DLF Ltd. and Sudipti Estates Private Ltd. The investigation inter-alia revealed that the DLF Ltd. and seven other entities (its directors/CEO/CFO) (noticees) employed a scheme by camouflaging the association of Sudipti with DLF as dissociation. They failed to ensure that the RHP/prospectus contained all material information which was true and adequate so as to enable the investors to make an informed investment decision in respect of the issue. The noticees actively and knowingly suppressed material information and facts in the RHP/prospectus leading to mis-statements in the RHP/prospectus so as to mislead and defraud investors in securities markets in connection with the issue of shares of DLF.

SEBI vide order dated October 10, 2014 (impugned order) restrained DLF Ltd., its directors/CEO/CFO from accessing securities markets and prohibited them from buying, selling or otherwise dealing in securities, directly or indirectly, in any manner whatsoever for a period of three years for

violations of the provisions of Clauses 6.2, 6.9.6.6., 6.10.2.3, 6.11.1.2, 6.15.2 and 9.1 of DIP Guidelines read with Regulation 111 of ICDR Regulations and Section 11 of the SEBI Act, 1992 and also the provisions of Section 12 A(a), (b) and (c) of SEBI Act read with Regulations 3 (a), (b), (c), (d), 4(1), 4 (2)(f) and (k) of PFUTP Regulations.

DLF Ltd. and six others filed appeals challenging the impugned order before SAT. SAT vide its order dated March 13, 2015 set aside the impugned order against DLF and others. However, the presiding officer (PO) of SAT, while upholding the impugned order, reduced the debarment to six months from three years. Presently the matter is pending in the Hon'ble Supreme Court.

**IV. CONSENT AND COMPOUNDING**

During 2014-15, SEBI received 108 applications for consent. There were 11 compounding applications filed by the accused in criminal courts during 2014-15. Out of the 108 applications for consent, 59 were rejected where as six applications for consent were withdrawn by the applicants. Table 3.59 gives the details of the applications rejected and withdrawn (the number of applications in rejection and withdrawal categories may include the applications filed during previous financial years also).

**Table 3.59: Receipt and Disposal of applications under Consent and Compounding Process**

Month/ Year	No. of Ap- plications received	No. of Applica- tions Settled by passing orders	Settlement/ Compounding Charges (in ₹)	Legal/Admn. Charges (in ₹)	Disgorgement (in ₹)	Total Amount (in ₹)
1	2	3	4	5	6	7
2013-14	121	46	4,21,53,408	60,000	0	4,22,13,408
2014-15	108	41	3,57,95,389	0	0	3,57,95,389

Note: In addition, 59 applications were rejected and 6 applications were withdrawn/in fructuous during 2014-15.

During 2014-15, 41 applications were settled by SEBI by passing orders under the consent and compounding category and it collected an amount of ₹3,57,95,389 towards settlement/legal/administrative/disgorgement charges as compared to ₹4,22,13,408 in 2013-14. Out of the 108

applications received during 2014-15 for consent, 41 applications were disposed of by passing orders while 59 consent applications were rejected. During the year, SEBI collected ₹ 3,57,95,389 as consent charges for settlement of cases through the consent mechanism (Table 3.60).

**Table 3.60: Consent Applications filed with SEBI**

Year	No. of consent applications received	No. of applications disposed of by passing order <sup>^</sup>	Consent Charges (in ₹)*	No. of applications rejected
1	2	3	4	5
2013-14	99	45	4,21,13,408	58
2014-15	108	41	3,57,95,389	59

Notes: 1. \*Amount received towards disgorgement, settlement and legal expenses.

2. ^ The number of applications may include the disposal of applications filed during previous financial years.

Further, 11 applications were received for compounding during 2014-15, one application was fully compounded, while 14 applications were rejected (Table 3.61).

**Table 3.61: Compounding Applications Filed by the Accused in Criminal Courts**

Year	No. of Compounding Applications filed	No. of applications compounded		Compounding charges received by SEBI (in ₹)*	No. of Application rejected
		Fully Compounded	Partly Compounded		
1	2	3	4	5	6
2013-14	22	1	Nil	1,00,000	1
2014-15	11	1	Nil	Money has been recovered by recovery officer with interest and legal cost	14

Note: \* Amount received towards disgorgement, settlement and legal expenses.

## V. RECOVERY PROCEEDINGS

The Securities Laws (Amendment) Act, 2014 was notified in August 2014 for amending the SEBI Act, 1992, SCRA, 1956 and the Depositories Act, 1996. As per Section 28A of the SEBI Act, SEBI is empowered to recover money from persons who fail to pay the penalty imposed by adjudicating officers or fail to comply with any direction of the board for refund of money or fail to comply with a direction of disgorgement order or fail to pay any fees due to the board. Table 3.62 presents the details of recovery proceedings by SEBI.

During 2014-15, 571 attachment notices were issued against bank accounts and lockers while 1,039 attachment notices were issued against demat accounts compared to 251 against bank accounts/lockers and 48 against demat account in 2013-14. Recovery proceedings were completed in 121 cases during 2014-15 and ₹19 crore was recovered as compared to ₹ 7.8 crore recovered through six cases during 2013-14. The amount covered under the 540 recovery certificates/notice of demand issued during 2014-15 was ₹481 crore.

**Table 3.62: Details of Recovery Actions as on March 31, 2015**

Sr. No.	Description	CIS			Non-CIS*			Cumulative Total	
		2013-14	2014-15	CIS Cumulative	2013-14	2014-15	Non CIS Cumulative		
1	2	3	4	5	6	7	8	9	
1	Recovery Certificates/Notice of Demand drawn by SEBI	1	14	15	63	526	589	604	
2	No. of Certificates Cancelled	0	1	1	0	10	10	11	
3	Amount covered under certificates (in ₹ crore)	1,520	370	1,890	54	111	166	2,056	
4	No. of attachment notices issued against	Bank / lockers A/c	31	14	45	220	557	777	822
		Demat A/c	13	25	38	35	1,014	1,049	1,087
		Others	9	3	12	2	4	6	18
		<b>Total</b>	<b>54</b>	<b>40</b>	<b>94</b>	<b>271</b>	<b>1,640</b>	<b>1,911</b>	<b>1,927</b>
5	Proclamation of sale issued	Movable	0	0	0	0	16	16	16
		Immovable	0	0	0	0	0	0	0
6	Sale of Assets	Movable	0	0	0	0	2	2	2
		Immovable	0	0	0	0	0	0	0
		Stopped	0	0	0	0	1	1	1
7	Amount Recovered (in ₹ crore)	0	2	2	8	17	25	27	
8	Arrest and detention of defaulter	0	0	0	0	3	3	3	
9	Civil Imprisonment	0	0	0	0	0	1	1	
10	Cases where recovery is fully completed	0	0	0	6	121	127	127	
11	No. of certificates pending	1	14	14	57	452	452	466	

Note: \* Non-CIS cases' amount includes interest on disgorgement, penalties and fee till the date of issuance of certificate.

## VI. SPECIAL ENFORCEMENT CELL

SEBI constituted a cell (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 also to handle matters connected therewith. Developments in the matter of M/s Sahara India Real Estate Corporation Ltd., (SIRECL) and M/s Sahara Housing Investment Corporation Ltd. (SHICL) are given below:

### A. Background:

SEBI is implementing the order of Hon'ble Supreme Court dated August 31, 2012 which upheld SEBI directions to both the companies to forthwith refund the money collected by them through RHPs with 15 percent 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 order of the Hon'ble Supreme Court and its actions are overseen by Justice (retd.) B. N. Agrawal. SEBI has filed 11 status reports before the Hon'ble Supreme Court in this respect which have also been furnished to Sahara.

### B. Developments in the Matter during 2014-15:

Vide order dated June 4, 2014, the Hon'ble Supreme Court declined interim bail to the contemnors or permission to use a guest house. Vide the same order, the Hon'ble Supreme Court inter-alia permitted Sahara to encash certain bank accounts/deposits/bonds, etc., for depositing the proceeds with SEBI's designated bank account. The Hon'ble court also permitted Sahara to sell/charge certain immovable properties, to enable it to comply with the orders of the Hon'ble Supreme Court.

Accordingly, Saharas sold properties situated in Gurgaon, Vasai, Ahmedabad and Jodhpur and a total amount of ₹ 3,647.9 crore was credited to the designated bank account of SEBI. In addition, post-dated cheques worth ₹ 812.23 crore were also furnished to SEBI for realisation on the respective due dates. These post-dated cheques were furnished to SEBI by the purchasers of the immovable properties from Sahara towards consideration for sale in terms of the order dated June 4, 2014. With this amount, total amount deposited by Saharas as on March 31, 2015 stands at ₹ 8,790.08 crore.

Subsequently, Sahara filed another application before the Hon'ble Supreme Court seeking its permission for selling foreign properties. The Hon'ble Supreme Court after hearing the application regarding foreign properties, allowed the application to the extent that the three offshore hotel properties owned by Sahara were allowed to be transferred, sold or encumbered subject to the condition that the entire consideration received by Sahara after repayment of the loan outstanding towards the Bank of China be deposited with SEBI towards compliance with the directions contained in the conditional bail order dated March 26, 2014 passed by the court. The excess amount, if any, shall be deposited by Sahara in a separate account to await orders from the court regarding their utilisation. The Hon'ble Court also appointed Mr. Shekar Naphade, Senior Advocate, as amicus curiae in the matter.

Sahara also filed an application seeking permission of the Hon'ble court for financial arrangement outside India wherein a 'junior' loan, over and above the loan outstanding payable to the Bank of China with whom the three offshore hotel properties are mortgaged, would be availed from Messrs Mirach Capital Group, USA, and the proceeds of which would be remitted to SEBI towards the bail condition. Sahara also filed a copy of a letter dated January 5, 2015 from Bank of America certifying/confirming that funds of USD 1.05 billion has been earmarked for this transaction and the same was free from any lien or encumbrance. This transaction subsequently failed to go through due to mutual difference between Saharas and Mirach.

After hearing the application, the Hon'ble court, on January 9, 2015, directed Sahara to seek clarifications regarding the permissibility of the transaction regarding foreign properties proposed by it from the Reserve Bank of India (RBI), and in the meantime allowed the foreign leg of the transaction to be completed. The Hon'ble Supreme Court also

permitted SEBI to file an additional affidavit setting out the details of the expenditure under different heads and disbursement thereof as claimed by SEBI in terms of orders dated August 31, 2012 and June 4, 2014.

During the proceedings before the Hon'ble Supreme Court on March 13, 2015, Sahara was directed to submit before the court the various actions taken by it vis-a-vis the offers received from various parties in connection with sale of foreign properties. The matter is pending before the Hon'ble Supreme Court. Accordingly, Sahara filed an application containing details of the proposed arrangement to raise funds, which was taken for hearing on March 23, 2015 when the court granted three months' time and conference facilities to enable Sahara to comply with the orders, failing which, the Hon'ble court held, a receiver would be appointed for selling Sahara properties. The Hon'ble Supreme Court also permitted Sahara to sell certain domestic properties at a rate lesser than the circle rates.

### C. Status of Refunds Made By SEBI

Pursuant to the order of the Hon'ble Supreme Court dated May 8, 2013 permitting SEBI to make refunds to those genuine investors who lodged their claim 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 a format of application for refund was put on SEBI's website.

As on June 3, 2015, SEBI has received 10,456 applications and made refunds with respect to 7,296 applications for an aggregate amount of ₹ 42,42,36,472 including interest of ₹ 18,04,58,872. About 1,527 applications are referred to applicants for removal of discrepancies and the remaining (approximately 3,000 cases) fall in the disputed category, which need to be looked into and decided upon individually by the Competent Authority. (Table 3.63)

**Table 3.63: Status of Refunds made by SEBI**

S.No.	Particulars	No of Cases (Not to be summed)	Control Nos.	Amount Claimed by Bondholder (₹)
1.	Application received with Original Bond Certificates / Pass Books	10456	32707	50,55,53,935
2.	Disputed Cases(#)	2999	7667	7,65,01,385
3.	Pending at Investors	644	1527	2,37,79,557
4.	Pending at Sahara	279	1205	2,24,60,000
5.	Pending at SEBI	-142	7760	159537893
6.	Cases already refunded	6676	14548	(Principal) 22,32,75,100 (Interest) 16,43,94,403

## VII. MONITORING OF LISTED COMPANIES

During 2014-15, SEBI put in place a division to monitor listed companies with respect to various disclosure requirements stipulated under the Listing Agreement. Broadly, the purpose of the division was to monitor the implementation of SEBI prescribed norms for stock exchanges to monitor compliance with the provisions of the Equity Listing Agreement by listed companies.

Accordingly, the division performed various activities related to the implementation of the aforesaid circular including the scrutiny of periodic reports filed by stock exchanges on the compliance status of companies in the top 500 positions on the basis of market capitalisation with respect to Clauses 35, 41 and 49 on shareholding pattern, financial results and corporate governance respectively. Towards enhancing the quality of disclosures being made by the companies on the occurrence of significant material events, the division conducted an inspection of BSE and NSE on the monitoring being done by the stock exchanges with respect to Clause 36 filings. The objective was to monitor whether the stock exchanges were ensuring adequacy and accuracy of corporate announcements filed by the top 500 companies under Clause 36 of the Listing Agreement and news clarifications.

In terms of Section 149 of the Companies Act, 2013 and Clause 49 of the Equity Listing Agreement, listed entities were required to appoint at least one woman director on their boards, on or before March 31, 2015 to ensure board diversity. The top 500 listed companies by market capitalisation were proactively persuaded by SEBI to comply with the requirement within the stipulated timelines. As on March 31, 2015, out of the top 500 companies, 31 companies were non-compliant. Such non-compliances by listed entities shall be subject to imposition of fines by the stock exchanges as specified.

## VIII. 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 shall be laid before each House of Parliament. During 2014-15, the SEBI Board took various regulatory measures to protect the interests of investors in securities markets, for the development

and regulation of securities markets. In this regard, the SEBI Board notified various new regulations. Various amendments to the existing regulations were also notified. The summary of regulatory changes made is as follows:

### A. New Regulations

#### a. SEBI (Prohibition of Insider Trading) Regulations, 2015 w.e.f. May 15, 2015.

The new regulations strengthen the legal and enforcement framework, align the Indian regime with international practices, provide clarity with respect to definitions and concepts and facilitate legitimate business transactions. The salient features of these regulations are:

- i. The definition of insider has been made wider by including persons connected on the basis of being in any contractual, fiduciary or employment relationship that allows such a person access to unpublished price sensitive information (UPSI). Directors, employees and all other persons in the deeming category covered under the 1992 Regulations continued to be covered. Insiders will also include a person who is in possession or has access to UPSI. Further, immediate relatives are presumed to be connected persons.
- ii. In the case of connected persons, the onus of establishing that they were not in possession of UPSI shall be on them.
- iii. Prohibition on communication of UPSI has been provided except for legitimate purposes, performance of duties or discharge of legal obligations.
- iv. Advance disclosure of UPSI at least two days prior to trading has been made mandatory in case of permitted communication of UPSI.
- v. UPSI has been defined as information not generally available and which may impact the price. The definition of UPSI has been strengthened by providing a test to identify price sensitive information, aligning it with the Listing Agreement and providing a platform for disclosure. Earlier, the definition of price sensitive information referred to a company only; now it is in reference to both company and securities.

- vi. Generally available information is information that is accessible to the public on a non-discriminatory platform which would ordinarily be a stock exchange platform.
- vii. Companies are entitled to require third-party connected persons to disclose their trading and holdings in the securities of a company.
- viii. In line with the Companies Act, 2013, prohibition on derivative trading by directors and key managerial personnel on securities of the company has been provided.
- ix. A provision of trading plans has been introduced for insiders with necessary safeguards. Insiders who are liable to possess UPSI all-round the year will have the option to formulate pre-scheduled trading plans. Trading plans are required to be disclosed on the stock exchanges and have to be strictly adhered to. Trading plans shall be available for bona fide transactions.
- x. Clarity has been brought to the definition of UPSI by aligning it with the Listing Agreement and making the definition inclusive.
- xi. Clarity about timing of disclosure of UPSI has been provided and trading window norms have been made uniform to other connected persons.
- xii. In given cases, certain circumstances which can be demonstrated by an insider to prove his innocence have been provided.
- xiii. Repeated disclosures have been removed so as to ease the compliance burden and to align with the Takeover Code. Disclosure of any change of two percent for persons holding more than five percent shares or voting rights has been removed as they are prescribed under the Takeover Code.
- xiv. Principle based Code of Fair Disclosure and Code of Conduct have been prescribed.

**b. SEBI (Share Based Employee Benefits) Regulations, 2014 w.e.f. October 28, 2014**

The SEBI (Share Based Employee Benefits) Regulations, 2014 have replaced the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999. These new regulations

apply to employee stock option schemes, employee stock purchase schemes, stock appreciation rights schemes, general employee benefits schemes and retirement benefit schemes of companies listed on a recognised stock exchange. The schemes have also been permitted to acquire shares from the secondary market subject to certain conditions - limit on acquisition from the secondary market, requirement of trust for secondary market transactions, norms on trustees, restriction on voting rights of trustees and sale permitted only for specified purposes.

**c. SEBI (Real Estate Investment Trusts) Regulations, 2014 w.e.f. September 26, 2014.**

These new regulations provide a framework for registration and regulation of real estate investment trusts (REITs). The salient features of REITs as provided in the regulations are:

- i. REITs shall be set up as a trust and registered with SEBI with parties such as trustee, sponsor(s) and manager.
- ii. The trustee of a REIT shall be a SEBI registered debenture trustee who is not an associate of the sponsor.
- iii. REIT shall invest in commercial real estate assets, either directly or through special purpose vehicles.
- iv. Permitted investments by REIT:
  - a. At least 80 percent in completed and revenue generating properties.
  - b. Not more than 20 percent in developmental properties and other eligible investments provided, investments in developmental assets is not more than 10 percent of the value of REIT assets.
- v. REIT shall invest in at least two projects with not more than 60 percent of the value of assets invested in one project.
- vi. REIT shall distribute not less than 90 percent of the net distributable cash flows, subject to applicable laws, to its investors.
- vii. Value of the assets owned/proposed to be owned by REIT shall be at least ₹ 500 crore.
- viii. Minimum issue size for initial offer shall be ₹ 250 crore.

- ix. Listing of REIT units on stock exchanges is mandatory.
- x. The minimum subscription size for units of REIT shall be ₹ 2 lakh and trading lot of ₹ 1 lakh.
- xi. Sponsor(s), collectively, to hold at least 25 percent in the REIT for at least three years and 15 percent thereafter.
- xii. Maximum borrowing permitted is 49 percent of the value of the REIT assets.

**d. SEBI (Infrastructure Investment Trusts) Regulations 2014 w.e.f. September 26, 2014.**

Detailed framework for registration and regulation of infrastructure investment trusts (InvITs) have been specified in these new regulations. Infrastructure for the purpose of these regulations includes all infrastructure sub-sectors as defined vide notification of the Ministry of Finance dated October 7, 2013 and modifications thereof. InvITs set up in the form of trusts may obtain registration from the board on satisfying the eligibility and other conditions specified in the regulations. The regulations, inter-alia:

- i. Specify the rights of unit holders, rights and responsibilities of trustee, sponsor, investment manager and project manager.
- ii. Permit InvITs to invest in infrastructure projects, either directly or through special purpose vehicles and mandate it to hold the controlling interest and more than 50 percent of the equity share capital or interest in the underlying special purpose vehicle subject to certain exemptions.
- iii. Provide for the minimum value of underlying assets to be held by the InvIT and sponsors in the special purpose vehicle.
- iv. Specify borrowing limits for InvIT and special purpose vehicles.
- v. Provide for a mandatory public issue, minimum public float, distribution of profits, valuation, etc. in case of investment of at least 80 percent of the value of the assets in completed and revenue generating infrastructure assets.
- vi. Provide restrictions on investment by InvIT in under construction infrastructure projects.

- vii. Provide mandatory listing of units of InvITs.
- viii. Specify detailed provisions for related party transactions, valuation of assets, disclosure requirements, rights of unit holders, etc.

**e. SEBI (Research Analysts) Regulations, 2014 w.e.f. December 1, 2014.**

These new regulations provide for registration and regulation of research analysts and mandate certain compliances by research entities. Investment advisor, credit rating agency, asset management company or fund managers, its director or employee are exempted from seeking registration subject to certain conditions. The regulations, inter-alia, provide for eligibility criteria for registration, qualification and certification requirements, internal policies and procedures, limitations on trading, publications, etc., disclosures to be made in research reports, etc. SEBI is empowered to recognise anybody or body corporate for the purpose of regulating research analysts under these regulations.

**B. Amendments to Existing Regulations**

**a. SEBI (Issue and Listing of Debt Securities) (Amendment) Regulations, 2015 w.e.f. March 24, 2015.**

Through these regulations, SEBI has enabled issue of debt securities which can be recalled (call) or redeemed prior to maturity date (put) in accordance with the terms of the issue and disclosure in the offer document. These regulations also permit the issuer to consolidate and reissue debt securities subject to certain conditions including enabling provision in its articles.

**b. SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2015 w.e.f. March 24, 2015.**

Amendments were carried out to the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations) with respect to investments in partly paid shares and warrants. In order to harmonise the norms on receipt of upfront payments and tenure of partly paid shares/warrants between the ICDR Regulations and the Foreign Exchange Management Act, 2009, the following changes have been made in the ICDR Regulations:

- i. In case of partly paid shares issued through a public/rights issue, a minimum 25 percent

of the issue price shall necessarily be received upfront. The balance consideration shall continue to be received within 12 months if the issue size is less than ₹ 500 crore. Where the issue size exceeds ₹ 500 crore and the issuer has appointed a monitoring agency, the period can be decided by the issuer as per the existing regulatory framework.

- ii. With respect to warrants issued along with public or rights issue of specified securities, 25 percent of the consideration shall be received upfront by the issuer and tenure of such warrants shall be 18 months as against 12 months.

**c. SEBI (Buyback of Securities) (Amendment) Regulations, 2015 w.e.f. March 24, 2015.**

This amendment to SEBI (Buyback of Securities) Regulations, 1998 mandates the acquirer or promoter to facilitate tendering of shares by the shareholders and their settlement through the stock exchange mechanism as per the procedures specified by SEBI.

**d. SEBI (Delisting of Equity Shares) (Amendment) Regulations, 2015 w.e.f. March 24, 2015.**

In order to align the existing regulatory framework with changing market realities, SEBI (Delisting of Equity Shares) Regulations, 2009 (Delisting Regulations) were amended and the salient feature of the amendments are:

- i. Tendering of shares in the reverse book building process (RBB) by at least 25 percent of public shareholders holding shares in dematerialised mode as on the date of the board meeting approving the delisting proposal is mandatory for successful delisting except where the acquirer and the merchant banker demonstrate to stock exchanges that the letter of offer to all public shareholders has been delivered.
- ii. The offer price determined through RBB shall be the price at which the shareholding of the promoter, after including the shareholding of the public shareholders who have tendered their shares, reaches the threshold limit of 90 percent.

- iii. Prohibition on making a delisting offer in case of sale of shares by a promoter group entity during a period of six months prior to the date of the board meeting approving the delisting proposal.

- iv. Use of the stock exchange platform for offers made in delisting, buyback and takeovers.

- v. The board of the company to approve the delisting proposal after satisfying itself that delisting is in the interest of the shareholders and that the company is in compliance with applicable securities' laws.

- vi. Exemption to companies from the RBB process whose paid up capital and net worth do not exceed ₹ 10 crore and ₹ 25 crore respectively as on the last day of the previous financial year subject to certain conditions.

- vii. Option to the acquirer to delist directly through Delisting Regulations pursuant to triggering of SEBI (SAST) Regulations, 2011 (Takeover Regulations). However, in case of failure to delist, the acquirer is required to complete the mandatory open offer process under the Takeover Regulations and pay an interest at the rate of 10 percent per annum for the delayed open offer.

- viii. Provision enabling SEBI to relax the strict enforcement of any requirement of the provisions of the Delisting Regulations.

**e. SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2015 w.e.f. March 24, 2015.**

These regulations amended the SEBI (SAST) Regulations, 2011 to enable an acquirer making a public announcement of an open offer for acquiring shares of a target company in terms of Takeover Regulations to delist the company in accordance with provisions of SEBI (Delisting of Equity Shares) Regulations, 2009 subject to an upfront declaration of his intention to so delist at the time of making the detailed public statement. The said regulations, inter-alia, provide for certain compliances in case of failure to delist such as a public announcement of such failure, completing the mandatory open offer process under the Takeover Regulations at an enhanced offer

price and completing acquisition of shares only after making a public announcement of success of delisting proposal. In case of competing offers, these regulations do not permit delisting and provide an opportunity to shareholders to withdraw tendered shares.

**f. SEBI (Employees' Service) (Amendment) Regulations, 2015, w.e.f. February 26, 2015.**

These amendment regulations substitute the provision on special casual leave for childcare with the provision of special hardship leave for female employees for up to two years once they complete five years of service. A female employee confirmed in SEBI's services and having completed five years of service on the board, is eligible to apply for special hardship leave. The special hardship leave can be applied for the purposes of taking care of the family or children or health grounds of self or dependent family members. The amendments include the eligibility, purpose, period, approving authority and other conditions for availing special hardship leave.

**g. SEBI (Foreign Venture Capital Investors) (Amendment) Regulations, 2014 w.e.f. December 30, 2014.**

Vide these regulations, the definition of a 'venture capital undertaking' has been amended to include core investment companies in the infrastructure sector, asset finance companies (AFCs) and infrastructure finance companies (IFCs), thus removing the impediment to investments in the infrastructure sector through the foreign venture capital investors (FVCI) route.

**h. SEBI (Mutual Funds) (Second Amendment) Regulations, 2014 w.e.f. December 30, 2014.**

The SEBI (Mutual Funds) Regulations, 1996 prohibited the launch or management of new schemes by asset management companies (AMCs) until their net worth was raised to ₹ 50 crore. The regulations permitted launching up to two new schemes per year by such AMCs subject to SEBI's satisfaction that such an AMC was taking steps to meet the net worth requirement within the specified time.

**i. SEBI (Depositories and Participants) (Amendment) Regulations, 2014 w.e.f. December 24, 2014.**

These regulations were notified with the objective of doing away with separate registration requirements

for acting as depository participants in multiple depositories. A depository participant desiring to act as a participant of another depository is permitted to apply to such other depository for its approval.

**j. SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2014 w.e.f. October 8, 2014.**

The amendment regulations mandate a single certificate of registration from the Board for a stock broker irrespective of the number of stock exchanges of which he is admitted as a member. Also no separate registration is required for a clearing member registered with the Board to act as a stock broker in a stock exchange of which he is admitted as a member subject to approval by the said stock exchange. Similarly, a clearing member requires only a single certificate of registration irrespective of the number of clearing corporations of which he is admitted as a member. No separate registration is required for a stock broker registered with the Board to act as a clearing member in a clearing corporation of which he is admitted as a member but subject to approval by the said clearing corporation.

Once registration is granted to a stock broker/clearing member for operating in any stock exchange/clearing corporation other than the one in which he initially held membership, or for operating in any other segment of such stock exchange/clearing corporation, it would be necessary to seek approval from the concerned stock exchange/clearing corporation. Grant of such approval shall then be informed to the board. These regulations have also amended the format of certificate of registration as well as the application form for registration as a stock broker/clearing member.

**k. SEBI (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2014 w.e.f. August 25, 2014.**

Amendments were carried out to the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 vide these regulations with respect to the following:

- i. Bonus shares issued in the preceding one year prior to filing of the draft offer document permitted to be offered for sale.
- ii. Investment bucket of anchor investors increased from 30 percent to 60 percent of the QIB portion.

- iii. Requirement of minimum net offer to the public aligned with the norms at Rule 19(2) (b) of SCRR, 1957.
- iv. Norms for pricing of infrequently traded shares to be allotted in preferential issues prescribed.
- v. Requirement of adjusting the pricing of shares to be allotted in preferential issue in case of corporate actions specified.

These regulations, inter-alia, make modifications to the provisions dealing with the conditions for an initial public offer, public allocation of net offer, pricing of equity shares and the book building process.

**l. SEBI {KYC (Know Your Client) Registration Agency} (Second Amendment) Regulations, 2014 w.e.f. August 11, 2014.**

SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 have been amended by these regulations to allow sharing/access to KYC information involving entities regulated by other financial sector regulators specified by SEBI.

**m. SEBI (Payment of Fees) (Amendment) Regulations, 2014 w.e.f. May 23, 2014.**

These regulations were notified to revise the regulatory fees pertaining to alternative investment funds, banker to an issue, credit rating agencies, custodians, debenture trustees, depository participants, investment advisors, merchant bankers, mutual funds, registrars and transfer agents, stock broker and sub-broker stock exchanges, fees on issue of shares, debt, non-convertible redeemable preference shares, securitised debt instruments and on open offers.

**n. SEBI (Mutual Funds) (Amendment) Regulations 2014 w.e.f. May 6, 2014.**

The amendment regulations made the following changes to the SEBI (Mutual Fund) Regulations, 1996:

- i. The net worth requirements for AMCs increased.
- ii. One percent of the amount raised in the new fund offer or ₹ 50 lakh whichever is less is mandated to be invested in the growth option of the scheme and such investment cannot be redeemed unless the scheme is wound up. Similarly, in the case of those schemes

already existing as on date of the amendment regulations, the mandate is to invest at least 1 percent of the assets under management or ₹ 50 lakh, whichever is less, in the growth option of the scheme.

**IX. RIGHT TO INFORMATION ACT, 2005**

SEBI has been implementing the various provisions of the Right to Information Act, 2005 (RTI Act) not only in letter but also in its true spirit. As per the provisions of the RTI Act, SEBI has designated a central public information officer (CPIO) at its head office in Mumbai. Dr Anil Kumar Sharma is the present CPIO of SEBI. As provided in the RTI Act, SEBI has an official as the appellate authority (AA) where appeals can be made against an order of the CPIO. Shri S. Raman, whole time member, SEBI is the appellate authority at present.

In compliance with the direction of the Central Information Commission (CIC), SEBI has designated a transparency officer and Shri P. K. Nagpal, Executive Director, SEBI, is the present transparency officer. SEBI has also appointed 18 central assistant public information officers (CAPIO) at its regional and local offices to streamline the process of attending to RTI applications for efficient and time bound responses. CAPIOs receive applications for information or appeals filed in their jurisdictions under the provisions of the RTI Act and refer them to the CPIO.

Section 4 of the RTI Act casts obligation on every public authority to make certain disclosures on a proactive basis. SEBI has been proactively making such disclosures. The focus of the disclosure is transparency in the working and functioning of SEBI. In this regard, SEBI has put in place various effective systems and procedures: policy decisions and reform measures taken by SEBI generally emanate through extensive consultative processes through various advisory committees. While evolving policy changes, SEBI endeavours to seek valuable comments from the investing public and stakeholders at large through the public comments process.

The SEBI website ([www.sebi.gov.in](http://www.sebi.gov.in)) is a veritable mine of information for the investing public, stakeholders and researchers. Various sections of the website strive to serve specific interests. Investor education and awareness materials in various local

languages and FAQs on the SEBI website pertaining to different areas of securities markets enable investors and stakeholders to understand and acclimatise themselves with the nuances of the procedures and terminologies of securities markets for taking well-informed decisions.

All the relevant acts, SEBI regulations and various amendments from time to time are available on the SEBI website; these are also updated from time to time. The various orders passed by SEBI in its quasi-judicial role and the orders of the Securities Appellate Tribunal (SAT) and various courts, as well as orders of the SEBI Appellate Authority (AA) under RTI are also available on the SEBI website.

Further, information / statistics / reports discussion papers are also made available in the public domain, in order to assist investors and researchers working in the area of securities markets to provide them inputs to further SEBI's vision of promoting and developing securities markets.

SEBI has also been taking various steps for ensuring transparency in the functioning of the exchanges and other market participants. Through various regulations, such as the ICDR Regulations, Insider Trading Regulations and Takeovers Regulations SEBI has ensured that it provides optimum and timely disclosure to the investing public in order to take well-informed investment decisions. Further, SEBI's disclosure policy requires even non-public entities, although not falling under the purview of the RTI Act, to disclose in the public domain important details and updated information on material developments and day-to-day operations including details of redressal of investor grievances.

With respect to RTI applications received by SEBI which are in the nature of complaints/seeking redressal of complaints, the office of CPIO voluntarily provides guidance to information seekers. SEBI endeavours to provide timely and useful information to investors/prospective investors for which a separate designated website <http://investor.sebi.gov.in> has been set up. Further, SEBI has also launched SCORES (SEBI complaints redress system), a web-based, centralised grievance redressal system for investors of securities markets where an investor can make a complaint/grievance in electronic mode on the SCORES website

(<http://scores.gov.in>) with the facility for online tracking of his complaint's status.

SEBI has endeavoured to provide the disclosable information within the stipulated time and there has not been a single case of delay, although the information sought, many times, is voluminous and contains a large number of issues pertaining to various departments of SEBI in a single application. Wherever appropriate, SEBI has provided additional information/guidance voluntarily to information seekers about securities markets.

The details of RTI applications and first appeal to the SEBI AA during 2013-14 and 2014-15 are given in Table 3.64.

**Table 3.64: Trends in RTI Applications and First Appeals to SEBI AA**

Particulars	2013-14	2014-15
No. of applications received (including applications transferred from other public authorities)	1,099	1,244
Total no. of issues raised in applications	4,622	5,989
No. of appeals received by the Appellate Authority, SEBI	254	234
No. of orders passed by the Appellate Authority, SEBI	243	219
No. of appeals rejected / dismissed by the Appellate Authority, SEBI	210	211
No. of appeals partially allowed	35	8

The details of appeals before CIC against orders passed by the SEBI AA during 2013-14 and 2014-15 are given in Table 3.65.

**Table 3.65: Trends in Appeals Before the Central Information Commission**

Particulars	2013-14	2014-15
No. of appeals received by CIC*	12	34**
No. of appeals rejected / dismissed by CIC	4	12
No. of appeals with directions by CIC to furnish part of information	5	10#

Notes: \* on the basis of hearing notices received from CIC.

\*\* includes 4 appeal matters remanded back to CIC by the Hon'ble Delhi High Court. Further, with respect to 4 appeals, the appellant had sought adjournment of hearing. Orders of CIC are awaited with respect to 8 matters, hearings for which were held on March 4, 2015.

# Appeal filed by SEBI before the Hon'ble Bombay High Court, with respect to one order of the CIC.

During 2014-15, SEBI continued to maintain transparency in its functions, including disclosure of information on a regular and timely basis. Various initiatives/measures were also carried out for investor education and awareness and for the protection of the interests of investors of securities markets, which have also helped in achieving the objectives of the RTI Act.

Further, during the year, the office of CPIO also initiated in-house training workshops/programmes for SEBI officials, especially those posted in regional and local offices, to enable them to be well versed with the provisions of the RTI Act and their duties and responsibilities therein. This will help SEBI in furthering its overall objective of ensuring transparency and timely disposal of RTI applications.

## X. PARLIAMENT QUESTIONS

The Parliament Cell-SEBI interfaces with various departments in the Government of India for addressing issues relating to Parliament Questions, assurances thereof, references from Hon'ble Members of Parliament and other references received through various ministries of the Government of India.

### A. Parliament Questions

During 2014-15, SEBI received a number of Parliament Questions, referred by the Government of India, mainly from Ministry of Finance and Ministry of Corporate Affairs. Out of the 151 questions referred, 109 questions were admitted and SEBI furnished information and material for reply/replies, in a time bound manner. The number of parliamentary questions received session-wise and replied to by SEBI is shown in Table 3.66.

**Table 3.66: Parliament Queries Received and Replied to by SEBI during 2014-15**

Parliament Session	Period	No. of Questions Received		Admitted Questions	
		Starred	Unstarred	Starred	Unstarred
1	2	3	4	5	6
Budget Session	July 7, 2014 to August 14, 2014	8	32	4	26
Winter Session	November 24, 2014 to December 23, 2014	25	43	11	39
Budget Session - Part I	February 23, 2015 to March 20, 2015	6	37	0	29
<b>Total</b>		<b>39</b>	<b>112</b>	<b>15</b>	<b>94</b>

### B. VIP and Other References

During 2014-15, references, complaints and representations received through various Government of India offices, from Hon'ble Members of Parliament, etc., were responded to promptly (Table 3.67).

**Table 3.67: Data on Various References Received and Responded to**

References	2013-14	2014-15
1	2	3
VIP (MP) References	7	6
General References/representations	31	1
Newspaper / magazine articles related to securities markets	6	17

### C. Responses/Material to Committees

During 2014-15, SEBI provided the required information and clarifications as desired by parliamentary committees/high powered committees in a time bound manner (Table 3.68).

**Table 3.68: Data on Queries/Points Raised**

Sr. No.	Committee	Queries/Points raised
1	Examination of the subject 'Efficacy of Regulation of Collective Investment Schemes, Chit Funds, etc.' by the Committee on Finance. (September 2014)	26
2	Select Committee on Insurance Laws (Amendment) Bill, 2008 (October 2014)	2
3	Study Visit of the Committee on Finance (January 2015)	23
4	Visit of Select Committee on the Payment and Settlement Systems (Amendment) Bill, 2014 (February 2015)	6

## XI. INTERNATIONAL CO-OPERATION

SEBI has emerged as a key member of various international standard-setting bodies and global forums where it is making effective contributions

to their on-going work programmes. With the ever-evolving and dynamic nature of capital markets, it is important to be abreast of global developments while introducing and implementing regulatory measures domestically. In this context, and in furtherance of its regulatory objectives, SEBI engages with a range of international organisations, foreign regulators and law enforcement agencies. In 2014-15 also SEBI continued to actively engage and contribute to on-going work in the international arena.

SEBI's primary international engagement continues to be with the International Organisation of Securities Commissions (IOSCO), the globally recognised international standard setter for securities markets. SEBI played a key role in various meetings and committees of IOSCO and further strengthened its position in the global space. SEBI also actively co-operated in investigations/enforcement/supervisory matters with other overseas regulators under the framework of mutual collaboration provided under the IOSCO multilateral memorandum of understanding (MMoU).

In addition to its engagement with IOSCO, SEBI continued to make a meaningful contribution to the on-going work of the Financial Stability Board (FSB), the international body that has been mandated by the G20 to promote implementation of financial sector regulatory reforms in the world, and of the Joint Forum (JF), a co-operative cross-sector group established in 1996 to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.

As a part of its other varying commitments as securities markets' regulator, on several occasions SEBI provided inputs to the Government of India on international issues/treaties and financial sector dialogues, hosted and organised visits of foreign delegates and conducted international seminars and training programmes.

At the bilateral engagement front, SEBI entered into several bilateral MOUs with other securities regulators to promote mutual co-operation and technical assistance.

With a view to disseminating information about SEBI's international activities as well as on the recent developments in the international regulatory sphere, a separate section was hosted on SEBI's website with the following broad objectives:

- i. To create an online presence of SEBI's engagement with international standard setting bodies.
- ii. To spell out information about SEBI's international activities on the SEBI website.
- iii. To update the SEBI website to include material on SEBI's international affairs and bring it on par with websites of other leading securities market regulators.

This section of the SEBI's website has information inter-alia on its engagement with FSB, IOSCO, JF, information sharing arrangements both under the IOSCO MMoU and the bilateral MoU. Additionally, it provides information regarding technical assistance, study visits and speaker requests.

#### **A. Association with IOSCO**

##### **a. IOSCO Board**

The IOSCO board, that is, the governing body of IOSCO, is made up of 33 securities regulators. SEBI is one of the members of the IOSCO board.

SEBI participates in IOSCO's various work streams and makes contributions to policy decisions on different issues pertaining to securities markets. SEBI has its representation on six of the eight policy committees of IOSCO. SEBI endeavours to implement the recommendations made by IOSCO through its reports.

#### **Box 3.9: Thematic Review of Money Market Funds (MMFs)**

Pursuant to the request from FSB, IOSCO initiated a thematic review of the implementation of money market reforms published by IOSCO in October 2012. The objective of the review was to identify the progress made in adopting legislations, regulations and other policies in relation to MMFs in reform areas. Thirty IOSCO members participated in the review including SEBI, India.

The key preliminary findings of the review were reported to the G20 in November 2014. These findings were made on the basis of the self-assessments provided by participating jurisdictions. This report sets out the findings of the progress in adopting legislations, regulations and other policies in relation to MMFs in the reform areas: scope of regulatory reforms, limitations to asset types and risks taken, valuation, liquidity management, MMFs that offer a constant NAV, use of ratings and disclosure to investors and repos.

With regard to India, the report found that SEBI had requisite measures in place much before the publication of the policy framework by IOSCO (before October 1, 2012) with respect to all the reform areas. It is worthy to highlight that SEBI has been ahead of many jurisdictions including some large, developed markets which are yet to publish draft implementation measures for MMFs. The full report can be accessed at:

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD463.pdf>

### **b. Assessment Committee**

SEBI plays a leadership role in the IOSCO's Assessment Committee (AC) and is currently the vice-chair of this committee. The AC was formed in February 2012 to drive IOSCO's key strategic goal of being the recognised standard setter for securities regulations. The main objectives of AC are identifying and assessing implementation of IOSCO principles and standards and promoting the full, effective and consistent implementation of IOSCO principles and standards across IOSCO membership. The main responsibilities of AC are: (a) conducting thematic reviews of particular IOSCO principles and IOSCO standards across IOSCO's membership; (b) conducting country reviews and reviewing self-assessments prepared by IOSCO members about the implementation of IOSCO principles; and (c) maintaining and periodically updating IOSCO principles and the related methodology.

SEBI, as vice-chair of AC, has been involved in setting the agenda, leading the discussions on some of the areas and actively participating and contributing to the on-going work of the AC.

During 2014-15, the AC initiated thematic reviews of different areas. Out of these, SEBI participated in thematic reviews which were relevant for it. Further, SEBI also participated in the review team in some of the thematic reviews.

### **c. Asia-Pacific Regional Committee**

APRC is one of four regional committees constituted by IOSCO to focus on regional issues relating to securities regulations. APRC comprises 24 members representing securities regulators from Asia-Pacific jurisdictions.

During 2014-15, APRC met two times. The first meeting was held on September 28, 2014 in Rio de Janeiro during the IOSCO annual conference. The next meeting was held on March 10-12, 2015 in Tokyo.

IOSCO APRC took steps to enhance cooperation among the region's securities regulators and develop capacity building initiatives. APRC agreed on an APRC roadmap that provides a strategic framework for making a meaningful contribution to the region's development. The roadmap outlines certain key areas for greater cooperation among APRC's 29 members, including:

- i. Strengthening regional cross-border regulatory cooperation and extending training and assistance to member jurisdictions.
- ii. Recognizing the role of SMEs in driving Asia-Pacific's capital markets, collaborating and coordinating closely with other regional regulatory institutions, government bodies and the Financial Stability Board.
- iii. Collectively addressing the cross-border impact of European and US financial reform initiatives on the Asia-Pacific region.

### **d. Growth and Emerging Markets Committee**

IOSCO's Growth and Emerging Markets (GEM) Committee comprises 88 members representing 75 percent of IOSCO's ordinary membership. GEM members also represent the world's fastest growing economies and include 10 of the G20 members. SEBI is a member of the GEM committee.

During 2014-15, the GEM committee met two times. The first meeting was held in Mauritius on April 23-25, 2014. The members of the GEM committee had a market development workshop on 'Demutualisation and its impact on exchange regulation and supervision'. GEM members also had a roundtable on emerging risks. A GEM public conference was held on the topic 'Long Term Financing through Capital Markets' where several participants shared insights and their experiences.

The second meeting of the GEM committee was held on September 29, 2014 during the IOSCO annual conference held in Rio de Janeiro. The members discussed several issues relevant for emerging markets such as capacity building, SME financing through capital markets and market-based long term financing.

In order to ensure that the GEM committee is effective in achieving its strategic objectives, including strengthening market development and capacity building of its members, deepening regulatory policy work on emerging market issues and having a much stronger voice at global regulatory discussions, a steering committee within the GEM committee was formed. SEBI is a member of the GEM steering committee and participates in its various work streams. SEBI played a leadership role for developing a proposal on improving the capacity building efforts of IOSCO.

### **e. Committee on Payments and Market Infrastructures (CPMI)-IOSCO**

CPMI-IOSCO issued a comprehensive set of 24 principles and five responsibilities in a report titled 'Principles for Financial Market Infrastructure' (PFMI) which was published in April 2012. CPSS and IOSCO are monitoring the implementation of PFMI both for the principles and responsibilities.

The implementation monitoring involves three phases: (1) Level 1 to assess whether jurisdictions have completed the process of adopting the legislation, regulations and other policies that will enable them to implement the principles and responsibilities; (2) Level 2 to assess whether the content of the legislation, regulations and policies is complete and consistent with the principles and responsibilities; and (3) Level 3 to assess whether there is consistency in the outcomes of implementation of the principles and responsibilities.

The initial Level 1 assessments (covering 27 jurisdictions) were conducted in mid-2013. The results of the assessments were published in August 2013. The first update to the initial Level 1 assessments was conducted in early 2014 and the report was published in May 2014 (the report is available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD440.pdf>).

India participated in the Level 1 assessments. India has been given a rating of '4' in Level 1 assessments for all types of FMIs and with respect to responsibilities in the Level 1 update published in May 2014. Rating '4' indicates that final implementation measures are in force.

CPMI-IOSCO also initiated a Level 2 and a Level 3 assessment against the implementation of the responsibilities in 2014-15. SEBI participated in this review as well.

### **B. Association With G20/Financial Stability Board**

The Financial Stability Board (FSB) is an international body established to address financial system vulnerabilities and to drive the development and implementation of strong regulatory, supervisory and other policies in the interest of financial stability. One of the main mandates of the FSB is to implement G20 policy announcements on financial regulation.

SEBI is a member of the plenary and regional committee group (RCG)-Asia of FSB. During 2014-

15, the FSB plenary met two times. FSB met in Cairns on September 17-18, 2014, and in Frankfurt on March 26, 2015. At its meetings, FSB discussed vulnerabilities affecting the global financial system and discussed work plans for completing core financial reforms such as (a) Building resilient financial institutions; (b) Ending too-big-to fail; (c) Market based finance (d) Making derivatives markets safer; (e) Benchmark reforms; and (e) Accounting and auditing.

The FSB regional consultative group for Asia held its meetings on April 23, 2014 in Cebu, August 27, 2014 in Kyoto and on March 4, 2015 in Bohol and reviewed FSB's policy priorities and work plan.

SEBI participated in FSB meetings and FSB-RCG for Asia meeting held in 2014-15. Further, SEBI provides comments to the Ministry of Finance on various FSB issues since the MoF is also a member to FSB from India.

Since the onset of the global financial crisis, the G20 has established core elements of a new global financial regulatory framework that will make the financial system more resilient and better able to serve the needs of the real economy. National authorities and international bodies, with FSB as a central locus of coordination, have further advanced this financial reform programme based on clear principles and timetables for implementation. FSB's major international policy reforms have now been agreed to globally to address risks and strengthen regulation across the financial sector.

FSB adopts, inter-alia, survey/questionnaire methodologies in order to obtain inputs for recommending policies and ascertaining the feedback and status of the recommended policies. During 2014-15, SEBI provided responses to various FSB surveys/questionnaires.

FSB has decided to conduct a country peer review of India in 2015-16. The objective of this review will be to assess the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within FSB, as well as their effectiveness in achieving desired outcomes. The country peer review will also examine the steps taken or planned by national authorities to address FSAP recommendations on financial regulation and supervision as well as on institutional and market

infrastructure that are deemed most important and relevant to FSB's core mandate of promoting financial stability.

SEBI's FSAP was conducted in 2011-12 and the report was published in August 2013. The report included a detailed assessment report on implementation of IOSCO objectives and principles of securities regulation (IOSCO principles).

### **C. Joint Forum**

The Joint Forum is a cooperative cross-sector group which was established in 1996 by its three parent bodies, the Basel Committee on Banking Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS), to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates. SEBI is a member of the Joint Forum since February 2012. The Joint Forum has recently been working on areas relating to credit risk management across sectors and asset encumbrance.

### **D. Regulatory policy initiatives pursuant to global developments**

On numerous occasions the vast and varying international experience gathered by SEBI through its international engagements with global bodies has been carefully applied to its domestic policy formulation. The deliberations and valuable knowledge sharing efforts at the international level translate to the formulation and adoption of global standards. Such standards are, time and again, adopted by SEBI in its domestic rule-making. While on the one hand, this demonstrates SEBI's commitment towards the international community, on the other hand it enhances and lends the necessary breadth and depth to SEBI's own policy formation.

Given this, SEBI has been proactive in developing policies based on issues discussed at the global level. For instance, international discussions and deliberations in key areas such as money market funds, high frequency trading, risk based supervision of market intermediaries, corporate governance, cyber security and regulation of central counter parties (CCPs) have provided very useful inputs and have been used by SEBI in its domestic regulations. Particularly, during 2014-15, SEBI published a consultation paper on Crowdfunding in India.

In addition to forming policy, SEBI continues to aim at improving the regulatory framework based on feedback at the international level received pursuant to assessments and reviews. Some instances of such evaluations are the IMF-World Bank's Financial Sector Assessment Programme (FSAP), IOSCO's thematic reviews and FSB reviews.

### **E. International Advisory Board (IAB)**

SEBI constituted the IAB in September, 2011, as part of the measures initiated by SEBI to respond to the challenges arising out of the global financial crisis. The role of the IAB is to guide SEBI with its advice on future direction for the organization, taking into account relevant global experiences, emerging challenges and latest developments in the regulatory space.

The current Members of the IAB, in addition to Chairman, SEBI are Prof. Viral Acharya, Ms. Jane Diplock, Mr. Russell Loubser, Mr. Blair Pickerell and Dr. Andrew Sheng (arranged alphabetically by their surnames).

The IAB meets once or twice in a year. During the financial year 2014-15, the IAB met on July 18-19, 2014 for its fourth meeting. In this meeting, the IAB deliberated on the following issues:

- Corporate Governance Norms in India
- System-Driven Disclosures in Indian Securities Market
- Crowd-funding: The Emergence of a New Channel of Fund Raising
- New Products for channelizing institutional and HNI money for financing SMEs, Startups and Infrastructure
- Legislative Recommendations of the Financial Sector Legislative Reforms Commission (FSLRC) and International Best Practices.

In this meeting, the IAB also had an Open-house Session on Challenges Facing Securities Markets to exchange ideas among IAB members on various important challenges faced by various securities markets jurisdictions. Some of the important issues highlighted during this discussion included, high frequency trading (HFT), market fragmentation, need for market making to provide liquidity, risks related to sudden outflow of FPI money, retaining investors through economic cycles, professionalization of

intermediation industry, optimum level of regulations, financial literacy, etc.

The earlier three meetings of the IAB were held on January 27, 2012, November 3-4, 2012 and December 9-10, 2013, respectively. After each of the IAB meetings, SEBI issues a press release on the issues discussed in the IAB. SEBI Board is also apprised of the proceedings at the IAB meetings and subsequent action taken on recommendations made by the IAB.

The members of the IAB are distinguished personalities from the academic, finance and regulatory world. Prof. Acharya is the C.V. Starr Professor of Economics in the Department of Finance at New York University Stern School of Business. Ms. Diplock is the former Chairman of both the Executive Committee of IOSCO and of the New Zealand Securities Commission. Mr. Loubser is the former CEO of Johannesburg Stock Exchange. Mr. Pickerell is the Chairman, Asia of Nikko Asset Management Co. Dr. Sheng, is the former Chairman of the Securities and Futures Commission of Hong Kong.

#### **F. Bilateral Engagements**

SEBI has signed bilateral MoUs with various securities regulators for enhancing cooperation and exchange of information for regulatory and enforcement purposes. The objective of such bilateral MoUs is to strengthen cross-border cooperation in the area of securities regulations. The bilateral MoUs facilitate mutual assistance, contribute towards efficient performance of supervisory functions and

enable effective enforcement of laws and regulations governing the securities markets.

These bilateral arrangements mark a crucial step in SEBI's commitments towards enhancing mutual cooperation with the securities markets' regulatory authorities the world over. As of March 31, 2014 SEBI had signed 18 bilateral MoUs and a letter of intent for mutual assistance and cooperation.

During 2014-15, SEBI entered into the following MoUs for bilateral cooperation.

##### **a. MoU with Non-Bank Financial Institutions Regulatory Authority (NBFIRA), Botswana**

On May 22, 2014 SEBI signed a bilateral MoU with the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), Botswana. The MoU was signed by Mr. U.K. Sinha, Chairman, SEBI and Mrs M. Dube, chairperson, NBFIRA at the SEBI headquarters, Mumbai.

The MoU between SEBI and NBFIRA seeks to promote mutual assistance and exchange of information between the two jurisdictions. The MoU also seeks to establish and implement technical assistance and a training programme with a view to facilitating the development of a deeper and broader capital market, enhancing greater cross-border activities and attaining closer regulatory cooperation between two jurisdictions in a mutually beneficial manner. It is notable that this MoU signed with SEBI is NBFIRA's first MoU with a regulator outside Africa.



*Above: SEBI signing a bilateral MoU with NBFIRA, Botswana at SEBI headquarters, Mumbai.*

#### **b. MoU with 27 securities regulators**

SEBI and securities market regulators of 27 member states of the European Union (EU)/European Economic Authority (EEA) signed bilateral MoUs concerning consultation, cooperation and the exchange of information related to the supervision of alternative investment fund managers (AIFMs). The bilateral MoUs were signed on July 28, 2014.

The MoUs were signed in pursuance of the EU Alternative Investment Fund Managers Directive (AIFMD) that was adopted by the European Council and Parliament in July 2011 which requires that adequate supervisory cooperation arrangements be put in place between EU and non-EU supervisory authorities including SEBI.

Through these MoUs SEBI and EU authorities expressed their willingness to cooperate with each other in the interest of fulfilling their respective regulatory mandates, particularly in the areas of investor protection, fostering market and financial integrity and maintaining confidence and systemic stability.

#### **c. Engagement with ESMA on EMIR**

The European Parliament and Council adopted the European Market Infrastructure Regulations (EMIR) effective from August 2012. As per Article 25(1) of 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 recognised by ESMA.' Therefore, the securities markets CCPs established and operating in India have to seek recognition from ESMA for clearing trades of entities which originate from EU.

In 2014, SEBI received a draft MoU from ESMA which is a prerequisite of recognition under EMIR for all future supervisory activities. Subsequently, SEBI provided information to ESMA about its regulatory laws and rules which helped ESMA issue technical advice to EC that 'CCPs are subject to effective supervision and enforcement in India' (October 2013). Both SEBI and ESMA have further revised the MoU and it was at an advanced stage of discussion between the authorities as on March 31, 2015.

#### **G. Ministry References: Contribution to various International Treaties and Dialogues**

During 2014-15, SEBI continued to contribute towards an effective and useful engagement with the Government of India with regard to various international treaties and dialogues in areas related to securities markets.

In this direction, SEBI provided inputs to the Ministry of Finance on various issues, agenda items and topics relating to securities markets for a number of bilateral dialogues through the year. In particular, SEBI provided comments with respect to a study conducted by SAARC on the development of capital markets in SAARC countries; the spring meeting of the World Bank and IMF at Washington and FSB's work programme on long term finance and questionnaire.

Further, inputs were also given with respect to the 70th annual session of UN-ESCAP on the implementation of the Bangkok Declaration on the Regional Economic Cooperation and Integration in Asia and the Pacific; the World Bank Group's Doing Business Survey-2015; the third round of Indo-Swiss Financial Dialogue; the 22nd Indo German Consultative Group; the 6th India-Norway bilateral consultation; the 7th India China dialogue; the 7th Indo-Japan strategic dialogue on Economics issues; the UK-India Financial Partnership; the meeting with US-India Business Council; the second foreign office consultation between India and Indonesia and for the G20 ministerial meeting communiqué.

#### **H. Participation in International Programmes/ Conferences/Technical Assistance/Study Tours**

SEBI officials have been invited to participate as speakers/panellists at many accredited international seminars and conferences. During 2014-15, SEBI nominated its officials as speakers/panellists in various overseas training programmes/conferences/seminars held by international bodies. The purpose to nominate SEBI officials for these programmes was to share their expertise in renowned forums and to further strengthen SEBI's global image as a reliable source of knowledge and its competent human resources. In this regard, the following are noteworthy:

1. Whole time member, Shri Rajeev Agarwal represented SEBI at the 5th India-US Economic and Financial Partnership meeting in February 2015. The meeting was co-chaired by the Hon'ble

- Finance Minister of India and the US Secretary to the Treasury, Mr. Lew.
2. Study tours on REITs and InvITs for studying USA, Australia and Singapore's REITs and InvITs markets were organised for SEBI officials who are part of the team involved in REITs and InvITs regulation framing at SEBI.
  3. General Manager, Shri Shashi Kumar Valsakumar, represented SEBI at the 10th Asia Risk Annual Congress in Hong Kong on 30 October, 2014.
  4. SEBI had discussions with USIBC and top industry representatives of USA on the new regulatory developments by SEBI and the expectations of foreign investors.
  5. SEBI received a request from the Securities and Exchange Commission of Sri Lanka (SECL) for technical assistance to introduce real estate investment trusts (REITs) in Sri Lanka, with a focus on listed property development REITs. In this regard, SECL developed a draft framework for Sri Lankan REITs and requested SEBI's assistance in reviewing it. SECL requested SEBI's assistance through a suitable official with sufficient exposure

to REITs in India, who was also conversant with rational and technical details about REITs. Accordingly, SEBI provided technical assistance to SECL by reviewing its draft REIT guidelines and proposing further improvements.

#### I. MMoU Requests

SEBI's is committed towards the IOSCO Multilateral Memorandum of Understanding concerning consultation and cooperation and the exchange of information (MMoU), to which it has been a signatory since April 2003. SEBI provides cooperation and facilitates exchange of information with its counterparts in other jurisdictions.

During 2014-15, SEBI received 74 requests for information from overseas securities regulators seeking its assistance. SEBI addressed and executed such requests subject to the provisions of the MMoU. Similarly, 13 such requests were made by SEBI to counterpart regulatory bodies in other jurisdictions. In this regard, recently the US SEC appreciated SEBI's assistance in the SEC's investigation of the Profits Paradise case.

Table 3.69 highlights past trends in regulatory assistance made and received by SEBI over the last three years.

**Table 3.69: Trends of Regulatory Assistance Given and Received by SEBI**

Type of References	2012-13	2013- 14	2014- 15
Requests Received by SEBI from Foreign Authorities	40	94	74
Requests Made by SEBI	09	17	13

#### J. Visits of Foreign delegations/Dignitaries to SEBI

To promote mutual collaboration and establish deeper levels of regulatory cooperation, and to facilitate a better understanding of the Indian securities markets, SEBI played host to a number of important dignitaries and delegations of overseas regulatory bodies/agencies. Some such delegation visits are:

#### i. Securities and Exchange Commission of Pakistan (SECP)

A delegation of officials from SECP, visited SEBI for a study tour on April 21-22, 2014 as a part of the South East Federation of Exchanges' (SAFE's) mutual exchange programme. SEBI shared information on regulatory frameworks and Indian experiences on various topics relating to securities markets with the delegates.



*Above: SECP delegation's visit to SEBI.*

**ii. Japan FSA, SESC**

The first bilateral dialogue between SEBI and the Financial Services Agency (FSA), Japan took place in Mumbai on January 27, 2015. The delegation from Japan was headed by Mr. Shunsuke Shirakawa, Deputy Commissioner for International Affairs, Financial Services Agency (FSA) and included participants from FSA, Japan Exchange Group (JPX) and Japan Securities Dealers Association (JSDA). The Indian delegation was headed by Mr. Rajeev Kumar Agarwal, whole time member, SEBI and included participants from SEBI, NSE, BSE, ANMI and the BSE Brokers' Forum.

The bilateral dialogue between the two jurisdictions focused on both the regulatory and

industry perspectives. The delegation exchanged recent regulatory developments, including corporate governance related developments; experiences with REITs; the FPI regime in India; securities related SROs and their activities; policy measures to attract individual investors such as Nippon Individual Savings Account (NISA); and other key reforms.

Further, the bilateral dialogue also touched upon possible areas for promoting further cooperation and collaboration between the regulators of both the jurisdictions, including enforcement, policy formulation, capacity building and the common and underlying themes of investor protection.



*Above: JFSA, SESC delegation's visit to SEBI.*

---

### **iii. Lord Mayor, City of London**

A meeting with Rt. Hon. Alan Yarrow, Lord Mayor of the city of London took place at the SEBI head office in December 2014. The Chairman led the high level SEBI delegation. Discussions on recent regulatory developments and SEBI's future outlook were held during the meeting.

### **iv. Financial Hub Korea**

Director of Financial Hub Korea, and its head of the Overseas Advancement Support Team visited SEBI on December 17, 2014 for introducing Financial Hub Korea, FSS and requesting collaboration with SEBI on Korean financial companies advancing to India.

### **v. Bangladesh Securities and Exchange Commission**

A high level delegation from Bangladesh Securities and Exchange Commission and its Securities Tribunal visited SEBI on June 16-23, 2014. The delegation comprised of the Law Commissioner Bangladesh Securities and Exchange Commission

(BSEC) and Hon'ble judges of Securities Tribunal and senior officials from Ministry of Law, Justice and Parliamentary Affairs and Ministry of Finance of Bangladesh. The purpose of the visit was to understand the legal/regulatory framework of Indian securities markets including rules, regulations, functioning and court/case management of SAT.

Another delegation from BSEC visited SEBI on July 14-18, 2014. Eight officials of the level of executive directors and directors, related to committees of the clearing corporation, derivative Market and commodity exchange in Bangladesh visited India. SEBI facilitated their study visits to stock exchanges, commodity exchanges regulators and other important market intermediaries.

### **vi. Study visit from Bank of Tanzania**

Delegations from Bank of Tanzania came to SEBI for a study visit in November 2014. The delegation comprised of 15 members. The training dwelled on areas like financial inclusion and financial literacy, regulatory framework and supervision of stock exchanges and clearing corporations.

# Part Four:

## Organisational Matters of the Securities and Exchange Board of India

### 1. ABOUT SEBI

#### I. Establishment of SEBI

The Securities and Exchange Board of India (SEBI) was constituted 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 on April 12, 1988. The objective for setting up SEBI was to promote orderly and healthy growth of securities markets and for investor protection. Finally, SEBI was given a statutory status on January 30, 1992 by an ordinance. SEBI was enacted 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 '**... to protect the interests of investors in securities and to promote the development of, and to regulate securities markets and for matters connected therewith or incidental thereto.**'

#### III. SEBI BOARD

During 2014-15, Shri R. Gandhi, Deputy Governor, Reserve Bank of India (RBI) was nominated as one of the members on SEBI's Board

under Clause (c) of Sub-section (1) of Section 4 of the SEBI Act, 1992 by the Government of India (GoI) notification dated June 16, 2014 in place of Shri Anand Sinha. Further, Shri Manoj Joshi, Joint Secretary, Ministry of Finance, Department of Economic Affairs (DEA), Government of India (GoI) was nominated as one of the members on the SEBI Board in terms of the Government of India's notification dated November 12, 2014 in place of Dr Arvind Mayaram. Besides, Ms Anjuly Chib Duggal, Secretary, Ministry of Corporate Affairs (MCA) was nominated as one of the members on the SEBI Board in terms of the Government of India notification dated March 18, 2015 in place of Shri Naved Masood.

Details of members of SEBI's Board are given in Table 4.1.

#### 2. AUDIT COMMITTEE

In pursuit of high standards of governance and transparency, the SEBI Board, in its 127th meeting held on September 22, 2009, constituted an Audit Committee to exercise oversight of SEBI's financial reporting process and disclosure of its financial information.

**Table 4.1: Members of SEBI Board (as on March 31, 2015)**

Member	Position
Shri U. K. Sinha, Chairman, SEBI	Chairman
Shri Rajeev Kumar Agarwal, Whole-Time Member, SEBI	Member
Shri Prashant Saran, Whole-Time Member, SEBI	Member
Shri S. Raman, Whole-Time Member, SEBI	Member
Shri Manoj Joshi, Joint Secretary, Department of Economic Affairs	Part-time Member
Ms Anjuly Chib Duggal, Secretary, Ministry of Corporate Affairs	Part-time Member
Shri Prakash Chandra Chhotaray, Retired Chairman of Income Tax Settlement Commission	Part-time Member
Shri R Gandhi, Deputy Governor, RBI	Part-time Member

During 2014-15, the SEBI Board met five times (Table 4.2).

**Table 4.2: Board Meetings during 2014-15**

Participants	No. of meetings	
	Held	Attended
Shri U. K. Sinha	5	5
Shri Prashant Saran	5	5
Shri Rajeev K. Agarwal	5	5
Shri S. Raman	5	5
Shri Manoj Joshi*	3	3
Ms Anjuly Chib Duggal*	1	1
Shri P. C. Chhotaray	5	5
Shri R. Gandhi	5	2

Notes: 1. \* indicates 'Number of meetings held after assuming charge.'

2. Dr Arvind Mayaram attended 2 out of 2 meetings held during the year prior to his demitting office as a part-time member.
3. Shri Naved Masood attended 4 out of 4 meetings held during the year, prior to his demitting office as part-time member.

The Committee comprises three members nominated by the Board. The tenure of the members of the Committee is two years. The Committee is presently chaired by Shri Prakash Chandra

Chhotaray and Shri Rajeev Kumar Agarwal as a member. Shri Naved Masood has ceased to be the member of SEBI Board and therefore cease to be the member of Audit Committee. During the financial year 2014-15, the Committee held four meetings.

The Committee has the mandate to review:-

- The internal audit reports with the management and the internal auditors.
- The Quarterly statement of accounts of SEBI for the Quarters ended June, September and December 2014.
- The action taken by the management to rectify deficiencies and implement suggestions as pointed out by the internal auditors.
- The Investment Policy of SEBI.

During the year the Audit Committee through its review as above helped in bringing improvements in the internal control systems.

Throughout the year the Audit Committee has reviewed and discussed the annual statement of accounts of SEBI for the year 2014-15 with the management of SEBI and internal auditors. Relying on the review and discussions conducted with the management and internal auditors, the Audit Committee believes that SEBI's annual statements of accounts are fairly presented in conformity with the Generally Accepted Accounting Principles (GAAPs) in all material aspects. The Committee also reviewed the internal control systems put in place and expressed its satisfaction with the same. The members of the Committee discussed among themselves, without the management or the internal auditors being present, the information disclosed in the Annual statement of Accounts. The Committee fulfilled its responsibilities in compliance with its charter.

### 3. PROJECT MANAGEMENT OFFICE(PMO)

SEBI had engaged an independent consultant M/s Oliver Wyman to revisit the structural and organisational issues, re-prioritise areas of focus and to look at its technological and manpower needs. A project management office was set up to look after the implementation of the recommendations made by the consultant.

The PMO has initiated steps to implement various recommendations in a phased manner. During 2014-15, PMO drove implementation of the following recommendations:

### **I. Enforcement Handover**

An enforcement task force was constituted for strengthening efficiency and effectiveness of enforcement actions and to promote better synergy and coordinated efforts in the enforcement process. The task force recommended handing over of enforcement matters from operational departments to the enforcement department. Accordingly, the enforcement matters are being handed over from operational departments to the enforcement department.

### **II. Transition to a Risk Based Supervision Approach**

To evolve towards a formalised risk based supervision approach, a risk based supervision task force (RBSTF) was constituted. RBSTF submitted its report laying down a detailed mechanism to be adopted by the departments. Based on the mechanism laid down by RBSTF, the concerned operational departments are working on the process of transition to a formalised risk-based supervision approach.

### **III. Focused Efforts for Financial Literacy and Investor Engagement**

On the lines of the recommendations by the consultant, specific investor education programmes were undertaken in the identified 86 districts across the country. Further, a broad classification of investors namely, Level1 – Basic (first time investor); Level2 – Intermediate (those who have invested, but not very often) and Level3 – Sophisticated (learned investors) has been done and material developed accordingly.

### **IV. Revision of Delegation of Power**

The consultant recommended that there should be a revision of the existing delegation of powers in SEBI and broadly recommended that there should be further downward delegation of powers. Based on the experience of administering the earlier structure of delegation of powers and taking into account the

recent amendments to the securities laws including the Securities Laws (Amendment) Act, 2014, the recommendations of the consultant on restructuring the organisation and changes in the market environment, the existing delegation of powers has been revised, providing for further downward delegation of power.

### **V. Strengthening of Manpower in Supervision Activities**

Taking into account the increased requirement of staff in supervision activities and the recommendation of the consultant, staff strength in supervision activities has been strengthened significantly.

### **VI. Revamping Performance Appraisal System**

An overhaul of the performance management system for staff members has been undertaken. Under this, the performance review process has been redesigned to include normalisation and ensure discipline of the performance management process through an annual cycle.

### **VII. Usage of Common Taxonomy of Designations Across Streams**

To ensure consistency in taxonomy of grades across all streams it has been decided to use common designations across all streams (General, Legal, Research, IT, Engineering, Official Language, Protocol & Liaison and Communications).

### **VIII. Realignment of Reporting Structure**

In order to develop better team management and team building skills and improving the average management span, the reporting structure has been realigned. Accordingly, reporting of assistant managers has been realigned to assistant general managers.

Further, to drive implementation of other recommendations involving multiple departments, several task forces have been set up: (i) Policy Design Task Force on Regulatory Approach; (ii) Policy Design Task Force on Omnibus Licensing; and (iii) IT Strategy and Governance Task Force.

#### 4. HUMAN RESOURCES

The human resources division continued to play an important role with a prime focus on implementing policies on capacity building, training, promotions, placement and transfers.

##### I. Staff Strength, Recruitment and Resignations

As on March 31, 2015, SEBI had 746 employees in various grades of which 652 were officers and 94 comprised of secretaries and other staff. The male-female ratio was around 2:1. The grade-wise distribution of staff is provided in Table 4.3.

**Table 4.3: The Grade-Wise Distribution of Staffs**

Sl. No.	Grade	Total
1	Executive Director	7
2	Chief General Manager	21
3	General Manager	27
4	Deputy General Manager	51
5	Assistant General Manager	315
6	Manager	88
7	Assistant Manager	143
8	Secretary/ Account Assistant/ Library Assistant - Gr. C	3
9	Secretary/ Account Assistant/ Library Assistant - Gr. B	73
10	Secretary/ Account Assistant/ Library Assistant - Gr. A	15
11	Junior Assistant	1
12	Cook/ Peon	2
<b>Total</b>		<b>746</b>

During financial year 2014-15, 10 officers in Grade A (Assistant Managers) joined SEBI's services. SEBI appointed one Chief General Manager on deputation. Consequent to completion of terms, two posts of executive directors fell vacant which were filled up. Further, during the year, 14 officers resigned from SEBI's services.

##### II. Distribution of Officers by Qualification

While recruiting staff members SEBI endeavours to strike a balanced composition of generalists and specialists in relevant fields. Distribution (in percentage) of officers by qualification is presented in Table 4.4 and Chart 4.1.

**Table 4.4: Distribution of Staff by Qualification**

Qualification	No. of Officers
MBA/ PGDM/ PGDBA	315
CA/CS/ICWA/CFA	94
Law (LLB/ LLM)	103
Others	140

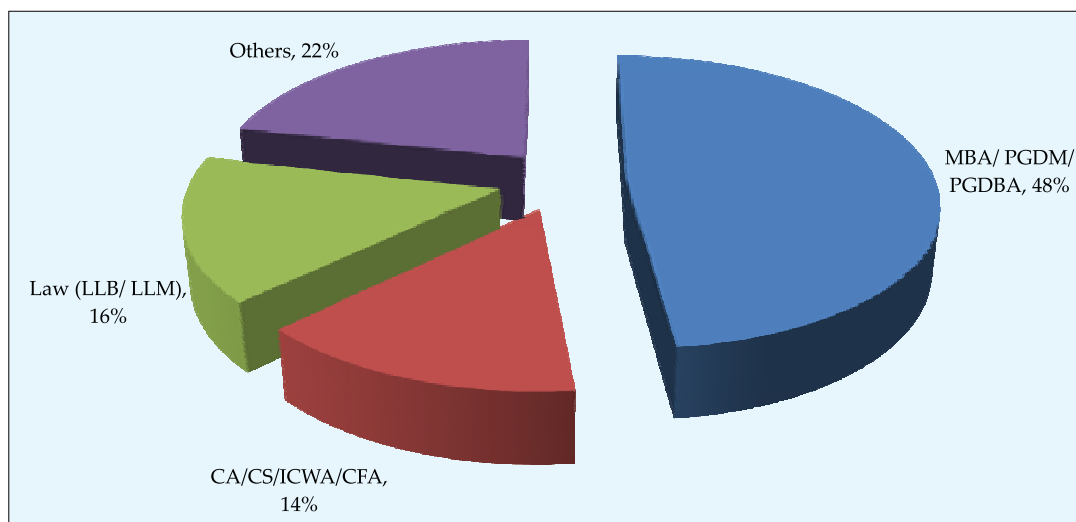
##### III. Promotions

To facilitate career progression, promotion exercises in various grades were undertaken during 2014-15 (Table 4.5).

##### IV. Job Rotation

Officers in various grades were transferred as part of inter-departmental and inter-office job rotation measures; 37 officers were rotated among different departments. Further, reallocation of departments among the executive directors was also undertaken during the year.

**Chart 4.1: Distribution of Staff by Qualification**



**Table 4.5: Promotion of Staff in Various Grades**

Promoted From	Promoted To	No. of Persons Promoted
Assistant Manager	Manager	64
Manager	Assistant General Manager	20
Secretary Grade B	Secretary Grade C	1

**V. Strengthening of Regional/Local Offices**

During 2014-15, 22 officers were transferred to various regional/local offices of SEBI. A percentage-wise distribution of staff at the head office and in regional offices, including the local offices under them is provided in Chart 4.2.

One divisional chief from each of the regional offices was designated as recovery officer. Further, four officers were designated for official language-related work in the regional offices.

**VI. Redefining the Designation of Heads of Regional Offices**

To ensure alignment with domestic peers and other enforcement agencies, the designation of an officer in charge of a regional office has been redefined as ‘Regional Director’.

**VII. Usage of Common Taxonomy of Grades Across All Streams**

To ensure consistency in taxonomy of grades across all streams it has been decided to use common designations across all streams (namely, General, Legal, Research, IT, Engineering, Official Language, Protocol & Liaison and Communications). The

designations across all streams are given in Table 4.6.

**Table 4.6: Common Taxonomy of Officers**

Officer Grade	Designation
Grade - F	Chief General Manager (CGM)
Grade - E	General Manager (GM)
Grade - D	Deputy General Manager (DGM)
Grade - C	Assistant General Manager (AGM)
Grade - B	Manager (Mgr)
Grade - A	Assistant Manager (AM)

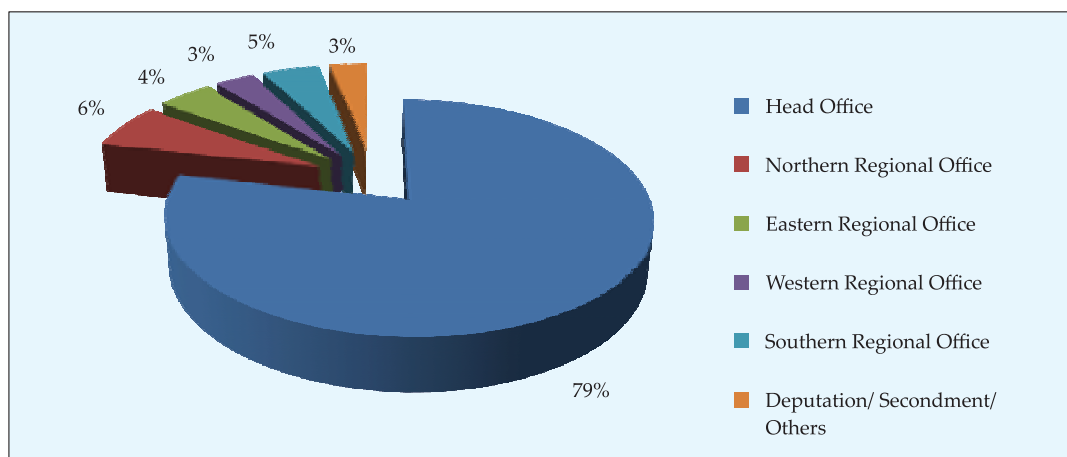
**VIII. Realignment of Reporting Structure**

In order to develop better team management and team building skills and improving the average management span, the reporting structure has been realigned. Accordingly, reporting of Assistant Manager has been realigned to Assistant General Manager.

**IX. Staff Benefits**

A scheme of special hardship leave for female employees has been introduced. This scheme has been introduced to enable female employees meet their special problems during their careers. Special hardship leave can be availed for any purpose like

**Chart 4.2: Distribution of staff in various offices**



taking care of the family or children or on health grounds of self or dependent family members.

SEBI always endeavours to encourage its employees to pursue higher studies and upgrade their skills. As such, collaborations have been done with the CFA Institute, USA, whereby the CFA programme is offered at concessional rates to employees; 27 enrolments were made for the CFA course during the financial year under this collaboration.

SEBI also collaborated with the Japan-IMF Scholarship Programme for Asia (JISPA) and the Temasek Regional Regulators Scholarship (TRRS) Programme, wherein suitable staff members get an opportunity to study at renowned global institutes for various academic programmes in the field of economics, finance, governance and public policy.

## **X. Training and Development**

In order to enhance and widen the knowledge base and perspective as well as 'soft skills' (including motivation and communication skills), staff members across all grades have been nominated for various behavioural and functional training programmes, both domestic and foreign. Several training initiatives were undertaken during the year to enhance the skills and efficiencies of staff members, brief details of which are:

### **a. Domestic Trainings/Workshops**

Human resources in organisations require inputs on motivation and behavioural attributes so that they behave positively in a team and contribute to organisational success. Officers in senior positions require sound soft skills as they have to deal with various stakeholders and are involved in decision making. It is in this background that SEBI organised two-day outbound workshops on 'Motivation, Team Building and Leadership' for assistant general managers (AGMs); 246 AGMs participated in seven batches of such behavioural workshops organised during 2014-15.

In addition, 751 nominations were made for various other domestic training programmes during the year. Some of the workshop/training programmes arranged/conducted for staff members during the financial year are:

- Workshop on Algo and High Frequency Trading

- Workshop on Perspective on Securities Laws
- Derivatives and Risk Management
- Workshop on Prevention of Sexual Harassment at Workplace
- Workshop on Forensic Accounting- Analysis & Audit
- Induction Programme for newly Recruited Officers - Phase II
- Workshop on Noting, Drafting and Office Procedure
- Workshop on Communications and Inter-personal Skills
- MDP for Private Secretaries/Executive Assistants/Executive Secretaries
- Workshop on Macroeconomics for Regulators
- Attachment Programme with Intermediaries for Newly Recruited Staff Joiners

### **b. Foreign Trainings/Seminars/Meetings/Conferences**

In order to promote the development of and to regulate securities markets effectively and efficiently in a globalised market structure and to build adequate capacity, proper understanding of international best practices on various aspects of securities markets is required. In this regard SEBI nominates its staff for various study tours, seminars, conferences, training programmes, etc. organised by various foreign regulatory/multilateral agencies/organisations. Moreover, SEBI is also an active member of the International Organisation of Securities Commissions and is represented in many of its committees and sub-committees. During the year, 80 nominations were made for various international trainings/seminars/meetings/conferences.

## **XI. Orientation Programmes for Outside Agencies**

During the year, SEBI organised orientation programmes/visits for participants from other government bodies/organisations/institutes:

- Visit of Indian Foreign Service Officer Trainees
- Visit of newly recruited Manipur Civil Services Officers by IIPA
- Training programme for Assistant Directors

and Young Professionals of Financial Markets Division, DEA, MoF

## XII. Internships

As an integral part of its policy SEBI offers short-duration projects/internships to students of reputed management and law schools. In this context, SEBI offered internships to 52 students during the financial year.

## XIV. Recreational Activities for Staff members

The SEBI sports committee organised intra-SEBI sports tournaments during the year. SEBI staff members participated in chess, sudoku, carom, table tennis, cricket and badminton competitions. There was a significant increase in SEBI staff members' participation in the Mumbai Marathon 2015 in which 217 staff members participated. The quarterly issues of the in-house magazine *Insider* were published regularly.

## XIV. Initiatives in the Realm of Corporate Social Responsibility

Contributions towards the Prime Minister's National Relief Fund were collected from staff

members for relief efforts for the victims of flood-affected areas in Jammu and Kashmir. ₹ 9,10,218 was donated towards this cause. A communication of appreciation was received from the Prime Minister's office. (Chart 4.3)

SEBI Shakti (a women staff group) organised two blood donation camps in collaboration with KEM Hospital. These received an overwhelming response from staff members with over 123 donors voluntarily giving blood. SEBI Shakti also organised a visit to the Bandra East Community Centre, which is a registered NGO looking after street children, senior citizens and local community members and donated food, sweets and items of daily use with funds of around ₹ 42,000 collected from SEBI employees. In addition, SEBI Shakti distributed clothes and other necessary items at Shanti Avedna Sadan, a semi-hospital that caters to terminally ill cancer patients, especially the poor, free of cost. On the eve of Christmas, gifts were distributed among children at 'Prem Sadan, an orphanage. Funds in cash and kind were collected by SEBI Shakti for NGO Goonj, to help the Jammu and Kashmir flood victims.

**Chart 4.3: Communication of appreciation received from the Prime Minister's Office**



## **XV. Scheme for Recognizing and Rewarding Academic Excellence of Employees' children**

During the financial year, 21 children of employees were rewarded for academic excellence in Classes X and XII. They were also presented certificates of appreciation by the Chairman, SEBI during Republic Day celebrations.

## **XVI. Disciplinary Matters**

Disciplinary proceedings were initiated against one staff member during the financial year.

## **5. PROMOTION OF OFFICIAL LANGUAGE**

In order to ensure compliance with the official language policy of the Government of India various efforts were made to implement the official language Hindi in SEBI's offices during the year:

### **I. Bilingualisation**

During 2014-15, all notifications 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. Further, statutory reports like the annual report and the audit report were also issued in Hindi and English.

### **II. Rajbhasha Function**

During 2014-15, a Rajbhasha Samaroh was organised to honour the winners and participants of various Hindi competitions, which had been organised to encourage staff members to use of Hindi in their day-to-day official work. During the Rajbhasha Samaroh, all the winners and participants were awarded mementos and certificates. A dictionary was given to all the participants, to facilitate their contribution towards implementation of the official language policy of the Government of India.

### **III. Hindi Website and Investor Website**

As a part of implementation of the official language policy of the Government of India, various steps were taken with a view to making SEBI's Hindi website more informative for the public. Towards this, various regulations, amendments and other notifications notified in the Official Gazette were also made available on the Hindi website. In addition

efforts were made to provide various material in Hindi on SEBI's dedicated investor website.

## **IV. Aaj Ka Shabd, Hindi Noting and Hindi Quotes**

To make staff members conversant with Hindi, one new Hindi word was displayed daily through the SEBI portal during the year. The practice of displaying one phrase, generally used in Hindi notings and one Hindi quote daily on the SEBI portal for staff members also continued during 2014-15.

## **V. Incentive Schemes**

In order to promote the use of the official language Hindi, incentive schemes Hindi ka Karyasadhak Gyan, Hindi Tankan/Aashulipi Gyan, Hindi Karya, Rajbhasha Shilpi, Rajbhasha Gaurav, Rajbhasha Pratishtha and Rajbhasha Shiromani continued during the year. Information about such incentive schemes was also provided through Hindi workshops organised during the year.

## **VI. Hindi Workshops**

During the year, Hindi workshops were organised for newly recruited officers who were made aware of various requirements relating to the official language policy of the Government of India to 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.

## **VII. Rajbhasha Meetings & Seminars**

In order to ensure compliance and implementation of the official language policy of the Government of India in the offices of the Board, meetings of the Official Language Implementation Committee were conducted. Accordingly, during the year 2014-15, various crucial decisions were taken with regard to the usage of Hindi in day-to-day official work. In addition, officials of the Board also took part in the Rajbhasha Seminars organized by other institutions.

## **6. Regional Offices**

Efforts are being made in the regional offices also for compliance with the official language policy of the Government of India. These include holding meetings of the Official Language Implementation Committee, bilingualisation, replying in Hindi to the

letters received in Hindi and corresponding in Hindi. During the year, officers were designated in the regional offices for official language related work.

## 6. LOCAL OFFICES

The SEBI Board in its meeting held on March 25, 2011 had suggested that SEBI should explore the scope of strengthening its regional offices and open local offices in various state capitals for the development of a pan-India securities market. It was felt that physical proximity of a SEBI office to investors and intermediaries would promote deepening and broadening of securities markets. The proposal was approved by the board on July 28, 2011 and the implementation of the decision to open local offices was done in phases, with Phase I starting from 2011-12.

- I. SEBI has acquired and furnished office premises on lease basis for a local office in Bhubaneswar. This office was inaugurated on November 5, 2014 and is now functioning from the premises to cater the needs of investors in the state of Odisha.
- II. SEBI acquired and furnished office premises on lease basis for the local office in Indore. The Indore local office was inaugurated on November 7, 2014 and is now functioning from the premises to cater to the needs of investors in the state of Madhya Pradesh.
- III. SEBI acquired and furnished office premises on a lease basis for a local office in Panaji. The Panaji local office was inaugurated on January 29, 2015 and is functioning to cater to the needs of investors in the state of Goa.

As on March 31, 2015, there were 14 local offices of SEBI in Dehradun, Chandigarh, Lucknow, Bengaluru, Cochin, Hyderabad, Bhubaneswar, Gauhati, Patna, Ranchi, Jaipur, Panaji, Raipur and Indore.

## 7. VIGILANCE CELL

Vigilance awareness week for 2014 was observed from October 27, 2014 to November 1, 2014. The theme for the week was 'Combating Corruption- Technology as an enabler'. The week commenced with a pledge administered by whole time member to the executive directors and division chiefs, who in turn, administered the pledge to their staff. Regional directors located at the four regional offices – northern, eastern, southern and western administered the pledge to their staff. A banner on 'Vigilance Awareness Week' was prominently displayed outside the office premises in Mumbai and in all regional and local offices during the week.

Training courses were conducted on vigilance awareness on May 15, 2014, the then Vigilance Commissioner Shri J. M. Garg delivered a talk to senior officers of SEBI on vigilance related issues.

## 8. INFORMATION TECHNOLOGY

The major information technology (IT) initiatives taken during 2014-15 include:

### I. Portal Implementation

A new enterprise SEBI portal is being implemented in SEBI with the following main components:

- a. Design, development and implementation of the enterprise portal including a portal, enterprise-wide search, business process monitoring (BPM) and a business intelligence (BI) tool.
- b. Customisation and integration of an enterprise resource planning (ERP) suite which includes HRMS, finance, budget, reimbursement, procurement and employee self-service.
- c. Integration of various SEBI applications like the document management system (DMS), regulatory action system, SCORES, data warehousing and business intelligence system (DWBIS), employee benefits system, regional office and local offices accounting and management system and a retired employee portal.

### II. Implementation of IP telephony, Unified communication and upgradation of the SEBI Network

IP telephony and unified communication was implemented successfully. Upgradation of the SEBI network was also completed. The IP telephony services and WAN connectivity were extended to local offices. The project was successfully implemented and is now functioning efficiently for the regular use of officials.

### III. Implementation of a Robust Virtual Private Network (VPN) solution with a SMS based two factor authentication system

A new, robust VPN solution with a two factor authentication system for safe and secure connectivity to the SEBI portal and webmail from the internet was implemented. A SMS gateway has been integrated with the VPN solution to send a two factor authentication code to user mobile phones.

## CHRONOLOGY OF MAJOR POLICY INITIATIVES 2014-15

Date	Policy measures
April 07, 2014	SEBI restored the margins for USD-INR contracts to pre July 08, 2013 rates.
April 07, 2014	FPIs permitted to invest only in dated Government securities having residual maturity of one year or above and also prohibited from making further investments in treasury bills.
April 17, 2014	Amendments were carried out to clause 49 of the equity listing agreement to revise norms on corporate governance in listed entities
April 23, 2014	SEBI revised guidelines for LES in the cash and equity derivatives segments.
April 28, 2014	To ensure adequate infrastructure facilities and appropriate systems and controls for DDPs, it was stipulated to have segregation of activities of DDPs, necessary infrastructure, complete manual, monitoring of systems and controls and submission of periodic reports.
May 15, 2014	Risk management framework for FPIs under the SEBI (FPI) Regulations, 2014 was specified.
May 22, 2014	Detailed circular was issued on dealing with companies exclusively listed on non-operational stock exchanges which have not achieved the prescribed turnover of ₹ 1000 crore on continuous basis on or before May 30, 2014.  Limit of cash transactions in mutual funds was increased from limit of ₹ 20,000 to ₹ 50,000 per investor, per mutual fund, per financial year.
June 03, 2014	SEBI modified the Securities Lending Borrowing framework by replacing requirement for agreement between client and clearing member with requirement of a Right and Obligations documents of CMs and clients.
June 16, 2014	With a view to harmonise KYC norms for FPIs , DDPs were advised to share the relevant KYC documents with the banks concerned based on written authorization from the FPIs.
June 17, 2014	Base issue size, minimum subscription, retention of over-subscription limit and further disclosures in the prospectus for public issue of debt securities were specified.  FPIs were permitted to invest on repatriation basis, in non-convertible/redeemable preference shares or debentures issued by an Indian company listed on recognized stock exchanges in India.
June 19, 2014	In order to increase transparency and provide reporting norms to AIFs, guidelines were issued on disclosures, reporting and clarifications were provided under AIF Regulations.
June 20, 2014	In consultation with RBI, SEBI revised the position limits for currency derivatives contracts and permitted FPIs to trade in the currency derivatives segment of stock exchanges  In order that debt oriented schemes have an adequate corpus to ensure adherence to the investment objectives, minimum subscription amount of debt oriented and balanced schemes at the time of NFO will be ₹ 20 crore and that of other schemes at least ₹ 10 crore.

July 01, 2014	SEBI modified the requirement for dispatch of physical Statements to BOs having zero balance and nil transactions under basic services demat account and regular account. SEBI issued clarification with regard to usage of old DIS.
July 04, 2014	Effective date of implementation of guidelines on DIS issuance and processing by depositories and DPs was extended to October 1, 2014.
July 23, 2014	Investment limit in government securities available to all FPIs was enhanced by USD 5 billion by reducing the amount available to long term FPIs from USD 10 billion to USD 5 billion within the overall limit of USD 30 billion.
July 24, 2014	SEBI issued clarification on position limits of domestic institutional investors for currency derivatives contracts.
August 1, 2014	Stock exchanges were advised to step up monitoring of compliance by listed entities with the principles of corporate governance
August 8, 2014	With a view to encourage retail participation in OFS, SEBI expanded the framework of OFS of Shares through stock exchange mechanism.
August 22, 2014	Securities Laws (Amendment) Act, 2014 notified.
August 25, 2014	Amendments were made to the provisions of SEBI (ICDR) Regulations, 2009 which included permitting bonus shares issued in preceding one year prior to filing of the draft offer document to be offered for sale, increasing investment bucket of anchor investors from 30 percent to 60 percent of the QIB portion, Requirement to align minimum net offer to public with the norms at rule 19(2)(b) of SCRR, 1957, prescription of norms for pricing of infrequently traded shares to be allotted in preferential issue and specification of requirement of adjusting the pricing of shares to be allotted in preferential issue in case of corporate actions
August 27, 2014	Granular norms were issued on core settlement guarantee fund, stress testing and default procedures to enhance the robustness of the present risk management system in the clearing corporations.
August 28, 2014	For information of all investors who deal/ invest/ transact in the market, it was decided that offices of all stock brokers and DPs will display basic information, about the grievance redressal mechanisms available to investors.
September 1, 2014	SEBI (Research Analysts) Regulations, 2014 were notified
September 15, 2014	Further amendments were carried out to clause 49 of the equity listing agreement on corporate governance in listed entities. It was clarified that in IRFs, mutual funds shall have position limits as applicable to trading members and schemes of mutual funds shall have position limits as applicable to clients presently.
September 26, 2014	SEBI (Real Estate Investment Trusts) Regulations, 2014 and SEBI (Infrastructure Investment Trusts) Regulations, 2014 were notified
September 29, 2014	SEBI modified the Investor Protection Fund (IPF)/Customer Protection Fund (CPF) Guidelines
October 8, 2014	Single registration for stock broker/ clearing member with any stock exchange/ clearing corporation was implemented through amendment to the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

October 13, 2014	Guidelines issued for revised registration requirements pursuant to implementation of single registration of stock brokers/CMs.
October 21, 2014	SEBI modified the guidelines for client codes modification of non-institutional trades executed on stock exchanges.
October 22, 2014	Based on feedback from non-stock brokers, SEBI revised the proprietary position limits of non-bank stock brokers for currency derivatives contracts.
October 28, 2014	SEBI (Share Based Employee Benefits) Regulations, 2014 were notified.
November 12, 2014	SEBI issued guidelines for CAS for all securities assets.
November 24, 2014	To align the applicable eligibility and investment norms between FPI regime and subscription through the ODI route conditions for issuance of ODIs under FPI Regulations were issued.
December 01, 2014	To make it easier for retail investors to participate in OFS, SEBI modified the mechanism for OFS of Shares through stock exchange mechanism.
December 9, 2014	In order to broad base transaction in mutual fund schemes through stock exchange infrastructure, non-demat transactions were also permitted through the platform.
December 18, 2014	Consolidated circular was issued on redressal of investor grievances through SCORES platform.
December 24, 2014	SEBI (Depositories and Participants) Regulations were amended providing single and permanent registration of DP through any depository.
December 30, 2014	Guidelines issued for implementing single registration of DPs Pursuant to advice DoR-MoF on the registration for Indian financial institutions with the US Revenue authorities, SEBI has issued clarifications on the matters relating to registration with US- Internal Revenue Service to get global intermediary identification number under FATCA.
January 12, 2015	SEBI revised the mechanism of index based market-wide circuit breaker. On basis of recommendation of Depository Systems Review Committee, SEBI issued risk management policy framework for the Depositories.
January 12, 2015	FPIs shall not be permitted to invest in liquid and money market mutual fund schemes. Change in investment conditions/restrictions for FPIs was specified. FPIs prohibited from investing in liquid and money market mutual fund schemes.
January 15, 2015	SEBI (Prohibition of Insider Trading) Regulations, 2015 were notified.
March 04, 2015	With a view to increase participation, resident individual investors were allowed to open a trading account and demat account by filling up a simplified Saral Account Opening Form.
March 24, 2015	Amendments were carried out to the provisions of SEBI (ICDR) Regulations, 2009 in respect of investment in partly paid shares and warrants.



## **SECURITIES AND EXCHANGE BOARD OF INDIA**

Head Office

SEBI Bhavan, Plot No. C4-A, 'G' Block, Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051

Website: <http://www.sebi.gov.in>