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Mr. U.K. Sinha, Chairman- October 27, 2015- Mumbai

Good Morning ladies and gentlemen, It is indeed a great honour for me to deliver at FICCI's Annual conference on Recent Innovations in the Capital Markets. The Conference has brought together eminent scholars and policy practitioners to brainstorm on issues of contemporary relevance to the Indian economy. Such interchange of ideas is important not only in encouraging research but also in shaping the contours of policymaking.

While the recent global financial crisis taught us several lessons, one key message has been the weaknesses in financial regulation. Greater belief on market discipline led to light touch regulation of financial entities. Even this was found onerous by many entities which shifted their activities outside the regulatory perimeter. Coupled with inadequacies in the pricing and measurement of risks, this led to the build-up of substantial risk in the global financial system.

Against this backdrop, I examine the rationale for recent regulations and innovations in the context of the debate and initiatives in the post-crisis period. I then discuss the approach by SEBI to various new regulations and its interface with the new initiatives so as to ensure a robust risk management framework across the market infrastructure institutions as well as introducing policies that strengthen the supervision of market players.

The global Economic growth has slowed down in 2015. Emerging risks and volatility from global developments such as slowdown in China, crisis in Europe, weak global trade and prospects of interest rate hike by Federal Reserve, have raised concerns for the global economic growth prospects in both 2015 and 2016. The emerging economies have also been witnessing significant slowdown in growth. Against this back drop of negative to modest positive growth rates for major world economy, Indian economy holds the potential to register strong growth rates. The outlook for growth in India is improving gradually. Recently, International Monetary Fund (IMF) chief has also noted that "global growth will likely be weaker this year with only a modest acceleration expected in 2016 but India remains a bright spot". IMF, in its October 2015 World Economic Outlook (WEO) update, has reduced the global growth projections by 0.2 percentage points for both 2015 and 2016 to 3.1 per cent and 3.6 per cent, respectively. Among, major emerging economies, during 2015 the GDP growth in India is projected at 7.3 per cent, China at 6.8 per cent, Mexico at 2.3 per cent, South Africa at 1.4 per cent, Brazil at -3.0 per cent and Russia at -3.8 per cent.

The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP) GDP. A stable government provides a more conducive environment for rollout of reforms and eases decision making. With politically stable government at center, Indian economy is poised to gain momentum as investors' confidence in Indian economy has improved significantly.

If we look at foreign investments in India, with relaxed FDI norms, low labour costs, growing domestic market, government's efforts to ease doing business, stable macroeconomic, political and social conditions, India has emerged as the most attractive investment destination in the world for the next three years surpassing China and the US.SEBI (Foreign Portfolio Investors) Regulations, 2014 were notified and made effective from June 2014. Existing Foreign Institutional Investors (FIIs) and QFIs were merged into one category called FPI. The regime hence simplifies the investment and registration norms for foreign investors and has made Indian securities market more attractive to foreign investors.

If we look at foreign portfolio investment (FPI) in India, India has received a net inflow of US$ 10 billion in 2015 so far, of which US$ 3.7 billion pertains to equities segment. Foreign investment inflows are expected to increase by more than two times and cross the US$ 60 billion mark in FY15 as foreign investors start gaining confidence in India's new government, as per an industry study. India will require around US $1 trillion according to the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This requires support in terms of foreign investments in India.

Since the establishment of SEBI, the securities market in India has developed significantly. Before the establishment of SEBI, activities in securities markets lacked a comprehensive regulatory framework and were opaque. Establishment of SEBI led to successful transition from a highly controlled merit based regulatory regime to market oriented disclosures based regulatory regime.

Over the last two decades, SEBI, at all times, ensured that Indian securities market develops in terms of product, technology, participants, surveillance and enforcement, in tandem with international standards. SEBI has incessantly strived for a well regulated modern securities market in India by adoption of various global standards and international best practices. With the implementation of different rules and regulations prescribed by SEBI, the access to information has increased; risk of defaults has gone down and the overall governance and ambience has become conducive for protection of investors' interests and overall development of securities market in India.

The Indian capital markets have evolved manifold in terms of size, reach, diversity of investors and product complexity. Our equity derivative markets stands among the top five in the world. Currency derivatives have attained global ranking in terms of trading volumes in a short span of 7 years.

In spite of stress in corporate earnings, India Inc's fund raising through primary market grew up in 2015-16 as compared to previous year. In 2015-16 so far, 36 companies accessed the capital market and raised Rs.13,563 crore. In 2015-16, Government has raised over 12600 crore through sale of its stakes in four public sector companies - Power Finance Corp. Ltd, Rural Electrification Corp. Ltd, Dredging Corp. of India Ltd, and Indian Oil Corp. Ltd.

During the past few years, SEBI has come up with several policy initiatives in order not only to strengthen the regulatory framework of the Indian Capital market but also align the role of capital market to the larger vision of the Government of India, international best practices and more importantly to the investing and funding needs of the inspirational Indian population. Let me bring forward in brief details some of the key measures taken by SEBI in this regard:

Good corporate governance standards are essential for the integrity of corporations, financial institutions and markets and 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 context and times. Recent policy initiatives in the vein of periodic disclosures of pledged shares, voting rights and agreements with the media companies have come a long way in further strengthening the investor confidence in the market. Broadly, the regulatory framework in India is in compliance with the OECD Principles, an international benchmark worldwide. The World Bank has on October 29, 2014 released a report titled "Doing Business 2015 Going Beyond Efficiency" wherein India has been ranked seven from the top in respect of minority investor protection.

As per recent media reports, India has grabbed the 3rd rank amongst the globalised start-up ecosystems having approximately 4,200 latest companies according to NASSCOM, behind the US and the UK. Previously, India was at the 4th rank in the world. 3 to 4 start-ups are being born on a daily basis, and nearly five billion dollars of funding coming in 2015.Given the fast emerging start-up ecosystem in India, SEBI, as part of its regular consultative process, interacted in recent past with various market participants including iSPIRT, a body dedicated to promoting existing Indian software product companies. During such interactions, it was highlighted that Start-ups have innovative business models and their valuations are not generally understood by common investors and that institutional investors of such companies generally advise these companies to list overseas citing relaxed regulatory regime in other jurisdictions. According to iSPIRT, 75% of the funded start-ups have re-domiciled this year to Singapore or Delaware (USA), as compared to 54% last year. The Association of Investment Bankers of India (AIB) also submitted suggestions to SEBI to facilitate raising of funds by the issuers with lower holding of founding members or where there are no promoters.

Accordingly, in continuation of the SEBI’s earlier recent efforts leading to the inception of Small and Medium Enterprises platform (SME Platform) for facilitating capital raising by small scale businesses and the SME Institutional Trading Platform (SME-ITP) to facilitate exit of institutional investors like PEs and VCs, SEBI has simplified the framework for capital raising by technological start-ups and other companies on Institutional Trading Platform, making the existing SME-ITP more amenable for accommodating a larger number of growing companies with effect from August 15, 2015.

“SEBI has come out with new guidelines to create a separate platform, called the Institutional Trading Platform, to enable Newgen (New generation) companies to consider listing in India,

starting a 'List in India' drive, in line with the Prime Minister's 'Make in India' initiative….SEBI is among the early agencies globally to move in this new direction."

In order to facilitate capital raising by companies founded by professionals / first generation entrepreneurs, SEBI decided that in case the post-issue shareholding of the promoter is less than 20%, the Alternative Investment Funds (AIFs) may contribute for the purpose of meeting the shortfall in minimum contribution, subject to a maximum of 10% of the post-issue capital.

SEBI introduced e-IPO facility to submit application forms in public issues as an additional mode for investors to submit applications using the nationwide stock broker 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. The timeline for listing of shares has also been intended to reduce to 2-3 days as against 12 days. Further, with a view to encourage retail participation in OFS, enable other large shareholders to use the OFS mechanism and expand the universe of companies to use the OFS, OFS framework was modified and made available to top 200 companies by market capitalization in any of the last four completed quarters where non-promoter shareholder of eligible companies holding at least 10 percent of share capital were also allowed to offer shares through the OFS mechanism with minimum 10 percent of the offer size reserved for retail investors.

There are several entrepreneurs, who have good business models with innovative and technologically robust ideas, but do not have adequate avenues and visibility to raise funds for extending their businesses. SEBI has attempted to bridge this gap by introducing a framework for a separate Exchange/platform for SMEs thereby facilitating fund raising from the capital market and listing of securities.

In 2011, SEBI came out with a framework for listing of SMEs on stock exchanges so that they could raise market based finance. Today, there are 104 companies listed on BSE and 8 companies listed on NSE. SMEs meets were successfully held by SEBI along with SIDBI, NSE and BSE at Coimbatore, Rajkot, Ahmedabad, Bhubaneswar, Patna, Pune, Faridabad, Kanpur, and Vijayawada.

In order to boost the country's corporate debt market, SEBI has come out with guidelines for setting up a separate debt segment on bourses where entities like banks and pension funds can also execute trades. The move would facilitate Scheduled Commercial Banks to become members of recognised bourses for the purpose of undertaking proprietary transactions in the corporate bond market. SEBI has also introduced the definition of "proprietary trading member" to permit institutions such as scheduled commercial banks, primary dealers, pension funds, provident funds, insurance companies and mutual funds for trading in the debt segment.

The debt segment permits setting up of a Request for Quotes Platform for facilitating trades in debt market. Both members and non-members can participate in this. The soundness, efficiency and stability of securities markets relies on the quality of information provided; the integrity of people and service provision; the effectiveness of regulation; and increasingly the robustness of supporting technological infrastructure.

A recent cyber-crime survey of the world's exchanges conducted by the IOSCO Research Department, jointly with the World Federation of Exchanges Office revealed that 53% of world exchanges had suffered a cyber-attack in the past year (2012). These attacks tend to be "disruptive in nature, rather than motivated by financial gain" and are distinguished from traditional crimes in the financial sector, such as fraud and theft. It is observed that there exists an inherent threat from malicious cyber activities which are growing rapidly. Though these cyber-attacks / activities have not impacted core systems or market integrity and efficiency, they still have the potential to play havoc with the existing infrastructure. SEBI too have underscored the importance of cyber security in the Indian Securities Market. Thus, in order to create awareness and have a broader discussion on the issue, recently a Cyber Security & Resilience Conference was recently organised.

Given the critical role that Financial Market Institutions (FMIs) play in promoting the stability of the financial system, it is important that the FMIs understand the current cyber risks and have the required level of readiness to effectively deal with worst case scenarios. The entities have been observed to take varied steps to address the risks cyber threats pose to their own systems and to broader financial stability. Given the criticality of the area, SEBI has come out with broad principles that FMIs should be required to comply while designing and implementing their IT / Cyber security policy.

World-wide, the use of call auctions for opening and closing the market trading is indeed common and has been increasing. Call auction as an alternative to the continuous order matching mechanism for opening the trading has been advocated on theoretical and empirical grounds by various researchers. It has been argued that call markets can aggregate information over time and hence facilitate price discovery even when continuous markets may fail.

SEBI, in 2010, introduced the use of call auction mechanism to determine the opening prices of stocks that are part of the National Stock Exchange's (NSE) Nifty and the Bombay Stock Exchange's (BSE) Sensex, as well as newly listed stocks. SEBI had further extended the pre-open call auction market to all listed stocks. Additionally, SEBI in order to curtail market manipulation in illiquid stocks, had introduced the concept of periodic call auction system pursuant to which 'illiquid' stocks ceased being traded in the current continuous market, and trade only in periodic call auctions.

Pursuant to the Interim Budget announcement in 2014 to create one record for all financial assets of every individual, SEBI had after extensive deliberations with the Depositories, AMFI and RTAs of Mutual Funds (MF-RTAs), decided to enable a single consolidated view of all the investments of an investor in Mutual Funds (MF) and securities held in demat form with the Depositories.

To enhance the robustness of the present risk management system in the clearing corporations to enable them to deal with defaults of the clearing members much more effectively and also to align with the international best practices, SEBI prescribed norms for the Core Settlement Guarantee Fund (Core SGF), Default Waterfall and Stress Testing which would bring greater clarity and uniformity. The norms outlined creating a Core SGF, within the SGF, against which no exposure is given and which is readily and unconditionally available to meet settlement obligations of clearing corporation, aligning stress testing practices of clearing corporations with CPSS-IOSCO Principles for Financial Market Infrastructures.

In order to improve the 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 intermediary, to identify and define various risk metrics, both quantitative and qualitative, to explore and lay down the methodology for assigning rating of various risk metrics. Risk management framework for Foreign Portfolio Investors (FPI) was outlined as 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.

The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector. The actual average growth of the AUM for the last four years has been 17 percent, was much higher than any other countries. Though mutual funds have seen overall growth in the last ten years, it faced a significant challenge with respect to penetration into new markets and increase in number of investors. In this light, SEBI has implemented a two pronged approach - increasing awareness of investors and improving accessibility of the mutual fund products. . To give a better understanding about the product/scheme and the suitability of the investment, “Product Labelling in Mutual Funds” has been introduced.

In order to enable investors to take informed decisions, SEBI has continuously increased the transparency and disclosure norms of mutual funds. Transparency was furthered when mutual funds were mandated to disclose its monthly average AUM of various schemes categories and various investor type. Regulatory frameworks for setting up and listing of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) on stock exchanges, opens the way for fresh investment in the real estate and infrastructure sectors. Gold ETFs floated by Mutual Funds have been allowed to invest in Gold Deposit Scheme (GDS) of banks to the extent of 20% of total AUM of such schemes.

Easing the operational requirement in registration of intermediaries, SEBI had allowed single registration process for stock brokers and clearing entities that would allow them to operate across the stock exchange. SEBI has also put in place a one-time single registration process for depository participants to operate at both the depositaries. To enable two way information sharing between debenture trustees and credit rating agencies (CRAs). SEBI allowed debenture trustees to seek information from the CRAs making it easier for both the intermediaries to effectively perform their functions. The supervisory and monitoring role of the depositaries and their participants was strengthened with respect to the issuance and processing of delivery instruction slips (DIS). In order to enable easy understanding by the investors, standardisation of the rating symbols and definitions used by CRAs was carried out.

Investors are the bedrock of capital markets. The primary mandate of SEBI is to protect the interest of investors in the securities market. In recent period, there has been a focused endeavour towards implementing innovative methods to make the investors aware and to foster policies for the protection of investor interest, to simplify the processes to attract increased participation and to launch technologically advanced modes of grievance redressal mechanisms. Protecting the interest of investors is embedded in almost all the laws, rules and policies enacted by SEBI for promotion, development and regulation of markets. A step further in this direction has been envisioned through recent policy measures which include inter-alia Single KYC for securities market, increase in cash investment limit by mutual funds, Basic Services Demat Account, e-voting facility, mandatory authentication of listed companies in 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 market, enhanced disclosures and transparency by listed companies and exchanges, revised corporate disclosure norms, product labelling in mutual funds, IPEF regulations etc.

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 declared holidays in Maharashtra. SEBI since December 2012 has been pursuing a massive investor education and awareness campaign through mass media on relevant topics of investor awareness. As part of the campaign, advertisements on relevant topics of investor awareness are released through popular media vehicles viz. TV, Radio and Print and carried at pan India basis in Hindi, English and 11 major regional languages.

SEBI’s role as investor protector does not cease at educational programmes and redressal mechanisms. The most ardent testimony is SEBI’s vigorous and comprehensive enforcement mechanisms, particularly against unregulated collective investment schemes defrauding millions of investors in the country. SEBI aggressively pursues the violators of securities laws, imposes severe monetary penalties, imposes disgorgement and prevents them from operating in securities market.

Now, that Forward Markets Commission, Commodities Market Regulator, got merged with SEBI, we are at the brink of a new beginning in terms of the institutional reform that would see the commodities market scaling new efficient levels. India being a potential global player in a series of commodity futures, it becomes all the more important to have a fresh view of the developments that would drive the Commodities market. The merger with SEBI brings to the table the expertise in regulating the securities market for 25 years as also its efforts in ensuring an efficient securities market. With its commitment, expertise and priority for investor protection, SEBI hopes to stride in this newest territory with enhanced transparency and governance. In the coming years, we may witness the commodity markets at par with the securities market in terms of being technology driven as well in product innovativeness. We are all geared to face the newest challenges and keep evolving with time while at all times ensuring the fair and efficient securities and commodities market.I thank you for inviting me and listening to me.

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