

**ANNUAL REPORT  
1997-98**



**SECURITIES AND EXCHANGE BOARD OF INDIA**

SMDRP/30/1998  
June 29, 1998

The Secretary to the  
Government of India,  
Department of Economic Affairs  
Ministry of Finance,  
North Block, New Delhi

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, 1998, 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,

**D R MEHTA**

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## PART I

### POLICIES AND PROGRAMMES

This Annual Report of the Securities and Exchange Board of India (SEBI) reviews the policies and programmes of the SEBI and its working and operations for the fiscal year 1997-98. It describes the manner in which the SEBI has been carrying out its functions and exercising its powers in terms of the Securities and Exchange Board of India Act, 1992; the Securities Contracts (Regulation) Act, 1956; the Companies Act, 1956 and the Depositories Act, 1996. The Report also gives details of developments in Indian securities markets in 1997-98, and their bearing on and relation to the working and function of the SEBI. The Report has been prepared in accordance with the format prescribed in the Securities and Exchange Board of India (Annual Report) Rules, 1994, notified in the official Gazette on April 7, 1994.

During 1997-98, the SEBI continued its operations and initiatives in regulating and developing the Indian Securities markets in fulfillment of the twin objectives of investor protection and market development set forth in the SEBI Act, 1992. Throughout its six year of existence as a statutory body, the SEBI has sought to balance the two objectives by constantly reviewing and reappraising its existing policies and programmes, formulating new policies and crafting new regulations to foster development in areas hitherto unregulated and to implement them to ensure growth of the markets with efficiency, integrity and protection of investors' interest. The developments and reforms during 1997-98 are given in the box I.1

#### **Box I.1: Securities Market Reforms and Developments During 1997-98**

- The SEBI advised stock exchanges to set up either Trade Guarantee Fund or Settlement Guarantee Fund to eliminate counterparty risk.
- Upper limit for gross exposure of member brokers of stock exchanges was fixed at 20 times the base minimum capital and additional capital of the member broker.
- The SEBI appointed Chandratre Committee on delisting of securities which recommended exchanges to collect listing fees from the companies for three year period in advance. Besides, the companies opting for voluntary delisting should mandatorily provide an exit route to investors by offering buy-back facility to them. These recommendations were accepted and suitable directions were issued to the stock exchanges.
- As on March 31, 1998, 20 stock exchanges in the country, accounting for almost 99.8 per cent of the total all-India turnover, had shifted to on-line screen based trading.
- Rolling settlement of T+5 was made mandatory in the exchanges where trading in dematerialised securities was available since January 15, 1998.
- The SEBI appointed J. R. Varma Committee on Modified Carry Forward System which recommended a margin of 10 per cent on carry forward trades instead of earlier 15 per cent, enhancing the over all limit of carry forward trades by a broker to Rs 20 crore from the earlier limit of Rs 7.5 crore, removal of scripwise sub-limits on carry forward positions and removal of limit of Rs 10 crore for badla financier. The recommendations were accepted and suitable directions issued to stock exchanges.
- Brokers were permitted to warehouse trades for firm orders of the Institutional clients.
- The SEBI appointed a committee under the chairmanship of Shri G. P. Gupta to study the concept of market making and to revive the institution of market makers. The recommendations are awaited.
- R. Chandrasekharan committee had recommended adequate safety and security features for security certification. The action for its implementation has been initiated.

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- All stock exchanges were required to strengthen their Investor Protection Fund and Investor Services Fund. The Stock exchanges were advised to provide a special facility for attending investor complaints and dummy terminal for showing the on-line trades.
- The SEBI appointed L. C. Gupta Committee which recommended the introduction of derivatives trading in order to provide the facility of hedging in the most cost-efficient way against market risk, and accordingly action for its implementation was initiated.
- The SEBI gave approval to three intermediaries to act as Stock Lenders under the Stock Lending scheme of SEBI.
- Settlement of trades in the depository was made compulsory from January 15, 1998 in selected scrips for institutional investors namely domestic FIs, Banks, Mutual Funds and FIIs having a minimum portfolio of securities of Rs 10 crore.
- The SEBI appointed Working Group on Dematerialisation which recommended that securities in dematerialised form should be treated as 'good delivery' in the physical segment with effect from April 6, 1998. Accordingly, action for implementation was initiated.
- The recognition of the Saurashtra-Kutch and Jaipur Stock Exchanges were further renewed for a period of one year.
- The Governing Board of Magadh Stock Exchange was superceeded on account of its working.
- The stock exchanges were permitted to expand their trading terminals to those cities where no other stock exchange was located subject to compliance with certain conditions. As for the cities where a stock exchange already existed, the exchanges seeking expansion were required to enter into a MoU with the concerned stock exchanges. Accordingly, the Stock Exchange, Mumbai(BSE) was permitted to expand outside Mumbai. Similar permissions were also granted to stock exchanges at Pune, Calcutta and Rajkot subject to fulfilment of certain conditions by them.
- The Capital Stock Exchange Kerala Limited and the Inter-Connected Stock Exchange of India were granted "in-principle" recognition subject to compliance with certain conditions.
- 151 brokers from the 22 stock exchanges across the country were inspected.
- There was a steep increase in registration of sub-brokers from 1798 to 3760 i.e. by 109 per cent.
- The SEBI permitted unlisted infrastructure companies making a public issue of pure debt instruments/convertible debt instrument and municipal corporations from the requirements of Rule 19(2)(b) of Securities (Contract) Regulation Rules, 1957, allowing them to list their debt instruments on the stock exchanges without the requirement for equity being listed first.
- The facility of book-building was extended to the entire issue size for issuer companies which propose to make an issue of capital of and above Rs. 100 crore.
- A Committee was set up to examine the draft regulations on Credit Rating Agencies prepared by the SEBI and to recommend suitable modifications.
- Amendments were made to the SEBI (Merchant Bankers) Regulations 1992. Only body corporates were allowed to function as merchant bankers.

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- Multiple categories of merchant bankers viz. Category II, III and IV were abolished and henceforth there would be only one category of merchant bankers, i.e. Category I Merchant Banker. This new entity shall undertake only those activities which are related to securities market including issue management activity and which do not require registration/have been granted exemption from registration as NBFC from the RBI. However, such entities shall have to seek separate registration if they wish to act as underwriter or portfolio manager. That is, Merchant Bankers would now require separate registration to act as underwriters as well as portfolio managers.
- Merchant Bankers were prohibited from carrying on fund-based activities other than those related exclusively to the capital market.
- The SEBI (Registrars to an Issue and Share Transfer Agents) Regulations 1993 have been amended to provide for an arms length relationship between the issuer and the Registrar to the Issue.
- The SEBI appointed a Committee under the Chairmanship of Dr S.A. Dave to draft the Regulations on Collective Investment Schemes. Until the Regulations were notified, the provisions of Section 12(1)(B) of the SEBI Act prohibited any new scheme to be sponsored or further fund to be raised by the existing collective investment scheme. Further, the SEBI stipulated that all existing schemes would continue to mobilise funds only after obtaining a rating from any of the recognised Credit Rating Agencies. It was decided that all advertisements by existing collective investment schemes would adhere to the advertisement code prescribed by the SEBI.
- The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 were amended to address certain issues that are important for investor protection.
- Aggregate investments by a mutual fund in listed or to be listed securities of group companies of the sponsor would not exceed 25 per cent of the net assets of all schemes of the fund.
- Securities transactions with associate brokers would not exceed 5 per cent of the quarterly business done by the mutual fund.
- Unitholders' approval would no longer be required for rollover of schemes and for converting close-ended schemes into open-ended ones, provided the unitholders were given the option to redeem their holdings in full at NAV based prices.
- Independent trustees who are not associated with the sponsor shall now constitute two-thirds of the Board of Trustees instead of earlier provision of 50 per cent.
- The SEBI gave an option to the issuers to fix the minimum marketable lot on the basis of offer price subject to the condition that the marketable lot shall not be more than 100 shares.
- A Committee was set up under the Chairmanship of Mr P.K. Kaul to recommend the manner of discharge of responsibilities by the trustees as laid down in regulation 18 of the SEBI(Mutual Funds) Regulations, 1996. The report of the Committee is awaited.
- The SEBI set up a working group to work out the modalities and guidelines for investment by domestic mutual funds in overseas markets.
- The SEBI regulations for merchant bankers, stock brokers, registrars to an issue, portfolio managers, underwriters, debenture trustees, bankers to an issue, custodian of securities, depositories, venture capital funds were amended to specifically include the concept of "fit and proper person" in their eligibility criteria that an applicant should be a fit and proper person.

- The SEBI appointed Justice D.R. Dhanuka Committee which submitted its interim recommendations in respect of working draft of the Companies Bill, 1997.
- The SEBI (Annual Report) Rules has been amended to such that the SEBI shall submit Annual Report to the Central Government within 90 days after the end of each Financial Year instead of 60 days.

While fulfilling its day -to- day functions in setting standards, in supervision and enforcement, the SEBI took several measures aimed at widening and deepening of different segments of securities market and enhance the level of investor protection. Enforcement and surveillance remained a cornerstone of the SEBI's activities during the year. The SEBI instituted a number of enforcement actions against a wide range of securities law violations. The main focus of reforms in the primary market was to safeguard and stimulate investor interests in capital issues by strengthening norms for raising standards of disclosures and streamlining procedures with a view to reducing the cost of issues. In the secondary market the emphasis remained on making the market transparent, efficient and modern. Trading infrastructure in the stock exchanges which was already modernised by replacing the open outcry system with on-line screen based electronic trading system was given further momentum and by the end of the year trading in 20 out of 22 stock exchanges were automated. The safety and integrity of the market were also further strengthened through the introduction of risk containment measures which included a comprehensive margining system, intra-day trading and exposure limits and setting up of trade guarantee funds. The clearance and settlement system which had suffered from several bottlenecks was considerably improved with measures taken to shorten the settlement period and accelerate the process of electronic book entry transfer through the depository. The new regulations for mutual funds which were notified in 1996-97 were further refined and strengthened during the year under review to help foster the growth of mutual funds and provide increased protection to the investors. There was a revival of investor interest in mutual funds during the year. There was an increase in restructuring activities in the corporate sector through mergers and takeovers. The Takeover Regulations which were notified in the previous year, provided a fair, modern and transparent framework for takeovers to better protect the interest of investors. The year under review was marked by a rise in takeover activity. The Regulations for Foreign Institutional Investors were further simplified with a view to facilitating foreign portfolio flows into the country.

The SEBI Depository and Participants Regulations, 1996 was amended on September 5, 1997, the SEBI (Foreign Institutional Investors) Regulations, 1995 was amended on July 7, 1997, the SEBI (Mutual Funds) (Amendment) Regulations 1996 was amended on April 1, 1997, the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 was amended on September 17, 1997, the SEBI (Custodian of Securities) Regulations, 1996 was amended on October 17, 1997, the SEBI (Merchant Bankers) Regulations, 1992 was amended on December 1997, and the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 was amended on January 21, 1998.

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

### **General Economic Environment and the Investment Climate**

The overall economic activity as reflected in the real GDP growth rate, showed a distinct deceleration from 7.5 per cent in 1996-97 to 5.0 per cent in 1997-98. This fall was caused by the decline in the growth of industrial and agricultural sectors. While the industrial sector registered a decline in its growth from 7.1 per cent in 1996-97 to 4.2 per cent in 1997-98, the agricultural sector suffered a decline in the level of production by 3.7 per cent in 1997-98.

The growth of industrial production in 1997-98 was contributed by an increase of 4.9 per cent in the output of mining, 3.6 per cent in manufacturing and 6.8 per cent in electricity. According to use-based classification, while intermediate goods and basic goods grew by 6.9 per cent and 7.0 per cent respectively, consumer goods recorded a growth of 4.6 per cent. The performance of capital goods deteriorated substantially as it registered a decline of 4.0 per cent. Thus, the decline in investment appears to be one of the important factors in the continuing deceleration of industrial growth in 1997-98.

Total gross domestic savings, increased to 26.1 per cent of GDP at current market prices in 1996-97 which was primarily on account of rise in private savings. The private savings as a percentage of GDP increased from 23 per cent in 1995-96 to 24.2 per cent in 1996-97. Some of the factors which contributed to improvement in saving rate included, high growth in GDP, low rate of inflation and the array of economic and financial measures undertaken over the past few years. There was a structural change in the composition of household sector savings. The financial savings of households sector as a percentage of GDP increased by 2.1 percentage points to 10.7 per cent in 1996-97 from 8.6 per cent in 1995-96, whereas household savings in physical asset as a proportion of GDP declined from 10.3 per cent in 1995-96 to 9.6 per cent in 1996-97.

The primary market showed a downward trend during the year with the capital raised declining to Rs 4,569.95 crore in 1997-98 from Rs 14,275.98 crore in the previous year. The share prices registered significant increases in the first half of 1997-98 but declining trend set in thereafter. The BSE sensx which rose from 3755 in May 1997 to a high of 4306 in July 1997 and declined to 3224 in January 1998 before climbing to 3893 in March 1998. The financial crisis in the Asian markets had a limited impact on the prices on the Indian stock exchanges and on the foreign portfolio flows during the year. The Indian securities markets functioned uninterrupted without trading halts or broker defaults.

A noticeable development in the capital market was the emerging trend toward integration of stock market with other financial markets. The behaviour of stock prices was also being influenced by exchange rate movements primarily on account of foreign portfolio flows into the market. Similarly the credit policy announcements by the Reserve Bank of India which signalled changes in Bank Rate too influenced stock prices. The integration of the various financial markets would have important policy implications for the SEBI, the RBI and the Government, warranting greater degree of co-ordination.

**Table I.1: Key Indicators of the Indian Economy**

| Indicator                                  | 1993-94                                   | 1994-95  | 1995-96p | 1996-97p  | 1997-98p  |
|--|---|----------|----------|-----------|-----------|
|  | <b>per cent change over previous year</b> |          |          |           |           |
| Gross Domestic Product (at 1980-81 prices) | 6.0                                       | 7.8      | 7.2      | 7.5Q      | 5.0A      |
| Agricultural Production                    | 3.8                                       | 5.0      | -2.7     | 9.3       | -3.7      |
| Foodgrains Production                      | 2.7                                       | 3.9      | -5.8     | 10.5      | -2.6      |
| Industrial Production                      | 6.0                                       | 9.4      | 12.1     | 7.1       | 4.2       |
| Wholesale prices (point to point)          | 10.8                                      | 10.4     | 5.0      | 6.9       | 5.0       |
| Broad Money (M3)                           | 18.4                                      | 22.3     | 13.7     | 16.0      | 17.0      |
| Imports (US \$ in per cent)                | 6.5                                       | 22.9     | 28.0     | 6.7       | 5.8       |
| Exports (US \$ in per cent)                | 20.0                                      | 18.4     | 20.7     | 5.3       | 2.6       |
|  | <b>Absolute Values</b>                    |          |          |           |           |
| GDP(at 1980-81prices) Rs.Crore             | 2,38,900                                  | 2,57,700 | 2,76,100 | 2,96,800Q | 3,11,800A |
| Imports (US \$ million)                    | 23,306                                    | 28,654   | 36,678   | 39,133    | 40,779    |
| Exports (US \$ million)                    | 22,238                                    | 26,330   | 31,797   | 33,470    | 33,980    |
| Foreign Currency Assets (US \$ million)    | 15,068                                    | 20,809   | 17,044   | 22,367    | 25,975    |

Gross domestic product figures are at factor cost. 2- Index of industrial production 1980-81 = 100.  
A - Advance estimates; P - Provisional; Q - Quick estimates.

Source: *Economic Survey 1996-97 and 1997-98.*

## **B] REVIEW OF POLICIES AND PROGRAMMES**

The paragraphs below review the key policies and programmes adopted by the SEBI during 1997-98.

### **i. Primary Securities Market**

#### ***Simplification and streamlining of issue procedure***

- The SEBI has exempted infrastructure companies and municipal corporations from the requirements of Rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957, allowing them to list their debt instruments on the stock exchanges without the pre-existing requirement of equity being listed first. These companies can come out with a public offer and list their NCDs/PCDs subject to the condition that such instruments carry an investment grade rating and are fully secured irrespective of their maturity. In case of FCDs/PCDs, the equity issued prior to the issue of debt could be listed only at the time when the equity arising on conversion of such convertible instruments gets listed. This has been done so as to facilitate fund raising by infrastructure companies which have long gestation periods and entities like municipal corporations which can only raise funds through debt instruments.
- The existing SEBI Guidelines restricted the facility of book-building to 75 per cent of the issue size. However, this constrained the benefits arising out of demand and price discovery. The facility of making an issue through book building has now been extended to entire issue size and shall be available to issuer companies which propose to make an issue of capital of and above Rs. 100 crore.
- Amendments to SEBI (Merchant Bankers) Regulations, 1992 were made. Only body corporates were allowed to function as merchant bankers.
- Multiple categories of merchant bankers viz. Category II, III and IV was abolished and henceforth there will be only one category of merchant bankers. The merchant banker would now be required to seek separate registration if they wish to act as underwriter or portfolio manager.
- Also, merchant bankers were prohibited from carrying on fund-based activities other than those related exclusively to the capital market. In effect, the activities undertaken by NBFCs such as accepting deposits, leasing, bill discounting etc. would not be allowed to be undertaken by a merchant banker.
- The SEBI (Registrars to an Issue and Share Transfer Agents) Regulations 1993 were amended to provide for an arms length relationship between the issuer and the Registrar to the Issue. It has been stipulated that no registrar can act as registrar to any issue of securities made by any body corporate, if the Registrar to the Issue and the Issuer are associates.
- In order to monitor the movement of employees of merchant bankers category I, the SEBI directed all category I merchant bankers to submit specified information on their employees engaged in merchant banking activity. Thus a database of persons engaged in merchant banking industry has been created by the SEBI.

- In November 1997, the Central Government decided that entities which issue instruments such as agro bonds, plantation bonds etc. and the schemes through which such instruments are issued would be treated as collective investment schemes coming under the provisions of the SEBI Act, 1992 and would be regulated by the SEBI. In order to draft the Regulations, a committee was appointed by the SEBI under the Chairmanship of Dr S.A. Dave. Until the Regulations were notified, the provisions of Section 12(1)(B) of the SEBI Act prohibited any new scheme to be sponsored or further fund to be raised. Meanwhile the SEBI also stipulated that all existing schemes could mobilise funds only through the existing schemes after obtaining a rating from any of the recognised credit rating agencies. The SEBI also imposed the condition that all advertisements issued by the collective investment schemes should adhere to the advertisement code prescribed by the SEBI.

### ***Collective investment schemes***

- The Government of India vide its press release dated November 18, 1997 directed that entities which issue instruments like agro bonds, plantation bonds etc. would come under the regulatory purview of Securities and Exchange Board of India. Such entities were to be treated as "Collective Investment Schemes" coming under the provisions of Sec.11(2)c of the SEBI Act.
- Accordingly, SEBI vide its press release dated November 23, 1997 directed under the provisions of Sec. 11B read with Proviso to Section 12(1)(B) of the SEBI Act prohibiting the entities from launching any fresh schemes till such time as the Regulations for collective investment schemes are notified.
- Under the proviso to section 12(1)B, the existing schemes were allowed to continue subject to their submitting the information about their schemes with offices of SEBI and complying with code of advertisement as prescribed in the SEBI guidelines on Disclosure and Investor Protection. A public notice was issued in all the leading national and regional newspapers and existing entities were directed to file the details of their schemes with SEBI by January 15, 1998.
- In order to frame the regulations for collective investment schemes, a committee was appointed by the SEBI under the Chairmanship of Dr. S.A. Dave.
- The committee in its interim recommendation recommended that existing collective investment schemes should be allowed to mobilise further funds only if they obtain a rating from any of the recognised Credit Rating Agencies. Accordingly, after taking into consideration the views of the members of the Dave committee as well as the interest of the investors, The SEBI, in exercise of the powers under Sec. 11B read with the proviso to Section 12(1)B of the SEBI Act, 1992 directed that no existing scheme shall mobilise any money from the public or from the investors under the existing schemes unless the instruments of such schemes carry a rating from any of the recognised credit rating agencies.
- The members are deliberating on various aspects of regulations of these schemes including the structure, the scheme details, the disclosure norms, arrangement of trusteeship, fate of existing schemes etc.
- In response to the Public notice issued by the SEBI, 478 entities who were mobilising funds under collective investment schemes filed the details of their schemes with SEBI till March 31, 1998. As gathered from the documents filed with the SEBI, the total amount mobilised by these schemes works out to approximately Rs. 2,500 crore.
- It was further decided to undertake a special audit of top 50 Collective Investment Schemes (in terms of amount mobilised). The RBI has empanelled chartered accountants who have been engaged for the purpose and their reports are being received. This audit is

expected to give an insight into the finances and the application of accounting principles used by these entities.

## **ii. Secondary Securities Market**

The SEBI has been consistently endeavoring to promote a market which is both efficient and fair and also one which protects the rights of investors. Modernisation of market infrastructure improves market transparency and trading efficiency. Risk containment measures improves market integrity and credibility. These have been the main focus of the SEBI's efforts in the secondary market. The SEBI also directed its efforts towards encouraging the stock exchanges to become effective and self regulatory organisations. The measures taken by the SEBI in 1997-98 in the secondary market are discussed below.

### **Strengthening the safety and integrity of the secondary securities market**

#### *Intra-day trading and exposure limits*

During 1997-98, with a view to enhancing market safety, the SEBI decided that the upper limit for gross exposure of the member brokers of the stock exchanges would be fixed at 20 times the base minimum capital and additional capital of the member brokers. Gross exposure is the sum total of overall open positions of a broker. This is in addition to the existing intra-day trading limits of 33 1/3 times the base minimum capital and the additional capital of the broker, which were implemented by all the stock exchanges in the previous year. Together they will be strengthening the risk management in the secondary market.

#### *Setting up of Trade/Settlement Guarantee Fund by stock exchanges*

One of the shortcomings of the clearing and settlement process of the Indian stock markets was the absence of a system to reduce counter-party risk. Managing this risk is an essential need of a safe and efficient market, which can be achieved through setting up of a Trade or Settlement Guarantee Fund. The principal objective of this Fund is to provide the necessary funds and ensure timely completion of settlements in cases of failure of member brokers to fulfill their settlement obligations. Thus establishment of such funds would give greater confidence to investors in the settlement and clearing procedures of the stock exchanges. Keeping this objective in view, the SEBI had advised all stock exchanges to set up a Trade or Settlement Guarantee Fund.

The National Stock Exchange of India Ltd (NSEIL) is operating a Clearing Corporation viz., the National Securities Clearing Corporation Limited which guarantees all trades executed in a settlement. During the year under review, the Settlement Guarantee Funds of stock exchanges at Mumbai, Ludhiana, Calcutta and Bangalore were also granted approval by the SEBI. In addition, the stock exchanges at Delhi, Hyderabad and Cochin were also granted 'in-principle' approvals to set up Settlement Guarantee Funds.

#### *Chandratre Committee on delisting of securities*

The SEBI had set up a committee under the Chairmanship of Dr. K R Chandratre, to principally look into the issue of delisting of securities by the exchanges. Delisting is an extreme measure of disciplinary action which an exchange might take against a company, which if indiscriminately used, would adversely affect the interests of the investors. Also the exchanges were adopting different approaches and procedures towards the delisting of securities. The



Committee prescribed the uniform conditions and norms under which delisting can take place and the manner in which the interests of the investors can be safeguarded in such cases.

The SEBI accepted most of the recommendations of the Committee and initiated steps to implement them. The major recommendations of the Committee are given in box 1.2.

### **Box 1.2: Recommendations of Chandratre Committee on delisting of securities**

- The concept of 'Listing Agreement' be done away with and the contents thereof be prescribed as part of the SCR Rules under the heading 'Conditions for Listing and Continued :Listing', consisting of two parts:  
Part A - Minimum conditions common for all the stock exchanges; and  
Part B - Additional conditions optional for the stock exchanges which may vary from exchange to exchange, and the stock exchanges be given freedom to modify Part B to suit their requirements subject to the prior approval of the SEBI.
- The Companies Act be suitably amended to provide that in respect of certain specified matters the Listing Agreement may contain in the interests of the investors, a provision different from what is provided in the law but within the outer limit thereof.
- Section 23(2) of SCR Act be amended to enhance the fine from one thousand rupees to ten thousand rupees and to provide for a further fine of one thousand rupees for every day in the case of a continuing default.
- Section 29A of SCR Act be amended to make an enabling provision for delegation of powers of the Central Government under that Act to the recognised stock exchanges, and in pursuance of such provision, the power to institute prosecution against the listed companies and its directors/officers for breach of any of the conditions of the Listing Agreement under sections 23(2) and 24, be delegated to the stock exchanges. Alternatively, either section 26 of SCR Act be amended in this regard or a new provision be inserted in the Act to give effect to the above recommendation.
- The stock exchange should strengthen their machinery for stricter enforcement of the Listing Agreement and institution of prosecution against the erring companies and their directors/officers.
- In order to bring about uniformity and avoid confusion, a specific provision be made with regard to the procedure for amendments to the Listing Agreement and the authority to notify the amendments.
- If, as recommended herein above, the Listing Agreement is incorporated in the SCR Rules, a provision be made in the Rules providing for the procedure for amendments to the Listing Agreement.
- The basic minimum norms for listing of securities on any recognised stock exchange should be uniform for all the exchanges and stock exchanges be permitted to prescribe additional norms over and above the minimum norms. These norms should be a part of the bye-laws of the stock exchanges. Both the sets of the norms should be clearly spelt out and publicised.
- The SEBI be given exclusive power in this regard with the stipulation that before amending the Listing Agreement, the SEBI will consult the stock exchanges.
- The requirement of the listing of securities on the regional stock exchanges as required in terms of circular no. F14(2)/SE/85 dated September 23, 1985, issued by the Ministry of Finance, Government of India, should be done away with.
- The stock exchanges be allowed to fix the quantum of listing fees and there need not be uniformity in this regard. The stock exchanges should be free to determine the manner and the periodicity of payment of the fees.
- A specific provision be made in the SCR Act, empowering the SEBI to prescribe rules/ guidelines in regard to delisting of securities listed on recognised stock exchanges.
- Specific provisions should be made on the compulsory delisting, and precise procedure should be laid down to be followed by each stock exchange in the matter of delisting of any of the securities listed on it. The suggested norms and procedures are set out in the Report. There should also be a provision for appeal against the delisting.

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- The stock exchanges should not resort to delisting of securities on the ground of non-payment of listing fees unless the efforts made for recovery of the fees by persuasion or force through all other remedies available have failed.
- Mechanism for the compulsory delisting of securities should expressly provide for adequate and effective intimation to be given to the holders of the securities which are proposed to be delisted, and also right of hearing to those holders.
- Such mechanism should also provide for a remedy to make the investment in the securities liquid after they are delisted. For this purpose, a facility akin to dealings in permitted securities may be considered to provide facility of liquidity of the securities for a certain period after these are delisted.
- A public notice before and after the delisting of securities should be given by the concerned stock exchange.
- The two circulars issued by the Ministry of Finance and referred to hereinabove be withdrawn and SCR Rules be amended to insert therein rules and procedures for voluntary delisting of securities on the request of the listed companies.
- The company should obtain a specific prior approval of the holders of the securities which are sought to be delisted by a special resolution passed at a general meeting after giving due notices thereof in the manner provided in the Companies Act and also by special notice in newspapers with detailed explanation and justification for the proposed delisting.
- The holders of securities in the region where the concerned stock exchange is located should be given an exit opportunity requiring the promoters or those who are in the control of the management of the company to buy, or to make arrangement for buying the securities of such holders after fixing a record date specifically for this purpose and at a price which should not be less than the weighted average of the traded price of the security in the preceding six months at any of the exchanges on which the securities are listed and where the highest of the volume of the securities was traded. In case there was no trading at any of the exchanges during the preceding six months, the price for the purposes of the buying of the securities should be a fair price to be computed by the auditors of the company.
- In case after the proposed delisting, the securities are not going to remain listed on any recognised stock exchange. 'the buy offer' should be given to all the holders of securities of the company irrespective of their location.
- The Directors' report should disclose the fact of delisting, together with a statement of reasons and, in the case of voluntary delisting justification therefor. Likewise, disclosure as to suspension of trading in the securities should be made by the company in its Directors' report.
- Every listed company should in each annual report specify the name and address of each stock exchange at which the company's securities are listed and whether the company has paid the annual listing fees to each such exchange.
- The reinstatement of the delisted securities should be permitted by the stock exchange within a period of one year after the date of delisting, without requiring the company to make an application as if it were the case of fresh listing. However, if listing of the delisted securities is sought after one year, it should be treated as a case of fresh listing.

### **Bhave Committee on Disclosure Standards**

The SEBI had appointed a Committee under the chairmanship of Shri C B Bhave, to recommend measures for improving the continuing disclosure standards by corporates and timely dissemination of price sensitive information to the public. The Report of the Committee was submitted to the SEBI. The SEBI accepted the recommendations and initiated steps to implement them by issuing appropriate directions to the stock exchanges. The major recommendations are given in the box I.3.

### **Box I.3: C.B. Bhavé Committee Report on Disclosure Standards**

- As per existing Clause 41 of the Listing Agreement, the company is required to furnish to the stock exchange and to publish un-audited financial results on half-yearly basis. The clause may be modified to make these requirements quarterly.
- Clause 43 of the Listing Agreement may be amended to provide for publishing by the companies which mobilise funds from the public through public/rights issues, the details of deployment of such funds on an half-yearly basis instead of the yearly basis.
- The un-audited results sent to the stock exchange and published in newspapers should be based on the same set of accounting policies as those followed in the previous year. In case, there are changes in the accounting policies, the results of previous year will be recast as per the present accounting policies, to make it comparable with current year results.
- At present, the Clause 36 of the Listing Agreement requires the company to inform immediately to the stock exchange of events such as strike, power cuts, etc. This should be applicable for all events which will have bearing on the performance/operations of the company as well as price sensitive information. The material events may include as follows:

#### **Change in the general character or nature of business**

Without prejudice to the generality of Clause 29 of the Listing Agreement, the Issuer will promptly notify the exchange of any material change in the general character or nature of its business where such change is brought about by the Issuer entering into or proposing to enter into any arrangement for technical, manufacturing, marketing or financial tie-up or by reason of the Issuer, selling or disposing of or agreeing to sell or dispose of any unit or division or by the Issuer, enlarging, restricting or closing the operations of any unit or division or proposing to enlarge, restrict or close the operations of any unit or division or otherwise.

#### **Disruption of operations due to natural calamity**

The issuer will soon after the occurrence of any natural calamity like earthquake, flood or fire disruption of the operation of any one or more units of the Issuer, keep the exchange informed of the details of the damage caused to the unit thereby and whether the loss/damage has been covered by insurance, and without delay furnish to the exchange an estimate of the loss in revenue or production arising therefrom, and the steps taken to restore normalcy, in order to enable the security holders and the public to appraise the position of the issue and to avoid the establishment of a false market in its securities.

#### **Commencement of commercial production/commercial operations**

The Issuer will promptly notify the exchange the commencement of commercial/production or the commencement of commercial operations of any unit/division where revenue from the unit/division for a full year of production or operations is estimated to be not less than ten per cent of the revenues of the Issuer for the year.

#### **Developments with respect to pricing/realisation arising out of change in the regulatory framework**

The Issuer will promptly inform the exchange of the developments with respect to pricing of or in realisation on its goods or services (which are subject to price or distribution, control/restriction by the Government or other statutory authorities, whether by way of quota, fixed rate of return, or otherwise) arising out of modification or change in Government's or other authority's policies provided the change can reasonably be expected to have a material impact on its present or future operations or its profitability.

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### **Litigation/dispute with a material impact**

The issuer will promptly after the event inform the exchange of the developments with respect to any dispute in conciliation proceedings, litigation, assessment, adjudication or arbitration to which it is a party or the outcome of which can reasonably be expected to have a material impact on its present or future operations or its profitability or its profitability or financials.

### **Revision in ratings**

The Issuer will promptly notify the exchange, the details of any rating or revision in rating assigned to any debt or equity instrument of the Issuer or to any fixed deposit programme or to any scheme or proposal of the Issuer involving mobilisation of funds whether in India or abroad provided the rating so assigned has been quoted, referred to, reported, relied upon or otherwise used by or on behalf of the Issuer.

### **Any other information having bearing on the operation/performance of the company as well as price sensitive information which includes but not restricted to;**

- Issue of any class of securities.
- Acquisition, merger, de-merger, amalgamation, restructuring, scheme of arrangement, spin off of setting divisions of the company, etc.,
- Change in market lot of the companies shares, sub-division of equity shares of company.
- Voluntary delisting by the company from the stock exchange(s).
- Forfeiture of shares,
- Any action which will result alteration in the terms regarding redemption/cancellation/retirement in whole or in part of any securities issued by the company.
- Information regarding opening, closing of status of ADR, GDR or any other class of securities to be issued abroad,
- Cancellation of dividend/rights/bonus, etc.

The above information should be made public immediately.

The amendments indicated above would be effective for all the listed companies from the quarter ending June 1998 and the maximum period for publishing the above results by the companies shall be one month from the end of the quarter. In case, the company prefers to give audited results instead of unaudited results for the last quarter of the financial year of the company, then the company shall publish /submit the audited results within two months from the end of the last quarter of the financial year. This is a continuous disclosure requirement and so the companies should publish the quarterly statements even when the previous year results are not available during the intervening period.

## **Enhancing efficiency and transparency in the stock exchanges**

### *Computerised screen based trading*

Electronic trading is transparent, cost efficient and faster mode for executing trades. Also it permits spreading of trading facilities and instant dissemination of information. Recognising this need, the SEBI advised all the stock exchanges in the country to introduce electronic trading system in a time bound manner.

Till the previous year, 16 exchanges in the country had shifted to electronic trading and in the year under review four more exchanges introduced this facility as indicated in the table. Thus, as on March 31, 1998, 20 stock exchanges in the country, accounting for almost 99.8 per cent of the total all-India turnover, had shifted to on-line screen based trading.

| Stock Exchange   | Commencement of Electronic Trading |
|------------------|------------------------------------|
| Bhubaneshwar     | 20.05.1997                         |
| Saurashtra Kutch | 03.10.1997                         |
| Uttar Pradesh    | 11.11.1997                         |
| Guwahati         | 25.12.1997                         |

### *Clearing House or Clearing Corporation*

To ensure an effective clearing mechanism, the SEBI advised all stock exchanges to set up a clearing house or a corporation and settle all transactions through the clearing house only. In response to the above advice, 20 stock exchanges in the country, had established clearing houses till March 31, 1998. The National Stock Exchange of India Ltd (NSEIL) has already set up a clearing corporation viz., the National Securities Clearing Corporation Limited, which guarantees settlements of all trades by acting as a counter party to every trade executed on the Capital Market segment of the exchange.

### *Rolling settlement*

The trading and settlement cycles have been shortened from 14 to 7 days. Rolling settlement is a logical extension to further shortening of the trading and settlement cycles. So far, OTCEI has been the only exchange with a rolling settlement system. Further shortening of trading and settlement cycles would generate additional pressure on the clearing mechanism of the stock exchanges on account of the present paper based system.

With the introduction of dematerialised trading, it has now become feasible to contemplate the introduction of rolling settlement. Accordingly, the SEBI introduced T+5 rolling settlement cycles from January 15, 1998 in respect of those securities for which dematerialised trading was made compulsory for institutional investors namely; banks, financial institutions, domestic mutual funds and foreign institutional investors.

### **Introduction of modified carry forward system**

The SEBI had appointed a committee under the chairmanship of Prof. J R Verma to review the existing Revised Carry-Forward System recommended earlier by the G S Patel Committee. In October 1997, the Modified Carry-Forward System (MCFS) recommended by the J R Verma Committee was approved by the SEBI and all exchanges desirous of implementing Modified Carry Forward System were advised to apply to SEBI for prior approval.

Some of the features of the Modified Carry Forward System, as recommended by the Committee, are given in the box I.4:

#### **Box I.4: Features of Modified Carry Forward System**

- The scrips under carry forward system should have sufficient floating stock and high liquidity
- 10 per cent margin on the carry forward trades instead of 15 per cent earlier.
- Members to maintain capital adequacy ratios at such level as SEBI may mandate from time to time.
- Enhancing the over all limit of carry forward trades by a single brokers to Rs.20 crore from the earlier limit of Rs.7.5 crore.

- Removal of scrip-wise sub-limits on carry forward positions.
- Removal of limit of Rs.10 crore for a badla financier.

The Stock Exchange, Mumbai, which was the only exchange in the country to adopt the Revised Carry-Forward System had since implemented the provisions of the Modified Carry-Forward System. As on March 31, 1998, the stock exchanges at Delhi and Ludhiana were granted 'in-principle approval' by the SEBI for implementation of Modified Carry-Forward System subject to fulfillment of certain conditions.

### **Warehousing of shares**

The SEBI had received requests from institutional investors, stock brokers and stock exchanges to permit "warehousing" of trades. Warehousing implies execution of firm orders in parts and the execution is done in the same trading cycle. A consolidated contract note at the weighted average price is issued at the end of the trading cycle. This facility is helpful where large orders are to be executed but due to liquidity constraints it is either costly or not possible to execute the orders immediately. The SEBI permitted brokers to warehouse trades for firm orders of the institutional clients only. Certain safeguards like reporting of the warehouse trades, non carry forwarding of un-executed portion of the trade and compulsory delivery of the warehouse trades have been put in place.

### **Market making**

One of the mechanism which is absent in the secondary market is 'Market Making'. This concept was first introduced by OTCEI and though it is still prevalent there, it has not been able to serve its purpose. Market making is an important activity which infuses liquidity in the capital market by way of two-way quotes given by jobbers or market makers.

Illiquidity of scrips on our exchanges has been a major concern of the SEBI. In an effort to provide necessary liquidity to the comparatively less traded though fundamentally good scrips, the SEBI constituted a Committee, under the chairmanship of Shri G. P. Gupta, to study the concept of market making and to revive the institution of market makers.

### **Committee on regulation of derivatives trading**

Derivative products are being intensively used in most of the major markets of the world. These products have been used as tools for risk management and hedging by investors. Derivatives, though are highly complex products, have found an increasing international acceptability among the market intermediaries, corporates and retail investors.

Presently, in India, a few derivative products in currency and commodity markets are available. The SEBI felt the need to introduce derivative products in the Indian securities market and accordingly appointed a Committee under the Chairmanship of Dr. L. C. Gupta. The Committee submitted its report to SEBI on March 17, 1998. The main recommendations of the Committee are given in the box I.5

### **Box I.5: Major Recommendations of L. C. Gupta Committee**

- The Committee strongly favours the introduction of financial derivatives in order to provide the facility for hedging in the most cost-efficient way against market risk. This serves an important economic purpose. At the same time, it recognises that in order to make hedging possible, the market should also have speculators who are prepared to be counter-parties to hedgers. A derivatives market wholly or mostly consisting of speculators is unlikely to be a sound economic institution. A soundly based derivatives market requires the presence of both hedgers and speculators.
- The Committee is of the opinion that there is need for equity derivatives, interest rate derivatives and currency derivatives. In the case of equity derivatives, while the Committee believes that the type of derivatives contracts to be introduced will be determined by market forces under the general oversight of the SEBI and that both futures and options will be needed. The Committee suggests that a beginning may be made with stock index futures.
- The Committee favours the introduction of equity derivatives in a phased manner so that the complex types are introduced after the market participants have acquired some degree of comfort and familiarity with the simpler types. This would be desirable from the regulatory angle too.
- The Committee's recommendations on regulatory framework for derivatives trading envisage two-level regulation, i.e. exchange-level and the SEBI-level. The Committee's main emphasis is on exchange-level regulation by ensuring that the derivative exchanges operate as effective self-regulatory organisations under the overall supervision of the SEBI.
- Since the Committee has placed considerable emphasis on the self-regulatory competence of derivatives exchanges under the over-all supervision and guidance of the SEBI, it is necessary that the SEBI should review the working of the governance system of stock exchanges and strengthen it further. A much stricter governance system is needed for the derivative exchanges in order to ensure that a derivative exchange will be a totally disciplined market place.
- The Committee is of the opinion that the entry requirements for brokers/dealers for derivatives market have to be more stringent than for the cash market. These include not only capital adequacy requirements but also knowledge requirements in the form of mandatory passing of a certification programme by the brokers/dealers and the sales persons. An important regulatory aspect of derivatives trading is the strict regulation of sales practices.
- Many of the SEBI's important regulations relating to exchanges, brokers-dealers, prevention of fraud, investor protection, etc., are of general and over-riding nature and hence, these should be reviewed in detail in order to be applicable to derivatives exchanges and their members.
- The Committee has recommended that the regulatory prohibition on the use of derivatives by mutual funds should go. At the same time, the Committee is of the opinion that the use of derivatives by mutual funds should be only for hedging and portfolio balancing and not for speculation. The responsibility for proper control in this regard should be cast on the trustees of mutual funds. The Committee does not favour framing of detailed SEBI regulations for this purpose in order to allow flexibility and development of ideas.
- The SEBI, as the overseeing authority, will have to ensure that the new futures market operates fairly, efficiently and on sound principles. The operation of the underlying cash markets, on which the derivatives market is based, needs improvement in many respects. The equity derivatives market and the equity cash market are part of the equity market mechanism as a whole.
- The SEBI should create a Derivatives Cell, a Derivatives Advisory Committee, and Economic Research Wing. It would need to develop a competence among its personnel in order to be able to guide this new development along sound lines.

### **Simplification of share transfer and allotment procedure**

The circulation of forged, stolen, counterfeit security certificates and transfer deeds, coupled with inordinate delay on the part of the transfer agents and the issuer companies in effecting transfer of securities, created bottlenecks in the smooth functioning of the secondary capital



market. The SEBI appointed a committee under the chairmanship of Shri R Chandrasekaran to recommend speedy transfers of shares.

The committee has recommended the following (see box I.6):

#### **Box I.6: R. Chandrasekaran Committee Recommendations**

- Standard Operating Procedures and Benchmark Standards for Registrars and Share Transfer Agents.
- Reclassification of RTA's, infrastructure, systems and human resources for RTAs.
- Certificate Authentication Programme.
- Signature Guarantee programme.
- Amendment to Listing Agreement to provide for;
- Appointment of compliance officer for monitoring share transfer.
- Due diligence survey of RTAs capabilities.
- RTAs to produce a certificate for completion of transfers within the stipulated time.
- Furnishing of information regarding the loss and the issue of duplicate share certificates.

#### ***Investor Protection Fund and Investor Services Fund***

All the stock exchanges are required to set up a fund called 'Investor Protection Fund'. The purpose of the fund is to provide compensation, arising out of disputes or defaults of the member brokers of the exchange to small investors. The amount of compensation available against a single claim of an investor arising out of default by a member broker of a stock exchange is Rs. 1 lakh in case of major stock exchanges, Rs. 50,000 in case of medium stock exchanges and Rs.25,000 in case of smaller stock exchanges. Another Fund being maintained by the exchanges is the Investor Services Fund, whose purpose is, as the name indicates, to provide investor related services. A Committee was set up to bring about uniformity in the functioning of these funds. Based on the initial recommendations of the Committee, SEBI advised the stock exchanges to provide various services including a desk for attending investor complaints and dummy terminals for showing the trades of the exchange. The number of Investor Service Centres will be set up by the stock exchanges at various places is also being increased.

#### ***The Securities Lending Scheme, 1997***

The Securities Lending Scheme introduced by the SEBI provides for lending of securities through an approved intermediary to a borrower under an agreement for a specified period. The scheme facilitates the timely delivery of securities which improves the efficiency of the settlement system and corrects the temporary imbalance between demand and supply. It also provides for the mobilization of idle stocks in the hands of FIs, FIIs, Mutual Funds and other large investors leading to additional income to the holder of securities. Till March 31, 1998, the SEBI had already given approval to three intermediaries to act as Stock Lenders.

#### **Setting up of depositories and expediting dematerialisation**

Consequent upon enactment of the Depositories Act to enable scripless trading, the first depository in the country, namely, National Securities Depository Ltd (NSDL), commenced operations. A depository enables fast and efficient settlement as well as eliminates physical handling of securities and reduces the problems related to transfer of shares, bad deliveries, loss of share certificates etc.

Further, to expedite the process of dematerialisation of securities and settlement of transactions in the depository, the SEBI decided that settlement of trades in the depository would be compulsory from January 15, 1998 for institutional investors namely FIs, Banks, Mutual Funds and FIIs having a minimum portfolio of securities of Rs. 10 crore. The SEBI also announced the list of eight securities which were to be settled in dematerialised form by the above class of investors, from January 15, 1998 onwards. To provide liquidity in dematerialised trading the SEBI allowed dematerialised securities as good delivery in the physical segment for the purpose of settlement. It was decided to expand the list of scrips for compulsory dematerialised trading to 30 from June 1998 and further to 50 from August 1998. In order to popularise dematerialised trading a Core Group with NSDL, NSEIL, BCL and SHCIL under the leadership of SEBI was set up.

### iii. Mutual Funds

#### **Amendments to the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996**

The mutual funds have become an important vehicle for mobilisation of savings particularly from the household sector. The SEBI has been taking steps towards improving the standards of disclosure for mutual funds, introducing prudential norms to prevent misuse of funds by the asset management companies and to afford a greater degree of protection to the investors. Simultaneously with the introduction of stringent regulations to raise the compliance standards, the SEBI has been seeking to give greater degree of freedom to fund managers to structure their schemes according to investor preferences. With this end in view the SEBI has further amended the Mutual Fund Regulations which were notified in 1996. The salient features of the amendments are given in the box 1.7:

#### **Box 1.7: Amendments to the Mutual Fund Regulations**

- Aggregate investment by a mutual fund in listed and /or to be listed securities of group companies of the sponsor shall not exceed 25 per cent of the net assets of all schemes of the fund. Asset Management Companies (AMCs) will not be required to disclose in the scheme offer document, the maximum investments proposed to be made by the scheme in the securities of the group companies of the sponsor and also, the aggregate investment already made by all existing schemes in group companies. The AMCs must submit quarterly reports to the trustees on transactions in the securities of group companies during the quarter, and trustees will have to specifically comment on such transactions recorded in the half yearly reports which they would submit to SEBI. Mutual funds have been prohibited from making investments in unlisted/privately placed securities of associate/group companies of the sponsor.
- Security transactions with associate brokers shall not exceed 5 per cent of the quarterly business done by the mutual fund. In case of transactions undertaken with any non-associate broker, if this 5 per cent limit is exceeded, AMCs will be required to record in writing the justification for exceeding the limit and report this to the trustees on a quarterly basis.
- Unitholders' approval will no longer be required for rollover of schemes and for converting close-ended into open-ended schemes, provided the unitholders are given an option to redeem their holdings in full at NAV based prices.
- Independent trustees who are not associated with the sponsor shall now constitute two third of the Board of Trustees instead of the earlier provision of 50 per cent.

- Memorandum containing key information must accompany all application forms of mutual fund schemes to ensure adequate disclosures to investors.
- Full portfolio disclosure in the Annual Report of Mutual Funds is now mandatory.
- The auditors will now be required to comment on the compliance of the regulations and investors grievances and redressal thereof by the mutual funds.

### **Standard offer document and memorandum containing key information**

The SEBI prepared a standard offer document which prescribes the minimum disclosure requirements to be contained in the offer document of any mutual fund scheme. In addition, an abridged offer document i.e. the memorandum containing key information, which must accompany all scheme application forms in terms of sub regulation (4) of regulation 29 of the Regulations, has also been standardised. Both these documents have strengthened the disclosure standards in the offer documents of mutual fund schemes, thereby enabling the investors to take informed investment decisions.

Both these documents were prepared on the basis of broad based views and comments from the Association of Mutual Funds of India and Price Waterhouse LLP, from various Investors' Associations and retail investors contacted through press. The standard offer document and memorandum mandate the following disclosures ;

- submission of the Due Diligence Certificate by the AMC to the SEBI and reproduction of its contents in the offer document.
- standard as well as scheme specific risk factors.
- in the case of assured return schemes, past history of the mutual fund in meeting assurances under such schemes as well as the resources available to the guarantors on the basis of which guarantee is being provided for the new scheme.
- fundamental attributes of the scheme.
- details of the trustees/members of the Board of Directors of the trustee company/AMC as well as a note on the activities of the sponsor and its financial performance for the last three fiscal years.
- transactions with associates undertaken by the mutual fund for the last three years.
- year-wise disclosure of past performance of all schemes launched during the last three fiscal years on the basis of historical per unit statistics including annualised return for all schemes (excluding redeemed schemes).
- all cases of penalties awarded by any financial regulatory body, any pending material litigation proceedings, criminal cases or economic offence cases and any enquiry/adjudication proceedings under the SEBI Act and the regulations made thereunder, that are in progress against the sponsor or any of its associates including the AMC/Trustee company/Board of Trustees or any of the directors or key personnel (specifically the fund managers) of the AMC.

### **P.K. Kaul Committee**

A Committee was set up under the Chairmanship of Mr. P.K. Kaul to recommend the manner of discharge of responsibilities by the trustees as laid down in regulation 18 of the SEBI (Mutual Funds) Regulations, 1996. Apart from making recommendations, the committee would also be devising a model MIS system particularly at the AMC and the trustee level, recommending clarifications regarding the manner of compliance with some of the provisions of the Regulations and additionally, study the feasibility of organising mutual funds alternatively as companies and the applicability of the Indian Trusts Act vis-a-vis Trustees.

## **Working group on overseas investments by mutual funds**

The Reserve Bank of India (RBI) in its credit policy announced in October 1997, that all the SEBI registered mutual funds and fund managers would be permitted to invest in overseas markets, initially within an overall limit of USD 500 million and a ceiling for individual fund at USD 50 million and within such limits as announced by the RBI from time to time. In this context, the SEBI set up a working group to frame the modalities and guidelines for investment by domestic mutual funds in the overseas markets. Various issues such as appointment of overseas advisers and global custodians, fee structure and restrictions on overseas investments are being considered by the working group.

## **Action taken against asset management companies of mutual funds**

- There was a delay of 30 days in listing the units of one mutual fund scheme on the stock exchange for violation of the provisions of the SEBI Act and the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996. The case was referred for adjudication. Another case, where the inspection report observed certain irregularities is being referred for adjudication/enquiry.
- On account of deteriorating financial position, violation of RBI directions and various irregularities committed by the sponsors of GFC Mutual Fund and Asia Pacific Mutual Fund, the Chairman, SEBI, passed orders prohibiting them from launching any schemes. Both the Funds were prohibited from undertaking any activity under the Regulations.
- On account of financial irregularities and illegalities committed by the CRB Capital Markets Limited which is also the sponsor of CRB Mutual Fund, (action has been initiated by the RBI against this NBFC), the SEBI took up the matter with the trustees of the Fund. However, the trustees did not respond to the notice issued by the SEBI. Therefore, under Section I (B) of the SEBI Act, 1992, the Chairman passed an order prohibiting the Fund from launching any further scheme and from dealing with the securities and funds of the scheme till further orders. Hon'ble Bombay High Court appointed a provisional administrator for CRB Mutual Fund. The SEBI is working out a scheme to protect the interests of the unitholders.

## **Difficulties faced by assured return schemes**

- In 1992, LIC Mutual Fund had launched two schemes - Dhanvarsha 4 and 5. On account of adverse market conditions, there had been a steep decline in the NAVs of both the schemes. Consequently, there was a deficit of Rs. 190 crore. in meeting the redemption benefits as assured in the offer documents. The sponsor - LIC, voluntarily decided to meet the shortfall. This was to be effected by means of a scheme of arrangement, whereby the Mutual Fund would allot to LIC, on the due dates of redemption of these two schemes, special units against payment of funds by the LIC, which would be equal to the redemption obligations under these schemes. In the process, all assets of the schemes would stand transferred to LIC. The units would be managed by the AMC and can be redeemed by the LIC as and when it desires. As the arrangement offered by the LIC was in the interest of unitholders, the SEBI allowed the scheme.
- Another scheme, Ind Jyothi of Indian Bank Mutual Fund, launched prior to the notification of the 1993 Regulations, was unable to pay assured returns for the year 1996-97 and 1997-98 to the investors due to inadequacy of distributable profits. The SEBI advised the Fund to meet the assurances and finally, the sponsor of the Fund - Indian Bank agreed to pay the assured returns. In case of their Ind Prakash scheme also, the SEBI had advised them to pay returns to the unitholders as mentioned in the offer document. Similarly upon

the SEBI's advice, PNB Mutual Fund paid assured returns on guaranteed schemes, and the sponsor, Punjab National Bank was required to meet the shortfall.

- In the case of Festival Boinanza Growth Scheme of BOI Mutual Fund, the sponsor - Bank of India met the shortfall that arose at the time of redemption of the scheme.

#### **iv. Intermediaries Associated with the Securities Markets**

##### **Primary market intermediaries**

###### *Merchant bankers*

During the year 1997-98, there were a few changes in the Merchant Bankers Regulations in order to streamline and strengthen the role of SEBI and RBI to impart transparency to merchant banking activities.

Prior to these amendments, most of the merchant bankers were carrying on both fund-based as well as fee-based activities. Fund-based activities included leasing, hire-purchase etc. whereas fee-based activities included merchant banking and underwriting. However, it was seen that fund-based activities, which were regulated by the RBI, were resulting in erosion of net worth. The SEBI requires merchant bankers (Category I) registered with it to have a minimum networth of Rs. 5 crore. Since this was an essential condition to grant registration and erosion of the same was not in the interest of merchant bankers. As one entity was being regulated by two regulatory bodies viz. the SEBI and RBI, close monitoring of the networth on a continuous basis was not possible. Thus, it was decided to clearly segregate the activities (carried on by the same entity) as those which would be regulated by the SEBI and RBI. To achieve this end, Merchant Banking Regulations were amended with effect from December 9, 1997.

As per the amended guidelines, a merchant banker Category I (excluding banks and financial institutions) is disallowed from carrying on any activity other than that relating to securities market. The amendment stipulates that a merchant banker carrying on fund based and merchant banking activities would have to either discontinue the activities not related to the securities market or hive off its merchant banking activity. The rationale to segregate the two functions of the merchant bankers is to eliminate the overlapping of accounts of merchant banking and fund based activities thus facilitating greater accountability and better monitoring.

On repeated representations from Merchant Bankers for extension of time to comply with the aforesaid notifications the merchant bankers were given 6 months upto June 30, 1998 to segregate their activities. The above amendment also abolished the pre-existing multiple categories of merchant bankers viz. Category II, III and IV. Category II merchant banker could carry on activities of a portfolio manager and underwriter whereas Category III merchant banker could carry on activities of underwriter only. The SEBI already has separate Regulations for Portfolio Managers and Underwriters and to take care of the overlapping, it was felt that the Category II and III Merchant Bankers could continue to carry on their activities but by applying for registration under the Underwriters and Portfolio Managers Regulations. However, existing Category II and III Merchant Bankers could continue to carry on underwriting and portfolio management activities until their registration expires. Thus, there is only one entity i.e. Category I Merchant Banker who can carry on issue management activity only.

As the SEBI has given up vetting of prospectuses, the merchant bankers role of exercising due diligence and compliance with the SEBI regulations has acquired more importance. Part III gives further details of registration of merchant bankers during 1997-98.

### *Underwriters and Portfolio managers*

Underwriters include those merchant bankers in categories I,II and III, Stock brokers and mutual funds. Portfolio Managers include Category I and II merchant bankers as well as those who are registered separately under the Portfolio Managers Regulations. As per the aforesaid notification, falling category I, II and III under the existing merchant bankers can continue to carry on underwriting activities and/or portfolio management activities as the case may be, until their registration expires. On expiry of the same, all merchant bankers will have to seek separate registration under the Underwriting/Portfolio Management Regulations in order to carry on underwriting activity. Part III gives further details of registration of underwriters and portfolio managers during 1997-98.

### *Debenture trustees*

The SEBI (Debenture Trustee) Rules, 1993 was amended by the Central Government on September 16, 1997 to modify the procedure in respect of considering the application for registration of debenture trustees. The amendment provides that the Board shall take a decision on the application for registration within three months from the date of receipt of information.

### *Bankers to an Issue*

Scheduled banks acting as bankers to an issue are required to be registered with the SEBI in terms of the SEBI(Bankers to an Issue) Rules and Regulations, 1994. These regulations lay down eligibility criteria for bankers to an issue and require registrants to meet periodic reporting requirements.

### *Registrars to Issue and Share Transfer Agents*

Registrars to an issue (RTI) and share transfer agents (STA) are registered with the SEBI in terms of the SEBI (Registrar to an Issue and Share Transfer Agent) Rules and Regulations, 1993. Under these regulations, registration commenced in 1993-94 and is granted under two categories: category I - to act as both registrar and share transfer agent and category II - to act as either registrar to an issue or share transfer agent. With the setting up of the depository and the expansion of the network of depositories, the traditional work of Share Transfer Agent is likely to undergo a change.

## **Secondary market intermediaries**

### *Stock brokers*

All stock brokers dealing in securities are registered with the SEBI in terms of the SEBI (Stock Brokers and Sub Brokers) Regulation 1992. During 1997-98, 138 additional brokers were registered with the SEBI making the total registered membership to 9005 as on March 31, 1998. Further statistical details of the brokers are provided in Part III of this Report.

### *Sub-brokers*

In many cases, individual investors transact in securities through sub-brokers. It is therefore absolutely imperative to regulate this class of intermediary. As on March 31, 1997 only 1,798 sub brokers were registered with the SEBI. The main reason for the limited success in registering large number of sub-brokers is that brokers are reluctant to take responsibility of the acts of the sub-brokers. Measures have been initiated by the SEBI for bringing more sub-

brokers under the ambit of regulatory oversight. As a result the number of sub-brokers registered with the SEBI, as on March 31, 1998 rose to 3,760. Further statistical details of the sub-brokers are provided in Part III of this Report.

#### **v. Foreign Institutional Investment**

##### **Changes to the SEBI (Foreign Institutional Investors) Regulations, 1995**

In 1996-97, the SEBI (Foreign Institutional Investors) Regulations, 1995 were amended to permit FIIs who obtain specific approval from the SEBI to invest 100 per cent of their portfolios in debt securities. Such investment may be in listed or to be listed corporate debt securities or in dated government securities, and is treated as a part of the overall limit on external commercial borrowing for the economy. These measures were taken to encourage investment in rupee denominated debt instruments by FIIs and to further develop the domestic debt markets.

In 1997-98, measures were taken to further facilitate debt investments by FIIs. The SEBI (Foreign Institutional Investors) Regulations, 1995 were amended in the following ways:

- FIIs making investment through the 100 per cent debt route, were permitted to deal directly with Subsidiary General Ledger (SGL) counterparties, as prescribed by the Reserve Bank of India, without dealing through brokers.
- The regulations were also amended to permit all FIIs (not just those investing through the 100 per cent debt route) to invest in dated Government securities.

FIIs investing through the 100 per cent debt route were also permitted by the Reserve Bank of India to hedge their foreign exchange exposure by taking forward cover.

#### **vi. Other Policies and Programmes having a bearing on the working of the Securities Market**

##### **Changes in the regulatory framework of securities market**

###### *SEBI (Underwriters) (Amendment) Regulations, 1993*

The SEBI (Underwriters) Regulations, 1993 was amended on January 17, 1997 providing, inter-alia, procedure for dealing with application and processing of application for grant of certificate of registration to underwriters. The time frame such as 'within one month' has been specified. Amendment has also been made in Chapter V relating to procedure for action in case of default. Time limit for responding to show cause notice has been extended to 30 days instead of 21 days.

###### *SEBI (Foreign Institutional Investors) Regulations, 1995*

The SEBI (Foreign Institutional Investors) Regulations, 1995 were amended on February 12, 1997 allowing FIIs to invest proprietary funds and to make investments in dated government securities.

The FII Regulations were further amended on July 10, 1997 providing that transactions in Government Securities may be carried in a manner as specified by the Reserve Bank of India and need not be through the SEBI registered brokers.

The third amendment relating to FII's Regulations came into force with effect from December 5, 1997 inserting a new clause (d) to Regulation 15(3), inter alia, providing that FIIs or their sub-accounts having an aggregate of securities worth more than ten crore shall settle their transactions entered after January 15, 1998 only in a dematerialised form. Further, the eligibility criteria for registration of FIIs has been amended by incorporating the concept of 'fit and proper person'.

*SEBI (Depositories and Participants) (Amendment) Regulations, 1996*

The following amendments to the SEBI (Depositories and Participants) Regulations, 1996 have been made on February 7, 1997.

- a) provide that no foreign entity shall hold more than 20 per cent of the equity capital of the depository; and,
- b) a clearing house of stock exchanges and a non-banking finance company which has a networth of Rupees 50 crore may also act as participant.
- c) The issuer has to enter into an agreement with the depository to dematerialise the securities if the investors exercise an option to hold its securities with the depository in a dematerialised form.
- d) The Depository shall hold the details of holdings of the securities of the beneficial owners at the end of each day.
- e) In the manner of creating pledge such as investigation by the depository.

The Depositories Regulations were further amended on September 05, 1997, i.e. no agreement required to be executed when the depository itself is the issuer of securities, to streamline the procedure pertaining to the pledge of shares in respect of securities which are maintained in a dematerialised form with the depository.

Depositories Regulations were further amended on January 21, 1998 for making securities eligible for dematerialised subject to RBI concurrence

- Waiving the requirement of agreement to be signed between issuer and the depositories in case of Government securities.
- Where the State or the Central Government is the issuer of Government securities, the depository shall on a daily basis reconcile the records of the dematerialised securities.
- The information required under regulation 57, shall not be required to be given to the depository in case of government securities.
- Where the State or the Central Government is the issuer of the securities. The Chapter pertaining to inspection of books and records shall be applicable to the State or Central government securities.

*SEBI (Registrars to Issue and Share Transfer Agents) Regulations, 1993*

The SEBI (Registrars to Issue and Share Transfer Agents) Regulation, 1993 was amended on September 17, 1997 to provide that a registrar to an issue shall not act as a registrar in respect of any issue of securities if it is an associate of the body corporate issuing the securities. An explanation defining 'associate' was also excluded.

*SEBI (Custodian of Securities) Regulations, 1996*

The SEBI (Custodian of Securities) Regulations, 1996 was amended on October 17, 1997, inter-alia, to provide for the appointment of an auditor to inspect and investigate the books of accounts, records, etc. of an applicant. It is also provided that the expenditure incurred by the



SEBI in respect of inspection conducted by an outside auditor will be recovered from such applicant or custodian.

### *SEBI (Annual Report) Rules*

The SEBI (Annual Report) Rules has been amended to such that the SEBI shall submit Annual Report to the Central Government within 90 days after the end of each Financial Year instead of 60 days.

### *SEBI (Merchant Bankers) Regulations, 1992*

Merchant Bankers have been barred from undertaking activities other than related to the securities market. The SEBI (Merchant Bankers) Regulations, 1992 have been amended on December 19, 1997 to provide that:

- a) the applicant should be a fit and proper person;
- b) a merchant banker has to seek separate registration for its underwriting or portfolio management activities;
- c) the categorisation of merchant bankers I, II, III and IV has been dispensed with;
- d) a merchant banker, other than a bank or a public financial institution, has been prohibited from carrying any activities not pertaining to the securities market; and
- e) the applicant should be a body corporate other than non-banking finance company.

The Merchant Bankers Regulations were amended on January 21, 1998 to provide time upto June 30, 1998 to sever its activities or hive off its activities not pertaining to the securities market. The Reserve Bank of India has exempted merchant banking companies from the provisions of Reserve Bank of India Act, 1934 relating to compulsory registration (section 451A), maintenance of liquid assets (section 451B), creation of reserve fund (section 451C ) and all the provisions of the recent Directions relating to deposit acceptance and prudential norms.

Merchant banking companies, to be eligible for the above exemption, are required to satisfy the following conditions:

- (i) such companies are registered with the SEBI under section 12 of the SEBI Act, 1992 and are carrying on the business of merchant banker in accordance with the Rules / Regulations framed by the SEBI;
- (ii) they acquire securities only as part of their merchant banking business;
- (iii) they do not carry on any other financial activities as mentioned in section 451 (c ) of the RBI Act, 1934;
- (iv) they do not accept / hold public deposits.

### *SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations*

The SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations were amended on January 21, 1998 to provide that where a corporate entity has been formed by converting individual or partnership membership card, such corporate entity shall be exempted from payment of registration fee if the erstwhile individual or partner member has paid the fees subject to the condition that such individual or partner shall be a whole-time director of the corporate entity so converted and such director so converted to hold minimum 40 per cent shares of the paid up equity capital of the corporate entity for a period of atleast 3 years from the date of such conversion.

### *Fit and proper person*

Many of the SEBI regulations relating to stock brokers, registrars to an issue, portfolio manager, underwriters, debenture trustees, bankers to an issue, custodian of securities, depositories, venture capital funds were amended on January 5, 1998 to provide that applicant should be a fit and proper person. For determining internal guidelines to ascertain whether the applicant is a fit and proper person, the following criteria have been laid down.

- (a) whether the applicant is financially sound. If the capital adequacy has been specified in the regulations, the same criteria shall be taken into consideration. In other cases, the financial resources of the applicant shall be taken into consideration;
- (b) whether the applicant has been convicted by a Court for any offence involving moral turpitude or fraud and sentenced in respect thereof to imprisonment for a period not less than six months;
- (c) whether any winding up orders have been passed against the applicant;
- (d) whether any order under the Insolvency Act has been passed against the applicant or any of its directors, or person in management in the preceding five years;
- (e) whether any order suspending or debarring the applicant from permanently carrying on activities in the financial sector has been passed by any regulatory authority;
- (f) whether any order, withdrawing or refusing to grant any licence/approval to the applicant which has a bearing on the capital market, has been passed by any other regulatory authority in the preceding five years;
- (g) any other reason (to be recorded in writing by the Board) which adversely affects the reputation or character of the applicant and has a bearing on the capital market so as to deny the applicant certificate or renewal thereof.

### *Amendment in the listing agreement*

The stock exchanges were advised to amend the listing agreement inter-alia to provide for :

- (a) Appointment of a senior officer to act as Compliance Officer who will be responsible for monitoring the share transfer process and report to the company's Board in each meeting. The compliance officer will directly liaise with the authorities such as the SEBI, stock exchanges, ROC, etc. and investors with respect to implementation of various clause, rules, regulations and other directives of such authorities and investor service and complaints related matter.
- (b) The obligation to undertake a due diligence survey to ascertain whether the RTA is sufficiently equipped with infrastructure facilities such as adequate manpower, computer hardware and software, office space, documents handling facility, etc. to serve the shareholders.
- (c) Insistence by the company that the RTA produces a certificate from a practising Company Secretary that all transfers have been completed within the stipulated time.
- (d) Furnishing information regarding loss of share certificates and issue of duplicate certificates.
- (e) Company to produce a copy of the MoU entered into with the RTA regarding their mutual responsibilities.

*Clause 40 of the Listing Agreement was also amended pursuant to suggestion of Justice Bhagwati Committee as under:*

When any person acquires or agrees to acquire any security beyond 5 per cent of the voting capital, the acquirer and the company shall comply with the relevant provisions of the SEBI

(Substantial Acquisition of Shares and Takeovers) Regulations, 1997. When any person acquires or agrees to acquire any security exceeding 10 per cent of the voting rights in any company or if a person who holds security which in aggregate carries less than 10 per cent of the voting rights of the company and seeks to acquire the amount of security exceeding 10 per cent of the voting capital, such person shall not acquire any amount of securities exceeding 10 per cent of the voting capital of the company without complying with the relevant provisions of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

The provisions pertaining to listing were also amended to provide that exemption permitting listing of debt without the pre-existing requirement of prior listing of equity would cover debt instruments fully or partly convertible into equity issued by infrastructure companies, and pure debt instruments issued by municipal corporations. However, the above exemption would be available only if the following conditions are fulfilled:

- 1) Issue of debt instruments shall be made through a public offer and comply with the rules, regulations, and guidelines issued by the SEBI from time to time.
- 2) The instruments, irrespective of the maturity shall carry an investment grade credit rating which shall be disclosed in the prospectus.
- 3) The instruments shall be fully secured by creating appropriate security in favour of the trustees, irrespective of the maturity of the instruments.
- 4) In the case of issue of pure debt instruments by infrastructure companies, equity issued prior to the public issue of debt shall not be permitted to be listed unless the provisions of Rule 19(2)(b) of the SCR Rules, 1957 are complied with, i.e. a public offer of equity has been made.
- 5) In the case of issue of debt instruments fully or partly convertible into equity by infrastructure companies, while the PCD/FCD shall be listed directly, the equity held prior to the issue of the PCD/FCD shall be listed only at the time when the equity arising on conversion of the PCD/FCD gets listed.

#### *Disclosures and investor protection guidelines*

Disclosure and Investor Protection Guidelines were further amended pursuant to recommendations of Dave Committee and OTCEI. Clarification XVIII was issued on April 17, 1997 which inter-alia provided for amending the eligibility norms for public issues by a company which proposes to list its securities on OTCEI in accordance with the Rules and Regulations of OTCEI. The OTCEI has appointed at least 2 market makers (1 compulsory and 1 additional market maker), can offer for sale, by shareholders of a company, of securities which have been sold through a bought out deal registered with OTCEI, undertaken in the past or to be undertaken in the future, provided that such company will be eligible for being listed and traded only on OTCEI.

#### *Clarification No. XIX.*

The recommendations of the Primary Market Advisory Committee of the SEBI were deliberated upon in the SEBI Board meeting held on March 26, 1997. The recommendations under Clarification no. XIX of the Committee accepted by the SEBI Board have been brought into effect. Part A of this clarification pertains to procurement of minimum subscription in a public issue. The facility of procuring subscription within 60 days of the closure of an issue, (available in underwritten issues), will now be available to promoters in non-underwritten issues. Thus, the promoters can now bring their own money or procure subscription from elsewhere within 60 days of the closure of the issue provided adequate disclosures in this regard have been made in the offer document. Part B of the Clarification XIX modifies the provision of lock-in

period of promoters contribution. In case of rights issues at a premium, the requirement of promoters contribution and lock-in will no longer be applicable. In cases of preferential issues (as per the SEBI's Guidelines dated August 4, 1994) and public issues, wherever the provision of lock-in of promoters contribution are applicable for a period of 5 years, the same shall be reduced uniformly for a period 3 years.

Part C tightens the eligibility norms, prescribed for body corporates to access the capital markets. These norms, inter-alia, specify that corporates which have a three year track record of dividend payment, shall be eligible to make a public issue of equity shares or instruments to be converted into equity shares. The term 'track record' is now modified to mean a record which has been established in the respective years. In other words, dividend should be declared in each of the three years to be considered as 'track record' for the purpose of meeting the requirement of the SEBI Guidelines.

Part D pertains to the validity of the observation letter issued by the SEBI. Earlier the acknowledgment card issued by the SEBI was valid for a period of three months. Now, the observation letter issued by the SEBI will have a validity for one year i.e. the issue opening date shall be within 365 days from the date the observation letter is issued. In cases where no observation letter is issued, the period of 365 shall be reckoned from the 22<sup>nd</sup> day of filing the draft offer document with the SEBI.

*Clarification no. XX*

The SEBI Board has taken a decision to change the existing provision of Disclosure and Investor Protection guidelines regarding tradeable lot. This change has been brought into effect under Clarification no. XX.

The existing provisions contained in the SEBI guidelines requires the tradeable / marketable lot to be of 100 shares of face value of Rs.10/- each. In order to encourage participation of small investors in highly priced public issue / offers for sale. The SEBI through clarification, gave an option to the issuers to fix the minimum marketable lot on the basis of offer price subject to the condition that the marketable / tradeable lot shall not consist of more than 100 shares in any case. Thus issuer, if so desires, can go for tradeable lot higher than the minimum tradeable lot specified for a particular offer price range provided that lot does not comprise more than 100 shares.

| <b>Offer price per share</b> | <b>Minimum Tradeable lot</b> |
|------------------------------|------------------------------|
| Up to Rs 100                 | 100 shares                   |
| Rs 101 to Rs 400             | 50 shares                    |
| Rs Greater than Rs 400       | 10 shares                    |

The successful applicants will be issued share certificates / instruments for eligible number of shares in tradeable lots. The minimum tradeable lot, in case of shares of face value of Rs.10/- each, shall at the option of the issuer/offeror be fixed on the basis of offer price as given in the box, provided that the maximum tradeable lot in any case shall not exceed 100 shares.

*Amendment of schedule II of the Companies Act*

Schedule II of the Companies Act has been amended inter-alia to provide that the statement by the Board of Directors should be filed stating that

- (i) all monies received out of the issue of shares or debentures to public shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of section 73;
- (ii) details of all monies utilised out of receipts from issue referred to in sub-item (i) shall be disclosed under an appropriate separate head in the Balance Sheet of the company indicating the purpose for which such monies had been utilised; and
- (iii) details of all unutilised monies receipt from issue of shares or debentures, if any, referred to in sub-item (i) shall be disclosed under an appropriate separate head in the Balance Sheet of the company indicating the form in which such unutilised monies have been invested.

*Interim recommendations of Justice D.R. Dhanuka committee on the Companies Bill, 1997*

In February 1997 the SEBI constituted a Committee under the Chairmanship of Justice D.R. Dhanuka, Retd. Judge of the High Court of Bombay for the review of inter-alia, the SEBI Act, SCR Act, Depositories Act and the provisions of the Companies Act pertaining to the capital market. The Committee submitted its interim recommendations in respect of working draft of the Companies Bill, 1997. Gist of the main recommendations of the Committee are in the box I.8.

**Box I.8: Interim recommendations of Justice D.R. Dhanuka committee**

- Definition of the expression "security" be restructured. The expressions "derivative" and "option in securities" can be more appropriately defined in SC(R) Act.
- As per the Working Draft Report, only Part III is proposed to be administered by the SEBI. It is recommended that all the provisions relating to listed companies in so far as they relate to subject matter of capital market wherever found in Companies Act, be administered by the SEBI.
- Provisions relating to prospectus, shelf-prospectus and red herring prospectus require modifications. The SEBI should be the sole authority for framing regulations in relation to the subjects entrusted to it under the new legislation.
- Private Placement should be regulated. Broad parameters should be laid down in the Act. The details of regulatory framework can be left to the SEBI.
- Provisions made in the Working Draft for buy back of securities require several modifications. (i) The provision for buy-back should be restricted to "shares" only. (ii) The company should not be allowed to utilise proceeds of "prior issue" for purpose of "buy-back". (iii) The company should be allowed to re-issue the shares which are bought back, subject to safeguards and stipulations which may be laid down.
- Penal provisions of the Act be made more deterrent.
- Listing period be reduced from 10 weeks to 30 days. It should not be mandatory to have the securities listed on the regional stock exchange.
- Clauses 94-98 of the Working Draft require several amendments. The SEBI may be authorised by the Act to frame regulations relating to transfer of securities of listed companies, etc.
- Obtaining of duplicate share certificate and issue thereof as a result of fraud or collusion be made a serious criminal offence.
- If a person is found guilty of contravening the provisions of the SEBI Act, SC(R) Act or Depository Act, or is penalised by the adjudicating officer under the SEBI Act, should be disqualified from becoming the director of the company.

- Security audit be made compulsory.
- Monetary penalty concept be introduced so that investors can seek remedy of claiming compensation, damages, etc.
- In order to enhance corporate democracy, the concept of Postal Ballot to be introduced to enable shareholders to vote through postal ballot.
- The blank transfer deeds should not be permitted.
- The SEBI should have power of inspection of books of accounts, records of the listed companies.
- Rights issue with right of renunciation be treated as public issue.
- Printing of share certificates be regulated.
- Verification of transfer deeds by companies on payment of nominal fees before lodgment of certificate for transfer.

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- Company's right to refuse transfer to be limited to violation of the SEBI Act and regulations, or any other law and not on sufficient cause.
- The concept of deemed public company be reintroduced. Section 43A of existing Act is a useful provision in the Act and it should not be deleted.
- The Reserve Bank of India should have power to freeze voting rights in respect of "shares under transfer" concerning banking companies pending consideration of application for acknowledgment. If the shares of a banking company are transferred in violation of Banking Regulation Act, 1949 or the circulars / guidelines issued by Reserve Bank having the force of law, the Reserve Bank should have local stand to apply to Company Law Board for rectification of Register on par with the SEBI and other authorities.
- Companies making initial public offer of securities for a sum of Rs.10 crore or more to be issued only in dematerialised form through a depository.

### *Custodians of securities*

In response to SEBI (Custodian of Securities) Regulations, 1996, the SEBI had received applications from entities who were conducting the activities of custodian before the notification of the regulations. The regulations require custodians to have adequate infrastructural facilities such as office space, vault space, computer systems and appropriate staff for grant of registration. To assess the adequacy of infrastructure and compliance with regulations, an inspection of all applicants was carried out during 1997-98, following which 3 custodians were granted registration during the year.

### *Substantial acquisitions of shares and take-overs*

The SEBI (Substantial Acquisitions of Shares and Take-overs) Regulations, 1997 were notified in February 1997. The 1997 regulations aim at:

- Investor protection in the take-over process
- Greater transparency
- Fairness and equity of treatment to all investors
- Timeliness and accuracy of disclosure of information to investors

- Prevention of frivolous offers
- Enforcement against violations

The salient features of the new regulations are:

- Definition of “control” and “parties acting in concert”, and requirement of a mandatory public offer by an acquirer once he acquires more than 10 per cent of the voting rights of a listed company or if there is a change in control of the company.
- Consolidation of holdings in a company at the rate of 2 per cent in every 12 month period by any person who holds between 10 per cent and 51 per cent of the shares or voting rights of a company without triggering a mandatory public offer.
- A person holding more than 51 per cent of the shares or voting rights cannot consolidate unless he makes a public offer to acquire the required number of shares.
- Elaborate and stringent disclosure requirements.
- The introduction of the requirement of establishing an escrow account by an acquirer in which the acquirer is required to deposit specified percentage of the consideration payable. For consideration payable by the offeror upto and including Rs. 100 crore, 25 per cent of the consideration payable required to be placed in escrow, and for the consideration payable exceeding Rs. 100 crore, 10 per cent of the consideration payable required to be placed in escrow. This amount would be forfeited in case of default or non compliance by the acquirer.
- Indirect take-over of companies through the acquisition of control of holding investment companies brought under the purview of the regulations, and such a change in control requires a mandatory public offer to be made.

The 1997 regulations provide for non-applicability of the regulations in respect substantial acquisition of shares by means of certain transactions, which are in the nature of *inter se* transfer of shares amongst the promoter group and/or their relatives, group companies; transfer of shares amongst a foreign collaborator and the Indian promoter; or involve the allotment of new equity. Such transactions are required to be reported to the SEBI. In 1997-98, 116 reports on transactions involving non-applicability of the regulations were filed with the SEBI.

The regulations require cases for exemption from the regulations to be referred to a Panel, which will give its recommendations to the SEBI on whether exemption may be granted. Accordingly a Panel has been set up under the Chairmanship of Justice S M Jhunjhunwala, former justice of the Mumbai High Court with Dr. S A Dave, former chairman, Unit Trust of India, Shri A.R. Gandhi, Senior Partner, N M Rajji & Company, Shri S C Bafna, former Member, Company Law Board and Shri S A Kamath, Banking Ombudsman as members. The Panel considers applications for exemptions from applicability of the regulations in cases which would not be covered by the circumstances specifically enumerated in the non applicability provisions of the regulations. These cases could be acquisitions involving pledges, buy back agreements, acquisitions from the secondary market, transfer among entities which may strictly speaking not be promoters as defined in the regulations. In 1997-98, 26 cases were referred to the Panel.

#### *SEBI (Mutual Funds) (Amendment) Regulations, 1996*

4(a) The SEBI (Mutual Funds) Regulations, 1996 was amended on April 1, 1997 to provide that the provisions of the Regulation 52 sub-regulations (3), (4), (5) and (6) will come into effect from April 1, 1997 instead of three months from the date of notification of this regulation for those schemes which have been launched prior to these Regulations.

4(b) The SEBI (Mutual Funds) Regulations were amended in January 1998. These regulations provide for the following:

- Investment by MFs in group companies of sponsors restricted to 25 per cent of the net assets of the fund.
- Investments in unlisted group companies and privately placed securities of group companies by MFs prohibited.
- Assets Management Company (AMC) not to undertake security transactions with associate brokers beyond 5 per cent of quarterly business done by the MF.
- AMC to justify and report to trustees for exceeding the above limit in case of non associate brokers.
- The SEBI is empowered to extend period for raising net worth to Rs.10 crore upto to three years for the AMC.
- AMC cannot float new scheme till net worth is raised.
- MFs are allowed to lend securities in accordance with the Stock Lending Scheme
- Any initial issue exposure over 6 per cent to be borne by AMC
- Abridged Annual Report containing portfolio disclosures to be mailed to all unit holders.
- No need to obtain approval for roll over or conversion of close-ended into open ended schemes provided information relating to such roll over is disclosed to the unit holders and the unit holders who do not consent in writing are allowed to redeem their holdings at full or NAV based price as per the terms of offer.
- Independent trustees to constitute two-thirds of the Board instead of 50 per cent.
- MFs having securities worth Rs.10 crore to settle their transactions only through dematerialised securities as specified by the SEBI.

#### **vii. Assessment and Prospects**

During the year under review, the SEBI took several measures for modernising the securities markets and making them more fair, transparent and efficient. To this end the SEBI had carried out extensive reforms and reviewed its existing policies and regulations in primary market, secondary market, mutual funds, foreign institutional investments, takeovers and depositories. The SEBI had also stepped up its efforts to protect the integrity of the markets through various risk containment measures, surveillance mechanisms and enforcement actions. All these measures together had helped the SEBI assure a greater level of protection to the investors.

In the coming years, not only will the role of the securities markets in the economy increase but also these markets will become more integrated with the other financial markets namely - money market and forex markets. There would also be increasing level of global integration. All this will call for a greater degree of co-ordination between the SEBI, RBI and the Government as also a further strengthening of the regulatory framework so as to sustain investor confidence and attract a growing pool of investors.

In short and medium terms the SEBI intends to take the following initiatives -

- activate trading in bonds and debentures and take all necessary measures including co-ordinating with relevant agencies for this purpose;
- implement the recommendations of the L C Gupta Committee appointed by the SEBI on Derivatives and introduce derivative trading on the stock exchanges;
- give impetus to stock lending for which guidelines have been issued by the SEBI but the activity is yet to pick up;



- take steps to revive the OTCEI by making changes wherever necessary in the systems, procedures and policies of OTCEI;
- facilitate market making system;
- strengthen investor protection funds in the stock exchanges;
- take measures to implement the recommendations of Chandrasekaran Committee on the issues relating to transfer and registration of securities;
- give impetus to dematerialisation and book entry transfer;
- consider shortening of settlement cycles and move towards rolling settlement and DVP on the lines suggested by the Group of Thirty;
- take measures to further streamline and shorten issue procedures with a view to reducing the cost of issues;
- prescribe regulations on collective investment schemes;
- prescribe regulations for credit rating agencies;
- take follow up action on the recommendations of the Justice Dhanuka Committee on securities laws;
- further refine the takeover regulations in the light of experience on takeovers during the year under review;
- strengthen further the regulations for mutual funds so as to ensure their continued growth and enhance the level of investor protection;
- take follow-up action on the recommendations of the P K Kaul Committee on the manner in which trustees of mutual funds could function effectively;
- implement the recommendations of the report on mutual funds investing in overseas markets;
- further strengthen the surveillance mechanisms at the stock exchange level and within the SEBI;

The present regulatory regime established for the securities markets under the SEBI Act 1992, has resulted in improvements in the standards of investor protection. A number of challenges still remain. The steps mentioned above would help the SEBI meet these emerging challenges and further improve the efficiency of the regulatory system.

## PART II

# REVIEW OF THE TRENDS AND WORKING OF THE SECURITIES MARKETS

### A] PRIMARY SECURITIES MARKET

- Capital raised through the primary market has been showing a declining trend for the last 4 years. In 1994-95, Rs. 27,632 crore was raised through 1,692 public and rights issues. In 1995-96 the amount raised declined and the number of issues increased by 24.7 per cent and 2 per cent to Rs. 20,803.7 crore and 1,725 respectively. In 1996-97, there was a further decline in amount raised to Rs. 14,276 crore (i.e. by 31.4 per cent) as also in the number of issues to 882 (i.e. by 48.9 per cent).
- The trend also continued in 1997-98. There was a steeper decline both in the number of issues and the amount raised during the year. The total amount raised was Rs. 4,570 crore approximately through only 111 issues registering a sharp fall of 68 per cent and 87 per cent respectively as compared to the previous year.
- Various factors which adversely affected the primary market included sluggish economic growth, deceleration in industrial growth particularly capital goods industries, lack of demand for investment goods because of cut in growth of capital expenditure of public sector. Besides, the corporates also diverted resourcing of funds through private placements and financial institutions. There was also an increase in corporate restructuring and consolidation by various business groups, partly through mergers, acquisitions of divisions of companies or product lines and partly through takeovers. The latter activity which is regulated by the SEBI has been discussed in this Report.
- An important trend that emerged during the year under review was the rise in the share of rights issues to more than three times than that in 1996-97. Large issues increased in terms of both number and amount during the year and banks and financial institutions raised 49 per cent of total capital raised in the market in 1997-98. This also reduced the reliance of corporates on directly accessing the primary market for raising capital. The trend in investor response showed investor preference for firms with established track record. There was, however, a decline in fund raising activities by the non banking finance companies. The over pricing of issues following the introduction of free pricing and decline in the prices of those issues in the market, had an adverse effect on the market for subscriptions. The extent of oversubscription of issues made during the year was of significantly less magnitude compared to previous year indicating a move towards optimal pricing of issues. Strict entry point norms introduced by the SEBI since 1995-96 and which were continuously refined, helped ensure improvement in quality of paper entering the market.

**Table II.1: Capital Raised in the Primary Market**

| Year    | Public |                      | Rights |                      | Total |                      |
|---------|--------|----------------------|--------|----------------------|-------|----------------------|
|         | No.    | Amount<br>(Rs.crore) | No.    | Amount<br>(Rs.crore) | No.   | Amount<br>(Rs.crore) |
| 1996-97 | 751    | 11556.78             | 131    | 2719.2               | 882   | 14275.98             |
| 1997-98 | 62     | 2861.94              | 49     | 1708.01              | 111   | 4569.95              |

Source: SEBI

In year 1997-98, 111 issues opened for raising Rs. 4,569.95 crore while in 1996-97 there were 882 issues for raising Rs. 14,275.98 crore. Thus, there has been a decline of 87.41 per cent in the number of issues and 68.01 per cent in the amount raised in 1997-98 as compared to the previous year. However there is a noticeable decline in finance companies approaching the capital markets in a big way in 1997-98 as compared to the previous year. Though there was all round fall in absolute level of capital raised in 1997-98, banks/FIs, cement, and chemicals, finance, food processing and transport recorded a steep fall from Rs.10,087.7crore in 1996-97 to Rs.2,682.04 crore in 1997-98. In 1997-98, an important feature was that the capital raised showed high degree of concentration in certain sectors viz. banks and financial institutions, metal, telecommunications, cement and chemicals which together account for nearly 67.47 per cent of the total capital raised. During the year, for the first time, a municipal corporation accessed the securities market for raising bonds of Rs. 100 crore after obtaining credit rating from one of the recognised credit rating agencies.

### **Trends in size and composition of issues**

There were 62 public issues and 49 rights issues in 1997-98 as against 751 and 131 respectively in the previous year. The public issues accounted for 55.86 per cent of the total number of issues and 62.63 per cent of the total amount of capital raised in 1997-98 compared to 85.15 per cent of the total number of issues and 80.95 per cent of the total amount of capital raised in 1996-97. The rights issues accounted for 44.14 per cent of the total number of issues and 37.37 per cent of the total capital raised in 1997-98 while in 1996-97 these issues accounted for only 14.85 per cent of the total number of issues and 19.05 per cent of the total amount of capital raised.

Month-wise details of capital raised during the period April 1996 to March 1997 and April 1997 to March 1998 are furnished in Table.II.2.

**Table II.2 : Number of issues and amount raised**

| Month/Type of issues | No. of issues | Amount (Rs. Crore) |            |                 |
|----------------------|---------------|--------------------|------------|-----------------|
|                      |               | 1997-98            | 1996-97    |                 |
| April                | 17            | 216.03             | 120        | 650.34          |
| Pub.                 | (15)          | (169.95)           | (105)      | (520.32)        |
| Rig.                 | (2)           | (46.08)            | (15)       | (130.02)        |
| May                  | 14            | 1104.06            | 89         | 1530.50         |
| Pub.                 | (9)           | (82.09)            | (72)       | (1366.26)       |
| Rig.                 | (5)           | (1021.97)          | (17)       | (164.24)        |
| June                 | 21            | 124.94             | 138        | 987.79          |
| Pub.                 | (12)          | (60.38)            | (127)      | (926.40)        |
| Rig.                 | (9)           | (64.56)            | (11)       | (61.39)         |
| July                 | 08            | 173.90             | 111        | 2160.83         |
| Pub.                 | (2)           | (3.54)             | (99)       | (1846.60)       |
| Rig.                 | (6)           | (170.36)           | (12)       | (314.23)        |
| August               | 07            | 193.88             | 104        | 1165.20         |
| Pub.                 | (3)           | (147.36)           | (86)       | (532.21)        |
| Rig.                 | (4)           | (46.53)            | (18)       | (632.99)        |
| Sept.                | 03            | 28.42              | 101        | 1613.66         |
| Pub.                 | (1)           | (1.62)             | (87)       | (1513.38)       |
| Rig.                 | (2)           | (26.80)            | (14)       | (100.28)        |
| October              | 05            | 422.92             | 51         | 581.47          |
| Pub.                 | (4)           | (413.03)           | (41)       | (384.11)        |
| Rig.                 | (1)           | (9.89)             | (10)       | (197.36)        |
| November             | 07            | 354.31             | 31         | 591.20          |
| Pub.                 | (4)           | (260.09)           | (24)       | (518.04)        |
| Rig.                 | (3)           | (94.22)            | (07)       | (73.16)         |
| December             | 08            | 473.71             | 45         | 1866.07         |
| Pub.                 | (6)           | (459.84)           | (38)       | (1003.10)       |
| Rig.                 | (2)           | (13.87)            | (07)       | (862.97)        |
| January              | 06            | 932.38             | 40         | 1077.31         |
| Pub.                 | (4)           | (855.81)           | (34)       | (1001.77)       |
| Rig.                 | (2)           | (76.57)            | (06)       | (75.54)         |
| February             | 05            | 49.50              | 33         | 952.74          |
| Pub.                 | (00)          | (0.00)             | (22)       | (868.55)        |
| Rig.                 | (5)           | (49.50)            | (11)       | (84.19)         |
| March                | 10            | 495.90             | 19         | 1098.87         |
| Pub.                 | (2)           | (408.25)           | (16)       | (1076.03)       |
| Rig.                 | (8)           | (87.65)            | (03)       | (22.84)         |
| <b>Total</b>         | <b>111</b>    | <b>4569.95</b>     | <b>882</b> | <b>14275.98</b> |

*Pub = Public and Rig = Rights*

*Source : SEBI*

Continuing with the trend in the previous year, in 1997-98 also, there was a substantial increase in the capital raised through large issues of Rs. 100 crore and above. In 1997-98, there were 12 such large issues (10 issues in the range of Rs.100 crore and above amounting to Rs. 1934.56 crore and 2 issues in the range of Rs. 500 crore and above amounting to Rs. 1549.29 crore). These 12 issues accounted for 76.23 per cent of the total capital raised during the year under review through the primary market. In 1996-97, there were 19 such large issues (9 issues of Rs.100 crore each amounting to Rs.1,450.74 crore and 10 issues in the range of Rs.500 crore and above amounting to Rs. 7,013.78 crore). These 19 large issues contributed 59.29 per cent in the total capital raised. The average size of the issues (including public and rights) increased in 1997-98 to Rs. 41.17 crore as against Rs.16.19 crore during the financial year 1996-97. During 1997-98 the average size of issues excluding large issues was Rs. 10.97 crore. The average size of issues which opened during the previous year excluding the 19 large issues was Rs. 6.73 crore only.

### Initial public offers (IPOs)

The number of IPOs by unlisted companies declined in 1997-98 to 52 out of total 111 issues amounting to Rs. 1,047.52 crore as against 715 IPOs out of 882 amounting to Rs. 5950.27 crore floated during the previous year. However, in 1997-98, IPOs share in total issues was at 46.85 per cent as compared to 81.07 per cent in 1996-97. The decline in the share of IPOs can be partly attributed to the decline in industrial activity in the country and partly due to strict entry point norms which prevented green field projects without track record from accessing the market.

### Issues with appraised projects

In 1997-98, a number of companies came to the market with appraised projects. There were 77 appraised issues accounting for 69.37 per cent of the total number of issues mobilising Rs. 3,195.75 crore or 69.93 per cent of the total amount raised, as compared to 644 issues accounting for 73.02 per cent of the total number of issues for an amount of Rs.11,916.97 crore or 83.48 per cent of the total amount raised in the previous year.

### Region-wise distribution of capital issued

Region wise distribution of issues indicates that there were 46 issues for raising Rs. 2,391.09 crore in the western region followed by 26 issues for raising Rs.1,164.21 crore in the eastern region, 21 issues for an amount of Rs. 712.95 crore in the southern region and 18 issues for an amount of Rs. 301.70 crore in the northern region. (Table II.3)

**Table II.3: Region-wise capital raised**

|              | No.        | Amount<br>(Rs. In Crore)<br>1997-98 | Avg. size<br>per issue | No.        | Amount<br>(Rs. In Crore)<br>1996-97 | Avg. size<br>issue |
|--------------|------------|-------------------------------------|------------------------|------------|-------------------------------------|--------------------|
| Northern     | 18         | 301.70                              | 16.76                  | 221        | 3380.70                             | 15.30              |
| Eastern      | 26         | 1164.21                             | 44.78                  | 114        | 766.94                              | 6.72               |
| Western      | 46         | 2391.09                             | 51.98                  | 360        | 9040.96                             | 25.11              |
| Southern     | 21         | 712.95                              | 33.95                  | 187        | 1087.36                             | 5.8                |
| <b>Total</b> | <b>111</b> | <b>4569.95</b>                      | <b>41.17</b>           | <b>882</b> | <b>14275.98</b>                     | <b>16.19</b>       |

Source: SEBI

There has been a decline in the total number of issues and amount of capital raised in the northern, western and southern regions as compared to the previous years. The decrease in the number of issues and the related amount was 87.22 per cent and 73.55 per cent in respect of western region, whereas the Northern region registered a fall of 91.86 per cent and 91.08 per cent. Table II.3 gives details of capital issues for two years. Though average size of issue increased in all the four regions, the eastern region and southern regions have shown marked increase.

### Instrument-wise distribution of primary issues

During 1997-98, 64 equity issues opened at par raising Rs. 271.36 crore accounting for 56.1 per cent of the total issues and 5.94 per cent of the capital raised. In 1996-97, 697 equity issues were made at par raising Rs. 3,432.63 crore accounting for 78.6 per cent of the total issues and 24.0 per cent of the capital raised. Thus, there was a decline in the number and relative proportion of equity issues made at par in 1997-98 as compared to the previous year.

In all, 33 premium equity issues were made raising Rs. 1,610.27 crore accounting for 28.95 per cent of the total issues and 35.24 per cent of the total capital raised. In the previous year, there were 148 premium issues accounting for 16.69 per cent of the total number of issues raising Rs.4,411.79 crore forming 30.90 per cent of the total amount raised. Though in absolute terms the number of equity issues at premium and amount raised through them declined in 1997-98, in relative terms, the share of equity issues at premium as a per centage of the total number of issues and amount raised was higher in 1997-98 than that in 1996-97. Thus, there was a favourable investor response to equity issues of quality.

In 1997-98 there were 4 bond issues which raised Rs. 1,550 crore and accounted for 33.92 per cent of the capital raised as against 10 bond issues with Rs. 5,400 crore accounting for 37.83 per cent of the total capital raised in the previous year. Instrument-wise distribution of capital raised is presented in Table II.4 .

**Table II.4 : Instrument- wise Distribution of Capital Raised**

| Type of Instruments | No. of issues | Amount raised (Rs. Crore) |            |
|---------------------|---------------|---------------------------|------------|
|                     |               | 1996-97                   | 1997-98    |
| Equity - Par        | 697           | 3432.63                   | 64         |
| Equity - Premium    | 148           | 4411.79                   | 33         |
| CCPs                | 5             | 74.92                     | 3          |
| FCDs                | 17            | 258.55                    | 7          |
| PCDs                | 3             | 221.55                    | 0          |
| NCDs                | 7             | 405.79                    | 0          |
| Preference Shares   | 0             | 0                         | 0          |
| Bonds               | 10            | 5400                      | 4          |
| Others              | 2             | 70.75                     | 3          |
| <b>Total</b>        | <b>889</b>    | <b>14275.98</b>           | <b>114</b> |

*\*Number counted on the basis of instruments i.e. if a company has issued more than one instruments, these have been counted separately.*

Source: SEBI

## Firm allotment to institutional investors

Table II.5 gives details of firm allotments/reservations made to mutual funds, financial institutions, banks, NRIs/OCBs, FIs, employees and others.

**Table II.5 : Category-wise reservation of the public issues launched**

| S.No         | Category      | No. of Public Issues<br>1996-97 | Amount reserved<br>(Rs. Crore) | No. of Pub Issues<br>1997-98 | Amount reserved<br>(Rs. Crore) |
|--------------|---------------|---------------------------------|--------------------------------|------------------------------|--------------------------------|
| 1            | Mutual Funds  | 356                             | 338.06                         | 15                           | 7.24                           |
| 2            | FIs           | 23                              | 548.86                         | 3                            | 12.58                          |
| 3            | NRI/OCBs      | 409                             | 682.40                         | 20                           | 85.15                          |
| 4            | Employees     | 137                             | 179.41                         | 8                            | 42.81                          |
| 5            | Fis/Banks     | 265                             | 28.72                          | 18                           | 215.80                         |
| 6            | Promoters     | 664                             | 1192.48                        | 37                           | 133.98                         |
| 7            | Market Makers | 15                              | 0.99                           | 6                            | 0.13                           |
| 8            | Others        | 32                              | 22.08                          | 3                            | 15.88                          |
| <b>Total</b> |               |                                 | <b>2993</b>                    |                              | <b>513.57</b>                  |

Source : SEBI

Of the total amount of capital raised during the year 1997-98, 11.24 per cent was reserved for firm allotment to the above mentioned categories. The promoters participation in 37 issues in 1997-98 was Rs.133.8 crore as against Rs.1,192.48 crore in 1996-97. The financial institutions and banks shared 42.02 per cent in 1997-98, while FIs, Mutual Funds and NRIs accounted for a smaller share.

## Distribution of primary issues by industry

Table II.6 gives the industry-wise distribution of capital raised during 1997-98, the top 6 industries viz banking/FIs, metal, textile, Misc., chemical and engineering, accounted for 89.37 per cent of the funds raised in the market. banking and financial institutions raised Rs. 2,241.82 crore which is 49.06 per cent of the total capital raised in 1997-98. In the previous year banking and financial institutions raised Rs. 5,752 crore which accounted 40.29 per cent of the capital raised. Thus, the trend of banking and financial institutions accessing the markets was further accentuated in the year under review. On the other hand, there was marked decline in the amount raised by finance companies during the year under review as compared to the previous year. 22 finance companies raised only Rs 73.71 crore in 1997-98 which accounted for 1.61 per cent of the capital raised, whereas in 1996-97, 283 issues were made by finance companies to raise Rs. 1,393.92 crore amounting to 9.76 per cent of the total capital raised.

**Table II.6 : Capital raised : Industry-wise**

|                     | No.        | Amt. (Rs.<br>Crore) | No.        | Amt.(Rs.<br>Crore) |
|---------------------|------------|---------------------|------------|--------------------|
|                     | 1996-97    |                     | 1997-98    |                    |
| Banking/FIs*        | 10         | 5752.00             | 8          | 2241.82            |
| Cement & Const.     | 50         | 781.37              | 5          | 22.23              |
| Chemical*           | 39         | 771.62              | 7          | 226.48             |
| Electronic/Electric | 26         | 130.59              | 3          | 62.18              |
| Engineering*        | 33         | 296.82              | 7          | 107.90             |
| Finance             | 283        | 1393.92             | 22         | 73.71              |
| Food Processing     | 66         | 458.05              | 4          | 85.37              |
| Health Care         | 41         | 315.27              | 6          | 27.61              |
| Info. Tech          | 14         | 78.30               | 1          | 8.52               |
| Metal*              | 58         | 968.18              | 7          | 814.39             |
| Mining              | 11         | 75.21               | 1          | 107.48             |
| Misc.*              | 105        | 1172.8              | 16         | 275.40             |
| Packaging           | 14         | 69.74               | 2          | 4.96               |
| Paper & Pulp        | 18         | 101.21              | 3          | 16.13              |
| Plastic             | 17         | 70.62               | 1          | 11.85              |
| Telecommunication   | 3          | 37.89               | 1          | 5.07               |
| Textile*            | 65         | 772.80              | 12         | 418.32             |
| Tourism             | 15         | 98.85               | 2          | 28.10              |
| Transport           | 14         | 930.74              | 3          | 32.43              |
| <b>Total</b>        | <b>882</b> | <b>14275.98</b>     | <b>111</b> | <b>4569.95</b>     |

Source : SEBI

### Subscription in primary issues

During 1997-98, 5 issues for an amount of Rs. 257.90 crore were initially under-subscribed which were subsequently subscribed. Out of these, there were 3 public issues (of which 2 were underwritten and the unsubscribed portion was brought in by the underwriters, one was under subscribed as per the 3-day report but subscribed as per the 78 day report), and 2 rights issues (both were not underwritten and unsubscribed portion was brought in by promoters and others). During 1996 - 97, 57 issues amounting to Rs. 1266.90 crore were undersubscribed. Of the 57 undersubscribed issues - 47 were public issues (38 par issues, and 9 premium issues,) and 10 were rights issues ( 1 par issue, 6 premium issues, 3 issues offering Bonds).

**Table II.7 : Subscription details**

|                    | 1996-97 | 1997-98 |
|--------------------|---------|---------|
| 2 or less          | 689*    | 45      |
| Between 2 and 5    | 31      | 04      |
| Between 5 and 10   | 04      | 01      |
| Between 10 and 20  | 02      | 01      |
| Between 20 and 50  | 01      | 00      |
| Between 50 and 100 | 01      | 00      |
| 100 or more        | 00      | 00      |

\* includes 4 issues having a second instrument - Three issues offered Equity and FCDs and one issue offered Equity and CCPs.

Source: SEBI



## **Action taken against companies with regard to deficiencies related to public issues**

The SEBI during the year 1997-98, took punitive measures against six companies which made public stock rights issues. These companies were found to have made misleading disclosures in the Offer Documents. These measures which the SEBI took included deferment of issue, order for refund of monies collected and order for option to be given to the applicants by withdrawal. Besides, in several cases show-cause notices were issued and the proceedings are still on.

## **Underwriting**

It was observed that the number of issues underwritten declined during 1997-98 in comparison with 1996-97, indicating lack of underwriting interest. Out of 62 public issues which opened during 1997-98, 11 issues amounting to Rs. 449.11 crore were underwritten and 51 issues amounting to Rs. 2,412.84 crore were not underwritten. Whereas during 1996-97 out of the 751 public issues 91 issues were underwritten amounting to Rs.1,981.11 crore while 660 issues amounting to Rs. 9,575.66 crore were not underwritten.

## **B] SECONDARY SECURITIES MARKET**

### **Price behaviour in the secondary securities markets in 1997-98**

The Indian stock markets witnessed a gradual rise in stock prices during the first half of the year 1997-98, but thereafter the various macro economic factors both at the national and international levels brought the valuations down again. On an year on year basis, the 30 stock Sensitive Index (Sensex) of The Stock Exchange, Mumbai, increased from 3360.89 on March 31, 1997 to 3892.75 on March 31, 1998, an increase of 531.86 points. Nifty, the NSEIL index comprising of fifty stocks also rose by 148.6 points to close the year at 1116.90. The broad based CRISIL 500 index, which represents 500 scrips, increased from 631.42 to 715.54.

Till the first week of August 1997, the share prices had risen gradually. The Sensex touched a three year high of 4548 on August 5, 1997. This improvement in the share prices during the current year could be attributed to certain factors like favourable budget for the year 1997-98, decline in the interest rates and therefore expectations of better corporate performance. Towards the middle of August 1997, the Sensex registered a declining trend owing to lack of the active buying support by the institutions witnessed during earlier months, fall in the value of rupee and several other uncertainties. The currency crises in the South-East Asian countries had also affected the Indian capital markets, but the impact was not severe during the year. The net FIIs inflows was negative for three consecutive months of November, December 1997 and January 1998, for the first time since they were allowed to invest in the Indian securities markets. The lowest value of Sensex for the year 1997-98 was 3209.55 recorded on January 28, 1998. The markets again showed a rising trend thereafter. The Sensex closed the financial year at 3892.75, which reflected a gain of 15.82 per cent over the last year. The year of 1997-98 however, witnessed a higher level of volatility than that noticed during the previous year as shown in the graphs. This fact is supported by the trends in co-efficients of variations estimated in respect of Sensex as well as Natex.

Figure II.1

Table II.8: Sensex Volatility

| Month  | 1996-97 | 1997-98 |
|--------|---------|---------|
| April  | 4.5396  | 3.5742  |
| May    | 1.5815  | 0.8541  |
| June   | 2.3487  | 3.2357  |
| July   | 2.6191  | 1.7434  |
| August | 2.0203  | 4.7242  |
| Sept   | 2.6689  | 2.1489  |
| Oct    | 2.7478  | 2.5073  |
| Nov    | 3.0799  | 3.4899  |
| Dec    | 4.0076  | 3.2729  |
| Jan    | 3.5037  | 4.8289  |
| Feb    | 2.446   | 2.617   |
| March  | 3.2427  | 2.2953  |

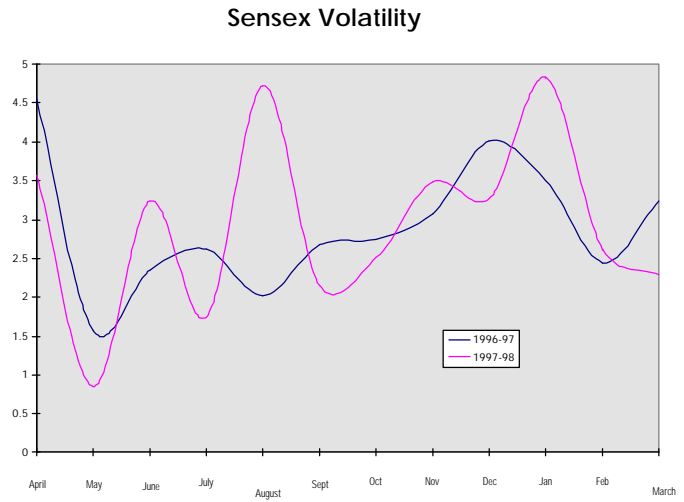


Figure II.2

Table II.9: Natex Volatility

| Month  | 1996-97  | 1997-98  |
|--------|----------|----------|
| April  | 4.116162 | 3.063102 |
| May    | 1.427169 | 0.811302 |
| June   | 2.18847  | 3.290953 |
| July   | 2.317295 | 1.46303  |
| August | 1.823449 | 4.559486 |
| Sept   | 2.875361 | 2.212841 |
| Oct    | 2.560181 | 2.297917 |
| Nov    | 3.078706 | 3.366107 |
| Dec    | 3.766778 | 3.103357 |
| Jan    | 3.179628 | 4.735744 |
| Feb    | 2.22001  | 2.703297 |
| March  | 3.245003 | 2.597651 |

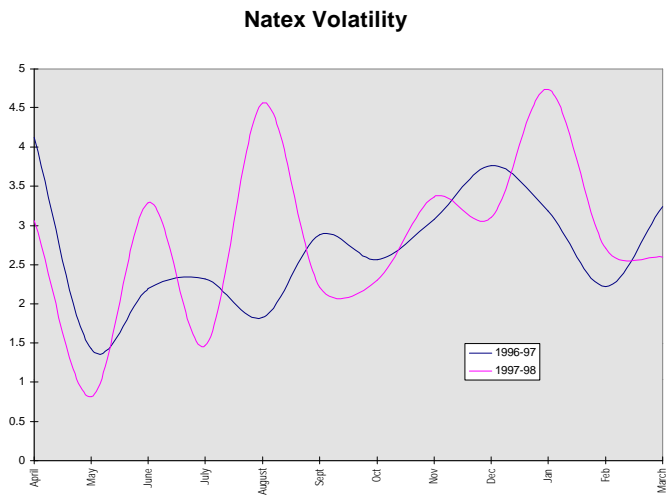


Table II.10 below gives details of movement in equity Indices in 1997-98.

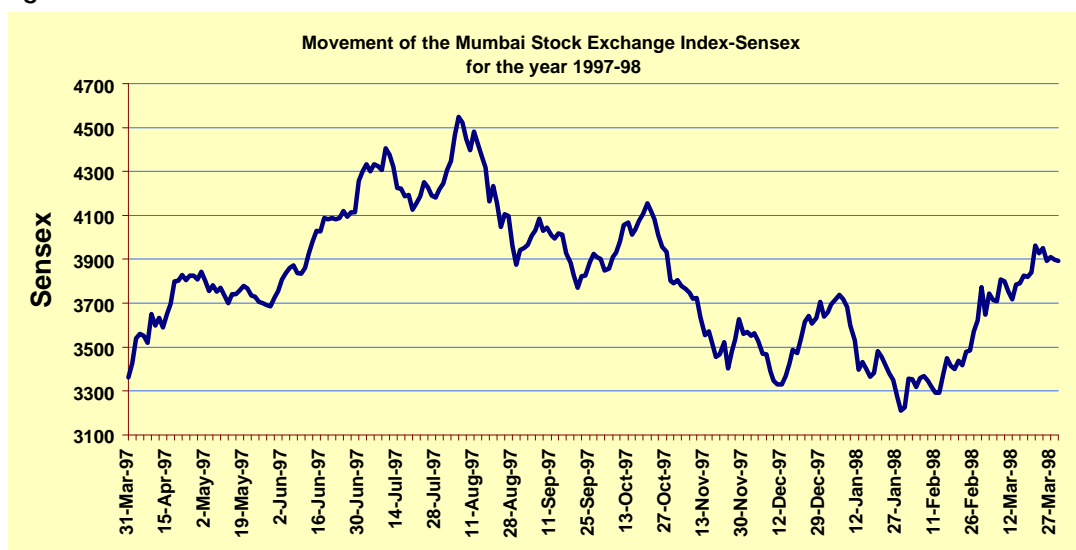
**Table II.10 : Movement of various share indices**

| Index      | 31-03-97 | 31-03-98 | Inc./Dec | per cent Variation |
|------------|----------|----------|----------|--------------------|
| BSE Sensex | 3360.89  | 3892.75  | 531.86   | 15.82              |
| BSE 100    | 1463.69  | 1697.14  | 233.45   | 15.95              |
| NSE 50     | 968.3    | 1116.9   | 148.6    | 15.35              |
| CRISIL 500 | 631.42   | 715.54   | 84.12    | 13.32              |
| CRISIL 200 | 413.42   | 489.29   | 75.87    | 18.35              |
| BSE Dollex | 151.9    | 158.75   | 6.85     | 4.51               |

Source : BSE, NSEIL and CRISIL

The figure II.3 below plots the movements in the daily closing level of the BSE Sensex for 1997-98.

**Figure II.3**



### Volume of business on the stock exchanges

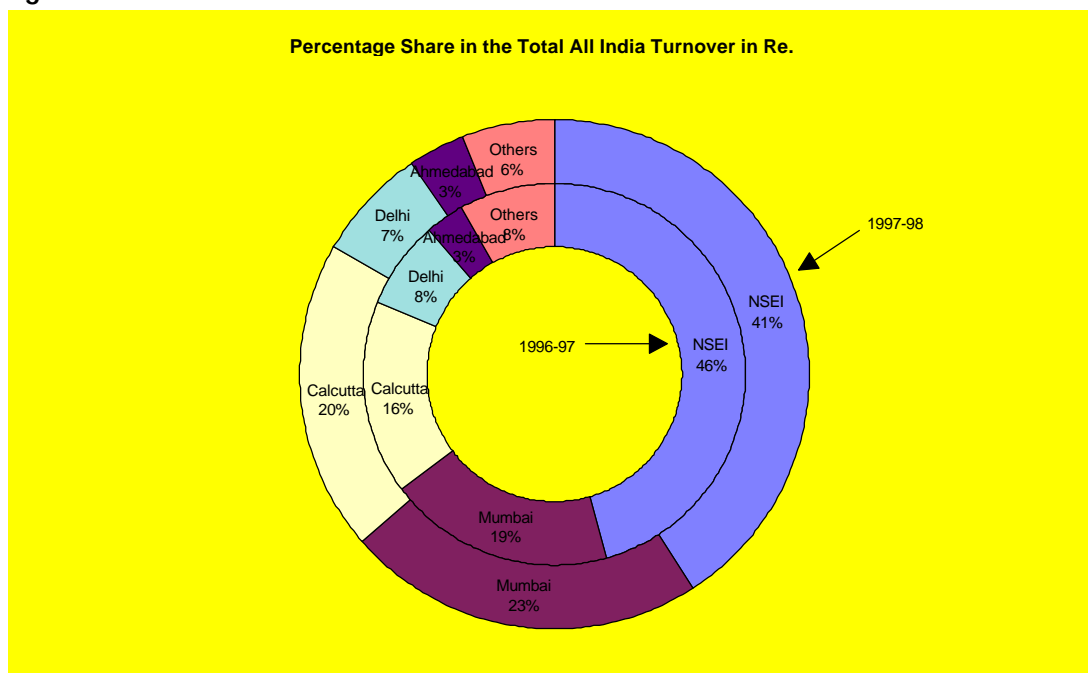
The turnover on the stock exchanges increased significantly during 1997-98. Indeed the turnover has been showing increasing trend for the last two consecutive years. This increase in turnover was facilitated and supported by the screen based trading systems and expansion of BOLT facility across the country. In 1997-98, the total single sided turnover on the stock exchanges in India was Rs. 9,08,691 crore, compared to Rs. 6,46,116 crore in 1996-97 and Rs 2,27,368 in 1995-96. Table II.11 below gives details of the turnover on stock exchanges. The combined share of the National Stock Exchange of India Ltd, The Stock Exchange Mumbai, Calcutta Stock Exchange, Delhi Stock Exchange and Ahmedabad Stock Exchange further rose from 87.61 per cent in 1995-96 to 91.87 per cent in 1996-97 and to 94 per cent in 1997-98. This reflected a fall in business of the smaller stock exchanges.

**Table II.11: Turnover on Stock Exchanges in India**

| Stock Exchanges | Turnover (Rs. Crore) |                 | Percentage of total all India Turnover |               |
|-----------------|----------------------|-----------------|--|---------------|
|                 | 1996-97              | 1997-98         | 1996-97                                | 1997-98       |
| 1 NSEIL         | 2,94,504             | 3,69,934        | 45.58                                  | 40.71         |
| 2 Mumbai        | 1,24,284             | 2,07,383        | 19.24                                  | 22.82         |
| 3 Calcutta      | 1,05,664             | 1,78,778        | 16.35                                  | 19.67         |
| 4 Delhi         | 48,631               | 67,840          | 7.53                                   | 7.47          |
| 5 Ahmedabad     | 20,533               | 30,771          | 3.18                                   | 3.39          |
| 6 Uttar Pradesh | 16,070               | 15,390          | 2.49                                   | 1.69          |
| 7 Pune          | 9,903                | 8,624.          | 1.53                                   | 0.95          |
| 8 Ludhiana      | 5,274                | 8,315           | 0.82                                   | 0.92          |
| 9 Bangalore     | 4,398                | 8,636           | 0.68                                   | 0.95          |
| 10 Vadodara     | 4,268                | 4,576           | 0.66                                   | 0.50          |
| 11 Magadh       | 2,755                | 323             | 0.43                                   | 0.04          |
| 12 Coimbatore   | 2,398                | 2,136           | 0.37                                   | 0.24          |
| 13 Madras       | 2,315                | 1,228           | 0.36                                   | 0.14          |
| 14 Jaipur       | 1,519                | 431             | 0.24                                   | 0.05          |
| 15 Cochin       | 1,401                | 1,783           | 0.22                                   | 0.20          |
| 16 Guwahati     | 484                  | 20              | 0.07                                   | 0.20          |
| 17 Hyderabad    | 480                  | 1860            | 0.07                                   | 0.00          |
| 18 SKSE         | 398                  | 17              | 0.06                                   | 0.00          |
| 19 Mangalore    | 373                  | 308             | 0.06                                   | 0.03          |
| 20 Bhubaneshwar | 231                  | 202             | 0.04                                   | 0.02          |
| 21 OTCEI        | 221                  | 125             | 0.03                                   | 0.01          |
| 22 MP           | 12                   | 1               | 0.00                                   | 0.00          |
| <b>Total</b>    | <b>6,46,116</b>      | <b>9,08,691</b> | <b>100.00</b>                          | <b>100.00</b> |

Source: SEBI

**Figure II.4**



## Delivery patterns in the stock exchanges

The following table II.12 provides the values of shares delivered in the equity segment of stock exchanges during the year 1997-98. As it was observed, NSEIL and BSE itself account for 94.46 per cent of the total delivery in rupee value terms and 91.85 per cent in number of shares terms. However, delivery at NSEIL and The Stock Exchange, Mumbai compared to their own turnover was 15.97 per cent and 12.73 per cent in value terms and 16.08 per cent and 28.09 per cent in terms of number of shares.

**Table II.12 : Delivery Patterns In Different Stock Exchanges During 1997-98**

| Name          | Turnover in<br>Rs. Crore | Delivery<br>in<br>Rs. Crore | Delivery<br>in<br>per cent | Turnover in<br>number of<br>shares (lakhs) | Delivery in<br>number of<br>shares (lakhs) | Delivery<br>in<br>per cent |
|---------------|--------------------------|-----------------------------|----------------------------|--|--|----------------------------|
| NSEIL         | 369933.99                | 59091.18                    | 15.97                      | 135231.52                                  | 21745.80                                   | 16.08                      |
| Mumbai        | 207383.22                | 26399.79                    | 12.73                      | 85877.00                                   | 24125.00                                   | 28.09                      |
| Calcutta      | 178778.82                | 1954.58                     | 1.09                       | 50798.00                                   | 1527.00                                    | 3.01                       |
| Delhi         | 67840.00                 | 760.00                      | 1.12                       | 21243.00                                   | 1027.00                                    | 4.83                       |
| Ahmedabad     | 30771.00                 | 277.33                      | 0.90                       | 12373.27                                   | 226.01                                     | 1.83                       |
| Uttar Pradesh | 15390.14                 | 201.80                      | 1.31                       | 7063.00                                    | 119.48                                     | 1.69                       |
| Pune          | 8624.27                  | 142.04                      | 1.65                       | 3156.71                                    | 39.63                                      | 1.26                       |
| Ludhiana      | 8315.60                  | 78.57                       | 0.94                       | 3283.00                                    | 102.48                                     | 3.12                       |
| Bangalore     | 8636.98                  | 143.75                      | 1.66                       | 2356.00                                    | 89.85                                      | 3.81                       |
| Vadodara      | 4576.82                  | 76.52                       | 1.67                       | 1788.00                                    | 59.00                                      | 3.30                       |
| Magadh        | 323.76                   | 0.64                        | 0.20                       | 2.01                                       | 0.23                                       | 11.44                      |
| Coimbatore    | 2136.89                  | 12.24                       | 0.57                       | 759.00                                     | 10.56                                      | 1.39                       |
| Madras        | 1228.30                  | 1185.19                     | 96.49                      | 552.49                                     | 513.35                                     | 92.92                      |
| Jaipur        | 431.39                   | 10.68                       | 2.48                       | 139.93                                     | 5.87                                       | 4.19                       |
| Cochin        | 1783.86                  | 49.35                       | 2.76                       | 1213.61                                    | 52.63                                      | 4.33                       |
| Hyderabad     | 1860.00                  | 75.16                       | 4.04                       | 737.00                                     | 130.00                                     | 17.64                      |
| Guwahati      | 20.57                    | 1.65                        | 8.02                       | 9.67                                       | 1.11                                       | 11.48                      |
| SKSE          | 17.51                    | 1.19                        | 6.80                       | 8.00                                       | 2.00                                       | 25.00                      |
| Mangalore     | 308.81                   | 8.72                        | 2.82                       | 107.58                                     | 7.75                                       | 7.20                       |
| Bubaneswar    | 202.49                   | 2.25                        | 1.11                       | 94.16                                      | 5.90                                       | 6.27                       |
| OTCEI         | 125.44                   | 29.05                       | 23.16                      | 191.56                                     | 149.63                                     | 78.11                      |
| MP            | 1.31                     | 0.05                        | 3.82                       | 7.08                                       | 0.50                                       | 7.06                       |
| <b>Total</b>  | <b>908691.17</b>         | <b>90501.73</b>             | <b>9.96</b>                | <b>326991.59</b>                           | <b>49940.78</b>                            | <b>15.27</b>               |

Source: Various stock exchanges

A positive development in the operations of stock market has seen the decline in the ratio of bad deliveries to net deliveries. The measures taken by the SEBI through the issue of guidelines for good/bad deliveries and setting of bad delivery cells at the stock exchanges have contributed to the improvement of the system. It would be observed from the data given in table II.13 below that since October 1997 the ratio of bad deliveries has declined.

**Table II.13: Data on Ratio of Bad Deliveries to Net Deliveries at NSEIL**

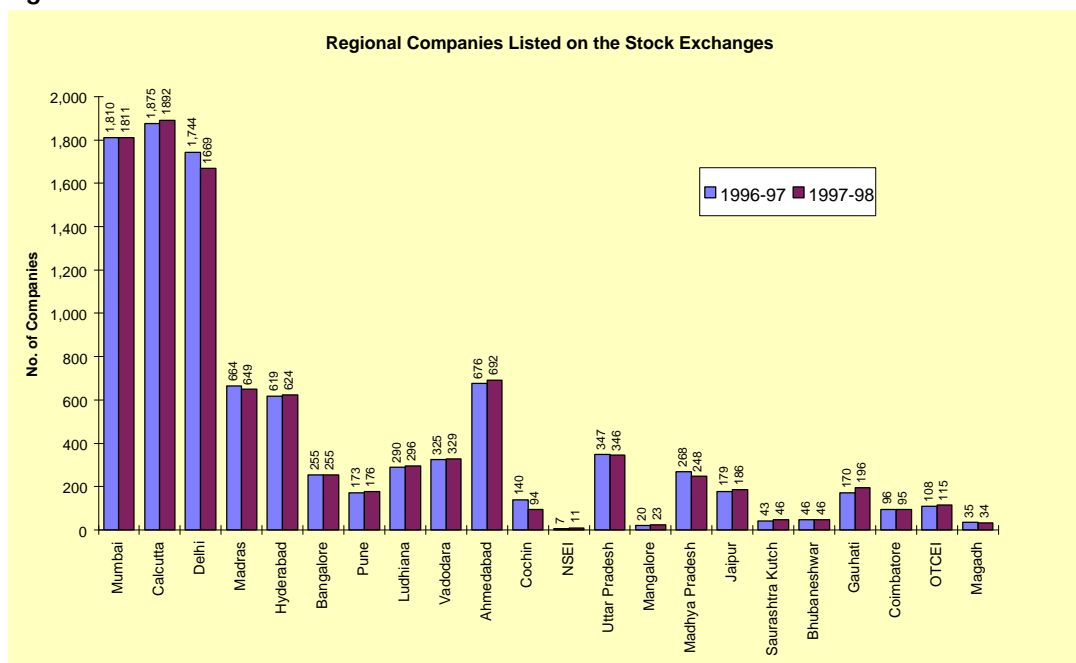
| Month     | 1995 | 1996 | 1997 | 1998 |
|-----------|------|------|------|------|
| January   | NA   | 0.52 | 0.31 | 0.2  |
| February  | NA   | 0.48 | 0.34 | 0.21 |
| March     | NA   | 0.35 | 0.41 | 0.20 |
| April     | 0.47 | 0.44 | 0.34 | 0.28 |
| May       | 0.20 | 0.38 | 0.39 | 0.26 |
| June      | 0.38 | 0.53 | 0.41 |      |
| July      | 0.34 | 0.49 | 0.41 |      |
| August    | 0.49 | 0.49 | 0.41 |      |
| September | 0.57 | 0.42 | 0.42 |      |
| October   | 0.40 | 0.35 | 0.32 |      |
| November  | 0.53 | 0.35 | 0.30 |      |
| December  | 0.52 | 0.28 | 0.23 |      |

Source: NSEIL

### Listed companies and market capitalisation

As on March 31, 1998, 9,833 companies were listed on stock exchanges in India, compared to 9,890 companies listed at the end of 1996-97 (Table II. 14) . The total market capitalisation of all companies listed on The Stock Exchange, Mumbai ( there were 5853 companies listed on BSE as on March 31, 1998) was Rs. 5,60,325 crore as on March 31, 1998 indicating a rise of 20.78 per cent from its 1996-97 level of Rs. 4,63,915 crore.

**Figure II.5**



**Table II.14 : Regional Companies Listed on Stock Exchanges in India**

| No.          | Stock Exchanges  | Regional Companies Listed |             |
|--------------|------------------|---------------------------|-------------|
|              |                  | 1996-97                   | 1997-98     |
| 1            | Mumbai           | 1,810                     | 1811        |
| 2            | Calcutta         | 1,875                     | 1892        |
| 3            | Delhi            | 1,744                     | 1669        |
| 4            | Madras           | 664                       | 649         |
| 5            | Hyderabad        | 619                       | 624         |
| 6            | Bangalore        | 255                       | 255         |
| 7            | Pune             | 173                       | 176         |
| 8            | Ludhiana         | 290                       | 296         |
| 9            | Vadodara         | 325                       | 329         |
| 10           | Ahmedabad        | 676                       | 692         |
| 11           | Cochin           | 140                       | 94          |
| 12           | NSEI             | 7                         | 11          |
| 13           | Uttar Pradesh    | 347                       | 346         |
| 14           | Mangalore        | 20                        | 23          |
| 15           | Madhya Pradesh   | 268                       | 248         |
| 16           | Jaipur           | 179                       | 186         |
| 17           | Saurashtra Kutch | 43                        | 46          |
| 18           | Bhubaneshwar     | 46                        | 46          |
| 19           | Guwahati         | 170                       | 196         |
| 20           | Coimbatore       | 96                        | 95          |
| 21           | OTCEI            | 108                       | 115         |
| 22           | Magadh           | 35                        | 34          |
| <b>Total</b> |                  | <b>9,890</b>              | <b>9833</b> |

Source: SEBI

### Trading, Clearing and Settlement of Debt Securities

At present, The Stock Exchange, Mumbai (BSE), NSEIL and The Calcutta Stock Exchange Association Limited are integrated with NSDL. BOI Share Holding Limited which acts as the clearing house for BSE and the National Securities Clearing Corporation acts as clearing corporation for NSEIL. Trades which are executed on these exchanges in dematerialised securities trading segment can be cleared by the respective clearing houses/corporations for settlement by electronic book entry within NSDL. As transfers in the case of debentures have not yet been exempted from the payment of stamp duty, settlement of debentures is not possible by electronic book entry within NSDL.

### C] MUTUAL FUNDS

Total resources mobilised by the mutual funds during 1997-98 were higher at Rs.11,406 crore compared to Rs.10,097 crore in the previous year (Table II.15). Unit Trust of India remained the largest mobiliser of funds having collected Rs.9,100 crore from 11 new schemes and its oldest scheme US-64. However, the amount raised by the UTI declined from Rs.9,600 crore in 1996-97 to Rs.9,100 crore in 1997-98. The remaining amount was raised by other mutual funds through income, growth, and income & growth (balanced) schemes. In the last 4 months of 1997-98, there was a spurt of activity in the industry. There were 60 schemes which were filed with SEBI during 1997-98. Some of these schemes are expected to come to the market in the current year. More number of open ended schemes as well as fixed income schemes entered the market. As seen from Table II.16, as of March 31, 1998 the total corpus of all 259 schemes of domestic mutual funds including the schemes of UTI but excluding redemptions/repurchase of units, stood at Rs.97,228 crore; out of which the corpus of 85

schemes of UTI alone stood at Rs.80,874 crore. Of the total corpus, Rs.42,613 crore were accounted for by 94 income schemes, Rs.15,808 crore by 68 growth schemes, Rs.33,309 crore by 33 income cum growth schemes, Rs.5,286 crore by 61 equity linked saving schemes and Rs.212 crore by 3 venture capital schemes. The share of private sector mutual funds, as in the previous year, was greater compared to public sector mutual funds other than UTI in mobilising resources.

**Table II.15: Resources mobilised by Mutual Funds for 1996-97 and 1997-98**

| Sector             | Resources mobilised<br>(Rs. Crore) |                      | Schemes launched |           |
|--------------------|------------------------------------|----------------------|------------------|-----------|
|                    | 1996-97                            | 1997-98 <sup>p</sup> | 1996-97          | 1997-98   |
|                    | Public Sector MFs                  | 151                  | 332              | 4         |
| Private Sector MFs | 346                                | 1974                 | 22               | 10        |
| UTI                | 9600                               | 9100                 | 7                | 11        |
| <b>Total</b>       | <b>10097</b>                       | <b>11406</b>         | <b>33</b>        | <b>27</b> |

*p = provisional*

Source: SEBI

**Table II.16: Cumulative Resources mobilised by Mutual Funds(p)  
(not including redemption/repurchase of units) (Rs. Crore)**

| Mutual Fund                    | Income schemes |          | Growth scheme |         | Income & Growth |          | ELSS |         | Venture Capital |        | Total |          |
|--------------------------------|----------------|----------|---------------|---------|-----------------|----------|------|---------|-----------------|--------|-------|----------|
|                                | No.            | Amt.     | No.           | Amt.    | No.             | Amt.     | No.  | Amt.    | No.             | Amt.   |       |          |
| 1 UNIT TRUST OF INDIA          | 55             | 39153.00 | 13            | 8763.39 | 6               | 29622.00 | 8    | 3123.35 | 3               | 212.00 | 85    | 80873.74 |
| 2 SBI MF                       | 6              | 531.98   | 5             | 1528.45 | 2               | 199.69   | 7    | 576.96  |                 |        | 20    | 2837.08  |
| 3 CANBANK MF                   |                | (-)      | 4             | 353.31  | 5               | 1701.81  | 6    | 709.18  |                 |        | 15    | 2764.30  |
| 4 LIC MF                       | 9              | 754.08   | 5             | 338.36  | 7               | 428.26   | 7    | 222.93  |                 |        | 28    | 1743.63  |
| 5 GIC MF                       | 1              | 54.00    | 2             | 504.00  | 5               | 720.93   | 3    | 101.88  |                 |        | 11    | 1380.81  |
| 6 MORGAN STANLEY MF            |                | (-)      | 1             | 982.00  |                 | (-)      |      | (-)     |                 |        | 1     | 982.00   |
| 7 RELIANCE MF                  | 1              | 873.78   | 2             | 74.00   |                 | (-)      |      | (-)     |                 |        | 3     | 947.78   |
| 8 BOI MF                       | 1              | 109.71   | 3             | 575.84  |                 | (-)      | 2    | 36.82   |                 |        | 6     | 722.37   |
| 9 INDBANK MF                   | 1              | 93.08    | 4             | 227.99  | 2               | 251.64   | 3    | 65.75   |                 |        | 10    | 638.46   |
| 10 PNB MF                      | 1              | 63.80    |               | (-)     | 2               | 201.88   | 5    | 155.92  |                 |        | 8     | 421.60   |
| 11 IDBI MF                     | 1              | 164.00   | 2             | 160.11  |                 | (-)      | 1    | 60.00   |                 |        | 4     | 384.11   |
| 12 KOTHARI PIONEER MF          | 4              | 12.99    | 2             | 92.69   | 1               | 105.00   | 3    | 136.00  |                 |        | 10    | 346.68   |
| 13 TAURUS MF                   |                | (-)      | 3             | 304.16  |                 | (-)      |      | (-)     |                 |        | 3     | 304.16   |
| 14 JM MF                       | 2              | 115.81   | 2             | 577.00  | 1               | 48.00    | 3    | 4.65    |                 |        | 8     | 745.46   |
| 15 ICICI MF                    |                | (-)      | 2             | 249.00  |                 | (-)      |      | (-)     |                 |        | 2     | 249.00   |
| 16 CRB MF                      |                | (-)      | 1             | 229.00  |                 | (-)      |      | (-)     |                 |        | 1     | 229.00   |
| 17 BIRLA MF                    | 2              | 534.70   | 1             | 162.00  |                 | (-)      |      | (-)     |                 |        | 3     | 696.70   |
| 18 20 <sup>TH</sup> CENTURY MF | 1              | 35.51    | 2             | 132.83  |                 | (-)      | 1    | 1.30    |                 |        | 4     | 169.64   |
| 19 TATA MF                     |                | (-)      | 3             | 116.06  | 1               | 19.00    | 1    | 12.00   |                 |        | 5     | 147.06   |
| 20 APPLE MF                    |                | (-)      | 2             | 108.48  |                 | (-)      |      | (-)     |                 |        | 2     | 108.48   |
| 21 DSP MERRILL LYNCH MF        | 1              | 16.51    | 1             | 82.44   |                 | (-)      |      | (-)     |                 |        | 2     | 98.95    |
| 22 ALLIANCE MF                 | 1              | 17.00    | 1             | 71.00   |                 | (-)      | 1    | 1.50    |                 |        | 3     | 89.50    |
| 23 TEMPLETON MF                | 1              | 38.00    | 1             | 50.50   |                 | (-)      |      | (-)     |                 |        | 2     | 88.50    |
| 24 BOB MF                      |                | (-)      | 1             | 20.00   |                 | (-)      | 3    | 42.15   |                 |        | 4     | 62.15    |
| 25 ITC THREADNEEDLE MF         | 1              | 1.10     | 1             | 51.40   |                 | (-)      |      | (-)     |                 |        | 2     | 52.50    |
| 26 SHRIRAM MF                  |                | (-)      | 2             | 21.14   |                 | (-)      | 3    | 21.29   |                 |        | 5     | 42.43    |
| 27 SUNDARAM MF                 | 1              | 8.33     | 1             | 12.00   |                 | (-)      | 1    | 5.00    |                 |        | 3     | 25.33    |
| 28 HB MF                       |                | (-)      | 1             | 21.00   |                 | (-)      | 1    | 3.51    |                 |        | 2     | 24.51    |
| 29 ESCORTS MF                  | 1              | 20.00    |               | (-)     |                 | (-)      |      | (-)     |                 |        | 1     | 20.00    |
| 30 JARDINE FLEMING MF          |                | (-)      |               | (-)     | 1               | 11.00    | 1    | 4.90    |                 |        | 2     | 15.90    |
| 31 CHOLAMANDALAM               | 1              | 7.30     |               | (-)     |                 | (-)      |      | (-)     |                 |        | 1     | 7.30     |
| 32 CAZENOVE MF                 |                |          |               |         |                 |          |      |         |                 |        |       |          |
| 33 ANAGRAM WELLINGTON MF       | 1              | 5.20     |               | (-)     |                 | (-)      |      | (-)     |                 |        | 1     | 5.20     |
| 34 SUN F & C MF                | 1              | 3.51     |               | (-)     |                 | (-)      |      | (-)     |                 |        | 1     | 3.51     |
| 35 FIRST INDIA MF              |                | (-)      |               | (-)     |                 | (-)      | 1    | 0.65    |                 |        | 1     | 0.65     |



| Mutual Fund | Income schemes |       | Growth scheme |       | Income & Growth |       | ELSS |      | Venture Capital |      | Total |       |
|-------------|----------------|-------|---------------|-------|-----------------|-------|------|------|-----------------|------|-------|-------|
|             | No.            | Amt.  | No.           | Amt.  | No.             | Amt.  | No.  | Amt. | No.             | Amt. | Amt.  |       |
| TOTAL       | 94             | 42613 | 68            | 15808 | 33              | 33309 | 61   | 5286 | 3               | 212  | 259   | 97228 |

*p: provisional*

Source: SEBI

## D] INTERMEDIARIES ASSOCIATED WITH SECURITIES MARKET

Both primary market intermediaries as well secondary market intermediaries were brought under the SEBI's regulatory purview. The various developments related to their regulation and functioning which took place during 1997-98 have been discussed in the Report. In Part I, the different regulatory issues relating to the intermediaries which were addressed by the SEBI, have been detailed. In Part III, the details of their registration, fees collected from them, inspections, and investigations into their affairs and conduct, and of action taken against such intermediaries are set out.

## E] FOREIGN INSTITUTIONAL INVESTORS

At the end of 1997-98, 496 FIIs were registered with SEBI and they had made cumulative net investments of US\$ 9,284.3 million in Indian securities markets. In 1996-97, net FII investment, at US\$ 2,431.9 million was at its highest yearly level since FIIs began investing in Indian securities markets. In 1997-98, net FII investment was US\$ 1,650.1 million, a decline of 32 per cent from its 1996-97 level. In 1997-98 monthly net FII investment turned negative for the first time. Monthly net FII investment was negative in November 1997, December 1997 and January 1998. In these months, FIIs made net sales of US\$ 372.6 million. Monthly net FII investment turned positive in February and March 1998, when FIIs made net investments of US\$ 190.2 million and US\$ 183.2 million respectively. The decline in the overall level of net FII investment in 1997-98, and the period of negative monthly net FII investment towards the end of the year can be largely attributed to some extent to the events in South East and North Asia since July 1997, when the central bank of Thailand permitted the Thai Baht to float, reversing its earlier policy of maintaining a pegged exchange rate. These events, and their impact on Indian markets and on FII inflows are described below.

Table II.17 gives details of investments by FIIs since 1992-93. Table II.18 gives the details of monthly investment by FIIs in 1996-97. Figure II.6 gives the monthly trend in FII investment. Figure II.7 gives movement of monthly purchases and sales by FIIs.

**Table II.17: Yearly Trends in FII Investment**

| Month               | Gross Purchases<br>(Rs. Cr) | Gross Sales<br>(Rs. Cr) | Net Investment<br>(Rs. Cr) | Net Investment US\$ m<br>at monthly ex rate |
|---------------------|-----------------------------|-------------------------|----------------------------|---|
| 1992-93             | 17.4                        | 4.0                     | 13.4                       | 4.2   |
| 1993-94             | 5,592.5                     | 466.3                   | 5,126.2                    | 1,634.0                                     |
| 1994-95             | 7,631.0                     | 2,834.8                 | 4,796.3                    | 1,528.3                                     |
| 1995-96             | 9,693.5                     | 2,751.6                 | 6,942.0                    | 2,035.7                                     |
| 1996-97             |                             |                         |                            |   |
| Equity <sup>†</sup> | 15,525.0                    | 6,979.4                 | 8,545.5                    | 2,423.8                                     |
| Debt <sup>‡</sup>   | 28.9                        | 0.0                     | 28.9                       | 8.1   |
| Total 1996-97       | 15,553.9                    | 6,979.4                 | 8,574.5                    | 2,431.9                                     |
| 1997-98             |                             |                         |                            |   |
| Equity              | 17,338.1                    | 12,071.2                | 5,266.9                    | 1,462.6                                     |
| Debt                | 1,356.6                     | 666.1                   | 690.5                      | 187.5                                       |
| Total 1997-98       | 18,694.7                    | 12,737.2                | 5,957.5                    | 1,650.1                                     |
| <b>Grand Total</b>  | <b>57,182.9</b>             | <b>25,773.3</b>         | <b>31,409.7</b>            | <b>9,284.3</b>                              |

<sup>†</sup>Investment by FIIs investing through the equity 70:30 route, <sup>‡</sup>Investments through the 100% debt route. Figures may not add exactly due to rounding.

Source: SEBI



**Table II.18: Monthly FII Investment in 1997-98**

| Month     | Route               | Gross Purchases<br>(Rs. Cr) | Gross Sales<br>(Rs. Cr) | Net Investment<br>(Rs. Cr) | Net Investment<br>US\$ m at monthly<br>ex rate | Cumulative Net<br>Investment US\$ m<br>at monthly ex rate |
|-----------|---------------------|-----------------------------|-------------------------|----------------------------|--|---|
| April `97 | Equity <sup>†</sup> | 1,214.4                     | 712.7                   | 501.7                      | 140.1  |   |
|           | Debt <sup>‡</sup>   | 132.7                       | 49.2                    | 83.5                       | 23.3   |   |
|           | <b>Total</b>        | <b>1,347.0</b>              | <b>761.9</b>            | <b>585.1</b>               | <b>163.4</b>                                   | <b>7,797.6</b>  |
| May       | Equity              | 1,329.5                     | 614.3                   | 715.2                      | 199.7  |   |
|           | Debt                | 63.7                        | 16.1                    | 47.6                       | 13.3   |   |
|           | <b>Total</b>        | <b>1,393.2</b>              | <b>630.4</b>            | <b>762.8</b>               | <b>213.0</b>                                   | <b>8,010.6</b>  |
| June      | Equity              | 2,601.8                     | 1,282.5                 | 1,319.3                    | 368.4  |   |
|           | Debt                | 302.6                       | 139.0                   | 163.7                      | 45.7   |   |
|           | <b>Total</b>        | <b>2,904.4</b>              | <b>1,421.5</b>          | <b>1,482.9</b>             | <b>414.1</b>                                   | <b>8,424.7</b>  |
| July      | Equity              | 1,922.2                     | 942.3                   | 979.9                      | 274.2  |   |
|           | Debt                | 83.3                        | 57.8                    | 25.5                       | 7.1  |   |
|           | <b>Total</b>        | <b>2,005.5</b>              | <b>1,000.1</b>          | <b>1,005.4</b>             | <b>281.3</b>                                   | <b>8,706.0</b>  |
| Aug       | Equity              | 1,601.4                     | 1,063.4                 | 538.1                      | 149.8  |   |
|           | Debt                | 39.0                        | 70.6                    | (31.6)                     | (8.8)  |   |
|           | <b>Total</b>        | <b>1,640.4</b>              | <b>1,134.0</b>          | <b>506.4</b>               | <b>141.0</b>                                   | <b>8,847.0</b>  |
| Sep       | Equity              | 1,414.4                     | 783.4                   | 631.0                      | 173.2  |   |
|           | Debt                | 41.3                        | 72.4                    | (31.0)                     | (8.5)  |   |
|           | <b>Total</b>        | <b>1,455.7</b>              | <b>855.8</b>            | <b>600.0</b>               | <b>164.7</b>                                   | <b>9,011.7</b>  |
| Oct       | Equity              | 1,600.2                     | 966.7                   | 633.5                      | 174.9  |   |
|           | Debt                | 393.1                       | 41.8                    | 351.3                      | 97.0   |   |
|           | <b>Total</b>        | <b>1,993.2</b>              | <b>1,008.5</b>          | <b>984.7</b>               | <b>271.8</b>                                   | <b>9,283.5</b>  |
| Nov       | Equity              | 1,093.3                     | 1,505.2                 | (411.9)                    | (110.6)  |   |
|           | Debt                | 5.0                         | 143.2                   | (138.3)                    | (37.1)   |   |
|           | <b>Total</b>        | <b>1,098.2</b>              | <b>1,648.4</b>          | <b>(550.2)</b>             | <b>(147.8)</b>                                 | <b>9,135.8</b>  |
| Dec       | Equity              | 934.7                       | 1460.9                  | (526.2)                    | (134.2)  |   |
|           | Debt                | 0.0                         | 52.4                    | (52.4)                     | (13.4)   |   |
|           | <b>Total</b>        | <b>934.7</b>                | <b>1,513.3</b>          | <b>(578.6)</b>             | <b>(147.5)</b>                                 | <b>8,988.2</b>  |
| Jan ` 98  | Equity              | 772.9                       | 1,074.7                 | (301.8)                    | (76.6)   |   |
|           | Debt                | 0.0                         | 2.5                     | (2.5)                      | (0.6)  |   |
|           | <b>Total</b>        | <b>772.9</b>                | <b>1,077.2</b>          | <b>(304.3)</b>             | <b>(77.3)</b>                                  | <b>8,911.0</b>  |
| Feb       | Equity              | 1,489.1                     | 754.5                   | 734.6                      | 188.9  |   |
|           | Debt                | 5.0                         | 0.0                     | 5.0                        | 1.3  |   |
|           | <b>Total</b>        | <b>1,494.1</b>              | <b>754.5</b>            | <b>739.6</b>               | <b>190.2</b>                                   | <b>9,101.2</b>  |
| Mar       | Equity              | 1,364.3                     | 910.7                   | 453.6                      | 114.8  |   |
|           | Debt                | 290.9                       | 21.0                    | 269.9                      | 68.3   |   |
|           | <b>Total</b>        | <b>1,655.2</b>              | <b>931.7</b>            | <b>723.5</b>               | <b>183.2</b>                                   | <b>9,284.3</b>  |
|           | <b>Total Equity</b> | 17,338.1                    | 12,071.2                | 5,266.9                    | 1,462.6  |   |
|           | <b>Total Debt</b>   | 1,356.6                     | 666.1                   | 690.5                      | 187.5  |   |
|           | <b>Grand Total</b>  | <b>18,694.7</b>             | <b>12,737.2</b>         | <b>5,957.5</b>             | <b>1,650.1</b>                                 |   |

<sup>†</sup>Investment by FIIs investing through the equity 70:30 route, <sup>‡</sup>Investments through the 100% debt route, negative figures in brackets. Figures may not add exactly due to rounding.

Source: SEBI

Figure II.6: Monthly Trends in FII Investment

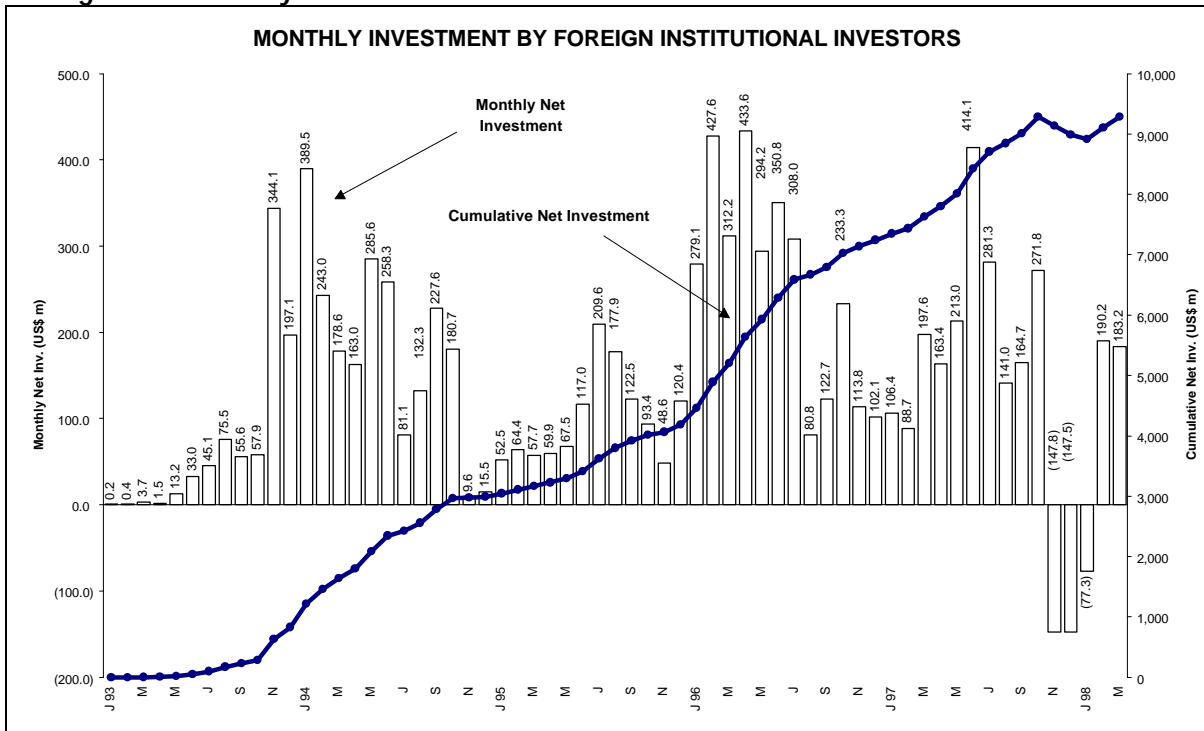
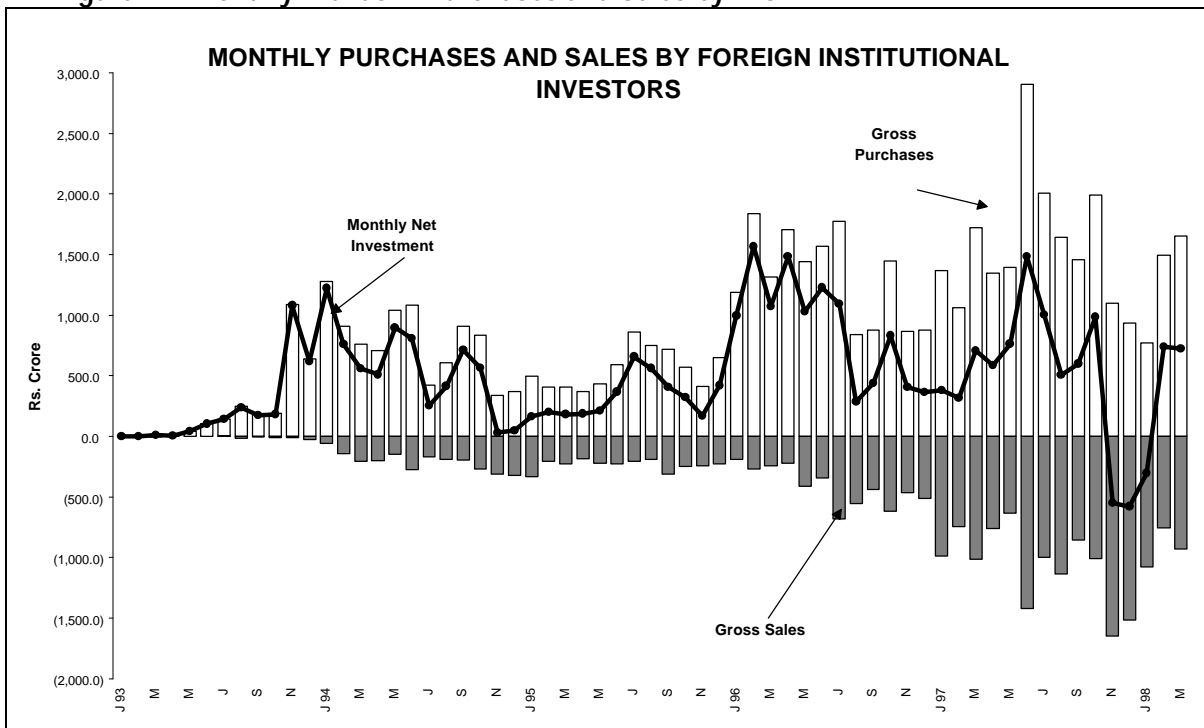


Figure II.7: Monthly Trends in Purchases and Sales by FIIs



## F] SUBSTANTIAL ACQUISITIONS OF SHARES AND TAKE-OVERS

The Table II.19 below furnishes a statement of the offer documents vetted and exemptions granted under the SEBI (Substantial Acquisition of Shares and Take-overs) Regulations.

**Table II.19: Offers and Exemptions**

| Offer documents filed |         | Exemptions granted |         |
|-----------------------|---------|--------------------|---------|
| 1996-97               | 1997-98 | 1996 - 97          | 1997-98 |
| 43                    | 41      | 32                 | 5       |

Source: SEBI

In addition, 26 applications were made to the Panel for exemption from application of the regulations. In addition to this, 116 notices of intimation of non-applicability of regulations were received by the SEBI.

## G] INVESTIGATION, ENFORCEMENT AND SURVEILLANCE

A well-regulated market fosters investors' confidence in its fairness and integrity by ensuring true and fair price discovery, prompt detection of market manipulations and safety of the markets through risk containment measures and effective enforcement. With a view to achieve these objectives, the SEBI took several initiatives both at macro and micro level, which are briefly discussed below.

### Market surveillance

The Investigation, Enforcement and Surveillance Department since its inception organised itself to carry out its responsibility of protecting the investors and ensuring a healthy development of the securities markets. Market Surveillance Division was set up in the SEBI in July 1995, with a view to effectively monitor abnormal market movements and detect market manipulations. It was involved in monitoring the market movements, identifying price volatility, analysing its causes and overseeing the surveillance activities of the stock exchanges. The main source of information for the Market Surveillance Division is the trading data obtained from the stock exchanges, newspaper reports, investor complaints, market intelligence, etc. It also analyses major market movements in the wake of significant market sensitive information. Some of the surveillance systems and risk containment measures that were put in place during 1997-98 are:

- market monitoring by independent surveillance cells of stock exchanges;
- stock exchanges reporting to SEBI through settlement reports and pre-issue monitoring reports;
- risk containment measures in the form of elaborate margining system comprising of daily, special, penal and mark to market margins;
- circuit filters, daily price bands and weekly price caps to curb abnormal price behaviour and volatility;
- intra-day trading and gross exposure limits for stock brokers linked with capital adequacy;
- suspension of trading in scrips to prevent market manipulation;
- inspection of intermediaries;
- enhancement of SRO capabilities of stock exchanges;
- interactive and pro-active oversight by the SEBI;

- formation of Inter Exchange Market Surveillance Group for prompt and effective co-ordination between stock exchanges.

### **Strengthening of surveillance and monitoring mechanisms**

During 1997-98, further steps were taken at the level of the SEBI and the stock exchanges under the oversight of the SEBI to improve and strengthen their surveillance capabilities. Some of the developments in this regard are briefly given below.

#### **Meetings of the Inter Exchange Market Surveillance Group**

During 1997-98, SEBI convened two meetings of the Inter Exchange Market Surveillance Group. The first meeting was held on July 14, 1997 and the second meeting was held on December 17, 1997. The Group discussed market trends, various risk containment measures that needed to be revised and new measures to be implemented. It also discussed issues relating to dissemination of price sensitive information to the public, dealing with market rumours and co-ordination between stock exchanges. The Group was reconstituted with representatives from the Stock Exchange, Mumbai, NSEIL, Delhi, Calcutta, Ahmedabad, Ludhiana and Bangalore stock exchanges. The further initiatives taken by the SEBI during the year are given in the following paragraphs.

#### **Uniform intra-day price band of 10 per cent**

Presently, there is a price variation cap of 25 per cent during a settlement which was uniformly implemented by all the stock exchanges. The intra-day price variation was flexible in range upto 10 per cent subject to the settlement variation cap of 25 per cent. Now, it is implemented uniformly at 10 per cent intra-day variation by all the stock exchanges.

#### **Price bands in respect of infrequently traded scrips**

There was a need to have a uniform guideline in respect of price bands on infrequently traded scrips. A small group was formed comprising of representatives of Mumbai, NSEIL and Delhi stock exchanges to frame guidelines and a basis on which such price bands could be fixed. The group has already given some deliberation on this issue and their final report is expected shortly.

#### **Public disclosure of information relating to actions taken against stockbrokers**

As the action taken against the member brokers of the stock exchanges including penal actions were not disclosed to other market participants by all the stock exchanges, it was felt that such actions need to be disclosed in the larger interest of the investors and market participants. The stock exchanges were therefore asked to make public the actions taken by the Disciplinary Action Committee of the stock exchanges against their member brokers. The stock exchanges were also asked to issue press releases when such actions are of serious nature.

#### **Dissemination of price sensitive information to public**

There was a need to have proper method for dissemination of price sensitive and other important information relating to corporate and market to the public so that they can make informed investment decisions. The stock exchanges were asked to display such information on their terminals in the quickest possible manner.

## **Dealing with market rumours**

Market rumours can do considerable damage to the normal functioning and behaviour of the market. It is therefore essential to have quick verification of such rumours from the corporates as well as from other entities whenever it is so necessary. Therefore, it was decided that all stock exchanges should verify such rumours in the quickest possible manner and inform investors and other market participants, if possible through their terminals. The SEBI had asked around 150 companies to designate compliance officers who could be contacted by the stock exchanges whenever such verification is needed. As much as 115 of such companies have already designated compliance officers and have informed SEBI. The SEBI subsequently has circulated the names of the companies and details about their compliance officers to all the stock exchanges.

## **Co-ordination between stock exchanges**

To facilitate better and quicker co-ordination among the stock exchanges, all stock exchanges were asked to designate a co-ordination officer who could be contacted by other stock exchanges for immediate exchange of information.

## **Joint inspection and investigation in case of stock brokers having multiple membership**

It was decided that in some suitable cases the stock exchanges would co-ordinate and carry out joint inspection of member brokers having multiple membership. Besides there should be sharing of information in such cases between the stock exchanges.

## **Inspection of surveillance cells of stock exchanges**

The surveillance cells of stock exchanges have been strengthened in terms of manpower and systems at the behest of the SEBI. Since December 1996, the inspections of the surveillance cells are being taken up on a regular basis for the purpose of assessing the quantum and quality of surveillance done and suggesting improvements in the proactive surveillance capability of the stock exchanges. During 1997-98, the SEBI inspected surveillance cells of 10 stock exchanges and the shortcomings and suggestions have been communicated to them for improvement of the functioning of the surveillance cells.

## **Development and implementation of Stock Watch System**

While the existing risk containment measures have served well their intended purpose of imparting safety, fairness and transparency to the Indian securities markets, the challenge lies in enmeshing the surveillance measures with the development of the market. Trading in the Indian securities markets now being on-line has become more sophisticated, which calls for further sophistication in surveillance and regulatory oversight. A system of market monitoring and surveillance was initiated and the stock exchanges are reporting abnormal price and volume movements to SEBI in prescribed formats. In this direction, to have more effective system of market surveillance keeping in line with the international standards, it was been decided to develop a Stock Watch System at the level of the stock exchanges under the initiative and oversight of the SEBI. The objectives of the Stock Watch System is to give suitable indicators or alerts for the detection of potential illegal or improper activity to protect the integrity of the securities markets and its participants. The Stock Watch System would consist of various databases of issuers, securities, trading and members with the stock exchanges that would help in generating various alerts. These alerts would assist the stock exchanges in keeping effective surveillance on the market to bring an era of transparency and fairness in the dealings.

The Core Group, which was formed during 1996-97 consisting of representatives from the major stock exchanges of the country, to help in the process of implementation of the Stock Watch System, held several meetings. A workshop on the Stock Watch System was also organised by the SEBI and conducted by the NASDAQ staff in which the Core Group and the staff of surveillance cells of the stock exchanges participated.

With the help of the Core Group, the SEBI has finalised the basic parameters for various databases and generation of alerts for Phase I of the Stock Watch System. The same has been communicated to stock exchanges and they are in the process of implementation of the same.

### **Interaction and co-ordination with stock exchanges**

There is frequent informal exchange of information and ideas to create purposeful market monitoring and surveillance between the SEBI and stock exchanges. During exceptional market conditions, the SEBI calls for information and feedback on market conditions from the stock exchanges and steps taken by them. This, in turn results in timely and effective surveillance by the SEBI.

### **Role of market surveillance in exceptional market conditions**

The stock markets had witnessed several periods of volatility and turbulence during 1996-97. For example, the BSE Sensex, which is the benchmark index for the Indian securities markets, decreased sharply by 5.45 per cent and 6.52 per cent on January 16, 1997 and March 31, 1997 respectively. On January 16, 1997, intra-day volatility of 357 points was witnessed at the Stock Exchange, Mumbai. The safety of the market, however, was not affected during these periods of volatility mainly on account of the risk containment measures that were in place.

During 1997-98 also, the market witnessed certain periods of volatility. Since July 1997, economies in Asia, especially Thailand, Malaysia, Philippines, Indonesia as well as South Korea have been severely affected by large depreciation of their currencies following the severing of currency regimes which had been in place for several years. The fall out on Indian securities markets exhibited unusual price volatility on couple of occasions during this period when the BSE Sensex fell by more than 3 per cent to 7 per cent against an annual average intra-day price volatility of around 1.9 per cent. On August 20, 1997 the intra-day price volatility of the BSE Sensex was exceptionally high at 3.4 per cent. On October 28, 1997, The Stock Exchange, Mumbai was closed due to festive holidays. However, the National Stock Exchange of India Ltd, (NSEIL) another premier stock exchange in India was open on this day and the Nifty (fifty scrip index of NSEIL) fell by 7.9 per cent on a single day. The relatively steep decline on this day was affected by events in other emerging and developed markets specially the decline in equity prices in Hong Kong. Equity prices in the United States, Japan and Europe fell on October 27, 1997, with the Dow Jones Industrial Average of U.S stocks falling by 7.1 per cent on the same day. This fall in the Dow affected sentiments in the Asian markets when they opened on October 28, 1997 and the equity prices in Hong Kong led the decline. Hang Seng fell by 13.7 per cent, Indian market took cue. On this day, 294 securities out of 1350 securities traded on the NSEIL attracted the scrip specific price bands. Only 12 out of such scrips are related to the index and 9 out of them bounced back and trading was restarted.

Apart from the strict monitoring of market movements and positions of brokers which is now being done automatically in the stock exchanges, the SEBI took pro-active action after discussing with the stock exchanges to arrest the fall. The NSEIL reduced the daily price band from the standard 10 per cent level to 7 per cent level. This measure coupled with exposure



limits helped in stabilising the market. On January 15, 1998, the Indian securities markets again witnessed high level of activity and the intra-day price volatility of the BSE Sensex was close to 3 per cent. On the following day, the market improved marginally reversing the previous day's trend. However, there was not a single default or failure in the market and market stability and safety was maintained.

Some of the other regulatory measures taken by the SEBI and the stock exchanges to stabilise the markets during the period of exceptional market volatility have been stringent administration of mark to market margining system and adherence to prudential exposure norms. In Indian securities markets, securities specific circuit breakers and price bands are followed. Experience has shown that scrip related circuit breakers and price bands compared to index related circuit breakers were more appropriate. It ensured that the market remained open and only those counters where volatile scrips which touched the lower of the daily band of 10 per cent or weekly band of 25 per cent, were closed. On account of such measures the panic that had set in all over the world could not aggravate the market conditions in India. In fact the situation was well under control.

## Investigations

### Background of investigation process

Investigation activities were further strengthened during 1997-98. Investigations carried out by the SEBI during the year yielded positive results resulting in fewer number of cases reported for alleged market manipulation and price rigging. Pursuant to completion of investigation, various actions like administrative directions and penal actions under the SEBI Act and the various SEBI Rules and Regulations were undertaken. These actions include monetary penalties, warning, suspension of activities and cancellation of registration, refund of issue proceeds, prohibiting access to the securities markets and ordering compensation of undue or ill-gotten gains.

### Investigation proceedings

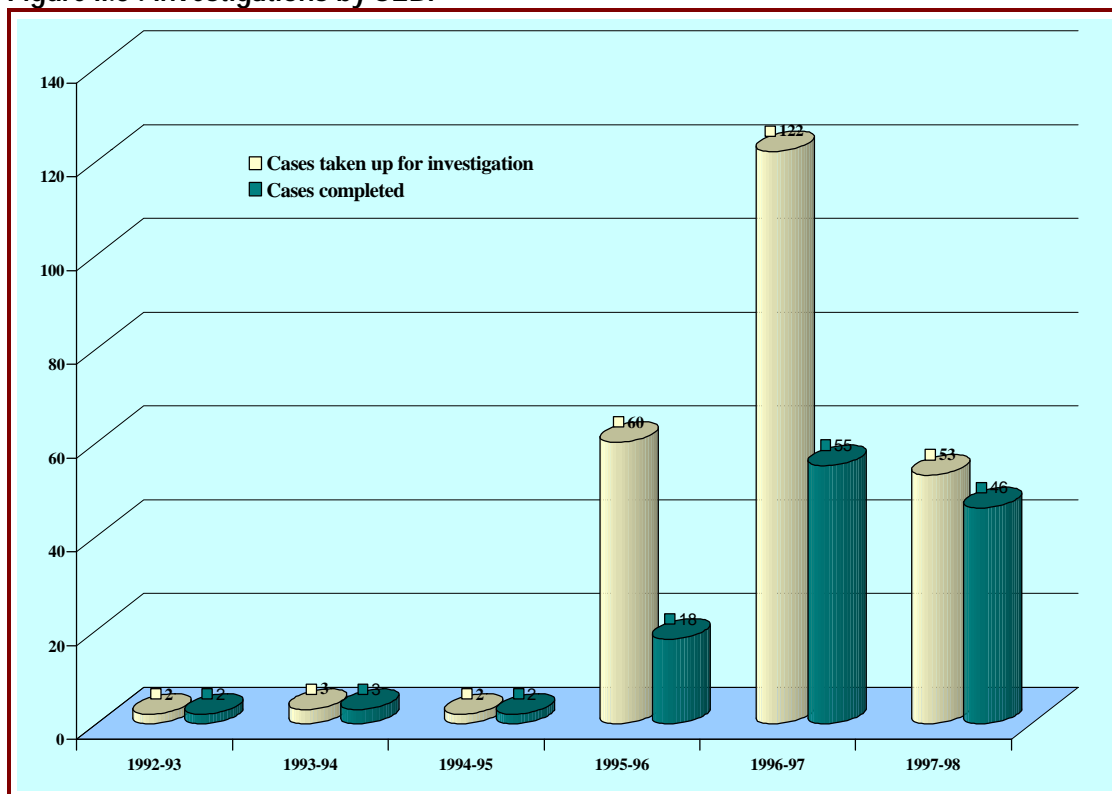
During 1997-98, investigations were taken up in several cases including price rigging, creation of false market, circular trading, price maintenance, dealing in fake shares, insider trading, front running and take-over of companies without the compliance with the relevant regulations, mis-statement in the prospectus and price manipulation prior to the public and rights issue. The details of such cases are given in Table II.19 and Figure II.8.

**Table II.19: Investigations by SEBI**

| Particulars                      | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | Total |
|----------------------------------|---------|---------|---------|---------|---------|---------|-------|
| Cases taken up for investigation | 2       | 3       | 2       | 60      | 122     | 53      | 242   |
| Cases completed                  | 2       | 3       | 2       | 18      | 55      | 46      | 126   |

Source: SEBI

**Figure II.8 : Investigations by SEBI**



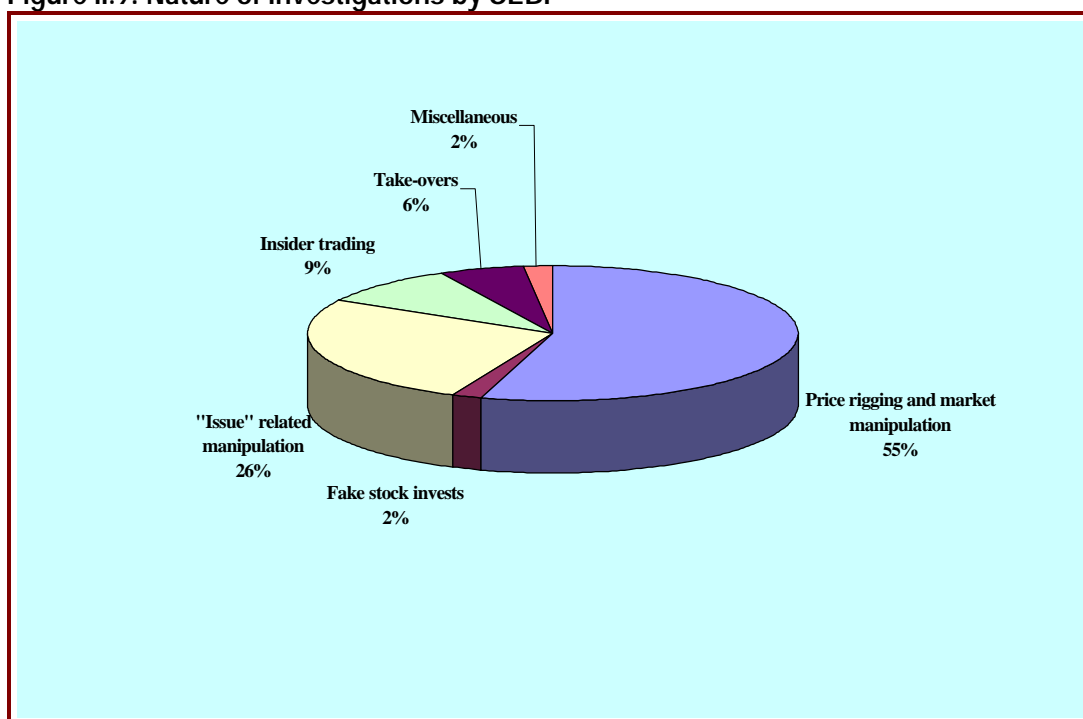
As can be seen from the table II.19, the SEBI took up investigations in 53 cases in 1997-98 bringing the total cases taken up for investigation to 242 in the last six years. These cases include preliminary inquiries and investigations initiated. Out of the above 126 cases have already been completed. The break up of 53 cases in respect to nature of violations alleged, taken up during 1997-98 is given in Table II.20 and Figure II.9.

**Table II.20: Nature of Investigations by SEBI**

| Particulars                           | No. of cases<br>1997-98 |
|---------------------------------------|-------------------------|
| Market manipulation and price rigging | 29                      |
| Fake stock invests                    | 1                       |
| "Issue" related manipulation          | 14                      |
| Insider trading                       | 5                       |
| Take-overs                            | 3                       |
| Miscellaneous                         | 1                       |
| <b>Total</b>                          | <b>53</b>               |

Source: SEBI

**Figure II.9: Nature of Investigations by SEBI**



Show cause notices were issued to 32 non-intermediaries pursuant to completion of investigation, asking them as to why they should not be debarred from trading in securities and prohibiting access to the securities markets, for an appropriate period, for market manipulations. These non-intermediaries include individuals, firms as well as corporates. In addition to the above, show cause notices have also been issued for initiating prosecution proceedings against the intermediaries and the non-intermediaries involved in market manipulation.

### **Enquiry proceedings**

During 1997-98, on completion of investigations, enquiry proceedings were started in respect of 52 intermediaries who have been issued show cause notices under the provisions of the relevant regulations. The break up of the 52 intermediaries is given in Table II.21. In 1997-98 enquiry proceedings were completed against 81 intermediaries, which also includes cases where investigations were taken up in earlier years, the details of which are given in Table II.22.

**Table II.21: Details of cases where enquiry officer has been appointed**

| <b>Intermediaries</b>                               | <b>No. of cases<br/>1997-98</b> |
|---|---------------------------------|
| Stock brokers                                       | 34                              |
| Merchant bankers                                    | 7                               |
| Registrars to an issue and<br>share transfer agents | 9                               |
| Bankers to an issue                                 | 2                               |
| <b>Total</b>  | <b>52</b>                       |

Source: SEBI

**Table II.22: Details of cases where enquiry proceedings have been completed in 1997-98**

| <b>Intermediaries</b>                            | <b>No. of cases</b> |
|--|---------------------|
| Stock brokers                                    | 76                  |
| Merchant bankers                                 | 3                   |
| Registrars to an issue and share transfer agents | 2                   |
| <b>Total</b>                                     | <b>81</b>           |

Source: SEBI

### **Adjudication proceedings**

During 1997-98, adjudication proceedings were initiated in 7 cases, and in 13 cases adjudication proceedings were completed which also included cases relating to violation of the SEBI (Substantial Acquisition of Shares and Take-over) Regulations.

### **Action taken**

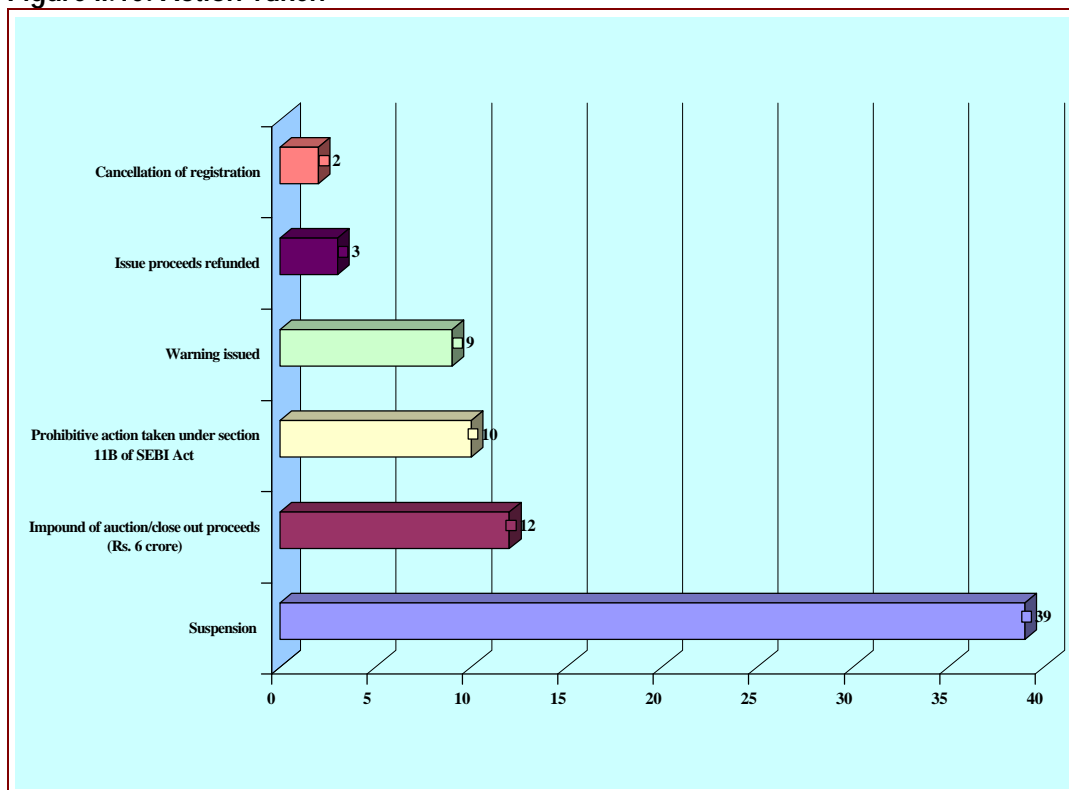
On the basis of the report of the enquiry officer who is appointed in terms of the various SEBI Regulations pursuant to the completion of the investigation, action was taken by way of suspension 39 intermediaries, cancellation of registration of 2 intermediaries, warning issued to 9 intermediaries, issue proceeds refunded in 3 cases and prohibitive action was taken under section 11B of the SEBI Act against 10 non-intermediaries. The intermediaries against whom action was taken include stock brokers, merchant bankers, registrars to an issue and share transfer agents, bankers to an issue and debenture trustees. Action taken during 1997-98 is given in Table II.23 and Figure II.10.

**Table II.23: Action Taken in 1997-98**

| <b>Particulars</b>                                     | <b>No. of cases</b> |
|--|---------------------|
| Suspension   | 39                  |
| Impound of auction/close out proceeds (Rs. 6 crore)    | 12                  |
| Prohibitive action taken under section 11B of SEBI Act | 10                  |
| Warning issued   | 9                   |
| Issue proceeds refunded                                | 3                   |
| Cancellation of registration                           | 2                   |
| <b>Total</b>   | <b>75</b>           |

Source: SEBI

Figure II.10: Action Taken



### Insider trading

Investigations were taken up in 5 cases during 1997-98. One of the cases where investigation was completed during 1997-98 is discussed below.

**Hindustan Lever Limited:** With the announcement of the merger of Brooke Bond Lipton Limited with Hindustan Lever Limited to the stock exchanges, there were allegations in the market regarding leakage of information and insider trading. The SEBI initiated investigation into the matter and according to the findings of the investigation, *inter alia* it concluded that Hindustan Lever Limited was an "insider" and has violated the provisions of the SEBI (Prohibition of Insider Trading) Regulations, 1992. The purchase of eight lakh shares of Brooke Bond India Limited, was made by Hindustan Lever Limited, from the Unit Trust of India, on the basis of "unpublished price sensitive information" about the impending merger, just a few days prior to the announcement of the "merger" of Brooke Bond Lipton Limited with Hindustan Lever Limited. The public at large including Unit Trust of India were not aware of the news of the impending merger, though Hindustan Lever Limited was in possession of the same, at the time of the purchase. The SEBI passed an order directing Hindustan Lever Limited to compensate Unit Trust of India to the extent of Rs.3.04 crore, which is the difference between the market price of the shares of Brooke Bond India Limited sold by Unit Trust of India to Hindustan Lever Limited after the announcement of merger and the market price of the shares prior to the announcement of the merger. It also ordered that prosecution proceedings should be initiated against Hindustan Lever Limited and its five directors who were party to the decision of the purchase of shares.

## ***Market manipulation and price rigging***

Investigations were taken up in 29 cases of market manipulation and price rigging in 1997-98. Such actions coupled with effective market surveillance under the oversight of the SEBI have resulted in significant reduction in cases of market manipulation and price rigging. Some of the cases where investigation was completed during 1997-98 are discussed below.

**Stock Brokers of Pune Stock Exchange:** The SEBI conducted investigation about the abnormal fall of the stock prices between the period October 1995 and January 1996. During the course of the investigations, it was noticed that many of the stock brokers of the Pune Stock Exchange were indulging in unauthorised carry forward transactions and consequent depression in prices. The SEBI appointed an Enquiry officer to inquire into the allegations. Pursuant to investigation and enquiry SEBI issued show cause notices to the stock brokers involved in the case. After considering the submissions made by the stock brokers, SEBI concluded that the stock brokers were guilty of violating the provisions of the SEBI Act, Rules and Regulations and ordered suspension of activities and cancellation of registration.

**North Star Gems (India) Limited:** The SEBI conducted investigation to look into abnormal rise in price and volume in the scrip of North Star Gems (India) Limited, just after its maiden public issue. Investigation concluded that a group of persons with the help of its associate entities operated in the scrip with a view to manipulate the prices. This group of persons in collusion with the promoters of the company cornered the shares offered in the public issue and through secondary market purchases. The buying pressure created a false market in the scrip and some of the investors were induced to sell short at the higher level of prices. This resulted in auction and closeout at abnormally high prices. On completion of investigations, the SEBI ordered impounding of the amount (amounting to Rs.1.75 crore) to ensure that the manipulators should not be in a position to receive ill-gotten gains arising out of such market manipulations. The SEBI directed this amount to be transferred to the Investor Protection Fund of the concerned stock exchange. Enquiry proceedings were also initiated against the stock brokers involved in the case and against the registrar to the Issue. Show cause notices are also being issued to the non-intermediaries including the promoters of the company.

**JVG Departmental Stores Limited:** The SEBI conducted investigation to look into the alleged creation of false market in the scrip of JVG Departmental Stores Limited. Abnormally high volumes accompanied with unusual price rise were noticed right from the first day of listing of the scrip. The investigation prima facie revealed that Hoffland Finance Limited, a portfolio manager and a stock broker had purchased large quantities of the shares of the company. It was involved in the creation of a false market by maintaining the traded price at artificially high levels and did not act in the best interest of their portfolio clients. Enquiry proceedings were initiated to inquire into the violations of SEBI Rules and Regulations by Hoffland Finance Limited. After considering the investigation report, Enquiry Officer's report and submissions on record, SEBI concluded that Hoffland Finance Limited is guilty of creating a false market in the scrip of JVG Departmental Stores Limited and suspended Hoffland Finance Limited to carry on its activities as a stock broker for a period of six months. It was also prohibited from carrying on its activities as merchant banker and portfolio manager.

**Jyoti Resins and Adhesives Limited:** The SEBI conducted investigation to look into the unusual increase in price and volumes in the scrip of Jyoti Resins and Adhesives Limited. The SEBI concluded that the share price of the company was manipulated and the main promoter of the company in collusion did the manipulation with an operator. With a view to prevent manipulators from benefiting from undue gains arising out of manipulation, the proceeds of auction and close out were frozen. The investigations concluded that the promoter of the

company along with the manipulator were the main persons who would have walked away with the proceeds of auction /close out. Nearly Rs 3.25 crore of the proceeds were impounded in pursuant to the investigations. Enquiry proceedings were initiated against the intermediaries-brokers, registrar to the issue and merchant banker. Actions are being undertaken as per the SEBI Act and Regulations against non-intermediaries including promoter and other manipulators.

### **“Issue” related manipulations**

During 1997-98, the SEBI took up 14 cases for investigation of “issue” related manipulation. These cases mainly pertained to allegations of grey market operations and acceptance of late applications, misuse of stock invests, arrangement of subscription to circumvent minimum subscription requirement, buyback of shares by companies and their promoters, and contravention of the various SEBI’s guidelines and the provisions of the Companies Act, 1956. In 3 cases, after completion of investigations, the SEBI ordered refund of the issue proceeds. Some of the cases where investigation was completed during 1997-98 are discussed below.

**Boom Securities and Leasing Limited:** The SEBI conducted investigation to look into the alleged irregularities relating to the subscription of the public issue of Boom Securities and Leasing Limited. The investigation concluded that subscription received during the public issue in effect were substantially less than the minimum required subscription of 90 per cent. The actual subscription received was not more than 42 per cent of the total offer to the public. It was also noticed that issue was subscribed with certain stock invests which were discovered to be fake and were reportedly lost. The listing was obtained for the issue without getting the stock invests realised. Pursuant to investigation, a show cause notice was issued to the company and it was asked to show cause why the proceeds of the public issue should not be refunded. After considering the material on record and submissions made from time to time by the company, the SEBI concluded that the company has not genuinely achieved the minimum subscription of 90 offered to the public. It directed the company that in the interests of the investors and the fairness of the securities market the issue proceeds be refunded to the original applicants and where the original applicant has sold the shares, the last holder should be given the face value of the shares. It also suspended the Merchant Banker and the Registrar to an Issue for carrying on their activities for three months and one year respectively.

**Rich Paints Limited:** Another instance of irregularities in the public issue came to light in the case of Rich Paints Limited. Investigations conducted by the SEBI revealed that the public issue of the company was not getting fully subscribed so the promoters approached one financier to arrange subscription. The arrangement was that the company would buy back the shares subscribed by the financier who would get interest on the amount of subscription in the public issue. The applications in the public issue were made by the financier with stock invests which were encashed in a current account of the company opened specifically for this purpose. The funds against stock invests were brought in the bank by the financier on the day of allotment and on the same day the stock invests were encashed and the amount repaid to the financier. No money actually came into the account of the company. By resorting to this *modus operandi*, the requirement of Section 69 and 73 of the Companies Act, 1956 were circumvented. Gujarat High Court dismissed the writ petition of the company against the order for not allowing the listing of the shares at the Stock Exchange, Mumbai. The court has upheld the views of the SEBI and the interpretation of the Companies Act adopted by it in this case.

It was also gathered during the investigations that promoters did not bring in their part of their subscription and created an illusion by showing receipt of application money through book entries only. Ostensibly, the application money was received in cash, which was deposited in bank, and against this receipt certain cheques were issued. Investigation revealed that payments were being shown to fictitious parties and in reality no money was received and the

employee of the company withdrew all the payments shown through book entries through bearer cheques. The SEBI directed the company to refund the amounts collected in the public issue with interest. The promoters of the company were also prohibited from accessing the securities markets for a period of one year. Enquiry proceedings have been commenced against merchant bankers, registrars to the issue and bankers to the issue.

**Other cases:** Some of the cases of abuse of stock invests scheme came to the notice of SEBI. In these cases, stock invests were ante dated in order to subscribe after the closure of the issue. In one case, the amount was refunded to the subscriber as the company did not receive the minimum subscription. Actions against the intermediaries involved and the promoters are in progress.

### **Impounding of auction and close-out proceeds**

Several measures were taken to prevent manipulators from benefiting from undue gains arising out of manipulation in respect of 14 cases. Such measures included freezing of the proceeds of manipulation arising from auction and close out. After freezing of the amount, these cases were followed up by investigation and Rs. 37 crore were impounded.

### **Prosecutions**

The SEBI initiated prosecution proceedings in 11 cases in 1997-98 bringing the total prosecution proceedings initiated so far to 29 in the last three years. Out of these, 24 prosecution proceedings were initiated under the powers delegated to SEBI under the Companies Act and three prosecution proceedings were initiated for violations of the SEBI (Substantial Acquisitions of Shares and Take-overs) Regulations, 1997. Similarly, 2 prosecution proceedings were initiated for violations of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995. The details of the above prosecution cases filed in the Court of Law till the end of 1997-98 are given in Table II.24 and Figure II.11. The prosecution proceedings initiated in 11 cases involved 81 persons. The SEBI till the end of 1997-98 initiated prosecution proceedings against 191 persons involved in 29 cases, the break-up of which is given in Table II.25.

**Table II.24 : Nature of prosecution initiated**

| <b>Particulars</b>   | <b>1995-96</b> | <b>1996-97</b> | <b>1997-98</b> |
|--|----------------|----------------|----------------|
| <b><i>Under powers delegated under the Companies Act</i></b>   |                |                |                |
| Delay in refund of excess application money, delay transfer of shares and non-payment of dividend                            | 7              | 4              | 6              |
| Mis-statement in offer document and fraudulent inducement  | 2              | 3              | 2              |
| <b><i>Under powers given by the SEBI Act</i></b>   |                |                |                |
| Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997                                       | 0              | 2              | 1              |
| Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995 | 0              | 0              | 2              |
| <b>Total</b>   | <b>9</b>       | <b>9</b>       | <b>11</b>      |

Source: SEBI

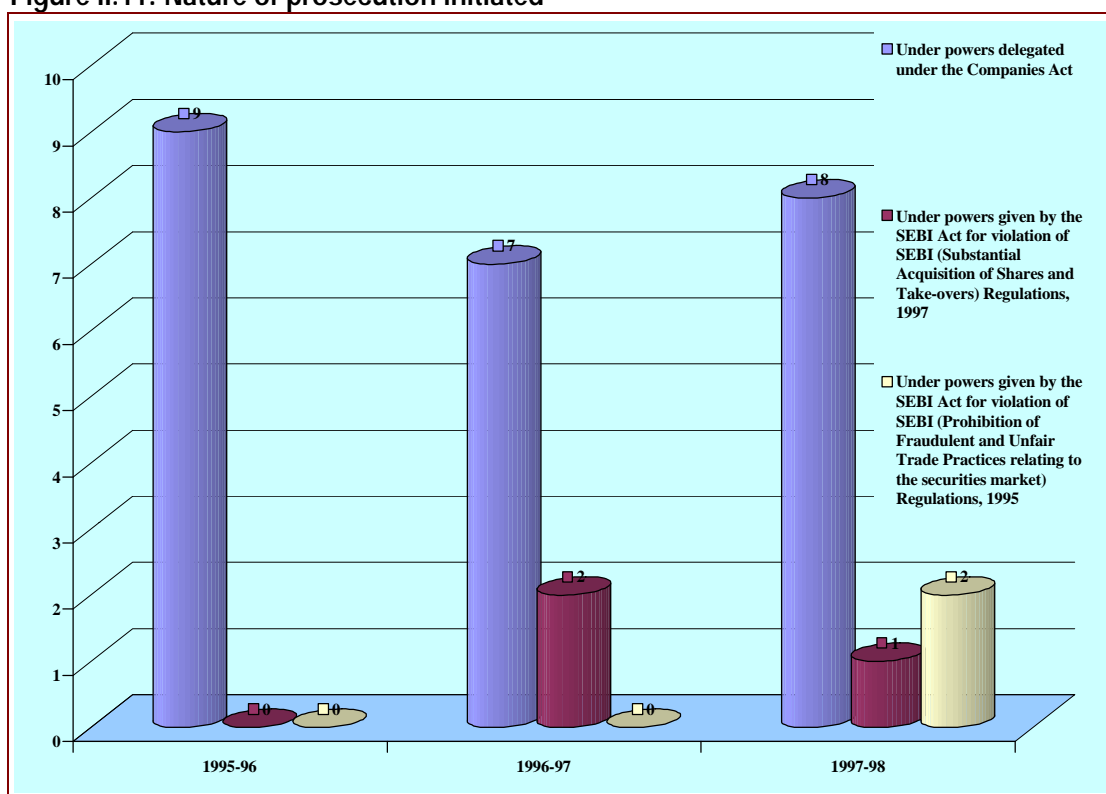


**Table II.25 : Number of persons prosecuted**

| Particulars  | 1995-96   | 1996-97   | 1997-98   |
|--|-----------|-----------|-----------|
| <b>Under powers delegated under the Companies Act</b>  |           |           |           |
| Delay in refund of excess application money, delay transfer of shares and non-payment of dividend                            | 41        | 22        | 34        |
| Mis-statement in offer document and fraudulent inducement  | 17        | 20        | 23        |
| <b>Under powers given by the SEBI Act</b>  |           |           |           |
| Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997                                       | 0         | 10        | 4         |
| Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995 | 0         | 0         | 20        |
| <b>Total</b>   | <b>58</b> | <b>52</b> | <b>81</b> |

Source: SEBI

**Figure II.11: Nature of prosecution initiated**



## H] LITIGATION, APPEALS AND COURT PRONOUNCEMENTS

### Civil Litigation

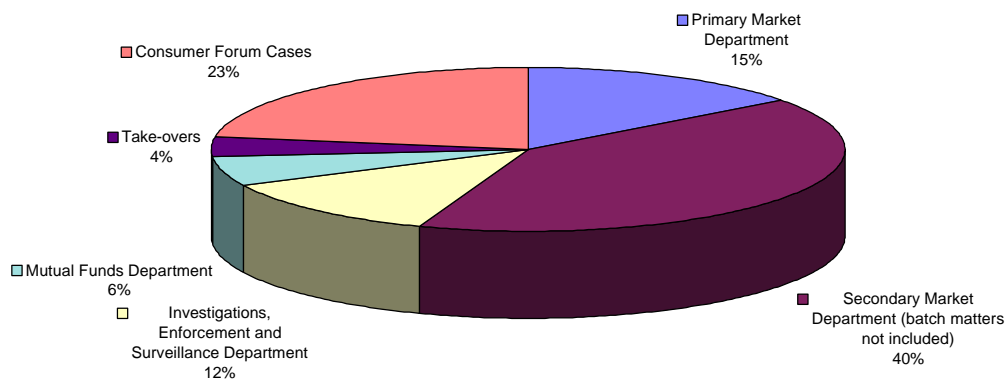
The details of cases that were filed in the courts during 1997 - 98 where the SEBI was a party are given in Table - II.26.

**Table II.26 : Status of Litigation where SEBI was a party**

| Sr No.       |  | 1997-98    |
|--------------|--|------------|
| 1            | Primary Market Department                                | 20         |
| 2            | Secondary Market Department (batch matters not included) | 56         |
| 3            | Investigations, Enforcement and Surveillance Department  | 17         |
| 4            | Mutual Funds Department                                  | 8          |
| 5            | Take-overs   | 5          |
| 6            | Consumer Forum Cases                                     | 31         |
| <b>Total</b> |  | <b>137</b> |

Source: SEBI

**Figure II.10: Litigation against SEBI during 1997-98**



## Appeals

Persons aggrieved by an order of the SEBI passed under the SEBI Act can prefer an appeal to the Central Government under section 20 of the SEBI Act. Table- II.27 gives details of such appeals that were filed before the Appellate Authority in the financial year 1997-98.

**Table II.27: Appeals filed under section 20**

| <b>Status of appeals</b> | <b>No of appeals 1997-98</b> |
|--------------------------|------------------------------|
| Appeals filed            | 47                           |
| Appeals dismissed        | 36                           |
| Appeals allowed          | 3                            |
| Appeals withdrawn        | 1                            |
| Appeals pending          | 7                            |

Source: SEBI

## Appeals before the Securities Appellate Tribunal

Persons aggrieved by an order of Adjudicating Officer passed under the SEBI Act can prefer an appeal to Securities Appellate Tribunal (SAT) under section 15T of the SEBI Act. Table II.28 gives details of such appeals that were filed in the financial year 1997 - 98.

**Table II.28 : Appeals filed in 1997-98 under section 15 T of the SEBI Act**

| <b>Status of appeals</b> | <b>No of appeals</b> |
|--------------------------|----------------------|
| Appeals filed            | 2                    |
| Appeals dismissed        | 0                    |
| Appeals allowed          | 0                    |
| Appeals pending          | 2                    |

Source: SEBI

## Important Court Pronouncements Relating to Securities Laws

### *High Court of Mumbai - Vinay Bubna Vs. Stock Exchange of Mumbai*

The question raised before the Court was whether membership card of a share broker can be regarded as his personal property or not. It was held that membership card of a share broker is not at all a personal property of a share broker but it is only a personal privilege conferred by a stock exchange on a share broker. Rule 16 of The Stock Exchange, Mumbai provides for recovery of dues to it from consideration of sale of membership card as first priority and rule 45 which gives first and paramount lien to exchange on security provided by member-broker are valid and there is nothing illegal or wrong in it. Since rules 16 and 43 are not arbitrary, unreasonable or violative of articles 14 and 19(1)(g) of the Constitution of India, Rules 16 and 43 are not contrary to law of insolvency. Court has no power to give direction to exchange to amend / alter / delete rules framed by exchange though such rules, could be declared as unconstitutional or violative of Constitution of India.

High Court of Gujarat - Rich Paints Ltd. Vs. Vadodara Stock Exchange Ltd. and the SEBI.

The company Rich Paints Ltd. preferred an appeal under section 22 of the SCR Act, 1956 against the refusal of The Stock Exchange, Mumbai to list its shares for its failure to obtain minimum subscription of 90 per cent of the issued amount. Some investors also petitioned the SEBI alleging that company accepted fictitious stockinvests to make up minimum subscription and hence sought refund of application money. The SEBI as an Appellate Authority held that condition of minimum subscription was not fulfilled by the company. The finding of appellate authority was challenged by the company before the High Court of Gujarat and the Court upholding the order of the Appellate Authority (SEBI) held that all monies received from the applicants for shares offered to the public for subscription shall be deposited and kept deposited in the bank/s which are bankers to the issue until the company has complied with the requirements of the Section 69 and Section 73 of the Companies Act, therefore the court concluded that stockinvests received from 6 applicants were not deposited with or encashed by either of the bankers to the issue, therefore, the said amount cannot be said to be paid and received by the company as required by sub-section I of section 69 of the Companies Act thus allotment of shares was illegal and invalid.

The Court further held that, even if one stock exchange as mentioned in prospectus, refuses to give permission for listing, allotment cannot be made and application money has to be returned. Pending permission for listing of shares on stock exchange, application money collected should be kept deposited in a separate accounts with bankers to the issue and not with any other bank. Appellate Authority hearing company's appeal against refusal of listing permission by stock exchange is not only empowered, but also duty bound to satisfy itself that company has complied with mandatory statutory requirement of minimum subscription.

*High Court of Rajasthan, Jaipur Bench Smt. Shanti Vijay Vs. Lan Esida Ind. Ltd.*

Company had neither allotted shares to applicant nor returned application money - Later another company which is respondent's sister concern offered transfer of shares allotted to it in favour of applicant for which applicant was not agreeable. Applicant was entitled for refund of application money with interest at the rate of 15% from due date till actual payment.

*High Court of Mumbai Mr. Shivashankar Jatashankar Joshi Vs. SEBI & Ors.*

Petitioner prayed that the affairs of the companies, which are listed below par i.e. at Rs.10/- per share 1,500 companies have listed their shares below par viz., at Rs. 5/- per share the affairs of the Securities and Exchange Board of India and those of the officers and authorities of the Department of Company Affairs also be investigated. It was held by the Court that this type of petitions cannot be considered as public interest litigation. It further observed that petition for a prayer that the Central Bureau of Investigation, Mumbai, be directed to investigate into the affairs of 900 companies which have decamped with the funds of shareholders is required to be rejected.

*High Court of Karnataka Prof. Babu Mathew & Ors. Vs. Union of India & SEBI.*

It was held that Courts will not examine policies and implementation of policies except to find out whether there is any violation of, or inconsistency with, any constitutional or statutory provisions. Courts will not hesitate to interfere where the policy is sound but in the process of implementation, it is diluted, twisted, mangled and rendered unrecognisable and meaningless. On the facts, Government policy of disinvestment in public sector undertakings held not to violate any constitutional or statutory provisions.

Court stated that in the case of disinvestment by Government in public sector undertakings (PSEs) the intention is to make PSEs more efficient and competitive and perform better. Disinvestment neither affect interests of employees nor does it have any adverse effect on conditions of service at present or in future. Therefore, prior consultation with the employees of the company is not necessary. Policy of disinvestment neither offends the fundamental or statutory rights guaranteed to a worker, nor runs counter to any of the directive principles, much less article 43A of the Constitution. Employees of a public sector undertaking have neither any constitutional nor any statutory right, nor legitimate expectation to require the majority shareholder to sell 26 of the shares to the employees or to work out a stock options scheme for employees. The Court on the basis of above reasoning advised the Union Government to evolve a satisfactory and appropriate scheme for successful and meaningful implementation of disinvestment.

*High Court of Delhi - M.R. Goyal and Anr. Vs. Usha International Ltd. and Anr.*

The main thrust of suit instituted before the Civil Court was that the impugned notice calling for extra ordinary general meeting of company for preferential allotment of shares to promoters was in violation of the SEBI's Takeover Regulations. Authorities under SEBI Act seized of the matter on a complaint. Main thrust of suit being that improper notice calling for EGM of the company is in violation of SEBI regulation. The court was of the view that jurisdiction of Civil Court in present suit is barred. In the case of extraordinary general meeting - notice and explanatory statement attached to it are 'tricky' if they are likely to mislead shareholders or if there is suppression of material facts. On the facts, explanatory statement prima facie did not lack requisite particulars. In the present case, in any event, lack of particulars was not such as to justify stay of decisions taken in EGM, which had already been passed and approved by overwhelming majority of shareholders. Hence the impugned notice and explanatory statement upheld. The matter is pending before the High Court for final disposal.

*National Consumer Disputes Redressal Commission, New Delhi - Unit Trust of India Vs. Ms. Kavita Gupta*

Respondent had applied for certain units in a scheme floated by the Unit Trust of India and paid required amount in time - Even before the receipt of units by the respondent but after listing of units on stock exchange, respondent contracted to sell units at a fixed price to another person. As they had not received unit certificates, they could not deliver units as contracted and incurred loss of profit which they would have earned and had also to pay cancellation charges to broker. Subsequently, units price also fell. Respondent claimed loss of profit suffered, cancellation charges paid and presumptive loss on account of fall in price of units. District Forum while directing issue of unit certificates denied compensation claim. Unit certificate was issued with retrospective effect. It was held that respondent was entitled only to loss on account of non-delivery of certificates after they had entered into a transaction to sell, and cancellation charges paid and not for any presumptive loss based on principle of lost opportunity.

*High Court of Delhi: Yugantar Vs. Union of India*

Respondent Bank issued advertisement for public issue of shares under caption 'India's highest profit-making nationalised bank'. Bank's balance sheet, however, showed debit balance. According to the bank, losses were due to revised accounting standards of RBI, otherwise it had made operating profits. Loss was set off against capital with permission of Government. Above facts were clearly mentioned in offer document. Necessary approvals for

issue had been obtained. Advertisement made by the bank could not be said to be deceptive and misleading. It was held that the SEBI, RBI and stock exchanges being expert bodies of financial accounting and economic matters, the matters relating to accounting method adopted or fixation of premium at which share can be issued or determining rates at which premium should be allowed in public issues, fall within their domain and Court cannot embark on these issues. The usual disclaimer clause in offer document that the SEBI has not recommended or approved securities and the SEBI did not guarantee accuracy and adequacy of offer document could not be ground to note that issue was not approved.

*High Court of Madhya Pradesh - Madhu Sudan Agarwal and others vs. MP Stock Exchange and others.*

The Hon'ble High Court has held that the Stock Exchange is not a "State" within the meaning of Article 12 of the Constitution of India and consequently it would not be amenable to writ jurisdiction invoking Article 226 of the Constitution.

*Central Government - Jahanvi Securities Pvt. Ltd & Ors. Vs. SEBI*

The SEBI suspended the share stock brokers of Pune Stock Exchange for indulging in carry forward transactions in the PSE. The said brokers of PSE challenged the SEBI order before the appellate authority on the ground that the SEBI has failed to appreciate the distinction between squaring up of the transactions in the settlement and carry forward transactions. The Central Government dismissed the appeal and agreed with the finding of the SEBI. The Central Government held that having closed transactions at the end of one settlement period, they reopened the same in the beginning of the next settlement period with the same party and hence the transaction was carry forward activity and thus illegal. Writ petition against the order of the Appellate Authority has been filed before the Mumbai High Court and stay has been granted pending disposal of the said petition.

*Central Government - Bhagwandas Gordhandas Financial Services Pvt. Ltd. Vs. SEBI*

On failure of the underwriters to honour underwriting commitment in the issue of Ritesh Polyesters Limited, SEBI suspended the underwriters who failed to honour their underwriting commitment. The order of SEBI suspending the underwriters was challenged by filing appeal before the Central Government. The Central Government upheld the decision of SEBI holding that honouring of underwriting commitment is a pre-requisite of a developed and matured capital market and the underwriting commission to the underwriter is the compensation for the risk undertaken by them.

*Harinarayan G. Bajaj Vs. SEBI*

The Central Government agreed with the finding of SEBI that the provisions of the Takeovers Regulations, 1994 do not cover change in the control and management requiring public offer. The concept of indirect acquisition has been more explicitly introduced in the new Code. It was held that Finco was all along holding 51 per cent shareholding of Sesa Goa and no change in the shareholding of Sesa Goa have taken place. The acquisition of Finco and Mitsui from the Riva group has not affected the change in the management of Finco and Sesa Goa. So far as the Indian shareholders in Sesa Goa are concerned, no change in control of the management of the company has taken place. Appeal has been filed before High Court against the said order of Central Government. The appeal has been admitted.



## PART III

# FUNCTIONS OF SEBI IN RESPECT OF MATTERS SPECIFIED IN SECTION 11 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992

### A] REGULATION OF BUSINESS IN THE STOCK EXCHANGES

Under the SEBI Act, 1992, the SEBI has been empowered to conduct inspection of stock exchanges. The SEBI has been inspecting the stock exchanges once every year since 1995-96. During these inspections, a review of the market operations, organisational structure and administrative control of the exchange is made to ascertain whether:

- the exchange provides a fair, equitable and growing market to investors
- the exchange's organisation, systems and practices are in accordance with the Securities Contracts (Regulation) Act (SC(R) Act), 1956 and rules framed thereunder
- the exchange has implemented the directions, guidelines and instructions issued by the SEBI from time to time
- the exchange 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.

Based on the observations/suggestions made in the inspection reports, the exchanges are advised to send a compliance report to SEBI within one month of the receipt of the inspection report by the exchange and thereafter quarterly reports indicating the progress made by them in implementing the suggestions contained in the inspection report. The SEBI nominee directors and public representatives on the governing board/council of management of the stock exchanges also pursue the matters in the meetings of the governing board/council of management. If the performance of the exchanges whose renewal of recognition is due, is not found satisfactory, the SEBI grants further recognition for a short period only, subject to fulfillment of certain conditions.

During the year, renewal of recognition was granted to three stock exchanges. The renewal of recognition to Saurashtra - Kutch Stock Exchange was renewed for a further period of one year only as the exchange failed to rectify the deficiencies pointed out in the inspection report and renewal of recognition of Jaipur Stock Exchange was granted only for a period of one year as the exchange has not started Screen Based Trading. The renewal of recognition of Vadodara stock Exchange was granted for a further period of three years.

During the year 1997-98, inspection of stock exchanges were carried out with a special focus on the measures taken by the stock exchanges for investors protection. Stock exchanges were, through inspection reports, advised to effectively follow-up and redress the investors' complaints against members/listed companies. The stock exchanges were also advised to expedite the disposal of arbitration cases within four months from the date of filing.

During the earlier years' inspections, common deficiencies observed in the functioning of the exchanges were delays in post trading settlement, frequent clubbing of settlements, delay in conducting auctions, inadequate monitoring of payment of margins by brokers, non-adherence to Capital Adequacy Norms etc. It was observed during the inspections conducted in 1997-98 that there has been considerable improvement in most of the areas, especially in trading, settlement, collection of margins etc.



## **Supersession of the governing board of Magadh stock exchange**

The annual inspection of Magadh Stock Exchange for the year 1997-98 was conducted by the SEBI during August 11-13, 1997. Based on the mismanagement and various irregularities observed in the functioning of the exchange during the inspection and the complaints received from the Public Representative Directors and SEBI Nominee Directors on the Council of Management of the exchange, a show-cause notice was issued by the SEBI to the Council of Management of Magadh Stock Exchange as to why it should not be superseded. The Council of Management did not respond to show-cause notice and also did not avail of the two opportunities of personal hearing granted to them by the Chairman, SEBI. The SEBI received a letter from the Executive Director of the exchange enclosing a copy of circular resolution passed by a majority of the members of the Council of Management requesting SEBI to take immediate appropriate action in the light of the complete breakdown in the administration of exchange.

Taking in view the gravity of the situation, the Chairman, SEBI, in pursuance of powers conferred on him under Section 11 of the Securities Contracts (Regulation) Act, 1956, read with notification No. SO 573, dated July 30, 1993 and Section 4(3) of the SEBI Act, 1992, superseded the Council of Management of the exchange for a period of one year w.e.f. December 08, 1997 and appointed an Administrator as an alternative arrangement.

The Administrator has been taking immediate steps to improve overall functioning of the exchange. An Advisory Committee has also been constituted to assist the Administrator. The exchange is in the process of constituting various Statutory Committees and also the appointment of an Executive Director. The performance of the exchange is since being monitored on a monthly basis by the SEBI.

## **Expansion of BSE On-Line Trading System (BOLT)**

In order to have a level playing field and to provide healthy competition in the Secondary Market, the SEBI had, in October 1996, permitted stock exchanges to expand their trading terminals to locations outside the city wherein such exchanges are located subject to compliance with certain conditions.

The stock exchanges were granted permission to expand their trading terminals to those cities where no other stock exchange is located. The BSE On-Line Trading system (BOLT) has already been permitted to expand to such cities subject to compliance with certain conditions imposed by the SEBI.

As for the cities where a stock exchange already exists, the exchanges seeking expansion were required to enter into a Memorandum of Understanding (MoU) with the concerned stock exchange. Accordingly, the Stock Exchange, Mumbai has entered into MoU with the Pune, Calcutta, Ahmedabad, and Rajkot stock exchanges. After due consideration, the SEBI has permitted BOLT expansion to the cities of Pune, Calcutta and Rajkot subject to fulfillment of certain conditions by these stock exchanges. The proposal of BOLT expansion to Ahmedabad was under consideration by the SEBI.

Similar proposals by stock exchanges to expand outside their area of jurisdiction were also received from Bangalore Stock Exchange and were under evaluation of the SEBI.

## New Stock Exchanges

In December 1996, the SEBI had taken a policy decision, in public and trade interest, that grant of recognition to new stock exchanges would be considered subject to fulfillment of the following conditions :

- The exchange would begin trading only after introduction of On-Line Screen Based Trading
- The exchange makes rules, regulations and bye-Laws with adequate provisions for investor protection, with the approval of the SEBI and thereafter strictly follows them
- The exchange establishes a Clearing House within 6 months from the date of recognition

The SEBI received several applications for recognition of new stock exchanges. As on April 01, 1997, the number of such pending applications/representations for new stock exchanges was 6. During the current year 1997-98, 4 new applications were received. Out of a total of 10 applications/representations, 3 were closed and 2 were granted 'in-principle recognition' during the year 1997-98. As on March 31, 1998, only 5 applications were pending which are under consideration of the SEBI.

The Capital Stock Exchange Kerala Limited (CSEKL) and The Inter-Connected Stock Exchange of India (ISE) were granted 'in-principle recognition' by the SEBI subject to compliance with certain conditions.

### *The Inter-Connected Stock Exchange of India Limited (ISE)*

The Inter-Connected Stock Exchange of India Limited (ISE) is being promoted by 14 regional stock exchanges to set up a new national level stock exchange. The ISE will set up an Inter-Connected Market System (ICMS) which would provide a national market *in addition* to the trading facility at the regional stock exchanges. The proposed stock exchange has a broader objective of protecting the regional stock exchanges as the consolidation of the market would increase the order flow to the regional stock exchanges and help in their survival and also benefit the investors by offering them a national reach with greater liquidity. The fourteen stock exchanges participating in the Inter-Connected Stock Exchange of India are :

1. Bangalore Stock Exchange
2. Bhubaneshwar Stock Exchange
3. Cochin Stock Exchange
4. Coimbatore Stock Exchange
5. Guwahati Stock Exchange
6. Hyderabad Stock Exchange
7. Jaipur Stock Exchange
8. Ludhiana Stock Exchange
9. Madhya Pradesh Stock Exchange
10. Magadh Stock Exchange
11. Mangalore Stock Exchange
12. Saurashtra Kutch Stock Exchange
13. Uttar Pradesh Stock Exchange
14. Vadodara Stock Exchange

## B] REGISTRATION AND REGULATION OF WORKING OF INTERMEDIARIES

The SEBI regulates various intermediaries in the primary and secondary markets through various regulations framed for respective intermediary. These regulations allow the SEBI to inspect the functioning of these intermediaries and collect registration/renewal fees from them. Details of the registered intermediaries and regulation of the working of intermediaries are presented in the following sub-sections.

### Primary Market Intermediaries

#### Merchant bankers:

During 1997-98, 14 merchant bankers were granted registration. The registration of 44 merchant bankers were cancelled. The cancelled cases include those that were not renewed as they did not fulfil net-worth criteria and those cancelled on completion of enquiry proceedings. Category-wise details of registration of merchant bankers are given in Table III.1 below:

**Table III.1 Categorise-wise Registration of Merchant Bankers**

| Cat          | No. of Regn. As on 31.3.97 | Regn. Given in 1997-98 | Regn. Cancelled in 1997-98 | Reg expired & renewal not filed | No. regd as on March 31, 1998 |
|--------------|----------------------------|------------------------|----------------------------|---------------------------------|-------------------------------|
| I            | 440                        | 6                      | 26                         | 77                              | 343                           |
| II           | 107                        | 0                      | 1                          | 24                              | 82                            |
| III          | 172                        | 0                      | 11                         | 70                              | 91                            |
| IV           | 444                        | 8                      | 6                          | 160                             | 286                           |
| <b>Total</b> | <b>1,163</b>               | <b>14</b>              | <b>44</b>                  | <b>331</b>                      | <b>802</b>                    |

Source: SEBI

#### Registrars to an issue and share transfer agents

Registrars to an Issue (RTI) and Share Transfer Agents (STA) are registered and regulated by the SEBI (Registrars To An Issue And Share Transfer Agents) Rules and Regulations, 1993. Under these regulations, registration commenced in 1993-94 and was granted under two categories viz., category I to act as both registrar to an issue and share transfer agent and Category II to act as either registrar to an issue or share transfer agents.

The following table III.2 gives details of registration granted to the registrars to an issue and share transfer agents.

**Table III.2 : Total No. of Registered Registrars to an Issue and Share Transfer Agents**

| YEAR           | CATEGORY I | CATEGORY II | TOTAL |
|----------------|------------|-------------|-------|
| As of 31.03.97 | 237        | 149         | 386   |
| As of 31.03.98 | 183        | 151         | 334   |

Source: SEBI

Registrars to an issue and share transfer agents are required to submit quarterly reports in prescribed formats to SEBI, containing details of their activities. On the basis of quarterly reports as well as the inspection reports, the SEBI takes up issues such as delays on part of the registrars to an issue and share transfer agents.

Thus 35 warning letters were issued to registrars to an issue and share transfer agents for not effecting transfers within the stipulated time period of 30 days as laid down in the listing agreement.

Show-cause notices were issued to 12 registrars and share transfer agents for non payment of fees. Enquiry proceedings have been initiated against 7 RTI/STA's.

The SEBI took action against 5 registrars to an issue and/or share transfer agents for irregularities committed by them.

For effective monitoring and control over their operations, inspection of 9 registrars to an issue and share transfer agents was carried out during the year.

### **Debenture trustees**

Debenture Trustees are registered and regulated by the SEBI (Debenture Trustees) Rules and Regulations, 1993. Under these regulations, registration commenced in 1993-94.

As on March 31, 1998, 32 Debenture Trustees were registered with the SEBI. M/s. CRB Share Custodian Services was issued direction u/s 11B of the SEBI Act prohibiting them from undertaking any activity as a debenture trustee with effect from 28.5.1997.

### **Bankers to an issue**

Bankers to an Issue are registered and regulated by the SEBI (Bankers to an Issue) Rules and Regulations 1994. Under these regulations, registration commenced in 1994-95. The various actions were taken against bankers to issues as on March 31, 1998 are as follows :

- 72 Bankers to an Issue were registered with the SEBI
- 5 warning letters were issued for delay in submission of final certificate to the registrar
- 2 show-cause notices were sent for non compliance of the SEBI directives
- 1 branch each of 2 bankers to an Issue was suspended for violations of the SEBI Rules and Regulations
- 10 bankers who had not entered into agreements with the issuer/client companies as per Regulation 14(1) and (2) of the SEBI (Bankers to an Issue) Rules and Regulations 1994 were referred to adjudication in Feb. 1998.

### **Underwriters**

The number of underwriters registered with the SEBI in terms of SEBI (Underwriters) Rules and Regulations, 1993 was 43 at the end of 1997-98 and was 38 for 1996-97 and 6 underwriters were granted registration/renewal during the year 1997-98 and one was cancelled.

### **Portfolio Managers**

During the year 1997-98, one portfolio manager was granted registration and one was cancelled. Thus the number of portfolio managers remained the same at 16 for the year 1997-98 as well as for 1996-97.

## Secondary Market Intermediaries

### Stock brokers

All stock brokers are registered with the SEBI in terms of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

The total number of registered brokers as on March 31, 1998, stood at 9005. During the year 1997-98 there was a significant increase in the number of corporate brokers, as approximately 529 brokers corporatised their membership on the stock exchanges in order to avail of the capital gains on account of exemption on transfer of individual membership granted by the Finance Bill 1997:

The number of registered brokers at the end of the year 1996-97 and as on March 31, 1998 is given in the Table III.3:

**Table III.3 : Details of Registered Brokers**

| Total no of Brokers<br>as on 31.03.97 | Addition during<br>the year (1997-98) | Total no. of Brokers<br>as on 31.03.98 |
|---------------------------------------|---------------------------------------|--|
| 8867                                  | 138                                   | 9005                                   |

Source: SEBI

The stock exchange-wise breakup of total and corporate brokers registered with SEBI as on March 31, 1998 is presented in table III.4.

**Table III.4 : Exchange-wise brokers registered with SEBI**

| Sr<br>No.    | Stock Exchanges | 1996-97          |                      |   | 1997-98          |                      |   |
|--------------|-----------------|------------------|----------------------|---|------------------|----------------------|---|
|              |                 | Total<br>Members | Corporate<br>Members | Corporate<br>Members as<br>percentage of<br>total | Total<br>Members | Corporate<br>Members | Corporate<br>Members as<br>percentage of<br>total |
| 1            | Mumbai          | 628              | 97                   | 15.45   | 651              | 311                  | 47.77   |
| 2            | Ahmedabad       | 305              | 75                   | 24.59   | 306              | 89                   | 29.08   |
| 3            | Calcutta        | 904              | 102                  | 11.28   | 929              | 137                  | 14.75   |
| 4            | Madras          | 199              | 54                   | 27.14   | 201              | 63                   | 31.34   |
| 5            | Delhi           | 382              | 80                   | 20.94   | 390              | 166                  | 42.56   |
| 6            | Hyderabad       | 308              | 46                   | 14.94   | 313              | 85                   | 27.16   |
| 7            | Madhya Pradesh  | 188              | 11                   | 5.85  | 191              | 20                   | 10.47   |
| 8            | Bangalore       | 239              | 58                   | 24.27   | 242              | 87                   | 35.95   |
| 9            | Cochin          | 489              | 44                   | 9   | 492              | 57                   | 11.58   |
| 10           | Uttar Pradesh   | 511              | 20                   | 3.91  | 528              | 67                   | 12.69   |
| 11           | Pune            | 198              | 28                   | 14.14   | 201              | 36                   | 17.91   |
| 12           | Ludhiana        | 276              | 55                   | 19.93   | 291              | 69                   | 23.71   |
| 13           | Gauhati         | 207              | 0                    | 0   | 207              | 4                    | 1.93  |
| 14           | Mangalore       | 147              | 11                   | 7.48  | 149              | 13                   | 8.72  |
| 15           | Magadh          | 197              | 7                    | 3.55  | 197              | 10                   | 5.07  |
| 16           | Jaipur          | 595              | 7                    | 1.18  | 595              | 8                    | 1.34  |
| 17           | Bhubaneshwar    | 234              | 14                   | 5.98  | 234              | 15                   | 6.41  |
| 18           | Saurashtra      | 446              | 48                   | 10.76   | 446              | 56                   | 12.56   |
| 19           | Vadodara        | 325              | 29                   | 8.92  | 326              | 64                   | 19.63   |
| 20           | OTCEI           | 882              | 647                  | 73.36   | 887              | 667                  | 75.2  |
| 21           | Coimbatore      | 198              | 54                   | 27.27   | 201              | 55                   | 27.36   |
| 22           | NSEIL           | 1009             | 873                  | 86.52   | 1028             | 897                  | 87.26   |
| <b>TOTAL</b> |                 | <b>8867</b>      | <b>2360</b>          | <b>26.62</b>                                      | <b>9005</b>      | <b>2976</b>          | <b>33.05</b>                                      |

Source : SEBI

An exchange-wise analysis reveals that relatively a large number of brokers registered with Mumbai, Delhi, Hyderabad, Bangalore, Vadodara and Uttar Pradesh Stock Exchanges converted into corporate broker to avail of the benefit of exemption. Maximum advantage was taken by brokers of the Stock Exchange, Mumbai, where the corporate percentage share went up to 47.77 per cent from 15.46 per cent.

### **Sub-Brokers**

Sub-brokers are an important link between retail or small investors and the capital markets. The SEBI initiated a number of measures for bringing sub-brokers under the regulatory framework in the interest of the investors. In July 1997, the SEBI decided as a policy measure that share transfer deeds not bearing the rubber stamp of a registered sub-broker would be considered bad delivery of shares in the market. As a result there has been a substantial increase in the number of applications received for registration as sub-brokers.

**Table III.5 : Stock Exchange wise Break-up of Registered Sub-Brokers**

| <b>Name of Stock Exchange</b> | <b>No of Sub-Brokers registered with SEBI during 1997-98.</b> |
|-------------------------------|---|
| Mumbai                        | 1536  |
| Ahmedabad                     | 40  |
| Calcutta                      | 33  |
| Madras                        | 45  |
| Delhi                         | 147   |
| Hyderabad                     | 10  |
| Madhya Pradesh                | nil   |
| Bangalore                     | 5   |
| Cochin                        | 8   |
| UPSE                          | 9   |
| Pune                          | 19  |
| Ludhiana                      | 7   |
| Gauhati                       | 2   |
| Mangalore                     | 2   |
| Magadh                        | nil   |
| Jaipur                        | 3   |
| Bhubaneswar                   | nil   |
| Saurashtra Kutch              | nil   |
| Vadadora                      | 35  |
| OTCEI                         | 3   |
| Coimbatore                    | 7   |
| NSEIL                         | 301   |
| <b>Total</b>                  | <b>2212 *</b>   |

*\*The figure includes multiple registration granted to the sub-brokers.  
Source: SEBI*

**Table III.6 : Sub-Brokers registered with SEBI**

| <b>Date / Year</b>                         | <b>Number</b> |
|--|---------------|
| As on March 31, 1997                       | 1798          |
| Registration during 1997-98                | 2149          |
| Cancellation during 1997-98                | 187           |
| Number of Sub Brokers as on March 31, 1998 | 3760          |

*Source: SEBI*

## Broker Database

During the year a format for a comprehensive database of brokers which would be useful to the stock exchanges as well as the SEBI, was finalised and issued to the stock exchanges in February 1998. The database would give at a glance the historical profile of the brokers business, his multiple membership, the relatives and associate concerns of the brokers in the capital markets and track record of the broker's business. The information is expected from all the stock exchanges by end of April 1998.

## C] REGISTRATION AND REGULATION OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS

### Registration of Mutual Funds

During the year, registration was granted to one new mutual fund in the private sector. With this registration, there were a total of 37 mutual funds excluding UTI operating in India as on March 31, 1998. Though UTI is not registered with the SEBI, there is an arrangement of voluntary compliance of regulations by the UTI. It may be mentioned here that there are three mutual funds under suspension/have been prohibited from launching new schemes. Table III.7 gives details of mutual funds registered with the SEBI.

**Table III.7: Mutual Funds Registered with SEBI**

| Sector         | As on March 31, 1997 | As on March 31, 1998 |
|----------------|----------------------|----------------------|
| Public Sector  | 9                    | 9                    |
| Private Sector | 27                   | 28                   |
| <b>Total</b>   | <b>36</b>            | <b>37</b>            |

Source: SEBI

## D] PROMOTION & REGULATION OF SELF REGULATORY ORGANISATIONS

### Association of Merchant Bankers of India(AMBI)

AMBI was granted recognition to set up professional standards for providing efficient services and establish standard practices in merchant banking and financial services. The AMBI was promoted to exercise overall supervision over its members in the matters of compliance with statutory rules and regulations pertaining to merchant banking and other activities. The AMBI in consultation with the SEBI is working towards improving disclosures standards in the offer document as well as meeting the statutory requirement in a systematic manner.

### Association of Custodial Agencies of India(ACAI)

During the year under review, Association of Custodial Agencies of India(ACAI) was formally incorporated as a company limited by guarantee under section 25 of Companies Act, 1956. The Board of Directors consists of five representatives of various custodians.

The ACAI held numerous meetings on issues relating to dematerialisation of securities. It has recently set up the following committees:

1. Committee on Depository Related Issues
2. Committee on Settlement Related Issues
3. Committee on Post-settlement Related Issues, and



#### 4. Committee on Operational & Technology Related Issues **Registrars Association of India (RAIN)**

The Registrars Association of India (RAIN), a self regulatory organisation of registrars to an issue and share transfer agents was set-up. The SEBI has been interacting with the RAIN in formulating the policies related to their role in the issue process.

#### **Association of Mutual Funds of India (AMFI)**

The SEBI conducts regular meetings with the members of the Association of Mutual Funds of India on various issues affecting mutual funds. The Standard Offer Document and Memorandum containing key information was prepared by the SEBI in consultation with AMFI. Other issues such as investment in unrated/unlisted securities, schedule of fees payable to auditors for inspection of mutual funds, manner of charging expenses associated with dematerialisation of scheme portfolios, various policy issues and provisions of the SEBI (Mutual Funds) Regulations were discussed at various AMFI meetings held during the year.

### **E] FRAUDULENT AND UNFAIR TRADE PRACTICES**

After enacting the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, which enabled SEBI to investigate into market manipulation, vigorous efforts were undertaken to enforce these regulations. During 1997-98, 29 cases were taken up for alleged market manipulation and price rigging; and 14 cases were taken up for alleged "issue" related manipulation. The details of the same have been elaborated in Part II of the report.

### **F] INVESTOR EDUCATION AND THE TRAINING OF INTERMEDIARIES**

The SEBI constituted a Working Group on Investor Education drawn from Investor Associations (Tamil Nadu Investor Association, Investor Guidance Society and Gujarat Investors' & Shareholders' Association), Bombay Stock Exchange and the National Stock Exchange, All India Radio, Doordarshan, Advertising Agencies Association of India, CRISIL and academic institutions.

The terms of reference for the group include, providing advice and suggestions to SEBI on :

- Design and content of Investor Education Programmes
- Selection of media for Dissemination
- Procedure for approving/involving agencies
- Methods of Funding of the Programmes, and
- Role of Investor Associations in spreading Investor Education

### **G] PROHIBITION OF INSIDER TRADING**

During the year under review, 5 new cases were taken up, as against 4 cases in 1996-97. Investigations in the case of Hindustan Lever Limited was completed during 1997-98 and investigations in other cases are in the advanced stages of completion. In the proposed Stock Watch System, surveillance over insider trading would be further strengthened.

## **H] SUBSTANTIAL ACQUISITION OF SHARES AND TAKE-OVERS**

The SEBI adjudicated cases in respect of 13 entities in 1997-98 under the SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997. The SEBI took up 3 cases of alleged violation of the take-over regulations and the investigations are at an advanced stage.

## **I] INSPECTIONS AND INQUIRIES**

### **Stock Exchanges, Stock Brokers and Sub Brokers**

Section 11(2) of Securities and Exchange Board of India Act, 1992 provides that the SEBI would register and regulate the working of stock brokers and sub brokers. In fulfillment of the above, the SEBI carries out inspections of the books and records of stock brokers to verify whether:

- Books of accounts, records and other documents are being maintained in the manner specified by the Securities Contracts (Regulation) Rules, 1957 and SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.
- The provisions of the SEBI Act, the Securities Contracts (Regulation) Act and the provisions made thereunder are being complied with by the broker.
- Adequate steps for redressal of grievances of the investors are being taken and the conditions of registration as a stock broker are complied with.

As more than 9000 brokers are registered with the SEBI, it is not possible for SEBI to inspect all the brokers with its limited resources. Brokers are, therefore, selected for inspection, on sample basis, by the SEBI. Apart from the SEBI, Stock Exchanges as self regulatory organisations are also expected to carry out inspection of 10 of their active brokers.

During 1997-98, 157 brokers from the 22 Exchanges across the country were inspected by the SEBI. For inspection of brokers of BSE and NSEIL, the services of chartered accountants were availed of while inspection of brokers of other stock exchanges were undertaken by the officers of the SEBI. During the course of inspection, following features were noticed :

- a. Brokers of regional stock exchanges had witnessed a slump in their business. Many of them were either inactive or working for the brokers of bigger stock exchanges.
- b. Clientele business, in general, had come down across the entire country.
- c. Brokers were reluctant to execute orders which may result into delivery because of impending fear of deliveries turning out to be bad.
- d. A large number of brokers were giving indirect inducement to their clients to close their position at the end of settlement by charging much lower brokerage for squaring up business compared to delivery business.
- e. The rate of brokerage had come down drastically over last few years. The bye-laws of the stock exchanges provide for brokerage up to 2.5 per cent of value of the contract. In reality the brokerage ranged between .05 per cent to .5 per cent,

Common irregularities noticed during inspection were :

- Non maintenance of proper books of accounts.
- Non issuance of contract notes in proper format and non fixing of brokers note stamp on contract notes.
- Non reporting of 'off the floor transactions' to the exchange.
- Misuse of the Exchange Settlement Mechanism to secure certain loan transactions which do not have any relationship to securities business.
- Dealing with unregistered sub brokers.
- Non segregation of clients and proprietary funds.

However, better compliance was observed towards margin requirements on the part of brokers. This can be attributed to active role taken by the SEBI in standardising the margin requirements by prescribing gross turnover cap as multiple of capital deposits and mark to market margin.

A comparative statement of inspections carried out during the year, enquiries ordered and penalties imposed on the brokers for the year 1996-97 and 1997-98 are given in the table III.8.

**Table III.8 : Action Taken against Stock Brokers**

| <b>Action taken</b>    | <b>1996-97</b> | <b>1997-98</b> |
|------------------------|----------------|----------------|
| Inspections            | 157            | 157            |
| Enquiries ordered      | 20             | 62             |
| Warned                 | 40             | 52             |
| Suspended              | 11             | 8              |
| Registration cancelled | Nil            | 2              |

Source: SEBI

From the Table.III.8, it can be noticed that of enquiries ordered shows dramatic increase over the previous year. Enquiries were initiated on the basis of adverse findings in the concerned inspection reports.

The table III.9 below gives the comparative analysis of findings of inspection carried out during 1996-97 and 1997-98.

**Table III.9: Details of Inspection**

| <b>Action taken</b>  | <b>1996-97</b> | <b>1997-98</b> |
|--|----------------|----------------|
| No irregularities noticed - cases closed   | 3              | Nil            |
| Minor irregularities noticed - cases closed after issuance of warning letters  | 43             | 18             |
| Minor irregularities noticed - brought to the notice of the concerned stock exchanges for rectification                        | 8              | 1              |
| Show cause for initiation of adjudication proceedings  | 2              | 2              |
| Serious irregularities noticed - Enquiries initiated in accordance with SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 | 55             | 11             |
| Under process  | 46             | 125            |
| <b>Total</b>   | <b>157</b>     | <b>157</b>     |

Source: SEBI

## Merchant Bankers and Underwriters

During the year 1997-98, the SEBI took several actions under various sections of the SEBI Act. The details of actions along with the name of intermediaries, corporates, individuals, brokers and miscellaneous categories are presented in annexures.

### J] FEES AND OTHER CHARGES

Under various regulations, the SEBI is empowered to levy fees for offer documents and prospectuses which are filed with it, registration and renewal of registration of various intermediaries, mutual funds and in connection with takeovers. Table III.10 gives details of fees and other charges collected by the SEBI during 1996-97 and 1997-98.

**Table III.10: Fees and Other Charges Received**

| Item   | Fees received (Rs. Lakh) |                     |
|--|--------------------------|---------------------|
|  | 1996-97                  | 1997-98             |
| Offer documents and prospectuses filed           | 114.65                   | 61.45 <sup>2</sup>  |
| Merchant Bankers                                 | 679.83                   | 336.38              |
| Underwriters                                     | 41.00                    | 18.00               |
| Portfolio Managers                               | 30.50                    | 23.50               |
| Registrars to an Issue and Share Transfer Agents | 52.00                    | 26.05               |
| Bankers to an Issue                              | 95.00                    | 41.00               |
| Debenture Trustees.                              | 34.00                    | 14.60               |
| Take-over offer documents filed                  | 10.50                    | 41.00               |
| Mutual funds <sup>1</sup>                        | 151.25                   | 93.25               |
| Stock Brokers and Sub-brokers                    | 748.18                   | 546.68 <sup>3</sup> |
| Foreign Institutional Investors                  | 380.62                   | 214.48              |
| Depository                                       | 25.50                    | 20.00               |
| Depository Participants                          | 28.11                    | 27.94               |
| Venture Capital Funds                            | 7.75                     | 26.25               |
| Custodian of Securities                          | 1.50                     | 45.10               |
| <b>Total</b>                                     | <b>2400.39</b>           | <b>1535.68</b>      |

1- excluding penalties; 2- Head Office collections only; 3- provisional  
Figures are provisional and unaudited for 1997-98  
Source: SEBI

## K] RESEARCH AND OTHER STUDIES

As the primary regulatory body for the securities markets, the SEBI has been entrusted with fostering the development of Indian securities markets and for ensuring investor protection. It is of vital importance that the process of creating an institutional and policy framework for Indian securities markets that is being undertaken by the SEBI be continuously informed by and evaluated through research and analysis of market conditions and practices which is of the highest quality.

In order to ensure that such research and analysis are specifically tailored to the needs of various departments, and are available at relatively short notice, it is necessary that these function be carried out by a suitably staffed and equipped (with computer and library facilities) division within the SEBI. During 1997-98, the SEBI further strengthened the Research department by induction of an Economic Adviser to head the department and Economists. The Research department has worked out a plan of work which includes conducting an Investor Survey, bringing out several annual and half yearly publications on capital market and research papers on issues related to the capital market.

## L] OTHER FUNCTIONS

### Grievance Redressal

The grievance redressal rate of the SEBI has been increasing through the years as can be seen from the following table III.11.

**Table III.11 - Investor grievances -year-wise**

|           | RECEIVED   | RESOLVED   |
|-----------|------------|------------|
| upto 1991 | 18, 794    | 4, 061     |
| 1992-93   | 1, 10, 317 | 22, 946    |
| 1993-94   | 5, 84, 662 | 3, 39, 517 |
| 1994-95   | 5, 16, 080 | 3, 51, 842 |
| 1995-96   | 3, 76, 478 | 3, 15, 652 |
| 1996-97   | 2, 17, 394 | 4, 31, 865 |
| 1997-98   | 1, 59, 670 | 6, 10, 247 |

Source: SEBI

The reasons for the improvement in the rate of investor grievances redressal in the year under review included effective follow up with the companies, tightening of the procedure for issuing the No Objection Certificate for release of the 1 per cent security deposits kept by the companies with the stock exchanges and periodic meetings held with the recalcitrant companies. Further, the SEBI also sent reply paid post cards to those investors whose complaints were pending as per the SEBI database asking them to confirm whether the resolution as reported by the companies is correct or not. Based on the confirmation received, the SEBI updated the Investor Grievances Database.

The grievances received during the year 1997-98 were substantially lower than those received in the earlier years. The average receipts consequently declined to around 450 per day. The decline was pronounced with regard to non receipt of refund orders, allotment order, and share/debenture certificates on allotment.

**Table III.12 - Investor Grievances - Cumulative**

|              | RECEIVED    | RESOLVED    | REDRESSAL RATE |
|--------------|-------------|-------------|----------------|
| Upto 31/3/92 | 18, 794     | 4, 061      | 21.61          |
| Upto 31/3/93 | 1, 29, 111  | 27, 007     | 20.92          |
| Upto 31/3/94 | 7, 13, 773  | 3, 66, 524  | 51.35          |
| Upto 31/3/95 | 12, 29, 853 | 7, 18, 366  | 58.41          |
| Upto 31/3/96 | 16, 06, 331 | 10, 34, 018 | 64.37          |
| Upto 31/3/97 | 18, 23, 725 | 14, 65, 883 | 80.38          |
| Upto 31/3/98 | 23, 35, 232 | 21, 42, 438 | 91.74          |

Source: SEBI

It can be observed from table III.12 that the redressal rate has been consistently increasing over the years. In the year 1997-98, with continued focus on the area of investor grievance redressal, SEBI has improved the redressal rate significantly.

### Defaulting Companies

During 1997-98, periodic meetings were held by the SEBI with the CEO / Compliance Officer / Sr. Officers of the companies which did not register satisfactory investor grievance redressal position. During such meetings, the SEBI impressed on them the need to redress the investor grievances with greater urgency. The impact of these meetings on the record of redressal was good and therefore the SEBI decided to make this a continuing exercise.

During 1997-98, the SEBI had also prosecuted 4 companies for their failure to redress investor grievances.

### Issue of NOC for release of 1 per cent Security Deposit

The data relating to issue of No Objection Certificate for the release of one Security Deposit by the stock exchanges are as follows :

**Table III.13 - Release of Security Deposit by the Stock Exchanges**

|                                   |     |
|-----------------------------------|-----|
| Requests received during the year | 579 |
| NOCs issued during this year      | 749 |
| Requests pending as on 31.3.97    | 169 |

Source: SEBI

## **Investor Grievance Redressal - Action taken against companies**

During the year 1997-98, two companies, Girish Hotel, Resort and Health Farm Limited and Reliable Finstock Limited were found to have submitted forged documents to the Ahmedabad Stock Exchange (ASE) for getting their security deposits released. They were issued directions under Section 11 B of SEBI Act, 1992, accordingly to which both the companies, their promoters and their associate companies were prohibited from accessing capital market for five years with effect from March 4, 1998 and their security deposits kept with ASE, for forfeited.

## **Investor Associations**

There are 8 investor associations registered with the SEBI. The renewal of their registration was under process. During 1997-98, the SEBI received two applications for registration. Based on scrutiny, both the applications were rejected.

The SEBI reviewed its policy relating to registration of investor associations during the year. Based on this review, the format of the application for registration was revised so as to elicit detailed information about the constitution, functioning and the financial position of the investor associations.

The SEBI has also been granting financial assistance to the registered investor associations to conduct investor education programmes. Mumbai Grahak Panchayat, a registered association had conducted a seminar on Depository Services on November 11, 1997. The SEBI has also been providing financial assistance to the registered investors associations to hold seminars.

A meeting of the representatives of Investors Associations was held in June, 1997. In the meeting, matters relating to investor associations and the steps taken by the SEBI in the interests of investors were discussed.

## **Co-ordination with Overseas Regulators**

The SEBI is a member of the International Organisation of Securities Commissions (IOSCO), and participated in its meetings at Johannesburg in South Africa and Taipei in Taiwan. The SEBI is also a member of the Emerging Markets Committee of IOSCO. In 1996-97, the SEBI was elected to the chairmanship of the Asia Pacific Regional Committee of IOSCO and became a member of the Executive Committee of IOSCO, its highest policy making body.

The SEBI is committed to working with overseas regulators on issues related to entities which act as intermediaries or investors in different jurisdictions, and maintains close contact with them. An agenda has been set within IOSCO for achieving a given standard of disclosure norms, capital adequacy and compliance standards for different markets. The SEBI remains committed to implementation of this agenda for ensuring that the fairness, integrity and transparency of Indian securities markets remain comparable to markets abroad.

In February 1998, the SEBI hosted meetings of the Asia Pacific Regional Committee (APRC) of IOSCO and of APRC Enforcement Directors in Mumbai. This marked the first time that an IOSCO meeting was held in the country. The meetings gave a further boost to regulatory and enforcement co-operation between regulators in the region, who in several cases are addressing similar issues in the development of their securities markets. Regional co-operation has also assumed greater significance in the light of integration of international securities markets and the impact of developments in certain markets affecting other markets, largely through the actions of large

international institutional investors who tend to treat emerging markets in general and Asian markets in particular as a distinct asset class, and with securities firms increasingly operating across jurisdictions.

In March 1998, the SEBI entered into a Memorandum of Understanding (MoU) with the United States Securities and Exchange Commission (SEC) regarding co-operation, consultation and the provision of technical assistance.

The MoU is a statement of the intent of the two authorities and does not create any binding international legal obligations. In the MoU, the authorities have declared their intent to provide each other assistance in obtaining information and evidence to facilitate the enforcement of their respective laws relating to securities matters.

The authorities also intend to work together to establish and implement an ongoing technical assistance program. The authorities will work together to identify and address training and technical assistance needs to facilitate the development of a regulatory framework for the offer, purchase and sale of securities in India as well as the cross border offering of securities.

The MoU signed with the US SEC is the first such MoU signed by the SEBI with another securities regulator. Several other regulatory agencies have expressed an interest in entering into similar MoUs with the SEBI.



## **PART IV**

# **ORGANISATIONAL MATTERS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA**

### **Board**

During the year 1997-98 (April - March), 6 Board Meetings were held. Of these, a Meeting each was held at Chennai and Calcutta for the first time. With a view to achieving better coordination between the SEBI and the Department of Company Affairs, the SEBI Board resolved that Secretary, Department of Company Affairs, Law and Justice should be extended permanent invitation to participate in the Board Meetings of the SEBI. Accordingly; Secretary, Department of Company Affairs attended the Board Meetings as a permanent invitee during 1997-98.

### **Human Resources**

As on March 31, 1998, the SEBI had 185 officers and 154 staff members in various other categories.

During the year, a Management Consultant was entrusted with the work relating to "Human Resources Requirements" of the SEBI. He has submitted the draft report after interacting with Executives and other members of staff and the report is being examined for appropriate implementation.

As the existing SEBI Service Regulations 1988, were framed prior to the SEBI acquiring the status of an autonomous body, necessary steps have also been taken to re-draft these regulations incorporating certain additional provisions etc. The draft regulations are being finalised.

### **Training**

Apart from deputing the officers for various specific functional training programmes, a few officers were also deputed for overseas training arranged under the auspices of the Financial Institutions Reform and Expansion (FIRE) Project sponsored by the United States Agency for International Development and the Government of India during the year.

### **Parliamentary committees**

- a) A Lok Sabha Committee on "Papers laid on the table" under the chairmanship of Shri S. N. Jatiya held a meeting with the Chairman and Senior Officials of the Board on June 26, 1997.
- b) A Rajya Sabha Committee on "Subordinate Legislation" under the chairmanship of Shri M.A. Baby held a Meeting with the Chairman and Senior Officials of the Board on September 27, 1997.

## **Establishment of the Securities Appellate Tribunal (SAT)**

In exercise of the powers conferred by Section 15K of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Central Government established the Securities Appellate Tribunal at Mumbai to hear appeals and pass orders under Section 15T of the Securities and Exchange Board of India Act, 1992 vide notification date July 28, 1997. Consequent to the appointment of Shri C Achuthan, Jt. Secretary and Legal Adviser to the Government of India, as Presiding Officer, the Tribunal commenced its functioning with effect from November 1, 1997 at Earnest House 14<sup>th</sup> Floor, 194 Nariman Point, Mumbai.

## **Promotion of Official Language**

The SEBI's endeavor has always been to implement the Official Language Policy of the Govt. of India effectively. In this direction, the Board has taken various effective steps which include availability of all publications, rules, regulations and notifications issued by the SEBI in bilingual form; making available the first-hand information relating to the activities of the Capital Market, as well as various material in Hindi for the timely guidance of the investors. As a result of its laudable efforts, the SEBI brought out a book titled "Capital Market Guide" which provides information in Hindi on various aspects of the Capital Market. Moreover, the Board also played a lead role in development of the regional languages. In this direction, the Board put in strenuous efforts for making available to the investors the relevant information on various aspects of the Capital Market in respective regional languages.

In furtherance of its role as a regulatory body of the Capital market, the SEBI brought out a book titled "SEBI - Rajbhasha Sahayika" which provides the standardized bilingual glossary in order to bring uniformity in the usage of various words, phrases generally used in the activities of the Capital Market. Another publication of the SEBI "Rajbhasha Sandarshika" covers various aspects of Official Language Policy of the Government of India and also provides for educative material useful in discharging the official work in Hindi and bilingually. Keeping in view the increasing popularity and usage of the computers in the activities of the Capital Market, the SEBI has published a book titled "Hindi Aashu-Tankan Sandarshika" which provides first-hand information relating to the computer based package training in Hindi typewriting and shorthand, which would definitely play a lead role in providing the training to the secretarial staff.

On the occasion of the Golden Jubilee of India's independence, the Board actively participated in all-India level Official Language seminars organised by the various institutions. Besides this, the Board also contributed immensely in various activities being organized by the various institutions for implementation of the Official Language. In future also, the Board's endeavor would be to implement the Official Language policy more effectively.

## **Automation**

The underlying philosophy for the SEBI's information technology strategy is to equip its officers with an electronic office wherein the required information is readily available at their desktop itself. The SEBI is in the process of implementing an organisation-wide database from which individual officers would draw information to facilitate their day to day work.

In a fast evolving environment, the speedy and effective communication between the SEBI's own departments at Mumbai and its regional offices spread throughout the country are critical prerequisites for quick and timely response. To achieve this objective it is necessary to network all the computers in a manner that they act as a single corporate resource. Initiatives were

taken in 1997-98 to implement a Local Area Network (LAN). This is expected to provide the basic infrastructure for unified database access, client-server computing as well as the foundation for sharing information.

As part of the SEBI's information technology plan, the entire computing infrastructure was upgraded during the previous year with the introduction of 250 "Pentium" workstations. These were supplemented in the year under review with the addition of 100 "Pentium" workstations and over 50 high end multimedia computers. These computers were provided with the latest productivity tools including software products for word processing, spreadsheets and presentations. With the implementation of the LAN, officers were also being provided with e-mail and Internet access to encourage the transmission of electronic information and to help users access the vast resources of the Internet relating to securities markets. A training programme was organised to enable users to make effective use of information technology and computing resources within the SEBI.

Database servers were acquired to initiate the development of the SEBI's own database and application systems. These servers are equipped with fault tolerant and security features to ensure uninterrupted and controlled access.

The SEBI's web site is hosted at <http://www.sebi.gov.in>. This site was heavily accessed during the year. In response to the needs and comments of users, the site was substantially redesigned during the year. The site contains statutes, rules, regulations, guidelines relating to SEBI; annual reports, draft prospectuses, press releases and investor related information. A mirror site is also hosted at <http://www.sebi.com>.

New technologies such as imaging, document management, workflow, video conferencing and electronic data interchange are being explored for their feasibility and introduction within the organisation.

## **Year 2000**

At the turn of the century, computers systems which have been designed to store and recognise dates with only the last two digits of the year are expected to face problems. The SEBI has embarked on a Year 2000 initiative that will ensure that all the SEBI databases, applications, systems and user interfaces that are dependent upon dates shall not be affected by the advent of the century mark, the year 2000.

## Action Taken by the SEBI Against Market Intermediaries under SEBI's Regulations

| S.No. | Name of the Intermediaries                | Action Taken                 |
|-------|---|------------------------------|
|       | <b>Merchant Banker Category I</b>         |                              |
| 1     | Efcon Securities Ltd.                     | Cancellation of registration |
| 2     | Exx-on Financial Services Ltd.            | Cancellation of registration |
| 3     | Global Portfolio Services Ltd.            | Cancellation of registration |
| 4     | Mudra Ispat Ltd.                          | Cancellation of registration |
| 5     | Orient Fincorp Ltd.                       | Cancellation of registration |
| 6     | Pamvi Finance Ltd.                        | Cancellation of registration |
| 7     | Raunaq Finance Ltd.                       | Cancellation of registration |
| 8     | Sanmac Motor Finance Ltd.                 | Cancellation of registration |
| 9     | Ushakiran Finance Ltd.                    | Cancellation of registration |
| 10    | Windsor Capital Markets Ltd.              | Cancellation of registration |
| 11    | CIL Securities Limited                    | Warning                      |
| 12    | Kerala State Indl Dev Corp.               | Warning                      |
| 12    | Merbank Financial Services Ltd            | Warning                      |
| 14    | Lazard Credit Capital Limited             | Warning                      |
| 15    | Dharani Finance                           | Warning                      |
| 16    | Punjab Financial Corporation              | Warning                      |
| 17    | Delhi Financial Corporation               | Warning                      |
| 18    | Om Sindhoori Capital                      | Warning                      |
| 19    | Keynote Corporate Services Ltd.           | Warning                      |
| 20    | Madhusudan Leasing Ltd.                   | Warning                      |
| 21    | Mideast Portfolio Management Ser Ltd.     | Warning                      |
| 22    | Gujrat State Investment Limited           | Warning                      |
| 23    | SIDBI                                     | Warning                      |
| 24    | Integrated Advisory Services Ltd,         | Warning                      |
| 25    | First Financial Services Limited          | Suspended                    |
| 26    | Hindustan Stockland Limited               | Suspended                    |
| 27    | Marg Securities Limited                   | Suspended                    |
| 28    | Bhagwandas Gordhandas Financial Pvt. Ltd. | Suspended                    |
| 29    | CRB Capital Markets Ltd.                  | Prohibitive Action           |
| 30    | Global Finance Corporation Ltd.           | Prohibitive Action           |
|       | <b>Brokers</b>                            |                              |
| 31    | S.V. Vakharia                             | Suspended                    |
| 32    | S. Bhaskaran                              | Reg. Cancelled               |
| 33    | Maria Louis Arulraj                       | Reg. Cancelled               |
| 34    | C.I. Gandhi                               | Suspended                    |
| 35    | Pramod Gupta                              | Suspended                    |
| 36    | Sareen & Co                               | Suspended                    |
| 37    | Yash Pal Mendiratta                       | Suspended                    |
| 38    | Arvind K. Jain                            | Suspended                    |
| 39    | Shaloo Gupta                              | Suspended                    |
| 40    | Raj Kishore Gupta                         | Suspended                    |
| 41    | Siya Sharan Singhal                       | Suspended                    |
| 42    | Ajay R Vakharia                           | Suspended                    |
| 43    | S I Agarwal                               | Suspended                    |
| 44    | Ajay R Vakharia                           | Suspended                    |

|  |                        |
|--|------------------------|
| 45 Libra management Services Limited           | Suspended              |
| 46 Vipul Securities Limited                    | Suspended              |
| 47 Hoffland Finance Limited                    | Suspended              |
| 48 Hofflane Share Shoppe Limited               | Suspended              |
| 49 Rajesh Kasat                                | Suspended              |
| 50 Jitendra Wagh                               | Suspended              |
| 51 Vardi Rathod                                | Suspended              |
| 52 Paresh Mehta                                | Suspended              |
| 53 Prabhod Arthawardhini                       | Suspended              |
| 54 Kunal Securities Private Limited            | Suspended              |
| 55 Rachana Consultant                          | Suspended              |
| 56 S T Shah                                    | Suspended              |
| 57 Clever Investment                           | Suspended              |
| 58 Rajesh Parikh                               | Suspended              |
| 59 Mayfair Investment and Consultancy Services | Suspended              |
| 60 RBM Investment                              | Suspended              |
| 61 Elite Securities                            | Suspended              |
| 62 Bindu Patni                                 | Suspended              |
| 62 Janvi Securities                            | Suspended              |
| 64 Pratik Investment                           | Suspended              |
| 65 H A Shah                                    | Suspended              |
| 66 Ramesh Biyani                               | Suspended              |
| 67 Ashok Poddar                                | Suspended              |
| 68 Vinod Kumar Kandoi                          | Suspended              |
| 69 Prudential Stock Broking Services Limited   | Suspended              |
| 70 Sonthalia & Co.                             | Suspended              |
| 71 Loknath Saraf                               | Suspended              |
| 72 Subhash & Co.                               | Suspended              |
| 73 S D Jhaveri                                 | Suspended              |
| 74 S D Jhaveri                                 | Suspended              |
| 75 Laxmi & Co.                                 | Suspended              |
| 76 Mohini & Co.                                | Suspended              |
| 77 R K Damani                                  | Suspended              |
| 78 Mangal Jain                                 | Registration Cancelled |

**Individuals**

|                              |                          |
|------------------------------|--------------------------|
| 79 Mahendra Shah             | Prohibitive Action taken |
| 80 Dr. Rakesh Shah           | Prohibitive Action taken |
| 81 Bhartiben Shah            | Prohibitive Action taken |
| 82 Dr. Subodh Chandra Bhagat | Prohibitive Action taken |
| 83 Rashmikant B Shah         | Prohibitive Action taken |
| 84 Amar N Joshi              | Prohibitive Action taken |
| 85 Madhav S Madivale         | Prohibitive Action taken |
| 86 Deepak M Kataria          | Prohibitive Action taken |
| 87 Harkrishnadas R Sharma    | Prohibitive Action taken |
| 88 Praful R Ranadive         | Prohibitive Action taken |
| 89 Ila A Agarwal             | Prohibitive Action taken |
| 90 Baldeao R Khurana         | Prohibitive Action taken |
| 91 Praful R Bhansali         | Prohibitive Action taken |
| 92 K R Maithil               | Prohibitive Action taken |
| 93 N K Maithil               | Prohibitive Action taken |
| 94 SS Sokhi                  | Prohibitive Action taken |
| 95 C S Shetty                | Prohibitive Action taken |

|   |  |
|---|--|
| 96 Swadesh Bhardwaja                                | Prohibitive Action taken                                 |
| 97 P C Soni   | Prohibitive Action taken                                 |
| 98 P K Jain   | Prohibitive Action taken                                 |
| 99 R K Navendar                                     | Prohibitive Action taken                                 |
| 100 K S V Raaman                                    | Prohibitive Action taken                                 |
| 101 Srinivasan                                      | Prohibitive Action taken                                 |
| 102 A K Sharma                                      | Prohibitive Action taken                                 |
| 103 O P Tushir                                      | Prohibitive Action taken                                 |
| 104 R S Hooda                                       | Prohibitive Action taken                                 |
| 105 V Shanker                                       | Prohibitive Action taken                                 |
| 106 Dipesh P Seth                                   | Prohibitive Action taken                                 |
| 107 H C Chugh                                       | Prohibitive Action taken                                 |
| 108 Naresh Chatly                                   | Prohibitive Action taken                                 |
| 109 W R Chatly                                      | Prohibitive Action taken                                 |
| 110 Deepak Relan                                    | Prohibitive Action taken                                 |
| 111 Umesh Munjal                                    | Prohibitive Action taken                                 |
| 112 Pushpa Devi                                     | Prohibitive Action taken                                 |
| 113 Samita Chatly                                   | Prohibitive Action taken                                 |
| 114 G Vittal  | Prohibitive Action taken                                 |
| 115 K Thipperswamy                                  | Prohibitive Action taken                                 |
| 116 G Vijaya Laxmi                                  | Prohibitive Action taken                                 |
| 117 R R Kumar                                       | Prohibitive Action taken                                 |
| 118 B N Jaishima                                    | Prohibitive Action taken                                 |
| 119 Dinesh Kumar Agarwal                            | Prohibitive Action taken                                 |
| 120 Ripjit Singh Brar                               | Prohibitive Action taken                                 |
| 121 M S Jagannathan                                 | Prohibitive Action taken                                 |
| 122 Harpeet Sandhu                                  | Prohibitive Action taken                                 |
| 123 Gurpreet Kaur Dhillon                           | Prohibitive Action taken                                 |
| 124 Harmal Singh                                    | Prohibitive Action taken                                 |
| 125 Sukhdev Singh Dhillon                           | Prohibitive Action taken                                 |
| <b>Others</b>                                       |  |
| 126 Hoffland Finance Ltd.                           | Regn. Cancelled  |
| 127 CRB Custodian Services Ltd. (Debenture Trustee) | Prohibitive Action taken                                 |
| 128 CRB Custodian Services Ltd. (RTI/STA)           | Prohibitive Action taken                                 |
| 129 Rich Paints Ltd. and its Directors              | Issue proceeds refunded                                  |
| 130 Okara Agro Industries Ltd.                      | Company asked not to file fresh documents for six months |
| 131 Highway Users Centre (India) Ltd.               | Issues withdrawn   |
| 132 Caldyn Aircon Ltd.                              | Refund of applilcation monies                            |
| 133 JVG Finance Ltd.                                | Refund of subscription money                             |
| 134 Pushya Developers Ltd.                          | Refund of applilcation monies                            |
| 135 Revati Fiscal Services Ltd.                     | Refund of applilcation monies                            |
| 136 United Western Bank Ltd.                        | Suspended  |
| 137 Punjab National Bank                            | Suspended MI Road, Jaipur Branch                         |
| 138 CRB Custodian Services Ltd.                     | U/s 11 (B) of the SEBI Act                               |
| 139 CRB Share Custodian Services Ltd.               | U/s 11 (B) of the SEBI Act                               |
| 140 Global Finance Corporation                      | U/s 11 (B) of the SEBI Act                               |
| 141 Ruchi Infrastructure                            | Suspension Activities                                    |
| 142 Sofr Track Technology Exports Ltd.              | Suspension Activities                                    |
| 143 Sanz Financial Services Limited                 | Issue Proceed refunded                                   |
| 144 Rich Paints Limited                             | Issue Proceed refunded                                   |

