

ANNUAL REPORT 2004-05



SECURITIES AND EXCHANGE BOARD OF INDIA

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


एम. दामोदरन, अवर. ए.एस.
अध्यक्ष

M. Damodaran, I.A.S.
Chairman

राष्ट्रिय,
भारत सरकार,
वित्तिक कार्य विभाग,
वित्त मंत्रालय, नॉर्थ ब्लॉक,
नई दिल्ली - 110 001.

प्रिय महोदय,

भारतीय प्रतिभूति और विनियम बोर्ड अधिनियम, 1992 की धारा 16(2) के उपबंधों के अनुसार, मैं एतद्वारा भारत के राजपत्र असाधारण के भाग II खण्ड 3 उप-खण्ड (1) में 7 अप्रैल, 1994 की अधिवृत्त भारतीय प्रतिभूति और विनियम बोर्ड (वार्षिक प्रतिवेदन) नियम, 1994 में विहित प्रकृत में 31 मार्च, 2005 को समाप्त वर्ष के लिए भारतीय प्रतिभूति और विनियम बोर्ड के वार्षिक प्रतिवेदन की प्रति उपरोक्त कर रहा हूँ।

भारतीय,

(एम. दामोदरन)

संलग्न : उपरोक्त

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

HO1 / RI / OTW / 2005/49603
June 27, 2005

Dear Sir,

In accordance with the provisions of Section 16(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, 2005, 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,


(M. DAMODARAN)

Encl. : 1/1

वित्तिक कार्य विभाग, नॉर्थ ब्लॉक, वित्त मंत्रालय, नई दिल्ली - 110 001 • दूरभाष : 22028221 / 22028222 - फैक्स : 22028223
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MEMBERS OF THE BOARD

(As on March 31, 2005)

M DAMODARAN
CHAIRMAN

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

MADHUKAR
WHOLE TIME MEMBER

G ANANTHARAMAN
WHOLE TIME MEMBER

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

DHIRENDRA SWARUP
Secretary (Expenditure and Budget)
Department of Expenditure
Ministry of Finance
Government of India

ASHOK K LAHIRI
Chief Economic Adviser
Ministry of Finance
Department of Economic Affairs
Government of India

KOMAL ANAND
Secretary
Ministry of Company Affairs
Government of India

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

K J UDESHI
Deputy Governor
Reserve Bank of India

CHAIRMAN AND MEMBERS OF THE SEBI BOARD

(As on March 31, 2005)



Shri M. Damodaran
Chairman



Shri Madhukar
Whole Time Member



Shri G. Anantharaman
Whole Time Member



Dr. Ashok K. Lahiri
Chief Economic Adviser
Department of Economic Affairs
Ministry of Finance
Government of India



Shri Dharendra Swarup
Secretary, Expenditure
and Budget
Ministry of Finance
Government of India



Ms. Komal Anand
Secretary
Ministry of Company Affairs
Government of India



Ms. K. J. Udeshi
Deputy Governor
Reserve Bank of India

CHAIRMAN, WHOLE TIME MEMBERS AND EXECUTIVE DIRECTORS



Sitting Left to Right : Whole Time Member, **Shri Madhukar**; Chairman, **Shri M. Damodaran**;
Whole Time Member, **Shri G. Anantharaman**

Standing Left to Right : Executive Directors: **Shri R. S. Loona, Shri Pratip Kar, Shri S. C. Das**

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Conventions used in this Report

Rs. : Rupees

Lakh : Hundred thousand

Crore : Ten million

\$: US dollar unless specified otherwise

Million : Ten lakh

Billion : Thousand million/hundred crore

NA : Not Available

Na : Not Applicable

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

ABBREVIATIONS

AMC	: Asset Management Company	DSE	: Delhi Stock Exchange
AMFI	: Association of Mutual Funds in India	ECB	: External Commercial Borrowing
ANMI	: Association of NSE Members of India	ED	: Enforcement Directorate
APG	: Asia Pacific Group	EDIFAR	: Electronic Data Information Filing and Retrieval
APRC	: Asia Pacific Regional Committee	EMEs	: Emerging Market Economies
ASE	: Ahmedabad Stock Exchange	FAQs	: Frequently Asked Questions
BCP	: Business Continuity Plan	FATF	: Financial Action Task Force
BgSE	: Bangalore Stock Exchange	F&O	: Futures and Options
BTI	: Banker to the Issue	FII	: Foreign Institutional Investor
BO	: Beneficiary Owner	FIR	: First Information Report
BSE	: Bombay Stock Exchange	FIRE	: Financial Institutions Reform and Expansion
BOLTS	: BSE Online Trading System	FISE	: Federation of Indian Stock Exchanges
C&D	: Corporatisation and Demutualisation	FRBM	: Fiscal Responsibility and Budget Management Act
CBI	: Central Bureau of Investigation	FVCI	: Foreign Venture Capital Investor
CCP	: Central Counter Party	GDP	: Gross Domestic Product
CDSL	: Central Depository Services Limited	GDS	: Gross Domestic Savings
CEO	: Chief Executive Officer	GETF	: Gold Exchange Traded Fund
CFI	: Consolidated Fund of India	GFIL	: Golden Forest India Limited
CFO	: Chief Financial Officer	Gol	: Government of India
CFTC	: Commodity Futures Trading Commission	GSO	: Green Shoe Option
CIS	: Collective Investment Scheme	GTB	: Global Trust Bank
CoSE	: Cochin Stock Exchange	HRMS	: Human Resource Management Systems
CPF	: Customer Protection Fund	HSE	: Hyderabad Stock Exchange
CPSS	: Committee on Payment and Settlement Systems	ICAI	: Institute of Chartered Accountants of India
CRR	: Cash Reserve Ratio	ICICI	: Industrial Credit and Investment Corporation of India
CSE	: Calcutta Stock Exchange	ICSI	: Institute of Company Secretaries of India
CSO	: Central Statistical Organisation	IDBI	: Industrial Development Bank of India
CSX	: Coimbatore Stock Exchange	IDR	: Indian Depository Receipts
CTR	: Compliance Test Report	IMSS	: Integrated Market Surveillance System
DCA	: Department of Company Affairs	IOSCO	: International Organisation of Securities Commissions
DFI	: Development Financial Institution		
DGCI&S	: Directorate General of Commercial Intelligence and Statistics		
DIP	: Disclosure and Investor Protection		
DoT	: Department of Telecommunication		
DP	: Depository Participant		
DRM	: Disaster Recovery Management		

ABBREVIATIONS

IPF	: Investor Protection Fund	RAIN	: Registrars Association of India
IPO	: Initial Public Offering	RBI	: Reserve Bank of India
ISE	: Inter-connected Stock Exchange	RHP	: Red Herring Prospectus
ISIN	: International Securities Identification Number	RII	: Retail Individual Investor
ISP	: Internet Service Provider	RSEs	: Regional Stock Exchanges
JPC	: Joint Parliamentary Committee	SAT	: Securities Appellate Tribunal
KIM	: Key Information Memorandum	SCN	: Show Cause Notice
LAF	: Liquidity Adjustment Facility	SC(R)A	: Securities Contracts (Regulation) Act
LSE	: Ludhiana Stock Exchange	SC(R)R	: Securities Contracts (Regulation) Rules
MAPIN	: Central Database for Market Participants and Investors	SEBI	: Securities and Exchange Board of India
MBs	: Merchant Bankers	SEFT	: Special Electronic Fund Transfer
MCA	: Ministry of Company Affairs	SGL	: Subsidiary General Ledger
MFs	: Mutual Funds	SKSE	: Saurashtra Kutch Stock Exchange
MNCs	: Multinational Corporations	SMAC	: Secondary Market Advisory Committee
MoU	: Memorandum of Understanding	SMAC	: Securities Market Awareness Campaign
MPSE	: Madhya Pradesh Stock Exchange	SMARTS	: Securities Markets Automated, Research, Training and Surveillance
MSS	: Market Stabilisation Scheme	SMEs	: Small and Medium Enterprises
NAV	: Net Asset Value	SMILE	: Securities Markets Infrastructure Leveraging Expert Task Force
NBFC	: Non Banking Financial Company	SRO	: Self Regulatory Organisation
NDP	: Net Domestic Product	SSIT	: Special Surveillance Inspection Team
NII	: Non-Institutional Investor	STP	: Straight Through Processing
NISM	: National Institute of Securities Markets	STT	: Securities Transaction Tax
NNP	: Net National Product	TCS	: Tata Consultancy Services
NSDL	: National Securities Depository Limited	TVA	: Tennessee Valley Authority
NSE	: National Stock Exchange of India Limited	UCC	: Unique Client Code
NTPC	: National Thermal Power Corporation	UIN	: Unique Identification Number
OIAE	: Office of Investor Assistance and Education	UPSE	: Uttar Pradesh Stock Exchange
OTCEI	: Over the Counter Exchange of India	USA	: United States of America
P/B ratio	: Price to Book Value ratio	UTI	: Unit Trust of India
PCR	: Put Call Ratio	VaR	: Value at Risk
P/E ratio	: Price Earnings ratio	VCF	: Venture Capital Fund
PIL	: Public Interest Litigation	VSE	: Vadodara Stock Exchange
PNB	: Punjab National Bank	WDM	: Wholesale Debt Market
PSU	: Public Sector Undertaking	WPI	: Wholesale Price Index
QIB	: Qualified Institutional Buyer		

CHRONOLOGY OF MAJOR POLICY INITIATIVES BY SEBI

Date	Policy Announcements
2004	
April 1	<ul style="list-style-type: none"> ● Straight Through Processing (STP) was made mandatory for all institutional trades and became effective from July 1, 2004.
April 2	<ul style="list-style-type: none"> ● The FIIs/sub-accounts were asked to inform the Unique Client Code (UCC) to the member broker while trading in the Indian securities market.
April 8	<ul style="list-style-type: none"> ● SEBI (DIP) Guidelines, 2000 were amended to include provisions relating to issue advertisements on television, facility of shelf prospectus by specific entities such as public sector banks, scheduled banks and public financial institutions.
April 23	<ul style="list-style-type: none"> ● A high level Securities Markets Infrastructure Leveraging Expert Task Force (SMILE Task Force) was constituted to carry out a comprehensive health check on the securities market infrastructure encompassing all the market segments and market participants.
April 28	<ul style="list-style-type: none"> ● A Memorandum of Understanding (MoU) was signed with US Commodities and Futures Trading Commission (CFTC) to strengthen communication channels and to establish a framework for assistance and mutual co-operation.
April 30	<ul style="list-style-type: none"> ● Guidelines were issued to comply with certain conditions by all listed companies which decide to change their names.
May 7	<ul style="list-style-type: none"> ● The guidelines in respect of the disclosures to be made in the Letter of Offer for buy back of securities were revised and a standard format prescribed.
May 28	<ul style="list-style-type: none"> ● Amendments to the SEBI (DIP) Guidelines, 2000 announced with respect to splitting of shares before IPO, terms of the issue, post issue obligations, public issues of bonds by designated financial institutions under a shelf prospectus, definition of employees, reservation for shareholders and availability of Green Shoe Option (GSO) facility.
June 10	<ul style="list-style-type: none"> ● Transaction work flow for STP implementation was prescribed and ISO 15022 messaging standards formulated.
June 30	<ul style="list-style-type: none"> ● Recognition to STP Centralised Hub and 4 STP Service Providers were granted to carry out STP activity.
July 15	<ul style="list-style-type: none"> ● SEBI (Interest Liability Regularisation) Scheme 2004 was launched to provide a one time opportunity to all the stock brokers to clear their dues.
July 16	<ul style="list-style-type: none"> ● The position limits and the broad eligibility criteria of stocks and indices on which futures and options could be introduced were modified. ● It was notified that all specified intermediaries and their related persons should quote the Unique Identification Number (UIN) obtained under the Central Database of Market Participants (MAPIN) Regulations in lieu of the Unique Client Code for all secondary market transactions with effect from August 2, 2004.

Contd.

CHRONOLOGY OF MAJOR POLICY INITIATIVES BY SEBI

Date	Policy Announcements
July 22	<ul style="list-style-type: none"> SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 were amended.
July 28	<ul style="list-style-type: none"> The format of the Key Information Memorandum (KIM) being submitted by mutual funds was standardised.
August 16	<ul style="list-style-type: none"> The depository participants (DPs) were permitted to provide statements of account and other documents to the beneficiary owners (BOs) under digital signature, as governed under the Information Technology Act, 2000, subject to the DP entering into a legally enforceable arrangement with the BO for the said purpose.
August 23	<ul style="list-style-type: none"> Instructions were issued to stock exchanges to levy, collect and remit the Securities Transaction Tax (STT) on all transactions from the date of notification by the Government of India.
August 24	<ul style="list-style-type: none"> The members of stock exchanges were instructed to transfer the funds and securities from their respective pool account to the respective beneficiary accounts of their clients within one working day after the pay-out day. The list of documents to be accepted as proof of identity and proof of address for opening a Beneficiary Owner account was expanded.
August 30	<ul style="list-style-type: none"> The 'National Institute of Securities Markets' was registered as a 'Society'.
September 23	<ul style="list-style-type: none"> The draft rules relating to STT were communicated in order to facilitate the stock exchanges, their members and mutual funds to put in place the necessary systems and procedures for the proper implementation of STT.
October 1	<ul style="list-style-type: none"> STT became effective as per Government notification.
October 26	<ul style="list-style-type: none"> It was clarified that the MFs and the FII shall henceforth enter the unique client codes (UCCs) pertaining to the parent MF and parent FII at the order entry level and enter the UCCs for their individual schemes of the MFs and sub-accounts of the FIIs in the post closing session.
October 27	<ul style="list-style-type: none"> The stock exchanges and depositories were instructed to inform the issuer companies to comply with SEBI circular pertaining to mandatory admission of debt instruments on both the depositories. All resident investors not being body corporates, who enter into any securities market transactions (primary or secondary market) of a value of one lakh rupees or more, as 'specified investors', were required to obtain a UIN before March 31, 2005. Foreign institutional investors / sub-account and foreign venture capital investors as 'specified investors' were also required to obtain a UIN before March 31, 2005.
October 28	<ul style="list-style-type: none"> The Investors Protection Fund (IPF)/ Customer Protection Fund (CPF) Guidelines were reviewed and comprehensive guidelines prescribed with respect to constitution and management of the IPF/CPF, contribution to IPF/CPF, manner of filing/inviting claims from investors, eligible claims, determination of legitimate claims and disbursements of claims from the IPF/CPF.

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CHRONOLOGY OF MAJOR POLICY INITIATIVES BY SEBI

Date	Policy Announcements
October 29	<ul style="list-style-type: none"> All stock exchanges were directed to amend the listing agreement by replacing the existing Clause 49 of the listing agreement with the revised one.
November 1	<ul style="list-style-type: none"> A model listing agreement for debentures was issued to the stock exchanges. This agreement is to be used by companies or entities desiring to list their debentures issued to public or privately placed.
November 2	<ul style="list-style-type: none"> The cumulative investment limit by FIIs/sub-accounts in dated Government securities and Treasury bills increased to US \$ 1.75 billion.
November 18	<ul style="list-style-type: none"> The sub-brokers, notified as 'Specified Intermediaries', who along with their related persons, were required to obtain Unique Identification Numbers (UIN) on or before December 31, 2004.
November 25	<ul style="list-style-type: none"> The time limit for implementation of the model tripartite agreement between broker, sub-broker and clients was extended to January 1, 2005 from the required date of December 1, 2004 on account of requirement of significant software changes, system constraints and other administrative reasons.
November 29	<ul style="list-style-type: none"> It was clarified that the cap of US \$ 1.75 billion will be applicable to FIIs investment in dated Government securities and Treasury bills only, both under 100 per cent debt route and general 70:30 route.
December 2	<ul style="list-style-type: none"> It was clarified that a cumulative sub-ceiling of US \$ 500 million outstanding was fixed on FII investments in corporate debt and this would be over and above the ceiling of US \$ 1.75 billion for Government debt.
December 8	<ul style="list-style-type: none"> The Clause 16 of the Equity Listing Agreement was amended so that the company on whose stocks, derivatives are available or whose stocks form part of an index on which derivatives are available, shall give a notice period of 30 days to stock exchanges for corporate actions like mergers, de-mergers, splits and bonus shares.
December 15	<ul style="list-style-type: none"> Changes were made in status and constitution of the sub-brokers, surrender of certificate of registration of sub-brokers and affiliation of sub-brokers.
December 29	<ul style="list-style-type: none"> The time limit for the implementation of the tripartite agreement between broker, sub-broker and clients was further extended up to April 1, 2005 due to system constraints and other administrative reasons.
2005	
January 4	<ul style="list-style-type: none"> It was clarified that wherever the President of India / Central Government / State Government is a promoter, it is exempted from the requirement of obtaining a UIN under regulation 6(2) of SEBI (Central Database of Market Participants) Regulations, 2003. It was clarified that if the application for renewal is not received at SEBI by the expiry date of the certificate of registration from the intermediary, the intermediary ceases to be an intermediary on the date of such expiry and could not carry out the activities of the intermediary from the date of expiry of registration.

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CHRONOLOGY OF MAJOR POLICY INITIATIVES BY SEBI

Date	Policy Announcements
January 7	<ul style="list-style-type: none"> The first phase of BSE Indonext trading platform was operationalised on January 7, 2005 for the small and medium enterprises.
January 25	<ul style="list-style-type: none"> The SEBI (DIP) Guidelines, 2000 with respect to order of presentation of disclosures in prospectus, requirements pertaining to abridged prospectus and requirements pertaining to issue advertisements were amended.
January 28	<ul style="list-style-type: none"> The charge structure for dematerialisation was rationalised.
February 9	<ul style="list-style-type: none"> It was clarified that members of stock exchanges who were on the Governing Boards of the stock exchanges at the time of supersession need to be excluded from the reconstituted Governing Boards of the stock exchanges for a period of two years, as they had earlier failed to take effective action during their tenure on the Governing Board.
February 23	<ul style="list-style-type: none"> The comprehensive risk management framework for the cash segment was specified.
February 24	<ul style="list-style-type: none"> Notified date for obtaining UIN was extended from March 31, 2005 to December 31, 2005 for specified investors, viz., all resident investors not being bodies corporate who enter into any securities market transaction (including any transaction in units of mutual funds or collective investment schemes) of a value of one lakh rupees or more.
March 4	<ul style="list-style-type: none"> Modifications to the Margin Trading Facility and Securities Lending and Borrowing Scheme were specified.
March 7	<ul style="list-style-type: none"> A committee was constituted to re-examine the coverage of MAPIN, suggest future implementation schedule and review the cost of obtaining UIN.
March 11	<ul style="list-style-type: none"> It was clarified that the sub-ceilings of FII investments in Government securities and corporate debt would be separate and would not be fungible.
March 17	<ul style="list-style-type: none"> The authority to align contract size of derivative contracts was delegated to stock exchanges, whenever necessary, in consultation with each other.
March 29	<ul style="list-style-type: none"> The deadline for ensuring conformity by companies with the revised Clause 49 of the listing agreement was extended up to December 31, 2005 from April 1, 2005. The SEBI (DIP) Guidelines, 2000 were amended for enhancing the allocation category for retail investors, redefining the retail investors in value terms, reducing the bidding period, timing of disclosure of price band/floor price in case of listed companies and data reporting at the website of stock exchange.
March 31	<ul style="list-style-type: none"> The tripartite agreement between broker, sub-broker and clients which was to come into effect from December 1, 2004, was extended up to January 1, 2005. It was further clarified that the model tripartite agreement shall be implemented strictly from April 1, 2005 and will not be applicable for the present subsidiaries of recognised stock exchanges who are registered as stock brokers and their registered sub-brokers, for whom special provisions are being made in the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.