PART THREE: REGULATION OF SECURITIES MARKET

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

1. PRIMARY SECURITIES MARKET

Intermediaries play an important role in the capital market in channelising the financial resources from savers to investors. The role of professionally managed market intermediaries is exceedingly important for business development and growth of capital market. The market requires services of a variety of intermediaries like merchant bankers, bankers to issues, brokers, debenture trustees, etc., to bring the suppliers and users of funds together for mutual benefits.

During 2004-05, there was a significant increase in the number of various classes of intermediaries registered with SEBI such as registrar to an issue and share transfer agents, bankers to an issue, debenture trustees, portfolio managers, underwriters and merchant bankers (Table 3.1). Dematerialisation activities witnessed a surge with the number of DPs increasing at CDSL. However, number of depository participants marginally declined to 210 in 2004-05 from 216 in 2003-04 at NSDL. The number of credit rating agencies remained same at 4 in 2004-05. There was 40 per cent increase in the category of portfolio managers as their number increased from 60 in 2003-04 to 84 in 2004-05. The rise in all categories of intermediaries, except credit rating agencies, was attributed to good performance of the securities market and the overall demand by the investors for different types of services in 2004-05.

2. SECONDARY SECURITIES MARKET

I. Registration of Brokers

The Indian broking industry has undergone structural changes during the recent years. Greater emphasis has been given on consolidation and restructuring in the broking segment. During 2004-05, 239 new brokers were registered with SEBI (Table 3.2). The number of reconciliations/ cancellations/ surrender of memberships during 2004-05 was 479, higher than that of 292 in the

Table 3.1: Registered Intermediaries Relating to Capital Market

Type of Intermediary	2003-04	2004-05	Absolute Variation	Percentage Variation
1	2	3	4	5
Registrar to an Issue and Share Transfer Agent (Category I and II)	78	83	5	6.41
Bankers to an Issue	55	59	4	7.27
Debenture Trustee	34	35	1	2.94
Merchant Banker	123	128	5	4.07
Portfolio Manager	60	84	24	40.00
Underwriter	47	59	12	25.53
DPs – NSDL	216	210	-6	-2.78
DPs – CDSL	215	267	52	24.19
Credit Rating Agency	4	4	0	0.00

Table 3.2: Brokers Registered

Registered Brokers as on March 31, 2004	Net Addition during 2004-05	Reconciliation/ Cancellation/ Surrender of Memberships	Registered Brokers as on March 31, 2005
1	2	3	4
9,368	239	479	9,128

previous year. The total number of registered brokers as on March 31, 2005 was 9,128, as compared with 9,368 a year ago, a decline of 240 over the year. There was a structural change in the broking industry with an increase in the number of corporate brokerage entities floated by the institutions in the recent years. The exchange-wise details of corporate and total brokers are given in Table 3.3. Among the exchanges,

Table 3.3: Exchange-wise Brokers Registered with SEBI

Stock Exchange	2003-04			2004-05		
	Total Brokers	Corporate Brokers	*Corporate Brokers as percentage of total brokers*	Total Brokers	Corporate Brokers	*Corporate Brokers as percentage of total brokers*
1	2	3	*4*	5	6	*7*
Ahmedabad	323	152	*47.06*	317	150	*47.32*
Bangalore	242	116	*47.93*	250	119	*47.60*
BSE	673	479	*71.17*	726	534	*73.55*
Bhubaneshwar	229	18	*7.86*	221	18	*8.14*
Calcutta	980	200	*20.41*	962	204	*21.21*
Cochin	468	82	*17.52*	446	76	*17.04*
Coimbatore	177	61	*34.46*	135	49	*36.30*
Delhi	373	215	*57.64*	376	215	*57.18*
Gauhati	172	5	*2.91*	119	4	*3.36*
Hyderabad	305	119	*39.02*	288	118	*40.97*
ICSE	633	248	*39.18*	654	250	*38.23*
Jaipur	532	19	*3.57*	522	19	*3.64*
Ludhiana	297	85	*28.62*	293	84	*28.67*
MPSE	179	35	*19.55*	174	35	*20.11*
Madras	182	70	*38.46*	178	69	*38.76*
Magadh	195	22	*11.28*	198	22	*11.11*
Mangalore*	105	10	*9.52*	66	9	*13.64*
NSE	970	863	*88.97*	976	877	*89.86*
OTCEI	867	675	*77.85*	801	616	*76.90*
Pune	197	59	*29.95*	186	55	*29.57*
SKSE	437	86	*19.68*	425	83	*19.53*
UPSE	514	104	*20.23*	504	103	*20.44*
Vadodara	318	64	*20.13*	311	64	*20.58*
Total	**9,368**	**3,787**	***40.43***	**9,128**	**3,773**	***41.33***

* Mangalore Stock Exchange was refused renewal of recognition on August 31, 2004. The matter is sub-judice as on March 31, 2005.

National Stock Exchange (NSE) has the highest number of brokers at 976 in 2004-05, followed by the Calcutta Stock Exchange (962) and OTCEI (801). Out of the total brokers in NSE, 89.86 per cent were corporate brokers. The shares of corporate brokers at OTCEI and BSE were 76.90 per cent and 73.55 per cent, respectively in 2004-05. On an all-India basis, the corporate brokers constituted 41.33 per cent of the total brokers in 2004-05 as compared with 40.43 per cent in 2003-04.

Brokers are divided into five categories *viz.,* proprietary, partnership, corporate, institutions and composite corporate. However, as the registrations of broking entities under categories of institutions and composite corporate are negligible during the recent years, these categories have been clubbed together as corporate. The details of the exchange-wise stock brokers on the basis of ownership are provided in Table 3.4. In the old exchanges, most of the brokers were proprietary in nature, whereas in the new exchanges, they were corporate members (Charts 3.1 and 3.2). The proprietary membership was the highest in Calcutta Stock Exchange at 14.0 per cent of the total brokers relating to the same category. It was the lowest for NSE wherein 0.9 per cent of the brokers belonged to the proprietorship category. The percentage of brokers in the partnership category was the highest in NSE (18.5 per cent) in 2004-05. There were no brokers in the partnership category in Bhubaneshwar Stock Exchange and Coimbatore Stock Exchange. Of the total brokers in corporate category, 23.2 per cent belonged to NSE, followed by OTCEI (16.3 per cent) and BSE (14.1 per cent) (Chart 3.3).

Prior to screen based trading and the spread of trading network across the country, brokers in some of the exchanges acquired membership in more than one exchange (multiple membership) to expand their business and serve clients spread across the country. With the introduction of screen-based trading and expansion of networking to most cities and towns of the country, the concept of multiple membership has become less prevalent although it persists today.

Table 3.5 presents details of multiple memberships which range from two to six. The density of multiple members falls rapidly with rise in the number of multiple membership. The multiple membership with two broking cards declined from 798 in 2003-04 to 597 in 2004-05. However, the multiple membership with three broking cards rose by 51.7 per cent to 91 in 2004-05 from 60 in 2003-04.

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

Stock Exchange	Proprietorship		*Percentage of Total*		Partnership		*Percentage of Total*		Corporate*		*Percentage of Total*		Total	
	03-04	04-05	03-04	04-05	03-04	04-05	03-04	04-05	03-04	04-05	03-04	04-05	03-04	04-05
1	2	3	4	5	6	7	*8*	9	10	11	*12*	*13*	14	15
Ahmedabad	148	144	*2.80*	*2.84*	23	23	*8.01*	*8.33*	152	150	*4.01*	*3.98*	323	317
Bangalore	123	128	*2.32*	*2.52*	3	3	*1.05*	*1.09*	116	119	*3.06*	*3.15*	242	250
BSE	157	156	*2.97*	*3.07*	37	36	*12.89*	*13.04*	479	534	*12.65*	*14.15*	673	726
Bhubaneshwar	211	203	*3.99*	*4.00*	0	0	*0.00*	*0.00*	18	18	*0.48*	*0.48*	229	221
Calcutta	729	712	*13.77*	*14.02*	51	46	*17.77*	*16.67*	200	204	*5.28*	*5.41*	980	962
Cochin	376	360	*7.10*	*7.09*	10	10	*3.48*	*3.62*	82	76	*2.17*	*2.01*	468	446
Coimbatore	116	86	*2.19*	*1.69*	0	0	*0.00*	*0.00*	61	49	*1.61*	*1.30*	177	135
Delhi	126	128	*2.38*	*2.52*	32	33	*11.15*	*11.96*	215	215	*5.68*	*5.70*	373	376
Gauhati	166	114	*3.14*	*2.24*	1	1	*0.35*	*0.36*	5	4	*0.13*	*0.11*	172	119
Hyderabad	181	165	*3.42*	*3.25*	5	5	*1.74*	*1.81*	119	118	*3.14*	*3.13*	305	288
ISE	384	403	*7.25*	*7.93*	1	1	*0.35*	*0.36*	248	250	*6.55*	*6.63*	633	654
Jaipur	507	497	*9.58*	*9.79*	6	6	*2.09*	*2.17*	19	19	*0.50*	*0.50*	532	522
Ludhiana	210	207	*3.97*	*4.08*	2	2	*0.70*	*0.72*	85	84	*2.24*	*2.23*	297	293
MPSE	141	137	*2.66*	*2.70*	3	2	*1.05*	*0.72*	35	35	*0.92*	*0.93*	179	174
Madras	95	93	*1.79*	*1.83*	17	16	*5.92*	*5.80*	70	69	*1.85*	*1.83*	182	178
Magadh	172	175	*3.25*	*3.45*	1	1	*0.35*	*0.36*	22	22	*0.58*	*0.58*	195	198
Mangalore **	91	54	*1.72*	*1.06*	4	3	*1.39*	*1.09*	10	9	*0.26*	*0.24*	105	66
NSE	54	48	*1.02*	*0.95*	53	51	*18.47*	*18.48*	863	877	*22.79*	*23.24*	970	976
OTCEI	172	166	*3.25*	*3.27*	20	19	*6.97*	*6.88*	675	616	*17.82*	*16.33*	867	801
Pune	131	124	*2.47*	*2.44*	7	7	*2.44*	*2.54*	59	55	*1.56*	*1.46*	197	186
SKSE	349	340	*6.59*	*6.69*	2	2	*0.70*	*0.72*	86	83	*2.27*	*2.20*	437	425
UPSE	404	395	*7.63*	*7.78*	6	6	*2.09*	*2.17*	104	103	*2.75*	*2.73*	514	504
Vadodara	251	244	*4.74*	*4.80*	3	3	*1.05*	*1.09*	64	64	*1.69*	*1.70*	318	311
Total	**5,294**	**5,079**	***100.00***	***100.00***	**287**	**276**	***100.00***	***100.00***	**3,787**	**3,773**	***100.00***	***100.00***	**9,368**	**9,128**

* The categories of Financial Institutions and Composite Corporate are clubbed into the category of Corporate for 2003-04 and 2004-05.

** Mangalore Stock Exchange was refused renewal of recognition on August 31, 2004. The matter is sub-judice as on March 31, 2005.

Chart 3.1: Corporate Brokers and Total Brokers (2003-04)

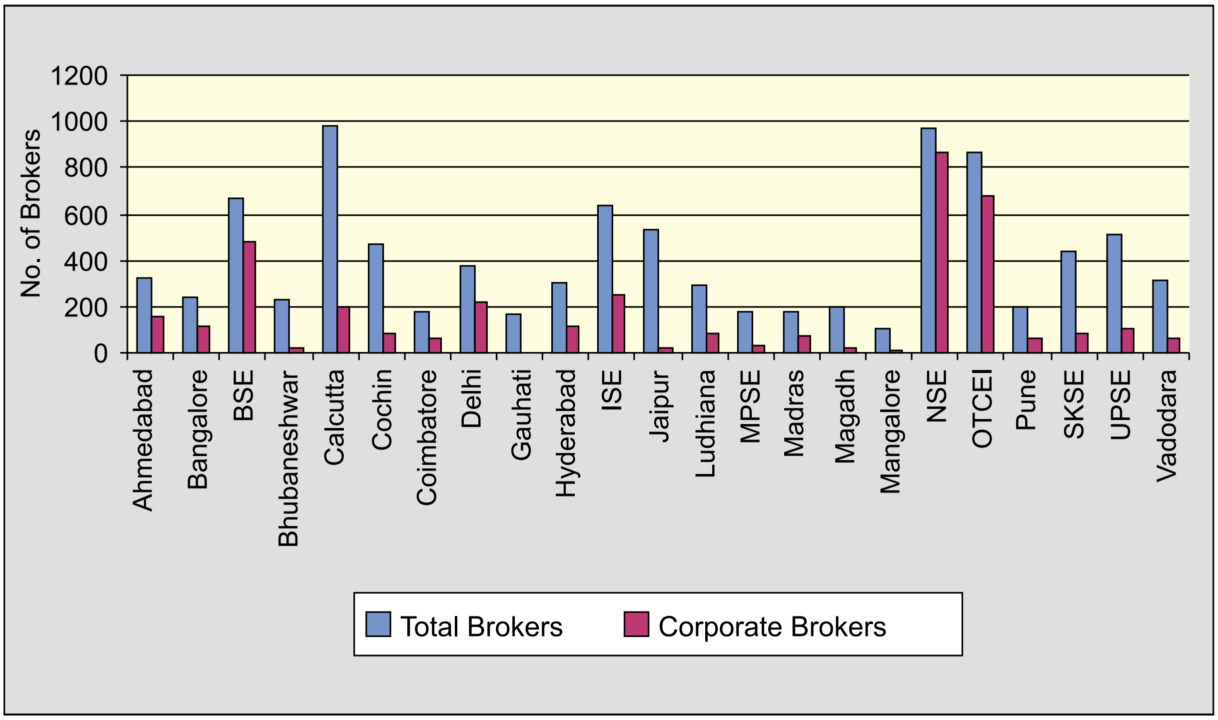


Chart 3.2: Corporate Brokers and Total Brokers (2004-05)

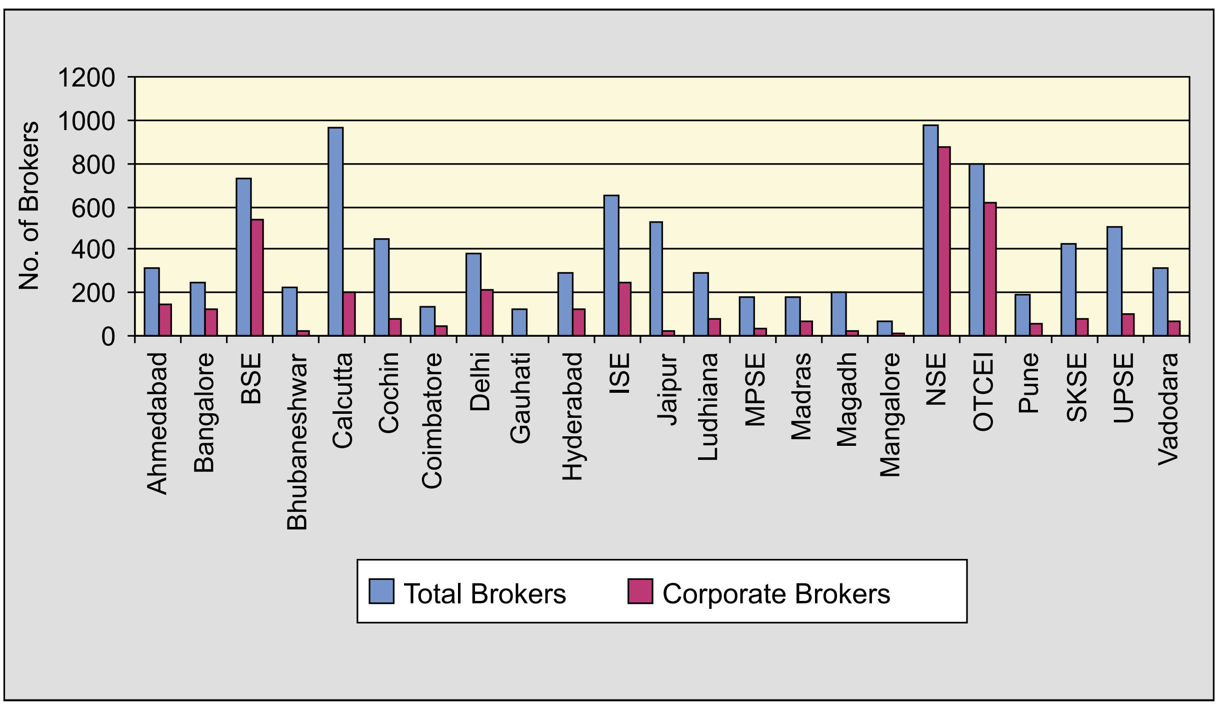


Chart 3.3: Percentage Share in the Classification of Brokers on the Basis of Ownership (as on March 31, 2005)

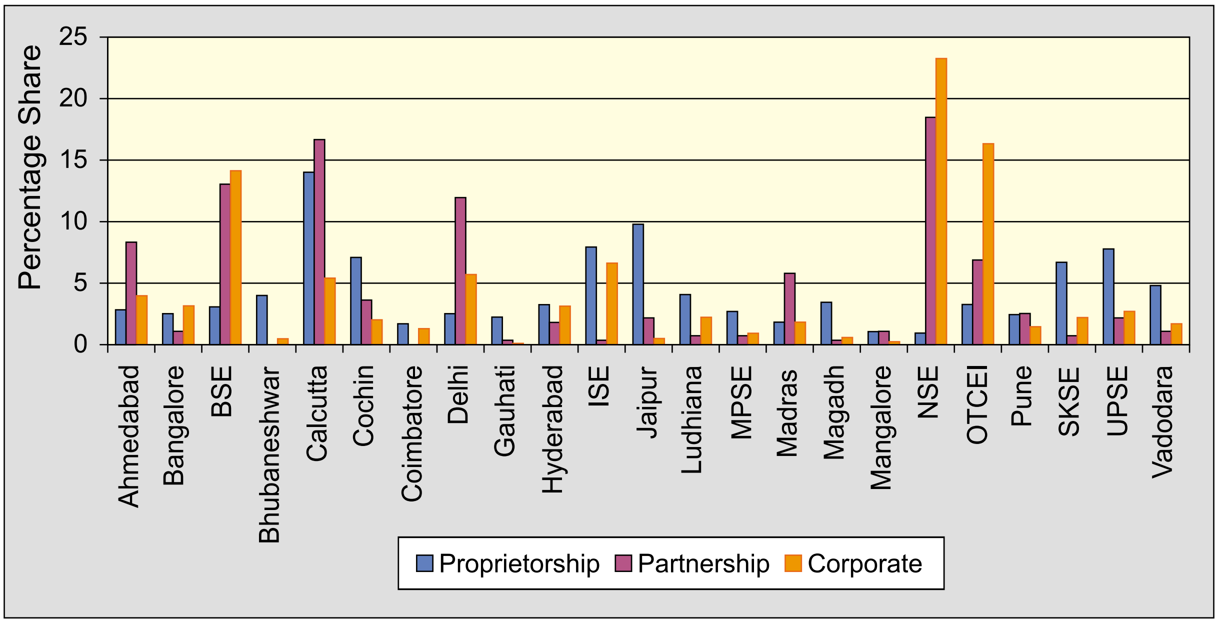


Table 3.5: Multiple Membership

Number of Multiple Memberships	2003-04	2004-05
	Number of Multiple Members	Number of Multiple Members
1	2	3
2	798	597
3	60	91
4	9	10
5	4	3
6	1	1

II. Registration of Sub-brokers

The role of sub-brokers is important from the point of view of spread of broking business. They help the geographical reach of broking entities to the investors in the country. In hectic market conditions, sometimes brokers may not be able to entertain all small investors and in such a situation, the sub-brokers help the investors to buy and sell shares. The total number of sub-brokers in all the exchanges in India was 13,684 during 2004-05 as against 12,815 in 2003-04, an increase of 6.8 per cent (Table 3.6). The two major exchanges, namely BSE and NSE together accounted for 89.5 per cent of the total sub-brokers.

III. Recognition of Stock Exchanges

The stock exchanges are granted recognition by SEBI under Section 4 of Securities Contracts (Regulation) Act, 1956. There are twenty two[1] stock exchanges recognised under Securities Contracts (Regulation) Act, 1956. Eight stock exchanges have been granted permanent recognition, three were granted a tenure period renewal and remaining exchanges have been granted yearly renewal. During 2004-05, SEBI has

1 The application for renewal of recognition of Mangalore Stock Exchange was refused vide Order dated August 31, 2004 under Section 4(4) of the Securities Contracts (Regulation) Act, 1956. The matter is sub-judice as on March 31, 2005.

Table 3.6: Registered Sub-Brokers

Stock Exchange	Sub-brokers as on March 31			
	2004		2005	
	No.	Percentage of Total	No.	Percentage of Total
1	2	3	4	5
Ahmedabad	124	*0.97*	119	*0.87*
Bangalore	156	*1.22*	156	*1.14*
BSE	6,600	*51.50*	6,917	*50.55*
Bhubaneshwar	17	*0.13*	17	*0.12*
Calcutta	92	*0.72*	88	*0.64*
Cochin	42	*0.33*	42	*0.31*
Coimbatore	24	*0.19*	22	*0.16*
Delhi	363	*2.83*	343	*2.51*
Gauhati	4	*0.03*	4	*0.03*
Hyderabad	199	*1.55*	199	*1.45*
ISE	3	*0.02*	3	*0.02*
Jaipur	34	*0.27*	34	*0.25*
Ludhiana	38	*0.30*	38	*0.28*
MPSE	115	*0.90*	5	*0.04*
Madras	3	*0.02*	115	*0.84*
Magadh	1	*0.01*	3	*0.02*
Mangalore	5	*0.04*	1	*0.00*
NSE	4,717	*36.81*	5,338	*39.01*
OTCEI	25	*0.20*	19	*0.14*
Pune	161	*1.26*	161	*1.18*
SKSE	0	*0.00*	0	*0.00*
UPSE	19	*0.15*	19	*0.14*
Vadodara	73	*0.57*	41	*0.30*
Total	**12,815**	***100.00***	**13,684**	***100.00***

granted renewal of recognition to 13 stock exchanges, of which 11 were granted recognition for one year and the other two were granted recognition for 2 years. The details of the renewals of recognition granted to stock exchanges are provided in Tables 3.7 sand 3.8.

Table 3.7: Renewal of Recognition Granted to Stock Exchanges during 2004-05

S No.	Exchange	Date of Notification	Period
1	2	3	4
1	The Ludhiana Stock Exchange Association Ltd.	April 20, 2004	1 year w.e.f. April 28, 2004 to April 27, 2005
2	The Gauhati Stock Exchange Ltd	April 20, 2004	1 year w.e.f. May 1, 2004 to April 30, 2005
3	Bhubaneshwar Stock Exchange	May 26, 2004	1 year w.e.f. June 5, 2004 to June 4, 2005
4	Uttar Pradesh Stock Exchange Association Ltd.	May 27, 2004	1 year w.e.f. June 3, 2004 to June 2, 2005
5	Saurashtra Kutch Stock Exchange Ltd.	June 29, 2004	1 year w.e.f. July 10, 2004 to July 9, 2005
6	OTC Exchange of India	August 17, 2004	1 year w.e.f. August 23, 2004 to August 22, 2005
7	Pune Stock Exchange Ltd.	August 17, 2004	1 year w.e.f. September 2, 2004 to September 1, 2005
8	Coimbatore Stock Exchange Ltd.	August 30, 2004	1 year w.e.f. September 18, 2004 to September 17, 2005
9	Cochin Stock Exchange Ltd.	November 8, 2004	1 year w.e.f. November 8, 2004 to November 7, 2005
10	Inter-connected Stock Exchange of India Ltd.	November 8, 2004	2 years w.e.f. November 18, 2004 to November 17, 2006
11	The Magadh Stock Exchange Association	December10, 2004	1 year w.e.f. December 11, 2004 to December 10, 2005
12	Vadodara Stock Exchange	January 4, 2005	2 years w.e.f. January 4, 2005 to January 3, 2007
13	The Jaipur Stock Exchange Ltd.	January 7, 2005	1 year w.e.f. January 9, 2005 to January 8, 2006

Table 3.8: Renewal of Recognition Granted to other Stock Exchanges

S No.	Exchange	Status
1	2	3
1	National Stock Exchange of India Limited	5 years w.e.f. April 26, 2003 to April 25, 2008
2	The Stock Exchange, Mumbai	Permanent
3	The Stock Exchange, Ahmedabad	Permanent
4	Bangalore Stock Exchange Limited	Permanent
5	Calcutta Stock Exchange Association	Permanent
6	Delhi Stock Exchange Association Limited	Permanent
7	Hyderabad Stock Exchange Limited	Permanent
8	Madhya Pradesh Stock Exchange	Permanent
9	Madras Stock Exchange Limited	Permanent

IV. Corporate Restructuring: Substantial Acquisition of Shares and Takeovers

In recent years, mergers and acquisitions have emerged as a natural process of business restructuring all over the world. Since the introduction of economic reforms in 1991, Indian industries were exposed to both domestic and international competition. They had started restructuring their operations around their core business activities through acquisition and takeovers. Some may attempt to concentrate their holdings in target companies in a bid for takeover in future. In these circumstances, the investors should get a justified exit route and fair price amid takeover campaigns by corporates. This has been ensured by SEBI (Substantial Acquisition of Shares and Takeovers) Regulations. In response to regulations and corporate developments, 60 public offers opened during the year. During 2004-05, 212 reports were filed under the category of transactions that qualify for exemption from open offer obligations. The transactions, which are not covered under the said category, are required to be submitted to the Takeover Panel for exemption from open offer. Accordingly, 38 such applications were forwarded by SEBI to the Takeover Panel for their consideration, out of which exemptions from making open offers were granted in respect of 17 cases (Table 3.9).

Table 3.9: Letter of Offers and Exemptions

Period	Letters of Offer Filed	Exemptions Granted by Panel
1	2	3
2002-03	88	17
2003-04	65	18
2004-05	60	17

V. Registration of Foreign Institutional Investors

The foreign institutional investors (FIIs) played a crucial role in sustaining buoyancy in the securities market through portfolio investments. The processing of FII registrations has been streamlined and expedited. Commensurate with record portfolio investment by the FIIs, the new registration of FIIs and sub-accounts went up significantly during the year. Notable among them were the UN Pension Fund, CalPERS, Tennessee Valley Authority (TVA), Commonwealth of Massachusetts Pension Reserves Investment Trust etc. As on March 31, 2005, the number of FII entities registered with SEBI stood at 685 and the sub-accounts at 1,889. As on March 31, 2004, there were 540 FIIs and 1,542 sub-accounts registered with SEBI. Thus, there was a 27 per cent increase in FII registrations and 22 per cent rise in the number of sub-accounts in 2004-05.

VI. Registration of Custodians of Securities

The total number of custodians registered with SEBI as on March 31, 2005 stood at 11, same as during last two years. This indicates that there is sufficient coverage of market by the existing custodians.

VII. Registration of Collective Investment Schemes

Subsequent to the notification of the SEBI (Collective Investment Schemes) Regulations, 1999, so far, no CIS entity is registered with SEBI. Action taken against CIS entities are indicated under enforcement.

VIII. Registration of Mutual Funds

Mutual funds have acquired the position of major institutional investors in the capital market. They mobilise funds through various schemes such as income schemes, growth schemes, income and growth schemes, tax

Table 3.10: Mutual Funds Registered with SEBI

Sector	March 31, 2004	March 31, 2005	Absolute Variation	Percentage Variation
1	2	3	4	5
Public Sector (including UTI)	8	8	0	0.0
Private Sector	29	31	2	6.9
Total	**37**	**39**	**2**	**5.4**

saving schemes etc. There has been intense competition among mutual funds. Many innovative schemes were introduced by new as well as old mutual funds in the country.

The mutual funds are the common man's vehicle to stock market. Denominated in small units, it is a viable alternative for small and retail investors who route their corpus through various schemes offered by the mutual funds. Prudential allocation of funds into equity and debt oriented schemes determines returns to the unit holders. As on March 31, 2005, there were 39 mutual funds registered with SEBI of which 31 belonged to the private sector and 8 (including the UTI) were in the public sector. The number of private sector mutual funds increased by 2 to 31 in 2004-05 from 29 in 2003-04 (Table 3.10).

IX. Registration of Venture Capital Funds

The development of venture capital is of paramount importance to any economy in terms of its contribution to job creation, economic growth and technological progress. Venture capital normally takes care of the funding needs of companies which do not have the requisite size, assets and necessary background to obtain capital from more traditional sources such as market and banks. It is employed by entrepreneurial companies that use unproven technology but with a promising future. Equity holdings by venture funds may command a premium when divested in equity markets. Equity markets enable to provide an exit route for the venture funds that extend seed capital to those companies. Although the venture capital industry is not developed in India, it has made a humble beginning during the recent years. The number of indigenous venture capital funds increased to 50 in 2004-05 from 45 in 2003-04. There was also an addition of 5 foreign venture capital funds in 2004-05 (Table 3.11).

X. Fees and Other Charges

As per the regulatory provisions, SEBI receives fees and certain charges on different heads from the market intermediaries for its services. Table 3.12 provides details regarding fees and other charges collected during 2004-05. The fees received by SEBI (unaudited) increased by 93.3 per cent to Rs.169.9 crore in 2004-05 over the previous year. Among all intermediaries, the highest fee of Rs.143.90 crore was collected from stock brokers and

Table 3.11: Venture Capital Funds

	March 31, 2004	March 31, 2005	Absolute Variation	Percentage Variation
1	2	3	4	5
VCF	45	50	5	11.1
FVCI	9	14	5	55.5

Table 3.12: Fees and Other Charges

(Rs. lakh)

Particulars	2003-04			2004-05		
	Recurring Fees #	*Non-recurring Fees* ##	Total Fees Received	*Recurring Fees* #	*Non-recurring Fees* ##	Total Fees Received (Unaudited)
1	2	3	4	5	6	7
Offer Documents and Prospectuses filed	–	176.90	**176.90**		226.80	**226.80**
Merchant Bankers	65.40	39.80	**105.20**	45.00	36.25	**81.25**
Underwriters	42.00	25.00	**67.00**	18.00	35.00	**53.00**
Portfolio Managers	22.50	95.00	**117.50**	32.50	109.50	**142.00**
Registrars to an Issue and Share Transfer Agents	15.05	1.50	**16.55**	8.80	1.70	**10.50**
Bankers to an Issue	117.50	10.00	**127.50**	7.50	20.00	**27.50**
Debenture Trustees	52.50	10.00	**62.50**	20.00	5.00	**25.00**
Takeover fees	–	589.05	**589.05**	–	66.50	**66.50**
Mutual Funds	147.50	25.50	**173.00**	165.00	50.50	**215.50**
Stock Brokers and Sub-Brokers	6,342.58	–	**6,342.58**	14,389.92	–	**14,389.92**
Foreign Institutional Investors	–	248.65	**248.65**	–	430.88	**430.88**
Sub-Accounts - Foreign Institutional Investors	–	168.08	**168.08**	–	267.83	**267.83**
Depositories	20.00	–	**20.00**	20.00	–	**20.00**
Depository Participants	4.62	94.85	**99.47**	5.37	163.05	**168.42**
Venture Capital Funds	–	11.00	**11.00**	–	49.00	**49.00**
Custodians of Securities	60.00	–	**60.00**	60.00	–	**60.00**
Approved Intermediaries under Securities Lending Schemes	16.39	–	**16.39**	12.55	5.20	**17.75**
Collective Investment Scheme	–	0.25	**0.25**	–	–	–
Credit Rating Agencies	–	–	**–**	–	–	–
Listing Fees Contribution from Stock Exchanges	170.46	–	**170.46**	166.04	–	**166.04**
Foreign Venture Capital Investors	–	15.26	**15.26**	–	29.56	**29.56**
Derivatives	190.78		**190.78**	523.66	–	**523.66**
Informal Guidance Scheme	–	9.95	**9.95**	–	15.50	**15.50**
Total	**7,267.28**	**1,520.79**	**8,788.07**	**15,474.34**	**1,512.27**	**16,986.61**

Note: 1. # Recurring fees: Fees which are received on annual/3-yearly/5-yearly basis. These include Renewal Fee/ Service Fee/ Annual Fee/ Listing Fees from exchanges.

2. ## Non-recurring fees: Fees which are received on one time basis. These include fees for Offer Documents Filed/ Registration/ Application/ Takeover/ Informal Guidance Scheme/ FII Registration and FII Sub-Accounts.

3. As all sums realized by way of penalties on or after October 29,2002 has been credited to the Consolidated Fund of India, the same has not been included in this Table.

4. Brokers and Sub-Brokers registration fee includes annual fees and turnover fees.

5. Brokers and Derivatives fees are of recurring nature and depend on the turnover of the Brokers and Members of Derivatives Segment.

sub-brokers. Other major sources of fees collected were from the FIIs including sub-accounts (Rs.6.99 crore) and derivatives segment (Rs. 5.24 crore). In terms of percentage, the highest increase in the fees was from the venture capital funds, (about 345 per cent). The recurring revenues rose by 112.9 per cent to Rs. 154.74 crore in 2004-05 as compared to Rs. 72.67 crore in the previous year.

3. SUPERVISION

Implementation of the regulations entails a multi-stage process of supervision, enforcement through initiation of adjudication and enquiry against violation of rules and regulations and prosecution. Market intermediaries at varied levels have distinctive features and responsibilities. Therefore, supervision of different intermediaries requires individual approach that can serve a useful purpose.

I. Promotion and Regulation of Self Regulatory Organisations

SEBI (Self Regulatory Organisations) Regulations were notified on February 19, 2004 with the objective to promote organisation of intermediaries representing a particular segment of the securities market as a self regulated entity/ organisation. Salient features of the regulations are:

- For any applicant to be recognised as SRO, it should be a company registered under Section 25 of Companies Act and have a minimum net worth of Rs. 1 crore;
- The company shall make an application to SEBI in the prescribed format and provide a copy of the governing norms of the SRO along with a copy of the memorandum and articles of association;
- The certificate of recognition as SRO shall be valid for a period of five years;
- With the objective to ensure independence of the governing board of SRO, the regulations stipulate that majority of directors shall be independent directors;
- The regulations entrust SEBI with the right to undertake inspection of the books of accounts, other records and documents of the Self Regulatory Organisation;
- The Self Regulatory Organisation shall furnish periodical returns relating to its affairs to SEBI; and
- In case of default, it is the obligation of the Board of Directors to take disciplinary action against a member.

For recognition of organisation of intermediaries as SROs, SEBI has held discussions with various bodies like Association of NSE Members of India (ANMI), Registrars Association of India (RAIN) and further response from these bodies is awaited.

II. Development of Stock Exchanges as Self Regulatory Organisations

Stock exchanges are recognised under Section 4 of the Securities Contracts (Regulations) Act, 1956. These exchanges were recognised/set up over a period of time to stimulate the growth of the capital market by channelising the savings of households and others. These exchanges are suitably empowered by Section 9 of SC(R) Act, 1956 to make bye-laws for the conduct of business, regulation and enforcement of contracts.

III. Inspection of Market Intermediaries

a. Inspection of Brokers/Sub-brokers

Details regarding inspection of brokers, sub-brokers and various actions taken during 2004-05 are given in the Table 3.13. The number of inspections conducted on sub-broking entities was higher at 140 during

Table 3.13: Inspection of Broking/Sub-broking Entities

Particulars	2003-04	2004-05
1	2	3
Regular inspections completed – Brokers	176	93
Regular inspections completed – Sub-Brokers	83	140
Inspections to verify financial aspects and level of brokerage – Brokers	202	—
Surprise/Limited Purpose Inspections – Brokers/Sub-brokers	29	57

2004-05 than that conducted on broking entities (93). It is significant to note that there was surge in the number of surprise/limited purpose inspections carried out on broking/ sub-broking entities, which rose by 96 per cent to 57 during 2004-05 over previous year.

b. Inspection of Other Intermediaries

Section 11(2) of SEBI Act, 1992 provides that SEBI shall register and regulate the working of intermediaries. In fulfillment of the above, SEBI has completed the inspection of books and records of 47 depository participants and five registrars to an issue. Records of six merchant bankers (MBs) and nine bankers to the issue (BTIs) were also examined for alleged irregularities in the public issue procedure and allotment.

IV. Inspection of Stock Exchanges

SEBI inspected the stock exchanges to review the market operations, organisational structure and administrative control of the exchange so as to ascertain whether:

i. the exchange provides a fair, equitable and growing market to investors;

ii. the exchange's organisation, systems and practices are in accordance with the Securities Contracts (Regulation) Act (SC(R) Act), 1956 and rules framed thereunder;

iii. the exchange has implemented the directions, guidelines and instructions issued by SEBI from time to time; and

iv. 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.

Equity segments of the following stock exchanges were inspected during 2004-05:

1) The Stock Exchange, Mumbai (BSE);
2) Bangalore Stock Exchange (BgSE);
3) Delhi Stock Exchange (DSE);
4) Saurashtra Kutch Stock Exchange (SKSE);
5) Vadodara Stock Exchange (VSE);
6) Ahmedabad Stock Exchange (ASE);
7) Inter-connected Stock Exchange (ISE);
8) Cochin Stock Exchange (CoSE) ;
9) Coimbatore Stock Exchange (CSX) ;
10) Ludhiana Stock Exchange (LSE) ;
11) Uttar Pradesh Stock Exchange (UPSE) ; and
12) Calcutta Stock Exchange (CSE).

Inspection of Futures and Options segment of NSE was carried out during 2004-05. As a part of the follow-up action to the inspection reports, periodic compliance reports were obtained from stock exchanges and meetings were held with the senior management of stock exchanges.

V. Inspection of Subsidiaries of Stock Exchanges

Many stock exchanges have floated subsidiaries which, in turn, function as brokers of the major stock exchanges such as NSE and BSE. SEBI inspected the books and records of subsidiaries to verify whether:

i. 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;

ii. The provisions of the SEBI Act, the Securities Contracts (Regulation) Act and the provisions made thereunder are being complied with by the subsidiary; and

iii. Provisions of the bye-laws, business rules etc., of the exchange and the subsidiary are being complied.

Equity segment of the following subsidiaries of stock exchanges were inspected during the financial year 2004-05:

1) ASE Capital Markets Ltd. (Subsidiary of ASE);

2) LSE Securities Ltd. (Subsidiary of LSE);

3) SKSE Securities Ltd. (Subsidiary of SKSE);

4) VSE Securities Ltd. (Subsidiary of VSE);

5) UPSE Securities Ltd. (Subsidiary of UPSE);

6) ISE Securities & Services Ltd. (Subsidiary of ISE); and

7) BgSE Financials Ltd. (Subsidiary of BgSE).

Futures and Options segment of all subsidiaries having membership in this segment were inspected during 2004-05. These were as follows:

1) BgSE Financials Ltd. (Subsidiary of BgSE);

2) HSE Securities Ltd. (Subsidiary of HSE);

3) ISE Securities & Services Ltd. (Subsidiary of ISE); and

4) LSE Securities Ltd.(Subsidiary of LSE).

VI. Illegal Trading Outside Stock Exchanges

SEBI, from time to time, receives information about alleged illegal trading in securities by unregistered entities outside the stock exchanges. Illegal trading is a cognisable offence under section 19 of Securities Contracts (Regulations) Act, 1956 within the meaning of Code of Criminal Procedures which does not fall within the regulatory jurisdiction of SEBI. Therefore, SEBI forwards such references received by SEBI as well as press articles in this regard to Chief Ministers of respective States requesting them to look into the matter and to take action against those found to be involved in the illegal trading of securities. SEBI has also written letters to Chief Ministers of States requesting them to put the police on a continuous alert and to take suitable action against any person/entity violating the provisions of SC(R)A.

There were some complaints regarding illegal trading outside stock exchanges by registered entities also. On receipt of such complaints, concerned stock exchanges have been asked to verify the complaints in order to ascertain the veracity of the allegations, and to take appropriate action.

During the year, SEBI, in co-ordination with the respective stock exchanges carried out eight surprise inspections of the intermediaries and appropriate enforcement action is being taken against the violators.

VII. Inspection of Depositories

A special inspection of National Securities Depositories Limited was carried out during 2004-05.

VIII. Systems Audit

Trading, settlement and risk management systems of stock exchanges are almost completely automated. For this reason, it becomes very important that the systems do not have deficiencies which can impair their efficacy. It also becomes important to ensure that the stock exchanges have suitable Disaster Recovery Sites and Business Continuity Plans and that the systems are adequately secure. Active stock exchanges have been asked to carry out systems audit through external agencies competent to carry out systems audit exercise. SEBI does follow-up for rectification of deficiencies pointed out in the systems audit reports. In 2004-05 too, such follow-up was done through off-site analysis of compliance reports from stock exchanges and meetings with the senior management of stock exchanges.

4. SURVEILLANCE

I. Market Surveillance Mechanism

In order to ensure investor protection and to safeguard the integrity of the markets, it is imperative to have in place an effective market surveillance mechanism. The surveillance function is an extremely vital link in the chain of activities performed by the regulatory agency for fulfilling its avowed mission of protection of investor interest and development and regulation of capital markets. The surveillance system adopted by SEBI is two pronged *viz*., Surveillance Cell in the stock exchange and the Integrated Surveillance Department in SEBI.

The stock exchanges are the primary regulators for detection of market manipulation, price rigging and other regulatory breaches regarding capital market functioning. This is accomplished through Surveillance Cell in the stock exchanges. SEBI keeps constant vigil on the activities of the stock exchanges to ensure effectiveness of surveillance systems. The stock exchanges are charged with the primary responsibility of taking timely and effective surveillance measures in the interest of investors and market integrity. Proactive steps are to be taken by the exchanges themselves in the interest of investors and market integrity as they are in a position to obtain real time alerts and thus know about any abnormalities present in the market. Unusual deviations are informed to SEBI. Based on the feedback from the exchanges, the matter is thereafter taken up for a preliminary enquiry and subsequently, depending on the findings gathered from the exchanges, depositories and concerned entities, the matter is taken up for full-fledged investigation, if necessary.

SEBI on its own also initiates surveillance cases based on references received from other regulatory agencies, other stakeholders (investors, corporates, shareholders) and media reports. Being proactive is one of the necessary features for success in taking surveillance measures. Keeping the same in mind, the Integrated Surveillance Department of SEBI keeps tab on the news appearing in print and electronic media. News and rumours appearing in the media are discussed in the weekly surveillance meetings with the stock exchanges and necessary actions are initiated. Apart from the above, the department generates reports at the end of each day on the details of major market players, scrips, clients and brokers during the day in the Cash and F&O segment of the stock exchanges. This ensures timely identification of the market players responsible for unusual developments on a daily basis. The department monitors the market movements, analyses the trading pattern in scrips and indices and initiates appropriate action, if necessary, in conjunction with stock exchanges and the depositories. Thus, SEBI supplements the primary regulator i.e., the stock exchanges in ensuring safe markets for the investors.

A major initiative taken by SEBI that has gone a long way in taking pre-emptive actions is the Weekly Surveillance Meetings. These meetings have helped in better coordination between the stock exchanges and ensured uniformity in the surveillance measures taken by the stock exchanges.

SEBI has established standards for effective surveillance in Indian securities markets in line with global standards thereby setting global benchmark for effective surveillance in securities market. SEBI also ensures a rigorous application of the standards and effective enforcement against offences to ensure the safety and integrity of the market. SEBI also established co-operation among overseas regulators of securities and futures markets to strengthen surveillance on cross border transactions. As a result, the securities market in India is considered as one of the most efficient and sound markets in the world.

II. Integrated Market Surveillance System

In order to enhance the efficacy of the surveillance function, SEBI has decided to put in place a world-class comprehensive Integrated Market Surveillance System (IMSS) across stock exchanges and across market segments (cash and derivative markets).

The proposed IMSS solution seeks to achieve the following objectives:

- An online data repository with the capacity to capture market transaction data and reference data from a variety of sources like stock exchanges, clearing corporations/houses, depositories etc., in different formats for the securities and derivatives markets;
- A research and regulatory analysis platform to check instances of potential market abuse; and
- Sophisticated alert engines, that can work with various data formats (database, numeric and text data) to automatically detect patterns of abuse and then issue an alert. These include insider trading engine, fraud alert engine and market surveillance engine.

SEBI initiated the process for implementing the proposed IMSS system by appointing a high level technical committee comprising eminent technical experts to study the technical matrix of SEBI's requirements and frame a set of parameters which formed the basis for structuring of tenders, evaluation of bids, recommending terms of contract etc., for the IMSS. After following the process of global competitive bidding, a vendor has been identified to implement the IMSS solution in a time bound manner (Box 3.1).

III. Interim Surveillance Arrangement

While the Integrated Market Surveillance System (IMSS) is in the process of being fully operationalised, an interim surveillance mechanism has been put in place since June 2003. A regular system of weekly surveillance meetings with major stock exchanges viz., BSE, NSE; and depositories viz., NSDL, CDSL is now in place to provide a confidential platform for exchange of views on areas of emerging concern-specific abnormalities and to consider pre-emptive actions and discuss general surveillance issues. In the weekly meetings, inputs from SEBI, exchanges and depositories are pooled for better co-ordination, sharing of information and pro-active, co-ordinated actions. The meeting also provides a highly specialised and interactive forum to discuss prevailing surveillance issues and emerging concerns, if any, so as to expeditiously initiate appropriate surveillance action. During 2004-05, 57 such surveillance meetings were held. In addition, such meetings are also held as and when felt necessary depending on market exigencies.

Box 3.1: Integrated Market Surveillance System

Effective surveillance is the *sine qua non* for a well functioning capital market. As an integral part in the regulatory process, effective surveillance can achieve investor protection, market integrity and capital market development. According to IOSCO, "the goal of surveillance is to spot adverse situations in the markets and to pursue appropriate preventive actions to avoid disruption to the markets."

In India, the stock exchanges hitherto have been entrusted with the primary responsibility of undertaking market surveillance. Given the size, complexities and level of technical sophistication of the markets, the tasks of information gathering, collation and analysis of data/information are divided among the exchanges, depositories and SEBI. Information relating to price and volume movements in the market, broker positions, risk management, settlement process and compliance pertaining to listing agreement are monitored by the exchanges on a real time basis as part of their self regulatory function. However, regulatory oversight, exercised by SEBI, extends over the stock exchanges through reporting and inspections. In exceptional circumstances, SEBI initiates special investigations on the basis of reports received from the stock exchanges or specific complaints received from stakeholders as regards market manipulation and insider trading.

In order to prevent market irregularities, it was felt that the existing surveillance system needs to be revamped to protect the interest of investors more effectively. In this connection, SEBI commissioned a study under USAID assistance as part of FIRE II project to provide a suitable design structure for an integrated surveillance model.

Subsequently, a Technical Committee was set up to study the technical matrix of SEBI's requirements and frame a set of parameters which would form the basis for subsequent structuring of tenders, evaluation of bids, recommending terms of contract etc., to put in place an integrated surveillance system. On May 17, 2005, SEBI signed an agreement with a consortium of HCL Technologies Limited and Securities Markets Automated Research Training and Surveillance (SMARTS) PTY. Ltd., Australia for the implementation of a comprehensive integrated surveillance system.

SEBI is now on the verge of providing final touches to Integrated Market Surveillance System (IMSS) that would help identify unusual market behaviour on a real-time basis. The system envisages integration of data available from stock exchanges (cash and derivatives segments), clearing corporations and depositories into a single integrated market surveillance system. The IMSS is expected to generate alerts that will help SEBI identify and detect serious market violations such as market manipulations, insider trading and other types of frauds that undermine market integrity. The proposed IMSS solution is expected to be operational by March 2006.The system would be implemented across exchanges and segments and would integrate the surveillance systems of BSE, NSE, CDSL, NSDL and other stock exchanges with that of market regulator in phases. The new surveillance system would focus on real time reports from exchanges pertaining to abnormalities and suspicious transactions in terms of price, volume, big brokers, scrips and intermediaries who constitute about 80-85 per cent of the trading volumes.

IV. Inter-Regulatory Alert System

In view of the growing linkages between the securities market and the banking system, it was felt desirable to set up an inter-regulatory alert system between SEBI and RBI. Towards this end, a SEBI-RBI Group on Integrated System of Alerts has been set up to share information and to recommend suitable measures for co-ordinated action. In accordance with the recommendations made by the Group, appropriate alerts and data have been identified. A system making use of the same has been put in place since February 2004 and the system is fully functional.

V. Significant Market Developments during 2004-05

a) Sharp Fall in Stock Indices on May 14 and May 17, 2005

The BSE Sensex fell by 330 points to 5069.87 on May 14, 2004 from 5399.47 as on May 13, 2004. It recorded its highest intraday variation of 842 points and closed at 4505.16 on May 17, 2004, a decline of 564.71 points over the previous close. Thus, the total fall in the two day period May 14, 2004 to May 17, 2004 was around 16.5 per cent. The previous highest fall was 570.42 points on April 28, 1992.

The settlement and payment went through without any hitch and there were no defaults. In view of the efficiency of the risk management system, real time monitoring of the broker positions, provision for automatic disablement of broker terminals and market-wide circuit breaker, the market withstood a fall of this magnitude without any disruption or settlement failure. The broker terminals, which were shut off, got reactivated after the brokers brought in their funds to meet margin shortfalls. As a result, the exchanges did not have to draw upon the settlement guarantee fund at all.

Special surveillance meetings were held in the evening of May 14, 2004, the evening of May 17, 2004 and the morning of May 18, 2004. A thorough review of the adequacy of the risk management was made and no settlement / payment crises were anticipated. A re-assuring statement was also released by SEBI about the robust risk management measures in place and assuring the investing public of SEBI's constant watch on the market for taking such measures as may be warranted by the emerging situation.

In view of the sharp fall in the indices, as part of its continual market surveillance action, SEBI took up an inquiry into the matter to examine the role and involvement of the major market players such as FIIs, brokers, clients etc., from the point of view of their trading in the cash and the futures segments. Pursuant to findings of investigations, appropriate proceedings have been initiated in terms of the SEBI Act and SEBI Regulations. Show cause notices have been issued so far to 12 entities. One entity has been penalised.

b) Surveillance Action in Respect of Shares of Global Trust Bank (GTB)

Pursuant to the announcement of moratorium on GTB, as a part of the surveillance measure, it was decided on July 26, 2004 that exchanges should put the scrip of GTB in trade-for-trade segment and remove the circuit filter from the scrip so as to minimise the scope for price manipulation. Press release was issued by the exchanges regarding the terms of the proposed merger. Exchanges also issued warnings to members and investors to exercise due diligence and caution while trading in the scrip of GTB. Trading on GTB was suspended from August 27, 2004 on account of the scheme of amalgamation with OBC.

c) Market Movement on January 5, 2005

On January 5, 2005, the Sensex fell by 196.84 points representing a fall of 2.9 per cent with an intra-day variation of 295.24 points. Similarly, Nifty fell by 71.55 points representing a fall of 3.4 per cent with an intra-day fluctuation of 114.95 points. In view of the major fall in the indices, accompanied by huge intra-day volatility and a steep increase in trading turnover, SEBI took up the trading on January 5, 2005 for examination. The examination did not reveal any *prima facie* market manipulation.

VI. Surveillance Action

Several preventive and proactive measures were taken by SEBI during the year for enhancing market safety and integrity. The surveillance measures taken during the year include shifting of scrips to trade-for-trade segment, reduction of circuit filter, imposition of additional margins etc. Further, the criteria for initiating such surveillance measures were also reviewed from time to time based on the prevailing market conditions. The year had witnessed spurt in mid-cap & low cap stocks and it was further observed that some of the defunct companies have become active. To arrest manipulative / speculative price rise in these scrips, various surveillance measures were taken as and when considered necessary. The significant measures taken during the year were as under:

a) SEBI has mandated the stock exchanges to carry out daily analysis (end of day) of market activities. Client-wise analysis is being undertaken at the end of the day itself of market participants who have traded in the cash and F&O segments. This will facilitate identification of major market players on a daily basis.

b) The stock exchanges have also been advised to undertake a patch (time slot) analysis when volatility of more than 1 per cent in the Sensex/ Nifty is noticed by them in any time patch during the trading hours and incorporate findings of the same in the daily report. This will facilitate identification of major market players, scrips, clients & brokers in time slots of increased volatility.

c) Spurt in mid-cap and low priced stocks during the year was discussed in the weekly surveillance meetings. As a part of the surveillance action and pursuant to the decision taken in the weekly surveillance meetings, criteria for shifting the scrips to trade-for-trade segment were revised in 2004-05 and accordingly certain scrips falling under the prescribed criteria were thereafter shifted to trade for trade segment.

d) The issue of spurt in speculative activity in small cap stocks reported by various news articles was examined. Exchanges have been advised to put in place a system to look into the matter. News items are now being analysed in respect of scrips recommended and exchanges are asked to provide comments on the same in the weekly surveillance meetings.

e) SEBI has now advised the stock exchanges to prepare a suspect list of entities / brokers/ clients. It was felt that the earlier surveillance measures used to focus on individual scrips based on feedback from exchanges. This led to a situation where there was a flood of information given by the exchanges to SEBI which, however, did not capture or provide any meaningful information regarding entities who had undertaken manipulations. The exchanges have, therefore, been advised to prepare a suspect list of entities / brokers / clients according to past trading pattern and other feedback mechanism available with them. This would enable prompt identification of such entities and facilitate quicker understanding of their activities across the market.

f) To address concerns over the stock specific advice / recommendations made on TV channels / newspapers, a system has been put in place to deal with the issue from surveillance point of view. Television media has been advised that the persons who are desirous of offering investment advices should make specific disclosures regarding their interest / shareholding in the scrips. These disclosures should be aired immediately prior to the investment advices offered by such persons. Disclaimer clauses are also required to be aired immediately prior to the investment advices offered by such persons to the effect that the investment advices reflect the personal views of the person and no compensation has been received directly or indirectly, from interested parties in connection with recommendations or views expressed by them.

g) It was observed during the year that various companies come up with announcements like issue of bonus shares, buyback of shares etc. which is not fulfilled by the company later. It was decided that BSE and NSE shall identify such companies which have made such announcements without fulfilling it and shall take appropriate action against these companies and also refer the same to SEBI for further investigation.

h) It was observed during the year that some of the delisted companies had become active. In this regard BSE informed that many of the delisted companies have started complying with the listing agreement. However, these companies have been kept suspended. Trading has been allowed in few companies but has been kept in trade-for-trade segment. It was decided that exchanges would monitor these companies closely.

i) To address concerns with regard to rumours circulating in the market which results in unusual price movement, exchanges were advised to put in place a suitable mechanism to deal with the issue. Accordingly, the exchanges now verify factual position from the company and disseminate the same to the market at the earliest.

j) Unusual price movement observed in several loss making companies and penny stocks were scrutinised by SEBI and appropriate action was initiated. This was also complemented at times by special surveillance measures by the stock exchanges to arrest manipulative / speculative price rise.

k) It was also observed during the year that some companies were issuing unsolicitated investor inducing advertisements. Such advertisements were generally made in respect of companies whose shares were illiquid and these advertisements portrayed rosy pictures of the present and the future activities of the companies and appeared to have been issued with a view to attract investor interest. In such cases, the company / its promoters were immediately called for discussions to ascertain the factual position and suitable actions were initiated wherever felt necessary.

l) During 2004-05, consequent to inspection of surveillance cells of the stock exchanges, SEBI recommended further improvements in their functioning. These included criteria for selection of members for investigations, examination of the history of unusual trades and inclusion of history of alerts of the short-listed scrips while scrutinising for surveillance action. Exchanges were also advised to reduce the manual intervention at the time of scrutiny of online non real time alert reports and to take deterrent action to prevent regulatory breaches.

m) During the year, Integrated Surveillance Department of SEBI made 125 references to stock exchanges for examination. NSE completed investigations in 41 cases and BSE completed investigation in 26 cases during the year.

A gist of surveillance actions taken during the year from April 1, 2004 to March 31, 2005 is given in Table 3.14.

Table 3.14: Surveillance Actions during 2004-05

Action	NSE	BSE
1	2	3
Scrips shifted to trade-for-trade Segment	209	842
No. of scrips in which price bands were changed (2 per cent, 5 per cent, 10 per cent)	650	1,922
Preliminary Investigations taken up	164	783
Rumours verified from the Companies	301	538

VII. Other Initiatives

a. Constitution of Special Surveillance Investigation Team at the Head Office and Regional Offices for Special Inspection

After the securities scam of 2001, the JPC recommended that an integrated approach to surveillance be undertaken so as to minimise the incidents of securities fraud and present effective deterrents to potential violations.

As part of surveillance measures, SEBI advised the exchanges to prepare a suspect list of entities/brokers/clients that appear to be having a noticeable trading pattern across scrips. Based on the findings of the exchanges, brokers were short-listed for further scrutiny. These brokers were observed to have traded in more than 50 scrips mostly belonging to B1/B2/Z group. In such cases, entity based investigation would be more effective than scrip based investigation.

Therefore, Special Surveillance Inspection Teams (SSIT) consisting of both surveillance and inspection officials have been constituted for this purpose. The teams have commenced conducting surprise and special inspections at the premises of suspect entities.

b. Meeting of Asia Pacific Group (APG) on Money Laundering

The Financial Action Task Force (FATF) on Money Laundering was established by the G-7 Summit in Paris in 1989. It has made 40 recommendations to its Member National Governments to implement effective anti-money-laundering programmes. The recommendations broadly cover 3 aspects – role of the national legal system, role of the financial system and international co-operation. India is a member of the Asia Pacific Group on money laundering. The APG is responsible for implementation and assessment of the international standards against money laundering and terrorist financing. In the month of March 2005, a Mutual Evaluation Team from the Secretariat of the APG on Money Laundering conducted an evaluation of the supervisory and oversight systems and the capital markets in India from the point of view of measures taken on implementation of the anti-money laundering / combating the financing of terrorism recommendations made by the Financial Action Task Force.

In accordance with ongoing interactions with other agencies - domestic and international - the surveillance department organised the meeting of the APG in March 2005. To facilitate effective surveillance, several issues relating to effective documentation of client information and prevailing practices relating to record keeping, increased due diligence by FIs, and identification and reporting of suspicious transactions were discussed in the meeting. This would also enable expeditious enforcement of regulatory action.

c. Revamping the Functioning of the Surveillance Department

The functioning of the department has been revamped. Emphasis has been laid on the quality of investigation with demonstrative effect on the market which will act as a deterrent to potential offenders. It has been decided that a limited number of cases should be taken up for investigation and such cases should be focused and deterrent punishment should be handed over to the offenders.

d. Increased Co-ordination with other Regulatory Agencies

It has also been decided that there should be ongoing co-ordination with other investigative and regulatory agencies with a view to developing a multi-disciplinary approach and the use of multi-domain knowledge for investigation.

e. Commencement of Special Studies

In order to assist in effective surveillance policy making and to gauge the prevailing market situation, the department has commenced special studies in the areas of FII flows, impact analysis of international factors on market indicators/stocks and trends in the derivative segments of the capital market.

5. INVESTIGATION

I. Objectives

Investigations are undertaken with a view to examine alleged or suspected violations as well as to gather evidence and identify persons/entities behind irregularities and violations such as:

- price manipulation;
- creation of artificial market;
- insider trading; and
- public issue related irregularities, takeover violations and other misconducts, etc.

Investigations involve the identification of persons involved in the violations, collection of elaborate data regarding primary issues, transactions in the secondary markets, trading details, followed by verification and analysis of the same. Pursuant to completion of investigation, various actions like administrative directions and penal actions under the SEBI Act and various SEBI Rules and Regulations are initiated. These actions include monetary penalties, warning, suspension of activities, cancellation of registration, prohibition of dealing in securities and ban on access to the capital market etc.

SEBI has undertaken over 900 investigation cases since 1992-93. The experience gained during investigations has contributed to evolution of policies and procedures in the regulatory and enforcement environment, some of which are as follows:

- Amendments to the SEBI Act to strengthen various provisions of the Act which have been carried out in the SEBI Amendment Act, 2002;
- Insider Trading Regulations were amended in February 2002;
- Fraudulent and Unfair Trade Practices Regulations were thoroughly revised in 2003-04 and new set of regulations were notified;
- OCBs, whose role came to light in the investigations in 2001, have been banned by RBI from the markets;
- The disclosure of PNs by FIIs was made mandatory;
- Unique client codes have been made mandatory;
- Suggestions are given to other operational departments of SEBI from time to time for amending regulations/guidelines; and
- Inputs to other regulatory agencies like RBI, MCA, CBI, ED and Income Tax Department etc.

II. Stages of Investigation

a. Preliminary investigation

Based on the facts contained in a reference and feedback obtained from exchanges/ other sources of relevant information, preliminary investigation is made to check whether the matter warrants a formal investigation. At the preliminary investigation stage, information is sought and collected from all available sources including exchanges, depositories, secondary databases, company and brokers, if required. As this is only a preliminary investigation, production of documents and calling of information cannot be enforced. Based on available information, an assessment is made as to whether a formal investigation is needed to establish charges of violations.

b. Formal Investigations

Based on the findings of the preliminary investigation, a case is taken up for formal investigation. Once a case is taken up for formal investigation, the SEBI Act provides for:

- calling for information;
- compelling production of documents; and
- examination of witnesses etc.

c. Post Investigative Proceedings

After completion of investigation, action is taken by Enforcement Division as per the recommendations of the approving authority. The action may include:

- issuing warning letters;
- initiating enquiry proceedings against registered intermediaries;
- initiating adjudication proceedings for levy of penalties;
- issuing directions under SEBI Act; and
- launching prosecution.

III. Trends in Investigation Cases

Over the years, SEBI has undertaken 908 investigation cases of which 755 cases have been completed. During 2004-05, 130 new cases were taken up for investigation and 179 cases were completed. (Table 3.15).

a. Investigation Cases Taken Up

During 2004-05, 130 new cases were taken up for investigation as against 121 in the previous year (Table 3.16, Chart 3.5). Of total cases taken up, 84.6 per cent pertained to market manipulation and price rigging as against 79.3 per cent of such cases in the previous year. Other cases pertain to insider trading, takeover violations, irregularities in public issues, and miscellaneous cases. Many investigation cases were taken up on the basis of multiple allegations of violations and hence, strict classification under specific category becomes difficult. Such cases have been classified on the basis of main charge/ violations.

Table 3.15: Investigations by SEBI

Particulars	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Cases Taken up for Investigation	2	3	2	60	122	53	55	56	68	111	125	121	130	**908**
Cases Completed	2	3	2	18	55	46	60	57	46	29	106	152	179	**755**

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

Chart 3.4: Investigation Cases Taken Up and Completed

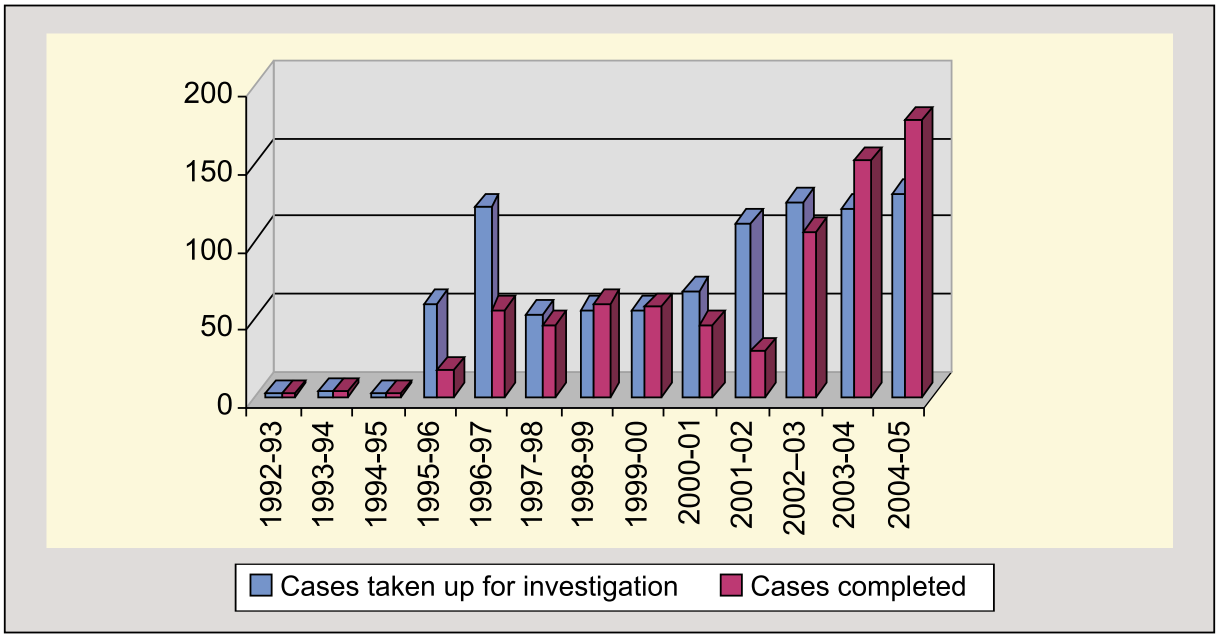
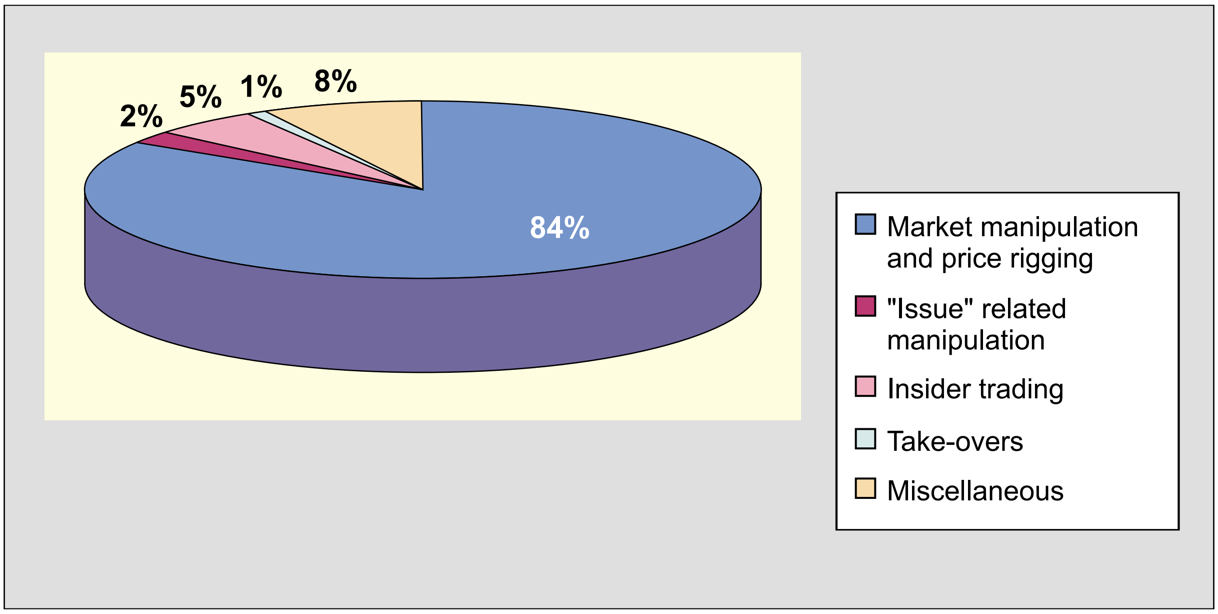


Table 3.16: Nature of Investigation Cases Taken Up

Particulars	Number of Cases 2003-04	Number of Cases 2004-05*
1	2	3
Market Manipulation and Price Rigging	96	110
“Issue” Related Manipulation	2	2
Insider Trading	14	7
Take-overs	2	1
Miscellaneous	7	10
Total	**121**	**130**

* Data for the current year are provisional.

Chart 3.5: Nature of Investigation Cases Taken Up (2004-05)



b. Investigation Cases Completed

During 2004-05, number of cases completed increased to 179 as compared with 152 in 2003-04 (Table 3.17). Of the total cases completed during 2004-05, 82.6 per cent of cases pertained to market manipulation and price rigging as against 80.3 per cent in the previous year. Other cases which were completed pertain to insider trading, public issue related irregularities, takeover violations, misleading advertisements, unfair practices, etc. Details of the nature of investigation cases completed are given in Table 3.17 and Chart 3.6.

IV. Regulatory Actions Taken

Following investigation into various malpractices, regulatory actions were taken against 232 entities in 2004-05 as compared with 174 in the previous year. This indicates increased level of enforcement by SEBI in 2004-05. Under SEBI Act, 1992, prohibitory

Table 3.17: Nature of Investigation Cases Completed

Particulars	Number of Cases 2003-04	Number of Cases 2004-05
1	2	3
Market Manipulation and Price Rigging	122	148
Issues Related Manipulation	3	2
Insider Trading	9	10
Takeovers	3	2
Miscellaneous (Unfair practices, misleading Section 11 of advertisements, etc.)	15	17
Total	**152**	**179**

Chart 3.6: Nature of Investigation Cases Completed (2004-05)

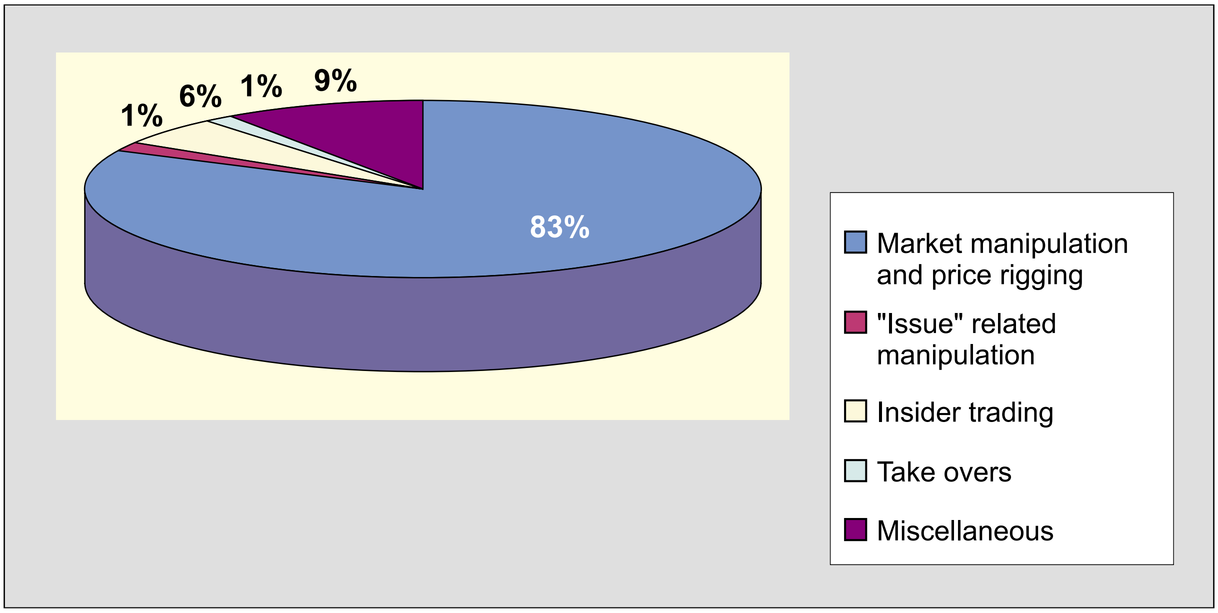
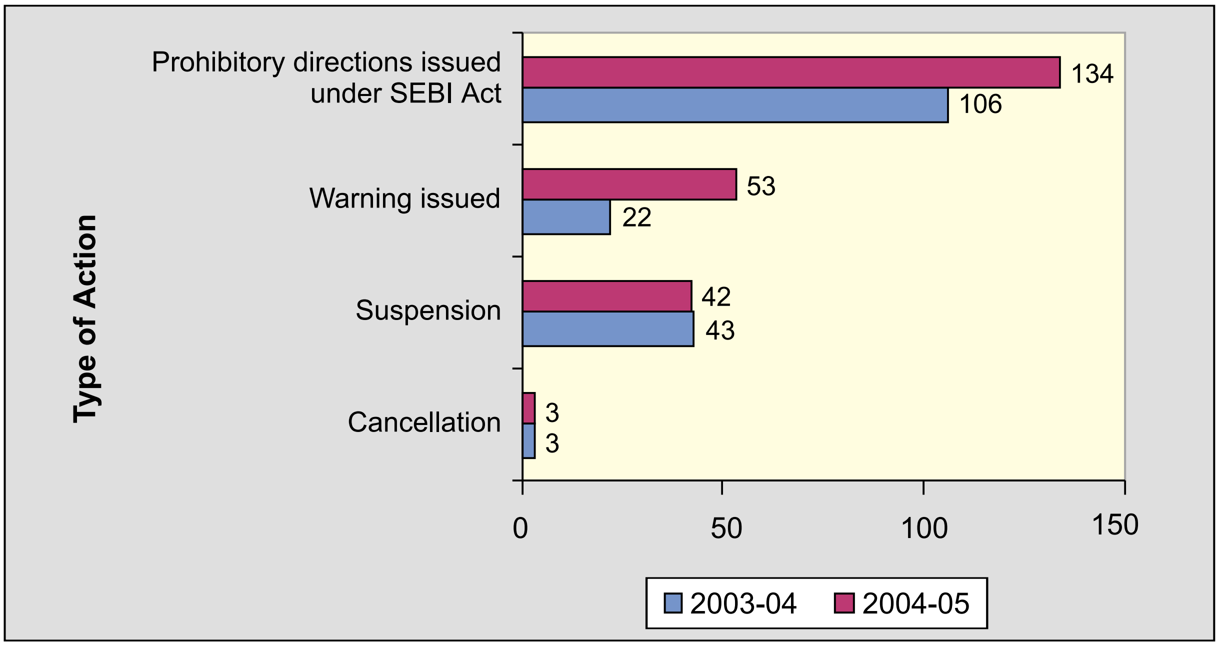


Table 3.18: Type of Regulatory Actions Taken

Particulars	No. of Entities 2003-04	No. of Entities 2004-05
1	2	3
Cancellation	3	3
Suspension	43	42
Warning Issued	22	53
Prohibitory Directions Issued under Section 11 of SEBI Act *	106	134
Total	**174**	**232**

* Against intermediaries and non-intermediaries.

Chart 3.7: Type of Regulatory Actions Taken



orders were issued against 134 entities in 2004-05 as compared with 106 in 2003-04. Similarly, warnings were issued to 53 entities in 2004-05 as against 22 entities in 2003-04. In addition, a total of 42 intermediaries were suspended for varying periods during the year as against 43 suspensions in the previous year. Table 3.18 and Chart 3.7 present details of regulatory action initiated against various entities on the basis of investigations.

In 2004-05, on the basis of investigations, 712 show cause notices were issued to non-intermediaries which were found to have committed various violations, as against 438 in the previous year showing an increase of 63 per cent.

6. ENFORCEMENT OF REGULATIONS

Enforcement makes a regulatory system effective. Active follow up of cases of misconduct sends out a tough signal to the market participants. Disciplinary actions in the form of justified penalties are indispensable for ensuring market integrity.

I. Enquiry and Adjudication Details

During 2004-05, a total of 1,187 orders have been passed/reports submitted, of which 529 were enquiries and 658 were of adjudication in nature. A total of 613 hearings were conducted of which, 338 pertained to enquiries and 275 belonged to adjudication proceedings. There were 894 show cause notices issued of which, 364 related to enquiries and 530 pertained to adjudication proceedings.

The figures provided in Table 3.19 include action pursuant to investigation, inspection and administrative sanctions. Details of action pursuant to investigation have already been discussed earlier. Other actions are discussed below.

II. Market Intermediaries

a) Table 3.20 gives figures relating to action against brokers and sub-brokers. Actions

Table 3.19: Enquiry and Adjudication during 2004-05

Particulars	Enquiry	Adjudication	Total
1	2	3	4
Orders Passed / Reports Submitted	529	658	1,187
Hearings Conducted	338	275	613
Show Cause Notices Issued	364	530	894

Table 3.20: Enquiry and Adjudication against Brokers/Sub-brokers

Particular	2003-04	2004-05
1	2	3
Enquiries – Brokers	146	21
Summary Proceedings Initiated – Brokers	303	106
Enquiries ordered – Sub-Brokers	46	9
Adjudication	122	29
Warned pursuant to Chairman/Members' Orders	1	4
Administrative Warnings/Advice Letters Issued	108	26
Total No. of Warnings Issued	**109**	**30**
Suspended	30	24
Registration Cancelled	70	288
Censure	—	1
No Action	27	3

in 2003-04 are higher in number mainly due to backlog clearance. The number of summary proceedings initiated was also higher in 2003-04 as SEBI had called for information, since 1992 onwards, relating to brokers declared defaulter/expelled from stock exchanges. SEBI initiated action against such members.

b) Enquiry proceedings were initiated against 5 DPs and two merchant bankers whereas three cases of enquiry against merchant banking entities have been completed. Following enquiry, adjudication proceedings were initiated. Three cases relating to depository participants and two pertaining to registrars were initiated whereas two cases related to registrars to the issue have been completed by adjudication (Table 3.21).

c) Pursuant to inspection, based on the investors' complaints regarding delay in dematerialisation of shares and also on the basis of reports submitted by both the depositories, orders were passed against 12 companies under Section 19 of Depositories Act, 1996 directing the companies to complete all the pending requests for dematerialisation of shares from shareholders within one month of date of receipt of the order failing which they shall stand automatically restrained from accessing the securities market and prohibited from buying, selling or dealing in securities for a period of 2 years.

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

During 2004-05, the Governing Boards of two stock exchanges were restored. The Governing Board of Pune Stock Exchange Ltd. was restored on April 4, 2004, while the Governing Board of The Stock Exchange, Ahmedabad was restored on December 24, 2004. The application for renewal of recognition of Mangalore Stock Exchange was refused vide order dated August 31, 2004 under section 4(4) of Securities Contracts (Regulation) Act, 1956.

The supersession of the Governing Boards of three stock exchanges was further extended during 2004-05 (Table 3.22).

Table 3.21: Enquiry and Adjudication Proceedings against Other Intermediaries

		Depository Participant	Registrar to the Issue	Merchant Banker	Under Writer	Total
1	2	3	4	5	6	7
Enquiry	Initiated	5	—	2	1	8
proceedings	Completed	4	—	3	1	8
Adjudication	Initiated	3	2	—	—	5
proceedings	Completed	—	2	—	—	2
Chairman's order passed	—	2	2	—	—	4

Table 3.22: Supersession of Governing Boards of Stock Exchanges during 2004-05

S. No.	Name of Exchange	Notification Date	Period
1	2	3	4
1.	Bhubaneshwar Stock Exchange	June 29, 2004	Supersession extended with effect from July 3, 2004 for a period of six months
		December 30, 2004	Further extended with effect from January 3, 2005 for a period of six months
2.	Uttar Pradesh Stock Exchange Association Limited	July 5, 2004.	Supersession extended with effect from July 12, 2004 for a period of six months.
		December 30, 2004.	Further extended with effect from January 12, 2005 for a period of six months.
3.	Calcutta Stock Exchange Association Limited	November 30, 2004	Supersession extended with effect from December 4, 2004 to June 30, 2005.

Table 3.23: Adjudication and Imposition of Penalty on Mutual Funds

	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	TOTAL
1	2	3	4	5	6	7	8	9	10	11	12	13	14
(A) Inspected													
(B) Adjudication Ordered													
(C) Adjudication Completed		1											1
(D) Debarred													
(E) Suspension													
(F) Warning/Deficiency Letter Issued	4	3	17	8	8	6	1	—	3	2	1	—	53
(G) Enquiry Ordered													
(H) Show Cause Notice Issued													
(I) Advertisements Withdrawn													
(J) Payment of Interest													
(K) Compensation to unit holders					1								
(L) Compensation to Scheme					2								
(M) Exit Load to Investors													
(N) Other Actions													

IV. Regulatory Actions Against Mutual Funds

a. Warning and Deficiency Letters

Considering the magnitude and seriousness, 53 warning/deficiency letters were issued to 21 mutual funds (Table 3.23) on the basis of monitoring through various periodical reports and deficiencies pointed out in the inspection reports. Some of the main reasons for which warning and deficiency letters were issued to mutual funds were:

i. Violation of advertisement code/ guidelines;

ii. Delay in submission of reports;

iii. Inadvertent short-selling;

iv. Bouncing of SGL deals;

v. Systemic deficiencies for delays in remitting the repurchase/redemption proceeds (apart from their paying interest to unit holders);

vi. Marginally exceeding the investment limits; and

vii. Non-compliance regarding uploading NAVs on AMFI website.

b. Adjudication Completed and Monetary Penalty Imposed

In the current year, there was adjudication against one mutual fund and monetary penalty was imposed for violation of SEBI Regulations:

- **Alliance Capital Mutual Fund:** A penalty of Rs.5.75 lakh each was imposed on Alliance Capital Mutual Fund and Alliance Capital Asset Management (India) Pvt. Ltd. for violation of SEBI (Mutual Fund) Regulations, 1996, in the matter relating to allotment of units to two investors at lower NAV than applicable.

c. Payment of Interest

SEBI has made it mandatory that the mutual funds must pay interest @ 15 per cent for the delays in despatch of repurchase/ redemption proceeds to the unitholders. The mutual funds are required to report these cases of delays to SEBI on a quarterly basis. During the year 2004-05, 19 mutual funds paid Rs. 22.04 lakh to 12,058 investors for delay in dispatch of redemption/repurchase proceeds as against a total amount of Rs. 95.22 lakh paid to 1,18,054 investors in the year 2003-04 (Table 3.24). Due to action by SEBI making it mandatory to pay interest for the delays, such cases have declined considerably from the previous year.

d. Compensation to Scheme in 2004-05

- **Templeton Mutual Fund:** In the year 2002-03, the AMC charged management fees on AMC investment in one of the schemes. This matter got reported in the inspection and on discussing the issue with the AMC, an amount of Rs.4.16 lakh being management fees on AMC investment was compensated to the scheme.
- **Templeton Mutual Fund:** An error in computation of NAV of an ex-Pioneer ITI scheme was reported in the inspection for the period 2000-02. Accordingly, as directed by SEBI, the fund compensated the scheme to the extent of Rs.8.16 lakh being the error in computation of NAV.

e. Compensation to the Unitholders in 2004-05

- **Templeton Mutual Fund:** An error in computation of NAV of an ex-Pioneer ITI scheme was reported in the inspection for the period 2000-02. Accordingly, as directed by SEBI, the fund compensated 21,382 unitholders of the scheme, to the extent of Rs.3.24 crore (including interest for the delay).

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

During the year, 30 cases were referred for adjudication under Section 15 of SEBI Act, 1992 for alleged violation of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and a sum of Rs. 69,17,000 was received towards monetary penalty.

VI. Regulatory Actions Against CIS Entities

SEBI has information regarding 664 CIS entities. Out of this, 75 entities wound up their schemes and repaid money to the investors as certified by their statutory auditors. In addition, court cases are pending in case of 19 entities. SEBI has taken the following actions against the remaining 570 CIS entities for their failure to wind up their schemes and make repayments to investors:

- Prosecution under Section 24 of SEBI Act, 1992 has been filed by SEBI against the entities and their directors;

Table 3.24: Interest Paid by Mutual Funds to the Investors for Delayed Redemptions / Repurchases

For The Quarter Ended	Jun-04		Sep-04		Dec-04		Mar-05		Fund-wise Total	
	Rs.	Investors	Rs.	Investors	Rs.	Investors	Rs.	Investors	Rs.	Investors
1	2	3	4	5	6	7	8	9	10	11
ABN Amro MF	0	0	0	0	0	0	0	0	**0**	**0**
Alliance Capital MF	35,155	1	0	0	0	0	0	0	**35,155**	**1**
Benchmark MF	0	0	0	0	0	0	0	0	**0**	**0**
Birla MF	8,449	11	1,377	5	831	5	2,892	5	**13,548**	**26**
BOB MF	0	0	0	0	0	0	0	0	**0**	**0**
Canbank MF	0	0	0	0	0	0	0	0	**0**	**0**
Chola MF	53	1	144	1	3,011	2	629	3	**3,837**	**7**
DSP ML	0	0	0	0	0	0	0	0	**0**	**0**
Escorts MF	0	0	0	0	0	0	0	0	**0**	**0**
Sahara MF	0	0	0	0	0	0	0	0	**0**	**0**
GIC MF	0	0	0	0	0	0	0	0	**0**	**0**
HDFC MF	23,481	98	17,910	57	19,241	20	1,604	7	**62,235**	**182**
Principal MF	0	0	0	0	0	0	1,961	13	**1,961**	**13**
ING Vysya MF	0	0	1,021	1	0	0	0	0	**1,021**	**1**
J M Financial MF	0	0	0	0	0	0	477	3	**477**	**3**
Kotak Mahindra MF	38	1	6,922	1	0	0	302	11	**7,262**	**13**
LIC MF	0	0	0	0	5,037	8	0	0	**5,037**	**8**
Morgan Stanley MF	0	0	0	0	0	0	0	0	**0**	**0**
Prudential-ICICI MF	430	1	2,284	3	6,005	11	75,139	17	**83,858**	**32**
Reliance MF	0	0	0	0	31,430	2	87	1	**31,517**	**3**
SBI MF	5,927	7	469	1	1,97,528	1,143	20,426	87	**2,24,350**	**1,238**
Standard Chartered MF	0	0	0	0	2,087	1	0	0	**2,087**	**1**
Sundaram MF	1,740	11	213	5	0	0	0	0	**1,953**	**16**
Tata MF	0	0	3,651	3	0	0	62	1	**3,712**	**4**
Taurus MF	0	0	0	0	792	13	0	0	**792**	**13**
Templeton MF	2,535	9	1,969	3	4,421	5	5,368	7	**14,294**	**24**
UTI	9,31,415	5730	6,02,480	3,907	1,09,228	567	51,154	263	**16,94,276**	**10,467**
HSBC MF	9,662	3	0	0	0	0	7,930	3	**17,591**	**6**
Deutsche MF	0	0	0	0	0	0	0	0	**0**	**0**
TOTAL	**10,18,885**	**5,873**	**6,38,440**	**3,987**	**3,79,611**	**1,777**	**1,68,029**	**421**	**22,04,964**	**12,058**

Note: Figures may not add exactly to total due to rounding off.

- Orders passed under Section 11B of the SEBI Act, 1992, debarring the entities and their concerned officials from operating in the capital market and/or from accessing the capital market for a period of 5 years from the date of orders;
- The concerned State Governments have been requested to initiate civil/ criminal proceedings against the entities for apparent offences of fraud, cheating, criminal breach of trust and misappropriation of public funds; and
- The Department of Company Affairs has been requested to initiate winding up of the entities under Section 433 of the Companies Act.

In addition to this, SEBI has requested the police authorities to file First Information Reports (FIRs) under the Indian Penal Code against 70 CIS entities which had mobilised Rs.5 crore or more under their collective investment schemes and had failed to wind up their schemes to repay investors.

Golden Forest (I) Ltd. (GFIL): Appointment of Central Committee

Golden Forest (I) Ltd. (GFIL) had mobilised about Rs. 1000 crore from the investors under its various collective investment schemes and as per information, this was the single largest mobilisation of funds by any CIS entity. SEBI had filed a writ petition against GFIL in the Hon'ble Mumbai High Court before the notification of the CIS Regulations to facilitate repayment of money to the investors. Later on, a number of cases were filed against GFIL by investors in various High courts of the country. Due to this, there was a possiblity of different High Courts passing different orders in the matter. Therefore, SEBI filed a Transfer Petition in the Hon'ble Supreme Court, so that all the different cases pending before various High Courts against GFIL can be clubbed together and transferred to the Supreme Court. In the said Transfer Petition, the Hon'ble Supreme Court has recently appointed a Central Committee consisting of 3 members under the Chairmanship of Hon'ble Chief Justice (Retd.) R.N. Aggarwal and one member each from SEBI and RBI. The task of the Committee is to realise the assets of GFIL, to invite claims from the investors and to scrutinise the same and thereafter submit a report to the Hon'ble Supreme Court.

7. PROSECUTION

I. Trends in Prosecution

The number of prosecutions launched against companies, persons and entities have declined substantially in 2004-05 as compared to 2003-04 (Table 3.25). In 2004-05, prosecution was launched in 83 cases as compared with 464 cases in 2003-04. In 2003-04, SEBI launched prosecution against all CIS entities who had failed to comply with directions issued under Section 11B of SEBI Act, 1992. Total number of such cases was 332. This resulted in a substantial rise in the number of cases filed in the year 2003-04.

Prosecution was launched against 410 persons/entities in 2004-05 as against 2,375 in 2003-04. Up to 2004-05, prosecution was launched in 969 cases and against 4,806 persons /entities.

Table 3.26 shows that 48 per cent of the cases belonged to the western region while 33 per cent cases related to the northern region. The percentage shares of southern and eastern regions were 11 per cent and 8 per cent, respectively.

II. Nature of Prosecutions

Table 3.27 depicts the nature of prosecutions launched under various sections of different Acts. The prosecutions have been launched under the Companies Act, SEBI Act, Depositories Act, SC(R)A and the Indian Penal Code. Of the 969 cases, 875 have been launched under the SEBI Act and 5 under the IPC.

Table 3.25: Prosecutions Launched

Year	No. of cases in which prosecution has been launched	No. of persons/ entities against whom prosecution has been launched
1	2	3
Up to and including 1995-96	9	58
1996-97	10	57
1997-98	11	81
1998-99	15	145
1999-00	19	121
2000-01	20	98
2001-02	109	613
2002-03	229	848
2003-04	464	2,375
2004-05	83	410
Total	**969**	**4,806**

Table 3.26: Region-wise Data on Prosecution

Region	Number of Cases	Percentage of Total
1	2	3
Northern Region	322	33.23
Western Region	465	47.98
Southern Region	105	10.84
Eastern Region	77	7.95
Total	**969**	**100.00**

Table 3.27: Nature of Prosecutions Launched during 2004-05

Nature of Prosecution Launched	Number of Cases
1	2
Sec. 63, 68 of Companies Act, 1956	18
Sec. 73, 77 and 113 of Companies Act, 1956	42
Indian Penal Code, 1860	5
Securities and Exchange Board of India Act,1992	875
Depositories Act, 1996	13
Securities Contracts (Regulation) Act, 1956	16
Total	**969**

Prosecutions are launched to communicate a tough approach for implementation of regulatory penalties. Different sections of SEBI Act, SC(R) Act and relevant sections of Companies Act were also invoked to impose penalties on defaulting parties.

Table 3.28: Number of Cases Decided by Courts

Decision by Court	Number of Cases
1	2
Convictions	7
Compounded	4
Abated	1
Dismissed	2
Withdrawn	1

III. Litigations, Appeals and Court Pronouncements

Tables 3.29 and 3.30 present details with regard to cases lying before the Courts / Securities Appellate Tribunal (SAT) and also information on the nature of violations. During 2004-05, 259 cases have been filed making SEBI a party. Further, 72 cases were either withdrawn or allowed or dismissed. The number of pending cases has increased to 492 as on March 31, 2005 as compared to 303 cases during 2003-04. During 2004-05, 440 appeals were filed with SAT, compared to 175 in 2003-04. Of total appeals filed, 32 were dismissed, 8 were remanded, 37 were allowed and 74 were modified.

Table 3.31 shows the appeals under Section 15Z of the SEBI Act, against the order of the SAT. During 2004-05, SEBI has filed 13 appeals and other parties filed 12 appeals against SEBI. As on March 31, 2005, 22 cases were pending.

Table 3.30: Details of Appeals before the Securities Appellate Tribunal

Status of Appeals	No. of Appeals
1	2
Appeals Filed	440
Appeals Dismissed	32
Appeals Remanded	8
Appeals Allowed	37
Appeals Modified	74
Appeals Pending	418 *

* Total appeals pending in 2004-05 were 418, which includes 129 pending appeals filed in previous years.

Table 3.29: Details of Court Cases where SEBI was a Party

Subject Matter	Cases Filed	Cases Pending	Cases Dismissed/ Allowed/ Withdrawn
1	2	3	4
Brokers' Registration Fees Cases	78	81	–
Collective Investment Scheme	4	26	1
Consumer Forum Cases	0	5	1
General Service Department	3	9	2
Investigations,Enforcement and Surveillance Department	120	103	56- Dismissed 1-Allowed
Primary Market Department	0	8	2
Secondary Market Department	36	160	3
Takeovers	9	89	6
Depositories and Participants	6	6	–
Mutual Funds	3	5	–
Total	**259**	**492**	**72**

Table 3.31: Details of Appeals under Section 15Z of the SEBI Act against the Order of Securities Appellate Tribunal

Sr. No.	Subject Matter	Cases Filed	Cases Pending	Cases Dismissed / Allowed / Modified
1	2	3	4	5
1.	Appeals Filed by SEBI	13	12	1- allowed
2.	Appeals Filed by other Parties against SEBI	12	10	2-modified
	Total	**25**	**22**	**3**

8. INVESTORS' EDUCATION AND TRAINING OF INTERMEDIARIES

A detail account of initiatives by SEBI in the area of investor education is provided in Part I. SEBI realises that a cadre of securities market professionals is a basic infrastructure for development of the securities market. It is essential not only to sustain the reforms undertaken so far but also to initiate further reforms and to maintain and enhance the confidence of investors/issuers in the market. The quality of personnel providing intermediation services determines the shape and health of the securities market, as the suppliers of funds/securities rely on knowledge and expertise of the intermediaries and look up to them for guidance and support.

In order to groom a cadre of professionals who understand the market and the regulations and can service the investors and the issuers improving thereby the competence of the intermediaries, a set of two complementary initiatives namely training and certification is generally used. Keeping this in mind, SEBI has set up the 'National Institute of Securities Markets' (NISM) which will undertake both initiatives with creditability and efficiency. It would design and implement the entire gamut of educational initiatives, including education, training, certification, research and consultancy in the area of securities market and allied subjects for securities market professionals in India and neighbouring countries. This would complement SEBI's statutory responsibility to:

(i) promote investors' education;

(ii) train intermediaries in the securities market; and

(iii) conduct research necessary for the discharge of its responsibilities.

The general superintendence, direction, control and management of the affairs and funds of the NISM is vested with its Board of Governors.

9. RESEARCH ACTIVITIES

Knowledge management is the tool that helps acquire the cutting edge in a globalised financial market. The guidelines for research initiatives are incorporated in SEBI (Annual Report) Rules, 1994. Core activities of department of research includes preparation of reports, compilation of data for publication in monthly bulletin and generation of information and analysis on market trends as required by senior executives of SEBI from time to time. Concept papers in greenfield areas of securities market are also part of the research profile. Guest Lectures on topical issues like impact of the Union Budget on securities market were organised during the year.

The Research Department published Handbook of Statistics on Indian Securities

Market, which contains a vast collection of data on Indian securities market. The data published in the Handbook are consistent with the requirement of IMF under the special data dissemination standard. Several initiatives were taken during 2004-05 to strengthen in-house research activities in SEBI. Some of the research outputs are published. Notable among them were 'Securities Market and Poverty Alleviation', 'IPO Pricing by Dutch Auction System', 'Regulatory Framework of Debt Market' and 'Capital Structure Theories'. 'Market for Corporate Control and Takeover Regulations: Trends and Analysis' was published as a working paper.

Under the SEBI Act, 1992, SEBI is responsible for conducting research necessary for regulating and developing the securities market and protecting interests of investors in securities. Keeping this in view, and in order to promote quality research in the area of securities market in a cost effective manner, SEBI instituted the *"SEBI Award for Excellence in Research in the Area of Securities Market Initiative".* Under the Initiative, SEBI shall confer up to 3 (three) awards on the 3 (three) best researchers (individuals/ institutions) in securities market every year. The award includes a cash prize of Rs. 1,00, 000 (Rupees One Lakh Only) and a citation.