ANNUAL REPORT
2007-08
SUMMARY

SECURITIES AND EXCHANGE BOARD OF INDIA

SEBI ANNUAL REPORT 2007-08: A SUMMARY

The Annual Report of the Securities and Exchange Board of India (SEBI) for 2007-08 delineates the policies and programmes of SEBI and its working and operations during the financial year as per the format prescribed by the Securities and Exchange Board of India (Annual Report) Rules, 1994. During the year, SEBI continued to its endeavour to remain committed to achieve three statutory objectives, namely: (a) protection of the interests of investors in securities; (b) development of the securities market and (c) regulation of the securities market.

In alignment with these objectives, this Report provides the manner in which SEBI accomplished its responsibilities and exercised its powers during the year. The Report also provides a review of the developments in the Indian securities market during 2007-08, in the context of changing dynamics of market regulations.

Against the backdrop of an increasing integration of global financial markets, SEBI channelised its efforts to bring out regulations to handle the domestic and global developments. Steps were taken to strengthen the regulatory framework by reviewing existing policies and programmes and issuing new guidelines and regulations to promote orderly growth of securities market. The underlying objectives were to ensure transparency, efficiency, fairness, safety, and integrity of the securities market in India. The Annual Report is divided into five parts. Part One presents the initiatives and programmes pursued by SEBI during 2007-08. Part Two reviews trends and operations of the Indian securities market. Part Three provides a detailed account of regulation of the securities market. Part Four presents the regulatory changes including significant court pronouncements. Part Five presents organisational matters. Part-wise summary of the SEBI Annual Report 2007-08 is presented below:

Part One: Policies and Programmes

A developed primary market is crucial for resource mobilisation by corporates to meet their investment needs for growth. A number of companies entered the primary market for resource mobilisation. Response of investors to public issues was encouraging. Major initiatives taken by SEBI during 2007-08 were:

- Grading of all Intial Public Offerings (IPOs) was made mandatory. The grading would be done by credit rating agencies, registered with SEBI. It would be mandatory to obtain grading from at least one credit rating agency. The issuer would be required to disclose all the grades obtained by it for its IPO in the prospectus, abridged prospectus and all other places where the issuer advertised for the IPO.
- In order to facilitate government companies / corporations/ statutory authorities/ any special purpose vehicle set up by any of them, which are engaged in infrastructure sector, to raise funds in the Indian primary market through IPOs, SEBI relaxed certain provisions of SEBI(DIP) guidelines related to a) minimum dilution requirements, b) minimum period of holding of pre-issue capital to be issued in an offer for sale and c) eligibility of shares for the purpose of computation of promoters' contribution etc.
- To enable well compliant listed companies to access primary securities market in a time effective manner through follow-on public offerings and rights issues, SEBI introduced fast track issue mechanism. This would enable listed companies to proceed with follow-on public offering / rights issue by filing a copy of the Red Herring Prospectus (in case of book built issue) / Prospectus (in case of fixed price issue) with the Registrar of Companies or the letter of offer filed with designated stock exchange, as the case may be. Now such companies need not file a draft offer documents with SEBI and the stock exchanges.

- Amendment was done with respect to the eligibility criterion for a company desirous of making a Qualified Instituions' Placement (QIP). In addition to the criteria specified in the guidelines governing QIP, such a company would also be required to have a listing history of at least one year on the date of issuance of notice to its shareholders for convening a general meeting in terms of Section 81(1A) of the Companies Act, 1956 to consider the QIP.
- In order to facilitate development of a vibrant primary market for corporate bonds in India, SEBI amended SEBI (DIP) Guidelines concerning Issuance of Debt Securities. The amendments were related to the following: a) requirement of credit rating, b) below investment grade debt instruments and c) removal of structural restrictions.
- Amendments were made with respect to Indian Depository Receipts (IDRs) to permit all categories of the investors to apply in IDR issues, subject to (i) at least 50 per cent of the issue being subscribed by Qualified Institutional Buyers (QIBs) and (ii) the balance being made available for subscription to other categories of investors at the discretion of the issuer, which should be disclosed in the prospectus. Further, the minimum application value was reduced from Rs. 2,00,000 to Rs. 20,000.
- Amendments were made to preferential allotment guidelines to enable companies with listing history of less than six months to raise money through preferential allotment, subject to complying with the modified pricing and disclosure norms. Further, the listed companies intending to make preferential allotment would be required to obtain PAN from each applicant before making the allotment.
- SEBI decided to phase out EDIFAR gradually in view of a new portal, viz., Corporate Filing and Dissemination System (CFDS)

put in place jointly by BSE and NSE, which offers a Extensible Business Reporting Language (XBRL) enabled common platform for listed companies to file their returns with stock exchanges and also a common place for investors to view information related to listed companies. A new clause viz., Clause 52 was introduced in Equity Listing Agreement. This clause requires listed companies to file information with the stock exchange only through CFDS.

- Amendments were made pertaining to the issue process with respect to the following: a) quoting of PAN was made mandatory in issue application form, b) discount in issue price for retail investors/retail shareholders was introduced, c) definition of "Retail Individual Shareholder" for listed companies was introduced, d) clarification was provided on the term CEO/CFO, e) monitoring of issue proceeds and f) eligibility of pledged shares for computation of minimum promoters' contribution.

- Clause 41 of the Listing Agreement was revised to provide an option to the listed companies to furnish either unaudited or audited quarterly and year-to-date financial results to the stock exchange within one month of the end of each quarter (other than the last quarter).

- Clause 49 of the Listing Agreement was amended to provide for a monitoring agency on utilisation of issue proceeds, the report of which would be placed before the Audit Committee of the issuer company.

- SEBI stipulated that PAN would be the sole identification number for all participants in the securities market, irrespective of the amount of transaction with effect from July 02, 2007. The objective was to strengthen the 'Know Your Client' (KYC) norms through a single identification number for all participants in the securities market for facilitating sound audit trail.

- SEBI specified the broad regulatory framework for short selling by institutional investors and a full-fledged securities lending and borrowing scheme. Accordingly, relevant amendments were made to SEBI (FII) Regulations, 1995 and SEBI (Mutual Funds) Regulations, 1996, enabling FIIs and Mutual Funds to participate in short selling and SLB.
- SEBI mandated that all institutional trades in the cash market would be subject to payment of margins as applicable to transactions by other investor to provide a level playing field to all class of investors. It was specified that w.e.f. April 21, 2008, trades would be margined on a T+1 basis with margin being collected from the custodian upon confirmation of the trade.
- Draft SEBI (Investment Advisers) Regulations, 2007, were placed on the website inviting public comments and suggestions. The comments/ suggestions received were being examined.
- SEBI introduced. (i) mini contracts in equity indices, (ii) options contracts with longer life/tenure, and permitted exchanges to compute and disseminate volatility indices and bond indices. Clearing members were permitted to accept Foreign Sovereign Securities as collateral from foreign institutional investors (FIIs) for exchange traded derivative transactions.
- In conformity with the provisions of SEBI notified Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006 (MIMPS Regulations) and as part of Government of India Foreign Direct Investment (FDI) policy, 16 stock exchanges had completed demutualisation process by diluting at least 51 per cent of their equity shareholding to public other than shareholders having trading rights.
- In order to develop a sound corporate debt market in India, SEBI took a number of policy initiatives with respect to the

following areas: (i) setting up of reporting platforms for corporate bonds, (ii) setting up of trading platform for corporate bonds, (iii) issues pertaining to trading in corporate bonds, (iv) making amendments to the listing agreement for debentures, (v) issuing securitised debt instruments regulations, (vi) evolving policy guidelines on debenture trustees, (vii) introducing Repos in corporate bonds, (viii) facilitating setting up of quote dissemination platforms, (ix) simplifying corporate bond issuance norms and (x) framing of draft issue and listing regulations for corporate bonds.

- The aggregate industry-wise ceiling for overseas investments by mutual funds was raised to USD four billion and subsequently to USD five billion and within the overall limit, mutual funds could make overseas investments subject to a maximum of USD 300 million per mutual fund.
- The limit on investment and advisory fee for index fund schemes was reduced to 0.75 per cent and the total expenses of the scheme including the investment and advisory fees to 1.5 per cent of the weekly average net assets. The reduced expenses and investment and advisory fees were made applicable to exchange traded index funds also.
- Enabling provisions were made for mutual funds to engage in short selling of securities as well as lending and borrowing of securities vide notification dated October 31, 2007.
- SEBI decided that no entry load would be charged for direct applications received by the Asset Management Company (AMC) i.e. applications received through the internet, submitted to AMC or collection centre/ Investor Service Centre that were not routed through any distributor/ agent/ broker.
- In order to bring in more transparency and clarity to the investors in terms of expenses charged in close-ended Schemes,

SEBI decided that there would not be any provision of charging initial issue expenses and amortisation of the same. All mutual funds should meet expenses connected with sales and distribution of schemes from the entry load.

- SEBI decided AMCs should not charge entry as well as exit load on bonus units and units allotted on reinvestment of dividend.

- Pursuant to the announcement made by Hon'ble Finance Minister in the Union Budget 2007-08, SEBI set up a four member Committee under the Chairmanship of Mr. U. K. Sinha (CMD, UTI AMC) to suggest a detailed action plan to promote flow of investment to the infrastructure sector through dedicated infrastructure mutual funds.

- The guidelines for Real Estate Mutual funds were approved by the SEBI Board in June 2006. During 2007-08, steps were taken to address certain residual issues relating to accounting and valuation of assets, in discussion with AMFI, ICAI and Credit Rating Agencies. The necessary amendments to the SEBI (Mutual Fund), Regulations 1996 were thereafter notified on April 16, 2008.

- SEBI issued directions modifying the criteria for registration of FII/Sub-Accounts and issuance of P-Notes by them. The investment limit for FIIs in Government Securities (including Treasury Bills) was enhanced from USD 2.6 billion to USD 3.2 billion.

- SEBI rationalised the fee structure by reducing fee ranging between 50 per cent to 90 per cent in case of filing of offer document for public issues, takeover and buy-back, schemes of mutual funds and ad-valorum fee for assets under the custody of custodians and registration fee of venture capital funds.

Part Two: Review of Trends and Operations

- The upward trend in primary market activities continued in 2007-08.
- The buoyancy in the secondary market coupled with strong macro-economic fundamentals, active institutional support led by FIIs and mutual funds encouraged large number of companies to raise resource from the primary market.
- During 2007-08, 124 companies accessed the primary market through public and rights issues and raised Rs. 87,029 crore compared to Rs. 33,508 crore mobilised by 124 companies in 2006-07.
- Of the total 92 public issues in 2007-08, 85 were initial public offerings (IPOs) (Rs.42,595 crore) and 7 were follow-on public offerings (FPOs) (Rs.11,916 crore).
- About 87.8 per cent of resource mobilisation was through public issues of above Rs.500 crore.
- Sector-wise classification shows that private sector companies dominated the resource mobilisation by raising Rs. 67,311 crore through 120 issues whereas public sector mobilised Rs. 19,718 crore through four issues.
- Industry-wise classification reveals that banks and financial institutions occupied the highest position with 35.6 per cent in total resource mobilisation.
- Equity markets witnessed unprecedented buoyancy as well as steep corrections in 2007-08. Towards the end of the year, there was steep correction in the indices on account of concerns over domestic inflation and impending global recession.
- The BSE Sensex and S&P CNX Nifty appreciated by 19.7 per cent and 23.9 per cent respectively on March 31, 2008 over March

31, 2007. The BSE Sensex gained 2572 points to close at 15644 on March 31, 2008 from 13072 on March 31, 2007. The S&P CNX Nifty also added 913 points to close at 4735 at the end of March 2008 over 3822 recorded at the end of March 2007.

- The annual return on a point-to-point basis was the highest for HERMES index of Egypt (56.3 per cent) followed by JCI of Indonesia (33.7 per cent) and IBOV of Brazil (33.1 per cent). India's stock return was the fourth highest in the world.
- Commensurate with the rise in equity market, the turnover and market capitalisation in the cash segment also increased. Turnover in cash segment of all stock exchanges was Rs. 51,30,816 crore, a rise of 76.7 per cent over the previous year. BSE market capitalisation rose by 44.9 per cent to Rs.51,38,014 crore over the previous year.
- The BSE market capitalisation to GDP ratio increased from 23.3 per cent in 2002-03 to 85.5 per cent in 2006-07 and further to 109.0 per cent in 2007-08 .Similarly, the market capitalisation to GDP ratio at NSE also increased from 21.9 per cent in 2002-03 to 103.1 per cent in 2007-08.
- Traded value (all-India) to GDP ratio of cash segment increased from 70.0 per cent in 2006-07 to 108.9 per cent in 2007-08.
- Traded value to GDP ratio of the derivatives segment rose from 178.9 per cent in 2006-07 to 282.9 per cent in 2007-08.
- Among the sectoral indices of BSE, the highest gain was recorded by BSE Metal index (65.2 per cent), BSE Oil and Gas index (56.1 per cent) and BSE Capital Goods index (54.4 per cent).
- Among the sectoral indices of NSE, the highest gain was recorded by S&P CNX Finance (60.1 per cent), followed by S&P CNX Petrochemicals (45.3 per cent), CNX PSE (31.8 per cent) and CNX Bank (25.4 per cent).

- The P/E ratios of the majority of indices witnessed a moderate rise in 2007-08. India's P/E ratio was one of the highest among the emerging markets in 2007-08.
- The annualised volatility of BSE Sensex, increased to 30.6 per cent in 2007-08 from 27.6 per cent in the previous year. Similar trend was also observed for S&P CNX Nifty, which recorded annualised volatility of 32.1 per cent in 2007-08 compared to 28.0 per cent in the previous year.
- Indian markets were the third most volatile one in the world after China and Hong Kong.
- About 90.6 per cent of the shares were traded for more than 100 days at BSE compared to 86.3 per cent in 2006-07. At NSE, this percentage increased from 87.5 per cent in 2006-07 to 93.0 per cent in 2007-08.
- While in NSDL, the total value of demat settled shares rose substantially by 71.1 per cent to Rs. 14,20,717 crore in 2007-08 from Rs. 8,30,513 crore in 2006-07, the same in CDSL rose by 94.5 per cent from Rs. 1,97,050 crore in 2006-07 to Rs. 3,83,179 crore in 2007-08.
- During 2007-08, the turnover of derivatives market was higher by 259.9 per cent of the combined cash market turnover of BSE and NSE.
- During 2007-08, the total number of contracts traded in the derivative segment of NSE and BSE rose by 96.0 per cent and 318.4 per cent over 2006-07.
- In 2007-08, the average daily turnover at the derivatives segment of NSE and BSE rose by 78.4 per cent to Rs. 53,119 crore compared to Rs.29,780 crore in 2006-07.
- About 57.7 per cent of the total derivatives turnover was contributed by the single stock futures, followed by index futures (29.2 per cent) in 2007-08.

- During 2007-08, secondary market trades (both OTC and exchanges) of corporate bonds stood at Rs.96,119 crore.
- The amount mobilised through private placements of corporate bonds was Rs. 1,28,602 crore in 2007-08 which was higher as compared to the Rs. 1,04,974 crore mobilised in 2006-07.
- The share of G-sec in the total traded value at WDM segment of NSE declined from 70.0 per cent in 2006-07 to 68.8 per cent in 2007-08.
- Gross mobilisation of resources by all mutual funds during 2007-08 stood at Rs. 44,64,376 crore compared to Rs. 19,38,493 crore during the previous year, an increase of 130.3 per cent over the year.
- Net mobilisation of resources by all mutual funds stood at Rs. 1,53,802 crore in 2007-08 compared to Rs. 93,985 crore in 2006-07.
- Of the net mobilisation , the private sector mutual funds accounted for 86.7 per cent, followed by the UTI Mutual Fund (6.9 per cent) and public sector mutual funds (6.4 per cent).
- As on March 31, 2008, the total number of mutual fund schemes was 956, of which, 593 were income/debt oriented schemes, 313 were growth/equity oriented schemes , 37 were balanced schemes and 13 were Exchange Traded Funds
- Total assets under management by all mutual funds increased to Rs. 5,05,152 crore at the end of March 2008 from Rs. 3,26,292 crore a year ago.
- The net investment by FIIs was Rs. 66,179 crore in 2007-08 which was more than double from Rs. 30,840 crore in 2006-07.
- The cumulative investment by FIIs at acquisition cost, which was USD 51.9 billion at the end of March 2007, rose to USD 68.0 billion at the end of March 2008.

- The committees for inter-regulatory co-ordination in financial markets such as High Level Co-ordination Committee for Financial Markets, RBI-SEBI Standing Technical Committee, RBI-SEBI Standing Technical Committee on Exchange Traded Currency and Interest Rate Derivatives, Inter-Regulatory Technical Sub-Committee of SEBI / IRDA / RBI regulated entities held several meetings during 2007-08.
- RBI-SEBI Standing Technical Committee on Exchange Traded Currency and Interest Rate Derivatives has submitted its report on May 29, 2008 with regard to exchange traded currency futures.
- A 'Contact Man System' is put in place with representatives from the various regulatory agencies to effectively manage financial crisis or a stress situation.

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..

- Number of brokers registered with SEBI as on March 31, 2008 was 9,487 as against 9,443 in the previous year.
- Among the exchanges, NSE had the highest number of stock brokers at 1,129 followed by the Calcutta Stock Exchange (957) and BSE (946) as on March 31, 2008.
- The number of sub-brokers registered during 2007-08 rose to 44,074 as against 27,541 in the previous year.
- During 2007-08, SEBI granted yearly renewal to nine stock exchanges.
- The total number of FII registered with SEBI increased to 1,319 as on March 31, 2008 compared to 997 in 2006-07.

- There were 15 custodians registered with SEBI as on March 31, 2008.
- As on March 31, 2008, there were 40 mutual funds registered with SEBI, of which, 35 were in the private sector and five were in the public sector.
- The number of domestic venture capital funds increased to 106 during 2007-08 from 90 in 2006-07. The number of foreign venture capital funds rose to 97 in 2007-08 from 78 in 2006-07.
- During 2007-08, the total amount of fees and other charges received was Rs. 397.5 crore (un-audited) as against Rs. 200.8 crore in 2006-07, an increase of Rs. 196.7 crore.
- During 2007-08, SEBI made 32 and 116 references for examination/investigation to NSE and BSE, respectively.
- SEBI advised the stock exchanges to disseminate daily trading data for domestic institutional investors as a separate category on their website.
- SEBI advised the brokers, through the stock exchanges, to periodically update the KYC forms and also retain proper documentation of financial strength of their clients.
- SEBI advised the stock exchanges to report F&O trades in terms of number of contracts.
- SEBI advised stock exchanges to ensure that brokers provide daily report to each of their clients, clearly bringing out the client trades and margin liability.
- SEBI advised that the surveillance committee of the exchange shall be headed by a non-executive member of the Exchange's Board.
- SEBI advised stock exchanges to permit free price discovery on the first day of trading in cases of merger, demergers and other

schemes of arrangement, in terms of the Companies Act, schemes sanctioned by the courts, Board of Industrial and Financial Reconstruction and in cases if Corporate Debt Restructuring packages by the CDR Cell of the RBI.

- During 2007-08, 25 new cases were taken up for investigation and 169 cases were completed.
- During 2007-08, 218 orders were passed/reports submitted; of which, 62 pertained to enquiries and 156 pertained to adjudications. During the same period, hearings for 317 cases were conducted; of which, 39 belonged to enquiries and 278 to adjudications. 918 show-cause notices were issued to different entities, of which, 60 pertained to enquiries and 858 pertained to adjudication.
- The number of prosecutions launched against individuals was higher at 188 in 2007-08 as against 149 in the previous year. Region-wise, the highest number of prosecutions (539) were launched in the Western region (50.61 per cent) followed by 327 (30.70 per cent) in the Northern region till 2007-08.

Part Four: Regulatory Changes

In order to fine tune the regulatory framework, the following amendments were made during 2007-08:

- The Securities Contracts (Regulation) Act, 1956 was amended by the Securities Contracts (Regulation) Amendment Act, 2007 to provide a legal framework for enabling listing and trading of securitised debt instruments.
- The following Regulation was framed:

  SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

⚜ The following Regulations were amended:

- Securities and Exchange Board of India (Manner of Service of Summons and Notices issued by the Board) (Amendment) Regulations, 2007
- Securities and Exchange Board of India (Mutual Funds) Regulations, 1996
- Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997
- Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 1998
- Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992
- SEBI (Depositories and Participants) Regulations, 1996
- SEBI (FII) Regulations, 1995
- SEBI (Payment of Fees) (Amendment) Regulations, 2008 were amended for various intermediaries.

Part Five: Organisational Matters

⚜ Details about the SEBI Board, human resources, information on National Institute of Securities Markets (NISM), vigilance, promotion of official language, progress of information technology, physical infrastructure, international co-operation, Parliament questions and implementation of Right to Information Act are provided in this part of the Annual Report.

SECURITIES AND EXCHANGE BOARD OF INDIA

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