

PART III

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

A] REGULATION OF BUSINESS IN THE STOCK EXCHANGES

In the year 2001-02, inspections in respect of following Stock Exchanges viz., Pune, OTCEI, Delhi, UPSE, Bangalore, Cochin, Madras Stock Exchange and following Subsidiaries of Stock Exchanges viz., Subsidiary of UPSE, Pune, OTCEI, MPSE, Jaipur, Bangalore, Cochin, Madras were commenced. Inspections in respect of certain exchanges falling in the Gujrat region could not be commenced due to the prevailing law and order situation.

During inspection of the Stock Exchanges, a review of the market operations, organisational structure and administrative control of the exchange is made to ascertain whether:

the exchange provides a fair, equitable and growing market to investors,
the exchange's organisation, systems and practices are in accordance with the Securities Contracts (Regulation) Act (SC(R) Act), 1956 and rules framed thereunder,
the exchange has implemented the directions, guidelines and instructions issued by the SEBI from time to time,
the exchange has complied with the conditions, if any, imposed on it at the time of renewal/grant of its recognition under section 4 of the SC(R) Act, 1956.

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

BJ REGISTRATION AND REGULATION OF THE WORKING OF INTERMEDIARIES

Primary Market

Merchant bankers

As on March 31, 2002, there were 145 merchant bankers registered with SEBI.

Underwriters

The number of underwriters registered with SEBI in terms of SEBI (Underwriters) Rules and Regulations, 1993 were 54 as on March 31, 2002 as compared to 57 as on March 31, 2001.

Portfolio managers

The number of portfolio managers registered as on March 31, 2002 was 47 as compared to 39 as on March 31, 2001.

Debenture trustees , bankers to an issue and registrars & share transfer agents

There were 40 debenture trustees and 68 bankers to an issue as on March 31, 2002.

In Category I there were 98 Registrars to an issue and Share Transfer Agents as on March 31, 2002. In Category II there were 63 Registrars to an issue and Share Transfer Agents as on March 31, 2002.

Table 3.1: Details of Intermediaries Registered as on March 31, 2002

Type of intermediary		No.
Registrar to an Issue and Share Transfer Agent	Category I	98
	Category II	63
	Total	161
Bankers to an Issue		68
Debenture Trustee		40
Merchant Banker		145
Portfolio Manager		47
Underwriter		54
Source : SEBI		

Secondary Market

Stock brokers

Stock brokers services form integral part of stocks market expansion and growth which is an indication of deepening of the market. The year of 2001-02, witnessed a marginal reduction in the number of brokers as compared to the previous year. During the current financial year under review, 170 new brokers were registered and 265 registrations were de-registered due to cancellation or surrendered. As a result total number of registered brokers declined from 9,782 as on March 31, 2001 to 9,687 as on March 31, 2002. The details of registrations are given in Table 3.2.

Table 3.2 : Details of Registered Brokers

Total No. of Registered Brokers as on 31-3-2001	Addition during the year 2001-02	Reconciliation/ Cancellation/ Surrender of Memberships	Total No. of Registered Brokers as on March 31, 2002
9,782	170	265	9,687

Source: SEBI

Stock exchange-wise distribution of brokers classified into corporate brokers and others is given in Table 3.3. It would be observed that NSE accounted for 11.0 per cent of the total brokers at end March 2002 almost the same as on end March 2001, followed by CSE with 10.2 per cent, Mumbai with 6.8 per cent, OTCEI with 9.3 per cent, Jaipur with 6.1 per cent, Uttar Pradesh with 5.4 per cent and Cochin with 4.8 per cent. Stock exchanges like Madras, Madhya Pradesh, Pune, Guwahati, Mangalore, and Coimbatore have less than 200 brokers.

Table 3.3 : Exchange-wise Brokers Registered with SEBI

Sr. No.	Stock Exchange	2000-01				2001-02			
		Total Regd. Brokers	Total Regd. Brokers as % of Total	Corp. Regd. Brokers	Corp. Brokers As % of Total (Stock Exchange-wise)	Total Regd. Brokers	Total Regd. Brokers as % of Total	Corp. Regd. brokers	Corp. Brokers as % of Total (Stock Exchange-wise)
1.	Mumbai	689	7.04	463	67.20	660	6.81	463	70.15
2.	Ahmedabad	326	3.33	144	44.17	325	3.35	151	46.46
3.	Calcutta	993	10.15	203	20.44	992	10.24	205	20.67
4.	Madras	202	2.07	71	35.15	192	1.98	71	36.98
5.	Delhi	393	4.02	215	54.71	379	3.91	214	56.46
6.	Hyderabad	310	3.17	114	36.77	303	3.12	117	38.61
7.	Madhya Pradesh	187	1.91	34	18.18	187	1.93	34	18.18
8.	Bangalore	249	2.55	110	44.18	249	2.57	112	44.98
9.	Cochin	492	5.03	71	14.43	470	4.85	74	15.74
10.	UPSE	541	5.53	100	18.48	520	5.36	101	19.42
11.	Pune	201	2.05	56	27.86	196	2.02	60	30.61
12.	Ludhiana	302	3.09	79	26.16	300	3.09	83	27.67
13.	Gauhati	193	1.97	5	2.59	194	2.00	5	2.58
14.	Mangalore	139	1.42	14	10.07	138	1.42	15	10.87
15.	Magadh	204	2.09	19	9.31	200	2.06	19	9.5
16.	Jaipur	595	6.08	17	2.86	592	6.11	21	3.55
17.	Bhubaneshwar	234	2.39	17	7.26	232	2.39	17	7.33
18.	Saurashtra Kutch	448	4.58	78	17.41	446	4.60	82	18.39
19.	Vadodara	322	3.29	65	20.19	322	3.32	65	20.19
20.	OTCEI	896	9.16	694	77.46	902	9.31	705	78.16
21.	Coimbatore	197	2.01	62	31.47	193	1.99	63	32.64
22.	NSE	1,074	10.98	947	88.18	1,065	10.99	940	88.26
23.	ICSE	595	6.08	230	38.66	630	6.50	245	38.89
	Total	9,782	100.00	3,808	38.93	9687	100.00	3862	39.87

Source : SEBI

Table 3.4 presents stock exchange-wise brokers details according to their ownership structure. A number of brokers, proprietor firms and partnership firms have converted themselves into corporates. A number of FIs have also been registered as brokers. This diversification reflects increase in decentralised ownership patterns. This is a sign of healthy development of stocks market in the country. It would be observed that of the 9,687 brokers, 3,820 brokers were corporate brokers as on March 31, 2002. In terms of percentage share corporate brokers accounted for about 39 per cent in total brokers as on end March 2001. This percentage increased to nearly 40 per cent as on March 31, 2002. The number of FIs remained at 20 as on March 31, 2002 reflecting no change from last year. It would also be observed that of the 9,687 brokers registered during 2001-02, 3,820 were corporate brokers and 5,517 were proprietors. The number of partnership firms in brokerage business, however, decreased from 325 in 2000-01 to 308 in 2001-02. The corporatisation and institutionalisation of the brokers should result in more organized and efficient services leading to healthier trading and accounting standards.

Table 3.4 : Classification of Registered Brokers According to Nature of Ownership as on March 31, 2002

Sr. No.	Stock Exchange	Proprietor	Partnership	Corporate	Financial institution	Composite corporate	Total
1.	Mumbai	158	39	442		21	660
2.	Ahmedabad	149	25	150		1	325
3.	Calcutta	739	50	204	1		992
4.	Madras	103	18	71			192
5.	Delhi	131	34	213	1		379
6.	Hyderabad	180	6	117			303
7.	Madhya Pradesh	150	3	34			187
8.	Bangalore	133	4	112			249
9.	Cochin	385	11	74			470
10.	UPSE	413	6	101			520
11.	Pune	128	8	60			196
12.	Ludhiana	215	2	83			300
13.	Gauhati	188	1	5			194
14.	Mangalore	118	5	15			138
15.	Magadh	180	1	19			200
16.	Jaipur	564	7	21			592
17.	Bhubaneshwar	215		17			232
18.	Saurashtra Kutch	362	2	82			446
19.	Vadodara	254	3	65			322
20.	OTCEI	177	20	689	16		902
21.	Coimbatore	130		63			193
22.	NSE	63	62	939	1		1,065
23.	Inter-Connected Stock Exch.	384	1	244	1		630
	Total	5,517	308	3,820	20	22	9,687

Source : SEBI

It may be stated that brokers in many cases get registered at more than one stock exchanges. It would be seen from table 3.5 below that 627 brokers had membership at two stock exchanges as on March 31, 2002 as compared to 621 brokers with double memberships as on March 31, 2001. Whereas 90 brokers had membership on 3 stock exchanges as on March 31, 2002, compared to 82 members as on March 31, 2001. Thus multiple membership is increasing on Indian stock exchanges which on a number of times results in cross trading over the stock exchanges for arbitrage etc. (Table 3.5 and 3.6).

Table 3.5 : Multiple Membership of Brokers

2000-01			2001-02	
<i>No. of Multiple Memberships</i>	<i>No. of Members</i>	<i>Gross total of Membership (1 x 2)</i>	<i>No. of Members</i>	<i>Gross total of Membership (1 x 5)</i>
1	2	3	5	6
1	8,227	8,227	8,101	8,101
2	621	1,242	627	1,254
3	82	246	90	270
4	10	40	9	36
5	3	15	4	20
6	2	12	1	6
Total	8,945	9,782	8832	9,687

Source : SEBI

Sub-brokers

The services of sub-brokers provide link between the investors and the brokers. Since sub-brokers are located at far flung areas from the stock exchanges, they provide network of stocks market in the hinterland of the country. There were 12,208 sub-brokers registered as on March 31, 2002, as compared with 9,957 sub-brokers in the previous year. As such the growth of sub-brokers has been high and this is the indication that their services are in demand in the market. It would be seen from Table 3.6 below that 98 per cent of the total sub-brokers registered with the SEBI during the current year were from the Stock Exchanges Mumbai and NSE. This ratio was 92 per cent as on March 31, 2001. The high concentration of sub-brokers at Mumbai and NSE indicates skewed availability of brokers' services at smaller stock exchanges like Madhya Pradesh, Guwahati, Managalore, Magadh, Coimbatore, Bhubaneswar etc. probably due to non-availability of adequate business. In these areas lack of sufficient business discourages the brokers/sub-brokers to take up thinly available broking services. Sub-broker services are very crucial in educating the potential investors in the primary as well as secondary market. The large number of brokers and sub-brokers warrants strengthening and expanding of surveillance and regulatory framework. (Table 3.6)

Table 3.6 : Stock Exchange-wise Registered Sub-Brokers

Sr. No.	Name of Stock Exchange	No. of Sub-Brokers Regd. with SEBI during the Financial year 2001-02	Total no. of Sub-Brokers Regd. as on March 31, 2002
1.	Mumbai	942	6,495
2.	Ahmedabad	11	149
3.	Calcutta	5	140
4.	Madras	0	125
5.	Delhi	12	498
6.	Hyderabad	1	202
7.	Madhya Pradesh	0	5
8.	Bangalore	2	159
9.	Cochin	0	43
10.	UPSE	1	28
11.	Pune	0	162
12.	Ludhiana	6	33
13.	Gauhati	0	4
14.	Mangalore	0	3
15.	Magadh	1	3
16.	Jaipur	0	34
17.	Bhubaneshwar	0	17
18.	Saurashtra Kutch	0	0
19.	Vadodara	0	84
20.	OTCEI	3	37
21.	Coimbatore	0	26
22.	NSE	1,277	3,961
	Total	2,261	12,208

Source : SEBI

Registration of FIIs

During the year 44 FIIs were granted fresh registration whereas 44 FII were granted renewal. Similarly, 166 sub-accounts were registered and 203 sub-accounts were renewed. As at March 31,2002 there were 490 FIIs and 1372 sub-accounts registered with SEBI.

Registration of Custodian of Securities

As on March 31, 2001, there were 14 entities registered with the SEBI as custodian of securities. The number had come down to 12 during the year 2001-02 on account of 2 entities canceling their registration as custodian of securities with the SEBI.

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

Registration of Collective Investment Schemes (CIS)

Subsequent to the notification of Regulations 1999, SEBI had received applications for grant of registration from 50 CIS entities. The SEBI has granted provisional registration to 6 CIS entities out of these 50 CIS entities, while applications of 35 CIS entities were rejected and they were ordered to wind up their schemes and make repayment to their investors. The applications of remaining 9 CIS entities are under process.

In terms of Regulations, an existing collective investment scheme which has (i) failed to make an application for registration to the Board; or (ii) has not been granted provisional registration by the Board; or (iii) having obtained provisional registration fails to comply with the provisions of Regulation 71; or (iv) is not desirous of obtaining provisional registration; is required to wind up its existing schemes, make repayment to the investors and thereafter submit “Winding up and Repayment Report” to SEBI. The SEBI has received such “Winding up and Repayment Report” from 51 CIS entities.

Prosecution under Section 24 of SEBI Act, 1992 has been filed by SEBI against 97 erring CIS entities. Other actions such as debarring the promoters/ directors/ managers/ persons in charge of the business of the scheme from operating in the capital market; writing to the State Governments to register civil/ criminal cases against the erring entities for apparent offences of fraud, cheating criminal breach of trust and misappropriation of public funds; writing to the Department of Company Affairs to initiate the process of winding up of the erring 515 CIS entities has also been taken up.

In case of CWP No. 3352/98 in the matter of Shri. S. D Bhattacharya and others vs SEBI, the Hon’ble High Court, Delhi impleaded all the CIS entities. Earlier, the court had, inter-alia, restrained them from selling, disposing of and /or alienating their immovable properties or parting with the possession of the same. Their directors had also been interdicted from transferring their immovable property in any manner whatsoever. The Hon’ble High Court also made it clear that its order will not come in the way of companies intending to refund the money to their investors. In a recent order dated January 22, 2002, the Hon’ble High Court has ordered to freeze the bank accounts of 513 erring CIS entities and their directors/promoters till they comply with the regulations/SEBI Directions regarding repayment to their investors.

SEBI has been issuing press releases/ public notices from time to time to educate and caution the investors about Collective Investment Schemes. Members of the public have also been cautioned through these public notices that they should not invest in the CIS entities which are not registered with SEBI

Registration of Mutual Funds

During 2001-02, registration was granted to one new mutual fund in the private sector viz Benchmark Mutual Fund, 2 mutual funds wound up their operations viz Indian Bank Mutual Fund and Anagram Wellington Mutual Fund in the public and private sector respectively. In case of Indian Bank Mutual Fund, its schemes were transferred to Tata Mutual Fund after informing the unitholders and giving them an option to exit without load, in accordance with the provisions of the Regulations. The total number of mutual funds as on March 31, 2002 is 37 (excluding UTI which is not registered with SEBI). Though UTI is not registered with SEBI, there is an arrangement of voluntary compliance of regulations by the UTI for the schemes launched after July 1, 1994. Subsequently, UTI on its own has brought some more schemes launched before July 1994 under the voluntary compliance arrangement. However, five schemes including the largest scheme US-64 scheme do not come under the purview of SEBI.

The details of mutual funds registered with SEBI are given in Table 3.7.

Table 3.7: Mutual Funds Registered with SEBI

Sector	As on 31-03-2001	As on 31-03-2002
Public Sector	9	8
Private Sector	29	29
Total	38	37

Source: SEBI

Registration of Venture Capital Funds

During the year under review, registration was granted to 1 new domestic venture capital fund. Two venture capital funds surrendered their certificates of registration, which were cancelled by SEBI. (Table 3.8)

Table 3.8 : Registration of Venture Capital Funds

	As on 31-03-2001	As on 31-03-2002
Total No. of funds Registered with SEBI	35	34

Source: SEBI

Registration of Foreign Venture Capital Funds

During the year under review, registration was granted to one foreign venture capital investor. (Table 3.9)

Table 3.9 : Registration of Foreign Venture Capital Funds

	As on 31-03-2001	As on 31-03-2002
Total No. of FVCFs registered with SEBI	1	2
<i>Source : SEBI</i>		

D] PROMOTION AND REGULATION OF SELF REGULATORY ORGANISATIONS

Development of the Stock Exchanges as Self Regulatory Organisations

To further the goal of self-regulation in the stock exchanges in the area of monitoring for detection of abuses and enhancing their capabilities of detecting malpractices and manipulations, SEBI had directed the stock exchanges to set up surveillance cells in the stock exchanges independently reporting to the exchange executive directors. As a part of market surveillance, stock exchanges have started administering trade halts, imposing price bands, deactivating brokers' trading terminals and suspending the trading in scrips in appropriate cases. These self-regulatory steps taken up by the stock exchanges under active oversight of SEBI have improved market stability and integrity. The activity of analysis of market trading and investigations by exchanges has picked up momentum in the last few years. In case of any adverse finding in suitable cases they have been sending references to SEBI for further investigation and necessary actions. In the present year 2001-02, the exchanges have taken up 167 cases on their own (116 – NSE and 51 – BSE) and have taken disciplinary action in 59 cases (12 – NSE and 47 – BSE). Moreover, the exchanges have also been advised to share information with each other and ensure greater coordination.

SEBI is further working towards developing the stock exchanges as effective self regulatory organisations. A training capsule and certification programme for the surveillance staff of the stock exchanges has also been developed.

Association of Merchant Bankers of India (AMBI)

The AMBI, a self regulatory organisation set up in 1993 ensures that its members use healthy business practices. The AMBI exercises overall supervision over its members in the matters of compliance with statutory rules and regulations pertaining to merchant banking. It is also a nodal point for the assimilation and dissemination of information relating to merchant banking. It works as a sole representative to all statutory authorities including SEBI. The AMBI has published its code of conduct for merchant bankers setting out the broad parameters and the spirit for conducting the business. It has also published Due Diligence Hand Book for the use of merchant bankers. The AMBI during 2001-02, being a member of Malegam Committee on accounting standards has participated in various meetings conducted by the SEBI.

Association of Mutual Funds of India (AMFI)

The SEBI undertakes regular consultations with the members of AMFI on various issues relating to mutual funds. In 2001-02, the SEBI also discussed issues relating to mutual funds industry. The AMFI has been designated to issue certificates to agents and distributors under the certification programme.

Registrars Association of India (RAIN)

The RAIN founded in 1991 represents Securities' Registrars & Share Transfer Agents (RSAT) in India to ensure that its members observe the prescribed service standards and follow good business ethics. The RAIN was associated with the process of switchover to paperless trading and electronic share holdings also. The other major activities carried out by the RAIN are:

- ? Promoting programs necessary for development of RSTA.
- ? Rendering and providing common services and utilities to the persons engaged in RSTA.
- ? Conducting seminars and workshops to promote knowledge of RSTA.

E] FRAUDULENT AND UNFAIR TRADE PRACTICES

The SEBI made vigorous efforts to unearth cases of fraudulent and unfair trade practices. During 2001- 02, the SEBI undertook 84 cases regarding manipulations and price rigging and completed 9 cases of manipulation and price rigging during 2001-02

F] INVESTOR EDUCATION AND THE TRAINING OF INTERMEDIARIES

Investors' Education

The SEBI has been continuously focusing on investors' education and awareness relating to functioning of the capital market. During 2001-02, SEBI took following steps for educating the investors

- ? SEBI distributed the booklet titled "A Quick Reference Guide for Investors" to the investors.
- ? Various corporates on a request made by the SEBI distributed the booklet titled "A Quick Reference Guide for Investors" to their shareholders.
- ? The SEBI issued a series of advertisements /public notices in national as well as regional newspapers to educate and caution the investors regarding collective investment schemes.
- ? Some of the Investors' Associations registered with SEBI organised seminars for educating investors on various topics of capital market with the financial support extended by the SEBI.
- ? The SEBI issued. to educate the investors, a brochure in question-answer format explaining the fundamental issues relating to mutual funds.

G] PROHIBITION OF INSIDER TRADING

During 2001-02 16 cases were taken up for enquiries and investigations in connection with insider trading. Total numbers of 5 cases relating to insider trading were completed during 2001-02.

H] SUBSTANTIAL ACQUISITION OF SHARES AND TAKE-OVERS

During the year, 130 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 total of Rs. 76,09,000 /- were received towards monetary penalties.

I] INSPECTION AND INQUIRIES

Inspection and Enquires – Stock Brokers and Sub Brokers

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

- ? Books of accounts, records and other documents are being maintained in the manner specified by the Securities Contracts (Regulation) Rules, 1957 and SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.
- ? The provisions of the SEBI Act, the Securities Contracts (Regulation) Act and the provisions made thereunder are being complied with by the broker.
- ? Adequate steps for redressal of grievances of the investors are being taken and the conditions of registration as a stock broker are complied with.
- ? 10 brokers were inspected in 2001-02 and 200 brokers inspection is being taken up. Comparative statement of action taken against brokers and sub brokers during the year 2000-01 and 2001-02 is given below in Table 3.10.

Table 3.10 : Inspection of Brokers and Sub-brokers

Particulars	2000-01	2001-02
Inspections – Brokers	99	10
Inspections - Sub Brokers	16	Nil
Enquiries ordered – Brokers	217	24
Enquiries ordered - Sub Brokers	1	Nil
Warned	41	39
Suspended	2	15
Registration cancelled	4	18
Entitlement Of Underwriting cancelled	2	Nil
Adjudication	2	Nil
No Action	5	2

Source : SEBI

Inspections of Mutual Funds

Inspections of 32 active mutual funds (including those schemes of UTI which come under the purview of SEBI) was ordered during the year to be carried out by independent chartered accountancy firms. Necessary action was taken on the findings of inspections carried out. Mutual funds were advised to take corrective action, wherever necessary.

Disciplinary action taken

Monitoring of mutual funds was further strengthened during the year to ensure that the mutual funds comply with the SEBI Regulations and guidelines issued from time to time and the interests of investors are protected. Periodical reports received from the mutual funds and inspection reports were examined and clarifications were sought from them wherever necessary. SEBI took disciplinary action against a number of mutual funds in the year 2001-02, the details of which are given in the following table:

Table 3.11 : Action Taken During 2001-02

Sr.No.	Description	No. of Mutual Funds
1	Adjudication Ordered	4
2	Financial Penalty Imposed	3
3	Warning/Deficiency Letters issued	48
4	Payment of Interest	14

Source: SEBI

Adjudication Ordered and Financial Penalties Imposed

During the year under review, adjudication proceedings were ordered against four mutual funds – Tata Mutual Fund, DSP Merrill Lynch Mutual Fund, Shriram Mutual Fund and LIC Mutual Fund.

On the basis of adjudication ordered in the current year as well as those ordered in the previous year but decided in the current year, financial penalties were imposed on the following mutual funds for violation of SEBI Regulations:

Tata Mutual Fund: It was observed from the portfolio statements of the mutual fund for the half-year ended March 31, 2001 that the scheme portfolios were not in accordance with the format prescribed by SEBI. A lot of information pertaining to investments as specified in the format and which was very important for the investors was not disclosed. Penalty of Rs 2 lakh was imposed on the AMC which has since been paid.

Alliance Capital Mutual Fund: Adjudication was ordered last year. 5 Schemes of the mutual fund exceeded the 10 per cent investment limit as prescribed in the Regulations. A penalty of Rs 5 lakh was imposed on the AMC. Mutual Fund has paid the penalty.

Kothari Mutual Fund (Name changed to Pioneer ITI Mutual Fund): Adjudication was ordered in January 2000 for inadequate disclosures in the offer documents. A penalty of Rs. 2 lakh was imposed. The mutual fund preferred an appeal before the Securities Appellate Tribunal and the decision of Adjudicating officer was upheld. Mutual Fund has paid the penalty.

Details of other adjudication cases are given below:

Escorts Mutual Fund: The adjudication was ordered in the last financial year for the delay in publication of annual report and submission of the same to SEBI. The adjudication officer levied a penalty of Rs 52,000. However, the mutual fund preferred appeal before the Securities Appellate Tribunal and the decision of adjudication officer was set aside.

DSP Merrill Lynch Mutual Fund: Adjudication was ordered for exceeding the investment limits in one of their schemes. Adjudication Officer passed an order to caution the mutual fund.

Shriram Mutual Fund: In various quarters, the business through associated brokers exceeded the limit of 5 per cent of the aggregate purchases and sales of securities made by the mutual fund in its schemes, in violation of Regulations. Mutual Fund did not report this violation in the quarterly Compliance Test Reports. Adjudication case is pending for decision.

LIC Mutual Fund: In the inspection report for the period April 1, 1999 to September 30, 2000, the auditors pointed out cases where investments exceeded the investment limit prescribed in the Regulations. Adjudication case is pending for decision.

Warning / Deficiency Letters

Considering the magnitude and seriousness, 48 warning/ deficiency letters were issued to 20 mutual funds on the basis of monitoring through various periodical reports and deficiencies pointed out in the inspection reports.

The main reasons for which warning/ deficiency letters were issued to mutual funds were:

- (i) Deviation from advertisement code and guidelines.
- (ii) Delay in submission of periodical reports.
- (iii) Non-exercise of due diligence in filing draft offer documents and font size being smaller than that prescribed.
- (iv) Delays in publication of NAVs and wrong publishing of NAVs.
- (v) Discrepancies in recording of investment decisions.
- (vi) Inadvertent short-selling.
- (vii) Failure to install systems and compliance mechanism in place.
- (viii) Unsatisfactory standard of investor services.
- (ix) Delay in filing details of transactions by trustees.
- (x) Discrepancies in calculation of investment management fees.
- (xi) Systemic deficiencies for delays in remitting the repurchase/ redemption proceeds.
- (xii) Delay in transfer of consideration in case of inter-scheme transfers.
- (xiii) Brokerage/ commission wrongly reported in the published un-audited results compared to the figure published in the annual report.
- (xiv) Marginally exceeding the investment limits for a short period.

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 quarterly basis.

During the year 2001-02, 14 mutual funds reported to have paid Rs 2.57 lakh as interest to 399 investors for the delay in despatch of redemption/ repurchase proceeds.

It may be mentioned here that during the previous year 2000-01, 22 mutual funds paid interest of Rs 8.37 lakh to 6,722 unitholders as against a total amount of Rs 17.24 lakh paid to 14,686 investors during 1999-2000.

Due to strict action taken by SEBI and making it mandatory to pay interest for the delays in despatch of redemption/ repurchase proceeds, the number of such cases of delays have declined considerably.

J] DELEGATED POWERS AND FUNCTIONS

Central Government in exercise of powers under section 29A of the Securities Contract (Regulations) Act, 1956 vide notification dated July 30, 1999, delegated powers in respect of Section 4(5), 7, 8, 11, 12 and 16 of the Act.

Central Government in exercise of powers under Section 29A of SC(R) Act, vide notification dated September 13, 1994 delegated powers in respect of section 3, 4(1),(2),(3),(4), 5, 7A(2), 18(2), 28(2) of SEBI Act.

1. SEBI in exercise of powers under section 3 and 4 of the Act in the year 2001-02 has renewed recognition of the following stock exchanges:

Name Of The Stock Exchange	Notification dated	Renewal period	
Inter Connected Stock Exchange	November 8, 2001	3 years	November 18, 2001 to November 17, 2004
Uttar Pradesh Stock Exchange	May 30, 2001	1 year	June 3, 2001 to June 2, 2002
Ludhiana Stock Exchange	April 27, 2001	1 year	April 28, 2001 to April 27, 2002
Cochin Stock Exchange	April 5, 2001	6 months	May 8, 2001 to November 7, 2001
	July 5, 2001	1 year	November 8, 2001 to November 7, 2002
Mangalore Stock Exchange	September 9, 2001	1 year	September 9, 2001 to September 8, 2002

2. SEBI in exercise of powers under section 8 of the Act vide notification dated January 10, 2002 specified that no broker member will hold the post of any office bearer i.e. President, Vice-President or Treasurer of Governing Board of any recognised stock exchanges.
3. SEBI in exercise of powers under section 16 of the Act vide notification dated March 1, 2000 prohibited entering into any contract into securities other than the spot delivery contract or contracts as is permissible under the Act or rules and bye-laws of the recognised stock exchanges.

K] FEES AND OTHER CHARGES

Table 3.12: Fees and Other Charges Received

(Rs. in lakh)

Item	Fees Received	Fees Received
	2001-2002 (Unaudited)	2000-2001
Offer Documents and prospectuses filed	126.40	185.55
Merchant Bankers	64.23	206.69
Underwriters	25.00	132.33
Portfolio Managers	62.25	115.00
Registrars to an Issue and Share Transfer Agents	19.40	36.20
Bankers to an Issue	13.70	165.00
Debenture Trustees	30.90	65.50
Takeover offer documents filed	76.25	73.60
Mutual Funds	145.75	116.25
Stock Brokers and Sub-Brokers	8,079.44	3,064.28
Foreign Institutional Investors	408.32	941.48
Sub Account - Foreign Institutional Investors	174.01	305.91
Depository	20.00	20.00
Depository Participants	77.70	174.03
Venture Capital Funds	6.25	70.00
Custodian of Securities	65.00	60.00
Approved Intermediaries under Securities Lending Scheme	44.79	61.32
Penalties	97.14	60.98
Collective Investment Scheme	5.00	21.75
Credit Rating Agencies	-	-
Listing Fees Contribution from Stock Exchanges	186.50	199.52
Foreign Venture Capital	5.67	6.02
Derivatives	104.73	112.80
Total	9,838.43	6,194.21

*Figures for 2001 - 2002 are yet to be audited by the CAG.
Figures in columns 2 and 3 are as per the Receipt and Payments Account i.e. on actual receipt basis.
Source : SEBI*

L] RESEARCH AND OTHER STUDIES

The Research Department undertook several initiatives for enhancing role of research inputs in policy making of the SEBI. Besides completing a few research studies, the SEBI in collaboration of NCAER under memorandum of understandings completed two research projects on Securities market and cost compliance.

In 1999-2000, the SEBI published a comprehensive report on Survey of Indian Investor. The Department later on again undertook an update of the survey in collaboration with NCAER to estimate the household investors in 2000-01. The report of the survey is under finalisation. The chapter on capital market which forms the part of Economic Survey of Government of India was

prepared in the Research Department. The Department also prepared research notes for Annual Report of Ministry of Finance, GOI and Annual Report of Reserve Bank of India.

The Research Department, besides preparing the Annual Report of SEBI also brings out SEBI Monthly Bulletin to disseminate the data and other information on securities market.

M] OTHER FUNCTIONS

Grievances Redressal

Mutual funds

Redressal of grievances of investors is given a lot of importance in SEBI. Out of a total of 40,022 complaints (cumulative) which have been received by SEBI against the mutual funds till March 31, 2002, 39,854 complaints stand redressed. The rate of redressal of investors' grievances by mutual funds as a whole has gone up from 99.12 per cent last year to 99.58 per cent during the year 2001-02. This high rate of redressal has been achieved due to constant follow up with the mutual funds.

Securities market

SEBI has a comprehensive investor grievances redressal mechanism. A standardised complaint format is available at all offices of SEBI and on the SEBI Website for the convenience of investors. The complaints received from investors are acknowledged and a reference number is sent to the complainant. Complaints are taken up with the concerned companies. The SEBI officers also hold meetings with the company officials to impress upon them their obligation to redress the grievances of investors. Recalcitrant companies are referred for prosecution. SEBI also issues fortnightly press release on the status of redressal of investor grievances for public information. This report is also hosted on SEBI web-site.

During the period, 1991-92 to 2001-02, the SEBI received more than 27 lakh grievances from investors. Of these nearly 26 lakh grievances were redressed by the companies, which indicates a redressal rate of 94.86 per cent. The cumulative status of investor grievances received by SEBI, resolved by the companies and the redressal rate in this regard from the year 1991-92 to 2001-02 is furnished in Table 3.13.

Table 3.13: Details of Grievances Redressal

Financial Year (End March)	Grievances Received (Cumulative)	Grievances Resolved (Cumulative)	Redressal Rate (Per Cent)
1991-92	18,794	4,061	21.61
1992-93	1,29,111	27,007	20.92
1993-94	7,13,773	3,66,524	51.35
1994-95	12,29,853	7,18,366	58.41
1995-96	16,06,331	10,34,018	64.37
1996-97	18,23,725	14,65,883	80.38
1997-98	23,35,232	21,42,438	91.74
1998-99	24,34,364	22,69,665	93.24
1999-2000	25,32,969	24,16,218	95.39
2000-01	26,29,882	25,01,801	95.13
2001-02	27,11,482	25,72,129	94.86

Source : SEBI

In order to ascertain correct status of redressal of grievances, SEBI has been conducting an exercise of sending reply paid post cards to investors requesting them to reply as to whether their complaints have been resolved by the companies or not.

During the year 2001-02, the SEBI sent reply paid post cards to 49,506 investors whose grievances were received upto December 31, 2000 and were pending with SEBI as on July 31, 2001. The SEBI received postcards back from 31131 investors of which 3360 replied that the complaints were resolved, 27,247 replied that the complaints were not resolved and 524 postcards returned undelivered.

Investors' Associations

With a view to part a greater degree of awareness among the investors leading to a more healthy, transparent and efficient securities market in India, the SEBI has been registering Investors' Associations. The following Investors' Associations were registered with SEBI as on March 31, 2002:

1. All Body Corporate Shareholders' Forum, Hyderabad.
2. Consumer Education and Research Society, Ahmedabad.
3. Ghatkopar Investors' Welfare Association, Mumbai.
4. Investors' Grievances Forum, Mumbai.
5. Jagrut Grahak Mandal, Patan (Gujarat)
6. Kovai Investors' Association, Coimbatore
7. Midas Touch Investors' Association, Kanpur
8. Tamil Nadu Investors' Association, Chennai
9. The Gujarat Investors' and Shareholders' Association, Ahmedabad

The registered Investors' Associations are eligible for reimbursement of a specified sum from SEBI to meet their one time capital expenditure towards setting up of computer terminals and installation of database on companies and internet connectivity. They are also entitled to reimbursement of expenditure for organising seminars for investors education on capital market and expenditure on publication and circulation of material on investor education.