ii. Secondary Securities Market

The SEBI has been consistently endeavoring to promote a market which is both efficient and fair and also one which protects the rights of investors. Modernisation of market infrastructure improves market transparency, and improvement of market microstructure increases trading efficiency. Risk containment measures improve market integrity and credibility. These have been the main focus of the SEBI's efforts in the secondary market. The SEBI extends its oversight to the 23 stock exchanges in the country. The SEBI directed its efforts towards encouraging the stock exchanges to become effective self regulatory organisations. The measures taken by the SEBI in 1998-99 in the secondary market are discussed below.

Depositories and paperless trading

Dematerialisation of securities is one of the major steps for improving and modernising our markets and enhancing the level of investor protection. Recognising the far reaching benefits that would accrue to the market through the removal of physical securities, the speeding up of the dematerialisation process has therefore been high on the agenda of SEBI. As a part of the SEBI's policy it was decided to introduce paperless trading and electronic book entry transfer in a phased manner so as to allow time for the required infrastructure to develop and to gain acceptance of the investors and the market. This approach proved fruitful and within a very short period of less than 12 months, a significant portion of trading volume on the stock exchanges were taken place in dematerialised form.

To help the SEBI to get a feedback on the progress of dematerialisation and also to suggest policy changes, a Working Group has been constituted by the SEBI comprising of National Securities Depository Ltd (NSDL), Central Depository Services Limited (CDSL), Stock Exchanges and various market participants viz., Custodians, Brokers, FIIs, mutual funds. The Working Group which meets at regular intervals to review the progress and examine the issues involved in compulsory dematerialised trading to suggest further measures have proved to be on useful consultative mechanism.

The following are the major steps taken by the SEBI to increase the pace of dematerialisation and ensure a speedy transition to dematerialised trading:

- In order to catalyse the process of dematerialisation of securities, and dematerialised trading, an element of compulsion was introduced by requiring the individual and institutional investors to settle trades compulsorily in dematerialised shares of selected companies.

- To begin with, institutional investors (FIs, FIIs, Mutual Funds and Banks) and Overseas Corporate Bodies (OCBs) were required to settle trades in the dematerialised form in respect of 8 scrips from January 1998. Subsequently, the number of scrips was increased in phases to 319 scrips as at the end of financial year under review. This number would be increased to 360 by May 31, 1999. These scrips comprises of all shares in the BSE Sensitive Index and CNX S&P Nifty indices, all the scrips in the 'A' group and most of the highly traded scrips in 'B1' group, accounting for more than 80% of market capitalisation and 90% of trading volume.

- Upon reviewing the satisfactory progress in the dematerialisation of shares and also settlement in dematerialised form and in the light of the recommendations of stock exchanges, it was decided to encourage retail investors to trade in the depository mode. Hence, with effect from January 4, 1999, the settlement of trades in the dematerialised form was made mandatory for all classes of investors for shares of 12 companies. Subsequently, the number of companies was increased in phases to 31. This number would be increased to 104 by May 31, 1999 and would thus cover more than 90 per cent of trading volume on the Indian stock exchanges. With this, all shares

included in the BSE Sensex and NSE Nifty indices and other highly trades shares would be traded in dematerialised form by individual investors also.

- Delivery of dematerialised shares has been permitted in physical securities segment in the stock exchanges. This has helped in mitigating the problem of liquidity in dematerialised trading and also helped to integrate the order book in physical and dematerialised segments.

- The concept of market lot was abolished in the shares of the companies which are in list of compulsory dematerialised trading for all classes of investors. This has improved the liquidity and retail interest as such investors can now buy in the lot of 1, 3, 7 etc. without being affected by price disparity.

- Rolling settlement has the benefit of speedier settlement of cash and securities. An option for rolling settlement has been introduced in the stock exchanges for the dematerialised trading.

- Procedures were simplified and several safeguards introduced so that investors could easily dematerialised their holdings in shares and are encouraged to participate in this process of dematerialisation.

- Guidelines were issued by the SEBI so that an investor could ask for dematerialisation of shares when he sends his shares for registration after purchase. This helped to speed up the process of dematerialisation of shares and reduce the to-and-fro movement of shares between the companies and investors.

- In respect of shares of companies in the list of compulsory dematerialised trading for all classes of investors, "No delivery"-period, in the stock exchanges was reduced. This helped to improve the liquidity in such scrips and reduce the volatility in price during the non delivery period.

- To help small investors with small holdings of shares in the physical form, stock exchanges were advised by the SEBI to allow sale of shares up to 500 in number or Rs 25,000 in value in the physical form.

- In order to bring in high net-worth individuals into dematerialised form, it was decided that any investor who have a net delivery obligation of more than 5000 shares in respect of 24 select scrips in any settlement commencing from January 4, 1999 shall compulsorily settle in dematerialised form. All such scrips form the part of BSE Sensex.

- In order to improve the availability of infrastructure for depository, the SEBI took up the matter with the Reserve Bank of India to persuade banks to become depository participants (DPs).

- The SEBI requested the Department of Telecommunications (DoT) to allow banks which are depository participants to use the closed user group connectivity with NSDL i.e. depository participants which are banks with NSDL. The DoT has allowed such connectivity for banks which are depository participants.

Strengthening the safety and integrity of the secondary securities market

In June 1998, the market had witnessed abnormal price fluctuation and volatility. With a view to containing excessive market volatility, certain risk containment measures were taken by the SEBI in consultation with the Inter-Exchange Co-ordination Group and the stock exchanges. The stock exchanges were also directed to ensure all net outstanding sales portion as at the end of the trading day commencing from June 17, 1998 would result in deliveries. As the measure was a temporary one, this decision was reviewed on July 06, 1998 and withdrawn. Other measures included introduction of concentration margin and incremental margin on carry forward trades.

Volatility margins

To contain the volatility in the market and to enhance safety in the market under conditions of abnormal

price movement, the SEBI in consultation with the stock exchanges and market participants evolved a mechanism of imposition of margin on volatile scrips. The price bands for scrips were modified and a varying margining system for volatile scrips was introduced across all the stock exchanges effective from July 06, 1998. The system for additional volatility margining being followed currently is given in Table 1.4

Table 1.4: Additional Volatility Margin

Price Variation	***Margin Rates***
16 per cent or more	5 per cent
24 per cent or more	20 per cent
32 per cent or more	30 per cent
40 per cent or more	40 per cent

Source : SEBI

Once a security attracts the volatility margin, the margin will continue on the security at the margin rate as of the last day of the previous trading period for the first two trading days in the subsequent trading cycle also. For the subsequent days of the trading period, margins applicable shall be as per rates prescribed above based on price variation during the current week or 5 per cent whichever is higher. If however, the direction of price variation has reversed in the current week and the price variation in the security has exceeded the threshold limits in the reverse direction, then the margins as per rates prescribed therefor shall apply.

Further, if prices have been volatile, say, upwards (or downwards) and are attracting margins on the buy side (or sell side), and if the price movement reverses and exhibits a decline (or increase) of 16 per cent or more, then the margins will be applicable on sell side (buy side) as per rates prescribed.

Price bands

To provide more trading flexibility and to ensure trading of a scrip on all trading days, weekly price bands of 25 per cent was withdrawn. Daily price bands was reduced from 10 per cent to 8 per cent. 77

Intra-day trading and exposure limits

With a view to enhance market safety, during the year 1997-98, the SEBI decided that the upper limit for gross exposure of the member broker of the stock exchange would be fixed at 20 times the base minimum capital and additional capital of the member broker. Gross exposure is the sum total of overall open positions of a broker. Most exchanges have a gross exposure limit lower than 20 times for additional safety. This is in addition to the intra-day trading limits of 33 1/3 times the base minimum capital and the additional capital of the broker, which were introduced by the SEBI in 1996-97 and have already been implemented by all the stock exchanges. Together they have strengthened the risk management in the secondary market.

To ensure margin are collected from the clients, it was made mandatory for member-brokers to collect

margins from clients in all cases where the margin in respect of the client in the settlement, would work out to be more than Rs.50,000/-. Disclosures also have been made mandatory for the member-brokers with regard to the gross outstanding position of clients.

Setting up of trade/settlement guarantee fund by stock exchanges

One of the shortcomings of the clearing and settlement process of the Indian stock markets was the absence of system to reduce counter-party risk. Managing this risk is essential for the safety and efficiency of the market. For this purpose, the exchanges have been required to set up trade guarantee funds or settlement guarantee funds. The main objectives of these funds is that in case of a failure of a member broker to fulfill his pay-in liabilities, the Fund would provide the necessary resources and thus ensure timely completion of settlements. Thus establishment of such funds would give greater confidence to investors in the settlement and clearing procedures of the stock exchanges.

The NSE is operating a clearing corporation, the National Securities Clearing Corporation Limited. During the year 1998-99 the settlement guarantee fund schemes of Madras, Ahmedabad, OTCEI, Vadodara, Delhi and Inter-connected Stock Exchange India Limited (ISEIL) in addition to Bombay, Ludhiana, Calcutta and Bangalore (1997-98) have been granted approval by the SEBI, bringing the number of exchanges with settlement guarantee funds to 10. The stock exchanges at Hyderabad, Cochin and Bhubaneshwar have been granted an 'in-principle approval' to set up settlement guarantee funds subject to fulfillment of certain conditions. The aggregate corpus of the fund, of all the stock exchanges is over Rs. 1000 crores.

Table 1.5 : Stock Exchange-wise details of Settlement Guarantee Funds

S.No.	***Name of Stock Exchange***	***SGF Schemes approved as on***
1.	Bombay	May 12, 1997
2.	Ludhiana	February27,1998
3.	Bangalore	January 23, 1998
4.	Calcutta	March 10, 1998
5.	Delhi	April 3, 1998
6.	Vadodara	August 4 1998
7.	Madras	August 21, 1998
8.	OTCEI	October 9, 1998
9.	ICSEIL	January 6, 1999
10.	Ahmedabad	February 2, 1999

Source : SEBI

Committee on continuing disclosure standards.

The SEBI had appointed a Committee to suggest measures for further improving the continuing disclosure standards by corporates and timely dissemination of price sensitive information to the public. The Report of the Committee was accepted by the SEBI. All listed companies are now required to furnish to the stock exchanges and also publish un-audited financial results on a quarterly basis. India is one of the few countries in the world to have a system of quarterly disclosures. For better accountability, the listing agreement has also been amended to provide for details of deployment of funds mobilised on a half-yearly basis instead of a yearly basis. The disclosures on material events which would have a bearing on the performance/operations of the company are now required to be made available to the public immediately. The above amendments to the listing agreement were made effective for all the listed companies from the quarter ending June 1998.

Enhancing Efficiency and Transparency in the Stock Exchanges

Computerised screen based trading

Electronic form of trading has gained acceptance internationally as a highly transparent, cost efficient and faster mode for executing trades. Electronic trading also allows the spreading of trading facilities and instant transmission of information. This was aptly recognized by the SEBI and accordingly all the stock exchanges in the country were advised to introduce electronic trading system and automate their operations. The open-outcry system of trading which was prevalent in the stock exchanges in the country till a few years ago has now been fully replaced by computerised trading, unlike in some of the developed countries where the two systems still coexist on the same exchange.

The OTCEI, which was set up in 1992, was the first computerised exchange in India. The NSE started operations in 1994 with electronic trading, while all other exchanges introduced electronic trading subsequently. Till 1996-97, 16 exchanges in the country had shifted to electronic trading and in the year 1997-98 four more exchanges established these facilities. By March 31, 1999, all the 23 stock exchanges in the country had computerised on-line screen based trading. Details of the stock exchanges which went on-line during the year 1998-99 are as given below in Table 1.6

Table 1.6: Stock Exchange-wise on-line trading during 1998-99

Stock Exchange	***Commencement of Electronic Trading***
Jaipur Stock Exchange	December 10, 1998
Inter-Connected Stock Exchange	February 26, 1999
Magadh Stock Exchange	March 18 , 1999

Source : SEBI

Clearing house or clearing corporation

To ensure an effective clearing mechanism, the SEBI had advised all stock exchanges to set up clearing houses and settle all transactions through the clearing house only and not directly between members, as was practiced earlier. In response to this, all stock exchanges in the country have established clearing

houses. As mentioned earlier, the NSE had set up a clearing corporation, the National Securities Clearing Corporation Limited, which guarantees settlements of all trades by acting as a counter party to every trade executed in the capital market segment of the exchange.

Weekly settlement cycle and auction

The stock exchanges were required to necessarily complete their settlements within seven days and to conduct the auction immediately *i.e.* not later than eighth day, after the completion of the relevant trading period in those cases where members failed to give delivery. Calcutta Stock Exchange which had a fortnightly settlement period changed over to a weekly settlement period during 1998-99. The members of Madras Stock Exchange were allowed to make delivery for a particular settlement on the pay-in day of the next settlement as a result of which members could carry forward their transactions to the next settlement. However, Madras Stock Exchange has stopped this practice and adopted a weekly settlement cycle. All the exchanges in the country have a weekly settlement cycle today.

Modified carry forward system

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

Till 1997-98 the Bombay Stock Exchange was the only exchange in the country which had the facility to carry forward trades under the Modified Carry-Forward System. During the year 1998-99 the stock exchanges at Delhi, Ludhiana and Calcutta also introduced the Modified Carry-Forward System.

Rolling settlement

The SEBI has already reduced the fourteen-day trading cycles to weekly cycles (5 days) and rolling settlements is a logical extension of further shortening of the trading and settlement cycles. Presently all the stock exchanges have a 5-day trading cycle.

For the first time in the country, rolling settlement was introduced by the SEBI by making it optional for dematerialised shares. The stock exchanges where trading in dematerialised securities is available, have commenced T+5 rolling settlement cycles from January 15, 1998 for the dematerialised segment on an optional basis. While contemplating the introduction of the rolling settlement in a phased manner, the SEBI is reviewing the conditions that are needed for its smooth introduction. These conditions include, availability of electronic fund transfer facility on a wide scale, reviewing the adequacy of the infrastructure of the clearing corporations of the exchanges/ clearing houses, the depositories, the depository participants, custodians etc., and the impact of rolling settlement on the turnover of the exchanges in the absence of hedging facility and as well as on the smaller exchanges. A group is being set up by the SEBI to review all these aspects and to provide a road map for rolling settlement.

Market making

One of the institutional mechanism which is absent in our secondary markets is ‘Market Making’. This concept was first introduced on the OTCEI but it has not been able to serve its purpose. Market making is an important activity, which infuses liquidity in the capital market by way of two-way quotes given by jobbers or market makers.

Illiquidity of scrips on the exchanges has been a major concern of the SEBI. In an effort to provide necessary liquidity to the comparatively less traded though fundamentally good scrips, SEBI had constituted a Committee, to study the concept of market making and to revive the institution of market makers. The Committee is in the process of finalising the Report, containing therein the norms for the market makers.

Negotiated deals

While the facility of negotiated deals permit block trading and is useful for the stock markets, however, there was a need for regulating these areas to increase the transparency. Accordingly several measures were taken, which included defining a negotiated deal with respect to quantity and volume, as a deal with a value of more than 10, 000 shares or Rs. 25 lakh whichever is less. Reporting of the deal would be required within 15 minutes of the trade and the settlement of the deal and information about the deal like details of prices and volume would be disseminated to the market; price of the deals to be within the price bands. An area of misuse was the "all-or-none" facility on the stock exchanges. This facility has now been withdrawn from all stock exchanges.

Investors’ protection fund & investor services fund

All the stock exchanges have been required to set up a fund called ‘investor protection fund’. The purpose of the fund is to provide compensation, arising out of disputes or defaults of the member brokers of the exchange, to the small investors. The amount of compensation available against a single claim of an investor arising out of default by a member broker of a stock exchange is Rs. 1 lakh in case of major stock exchanges, (for BSE it is Rs. 3 lakh) Rs. 50,000 in case of medium stock exchanges and Rs.25,000 in case of smaller stock exchanges. Another Fund being maintained by the exchanges is the Investor Services Fund, whose purpose is, as the name indicates, to provide investor related services.

New Stock Exchanges

Inter-Connected Stock Exchange Of India Ltd., Mumbai (ICSEIL)

The Inter-Connected Stock Exchange of India Ltd., Mumbai (ICSEIL) has been granted recognition as a Stock Exchange on November 18, 1998 as the 23rd stock exchange in India. ICSEIL has been promoted by 14 regional stock exchanges. The ICSEIL has set-up an inter-connected market system and provides its trading members a facility to trade on the national market in addition to the trading facility at the regional stock exchanges. The trading members are required to satisfy the capital adequacy separately as prescribed by the SEBI. Further all the participating regional stock exchange would be following a uniform trading and settlement cycle that could be different from the trading and settlement cycle of the ICSEIL. The ICSEIL has also established a Settlement Guarantee Fund to ensure settlement of trades. The ICSEIL commenced trading operations on February 26, 1999. Eleven stock exchanges namely Uttar

Pradesh, Bangalore, Vadodara, Hyderabad, Cochin, Coimbatore, Bhubaneshwar, Mangalore, Madhya Pradesh, Magadh and Saurashtra Kutch stock exchanges have commenced trading on the ICSEIL. The remaining four exchanges at Gauhati, Jaipur, Madras and Ludhiana have not yet joined the ICSEIL.

New products and procedures

The Securities Lending Scheme, 1997

The Securities Lending Scheme was introduced by the SEBI in 1997. The securities lending scheme provides for lending of securities through an approved intermediary to a borrower under an agreement for a specified period. The scheme facilitates the timely delivery of securities which improves the efficiency of the settlement system and corrects the temporary imbalances between demand and supply. It also provides for the mobilization of idle stocks in the hands of FIs, FIIs, Mutual Funds and other large investors leading to additional income to the holder of securities by resorting to the lending of securities. SEBI has already given approval to four intermediaries to act as Stock Lenders. The activity is however yet to pick up and the SEBI is continuously discussing with the market participants to encourage the use of stock lending.

Y2K preparedness project

As an effort to ensure that the markets do not face a crisis due to the Y2K problem, the SEBI has been writing to the market intermediaries to ensure that they are Y2K compliant by the end of this year. The stock exchanges have been asked to ensure that the broking houses are also Y2K compliant by the end of this year. In addition to this the Listing Agreement has also been amended on the insistence of the SEBI to the effect that the companies would have to disclose to the market their compliance with the Y2K deadline, the risk the company may face due to it the risk of the company's Year 2000 issues, the cost to address the company's Year 2000 issues, the company's contingency plans, etc.

Accounting Standards' Committee

Accounting standard is an important tool of financial disclosure of companies and is essential for good corporate governance as well as for investor protection. To harmonise Indian accounting standards with the international standards, the SEBI constituted a standing committee. The Committee is currently deliberating on issues such as valuation methods and norms for the NAV of mutual funds, reviewing the continuos listing requirements, etc.

Change in the name of companies/new business

It was noticed that there was a rising trend among companies to change their names to names indicative of lucrative business viz. software, to mislead and lure investors. Recognising this growing trend and to safeguard the interest of the investors, the listing agreement of the stock exchanges was amended so that companies who have changed their names to denote a new activity would have to disclose in their financial statements the income of the company from such an activity for a period of three years from the date of change of name.

Measures to improve the market micro structures

In order to enhance the confidence of the investors in the capital market, it was decided to do away with the minimum fill and all or none order attributes which were detrimental to the interests of the investors and were being misused by the un-scrupulous market players. Price bands as applicable to the regular market trades were made applicable for the negotiated trades (including cross deals, bulk deals and all trades where the price is not determined on the exchange's trading system). The deliveries for all such deals were required to take place within seven days of the transaction. This would protect the investors from being misled by unscrupulous intermediaries.

Corporate governance

Considering the significance of corporate governance for the protection of investor interests and the need to augment corporate governance in the listed companies, a seventeen member Committee was set up under the chairmanship of Shri Kumar Mangalam Birla, member SEBI board, to suggest measures. The terms of reference of this Committee encompass suggestions for amendments to listing agreement executed by the stock exchange with the companies in areas such as continuous disclosure of material information both financial and non-financial information, accounting information, manner and frequency of such disclosure, responsibility of directors, etc. The Committee has also been entrusted to draft a code of corporate best practices and also suggest safeguards to be instituted within the companies to deal with insider information and against insider trading.

Online trading terminals abroad

The Minister of Finance had in his Budget speech 1999-2000 announced a scheme to encourage members of the Indian stock exchanges to open on-line trading terminals abroad. The SEBI has formulated guidelines in this respect. The members of Indian stock exchanges would open terminals abroad and will be allowed to open offices in consonance with the norms laid down by the RBI under general permission under the FERA. The SEBI is in touch with the regulating authorities in various countries which have a high NRI population viz. the Middle East, Thailand, Hong Kong, Singapore, Kenya, USA and UK, to ascertain the regulatory requirement that need to be fulfilled by the brokers. The stock exchange brokers have been intimated of the regulatory requirements and requested to contact the respective country regulators.

Amendment to existing provisions regarding fixed par value of shares

The securities market have changed phenomenally since the time the par value of securities was standardised at Rs. 10/- and Rs. 100/-. Following the economic reforms and free pricing of shares companies are free to access the capital markets and also to price their shares freely. These issues are subject to the regulatory framework put in place by SEBI for the purpose like the Disclosure and Investor Protection Guidelines for issuers of securities. The markets today have grown in terms of size, depth, number of issuer, number and variety of institutions and players and above all in terms of investor population. Given the wide spectrum of changes in the market, especially in the area of free pricing of issues and the recommendation of the Informal Group on Primary Market (under the chairmanship of Dr. Shankar Acharya Chief Economic Advisor of the Government of India) which had examined the issue and recommended abolition of the par value, the need was felt to examine whether there is a case for continuance of the requirement of issuing shares of common denomination of Rs. 10/- for all companies.

Currently, the requirement to issue shares with a par value of Rs.10/- and Rs.100/- arises out of the Circular issued by the Government in 1983 following a meeting of the Presidents of all Stock exchanges. The existing Government circular requiring companies to issue shares at Rs.10/- and Rs.100/-is proposed to be withdrawn, which will provide the companies the freedom to issue shares at a fixed amount to be determined by them in accordance with Section 13(4) of the Companies Act, 1956. While doing so, the companies will have to ensure that shares are not issued in decimal of a rupee The companies will be free to change the existing fixed amount indicated by them in the Memorandum and Articles of Association under Section 13(4) of the Companies Act, 1956. Only companies whose shares are dematerialised would be eligible to alter the 'fixed amount indicated in the Memorandum and Articles of Association. The existing companies, which have issued shares at Rs.10/- and Rs.100/-, could also avail of this by splitting/consolidating the existing shares. The current disclosure norms applicable for premium issues as per the SEBI Disclosure and Investor Protection Guidelines will apply for all IPOs under the new dispensation. Also, current entry norms applicable for par issues will be applicable to all issues. Thus, henceforth there will be only one set of disclosure and entry point norms for all IPOs. While introducing the aforesaid measures, appropriate modalities will be worked out. The above steps will give the freedom to companies to price their IPOs below Rs.10 and would thus be an extension of free pricing. It was felt that this measure of liberalization will benefit the investors and the companies. The measures will also harmonize the existing separate disclosure and entry point norms for par and premium issues. The measures are also in accordance with international practices. The necessary guidelines in this regard will be issued shortly.

Derivatives trading

The Report of the Committee on derivatives trading has been accepted by the SEBI Board. The amendment to the SC(R) Act to include derivatives in the definition of "securities" is pending with the Parliament.

Prof. J.R. Varma Committee Report for risk containment for derivative trading

The J.R. Varma Committee, set up by the SEBI, to recommend risk containment measures in the Indian Stock Index Futures Market has submitted its Report to SEBI. The Committee focused on ways of making operational the broad recommendations of the committee on derivatives to fix the initial margin to cover at 99 per cent Value at Risk. The summary of recommendations is given in the Box1.5.

Box1.5: Recommendations of Verma Committee Report on Derivatives

The Report provides the methodology for fixing of initial margin on Index Futures contracts, prescribes liquid networth requirements for clearing members, transparency and disclosure norms for the clearing corporation, trading member position limits etc.

1. SEBI should recommend only the use of a particular Value at Risk estimation methodology, but should not mandate a specific minimum margin level. The derivatives exchange and clearing corporation would be authorised to fix the quantum of margin for index futures using this methodology. An exponential moving average method would be used to obtain the volatility estimate every day. The volatility at the end of a particular day is estimated using the previous day’s volatility estimate and the returns observed in the futures market during the current day. However, for the first six months of trading (until the futures market stabilises with a reasonable level of trading), the initial margin shall not be less than 5%.

2. The margin on calendar spreads to be levied at a flat rate of 0.5% per month of spread on the far month contract of the spread subject to a minimum margin of 1% and a maximum margin of 3% on the far side of the spread for spreads with legs upto 1 year apart.
3. The clearing member's liquid net worth must satisfy the following 2 conditions on a real time basis:

a. Condition 1: Liquid Net Worth shall not be less than Rs 50 lakh at any point of time.
b. Condition 2: The mark to market value of gross open positions at any point of time of all trades cleared through the clearing member shall not exceed $33^{1/3}$ times the members' liquid networth.

1. There shall be a position limit at the trading member level of 15% of the open interest or Rs 100 crore whichever is higher.

Certification committee

The SEBI set up the Certification Committee in May 1998 to design a curriculum and administrative set up, and to approve the proposals for certification programme for derivatives brokers/dealers and salespersons, which may be received from various institutions and existing stock exchanges. The SEBI issued the guidelines for the conduct of certification examination based on the committee's recommendations. The NSE's Certification for Financial Markets (NCFM) Programme to certify derivative broker/dealers and salespersons was granted approval by the Committee in July 1998 and more than 1500 participants have qualified the certification programme.

Committee on short sale

While short sales provide liquidity to the markets and is an essential feature for an efficient securities market, there are situations when short sales also could be misused and may be vulnerable to unfair trade practices and market manipulation. Markets in most countries while permitting short sales also have regulations to prevent misuse. Accordingly, the SEBI appointed a Committee to suggest measures for regulating short sales. The Stock Exchange, Mumbai and others made presentation on the current position and practices in the market related to short sale. Several suggestions were discussed at the meeting. The Committee would be inviting further comments of the exchanges on this issue and a report is expected to be prepared shortly.