

VI. Intermediaries Associated with the Securities Markets

Primary Market

Merchant bankers

During the year 1997-98, merchant banking regulations were amended to segregate fund based and non fund based activities. The amended Regulations prohibit the merchant bankers (excluding banks and financial institutions) from carrying on any activities other than that in the securities market.

The merchant bankers, carrying on any business other than that in the securities market, were advised to either discontinue such activities or transfer the merchant banking activities to a new entity before June 30, 1998. In case the merchant banker chooses the latter option and decides to create a new entity for carrying on merchant banking activities, it would then have to be registered with the SEBI a merchant Banker.

While merchant bankers are allowed to deploy their surplus funds in securities, they are not allowed to borrow funds from the market and engage in the acquisition and sale of securities on a commercial basis.

Underwriters and portfolio managers

Earlier, a merchant banker was able to carry on underwriting and portfolio management activities under his certificate of registration as a merchant banker depending on the category of registration. However, as per the Amended Regulations for merchant bankers, all merchant bankers will have to seek separate registration under the Underwriting/Portfolio Management Regulations in order to carry on Underwriting/Portfolio Management activities. Part III gives further details of registration of underwriters and portfolio managers during 1998-99.

Debenture trustees

Debenture Trustees are registered and regulated by the SEBI under the provisions of SEBI (Debenture Trustees) Rules and Regulations, 1993.

Debenture trustees are required to submit quarterly reports in the prescribed format to SEBI. The SEBI is also conducting inspection of their activities. On the basis of the quarterly reports and the inspection reports, the SEBI monitors the activities of the debenture trustees and takes suitable action against them in case of violation/non-adherence to rules, regulations etc. During the financial year inspection of 10 debenture trustees were carried out.

Meetings with the debenture trustees were also convened by the SEBI and a working Group comprising 8 debenture trustees was formed to discuss, review and strengthen the existing Regulations.

Bankers to an Issue

Bankers to an issue are registered and regulated by the SEBI under the provisions of SEBI (Bankers to an Issue) Rules and Regulations, 1994.

During the year, 4 banks were issued warning letters for non-compliance with the SEBI directives and various rules and regulations. In addition, nine cases relating to bankers who have not entered into valid agreements with the issuer /client companies as per Regulation 14 (1) and 14 (2) of SEBI (Bankers to an Issue) Rules and Regulations, 1994, have been referred for adjudication. Out of these 9 cases, so far two banks have paid the monetary penalty imposed by the adjudicating officer.

Registrars to an issue and share transfer agents

Registrars to an issue (RTI) and share transfer agents (STA) are registered and regulated by the SEBI under the provisions of SEBI (Registrars to an Issue and Share Transfer Agents) Rules and Regulations, 1993. Registration is granted under the two categories : while Category I acts as both registrar to an issue and share transfer agent, and Category II acts as either a registrar to an issue or a share transfer agent.

The registrars to an issue and share transfer agents are required to submit quarterly reports in prescribed format to SEBI. The SEBI is also conducting inspection of their activities. On the basis of the quarterly reports and the inspection reports, the SEBI monitors the activities of the registrars to an issue and share transfer agents and take suitable action against them in case of violation of provisions of rules, regulations and circulars etc.

During the financial year, the SEBI conducted 31 inspection of registrars to issues and share transfer agents. Show-cause notices were issued in 42 cases for violation/contravention of the Regulations. In all 25 Registrars to an issue and share transfer agents were suspended for non-payment of fees. Two cases have been referred to adjudication as the intermediaries had not entered into valid contract with their clients.