ANNUAL REPORT
1998-99

SECURITIES AND EXCHANGE BOARD OF INDIA

SMDRP/   /99
October 7, 1999

The Secretary to the
Government of India,
Department of Economic Affairs
Ministry of Finance,
North Block, New Delhi

Dear Sir,

In accordance with the provisions of Section 18(2) of the Securities and Exchange Board of India Act, 1992, I forward herewith the copy of the Annual Report of the Securities and Exchange Board of India for the year ended March 31, 1998, in the format prescribed in the Securities and Exchange Board of India (Annual Report), 1994 in Part II Section 3 Sub-section (1) of the Gazatte of India Extraordinary.

Yours faithfully,

D R MEHTA

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ABBREVIATIONS

ALBM	Automated Lending and Borrowing Mechanism
AMC	Asset Management Company
AMFI	Association of Mutual Funds in India
APRC	Asia Pacific Regional Council
BOLT	BSE On-Line Trading
BgSE	Bangalore Stock Exchange
BSE	Bombay Stock Exchange
BSE Natex	BSE National Index (100 Scrips)
BSE Sensex	BSE Sensitive Index (30 Scrips)
CBDT	Central Board of Direct Taxes
CCPS	Cumulative Convertible Preference Shares
CDSL	Central Depository Services Limited
CIS	Collective Investment Schemes
CRA	Credit Rating Agency
CRISIL	Credit Rating Information Services of India Ltd
CSEKL	Capital Stock Exchange Kerala Limited
CUG	Closed User Group (Connectivity)
DCA	Department of Company Affairs
DFI	Development Financial Institution
DOT	Department of Telecommunications
DPs	Depository Participants
DRR	Debenture Redemption Reserve
DSE	Delhi Stock Exchange
DVP	Delivery versus Payment
ERO	Eastern Regional Office
FCDs	Fully Convertible Debentures
FERA	Foreign Exchange Regulation Act
FIFO	First In First Out Method
FIIs	Foreign Institutional Investors
FIs	Financial Institutions
GDP	Gross Domestic Product
GIC	General Insurance Corporation
IDFC	Infrastructure Development and Finance Corporation
IL&FS	Infrastructure Leasing and Financial Services
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offer
ISDN	Integrated Services Digital Network
ISEIL	Inter-connected Stock Exchange of India Ltd.
LSE	Ludhiana Stock Exchange
LAN	Local Area Network
MCFS	Modified Carry-Forward System
MF	Mutual Fund
MSE	Madras Stock Exchange
MOU	Memorandum of Understanding

NAV	Net Asset Value
NBFC	Non-Banking Financial Company
NCAER	National Council of Applied Economic Research
NCDs	Non-Convertible Debentures
NCFM	NSE Certification on Financial Management
NRI	Non-Resident Indian
NRO	Northern Regional Office
NSCCL	National Securities Clearing Corporation Limited
NSDL	National Securities Depository Limited
NSEIL	National Stock Exchange of India Limited
OCBs	Overseas Corporate Bodies
OCCPS	Optionally Convertible Cumulative Preference Share
OFCDDs	Optionally Fully Convertible Discounted Debentures
OFCDs	Optionally Fully Convertible Debentures
OIC	Overseas Investor Cell
OTCEI	Over-the-Counter-Exchange of India
PCD	Partially Convertible Debenture
PSU	Public Sector Undertaking
RTI	Registrar to the Issue
S&P CNX NIFTY	NSE Index (50 Scrips)
SAT	Securities Appellate Tribunal
SC(R) Act	Securities Contract (Regulation) Act, 1956
SEBI	Securities and Exchange Board of India
SGF	Settlement Guarantee Fund
SHCIL	Stock Holding Corporation of India Limited
SRO	Self Regulatory Organisation
STA	Share Transfer Agent
T-Bills	Treasury Bills
UTI	Unit Trust of India
VSAT	Very Small Aperture Terminal
WAN	Wide Area Network
WDM	Wholesale Debt Market
Y2K	Year 2000 Problem

PART I

POLICIES AND PROGRAMMES

This Annual Report of the Securities and Exchange Board of India (SEBI) reviews the policies and programmes of the SEBI, its working and operations in the financial year, 1998-99. The Report gives the account of operations and the manner in which the SEBI has been discharging its functions and exercising its powers in terms of the Securities and Exchange Board of India Act, 1992; the Securities Contracts (Regulation) Act, 1956; the Depositories Act, 1996; as well as in terms of the delegated powers under the Companies Act, 1956. The Report also gives details of developments in Indian securities markets and their bearing on and relation with the work of the SEBI. The Report has been prepared in accordance with the format prescribed in the Securities and Exchange Board of India (Annual Report) Rules, 1994, notified in the Official Gazette on April 7, 1994.

During 1998-99, the SEBI continued its operations and initiatives in regulating and promoting the development of Indian securities markets in fulfillment of the twin objectives of investor protection and market development mandated by the SEBI Act, 1992. Throughout its seven-year existence as a statutory body, the SEBI has sought to balance these two objectives by constantly reviewing and reappraising its existing policies and programmes, formulating new policies and crafting new regulations to nurture areas hitherto unregulated and to implement them to ensure growth of the markets with efficiency, integrity and protection of investors' interest. The major reforms and developments in the securities markets during 1998-99 are given in Box I.1

Box 1.1: Major Policy Reforms and Developments in the Securities Markets During 1998-99

Dematerialisation of Securities

- To eliminate the risks associated with trading in physical securities such as delay in transfer, bad delivery, theft, fake and forged shares, several new, and far reaching initiatives were taken by the SEBI to accelerate dematerialisation and electronic book entry transfer of securities -

✓ Compulsory trading in dematerialised form introduced for the first time for all investors in a phased manner in shares of selected companies which are most actively traded

✓ the list of companies whose shares are to be compulsorily traded in dematerialised form by institutional investors expanded to cover almost all the actively traded shares accounting for more than 90 per cent of the trading volume

✓ the Central Depository Services Ltd., a new depository promoted by the BSE and a few commercial banks granted certificate of commencement of business

✓ the market lots abolished for shares of companies compulsorily traded in dematerialised form by all investors

✓ the facility of selling small quantities of shares in the physical form of either 500 in number or Rs.25000 in value being introduced in the stock exchanges, to help investors having small holdings to dispose off their holdings easily.

Derivatives Trading

- To provide the facility of hedging and enhance the liquidity in the market, the committee appointed by the SEBI on derivatives recommended phased introduction of trading in derivative products beginning with trading in stock index futures, accepted by the SEBI. The introduction of derivatives is awaiting the amendment of SCR Act.

✓ The recommendations of the J.R. Verma Committee for risk containment measures for derivative trading including margin system accepted by the SEBI.

Buy-back of Securities

- To help increase the liquidity in the securities and to enable companies to enhance the wealth of shareholders, the facility of buy-back of securities by listed companies introduced for the first time.

Par Value of Shares

- To give the flexibility to the companies to issue shares at any amount and to extend free pricing to its logical conclusion and to benefit the investors, the current requirement for issuing shares with a fixed par value of Rs.10 or Rs.100 abolished for companies whose shares are dematerialised.

Employees Stock Option Scheme

- To provide incentives to employees, the J.R. Verma Committee was constituted by the SEBI to formulate the Guidelines for Employee Stock Options and Employee Stock Purchase Scheme. The Board has considered and accepted the recommendations of the Committee and the Guidelines are being issued.

Facilitating the Development of Infrastructure

- To facilitate increased raising of funds by infrastructure companies, the SEBI granted several relaxations and exemptions from the existing requirements. These are given below:

✓ Exemption from fulfilling eligibility norms
✓ Exemption from meeting profitability norms for free pricing of issues –subject to fulfillment of certain conditions.
✓ Exemption from the requirement of offering at least 25 per cent of securities to public
✓ Exemption from the requirement of the minimum number of 5 shareholders for every Rs.1 lakh of capital issued.
✓ Exemption from the requirement of minimum subscription of 90 per cent of public offer
✓ Relaxation from requirement of minimum financial participation by appraising agency – a minimum participation of 5 per cent of the project cost can be made either jointly or severally by the specified institutions, irrespective whether they have appraised the project or not.

Continuing Disclosures

- To improve the continuing disclosure standards for companies for quicker dissemination of information to investors, quarterly disclosure of financial results by listed companies made mandatory for the first time by the SEBI through the amendment of the listing agreement, thus taking India to the select list of countries with similar continuing disclosure requirement.

✓ Continuing disclosures further enhanced by the introduction of the requirement of immediate disclosure of any material event in a company having a bearing on the performance of the company and price sensitive information.

Credit Rating Agencies

- To strengthen the credibility of the ratings of credit rating agencies and enhance the transparency in their reporting and information system, the recommendations of the SEBI appointed Committee accepted.

Collective Investment Schemes

- To protect the interest of investors in Collective Investment Schemes and in accordance with the mandate given by the Government, the SEBI initiated the process of framing the regulations for collective investment schemes. To protect the interest of the investors, in the interim period, the SEBI took several measures with a two pronged approach to discipline and take action against erring entities and at the same time to educate the investors about the risks associated with investing in unregulated schemes. The action taken by the SEBI included issuing show cause notices to defaulting entities, initiating court proceedings to obtain appropriate relief in the interest of the investors, conducting a special audit of the books of accounts of the larger entities, making credit rating mandatory for existing schemes, disseminating information to the investors through the issue of press releases/public notices etc.

Relaxation of Norms for IPOs

- To help lower issue cost and time for making public issues and also to simplify procedures, the ceiling of issue size of Rs.100 crore for book-building reduced to Rs.25 crore.
- To bring down the cost involved in public issues, the SEBI modified the requirement of mandatory collection centres. The minimum number of collection centres for an issue of capital shall be – (a) the four metropolitan centres and (b) such centres where the stock exchanges are located in the region in which the registered office of the company is situated.
- To encourage the mobilisation of capital by new companies, the entry norms for IPOs further relaxed by substituting the requirement of actual payment of dividend in three out of five preceding years, with the ability to pay dividend as demonstrated by distributable profits in accordance with the provisions of the Companies Act in at least three out of five preceding years.
- To improve the liquidity and to encourage entrepreneurs to raise capital through public issues, the requirement of the lock-in period of promoters' contribution in full reduced to only 20% of the total capital of the company.
- To help investors make informed investment decisions, credit rating by approved credit rating agencies made mandatory for all public and rights issues of debt instruments irrespective of their maturity or conversion period as against exemption granted for 18 months.
- To facilitate floatation of issues by public and private sector banks, relaxation made in the Disclosure and Investor Protection guidelines of SEBI for the issue of capital, subject to the approval of the issue price by the RBI, as banks are under the regulatory purview of RBI.

Secondary Market Transparency

- To enhance the transparency in the secondary market, automated screen based trading which was introduced in 20 stock exchanges extended to the remaining 3 more stock exchanges to achieve 100 per cent coverage of automated trading.
- To enhance transparency of negotiated deals, stock exchanges directed to ensure that all negotiated deals result in delivery and deals of value of Rs.25 lakh or volume of 10,000 shares are reported on the screens within 15 minutes of transaction and disseminated to the market.
- To increase the competitiveness in the market and prevent market abuse, the facility of "all or one" available in the trading system of the stock exchanges was abolished.

Increase in Market Access

- To increase market access for investors across the country, the Stock Exchange Mumbai and the National Stock Exchange (NSE) further expanded their terminals through VSAT to cover more than 250 cities and towns.
- To increase the access of Indian securities market to NRIs, OCBs and FIIs, the Indian stock exchanges permitted to set up their trading terminals overseas subject to regulatory requirements of the host countries.

Mutual Funds

- In order to strengthen the disclosure by mutual funds, standard offer document and abridged offer document introduced .
- Several mutual funds directed by the SEBI to honour their commitment to the investors in assured return schemes thus benefiting millions of investors. By the end of March 31, 1999 the total amount paid to investors was Rs.1350 crore.
- To ensure that the Trustees discharge their responsibilities more effectively, the report of the SEBI-appointed Committee under the chairmanship of Shri P.K. Kaul, former Cabinet

Secretary submitted to the SEBI.

Market Safety and Risk Containment Measures

- To ensure that settlements take place without failure and to reduce counter party risk, 10 major and medium stock exchanges have set up trade / settlement guarantee funds measuring an increase of 6 exchanges with an amount of Rs.1000 crore .
- To protect market integrity especially under conditions of abnormal price movement and to contain extreme volatility, margin system strengthened by the SEBI in consultation with the stock exchanges by introducing additional volatility margin, incremental margin for carry forward transaction and concentration margin coupled with reduction of daily price bands from 10 per cent to 8 per cent and abolition of weekly price bands.

Monitoring, Surveillance and Effective Prevention of Market Manipulation

- To help ensure real time monitoring of price movements and broker positions and to generate real time alerts, 4 major and medium sized stock exchanges implemented the first phase of the Stock Watch System.
- Several enforcement actions taken against intermediaries for various violations of the provisions of SEBI Act and rules and regulations and also for market manipulation and unfair trade practices.

Consolidation of Smaller Stock Exchanges

- To help sustain the activities of smaller stock exchanges, the Inter Connected Stock Exchange of India set up by 14 regional stock exchanges, commenced trading operations in a limited way.

Foreign Institutional Investors

- FIIs permitted to directly participate in the public offers in takeover and buyback offer of companies.
- Procedural simplification introduced for registration and operations of the FIIs and the Sub-accounts.

Takeovers and Substantial Acquisition of Shares

- To further protect the interest of investors in takeovers and to enhance equity, fairness and transparency in takeover transactions, the interim recommendations of the reconstituted Committee under the chairmanship of Justice P.N. Bhagwati, former Chief Justice of India accepted.

✓ The threshold limit for mandatory public offer increased from 10 per cent to 15 per cent of the voting rights of a company.

✓ The creeping acquisition limit raised from the earlier level of 2 per cent to 5 per cent of the voting rights and also made applicable to persons holding above 51 per cent of voting rights up to 75 per cent.

The important measures indicated above and also the steps discussed later in the Report have helped the SEBI discharge its statutory responsibility of developing and regulating the market and protecting the investors. Besides, the securities market in India has become more modern in terms of infrastructure, adoption of best international practices and introduction of competition. With the maturity of the regulatory framework and increased market surveillance, the market has become safer and the investor is better protected. While volatility has become an endemic feature of all the markets in the world because of increased volumes within the markets and cross border, complexities, impact of other financial markets like currency, commodities and property, existence of common players in different markets fleeing from one market to the other, thus transmitting the risk, the Indian market has remained comparatively less volatile, see ***Annexure 1***. This has been possible because of the prudential macro-economic policies of the country, proper management of change and effective regulatory system.

While introducing these measures, the SEBI continued to follow an open and transparent policy, and a consultative approach. It also maintained a close interface with the market participants and professionals, and the feedback, as well as expert advice obtained from them have guided the SEBI in framing its policies and programmes.

In the Annual Report for the year 1997-98, the SEBI had set for itself certain goals in the short and the medium term. The Table 1.1 below measures the performance of the SEBI against these goals.

Table 1.1 Targets and Achievements

Short and medium terms targets set out in the Annual Report of 1997-98	***Achievements***
1. To give impetus to dematerialisation and book entry transfer	As already stated earlier, considerable progress has been made in dematerialisation of shares. The SEBI has taken several steps to facilitate book entry transfer. The Central Depository Services (India) Limited has been registered as second depository.
2. To consider shortening of settlement cycles and move towards rolling settlement and DVP on the lines suggested by the Group of Thirty.	SEBI had already reduced 14 day trading and settlement cycles to 7 days. The rolling settlement system has been introduced on a voluntary basis by the SEBI in dematerialised segment.
3. To implement the recommendations of the Committee appointed by the SEBI on derivatives and introduce derivative trading on the Stock exchanges.	The regulation of derivatives trading has been approved by the SEBI. It is awaiting the amendment to SCR Act by the Parliament.
4. To further strengthen the surveillance mechanisms at the stock exchange level and within the SEBI.	Monitoring and surveillance have been focus area for the SEBI. Surveillance cells have been set up in stock exchanges and a surveillance division is operating in the SEBI. Most of the major stock exchanges have implemented Phase I Stock Watch on-line surveillance system, as already indicated extensive actions have been taken against regulatory violations and against price manipulation and unfair trade practices.
5. To take measures to further streamline and shorten issue procedures with a view to reducing the cost of issues.	The SEBI has taken several measures such as revised book building system, refined entry points norms, relaxation of entry norms for infrastructure companies, reduction in the mandatory collection centres etc. to streamline and shorten issue procedures and to reduce the cost and time taken of issues.

6. To take follow up action on the recommendations of the Justice Dhanuka Committee on securities laws	The SEBI Board broadly agreed with the thrust of the recommendations of the Dhanuka committee which are presently under the consideration of the Government of India.
7. To prescribe regulation on collective investment schemes	The SEBI has issued interim directions to collective investment schemes. The SEBI directed the entities not to collect any monies under the existing schemes unless the instruments of collective investment schemes have been rated by a credit rating agency. The interim report of the Dave Committee was received by the SEBI and the final report has been received on April 5, 1999.
8. To prescribe regulations for credit rating agencies.	The SEBI appointed a committee for framing regulations for credit rating agencies. The regulations have been accepted by the Board.
9. To further refine the takeover regulations in the line of experience on takeovers during the year under review.	The SEBI reconstituted Bhagwati Committee to consider the provisions of the SEBI (Substantial Acquisitions of Shares and Takeovers) Regulation, 1997. Following the recommendations of the committee, many relaxations have been extended by the SEBI in respect of threshold limits etc. The final report is expected shortly.
10. To facilitate market making system.	The SEBI has appointed a committee on market making. The committee has completed its deliberations, and the report will be submitted shortly. In the meantime, in one exchange the market making system has been introduced.
11. To take measures to implement the recommendations of Chandrasekaran Committee on the issues relating to transfer and registration of securities.	The listing agreement was amended to provide for appointment of compliance officers to monitor share transfer and registration of securities.
12. To take steps to review the OTCEI by making changes wherever necessary in the systems, procedures and policies of OTCEI.	The recommendations of Dave Committee implemented except introduction of trading in unlisted securities. The Board of OTCEI formulated a new revival package.
13. To strengthen further the regulations for mutual funds so as to ensure their continued growth and enhance the level of investor protection.	Several meetings were held with the Association of Mutual Funds, to discuss regulatory and operational issues. The SEBI introduced Standard Offer Document system for filing scheme details on mandatory basis in order to strengthen disclosure standards for protection of investors.
14. To take follow-up action on the recommendations of P.K. Kaul Committee regarding the manner in which trustees of mutual funds could function effectively.	The SEBI held meetings with trustees of mutual funds to get the feed back from them on the recommendations of P.K. Kaul committee relating to responsibilities of the trustees. The report is awaiting the approval of the SEBI Board.
15. To give impetus to stock lending for which	The SEBI has given approval to 4 entities to act

guidelines have been issued by the SEBI but the activity is yet to pick up.	as approved intermediaries under stock lending scheme and one of them is National Securities Clearing Corporation Ltd.(NSCCL) which has introduced Automated Lending and Borrowing Mechanism (ALBM).
16. To activate trading in bonds and debentures and take all necessary measures including coordination with relevant agencies for this purpose.	In the Annual Budget (1999-2000), certain fiscal concessions were announced relating to stamp duties etc.,. The measures are being initiated to activate trading in bonds and debentures. The subject is under consideration of SEBI.

Source: SEBI

The SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 was amended on 16th December, 1998, the SEBI (Foreign Institutional Investors) Regulations, 1995 were amended on 20th April, 1998, 18th May, 1998, 30th June, 1998 and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 was amended on 28th October, 1998. Pursuant to the amendment in the Companies Act, SEBI made regulations for buy-back of securities for listed company which was notified on14th November, 1998.

A] REVIEW OF THE GENERAL ECONOMIC ENVIRONMENT AND THE INVESTMENT CLIMATE

General Economic Environment *

The Indian economy did not fully escape the slowdown of the world economy, the contagion effect of the East Asian crisis and the drop in the world commodity prices. It affected exports, which declined sharply, and put pressure on inflation and growth of economy. The flight of capital from the emerging markets affected foreign portfolio flows into India. Indeed, for the first time, the net portfolio flows by the FIIs were negative for the year; though there were sustainable signs of recovery towards the end of the year.

Based on the new GDP series with 1993-94 as the base year, India's GDP growth had decelerated in 1997-98 to 5.0 per cent from 7.8 per cent in 1996-97. In 1998-99, the growth was higher at 6 per cent, indicating that economic recovery has begun. The better performance in the year under review has been largely contributed by a substantial rise in the agricultural production, which increased by 7.6 per cent as against a fall of 5.6 per cent during 1997-98. The industrial segments such as basic goods, intermediate goods and consumer goods failed to repeat the performance of 1997-98 and their output growth was lower at 1.7 per cent, 5.8 per cent and 2.3 per cent, respectively during 1998-99 as against 6.5 per cent, 8.1 per cent and 5.7 per cent respectively during the previous year. A noticeable feature of GDP growth is the increasing share of services sector in overall growth. The services sector which contributed 46 per cent of total GDP in 1994-95 increased its share to about 48.6 per cent in 1997-98.

The gross domestic savings, however, has been showing discomforting trends. The decline in the saving rate coupled with the change in the distribution pattern of households savings are bound to have an adverse impact on the flow of funds into the securities market. The saving rate registered a decline from 24.4 per cent in 1996-97 to 23.1 per cent in 1997-98. The

* *based on Economic Survey 1998-99 and provisional data from the Reserve Bank of India*

contraction in the saving rate was contributed by almost all the sectors. Thus the saving rate of households was lower at 18.3 per cent in 1997-98 from 18.8 per cent in 1996-97 whereas that of private corporate sector and public sector decreased from 4.1 per cent and 1.5 per cent respectively to 3.8 per cent and 1.0 per cent. This was also reflected in the overall investment ratio which slipped from 25.7 percent in 1996-97 to 24.8 per cent in 1997-98. (Table 1.2)

Table 1.2: Domestic Saving and Investment

Domestic Saving and Investment	***1994-95***	***1995-96***	***1996-97***	***1997-98***
Gross Domestic Savings as a percentage of GDP	24.2	24.1	24.4	23.1
(i) Household sector	19.3	17.4	18.8	18.3
(ii) Private corporate sector	3.4	4.8	4.1	3.8
(iii) Public sector	1.5	1.9	1.5	1.0
(iv) Gross investment	25.4	25.8	25.7	24.8

Source : Economic Survey 1998-99

More than the decline in the saving rate, the trend in the distribution of household savings in financial assets has implications for the expansion of the securities market. The analysis of the data shows that household sector which invested 10.2 per cent of their savings in equity shares and debentures in 1992-93, invested only 1.7 per cent in 1997-98. The investment by the households sector in units of Unit Trust of India declined from 7.0 per cent in 1992-93 to 0.3 per cent by 1997-98. During this period there was a significant shift in favour of bank deposits and claims on Government from 36.8 and 4.8 per cent, respectively in 1992-93 to 45.6 and 12.4 per cent in 1997-98 (Table 1.3).

Capital account position of the country has also a bearing on the financial system and in particular, on the capital market. Foreign inflows into the system not only adds to the liquidity of the country but also provide foreign savings to the economy. The foreign inflows on the capital account however, have shown deceleration in their growth during 1997-98 on a net basis (gross flows minus gross outflows). As such in 1997-98 the net inflows on capital account decreased to US $ 3.89 billion in 1997-98 from US $ 5.81 billion in 1996-97. The position might have been the same during 1998-99. The outlook for capital flows, particularly FIIs will be determined by the stable growth in the economy with better performance of current account position and the credibility of exchange rate policy. The financial crisis in East Asia which have re-emphasised the need for strong supervision and regulation of capital market and its further developments from the point of view of investor's protection, trade guarantee, transparency, better payment system, safe transactions and international accounting standards should serve as guiding indicators for FIIs to invest in Indian equity.

Table 1.3: Savings of the Households Sector in Financial Assets ***(Rs. in crore)***

Item	***1992-93P***	***1993-94P***	***1994-95P***	***1995-96***	***1996-97P***	***1997-98$***
Savings(Gross) of the Household Sector in Financial Assets of which	80,387	109,485	145,381	124,986	157,424	180,665
Currency	6,562	13,367	15,916	16,525	13,643	12,532
	(8.2)	(12.2)	(10.9)	(13.2)	(8.7)	(6.9)
Bank Deposits #	29,550	36,200	55,834	39,995	57,367	82,346
	(36.8)	(33.1)	(38.4)	(32.0)	(36.4)	(45.6)
Non-banking Deposits	6,035	11,654	11,547	13,198	21,411	7,775
	(7.5)	(10.6)	(7.9)	(10.6)	(13.6)	(4.3)
Life Insurance Fund**	7,114	9,548	11,370	13,894	16,188	19,513
	(8.8)	(8.7)	(7.8)	(11.1)	(10.3)	(10.8)
Provident and Pension Fund	14,814	18,226	21,295	22,292	26,248	32,668
	(18.4)	(16.6)	(14.6)	(17.8)	(16.7)	(18.1)
Claims on Government +	3,885	6,908	13,186	9,588	11,701	22,315
	(4.8)	(6.3)	(9.1)	(7.7)	(7.4)	(12.4)
Shares and Debentures ++	8,212	10,067	13,474	8,839	6,696	3,042
	(10.2)	(9.2)	(9.3)	(7.1)	(4.3)	(1.7)
Units of Unit Trust of India	5,612	4,705	3,908	262	3,776	595
	(7.0)	(4.3)	(2.7)	(0.2)	(2.4)	(0.3)

Figures in brackets indicate percentages to Financial Assets of households
 # Includes deposits with Co-operative non-credit societies.
*** Includes State / Central Government and postal insurance fund.*
+ Includes compulsory deposits
++ Includes investment in shares and debentures of credit / non-credit societies and public sector bonds.
$ Tentative Estimates
Source : Report on Currency and Finance, Vol.II, RBI.

Resource mobilisation by way of public and rights issues from the primary market during April – March 1998-99 amounted to Rs.5586.46 crore with 58 issues as compared with Rs. 4569.95 crore during the same period in 1997-98. Thus the year of 1998-99 showed somewhat better performance, though the capital raised was still substantially lower than the figure of Rs.20803.7 crore in 1995-96 and Rs.14275.98 crore during 1996-97. Though the rise in resources mobilised in 1998-99 has been higher by more than 22 per cent over 1997-98, more than 80 per cent of the capital mobilised during the year was on account of financial institutions, and the manufacturing and other sectors mobilised less than 20 per cent of it. A disappointing feature of the resource mobilisation was the share of listed companies was nearly 92 per cent of the total resources compared to 75 per cent in 1997-98. It implies that very few new companies entered the market.

The performance of mutual funds in terms of gross mobilisation was satisfactory as the aggregate gross resources raised by the mutual funds increased to Rs.22710.73 crore during 1998-99 from Rs. 15,171 crore during 1997-98. However, after adjusting for the repurchases and redemptions, there was a net outflow of Rs. 949.67 crore, largely on account of substantial disinvestment by investors in the Unit 64 scheme of UTI .

The monthly trend in net investment by the FIIs which was negative towards the end of 1997-98 continued in 1998-99. The cumulative net FIIs investment contracted by US$387m during the year from US$9284m at end of March 1997-98 to US $8897m at the end of March 1998-99. The net investment however turned positive towards the end of the year and the trend is expected to continue into 1999-2000.

B] REVIEW OF POLICIES AND PROGRAMMES

The following paragraphs analyse the major policy developments and programmes of SEBI during 1998-99.

i. Primary Securities Market

Revised eligibility norms for Initial Public Offer

To encourage initial public offers, eligibility norms were relaxed by the SEBI without diluting the disclosure standards. The revised eligibility norms are mentioned below:

New companies having distributable profits in terms of Section 205 of Companies Act for at least three out of immediately preceding five years and a pre-issue net worth of not less than Rs. one crore in three out of preceding five years were allowed to mobilise capital through IPOs. However, the minimum net worth requirement of Rs. one crore is to be met during the immediately preceding two years. This requirement is in lieu of the extant stipulation of three year track record of dividend payment.

Relaxation of norms for promoters contribution

In continuation of the SEBI's endeavor of gradual dilution of the norms for lock-in in respect of securities allotted to the promoters/promoter group, the lock-in condition has been restricted to only 20 per cent of the total capital of the company. This would include the capital brought in by way of preferential issue.

Relaxation for public issues by banks

The SEBI exempted public and private sector banks from fulfilling eligibility norms in order to come out with public issues. Further, banks have been permitted to come out with equity issues at a price as approved by the Reserve Bank of India. Thus, banks are no longer required to satisfy SEBI norms so as to freely price their issues.

Compulsory rating of debt instruments

To raise the standards of disclosures and to help investors make informed investment decisions, every public or rights issue of debt instruments is required to be compulsorily rated by the approved credit rating agency irrespective of their maturity/conversion period as against 18 months.

Relaxation of eligibility norms for infrastructure companies

In order to facilitate a greater flow of funds to the infrastructure sector, the SEBI has granted specific relaxations to infrastructure companies. These relaxations are available to them provided their projects are appraised by a Developmental Financial Institution (DFI) or The Infrastructure Development Finance Corporation (IDFC) or The Infrastructure Leasing & Financial Services ltd. (ILFS) and there is a minimum financial participation of 5 per cent of the project cost (in debt or equity) by the said institutions. The financial participation by these institutions can be made jointly or severally, irrespective of whether they have appraised the project or not. The various relaxations granted to infrastructure companies are given in Box 1.2.

Box. 1.2: Relaxation to Public Issues by Infrastructure Companies

- Exemption from the requirement of making a minimum public offer of 25 percent of securities and also from the requirement stipulating 5 shareholders per Rs. 1 lakh of offer made.
- Exemption from the minimum subscription of 90 per cent provided disclosure is made about the alternate source of funding considered by the company, in the event of under-subscription in the public issue.
- Permission to freely price the offerings in the domestic market provided the promoter companies along with equipment suppliers and other strategic investors subscribe to 50 percent of the equity at the same price as the price offered to the public or at a price higher than that offered to the public. However, adequate disclosures on justification for the pricing need to be made in the offer documents.
- Permission to keep the issues open for 21 days to enable the companies to mobilise funds.
- Exemption from requirement to create and maintain a debenture redemption reserve (DRR) in case of debenture issues as provided in the SEBI Disclosure & investor Protection Guidelines

Revision in book-building guidelines

Earlier, the SEBI had framed guidelines for book-building which were applicable for 100 per cent of the issue size and for issues above Rs. 100 crore. To encourage the use of this facility the SEBI has reduced this limit to issues of Rs 25 crore.

Modification of requirement of mandatory collection centres

With a view to reduce the cost of the public issues, the SEBI modified the earlier requirement of 30 mandatory collection centres. The minimum number of collection centres for an issue of capital shall now be:

a. the four metropolitan centres and
b. such centres where the stock exchanges are located in the region in which the registered office of the company is situated.

Merchant Bankers are permitted to carry on activities of primary dealers

Certain merchant bankers have obtained "in-principle" approval from the Reserve Bank of India to function as primary dealers which require registration as non banking finance companies with the RBI. Under the present SEBI (Merchant Bankers) Regulations, merchant bankers are prohibited from undertaking any fund-based activities. The Board decided to grant an exemption from this prohibition under the SEBI (Merchant Bankers) Regulations to those Merchant Bankers who get registered with the RBI as NBFC for primary and satellite dealership of government securities.

Regulations for credit rating agencies (CRAs)

The credit rating agencies which rate the credit worthiness of the entities which mobilise resources from the market or borrow funds from FIs, were hitherto not subjected to any regulation. The SEBI Act was amended empowering the SEBI to register and regulate CRA. The SEBI constituted a Committee to recommend draft regulations for regulating the CRA. The Committee submitted its recommendations.

Box 1.3: Major Norms for Credit Rating Agencies

The main recommendations of the Committee are:-

1. The regulations should cover rating of securities only and will not cover rating of fixed deposits, LPG dealers, foreign exchange, country ratings and real estates etc.

2. The promoter of CRA should belong to one of the following categories:-

(a) Public financial institutions;
(b) Scheduled commercial banks;
(c) Foreign banks operating in India;
(d) Foreign Credit Rating Agencies recognized in the country of their incorporation, having atleast five years experience in rating;
(e) Any other company or a body corporate having continuous networth of minimum Rs.100 Crore as per the audited annual accounts for the previous five years prior to filing the application with the Board.

3. Disclosure of unaccepted ratings to investors has been made compulsory. Further, an obligation has been cast on the issuer to disclose all the ratings it has got during the previous 3 years for any of its listed securities.

4. Uniform rating symbols for all CRAs should not be imposed.

5. Credit rating agencies would have to carry out periodic reviews of the ratings given during the lifetime of the rated instrument.

6. For ensuring that corporates provide correct/adequate information to Credit Rating Agencies:

(a) A clause would be incorporated in the listing agreement of the Stock Exchanges requiring the companies to co-operate with the rating agencies in giving correct and adequate information.
(b) Issuers coming out with a public/rights issue of debt securities would be required to incorporate an undertaking in the offer documents promising necessary co-operation with the rating agency in providing true and adequate information.

7. For all public and rights issues of debt securities of issue size greater than or equal to Rs.100 Crore, two credit ratings from different rating agencies would be made mandatory.

Buy-back policy

The SEBI in order to introduce liquidity in the shares of companies and to help the corporates in enhancing the shareholders' wealth, approved the Securities and Exchange Board of India (Buy Back of Securities) Regulation 1998. The major features of the regulations are presented in Box1.4.

Box 1.4: Salient Features of Buy-back

a) The scope of the Regulations covers listed securities of the company only.
b) The buy-back could be undertaken by making public offer, book-building (Dutch auction) or purchases through the stock exchange.
c) The buy back has been permitted through the tender offer mode for buy back from the existing shareholders on proportionate basis as well as from odd lot share holders.
d) In case the purchases are made through the stock exchange, the details of such purchases made under the buy back scheme of the company shall be made public through the stock exchange on daily basis. Promoters are not permitted to participate in the buy back through the stock exchange mode .
e) The Regulations provide for extensive disclosures in the Explanatory Statement to be annexed to the notice for the general meeting and the Letter of Offer. Further, adequate care has also been taken to disclose the pre and post buy back holdings of the promoters.
f) Buy back through negotiated deals, spot transactions or private arrangements is not permitted.
g) In order to ensure strict compliance with the provisions of the Regulations, merchant banker will have to be associated with every offer for buy back wherein he would be required to give a 'due diligence' certificate.
h) An offer for buy back shall not remain open for more than 30 days unless purchases are through stock exchanges. For example, except in the cases of purchases through stock exchanges, an offer for buy back shall not remain open for more than 30 days. The payment for accepted securities has to be made within 7 days of the completion of verification and the shares have to be extinguished and physically destroyed within 7 days of the date of payment. The extinguishment certificate is required to be filed within 7 days of the physical destruction of the certificates.
i) To ensure security for performance of its obligation, the company making an offer for buy back shall have to open an escrow account on the same lines as provided in the Take Over Regulations.

Employee stock option/employee stock purchase

The SEBI constituted a committee under the Chairmanship of Prof J.R. Verma to formulate Guidelines for Employee Stock options as well as Employee Purchase Schemes. The Board has considered and accepted the recommendations of the Committee and the Guidelines are being issued.

Companies not complying with the Listing Requirements

The philosophy of SEBI has been to ensure adequate disclosures in the prospectus so that the investor can make a well-informed investment decision.

In the aftermath of the statement made by the then Finance Minister regarding companies which had raised money from the public and disappeared, even though this issue did not directly relate to SEBI, with a view to maintain the integrity of the issue process, SEBI on its own undertook a study on the compliance of listing requirement by the companies which had come out with initial public offerings.

On the basis of the information given by the stock exchanges, the study revealed that 80 companies were not complying with the listing requirements of their respective regional stock exchanges and were not traceable at their registered office address.

With a view to set up a Joint Mechanism to initiate action against such defaulting companies a meeting was held on 12th March 1999, between the Chairman SEBI and the Secretary Department of Companies Affair alongwith other officials and a Coordination & Monitoring Committee has been formed to monitor the progress and take policy initiatives in this regard.

Also, seven task forces have been established for seven regions to take joint action against such defaulting companies. The locations and composition of the task forces is given as ***Annexure 2***. The immediate focus of these task forces is to identify such delinquent companies and take action under the Companies Act and SEBI Act after necessary investigations. The task forces would meet atleast once a month.

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.

4. 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.

iii. Mutual funds

Emerging trends and innovations

The mutual fund industry has witnessed several innovations during the year. A novel feature in the form of limited cheque writing facility has been introduced by one of the funds. Its asset management company (AMC) through an arrangement with a Bank, allows the unitholders to issue cheques against a savings account with the Bank.

Each unitholder is allowed to issue cheques up to a specified limit. To enhance service to investors, one fund has instituted a toll-free inquiry facility enabling investors to access information about the fund without any charges.

The year also witnessed the launch of sector funds targeting sectors such as information technology, pharmaceutical, brand value and fast moving consumer goods. Dedicated gilt fund envisaging 100% investment in government securities was launched making the gilt market accessible to small investors. Another innovative product was to invest solely in dematerialised securities and exchange of any security in dematerialised segment, instead of cash, for the units of the scheme.

A meeting with the trustees of various mutual funds was held to get their feedback on the recommendations of the P.K. Kaul Committee regarding the discharge of the trustees' responsibilities of the trustees. The recommendations of the Committee would be implemented soon.

The Committee appointed for framing the guidelines for mutual funds to invest in overseas markets submitted its Report. The recommendations of the Committee have been taken up for discussion with the Reserve Bank of India and the Government for implementation.

During the year, meetings were held with the Association of Mutual Funds of India (AMFI) periodically to discuss regulatory and operational issues. This has helped in establishing a meaningful dialogue with the industry and taking decisions.

The Standard Offer Document for filing the scheme details came into force on April 1, 1998. Also, from this date, it became mandatory for each application form to be accompanied by a memorandum containing key information i.e. abridged offer document. These documents have strengthened disclosure standards in mutual funds industry enabling investors to take informed investment decisions.

The SEBI also directed the mutual funds who had launched assured return schemes to meet their commitments in case there were shortfalls, and as a result sponsors of these mutual funds, who were to meet the commitment infused additional resources to the tune of Rs 1300 crore in the funds to meet the short fall.

Securities lending by mutual funds

Mutual funds were allowed to participate in securities lending subject to certain disclosures and reporting requirements. The guidelines issued lay down the disclosure requirements in the offer documents which include intention to lend the securities belonging to the scheme, the exposure limit regarding securities lending both for the scheme as well as for a single intermediary and the risks associated with stock-lending transactions.

The specifications regarding the valuation of the collateral have been prescribed in the guidelines to minimize the risk involved in securities lending transactions. To ensure adequate checks and balances regarding the securities lending transactions, the requirement of reporting to trustees and SEBI have been stipulated.

Participation by mutual funds in derivative trading

The Report on the Committee of Derivatives had recommended the participation by mutual funds in derivative trading for the purposes of hedging and portfolio balancing. The Securities and Exchange Board of India (Mutual Funds) Regulations 1996, were amended to allow the mutual funds to participate in derivatives trading whenever this is introduced.

Collective investment schemes

The Government of India, vide its press release dated November 18, 1997, decided that an appropriate regulatory framework for regulating schemes through which instruments like agro bonds, plantation bonds etc. are issued, has to be put in place. The government decided that the schemes through which such instruments are issued would be treated as “Collective Investment Schemes” coming under the provisions of the SEBI Act. Accordingly, SEBI vide its press release dated November 23, 1997 and public notice dated December 18, 1997, notified the provisions of section 12(1)(B) of the SEBI Act which prohibits any person from sponsoring or causing to be sponsored any Collective Investment Scheme without obtaining a certificate of registration from the Board in accordance with the regulations.

The proviso to section 12(1)B provides that till regulations are notified all Collective investment schemes which are operating, can continue with their operations till the regulations are notified. The existing schemes, which desired to take the benefit of this proviso and continue operations were directed, by the SEBI, to submit information about their schemes with offices of SEBI. These schemes were further directed to comply with code of advertisement as prescribed in the SEBI guidelines on disclosure and investor protection. Till date the SEBI has received information from 654 entities who have reportedly raised appox. Rs.2589 crore.

In order to frame the regulations for collective investment schemes, a committee was appointed under the Chairmanship of Dr. S.A. Dave. The committee comprised representations from various ministries like the Ministry of Finance, Ministry of Agriculture, Ministry of Forestry, Regulatory bodies like Reserve Bank of India and Department of Company Affairs, professional representation from Institute of Chartered Accountants of India, Association of Merchant Bankers and Mutual Funds, Investor Association and representation from the Industry.

The committee in its interim recommendation desired that existing collective investment schemes should be allowed to mobilise further funds only if they obtain a rating from any of the recognised credit rating agencies. Accordingly, after taking into consideration the views of the members of the Dave Committee as well as the interest of the investors, SEBI, in exercise of the powers under Sec. 11B read with the proviso to Section 12(1)B of the SEBI Act, 1992 directed on February24,1998, that no existing scheme shall mobilise any money from the public or from the investors under the existing schemes unless the instruments of such schemes carry a rating from any of the recognised credit rating agencies. Sixty six schemes have reported to have obtained a credit rating. All the ratings obtained are below investment grade.

The Dave Committee has submitted its report along with the Draft Regulations to SEBI. The major features of the report are presented in Box 1.6.

Box 1.6: Major Recommendations of the Dave Committee

Definition:

"Collective investment scheme" means any scheme or arrangement:-

(i) with respect to property of any description, the purpose of which is to enable the investors to participate in the arrangements by way of contributions and to receive profits or income or produce arising from the management of such property or investments made thereof; and
(ii) the contributions of investors, by whatever name they are called, are pooled, and are utilised solely for the purposes of the scheme or the arrangement; and
(iii) the property or such contributions is managed as a whole on behalf of the investors, whether or not such properties or contributions and the investments made thereof are evidenced by identifiable properties or otherwise; and
(iv) the investors do not have day to day control over the management/operation of the property/scheme.

I. Eligibility for floating collective investment schemes

Collective investment schemes can be floated only by public companies registered under the provisions of the Companies Act, 1956.

The company floating CIS shall have to seek registration with SEBI as collective investment management company.

A minimum net worth requirement of Rs. 5 Crore has been recommended for Collective Investment Management Companies. These companies would further have to demonstrate that they have the capacity to carry out the duties of a Collective Investment Management Company efficiently, honestly and fairly.

II. Structure and constitution of collective investment schemes

A two tier structure for constitution of collective investment schemes has been recommended. All collective Investment Schemes shall be constituted in the form of a trust and the instrument of the trust shall be in the form of a deed duly approved by SEBI and executed by the Collective Investment Management Company in favour of the trustee.

Only trustees approved by SEBI shall be permitted to act as trustees to Collective Investment Schemes.

III. Scheme features

Every Scheme shall have to file offer documents with SEBI containing adequate disclosures to enable the investors to take informed investment decisions.

The schemes are prohibited from guaranteeing assured returns. Indicative returns, if any, provided by the scheme shall be based on the projections in the appraisal report.

Advertisements in respect of every scheme shall have to conform to the SEBI’s advertisement code.

No scheme shall be kept open for subscription for a period of more than 180 days. The schemes shall be close ended in nature. The schemes must indicate the minimum and maximum amount proposed to be raised over this period. The duration of the schemes should be for a minimum period of 3 years.

Compulsory Insurance over the assets of the scheme and personal indemnity cover for the managers to the scheme has been recommended.

Units issued under the collective investment schemes are to be compulsorily listed on recognised stock exchanges.

The committee has suggested accounting/valuation norms which shall have to be followed by collective investment schemes.

IV. Existing schemes

A period of three years has been given to the existing schemes to restructure their operations and achieve the capital adequacy norms.

During the transition, no new schemes can be launched by these companies unless they conform to the new regulations. Existing schemes can continue to mobilise further funds provided they meet the criterion laid down under the regulations .

Existing Schemes, which are not desirous of coming under the regulatory purview, may wind up operations and refund investor’s funds or merge with other schemes so they satisfy the regulations. They would be given reasonable time to restructure themselves, grow larger or wind up.

V. Legislative changes/ other recommendations to the government

Collective Investment Management schemes registered with SEBI should be exempted from the provisions of the land ceiling acts or alternatively the government may consider granting the Industry status to these schemes.

Suitable clarification from the government on the taxation issues involving income earned by the investors from investment in these schemes.

In order to promote long term investment in plantations, the Government may consider to grant suitable tax deductions on the lines of those given to Infrastructure Projects should be considered.

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.

v. Foreign Institutional Investments

The SEBI continued to encourage FIIs to invest in India and took measures to improve the regulatory framework for FIIs to facilitate FII investments into the securities market. The following changes have been made to the FII regulations during the year 1998-99:

Stock lending permitted

The stock lending scheme was introduced by SEBI in 1996. The FIIs, which are active participants in the Indian securities market, have been allowed to lend stocks through an approved intermediary. However, presently the FIIs are not permitted to borrow securities which could result into covered short sales by the FIIs.

Investments in T-bills allowed

While announcing the policy measures relating to the Government securities market in the credit policy announcement on April 29, 1998, the RBI allowed FIIs to invest in treasury bills within the overall approved debt ceiling. A previous amendment in 1997 had permitted FIIs to invest in proprietary funds and also to invest in dated government securities.

Investments in unlisted securities permitted

The Finance Minister in his Budget Speech for 1998-99 announced that foreign institutional investors investing through the 100 per cent debt route would be permitted to invest in unlisted securities. Amendments to this effect have been approved and notified by the SEBI.

FIIs participation in open offers directly

The SEBI (Foreign Institutional Investors) Regulations, 1995 require FIIs to enter into secondary market transactions only through stock brokers registered with SEBI. To facilitate the participation of FIIs in open offers, the FIIs have now been permitted to tender their securities directly in response to an open offer made in terms of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

Investments in derivatives permitted

As FIIs are potential participants in the derivatives markets; it was felt that the presence of FIIs and domestic institutions would be critical to the success of the market. It was, therefore, decided to permit FIIs to buy and sell derivative contracts traded on a stock exchange.

Simplification of application procedure

In terms of regulations 12 and 13 of the SEBI (Foreign Institutional Investors) Regulations, 1995, FIIs may invest on behalf of sub-accounts which are registered with SEBI. When considering an application for registration of sub-accounts, the Regulations required submission of detailed information for registration. Under this procedure, considerable time was sometimes taken in determining whether the applicant was "broad based" as required by the Regulations. To simplify the registration process for sub-accounts it has been decided that the determination of fulfillment of broad base criteria be done by the foreign institutional investor itself and a declaration to this effect be submitted to SEBI. The Regulations have been amended to incorporate a simplified format for registration of sub account under which registration is now granted within three days of receipt of application.

Web Page for the FIIs

The foreign institutional investors operate through their offices located abroad. To facilitate better exchange of information with the FIIs as well to provide information on the policy developments, a separate page on FIIs has been created on the official web site of SEBI. The page contains the FII regulations, the applications forms, details of the registration procedures and list of the FIIs registered with the SEBI. a lot of details are also provided under the head frequently asked questions. The FIIs or their representatives can also contact the FII division personnel in SEBI through this page.

vi. Other Policies and Programmes having a bearing on the working of the Securities Market

Investor Survey by the SEBI

The securities market in India has witnessed sea changes in the 1990s and in particular since the establishment of the SEBI. There has not only been significant increases in the capital raised from the market and in the turnover on the stock exchanges, but also in the number of instruments, intermediaries, and institutions. Besides, there has also been an increase in the number of investors. However, no comprehensive survey is available to estimate the investor population and to draw up a profile of the investors. The SEBI is therefore conducting an investor survey in association with the National Council Applied Economic Research

(NCAER) to study the ownership distribution by income, age, financial position and level of education. The survey will also provide an estimate of the investor population in the country and indicate asset preference pattern, investors time horizon and investment intention. The sample for the survey would cover 3.5 lakh households in urban, semi-urban and rural areas across the country. This is the first time that such an extensive survey is being carried out in the country. The results of the survey would be available in the next year and is expected to provide important inputs for policy making in the capital markets.

Changes in the Regulatory Framework of Securities Market

A. The Companies Act, 1999

1. The Companies Act,1956 has been amended by the Companies (Amendment) Act, 1999 (No.21 of 1999). The amendments, in brief, are as under :

Power of Companies to Buy-Back Its Own Securities - Section 77A

A company has been given power to been given power to purchase its own securities as per section 77A,77AA and 77B of the Companies Act, 1956.

a) A company may buy-back its own shares or other specified securities out of its free reserves, securities premium account or the proceeds of any shares or other specified securities other than out of proceeds of the earlier issues of the same kind of shares or securities.

b) A company can buy-back its own shares or other specified securities if the same is authorised by its Articles and a special resolution has been passed in General Meeting authorising the buy-back.

c) The buy-back should be less than 25% of the total paid-up capital and free reserves of the company. The buy-back of equity shares in any financial year shall not exceed 25% of its total paid-up equity capital in that financial year.

d) The ratio of debt owed by the company should not be more than twice the paid up capital and its free reserves after such buy-back. The Central Government may prescribe higher ratio of debt for a class or classes of companies.

e) All the shares or other specified securities for buy-back should be fully paid-up.

f) The buy-back of shares or other specified securities listed on any recognised stock exchange should be in accordance with the Regulations made by the SEBI. The SEBI has already framed regulations which has come into force w.e.f.14/11/1998.

g) The buy-back has to be completed within 12 months from the date of passing the special resolution.

h) Full and complete disclosure of material facts, necessity of buy-back, class of security intended to be bought back, amount to be invested for buy-back,etc. to be disclosed in the explanatory statement to the notice.

i) The buy-back may be on a proportionate basis or from open market or from odd-lots or from employees.

j) A company before making such buy-back shall file with Registrar and SEBI in case of listed companies a declaration of solvency that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one-year of the date of declaration.

k) A company shall extinguish and physically destroy the securities so bought-back within 7 days of completion of buy-back.

l) A company shall not make further issue of the same kind of shares or specified securities within a period of 24 months after buy-back except by way of bonus issue, discharge of subsisting obligation such as conversion of warrants, stock option scheme, sweat equity, or conversion of debentures into equity shares,etc.

Transfer to Capital Redemption Reserve Account - Section 77AA

Where the company purchases its own shares out of free reserves, a sum equal to the nominal value of the shares so purchased shall be transferred to the Capital Redemption Reserve Account and the details of such transfer shall be disclosed in the balance sheet.

Prohibition of Buy-Back Section 77B

No company shall directly or indirectly purchase its own shares or other specified securities through any subsidiary company or investment company or group of investment companies or if a default by the company in repayment of deposit or interest payable thereon redemption of debentures or payment of dividend to any shareholders or repayment of any term loan or interest payable thereto to any financial institutions or banks is subsisting.

Issue of Sweat-Equity Shares - Section 79A

a) Provision has been made permitting a company to issue sweat equity shares to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called.

b) The issue of sweat equity shares should be authorised by a special resolution passed in the General meeting specifying the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued.

c) The sweat equity shares of a company whose equity shares are listed on a recognised stock exchange should be issued in accordance with the Regulations made by SEBI.

Nomination of Shares - Section 109A

a) Every holder of shares or debentures of a company may, at any time, nominate in the prescribed manner, a person to whom his shares or debentures of the company shall vest in the event of his death.
b) A nomination already made can be cancelled or varied in the manner prescribed by the rules made by the Central Government. However, nomination stands automatically cancelled upon transfer of shares by the member.

c) Notwithstanding anything contained in any other law in respect of shares or debentures of the company, where a nomination has been made in prescribed manner, the nominee shall on the death of the shareholder or holder of debentures shall become entitled to all the rights in the shares or debentures.

d) The Department of Company Affairs vide Notification No.GSR 23F dated 12/1/1999 has introduced two new rules called rule 4CCC and rule 5D. The new rules provide that the nomination for shares, debentures shall be in Form No.2B set forth in Annexure A to the notification.

Transmission of Shares - Section 109B

Any person who becomes a nominee by virtue of the provisions of section 109A upon the provision of such evidence as may be required by a company will be entitled to be registered himself as the holder of shares or debentures or to make such transfer of the shares or debentures or the deceased-holder could have made or shall be entitled to the same dividends.

Unpaid Dividend Account-Section 205A

Any money transferred to the unpaid dividend account which remains unpaid or unclaimed for a period of 7 years from the date of such transfer shall be transferred by the company to the Investor Education and Protection Fund established under section 205C.

Establishment of investor education and protection fund - Section 205C

The Central Government shall establish a fund to be called Investor Education and Protection Fund from the amounts of unpaid dividend accounts of the companies' application money received from the companies for allotment of any securities and due for refund, unclaimed matured deposit, debentures, the interest accrued on above amounts, grants and donations by the Central Government, State Government companies.

The amount should remain unclaimed and unpaid for 7 years from the date they become due for payment. The fund shall be utilised for promotion of investors' awareness and protection of interest of investors in accordance with such rules as may be prescribed.

Constitution Of National Advisory Committee On Accounting Standards - Section 210A

The Central Government may by notification constitute a Advisory Committee to be called the National Advisory Committee on Accounting Standards to advise the Central Government on the formulation and laying down of accounting policies and accounting standards for adaptation by companies which shall, inter alia, consist of representatives from the Central Government, RBI,SEBI,CBDT,etc. The said Committee shall give its recommendations to the Central Government on accounting policies and standards as may be referred to it for advice.

Accounting Standards - Amendment to Section 211 and 227

Every profit and loss account and balance sheet of the company shall comply with the accounting standards. Where the company do not comply with the same, the company shall disclose the deviation, reasons and the financial effect arising due to such deviation from accounting standards. The auditor shall also give his opinion whether profit and loss account and balance sheet comply with the accounting standards.

2. Amendment To Schedule Vi Companies Act,1956

Sub-Section (1) of Section 641 of the Companies Act,1956 has been amended on 22nd February,1999 by the Central Government amending the Schedule VI to the Act to provide for the following :
"The name(s) of the small scale industrial undertaking(s) to whom the Company owe a sum exceeding Rs.1 Lakh which is outstanding for more than 30 days are to be disclosed."

3. Conditional Declaration Of Dividend Prohibited

The Department of Company Affairs vide its Circular dated 13th April,1998 has advised that the declaration of dividend by companies should be unconditional and the company should not declare dividends subject to any conditions such as subject to prior approval from financial institutions / banks. The company should take prior approval from financial institutions, banks wherever required before declaration of dividend. The Registrar of Companies has been advised to initiate action against all such companies who resort to such practice and delay the payment of dividend to shareholders on such grounds.

B. Amendment To Securities Contracts (Regulation) Act,1956

Securities Contracts (Regulation) (Amendment) Bill,1998 was introduced in Parliament, inter alia, amending section 2 of SC(R) Act,1956 as under :

a) A new clause inserting the definition of `derivatives' to include a security derived from a debt instrument, shares, loan; whether secured or unsecured, risk instrument or contract for differences or any other form of security and a contract which derives its value from the prices or index of number of underlying securities.
b) The units or any other instruments issued by any collective investment scheme to the investors of such scheme is also included in the definition of `security'.

C. Amendment To SEBI (Appeal To The Central Government) Rules, 1993

SEBI (Appeal To The Central Government) Rules,1993 has been amended on 4th September,1998 increasing the fee for appeal to Rs.5,000/- and to provide that any person may obtain a copy of the order after depositing a sum of Rs.100/-.

D. Depositories (Appeal To The Central Government) Rules, 1998

The Central Government has framed Depositories (Appeal to the Central Government) Rules,1998 on 28th July,1998 under section 24 read with section 23 framing the rules for enabling any person aggrieved by an order of SEBI under the Depositories Act,1996 for the regulations made thereunder to prefer an appeal to the Central Government within a period of 30 days from the date of communication of the said order. The form and procedure of filing of appeal hearing the same and procedure for passing an order after hearing, etc has been prescribed.

Amendment to the SEBI (Stock Brokers And Sub-Brokers) Regulations,1992

SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 were amended on 16/12/1998 amending Schedule III to provide that if a stock broker fails to remit fees in accordance with the Regulations he shall be liable to pay interest at the rate of 15% per annum for each month of delay or part thereof.

Amendment to SEBI (Foreign Institutional Investors) Regulations,1995

a) SEBI (Foreign Institutional Investors) Regulations,1995 were amended on 20th April,1998 permitting foreign institutional investors investing through debt-route to invest in dated-Government securities. FIIs were also permitted to lend securities as per SEBI (Stock Lending)Scheme,1996.
b) SEBI (Foreign Institutional Investors) Regulations,1995 were further amended on 18th May,1998 providing that FIIs investing through debt-route permitted to invest in treasury bills within over-all debt-ceiling.
c) SEBI (Foreign Institutional Investors) Regulation,1995 were further amended on 30th June,1998 permitting FIIs to invest in derivatives. The FIIs investing through 100% debt-route permitted to invest in unlisted debt-securities. FIIs permitted to tender securities in takeover offers in terms of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997.

Amendment to SEBI (Substantial Acquisition Of Shares And Takeovers) Regulations, 1997

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997 were amended on 28th October,1998 increasing the threshold limit triggering the offer from 10% to 15%. The limit of creeping acquisition was increased from 2% to 5%. The limit under sub-regulation (2) of regulation 11 has been increased from 51% to 75%. It is further provided that no purchase from secondary market can be made by an acquirer during the last seven days from the closure of the offer.

SEBI (Buy-Back Of Securities) Regulations,1998

The SEBI framed Buy-Back of Securities Regulations,1998 on 14th November,1998. The salient features of these Regulations are as under :

a) The scope of the Regulations covers listed securities of the company only. The unlisted securities issued through private placement or otherwise is not covered by the Regulations.

b) The buy-back has been permitted through the tender offer, from the existing shareholders on proportionate basis and from odd lot holders. The book building mode which is a modified version of the internationally practiced Dutch Auction and purchases through stock exchange has been permitted for open market transactions.
c) In the purchases made through the stock exchange, the details of purchases made in the buy-back scheme of the company shall be made available to the stock exchange on daily basis which in turn shall make this information available to public regularly.
d) The Regulations have an accent on disclosures; they provide for extensive disclosures in the Explanatory Statement to be annexed for the notice for the general meeting and the Letter of Offer.
e) Adequate care has also been taken to disclose the pre- and post-buy-back holdings of the promoters.
f) Promoters are not permitted to participate in the buy-back through the stock exchange mode.
g) Buy-back through negotiated deals, spot transactions or private arrangements is not permitted.
h) In order to ensure strict compliance with the provisions of the Regulations, merchant banker has been made to be associated in every offer for buy-back wherein he would be required to give a `due diligence' certificate.
i) To ensure security for performance of its obligation, the company making an offer for buy-back shall have to open an escrow account on the same lines as provided in the Takeovers Regulations.

Guidelines for disclosure and investor protection

Clarification No.XXII

a) The Guidelines relating to the eligibility norms for public issues by a bank mentioned in clause (d) of Part A of Clarification XVI dated July 17,1996 were modified as - a banking company including a Local Area Bank (hereinafter referred to as Private Sector Banks) set up under sub-section (c) of Section 5 of the Banking Regulation Act,1949 and which has received license from the Reserve Bank of India, or corresponding new bank set up under the Banking Companies (Acquisition and Transfer of Undertaking) Act,1980, State Bank of India Act,1955 and State Bank of India (Subsidiary Banks) Act,1959.
b) The price of equity shares or securities convertible at a later date into equity shares issued by a bank shall be as approved by the Reserve Bank of India.
c) Any public/rights issue of debt-instruments shall have to be compulsorily rated by the approved credit rating agencies, irrespective of their maturity/conversion period.
d) Not more than 20% of the total capital of the company, including the capital brought in by way of preferential issue, shall be subject to lock-in.

Clarification No.XXIII

The SEBI issued further clarification in respect of guidelines for disclosure and investor protection as under :

a) The option of 100% Book Building shall be available to the body corporate which proposes to make an issue of capital to public of Rs.25 crores and above.

b) The minimum number of collection centres for an issue of capital shall be -
   i) The four metropolitan centres situated at Mumbai,Delhi,Calcutta and Chennai and;
   ii) All such centres where the stock exchanges are located in the region in which the registered office of the company is situated.
   iii) The body corporate shall be free to appoint as many collection centres as it may deem fit in addition to the above minimum requirement.

c) To relax the requirement of Rule 19(2)(b) of the said Rules in case of the eligible infrastructure companies. Accordingly, an infrastructure company inviting subscription from public shall not be required to offer at least 25% of its securities to public for subscription.

d) As per the SEBI Circular No.SMD/RCG/JJ/1819/96 dated May 15,1996, it is necessary for a body corporate making a public issue to have at least 5 public shareholders for every Rs.1 lacs of net capital offer made to public. However, this requirement shall not be applicable to an issue of capital made by an infrastructure company. Further, an infrastructure company will be free to decide on the proportion of reservations / Firm Allotments for the eligible categories mentioned in the existing guidelines.

e) The minimum requirement of 90% subscription is mandatory for each issue of capital to the public. The said section shall be modified by adding after clause (3) of Section D of the main guidelines, a proviso, as follows :
   "Provided that the requirement of 90% subscription for issue of capital by an infrastructure company shall not be mandatory if disclosures are made in the prospectus regarding the alternate source of funding. The lead manager shall verify and confirm the same as part of their due diligence."

f) The eligible infrastructure companies are hereby permitted to freely price their equity provided the promoters along with the equipment suppliers and other strategic investors subscribe to 50% of the equity at the same or higher price than the price at which the securities are being offered to the public.

g) The Guidelines relating to the eligibility norms for body corporates for making public issues as contained in Part A of Clarification XV dated April 18,1996 as modified by Clarification XVI dated July 17,1996 and Clarification XXII dated June 5,1998 is hereby modified as under :
   "The provisions of clauses (1) and (2) of Part A of Clarification XV dated April 18,1996 shall not be applicable in case of an infrastructure company.''

h) The public issue made by an infrastructure company would be allowed to be kept open for a maximum period of 21 working days. The issue opening and closing dates shall be disclosed in the offer document.

i) The requirement of creation of a Debenture Redemption Reserve (DRR) as stipulated in clause (1) of Section N read with Section F of the main Guidelines shall not be applicable in case of infrastructure companies.

j) An infrastructure company shall mean " a company wholly engaged in the business of developing, maintaining and operating infrastructure facility provided that the project of the companies engaged in the business of developing, maintaining, and operating infrastructure facility are appraised by a Development Financial Institution (DFI) or Infrastructure Development Finance Corporation (IDFC) or Infrastructure Leasing and Financing Services Ltd. (IL&FS) and whose projects also have the participation of minimum 5% of the project cost (in debt and/or equity) by the appraising institution."

k) "Infrastructure facility" means the " infrastructure facility" within the meaning of section 10(23G)(C) of Income Tax Act,1961."

CBDT Clarification In Respect Of Dematerialised Holding

The Central Board of Direct Taxes (CBDT) vide its Circular dated 24th June,1998 has clarified as under :

a) FIFO method will be applied only in respect of the dematerialised holdings because in case of sale of dematerialised securities, the securities held in physical form cannot be construed to have been sold as they continue to remain in possession of the investor and are identified separately.

b) In the depository system, the investor can open and hold multiple accounts. In such a case, where an investor has more than one-security account. FIFO method will be applied account-wise. This is because in case where a particular account of an investor is debited for sale of securities, the securities lying in his other account be construed to have been sold as they continue to remain in that account.

c) If in an existing account of dematerialised stock, old physical stock is dematerialised and entered at a later date, under the FIFO method, the basis for determining the movement out of the account is the date of entry into the account.

Amendment In The Listing Agreement

The Stock Exchanges were advised to amend the listing agreement, inter alia, to provide for :

a) Fixing the quantum of listing fees after obtaining approval from SEBI. The Stock Exchange shall collect 3 years listing fees upfront at the time of initial listing and subsequently once in every 3 years.

b) The basic minimum norms for listing of securities on the stock exchange shall be uniform for all the exchanges and the stock exchanges may specify additional norms over and above the minimum norms.

c) Voluntary delisting of securities on the stock exchange other than the Regional Stock Exchange shall be permitted by the Stock Exchange on the request of companies. The procedure for voluntary delisting prescribed.

d) The exchange in certain circumstances may delist the securities of the companies (known as compulsory delisting) following the procedure laid down for the purpose.

e) The Directors' Report of the companies shall disclose fact of delisting, suspension of trading,etc.

f) The infrastructure companies were exempted from the requirement of 5 public shareholders for every Rs.1 lakh of net capital offer made to public.

SEBI (Substantial acquisition of shares and Takeovers), Amendment Regulations, 1998

The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 were notified on February 20, 1997. During the course of implementation of these Regulations, certain issues relating to consolidation of holdings, conditional offers and competitive offers/revision in offers etc. have arisen which would require clarifications/amendments to the regulations.

The SEBI therefore reconstituted the Bhagwati Committee (which was instrumental in giving shape to the extant regulations). The terms of reference of the reconstituted Committee are :

a) to review the working of the Regulations.
b) to consider suitable suggestions for further refinement of the Regulations in the light of experience gained so far.

The reconstituted had, *inter alia*, considered the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 relating to consolidation of holdings, threshold limit and acquisitions during the offer period, with a view to examine if the regulations require any amendments in this regard.

The Committee after detailed discussions gave its interim recommendations with regard to the limit of the creeping acquisitions and limitations on acquisitions by the acquirers, during the offer period

Thereafter, the SEBI (Substantial Acquisition of Shares and Takeovers) Amendment Regulations, 1998 were notified on October 28, 1998. The amendment Regulations provide for:

1. Increase in threshold limit from 10 per cent to 15 per cent
2. Increase in creeping acquisition limit from 2 per cent to 5 per cent for persons holding 15 per cent and above but less than 75 per cent
3. Restrictions on acquisitions by the acquirers in the open market during the last 7 working days prior to the closure of the offer

vii. Assessment And Prospects

The corporate sector, the financial sector and in particular the securities market, are rapidly changing with the growth of the economy. This will lead to an ever increasing role for the securities market. While SEBI has introduced far reaching reforms encompassing wide range of areas in the securities market, there is a need for continuous effort towards its modernisation and improving its infrastructure and micro structure so that the markets become safer, fair, efficient, competitive and attractive for the investors, issuers and intermediaries.

In the short and the medium term these efforts would be

- to enhance the level of corporate governance
- to raise accounting standards of firms and intermediaries
- to increase the effectiveness of monitoring and surveillance of the markets by introduction of various measures including the wider stock watch system in exchanges
- to further accelerate dematerialisation and dematerialised trading
- to introduce derivative trading in a phased manner after the necessary amendment in the Securities Contracts (Regulation) Act
- to further reduce the "no delivery" period on the stock exchanges
- to have uniform bylaws for stock exchanges
- to introduce rolling settlement in a phased manner
- to promote stock lending
- to introduce trading in unlisted securities on the OTCEI
- to take steps to reduce transaction costs in the market
- to notify regulations for credit rating agencies
- to notify regulations for collective investment schemes
- to take steps for activating trading in debt securities
- to introduce changes in the mutual fund regulations on the basis of the recommendation of P K Kaul Committee so that the trustees could play an effective role in protecting the interest of investors in mutual funds
- to further enhance the disclosure requirements for issue of capital
- to further streamline systems and procedures for issue of capital
- to refine the system of book building
- to notify regulations for sweat equity
- to implement the report on market making and to promote market making
- to rationalise margining system further
- to introduce a system for public issues through secondary market route to speed up the issue process and reduce issue costs
- to help develop venture capital in the country
- to implement recommendations of the Dhanuka Committee in consultation with the Government

PART II

REVIEW OF THE TRENDS AND WORKING OF THE SECURITIES MARKETS

A] PRIMARY SECURITIES MARKET

Capital Raised During 1998-99

The declining trend in the mobilisation of resources in the primary market which started in the year 1995-96 and carried through till 1997-98, was reversed in 1998-99. The total amount of capital raised during 1998-99from the primary capital market was Rs. 5586.46 crore which is higher by 22.24 per cent than the amount of Rs. 4569.96 crore mobilised in the previous year. While the amount mobilised increased during 1998-99, the number of issues, entering the market declined substantially from 111 in 1997-98 to 58 in 1998-99. This indicates that companies on an average made issues of a size larger than the previous year. The increase in the amount mobilised was on account of higher level of capital mobilisation by banks and financial institutions. Banks and financial institutions which were primarily responsible for this trend raised 85 per cent of the total capital raised during 1998-99 (Table 2.1).

Table 2.1: Capital Raised During 1998-99 ***(Rs Crore)***

	No. of issues and amount				***Percentage increase/decrease Over the previous year***	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Public	32	5018.90	62	2861.95	75.4	-75.2
Rights	26	567.56	49	1708.01	-66.8	-37.2
Total	58	5586.46	111	4569.96	22.2	-67.9

Source: SEBI

The trends in the primary market over the past few years reveal certain noteworthy features about the market and the industrial situation. For example, out of the first 500 top companies in India, hardly any company (excluding the banks and FIs) entered the Indian market in the last three years for raising fresh capital. This is a reflection of the overall negative sentiment and the lack of confidence of the private and the public sector corporates about the new issues market in general. Some of the factors, which contributed to this trend in the market, are analysed below :

- Capital market is the reflection of real economy, which in turn depends upon several macro economic factors. The decline in industrial and infrastructural growth, depressed conditions in domestic demand, poor export performance, large government borrowing from market and stagnant domestic saving ratio, etc. have negatively influenced the present state of the primary capital market.

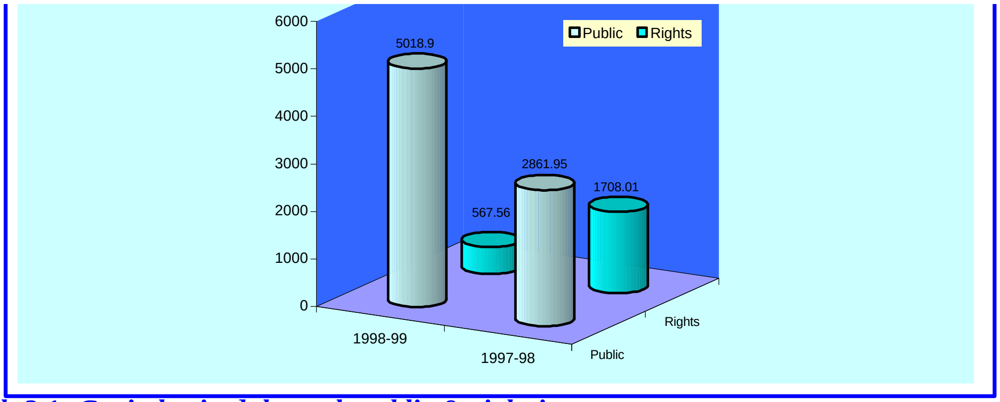
- On account of prevailing high interest rates, investors, both individual and institutional, have shown a preference towards fixed income investment instruments like, bank deposits, government bonds, small savings, debentures, etc., at the expense of equity.

- The prolonged subdued condition in the secondary market has also depressed the investment incentives in the primary market. The studies carried out on the basis of recent data on Indian market suggested that the revival of new issues market is crucially dependent on the revival of secondary market. Besides, the volume and pricing of capital issues and the decision of a company to go for capital issues to some extent has been influenced by the secondary market conditions.

- With the introduction of the economic reforms, the Government of India permitted free pricing of issues – a necessary concomitant for a free market. This relaxation allowed companies to freely access the capital market and price their issues at a premium. As a result, large number of issuers (including some companies from public sector) entered the market to raise resources through equity offerings at high premia. The price of many of these issues declined on listing and is being quoted substantially below the issue prices. According to a study undertaken by the SEBI, a few of the companies, which came with public issues, are not even traceable. The charging of high premia in a large number of cases and the non-existence of a few of these companies adversely affected the investors in terms of liquidity and confidence. Many of the investors consequently shied away from the market.

- The developments in the international markets also affected the sentiments in the domestic market. The FII flows were impacted by the turbulence in the Asian markets. While the FIIs continued to repose their faith in the Indian regulatory framework and the markets, they reduced their exposure to emerging markets in general and Asian markets in particular as a result of redemption. This overall position affected the FIIs flows to India and in 1998-99 (April-December) there was a net outflow of around US $ 610 million. The Asian meltdown and FIIs disinvestment in turn affected the sentiments of the investors, domestic and the local market witnessed bouts of volatility and further decline in share prices. Although the linkages between Indian securities markets and world markets are not strong, the sentiments in the Indian markets undoubtedly got affected by the developments in the foreign markets.

- Another important factor, which is worth mentioning, is the possible impact of the entry norms for capital issue introduced by the SEBI. In the past, following the free pricing a large number of companies including greenfield projects entered the capital market. The SEBI subsequently brought in strict disclosure standards and entry point norms in line with those prevailing in the international markets. This made it difficult for most of such companies without a track record to access the capital market. The fly-by-night operators were literally vanished. While this policy helped improve the quality of paper entering the market and served as an important measure of investors' protection, it contributed to decline in the number of issues and amount raised in the market.



Graph 2.1: Capital raised through public & right issues

Month-wise Trends in Capital Mobilisation

Month-wise analysis of amount mobilised in primary market witnessed a mixed trend throughout the financial year, 1998-99. In some months very few issues entered the market while during the other months relatively a larger number of issues mobilised large resources. During the months of May 1998 and November 1998, the resources raised were less than Rs. 100 crore. On the other hand, in some months like September and December 1998 and February 1999, the amount mobilised were quite substantial. During December 1998, an amount of Rs 1237.83 crore was raised which was the highest during the financial year, while the lowest amount was of Rs 2 crore raised in November 1998. The total amount raised was Rs 870.93 crore in February 1999, which declined to Rs.439.95 crore in March 1999.

Trends in Clearance of Offer Documents

During the financial year, 1998-99 (April-March), the SEBI received 60 offer documents for mobilising funds from the market to the tune of Rs.4802.17 crore and 55 issues were cleared for Rs. 1802.75 crore indicating a share of 37.54 percent of the total amount intended for mobilisation. Table 2.2). During 1997-98, the SEBI had received 114 offer documents for Rs. 12500.71 crore and cleared 103 offer documents for Rs. 11706.71 crore.

Table No.2.2: Status Of Offer Documents (Rs Crore)

Offer Documents	***1998 - 99***		***1997 – 98***	
	No.	Amount	No.	Amount
Received	60	4802.17	114	12500.56
Cleared	55	1802.75	103	11706.71

Source : SEBI

** Documents received but not completed mandatory filing period has been excluded under the column documents cleared.*

Trends in Size and Composition of Issues

As observed in the last year's Report, in 1998-99 also large issues raised proportionately higher amount of capital. On the one hand primary market was dull and issues which entered the market for mobilising resources for the corporate needs were few, on the other hand large number of mega issues were floated by the financial institutions such as IDBI, ICICI, IFCI, SIDBI etc. to fund their resources to cater to the needs of the corporates. It may be noted that during 1998-99 there were 11 mega issues for Rs.4610.84 crore as against 12 issues for a lesser amount of Rs 3483.84 crore during the previous year.

As regards composition of issues, there were 32 public issues and 26 rights issues in 1998-99 sharply lower than 62 public issues and 49 rights issues floated in 1997-98. The public issues of Rs. 5018 crore formed 89.8 per cent in 1998-99 as compared to 62.6 per cent in 1997-98. On the other hand rights issues mobilised only 10.2 per cent in 1998-99 as against 37.4 per cent in 1997-98. In terms of percentage increase, amount raised through public issues increased by 75.4 per cent in 1998-99 over 1997-98 whereas amount through rights issues declined by 66.8 per cent. Thus issuers increasingly depended on new market investors in 1998-99 than on the existing shareholders reflecting some increase in the level of confidence of investors compared to the previous year.

The share of large issues was 82.5 percent in the total amount mobilised during the year 1998-99. The Industrial Development Bank of India raised Rs 2250 crore and ICICI Rs 2200 crore, whereas India Cements Ltd. raised Rs 160.84 crore. Thus, the manufacturing sector did not enter the market with mega issues during 1998-99. Since these funds are advanced as loans to the corporates it is possible the investment in industrial sector is taking place through intermediation of financial institutions. (Table 2.3).

Table2.3 : Large Issues During 1998-99 ***(Rs. in crore)***

Name of the Company	***Type of Issue***	***Type of Instrument***	***Issue date***	***Offer size***
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	27/04/98	300.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	16/07/98	300.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	27/08/98	300.00
Industrial Development Bank of India	Public	Bonds	21/09/98	750.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	26/10/98	400.00
The Industrial Credit and Investment Corporation .of India Ltd.	Public	Bonds	09/12/98	300.00
Industrial Development Bank of India	Public	Bonds	21/12/98	750.00
The India Cements Ltd.	Rights	Equity	28/12/98	160.84
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	21/01/99	300.00
Industrial Development Bank of India	Public	Bonds	22/02/99	750.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	10/03/99	300.00
Total				4610.84

Source: SEBI

The average size of an issue (including public and rights) was Rs 96.32 crore during 1998-99 as against Rs.41.17 crore during the previous year. However, if 11 large issues of Rs. 100 crore and above are excluded, the average size of the issue was also higher at Rs 20.75 crore during 1998-99 as against Rs 10.97 crore in 1997-98. (Table 2.4)

Table 2.4 : Size-wise Distribution of Issues Launched During 1998-99 (Rs. in crore)

	1998-99		***1997-98***	
	No.	**Amount**	**No.**	**Amount**
<5 cr.	15	34.87	52	121.63
=>5cr. <10crore.	09	63.05	26	176.60
=>10cr. <50crore.	14	296.46	15	367.48
=>50cr. <100cr.	09	581.24	06	420.39
=>100cr. <500cr.	08	2360.84	10	1934.56
=>500 cr.	03	2250.00	02	1549.29
Total	58	5586.46	111	4569.95

Source: SEBI

It would be seen that in 1998-99, there were 15 issues below Rs.5 crore and 9 issues above Rs.5 crore and below Rs.10 crore each. During 1997-98, however, there were 52 issues in the first group of issue and 26 issues in the next higher group.

Table 2.5: Number of Issues and Amount Raised

Month/Type of Issues	*1998-99* No. of issues	Amount (Rs. Crore)	*1997-98* No. of issues	Amount (Rs. Crore)
April	04	409.33	17	216.03
Pub.	02	335.84	15	169.95
Rig.	02	73.49	2	46.08
May	04	97.10	14	1104.06
Pub.	03	95.58	9	82.09
Rig.	01	1.52	5	1021.97
June	05	100.39	21	124.94
Pub.	05	100.39	12	60.38
Rig.	00	0.00	9	64.56
July	06	365.52	08	173.90
Pub.	01	300.00	2	3.54
Rig.	05	65.52	6	170.36
August	04	333.08	07	193.88
Pub.	01	300.00	3	147.36
Rig.	03	33.08	4	46.53
Sept.	09	973.51	03	28.42
Pub.	06	911.95	1	1.62
Rig.	03	61.56	2	26.80
October	02	409.84	05	422.92
Pub.	01	400.00	4	413.03
Rig.	01	9.84	1	9.89
November	01	02.00	07	354.31
Pub.	00	0.00	4	260.09
Rig.	01	2.00	3	94.22
December	06	1237.83	08	473.71
Pub.	04	1075.05	6	459.84
Rig.	02	162.78	2	13.87
January	03	346.98	06	932.38
Pub.	02	306.18	4	855.81
Rig.	01	40.80	2	76.57
February	07	870.93	05	49.50
Pub.	04	837.13	00	0.00
Rig.	03	33.80	5	49.50
March	07	439.95	10	495.90
Pub.	03	356.78	2	408.25
Rig.	04	83.17	8	87.65
Total	58	5586.46	111	4569.95

Pub = Public and Rig = Rights
Source: SEBI

Trends in Listed and IPO Issues

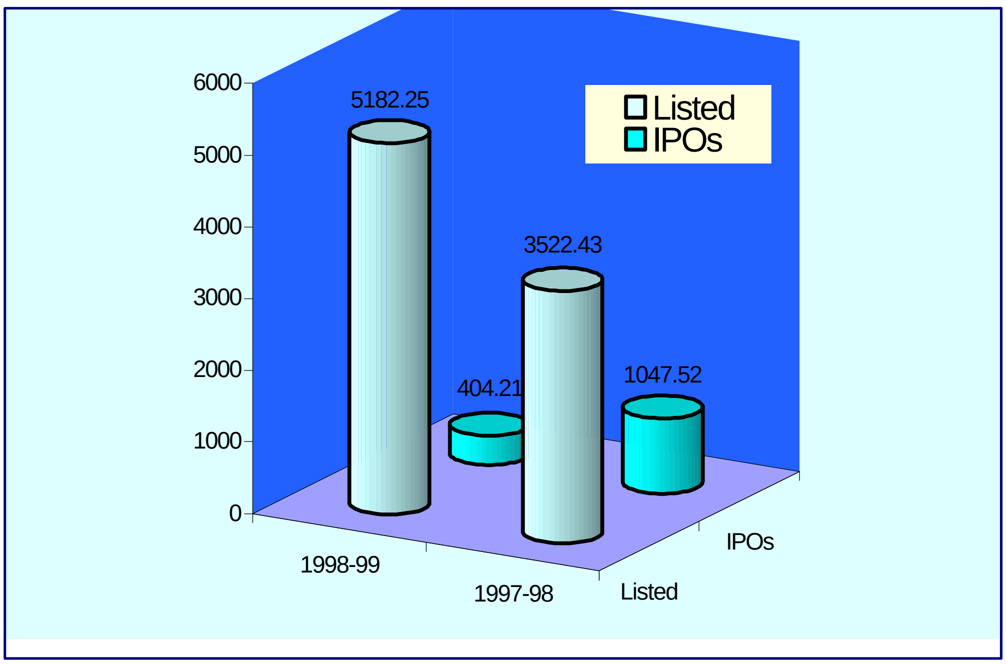
Table 2.6: Listed and IPO Issues during April-March 1998-99 ***(Rs Crore)***

	1998-99		1997-98		*Percentage Share* 1998-99	1997-98
	No.	Amount	No.	Amount		
Listed	40	5182.25	59	3522.43	92.76	77.08
IPOs	18	404.21	52	1047.52	7.24	22.92
Total	58	5586.46	111	4569.95	100.00	100.00

Source : SEBI

During the financial year 1998-99, listed companies floated 40 issues for Rs 5182.25 crore. In addition 18 IPOs for Rs 404.21 crore were floated. The comparable figure for 1997-98 was 59 issues by listed companies for Rs.3522.43 crore and 52 issues through IPOs by unlisted companies for Rs 1047.52 crore. The IPOs' contribution towards resource mobilisation declined to 7.2 percent during the year under review from 22.9 percent in the previous year. However, the listed companies' share correspondingly increased to 92.8 per cent in 1998-99 from 77.10 percent in 1997-98. The absence of issues of good quality, lack of confidence of investors in new companies and depressed secondary market, were some of the factors which hindered the growth of IPOs (Table 2.6).

Graph 2. 2: Listed and IPO Issues during April-March 1998-99



Sector-Wise Analysis of Capital Mobilisation

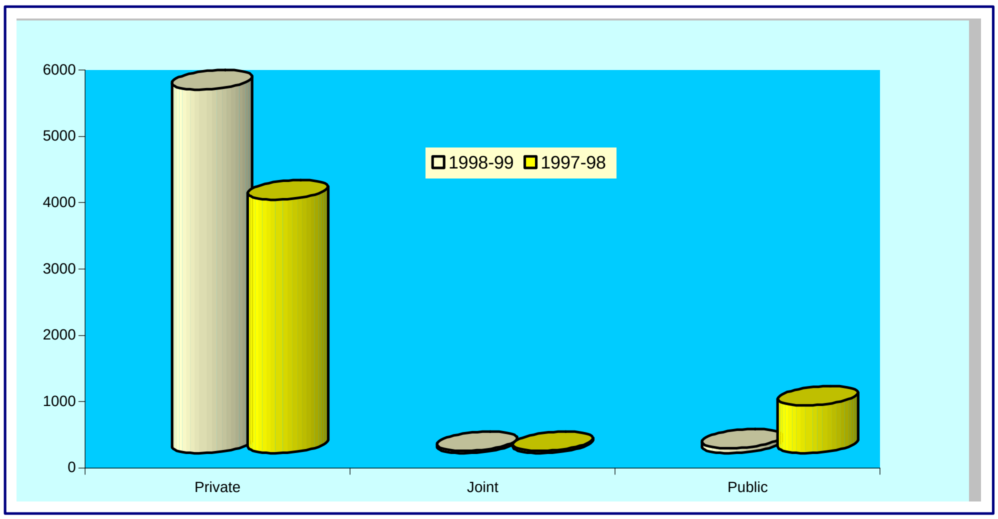
An analysis of sector-wise resource mobilisation reveals that the private sector took the lead in mobilising the highest amount as compared to public and joint sectors during 1998-99 as seen in the Table 2.7. During 1998-99 the private sector made 55 issues which accounted for 98.2 percent of the total capital raised followed by public sector accounting for only 1.2 percent (Graph 2.3)

Table 2.7: Sector-wise Break-up of Capital Raised ***(Rs Crore)***

Sector	No. of issues and amount				Percentage share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Private	55	5483.14	102	3820.97	98.2	83.6
Joint	02	33.02	03	31.11	0.6	0.7
Public	01	70.30	06	717.87	1.2	15.7
Total	58	5586.46	111	4569.95	100.00	100.00

Source : SEBI

Graph 2.3 : Sector-wise Capital Raised



Appraisal of Issues and their Trends

Table 2.8: Classification of Issues into Appraised / Unapprised (Rs Crore)

	No. of issues and amount				Percentage Share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Appraised	15	369.97	34	1372.09	6.6	30.0
Unapprised	43	5216.49	77	3197.86	93.4	70.0
Total	58	5586.46	111	4569.95	100	100

Source: SEBI

During 1998-99 there were 43 self-appraised issues (74.14 percent of the total no of issues) amounting to Rs.5216.49 crore (93.4 percent of the total amount raised) as compared to 77 issues (69.4 percent of the total number of issues) amounting to Rs. 3197.86 crore (70.0 per cent of the total amount raised) in the previous year. Of the remaining 15 issues that entered the market during 1998-99, 3 issues were appraised by a bank, 10 issues by the development financial institutions and 2 issues by the other financial institutions (Table 2.8).

Firm Allotment of Institutional Investors

The amounts allotted on the basis of firm allotment / reservation totaled Rs.5018.90 crore during 1998-99 compared with Rs.2861.94 crore during the previous year. Of the total capital raised, during 1998-99, 89.80 per cent was under firm allotment of which Rs. 4876.30 crore went to public (97.15 per cent as compared to 81.9 per cent in the previous year) followed by promoters, Rs.58.6 crore, NRIs Rs.33.83 crore and financial institutions and banks together Rs.22.86 crore. The employees got onlyRs.10.22 crore.

Industry-Wise Analysis of Resource Mobilisation

Industry-wise allocation of resources depend on the growth of a particular sector, its performance in the economy and its resource needs for growth and expansion. During 1998-99, it is observed that banks and financial institutions through 10 large issues garnered 84.8 per cent of the total resources mobilised followed by the electronic 3.64 per cent, cement and construction companies having the combined share of 3.56 per cent and textiles 2.18 per cent. There was one issue by power sector during 1998-99 accounting for 0.23 per cent as compared to nil during 1997-98. The trend during the current year has varied from that observed during the previous year (Table 2.9).

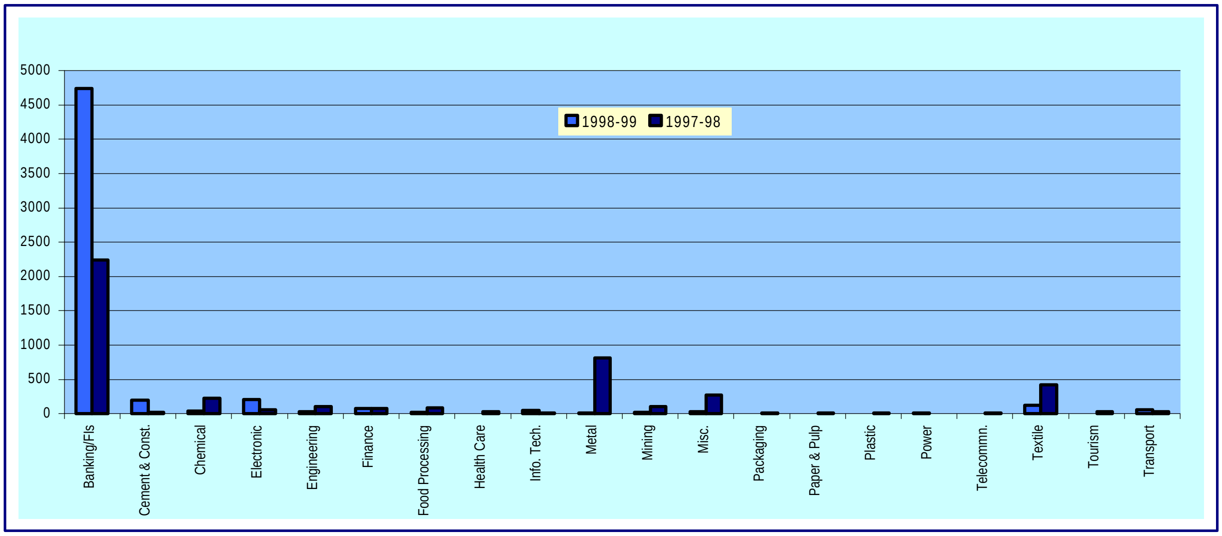
Table 2.9: Industry-wise Capital Raised ***(Rs Crore)***

Industry	***No. of Issues and Amount***				***Percentage Share***	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Banking/FIs	15	4738	8	2241.82	84.81	49.06
Cement & Const.	4	199.02	5	22.23	3.56	0.49
Chemicals	2	36.5	7	226.48	0.65	4.96
Electronics	4	203.77	3	62.18	3.65	1.36
Engineering	6	26.54	7	107.9	0.48	2.36
Finance	8	75.29	22	73.71	1.35	1.61
Food Processing	2	21.1	4	85.37	0.38	1.87
Health Care	0	0	6	27.61	-	0.60
Info. Tech.	5	46.92	1	8.51	0.84	0.19
Metals	2	3.51	7	814.39	0.06	17.82
Mining	1	20.4	1	107.48	0.37	2.35
Misc.	3	27.02	16	275.4	0.48	6.03
Packaging	0	0	2	4.96	-	0.11
Paper & Pulp	0	0	3	16.13	-	0.35
Plastic	0	0	1	11.85	-	0.26
Power	1	13.1	0	0	0.23	-
Telecommn.	0	0	1	5.07	-	0.11
Textiles	4	121.54	12	418.33	2.18	9.15
Tourism	0	0	2	28.1	-	0.61
Transport	1	53.75	3	32.43	0.96	0.71
Total	58	5586.46	111	4569.95	100.00	100.00

Source : SEBI

During 1997-98, manufacturing industries like metals, textiles, chemicals, engineering and mining had mobilised large amounts of the order of Rs. 1674.58 crore together or 36.7 per cent of the total capital raised whereas banks and financial institutions mobilised 49.05 per cent. Thus banks and financial institutions have become more dominant in the primary market.

Graph 2.4: Industry-wise capital raised



Region-Wise Analysis of Capital

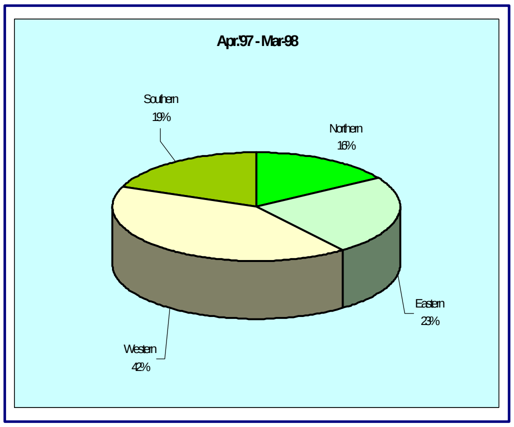
Region-wise magnitude of resource mobilisation is determined among other factors by the extent of industrial development and availability of infra-structure network. It is observed that there has been an increase in the capital raised despite the decline in the number of issues in the western region during 1998-99 compared with the position in 1997-98. However, in the northern, eastern and southern regions there has been a decline in the number of issues as well as in the amount of capital raised as compared to the position in 1997-98. The data furnished in the Table 2.10 reveal that the Western region, relatively advanced in industrial development, mobilised Rs.4856.27 crore, through 29 issues which was 86.9 per cent of the total amount taken together mobilised in all other regions, i.e. northern, eastern and southern as compared to 52.3 per cent in 1997-98. The southern region occupied the second position in terms of amount mobilised at Rs.293.42 crore but its share was 5.2 per cent lower than 15.6 per cent in 1997-98. The eastern region lost heavily in 1998-99 as its share contracted to just 4.8 per cent from a high of 25.5 per cent in 1997-98.(Table 2.10)

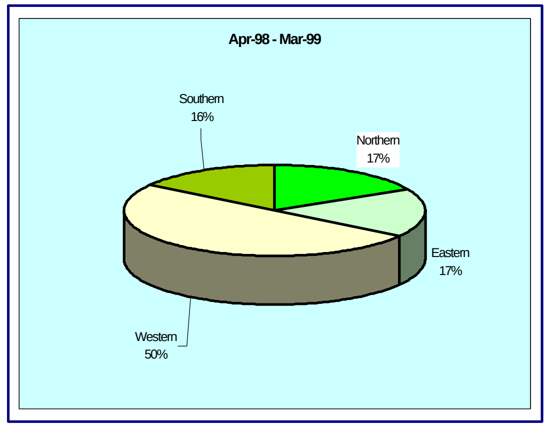
Table 2.10: Region-wise Distribution of Capital Raised (Rs Crore)

Region	***No. of issues and amount*** 1998-99		1997-98		***Percentage share*** 1998-99	1997-98
	No.	**Amount**	**No.**	**Amount**		
Northern	10	171.25	18	301.70	3.1	6.6
Eastern	10	265.52	26	1164.21	4.8	25.5
Western	29	4856.27	46	2391.09	86.9	52.3
Southern	09	293.42	21	712.95	5.2	15.6
Total	58	5586.46	111	4569.95	100	100

Source: SEBI

Graph 2. 5: Region-wise Distribution of Capital Raised





Instrument-wise Analysis Of Capital Raised

The analysis of data reveals that significance of instruments which earn fixed income is rising and importance of assets associated with unstable yield rate and risk is falling. Thus during 1998-99, share of funds raised through bond issues was the highest at 79.65 per cent followed by equity at 15.33 per cent. Equity issues had accounted for 41.17 per cent during 1997-98. Thus, the share of equity in total amount raised declined during the year under review. A break-up of equity issues into premium and non-premium revealed that premium equity issues, which mobilised 85.58 percent of total equity raised in 1997-98 could mobilise 77.0 percent in 1998-99 implying that only quality issues can earn premium. However, equity on premium continues to be important probably due to issues of good quality entering the market with required disclosures and transparency norms. Fully convertible debentures of the value of Rs.186.74 crore (3.34 per cent) were floated by five companies in 1998-99 as compared to 7 issues of Rs.217.64 crore (4.76 per cent) in the previous year (Table 2.11).

Table 2.11: Instrument-wise Distribution of Capital Raised ***(Rs Crore)***

Type of Instrument	No. of issues and amount 1998-99		1997-98		Percentage Share 1998-99	1997-98
	No.	**Amount**	**No.**	**Amount**		
Equity - par	20	197.04	64	271.36	3.53	5.94
- premium	20	659.8	33	1610.27	11.81	35.24
CCPS	3	78.01	3	10.07	1.40	0.22
Pref. Shares	0	0	0	0	-	-
FCDs	5	186.74	7	217.64	3.34	4.76
PCDs	0	0	0	0	-	-
NCDs	0	0	0	0	-	-
Bonds	10	4450	4	1550	79.66	33.92
OFCDs (Optnlly Fully Convt. Debt) & OFCDDs (Op. Fully Convt. Discntd. Debt.)	0	0	3	910.61	-	19.93
OCCPS (Op. Convt. Cumm. Pref. Shares)	1	14.87	0	0	0.27	-
Any Other	0	0	0	0	-	-
Total	59	5586.46	114	4569.95	100.00	100.00

* *Number counted on the basis of instrument i.e. if a company has issued more than one instrument, they have been counted separately.*
Source: SEBI

A noteworthy feature of instrument-wise resource mobilisation was the issue of 10 bonds by the financial institutions such as IDBI and ICICI to fund their resources on commercial basis which will be channelised by them to real sector, largely corporate sector. It may be noted that cost of investment finance through financial intermediation is higher than that directly resourced from the primary market. The instruments like partially convertible debentures and non-convertible debentures are not being utilised for raising resources for last two years.

Underwriting of Issues

The information relating to underwriting of issues indicates that 7 of 32 issues were underwritten and 25 issues were not underwritten during 1998-99 as compared to 10 issues which were underwritten and 52 issues which were not underwritten during 1997-98 (Table 2.12).

Table 2.12: Public Issues Underwritten / Not Underwritten

Public Issues	***1998-99***		***1997-98***	
	No.	Amt.(Rs. cr.)	No.	Amt.(Rs. cr.)
Underwritten	07	227.53	10	443.98
Not underwritten	25	4791.37	52	2417.96
Total	32	5018.90	62	2861.94

Source: SEBI

Subscription of Primary Issues

During 1998-99, of the total 21 issues, 19 issues were subscribed less than twice and two issues were subscribed more than twice and less than 5 times. There was no issue, which was subscribed, more than 5 times and less than 10 times. The details of issue reveal that banks and financial institution's issues were oversubscribed for more than one time.(Table 2.13)

Table 2.13: Subscription of Issues during April '98 – March '99

1998-99		***No. of Issues***	***1997-98***		***No. of Issues***
	<=2 times	19		<=2 times	51
>2	<=5 times	02	>2	<=5 times	04
>5	<=10 times	00	>5	<=10 times	01
>10	<=20 times	00	>10	<=20 times	01
>20	<=50 times	00	>20	<=50 times	00
>50	<=100 times	00	>50	<=100 times	00
	>100 times	00		>100 times	01

Source: SEBI

B] SECONDARY SECURITIES MARKET

Price behaviour in the secondary securities market during 1998-99

Equity prices in general registered receding trend during the major part of the financial year, 1998-99. On point to point basis, BSE 30 stocks sensitive index (Sensex) decelerated from 3892.75 as on March 31, 1998 to 3739.96 as on March 31, 1999, recording a decrease of 152.79 points or 3.92 per cent. The BSE 100 (Natex) had a fall of 45.77 points (-2.69 per cent) from 1697.14 to 1651.37 followed by S&P CNX Nifty registering a fall of 38.85 points or 3.47 per cent from 1116.92 to 1078.05. The Crisil Index with 500 scrips recorded a rise of 42.71 points (5.96 per cent) from 715.54 to 758.25 (Table 2.14). The detailed analysis of movement of indices provide more interesting reading of developments in Indian stocks market. The share prices remained on an optimistic note in April 1999. The BSE Sensex firmed up to 4280.69 on April 21, 1998 and thereafter declined under the pressure of impending sanctions following India's nuclear test and recurrence of turmoil in international stocks and currency markets. Exchange rate instability was also crucial factor. The rupee was volatile for sometime and the exchange rate fell sharply on a few occasions in 1998, in turn affecting the market sentiments and inhibiting fresh FIIs inflows. The FIIs inflows were negative for many months during 1998-99 on account of the East Asian Crisis.

Table 2.14: Movement of Various Share Indices During the Period

Index	*31-Mar-98*	*31-Mar-99*	*Inc./Dec*	*% Inc./Dec*
BSE Sensex	3892.75	3739.96	-152.79	-3.92
BSE 100	1697.14	1651.37	-45.77	-2.69
NSE 50	1116.9	1078.05	-38.85	-3.47
CRISIL 500	715.54	758.25	42.71	5.96
CRISIL 200	489.29	694.56	205.27	41.95
BSE Dollex	158.75	149.11	-9.64	-6.07

Source: SEBI

The news about the financial status of US-64 Scheme and Unit Trust of India seriously affected the market sentiments and contributed to the nervousness of the market for quite sometime. Because of this, UTI, which used to be a counter forces against the FIIs ceased to play such a role in the market. This development enhanced the impact of the FIIs trades on the Indian capital market.

The heavy selling by the FIIs during May and June 1998. This was a direct fall out of the reasons given above. The markets appeared to stablise after this but the international developments in the emerging markets once again exacerbated the funds outflow from the these economies.

All these negative developments kept market under pressure of sales and as a result BSE Sensex fell to 2810.66 on November 30, 1998 and further to 2804.03 on December 1, 1998. The S&P CNX Nifty and Jr. Nifty reflected the same downward movements. All stocks indices demonstrated bearish and gloomy performance during October to December 1998. The market began to recover during the last week of December 1998 on the support of FIIs and expectations for budgetary incentives for capital market and touched the highest of the year at 3784.11 on March 09,1999.

On a monthly average basis, BSE Sensex has shown a decline of 607.18 points or 15.2 per cent during 1998-99. The monthly average Sensex declined from 4006.81 in April 1998 to 2810.66 in November 1998, a fall of 42.6 per cent, but showed a rising trend thereafter finally reaching 3399.63 in February 1999. The Sensex showed uptrend throughout the month of March 1999 closing at 3739.96 at end March 1999. Monthly average for March 1999 was at 3784.11 (Table 2.15).

The S&P CNX Nifty which averaged 1159.35 for April 1998 climbed down to 817.75 by November 1998, registering a fall of 41.8 per cent. The index began to recover during the following months and touched 1078.05 during March 1999. Thus over the year of 1998-99, the monthly average of S&P CNX Nifty declined by only 7.5 per cent (March 1999 over April 1998). The BSE Natex which averaged 1760.96 for April 1998 persistently declined and reached as low as 1254.10 in November 1998 but improved to 1659.63 in March 1999, shedding 101 points (Table 2.15).

The firming up trend in the stocks prices in March 1999 was probably the result of optimistic perceptions of the market due to positive budget proposals like exemption of income of unit holder from income tax received from UTI as well as other mutual funds and exemption of dividend from income tax in the hands of investors in case of investment in US 64 scheme of UTI and other open ended mutual funds schemes provided such mutual funds invested more than 50 per cent in equity shares. Capital gains tax reduction from 20 per cent to 10 per cent also added bullish sentiments to the market. The Reserve Bank of India's announcement of reduction in cash reserve ratio and Bank Rate and downward movement in deposit rates of commercial banks further added to bullish sentiments in the market by way of augmenting liquidity in the market.

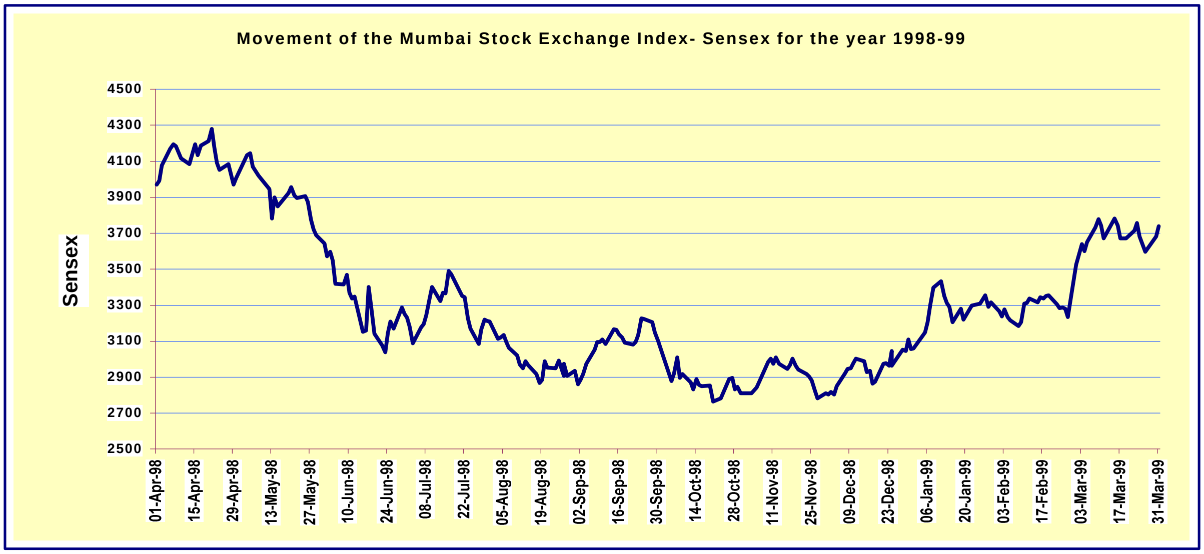
Other factors which assisted the market in improving its performance particularly, from December 1998, include reversal of outflow of FIIs to positive net inflows, exchange rate stability, some increase in liquidity in the financial system compared to previous year, increased anti volatility measures, transparency measures and growing process of dematerialisation including better settlement system guided by the SEBI. The rapid process of dematerialisation of shares has been attracting FIIs investment (Table 2.15).

Table 2.15: Stock Market Indicators During 1998-99: Monthly Trends

Month	***Index***			***Price to Earnings Ratio (in per cent)***		***Average Daily Turnover (Rs in crore)***		***Market-capitalisation (Rs in crore)***
	Sensex	Nifty	Natex	Sensex	Natex	NSE	BSE	All India
1998								
April	4006.81	1159.35	1760.96	16.11	14.46	1634	1404.41	610777
May	3686.39	1063.15	1644.14	14.84	13.50	1792	1302.22	591420
June	3250.69	941.65	1427.23	12.94	11.63	1343	1022.53	511012
July	3211.31	931.40	1416.67	12.69	11.48	1284	923.55	508863
August	2932.85	852.80	1310.60	11.13	10.05	1151	909.28	489355
Sept	3102.29	904.95	1379.78	11.30	10.29	1422	1256.66	504959
October	2812.49	824.00	1260.78	9.83	9.16	1435	1242.82	476609
November	2810.66	817.75	1254.10	11.12	9.09	1154	1011.04	476240
December	3055.41	884.25	1359.56	12.08	9.89	1565	1213.06	477010
1999								
January	3315.57	966.20	1461.52	13.10	10.88	2351	1711.35	528896
February	3399.63	981.30	1506.95	13.43	12.91	2143	1482.94	530772
March	3784.11	1078.05	1659.63	14.81	14.16	2606	2020.76	574064

Source: BSE and NSEIL

Graph 2.6: Sensex Movement for the year 1998-99



Movement in Volatility

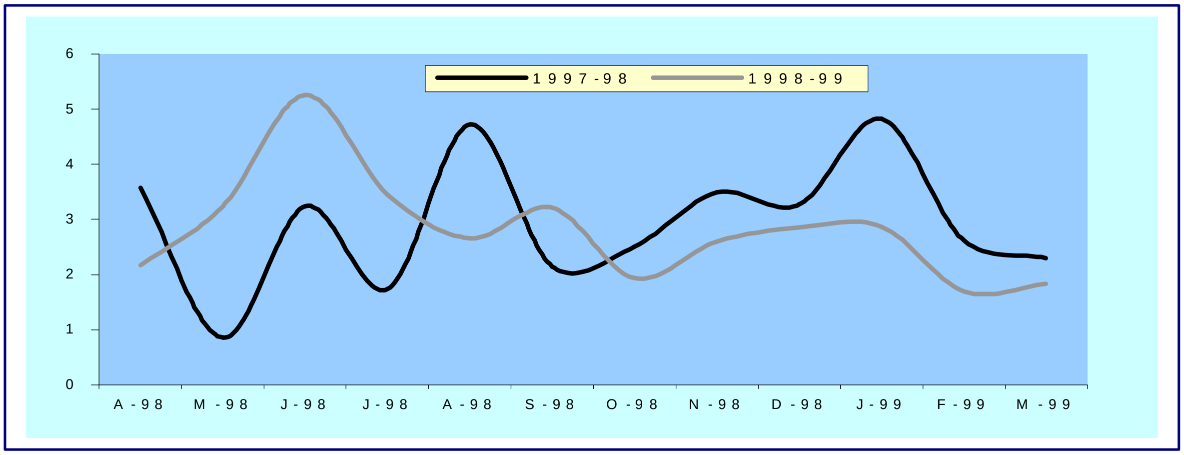
The movement in volatility of BSE stocks reflected rising trend during the months of April to July 1998-99 and was higher than that observed during the same months in the previous year. Since the SEBI introduced number of volatility containment measures, the volatility during the following months continuously declined to 1.83 per cent by March 1999 from 5.26 per cent in June 1998. Moreover the volatility was substantially lower during the second half of 1998-99 than that during the same period in 1997-98. The volatility of Natex also witnessed declining trend. The Natex volatility which was 2.36 per cent in April 1998 increased to 5.92 per cent in June 1998 and thereafter gradually decreased to 1.67 by March 1999.(Tables 2.16). S&P CNX Nifty and CNX Junior Nifty also reflected the same trend.

Table 2.16: Sensex Volatility & Natex Volatility *(in per cent)*

Month	*Sensex Volatility*			*Natex Volatility*		
	1996-97	1997-98	1998-99	1996-97	1997-98	1998-99
Apr-98	4.54	3.57	2.17	4.12	3.06	2.36
May-98	1.58	0.85	3.24	1.43	0.81	2.93
Jun-98	2.35	3.24	5.26	2.19	3.29	5.92
Jul-98	2.62	1.74	3.45	2.32	1.46	3.25
Aug-98	2.02	4.72	2.66	1.82	4.56	2.26
Sep-98	2.67	2.15	3.21	2.88	2.21	2.91
Oct-98	2.75	2.51	1.93	2.56	2.30	1.89
Nov-98	3.08	3.49	2.60	3.08	3.37	2.48
Dec-98	4.01	3.27	2.85	3.77	3.10	2.93
Jan-99	3.50	4.83	2.87	3.18	4.74	2.84
Feb-99	2.45	2.62	1.70	2.22	2.70	1.87
Mar-99	3.24	2.30	1.83	3.25	2.60	1.67

Source: BSE & NSEIL

Graph 2.7 (a) : Sensex Volatility



Graph 2.7 (b) : Natex Volatility

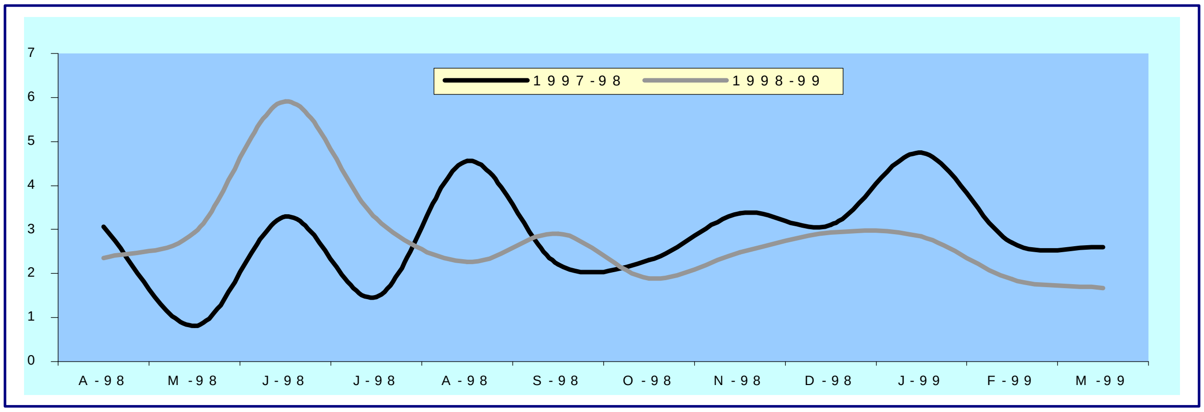


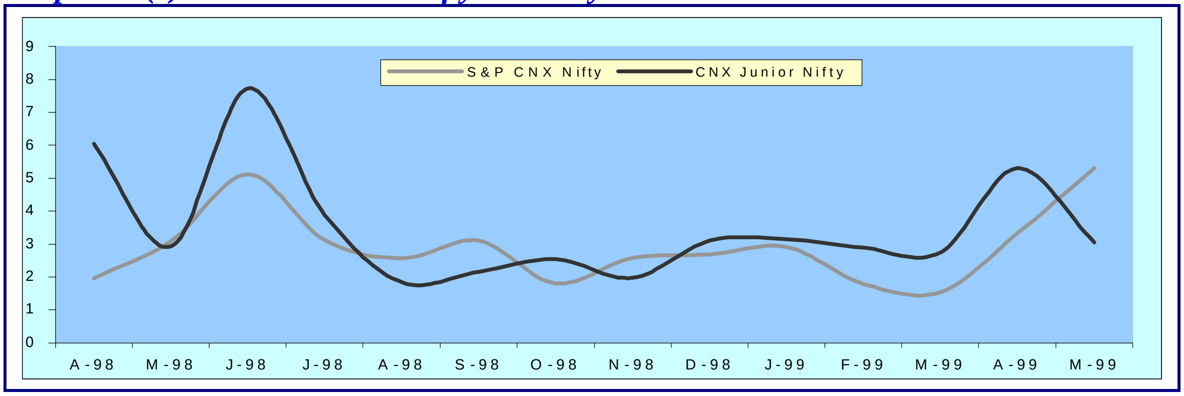
Table 2.16(a) : S&P CNX Nifty and CNX Jr. Volatility

(in per cent)

Month	*S&P CNX Nifty*	*CNX Junior Nifty*
Apr-98	1.96	6.04
May-98	3.09	2.93
Jun-98	5.11	7.72
Jul-98	3.12	3.89
Aug-98	2.57	1.84
Sep-98	3.1	2.16
Oct-98	1.81	2.54
Nov-98	2.58	1.98
Dec-98	2.69	3.1
Jan-99	2.91	3.15
Feb-99	1.79	2.89
Mar-99	1.53	2.74

Source : NSEIL

Graph 2.7 (c) : S&P and CNX Nifty Volatility



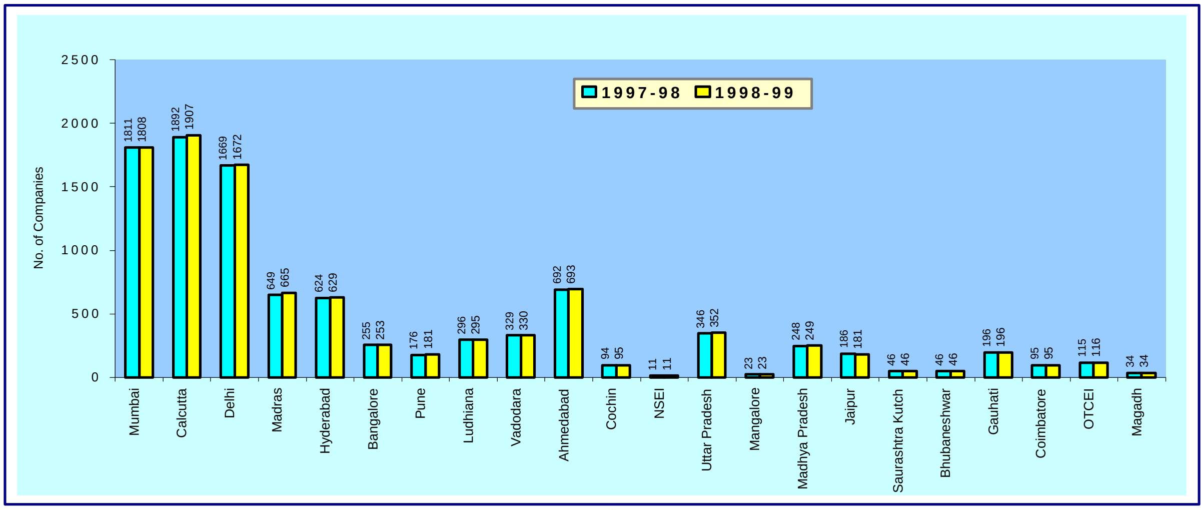
Listed Companies and Market Capitalisation

As on March 31, 1999, 9,877 companies were listed on stock exchange in India, compared to 9,833 companies listed at the end of 1997-98. The total market capitalisation of all companies listed on The Stock Exchange, Mumbai (there were 5848 companies listed on BSE as on March 31, 1999) was Rs.5,45,361 crores a fall from its 1997-98 level of Rs.5,60,325 crores as on March 31, 1998 crores. Figures below illustrate the distribution of listed companies and the table gives details of the same.(Table 2.17)

Table 2.17 : Stock Exchange-wise distribution of listed companies

No.	***Stock Exchanges***	***No. of Companies***	
		1997-98	1998-99
1	Mumbai	1811	1808
2	Calcutta	1892	1907
3	Delhi	1669	1672
4	Madras	649	665
5	Hyderabad	624	629
6	Bangalore	255	253
7	Pune	176	181
8	Ludhiana	296	295
9	Vadodara	329	330
10	Ahmedabad	692	693
11	Cochin	94	95
12	NSEIL	11	11
13	Uttar Pradesh	346	352
14	Mangalore	23	23
15	Madhya Pradesh	248	249
16	Jaipur	186	181
17	Saurashtra Kutch	46	46
18	Bhubaneshwar	46	46
19	Gauhati	196	196
20	Coimbatore	95	95
21	OTCEI	115	116
22	Magadh	34	34
	Total	9833	9877

Source: SEBI



Graph 2.8: Stock Exchange-wise distribution of listed companies

Volume of Business on the Stock Exchanges

During 1998-99, the combined turnover of 23 stock exchanges increased by 12.6% as compared to high increase of 40.6 per cent in 1997-98. In absolute term the turnover went up from Rs 908691 crore in 1997-98 to Rs 1023382 crore in 1998-99. However, the performance of turnover widely varied among the stock exchanges while in Mumbai Stock Exchange recorded a rise of 50 per cent followed by NSEIL at 12.0 per cent,

Table 2.18: Turnover on Stock Exchanges in India

	Stock Exchanges	*Turnover (Rs. Crore)*		*Percentage share In total turnover*	
		1997-98	1998-99	1997-98	1998-99
1	NSEIL	369934	414383	40.71	40.49
2	Mumbai	207383.00	311999.03	22.82	30.49
3	Calcutta	178778	171780.42	19.67	16.79
4	Delhi	67840	51759.27	7.47	5.06
5	Ahmedabad	30771	29734.2	3.39	2.91
6	Uttar Pradesh	15390	18626.65	1.69	1.82
7	Pune	8624	7452.84	0.95	0.73
9	Bangalore	8636	6778.95	0.95	0.66
8	Ludhiana	8315	5977.86	0.92	0.58
10	Vadodara	4576	1749.1	0.50	0.17
11	Hyderabad	1860	1275.89	0.20	0.12
12	Cochin	1783	773.03	0.20	0.08
13	Coimbatore	2136	394.71	0.24	0.04
14	Madras	1228	369.64	0.14	0.04
15	OTCEI	125	142.21	0.01	0.01
16	Bhubaneshwar	202	77.04	0.02	0.01
17	Jaipur	431	64.78	0.05	0.01
18	Gauhati	20	30.16	0.00	0.00
19	Mangalore	308	11.22	0.03	0.00
20	Madhya Pradesh	1	0.902	0.00	0.00
21	ICSEIL	0	0.676	0.00	0.00
22	Magadh	323	0.04	0.04	0.00
23	SKSE	17	0	0.00	0.00
	Total	908681.00	1023381.62	100.00	100.00

Source: SEBI

Delivery pattern in the stock exchange

The trends in delivery of shares reflects actual exchange of physical shares against the payment indicating actual investment in the secondary market. The stock exchange wise delivery ratio in relation to turnover in physical form as well as in value terms is presented in table. It would be seen that the delivery ratio in terms of number of shares increased from 15.27 per cent in 1997-98 to 20.7 per cent in 1998-99, whereas delivery in the form of value of shares went up from 9.96 per cent to 12.88 per cent during the same period. The stock exchange wise delivery ratio showed divergent trends. In terms of number of shares, the delivery ratio on the Stock Exchange, Mumbai showed remarkable improvement from 28.09 per cent in 1997-98 to 38.82 per cent during 1998-99. On the other hand delivery ratio at Calcutta and Delhi showed increases. Uttar Pradesh with relatively lower turnover increased its delivery ratio from less than two per cent to nearly 25 per cent. Madras stock exchange, however, reported a sharp decline from 92 per cent in 1997-98 to 20.98 per cent during 1998-99. The delivery ratio remained very poor in case of Ludhiana, Bangalore, Pune, Ahmedabad and Delhi. (Table 2.19)

Table 2.19: Pattern of Delivery Ratio on Stock Exchanges ***(in percent)***

Name	***1998-99***		***1997-98***	
	V	P	V	P
Ahmedabad	1.07	1.49	0.90	1.83
Bangalore	3.43	3.90	1.66	3.81
Bhubhaneshwar	0.17	0.06	1.11	6.27
Calcutta	1.55	4.21	1.09	3.01
Cochin	5.45	6.50	2.76	4.33
Coimbatore	2.11	2.28	0.57	1.39
Delhi	3.00	7.34	1.12	4.83
Gauhati	0.12	0.06	8.02	11.48
Hyderabad	9.01	28.45	4.04	17.64
ICSEIL *	0.89	3.31	Nil	Nil
Jaipur	1.94	3.30	2.48	4.19
Ludhiana	2.98	5.23	0.94	3.12
Madhya Pradesh	6.05	52.09	3.82	7.06
Madras	9.69	20.98	96.49	92.92
Magadh	0.44	2.00	0.20	11.44
Mangalore	48.22	65.17	2.82	7.20
Mumbai	20.34	38.82	12.73	28.09
NSEIL	15.15	16.23	15.97	16.08
OTCEI	12.11	15.00	23.16	78.11
Pune	1.61	2.83	1.65	1.26
Saurashtra Kutch	0.00	0.00	6.80	25.00
Uttar Pradesh	1.60	24.94	1.31	1.69
Vadodara	1.41	2.45	1.67	3.30
Total A	12.88	20.7	9.96	15.27

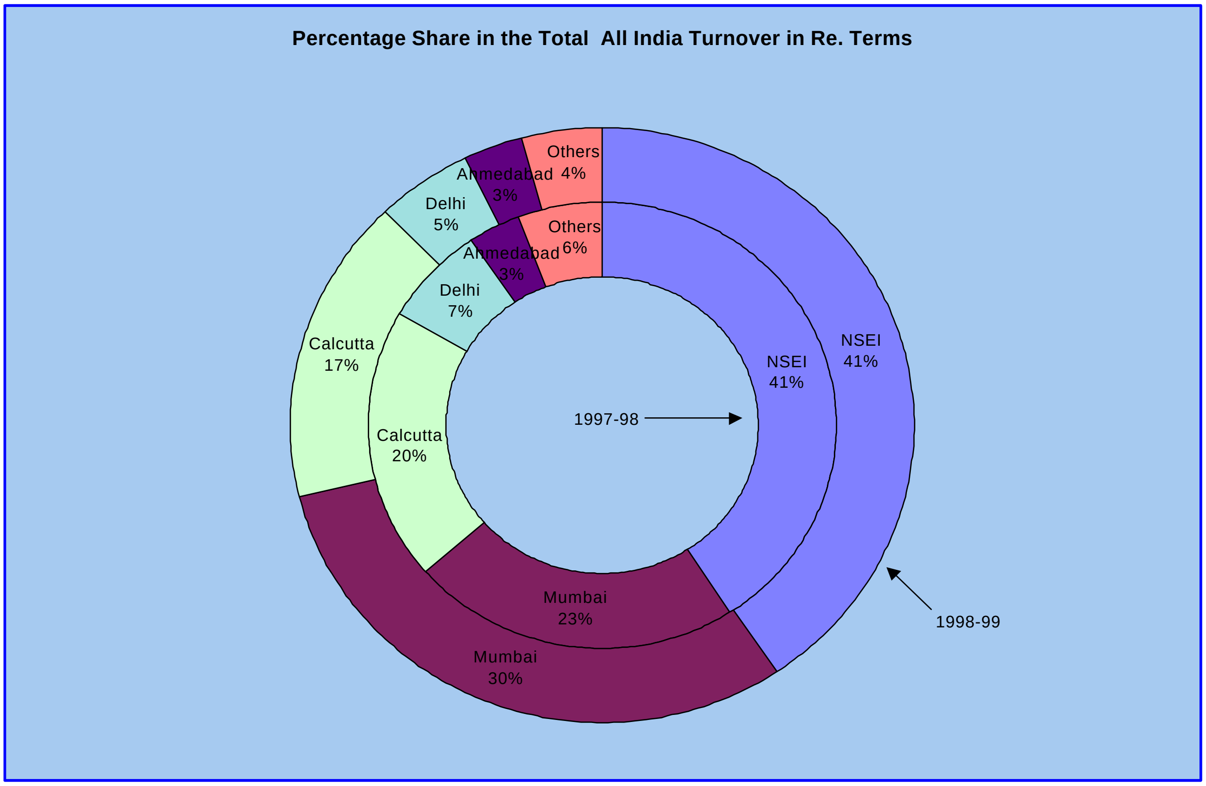
Source : SEBI

V = in terms of value

P = number of shares in physical terms.

A = Average Delivery ratio

Graph 2.9: Percentage Share in Total All India Turnover in Re. Terms



Bad Deliveries on Indian Stock Exchanges

As reported in the Report of previous year, the ratio of bad deliveries to net deliveries has shown declining trend during the recent years. The SEBI through its guidelines and directions in order to improve the ratio of good deliveries, and by setting up bad delivery cells at stock exchanges, has been able to improve the system of delivery of shares.

Table 2.20: Ratio of Bad Deliveries to Net Deliveries at NSEIL

Month	***1996***	***1997***	***1998***	***1999***
April	0.44	0.34	0.25	-
May	0.38	0.39	0.27	-
June	0.53	0.41	0.19	-
July	0.49	0.41	0.21	-
August	0.49	0.41	0.22	-
September	0.42	0.42	0.22	-
October	0.35	0.32	0.22	-
November	0.35	0.30	0.18	-
December	0.28	0.23	0.21	-
January	0.52	0.31	0.2	0.38
February	0.48	0.34	0.21	0.32
March	0.35	0.41	0.20	0.25

Source: NSEIL

As a result, the ratio of bad deliveries declined from 0.25 per cent in April 1998 to 0.18 per cent in November 1998. The delivery ratio however, showed upward jump to 0.38 in January 1999 but thereafter declined to 0.25 per cent by March 1999.(Table 2.20)

Developments in Debt Market

Activity in the wholesale debt market

The wholesale debt market (WDM) at the NSE has shown erratic trend during April–March 1998-1999. The net traded value at Rs.13035.89 crore in April 1998 declined to Rs.5475.36 crore in September 1998 before rising to Rs.8454.16 crore in November 1998 and further to Rs. 10023.4 crore in January 1999. There was however, a sharp fall in net traded value to Rs.7110.35 crore in February 1999. In March 1999, the net traded value nearly more than doubled to Rs.15206.16 crore. The number of trades, however, showed less fluctuation during the same period. The average daily value which was as high as Rs.592.54 crore in April 1998 declined to Rs.210.59 crore in September 1998 before rising to Rs.352 .26 crore in November 1998. It stood at Rs.417.64 crore in January 1999 but decreased to Rs.296.26 crore in February 1999. In March 1999, the average value was as high as Rs.661.14 crore reflecting the large size transactions in the government securities market. (table 2.21)

Table 2.21 : Business Growth on the WDM Segment (Rs.in crore)

Month 1998	*Net Traded Value*	*Average Daily Value*	*Number of Trades*
January	8823.34	352.93	1168
February	6065.27	275.69	948
March	8292.86	354.54	1415
April	13035.89	592.54	1935
May	9131.83	397.04	1350
June	6787.81	261.07	1081
July	7287.15	280.28	1101
August	8751.64	380.51	1371
September	5475.36	210.59	835
October	5500.77	250.04	820
November	8454.16	352.26	1315
December	8704.56	334.79	1310
1999			
January	10023.44	417.64	1589
February	7110.35	296.26	1167.00
March	15206.16	661.14	2218
April	18,524.64	882.13	2595

Source: NSEIL

It would be seen from Table 2.22 that long term Government securities have been dominating the market. For instance, in April 1998, 88 per cent of trade occurred in Government securities whereas treasury bills accounted for 9 per cent only. However, over the period from April to December 1998 share of long-term Government dated securities declined to 72.65 per cent in July 1998 and share of treasury bills increased to 15.58 per cent. In January 1999 the share of Government dated securities were as high as 84 per cent followed by treasury bills at 9.0 per cent. In February 1999 again Government securities fell to 77.55 per cent with treasury bills rising to 11.55 per cent. The Government securities again recovered to higher share at 87.16 per cent while that of treasury bills went down to 6.54 per cent. Though there were large variations from month to month in trade activity, the sales and purchase of the securities shifted to long term Government securities witnessing the interest of the investors to hold on long-term assets.

Table 2.22: Instrument wise distribution of Securities Traded in WDM Segment in per cent

Month 1998	***Government Securities***	***T-Bills***	***PSU***	***Others***
January	69.00	24.00	3.00	4.00
February	59.00	37.00	2.00	2.00
March	72.00	23.00	1.00	4.00
April	88.00	9.00	1.00	2.00
May	83.00	6.00	1.00	10.00
June	84.00	11.00	1.00	4.00
July	72.65	15.58	2.19	9.58
August	82.00	6.00	2.00	10.00
September	82.00	5.00	3.00	10.00
October	67.00	20.00	2.00	11.00
November	65.00	2.57	9.08	2.00
December	74.00	12.00	3.00	11.00
1999				
January	84.00	9.00	2.00	5.00
February	77.55	11.55	1.95	8.95
March	87.16	6.54	1.04	5.27
April	90.47	5.64	0.26	3.63

Source: NSEIL

As regards relative participation of players in the wholesale debt market, it may be observed that Indian banks and primary dealers accounted for 44 per cent and 11 per cent, respectively of the total traded value in the month of March 1999, whereas trading members accounted for 18 per cent. Foreign banks, which are also dominant players, have shared 22 per cent. Thus the Indian banks, trading members and foreign banks are the major players in the wholesale debt market.

Table 2.23 : Participant in Trade (in %age)

1998	***Trading Members***	***FIs/MFs***	***Primary Dealers***	***Indian Banks***	***Foreign Banks***
January	18	6	12	40	24
February	14	2	15	42	27
March	14	2	15	40	29
April	16	3	15	40	26
May	19	4	11	42	24
June	15	3	21	41	20
July	17	2	17	41	23
August	16	3	14	45	21
September	19	3	16	37	24
October	12	3	23	40	22
November	13	6	16	41	25
December	14	7	16	42	20
1999					
January	12	7	14	46	21
February	16	7	10	43	24
March	18	5	11	44	22
April	15	7	11	49	18

Source: NSEIL

C] MUTUAL FUNDS

Resources mobilised by mutual funds

According to data available on provisional basis, the mutual funds mobilised Rs 22710.73 crore without adjustment of repurchase/redemption during the financial year 1998 - 99 as against Rs 15171 crore in 1997-98. However, it is important to note that in case of open-ended schemes, there was a continuous sale and repurchase by mutual funds, and there was redemption of some of the schemes as specially of Unit 64 Scheme of UTI. Consequently investible resources of mutual funds declined to that extent. Thus after adjustment of repurchases and redemptions, there was an outflow of funds of Rs 949.67 crore during 1998-99. Further analysis of data shows that while there was a net inflow of funds of Rs 1452.70 crore and Rs. 315.16 crore in case of private sector mutual funds and public sector mutual funds, respectively, there was a net outflow of Rs 2737.53 crore in case of the UTI - the largest mutual fund. The outflow would have been still larger for the year but for sharp increase in net mobilisation during March 1999. Details are given in the following (Table.2.24)

Table 2.24 : Resources Mobilisation by Mutual Funds ***(Rs. In crore)***

	Private Sector MFs			***Public Sector MFs***			***UTI***			***Grand Total***
	Open end	Close end	Total	Open end	Close end	Total	Open end	Close end	Total	
Mobilization of Funds	7769.59	76.91	7846.50	364.15	1307.19	1671.34	6820.23	6372.66	13192.89	22710.73
Repur-chase Amount	1101.93	36.73	1138.66	291.85	404.16	696.01	9773.41	546.26	10319.67	12154.34
Redemption Amount	5180.98	74.16	5255.14	0.27	639.90	640.17	0.00	5610.75	5610.75	11506.06
Net In/ Outflow of funds	1486.77	-33.98	1452.70	72.03	263.13	335.16	-2953.18	215.65	-2737.53	-949.67

Source : SEBI

Cumulative Position of Net Assets of Mutual Funds

The net assets of all mutual funds aggregated at Rs 68193.08 crore as on March 31, 1999. The details are given below. It would be seen that inspite of large outflows from UTI, it still stood on top with 77.93 per cent of total outstanding assets of all mutual funds followed by public sector mutual funds.(Table 2.25)

Table 2.25: Cumulative Position of Mutual Funds

Category of Mutual Funds	***Amount (Rs. In crore)***	***Percentage Shares (%)***
UTI	53145.27	77.93
Public Sector	8250.65	12.10
Private Sector	6797.16	9.97
Total	68193.08	100.00

Source : SEBI

Offer Documents Received from the Mutual Funds and Cleared by the SEBI

During 1998-99, in all 60 offer documents were filed by mutual funds with the SEBI of which 12 offer documents were for conversion of close-ended schemes into open-ended schemes. During 1997-98 also the SEBI had received the same number of offer documents.

The SEBI cleared 47 offer documents, including 8 conversion schemes during 1998-99. The remaining offer documents are being processed and preliminary observations were communicated to 7 mutual funds for incorporating the necessary amendments/ modifications.

Schemes Launched by the Mutual Funds

During 1998-99, mutual funds launched 52 new schemes out of which 13 schemes were launched by the UTI. In addition, 10 close-ended schemes were converted into open-ended ones. During the previous year 1997-98, 37 schemes had been launched by the mutual funds.

Resource Mobilsation under Collective Investment Schemes

Till date, SEBI has received information from 654 entities which are reported to have raised funds by way of Collective Investment Schemes. The amount mobilised by these entities, as per the information filed by them, is approximately Rs. 2589 Crores.

Table 2.26 : Analysis of total filings with different regional offices of SEBI

	Amount Mobilised In Rs. Crore	*Number Of Entities Operating CIS*
Northern Region Office	492	289
Southern Region Office	373	113
Eastern Region Office	17	51
Head Office	1707	201
Total	2589	654

Source : SEBI

Graph 2.10 : Amount-wise Analysis of total filing of CIS with SEBI

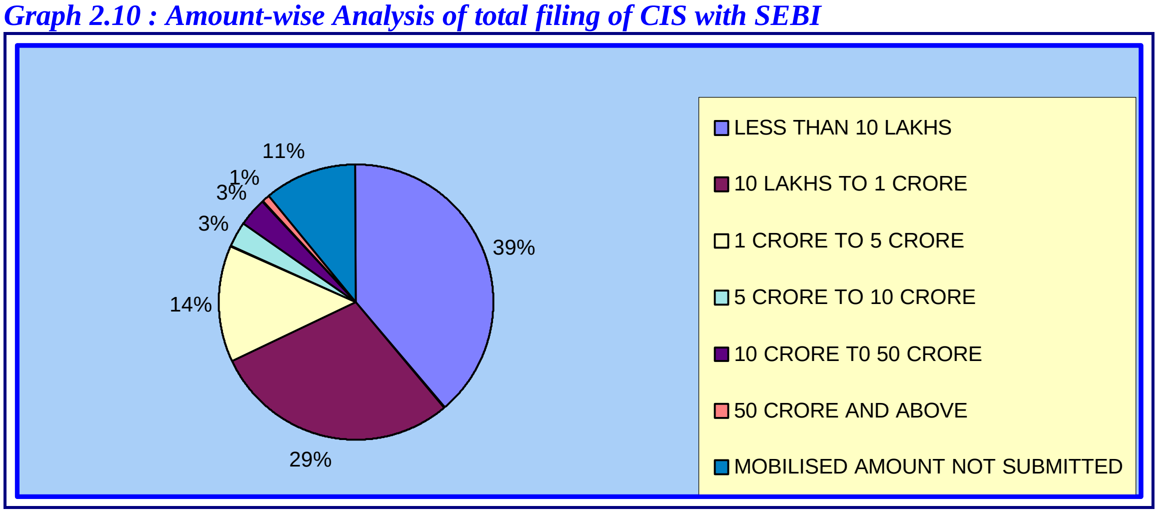


Table 2.27 : Amount-wise analysis of total filings of CIS with SEBI

Less Than 10 Lakh	***255***
10 Lakh To 1 Crore	188
1 Crore To 5 Crore	91
5 Crore To 10 Crore	21
10 Crore T0 50 Crore	21
50 Crore And Above	7
Mobilised Amount Not Submitted	71
Total	654

Source : SEBI

D] INTERMEDIARIES ASSOCIATED WITH SECURITIES MARKET

Growth of dematerialisation of securities through depositories

There has been significant surge in the dematerialisation of securities and in trading volume as a result of the steps taken by SEBI. According to the data furnished by NSDL (given in Table 2.28), dematerialisation of securities and volume of dematerialised trading has substantially increased during the year 1998-99.

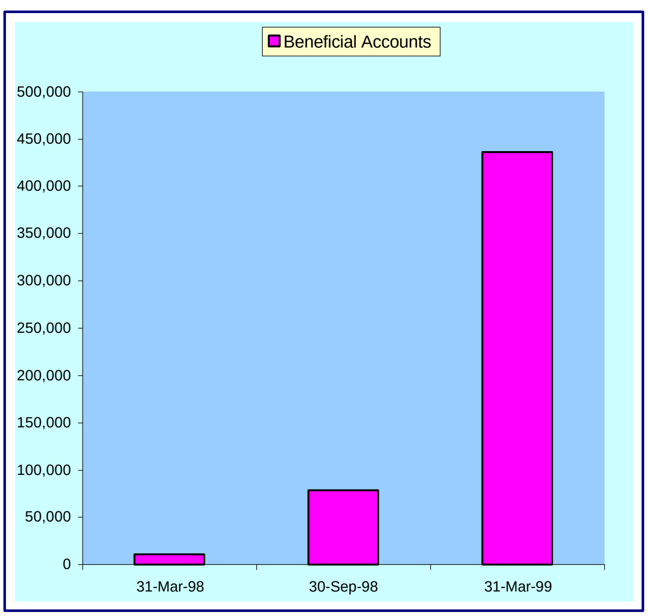
Table 2. 28 : Details of dematerialised shares

Particulars	***March 31, 1998***	***September 30, 1998***	***March 31, 1999***
Beneficial Accounts	11,238	78,954	435,960
Total number of companies available for demat	171	238	365
Total mkt. Cap of companies available for demat (Rs crore)	2,88347	3,13944	396551
Value of demat (Rs. Crore)	22273	49298	1,10,600
Qnty of demat (crores)	160.5	338.8	697.4
No. of DPs	49	65	84
Number of DP services (centres)	200	570	750
Percentage of demat securities settled in term of value			
NSE	Percentage not significant	25	31
BSE	Percentage not significant	27	45

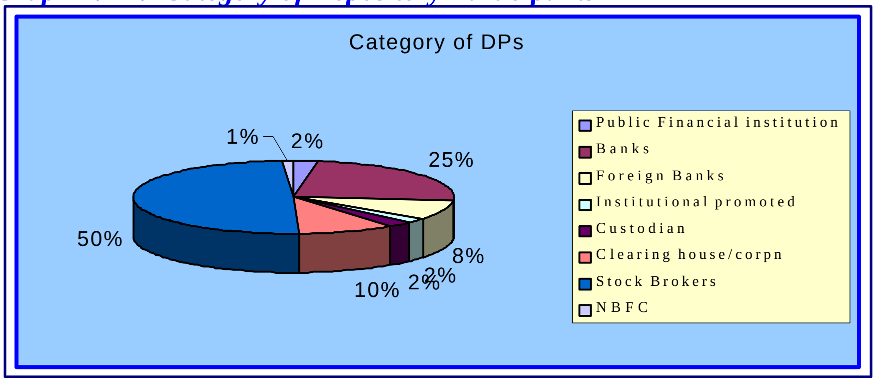
Source: NSDL

As on March 31, 1999, 365 companies with a market capitalisation of over Rs. 396551 crore constituting around 80 percent of total market capitalisation of all listed companies have signed agreements with NSDL.

Graph 2.11: Details of Beneficial Accounts

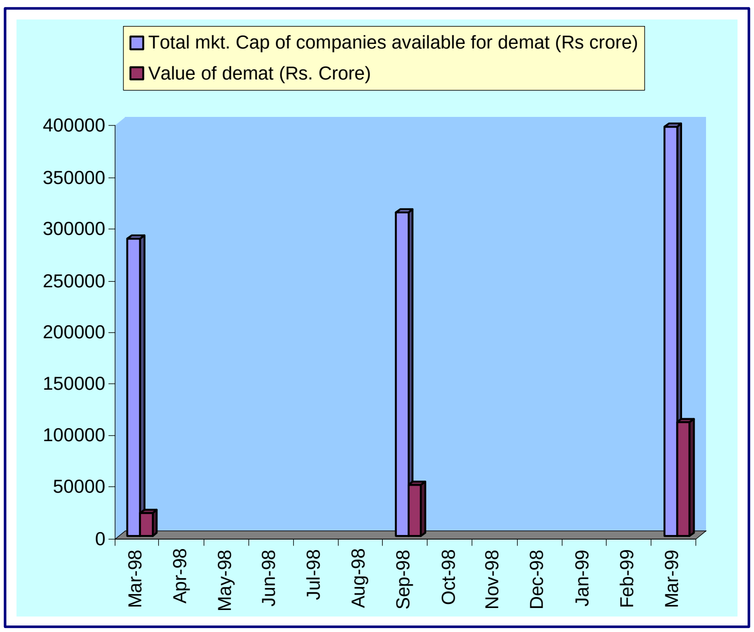


Graph 2.12 : Category of Depository Participants



The number of depository participants offering depository services have grown by 71 per cent from 49 per cent as on March 31, 1998 to 84 as on March 31, 1999. There has been a steep increase in beneficiary accounts open with Depository participants to 435960 as on March 31, 1999 from 11238 as on March 31, 1998. Depository services are now available in 750 centres covering 170 cities across the country as compared to 200 as on March 31, 1998.The total value of shares dematerialised have grown by around 396% from Rs.22273 crore as on March 31, 1998 to Rs. 1,10,600 crore as on March 31, 1999. There has been an increase in the trading volume of dematerialised securities at the stock exchanges. The volume of dematerialised securities constitute around 35 per cent of total delivery at the NSE and the BSE together (Table 2.28).

Graph 2.13: Market capitalisation of Companies in depository and value of securities dematerialised



At present, 9 stock exchanges viz., the NSE, BSE, CSE, DSE, MSE, OTCEI, BgSE, LSE and ICSEIL have established connectivity with NSDL for settlement and clearing of dematerialised trading.

E] FOREIGN INSTITUTIONAL INVESTMENT

Tables 2.29 & 2.30 present details of investments by FIIs since 1992-93 and the details of monthly investment by FIIs in 1998-99.

The analysis of data indicates that there has been substantial divestment by the FIIs during the year 1998-99. The maximum outflow was during the months of May and June 1998 (almost US$430 millions).

Table 2.29: Yearly Trends in FII Investment

Month	*Gross Purchases Rs. Cr*	*Gross Sales Rs. Cr*	*Net Investment Rs. Cr*	*Net Investment US $Mn at monthly ex rate*	*Cumulative Investment (US $ Mn.)**
1992-93	17.4	4.0	13.4	4.2	4.2
1993-94	5,592.5	466.3	5,126.2	1,634.0	1,638.2
1994-95	7,631.0	2,834.8	4,796.3	1,528.3	3,166.5
1995-96	9,693.5	2,751.6	6,942.0	2,035.7	5,202.2
1996-97	15,553.9	6,979.4	8,574.5	2,431.9	7,634.1
1997-98	18,694.7	12,737.2	5,957.5	1,649.4	9,283.6
1998-99	16,115.1	17,699.4	-1,584.5	-386.6	8,897
Grand Total	73,298.0	43,472.7	29,825.2	8,897	

Source: SEBI

Figures may not add exactly due to rounding.

Table2.30 Monthly Trends in FII Investment

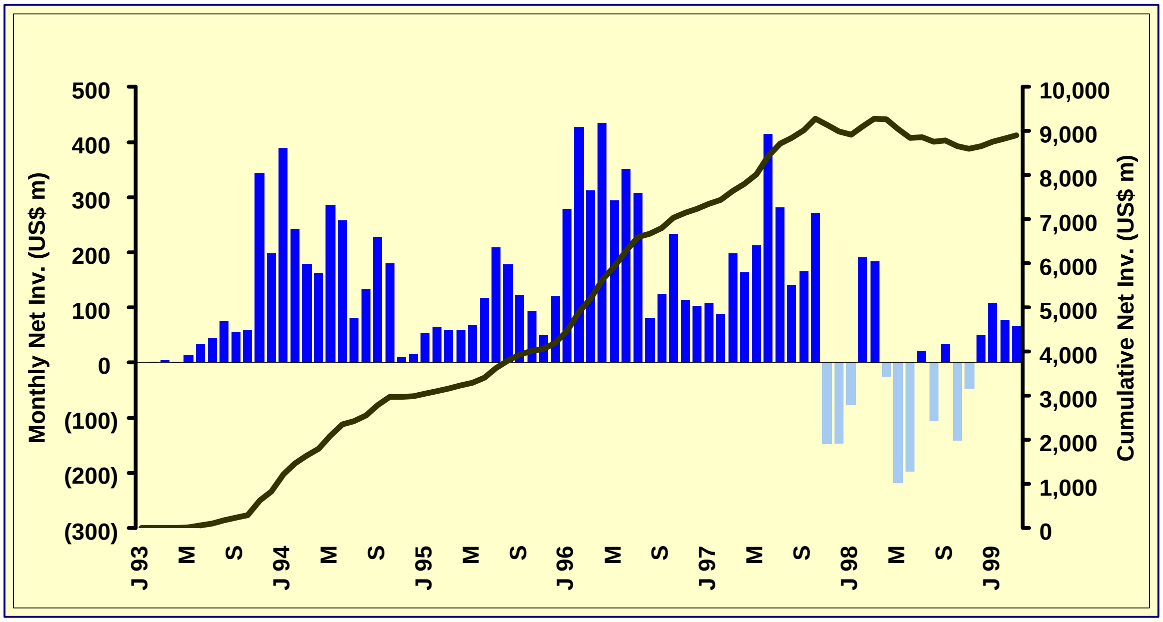
Month	*Gross Purchases Rs. Cr*	*Gross Sales Rs. Cr*	*Net Investment Rs. Cr*	*Net Investment US$M at monthly ex rate*	*Cumulative Investment (US $ Mn.)**
A 98	1,294	1,392.4	(98.4)	(24.8)	9,258.8
M 98	845.9	1,729.7	(883.7)	(218.4)	9,040.4
J 98	802.3	1,638.7	(836.4)	(198)	8,842.4
JL 98	1,309.8	1,226.1	83.7	19.7	8,862.1
A 98	813.6	1,270.6	(457)	(106.9)	8,755.2
S98	1,453.4	1,312	141.3	33.2	8,788.4
O98	1,073.7	1,672.2	(598.4)	(141.4)	8,647
N 98	1,039.1	1,239	(199.9)	(47.2)	8,599.8
D98	1,345.8	1,135.8	210	49.3	8,649.1
J99	1,642.3	1,189.4	452.9	106.4	8,755.5
F99	1,647.8	1,323.2	324.5	76.3	8,831.8
M99	2,847.4	2,570.4	276.9	65.2	8,897
1998-99	16,115.1	17,699.4	1,584.5	(386.6)	

Source: SEBI

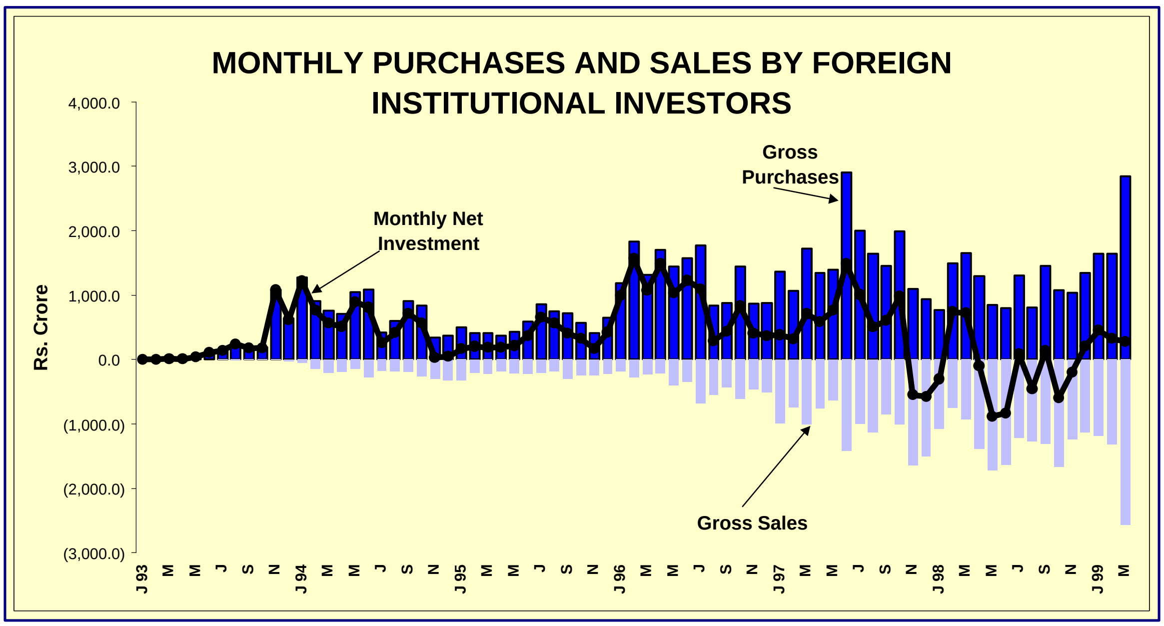
**The dollar equivalent values are not the actual dollar inflows in the country, but simply a converted figure for the Rupee based investments.*

During 1998-99 SEBI registered a total of 60 FIIs taking the total registered FIIs as on March 31 1999 to 450.

Graph 2.14 Monthly investment trends since 1993



Graph 2.15 (a) Monthly Trends in Purchases and Sales by FIIs



A major factor which led to continuous outflow of funds during the middle and end of the year 1998 was the worsening outlook on the emerging markets. Credit worthiness of almost all the South-east Asian nations was severely damaged by the crises which started in July 1997. As a result, the FIIs were facing heavy redemption pressures from the Emerging Markets Funds. The stock markets in all these countries fell continuously from March 1998 till about September 1998. The integration of the Indian capital markets with the international markets thus spilled over to Indian markets as well. However, the net outflow from the Indian markets was much lower than the other Asian countries. A further indication of the integration of the Indian markets can be seen from the upsurge in the valuations and funds inflows during the first quarter of 1999, when all the other Asian countries have also seen rising trend in stocks indices.

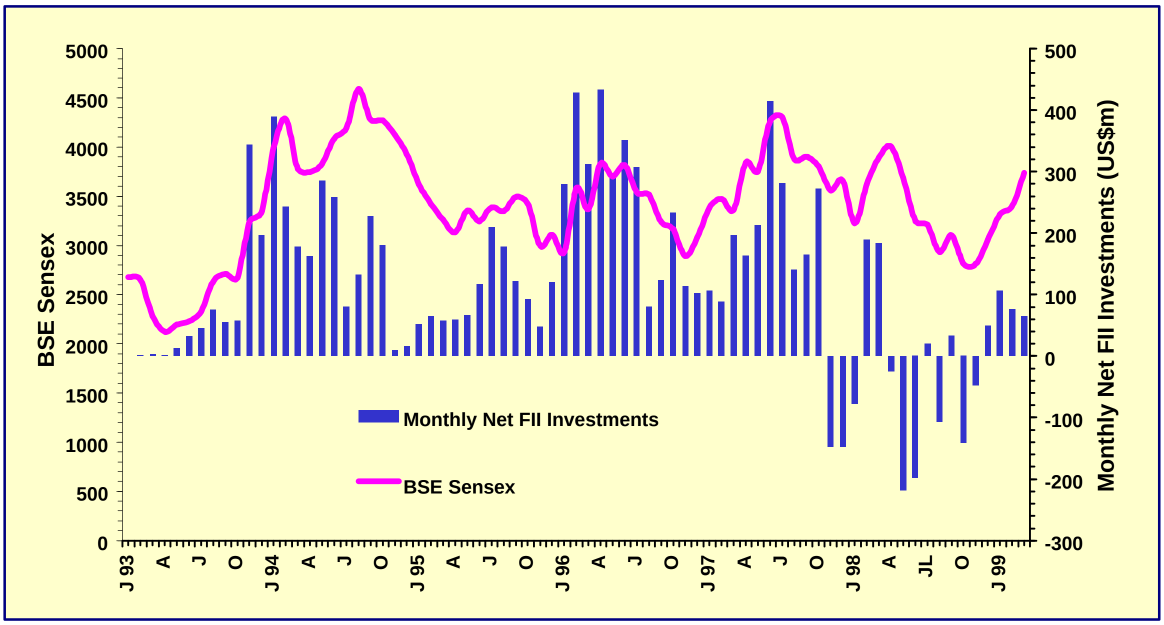
The sluggishness in investment in the emerging markets was exacerbated by the fact that throughout 1998-99, US and European markets showed historically high valuations, and the expectations of further rise because of the strong economic indicators there which led to reduced allocations elsewhere.

FII Impact in the domestic markets

The FIIs are major institutional investors in Indian capital markets. In the year 1998-99, the gross purchases and sales by the FIIs stood at Rs. 16,115 crores and Rs. 17,699 crores, respectively. The gross turnover on BSE and NSE for the same period is Rs. 3.11 lakh crores and Rs. 4.14 lakh crores. Thus as a proportion of total turnover on the exchanges, the FII figures do not appear to be substantial. However, since the FII trades are delivery based, the actual impact on the market is much higher.

The Graph below exhibits the Sensex movement and the corresponding FII monthly net investment since 1992.

Graph 2.25 (b) : Sensex Movement and corresponding monthly net FII investments

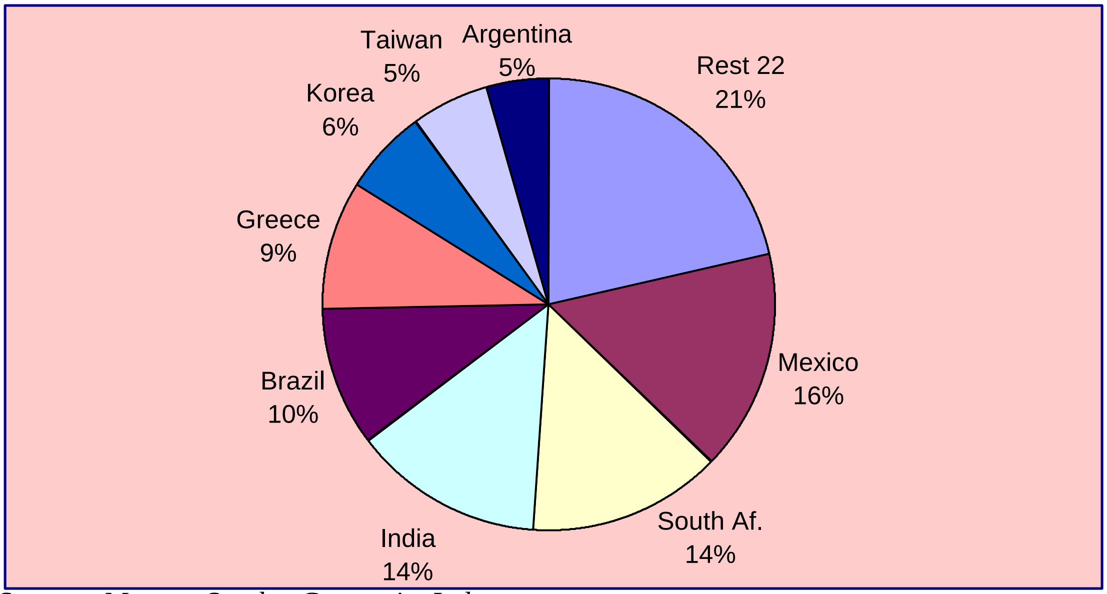


<u>India and other emerging markets</u>

FIIs perception of the Indian markets

India has consistently been viewed as one of the better and safer market as compared to the other Emerging Markets. As mentioned earlier also, the quantum of funds outflow from India has been much lower as compared to the other Asian markets. The following graph indicates the funds allocation for an ideal model portfolio for equity investments in the 30 emerging economies. This portfolio has been designed by one the largest FIIs in the Asia-Pacific and other Emerging Markets. The allocations figures are for March 1999.

Graph 2.16 Model portfolio

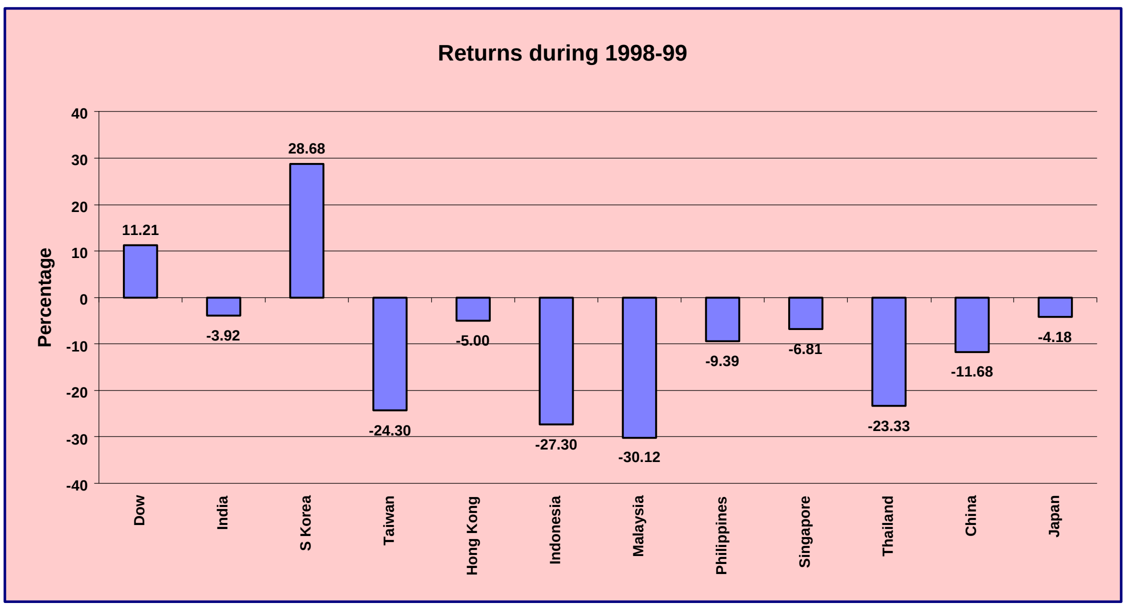


Source : Morgan Stanley Composite Index

Return Analysis for the Indian Markets

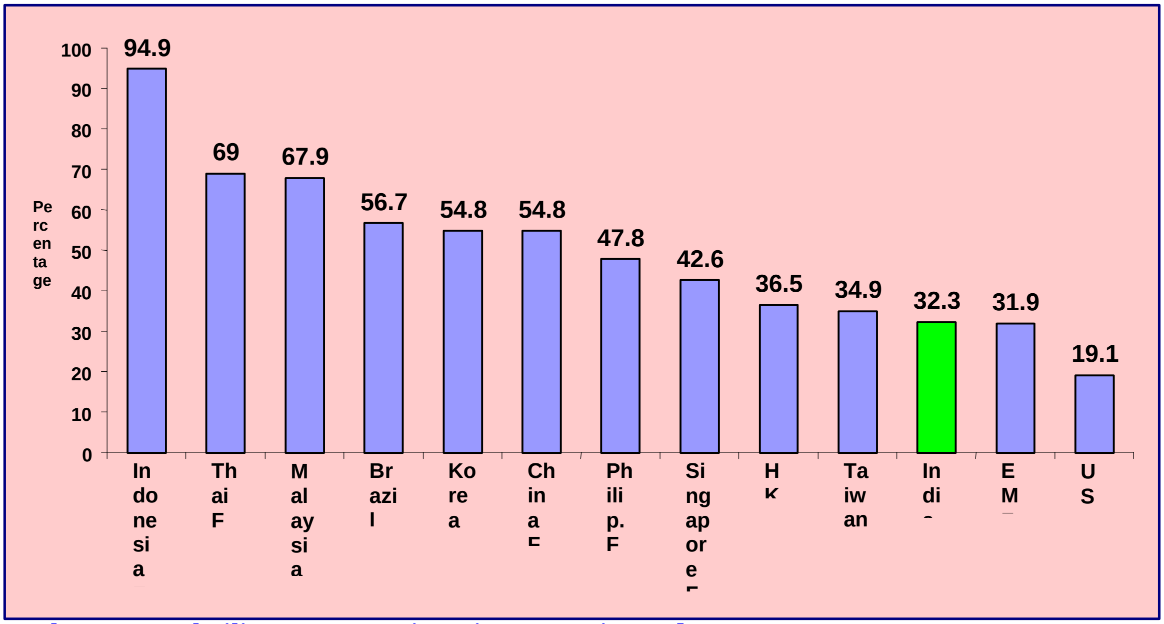
Indian market has shown a small negative return during the year 1998-99. The Graph in 2.13 compares the equity return in the top ten emerging markets and the US market. The returns shown in the Graph 2.17 have not been normalised in dollar terms and thus represent the absolute returns in the respective local currencies.

Graph 2.17 : Returns on the basis of index movement in various countries



Source : : Morgan Stanley Composite Index

The bar chart (Graph 2.18) below compares the volatility of the Indian stocks vis-à-vis the Emerging Markets and the US market. The data presents the annualized volatility calculated sometime around the first quarter of 1999. It can be seen that during the last one year the Asian economies have shown a very high volatility in their stock markets which in turn contribute to the risk. Compared to these the Indian market has been much more stable.



Graph 2.18 : Volatility Movement in Asian countries and USA
Source : : Morgan Stanley Composite Index

F] SUBSTANTIAL AQCUSITION OF SHARES AND TAKE-OVERS

During the year 1998-99, 63 offer documents for making open offer were filed with the SEBI. Under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 a category of non-applicability of open offer obligations was introduced to automatically exempt certain transactions from open offer which may become necessary in overall commercial and business interest of the company. During the year 1998-99, 209 reports were filed under this category. The transactions, which are not covered under the said category, are to be submitted to Takeover Panel for exemption from open offer. During 1998-99, 11 such applications were submitted to the Takeover Panel, out of which exemption from making a public offer was granted in respect of 4 cases (Table 2.31).

Table 2.31 : Offers and Exemptions

Offer documents filed			*Exemptions granted*		
1996-97	1997-98	1998-99	1996 - 97	1997-98	1998-99
43	41	63	32	5	4

Source: SEBI

G] INVESTIGATION, ENFORCEMENT AND SURVEILLANCE

Market Surveillance

Effective market surveillance ensures effectiveness and efficiency of a regulatory system. The Market Surveillance Division was set up in the SEBI in July 1995 with a view to keep a proactive oversight on the surveillance activities of the stock exchanges. It has also been involved in monitoring the market movements and identifying volatility in exceptional circumstances, analysing its causes and overseeing the collection of margins by the stock exchanges. The main sources of information for the Market Surveillance Division are the data obtained from the stock exchanges, newspaper reports, service providers, investor complaints, etc.

SEBI's market surveillance essentially focuses on:

- policy formulation for introduction of surveillance systems and risk containment measures at the stock exchanges to bring integrity, safety and stability in the Indian securities markets;
- overseeing the surveillance activities of the stock exchanges including the monitoring of market movements by them;
- inspection of the surveillance cells of the stock exchanges;
- initiating investigations; and
- preparation of reports and studies on market movements, which SEBI circulates, periodically to the Ministry of Finance in the Government of India and to securities markets regulators from other countries.

Though the primary responsibility of market surveillance has been entrusted to the stock exchanges, SEBI keeps a proactive oversight of market movements and trends and in exceptional circumstances it analyses the same. When appropriate, on the basis of reports received from the stock exchanges or complaints received or sometimes suo-moto also, preliminary enquiries are conducted to determine whether the trading raises suspicion of market manipulation and/or insider dealing. In case an analysis of the trading information for the stock exchanges leads to a suspicion of market abuse, then, client details and records are obtained from the stock brokers. If further analysis of these records suggests the possibility of occurrence of market manipulation or insider dealing or other misconduct, investigations are initiated.

Some of the surveillance systems and risk containment measures that have been put in place are briefly given below:

- establishment of independent surveillance cells in stock exchanges directly reporting to the executive director of the stock exchanges;
- reporting by stock exchanges to SEBI through periodic and event driven reports;
- risk containment measures in the form of elaborate margining system and linking of intra-day trading limits and exposure limits to capital adequacy;
- daily price bands to curb abnormal price behaviour and volatility;
- suspension of trading in scrips to prevent market manipulation;
- inspection of intermediaries;
- formation of Inter Exchange Market Surveillance Group for prompt, interactive and effective decision making on surveillance issues and co-ordination between stock exchanges.

Market surveillance systems are developed and consolidated on a continuous basis. Some of the developments in this regard during the year 1998-99 are briefly given below:

Mechanisms for risk containment

An essential tool of monitoring and surveillance is the risk containment system. In order to reduce risk and contain excessive volatility in the securities markets, SEBI took further initiatives in the margining system, which has been described earlier. The significance of these measures from the surveillance point of view is explained in the following paragraphs.

Margining system and exposure control

To ensure safety of the markets, all the stock exchanges have an elaborate system of margins including mark to market margins and daily margins and gross exposure and intra-day trading limits. In 1998-99, additional margins in the form of 10 per cent margin on "incremental" carry forward positions and margin on "concentrated" positions in scrips were introduced for further enhancing the safety of the markets.

Containing volatility

Due to different daily price bands on the stock exchanges, it was found that there used to be wide variations in the prices of the scrips across the different stock exchanges. This resulted sometimes in unhealthy market conditions. Therefore, in 1997-98 it was decided to have uniform daily price bands of 10 per cent. In July 1998, in order to curb excess volatility, the daily price band was reduced to 8 per cent, existing weekly price band of 25 per cent was removed and graded margin system was put in place for volatile securities (i.e. security with a variation of ± 16 per cent or more in a single trading cycle).

Review of margining system

Different margins were prescribed by SEBI in consultation with the stock exchanges at different points of time. These were done as per the requirements and exigencies of the situations. Though, largely the system has worked well, it is felt that there are certain areas where there is lack of uniformity in the implementation of the margin enforcement by the stock exchanges. There may also be certain overlaps due to various types of margins. Therefore, the SEBI, in consultation with the Inter Exchange Market Surveillance Group, has decided to streamline, rationalise and refine the existing margining system. A high level working group has been formed to formulate policies in this regard.

Mechanisms for a fair and transparent securities market

In order to make the securities markets fair and transparent and for enhanced investor protection, the SEBI had taken initiatives, which are given below:
Dissemination of price sensitive information to public
It is necessary to have proper method for dissemination of price sensitive and other important information relating to company and market to the public so that they can make informed investment decisions. The stock exchanges are required to display such information on their terminals in the quickest possible manner.

Dealing with market rumours

Market rumours can do considerable damage to the normal functioning and behaviour of the securities market. It is therefore essential to have quick verification of such rumours from the corporates as well as from other entities whenever necessary. The SEBI has asked companies to designate compliance officers who would be contacted by the stock exchanges whenever such verification is needed.

Public disclosure of information relating to actions taken against stockbrokers

The stock exchanges are required to make public the actions taken by the Disciplinary Action Committee of the stock exchanges against their member brokers. The stock exchanges are also required to issue press releases when such actions are of serious nature.

In 1998-99, following further initiatives were taken:

Code of ethics for elected directors and key functionaries of the stock exchanges

It was decided to frame a code of ethics for the elected directors and key functionaries of the stock exchanges. This will help in building investor confidence and creating right perception about transparency and integrity of the system. In this regard, a working group has been constituted to deliberate upon the issue and formulate the code.

Greater responsibility and accountability of the surveillance cells of the stock exchanges

The surveillance cells of the stock exchanges have been advised to devise an internal system of documentation of their surveillance activities and follow-up actions, in order to bring about greater responsibility and accountability in discharging the surveillance functions.

Inspection of surveillance cells of stock exchanges

The surveillance cells of stock exchanges have been strengthened in terms of manpower and systems as directed by the SEBI. Since December 1996, the inspections of the surveillance cells are being taken up on a regular basis for the purpose of assessing the quantum and quality of surveillance done and suggesting improvements in the proactive surveillance capability of the stock exchanges. During 1998-99, the SEBI inspected surveillance cells of 11 stock exchanges and the shortcomings and suggestions were communicated to them for improvement of the functioning of the surveillance cells.

Inter Exchange Market Surveillance Group and coordination between stock exchanges

There are 23 stock exchanges having different trading and settlement cycles and at the same time scrips have multiple listing on these stock exchanges resulting at times in complex situations. It was therefore felt that effective and meaningful co-ordination was needed between these stock exchanges for the healthy functioning of the market. For this purpose, an Inter Exchange Market Surveillance Group was constituted in September 1996. The meetings of the group, convened by SEBI, discusses the implementation of various surveillance and risk containment measures apart from deliberating on the market trends and other surveillance issues. Decisions taken in consultation with the group have wider acceptance and facilitate easy implementation. During the year 1998-99 five such meetings were held on April 21, June 15, June 25, and October 15, 1998 and March 10, 1999. The SEBI also constituted a working group to submit a working paper on sharing of information amongst stock exchanges.

Development and implementation of Stock Watch System

Trading in the Indian securities market now being on-line has become more sophisticated, which calls for further sophistication in surveillance and regulatory oversight. To have more effective system of market surveillance keeping in line with the international standards, it was decided to develop a Stock Watch System at the level of the stock exchanges under the initiative and oversight of SEBI. The objective of the Stock Watch System is to give suitable indicators or alerts for the on-line real time detection of potential illegal or improper activity to protect the integrity of the securities market and safety of its participants. The SEBI had finalised the basic parameters of the Stock Watch System. Major stock exchanges by and large have implemented the system and others are in the process of implementation. The SEBI is monitoring the implementation. Further refinements will be taken up after all the stock exchanges have put the basic system in place.

Development of the stock exchanges as self-regulatory organisations

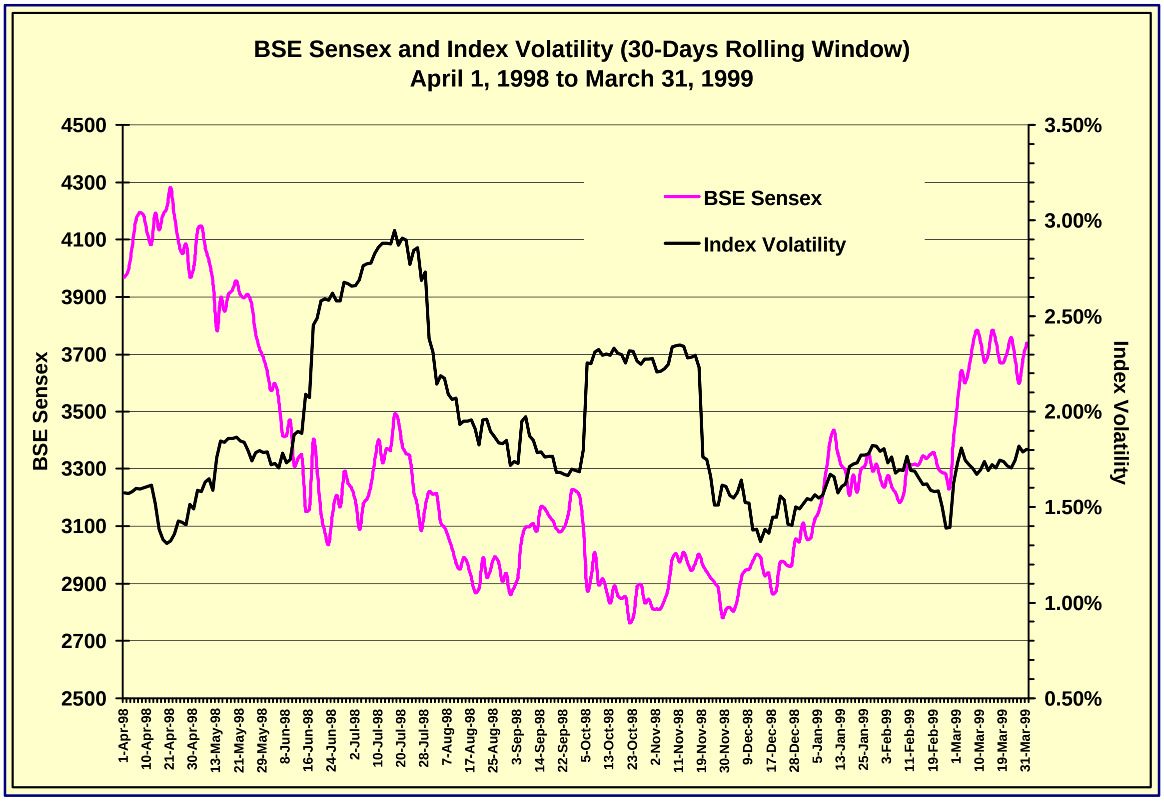
To further the goal of self-regulation in the stock exchanges and enhance their capabilities of detecting malpractice and manipulations, the SEBI directed stock exchanges to set up surveillance cells independently reporting to the exchange executive directors. As a part of market surveillance, stock exchanges have started administering trade halts, imposing price bands and exposure caps on members; and even deactivating brokers' trading terminals. These self-regulatory steps taken by the stock exchanges under active oversight of the SEBI have improved market safety and integrity. The 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.

Market Volatility and SEBI's regulatory, surveillance and enforcement responses in exceptional market conditions

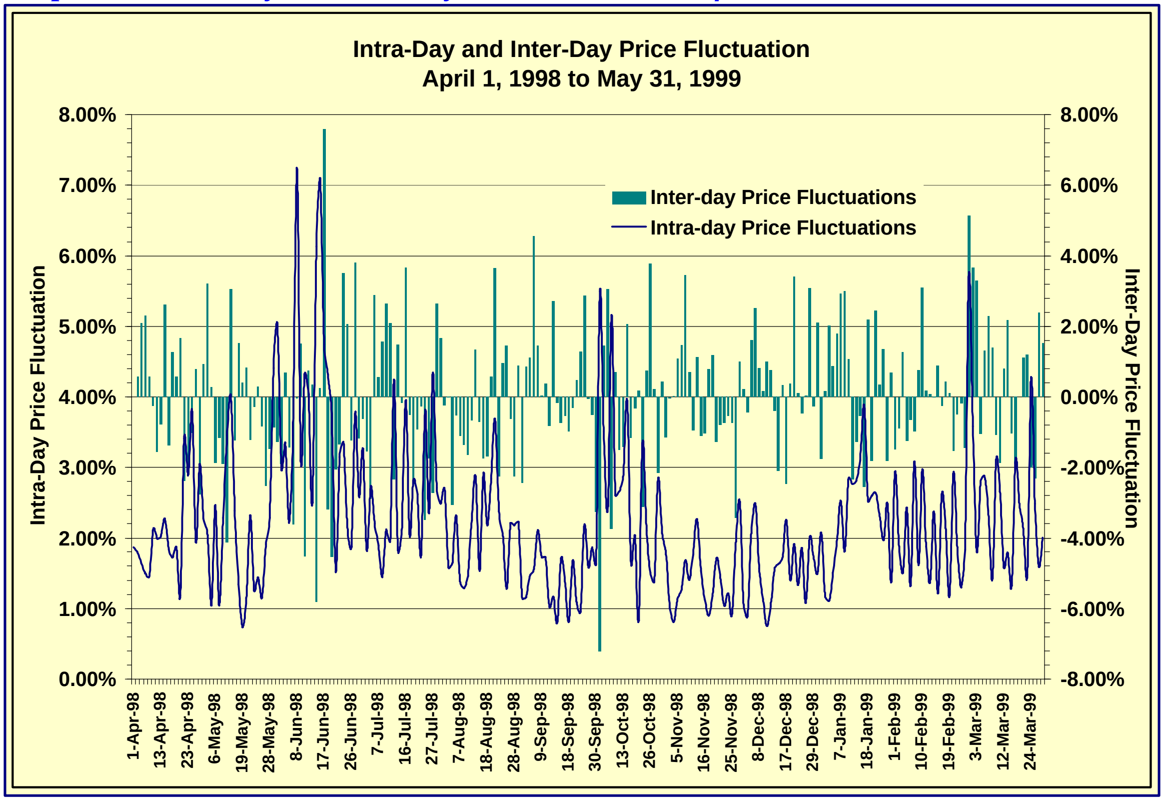
Excessive volatility in the securities market is a cause of concern for the regulators, corporates and investors. When prices swing at extreme levels, they can have a number of adverse consequences. First, such volatility increases trading risks and requires market intermediaries to charge more for their liquidity services, thereby reducing the liquidity of the market as a whole. Second, if such volatility persists, securities firms are less able to use their available capital efficiently because of the need to reserve a larger percentage of cash-equivalent investments in order to reassure lenders and regulators. Third, greater volatility can reduce investor confidence in investing in stocks. As a result of these effects, increased price volatility could in the long run, impact the securities market adversely. The regulators hence across the world remain concerned about excessive price volatility.

During 1998-99, the Indian securities markets witnessed high degree of volatility during two periods from May 6, 1998 to August 11, 1998 and October 5 to November 18, 1998. The average index volatility during the period was 1.96 per cent, with a low of 1.32 per cent witnessed on December 14, 1998 and a high of 2.95 per cent witnessed on July 16, 1998. The average intra-day price fluctuation during the period was 2.23 per cent, with a low of 0.74 per cent witnessed on May 19, 1998 and a high of 7.25 per cent witnessed on June 8, 1998. The average inter-day price fluctuation during the period was –0.01 per cent, with a low of –7.23 per cent witnessed on October 5, 1998 and a high of 7.59 per cent witnessed on June 17, 1998. The movement of the BSE Sensex and the Index Volatility are shown in Graph 2.19 below. The intra-day and inter-day price fluctuations of the BSE Sensex are shown in Graph 2.20 below.

Graph 2.19: BSE Sensex and Index Volatility



Graph 2.20: Intra-Day and Inter-Day Price Fluctuations of BSE Sensex



During 1998-99, the BSE Sensex started declining from May 6, 1998 onwards. The declining trend in the BSE Sensex from May 6, 1998 onwards was attributed to domestic and international factors which inter-alia include the public perceptions of the effect of international sanctions against India on account of its nuclear programme, public perceptions regarding the budget, general downward trend of the equity price indices and exchange rates in the South East Asian securities and forex markets, depreciating value of the Rupee against the US$ and sustained FII net sales during this period.

On May 14, 1998, the SEBI met the representatives of the stock exchanges to review the market situation. It emerged that the stock exchanges were keeping a close watch on the market situation. The SEBI convened a meeting of the Inter Exchange Market Surveillance Group on June 15, 1998. The group overviewed market safety. For further enhancing the safety of the market, it was decided to impose incremental carry forward margins and concentration margins elaborated earlier. It was also decided that with a view to improve transparency, all the stock exchanges will release daily data relating to aggregate buy and sell value of trades separately for domestic institutions and foreign institutional investors.

The Indian securities market again witnessed high degree of volatility from October 5, 1998 onwards and continued till November 18, 1998. The securities market was closed on October 1, 2, 3 and 4, 1998 on account of festive holidays. The trading resumed on October 5, 1998, and the BSE Sensex opened at 3036.15, 66.44 points lower than the previous close. At the close of trading on that day, the BSE Sensex closed at 2878.01. This amounted to a fall of 224.22 points from the close of September 30, 1998 and a fall of 158.14 points from the open of October 5, 1998. The day also witnessed one of the highest intra-day and inter-day price fluctuations during 1998-99. On October 5, 1998 the National Stock Exchange of India Limited, Nifty Index, opened at 904.75 and closed at 840.75 registering a fall of 64 points.

The fall in the stock indices was attributed to the perceptions about developments related to the US-64 scheme of the Unit Trust of India. There were reports in the media that the reserves of the US-64 scheme had turned negative and the Unit Trust of India is going to reduce the equity exposure of the scheme. In addition, there were comparatively large FII sales also on the day.

In the year 1998-99, infotech and software companies were in the limelight in terms of growth as well as rise in price. The investor enthusiasm in this sector is largely due to the perception about the earning potential of the scrips in this sector. In the U.S.A and Europe also, stocks of the infotech and software sector are increasingly being seen as a favorite investment bet for high returns. This global investment trend has cut across borders and reached the Indian securities markets.

Against the background of rising prices in the scrips in general, it was felt that some unscrupulous persons including promoters could indulge in manipulative activities to create artificial prices in some of their scrips and inducing investors into investing in these scrips. It was also noticed that some non-software companies had changed their names or added prefix or suffix to their names suggesting that these companies were related to software and information technology areas. In view of this scenario, SEBI directed all the stock exchanges to keep extra vigil on the movement and other developments on the counters of these scrips. The stock exchanges assured SEBI that they are doing the needful. The matter of changes in names was brought to the notice of the Department of Company Affairs by the SEBI.

The issue of such changes of names by companies was also discussed in the meeting of the Inter Exchange Market Surveillance Group held on March 10. It was decided that the quarterly reports and annual reports of such companies should clearly indicate the turnover and income from software business.

The Union Budget 1999-2000 provided a significant boost to the Indian securities markets. After the Budget, the BSE Sensex crossed the sentimental 3500 mark on March 1, 1999 and moved further northbound in the succeeding days.

Strict implementation of margin mechanism, price caps and SEBI's proactive surveillance and consultative approach have proved to be very useful in containing volatility and ensuring safety as seen from the actual experience during such periods. This is borne by the fact that inspite of several instances of market volatility coupled with sharp and erratic fluctuations in prices and volumes, the Indian securities markets remained secure.

Investigations

Investigations involve gathering of evidence for alleged market manipulations or insider trading or other misconduct and unearthing of persons behind these irregularities and violations. The SEBI has been strengthening its investigation activities over the years.

Investigation activities were further strengthened during 1998-99. Investigations carried by the SEBI during the year has yielded positive results resulting in fewer number of cases reported for alleged market manipulation and price rigging. Pursuant to completion of investigation, various actions like administrative directions and penal actions under the SEBI Act and various SEBI Rules and Regulations were undertaken. These actions include monetary penalties, warning, suspension of activities and cancellation of registration, refund of issue proceeds and prohibiting access to the securities market.

Investigation proceedings

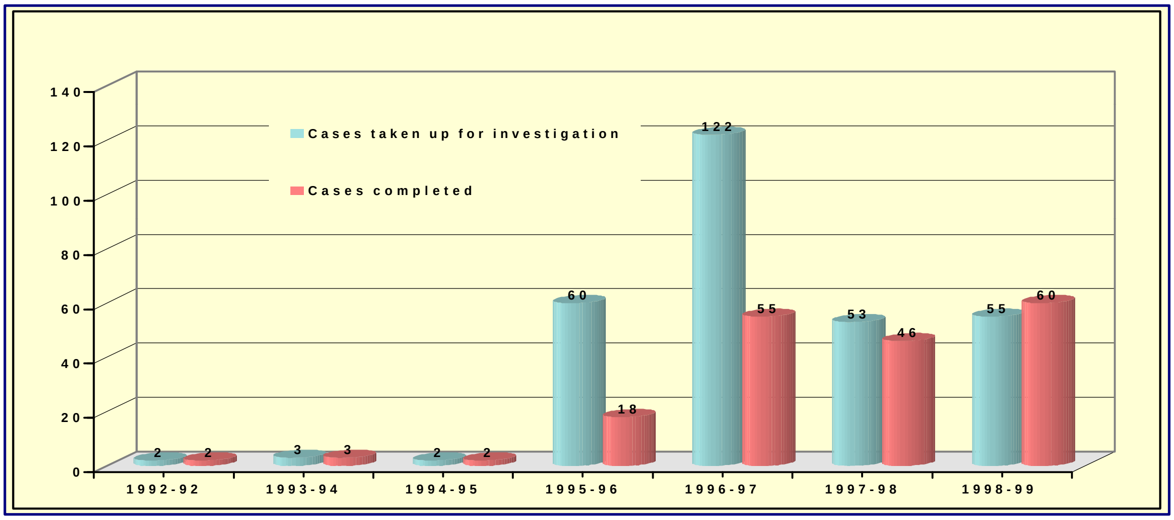
During 1998-99, investigations were taken up in several cases including market manipulations and price rigging, issue related manipulations, insider trading and non-compliance of regulations of take-over of companies. The details of these are given in Tables 2.32, Graph 2.21 and ***Annexure 3***.

Table 2.32: Investigations by SEBI

Particulars	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*Total*
Cases taken up for investigation	2	3	2	60	122	53	55	297
Cases completed	2	3	2	18	55	46	60	186

Source:SEBI

Graph 2.21: Investigations by SEBI



As can be seen from the table, SEBI took up investigations in 55 cases in 1998-99 bringing the total cases taken up for investigation to 297 cases. Out of these, 60 cases have been completed during 1998-99 bringing the total cases completed to 186 cases. The break up of 55 cases according to nature of violations alleged, taken up during 1998-99 are given in Table 2.33 and Graph 2.22. The break up of 60 cases according to nature of violations completed during 1998-99 is given in Table 2.34 and Graph 2.23.

Table 2.33 : Nature of Investigations taken up by SEBI in 1998-99

Particulars	*Number of cases taken up for investigation*
Market manipulation and price rigging	40
"Issue" related manipulation	4
Insider trading	4
Take-overs	6
Miscellaneous	1
Total	55

Source:SEBI

Graph 2.22: Nature of Investigations taken up by SEBI in 1998-99

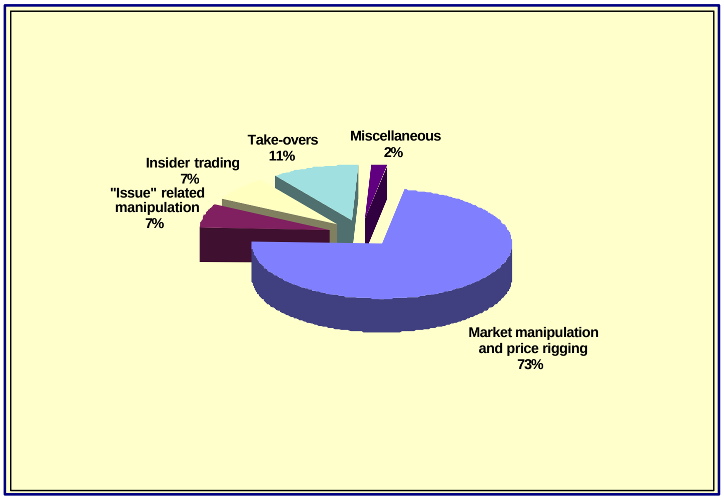
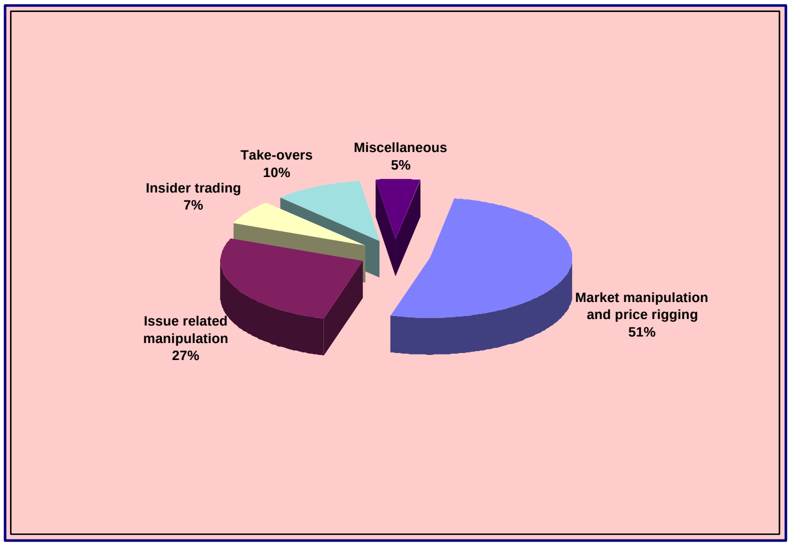


Table 2.34: Nature of Investigations completed by SEBI in 1998-99

Particulars	***Number of cases completed***
Market manipulation and price rigging	31
"Issue" related manipulation	16
Insider trading	4
Take-overs	6
Miscellaneous	3
Total	60

Source:SEBI

Graph 2.23: Nature of Investigations completed by SEBI in 1998-99



Show cause notices were issued to 91 intermediaries by the enquiry officer pursuant to completion of investigation. Show cause notices were also issued to 41 non-intermediaries pursuant to the completion of the investigation asking them as to why they should not be debarred from trading in securities and prohibiting access to the securities markets, for an appropriate period, for market manipulations. These non-intermediaries include individuals, firms as well as corporates. In addition to the above, show cause notices have also been issued for initiating prosecution proceedings against the intermediaries and the non-intermediaries involved in market manipulation.

Enquiry and adjudication proceedings

During 1998-99, on completion of investigations, enquiry proceedings were initiated in respect of 91 intermediaries under the provisions of the relevant regulations. The break up of the 91 intermediaries is given in Table 2.35. In 1998-99 enquiry proceedings have been completed against 12 intermediaries, the details of which is given in Table 2.36. During 1998-99, adjudication proceedings have been initiated in one case.

Table 2.35 Details of cases where enquiry officer has been appointed in 1998-99

Intermediaries	*Number of cases*
Stock brokers	65
Merchant bankers	10
Registrars to an issue and share transfer agents	10
Bankers to an issue	6
Total	91

Source:SEBI

Table 2.36: Details of cases where enquiry proceedings have been completed in 1998-99

Intermediaries	*Number of cases*
Stock brokers	7
Merchant bankers	2
Registrars to an issue and share transfer agents	2
Bankers to an issue	1
Total	12

Source:SEBI

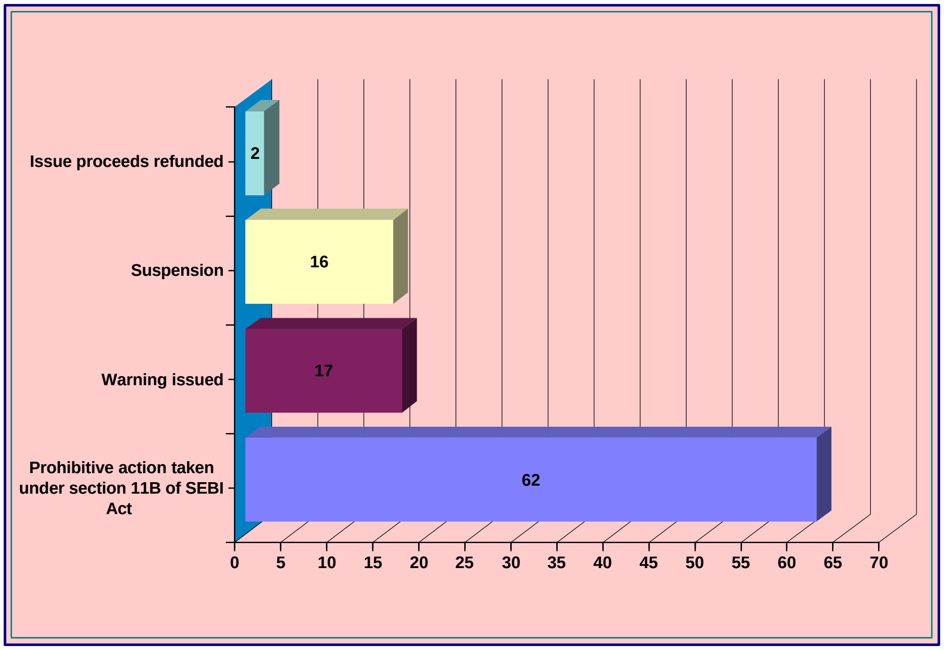
Action taken

Pursuant to the completion of the investigation and on the basis of the report of the enquiry officer and the adjudicating officer as the case may be, who is appointed in terms of the various SEBI Regulations, action was taken by way of suspension of 16 intermediaries, warning issued to 17 intermediaries and others, refund of issue proceeds in 2 cases and prohibitive directions issued under section 11B of the SEBI Act against 62 intermediaries and non-intermediaries. The intermediaries against whom action was taken include stock brokers, merchant bankers, registrars to an issue and share transfer agents, bankers to an issue, debenture trustees and members of the governing board of the stock exchanges. Action taken during 1998-99 is given in Table 2.37 and Graph 2.24.

Table 2.37: Action taken in 1998-99

Particulars	*No. of cases*
Suspension	16
Warning issued	17
Refund of Issue proceeds	2
Prohibitive directions issued under section 11B of SEBI Act	62
Total	97

Graph 2.24: Action taken



Market manipulation and price rigging

Investigations were taken up in 40 cases relating to market manipulation and price rigging in 1998-99. Such actions coupled with effective market surveillance under the oversight of SEBI have resulted in significant reduction in cases of market manipulation and price rigging. During 1998-99, investigations in 31 cases of market manipulation and price rigging were completed. Some of the cases where investigation was completed during 1998-99 are discussed below.

BPL Limited, Videocon International Limited and Sterlite Industries Limited:

Investigations were undertaken by the SEBI in the wake of abnormal trading in the scrips of BPL Limited, Videocon International Limited and Sterlite Industries Limited, especially in the months of April and May and sudden payment crisis at BSE and NSE in June 1998. The investigations involved gathering of voluminous data from the Exchanges where the scrips were listed and traded, the companies, stock brokers, sub-brokers, clients, banks and various other related entities. The data obtained was analysed based on different parameters such as comparative trading periods, comparative prices, volumes, etc. Based on various analysis, shortlisting of entities was done which was followed by detailed investigations. Leads were followed and client identification was done and the process of investigations – recording of statements, examination of transactions etc. - was repeated with these clients.

Investigations had prima facie concluded that a set of stock brokers and sub-brokers acting in concert on behalf of common clients, cornered a large chunk of shares both at the BSE and the NSE. These set of clients were acting as a front for the alleged manipulator, Harshad Mehta. These entities built up unusually large positions in these scrips resulting in distortion of the market equilibrium and creation of artificial market in these scrips. As a result of investigations, enquiry proceedings have been initiated under the SEBI Regulations against 34 stock brokers out of which 23 are of the BSE and 11 are of the NSE. However, out of these stock brokers, considering the gravity and seriousness of involvement of 18 stock brokers, the SEBI has passed orders prohibiting them from undertaking fresh activity of broking business till completion of the enquiry proceedings. The stock broking firm of the Vice President of the Governing Board of the BSE was also found involved. Subsequent to investigations he had resigned from the Governing Board of the BSE.

The payment problem was confined only to some of the stock brokers and the settlement process at both the exchanges was completed smoothly. It was also examined whether the surveillance and monitoring of the concerned stock exchanges i.e. BSE and NSE were adequate and effective, whether the lapses at the stock exchanges also facilitated the process of manipulation. Pursuant to these investigations, show cause notice had been issued to the Executive Director of the BSE for his failure to discharge his responsibilities properly and also for not taking some of the decisions professionally and independently. Show cause notices were also issued to the President of the BSE and the erstwhile Vice President of the BSE for their conduct, which was detrimental to the integrity of the system. Show cause notice was issued to the NSE for slackness in the monitoring and not taking effective surveillance action despite the warning signals.

Pursuant to the findings of the investigation and the submissions made to SEBI, SEBI passed an order under section 11 and 11B of the SEBI Act against the President of the BSE on March 23, asking him to relinquish the office of the President. SEBI further directed him that he shall not be eligible to hold any public position in future as member of the governing board as well as in any capital market related public institution for a further period of 3 years. The Appellate Authority at the Central Government has upheld the order of SEBI. The President of the BSE challenged the order in the High Court of Mumbai, but no interim relief has been granted to him. The order of SEBI was not disturbed and has become effective. However, a writ petition has been admitted challenging the amplitude of general powers of SEBI under section 11 and 11B of the SEBI Act. The proceedings against the Executive Director of the BSE and the erstwhile Vice President of the BSE are at various stages and appropriate action will be considered on completion of the same. However, the Executive Director of the BSE has resigned pursuant to issue of show cause notice. As mentioned earlier, the Vice President of the BSE also resigned in November 1998 itself following indicting by SEBI in price manipulations.

The investigations also brought out certain systemic deficiencies. With a view to correct some of these deficiencies, SEBI has already taken some steps. SEBI is in consultation with the stock exchanges and the other deficiencies will be taken care on the outcome of the discussions. Some other part of investigations which include the role of Shri Harshad Mehta and the alleged role of promoters, if any, are being pursued actively and would be completed shortly.

Nedungadi Bank Limited:

SEBI conducted investigations to look into the alleged market manipulation and price rigging in the scrip of Nedungadi Bank Limited. Investigations revealed that a stock broker who also happened to be the vice president of the governing board of the BSE along with his associate concerns was a major buyer in the scrip of Nedungadi Bank Limited both at the BSE and the NSE. Investigations also brought out that the dealings in the shares were basically financing transactions but given the colour of sale and purchase of shares. It was observed that stock broker and his associates sold shares of Nedungadi Bank on spot basis to other entities and repurchased these very shares when these entities sold them at the BSE and NSE through different stock brokers. It was found that 88.34% of the shares sold by the stock broker and his associates in spot were received back by them when these were sold in the regular market. As a result of investigations, enquiry proceedings were initiated against the stock broker and his associates.

Vertex Machineries Limited:

SEBI conducted investigations to look into the alleged creation of false market and price rigging in the scrip of Vertex Machineries Limited. The investigations brought out that the company tried to show by routing of same funds time and again through their various associated companies and entities that contribution to the extent of Rs.8.18 crores has been received from the promoters, when they had actually brought in only Rs.1.53 crores. Further it was observed that the promoters of Vertex Machineries Limited brought in subscription through the public issue route by transferring the funds to associate entities from the promoter's contribution who in turn subscribed to the issue as members of the public. Investigations also brought out that promoters of Vertex Machineries Limited entered into an agreement with a few entities with a view to artificially rig the prices and create a false market through large purchases and sales. Enquiry proceedings were initiated against the stock brokers and actions are being undertaken as per the SEBI Act and Regulations made thereunder against promoters and other manipulators.

Infoquest Software Exports Limited:

Investigations were conducted by SEBI into the alleged creation of a false market and price rigging in the scrip of Infoquest Software Exports Limited. The investigations revealed that a group of persons in connivance with the promoters of the company made applications in the public issue for large quantities after the closure of the issue and thereby distorted the allotment process. This entity also made huge purchases, in the grey market as well as in the secondary market from the funds provided by the promoters, with a view to corner the stocks and manipulate the prices of the scrip. Pursuant to the findings of the investigation, enquiry proceedings were initiated against the registrar to an issue and share transfer agent, lead manager and bankers to an issue. Actions are also being undertaken as per the SEBI Act and Regulations against non-intermediaries including promoters.

Hindustan Finstock Limited:

SEBI conducted investigations to look into the alleged creation of a false market and price rigging in the scrip of Hindustan Finstock Limited. The investigations revealed that the public issue of the Hindustan Finstock Ltd. was opened for public subscription in April 1995, but had not received the minimum subscription of 90%. One director of the issuer company approached various financiers after the closure of the public issue. A memorandum of understanding was signed between financiers and a company owned by the particular director agreeing to the effect the company owned by the director would buy back the shares in the name of the financiers at a predetermined price. Subsequently, the shares were offloaded at a substantially high price in the market in connivance with certain entities. Since the agreed consideration for these shares were not received from these entities, the said shares were reported lost or misplaced. Pursuant to the findings of the investigation, enquiry proceedings were initiated against intermediaries namely the registrar to an issue and share transfer agent, lead manager and bankers to an issue. Actions are also being undertaken as per the SEBI Act and Regulations made thereunder against non-intermediaries including promoter.

Mandu Industries Limited:

SEBI initiated investigations on the basis of a complaint alleging price rigging in the shares of Mandu Industries Limited. The company came out with the initial public offering at par. However, shares were traded at an abnormally high price from the first day of trading, after it was allowed permission for trading. Investigations revealed that the promoters created a false market by making sales and purchases through the counters of various brokers with the sole purpose of inducing interest in the scrip and consequently, made large profits. As a result of investigations, enquiry proceedings had been initiated against the involved intermediaries. Show cause notices are being issued to the promoters and other entities.

Betala Global Securities Limited:

Investigations were conducted by SEBI into the alleged irregularities in the public issue and price manipulations in the scrip of Betala Global Securities Limited. Investigations brought out that public issue did not receive the minimum subscription genuinely. The promoters of the company tried to show that issue was fully subscribed and they arranged the subscription from financiers with the understanding that shares allotted to them would be purchased back by the company immediately after completion of allotment process. This led to cornering of a large portion of floating stock in the scrip with the promoters prior to listing of the scrip on the Exchanges. Later on listing of the scrip, promoters of the company purchased large quantities and created a false market in the scrip and manipulated the prices. Pursuant to completion of investigations, show cause notices are issued to the issuer company for refund of public issue and to the promoters and associates for debarring them from access to capital markets and dealing in securities.

"Issue" related manipulations

During 1998-99, SEBI has taken up 4 cases for investigation of "issue" related manipulation. These cases mainly pertained to allegations of gray market operations and acceptance of late applications, misuse of stock invests, arrangement of subscription to circumvent minimum subscription requirement, buyback of shares by companies and their promoters, and contravention of the various SEBI guidelines and the provisions of the Companies Act, 1956. During 1998-99, 16 cases of "issue" related manipulations were completed. After completion of investigations, SEBI ordered refund of the issue proceeds in 2 cases. One case where investigation was completed during 1998-99 is discussed below.

Incap Financial Services Limited:

SEBI conducted investigations into the allegations of not bringing in the promoters' contribution and managing the subscription to the public issue after the closure of the public issue. Investigations concluded that the promoters did not bring the contribution as required under the SEBI guidelines. It was also noticed that subscription was arranged by getting applications after the closure of the public issue. The company also purchased back the shares from the allottees immediately after completion of the allotment process. There was hardly any genuine subscription yet, the promoters went ahead with the allotment and listing process. As a result of investigations, enquiry proceedings have been initiated against the registrars to the issue, merchant bankers, bankers to the issue etc. Show cause notices are also being issued to the promoters and other related entities.

Gold Multifab Limited:

Investigations were conducted by SEBI into the alleged irregularities in the public issue of Gold Multifab Linited. The investigations revealed that minimum subscription was not received in the public issue and so the company entered into a circuitous route of arranging subscription. The understanding with the financiers was that they would apply in the public issue and the company will buy back the shares immediately after the allotment, at a fixed price. The subscription was arranged through applications made after the closure of the issue by way of ante dated stock invests. The allotment of shares was made to applicants who had cancelled their stock invests and even when no consideration was received by the company for these shares. As a result of investigations, enquiry proceedings have been initiated against the lead manager, registrar to the issue and bankers to the issue. Show cause notices are also being issued to the company and the promoters.

G S Organics Limited:

Investigations were conducted by SEBI into the alleged irregularities in the public issue of G.S.Organics Limited. The investigations revealed that genuine subscription was not received and so the promoters approached financiers to bail out the issue. The financiers made applications in the public issue as a power of attorney holders to the extent of 99.73% of the subscription offered to public. These applications were accompanied with stock invests. These stock invests were not realised by the company and they got expired. Even though no consideration was received by the company yet it went ahead with the allotment process. The company also furnished a false certificate of realisation of stock invests. As a result of investigations, directions have been issued to the company under the SEBI Act, to refund the proceeds collected in the public issue. Enquiry proceedings have also been initiated against the merchant banker and registrar to the issue. Show cause notices are being issued to the promoters of the company.

Prosecutions

The SEBI initiated prosecution proceedings in 15 cases in 1998-99 bringing the total prosecution proceedings initiated so far to 44 in the last five years. Out of these, 29 prosecution proceedings were initiated under the powers delegated to SEBI under the Companies Act. 7 prosecution proceedings were initiated for violations of the SEBI (Substantial Acquisitions of Shares and Take-overs) Regulations, 1997. Similarly, 6 prosecution proceedings were initiated for violations of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995. 1 prosecution proceedings was initiated for violations of the SEBI (Insider Trading) Regulations, 1992 and 1 prosecution proceeding was initiated for non-cooperation during the investigation proceedings. The details of the above prosecution cases filed in the Court of Law till the end of 1998-99 are given in Table 2.38 and Graph 2.25. Prosecution proceedings initiated in 15 cases involved 145 persons. SEBI till the end of 1998-99 has initiated prosecution proceedings against 336 persons involved in 44 cases, the breakup of which is given in Table 2.39. (The prosecution proceedings initiated in 9 cases during the year 1995-96 as was shown in the last years annual report was cumulative figure till March 31, 1996.)

Table 2.38: Nature of prosecution initiated

Particulars	***1992-93***	***1993-94***	***1994-95***	***1995-96***	***1996-97***	***1997-98***	***1998-99***
Under powers delegated under the Companies Act							
Delay in refund of excess application money, delay transfer of shares and non-payment of dividend	0	0	4	3	4	6	4
Mis-statement in offer document and fraudulent inducement	0	0	0	2	3	2	1
Under powers given by the SEBI Act							
Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997	0	0	0	0	2	1	4
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	0	0	2	4
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	0	0	1
Others: non-cooperation during investigation proceedings	0	0	0	0	0	0	1
Total	0	0	4	5	9	11	15

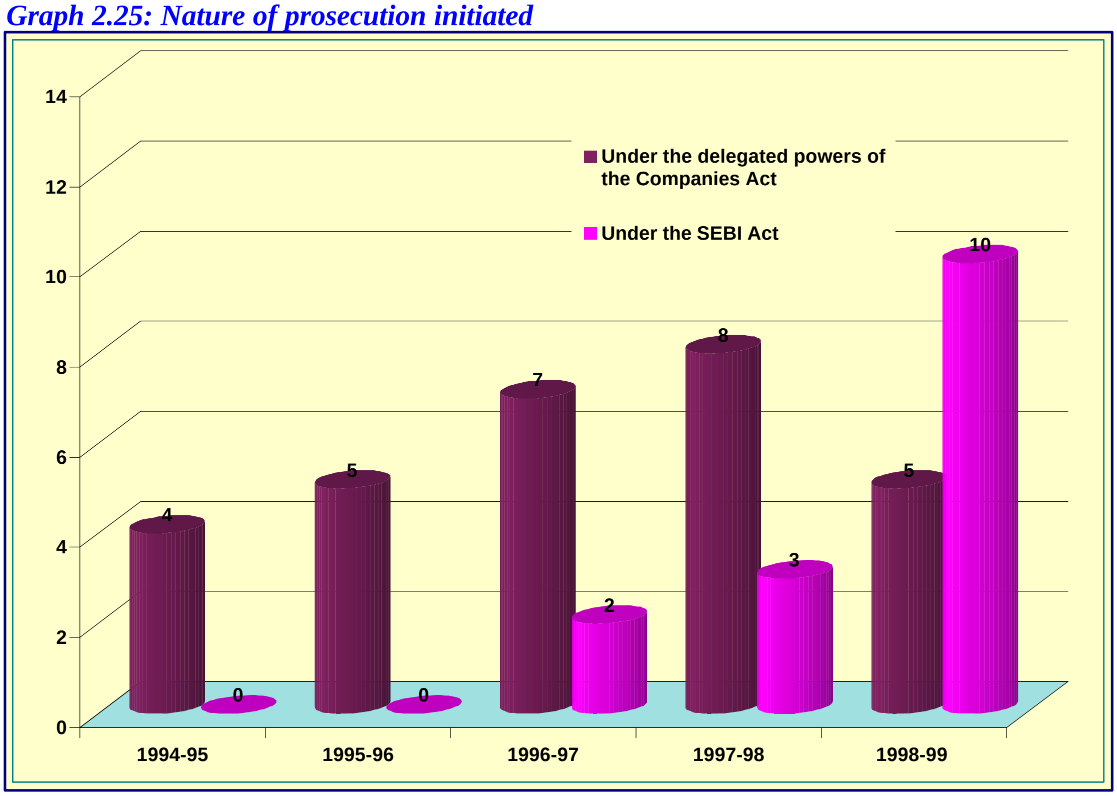
Source : SEBI

Table 2.39 : Number of persons prosecuted

Particulars Under powers delegated under the Companies Act	*1992-93*	*1993-93*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*
Delay in refund of excess application money, delay transfer of shares and non-payment of dividend	0	0	27	14	22	34	33
Mis-statement in offer document and fraudulent inducement	0	0	0	17	20	23	5
Under powers given by the SEBI Act							
Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997	0	0	0	0	10	4	52
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	0	0	20	38
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	0	0	6
Others: non-cooperation during investigation proceedings	0	0	0	0	0	0	11
Total	0	0	27	31	52	81	145

Source : SEBI

Graph 2.25: Nature of prosecution initiated



H] LITIGATIONS APPEALS AND QUOTE PRONOUNCEMENTS

Civil Litigation

The details of cases that were filed in the Courts during 1998-99 where the SEBI was a party are given in

Table 2.40 : Status of Litigation where SEBI was a party

Sr.No.	Subject matter	1998-99 Cases filed	Cases dis-missed	Cases allowed
1.	Primary Market Department	57	39	0
2.	Secondary Market Department (batch matters not included)	39	5	0
3.	Investigations, Enforcement and Surveillance Department	22	9	0
4.	Mutual Funds Department	2	0	0
5.	Takeovers	7	4	0
6.	Collective Investments Scheme	14	4	0
7.	Consumer Forum Cases*	26	7	0
8.	GSD	4	3	1
	Total	171	72	1

Source : SEBI

** Only those cases where SEBI has received notice has been included. There may be other cases where notices from the forum have not been received. Some cases might have been disposed off without SEBI's knowledge.*

Graph 2.26 : Litigation against SEBI during 1998-99

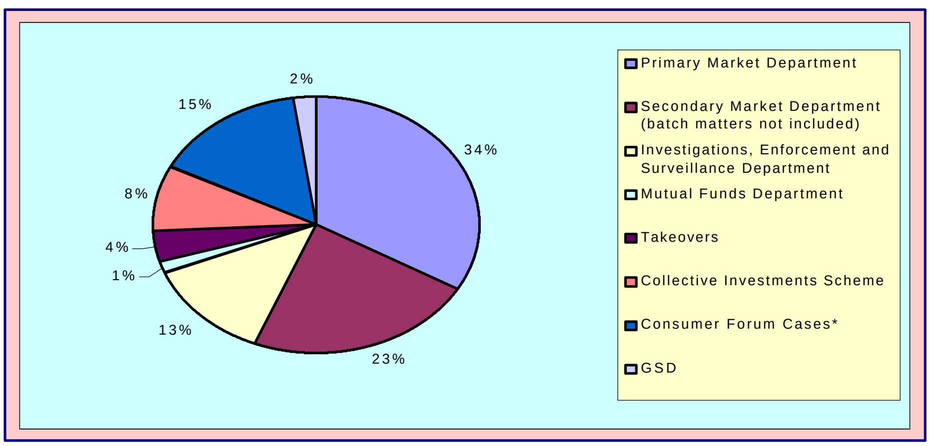


Table 2.41 : Status of litigation where SEBI is a petitioner

Sr.No.	Subject Matter	Cases filed	Cases pending	Cases Dismissed / allowed
1.	Primary Market Department	2	1	1
2.	Secondary Market Department	1	1	0
3.	Investigations, Enforcement and Surveillance Department	2	1	1
4.	Mutual Funds Department	1	0	1
5.	Collective Investments Scheme	6	6	0
6.	GSD	1	1	0
	Total	13	10	2 / 1

Source : SEBI

Appeals

Persons aggrieved by an order of the SEBI passed under the SEBI Act,1992 can prefer an appeal to the Central Government under Section 20 of the SEBI Act,1992. Table 2.42 gives status of appeals that were filed before the Appellate Authority in the financial year 1998-99.

Table 2.42 : Appeals field under Section 20

Status of Appeals	No.of Appeals
Appeals filed	35
Appeals dismissed	33
Appeals allowed	2

Source : SEBI

Appeals before the Securities Appellate Tribunal (SAT)

Persons aggrieved by an order of the Adjudicating Officer passed under Chapter VIA of the SEBI Act,1992 can prefer an appeal to the Securities Appellate Tribunal under section 15T of the SEBI Act,1992. Table 2.43 gives the status of the appeal pending before the Tribunal.

Table 2.43 : Appeals Before The Securities Appellate Tribunal (Sat)

Appeals filed	6
Appeals dismissed	1
Appeals allowed	1
Appeals pending	4

Source : SEBI

Important court pronouncements relating to securities laws

High Court of Gujarat - SEBI vs. Alka Synthetics Ltd.

In the instant case, the Hon'ble Division Bench of the Gujarat High Court held that section 11B is essentially a power to issue directions after inquiry and therefore at the time of issuing the directions of ad interim nature it cannot be assumed that the pre-decisional hearing has to be given on the basis of the use of the word `inquiry'. It was also held that by the impounding of monies there was no violation of Article 300A. SEBI had only taken a remedial measure to ascertain the evils and the directions have been issued to preserve the subject matter of dispute till the final decision was taken. Thus, SEBI had the authority of law to take measures under the provisions of the Act.

High Court of Bombay - Ramrakh R.Bohra Vs. SEBI

The Hon'ble Division Bench of the Mumbai High Court held that the power which has been conferred by section 11B to issue direction are of a widest amplitude and are exercisable in interests of investors in order to prevent, inter alia, a broker from conducting his business in a manner detrimental to the interests of investors or securities market. It was also held that the power to issue directions under section 11B carries with it by necessary implication all powers and duties incidental and necessary to make exercise of these powers fully effective including power to pass interim orders in aid of final orders. It was further held that the interim order could be passed directing a share broker refraining from undertaking any fresh business as a broker till disposal of inquiry.

High Court of Delhi - M.Z.Khan vs. SEBI

The Hon'ble Court held that SEBI has the power to carry out investigations and to take action in accordance with the regulations against the one who violates the takeover regulations viz. acquirer, the seller, the target company, the merchant banker,as the case may be. SEBI has power to pass interim orders before and during the inquiry or investigation to effectuate the purpose of the SEBI Act and the Regulations. The power under section 11 of the SEBI Act is not hedged in by any restrictions. This power will embrace the power to issue interim orders. The SEBI in a fit case can pass interim orders in the interests of investors and to promote the development of and to regulate the securities market. The final orders after the inquiry are contemplated under section 11B and at that stage it can issue such directions to any person referred to in the section as may be appropriate in the interests of investors and securities market. If at the initial stage it becomes necessary to pass an interim order, the SEBI has been endowed with such a power under section 11. And in case the provisions of section 11 are construed in a restrictive manner, the interests of the investors in securities and development and regulation of securities market will suffer.

Gujarat High Court - The Stock Exchange,Ahmedabad vs. Assistant Commissioner of Income-Tax.

In the instant case, the Court observed that there is a property element in rights of membership of ASE and the right to nominate as available under rules of stock exchange, is a right to property and it can be attached for purpose of recovery of income-tax payable by assessee. The Court also held that words ` any property' under section 281B are words of widest amplitude and would include proprietory rights of legal heirs of a deceased member of stock exchange to make nomination to stock exchange and the property right of a member's card of stock exchange can be attached.

High Court of Bombay - SEBI Vs. Libra Plantation Limited

The instant case is a public interest petition filed by SEBI against the plantation companies. The Court held once again that where the corporate character is employed for the purpose of committing illegality or for defrauding others, the Court would ignore the corporate character and will look at the reality behind the corporate veil so as to enable it to pass appropriate orders to do justice between the parties concerned. The Court also held that the absence of a statutory provision will not inhibit the Court while acting under Article 142 from making appropriate orders for doing complete justice between the parties. The Court further observed that in India the Courts are not only Courts of law but also the Courts of equity and thereafter passed an appropriate order attaching certain properties of the directors of the company in the instant case. The court ordered Commissioner of Police to appoint DCP to enquire into the various aspects of the Respondent company and to find out the assets of the directors of the company and whether any amount of the company is siphoned off to any sister concerns or in the name of relatives of the directors.

High Court of Gujarat - Rich Paints Ltd. vs. Vadodara Stock Exchange Ltd.

The Court held that no fault can be found with the findings given by the Appellate Authority under section 22 of (SCR) Act. In any case, findings cannot be interfered with since it is neither perverse nor based on no evidence. SEBI was entitled to examine the grievance of the investors against the petitioner company. The appellate authority hearing the company's appeal against refusal of listing permission by the BSE was not only empowered but also duty bound to satisfy itself that the company had complied with the mandatory statutory requirement of minimum subscription. It has also been held that the bankers to the issue hold the application monies in the nature of a trust fund i.e. the statute has erected a kind of trust for the protection of persons who pay the money on the faith of a promise to refund the money in case certain conditions are not fulfilled. It is only the bankers to the issue who can be expected to make sure that before withdrawal the company has got the listing permission from each stock exchange specified in the prospectus. It is only the bankers to the issue who are subject to the statutory control of SEBI through the SEBI (Bankers to an Issue) Rules and Regulations,1994.
It was also held that since the entire application money paid to and received by the company is to be kept out of the reach of the company till all the conditions for valid allotment are satisfied. The petition dismissed. Notice is discharged with costs.

High Court of Bombay - Hasmukh D. Parikh vs. BSE

In the instant case, the respondent BSE rejected the petitioner's application for readmission as member of the stock exchange. Although the membership of the Exchange is a personal permission from the Exchange and a member was prohibited from assigning any rights or privileges attached to the membership, the petitioner had abdicated his responsibility in respect of his membership and had in effect assigned his membership rights and privileges to VFSSL. There was total non-compliance with the relevant rules relating to readmission of member to the stock exchange. It was held that there is no illegality committed by the Committee in declining to accept the petitioner's request for readmission as a member of the

Stock Exchange. It was held that the arrangement is totally different and has no bearing to the facts of the present case.

The Securities Appellate Tribunal, Mumbai - Sharad Doshi Vs. The Adjudicating Officer and anr. Ancient Traders Limited matter.

Certain irregularities relating to acquisition of shares of Ancient Traders Limited by the appellant were noticed which case was a intentional violation of the regulations 6 and 9 of the Takeover Regulations for personal gains by not disclosing his aggregate holding in the ATL to the stock exchange within the time stipulated in the regulation. The Adjudicating Officer imposed One lakh rupees as penalty against the petitioner as against the maximum penalty of five lakh rupees provided in the SEBI Act which was reasonable one. The question raised before the SAT in appeal was that the shares not registered in Company's books do not carry voting rights and acquisition of shares not carrying voting rights is beyond the purview of the Takeovers Regulations and that the takeover regulations would be attracted only after registration of transfer of shares. SAT held that in view of the stringent penal consequences provided in the Act, it is difficult to accept the appellant's version that non-compliance of regulations is a mere technical lapse to be viewed leniently and therefore SAT did not find any merit in the appeal and accordingly dismissed the same in favour of SEBI with the observation that the Adjudicating Officer's order is a reasonable one.

The Securities Appellate Tribunal, Mumbai - Fascinating Leasing & Finance (P.) Ltd. versus SEBI.

The questions raised before the SAT were, inter alia, whether the holding of shares is a prerequisite to attract regulation 10 of 1994 Takeover Regulation. In the instant case, the appellants were not holding any shares in the HFL at the relevant time and that the shares acquired were not listed on any exchange and further that the purchase was not from the open market. It was also observed that Tribunal is an appellate forum and that its jurisdiction is confined to deciding appeals arising out of the orders made by the Adjudicating Officer.

The Tribunal is not a substitute for the Adjudicating Officer as is being made out by the opposite counsel. Regulation 9 and 10 are distinct from the point of view of their application and meant for compliance in different situations. Regulation 9 is on the acquisition of shares through negotiation whereas regulation 10 is on the acquisition from the open market. The Tribunal has no jurisdiction to investigate the transaction and decide afresh the applicability of regulation 9. SAT set aside the Adjudication order and allowed the appeal.

Madras High Court - A Vaidyanathan Vs.UoI and anr.

The single bench of the Hon'ble High Court of Madras held that trading in securities is not a fundamental right but a statutory right and the trading can be regulated by statute. It was also held that rejection of membership of a recognised stock exchange cannot be challenged on the ground of violation of Articles 14 and 19(1)(g) of the Constitution of India and the same would be held untenable in law especially when petitioner's right to do business in securities is not barred by Section 12 of the SEBI Act. Held, Rule 8(2)(b) of SC(R) Rules,1957 is constitutionally valid.

Delhi High Court - Mathran Shares & Securities Pvt.Ltd. vs.SEBI

In the present facts and circumstances, we are of the view that the Calcutta Stock Exchange had in fact granted permission to the petitioner on 13th April,1995 and the requirement of section 73 of the Act was fully met. The relevant provisions should be construed in the manner so as to subserve the intendment underlying the said permission. The purpose of section 73 is to prevent a company from fraudulently representing to the prospective subscriber that they have secured the requisite permission within the stipulated time to trade in the named stock exchanges. In light of the Calcutta Stock Exchange's letter dated 16th December,1995, which clarifies that the actual approval by the relevant sub-committee was on 13th April,1995 and was only formally required to be affirmed by the committee on 27th April,1995, it is clear that section 73's requirements had been met.

High Court of Bombay - Stock Exchange, Mumbai vs. Vinay Bubna

The Division Bench of the Hon'ble Mumbai High Court overruled the decision of the single bench which held that the reference of dispute to an even number of arbitration under bye-law 249(a) of BSE was invalid in view of the provisions of section 2(4) of Arbitration and Conciliation Act,1996. The Court held that the word `enactment' in section 2(4) of the Arbitration and Concilliation Act,1996, would mean and include bye-laws framed under SC(R) Act,1956 and would form part of that Act and the same will prevail over provisions of section 10 of the Arbitration and Conciliation Act. Bye-law 249(a) of BSE for reference of dispute to an even number of arbitrators is a statutory bye-law having force of enactment within the meaning of section 2(4) and since the said bye-law is inconsistent with section 10 insofar as the number of arbitrators is concerned, the said bye-law would prevail.

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

Under the SEBI Act, 1992, the SEBI has been empowered to conduct inspection of stock exchanges. The SEBI has been inspecting the stock exchanges once every year since 1995-96. During the course of inspections 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 exchange is advised to send a compliance report to SEBI within one month of the receipt of the inspection report by the exchange and thereafter quarterly reports indicating the progress made by the exchanges in implementing the suggestions contained in the inspection report, have to be submitted to the SEBI. The SEBI nominee directors and public representatives on the governing board / council of management of the stock exchange also pursue the matters in the meetings of the governing board / council. If the performance of the exchange, 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 exchange is also monitored via a Monthly Development Report which the exchange is required to submit to the SEBI every month.

During the year, renewal of recognition was granted to ten stock exchanges, the details of which are furnished in the table 3.1.

Table 3.1 : Renewal of Stock Exchanges

No.	Name of the Exchange	Date of renewal	Period of renewal (in yrs.)
1.	NSE	26.4.98	5
2.	Ludhiana	28.4.98	3
3.	Gauhati	1.5.98	1
4.	Magadh	11.12.98	1
5.	Rajkot	10.7.98	1
6.	Mangalore	9.9.98	3
7.	Jaipur	9.1.99	1
8.	Cochin	8.5.98	3
9.	Uttar Pradesh	3.6.98	3
10.	Pune	2.9.98	1

Source : SEBI

It was also observed during the course of inspections conducted during 1997-98 and 1998-99 that there has been a considerable improvement in the functioning of the exchanges relating to timely settlement of trades, compulsory auction at the end of a settlement, adherence to capital adequacy norms and better monitoring of payment of margins by brokers.

Supersession of the Governing Board of Magadh Stock Exchange

The Council of Management of the Magadh Stock Exchange was superseded with effect from December 08, 1997 due to the mismanagement and various irregularities observed in the functioning of the Exchange during the inspection and the complaints received from the Public Representative Directors and SEBI Nominee Directors on the Council of the Exchange. The Council was superseded for a period of one year and an Administrator Shri S.S. Dhanoa, IAS (Retd) was appointed as an alternative arrangement. The Administrator has been taking steps to improve the overall efficiency of the Exchange.

An inspection of the Magadh Stock Exchange was conducted by SEBI in August 1998 and it was decided on the basis of the inspection report to extend the period of supersession of the Council of Management of the Magadh Stock Exchange for a further period of one year. In order to have further streamlining in the functioning of the Exchange and to continue the corrective measures initiated by the Administrator the period of supersession has been extended for a further period of a year with effect from December 08, 1998.

B] REGISTRATION AND REGULATION OF WORKING OF INTERMEDIARIES

Primary Market

Merchant bankers

During 1998-99, 10 merchant bankers were granted registration. Registration of 8 merchant bankers were cancelled on completion of enquiry proceedings. The registration of 49 merchant bankers expired. Category-wise details of registration of merchant bankers are given in Table 3.2.

Table 3.2 : Category-wise Registration of Merchant Bankers

Cat	***No. regd as on March 31, 1999***
I	243
II	31
III	14
IV	127
Total	415

Source : SEBI

Underwriters

The number of underwriters registered with SEBI in terms of SEBI (Underwriters) Rules and Regulations, 1993 was 17 as on March 31, 1999. During 1998-99, 10 underwriters were granted registration/renewal.

Portfolio managers

There were 18 portfolio managers as on March 31, 1999. Of these, 6 Portfolio Managers were granted registration/renewal during the year under review.

Debenture Trustees

As on 31.03.99, 34 debenture trustees were registered with SEBI.

Bankers to an issue

As on 31.03.99, 66 banks were registered with SEBI as Bankers to an Issue.

Registrars to an Issue and Share transfer Agents

As on 31.03.99, a total of 251 Registrars to issues and/or Share transfer agents were registered with SEBI. Out of the above 155 were registered in Category I and the remaining 96 in Category II. Two applications for registration were rejected on account of non-fulfillment of the requirements prescribed under the SEBI (Registrars to an Issue and Share transfer agents) Rules and Regulations

Secondary Market

New stock exchanges

In December 1996, SEBI had decided, in public and trade interest, that grant of recognition to new stock exchanges would be considered subject to fulfillment of the certain conditions like the exchange begins trading only after introduction of On-Line Screen Based Trading, Rules, Regulations and Bye-Laws are made with adequate provisions for investor protection, with approval of SEBI and strictly followed, and the exchange establishes a Clearing House within 6 months from date of recognition.

SEBI has been receiving several applications for recognition of new stock exchanges. As on March 31, 1998 2 exchanges namely The Capital Stock Exchange Kerala Limited (CSEKL) at Thiruvananthapuram and The Inter-Connected Stock Exchange of India (ICSEIL) were granted an in-principle approval and 5 applications were pending and under consideration by SEBI. During the year 1998-99 1 new case has been received, 3 cases were closed, 2 cases are pending and under consideration of SEBI. The in-principle approval to Capital Stock Exchange Kerala Limited (CSEKL) is under consideration for final approval. Inter-Connected Stock Exchange of India Limited has been granted final approval on November 18, 1998 as already mentioned earlier.

Setting up of depositories

SEBI had granted certificate of registration to National Securities Depository Limited (NSDL) on June 7, 1996. NSDL became operational in November 1996. The NSDL was promoted by National Stock Exchange, IDBI and Unit Trust of India.

To meet the growing demand for further spread of infrastructure for depositories, the SEBI had granted certificate of registration on August 19, 1998 to Central Depository Services (India) Ltd (CDSL). The CDSL has been sponsored by the Stock Exchange, Mumbai (BSE), Bank of India, State Bank of India, Bank of Baroda and HDFC Bank. The CDSL was granted certificate of commencement of business on February 8, 1999. The CDSL is now in the process of registering participants and admitting companies in its systems. The establishment of the second depository would bring in the much needed infrastructure and competition resulting in more efficiency, better service and thereby reduction in cost to the investor.

Expansion of BSE on-line Trading System (BOLT)

In October 1996 SEBI granted its approval to the proposal of BSE to expand the BSE on-line Trading (BOLT) terminals to cities other than Mumbai and also to any other such proposal of any other Stock Exchanges for expansion of their on-line Screen Based Trading terminals to locations outside the cities where the stock exchanges are located.

The Stock Exchanges were permitted to expand their trading terminals to those cities, where no Stock Exchange is located. Accordingly BSE has obtained SEBI approval for setting up trading terminals at 515 centres, where no stock exchanges are located. As on March 31, 1999, BSE has installed trading terminals at 192 such centres.

The Stock Exchanges proposing to install trading terminals to those cities, where a stock exchange is already located, were required to enter into the Memorandum of Understanding (MOU) with the concerned Stock Exchanges. Accordingly BSE has so far entered into MOU with the Exchanges at Pune, Rajkot, Ahmedabad, Calcutta, Chennai, Indore, Patna, Bhubaneshwar, Vadodara and Jaipur and has obtained SEBI approval for setting up terminals at these places. The proposal of BSE to install the terminals at Coimbatore is under consideration of SEBI.

Stock brokers

The total number of registered brokers as on March 31, 1999, stood at 9069. During the year of 1998-99, 171 fresh registrations were granted of which 167 were trading partners on the Inter Connected Stock Exchange (ICSEIL). Of the total brokers, 3173 had corporatised their membership on stock exchanges (Table 3.3).

Table 3.3 : Details of Registered Brokers

Total no. of registered brokers as on 31.03.98	***Addition During The Year 1998-99***	***Reconciliation/ Cancellation/ Surrender of Memberships***	***Total no. Of registered brokers as on 31.03.99***
9005	171	107	9069 *

Source: SEBI

* *Inclusive of 1086 multiple registrations.*

The Stock Exchange-wise break-up of total brokers and corporate brokers as on March 31, 1999, is given in the table 3.4. There was an increase in the number of corporate brokers during the year, up from 2976 of the previous year to 3173 during 1998-99.

This could be because brokers took advantage of the exemption on capital gains on corporatisation of individual membership on the stock exchanges, which was extended by the

Finance Bill 1998 till December 1998. Around, 200 brokers of Mumbai, Delhi and Uttar Pradesh Stock Exchanges have corporatised their memberships. The National Stock Exchange Limited continues to have the largest number of corporate brokers, followed by OTCEI, Mumbai, Delhi, Bangalore and Ahmedabad (Table 3.4).

Table 3.4 : Exchange-wise Brokers Registered with SEBI

No.	*Stock Exchange*	*1998-99*			*1997-98*		
		Total Regd. Brokers	Corporate Regd. Brokers	Corporate brokers As % of total	Total Members	Corporate Members	Corporate Members as percentage of total
1	Mumbai	637	352	55.26	651	311	47.77
2	Ahmedabad	297	105	35.35	306	89	29.08
3	Calcutta	935	155	16.58	929	137	14.75
4	Madras	201	67	33.33	201	63	31.34
5	Delhi	392	187	47.07	390	166	42.56
6	Hyderabad	310	91	29.35	313	85	27.16
7	Madhya Pradesh	187	24	12.83	191	20	10.47
8	Bangalore	241	96	39.83	242	87	35.95
9	Cochin	491	67	13.65	492	57	11.58
10	Uttar Pradesh	513	80	15.59	528	67	12.69
11	Pune	200	42	21.00	201	36	17.91
12	Ludhiana	280	67	23.93	291	69	23.71
13	Gauhati	206	5	2.43	207	4	1.93
14	Mangalore	149	14	9.40	149	13	8.72
15	Magadh	196	15	7.65	197	10	5.07
16	Jaipur	594	17	2.86	595	8	1.34
17	Bhubaneshwar	234	15	6.41	234	15	6.41
18	Saurashtra	445	60	13.48	446	56	12.56
19	Vadodara	321	65	20.25	326	64	19.63
20	OTC	885	678	76.61	887	667	75.2
21	Coimbatore	198	61	30.81	201	55	27.36
22	NSEIL	990	856	86.46	1028	897	87.26
23	ICSEIL	167	54	32.34	Nil	Nil	Nil
	Total	9069	3173	34.99	9005	2976	33.05

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 below that 444 brokers had membership at two stock exchanges as on March 31, 1999 as compared to 312 brokers with double memberships as on March 31, 1998. It is seen that 46 members had membership at three stock exchanges as on March 31, 1999. Thus it could be gathered that multiple membership is on the rise (Table 3.5).

Table 3.5 : Multiple Membership of Brokers

Total no. of Memberships held	*Total no. of members as on 31.03.99*	*Total no. of members as on 31.03.98*
1	7983	8246
2	444	312
3	46	35
4	12	06
6	02	01

Source: SEBI

During the year the SEBI approved the modalities for consolidation of memberships on more than one Exchange. As on March 31, 1999, there were 30 joint ventures with foreign broking entities.

Sub-brokers

There were 4589 sub- brokers registered as on March 31, 1999, as compared with 3760 sub-brokers in the previous year. It would be seen from the table that 90 per cent of the total sub-brokers registered with the SEBI during the current year were from the Stock Exchange, Mumbai and NSEIL (Table 3.6).

Table 3.6 : Sub-Brokers Registered with SEBI

Total no. Of Registered sub-brokers as on 31.03.98	*Addition During the Year 1998-99*	*Reconciliation/ Cancellation/ of Registrations*	*Total no. of Registered Sub-Brokers as on 31.03.99*
3760	937	108	4589

Source : SEBI

Sub-brokers are an important link between retail or small investors and the capital markets. The SEBI initiated a number of measures for bringing sub-brokers under the regulatory framework in the interest of the investors. In July 1997, it was decided as a policy measure that share transfer deeds not bearing the rubber stamp of a registered sub-broker would be considered bad delivery of shares in the market. As a result there has been a substantial increase in the number of applications received for registration as sub-brokers (Table 3.7).

Table 3.7 : Stock Exchange-wise Registered Sub-Brokers

Name of Stock Exchange	*No of Sub-Brokers registered with SEBI during the financial year 1998-99.*	*Total No. of Sub-brokers registered as on March 31, 1999.*
Mumbai	525	2721
Ahmedabad	12	53
Calcutta	10	40
Madras	11	122
Delhi	37	268
Hyderabad	Nil	198
Madhya Pradesh	2	04
Bangalore	4	158
Cochin	Nil	31
UPSE	10	29
Pune	5	169
Ludhiana	2	21
Gauhati	1	4

Mangalore	Nil	4
Magadh	Nil	2
Jaipur	2	32
Bhubaneswar	Nil	17
Saurasthra Kutch	Nil	Nil
Vadadora	5	85
OTCEI	Nil	34
Coimbatore	1	26
NSEIL	531	571
Total	1158*	4589

Source: SEBI
**Includes multiple registration of 221 Sub-brokers.*

Brokers database

The Brokers Database project which was initiated during the previous year was followed up during the year 1998-99 with all the Exchanges. Complete records on floppies for approximately 50 per cent of the members of Mumbai, NSEIL, Calcutta, Delhi, Hyderabad, Pune and Ludhiana Exchanges were received. The work of consolidation and follow-up is continuing with the remaining exchanges.

C) REGISTRATION AND REGULATION OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS

Registration of mutual funds

During the year, registration was granted to 3 new mutual funds in the private sector out of which 2 were sponsored by foreign entities. With these registrations, there are a total of 40 mutual funds, excluding UTI operating in India as on March 31, 1999. Though UTI is not registered with the SEBI, there is an arrangement of voluntary compliance of regulations by the UTI. It may be mentioned here that there are 3 mutual funds under suspension and have been prohibited from launching new schemes. The number of mutual funds registered with SEBI are given below (Table 3.8).

Table 3.8 : Mutual Funds Registered with SEBI

Sector	***As on 31/03/98***	***As on 31/03/99***
Public Sector	9	9
Private Sector	28	31
Total	37	40

Source : SEBI

Regulatory compliance

The emphasis of SEBI during the year has been on compliance of regulations by the mutual funds. Individual meetings were held with the compliance officers of many of the mutual funds to obtain an insight into the performance of the compliance function and to elicit their views regarding the interpretation of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996. Also, the doubts of compliance officers on the interpretation of regulations were clarified during the meetings.

Inspections of all 33 active mutual funds, including UTI, was undertaken during the year to be carried out by independent chartered accountancy firms covering the period till March 1998. A detailed guidance note, including a comprehensive check-list was issued to the independent auditors. They were required to comment on compliance of each regulation in their reports. The terms of reference for the inspections were elaborated and expanded so as to cover the main thrust areas for inspection. The scope of inspection being thus clearly defined, it facilitated the process of inspection and preparation of reports in a uniform manner. Warning and deficiency letters were issued to many mutual funds on the basis of findings of inspection reports and they were advised to take corrective action and report to SEBI.

It was ensured that the grievances of investors against mutual funds are attended on priority basis. The redressal rate of grievances has shown a significant improvement as a result of constant follow-up with the mutual funds. Meetings were held with the investor service officers of various mutual funds.

The in-principle approvals given to thirteen applicants for establishing new mutual funds were revoked during the year. A total of 26 deficiency and warning letters were issued to mutual funds on various issues relating to regulatory norms.

The SEBI has created a data base of key personnel of mutual funds during the year. The data-base includes details regarding educational qualifications, employment record and regulatory violations or convictions, if any. The data-base enables the maintenance of a record of professionals in the mutual fund industry besides throwing up useful information such as mobility of professionals across the industry and general level of experience and qualifications.

Compliance of mutual funds in respect of assured return schemes

The SEBI focused its attention on schemes with assured return and took steps to protect the interest of investors. There have been cases where the schemes have been unable to generate adequate income to meet their obligation of payment of returns as specified in their offer documents. In such cases the SEBI intervened and directed the mutual funds to ensure that the mutual funds meet the commitment of assured returns. Some of these instances where the sponsors have met the commitments of the Funds under the directions of the SEBI are :

I. Indjyothi Scheme of Indian Bank Mutual Fund, launched prior to the notification of the 1993 Regulations was unable to pay assured returns for the year 1996-97 and 1997-98 to the investors due to inadequacy of profits. SEBI advised the Fund to meet the assurances and the sponsor of the Fund – Indian Bank, agreed to pay the assured returns. Subsequently, an amount of Rs 23.18 crore, paid to the investors of the Scheme.

II. An assured return scheme of SBI Mutual Fund, Magnum Triple Plus Scheme, faced a shortfall of about Rs. 115 crore. The SEBI took up the matter with SBI Mutual Fund and consequently the sponsor of the Fund, State Bank of India funded the shortfall.

III. The SEBI also took up the matter of payment of assured returns under Canstar scheme of Canabank Mutual Fund. Subsequently, Canara Bank offered to repurchase the units of Canstar Scheme from those unitholders who could not avail of the offer in the year 1997.

IV. Bank of India, the sponsor of BOI Mutual Fund, also paid Rs. 27.96 crore towards meeting the repurchase obligations under the Double Square Plus scheme.

V. A scheme of GIC Mutual Fund, GIC Rise II which was due for redemption faced similar problems in meeting the assured returns. The sponsor, GIC and its subsidiary companies have decided to meet the shortfall by making an arrangement with GIC Mutual Fund. As per this arrangement, GIC MF would allot to GIC on the due date of redemption of the scheme, special units against payment of funds by GIC, which would be equal to the redemption obligations under the schemes.

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 and enhance their capabilities of detecting malpractice and manipulations, stock exchanges have started administering trade halts, imposing price bands and exposure caps on members; and even deactivating brokers' trading terminals. The stock exchanges have also set up their dedicated departments for surveillance and monitoring. These self-regulatory steps taken by the stock exchanges under active oversight of SEBI have improved market safety and integrity. 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.

E) FRAUDULENT AND UNFAIR TRADE PRACTICES

After enacting the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, which enabled SEBI to investigate into market manipulation, vigorous efforts were undertaken to enforce these regulations. During 1998-99, 40 cases were taken up for alleged market manipulation and price rigging; and 4 cases were taken up for alleged "issue" relating to manipulations. The details of the same have been elaborated in Part II of the report.

F) INVESTOR EDUCATION AND THE TRAINING OF INTERMEDIARIES

Investor education / guidance

The SEBI has constituted a Working Group on Investor Education comprising members from Investor Associations (Tamil Nadu Investor Association, Investor Guidance Society and Gujarat Investors' & Shareholders' Association), Bombay Stock Exchange and NSEIL, CRISIL, All India Radio, Doordarshan and Advertising Agencies Association of India.

The terms of reference for the group include, providing advice and suggestions to SEBI on:

a) Design and content of Investor Education Programmes
b) Selection of media for dissemination
c) Procedure for approving/involving agencies
d) Methods of funding for programmes, and
e) Role of Investor Associations in spreading investor education

Based on suggestions offered by the Committee, the SEBI prepared a booklet titled 'A Quick Reference Guide for Investors' in English and in Hindi. Major corporates in the public and private sector and institutions were requested to print and mail the booklet to investors along with other material like annual report/dividend warrants etc. There has been encouraging response and over 50 lakh booklets have been mailed. The publication is also available on SEBI website for reference of investors.

On-going efforts to strengthen investor education include publication of the booklet in major national and regional dailies (in regional language) for the benefit of investing public, preparation of a campaign on radio/TV etc.

G] PROHIBITION OF INSIDER TRADING

During 1998-99, 4 new cases were taken up. Investigations in these cases are in the advanced stages of completion. In the proposed Stock Watch System, surveillance over insider trading would be further strengthened.

H) SUBSTANTIAL ACQUISITION OF SHARES AND TAKE-OVERS

SEBI has taken up 6 cases of alleged violation of the SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997 and the investigations are at an advanced stage.

I) INSPECTION AND INQUIRIES

Merchant Bankers:

Merchant bankers and underwriters

During the year 1998-99, 4 enquiries were initiated against merchant bankers for failure to exercise due diligence.

The registrations of 8 merchant bankers were canceled, on completion of enquiry proceedings for non-payment of fees and for failure to submit information on employees. Besides, 58 merchant bankers were suspended for non- payment of fees and for failure to honour their devolvement obligations. Warning letters were issued to 11 merchant bankers. The details are given in ***Annexure 5.***

Inspections and enquiries – 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 mentioned obligations, the SEBI carries out inspection of the books of accounts and records of stock brokers to verify whether:

a. Books of accounts, records and other documents are being maintained in the manner specified by the Securities Contracts (Regulation) Rules, 1957 and SEBI (StockBrokers and Sub Brokers) Regulations, 1992.
b. The provisions of the SEBI Act, the Securities Contracts (Regulation) Act and the provisions made thereunder are being complied with by the broker.
c. Adequate steps for redressal of grievances of the investors are being taken and the conditions of registration as a stock broker are complied with.

There are 9069 brokers and 4589 sub-brokers registered with the SEBI. The SEBI inspects brokers on the basis of sample drawn for the year. During 1998-99, 103 brokers from 14 Exchanges across the country were inspected by the SEBI. The SEBI inspected the brokers of fewer exchanges during 1998-99 as most of the smaller exchanges have very little trading activities and very few active trading members. A sample of brokers was selected for inspection from medium to big exchanges.

For inspection of brokers of BSE and NSEIL, the services of Chartered Accountants were availed of whereas inspection of brokers of other Stock Exchanges was undertaken by the officers of SEBI. During the course of inspection, following features were observed :

a) Brokers of regional stock exchanges were hit hard by a sharp slump in their business. Many of them were either out of business or working for the brokers of bigger Stock Exchanges or have taken the terminals of BSE and NSEIL members.
b) The response to demat trading is encouraging as it has reduced inter-alia the fear of bad delivery among the brokers.
c) Clientele business, in general, had come down across the country.
d) Brokers and investors were trading mainly to avail of the benefit of inter-exchange arbitrage.
e) The rates of brokerage have come down drastically over last few years. The bye-laws of the stock exchanges provide for charging brokerage up to 2.5 per cent of value of the contract. In actual , brokerage charged ranged between 0.5 per cent and 5 per cent.
f) Most of the brokers have computerised their books of accounts and other relevant records.

During the course of inspection the following irregularities on the part of brokers were observed :

a) Non reporting of ‘off the floor transactions’ to the Exchange.
b) Misuse of the Exchange Settlement Mechanism to fund loan transactions which do not have any relationship to securities business.
c) Dealing with unregistered sub brokers.
d) Non segregation of clients and proprietary funds.
e) Client database and agreements with clients are not maintained/entered.

On an overall assessment, it was observed that there was a better compliance towards comprehensive margin requirements on the part of brokers. Inspection of brokers by the SEBI from time to time has resulted in better adherence by brokers to SEBI Rules/Regulations/Circulars. Comprehensive inspection manual for broker’s inspection was revised and the same was circulated to all stock exchanges and chartered accountants’ firm assigned with the job of inspection of brokers.

The break-up of inspections of brokers carried out during the year, enquiries ordered and their outcome for the years 1997-98 and 1998-99 is given in the table 3.9 and in ***Annexure 4***.

Table 3.9 : Inspection of brokers carried during 1998-99

Particulars	***1997-98***	***1998-99***
Inspections	157	103
Enquiries ordered	62	307
Warned	52	109
Suspended	8	64
Registration cancelled	2	6
Adjudication	Nil	9
No Action	Nil	16

Source : SEBI

From the table it may be noticed that number of enquiries ordered has shown significant increase over the previous year's figure. This is because of the large number of inspections carried out in the previous years. Further, the above figure also includes 199 enquiry directions against brokers who have failed to fulfil the underwriting devolvement in respect of various issues.

Inspection of mutual funds

Inspections of all 33 active mutual funds was ordered in March/April 1998 to be carried out by independent chartered accountancy firms covering the period till March 1999. The inspection reports in case of 33 mutual funds have been received. In case of 11 mutual funds the inspection reports have revealed no violations of the Regulations or systemic deficiencies and their files have been closed. In 14 cases, warning/deficiency letters have been issued due to systemic deficiencies/technical violations. In case of 8 mutual funds, the reports have been processed and additional information/clarifications have been sought from the mutual funds/auditors.

Table 3.10 : Action taken during 1998-99

Sr. No.	***Description***	***No. of Mutual Funds***
1.	Adjudication	1
2.	Warning/Deficiency Letters	26
3.	Enquiry Proceedings	2

Source : SEBI

Adjudication proceedings were initiated against JM Mutual Fund for delay in listing of one of their schemes. The Adjudication Officer imposed a fine of Rs.50,000/-, which has been paid by the mutual fund.

Warning/Deficiency letters were issued to 26 mutual funds for violating Advertisement Code, non-submission of periodical reports on time, delay in redressal of investor grievances and for technical violations/systemic deficiencies observed in their inspection reports (Table 3.10).

Enquiry proceedings were initiated against two mutual funds - Asia Pacific Mutual Fund and GFC Mutual Fund due to deteriorating financial position of their sponsors and action taken by the RBI against them. Enquiry officer has recommended cancellation of their registration certificate. Thereafter show cause notices were issued to these mutual funds as to why penalty, as recommended by the enquiry officer, should not be imposed. Final orders would be passed soon. Both the mutual funds have not launched any schemes since their obtaining registration from the SEBI.

J) FEES AND OTHER CHARGES

Merchant Bankers, Underwriters and Portfolio Managers

Table 3.11: Fees and other charges received *(Rs. Lakh)*

Item (1)	*Fees recd. 1998-99* (2)	*Fees recd. 1997-98* (3)
Offer Documents and prospectuses filed	92.80	84.15
Merchant Bankers	151.87	343.29
Underwriters	29.20	26.67
Portfolio Managers	25.00	23.50
Registrars to an Issue and Share Transfer Agents	34.78	31.85
Bankers to an Issue	99.50	40.00
Debenture Trustees	33.52	14.60
Take-over offer documents filed	57.20	38.80
Mutual Funds	150.75	100.75
Stock Brokers and Sub-Brokers	530.31	569.72
Foreign Institutional Investors	263.20	206.96
Sub Account - Foreign Institutional Investors	34.60	-
Depository	41.66	20.00
Depository Participants	47.81	28.95
Venture Capital Funds	25.75	26.25
Custodian of Securities	230.20	45.10
Approved Intermediaries under Securities Lending Scheme	17.37	36.30
Penalties	1.65	4.60
Total	1,867.16	1,641.48

Source : SEBI
Figures for 1998-99 are checked by the internal auditors.
Figures in columns are as per the Receipt & Payment account i.e. on actual receipt basis.

Brokers and Sub-brokers Fees

During the year 1998-99, the SEBI amended the SEBI (Stock Brokers and Sub-brokers) Rules and Regulations, 1992 vide notification dated December 16, 1998 to provide for interest @ 15 per cent p.a. for each month of delay in remittance on the amount payable. The interest received from December 16, 1998 till March 31, 1999 was Rs.33,778/-

K) RESEARCH AND OTHER STUDIES

The SEBI has been increasingly focussing on strengthening and expansion of Research Department in order to provide research input to its policies and disseminate the data and information for wider use and knowledge of the public. As mentioned in the previous year's report an Economic Adviser to head the Research Department and two Economists were inducted in 1997-98. In 1998-99, one additional Economic Adviser was inducted into the Department. The Department undertook basic research studies besides preparing the Annual Report of the SEBI. A report entitled The State of Capital Market is under preparation.

The Department also started bringing out a monthly bulletin reviewing the developments in the primary and secondary capital markets besides covering other segments of the capital market such as mutual funds, FIIs and market intermediaries etc. The Research Department assists the SEBI management for preparing research notes on various aspects of capital market. The Department, as mentioned in the previous year's report, initiated a Investors' Survey in collaboration with the National Council of Applied Economic Research (NCAER). The survey which covers a large sample of household investors is in progress. The Department has also undertaken a few research studies relating to capital market.

L) OTHER FUNCTIONS

Y2K and Indian securities markets

The Year 2000 problem poses a significant challenge for the capital market and other related activities. Failure to address this issue in timely manner would cause operational problems to all the institutions operating in the securities market, even to the extent of disruption of financial markets. As a result, it is imperative that all the agencies operating in the capital market, either directly or indirectly, should take necessary steps to ensure that the problems and disruptions due to Year 2000 problem are minimized.

In the securities industry, three factors magnify the scope of the Year 2000 problem:

- The securities industry relies heavily on computerised information processing technology., "Information and communications technologies are critical to healthy and efficient primary and secondary markets."

- The industry is enormous. There are more than 9000 companies, which are listed across 23 stock exchanges having 9000 brokers, who are having terminals in nearly 200 cities. Besides there are 402 Merchant bankers, 225 Registrars and Share Transfer Agents, Bankers to the Issue and other primary market intermediaries.

- Industry participants are highly interdependent. Many are also connected to national and global financial communities. Thus, it is important not only that individual market participants assure that their systems are able to handle the Year 2000, but also that they can continue to communicate with other members of the domestic and global industry.

SEBI and Y2K

For a smooth transition to the next millennium, it is imperative that the efforts carried out at various levels in various sections of the industry should be integrated. As a regulatory body for the Indian capital market SEBI has initiated steps to co-ordinate and synchronise the efforts made by the various agencies operating in the capital market. A time bound schedule for implementation of a comprehensive plan to combat the Y2K problem has been drawn up by SEBI and has been circulated to all the intermediaries functioning in the capital market either directly or through Self Regulatory Organisations.

The intermediaries had been advised to reach Y2K compliant position by December 31, 1998 so that they are able to test, validate and implement the systems by June 30, 1999. A task force has been set up to monitor the progress periodically and to co-ordinate the efforts to find a solution to this problem. Additional stress has been laid upon the contingency measures in view of possible failures of key parts of financial market infrastructure. The testing and validity of the contingency plans is being emphasised to counter any failure.

It is obvious that no individual IT user, individual institution, sector, market, or country is immune to the difficult issues presented by the Year 2000 problem. Even if an institution has verified and tested all its internally developed systems and applications, it will be affected by: the state of readiness of its vendors and third party service providers; the public utilities upon which it relies; the infrastructure that it relies upon for its trading, payment and external information needs. Moreover, the globalisation of financial and economic activity and the widespread use of information and telecommunications technology throughout the world have created various intrasystem and intersystem interconnections and global interdependencies, which greatly add to the complexity of the challenge.

SEBI is also co-ordinating efforts with the Reserve Bank of India, Insurance Regulatory Authority, Indian Banks Association, Department of Electronics and Department of Telecommunications in order to ensure that the market functions smoothly and efficiently in the next millennium .

The following measures have been taken by the SEBI to ensure Y2K compliance in the capital market and also to keep the investors well informed on the Y2K status:

- It is now mandatory for all listed companies to give a brief status on their Y2K preparedness level in their published quarterly results.

- Every intermediary registered with SEBI is compulsorily required to discuss this issue in all Board meetings .

- SEBI nominees on the board of Stock Exchanges would discuss the status of the Y2K preparedness of the Stock exchanges, clearinghouses/clearing corporations, and the brokers operating on the stock exchanges at the Board meetings.

- It is compulsory for all the companies approaching the capital market since April 1999 to declare their Y2K preparedness status in their offer document.

- It shall be mandatory for all intermediaries registered with SEBI to keep hard copies of all the current records pertaining to their own and their client's operations as on December 30th, 1999. They would be required to keep the hard copies of all the necessary documents and records, which are dependant on information technology and have a direct bearing on the functioning of the capital market.

In their disclosures the companies and the intermediaries have been asked to disclose the following:

the risk of the company’s Year 2000 issues
the cost to address the company’s Year 2000 issues
the company’s contingency plans.

The company’s disclosure should be specific to each company and quantified to the extent practicable. The disclosures should be in sufficient detail for the reader to comprehend the effect of the Y2K problem on the company's operations/processes/functions and also evaluate the remedial steps taken by the company.

The Risk to the Company due to Year 2000 problem

The companies should list the operations, processes, functions, which could be adversely affected due to the Year 2000 problem.
For each of the processes/ operations/ functions the following information should be disclosed.

Status of progress of making these Y2K compliant (indicating the percentage of the work completed)
The date by which the work would be completed.
The names of other intermediaries, directly dependant upon the above processes/operations/functions.

The Cost to Address the Company’s Year 2000 issues.

Companies must disclose material historical and estimated costs of remediation. This includes costs of directly related to fixing Year 2000 issues. In the worst case, the replacement cost of a non-compliant IT system should be disclosed as an estimated Year 2000 cost.

The Company’s Contingency Plans.

Companies should briefly disclose the contingency plans in the event of system breakdown/failure due to the Year 2000 problem.

Grievance Redressal – Mutual Funds

A total of 29,644 complaints (cumulative) were received by the SEBI against 17 mutual funds, including UTI, till March 31, 1999, out of which 27,867 complaints were redressed. The redressal rate of investors’ grievances by mutual funds was 94.01 per cent.

UTI, which accounts for 71.86 per cent of the total complaints, shows a redressal rate of 96.51 per cent.

Grievance Redressal – Securities Market

The Investor Grievances Redressal and Guidance Division assists investors who prefer to make complaints to SEBI against companies. There has been a sustained increase in the number of Investor grievances resolved through SEBI's intervention, over the period of time

SEBI has established a comprehensive redressal mechanism whereby each investor is sent an acknowledgement with a reference number. A standardised complaint format is available at all SEBI offices and in the SEBI Website for the convenience of investors. Each complaint is taken up with the company immediately and follow up is made every quarter. The companies are advised of their obligations to redress the complaints and are warned of stern action for failure to redress complaints. Officers hold periodic meetings with errant companies. Recalcitrant companies are referred for prosecution. SEBI also releases a fortnightly press release for public information, on the status of investor grievance redressal highlighting companies against whom more than 1000 complaints are outstanding.

Table 3.12: Investor Grievances – Cumulative

Financial Year (End March)	*Received*	*Resolved*	*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, 346	22, 69, 665	93.24

Source: SEBI

During 1998-99, the SEBI received 99114 complaints as against 159670 complaints during 1997-98. The average receipts has consequently declined to around 275 per day as against 450 during the previous year (Table 3.12).

In order to ascertain correct status of redressal, SEBI has been conducting an exercise of sending reply paid post cards to investors requesting them to reply as to whether the complaint has been resolved or not. During the year the SEBI sent 75496 reply paid post cards to investors whose complaints were pending as of March 31, 1998 per SEBI database. 40962 cards were received back of which 6117 replied that the complaints were resolved and 33356 replied that the complaints were not resolved. This exercise helps SEBI to ascertain whether complaints reported as resolved by companies are actually resolved.

Defaulting Companies

During 1998-99 also**,** periodic meetings were held by the SEBI with the CEO / Compliance Officer / Sr. Officers of the companies which did not register satisfactory investor grievance redressal position. During such meetings, the SEBI impressed on them the need to redress the investor grievances with greater urgency. The impact of these meetings on the record of redressal has been found to be very good and therefore SEBI has decided to make this a continuing exercise.

During 1998-1999 the SEBI has initiated prosecution proceedings against four companies / their directors. The total number of prosecutions launched upto March 31, 1999 stands at 10.

The total number of complaints outstanding against these companies was 11,809 as of March 31, 1999.

Investor Associations

As of April 1, 1998 there were 2 registered investor associations who applied for renewal.

The SEBI has also been granting financial assistance to the registered investor associations to conduct investor education programmes.

Overseas Investors' Cell

SEBI has been constantly striving to provide a congenial investment climate for Overseas Investors. In this direction, an NRI cell has been functioning in the Division since January 1, 1997 for redressal of grievances of NRIs in the Capital Market.

Foreign Institutional Investors/Mutual funds and other overseas investors have since become an integral part of our Capital Markets. In its continuing endeavor to facilitate investments by overseas investors and to enhance their confidence in our regulatory and redressal mechanisms, SEBI has created an Overseas Investors Cell by expanding the scope of N R I cell. The Overseas Investors Cell (OIC) addresses and answer queries on registration procedures, formalities, and other investment related issues pertaining to SEBI. The cell also has a window for Redressal of Overseas Investors' Grievances ("ROVING-WINDOW"), for receipt and redressal of complaints.

Coordination with Overseas Regulators

SEBI is an active and a leading member of International Organisation of Securities Commission (IOSCO). At the 23rd Annual Conference of IOSCO held in Nairobi in September 1998, Mr. D.R. Mehta, Chairman SEBI, was unanimously elected as the Chairman of the Asia Pacific Regional Committee (APRC), a regional sub-committee of IOSCO. SEBI is also a member of the Executive Committee of IOSCO-the apex policy making body of IOSCO as well as the Emerging Markets Committee

India stands committed to the various measures and efforts undertaken by IOSCO in order to improve transparency in the functioning of the international capital markets and increasing the efficiency of the global securities markets.

India continued its efforts to foster the spirit of co-operation amongst the international bodies and regulatory bodies in the Asia-Pacific region. During the Asian crisis the focus of discussion was on curbing the volatility in the region and integrating the global and regional efforts to stem the crisis and to find measures to avoid the recurrence of the crisis. This issue was discussed during the APRC meetings held under the chairmanship of Mr. D.R. Mehta at Nairobi and Hong Kong and the following important viewpoints emerged from the meetings:

- Increased regulatory co-operation, including information exchange, in order to strengthen market surveillance and maintain overall market transparency and integrity.
- To encourage the APRC members to take active steps to support the development and adoption of high standards of corporate governance and establishment of a dialogue group to monitor developments in this area.

- To arrange training for enforcement officers and other multilateral training activities for member nations in the region.
- To set up a working group for ensuring better regulation and supervision of hedge funds in the region.

During the year SEBI officials visited Australia and New Zealand to study the regulatory and supervisory procedures being followed for the plantation schemes by the respective regulatory agencies.

SEBI also played host to officers from Securities and Exchange Commission, Bangladesh who had visited India to understand and comprehend the structure and functioning of the Indian capital market.

PART IV

ORGANISATIONAL MATTERS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA

Board

During the year 1998-99 (April to March), five Board Meetings were held. Shri R.L. Meena, Law Secretary, Ministry of Law and Justice was appointed as one of the Directors on the Board in terms of Government of India notification No.20(3)CM/92 dated September 3, 1998 in pursuance of Section 3 read with Section 4 (15 of 1992) of SEBI Act of 1992 in place of Dr.V.K. Agarwal.

Shri Kumar Mangalam Birla was also appointed as one of the Directors in terms of sub section (I) of Section 4 of the SEBI Act, 1992 vide notification No.20/26/CM/93 dated September 15, 1998.

Human Resources

As on March 31, 1999, SEBI had 191 Officers and 159 Staff Members in various other cadres. During the year, the Board recruited 24 candidates in various cadres. Of the total staff strength of 350, 15 persons belong to SC, 39 to OBC and 3 to ST categories.

Parliamentary Committee

A Study Group of the Standing Committee on Finance under the Chairmanship of Shri.Murali Deora held a meeting with the Chairman and other Senior Officials of the Board at Mumbai on August 10, 1998.

Promotion of Official Language

In addition to the regulation of Capital Market, Securities and Exchange Board of India is putting in its best efforts to implement the Official Language policy of the Govt. of India. In order to achieve this objective, the SEBI has initiated various steps which include the availability of SEBI publications, notifications and useful material in bilingual form. For proper guidance and education of the investors of the Capital Market, the Board is also putting in strenuous efforts to make available the relevant information to the investors in regional languages too.

In order to have effective implementation of the Official Language Policy of Govt. of India in the activities of the Capital Market, SEBI has made available various informative and educative material through its various publications viz. “Capital Market Guide”, “SEBI – Rajbhasha Sahayika”, “Rajbhasha Sandarshika”, “Hindi Aashu-Tankan Sandarshika”. The book titled “Capital Market Guide” provides information on various aspects of the Capital Market in Hindi. In order to have uniformity in the usage of various words, phrases being used in the Capital Market, “Rajbhasha Sahayika” provides the standardized glossary. “Rajbhasha Sandarshika” spells out the Official Language Policy of the Govt. of India and “Hindi Aashu-Tankan Sandarshika” contains the relevant information related to the computer based packages in Hindi typewriting and shorthand.

Recently, the SEBI has prepared another book titled "Vidhi Karya Sahayika – Vol.-I" which would be helpful in discharge of the work relating to the legal documents in official language.

On the occasion of the Golden Jubilee year of Official Language, the Board actively participated in all-India level Official Language seminars organized by the various institutions. Besides this, the Board has also contributed immensely in activities being organized by the various institutions for implementation of the Official Language. In future also, the Board's endeavour would always be to implement the Official Language more effectively.

Status of Automation and Internet in SEBI

The SEBI has set itself up as a technology oriented organisation so that it is able to discharge its responsibilities speedily and to manage the workload. The policy paragraphs give details of technological upgradation of SEBI.

Networking

During the year 1998-99, the local area network (LAN) was established connecting all the workstations at the head office for implementing the basic infrastructure for client-server computing. The two offices at Mumbai were connected over ISDN link to provide seamless access to the unified information resources.

Database Servers

The database servers were installed across the board for the deployment of the internal databases and application software packages. The database servers are equipped with fault tolerant and security features to ensure uninterruption and controlled access.

Databases

The databases pertaining to various functional activities relating to Capital Market Intermediaries and Internal Administration was successfully implemented.

E-mail Facility

During the year employees were equipped with E-mail facility to imbibe the E-mail culture thereby promoting faster and economical mode of communication.

SEBI Web Site

The Web site of SEBI http://www.sebi.gov.in which displays legislation, guidelines, annual report of SEBI, SEBI Monthly Bulletin, draft prospectus, press releases and investor related information, was incorporated with an intuitive search engine to enable easy access to the information available on the web site.

Intranet

As part of the knowledge base management, an Intranet hosting, Internal circulars, forms and periodicals in-house publications are being implemented for the benefit of the employees.

Workflow Management

To manage workflow and document management system establishing thereby 'less paper' office, a system of tracking / monitoring of correspondences and internal office notes, was implemented. Efforts are being made to explore the feasibility of video conferencing and electronic data interchange within the organisation.

Small Office Home Office

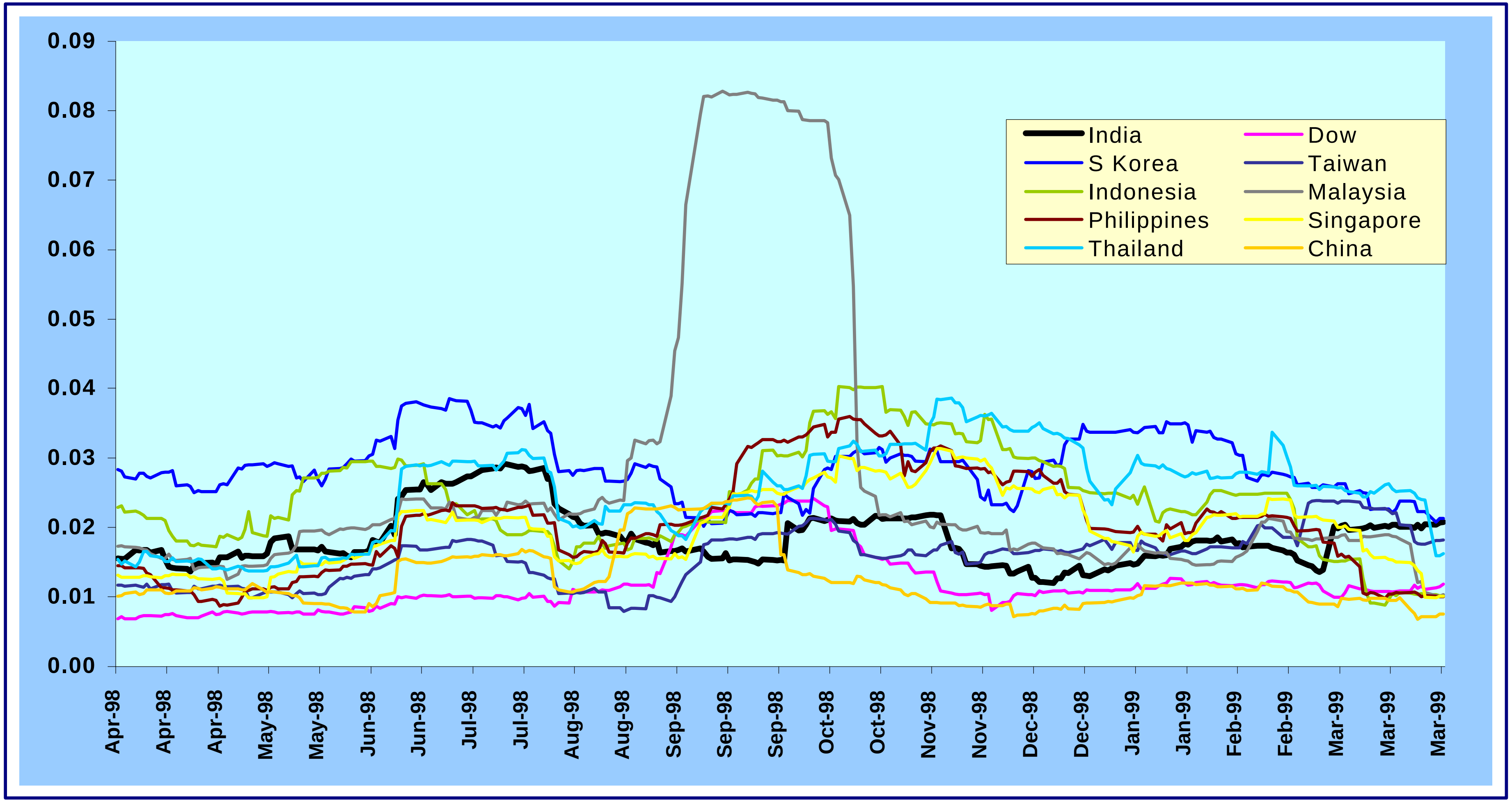
While promoting Small Office Home Office concept, Multimedia Computers with Internet, E-mail, Office Automation and other productive tools were installed at the home offices of senior officials of SEBI.

Year 2000 Initiative

SEBI has taken all necessary steps to ensure that all the workstations, Database Servers, Databases and Communication equipment installed at SEBI are Year 2000 compliant.

Annexure 1(a)

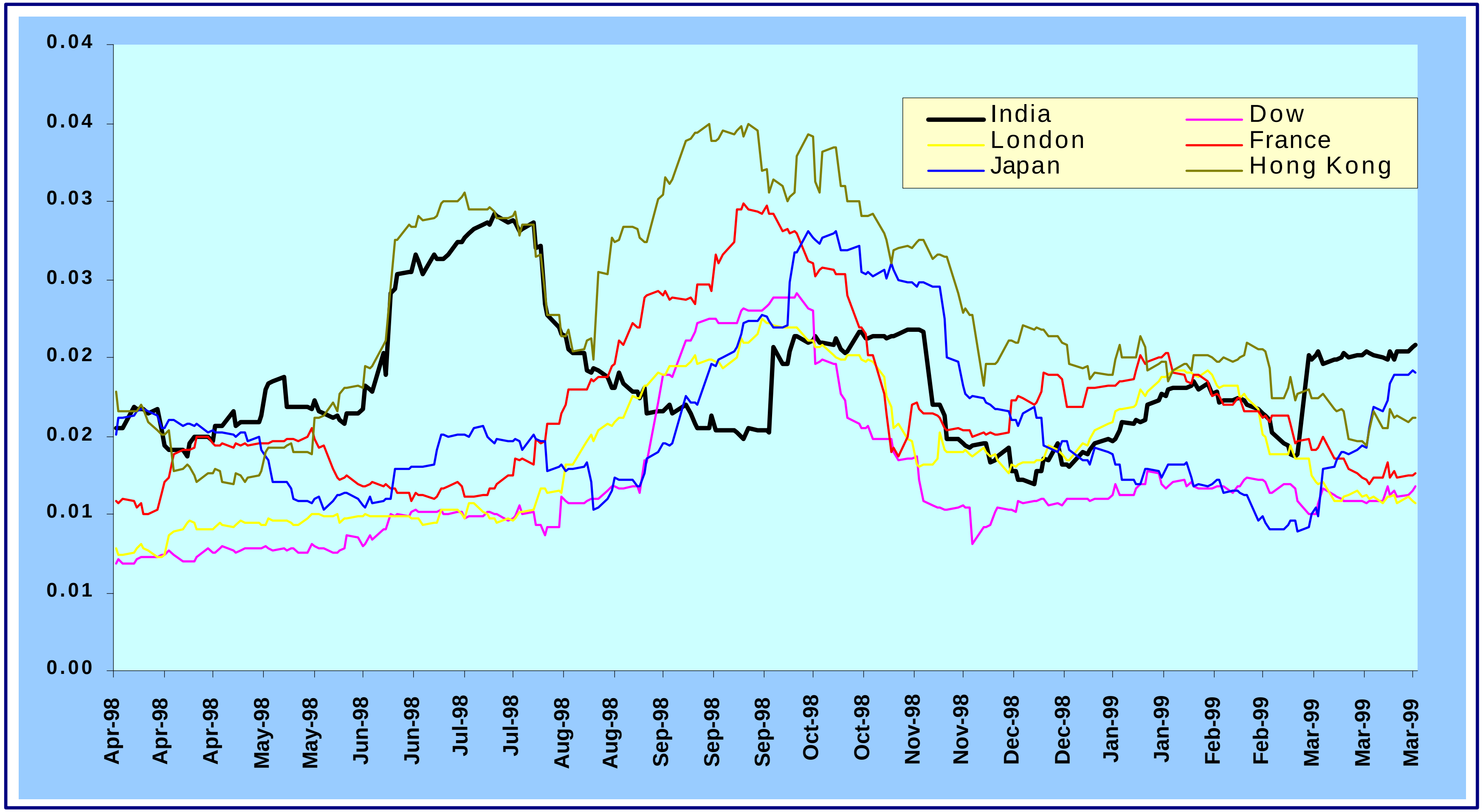
Equity volatility of India, the South East Asian countries and the Dow Jones (March 98 - April 99)♣



♣ *Source:- Bloomberg*

Annexure 1(b)

Equity Volatility of India and the Developed Countries (March 1998 April 1999)[♣]



[§] *Source:Bloomberg*

Annexure 2
Location and Composition of Seven Task Forces

MUMBAI

(i)	Regional Director. DCA, Mumbai	Convenor
(ii)	Registrar of Companies, Mumbai	
(iii)	Division Chief Level Officer from SEBI Mumbai as may be nominated by SEBI.	
(iv)	An Officer from Bombay Stock Exchange	

DELHI

(i)	Regional Director. DCA, Delhi	Convenor
(ii)	Registrar of Companies, Delhi	
(iii)	Regional Manager, NRO, SEBI.	
(iv)	Executive Director, Delhi Stock Exchange.	

CALCUTTA

(i)	Regional Director. DCA, Calcutta	Convenor
(ii)	Registrar of Companies, Calcutta	
(iii)	Regional Manager, ERO,SEBI.	
(iv)	Executive Director, Calcutta Stock Exchange.	

CHENNAI

(i)	Regional Director. DCA, Chennai	Convenor
(ii)	Registrar of Companies, Chennai	
(iii)	Regional Manager, SRO,SEBI.	
(iv)	Executive Director, Madras Stock Exchange.	

AHMEDABAD

(i)	Registrar of Companies, Ahmedabad	Convenor
(ii)	Divisional Chief Level Officer as may be nominated by SEBI	
(iii)	Executive Director, Ahmedabad Stock Exchange.	

BANGALORE

(i)	Registrar of Companies, Bangalore	Convenor
(ii)	Regional Manager, SRO,SEBI.	
(iii)	Executive Director, Bangalore Stock Exchange.	

HYDERABAD

(i)	Registrar of Companies, Hyderabad	Convenor
(ii)	Regional Manager, SRO,SEBI.	
(iii)	Executive Director, Hyderabad Stock Exchange.	

Annexure 3

Action Taken by the SEBI pursuant to investigation

S.N.	Name of the Intermediary and nature of action taken	Action Taken	Period	From	To
A)	**Suspension**				
	Stock Brokers				
1	***Atul Krishnakant Dalal***	***Suspended***	***2 years***	***27/04/1998***	***26/04/2000***
2	Pankaj N. Patel	Suspended	2 years	27/04/1998	26/04/2000
3	R.K. Dhamani	Suspended	2 months	13/04/1998	12/06/1998
4	Harjivandas Nemidas	Suspended	60 days	27/04/1998	25/06/1998
5	Ketan.B.Mehta	Suspended	60 days	27/04/1998	25/06/1998
6	S.J. Tibrewala	Suspended	60 days	27/04/1998	25/06/1998
7	U.M. Kamdar	Suspended	60 days	27/04/1998	25/06/1998
8	***Sri Pal Jain***	***Suspended***	***1 month***	***15/07/1998***	***14/08/1998***
9	***Pawan J. Chowdary***	***Suspended***	***1 month***	***15/07/1998***	***14/08/1998***
10	Darla N. Darla	Suspended	1 month	15/07/1998	14/08/1998
11	Pawan Kumar Jaipuria	Suspended	3 months	23/07/1998	22/10/1998
12	***Khandawala Finstock Pvt. Ltd.***	***Suspended***	***6 months***	***07/08/1998***	***06/02/1999***
13	Kailash Chand Badaya	Suspended	6 months	10/09/1998	09/03/1999
14	Sonthalia & Co.	Suspended	3 months	23/10/1998	22/01/1999
15	Paresh M Banker	Suspended	3 months	27/11/1998	26/02/1999
	Bankers to an Issue				
16	Punjab National Bank, Mahajan Gali Branch, Vadodara	Suspended	2 months	26/02/1999	25/04/1999
B)	**Warning issued**				
	Stock Brokers				
1.	B.N.Mehta	Warning			
2.	S.K.Jajoo	Warning			
3.	Madhukar Sheth	Warning			
4.	Sheth Sec. (P) Ltd.	Warning			
5.	Naresh Dua & Co.	Warning			
6.	S.J. Thacker	Warning			
7.	Ashok R Agarwal	Warning			
8.	Krishnaraj Securities	Warning			
9.	Nihar Securities	Warning			

10.	A Srinivasa Rao	Warning			
11.	ASSN Raju	Warning			
	Others				
12.	P Anand	Warning			
13.	D Srinivasa	Warning			
14.	Ramakumar & Co.	Warning			
15.	K Raj Kumar	Warning			
16.	Sunil Kumar V	Warning			
17.	Mallikarjuna VVS	Warning			
C)	**Refund of Issue Proceeds**				
	B) Issuers of securities				
1.	G.S.Organics Ltd.	Refund of issue proceeds			
2.	Yogiware Fabrics Ltd.	Refund of issue proceeds			
D)	**Directions issued under section 11 B**				
	Intermediaries/Non-intermediaries				
1. .	Mukut Shares & Stock Brokers (P) Ltd.	Debarred from dealing in securities.	5 years	15/07/1998	14/07/2003
2.	***Dimple Shah***	Debarred from dealing in securities.	5 years	15/07/1998	14/07/2003
3.	Hitesh Kamdar	Debarred from dealing in securities.	5 years	15/07/1998	14/07/2003
4.	Vijay M. Gandhi	Debarred from dealing in securities.	5 years	15/07/1998	14/07/2003
5.	Atul C. Doshi	Debarred from dealing in securities.	5 years	15/07/1998	14/07/2003
6.	Mithila Steel Ltd.	Debarred from accessing capital market.	2 years	25/06/1998	24/06/2000
7.	K.R.Maithil	Debarred from accessing capital market.	2 years	25/06/1998	24/06/2000
8.	N.K.Maithil	Debarred from accessing capital market.	2 years	25/06/1998	24/06/2000
9.	S.S.Sokhi	Debarred from accessing capital market.	2 years	25/06/1998	24/06/2000

10.	C.S.Shetty	Debarred from accessing capital market.	2 years	25/06/1998	24/06/2000
11.	Swadesh Bharadwaja	Debarred from accessing capital market.	2 years	25/06/1998	24/06/2000
12.	P.C.Soni	Debarred from accessing capital market.	2 years	25/06/1998	24/06/2000
13.	***Amrish Valia***	Debarred from dealing in securities.	***5 years***	***10/12/1998***	***09/12/2003***
14.	Rajan P. Mehta	Debarred from dealing in securities	***5 years***	***10/12/1998***	***09/12/2003***
15.	GNH Global Securities Ltd.	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
16.	***Satyanarayan Nangalia:***	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
17.	***R R Mohta***	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
18.	Sharukh N Tara & Co.	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
19.	***P R Shah Share & Stock Brokers Pvt. Ltd.***	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
20.	Ramrakh R Bohra	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
21.	Malar Shareshoppe Ltd.	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
22.	***Mahico Pvt. Ltd.***	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
23.	Mefcom Securities Ltd.	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998 / 04/11/1998	Till enquiry proceedings are over.
24.	Lalkar Securities Pvt. Ltd.	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
25.	***Harvest Deal Securities Pvt. Ltd.***	Prohibited from taking fresh broking activity.	Indefinite	02/11/1998	Till enquiry proceedings are over.
26.	***Bharat J Patel***	Prohibited from taking fresh broking activity	Indefinite	02/11/1998	Till enquiry proceedings are over.
27.	Sony Securities Ltd.	Prohibited from taking fresh broking activity.	Indefinite	04/11/1998	Till enquiry proceedings are over.

28.	Digital Leasing & Finance Ltd.	Prohibited from taking fresh broking activity.	Indefinite	04/11/1998	Till enquiry proceedings are over.
29.	***Valfin Financial Services Pvt. Ltd.***	Prohibited from taking fresh broking activity.	Indefinite	04/11/1998	Till enquiry proceedings are over.
30.	Stenly Credit Capital Ltd.	Prohibited from taking fresh broking activity.	Indefinite	04/11/1998	Till enquiry proceedings are over.
31.	Asian Securities & Stocks Ltd.	Prohibited from taking fresh broking activity.	Indefinite	04/11/1998	Till enquiry proceedings are over.
32.	***Star Share & Stock Brokers Ltd.***	Prohibited from taking fresh broking activity.	Indefinite	04/11/1998	Till enquiry proceedings are over.
33.	J C Parekh; President of BSE	Asked to relinquish the office of the President of BSE and made ineligible to hold any public position in future as a member of the governing board or the office bearer of the exchange as well as any capital market related public institution for a further period of 3 years.	3 years	23/03/1999	22/03/2002
34.	Babulal Agarwal	Prohibited from dealing in securities.	5 years	04/01/1999	03/01/2004
35.	***Ashwin L. Shah***	Prohibited from dealing in securities.	5 years	04/01/1999	03/01/2004
36.	Avinash Magan	1. Prohibited from dealing in securities. 2. Debarred from accessing capital market.	1. 5 years 2. 5 years	1. 04/01/1999 2. 01/12/1998	1. 03/01/2004 2. 30/11/2003
37.	Yogi Leasing & Finance Ltd.	Prohibited from dealing in securities.	5 years	04/01/1999	03/01/2004
38.	Vinod Doshi (Surbhi Stocks)	Debarred from dealing in securities market.	1 year	04/01/1999	03/01/2000
39.	Dhanpat Singh Bokharia (Bokharia Inv)	Debarred from dealing in securities market.	1 year	04/01/1999	03/01/2000
40.	***Prabha Bokharia (Unique Finance)***	Debarred from dealing in securities market.	1 year	04/01/1999	03/01/2000
41.	***Sampat Kumar Parekh (Brilliant Inv)***	Debarred from dealing in securities market.	1 year	04/01/1999	03/01/2000
42.	***Swito Finance & Estates Ltd.***	Debarred from dealing in securities market.	1 year	04/01/1999	03/01/2000

43.	Tatia Finance & Leasing Ltd.,(now Tatia Stock & Options Ltd.)	Debarred from dealing in securities market.	2 years	18/02/1999	17/02/2001
44.	Samal Stock Holding	Debarred from dealing in securities.	1 year	15/02/1999	14/02/2000
45.	Shailesh Thakkar	Debarred from dealing in securities.	1 year	15/02/1999	14/02/2000
46.	Kayoor Bakshi	Debarred from dealing in securities.	1 year	15/02/1999	14/02/2000
47.	Dynamic Electricals	Debarred from dealing in securities.	1 year	15/02/1999	14/02/2000
48.	Radhika Spinning Mills Ltd. & its promoters/directors	Debarred from accessing the capital market.	2 years	11/02/1999	10/02/2001
49.	Loggar Finance & Trading Ltd.	Debarred from accessing the capital market.	1 year	10/03/1999	09/03/2000
50.	***Kumar Shah***	Debarred from accessing the capital market.	1 year	10/03/1999	09/03/2000
51.	Kirti Bhai Shah	Debarred from accessing the capital market.	1 year	10/03/1999	09/03/2000
52.	***Yogi Pharmacy***	Debarred from accessing the capital market.	***5 years***	***01/12/1998***	***30/11/2003***
53.	***Atul Magan***	Debarred from accessing the capital market.	***5 years***	***01/12/1998***	***30/11/2003***
54.	K K Dhawan	Debarred from accessing the capital market.	***5 years***	***01/12/1998***	***30/11/2003***
55.	Presto Finance and other group companies	Debarred from accessing the capital market.	5 years	22/04/1998	21/04/2003
56.	Himanshu Patel	Debarred from accessing the capital market.	5 years	22/04/1998	21/04/2003
57.	Jayendra A Shah	Debarred from accessing the capital market.	5 years	22/04/1998	21/04/2003
58.	Prakash B. Vasa	Debarred from accessing the capital market.	5 years	22/04/1998	21/04/2003
59.	Hitendra Vasa	Debarred from accessing the capital market.	5 years	22/04/1998	21/04/2003
60.	Gujarat Rodrel group of companies	Debarred from accessing the capital market for subscription of money from investors by way of public issue.	5 years	17/04/1998	16/04/2003

61.	M J Trivedi	Debarred from accessing the capital market for subscription of money from investors by way of public issue.	5 years	17/04/1998	16/04/2003
62.	Manish Upadhya	Debarred from accessing the capital market for subscription of money from investors by way of public issue.	5 years	17/04/1998	16/04/2003

Annexure 4

Action taken by the SEBI pursuant to inspection of brokers

Sr.No.	Name Of The Intermediary - Broker	Action Taken	Period	From	To
1.	Deepak Bhogilal Shah	Suspended	6 months	18-Jan-99	17-Jul-99
2.	M.S. Chandrashekhar	Suspended	3 months	20-Nov-98	19-Feb-99
3.	Wyscare Securities Pvt. Ltd	Suspended	6 months	15-May-98	14-Nov-98
4.	Anjani Kumar Singh	Suspended	*	25-Aug-98	
5.	Bijay Tapuria	Suspended	3 months #	04-Aug-98	
6.	Pradipta Kumar Dash	Suspended	3 months #	04-Aug-98	
7.	Rakesh Rohit Maniar	Suspended	15 days	14-Dec-98	28-Dec-98
8.	Shrenik J. Shah	Suspended	4 months	01-Jan-99	30-Apr-99
9.	Shrenik Shah	Suspended	4 months	01-Jan-99	30-Apr-99
10.	Kardam Financial Services (P) Ltd.	Suspended	6 months	28-Dec-98	27-Jun-99
11.	Pawan Kumar Sultania	Suspended	2 months	05-Mar-99	04-May-99
12.	Pramod Kumar Kothari	Suspended	6 months	26-Feb-99	25-Aug-99
13.	V. Ramasamy	Suspended	3 months	15-Oct-98	14-Jan-99
14.	Vishwabharathi P. Ltd	Suspended	1 month	15-Oct-98	14-Nov-98
15.	Baldeo Das Lakhotia	Suspended	1 month	06-Jul-98	05-Aug-98
16.	Brisk Securities Ltd	Suspended	*	29-Jun-98	
17.	R.C.M. Broking Services Ltd.	Suspended	5 months	15-Jun-98	14-Nov-98
18.	Rakesh Relan	Suspended	1 month	29-Jun-98	28-Jul-98
19.	Yadav & Co.	Suspended	3 months	30-Jun-98	29-Sep-98
20.	Dwijendra Nath Hazarika	Suspended	6 months	23-Feb-99	22-Aug-99
21.	Kusum Kochar	Suspended	*	03-Aug-98	
22.	Padam Chand Jain	Suspended	6 months	09-Mar-99	08-Sep-99
23.	Venkateshwarlu Konduri	Suspended	6 months	15-Feb-99	14-Aug-99
24.	Praveen Ramawat	Suspended	6 months	31-Dec-98	30-Jun-99
25.	Sharad Kumar Jain	Suspended	6 months	07-Jan-99	06-Jul-99
26.	Surinder Singh Mehta	Suspended	1 month	24-Jun-98	23-Jul-98
27.	Veer Kumar Jain	Suspended	1 month	28-May-98	27-Jun-98
28.	Khem Kaur Gandhi	Suspended	3 months #	07-Sep-98	
29.	Anjan Kumar Tekriwal	Suspended	3 months # & ##	01-Sep-98	
30.	Bipin Jain	Suspended	3 months ##	28-Jul-98	
31.	Vallabh Bangur	Suspended	3 months # & ##	15-Sep-98	
32.	Nirupamaben Patel	Suspended	6 months	07-Jan-99	06-Jul-99
33.	Rakesh Kumar Agarwal	Suspended	6 months $	07-Jan-99	
34.	Shreyas Securities & Finance Ltd.	Suspended	6 months **	11-Feb-99	02-Jun-99
35.	Sureshchandra Agrawal	Suspended	6 months $	07-Jan-99	
36.	Chithira Krishna	Suspended	1 month $$	14-Jan-99	
37.	Sudhir R. Rathi	Suspended	6 months	12-Feb-99	11-Aug-99
38.	Hitesh Kanaiyalal Chotai	Suspended	6 months	08-Jan-99	07-Jul-99

39.	Kishor L. Kadvani	Suspended	6 months	12-Feb-99	11-Aug-99
40.	Rajchandra H. Kothari	Suspended	6 months	02-Apr-99	01-Oct-99
41.	Amar Nath Khetan	Suspended	2 months	09-Mar-99	08-May-99
42.	Arun Goel	Suspended	3 months	09-Feb-99	08-May-99
43.	B. N. Kakkar	Suspended	2 months	19-Jan-99	18-Mar-99
44.	Devendra Kumar Tandon	Suspended	2 months	18-May-99	17-Jul-99
45.	Dilip Kumar Gupta	Suspended	3 months	19-Nov-98	18-Feb-99
46.	Ghanshyam Dwivedi	Suspended	3 months	09-Feb-99	08-May-99
47.	Harvinder Singh	Suspended	2 months	09-Mar-99	08-May-99
48.	Krishan Mohan Shukla	Suspended	2 months	09-Mar-99	08-May-99
49.	Mangi Lal Bothra	Suspended	2 months	02-Feb-99	01-Apr-99
50.	Manjeet Singh Sethi	Suspended	2 months	27-Jan-99	26-Mar-99
51.	Mohan Lal Bansal	Suspended	2 months	02-Feb-99	01-Apr-99
52.	Nikhil Securities Ltd.	Suspended	3 months	12-Jan-99	11-Apr-99
53.	P. K. Jain	Suspended	2 months	19-Jan-99	18-Mar-99
54.	Praveen Bajaj	Suspended	2 months	27-Jan-99	26-Mar-99
55.	Radha Krishna Garg	Suspended	2 months	22-Dec-98	21-Feb-99
56.	Sanjiv Kumar Tewari	Suspended	3 months	08-Dec-98	07-Mar-99
57.	Sarvan Kumar Agarwal	Suspended	3 months	02-Mar-99	01-Jun-99
58.	Shiv Darshan Agrawal	Suspended	3 months	18-May-99	17-Aug-99
59.	Sudhir Agarwal & Sanjeev Agarwal	Suspended	2 months	09-Mar-99	08-May-99
60.	T. N. Bansal	Suspended	3 months	30-Mar-99	29-Jun-99
61.	Vikalp Securities Ltd.	Suspended	2 months	19-Jan-99	18-Mar-99
62.	Vinod Kumar	Suspended	2 months	30-Mar-99	29-May-99
63.	Virendra Chandra Gupta	Suspended	3 months	23-Feb-99	22-May-99
64.	Harish C. Thakkar	Suspended	3 months	15-Oct-98	14-Jan-99
65.	Keshavdev Madanlal Nemani	Cancelled		16-Nov-98	
66.	N. George Paul	Cancelled		16-Nov-98	
67.	Krishna Kumar Jalan	Cancelled		04-Mar-99	
68.	Gujarat Shares & Securities (P) Ltd.	Cancelled		22-Dec-98	
69.	NRI Financial Services Ltd.	Cancelled		13-Nov-98	
70.	Sanjay Kumar Talwar	Cancelled		14-Jan-99	

**   Suspension till SEBI fees are paid.*
*** Suspended by SEBI for 6 months later reduced to 4 months by the Apellate Authority calculated from the date of SEBI's order date i.e. 02-02-99.*
 #   or till SEBI fees are paid, whichever is later.
or till the captial adequacy requirment is fulfilled, whichever is later.
$ or till the broker produces his books for inspection.
$$ or till the broker redresses the complaints.
The suspension period of Sr. No. 9 & 10 are running concurrently.
Sr. No. 17 - The broker has been suspended in the name of M/s ABS Share & Stock Brokers Ltd.
Sr. No. 49 - The order has been suspended in the name of M/s D. K. Tandon Securities Pvt. Ltd.
Sr. No. 58 - The broker has been suspended in the name of M/s J. V. Stock Broking P. Ltd.
Sr. No. 64 - The broker has been suspended in the name of M/s Agrawal Share & Stock Broker P. Ltd.

Annexure 5

Action taken by the SEBI against Merchant Bankers during 1998-99

Sr.No.	Name Of The Mb	Cat	Reason For Inquiry	Action Taken	Period From	Period Till
1	21st Century Mgnt Ser Ltd	I	Lack Of Due Diligence	Suspension Of Registration	31-Aug-98	30-Nov-98
2	Abhishek Mahashwari	IV	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	31-Jul-98
3	Alaska Capital Markets Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	20-Sep-98	30-Nov-98
4	Alchemie Financial Services Ltd	III	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	30-Jun-99
5	American Fiscal Services Ltd	III	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	30-Sep-98
6	Apeksha Securities Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	31-May-99
7	Baheti Bhadada And Associates	IV	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	31-Oct-98
8	Betala Global Sec Ltd	II	Non Payment Of Fees.	Suspension Of Registration	23-Jul-98	15-Jan-99
9	Bharat Rasayan Finance Ltd	II	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	15-Jun-99
10	Bodhi Mgnt And Inv Pvt Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	15-Jun-98	31-Jul-99
11	Brijlaxmi Lsg And Fin Ltd	III	Non Payment Of Fees.	Suspension Of Registration	17-Jul-98	31-Oct-98
12	Brilliant Industries Ltd	I	Non Fulfilment Of Underwriting Devolvement'	Suspension Of Registration	13-Aug-98	12-Sep-98
13	Chandravijay Shah And Company Ltd.	IV	Non Payment Of Fees.	Suspension Of Registration	14-May-98	15-May-99
14	Chemox Securities Ltd	I	Non Payment Of Fees.	Suspension Of Registration	19-Jun-98	15-Feb-99
15	Clarity Fin Ser Ltd	II	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	15-Dec-98
16	Classwin Credit Capital Ltd	III	Non Payment Of Fees.	Suspension Of Registration	14-Aug-98	30-Nov-98

17	Consolidated Capital Fin Ltd	II	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	15-Apr-99
18	Cost Plus Financial Ser Ltd	II	Non Payment Of Fees.	Suspension Of Registration	08-Sep-98	31 Sep 98
19	Eider Financial Ser Ltd	II	Non Payment Of Fees.	Suspension Of Registration	08-Sep-98	31-Jul-99
20	Ficom Project Tech Pvt Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	05-Jun-98	31-Dec-98
21	Fiscal Ltd	II	Non Payment Of Fees.	Suspension Of Registration	10-Aug-98	28-Feb-99
22	Gateway Capital Mgnt Pt Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	19-Jun-98	15-Sep-99
23	Gazi Securities Ltd	I	Non Payment Of Fees.	Suspension Of Registration	13-Aug-98	31-Jan-99
24	Gujarat Fiscon Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	13-Aug-98	15-Aug-99
25	Indo Pacific Securities Ltd	III	Non Payment Of Fees.	Suspension Of Registration	12-Aug-98	15-Sep-98
26	J J Chaudhari	IV	Non Payment Of Fees.	Suspension Of Registration	04-May-98	15-Dec-98
27	Krishna Murari Aggarwal	IV	Non Payment Of Fees.	Suspension Of Registration	17-Jun-98	31-May-99
28	Lead Financial Services	III	Non Payment Of Fees & Non Submission Of Emp Database	Suspension Of Registration	10-Aug-98	15-Aug-98
29	Lks Murthy Inv And Fin Con P Ltd	II	Non Payment Of Fees.	Suspension Of Registration	20-Aug-98	15-Jan-99
30	M & V Associates	IV	Non Payment Of Fees.	Suspension Of Registration	19-Jun-98	30-Jun-99
31	Magma Leasing Ltd	I	Non Payment Of Fees.	Suspension Of Registration	25-Aug-98	30-Nov-98
32	Manish Dalal	IV	Non Payment Of Fees.	Suspension Of Registration	04-May-98	15-Jun-98
33	Mukta Finvest	IV	Non Payment Of Fees.	Suspension Of Registration	04-May-98	31-May-99

34	Naren V Seth	IV	Non Payment Of Fees.	Suspension Of Registration	22-Sep-98	31-Dec-98
35	NCJ International Ltd	II	Non Compliance Of Underwriting Obligations.	Suspension Of Registration	24-Apr-98	15-Nov-98
36	Numero Uno Finance Ltd	II	Non Payment Of Fees.	Suspension Of Registration	09-Feb-98	15-Dec-98
37	Olympic Mgnt. And Fin Ser Ltd	II	Non Payment Of Fees.	Suspension Of Registration	22-Jul-98	30-Nov-99
38	Pact Sec Ltd	II	Non Payment Of Fees.	Suspension Of Registration	09-Sep-98	31-May-99
39	Pearl Corporate Fin Ser P Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	27-Jul-98	31-May-99
40	Pegasus Capital & Allied Ser Ltd	II	Non Payment Of Fees.	Suspension Of Registration	27-Jul-98	31-Dec-99
41	Premium International Fin Ltd	I	Non Payment Of Fees.	Suspension Of Registration	27-Jul-98	31-May-99
42	Prudential Capital Markets	I	Non Payment Of Fees.	Suspension Of Registration	09-Sep-98	14-Feb-99
43	Realgrowth Fin Ser Ltd	II	Non Payment Of Fees.	Suspension Of Registration	27-Jul-98	15-Dec-98
44	Regency Trust Ltd	II	Non Payment Of Fees.	Suspension Of Registration	08-Sep-98	15-Jan-99
45	Right Corporate Ser Ltd	III	Non Payment Of Fees.	Suspension Of Registration	27-Jul-98	31-Aug-98
46	Rockland Leasing Ltd	I	Non Compliance Of Underwriting Obligations.	Suspension Of Registration	23-Mar-99	15-Oct-99
47	Rubicon Securities Ltd	II	Non Payment Of Fees.	Suspension Of Registration	13-Aug-98	31-Mar-99
48	Sajjan Kanoria & Co.	IV	Non Payment Of Fees.	Suspension Of Registration	10-Jun-98	15-Dec-98
49	Saralaya Finance	III	Non Payment Of Fees.	Suspension Of Registration	23-Jul-98	15-Aug-98
50	TDS Securities Ltd	III	Non Payment Of Fees.	Suspension Of Registration	08-Jun-98	15-Apr-99

51	Tedco Inv And Fin Ltd	II	Non Payment Of Fees.	Suspension Of Registration	24-Jun-98	31-Jul-99
52	Time Guard Financial Ser Ltd	II	Non Payment Of Fees.	Suspension Of Registration	04-Aug-98	15-Mar-99
53	Titan Securities Ltd	I	Non Payment Of Fees.	Suspension Of Registration	29-Sep-98	28-Feb-99
54	Transcorp Finance Ltd	I	Non Payment Of Fees.	Suspension Of Registration	25-Jun-98	30-Jun-99
55	Usher Financial Ltd	IV	Non Payment Of Fees.	Suspension Of Registration	27-Jul-98	31-May-99
56	Volex Finance & Ind. Ltd	I	Non Payment Of Fees.	Suspension Of Registration	09-Sep-98	31-Mar-99
57	XS Financial Services Ltd	II	Non Payment Of Fees.	Suspension Of Registration	08-Sep-98	15-Jan-99
58	Zuari Finance Ltd	II	Non Payment Of Fees.	Suspension Of Registration	08-Sep-98	30-Sep-98
59	Brisk Capital Services Ltd	I	Non Submission Of Emp. Database	Cancellation Of Regn.	05-Aug-98	31-Jan-99
60	Gujarat Capital Ventures Ltd	I	Non Submission Of Emp. Database	Cancellation Of Regn.	02-Sep-98	15-Jan-99
61	Hoffland Finance	II	Serious Violations Committed By Merchant Bankers.	Cancellation Of Regn.	09-Sep-98	15-Feb-99
62	Madhumilan Fincorp Ltd.	I	Non Payment Of Fees For Theyear 1997-98.	Cancellation Of Regn.	15-Jun-98	30-Apr-99
63	Maruti Securities Ltd	I	Non Payment Of Fees For Theyear 1996-97	Cancellation Of Regn.	10-Jul-98	28-Feb-99
64	Nath Capital And Financial Ser Ltd	I	Non Payment Of Fees And Non Sub Of Emp.Database	Cancellation Of Regn.	12-Aug-98	15-Oct-98
65	Radico Khaitan Finance Ltd	I	Non Submission Of Emp. Database	Cancellation Of Regn.	09-Sep-98	31-May-99
66	Suraj Securities And Finance Ltd	I	Not Recd. Reply To Our Show Cause	Cancellation Of Regn.	01-Apr-98	31-Aug-99