**PART I**

**POLICIES AND PROGRAMMES**

This Annual Report of the Securities and Exchange Board of India (SEBI) presents a review of the policies and programmes of the SEBI, its working and operations during the financial year, 1999-2000. The Report gives an account of the operations of the SEBI and describes 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 provides details of the developments in Indian securities market 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.

The SEBI envisions a market, which is modern in infrastructure and international best practices, efficient, safe, investor friendly and globally competitive. The SEBI has been continuously directing its efforts to achieve this vision in fulfillment of the twin objectives of investor protection and market development as mandated by the SEBI Act, 1992. The SEBI as a statutory body, throughout its eight-year existence has sought to balance these two objectives by constantly reviewing and assessing its policies and programmes, initiating new guidelines and crafting new regulations to nurture areas hitherto unregulated and underdeveloped and to ensure growth, integration and consolidation of market so that they can contribute to the process of capital formation in the economy.

During 1999-2000, the focus of SEBI's activities has been on:

- increasing market transparency through further improvement of disclosure standards
- raising the standards of corporate governance
- improving market efficiency by speeding up the process of dematerialisation and introducing rolling settlement in a phased manner
- reducing transaction cost by refining the margin system
- enhancing the market safety through an efficient margin system and stepping up surveillance

The major reforms and developments in the securities market during 1999-2000 are given in Box 1.1

**Box 1.1: Major Policy Reforms and Developments in the Securities**

**Markets During 1999-2000**

*Streamlining of the Disclosure and Investor Protection Guidelines*

- The entry point norms for Initial Public Offer (IPO) which form a part of the Disclosure and Investor Protection Guidelines (DIP) relaxed for companies in the Information Technology (IT) sector to enable these companies to list their shares by making public offer of 10 per cent of post issue capital instead of 25 per cent for other sectors, subject to requirements of minimum number of 20 lakh securities and minimum net offer value of Rs.30 crore. This will encourage IT companies to come to the market.
- The requirement of "ability to pay dividend" substituted for "actual payment of

dividend", in the entry point norms for public offers. This will further strengthen the guidelines.
- The DIP guidelines made common for all Initial Public Offers (IPOs) made common in the wake of abolishing of the concept of fixed par value. This will help streamline the guidelines.

Employee Stock Options Scheme

- The revised guidelines for employees stocks options schemes based on recommendations of committee appointed by the SEBI under J. R. Varma were implemented.

*Book-Building*

- The issuers given the option to build either by 90 per cent of the net offer to the public or 75 per cent of the net offer to the public. The balance issue to be offered to the public at the fixed price determined through book-building exercise. This procedure is in line with the international practices and will aid price discovery and streamline the process of book-building.
- The 15 per cent reservation for individual investors bidding up to 10 marketable lots, merged with 10 per cent at fixed price offer. This will further streamline the process of book-building.

*Credit Rating Agencies (CRAs)*

- The regulations for CRAs notified. This will bring the CRAs under a regulatory framework for the first time.

*Collective Investment Schemes (CIS)*

- The Securities Law (Amendment) Bill, 1999 was passed by the Parliament facilitating the regulation of Collective Investment Schemes (CIS) and expanding the definition of securities to include units of CIS. This will help the SEBI to regulate the CIS and protect the interest of investors in these schemes.

- Several other measures earlier taken by the SEBI to protect investors included :

- the issue of advertisements to warn investors of danger of investing in unregulated CIS and to notify all CIS that their registration of all CIS with the SEBI is mandatory and
- allowing the launching of new CIS schemes only after obtaining the rating from a CRA.

*Market Making*

- Following the acceptance of the recommendations of the Committee on Market Making appointed by the SEBI, guidelines were issued to the stock exchanges to allow brokers to take up market making activity in shares of a company where the average number of trades is more than 50 and the value of trade on daily basis is more than Rs.10 lakh.

*Marketing Initial Public Offer (IPO) through Secondary Market*

- The facility of marketing IPOs through the use of the available infrastructure of stock exchanges permitted by the SEBI to be introduced by the stock exchanges. This will help reduce issue and distribution costs for public issues, reduce delays and speed up allotment.

*Internet Trading*

- Internet trading under order routing system permitted for the first time in a limited way through registered stock brokers on behalf of clients for execution of trades on recognized stock exchanges. This will further modernize the trading system.

*Negotiated Deals*

- The long prevalent system of negotiated deals on the stock exchanges (i.e. any transaction which either has a value of Rs 25 lakh / the traded volume is not less than 10,000 shares) which were non transparent and had become the source of much abuse was abolished by the SEBI, and guidelines issued by the SEBI permitting such deals only if they are executed on the on the screen on the price and order matching system of the exchanges, like any other deal. This will introduce transparency and price discovery in negotiated deals and protect better the investors.

*Rolling Settlement*

- Phased programme of T+5 rolling settlement introduced for the first time, in 10 scrips from January 10, 2000, and another 34 scrips from March 21, 2000 after shortlisting the scrips on the basis of the criteria that these scrips should be on the list for compulsory dematerialised trading and have a daily turn over of about Rs 1 crore and above. This important measure will increase the efficiency of market microstructure

*Measures For Safety And Stability In Stock Market*

- The existing margin system further refined and strengthened to enhance the safety of the market.

Dematerialisation of Shares

- The list of scrips to be traded compulsorily in dematerialised form by institutional investors increased in phases to 462 by the end of the financial year and further announcement made for increasing the list to 985 by June 26, 2000; a similar list of scrips for all investors increased to 260 by the end of the year and announced to be increased to 579 by June 26, 2000.
- Procedures for processing of dematerialised requests and opening of accounts for beneficial owners by the depository participants streamlined and facility of simultaneous transfer and dematerialisation introduced.

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- *Share transfer agents allowed to act as depository participants.*
- *The ceiling on the value of the portfolio of securities held in custody by the broker depository participants increased to 100 times the net worth of the broker.*
- *'No delivery period' for scrips under compulsory dematerialised form by all investors reduced to one week.*
- *Additional measures taken to enhance the safety standards of the depository system.*
- *Trading of new IPOs compulsorily in denmaterialised form by all investors immediately upon listing.*

*Corporate Governance*

- A Committee was appointed by the SEBI under the chairmanship of Shri Kumar Mangalam Birla, member SEBI Board, to enhance the standard of corporate governance. The draft Report of the Committee was widely circulated and deliberated. The recommendations were accepted by the SEBI Board and implemented by the SEBI through the amendment of the listing agreement of the stock exchanges. The recommendations applicable first to all the listed companies which are included either in group A of the BSE and in S&P CNX Nifty index as on January 1, 2000 to be completed by March 31, 2001 and in the subsequent years to other companies in a phased manner. This will substantially enhance the standard of corporate governance in India.

*Financial Disclosure*

- The cash flow statement as per the listing agreement required to be mandatorily prepared in accordance with the relevant accounting standard.
- Additional disclosures to be made in the unaudited financial quarterly results of the companies to make these more transparent and meaningful.
- Limited review by auditors for half -yearly results.
- Prior intimation about Board Meeting at which declaration of dividend is considered to be made at least seven days in advance.
- Announcement by the companies on dividend, rights etc. to be made only after the close of the market hours to avoid excessive volatility in stock prices.

*Listing of debt before equity*

- Listing of debt securities relating to infrastructure and municipal corporation allowed before equity, subject to the condition that the debt instrument is rated not below a minimum rating of 'A' or equivalent thereof.

*Foreign Institutional Investors (FIIs)*

- FIIs allowed to directly participate in the public offer in takeover and buy-back offer of companies.
- Foreign corporate or high networth individual investors allowed to invest as sub-account to widen the base of FIIs provided provident investment does not exceed 5 per cent of total issued capital of company.

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*Mutual Funds*

- *Investment by Mutual Funds in the equity shares or equity related instruments of a single company in a single scheme restricted to 10 per cent of the NAV of the scheme and investment in index schemes to 15 per cent of NAV of the scheme to allow for diversification of investments by mutual funds. The limits can be extended to 25 per cent of the NAV of the scheme with the prior approval of the board of the asset management company and board of trustees.*
- *Investment in unlisted shares by mutual funds not to exceed of 10 per cent of the NAV of a scheme, in case of close ended scheme and 5 per cent of the NAV of the scheme in case of open-ended schemes.'*
- *Investments by mutual funds in debt instruments issued by a single issuer which are rated not below investment grade restricted to 15 per cent of a scheme, but could be extended to 20 per cent with the prior approval of the boards of the asset management company and trustees. Investment in un-rated debt instrument of a single issuer in a scheme restricted to 10 per cent of the NAV of the scheme which could be increased to 25 per cent of NAV subject to approval of the boards of the asset management company and trustees*

- *Following the recommendations of the P K Kaul Committee which were accepted by the SEBI Board , the tustees of mutual funds required to file the details of his transaction relating to buying and selling of securities with the mutual fund on a quarterly basis and due diligence is required to be carried out by the trustees in fulfilment of the various obligations as required under the regulations*

*Venture Capital Funds*

- *The recommendations of the Committee appointed by SEBI under the chairmanship of Shri Chandrashekhar, for developing the venture capital industry, were accepted by the SEBI Board. These recommendations would go a long way in helping the growth venture capital in India.*

The measures enumerated above and also those elaborated later in the report enabled the SEBI to accomplish and achieve the targets set by it to fulfill its statutory obligations to develop and regulate the securities market and protect the investors. Besides, with the maturity of the regulatory framework and stepped up market surveillance, the market has also 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. This has been possible because of the prudential macro-economic policies of the country, proper management of change and effective regulatory system.

In its Annual Report for 1998-99, the SEBI had set certain targets to be achieved in the short and the medium term. The achievements of the SEBI during the year under review measured against the targets set out in the previous Annual Report of the SEBI are presented in *(Table 1.1)*.

**Table 1.1 Targets and Achievements**

| **Targets set out in the Annual Report of 1998-99** | **Achievements** |
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| 1. To enhance the level of corporate governance | The SEBI set up a committee under the Chairmanship of Shri Kumar Mangalam Birla on corporate governance. The report was widely commented upon and approved by the SEBI Board. The SEBI had already implemented some of the norms related to corporate governance such as disclosure norms for IPOs, presentation of information on utilisation and end-use of funds, statement on cash flow in balance sheet, declaration of unaudited quarterly results etc. |
| • To raise accounting standards of firms and intermediaries | The SEBI appointed a committee under the Chairmanship of Y H Malegam to review the continuous disclosures on accounting standards. The recommendations of the committee are being implemented. |

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| • To increase the effectiveness of monitoring and surveillance of the markets by introduction of various measures including the wider stock watch system in exchanges. | This has been implemented and the stock watch system has been upgraded in the major stock exchanges. |
| • To further accelerate dematerialisation and dematerialised trading | The SEBI took various measures for speeding up dematerialisation of scrips and increased the scope of dematerialised trading. The number of scrips for compulsory trading for institutional investors would be 462 and 260 for all investors by March 31, 2000. |
| • To introduce derivative trading in a phased manner after the necessary amendment in the Securities Contracts (Regulation) Act | The Parliament has passed the SC(R) A amendment bill to include derivatives in the definition of 'securities'. The other infrastructure is already in place to start trading in derivatives soon. |
| • To further reduce the "no delivery" period on the stock exchanges | This has been implemented and the necessary directive issued to the stock exchanges. |
| • To have uniform by-laws for stock exchanges | The SEBI has appointed a committee on uniform by-laws for stock exchanges. The report is to be submitted by end-June 2000. |

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| • To introduce rolling settlement in a phased manner | Rolling settlement has been introduced in a phased manner for dematerialised shares with effect form January 10, 2000 for 10 scrips. The list was expanded to include another 34 scrips from March 21, 2000. |
| • To promote stock lending | The SEBI has given approval to 6 intermediaries to act as stock lenders. The securities lending is expected to pick up as more scrips will be added to the list of rolling settlement. |
| • To introduce trading in unlisted securities on the OTCEI | The SEBI Board has already approved the proposal of OTCEI and it is being implemented. |
| • To take steps to reduce transaction costs in the market | Promotion of dematerialisation of scrips and market making are measures taken by the SEBI to help reduce transaction cost. SEBI is also in the process of rationalization of the margin system. which help in reducing the transaction cost. |
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| • To notify regulations for Credit Rating Agencies (CRAs) | The report on CRAs was approved and the regulations framed by the SEBI have been notified to the CRAs. |
| • To notify regulations for collective investment schemes | The regulations have been notified. |
| • To take steps for activating trading in debt securities | SEBI has abolished negotiated deals for corporate debt securities to encourage secondary debt trading. The notification by the government on the regulatory jurisdictions of the RBI and SEBI will also help the development of debt market. The Government has also abolished stamp duty on dematerilised debt instruments. |
| • 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 | The recommendations of PK Kaul Committee report were accepted by the SEBI Board and notifications were issued by the SEBI. |
| • To further enhance the disclosure requirements for issue of capital | The SEBI has strengthened disclosure norms for IPOs following the recommendations of the Malegam Committee. |

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| • To further streamline systems and procedures for issue of capital | The SEBI has introduced marketing of IPOs through the secondary market by using the existing infrastructure of stock exchanges presently being used for secondary market transaction. The SEBI has dispensed with the requirement of fixed par value system and gave freedom to companies to issue share in any denomination but not below Re.1. |
| • To refine the system of book-building | The SEBI has introduced revised mechanism for book-building through 100 per cent route. The reservation of 15 per cent of issue size for individual investors now may be offered to the public at fixed price as determined through book building. The allotment in the book-built portion shall be in dematerilaised form. |
| • To notify regulations for sweat equity | The Report of the Committee awaited. |
| • To implement the report on market making and to promote market making | The recommendations of report on market making have been accepted by the SEBI and guidelines have been |

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| | issued to the stock exchanges. |
| • To rationalise margining system further | Process of rationalisation is under progress to reduce the layers of margins and some measures have already been taken. Risk management group is being set up. |
| • To introduce a system for public issues through secondary market route to speed up the issue process and reduce issue costs | The Board has approved and it is being implemented. |
| • To help develop venture capital in the country | SEBI had appointed a Venture Capital Committee under K. B. Chndrashekhar of Exodus Communications. The Committee recommendations are widely accepted. Finance Minister in his Budget Speech had announced that SEBI would be single point nodal regulator for both domestic and overseas venture capital funds. Further, complete tax pass through would be provided to SEBI registered venture capital funds. Other recommendations of the Committee are under consideration for implementation. |
| • To implement recommendations of the Dhanuka Committee in consultation with the Government | The Report was submitted to the Government. |
| *Source : SEBI* | |