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 percent of post issue capital instead of 25 percent 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 percent of the net offer to the public or 75 percent 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 percent reservation for individual investors bidding up to 10 marketable lots, merged with 10 percent 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.

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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 turnover 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 participant 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 net worth 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 PK Kaul Committee which were accepted by the SEBI Board, the trustees 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
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.
2. 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.
3. 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.
4. 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.
5. 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.
6. To further reduce the "no delivery" period on the stock exchanges	This has been implemented and the necessary directive issued to the stock exchanges.
7. 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.

8.	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.
9.	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.
10.	To introduce trading in unlisted securities on the OTCEI	The SEBI Board has already approved the proposal of OTCEI and it is being implemented.
11.	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.
12.	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.
13.	To notify regulations for collective investment schemes	The regulations have been notified.
14.	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.
15.	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 interests 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.
16.	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.

17. To further streamline the 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.
18. 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 dematerialised form.
19. To notify regulations for sweat equity	The Report of the Committee awaited.
20. 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 issued to the stock exchanges.
21. 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.
22. 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.
23. To help develop venture capital in the country	SEBI had appointed a Venture Capital Committee under K. B. Chandrashekhar 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.
24. To implement recommendations of the Dhanuka Committee in consultation with the Government	The Report was submitted to the Government

Source : SEBI

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

General Economic Environment

The real GDP growth based on 1993-94 prices, was estimated at 6.4 per cent in 1999-2000. In 1998-99 it was 6.8 percent. Deterioration in the performance of agriculture sector largely accounted for the decline in the growth rate of the economy. However the industrial output emerged out the sluggish trend of the preceding year and recovery appeared to be underway. An important aspect of the industrial growth, which would have an impact on the capital market, was the increase in the output of manufacturing sector by 9.3 per cent which was more than double the growth achieved in the previous year (4.3 per cent). A further analysis shows that intermediate and consumer goods industries accelerated their growth to 15.2 per cent and 5.9 per cent, respectively, from that of 5.9 per cent and 2.4 per cent during 1998-99. The decline in growth of production of capital goods and lower increase in the imports of the capital goods indicate existence of investment pessimism in the real sector. A striking feature of growth of GDP is the continuous increase in the share of services sector which contributed nearly 52 per cent to it leading to recognition that India has been moving to a services based growth.

Table 1.2 Saving Rates (as a percent of) GDP at Current Market Prices

	1993-94	1994-95	1995-96	1996-97	1997-98 (P)	1998-99 (Q)
Gross Domestic Saving	22.5	25.0	25.5	23.3	24.7	22.3
Public	0.6	1.7	2.0	1.7	1.4	0.0
Private	21.9	23.3	23.4	21.6	23.3	22.3
(i) Household sector	18.4	19.8	18.5	17.1	19.0	18.5
(a) Financial savings	11.0	12.0	8.9	10.4	10.4	10.9
(b)Physical savings	7.4	7.8	9.6	6.7	8.6	7.6
Gross Domestic Investment*	23.1	26.1	27.2	24.6	26.2	23.4
Public	8.2	8.8	7.6	7.0	6.7	6.6
Private	13.0	14.8	18.9	14.9	16.7	15.2
Gross Domestic Investment*	23.1	26.1	27.2	24.6	26.2	23.4
GFCF	21.4	22.0	24.6	23.0	22.7	21.4
Change in stocks	-0.2	1.6	1.9	-1.2	0.7	0.4
Saving-Investment Gap @	-0.6	-1.2	-1.8	-1.3	-1.5	-1.0
Public	-7.6	-7.1	-5.6	-5.3	-5.3	-6.6
Private	8.9	8.5	4.5	6.7	6.6	7.1

Note: (i) Gross domestic investment denotes gross domestic capital formation (GDCF)
(ii) Figures may not add up due to rounding off
* : adjusted for errors and omissions;
@ : refers to the difference between the rates of savings and investment
GFCF: Gross fixed capital formation;
P : Provisional estimates; Q : Quick estimates

Source: Economic Survey, 1999-2000

In 1998-99 domestic savings deteriorated to 22.3 per cent from 24.7 per cent in the previous year. This raises concern about the availability of financial resources for maintaining the investment prospects in the economy. The decline in saving rate has been on account of deceleration in the saving rate of almost all the sectors viz. households, private corporate and government. The saving rate of government sector was almost zero. This has contributed to fall in gross domestic investment from 26.2 per cent in 1997-98 to 23.4 per cent in 1998-99 (Table 1.2).

The distribution of households' financial savings among various financial instruments brings out the relative importance of securities market as an investment option for the households(Table 1.3). The instrument-wise distribution of households financial savings depicts that the share of households saving in the form of shares and debentures in their total financial savings, had increased from 2.1 per cent in 1997-98 to 2.4 per cent in 1998-99. On the other hand, the share of bank deposits decreased from 44.5 per cent to 36.9 per cent. Investment in the units of UTI did not show any improvement from 0.3 per cent in 1997-98. It is interesting to note that there has been a spurt in deposits of households with non-banking companies' from 4.4 per cent in 1997-98 to 7.4 per cent in 1998-99. The high growth of funds mobilised by the mutual funds has generated possibility of increase in investment in shares and debentures pushing up the their share in households financial savings in 1999-2000 (Table 1.3).

Developments on external front are very important as far as the capital market is concerned. According to provisional data, net FIIs inflows showed an increase of US$2.1 billion whereas FDIs inflows stood at US$2.17 billion during 1999-2000. The balance of payment data reflected an overall balance surplus of US$ 6.4 billion during 1999-2000.

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

Item	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98P	1998-99$
Savings (Gross) of the Household Sector in Financial Assets of which	80,387	109,485	145,381	124,986	157,424	178,576	207,841
Currency	6,562	13,367	15,916	16,525	13,643	12,780	22,131
	(8.2)	(12.2)	(10.9)	(13.2)	(8.7)	(7.2)	(10.6)
Bank Deposits #	29,550	36,200	55,834	39,995	57,367	79,514	76,590
	(36.8)	(33.1)	(38.4)	(32.0)	(36.4)	(44.5)	(36.9)
Non-banking Deposits	6,035	11,654	11,547	13,198	21,411	7,775	15,376
	(7.5)	(10.6)	(7.9)	(10.6)	(13.6)	(4.4)	(7.4)
Life Insurance Fund**	7,114	9,548	11,370	13,894	16,188	19,431	22,766
	(8.8)	(8.7)	(7.8)	(11.1)	(10.3)	(10.9)	(11.0)
Provident and Pension Fund	14,814	18,226	21,295	22,292	26,248	32,808	38,742
	(18.4)	(16.6)	(14.6)	(17.8)	(16.7)	(18.4)	(18.6)
Claims on Government+	3,885	6,908	13,186	9,588	11,701	22,164	27,004
	(4.8)	(6.3)	(9.1)	(7.7)	(7.4)	(12.4)	(13.0)
Shares and Debentures ++	8,212	10,067	13,474	8,839	6,696	3,777	4,935
	(10.2)	(9.2)	(9.3)	(7.1)	(4.3)	(2.1)	(2.4)
Units of Unit Trust of India	5,612	4,705	3,908	262	3,776	595	565
	(7.0)	(4.3)	(2.7)	(0.2)	(2.4)	(0.3)	(0.3)

Due to Changes in Coverage of non-banking deposits, figures prior to 1998-99 are not strictly comparable with those of 1998-66

These data are compiled /revised in December 1999 and hence, do not tally with the Quick Estimates of CSO released in February 1999. Constituents may not add up to total due to rounding off.

Figures in brackets indicate percentages to total 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, public sector bonds, and investment in mutual funds (other than UTI)

$ Tentative Estimates

Source : Report on Currency and Finance 1998-99, RBI

On the other hand inflows on account of FIIs showed positive increases of Rs.1,187 crore as against decline of Rs.390 crore during the entire year of 1998-99. The better performance on account of FIIs inflows was supported by the stability of exchange rate policy of country and improvement in prospects of capital appreciation in the investment in Indian stocks. FIIs investment in equity and debt amounted to more than $ 2 billion during April-March 1999-2000 compared to a negative inflow of $386.1 million during 1998-99. The healthy outlook for FIIs investment in the Indian stocks is expected to grow. Some improvement in stability and credibility of East Asian countries and other financial markets in Asia, relaxation by Government of India in the limit of FIIs investment to 40 per cent in the Union Budget 2000-01, has created more prospects for FIIs investment. The picking up of exports growth and rise in the level of foreign exchange reserve to US $ 33 billion as on alongwith higher GDP growth during 2000-2001 is expected to build up and improve the FIIs investment sentiments.

The decline in external Debt-GDP ratio and debt service ratio from 23.8 per cent and 19.1 per cent in 1998 respectively to 23.7 per cent and 18.1 per cent in 1999 augur well for prospective FIIs investments in India.

Investment activity in the primary market increased during 1999-2000. The total resource mobilisation by the primary market which stood at only Rs.5,586 crore during 1998-99 through 58 issues, sharply increased to Rs.7,817 crore through 93 issues during 1999-2000, thus recording a growth of 40 per cent. During the previous year, the growth was 22 per cent. This increased growth in 1999-2000 was contributed by the increases in public and rights issues, which recorded a growth of 25 per cent and 175 per cent, respectively. In absolute terms, the rights issues and public issues contributed an incremental amount of Rs.1,248 crore and Rs.933 crore respectively each during the year. It is important to note that there has been a decline in the share of financial institutions and banks in total resource mobilisation from the primary market, from 85 per cent during 1998-99 to about 52 per cent in 1999-2000 and an increase in participation by the manufacturing and other companies. This is an evidence of growing dis-intermediation in the capital market. Another important development was floatation of larger number of issues by new companies (IPOs) increasing their share to 35.0 per cent during 1999-2000 from a meagre share of 7.8 per cent during 1998-99. The issues by information technology and other knowledge-based companies were on the rise during the year, in keeping with the worldwide trend. Thus new economy companies mobilised close to 20 per cent of total resources raised during the financial year under review. Health and entertainment companies also raised resources offering the opportunity of diversification of investment for investors.

The bullish trend in the secondary market during the year under review was accompanied by a rise in the market capitalisation. As such, the market capitalisation at NSE increased from Rs.4,91,175 crore as at end March 1999 to Rs.10,20,426 crore as at end March 2000, a rise of 107.8 per cent. The market capitalisation at BSE increased from Rs.5,45,361 crore as at end-March 1999 to Rs.9,12,842 crore as at end- March 2000 recording a growth of 67.4 percent.

FII investments during the year remained positive with the net investment at US$ 2.4 billion compared to a net outflow of US$ 386.1 million during 1998-99. The cumulative net investment rose to US$11,253 million at end March 2000 from US$8897 million at end March 1999.

The performance of mutual funds significantly improved during the year. The aggregate net mobilisation increased to Rs.18,970 crore during 1999-2000 as against net outflow of the order of Rs.950 crore during 1998-99. While mutual funds under public sector continued to perform poorly with a net outflow of the order of Rs.745 crore in the current financial year, the private sector mutual funds added a net amount of Rs.15,166.48 crore and UTI another Rs.4548.3 crore. The spurt in mutual funds resources has been the result of tax incentives provided by the Union Budget 1999-2000. Efforts of RBI in lowering the interest rates structure is also resulting in shift of bank deposits to mutual funds. The regulatory framework of the mutual funds was also responsible for the improvement in the performance of this sector.

B] REVIEW OF POLICIES AND PROGRAMMES

A review of the major policy developments and programmes of SEBI during 1999-2000 is given below:

i. Primary Securities Market

Rationalisation of guidelines for public issues

Keeping in view the changes in the capital market emanating from free pricing of shares and free access to market for funds by the issuers, the SEBI with the objective of broadening the investors' base, dispensed with the requirement of standard denomination of Rs.10 and Rs.100 (in terms of government circulars) and gave freedom to companies with dematerialised shares, to issue shares at any denomination but not below Re.1/- or decimal of a Rupee to be determined by them. This decision is also in conformity with the recommendation made by the Informal Group on Primary Market. The existing companies, which have issued shares at Rs.10 and Rs.100, also can avail of this facility by consolidating/splitting their existing shares.

In order to enable the investors to take informed investment decisions, the stock exchanges were directed to indicate the denomination value of shares as fixed by the company alongwith the market quotation. However, the companies availing of this facility are required to strictly adhere to disclosures and accounting norms.

As a further measure towards rationalization of existing guidelines, the SEBI decided that there would be only one set of disclosures and entry norms for all the issues irrespective of the issue price. Thus, the different requirements for making issues at par and premium were merged to create a common set of requirements.

Marketing initial public offers through the secondary market

To facilitate the process of public offerings, the SEBI introduced the new system viz. 'Online Securities Offer System' which seeks to extend the benefits of on-line trading in the secondary market to the primary market. The system not only uses the existing infrastructure of the exchanges (viz.. terminals, brokers and systems) besides making necessary improvisations in software packages and improved means of connectivity.

- The present primary issue process involves printing of a large number of application forms and dispatching of refund orders and, therefore, leads to increase in cost and time required for the public issues. The new system would reduce the cost and time involved in a public issue process and do away with the blocking of funds of the investors.

Compulsory linking of issuer companies with a depository and compulsory trading by new IPOs

All new IPOs will be compulsorily traded in dematerilised form and guidelines of public issues were modified to make admission to a depository for dematerialization of securities, a pre-requisite for making a public or rights issue or an offer for sale. But the investors have been allowed to exercise option of either subscribing to securities in physical form or dematerialised form.

Disclosure of credit rating

On the basis of recommendations of the Committee set up to frame regulations for Credit Rating Agencies, the following additional requirements for companies issuing debt securities to public/ on rights basis, have been prescribed:

- All companies making public or rights issue of debt instrument (including convertible instrument) irrespective of their maturity/conversion period, shall obtain credit rating by at least one approved credit rating agency and disclose it in the offer document.
- Where credit rating is obtained from more than one approved credit rating agency, all the credit ratings, including the unaccepted ratings, shall be disclosed.
- The issuer shall give an undertaking in the offer document stating that they would give necessary co-operation to the credit rating agency (s) in providing true and adequate information till the debt obligations in respect of the securities are outstanding

Association of stock exchange personnel in allotment

In order to improve the sanctity of the allotment procedure for public issues it was decided that Executive Director/Managing Director of the regional stock exchange along with the post issue lead merchant banker and the registrar to the issue, shall be responsible to ensure that the basis of allotment is finalized in a fair and proper manner.

Lock in of pre-issue capital

The practice of issuing shares at a price below the public issue price prior to the public issue, prima facie, gives a price advantage to such allottees. In order to discourage such practice, especially in view of high premiums to the issue price at which information technology stocks were being listed, it was decided to lock the entire pre- issue capital in case an allotment was made in above manner.

Disclosure and investor protection guidelines

The Disclosure and Investor Protection Guidelines of SEBI were amended to provide for enhanced investor protection.

- The appraising agency would bring in the required contribution at least one day before the opening of the issue.
- The promoters contribution has been made uniform at 20 per cent irrespective of the issue size.
- Only such securities have to be offered for promoters contribution for which a specific written consent has been obtained from the shareholders for lock-in.
- Mandatory provision made for appointment of registrar for rights issues.

Malegam committee for disclosures in offer documents

A Committee was set up under the Chairmanship of Shri. YH Malegam to review the prevailing disclosure requirements in offer documents for public and rights issues and to recommend additions / modifications thereof in pursuance of SEBI's objectives for investor protection, promotion and development of transparent securities market.

Modifications in eligibility requirements for information technology companies

Companies in the information technology sectors submitted that in view of the factors like high valuation enjoyed by these companies coupled with low capital requirements, importance of employee stock options (as employees are the main asset for these companies) and attractiveness of ADR route for listing on overseas stock exchange with capital dilution as low as 10 per cent , they may be granted relaxation from requirement to offer to the public at least 25 per cent of the securities issued for the purpose of listing.

In view of the fact that accumulation of excess capital by these companies would result in unproductive utilization and crowd out the other industries in need of capital, it was decided to allow these companies to list their shares by making a public offer of 10 per cent of the post issue capital instead of 25 per cent , subject to requirements of issue of minimum number of securities and a specified minimum issue size.

A concern had arisen about the misuse of high valuation of IT industry by some unscrupulous promoters who may charge unreasonably high premiums from the investors. It was, therefore, thought necessary to stop the access to public funds by such promoters so that the interest of genuine promoters is protected.

Thus, in continuation of efforts to ensure that the offer document contains adequate disclosures to enable the investors to make an informed investment decision, additional disclosure requirements were stipulated for companies which changed their names in the recent past to give an impression of being into information technology.

To encourage only genuine information technology companies to be eligible to make initial public offer and to raise capital from public and to protect the interest of investors, it was stipulated that unlisted companies in the information technology industry should have a track record of distributable profits in three out of five years from the information technology activities. If a company fails to fulfil this criterion, it can access the market through the alternative route of appraisal and financing by a bank or financial institution. The same conditions would apply to a listed company also which has changed its name to reflect the activities in information technology.

Amendments of book building guidelines

Book building is a price discovery mechanism used by the corporates issuing securities, to discover the price of their securities. The mechanism also helps the small investors to subscribe to securities at a price, which is arrived at by a transparent process. The importance of this mechanism was recognized by the SEBI and book-building guidelines were introduced in 1995. However, while book building became an accepted practice in the market for private placement of debt securities, it remained absent in the public issue market despite the regulatory framework being in place.

This year saw the book building exercise being conducted for the first time for initial public offering as during the year five initial public offers were made using the book building route. The practice of book building is comparatively new to the Indian capital market and the procedure is still evolving. On the basis of feed back from the market intermediaries, some areas of existing framework were identified for modification in order to improve the existing mechanism. The SEBI Board approved these modifications in October 1999. Under the modified guidelines an issuer has been given the option to book build either 90 per cent of the net offer to the public or 75 per cent of the net offer to the public. The balance issue is offered to the public at the fixed price determined through book-building exercise. The book-building mechanism is designed keeping in view the international practices and procedures for book building (Box 1.2).

Box 1.2 : Modified features of the book building framework

- ✓ Additional disclosures with respect to the scheme to make up the deficit through book building in financing and the pattern of deployment of excess funds, shall be made in the offer document.
- ✓ Allotment in the book built portion may take place before that in the fixed price portion
- ✓ Excess subscription in fixed price portion can be spilt to book built portion reserved for allocation to individual investors bidding for up to 10 tradable lots, to the extent of shortfall in the latter
- ✓ In the 75 per cent book building scheme the allotment in the book built portion should be in dematerialised mode only

Accounting standards committee

The Accounting Standards Committee, was set up by the SEBI as Standing Committee under the Chairmanship of Shri Y H Malegam, to inter-alia review the continuous disclosures requirements under the listing agreement for the listed companies and provide inputs to Institute of Chartered Accountant of India (ICAI) for evolving new accounting standards and review the existing ones, wherever required in order to make disclosure standards and accounting practices at par with the international practices.

Major recommendations of the Committee that have been implemented by the SEBI are given below :

- With a view to make the unaudited financial quarterly results of the companies more transparent and meaningful, certain additional disclosure norms have been prescribed and also half yearly results have been subjected to a 'Limited Review' by the Auditors with effect from half year ending March 31, 2000.

- In order to harmonize the disclosure requirements under the Listing Agreement and the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI), it has been prescribed that the Cash Flow Statement being disclosed by the companies in terms of Listing Agreement, be prepared in accordance with the relevant Accounting Standard.

- In order to avoid excessive volatility in stock prices due to announcements of dividends, rights, bonus etc., during the market hour, it has been prescribed that such announcements be made outside the market hours.

- The Committee has emphasized the need for formulation of accounting standards on Consolidation of Accounts, Segmental Reporting, Deferred Taxation and Related Party Disclosures and has urged the ICAI to expedite the issue of Accounting Standards on the above.

Employee stock options scheme

The SEBI had issued guidelines on employee stock options in 1992 and modified them further in 1995. In view of the phenomenal growth in the knowledge-based industries, it was felt that there is a need to review the guidelines to suit the changed environment. As such a Committee was set up under the chairmanship of J.R. Varma to make recommendations and to frame the guidelines for Employee Stock Options and Stock Purchase Scheme. The guidelines were framed on the basic principles of complete disclosure and shareholder approval. The framework for employees stock option has been designed to give maximum flexibility to the corporates to formulate schemes keeping in mind the objectives of such a scheme subject to their following these basic tenets.

Box 1.3 : Guidelines on Employee Stock Options Scheme

- ✓ The ESOS/ESPS would mean the scheme under which a company grants option to employees and offers shares to its employees as part of public issue or otherwise.
- ✓ The employees have been given flexibility of exercising their option during the exercise period and to exercise option in accordance with the ESOS. The companies can offer equity shares and securities convertible into equity shares. The scheme includes American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) or other Depository Receipts representing underlying equity shares or securities convertible into equity shares.
- ✓ The company has the freedom to determine the exercise price or pricing formula.
- ✓ The employees have been given option to avail of such right but not an obligation to apply for shares of the company at a predetermined price.
- ✓ The employees can exercise the time period granted to them as a matter of their right to apply for shares against the option vested with them in accordance with the guidelines under ESOS.
- ✓ The right of option vested with the employees can lapse in case of termination of employment for misconduct.
- ✓ The ESOS can be offered to employees of the company provided the shareholders of the company approve the proposal by passing a special resolution in general meeting.
- ✓ There shall be a minimum period of one year between the grant of option and vesting of options. The company shall have the freedom to specify the lock-in period for the shares issued in accordance with the provisions of ESOS.
- ✓ The employee shall not have right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to him till shares are issued on exercise of option.
- ✓ Option granted to an employee shall not be transferable to any person. The option granted to the employee shall not be pledged, hypothecated or mortgaged.
- ✓ In respect of options granted under ESOS during any accounting period, the accounting value of the option shall be treated as another form of employee compensation in the financial statement of the company.
- ✓ The accounting value of options shall be equal to the aggregate, over all employee stock options granted during the accounting period, of the fair value of the option.

ii. Secondary Securities Market

Modernization of market infrastructure improves market transparency standard. The improvement of market micro-structure increases trading efficiency. Risk containment measures help in improving market integrity and safety. Rolling settlement enhances liquidity and also provides for faster settlement**.** These have been the main focus of the SEBI's efforts in the secondary market. The SEBI extends its oversight to 23 stock exchanges in the country and directs its efforts towards encouraging them to become more effective and efficient self-regulatory organisations. The measures taken by the SEBI in 1999-2000 in the secondary market are discussed below.

Depositories and paperless trading and other related issues

Dematerialisation of securities is one of the major steps for improving and modernizing market and enhancing the level of investor protection through elimination of bad deliveries and forgery of shares, and expediting the transfer of shares. Recognizing the far reaching benefits that would accrue to the market through the removal of physical securities, the speeding up of dematerialisation process has been high on the agenda of the SEBI. During the year 1999-2000, the SEBI continued its policy to enhance the growth of paperless trading and electronic book entry transfer but in a phased manner so as to allow time for required infrastructure to develop and to gain acceptance of the investors and the market. The following measures have been taken by the SEBI during the year under review :

- The SEBI issued directive to the companies included in the list of securities for dematerialisation to effect compulsory dematerialised trading for all investors and institutional investors on the scheduled dates announced and to sign agreements and complete all formalities with both the depositories and establish connectivity on time so that dematerialisation could proceed on schedule.

- Companies whose shares are being traded compulsorily in dematerialised form by all investors, are required to compulsorily provide for transfer and dematerialisation of securities simultaneously. This will help the investors in reducing the time taken for transfer of shares.

- The SEBI (Depositories and Participants) Regulation, 1996 was amended to include registrars to an issue or share transfer agents in the eligible category to become a depository participant.

- Introduction of procedures for interconnectivity between the various segments and components involved in the process of dematerialisation and its smooth functioning at various levels of participantion in dematerialised securities.

- In respect of the value of portfolio of securities of the beneficiary accounts, the broker DPs allowed to maintain client assets in custody to the extent of 100 times of broker's networth from the earlier limit of 35 times upto a networth of Rs.750 lakhs and 50 times above the networth of Rs. 750 lakh .

- The branch offices of DPs that are handling more than 5000 accounts shall either have direct electronic connectivity with the depository or with office of depository participant that is connected live to the depository. This would adequately equip the infrastructure of the depository participant branches so that the reach of the DPs could be increased and the branches could serve the investors better, while ensuring that the branches have adequate control systems.

- Every company is required to appoint the same registrars and share transfer agents for both the depositories.

- The registrars and share transfer agents are required to accept partial dematerialisation requests and will not reject or send back the complete lot of dematerialisation request to the DPs in cases where only a part of the request was to be rejected.

- A Standing Committee co-chaired by the Managing Directors of NSDL and CDSL was formed which will meet at least once a month to resolve issues between DPs, registrars and depositories which may arise from time to time. The other members of the committee are SHCIL, HDFC Bank, Standard Chartered Bank, Integrated Enterprises (I) Ltd., Karvy Consultants, ICICI Ltd. and three persons from RAIN.

- If a DP has sent information about dematerialisation electronically to a Registrar but physical shares are not received, the registrar will accept the dematerialisation request and carry out dematerialization on the indemnity given by the DP and proof of dispatch of document given by DP.

- CDSL and NSDL shall be required to persuade major DPs to open branches in cities where DP services are not available.

- The broker DPs who are also registered with SEBI as share transfer agents, shall be allowed to change their broker DP status to that of share transfer agent/Registrar DP.

- The committee on dematerialisation of shares was also seized of various issues as mentioned below :

  - ✓ Standardization of various procedures related to trading in depository system:
  - ✓ Safety features and standards for depository operations:
  - ✓ Expansion of depository infrastructure and making the branch offices with 'live" connectivity:
  - ✓ Systemic tracking of delays at the hands of the depository participants, share transfer/issuer companies and depositories:
  - ✓ Adequacy/capability of the depository system and systemic changes necessary to cope with the workload present as well as future:
  - ✓ One stage processing for transfer and dematerialisation:
  - ✓ Reductions in the size of batch processing from the present level of 1000 requests per batch:
  - ✓ Good/bad delivery norms to be made mandatory on the registrars:

Strengthening the safety and integrity of the secondary securities market

Intra-day trading and exposure limits

Safety and integrity of the securities trading system is an integral part of a healthy market. The SEBI has been continuously striving to achieve these objectives. The SEBI has introduced capital adequacy norms. As such both the gross exposure limit of 20 times the base minimum capital and additional capital deposited by the member brokers and intra-day trading limits of 33 1/3 times the base minimum capital and the additional capital as prescribed by the SEBI have already been implemented by all the stock exchanges. During 1999-2000, most of the major exchanges viz. National, Bombay, Calcutta and Uttar Pradesh Stock Exchanges monitored the exposure and intra-day trading limits on a real time basis.

Setting up of trade/settlement guarantee fund by stock exchanges

To ensure timely completion of settlements the SEBI had advised all the stock exchanges to set up a Trade/Settlement Guarantee Fund or Clearing Corporation. During the year 1999-2000, the Settlement Guarantee Fund schemes of Hyderabad, Cochin, Jaipur, Uttar Pradesh and Pune Stock Exchanges were approved. As at the end of March 2000, 16 out of the total 23 exchanges (the remaining 7 exchanges have nil/insignificant turnover) have already set up Trade/Settlement Guarantee Fund.

Table 1.4 : Stock exchange-wise SGF Details

S.No.	Name of Stock Exchange	SGF Schemes approved as on
1.	Bombay	May 12, 1997
2.	Ludhiana	February 27, 1998
3.	Bangalore	January 23, 1998
4.	Calcutta	March 10, 1998
5.	Delhi	April 03, 1998
6.	Vadodara	August 04, 1998
7.	Madras	August 21, 1998
8.	OTCEI	October 09, 1998
9.	ICSEIL	January 06, 1999
10.	Ahmedabad	February 02, 1999
11.	Hyderabad	July 09, 1999
12.	Cochin	August 10, 1999
13.	Jaipur	August 12, 1999
14.	UPSE	August 12, 1999
15.	Pune	August 12, 1999
Source : SEBI		

Rationalisation of margin system/ market safety

Specific margins introduced on March 13, 2000.

Market volatility is a matter of concern for the regulator . High volatility generates confusion and uncertainty in the mind of investors whereas steady rise or steady fall in equity prices helps the investors in perception formation for investment or disinvestment. The SEBI therefore is always keen to minimize or curb the volatility. The SEBI has therefore, taken several measures to curb the market volatility.

As such in June 1998, the volatility margins were prescribed to curb excess volatility in the market and to act as a deterrent to building up of excessive outstanding positions. This step had a salutary impact and volatility was reduced. In March 1999 again, the SEBI introduced following measures to reduce the volatility:

The brokers-specific measure included:

- Where the brokers had built up sizeable positions, they were asked to either make reduction in positions or to make advance pay-in in cases where they had built up high positions. Such brokers could also be subjected to ad-hoc margins by the stock exchanges.

- The scrip-specific measures included impositions of special margins on volatile scrips.

- The SEBI also directed five major exchanges to take incremental additional capital and margins from their top 25 brokers in the form of cash or FDRs only for next four weeks, and withdraw the existing facility of accepting additional capital/ margins by way of bank guarantees or securities. Exchanges were to select top 25 brokers in terms of the marginable gross exposure at the close of the third day of their trading cycle. The unutilized portion of bank guarantee and securities deposited by these brokers were not considered for margin and capital requirements from the next day and all incremental margin and capital requirements were made payable in cash/FDR only.

- Again in June 1999, some decisions were taken by the SEBI .It was decided that credit for mark to market gain in one scrip would now be given against mark to market losses in other scrips after completion of the trading cycle, when settlement dues get determined.

- Margin and exposure limits exemptions were made available only on actual delivery of securities.

- The volatility in the market declined following the imposition of margins. However, it was felt that this margin addressed volatility over a very short period of one week only.

- Volatility margins would be imposed if volatility computed as above exceeds 40 per cent and will be chargeable in four slabs ranging from 5 per cent to 20 per cent depending on the level of volatility.

- Volatility margin would not be applicable to scrips priced below Rs.40.

- To bring uniformity in the composition of Base Capital and Additional Capital amongst exchanges, it was decided that at least 25 per cent of Base Capital would be maintained in cash and FDRs, out of which 12.5 per cent must be in cash. Not more than 75 per cent can be in the form of FDR/ BG/ Securities. Additional capital would be deposited in the form of cash/ BG/ FDR/ securities subject to the condition that securities shall not exceed 75 per cent of the total additional capital.

- Only those securities would be accepted as part of Base Capital which are part of the BSE Sensex/ Nifty/ BSE 100/ Jr. Nifty, BSE 200/ CNX 200. The scrips, which are in compulsory dematerialised trading, would be accepted in dematerialised form only. Exchanges would be given 3 months time to ensure that no security other than those specified is given to exchange as Base Capital.

- It was also decided that Additional Capital available with the exchange would get first adjusted towards requirements for gross exposure limits/ intra-day turnover limits, and excess additional capital with the exchange in the form of cash/BG/FDR was allowed to be utilised for meeting margin requirements.

- Incremental carry forward margin was modified and a graded scale was introduced wherein the margin rate increases from 5 per cent to 30 per cent as against a flat rate of 10 per cent for every 1 per cent increase of the carry forward position.

- Based on the overall assessment of risk and the rationalized margin system proposed, concentration margin and 90 day special margin were discontinued.

Rationalization of risk management system for the equity market

The risk containment measures from time to time prescribed by the SEBI served the market well by ensuring adequate and timely collection of margins. However, as the margin system has evolved over time, there has been multiplicity of margins, which has made the system complicated. There was a need to simplify the margin system without sacrificing the objective of safety. Besides, there has been a view that under the rolling settlement, the existing margin system would be expensive and may be deficient in the phase of changing nature of emerging risks. As the market moves on to rolling settlement progressively, the market would need to have a new risk containment system.

Thus, taking the objectives of simplifying the margining system and to make the structure of margins the unified one for stock exchanges, the SEBI set up a group on Risk Management System with following terms of references:

1. Reviewing the entire risk management system comprising the margin system, exposure norms, circuit filter, capital adequacy, etc. and also to study the risk management measure in place in the cash markets in the developed and emerging market countries.

2. Rationalizing and simplifying the present risk management system for the account period settlement without compromising the present levels of safety and further strengthening the risk containment measures.

3. Recommending risk containment measures for the securities traded in the rolling settlement.

Enhancing efficiency and transparency in the stock exchanges

Weekly settlement cycle and auction

The stock exchanges were required to necessarily complete their settlement within seven days and to conduct the auction immediately *i.e.* not later than eight days, after the completion of the relevant trading period, in those cases where members have failed to give the delivery, as on date, the exchanges have a weekly settlement cycle.

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 and all exchanges desirous of implementing Modified Carry Forward System were advised to approach the SEBI for prior approval.

Till 1998-99, Bombay, Delhi, Ludhiana and Calcutta Stock Exchanges introduced the facility to carry forward trades under the Modified Carry-Forward System. During the year 1999-00, Ahmedabad, Madras and Bangalore stock exchanges have introduced the Modified Carry-Forward System.

Uniform settlement cycle

Uniform settlement cycle for stock exchange can help in reducing the arbitrage across the country. The SEBI Committee on uniform settlement discussed the ways and means for the implementation of one common settlement cycle for the smaller exchanges and one for the larger exchanges vis-a-vis the introduction of rolling settlement for all exchanges in the shares which are being traded in dematerialised form for all investors. The Committee discussed the issues relating to one common settlement system and concluded that introduction of uniform settlement cycle to other stock exchanges has implications in terms of availability of infrastructure, particularly with the custodians and the depository participants.

Rolling settlement

In order to enhance liquidity and to shorten the carry forward cycle and to make feasible the availability of alternative hedging mechanism in the form of derivatives, the SEBI introduced rolling settlement in respect of shares wherein compulsory dematerialised trading for all the investors has been introduced. Initially, only ten scrips were placed for trading under rolling settlement system, based on the recommendations of the committee on Rolling Settlement. Trading was made compulsory in rolling settlement for all investors in the 10 scrips from January 10 ,2000 and an addition of 34 scrips from March 21, 2000 and in 119 scrips from May 8, 2000.

Inter-connectivity between NSDL and CDSL

In order to establish inter-connectivity of National Securities Depositories Limited (NSDL) and Central Depositories Services Limited (CDSL), it was decided that settlement of market transactions should begin with the clearing members opening accounts in both depositories and the clearing house or corporations for effecting the same pay-out of shares of each depository as a pay-in of shares in that depository. However, CDSL was permitted to adopt an alternate mode suggested by the BSE's clearing house which envisaged on-market inter-depository settlement. This model envisages on-market inter-depository transfer of securities through the segregation of inter-depository transfers resulting from settlement, at the level of the clearing corporation/clearing houses. To effect these transfers, each depository would be required to open an account with the other depository and this account would be debited or credited based on the net inter-depository transfer instructions from the clearing houses/clearing corporation. It was agreed that both the depositories will introduce this model for effecting inter-depository transfers, in addition to the model advised which is currently in operational. The depositories were advised to speedily make the necessary software changes for adoption of the new model. This mode was expected to entail some changes in the software of NSDL as well. The software experts of the two depositories were asked to work out the details of the changes to be made and determine the implementation within three months. The inter-depository transfer is essential for the smooth functioning of the market and charges if any, levied by a depository for such transactions, would have to take into account the interest of the investors. The SEBI opined that the charges for the services rendered will have to be determined objectively.

Revival of small stock exchanges

Over the recent past years, it has been observed that the regional stock exchanges are recording very low/insignificant turnover and the majority of their members have become inactive. The financial health of these exchanges has also been deteriorating. With a view to revive these exchanges, a group comprising of NSE, BSE, CSE and some of the smaller stock exchanges was formed, to discuss means and ways to reinvigorate the weak exchanges.

The suggestions, which emerged at the meeting, could be grouped into two categories. One, which deals with ensuring the financial viability of the exchanges and the other dealing with the issue of increasing the business opportunities for the brokers and exchanges. For the first category, the suggestions were that the existing infrastructure of the exchanges could be used for providing investor services, the exchanges acting as depository participants for holding the beneficiary accounts, using the exchange infrastructure for monitoring and surveillance on behalf of the larger exchanges, etc. For the second category, suggestions included mergers or alliances of small exchanges with larger exchanges or their subsidiaries becoming members of other exchanges, transfer of base minimum capital of the brokers of the regional exchanges to the Inter Connected Stock Exchange, reviewing of Trade Guarantee Funds without compromising the safety requirements.

After considering the recommendations of the group, the SEBI permitted the stock exchanges to promote/float a subsidiary company to acquire membership rights of other stock exchanges to provide the members of the regional exchanges access to the wider market for improving the trading volume.

As on date, Bangalore, Vadodara, Saurashtra-Kutch, Ludhiana, OTCEI, Cochin and Inter-connected Stock Exchanges have floated subsidiaries to acquire membership rights of NSE/BSE.

Trade in securities by qualified participants

The SEBI has been seized of the issue of viability of OTCEI and small size of trade being done there. The Board examined OTCEI's proposal to provide a trading mechanism and price discovery for securities of public limited companies which are not listed or traded as permitted securities on any exchange. The proposal was made with the objective of business expansion of the exchange. Through the discussions, it was decided that only qualified participants (QPs) such as corporates/companies, banks and individuals with a net worth of Rs 2.5 crore, will be allowed to trade on the market. The scrips and the QPs will be selected by the exchange. The exchange will not guarantee the settlement of trade. The securities of the companies will be listed with suitable exemptions for which regulatory changes will be made. The above system will provide a transparent trading platform and exit opportunity for small capital companies, venture capital and private equity funds.

Negotiated deals

According to earlier guidelines of SEBI, all negotiated deals had to be reported to stock exchanges within 15 minutes of trade negotiated and information in respect of such trades was disseminated by the stock exchanges. A negotiated deal was defined as any transaction which either has a value of Rs.25 lakh or volume traded not less than 10,000 shares at one price not formed through the stock exchange and order matching mechanism.

In order to introduce transparency and price discovery in negotiated deals, the SEBI issued guidelines that such transactions will be permitted only if they are executed on the screen of exchange following the price and order matching mechanism of the exchanges just like any other deals on stock exchanges.

Market making

The extensive reforms by the SEBI over the last two years have enhanced the integrity, transparency and efficiency of operations of the securities market. The introduction of electronic trading and order matching system on all the 23 stock exchanges in the country have reduced transaction costs and have enhanced transparency and efficiency in respect of price discovery. However, there are still a large number of scrips that are not actively traded despite the fact that many of them have some intrinsic value. The Committee on

‘Market Making’ under the Chairmanship of Shri G.P. Gupta studied the various facets of market making, including the merits and demerits of the two trading systems, viz. the order-driven system and the quote-driven system. As market makers are obliged to offer continuously two-way quotes; they have to carry an inventory of stocks, which implies commitment to capital and exposure to market risks.

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. The SEBI has already given approval to six 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. At present National Securities Clearing Corporation Limited (NSCCL), registered as Intermediary under Stock Lending Scheme is providing this facility to the members of National Stock Exchange to reduce auction. The securities’ lending is expected to pick-up following the more scrips coming under Rolling Settlement.

Committee on corporate governance

A committee on corporate governance set up by the SEBI under the chairmanship of Shri Kumar Mangalam Birla, member SEBI Board with the objective of strengthening and promoting the standard of corporate governance of listed companies, had made several recommendations. Corporate governance is an important tool of investor protection. This would be the first formal code of corporate governance in the country through the listing agreement. It is expected that the introduction of these measures will raise the awareness and make a good beginning for raising standard of functioning of corporate. The SEBI board accepted the recommendations of the committee followed by a notification issued to the concern agencies. The major recommendations of the committee accepted by the board are presented in the Box 1.4 below.

Box 1.4 : Major recommendations of Kumar Mangalam Birla Committee

- The board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- All pecuniary relationship or transactions of the non-executive directors viz.-a-viz. the company, should be disclosed in the Annual Report.
- Board meeting shall be held at least four times a year with a minimum time gap of at least four months between any two meetings.
- The Committee recommended the constitution of Audit Committee in a listed company.
- The committee recommended that audit committee shall have minimum three members, all being non-executive directors, with the majority of them being independent, and with at least one director having financial and accounting knowledge, the chairman of the committee shall be an independent director.
- The audit committee shall meet at least thrice a year. One meeting shall be held before finalization of annual accounts and one every six months. The audit committee shall have powers which should include to investigate any activity within its terms of reference, to seek information from any employee, to obtain outside legal or other professional advice, to secure attendance of outsiders with relevant expertise, if it considers necessary.
- The committee will review with the management, the external and internal auditors, the adequacy of internal control systems, the adequacy of internal audit function including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, discussion with internal auditors, reviewing the findings of any internal investigations by the internal auditors, discussions with external auditors.
- The audit committee will review the company's financial and risk management policies and will look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- The committee has recommended that remuneration of directors including non-executive directors will be decided by the board of directors.
- A director shall not be a member in more than 10 companies or act as chairman of more than 5 companies in which he is a director. He will keep informed the company about the committee positions he occupies in other companies.
- As part of the directors' report or as an addition there to, a Management Discussion and Analysis Report should form part of the annual report to the shareholders. The management discussion and analysis will include industry structure and developments, opportunities and threats, segment–wise or product-wise performance, outlook, risks and concerns, internal control systems and their adequacy, discussion on financial performance with respect to operational performance, material developments in human resources /industrial relations front, including number of people employed.
- Disclosures must be made by the management to the board relating to all important financial and commercial transactions.
- In case of the appointment of a new director or re-appointment of a director, the shareholders must be provided with a brief resume of the director; nature of his expertise in specific function areas ; and names of companies in which the proposed directors holds directorship and the membership of committees of the board.
- Information like quarterly results and presentation made by companies to analysts, shall be put on company's web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed, to put it on its own web-site.

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- A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressing of shareholders and investors' complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc.
- To expedite the process of share transfers, the board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents.
- A company will have to include separate sections on corporate governance in its annual report with details on compliance, non-compliance of any mandatory requirement. The company will have to obtain a certificate from the auditors of the company regarding compliance of conditions of corporate governance.
- Almost all the companies listed on stock exchanges or seeking listing for the first time will have to complete all mandatory corporate governance requirements in a phased manner by March 31, 2003. The companies seeking listing for the first time will have to complete corporate governance at the time of listing.

Internet based securities trading

A Committee on internet based securities trading and services was set up by the SEBI to develop regulatory parameters for use of internet in securities business and effective enforcement of internet trading. The report of the Committee was approved by the Board.

The Board decided that internet trading can take place in India within the existing legal framework through the use of order-routing systems, which will route orders from clients to brokers, for trade execution on registered stock exchanges. The Board also took note of the recommended minimum technical standards for ensuring safety and security of transactions between clients and brokers which will be enforced by the respective stock exchanges.

iii. Mutual Funds and Other Schemes

Mutual funds

In consultation with the Association of Mutual Funds of India, a number of policy decisions were taken during the year and regulations were amended accordingly. The necessary guidelines and details issued to the mutual funds are given below:

Prudential investment norms

Prudential investment norms were prescribed to ensure that the investment portfolios of the mutual funds are diversified to reduce the inherent risk associated with such investments. Investments in equity related instruments of a single company have been restricted to 10 per cent of the NAV of a scheme with an exception for index funds and sector/ industry specific schemes

Investment in investment grade rated debt instruments issued by a single issuer, should not exceed 15 per cent of NAV of the scheme. This limit may be extended to 20 per cent of the NAV of the scheme with the prior approval of the Boards of AMC and trustees. In case of unrated debt instruments, the investment in a single issuer shall not exceed 10 per cent of the NAV of the scheme and in case of such debt instruments of all the issuers in a scheme shall not exceed 25 per cent of NAV subject to approval of Boards of AMC and trustee company. However, these restrictions for debt instruments will not be applicable to government securities and money market instruments.

As investment in unlisted shares is less liquid, such investments have been restricted to a maximum of 10 per cent of the NAV of a scheme in case of close ended scheme. In case of open-ended schemes the limit is made more stringent to 5 per cent of the NAV of the scheme as there is continuous repurchase by investors in such schemes and there is need of liquidity.

Investment for ADRs /GDRs

With a view to expand the spectrum of investment opportunities available to mutual funds, measures have been taken to permit mutual funds to enter the global securities market. In consultation with Reserve Bank of India and the Government of India, the mutual funds have now been permitted to invest in overseas securities. Initially this facility has been extended to ADRs/GDRs issued by Indian companies with an overall cap of US$ 500 million with a sub ceiling of 10 per cent of the net assets managed by individual mutual funds and a maximum limit of US$ 50 million for each mutual fund. The proposals of three mutual funds who showed interest in making such investments, have been cleared.

Permitting derivatives trading

Mutual funds have been allowed to enter into derivatives transactions for the purpose of hedging and portfolio balancing. Detailed guidelines on the procedures to be followed while entering into derivatives trading, have been issued.

Exit option for unit holders

With a purpose to give more flexibility to the mutual funds for the operation of their schemes and to streamline the procedures, the present requirement of consent of 3/4th of the unitholders for any change in controlling interest of AMC or fundamental attributes of a scheme has been done away with. Instead, in such cases, the unitholders shall be informed by way of individual communication as well as through advertisements in the newspapers of the proposed modifications and the unitholders shall be given option to exit at the prevailing NAV without paying any exit load.

Advertisement code

With a purpose to ensure that the advertisements issued by the mutual funds are not misleading, the advertisement code has been amended so that the advertisement on performance is supported by relevant figures and such figures of NAV, yields or returns are given for the past three years wherever applicable. The practice of selectively reproducing extracts from the offer document which could be misleading in the advertisement is not allowed. Celebrities cannot be displayed in advertisements.

Portfolio management activities

As the Asset management companies have expertise in funds management and as they represented to SEBI, they have been permitted to carry out portfolio management activities subject to certain conditions.

Improvement of disclosure standards

With a view to make unit holders aware of the securities in which the funds have been invested by the mutual fund and to enable them to take well informed investment decisions, it has been made mandatory that the mutual funds should send to all unitholders a complete statement of the scheme portfolio before the expiry of one month from the close of each half year.

For easy assessment of the transactions of the mutual funds with the associates of the sponsor, it has been made mandatory for the mutual funds to disclose at the time of declaring half-yearly and yearly result (i) any underwriting obligations undertaken by the schemes of the mutual funds with respect to issue of associate companies, (ii) devolvement, if any, (iii) subscription by the schemes in the issues lead managed by associate companies (iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger/ manager.

Code of conduct

The code of conduct has been elaborated to include certain clauses pertaining to integrity, due diligence, fairness in dealings etc which should be adhered to by the AMC and the Trustees.

Implementation of P.K.Kaul committee recommendations

The committee recommended the manner of discharging responsibilities by the trustees. The views of AMFI (Association of Mutual Funds in India) and the trustees of mutual funds were taken into consideration before implementing the same. Board of Directors of the AMCs will now have to play more important role in the compliance process and reporting to trustees periodically in this regard. The manner in which due diligence shall be carried out by the Trustees in fulfillment of the various obligations as required under the Regulations, has been specified. Trustees can appoint independent auditors or can have separate full fledged administrative set up to give them support in discharging their duties in accordance with the SEBI Regulations.

Trustees shall now be required to meet more frequently, at least once in every three months and four such meetings to be held in a year. Also the quorum for such meetings shall require the presence of at least one independent trustee / director who is not associated with the sponsor**.**

Mutual funds advisory committee

During the year 1999-2000, a standing committee chaired by Shri B.G.Deshmukh was set up to examine the emerging trends in the mutual fund industry and propose suitable amendments to the Mutual Funds Regulations for promoting healthy growth of the mutual fund industry. The committee met twice and made various recommendations.

Collective investment schemes (CIS)

The Government of India, vide its press release dated November 18, 1997, directed that schemes through which instruments like agro-bonds, plantation bonds etc. are issued would be treated as “Collective Investment Schemes” coming under the provisions of Sec.11 (2)c of the SEBI Act.

Pursuant to the Government directions, the SEBI vide its press release dated November 26, 1997 and its public notice dated December 18, 1997 directed under the provisions of Sec. 11B read with Proviso to Section 12(1)(B) of the SEBI Act prohibited the entities from launching any fresh schemes till such time as the regulations for collective investment schemes are notified. The existing entities were also directed to file with the SEBI the details of their schemes. The SEBI had received information from 642 entities who had reportedly raised about Rs. 2681 crore. Based on the information received from investors and government agencies, it had come to the notice of the SEBI that 137 entities may be operating Collective Investment Schemes without filing information with it.

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.

After due deliberations, the Committee submitted its interim report and the draft Regulations of Collective Investment Schemes alongwith the recommendations of the accounting sub committee to SEBI on December 31, 1998. These were made available for public discussion and comments/suggestions of investors and the entities operating collective investment schemes were invited. The Association of Agri Plantation Companies of India was also invited to make a presentation before the Committee on the

Industries' views on the draft regulations. The Committee considered the suggestions received from all concerned and thereafter, submitted its final report to SEBI on April 5, 1999.

The SEBI Board approved the Regulations for Collective Investment Schemes in its meeting held on August 17, 1999.

The SEBI (Collective Investment Schemes) Regulations, 1999 were notified on October 15, 1999. Henceforth, no person other than a Collective Investment Management Company which has obtained a certificate of registration under the SEBI (Collective Investment Schemes) Regulations, 1999, can carry on or sponsor or launch a collective investment scheme. Also, no existing collective investment scheme can launch any new scheme or raise money from the investors even under the existing schemes, unless a certificate of registration is granted to it under the said regulations.

The Securities Laws (Second Amendment) Act, 1999 had defined "Collective Investment Scheme" by inserting a new section 11AA in the SEBI Act, 1992. On January 25, 2000 the SEBI Board approved amendment to the SEBI (Collective Investment Schemes) Regulations, 1999 by adopting the definition of collective investment scheme as introduced by the said Securities Amendment Act. Further, to remove doubt or technicalities, if any, the Board also adopted the CIS Regulations as the Regulations made under the Amended Act. On February 14, 2000 the SEBI (Collective Investment Schemes) (Amendment) Regulations, 2000 were notified in the Gazette of India.

Venture capital funds

Keeping in view the crucial role played by the venture capital in promoting innovation research, scientific ideas and knowledge based enterprises, proper focus was given to the area of venture capital regulation. The SEBI convened a meeting of the key persons and professionals associated with venture capital industry in India on May 19, 1999. The deliberation of the meeting was to identify regulatory and other issues hampering the venture capital industry in India. It was decided that a Committee would be set up to study in detail all the issues concerning venture capital industry and suggest policy formation at the level of Government.

The SEBI set up a committee under the chairmanship of Shri K B Chandrasekhar of Exodus communication Inc., USA. The committee comprised of industry participants, professionals, representatives from financial institutions and RBI. Four working groups were formed to look into the following areas :

1. Articulation of vision for venture capital industry in India including creating the environment, research and industry linkage, support services and awareness.
2. Structuring of venture capital fund and fund raising including regulatory and legal aspects
3. Investment process and related issues and

4. Exit related issues including possibility of trading in Unlisted securities, IPO route and valuation aspects.

The working groups deliberated the issues and submitted their recommendations for consideration of the committee. Overseas participants interacted in the deliberations of the committee through tele-conferencing and exchange of E-mails. Draft recommendations of the committee were submitted to SEBI on December 8, 1999 and were immediately published for public comments. Based on the feedback received, the report of the committee was finalised in the meeting held on January 8, 2000.

The recommendations of the committee were widely appreciated and found acceptance by the Government also. A high level meeting consisting of officials from MoF, DCA, RBI, SEBI was held on January 21,2000 at the Ministry in New Delhi to discuss the recommendations of the committee particularly regarding the harmonisation of the regulatory framework for the venture capital funds and the taxation issues.

The Board of SEBI, on January 25, 2000, approved in principle the recommendations of the committee. The main recommendations of the committee are as under:

1. Multiplicity of regulations – need for harmonisation and single regulator:

Presently there are three set of Regulations dealing with venture capital activity i.e. SEBI (Venture Capital Regulations) 1996, Guidelines for Overseas Venture Capital Investments issued by Department of Economic Affairs in the MOF in the year 1995 and CBDT Guidelines for Venture Capital Companies in 1995 which were modified in 1999. The need is to consolidate and substitute all these with one single regulation of SEBI to provide for uniform, hassle free single window clearance.

2. Tax pass through for venture capital funds:

Once registered with SEBI, Venture Capital Funds should be entitled to automatic tax pass through at the pool level while maintaining taxation at the investor level without any other requirement under Income Tax Act.

3. Mobilisation of global and domestic resources:

(A) Foreign venture capital investors (FVCIs):
FVCIs should be allowed to register with SEBI and having once registered, they should have the facility of hassle free investments and disinvestments without any requirement for approval from FIPB / RBI.

(B) Augmenting the domestic pool of resources:
Banks, mutual funds and insurance companies should also be permitted to invest in Venture Capital Funds upto a prudential limit.

4. Flexibility in investment and exit:

(A) Allowing multiple flexible structures:

Eligibility for registration as venture capital funds should be neutral to firm structure. The government should consider creating new structures, such as limited partnerships, limited liability partnerships and limited liability corporations.

(B) Flexibility in the matter of investment ceiling and sectoral restrictions:

According to the committee recommendations, 75 per cent of a venture capital fund's investible funds must be invested in unlisted equity or equity-linked instruments, while the rest may be invested in other instruments. Sectoral restrictions for investment by VCFs could be put by specifying a negative list which could include areas such as finance companies, real estate, gold-finance, activities not legally permitted and any other sectors which could be notified by the SEBI in consultation with the Government. Investments by VCFs in associated companies should also not be permitted. Further, not more than 25 per cent of a fund's corpus may be invested in a single firm.

(C) Changes in buy-back requirements for unlisted securities:

A venture capital fund incorporated as a company/ venture capital undertaking should be allowed to buyback upto 100 per cent of its paid up capital out of sale proceeds investments and assets and not necessarily out of its free reserves and share premium account or proceed of fresh issue. Such purchases will be exempt from the SEBI takeover code. A venture-financed undertaking will be allowed to make an issue of capital within 6 months of buying back its own shares instead of 24 months as at present. Further, negotiated deals may be permitted in Unlisted securities where one of the party to the transaction is VCF.

(D) Relaxation in IPO norms:

The requirement of a 3 year track record should be relaxed provided the issuer company has received at least 10 per cent of its capital as funding from a registered venture capital fund similar to existing provision of funding by banks or financial institutions.

(E) ***QIB market for unlisted securities:***

A market for trading in unlisted securities by QIBs be developed.

(F) NOC requirement :

In the case of transfer of securities by VCF to any other person, the requirement of obtaining NOC from joint venture partner or other shareholders should be dispensed with**.**

(G) RBI pricing norms:

At present, investment/disinvestment by FVCI is subject to approval of pricing by RBI which curtails operational flexibility and needs to be dispensed with.

5. Global integration and opportunities:

(A) Incentives for employees:

The limits for overseas investment under the Employee Stock Option Scheme of a foreign company should be raised from present ceilings of US$10,000 over 5 years, and US$50,000 over 5 years for ADRs/GDRs, to a common ceiling of US$100,000 over 5 years. Foreign employees of an Indian company may invest in the Indian company to a ceiling of US$100,000 over 5 years.

(B) Incentives for shareholders:

The shareholders of an Indian company that has venture capital funding and is desirous of swapping its shares with that of a foreign company should be permitted to do so**.**

(C) Global investment opportunity for domestic venture capital funds (DVCF):

DVCFs should be permitted to invest higher of 25 per cent of the fund's corpus or US $10 million or to the extent of foreign contribution in the fund's corpus in unlisted equity or equity-linked investments of a foreign company. Such investments will fall within the overall ceiling of 70 per cent of the fund's corpus. This will allow DVCFs to invest in synergistic startups offshore and also provide them with global management exposure.

In the meeting of High Level Committee on Capital Markets held at RBI on January 31, 2000 recommendations related to RBI were discussed.

The Hon'ble Finance Minister in his budget speech for the year 2000-2001 announced that SEBI would be single point nodal regulator for registration and regulation of both domestic and overseas venture capital fund/company. He also stated that no approval of Venture Capital Funds by tax authorities would be required and that the principle of "pass through" would be applied in tax treatment of Venture Capital Funds.

The SEBI is now in the process of amending the Venture Capital Fund regulations in the light of K B Chandrasekhar Committee report and also the budget announcements where some important recommendations have been accepted by the government.

Derivative trading

The Securities Law (Amendment) Act 1999, was passed by the Parliament and notification was issued on December 16, 1999, 'derivatives' are now included in the definition of "securities" under SC(R) Act. "Derivatives" has been defined as contracts which derives value form prices, or index of prices of underlying securities.

In-principle approval was granted on January 17, 2000 to the Futures & Options segment of NSE, its clearing house i.e. Futures & Options Segment of NSCCL and the Derivative Segment of BSE. The in-principle approval was subject to compliance with the conditions of eligibility recommended by Dr. L.C Gupta Committee.

On February 1, 2000 SEBI issued guidelines for participation by Mutual Funds in trading in derivative contracts for the purpose of hedging and portfolio balancing.

The Central Government has withdrawn CIRCULAR NO S.O. 2561 DATED JUNE 27, 1969 on forward trading in securities vide its notification dated March 01, 2000. The SEBI has issued notification dated March 01, 2000 permitting trading in Exchange traded derivatives.

All the necessary infrastructure to start derivative trading are in place with NSE & BSE. SEBI has already prescribed regulatory framework for Derivative trading in India. Derivative trading would therefore start very soon.

iv. Intermediaries Associated with the Securities Markets

Primary market

Merchant bankers, underwriters and portfolio managers

In December 1997 Non Banking Finance Companies (NBFCs) registered with RBI were debarred from seeking registration as merchant bankers. However merchant bankers were permitted to carry on activities of primary dealers in government securities. Accordingly, SEBI Merchant Bankers Regulations were also amended to treat NBFCs registered with the Reserve Bank of India for the specific purpose of carrying on activities of primary dealers as eligible for registration as merchant bankers with the Board.

The existing fee structure for merchant bankers, portfolio managers and underwriters was rationalised and a mechanism for upfront payment of fees was introduced by amending the relevant regulations.

Part III gives further details of registration of merchant bankers, underwriters and portfolio managers during 1999-2000.

Debenture trustees

Debenture Trustees are registered and regulated by the SEBI under the provisions of SEBI(Debenture Trustees) Rules and Regulations, 1993. As on 31.3.2000, 38 Debenture Trustees were registered with SEBI.

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 quarterly reports and the inspection reports, the SEBI monitors the activities of the Debenture Trustees and take suitable action against them in case of violation/non-adherence to rules, regulations, etc. The quarterly report was amended vide circular dated April 19, 2000 to make the information called for from the DT comprehensive.

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. Under these regulations, registration commenced in 1994-95. SEBI(Bankers to an Issue) Regulations, 1994 were amended (vide gazette notification dated September 30, 1999) making it mandatory for the intermediary to pay the fees up front at the time of grant of certificate of registration and renewal there after. After amendment the registration fee is Rs.5,00,000/- and the renewal fee is Rs.2,50,000/-.

All registered bankers to an Issue were directed by way of circular on July 9, 1999 to submit the annual report as stipulated in our earlier circular dated April 21, 1995.

Registrar 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 (Registrar to an Issue and Share Transfer Agents) Rules and Regulations, 1993. Under these regulations, registration commenced in the year 1993-94 and is granted under the two categories: Category I to act as both Registrar to an Issue and Share Transfer Agent and Category II to act as either Registrar to an Issue or Share Transfer Agents.

Registrar 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.

SEBI (Registrars to an issue and Share Transfer Agent) Regulations were amended (vide gazette notification dated September 30, 1999) making it mandatory for the intermediary to pay the fees up front at the time of grant of certificate of registration and renewal there after. The registration fees for Category I – Rs. 50,000/- and Category II– Rs.30,000/-. The renewal fees for Category I – Rs.40,000/- and Category II – Rs.25,000/-

During the year, the SEBI (RTI/STA) Rules and Regulations were amended to provide that in-house STA need not fulfill the Capital adequacy requirement of having a net worth of Rs 3 lakh.

v. Foreign Institutional Investors (FIIs)

The SEBI (Foreign Institutional Investors) Regulations, 1995 presently permit portfolio investment by FIIs either on their own account or on behalf of broad based funds. Representations were received indicating willingness of foreign corporate bodies and foreign individuals to invest in Indian capital market through the FII route. This facility is available to this category of investors in several emerging markets economies, subject to prudent regulations, exchange control norms and penal provisions.

Foreign corporates and individuals were permitted to invest in the Indian capital market through registered FIIs. The total investment made by all investors in this category shall not exceed 5 per cent of the total capital of that company within the aggregate limit for FII portfolio investment of 24/30 per cent . NRIs and OCBs shall be excluded from this category as they have separate investment limit of 10 per cent . The FIIs shall be required to undertake due diligence about the legitimacy of source of funds as well as confirm that the investing entity is registered with the relevant tax authorities and is filing its returns regularly.

vi. Other Policies and Programmes Having a Bearing on the Working of the Securities Market

Changes in the regulatory framework for:

A. Substantial acquisition of shares and takeovers

Standardised formats of the draft Letter of Offer in terms of the SEBI(Substantial acquisition of shares and Takeovers), Regulations, 1997.

Under the provisions of SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, the Merchant Banker is required to make a public announcement for an ensuing public offer. Further, subsequently, the merchant banker has to dispatch Letters of Offer to the shareholders of the Target Companies.

To ensure uniformity in compliance of these requirements by all concerned and to enable the concerned persons to furnish all the relevant information in the first instance itself, SEBI has prepared a standard format of the draft Letter of Offer thus prescribing the minimum disclosures requirements. This is with a view to strengthen the disclosure standards, thereby enabling the investors to take informed investment decisions.

These formats have also been made available on the SEBI website to facilitate easy access.

B. The companies (second amendment) bill, 1999

The Companies (Second Amendment) Bill, 1999 was introduced in the Parliament on 23rd December 1999 and subsequently referred to the department related Parliamentary Standing committee on home affairs. The salient features of the said Bill are as under:

Dividend to include interim dividend

The definition of 'Dividend' in section 2(14A) to include any interim dividend.

Minimum capital for public companies

Section 3(iv): A public company should have a minimum paid up capital of five lakh rupees. A private limited company needs to have minimum paid-up capital of Rs.1 lakh.

Deemed public company abolished

Section 43A - The concept of deemed public companies is being abolished with prospective effect.

Default in repayment of deposit

Section 58 AA - If any default is made by any company in repayment of any deposit or any interest thereon the company should give intimation of such default to the CLB. CLB will pass an order within 30 days. The defaulting company will not be able to accept deposit if the default continues.

Listed companies to be administered by SEBI

A new Section 55A is proposed to be included to provide that the provisions contained in sections 55 to 58, 59 to 81, 108, 109, 110, 112, 113, 116, 117, 118, 119, 120, 121, 122, 205, 205A, 206, 206A, 207, 209 and 211 shall in case of listed public companies and those public companies which purport to be listed, be administered by SEBI and in any other case, be administered by the Central Government.

Deemed public offer

Section 67 is being amended by insertion of a proviso to sub-section (3) to section 67 to provide that the offer of securities to more than 50 persons in a financial year will be treated as a public offer.

Guidelines for public issue by PFIs / NBFC to be issued by SEBI

A new sub-section (3B) to section 67 is being inserted to provide that SEBI in consultation with the RBI by notification specify the guidelines in respect of offer or invitation made to public by public financial institutions or NBFCs.

Postal ballot

New section 192A is being inserted to provide that a listed public company can pass a resolution by postal ballot relating to such business as the Central Government may, by notification, declare to be conducted only by postal ballot instead of transacting the business in general meeting of the company.

Appointment of public trustee, etc. abolished

Sections 153A / 153B/ 187B/ 187C being omitted. Thus provisions relating to appointment of public trustee, declaration of shares held in trust, declaration of beneficial interest and filing return thereof are being done away with.

Penalty for failure to pay dividend

Section 207 is amended to provide for penalty for failure to distribute dividend within 30 days instead of earlier 42 days. The amendment also proposes to enhance the imprisonment which may extend to 3 years and the defaulters also liable to pay fine of one thousand rupees for every day during which such default continues and the company is also liable to pay simple interest at the rate of 18 per cent .

Inspection of listed companies by SEBI

SEBI is being empowered to carry out inspection of listed companies under section 209A.

Director representing small shareholders

Section 252 - A public company having paid up capital of Rs.5 crores or more and 1000 or more of small shareholders will be required to have atleast one director elected by the small shareholders. DCA will prescribe the manner of election of such director. The small shareholder is defined as the shareholder having shares of the nominal value of Rs.20,000 or less.

Director's responsibility statement

As per the section 217, Director's report under sub-section (2AA) is proposed to include Board's report and Directors' Responsibility Statement indicating that the applicable accounting standards have been followed; and explanation for material departures, application of accounting policies consistently so as to give a true and fair view of the state of affairs of the company and that the directors have taken sufficient care for the maintenance of adequate accounting records, safeguarding assets of the company and for preventing fraud, have been implemented.

Auditors not to hold security

Section 226(3) is being amended to provide that an auditor shall not hold any security of the company.

Auditors report on adverse effect

Section 227 is proposed to be amended to provide that auditor's report will state in thick type or italics and observations or the comments of the auditors which have an adverse effect on the functioning of the company and whether any director is disqualified under section 274(1)(g) of the Act.

Disqualification of directors

Section 274 is being amended to provide that a director of a pubic co., which has not filed annual accounts & annual returns for any continuous three years or has failed to repay its deposit or interest thereon or redeem its debentures or pay dividend on due dates & such default continues for one year; shall not be eligible to be appointed as director of a public co. for a period of 5 years (clause 126 of the Bill)

Reduction in number of directorship a person can hold

The provisions of section 277 is amended so as to reduce the number of companies a person can be a director to 15 companies from earlier 20.

Audit committee

A new section 292A is to be inserted to provide that every public company having a paid up capital of not less than five crores of rupees shall constitute a committee of the Board of Directors known as audit committee. The Audit Committee should have discussions with the auditors periodically about internal control system, the scope of audit including the observations of the auditors and review the half-yearly and annual financial statements before submission to the Board and also ensure compliance of internal control systems. The Audit Committee shall have authority to investigate into any manner in relation to the items specified in this section or referred to it by the Board and for this purpose, shall have full access to information contained in the records of the company and external professional advice, if necessary. The recommendations of the Audit Committee on any matter relating to financial management, including the audit report, shall be binding on the Board.

Secretarial compliance report

As per the Section 383A - every company having a paid up capital of 10 lakhs or more shall file with Registrar secretarial compliance report certified by the Company Secretary.

Prosecution power to SEBI

Section 621 has been amended to authorize SEBI to file complaints for sections to be administered by SEBI in respect of listed companies under section 55A proposed to be inserted by the Bill.

A. *Securities Laws (Amendment) Act, 1999*

The definition of securities was enlarged to include derivatives and units or any other instruments issued by collective investment schemes to the investors of such schemes.

Derivatives have been defined to include -

a. a security derived from a debt instrument, share, loan, risk instrument or contract for difference or any other form of security.
b. a contract which derives its value from the prices or index of prices of underlying securities.

- Section 18A was inserted to make those contracts in derivatives legal, which are traded on recognised stock exchange and settled in the clearinghouse.

- Section 29A was substituted to provide for delegation of power by the Central Government to the Reserve bank of India in addition to the Securities and Exchange Board of India.

B. *By Securities Laws (Second Amendment) Act, 1999*

Amendments were made to

a. The Securities Contracts (Regulation) Act, 1956 to provide for appeal to Securities Appellate Tribunal against refusal of recognised stock exchange to list the securities and procedures for such appeal laid down.

b. Amendments to the Securities and Exchange Board of India Act, 1992 were made to provide that appeal would lie to Securities Appellate Tribunal from any order of SEBI and procedure for such appeal laid down.

c. Amendments to the Depositories Act, 1996 were made to provide that appeal would lie to Securities Appellate Tribunal from any order of SEBI and procedure for such appeal laid down.

C. *Securities Appellate Tribunal (Procedure) Rules, 2000*

Securities and Exchange Board of India (Appeal to Central Government) Rules, 1993 and Securities and Exchange Board of India Appellate Tribunal (Procedure) Rules, 1995 were repealed and substituted by new Securities Appellate Tribunal (Procedure) Rules, 2000.

Rules provide for appeal to Securities Appellate Tribunal instead of Central Government from any order of SEBI passed after 16th December 1999 and procedure for the appeal.

D. *Depositories (Appeal To Securities Appellate Tribunal) Rules, 2000*

The Depositories (Appeal to Central Government) Rules, 1998 was repealed and replaced by the Depositories (Appeal to Securities Appellate Tribunal) Rules, 2000 providing for appeal to Securities Appellate Tribunal from the order of SEBI.

E. *Securities Contracts (Regulation) (Appeal to Securities Appellate Tribunal) Rules, 2000*

Securities Contracts (Regulation) (Appeal to Securities Appellate Tribunal) Rules, 2000 was framed to provide for appeal to Securities Appellate Tribunal from the decisions of the stock exchanges to refuse listing of securities.

F. *Securities And Exchange Board Of India (Credit Rating Agency) Regulations, 1999*

The SEBI (Credit Rating Agency) Regulations 1999 were notified on 7th July 1999.

- As per the Regulations **"credit rating agency"** means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue;
- Credit rating agency can be promoted by a public financial institution, a scheduled commercial bank, a foreign bank, a foreign credit rating agency or any company or a body corporate having net worth of Rs. 100 crores.
- A minimum net worth of rupees five crores has been specified for a Credit rating agency.
- Every credit rating agency shall enter into a written agreement with each client whose securities it proposes to rate, and every such agreement shall inter-alia include:-
  (a) the rights and liabilities of each party shall be defined;
  (b) the client shall agree to a periodic review during the tenure of the rated instrument;
  (c) the client shall co-operate with the credit rating agency;
  (d) the client shall agree to obtain a rating from at least two different rating agencies whose size is equal to or exceeds, rupees one hundred crores.
- Credit rating agency shall, continuously monitor the rating of securities.
- If the client does not co-operate, the credit rating shall be carried with the rating process with the best available information.
- Every credit rating agency –
  (a) shall make public the definitions of the concerned rating, along with the symbol;
  (b) shall also state that the ratings do not constitute recommendations to buy, hold or sell any securities; and
  (c) every credit rating agency shall make available to the general public information relating to the rationale of the ratings.

- Every credit rating agency shall –
  (a) specify the rating process;
  (b) shall have professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating.
- No credit rating agency shall rate a security issued by its promoter.
- In case promoter is a lending institution, its Chairman, director or employee shall not be a Chairman, director or employee of credit rating agency or its rating committee.
- No credit rating agency shall, rate a security issued by an entity, which is -
  (a) a borrower of its promoter; or
  (b) a subsidiary of its promoter; or
  (c) an associate of its promoter, if
  (d) there are common Chairman, Directors between credit rating agency and these entities
  (e) there are common employees
  (f) there are common Chairman, Directors, Employees on the rating committee.
- No credit rating agency shall rate a security issued by its associate or subsidiary, if the credit rating agency or its rating committee has a Chairman, director or employee who is also a Chairman, director or employee of any such entity.
- Code of conduct has been specified for Credit Rating Agency which inter alia include: -
  (a) shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgement.
  (b) shall wherever necessary, disclose to the clients, possible sources of conflict of duties and interests, while providing unbiased services
  (c) shall avoid any conflict of interest of any member of its rating committee participating in the rating analysis
  (d) shall not indulge in unfair competition nor shall they wean away client of any other rating agency on assurance of higher rating
  (e) shall not make any exaggerated statement
  (f) shall not divulge to other clients, press or any other party any confidential information about its client

G. ***Securities And Exchange Board Of India (Collective Investment Scheme) Regulations, 1999***

Securities and Exchange Board of India (Collective Investment Scheme) Regulations, 1999 were notified on 14th October 1999.

- In these regulations, **"collective investment scheme"** means any scheme or arrangement with respect to property of any description -
  (a) Which enables investors to subscribe or participate in scheme or arrangement and receive profits or income arising out of such investment or property
  (b) Subscriptions are pooled and used for the purpose of scheme or arrangement by whatever name it is called.
  (c) Investors subscribing or participating in the scheme or arrangement do not have any control in the day today control over the management or operation.

- The following are specifically excluded from the definition of collective investment scheme, namely:
  (a) deposits by companies and Non-Banking Financial Companies
  (b) Chit Funds
  (c) companies declared as Nidhi companies
  (d) contracts of insurance, etc.
- The applicant shall be:
  (a) registered as a company
  (b) managing of collective investment scheme as one of its main objects
  (c) has a net worth of not less than rupees five crores
- A scheme shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed and only persons registered with the Board as Debenture Trustee are eligible to be appointed as trustees.
- The trustee and the Collective Investment Management Company shall enter into an agreement for managing the scheme property.
- All the schemes have to be approved by the Trustee.
- Scheme can be launched after obtaining a rating form a credit rating agency.
- Every scheme has to be appraised by an appraising agency
- Collective Investment Management Company can launch only close ended scheme and the duration of the schemes shall not be less than three calendar years.
- Collective Investment Management Company shall obtain adequate insurance policy for protection of the scheme property.
- No scheme shall provide guaranteed or assured returns.
- The offer document shall contain
  (a) such information as specified in the Sixth Schedule
  (b) true and fair view of the scheme and adequate disclosures to enable the investors to make informed decision
  (c) the minimum and the maximum subscription amount it seeks to raise under the scheme; and
  (d) in case of over subscription the process of allotment of the amount oversubscribed.
- The offer document and advertisement materials shall not be misleading or contain any statement or opinion, which are incorrect or false.
- No scheme shall be open for subscription for more than 90 days.
- The Collective Investment Management Company shall refund the application money to the applicants, -
  (a) if the scheme fails to receive the minimum subscription
  (b) any amount refundable shall be refunded within a period of six weeks from the date of closure of subscription list
- A scheme shall be wound up on the expiry of duration specified in the scheme or on the accomplishment of the purpose of the scheme.
- Existing schemes - The existing CIS were required to make application within 2 months from the date of notification. Such scheme would be considered for grant of provisional registration and given some time to comply with provisions of the regulations. The procedure for winding up of the existing schemes are also laid down.

H. *SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 1999*

- A summary procedure for enquiry for cases where broker has failed to pay fee or where broker has been declared defaulter or insolvent has been specified.
- The requirement of sending a copy of the order to the Central government was dispensed with.

(2) SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2000

- The amendment provides for registration and regulation of trading member and clearing member of derivative segment of an exchange.
- Code of conduct, payment of fees by such member have been specified.

I. *SEBI (Payment of Fees) Regulations, 1999*

Regulations relating to merchant bankers, portfolio managers, registrars to an issue / share transfer agents, underwriters, bankers to an issue, debenture trustees in respect of payment of fees were amended to provide for revised registration and renewal fee. The amendment provides for upfront collection of renewal fees.

J. *SEBI (Merchant Bankers) (Amendment) Regulations, 1999*

- A merchant banker who has been granted registration by Reserve Bank of India can act as primary or satellite dealer may carry on such activity but cannot accept or hold public deposit.
- A merchant banker who is authorised to act as primary or satellite dealer can do such business as permitted by RBI.

K. *SEBI (Portfolio Managers) (Amendment) Regulations, 2000*

- A portfolio manager may manage funds raised from outside India as per SEBI (Foreign Institutional Investors) Regulations, 1995.

L. *SEBI (Registrars to an Issue and Share Transfer Agents) (Second Amendment) Regulations, 1999*

Capital adequacy norms are not applicable for in-house share transfer agent.

M. *(1) SEBI (Foreign Institutional Investors) (Amendment) Regulations, 1999*

- Foreign institutional investor may sell securities in a buy back offer.
- Registration fee by foreign institutional investor is payable through appropriate mode or instrument.

(2) SEBI (Foreign Institutional Investors) (Second Amendment) Regulations, 1999

The criteria for broad based funds was modified to mean a fund which has atleast 20 investors (instead of 50) and with no single investor holding more than 5 per cent (instead of 10 per cent) of the shares or units in the fund.

(3) SEBI (Foreign Institutional Investors) (Amendment) Regulations, 2000

- Domestic Asset Management Company / Domestic Portfolio Manager were permitted to manage foreign investments through portfolio management route and are to be deemed foreign institutional investors.
- No fee specified for domestic asset management company or domestic portfolio manager.
- Foreign corporate or high networth individual investors were allowed to invest as sub-account.
- Non Resident Indian, Overseas Corporate Body registered with Reserve Bank of India are not eligible to invest as sub-account.
- Foreign corporate or individuals are not eligible to invest through 100 per cent debt route
- Investments by foreign corporate or individuals shall not exceed 5 per cent of total issued capital of company.
- Additional information and undertakings by foreign corporates or individuals have been specified.

N. ***(1) SEBI (Depositories and Participants) (Amendment) Regulations, 1999***

- Registrars to an Issue and Share Transfer Agents with networth of Rs.50 lacs can act as depository participant.
- The stock broker depository participant limit for holding demat securities enhanced to 35 times for networth upto 50 to 750 lacs and 50 times for networth above 750 lacs specified.

(2) SEBI (Depositories and Participants) (Second Amendment) Regulations, 1999

- Provision for appointment of outside auditor for inspection of depository, depository participant and issuer company specified.
- The SEBI to recover expenses of inspection from depository or depository participant, issuer.

(3) SEBI (Depositories and Participants) (Third Amendment) Regulations, 1999

- A stock broker can hold as Depository Participant demat securities 100 times of its networth.
- A restriction that Share Transfer Agent cannot act as Depository participants for companies for which it is acting as Share Transfer Agent was removed.

O. *SEBI (Venture Capital Funds) Regulations, 1999*

A body corporate established under the laws of Central or State legislatures was permitted to carry on activities of Venture Capital Fund.

P. *(1) SEBI (Mutual Funds) (Amendment) Regulations, 1999*

- Definition of Trustee was amended to mean a trustee or a company who holds the property of the Mutual Fund for the benefit of the unitholders.
- Details of transaction in securities to be submitted quarterly by the trustees.
- Consent of unit holder for charge in fundamental attributes and controlling interest in asset management company not necessary for open ended scheme if unit holders are sent individual communication and given exit option without any exit load.
- Trustees to exercise due diligence.
- Trustees are not liable if acted in good faith and exercised due diligence.
- Independent directors or trustees or asset management company to pay specific attention to certain issues.
- Asset management company were permitted to undertake portfolio management services.
- Disclosure by Mutual Funds at the time of declaring half yearly and yearly results.
- Mutual Funds are permitted to enter into derivative transactions for hedging and portfolio balancing.
- Meeting of trustees to be held once every 3 months.
- Quorum for meeting of trustees specified.
- Trustees and asset management company are required to maintain high standards.
- Mutual Fund cannot invest more than 15 per cent of its NAV in debt instruments issued by a single issuer which are rated not below investment grade, 10 per cent of its NAV in un-rated debt instruments of a single issuer and the total investment in un-rated instruments shall not exceed 25 per cent of NAV.

(2) SEBI (Mutual Funds) (Amendment) Regulations, 2000

- Asset management company made liable to pay interest on failure to despatch redemption / repurchase proceeds within time specified.
- Mutual Funds were given option to send half yearly statement of scheme portfolio to unitholders or publish the same by way of advertisement in leading newspaper.

Q. *SEBI (Buy-back of Securities) (Amendment) Regulations, 1999*

- Buyback regulation to cover specified securities instead of shares only.
- The maximum price at which buy-back offer shall be made instead of price and Board of Directors can be authorised by Annual General Meeting to determine specific price, shall be disclosed in Explanatory Statement to the notice.

- Extra-ordinary General Meeting may authorize Board of Directors to adopt one of the methods of buyback under the Regulations.

R. ***SEBI (Collective Investment Schemes) Regulations, 1999***

The words 'Collective Investment Scheme' was assigned the same meaning as defined in section 11AA of the Securities an Exchange Board of India Act.

S. ***SEBI (Appeal to Securities Appellate Tribunal) (Amendment) Regulations, 2000***

Regulations such as merchant bankers, portfolio managers, registrars to an issue / share transfer agents, debenture trustees, credit rating agencies, etc. were amended to provide that orders passed under the respective regulations can be appealed before the Securities Appellate Tribunal instead of to the Central Government.

T. ***Disclosure And Investor Protection Guidelines***

Clarification No. XXIV dated 18th May 1999

- SEBI revised the eligibility norms for public issue in respect of criteria of actual payment of dividend. It was laid down that the body corporate desirous of getting the securities listed on any stock exchange shall have a track record of distributable profits in terms of section 205 of the Companies Act for atleast 3 out of the immediately preceding five years and a pre-issue networth of not less than Rs.1 crore in 3 out of preceding five years with a minimum networth to be met during immediately preceding 2 years.
- In respect of infrastructure company it was specified that the stake of any of the appraising institution (viz. Development Financial Institution or Infrastructure Development Finance Corporation or Infrastructure Leasing and Financing Services Ltd.) jointly or severally irrespective of whether they have apprised the project or not, can be considered for eligibility criteria.
- SEBI also modified the code of advertisement in respect of public issue stating that issue advertisement on television in the form of crawlers shall not be allowed.

Guidelines to Development Financial Institutions (DFIs) for Disclosure and Investor Protection - Clarification I dated 23rd July 1999

It was decided that -

- the DFIs shall disclose in the offer documents their actual debt equity ration vis-à-vis the desirable debt equity ration 12:1;
- the DFIs shall disclose in the offer document their actual Notional Debt-Service Coverage Ratio (NDSCR) vis-à-vis the desirable minimum ratio of 1:2 to be maintained for each year.

Clarification no. XXV dated 11th October 1999

- The standard denomination of the securities was limited to Rs.10/- or Rs.100/- in terms of the Central Government circular. It was decided to give flexibility to companies to determine the denomination of equity shares. The companies are given freedom to issue shares at a fixed amount to be determined by them in accordance with section 13(4) of the Companies Act and subject to the norms specified in the said clarification.
- One set of disclosure and entry norms for all issues and that the company shall give the justification for the issue price of the offer document irrespective of the issue price was specified. Any unlisted company eligible to make public issue was given freedom to price its equity shares subject to compliance with disclosure norms. The banks were also given freedom to freely price the issue of equity shares subject to the approval of the Reserve Bank of India.
- No company shall make the public or right issue for offer for sale of securities unless it enters into an agreement with a depository for dematerialisation of securities already issued or proposed to be issued to the public or existing shareholders and has given an option to the subscribers / shareholders / investors either to receive the securities certificate or to hold the securities with a depository.
- It is provided that pursuant to the change in denomination, the issuer company shall make specific disclosures in the offer document in respect of all the financial data affected by such change, comparison of financial ratios representing value per share and comparison of stock market data in respect of price and volume of securities and shall clearly present the capital structure incorporated in the offer document giving all the relevant details pertaining to change in denomination.

Clarification No. XXVI dated 15th October 1999

- The requirement of offer to the public atleast 25 per cent of each kind or class of securities issued by the company incase of information technology sector company was relaxed subject to the condition that minimum 10 per cent of the securities issued of such companies are offered to the public, minimum 20 lakh securities are offered to the public and the size of the offer to the public is minimum Rs. 50 crores.
- It was specified that in case of offer of companies in the information technology sector, the track record of distributable profits shall be considered for the eligibility requirements only if the profits are emanating from the information technology business or activities.
- It was decided that in case of conversion of a partnership firms into company or spinning of a division of a company track record of distributable profits of the firm or said division shall be considered for the eligibility requirements if the financial statement for the respective years pertaining to the partnership business or division conform to the revised format identical to that required for companies and adequate disclosures are made in the financial statements similar to that of the company as specified in Schedule VI of the Companies Act and the financial statements shall be duly certified by a Chartered Accountant stating that same are in line with the provisions of Schedule VI and Accounting Standards of Institute of Chartered

Accountants of India have been followed and that the financial statements present a true and fair picture of the accounts.

- It has been specified that a listed company which has changed its name to indicate as if it is engaged in the business in information technology sector during a period of three years prior to filing of the offer document with the Board can make a public issue if it has a track record of distributable profits in terms of section 205 of the Companies Act for atleast three years out of immediately preceding five years from the information technology business and it has a pre-issued networth of not less than rupees one crore in three out of preceding five years with the minimum networth to be met during immediately preceding two years. Otherwise the company can make a public issue in compliance with the existing entry norms.
- Credit rating of all debt instruments irrespective of its tenure was made compulsory. In case of public or right issue of debt instruments greater than or equal to 100 crores it was made compulsory to have instruments rated by two credit rating agencies and all the credit ratings shall be disclosed. It was specified that all the credit ratings obtained in the preceding three years for an unlisted security of the issuer company shall be disclosed in the offer document. The issuer company also were required to make necessary the co-operation of the credit rating agency for providing true, fair and adequate information till the date the application in respect of instruments are outstanding.

Clarification No. XXVII dated 26th November 1999

The guidelines in respect of book-building was modified as under:

- The company proposing to issue securities to public through book building facility was given option either to follow the existing guidelines read with modification effected by the clarification or to issue the securities through book-building facility with an option to offer 75 per cent of net public offer for bidding and the balance 25 per cent at the fixed price determined by the book-building exercise.
- It was provided that the company shall -
  (a) disclose either the issue size or the number of securities to be offered to the public subject to compliance of rule 19(2)(b) of the SC (R) Rules;
  (b) make additional disclosure with respect to the arrangements made for meeting the deficit in financing and the pattern of deployment of excess funds;
  (c) fix the minimum bid size for the book building portion;
  (d) have option to fix the date of allotment for book building portion which may be prior to the date of allotment for fixed price portion;
  (e) be allowed to spill over the excess subscription from the fixed price portion to the book built portion reserved for allocation to individual investors bidding upto 10 tradable lots to the extent of shortfall in the latter.

- It was clarified that the reservation in allocation to individual investors applying upto 10 tradable lots through the syndicate members shall be with reference to the issue size and not post-issued capital.

- It was stipulated that a company availing the optional facility of offering 75 per cent of net public offer for bidding shall make the allotment in respect of the book-built portion in dematerialised form only. However, the allottees shall have the option to rematerialise the same. Further, such company may graphically display the demand at the end of each day of the bidding at the terminals, use electronically-linked facility and fix a minimum bid size or the book-built portion.

Clarification dated 30th November 1999

Through a press release dated 30th November 1999 it was clarified that if an unlisted company which came up with an Initial Public Offer (IPO) has issued shares to any person at a price lower than the IPO price within 6 months prior to the date of opening of the IPO, the entire pre-IPO capital (except shares issued to venture capitalists and employees of the company) shall be locked in for a period of 6 months from the date of trading of the IPO on the regional stock exchanges.

SEBI (Disclosure and Investor Protection) Guidelines, 2000

All the guidelines, circulars, instructions in respect of disclosure and investor protection was consolidated. The consolidated guidelines known as SEBI (Disclosure and Investor Protection) Guidelines, 2000 consolidating the clarifications upto Clarification No. XXVI was issued on 19th January 2000.

Clarification dated 16th February 2000

- The SEBI (Disclosure and Investor Protection) Guidelines, 2000 was amended on 16th February 2000.
- It was specified that trading in securities of companies making an initial public offering shall be in dematerialised form only.
- It was specified to make available the final offer document on SEBI website.
- The practice of associating Resource Personnel (SEBI nominee) while finalizing the allotment in the public issue in case of over subscription was done away with.
- It was specified that the drawl of lots when required, to finalize the basis of allotment shall be done in the presence of a public representative on the Governing Board of the regional stock exchange. The basis of allotment shall be signed as correct by the Executive Director / Managing Director of the stock exchange and the public representative in addition to post issue lead manager and the registrar to the issue. The stock exchange shall invite the public representative on a rotation basis.

U. *SEBI (Employee stock Option Scheme and Employee Stock Purchase scheme) Guidelines, 1999*

These guidelines were issued on 24th June 1999.

- As per these guidelines ESOS means a scheme under which a company grants option to employees and ESPS means a Scheme under which a company offers shares to employees as part of public issue or otherwise.

- Promoters of the company and directors and relatives of the company who have holding of more than 10 per cent are not eligible under either of the schemes.
- The company will have to constitute a Compensation Committee to formulate detailed terms and conditions of ESOS and ESPS as the case may be. The said Committee will have to look into the quantum of option to be granted, conditions, exercise period within which employees have exercise their option, rights at the time of termination of employment etc.,
- The Compensation Committee shall see to that SEBI (Insider Trading) Regulations and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations are complied with.
- The company will have to pass a special resolution in the general meeting approving the grant of ESOS and ESPS as the case may be. The notice of the meeting in detail should contain details of the number of options to be granted or shares to be offered as the case may be, identification of classes of employees and the maximum time period within which options shall be vested or the shares may be held.
- The terms of ESOS and ESPS as the case may be can only be changed only after passing a special resolution in the general meeting pertaining to only terms which were not yet exercised by the employee.
- The shares or the options as the case may be are subjected a lock-in period of one year and are non-transferable however shares issued or options granted pursuant to such issue or option are not subject to lock-in period.
- The Board of Director's either in their report or in the Annexure of the report all the details regarding to the issue of shares or grant of options as the case may be.
- The company shall comply with the Accounting policies specified in Schedule I.
- The company will have to obtain a certificate from the auditors that the scheme has been implemented and place it before the shareholders in the general meeting.

V. *Amendments to the Listing Agreement*

(a) By circular dated 26th April 1999, the exchanges were advised to amend clauses 32 and 41 of the listing agreement to provide that companies who change their names suggesting any new line of business (including software business) shall disclose turnover and income, etc. from such new activity separately in the quarterly / annual results required to be published.

(b) By circular dated 18th May 1999 the exchanges were advised to amend the listing agreement in order to appoint the Company Secretary of the company as the compliance officer.

(c) SEBI vide its circular dated 19th May 1999, clause 32 of the listing agreement was amended to provide that each shareholder be furnished abridged balance sheet and full balance sheet could be sent to each household. However, if any investor in the same household wants a separate balance sheet, the company shall supply on request.

(d) Vide circular dated 1st July 1999, exchanges were advised to amend the listing agreement that in case the companies prefers to give audited results instead of unaudited results for the last quarter of the financial year, then the company has to submit the audited results within three months instead of two months from the end of the last quarter of the financial year.

(e) Vide circular dated 14th July 1999, the exchanges were advised to amend the listing agreement to provide that the company should co-operate with the credit rating agencies for giving the correct and adequate information for periodical review of rating during the life-time of rated securities.

(f) Vide circular dated 4th February 2000, exchanges were advised to amend the listing agreement in respect of accounting standards relating to continuous disclosures requirements as under:

    (i) The cash flow statement shall be prepared in accordance with the accounting standards on cash flow statement (AS3) issued by ICAI and the cash flow statement shall be presented only in the indirect method as given in AS3.

    (ii) Clause 41 - companies may be permitted to consider unaudited quarterly results in the meeting of sub-committee of the Board of Directors consisting of not less than 1/3rd of the total number of directors. The company will make an announcement to the stock exchange where the company is listed immediately after the market hours on the date of the Board meeting or the meeting of the sub-committee or the Board of Directors.

    (iii) Clause 19 - Prior intimation of the Board meeting on which declaration of the dividend is due to be considered must be made atleast 7 days in advance. The company shall give notice simultaneously to the stock exchanges in case proposal for declaration of bonus is communicated to the Board of Directors as per the agenda papers.

    (iv) Amendment to clause 20 and 22 - The announcement in respect of declaration of dividend or rights or bonus shall be made immediately on the date of the Board meeting only after the close of market hours.

(g) Vide circular dated 21st February 2000 exchanges were advised to amend the listing agreement in order to promote and raise the standards of corporate governance.

(i) Clause 49 - The Board of Directors of the listed company shall have an optimum combination of executive and non-executive directors that not less than 50 per cent of the Board of Directors comprising of non-executive independent directors.

(ii) The company shall appoint qualified and independent audited committee to oversee company's financial reporting process and disclosure of its financial information, reviewing with the management the annual financial statement before submission to the Board.

(iii) Disclosures on the remuneration of directors in the annual report.

(iv) The Board meeting shall be held atleast 4 times a year with a maximum time gap of 4 months between any 2 meetings.
(v) The management discussions and analysis report should form part of the annual report to the shareholders.
(vi) Information to the shareholders in respect of appointment of new director.
(vii) A separate section of corporate governance in the annual reports to be published both in respect of non-compliance of any mandatory requirement and non-mandatory requirements.
(viii) Auditor to furnish certificate in respect of compliance of conditions of corporate governance and publish and send annually to the shareholders and to the stock exchanges.

W. ***Notifications under section 16 of the SC (R) ACT -***

1969 Notification repealed

(i) The Central Government vide notification no. S.O. 186(E) dated 1st March 2000 rescinded the notification no. S.O. 2561 dated 27th June 1969 prohibiting entering into contracts in securities otherwise than as per the bye-laws and regulations of the stock exchanges, etc.

Regulation of debt market by SEBI and RBI - demarcation

(ii) The Central Government vide notification no. 183(E) dated 1st March 2000 amended notification no. S.O. 573(E) dated 30th July 1992 which relates to delegation of certain powers to SEBI. The Central Government vide notification dated 1st March 2000 delegated the power exercisable by it under section 16 of the S C (R) Act to RBI in relation to any contracts in government securities, money market securities, gold related securities and any securities derived from these securities and in relation to ready forward contracts in bonds, debentures, debenture stock, securitised debt and other debt securities. It is further specified that such contracts entered into on the recognized stock exchange shall be entered into in accordance with the rules or regulations or the bye-laws made under the SC (R) Act, SEBI Act or directions issued by SEBI, directions issued under the RBI Act or the Banking Regulations Act or the FERA by the RBI.

Notification under section 16(1) by SEBI

(iii) SEBI in exercise of the powers conferred under section 16(1) read with the Government of India notification no. S.O. 573(E) dated 30th July 1992 and S.O. 183(E) dated 1st March 2000 issued notification no. 183(E) dated 1st March 2000 declaring that no person shall enter into any contracts for sale or purchase of securities otherwise than spot delivery contracts for cash or hand delivery or special delivery or contracts in derivatives as is permissible in the said Act or the Securities and Exchange Board of India Act, 1992 and the rules and regulations made under such Acts and the rules, regulations and bye-laws of the recognized stock exchange. It was further specified that the contracts for purchase or sale of government securities, money market securities, gold related securities, ready forward contracts, debt securities to be entered into the recognized stock exchange shall be entered in accordance with the rules or the regulations or the bye-laws made under the SC (R) Act or the SEBI Act or the directions issued by SEBI and the rules made under the RBI Act, Banking Regulation Act and the FER Act by RBI.

Implementation of objectives and principles of IOSCO by SEBI

The SEBI is an active and a leading member of the International Organization of Securities Commissions (IOSCO). India stands committed to the various measures and efforts undertaken by the IOSCO in order to improve transparency in the functioning of the international capital markets and increasing the efficiency of the global securities markets.

The IOSCO has issued a set of 30 principles of securities regulation, which are based upon three objectives of securities regulation. These objectives are:

- The protection of investors
- Ensuring that markets are fair, efficient and transparent
- The reduction of systemic risk

These 30 principles need to be practically implemented under the relevant legal framework to achieve the objectives of the regulation described above. The SEBI has always endeavoured to harmonise the SEBI regulations and guidelines with these principles in order to conform to global standards. These principles are grouped into eight categories, which along with their respective implementation status are given in Table 1.5.

Table 1.5: Implementation of Principles of Securities Regulations of IOSCO

Sr.No.	Principles	Status Of Implementation
A.	**Principles Relating To The Regulator**	
1	The responsibilities of the regulator should be clear and objectively stated	Partially Implemented The Preamble of the SEBI Act provides that the responsibility of SEBI is to protect the interest of investors and to promote the development of and to regulate the securities market and for matters connected therewith. Necessary changes have to be made in other legislation empowering SEBI to supervise and regulate listed companies.
2	The regulator should be operationally independent and accountable in the exercise of its functions and powers.	Implemented SEBI is an autonomous body created under a separate statute i.e. SEBI Act, 1992. SEBI has to submit returns , reports and statements to Central Government, which are laid before each House of the Parliament by the Central Government
3	The regulator should have adequate powers, proper resources and the capacity to perform its function and exercise its powers.	Partially Implemented SEBI has power of direct surveillance of the stock exchanges, members of stock exchanges and other market intermediaries registered with it SEBI has no powers over listed companies .
4	The regulator should adopt clear and consistent regulatory processes.	Implemented SEBI has been given powers to frame regulations under Section 30 of the SEBI Act The regulations are required to be published in the Gazette of India and also laid before each House of the Parliament
5	The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.	Implemented Code of Conduct is specified in the Service regulations and the staff members are required to undertake and declare fidelity and secrecy in terms of the regulations.
B	**Principles of Self- Regulation**	
6	The regulatory regime should make appropriate use of self – regulatory organizations (SROs) that exercise some direct oversight responsibility for the respective areas of competence, to the extent appropriate to the size and complexity of the Markets.	Implemented Under the SEBI Act, there is provision for promotion and regulation of SROs. These SROs are also empowered to make rules and regulations for their members and for regulating the conduct of respective members.
7	SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.	Implemented These SROs are under the direct oversight of the SEBI and SEBI issues guidelines and directions periodically to ensure safety, integrity and improvement of the market
C	**Principles for the Enforcement of Securities Regulation**	
8	The regulator should have comprehensive inspection investigation and surveillance	Implemented SEBI Regulations relating to various market intermediaries

	powers.	authorize SEBI to carry out routine inspections of their functions. SEBI has also set up a Market Surveillance Division to keep a pro active oversight on the surveillance activities of the stock exchanges. SEBI has powers in respect of discovery and production of records and documents, summoning and enforcing the attendance of persons and examining them under oath.
9	The regulator should have comprehensive enforcement powers	Partially Implemented Action is taken on the basis of the report of the investigation and/or of the enquiry/adjudication officer who is appointed in terms of the various SEBI Regulations pursuant to the completion of the investigation. In respect of intermediaries, action is taken by way of suspension of business, cancellation of registration, and issue of censure /warning.
10	The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.	Partially Implemented Some of the important measures taken up by SEBI to ensure effective and credible use of investigation, surveillance enforcement powers are as follows: • Risk containment measures • Uniform scrip specific price bands • Development of stock watch system • Suspension of intermediaries • Prohibitive action taken under sec 11 B of SEBI Act
D	**Principles for Co-operation in Regulation**	
11	The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.	Implemented SEBI shares information with the Government of India, The Reserve Bank of India and other domestic regulatory bodies on a periodic basis or as and when requested. SEBI also shares information with its foreign counterparts as and when requested.
12	Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.	Partially Implemented A mechanism has been set up for sharing information with the Government and the Reserve Bank of India on a periodic basis. SEBI has entered into a Memorandum of Understanding with Securities and Exchange Commission, USA for information sharing. SEBI also intends to sign similar MOUs with other regulatory bodies.
13	The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.	Partially Implemented Powers of the regulator to assist foreign regulators or to enter into MOUs or other co-operation arrangements need to be explicitly provided in the legislation and for this necessary changes have to be made in the law.
E	**Principles for Issuers**	
14	There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.	Implemented As per the listing agreement with the Stock Exchanges, all the listed companies are required to publish on an annual basis financial statements audited by an external auditor.

15	Holders of securities in a company should be treated in a fair and equitable manner	Implemented Minority shareholders' protection is facilitated through SEBI (Substantial Acquisition of Shares and Takeovers), Regulations, 1997- a subordinate legislation under the SEBI Act.
16	Accounting and auditing standards should be of a high and internationally acceptable quality	Implemented As per the listing agreement with the Stock Exchanges, all the listed companies are required to publish on an annual basis financial statements audited by an external auditor and also publish unaudited quarterly results. Listed companies are required to prepare financial statements in accordance with the provisions of Section 211 of the Companies Act, 1956.
F	**Principles for Collective Investment Schemes**	
17	The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.	Implemented Eligibility standards have been specified in SEBI Mutual Fund Regulations, 1996 for sponsors of mutual funds e.g. net worth, past track record
18	The regulatory system should provide for rules governing the legal form and structures of collective investment schemes and the segregation and protection of client assets.	Implemented Structure of a mutual fund has been specified in SEBI Mutual Fund Regulations, 1996.
19	Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investors interest in the scheme.	Implemented Disclosure standards including format of offer document have been specified in SEBI Mutual Fund Regulations, 1996
20	Regulation should ensure that there is a proper and disclosed basis for assets valuation and the pricing and the redemption of units in a collective investment scheme.	Implemented Specific provisions in SEBI Mutual Fund Regulations, 1996 have been provided for asset valuation and pricing of units
G	**Principles for Market Intermediaries**	
21	Regulation should provide for minimum entry standards for market intermediaries.	Implemented The eligibility criteria has been prescribed for the intermediaries, which need to be fulfilled before granting registration.
22	There should be initial and on going capital and prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.	Implemented The entry norms for the intermediaries provide for the capital clause as well as the maintenance of the same on a continuing basis.
23	Market intermediaries should be required to comply with standards for internal organizations and operational conduct that aim to protect the interest of clients, ensure proper management risk, and under which management of the intermediary accepts primary responsibility	Implemented Each Regulation contains a separate chapter on Code of Conduct which contains provisions to protect the interest of the clients, and ensure proper management of risk.

	for these matters.	
24	There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.	Implemented The protection of the interest of the investors is the essence of the regulation of the capital market by SEBI. This has been ensured by the trade guarantee funds of the exchanges and Investor/Customer Protection Funds established at each Stock Exchanges.
H	**Principles for the Secondary Market**	
25	The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.	Implemented The power of jurisdiction over the stock exchanges is drawn from the provisions of the Securities Contracts (Regulation) Act 1956. The exchanges have to seek recognition from SEBI under Section 4 of the Act before they can commence their operations. SEBI has been delegated the powers to administer the SC(R)A, 1956.
26	There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.	Implemented The regulation of the stock exchanges is under direct jurisdiction of SEBI. More over exchanges being an SRO, exercise direct control over its member. Over and above these controls, SEBI also manages the regulation of these brokers on the principle of the regulation by exception.
27	Regulation should promote transparency of trading	Implemented All the stock exchanges have online screen based trading. This has been made as one of the entry norms for the stock exchanges as per the provision in the section 4 of the SC(R)A, 1956. All the deals have to be executed in the on-line automated price and order matching mechanisms of the stock exchanges.
28	Regulation should be designed to detect and deter manipulation and other unfair trading practices.	Partially Implemented This has been implemented through SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations 1995. SEBI has advised stock exchanges to set up a sophisticated Stock Watch system, which generates on-line real time alerts on specified parameters.
29	Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.	Implemented The amount of exposure a member can take is directly linked to the up front capital. In case of erosion in capital, the same is replenished in 24 hrs. The exposure of the member brokers of the exchanges is also monitored by the exchanges on a real time basis. The exchanges also have in place systems where the broker is restricted from concentrating his position in a few scrips. The Trade Guarantee Fund of the exchange interposes between the parties of the transactions and thus eliminates risk of counter party failure.
30	Systems of clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and	Implemented As per the law the clearing and the settlement of transactions is one of the functions of the exchange. The clearing corporations and the trade guarantee funds of

	efficient and that they reduce systemic risk.	the exchanges guarantee the net obligations of the members, reducing counterparty risk. The introduction of rolling settlement has also reduced systemic risk.

A constant effort is being made to strengthen the regulations and bring them on par with the international standards.

vii. Assessment and Prospects

The capital market in India has undergone a rapid transformation. The introduction of internet trading, rolling settlement, abolition of par value system and entry of information technology companies would further help the expansion of securities market. The reforms already introduced by the SEBI encompass a wide range of issues in the securities market. But there is a need for continuous efforts to bring about further transformation and improvement in its infrastructure and microstructure so that the market becomes safer, fair, efficient, competitive and attractive for investors, issuers and institutions.

The SEBI's efforts in the future will be directed to:

i. achieve complete and full implementation of corporate governance framework
ii. further strengthen the rolling settlement system
iii. further strengthen the clearing and settlement system and speed up the process of dematerialisation and dematerialised trading
iv. set up a risk management group to further refine the existing margining system with a view to reducing the transaction cost without affecting the safety and addressing the risk arising from market volatility
v. encourage wider use of internet for trading and other activities in the securities market
vi. continue efforts for bringing uniform by-laws for stock exchanges
vii. increase the role of venture capital funds
viii. strengthen the process of book-building
ix. enhance the role of market making
x. implement derivative trading on the exchanges
xi. continue upgrading and widening the disclosure norms for the protection of the investors
xii. strengthen the surveillance and monitoring system at the exchanges
xiii. develop programme for investor education to enhance the awareness of securities market
xiv. measures to strengthen links with stock exchanges and regulatory authorities in foreign countries

PART II

REVIEW OF THE TRENDS AND WORKING OF THE SECURITIES MARKETS

A] PRIMARY SECURITIES MARKET

Capital raised during 1999-2000

During the financial year 1999-2000, investment activity in the primary market acquired fresh momentum as the total funds mobilised increased by about 40 per cent during this year as compared to a rise of 22 per cent during 1998-99. In absolute terms, the total funds mobilised through 93 issues rose to Rs.7,817 crore during 1999-2000 from Rs.5,586 crore through 58 issues during the previous year. There was a significant rise of the share of rights isssues compared with the previous year. While during 1998-99, rights issues reported a decline over the previous year by 67 per cent, in 1999-2000, they recorded an exponential growth nearly 175 per cent over the previous year. The public and rights issues contributed 80 per cent and 20 per cent, respectively, of the total capital raised as against 90 per cent and 10 per cent, respectively in 1998-99. There was therefore a higher resource mobilisation by the companies from their existing shareholders largely on the basis of their quality of results and profit performance and market capitalisation. There has been a decline in average size of an issue in the year under review due to issues of small size by engineering, textiles, food processing and information technology companies. The share of banks and financial institutions in total resources raised declined to about 52 per cent during 1999-2000 from 84.8 per cent during the previous year, indicating an increase in direct intermediation between the users and savers and fall in intermediation of banks and financial institutions. An equally important development was the mobilisation of resources by the new economy stocks, especially by the information technology sector, which alone had a share of more than 20 per cent in the total funds mobilised. Several factors enumerated below have contributed and accelerated the growth of primary investment.

1. Real economic variables have impact on the investment activity in the primary market. The recovery in industrial growth during 1999-2000 and exhausting production capacities in the industry have been necessitating further expansion of industrial capacities thereby inducing the companies to mobilise resources for further investment in future. Thus, the year of 2000-01 may see the impact of this trend on demand for capital goods.

2. The buoyancy of the secondary market leading to all-round rise in share prices, induced the investors to put higher amount of their saving in investment in the primary market.

3. The fiscal incentives given to investors in schemes of mutual funds and reduction in capital gains tax attracted investors in the primary market. The mutual funds have

been the bulk investor in equity shares during 1999-2000. Relaxation in the requirement of 25 per cent of issue of a company to the public to 10 per cent for knowledge based companies, fiscal incentives by the Government resulted in spurt in issue activity of these companies sharing more than 20 per cent of capital compared to just 3 per cent during the previous year.

4. On-going process of improving the quality of issues and tightening of norms relating to merchant bankers and CRAs probably created more confidence in the investors.

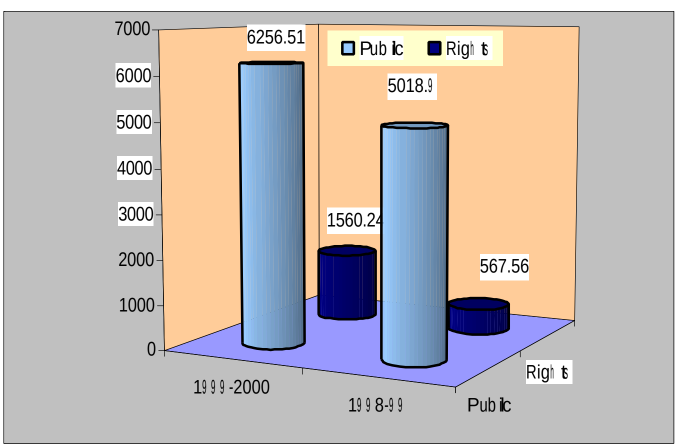
Table 2.1: Capital Raised During 1999-2000 *(Rs Crore)*

	No. of Issues and Amount						Percentage Increase/Decrease Over the Previous Year		
	1997-98		1998-99		1999-2000		1997-98	1998-99	1999-2000
	No.	Amount	No.	Amount	No.	Amount			
Public	62	2,861.95 (62.63)	32	5,018.90 (89.84)	65	6,256.51 (80.04)	-75.2	75.4	24.66
Rights	49	1,708.01 (37.37)	26	567.56 (10.16)	28	1,560.24 (19.96)	-37.2	-66.8	174.90
Total	111	4,569.96 (100.00)	58	5,586.46 (100.00)	93	7,816.75 (100.00)	-67.9	22.2	39.92

Figures in brackets are percentage share to total capital raised
Source: SEBI

Of the 93 issues during 1999-2000, 28 were rights issues which entered the market for raising Rs.1,560 crore while during 1998-99, 26 issues out of 58 issues were rights issues for Rs.567crore. In all, 65 public issues entered the market for raising Rs.6,256 crore during 1999-2000 while during 1998-99, 32 public issues raised Rs.5,019 crore. In terms of percentage increase, public issues were higher by about 25 per cent whereas rights issues nearly tripled from Rs.567 crore during 1998-99 to Rs.1560 crore (an increase of 175 per cent**)** during the year under review. Exponential growth in the amount raised through rights issues thus resulted in a rise of the share of rights issues from 10per cent to 20 per cent reflecting that the issuers are increasingly relying on their existing shareholders to meet requirement of additional capital for growth or diversification of their business activities (Table 2.1).

Graph 2.1: Capital raised through public & right issues



Month-wise trends in capital mobilisation

Analysis of monthly data on capital mobilisation through offer documents filed with the SEBI, during 1999-2000 reveals that more than half of the capital was raised during the second half of the year. The bulk of the capital was raised during July, September and October-1999 and February-2000 (Table 2.2).

Table 2.2 : Month-wise Capital Raised during 1999-2000 ***(Rs. crore)***

	1999-2000			1998-99		
Month	No. of Issues	Amount	Avg. Amt Per Issue	No. of Issues	Amount	Avg. Amt Per Issue
April	2	90.18	45.09	4	409.33	102.33
May	1	300.00	300.00	4	97.10	24.28
June	8	146.78	18.35	5	100.39	20.08
July	6	1,274.52	212.42	6	365.52	60.92
August	6	381.68	63.61	4	333.08	83.27
September	11	928.71	84.43	9	973.51	108.17
October	8	615.17	76.90	2	409.84	204.92
November	6	1,353.19	225.53	1	2.00	2.00
December	12	632.41	52.70	6	1,237.83	206.31
January	8	132.36	16.55	3	346.98	115.66
February	14	1,433.98	102.43	7	870.93	124.42
March	11	527.76	47.98	7	439.95	62.85
Total	**93**	**7,816.75**	**84.05**	**58**	**5,586.46**	**96.32**

**Monthly Average*
Source : SEBI

Trends in clearance of offer documents

While offer documents indicate the intentions for future investment and outlook for growth, the actual amount and number of issues cleared by the SEBI would reveal the likelihood and possibility of actual investment in future by the corporates. Even the mobilisation of resources by the financial institutions, though not direct users of resources, indicate future prospects of investment demand projected by them. Thus during 1999-2000, 165 offer documents were received for raising Rs.8,967 crore and 125 documents were cleared for Rs.12,025 crore as compared to 60 documents received for Rs.4,802 crore and 55 offer documents cleared for Rs.1,803 crore, respectively, during 1998-99. The high increase in the amount cleared by the SEBI for issues indicates that investment activity in the primary market would further improve during the year 2000-2001 (Table 2.3)

Table No.2.3 : Status of Offer Documents *(Rs Crore)*

Offer Documents	No. of Issues and Amount						Percentage Increase/Decrease over the Previous Year	
	1997 – 98		1998 – 99		1999-2000		1998 - 99	1999-2000
	No.	Amount	No.	Amount	No.	Amount		
Received	114	12,500.56	60	4,802.17	165	8,967.01	-61.59	86.73
Cleared	103	11,706.71	55	1,802.75	125	12,025.58	-84.41	567.06

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

Source : SEBI

Trends in size and composition of issues

The year of 1999-2000 showed divergent trends in size of issues entering the market as compared to the last year. The number of large issues during the current year under review was higher at 19 for mobilising Rs.6,034 crore as compared to 11 issues during the previous year for Rs.4,611crore. The FI's which were major issuers in this segment accounted for 65 per cent during the current financial year as compared to a higher share of 96 per cent during the previous year. This decline was possible due to entry of 7 corporate issues mobilising nearly 35 per cent of the total capital during 1999-2000. Of the 19 mega issues, 8 were equity issues for Rs.2,884 crore or 48 per cent of the total amount raised during the year under review as compared to 1 equity issue of Rs.161 crore or just 3.5 per cent during the previous year. It is noticed that on an average, the size of amount per issue declined from Rs.419 crore during 1998-99 to Rs.317 crore during the current year under review due to issues of relatively lower size by corporates than those by the financial institutions.

Of the FIs, ICICI collected Rs.2,375 crore followed by the IDBI at Rs.1,050 crore. Among the banks, only Syndicate Bank issued one mega issue and mobilised Rs.125 crore (Table 2.4).

Table 2.4 : Large Issues during 1999-2000 *(Rs Crore)*

Name of the Company	Type of Issue	Type of Instru.	Issue Opng. Date	Offer Size
ICICI Ltd.	Public	Bonds	14/05/99	300.00
ICICI Ltd.	Public	Bonds	19/07/99	300.00
The Associated Cement Companies Ltd.	Rights	Equity	07/07/99	187.86
IDBI Ltd.	Public	Bonds	27/07/99	750.00
ICICI Ltd.	Public	Bonds	14/08/99	200.00
ICICI Ltd.	Public	Equity	09/09/99	275.21
Hughes Software Systems Ltd	Public	Equity	22/09/99	275.63
Siemens Limited	Rights	Equity	30/09/99	141.99
ICICI Ltd.	Public	Bonds	15/10/99	300.00
Syndicate Bank	Public	Equity	25/10/99	125.00
ICICI Ltd.	Public	Bonds	15/11/99	300.00
HCL Consulting Ltd	Public	Equity	16/11/99	823.60
Henkel Spic India Ltd	Rights	Equity	22/11/99	166.12
IFCI Ltd	Rights	Equity	23/12/99	352.30
Shree Rama Multi-tech	Public	Equity	4/2/2000	163.77
ICICI Ltd.	Public	Bonds	7/2/2000	300.00
Cadila Healthcare Ltd.	Public	Equity	28/2/2000	372.15
IDBI Ltd.	Public	Bonds	25/2/2000	300.00
ICICI Ltd.	Public	Bonds	17/3/2000	400.00
Total				**6,033.64**
Source : SEBI				

Table 2.5: Size-wise Distribution of Issues

(Rs. crore)

	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		1998-99		1999-2000	1998-99
	No.	*Amt*	*No.*	*Amt*		
<5 cr.	19	52.52	15	34.87	0.67	0.62
=>5cr.<10cr.	15	105.11	9	63.05	1.34	1.13
=>10cr<50cr.	26	629.02	14	296.46	8.05	5.31
=>50cr. <100cr.	14	996.46	9	581.24	12.75	10.40
=>100cr. <500cr.	17	4,460.04	8	2,360.84	57.06	42.26
=>500 crore.	2	1,573.60	3	2,250.00	20.13	40.28
Total	**93**	**7816.75**	**58**	**5586.46**	**100.00**	**100.00**
Source : SEBI						

Table 2.6 : Type of Issues and Amount Raised: Month-wise *(Rs. Crore)*

Month /Type of Issues	1998-99		1999-2000	
	No.	Amount	No.	Amount
April	04	409.33	2	90.19
Pub.	02	335.84	0	0.00
Rig.	02	73.49	2	90.19
May	04	97.10	1	300.00
Pub.	03	95.58	1	300.00
Rig.	01	1.52	0	0.00
June	05	100.39	8	146.78
Pub.	05	100.39	4	56.17
Rig.	00	0.00	4	90.61
July	06	365.52	6	1,274.52
Pub.	01	300.00	4	1,064.16
Rig.	05	65.52	2	210.36
August	04	333.08	6	381.68
Pub.	01	300.00	4	297.67
Rig.	03	33.08	2	84.01
September	09	973.51	11	928.71
Pub.	06	911.95	8	746.77
Rig.	03	61.56	3	181.94
October	02	409.84	8	615.17
Pub.	01	400.00	6	540.89
Rig.	01	9.84	2	74.28
November	01	02.00	6	1,353.19
Pub.	00	0.00	4	1,140.10
Rig.	01	2.00	2	213.09
December	06	1,237.83	12	632.41
Pub.	04	1,075.05	7	193.71
Rig.	02	162.78	5	438.70
January	03	346.98	8	132.36
Pub.	02	306.18	5	73.37
Rig.	01	40.80	3	59.00
February	07	870.93	14	1,433.98
Pub.	04	837.13	12	1,320.27
Rig.	03	33.80	2	113.71
March	07	439.95	11	527.76
Pub.	03	356.78	10	523.41
Rig.	04	83.17	1	4.35
Total	**58**	**5,586.46**	**93**	**7,816.75**

Source : SEBI

Trends in listed and IPO issues

During 1999-2000, the listed companies mobilised Rs.5,098 crore through 42 issues as compared with Rs.5,182 crore mobilised through 40 issues during 1998-99 registering a marginal decline of nearly 2 per cent. However, there was a marked increase in the number of IPOs during 1999-2000 to 51 from 18 IPOs issues during 1998-99. In terms of amount, IPOs mobilised Rs.2,719 crore during 1999-2000 as compared to an amount of Rs.404 crore during 1998-99.

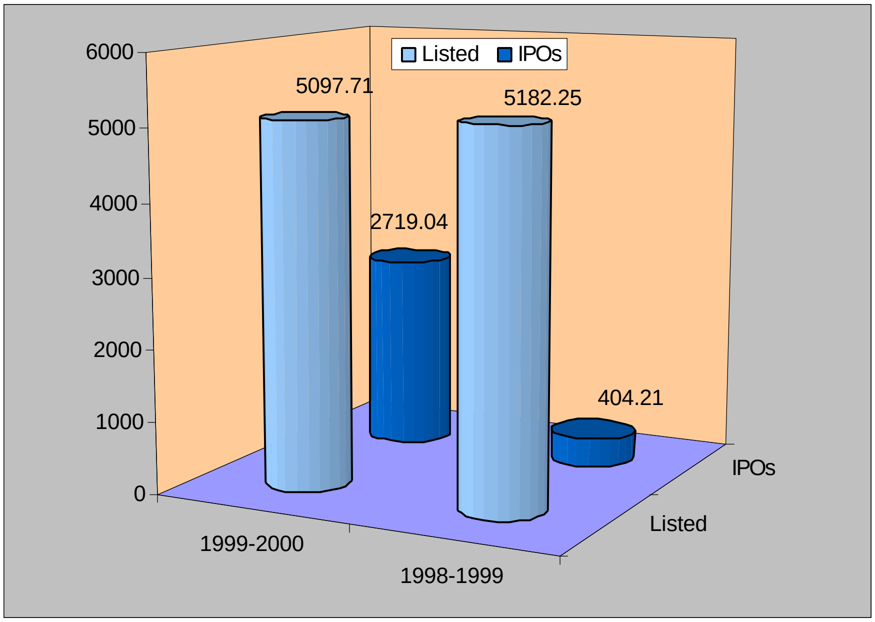
The rapid increase in IPOs and their successful subscription indicate the restored willingness and confidence of investors to invest in new companies especially in the knowledge based industries particularly in information technology and healthcare companies which came to the market in a big way. This is also a world wide trend. As expected, the average size of an issue of IPO was Rs.53 crore, smaller than the average size of Rs.121 crore for listed companies during 1999-2000 because of a larger number of small size new companies entering the market. In terms of percentage, IPOs accounted for 35 per cent during 1999-2000 as compared to a share of 7 per cent during 1998-99. Rise in the share of IPOs is a testimony to the fact that investment pattern is changing towards young entrepreneurs with new concepts and latest technology. The entry of new companies with IPOs on an accelerated rate would provide fresh equity for trading in the secondary market (Table 2.7).

Table 2.7: Listed and IPO Issues *(Rs Crore)*

	No. and Amount						**Percentage Increase / Decrease Over Previous Year**	
	1999-2000		*1998-1999*		*1997-98*		*1999-2000*	*1998-1999*
	No.	Amt	No.	Amt	No.	Amt		
Listed	42	5,097.71 (65.22)	40	5,182.25 (92.76)	59	3,522.43 (77.08)	-1.63	47.12
IPOs	51	2,719.04 (34.78)	18	404.21 (7.24)	52	1,047.52 (22.92)	572.68	-61.41
Total	**93**	**7,816.75 (100.00)**	**58**	**5,586.46 (100.00)**	**111**	**4,569.95 (100)**		

Source : SEBI

Graph 2.2: Listed and IPO Issues during 1999-2000



Sector-wise analysis of capital mobilisation

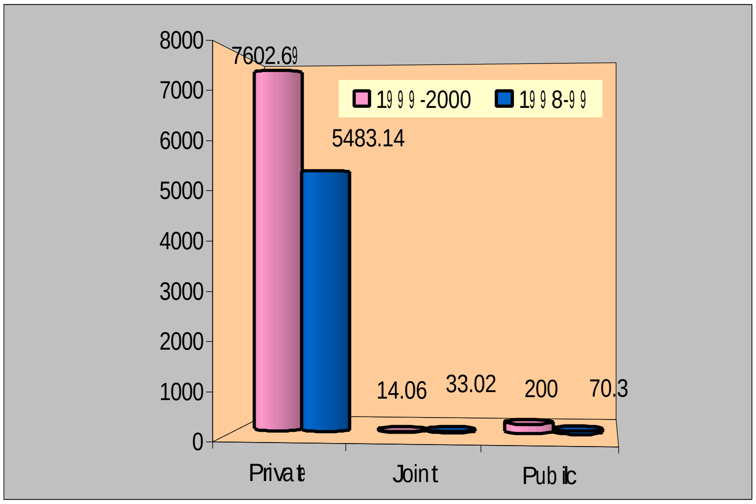
As observed in the last year's Report, during 1999-2000 also, private sector companies were on top in mobilising the resources. A total amount of Rs.7,603 crore through 90 issues was mobilised by the companies in the private sector during 1990-2000 which formed 97 per cent of total capital mobilised as compared to Rs.5,483 crore through 55 issues accounting for 98 per cent during 1998-99. Joint sector floated only one issue of Rs.14 crore, whereas public sector raised Rs.200 crore through 2 issues during 1999-2000 as against 2 issues for Rs.33 crore by the joint sector and 1 issue for Rs.70 crore by the public sector during 1998-99. The resource mobilisation was primarily dominated by the private sector (Table 2.8).

Table 2.8: Sector-wise Break-up Capital raised *(Rs Crore)*

Sector	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		*1998-1999*		*1999-2000*	*1998-1999*
	No.	Amt	No.	Amt		
Private	90	7,602.69	55	5,483.14	97.26	98.15
Joint	1	14.06	2	33.02	0.18	0.59
Public	2	200.00	1	70.30	2.56	1.26
Total	**93**	**7816.75**	**58**	**5586.46**	**100.00**	**100.00**

Source: SEBI

Graph 2.3 : Sector-wise Capital Raised



Appraisal of issues and their trends

Issue appraising business has shown declining trend over the recent years. During 1997-98, 34 out of 111 issues forming 30 per cent of total issues were appraised and 77 were not appraised. In 1998-99, the share of number of appraised issues declined to 26 per cent. In terms of numbers only 15 issues were appraised out of 58 issues and 43 issues were not appraised. During 1999-2000, in terms of numbers of issues only 16.1 per cent of issues were appraised and 84 percent issues were unappraised or they did not require any appraisal. Thus less and less number of issues need appraisal possibly due to improvement in their disclosures, transparency and performance. The lesser need for appraisal is the result of efforts, which have been taken by the SEBI in continuously introducing disclosure norms. It is expected that application of corporate governance guidelines issued by the SEBI and accounting norms prescribed by the SEBI as per the international standard, will further improve the quality of issues (Table 2.9).

Table 2.9: Classification of Issues into Appraised/Unappraised *(Rs Crore)*

Sector					**Percentage Share in Total Amount**	
	1999-2000		*1998-1999*		*1999-2000*	*1998-99*
	No.	Amt	No.	Amt		
Appraised	15	315.32	15	369.97	4.03	6.62
Unappraised	78	7,501.43	43	5,216.49	95.97	93.38
Total	**93**	**7,816.75**	**58**	**5,586.46**	**100.00**	**100.00**
Source: SEBI						

Firm allotment of institutional investors

The amounts allotted on the basis of firm allotment / reservation totaled Rs.202 crore during 1999-2000 compared with Rs.142 crore during the previous year. Of the total capital raised through firm allotment, during 1999-2000, NRIs got the highest share of Rs.75 crore followed by promoters with Rs.48 crore, employees with Rs.34 crore, others with Rs.16 crore, FIs with Rs.16 crore and mutual funds with Rs.11 crore. The FIIs raised only about Rs.1crore, whereas money market funds could not mobilise any amount. During 1998-99, on the other hand, the highest share went to promoters with Rs.58 crore, followed by the NRIs with Rs.33.83 crore and FIIs with Rs.22.86 crore (Table 2.10).

Table 2.10: Details of Firm Allotment *(Rs. Crore)*

		1999-2000			1998-99		
No.	Category	No.	Amount	Percentage to Total	No.	Amount	Percentage to Total
1	NRIs	9	75.51	37.36	7	33.83	23.72
2	MFs	8	11.14	5.51	4	9.01	6.32
3	FIs	7	15.71	7.77	4	22.86	16.03
4	FIIs	3	1.28	0.63	1	0.75	0.53
5	MM	0	0.00	0.00	1	0.13	0.09
6	Others	6	16.11	7.97	1	7.20	5.05
7	Employees	17	34.42	17.03	6	10.22	7.17
8	Promoters	24	47.93	23.72	9	58.60	41.09
	Total		**202.10**	**100.00**		**142.60**	**100.00**

Source : SEBI

Industry-wise analysis of resource mobilisation

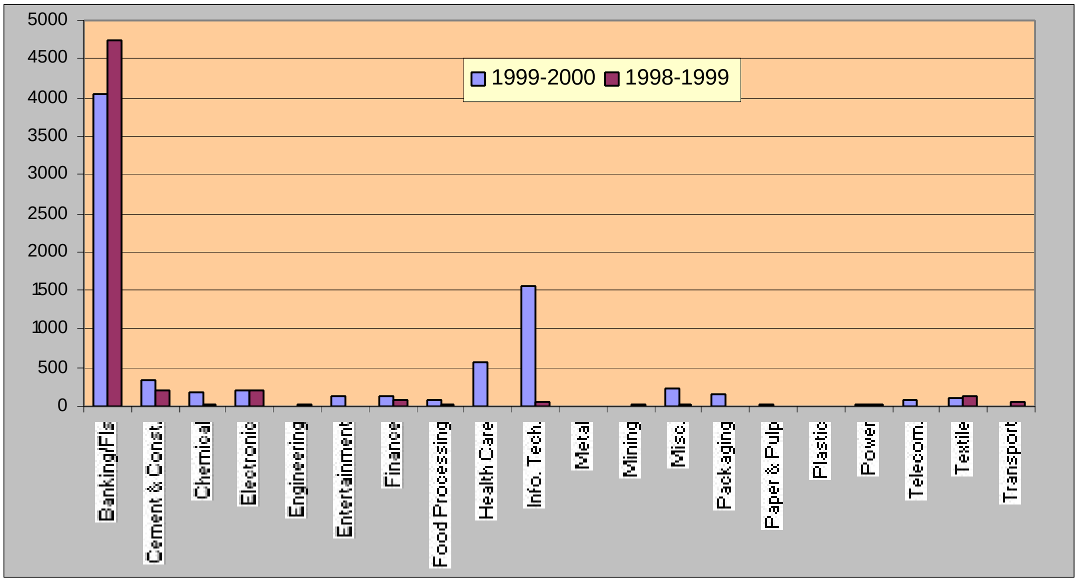
Industry-wise breakup of capital raised in 1999-2000 reveals directional change in the industrial diversification and its growth in the country and perceptions of the entrepreneurs of future challenges. It is of utmost importance to see that global development has impacted the structure of industry. Global demand for Indian software technology has brought change in investment pattern in the country. It also indicates the priorities and allocation of resources on the basis of market forces and efficiency consideration. As during the past few years and during 1999-2000 also, the banks and FIs continued to lead in resource mobilisation at Rs.4,038 crore through 15 issues or 52 per cent of the total capital raised compared to a share of 84.8 per cent during the previous year. It is further observed that the top five industries namely banking/FIs, information technology, health care, cement and construction and electronics together mobilised Rs.6,710 crore during 1999-2000. A feature of resource mobilisation among them is that share of banks and FIs declined and that of companies relating to real sector increased in comparison to the position in 1998-99. This change reflects higher level of disintermediation in financing the industry, which in turn implies reduction in cost of finance and better performance of industry to qualify for higher level of resources from the market based on assessment of investors and market forces. Industry-wise details provide that following banks/FI, information and technology industry was on top mobilising Rs.1,547crore (20 per cent) followed by health care with Rs.575 crore (7per cent), cement and construction Rs.337 crore (4per cent), electronics Rs.213 crore (3 per cent), chemicals Rs.181crore (2 per cent), entertainment industry Rs.129 crore (2 per cent) and packaging Rs164 crore (2 per cent). Telecom and power also entered market each with 1 issue of Rs.15 crore and Rs.75 crore, respectively. Other industries shared less than 1 per cent. The knowledge based industries have made their presence felt effectively and could dominate the primary market during the forthcoming years. The mushrooming growth of issues by new economy companies however, warrants continuous watch on their transactions and functions. Similarly, venture capital companies which are likely to enter the market in future, will need to be closely watched by the SEBI (Table 2.11).

Table 2.11: Industry-wise Capital Raised *(Rs. Crore)*

	No. of Issues and Amount				**Percentage Share in Total**	
Industry	*1999-2000*		*1998-99*		*1999-2000*	*1998-99*
	No.	Amount	No.	Amount		
Banking/FIs	15	4,038.55	15	4,738.00	51.67	84.81
Cement & Const.	3	336.87	4	199.02	4.31	3.56
Chemical	4	181.33	2	36.50	2.32	0.65
Electronic	3	212.66	4	203.77	2.72	3.65
Engineering	2	10.13	6	26.54	0.13	0.48
Entertainment	2	128.85	0	0.00	1.65	0.00
Finance	3	124.28	8	75.29	1.59	1.35
Food Processing	3	70.58	2	21.10	0.90	0.38
Health Care	7	575.36	0	0.00	7.36	0.00
Info. Tech.	36	1,547.01	5	46.92	19.79	0.84
Metal	0	0.00	2	3.51	0.00	0.06
Mining	0	0.00	1	20.40	0.00	0.37
Misc.	6	223.61	3	27.02	2.86	0.48
Packaging	1	163.77	0	0.0	2.10	0.00
Paper & Pulp	1	14.06	0	0.00	0.18	0.00
Plastic	1	7.00	0	0.00	0.09	0.00
Power	1	15.00	1	13.10	0.19	0.23
Telecom.	1	75.00	0	0.00	0.96	0.00
Textile	4	92.69	4	121.54	1.19	2.18
Transport	0	0.00	1	53.75	0.00	0.96
Total	**93**	**7,816.75**	**58**	**5,586.46**	**100.00**	**100.00**

Source : SEBI

Graph 2.4 : Industry-wise capital raised



In all, 4 banks and 3 FIs mobilised Rs.261 crore and Rs.3,778 crore respectively. While 4 banks namely Centurion Bank Ltd., Bank of Rajasthan, Syndicate Bank and Times Bank came out with equity issues probably to meet their equity capital requirement, ICICI came out with 6 bond issue and one equity issue. The IFCI made one rights issue (Table 2.12).

Table 2.12 : Details of Funds Mobilised by the Banks and FIs *(Rs. Crore)*

Name of the Bank /FI	Instr.	Type of Issue	Offer size
Centurion Bank Limited	Equity	Public	33.75
IFCI Limited	Equity	Rights	352.31
IDBI	Bond	Public	750.00
IDBI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	200.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	400.00
ICICI	Equity	Public	275.21
Syndicate Bank	Equity	Public	125.00
The Bank of Rajasthan Limited	Equity	Rights	67.28
Times Bank Limited	Equity	Public	35.00
Total			**4,038.55**

Source : SEBI

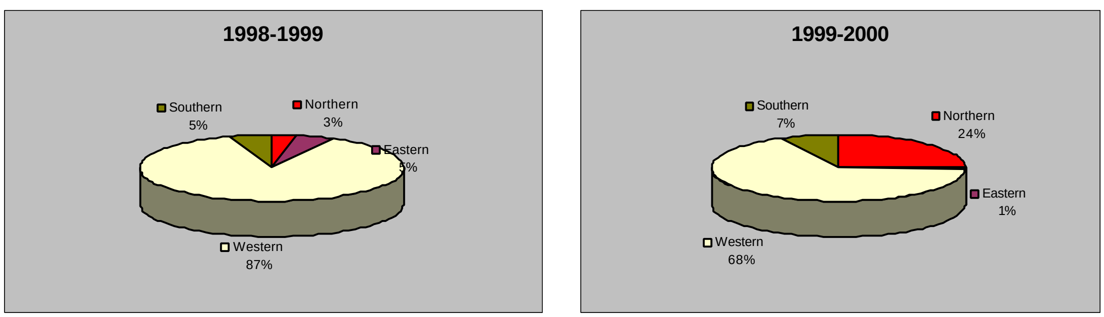
Region-wise analysis of capital mobilisation

As regards region-wise mobilisation of capital, the Western region raised the highest amount (Rs.5,234 crore or 67 per cent) followed by Northern region (Rs.1,900 crore or 24 per cent), Southern region (Rs.577 crore or 7 per cent) and the Eastern region (Rs.105 crore or 1per cent). The region-wise distribution is determined by the extent of industrial development (Table 2.13).

Table 2.13: Region-wise Distribution of Capital Raised *(Rs. Crore)*

Sector	No. of Issues and Amount				Percentage Share	
	1999-2000		*1998-1999*		*1999-2000*	*1998-1999*
	No.	Amt	No.	Amt		
Northern	13	1,899.96	10	171.25	24.31	3.07
Eastern	7	105.55	10	265.52	1.35	4.75
Western	46	5,234.58	29	4,856.27	66.97	86.93
Southern	27	576.66	9	293.42	7.38	5.25
Total	**93**	**7,816.75**	**58**	**5,586.46**	**100.00**	**100.00**
Source : SEBI						

Graph 2.5 : Region-wise Distribution of Capital Raised



Instrument-wise analysis of capital raised

Instrument-wise breakup shows investors' preference for different types of instruments available in the primary market. During 1999-2000, the equity issues were on top at Rs.4,566 crore (58 per cent) as compared to Rs.857 crore (15 per cent) during 1998-99. Details of equity issues reveal that premium issues have been receiving attention of investors accounting for nearly half (48 per cent) of the total amount as compared to par issues amounting to Rs.786 crore (about 10 per cent) during the year under review. During 1998-99, while equity premium was Rs. 660 crore (12 per cent), the equity without premium at Rs. 197.04 crore contributed only 4 per cent. Meanwhile bonds too contributed a substantial share at 41 per cent during 1999-2000 as against a share of around 80 per cent in 1998-99. There was only one fully convertible debenture and one partially convertible debenture issued for Rs.21 crore, and Rs.30 crore, respectively during 1999-2000. During 1998-99, the corporate issued 5 fully convertible debentures for Rs 187 crore. The analysis thus suggests that corporate financing is going through structural change. Financing through debt is substituting the equity financing probably encouraged by the comparative cost advantage (Table 2.14).

Table 2.14: Instrument-wise Break-up of Capital Raised (Rs.Crore)

Instruments	No. of issues & Amount				Percentage share in total	
	1999-2000		1998-1999		1999-2000	1998-1999
	No.	Amt	No.	Amt		
Equity – par	30	786.18	20	197.04	10.06	3.53
- premium	52	3,779.79	20	659.80	48.36	11.81
CCPS	0	0.00	3	78.01	0.00	1.40
OCCPS	0	0.00	1	14.87	0.00	0.27
FCDs	1	20.78	5	186.74	0.27	3.34
PCDs	1	30.00	0	0.00	0.38	0.00
Bonds	10	3,200.00	10	4,450.00	40.94	79.66
Others	0	0.00	0	0.00	0.00	0.00
Total	**94**	**7,816.75**	**59**	**5,586.46**	**100.00**	**100.00**

Source: SEBI

Underwriting of issues

During the year under review, underwriting activity increased substantially probably due to large number of issues of IPOs. Thus in 1999-2000, 18 issues were underwritten for Rs.2,257crore and 47 issues for Rs.4,000 crore were not underwritten as compared to 7 issues underwritten for Rs.227 crore and 25 issues not underwritten for Rs.4,791crore, respectively, during 1998-99. Of the total amount of Rs.6,257 crore, the underwritten amount constituted 36 per cent in 1999-2000 as compared to a meagre 5 per cent in the previous financial year (Table 2.15).

Table 2.15 : Amounts Underwritten / Not Underwritten (Rs. crore)

Public Issues	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		1998-1999		1999-2000	1998-1999
	No.	Amt	No.	Amt		
Underwritten	18	2,257.01	7	227.53	36.07	4.53
Not underwritten	47	3,999.50	25	4,791.37	63.93	95.47
Total	**65**	**6,256.51**	**32**	**5,018.90**	**100.00**	**100.00**

Source: SEBI

Subscription of primary issues

During 1999-2000 of 65 public issues for which data are available, 12 issues were subscribed less than twice and 12 issues were subscribed more than twice and less than 5 times. It is interesting to note that 7 issues were subscribed more than 100 times and 10 issues were subscribed more than 50 times and less than 100 times. Thus over subscription was on the high side during 1999-2000 than that during 1998-99 (Table 2.16).

Table 2.16: Subscription of Issues During 1999-2000 and 1998-99

1999-2000		1998-1999	
<=2	Times : 12	<=2	Times : 24
>2 <=5	Times : 12	>2 <=5	Times : 05
>5 <=10	Times : 07	>5 <=10	Times : 00
>10 <=20	Times : 05	>10 <=20	Times : 00
>20 <=50	Times : 12	>20 <=50	Times : 02
>50 <=100	Times : 10	>50 <=100	Times : 00
>100	Times : 07	>100	Times : 00

Source : SEBI

B] SECONDARY SECURITIES MARKET

Price behaviour in the secondary securities market during 1999-2000

The year 1999-2000 was marked by a smart recovery and strong spurt in equity prices. During the larger part of the year, the equity market registered upward movement. The BSE Sensex on point to point basis recorded a growth of 34 per cent from 3739 as on March 31, 1999 to 5001 as on March 31, 2000. The BSE-100 (Natex) also shot up by 76 per cent from 1651 to 2902 during the same period. On the other hand, S&PCNX Nifty increased by 42 per cent. During 1997-98 and 1998-99 BSE Sensex, BSE 100 and NSE 50 all had shown downward trend for most of the part of these two years. The rise in the equity prices did not confine only to blue chip companies but the scrips in Group B also participated in the rally on number of occasions. The industries, which were the top performer included information technology and pharmaceuticals (Table 2.17).

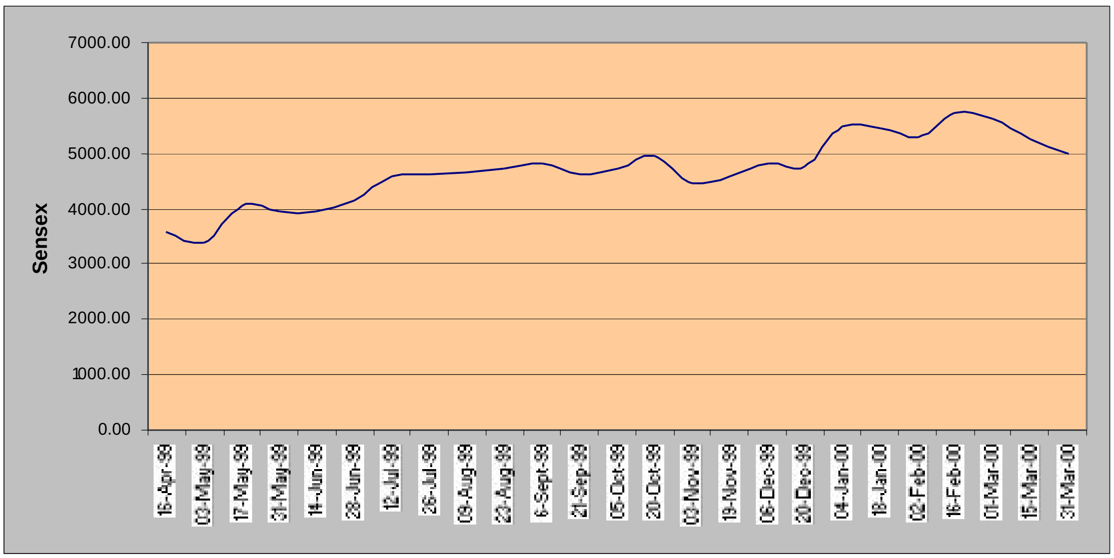
Table 2.17: Movement of Various Share Indices

Index	31-Mar-99	31-Mar-00	1998-99 *	1999-2000*
BSE Sensex	3739.96	5001.28	-3.92	33.7
BSE 100	1651.37	2902.20	-2.69	75.7
NSE 50	1078.05	1528.45	-3.47	41.8
S&P CNX 500	758.25	1322.90	5.97	74.46
BSE Dollex	149.11	237.86	6.07	59.50

* Percentage increase/decrease over the previous year.
Source : SEBI

The performance of stocks prices was not linear during the year as shown by the movement of daily indices. In the beginning of year under review, the BSE Sensex was in the grip of bearish phase following the presentation of the Union Budget 1999-2000 presented at the end of February 1999. The BSE Sensex which stood at 3686 as on April 1, 1999 gradually dipped to 3272 by April 28, 1999 on account of massive selling pressure by the market operators due to the neutrality of Union Budget to stock market, followed by a pickup which continued till May 1999 and closed at 4123 on May 19, 2000. The market came under pressure, which was reflected in deceleration of the share prices and somewhat erratic movement. It was only from the middle of June 1999 the stocks market regained appreciation. The BSE Sensex moved northward from 4125 as on June 17, 1999 to 4728 on July 22, 1999 possibly due to increase in net investment by FIIs. The stock prices though reflected firming up trends thereafter but were in the high phase of bullishness only from January 2000 when the BSE Sensex touched 5375 as on January 3, 2000. The Sensex continued to push upwards and touched the highest level of the year at 5933 as on February 11, 2000 and thereafter it started sliding down slowly and reached 5000 as on March 31, 2000. The spurt in stock prices was to some extent assisted by massive inflow of funds by FIIs and mutual funds. FIIs' net investment in January and February, 2000 was of the order of US $ 750 million. Downward movement of Sensex which ruled through the month of March was because of poor market sentiments following the Union Budget 2000-01 bearing a neutrality to market. The S&PCNX Nifty movement also reflected the same pattern during the year.

Graph 2.6 : Movement of BSE Sensex



Analysis of shares indices on monthly average basis shows gains in the first seven months of the year rising from 3449 in April 1999 to 4835in October 1999 at the rate of 40 per cent and a dip in November 2000 to 4588. The fall in November 1999 was reversed with robust growth to 4802 in December 1999. The equity market since then did not look back for the remaining part of the financial year and continued to gain new heights till it reached 5650 by February 2000 before sliding to 5261.77 in March 2000. The monthly index movement of the S&P CNX Nifty almost presented the same behaviour. During the month of November 1999, the fall in Sensex as well as S&P CNX Nifty and other indices occurred inspite of large net purchases by FIIs. The net investment of FIIs during November was US$ 299 million as against a disinvestment of US$ 140 million in October 1999. In March 2000, also there was a deceleration in the equity prices as Sensex fell from 5650 in February 2000 to 5261in March 2000. Similarly S&PCNX Nifty also dipped from 1686 to 1605. The analysis of monthly averages of indices reveals that during the month of November and March inspite of bulk investment of FIIs and mutual funds, equity prices suffered decline indicating that there are other players who also influence the trend in the equity prices. It would be interesting to note that often stock prices exhibit unpredictable movement due to entry and exit of new individual investors and small institutions in the market. The population of small investors has shown marked increase during the recent past. These investors after having reversal during 1996-97 to 1998-99, are again returning to the market to invest on short-term basis most probably to book profits and avoid risk on medium term investment (Table 2.18).

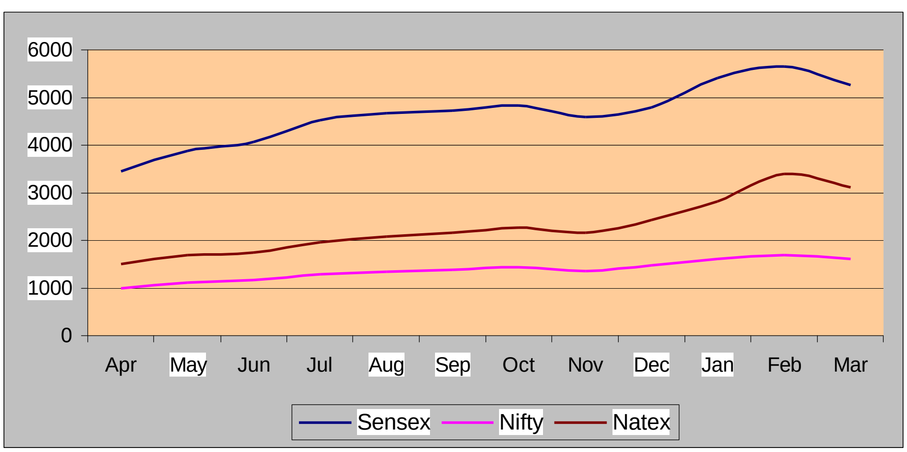
Table 2.18: Stock Market Indicators During 1999-2000 : Monthly Trends

(Rs. Crore)

Month /Year	Index*			Price to Book Ratio*		Price to Earnings Ratio *		Average Daily Turnover (Rs. Crore)		Market capitalsation **(Rs.Crore)	
	Sensex	Nifty	Natex	Sensex	Natex	Sensex	Natex	NSE	BSE	NSE	BSE+
1999											
April	3449.77	994.27	1506.84	2.55	1.79	13.77	12.99	1,797	1,421.20	4,45,380	4,88,229
May	3880.37	1109.55	1682.65	2.91	2.03	15.76	14.70	2,393	1,725.48	5,03,911	5,60,965
June	4066.84	1165.01	1755.07	3.06	2.10	16.53	15.35	1,840	1,510.88	5,29,468	5,84,788
July	4526.25	1295.3	1960.83	3.40	2.36	18.40	17.15	2,521	2,119.96	5,93,651	6,48,932
August	4662.84	1343.73	2075.59	3.47	2.57	19.87	20.88	2,441	2,272.59	6,68,187	7,10,956
September	4724.96	1384.80	2156.82	3.48	2.67	20.41	22.63	2,660	2,217.98	6,86,740	7,04,568
October	4835.47	1434.26	2272.13	3.56	2.74	21.01	24.12	3,439	2,884.94	6,70,062	6,73,462
November	4588.53	1364.81	2161.39	3.32	2.67	19.99	23.35	3,159	2,455.95	7,26,419	7,09,613
December	4802.02	1480.45	2429.71	3.45	3.05	20.91	26.80	4,481	3,565.79	8,52,985	8,03,353
2000											
January	5407.14	1607.80	2822.05	3.83	3.53	23.34	31.56	4,297	3,658.21	9,51,712	9,27,383
February	5650.66	1686.58	3394.88	3.98	4.23	24.32	38.47	5,652	4,849.62	10,69,770	10,29,257
March	5261.77	1605.66	3109.03	3.71	3.88	22.69	34.94	5,028	4,050.64	10,20,426	9,12,842

**Monthly Averages of closing values **As on the last trading day of the month. + Estimated(A+ B1+ B2)*
Source : Compiled on the basis of data from BSE and NSEIL

Graph 2.7 : Monthly Averages of Closing Indices



The Table below sums up the daily movement of indices for BSE Sensex and Nifty in 1999-2000. During 245 trading days for BSE Sensex it recorded increase for 132 days and decrease for 113 days. Similarly, Nifty reported increase for 135 days and decrease for 118 days out of 253 days. Thus stock price in India demonstrated resistance during 1999-2000 (Table 2.19).

Table 2.19: Distribution of Trading Days During 1999-2000

% change	Sensex		Nifty	
	Increase	Decrease	Increase	Decrease
≤ 2.5	110	95	112	100
> 2.5 ≤ 5	16	16	20	16
> 5 ≤ 7.5	6	2	2	2
> 7.5 ≤ 10.0			1	00
Total	**132**	**113**	**135**	**118**
Source : SEBI				

Relative strength index

The analysis of movement of share index can also be made on the basis of Relative Strength Index (RSI) which studies the relative strength of stocks prices in relation to their previous positions. RSI of Sensex for the period 1999-2000 (April-March) mostly hovered within the equilibrium territory of 30 to 70. The standard parameters in RSI analysis are:
overbought territory = above 70
equilibrium territory = 30 to 70 and
oversold territory = below 30

Over the financial year 1999-2000, the RSI of both the Sensex and S&P CNX Nifty witnessed sharp upturns as well as downward movements but remained largely inside the equilibrium territory (range 30 – 70). A case in point is the movement of RSI during March 2000 for Sensex and Nifty as well. During this month RSI for both the indices continuously manifested to and fro movements mostly forming new tops and bottoms. Despite such swings the RSI remained contained within the equilibrium territory. Extreme movements during the period into overbought /oversold territories have been few and far between. This portends well for the Indian markets as it possibly indicates more of secular trends ruling the market in the long run allaying fears of any persisting excessive volatility. (Annexures 3 & 4)

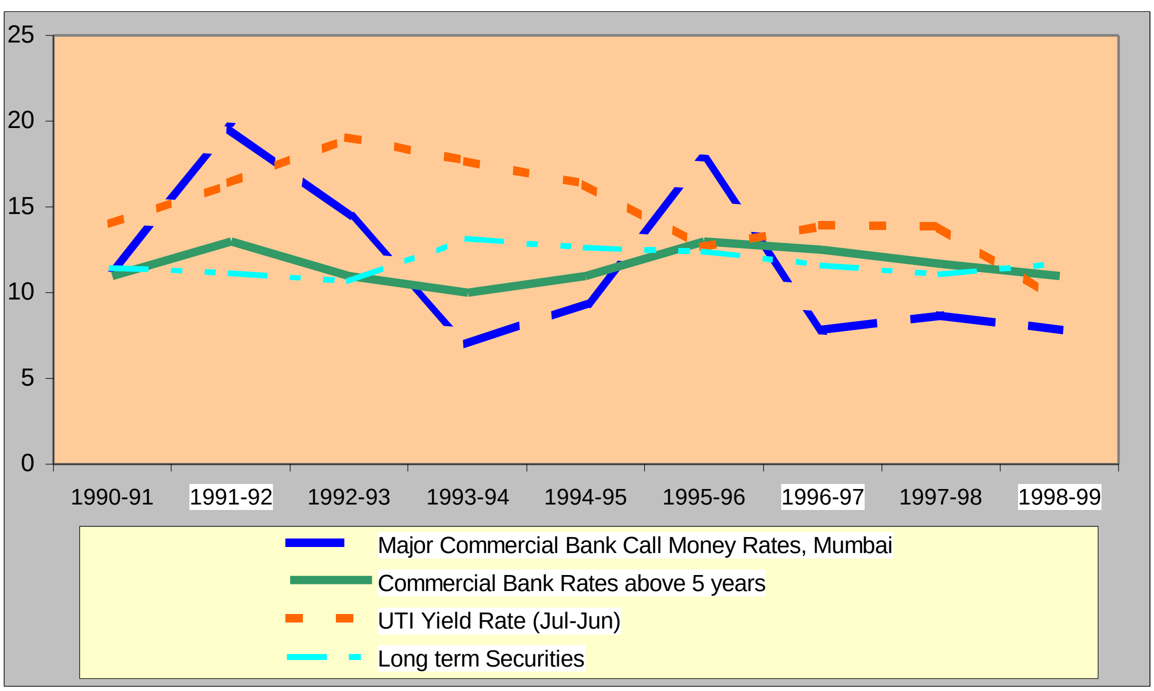
A number of factors have influenced the stock prices. The robust trend in stock prices during 1999-2000 interalia includes various incentives given in the Union Budget 1999-2000, large investment by FIIs of the order of US$ 2.34 billion and heavy net purchases by mutual funds following their massive resource mobilisation. The downward movement of interest rate structure on bank deposits and low returns on short-term government securities also shifted investment resources towards equity market. In other countries also fall in deposit rates has diverted funds towards equity investment. As a result, the proportion of household savings invested in equities particularly has risen to around 2.4 percent in 1998-99 from 2.0 percent in 1997-98. The sentiments of the investors and traders were also boosted by information technology industry. The boom on NASDAQ also, has been on a number of occasion instrumental through the Indian companies listed on it, to boost the sentiments of Indian domestic players in the market. As regards macro economic fundamentals, exchange rate stability, high level of foreign exchange reserves and increase in growth of exports have strengthened the confidence of FIIs in the Indian domestic market. On top of all factors, increased in liquidity (M3 or Broad Money Supply) in 1998-99 might have also contributed to overall firming up trend in stocks prices through time lag. It has been established in various studies that broad money (M3) has impact on economic variables up-to 1 year (Table 2.20).

Table 2.20: Interest Rate Structure

Year (April-March)	Call Money Rates Mumbai (i)	Commercial Bank Deposit Rates Above 5 yrs	UTI Yield Rate (July-June)	Long term securities
1990-91	11.49	11.00	14.03	10.86-12.04
1991-92	19.57	13.00	16.40	9.91-12.38
1992-93	14.42	11.00	19.06	8.82-12.47
1993-94	6.99	10.00	17.68	12.85-13.43
1994-95	9.40	11.00	16.33	11.77-13.47
1995-96	17.73	13.00	12.66	11.84-13.02
1996-97	7.84	12.00-13.00*	13.95	9.00-14.20
1997-98	8.69	11.50-12.00*	13.85	9.00-13.17
1998-99	7.83	10.50-11.50*	9.46	10.00-13.46

*Refers to deposit rates of five major public sector banks as at end March.
Source : RBI

Graph 2.8: Movement in Interest Rates on Savings



Trends in turnover and market capitalisation

Equity market turnover which includes not only price variation but also the volume traded, is an important component in the measurement of the stock market size and liquidity. The liquidity allows investors to alter their portfolios quickly and cheaply and make investment less risky. The secondary market continued to grow vigorously as the average daily turnover at BSE and NSE rose from Rs.2,071 crore and Rs.2,606 crore in March 1999 to Rs.4,050 crore and Rs.5,028 crore in March 2000. In terms of percentage, the rise was 195 per cent and 193 per cent, respectively. On the BSE percentage of turnover to market capitalisation was 7.2 per cent at end-March 1999 which, increased to 9.3 per cent at end-March 2000. However, the turnover as a percentage of market capitalisation at NSE declined from 11.7 per cent at end-March 1999 to 10.3 per cent at end-March 2000.

Trends in market capitalisation

The market capitalisation which is an indicator of generation of wealth of the investors, sharply increased at both the major stock exchanges namely NSE and BSE from Rs. 4,45,380 crore and Rs. 4,88,229 crore in April 1999 to Rs.10,20,426 crore and Rs.9,12,842 crore in March 2000 respectively showing a growth of more than 100 per cent. The market capitalisation as a ratio of GDP worked out to 73 per cent for NSE and 65 per cent for BSE. However it would be seen that market capitalisation shows high concentration. For instance market capitalisation of Sensex scrips was about 49 per cent of total market capitalisation at BSE whereas for S&P CNX Nifty scrips the ratio was about 38 per cent. The high concentration of the turnover as well as market capitalisation shows that there are large number of companies which are traded or not traded for less than 10 days in a year.

Market capitalisation and turnover of new economy stocks

The new economy stocks have shown rapid increase in their market capitalisation and turnover during the recent past. The contribution of new economy sector to market capitalisation of Sensex increased from 8 per cent in January 1998 (through one stock-MTNL) to 29 per cent in March 2000 (through 3 stocks-MTNL, Infosys Technologies, NIIT).

Infosys and NIIT some of the actively traded new economy stocks were included in the Sensex in November 1998. The increase in relative importance of these stocks in market capitalisation has been seen from October 1999 when technology and media / entertainment sectors were on a bullish trend.

Similarly in the BSE 500 which is more broadbased, new economy stocks contributed to as high as 49 percentage share of the market capitalisation of BSE 500 in March 2000 as compared to 18 – 21 per cent during the first few months after construction of the BSE 500 in February 1999.

The effect of the recent bullish trend for the technology sector stocks is more pronounced on BSE 500 than the Sensex. On an average this sector contributes 50 per cent of the average daily turnover of the BSE 500; as its peak this had reached 75 per cent in March 2000. For the Sensex the contribution of turnover of this sector to total Sensex turnover meandered from 2 per cent with only one stock MTNL to 18 in October 1999 and then to a high of 27 per cent in January 2000.

Trading pattern of listed companies

Though, market capitalisation of listed companies in India has shown exponential growth during the current year under review, very few companies are traded on the stock exchanges. Alternatively, trading in stocks in India concentrate on a limited number of companies. Trading pattern of companies listed at BSE provides interesting reading (Table 2.21).

Table 2.21 : Listed Companies Traded/ Not traded at Mumbai Stock Exchange (April 1999 to March 2000)

Month & Year	Listed	Traded	Not-Traded	Percent of Traded to Listed Cos.
1999				
Apr	7,383	2,719	4,664	36.83
May	7,438	2,631	4,807	35.37
Jun	7,472	2,642	4,830	35.36
Jul	7,506	2,855	4,651	38.04
Aug	7,549	2,964	4,585	39.26
Sep	7,584	2,992	4,592	39.45
Oct	7,650	3,171	4,479	41.45
Nov	7,725	3,030	4,695	39.22
Dec	7,845	3,347	4,498	42.66
2000				
Jan	7,845	3,376	4,469	43.03
Feb	7,966	3,285	4,681	41.24
Mar	8,027	3,318	4709	41.34
Source : BSE,				

The percentage of companies traded on the stock exchange, Mumbai was very low at 37 per cent in April 1999. It is observed that of 7383 listed companies only 2719 companies were traded. Though the number of traded companies increased to 3318 but it amounted to only 41 per cent of the total listed companies in March 2000. The detailed analysis is more still revealing. Trading is only on nominal basis in quite a large number of companies which is reflected from the fact that companies in which trading took place for 1 to 10 trade days during 1999-2000, constituted nearly 56 per cent of 8020 companies or nearly 65 per cent of companies were traded for 1 to 40 days. Only 23 per cent were traded for 100 days and above. Thus, it would be seen that during the year under review a major portion of the companies was hardly traded. The SEBI had appointed a Committee on Market Making with the objective to revive the less traded companies. The recommendation of the Committee have been accepted and the guidelines have been issued to that effect (Table 2.22).

Table 2.22: Frequency Distribution of Listed Companies According to Number of Trading Days

No. of Days Traded	No. of Companies Traded*	
	1999-2000	%age to Total
Above 100 days	2,210	27.56
91 to 100 days	110	1.37
81 - 90 days	95	1.18
71 - 80 days	110	1.37
61 - 70 days	121	1.51
51 - 60 days	108	1.35
41 - 50 days	167	2.08
31 - 40 days	160	2.00
21- 30 days	214	2.67
11 - 20 days	262	3.27
1 -10 days	4463	55.65
Total	**8020**	**100.00**

Companies listed at Mumbai Stock Exchange
Source : BSE

Movement in volatility

SEBI continued to minimise and contain the volatility in the prices of equity shares during the year under review. It took number of measures by imposing volatility margins and applying circuit filters to keep the market in orderly movement. These measures had salutary impact on the volatile behaviour of the shares prices. The BSE Sensex which exhibited a volatile movement in April 1999 with a volatility of 3 per cent improved its performance as its volatility declined over the year to 1.72 per cent in March 2000. Natex more or less reflected the downward trend as the volatility in this case slid down from 3.09 per cent in April 1999 to 2.23 per cent in March 2000. It is interesting to note that Sensex volatility during 1999-2000 was lower than that observed during 1998-99. Whereas, Natex volatility showed rising trend during February 2000 but declined in March 2000. Table 2.24 also presents volatility movement of S&P CNX Nifty and CNX Junior Nifty indices which though exhibited falling trend in their volatility from 3.35 per cent in April 1999 to 1.8 per cent in March 2000 their level was much lower in the current year than that in the past year. CNX Junior Nifty also depicted the same behaviour (Table 2.23 and 2.24).

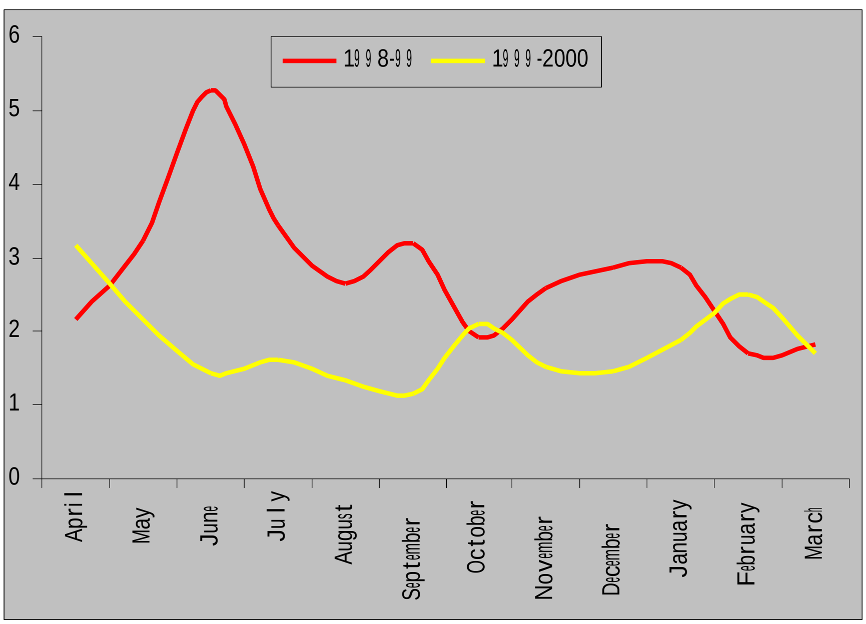
Table 2.23: Sensex and Natex Volatility During 1999-2000 *(in per cent)*

Month	Sensex Volatility				Natex Volatility			
	1996-97	1997-98	1998-99	1999-2000	1996-97	1997-98	1998-99	1999-2000
April	4.54	3.57	2.17	3.17	4.12	3.06	2.36	3.09
May	1.58	0.85	3.24	2.17	1.43	0.81	2.93	2.14
June	2.35	3.24	5.26	1.43	2.19	3.29	5.92	1.27
July	2.62	1.74	3.45	1.60	2.32	1.46	3.25	1.61
August	2.02	4.72	2.66	1.33	1.82	4.56	2.26	1.40
September	2.67	2.15	3.21	1.16	2.88	2.21	2.91	1.20
October	2.75	2.51	1.93	2.11	2.56	2.30	1.89	2.30
November	3.08	3.49	2.60	1.52	3.08	3.37	2.48	1.45
December	4.01	3.27	2.85	1.45	3.77	3.10	2.93	1.30
January	3.50	4.83	2.87	1.90	3.18	4.74	2.84	1.92
February	2.45	2.62	1.70	2.51	2.22	2.70	1.87	2.78
March	3.24	2.30	1.83	1.72	3.25	2.60	1.67	2.23

Note : Volatility is calculated as standard deviation of daily returns of the indices for the respective months

Source : SEBI

Graph 2.9 : Sensex Volatility



Graph 2.10 : Natex Volatility

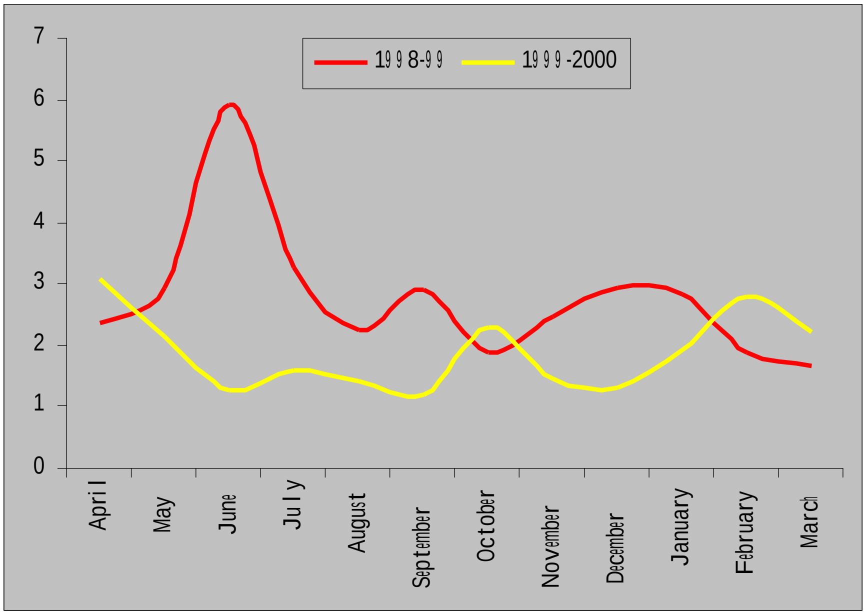


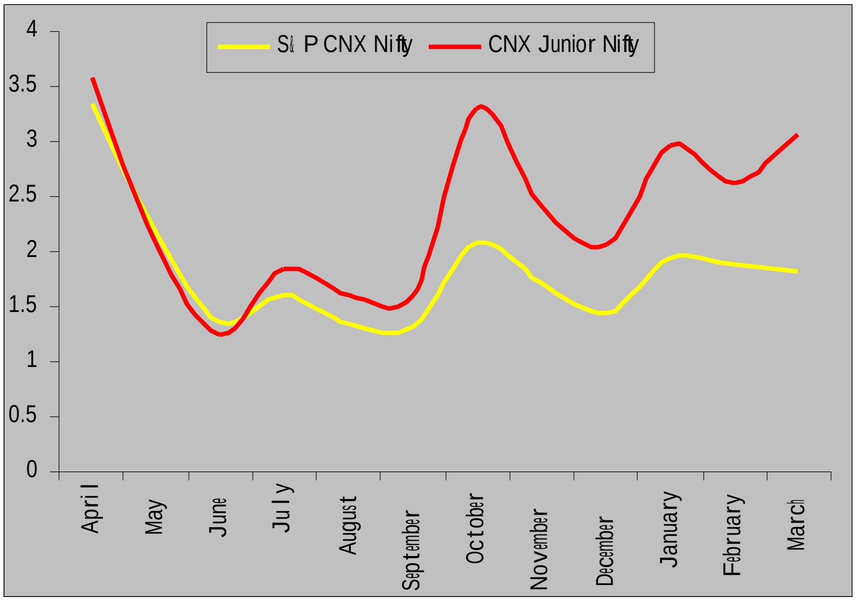
Table 2.24 : S&P CNX Nifty and CNX Jr. Volatility During 1999-2000

(Per cent)

Month	S&P CNX Nifty	CNX Junior Nifty
1999		
April	3.35	3.58
May	2.19	2.08
June	1.36	1.25
July	1.60	1.85
August	1.35	1.61
September	1.33	1.60
October	2.09	3.31
November	1.73	2.42
December	1.45	2.07
2000		
January	1.95	2.97
February	1.89	2.62
March	1.82	3.06

Source : SEBI

Graph 2.11 : S&P CNX Nifty and CNX Jr. Volatility



Primary listing of companies on stock exchanges

A total of 9871 companies were listed on various stock exchanges in India as on March 31, 2000 compared to 9877 companies listed at the end of 1998-99. Of this Calcutta Stock Exchange accounted for more than 19 per cent of companies primarily listed on it followed by Mumbai Stock Exchange sharing more than 18.3 per cent. Delhi Stock Exchange shared 17.2 per cent of the listed companies followed by Madras and Hyderabad Stock Exchange by 6.5 per cent each. The number of companies listed at Magadh Stock Exchange was only 33 (Table 2.25).

Graph 2.12: Distribution of Companies According to Primary Listing on Stock Exchanges

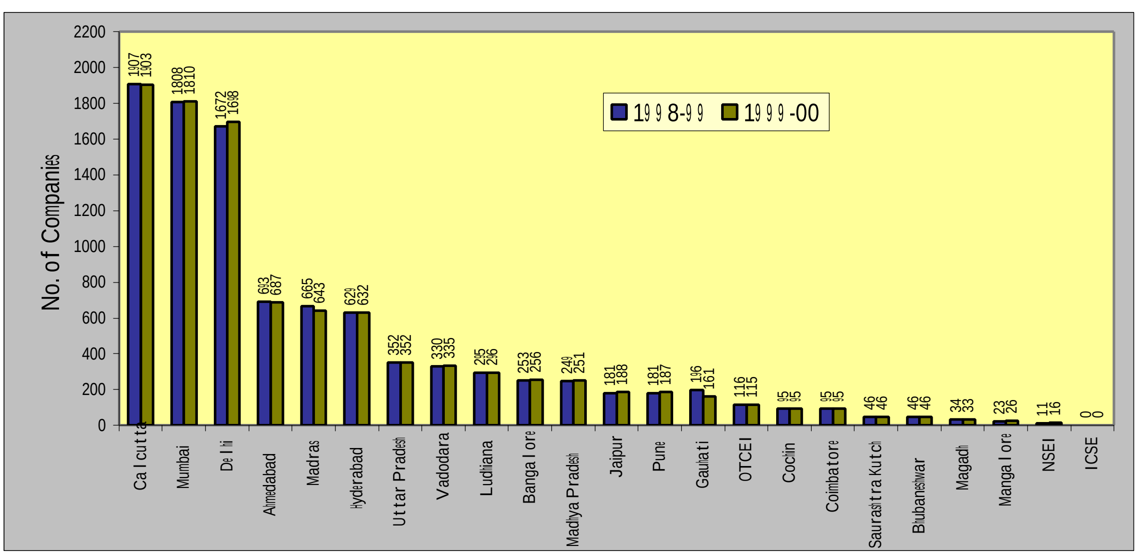


Table 2.25 : Distribution of Companies According to Primary Listing on Stock Exchanges

No.	Stock Exchanges	No. of Companies		
		1997-98	1998-99	1999-2000
1	Mumbai	1,811	1,808	1,810
2	Calcutta	1,892	1,907	1,903
3	Delhi	1,669	1,672	1,698
4	Madras	649	665	643
5	Hyderabad	624	629	632
6	Bangalore	255	253	256
7	Pune	176	181	187
8	Ludhiana	296	295	296
9	Vadodara	329	330	335
10	Ahmedabad	692	693	687
11	Cochin	94	95	95
12	NSEIL	11	11	16
13	Uttar Pradesh	346	352	352
14	Mangalore	23	23	26
15	Madhya Pradesh	248	249	251
16	Jaipur	186	181	188
17	Saurashtra Kutch	46	46	46
18	Bhubaneshwar	46	46	46
19	Gauhati	196	196	161
20	Coimbatore	95	95	95
21	OTCEI	115	116	115
22	Magadh	34	34	33
	Total	**9,833**	**9,877**	**9,871**

Note : The primary listing of company represents the company in the region of stock exchange where it is listed

Source : SEBI

Stock exchange-wise trends in volume of business

During 1999-2000, total turnover of all the 23 exchanges was Rs 20,67,031 crore as compared to Rs 10,23,382 crore in 1998-99. In percentage term the combined turnover of all the stock exchanges increased significantly by more than double (102 per cent) in 1999-2000 over the previous year. Meanwhile, the performance of the stock exchanges varied widely during the year with the NSEI recording the highest share of 40 per cent of the combined turnover of all stock exchanges followed by BSE at 33 per cent.

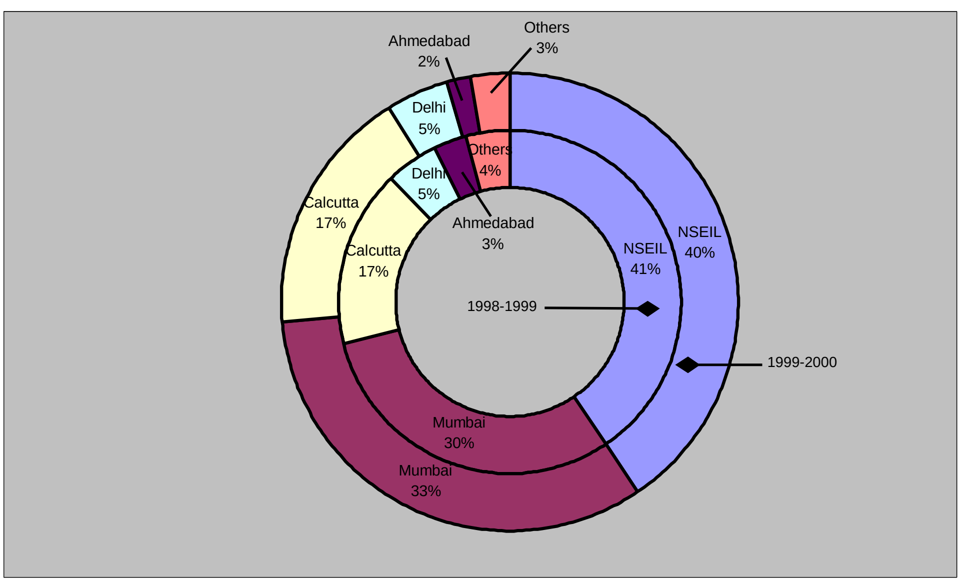
Table 2.26: Turnover on Stock Exchanges in India

(Rs. Crore)

	Stock Exchanges	Turnover		Percentage Share in Total Turnover	
		1998-99	1999-2000	1998-99	1999-2000
1	NSEIL	4,14,383.00	8,39,052.00	40.49	40.59
2	Mumbai	3,11,999.03	6,85,028.21	30.49	33.14
3	Calcutta	1,71,780.42	3,57,165.51	16.79	17.28
4	Delhi	51,759.27	93,288.89	5.06	4.51
5	Ahmedabad	29,734.20	37,565.61	2.91	1.82
6	Uttar Pradesh	18,626.65	24,047.75	1.82	1.16
7	Pune	7,452.84	6,086.81	0.73	0.29
9	Bangalore	6,778.95	11,147.35	0.66	0.54
8	Ludhiana	5,977.86	7,740.50	0.58	0.37
10	Vadodara	1,749.10	159.25	0.17	0.01
11	Hyderabad	1,275.89	1,236.51	0.12	0.06
12	Cochin	773.03	0.00	0.08	0.00
13	Coimbatore	394.71	38.84	0.04	0.00
14	Madras	369.64	250.24	0.04	0.01
15	OTCEI	142.21	3,587.91	0.01	0.17
16	Bhubaneshwar	77.04	70.05	0.01	0.00
17	Jaipur	64.78	2.11	0.01	0.00
18	Gauhati	30.16	0.02	0.00	0.00
19	Mangalore	11.22	0.10	0.00	0.00
20	Madhya Pradesh	0.902	9.73	0.00	0.00
21	ICSEIL	0.676	545.16	0.00	0.03
22	Magadh	0.04	8.01	0.00	0.00
23	SKSE	0	0.00	0.00	0.00
	Total	**10,23,381.62**	**20,67,030.56**	**100.00**	**100.00**

Source : SEBI

Graph 2.13 : Percentage Share in Total All India Turnover in Re. Terms



Delivery pattern in stock exchanges

Stock exchange wise data on delivery ratio and turnover in physical form as well as in value terms are provided in the Table No. 2.27. At aggregate level, the delivery ratio in terms of value of shares declined to 11.0per cent in 1999-2000 from 13.0 per cent in 1998-99. However, the delivery ratio in terms of number of shares also increased to 19.0 per cent from 21.0 per cent during the same period. Stock exchange-wise delivery ratio showed a divergent trend and it declined considerably both in terms of value and number of shares during the year as compared to 1998-99. In case of both the major stock exchanges, BSE and NSEIL, the delivery ratio in value terms declined to 16 per cent and 10 per cent in 1999-2000 from 20 per cent and 15 per cent respectively, in 1998-99. The small stock exchanges faired well in terms of delivery ratio both in respect of value as well as in physical terms during the year 1999-2000 as compared to the previous year. Specifically, the stock exchanges like Ahmedabad, Calcutta, Delhi, and Madras showed remarkable improvement in achieving higher delivery ratio during the year. Madras Stock Exchange reported a higher delivery ratio of 42 per cent in 1999-2000 in physical terms than 21 per cent in 1998-99. Similarly, the Calcutta Stock Exchange and Delhi Stock Exchange improved delivery ratio to 7.0 per cent and 17.0 per cent, respectively, in 1999-2000 from a level of 4.0 per cent and 7.0 per cent in 1998-99. The delivery ratio remained at a low level for Vadodara, Bhubaneswar, Coimbatore and Uttar Pradesh Stock Exchanges (Table 2.27).

Table 2.27: Delivery Pattern in Stock Exchanges

Sr. No.	Exchange	Turnover (Rs. Crore)	Value of Shares Delivered (Rs. Crore)	Delivery Ratio *	Delivery Ratio *	Turnover (No. of Shares-Lakh)	Number of Shares Delivered (Lakh)	Delivery Ratio *	Delivery Ratio *
		1999-2000	1999-2000	1999-2000	1998-99	1999-2000	1999-2000	1999-2000	1998-99
1	NSEI	8,39,052	84,492	10	15	2,42,551	48,200	20	16
2	Mumbai	6,85,028	1,10,022	16	20	2,07,297	49,809	24	39
3	Calcutta	3,57,165	16,400	5	2	67,955	5,094	7	4
4	Delhi	93,288	8,771	9	3	25,549	4,359	17	7
5	Ahmedabad	37,565	1,738	5	1	16,925	903	5	1
6	Uttar Pradesh	24,047	552	2	2	8,710	208	2	25
7	Bangalore	11,147	696	6	3	2,509	329	13	4
8	Ludhiana	7,740	237	3	3	3,719	192	5	5
9	Pune	6,086	212	3	2	2,782	109	4	3
10	OTCEI	3,587	51	1	12	678	37	5	15
11	Hyderabad	1,236	405	33	9	1,448	658	45	28
12	ICSE	545	10	2	1	153	5	3	3
13	Madras	250	76	30	10	310	131	42	21
14	Vadodara	159	5	3	1	91	5	6	2
15	Bhubaneshwar	70	0	0	0	72	0	0	0
16	Coimbatore	38	1	3	2	35	0	0	2
17	MPSE	9	0	0	6	0	0	0	52
18	Magadh	8	0	0	0	0	0	0	2
19	Jaipur	2	1	50	2	1	0	4	3
20	Mangalore	0	0	0	48	0	0	0	65
21	Gauhati	0	0	0	0	0	0	0	0
22	SKSE	0	0	0	0	0	0	0	0
23	Cochin	0	0	0	5	0	0	0	7
	Total	**20,67,022**	**2,23,669**	**11**	**13**	**5,80,785**	**1,10,039**	**19**	**21**

**Delivery Ratio represents percentage of delivery to turnover of a stock exchange.*
Source : SEBI

Bad Deliveries on Indian Stock Exchanges

The percentage of bad deliveries to net deliveries in case of BSE and NSE fluctuated widely during the year of 1999-2000 as shown in the Table 2.28. The bad delivery ratio declined from a level of 0.57 per cent in May 1999 to 0.11 per cent in March 2000 in case of BSE, whereas, the same remained quite stable for NSE from April 1999 to January 2000 thereafter declining to 0.15 per cent in March 2000. This was the result of increase in the share of dematerilised stock in the delivery of the stock exchanges (Table 2.28).

Table 2.28 Bad Deliveries*
1999-2000

Month	BSE	NSE
April	0.17	0.24
May	0.57	0.20
June	0.48	0.29
July	0.21	0.24
August	0.36	0.24
September	0.22	0.29
October	0.10	0.27
November	0.24	0.26
December	0.11	0.22
January	0.25	0.24
February	0.19	0.11
March	0.11	0.15

*Percentage share of bad deliveries in net deliveries
Source: BSE & NSEIL

Performance of dematerialisation

Dematerialisation of shares has been becoming popular with the investors as well as the companies as technological progress has become a part of stocks market in India. Based on the recommendation of SEBI's Working Group on dematerialisation, the number of scrips for compulsory settlement of trades in dematerialised form for institutional investors has been increased in phases to 462 as at the end of the financial year under review. This number would be increased to 985 by June 26, 2000. These scrips comprise of all shares forming the part of A Group scrips of BSE sensitive index, CNX S&P Nifty, BSE 500 and CNX S&P 500 and most of the highly traded B1 Group scrips of BSE. The number of scrips for compulsory settlement of trades in dematerialised form for all investors was also increased in phases to 260 as at end of the financial year under review. This number would be increased to 579 by June 26, 2000.

Number of dematerialised shares increased from 1,763 million as on end March 1998 to 6,970 million as on end March 1999 and further to 15,500 million shares as at end March 2000. The increase in number of dematerialised scrips reflects fast pace in institutionalisation of paperless trading in equities. Total market capitalisation of companies at NSDL amounted to Rs.4,006 billion at end March 1999 as compared to Rs.2,883 billion as at end March 1998. It increased further to Rs.7,658 billion as at end March 2000. Depositary participants also increased from 49 to 124 and a total of 621 companies were trading in dematerialised form as on end March 2000.

According to the data furnished by National Securities Depository Ltd. and Central Depository Services (I) Limited, dematerialised securities and volume substantially increased during the year 1999-2000. As on March 31, 2000, 1013 companies with a market capitalisation of over Rs. 7,00,000 crore had signed agreement with the depositories. The number of depository participant offering depository services have grown from 84 as on March 31, 1999 to 150 as on March 31, 2000. The depository services were available in 1000 centres covering 200 cities across the country as on March 31, 2000. The value of dematerialised shares increased from Rs. 1,10,600 crore as on March 31, 1999 to Rs. 4,00,000 crore as at end March 2000. The number of shares dematerialised also increased from 697 crore to 1500 crore. There has been a steep increase in the beneficiary accounts opened with the depository participants from 4,35,960 as on March 31, 1999 to 25,00,000 as on March 31, 2000.

The volume of dematerialised securities constitute around 80 to 90 percent of the total delivery of securities at the NSE and BSE together. 10 Stock Exchanges viz. NSE, BSE, CSE, DSE, MSE, OTCEI, BgSE, LSE, ASE and ICSEIL have established connectivity with NSDL for settlement and clearing of dematerialised trading.

International comparison of developments in stock markets

Globalisation of stocks markets has its own merits and demerits. There appears to be a relationship between the movements of NASDAQ and the Indian share price indices although only a few of information technology companies are listed at NASDAQ as well as at National Stock Exchange and Mumbai Stock Exchange.

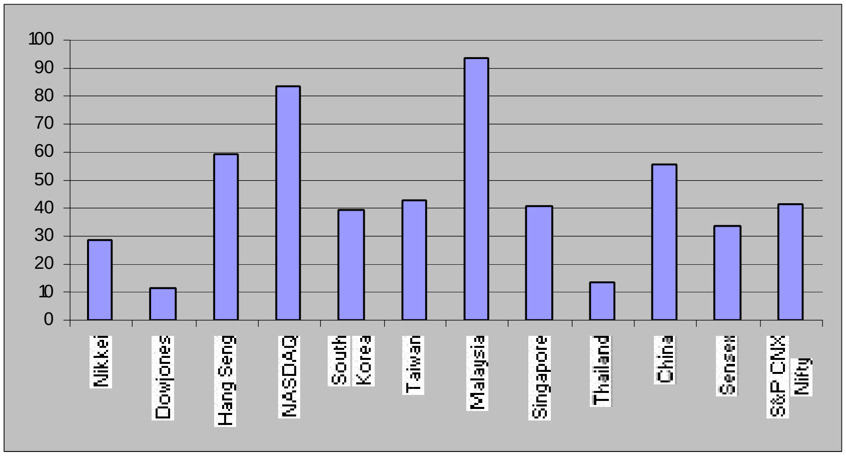
Stocks prices in different countries have demonstrated varying pattern. On point to point basis, during 1999-2000 Malaysia, KLSE Index had the highest increase of 93.7 per cent followed by NASDAQ Composite Index during 1999-2000 at 83.4 per cent, Hang Sang with an increase of 59.7 per cent , China with an increase of 55.45 per cent. India ranked next to Taiwan as S&P CNX Nifty rose by 41.7 per cent and Sensex by 33.7 per cent (Table 2.29).

Table 2.29: Month-end Closing Prices of Different Indices

Indices	Mar-99	Mar-00	Percentage Change
Nikkei	15836.59	20337.32	28.41
Dow Jones	9786.16	10921.92	11.60
Hang Seng	10942.20	17406.54	59.07
NASDAQ	2493.00	4572.83	83.42
South Korea	618.98	860.94	39.09
Taiwan	6881.72	9854.95	43.20
Malaysia	502.82	974.38	93.78
Singapore	1518.31	2132.59	40.45
Thailand	352.01	400.32	13.72
China	1158.05	1800.22	55.45
Sensex	3739.96	5001.28	33.72
S&P CNX Nifty	1078.05	1528.45	41.77

Source : SEBI

Graph 2.14 : Percentage increases in Indices of various countries



P/E ratio analysis : an international comparison

As regards P/E Ratio in other countries, China Se Sang(42.20 per cent), Korea Composite Index (27.30 per cent), Kuala Lumpur Composite Index(38.03 per cent), Taiwan Weighted Index (36.70 per cent) recorded higher P/E Ratios than that of India(BSE Sensex) whereas Hang Seng Stock Index(12.67 per cent), Jakarta Composite Index (7.60 per cent), Philippines Composite Index (17.70 per cent) and Thai Stock(13.50 per cent) showed a lower P/E Ratio (Table 2.30).

Table 2.30 : P/E Ratio of SEA Countries, Dow Jones and India- March 2000

Country Indices	End Aug-98 (in per cent)	End Mar-2000 (in per cent)
China Se Sang	28.6	42.2
Kuala Lumpur Comp. Index	10.1	38.0
Taiwan: Weighted Index	18.3	36.7
Korea Composite Index	-	27.3
Dow Jones Indus. Avg.	-	25.4
India BSE Sensex	11.3	21.9
Sing Straits Times Indx.	-	21.4
Philippines Composite Ix.	-	17.7
Thai Stock Of Exchg. Of Thai	47.3	13.5
Hang Seng Stock Index	9.7	12.7
Jakarta Composite Index	10.7	7.6

Source : Bloomberg

Graph 2.15 : P/E Ratio of SEA Countries

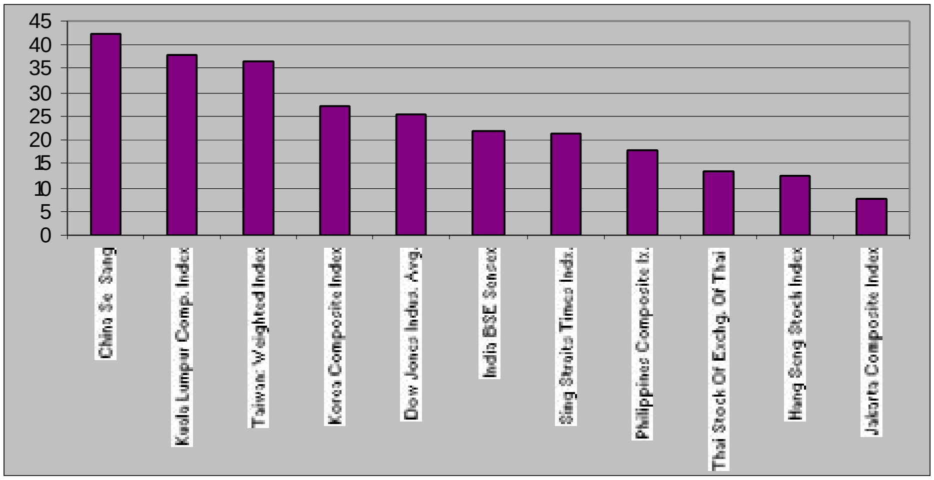


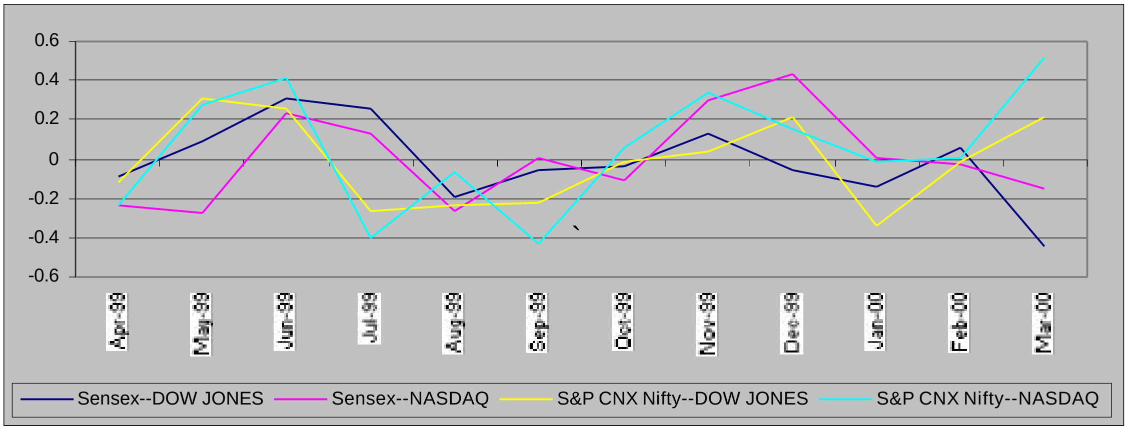
Table below presents data on correlation co-efficient between NASDAQ and BSE Sensex, Dowjones and BSE Sensex, on the one side and Nifty of NSE and NASDAQ and Nifty and Dowjones on the other side. The analysis provides interesting results. The correlation between Sensex and NASDAQ has shown positive relationship for the months of June, July, September, November and December 1999 and negative relationship for the remaining six months. As regards Nifty, there has been a correlation of larger magnitude for nearly seven months namely for May, June, October, November and December 1999, February and March 2000. The negative correlation, at times, between NASDAQ and Indian indices suggests that stocks prices in India have taken independent movement and were not influenced by the movement in NASDAQ. Moreover, the magnitude of the coefficient of correlation except in March has been very low (Table 2.31).

Table 2.31 : Correlation Matrix Between Indian and Foreign Stocks Prices *

	Sensex --- Dow Jones	Sensex --- NASDAQ	S& P CNX Nifty --- Dow Jones	S& P CNX Nifty --- NASDAQ
Apr-99	-0.09	-0.23	-0.12	-0.23
May-99	0.09	-0.28	0.31	0.28
Jun-99	0.31	0.24	0.26	0.41
Jul-99	0.26	0.13	-0.27	-0.40
Aug-99	-0.19	-0.27	-0.23	-0.07
Sep-99	-0.06	0.01	-0.22	-0.43
Oct-99	-0.04	-0.11	-0.02	0.06
Nov-99	0.13	0.30	0.04	0.34
Dec-99	-0.06	0.43	0.21	0.15
Jan-00	-0.14	0.01	-0.34	-0.02
Feb-00	0.06	-0.03	-0.02	0.01
Mar-00	-0.44	-0.15	0.21	0.52

*The correlation is the covariance of two variables divided by the product of their standard deviations. Correlation is calculated between the two concerned daily indices during the respective months.
Source: SEBI

Graph 2.16 : Correlation between Indian and Foreign Countries' Indices



Market volatility in major securities markets in the Asian countries and USA

During 1999-2000 the securities market across the world witnessed a high volatile situation. The month-wise volatility ratios of major indices in percentage term are given in the table below for the period 1999-2000.

During the month of April 1999, the volatility was on a higher side for NASDAQ, South Korea, Thailand and India. Thereafter it continued on a declining phase from May 1999 onwards till December 1999, with an exception to some indices which witnessed the highest volatility like 3.04 per cent in case of China and 3.51 per cent in South Korea in the month of July 1999. Since January 2000 upto March 2000, the intensity of volatility increased in all the securities markets and especially the technology indices experienced more volatility than the indices of economy stocks, e.g. Dow Jones index. The securities market of Asian countries moved in tandem with the market in the European countries and specially the trading activities on NASDAQ and New York stock exchange. Similarly, the volatility in share prices traded in NASDAQ and NYSE affected the trading in stocks of Asian countries, which shows integration of the stock markets across the globe (Table 2.32).

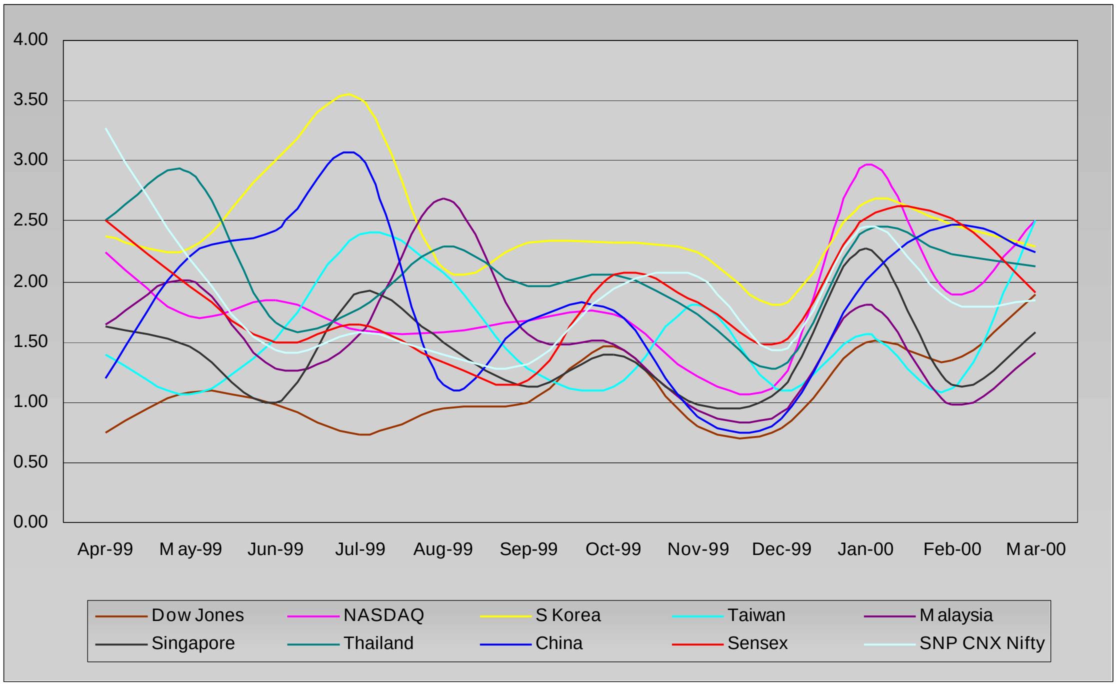
Table 2.32 : Trends in Volatility of Indices of East Asian Countries, USA and India

(Per cent)

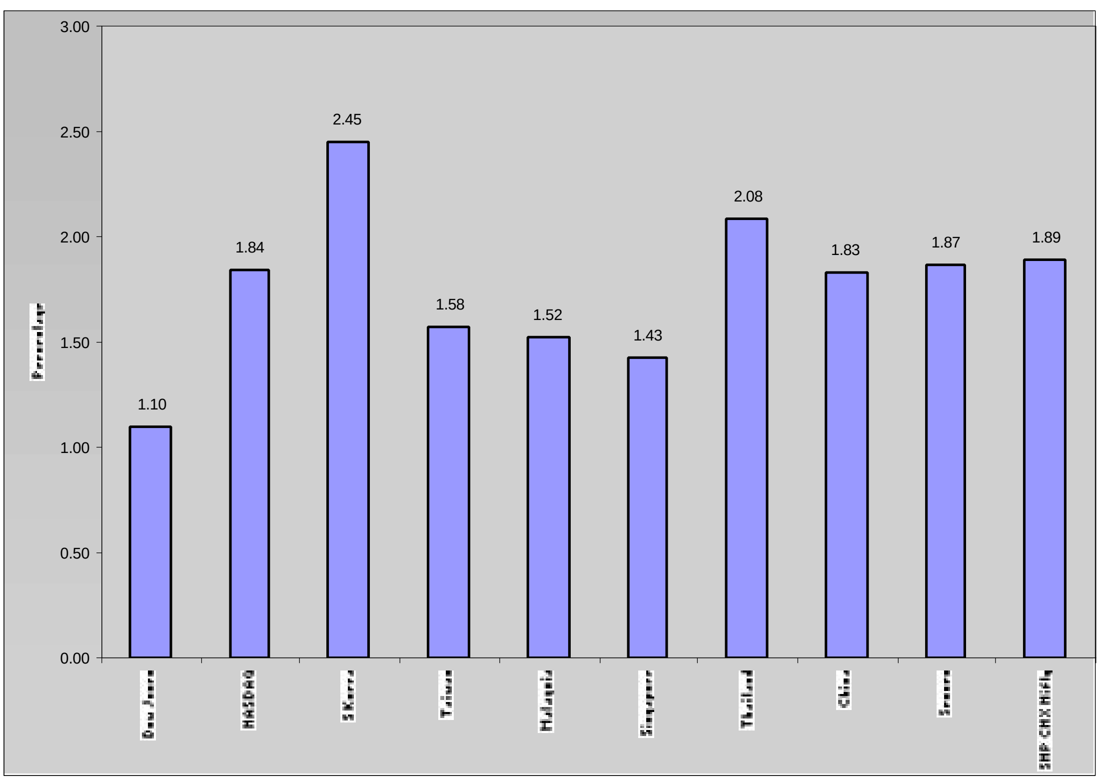
	Apr-99	May-99	Jun-99	Jul-99	Aug-99	Sep-99	Oct-99	Nov-99	Dec-99	Jan-00	Feb-00	Mar-00
Dow Jones	0.74	1.09	0.98	0.73	0.95	0.99	1.47	0.80	0.78	1.49	1.34	1.90
NASDAQ	2.24	1.71	1.84	1.59	1.57	1.68	1.72	1.22	1.19	2.97	1.89	2.51
S Korea	2.37	2.27	3.00	3.51	2.11	2.33	2.32	2.25	1.80	2.66	2.47	2.29
Taiwan	1.39	1.07	1.52	2.39	2.08	1.28	1.13	1.82	1.09	1.55	1.11	2.50
Malaysia	1.64	2.02	1.28	1.56	2.68	1.56	1.48	0.93	0.92	1.82	0.98	1.40
Singapore	1.62	1.45	1.00	1.92	1.50	1.14	1.39	0.98	1.11	2.27	1.15	1.58
Thailand	2.51	2.90	1.65	1.78	2.29	1.96	2.06	1.73	1.30	2.42	2.23	2.13

China	1.19	2.21	2.42	3.04	1.15	1.68	1.76	0.87	0.87	2.01	2.47	2.24
Sensex	2.50	1.95	1.49	1.64	1.34	1.18	2.06	1.83	1.49	2.52	2.53	1.91
S& P CNX Nifty	3.26	2.19	1.42	1.57	1.40	1.31	1.94	2.04	1.44	2.46	1.82	1.85
Source : SEBI												

Graph 2.17 : Trends in Volatility of Indices of East Asian Countries, USA and India



Graph 2.18: Annualized average volatility in Asian Countries and USA in 1999-200



Developments in government-debt market

Activity in the wholesale debt market

There was massive increase in the trading activity of Wholesale Debt Market (WDM) during 1999-2000 as the net traded value was Rs.19,449.4 in March 2000 as compared to Rs.18,524.6 crore in April 1999. The net traded amount stood at Rs.15,206.2 in March 1999. The trend in net traded value has not been linear as the investors by and large, sell these securities during the liquidity crunch period. There was also increase in average daily value traded from Rs.661 crore in March 1999 to Rs.810 crore in March 2000. Over the year under review there have been large fluctuations. The average daily turnover was as high as Rs.1,799 crore in February 2000 (Table 2.33).

Table 2.33 : Business Growth on the WDM Segment *(Rs. Crore)*

	1998-99			1999-2000		
Month	Net Traded Value	Average Daily Value	Number of Trades	Net Traded Value	Average Daily Value	Number of Trades
April	13,035.89	592.54	1,935	18,524.64	882.13	2,595
May	9,131.83	397.04	1,350	21,680.80	867.23	3,356
June	6,787.81	261.07	1,081	17,025.93	654.84	2,478
July	7,287.15	280.28	1,101	25,944.37	960.90	4,072
August	8,751.64	380.51	1,371	26,957.09	1,036.81	4,188
September	5,475.36	210.59	835	16,524.11	688.50	2,545
October	5,500.77	250.04	820	19,321.23	772.85	2,985
November	8,454.16	352.26	1,315	29,285.23	1201.00	4,665
December	8,704.56	334.79	1,310	30,023.51	1,305.37	4,797
January	10,023.44	417.64	1,589	36,294.04	1,451.76	5,685
February	7,110.35	296.26	1,,167	43,185.86	1,799.41	6,661
March	15,206.16	661.14	2,218	19,449.43	810.39	2,960

Source : NSEIL

The pattern of trading in government securities revealed minor changes in March 2000 over March 1999, while trading members' share in total trading increased from 18 per cent to 27 per cent as Indian banks share declined from 44 per cent to 32 per cent and that of foreign banks from 22 per cent to 17 per cent.

Table 2.34: Instrument wise distribution of Securities Traded in WDM Segment

(in per cent)

Month	1998-99				1999-2000			
	Government Dated Securities	T-Bills	PSU	Others	Government Dated Securities	T-Bills	PSU	Others
April	88.00	9.00	1.00	2.00	90.47	5.64	0.26	3.63
May	83.00	6.00	1.00	10.00	94.06	2.59	0.41	2.94
June	84.00	11.00	1.00	4.00	88.35	5.88	0.77	4.99
July	72.65	15.58	2.19	9.58	94.08	2.09	0.55	3.28
August	82.00	6.00	2.00	10.00	92.89	4.45	0.67	1.99
September	82.00	5.00	3.00	10.00	90.28	4.55	0.78	4.39
October	67.00	20.00	2.00	11.00	96.67	1.59	0.39	1.35
November	65.00	2.57	9.08	2.00	95.19	1.70	0.34	2.77
December	74.00	12.00	3.00	11.00	93.75	3.37	0.29	2.59
January	84.00	9.00	2.00	5.00	92.61	4.33	0.23	2.83
February	77.55	11.55	1.95	8.95	94.01	3.72	0.53	1.74
March	87.16	6.54	1.04	5.27	90.42	4.64	1.21	3.73

Source : NSEIL

Instrument-wise trading has shown marked changes. The share of Government dated securities which ranged between 65 per cent and 88 per cent during 1998-99, oscillated at a high level namely 88.35 per cent and 96.67 per cent during 1999-2000. treasury bill trade also registered some lower volume in 1999-2000. The trading pattern thus reflected that the investors are more favourable to trade in dated securities which carry higher rate of return in the secondary market from 11 per cent to 20 per cent. However, in between there were fluctuation in their respective share (Table 2.34).

Table 2.35 : Participant in Trade (in percentage)

	1998-99					1999-2000				
	Trading Members	FIs/MFs	Primary Dealers	Indian Banks	Foreign Banks	Trading Members	FIs/MFs	Primary Dealers	Indian Banks	Foreign Banks
April	16	3	15	40	26	15	7	11	49	18
May	19	4	11	42	24	19	4	15	48	15
June	15	3	21	41	20	21	5	16	45	13
July	17	2	17	41	23	21	3	18	42	16
Aug	16	3	14	45	21	18	2	18	48	15
September	19	3	16	37	24	15	5	19	44	17
October	12	3	23	40	22	13	5	23	42	17
November	13	6	16	41	25	18	3	24	43	12
December	14	7	16	42	20	23	5	20	41	12
January	12	7	14	46	21	20	4	20	41	14
February	16	7	10	43	24	16	3	23	41	17
March	18	5	11	44	22	27	5	20	32	17

Source : NSEIL

C] MUTUAL FUNDS

Resources mobilised by mutual funds

The mutual funds during 1998-99 suffered a serious set back by reporting a sharp decline in net resource mobilisation. There was a net outflow of Rs.950 crore during the entire year. The concern for this situation got reflected in the incentives offered to mutual funds scheme in the Union Budget for 1999-2000.

The performance has been extremely good during 1999-2000 as the gross amount mobilised by them increased to Rs. 61,241.23 from Rs. 22,710.73 crore during 1998-99 showing an increase of around 170 per cent in 1999-2000. The Government exempted the income of unit holders received from UTI or from mutual fund. The Government further exempted income distributed under the US-64 scheme and other open-ended equity oriented schemes of UTI and mutual funds from the 10 per cent flat rate of tax. These fiscal incentives have favourably impacted the resource mobilisation by the mutual funds industry. However, redemption had been very heavy which form nearly more than 100 per cent in 1998-99 and 69 per cent during the current financial year.

As regards the net resource mobilisation, there has been a massive inflow of Rs.18,969.88 crore during the current financial year under review as against a net outflow of Rs.949.67 crore during the entire financial year of 1998-99.

Details of funds mobilised, repurchase/redemption amount and the net inflow/outflow of funds for the financial year 1999–2000 are given in Table 2.36.

Table 2.36: Resources Mobilised by the Mutual Funds *(Rs.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 (gross)	43,563.26	162.40	43,725.66	3,817.13	0.00	3,817.13	8,293.04	5,405.40	13,698.44	61,241.23
Repurchase / Redemption Amount	28,136.49	422.69	28,559.18	3,276.47	1,285.58	4,562.05	7,259.68	1,890.44	9,150.12	42,271.35
Net In/ Outflow of funds	15,426.77	260.29	15,166.48	540.66	-1,285.58	-744.92	1,033.36	3,514.96	4,548.32	18,969.88

Source : SEBI

As regards sector-wise performance, there was a net inflow of Rs.15,426.77 crore in case of private sector mutual funds (net inflow of Rs.1,452.70 crore during 1998-99) followed by UTI with a net inflow of Rs.4,548.32 crore (net outflow of Rs.2,737.53 crore during

1998-99). On the contrary there was a net outflow of Rs.744.92 crore in case of public sector mutual funds (net inflow of Rs.335.16 crore during 1998-99) due to massive redemption / repurchase of close ended schemes. Thus it is found that probably organisational and ownership structure have been influencing the performance of mutual funds.

It is observed that in case of private and public sector mutual funds, the entire net inflow of fund has been from open-ended schemes and there was net outflow in respect of close ended schemes. However, incase of UTI, 77.28 per cent of net inflow has been from the close ended schemes.

Comparative performance of mutual funds and bank deposits

In resource mobilisation, mutual funds outperformed the bank deposits during the year under review. While mutual funds on net basis increased their resources by Rs.18,516 crore, there was a decline in accretion to bank deposits from Rs.1,08,615 crore in 1998-99 to Rs.9,175 crore in 1999-2000. Thus there has been a shift of savings from bank deposits to mutual funds units (Table 2.37).

Table 2.37: Amount Mobilised by Commercial Banks & MFs **(Rs. Crore)**

Year	Mutual Funds				Bank Deposits
	Public	Pvt	UTI	Total	
1996-97	151	346	9,600	10,097	71,780
1997-98	332	1,974	9,100	11,406	99,811
1998-99	335	1,453	-2,738	-950	1,08,615
1999-00	-701	14,669	4,548	18,516	91,075

Source : SEBI

Number of schemes and net assets

During 1999-2000, 330 schemes were in operation, out of which 188 schemes were open-ended schemes. In terms of investment objective, the details of these 330 schemes are as follows:-

Income (Debt oriented)Schemes - 122
(including 13 gilt schemes)
Growth (Equity oriented)Scheme - 173
(including 64 ELSS Schemes)
Balanced (Equity and Debt) Schemes- 35

The combined outstanding net assets of all domestic schemes of mutual funds stood at Rs.1,07,946.10 crore as on March 31, 2000. The details of which are given in Table 2.38.

Table 2.38: Outstanding Position of Mutual Funds Assets at end-March (Rs. Crore)

Category of Mutual Funds	Amount	Percentage Share (per cent)	
		1999-00	1998-99
UTI	72,333.43	67.00	77.90
Public Sector	10,444.78	9.68	12.09
Private Sector	25,167.89	23.32	9.97
Total	**1,07,946.1**	**100**	**100**
Source : SEBI			

During the year, there was an increase of 58 per cent in the net assets of the mutual funds industry from Rs.68193 crore as on March 31, 1999 to Rs.107946 crore as on March 31, 2000.

The share of UTI in the total assets of the mutual funds industry has declined to 67 per cent as at end March 2000 from 77.9 per cent as at end March 1999. Net assets of other public sector mutual funds have also shown a decline from 12.09 per cent in 1998-99 to 9.68 per cent. However, net assets of private sector mutual funds increased from 9.97 per cent as at end March 1999 to 23.32 per cent as at end March 2000.

Offer documents received and cleared by SEBI

During the year under review, there was a sharp increase in the number of offer documents received and cleared by the SEBI for launching new schemes by mutual funds. Thus the SEBI received 96 offer documents during 1999-2000 as against 60 offer documents during 1998-99. SEBI cleared 86 offer documents (18 offer documents cleared for conversion of close ended schemes into open ended schemes), as against 47 offer documents cleared in the entire year 1998-99. All offer documents were cleared in 21 working days in accordance with the Regulations. In remaining cases, the mutual funds have been advised to incorporate the preliminary observations.

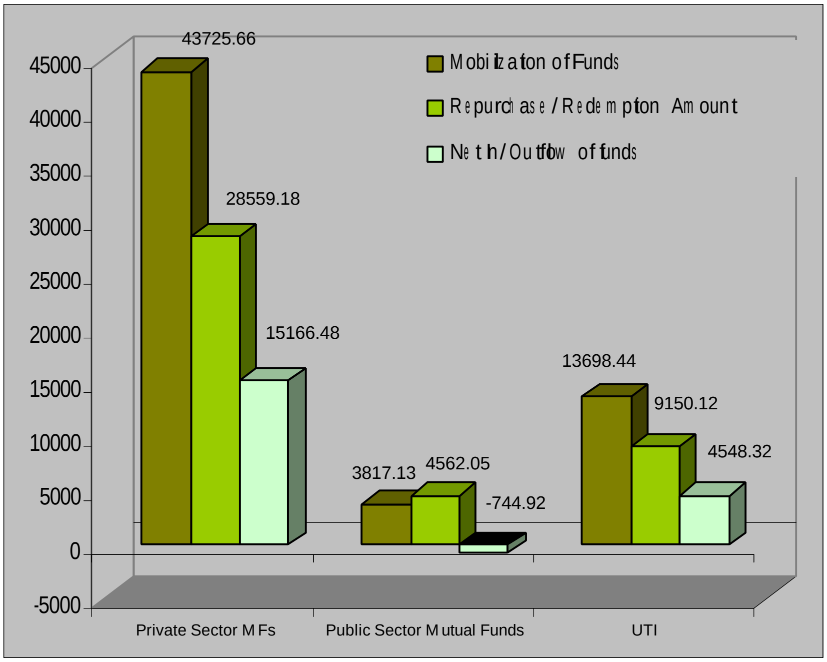
Pattern of offer documents received

In all 45 offer documents were received for launching income schemes, out of which 15 offer documents were for launching gilt schemes investing in government securities, 29 offer documents were for launching schemes investing predominantly in corporate debt securities, 1 offer document was for investing in money market instruments, 23 offer documents were for growth schemes investing predominantly in equities which also include sector specific schemes and tax saving schemes, 13 offer documents were for balanced schemes investing in equities as well as debt securities, 13 offer documents were received for conversion of old close ended schemes into open ended schemes and 2 offer documents were received for investments in securitised debts.

Schemes launched

During 1999-2000, 58 new schemes were launched by the mutual funds. In addition, 21 schemes were converted from close ended schemes to open ended schemes. (In the financial year 1998-99, 52 schemes were launched by the mutual funds including 10 schemes which were converted from close to open ended schemes).

Graph 2.19: Resources (Gross) Mobilised by the Mutual Funds during 1999-2000



Assured return schemes of mutual funds

The SEBI pursuing its objective to protect the interest of the investors has been directing, sponsors/AMCs of mutual funds to honour their commitment of assured returns. Several investors have received income from their investment due to efforts of SEBI. According to data available, 7 mutual funds have so far contributed Rs.1,979.35 crore to meet the shortfalls in 19 assured return scheme. The details of these contributions are below in the table 2.38.

During the year, SEBI directed Indian Bank and Indian Bank Mutual Fund u/s 11B of the SEBI Act, 1992 to meet the shortfall in the returns committed in the offer documents of Ind Prakash and Ind Jyothi schemes. It may be mentioned that earlier Indbank Mutual Fund had paid assured return to the unitholders of Ind Jyothi scheme as directed by the SEBI. However, some of the investors who had opted for redemption before the SEBIs' directive could not get assured returns. They preferred an appeal before the appellate authority. The appellate authority upheld the stand taken by the SEBI and directed Indian Bank and Indbank Mutual Fund to pay the returns to the investors as committed in the offer document. Subsequently, an appeal against the decision of the appellate authority has been filed with the Delhi High Court.

It may be recalled that Canbank Mutual Fund had been directed to honour its commitments in case of Canstar scheme. Though most of the investors opted for redemption in the year 1997 some of the investors could do so in the subsequent years. As a result, the amount contributed by Canara Bank has increased to Rs. 1,237 Crore. In case of Cantriple scheme, the matter pertaining to assured returns is sub-judice.

In case of Magnum Triple Scheme of SBI Mutual Fund, SEBI insisted that the investors of the schemes must be paid three times the face value of units as indicated in the offer document. Accordingly, SBI Mutual Fund paid Rs.300 to the investors at the time of redemption and the shortfall was met by the sponsors i.e State Bank of India, who contributed Rs. 125.97 Crores (Table 2.39).

Table 2.39: Assured Return Schemes: Contributions Made to Honour the Commitments

(Rs. Crore)

Name of the Fund	Name of the Scheme	Contribution Made by Sponsor/ AMC
BOI Mutual Fund	Double square plus	31.58
	Festival Boinanza Growth Scheme *	1.38
	RMI	3.69
Canbank Mutual Fund	Canstar	1,237.83
GIC Mutual Fund	GIC Big Value	46.88
	GIC Rise II	170.00
PNB Mutual Fund	Premium Plus 91	26.15
	Rising Income Plus 90	3.92
Indian Bank Mutual Fund	Ind Jyoti	43.59
	Swarnapushpa	0.42
SBI Mutual Fund	Magnum Bond Fund	12.29
	MMIS 91	42.27
	Magnum Triple Plus Scheme	125.97
	MMIS 97	4.55
	MMIS 89	18.67
LIC Mutual Fund	Dhanvarsha (3)	12.40
	Dhanvarsha (4)	136.92
	Dhanvarsha (5)	53.34
	Dhanshree 89	7.50
Total		19,79.35

** The amount has since been reimbursed back to the AMC subsequently*

Source : SEBI

Development with respect to collective investment schemes

The Board reviewed the current status of entities having Collective Investment Schemes. It was noted that upto January 24, 2000, 29 applications for grant of registration were received from entities which had reportedly mobilised about Rs.292.29 crores. Another 26 entities, which had reportedly mobilised about Rs.185.24 crores, have sought time for submitting application for registration. The Board also noted that 43 entities which had reportedly collected about Rs.332.42 crores have intimated SEBI about their intention to repay and wind up their schemes in terms of provisions of SEBI (Collective Investment Schemes) Regulations, 1999. Besides, in some cases proceedings are going on in various Courts wherein the companies, which had launched CIS, have proposed to make the payment to investors.

The Board took note of various steps taken by the SEBI, such as individual letters to entities asking them to apply for registration or wind up and repay the investors; public notices in newspapers, inter-alia, cautioning investors about risks associated with the investments of such nature; public notices in newspapers reminding entities who have not applied for registration by December 14, 1999 to wind up their existing schemes to repay the investors.

D] FOREIGN INSTITUTIONAL INVESTMENT

On December 8, 1999, the cumulative net investment made by the Foreign Institutional Investors (FIIs) in the Indian Capital Market since September 1992, crossed the 10 billion-dollar mark. Though there was an outflow of funds during the period August-October 1999, the underlying sentiment towards the Indian markets was bullish. During the year 1999-2000, FIIs had made a net investment of Rs. 10,121.93 crore, as compared to the outflow of Rs. 1,584.5 crore during 1998-99. Apart from market considerations, this reversal in trend is also reflective of the confidence of FIIs in the structural reforms introduced by the SEBI to make the Indian markets more investor friendly, transparent and efficient. The net investment made by the FIIs as on March 31, 2000 stood at US $11.23 billion. The yearly cumulative net investment made by the FIIs is given Table 2.40

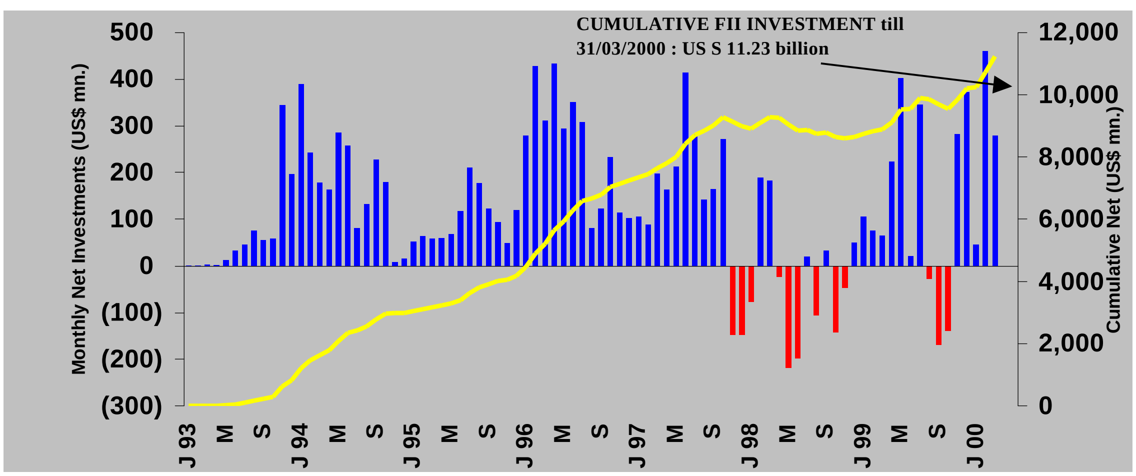
Table: 2.40 Yearly Trends in FII Investment

Total	Gross Purchases Rs. Crore	Gross Sales Rs. Cr	Net Investment Rs. Cr	Net Investment in US$ Million	Cumulative Net Investment US$m at Monthly Exchange Rate
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	1,638.3
1994-95	7,631.0	2,834.8	4,796.3	1,528.3	3,166.6
1995-96	9,693.5	2,751.6	6,942.0	2,035.7	5,202.3
1996-97	15,553.9	6,979.4	8,574.5	2,431.9	7,634.2
1997-98	18,694.7	12,737.2	5,957.4	1,650.1	9,284.3
1998-99	16,115.0	17,699.4	(1,584.4)	(386.1)	8,898.2
1999-00	56,855.5	46,733.5	10,121.9	2,339.1	11,237.3
Total	1,30,153.4	90,206.2	39,947.3		

Figures in bracket are net outflows.
Figures may not add exactly due to rounding.
Source: SEBI

Another noteworthy feature is the increase in the FII turnover at the exchanges as compared to previous years. The gross purchases and sales by the FIIs during the year 1999-2000 were Rs. 56,855.46 crore (Rs.16,115 crore)* and Rs. 46,733.52 crore (Rs. 17,699.4 crore)*. This is reflective of the increasing depth of the Indian markets.

Graph 2.20 : Monthly investment trends since 1993



A detailed break up of monthly trend in investments during 1999-2000 is furnished in Table 2.41.

* figures in parentheses pertain to previous year
* figures in parentheses pertain to previous year

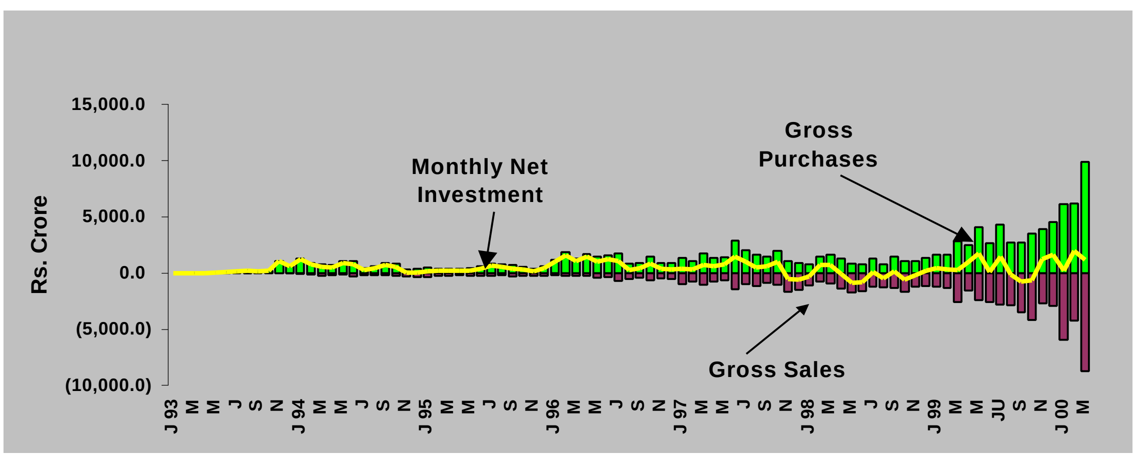
Table: 2.41 :Monthly Trends in FII Investment

Month	Gross Purchases Rs. Cr	Gross Sales Rs. Cr	Net Investment Rs. Cr	Net Investment US$ Million at Monthly Exchange Rate	Cumulative Net Investment US$ Million at Monthly Exchange Rate
1999-2000					
A99	2,519.32	1,565.83	953.49	223.17	9,121.41
M99	4,108.29	2,388.99	1,719.30	401.98	9,523.39
J99	2,669.96	2,581.32	88.64	20.55	9,543.94
JL99	4,310.74	2,807.01	1,503.73	348.61	9,892.54
A99	2,714.13	2,836.08	(121.95)	(28.06)	9,864.48
S99	2,725.63	3,466.01	(740.38)	(170.08)	9,694.40
O99	3,535.35	4,142.40	(607.05)	(139.71)	9,554.69
N99	3,934.47	2,705.44	1,229.03	283.19	9,837.87
D99	4,556.19	2,938.57	1,617.62	372.04	10,209.91
J00	6,129.73	5,933.16	196.57	45.14	10,255.05
F00	9,761.57	6,677.47	3,084.10	707.20	10,962.25
M00	9,890.07	8,691.24	1,198.83	275.02	11,237.27
Total	**56,855.46**	**46,733.52**	**10,121.93**	**2,339.03**	

Figures may not add exactly due to rounding.
Source : SEBI

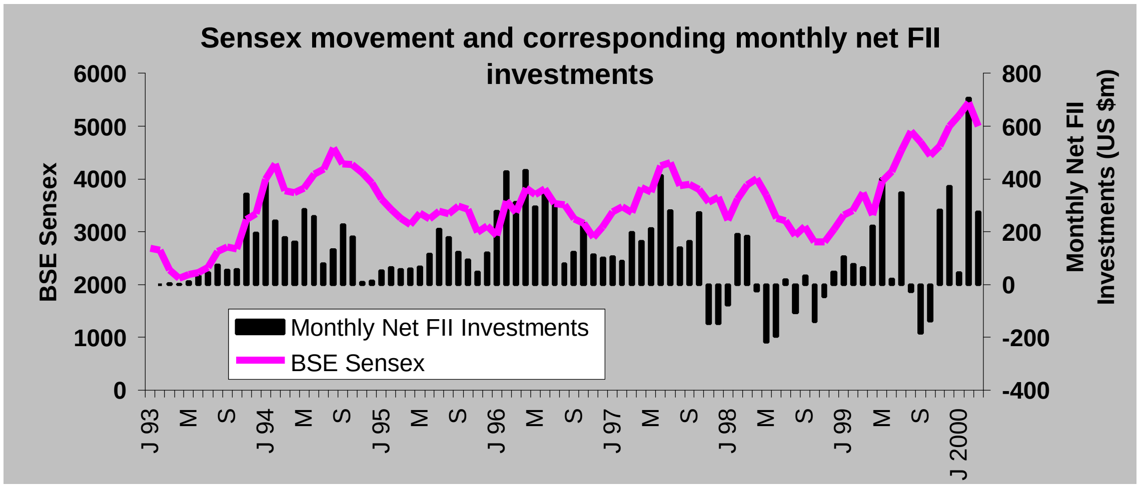
The increase in the gross FII purchases and sales since January 1993 has been shown in the Graph 2.21

Graph 2.21: Monthly trends in Purchases and sales by FIIs



During the year (1999-2000) 56 FIIs were registered. As on March 31, 2000, 506 FIIs were registered with SEBI.The Asian financial crisis did have an impact in the FII investment in 1998-99 but the low volatility of the Indian markets as compared to other emerging market economies and an efficient market structure were some of the factors responsible for continued confidence of FIIs in Indian capital market. The figure below exhibits the movement of the BSE Sensex and the corresponding FII monthly net investment.

Graph 2.22: Sensex Movement and corresponding monthly net FII investments



The South East Asian crisis of 1997-98 had resulted in a review of investment strategy by the global investors in respect of emerging market economies. However, the Indian markets bucked the trend and gained considerably from April 1, 1998 to March 31, 2000. Low volatility, attractive valuations and a stable currency were some of the factors which led to surge in the FIIs investment.

E] SUBSTANTIAL AQCUSITION OF SHARES AND TAKEOVERS

During the year 1999-2000, 83 Letters of Offer form 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 the overall commercial and business interest of the company. During the year, 246 reports were filed under this category. The transactions, which are not covered under the said category, are to be submitted to the Takeover Panel for exemption from open offer. During the year, 15 such applications were submitted out of which exemption from making open offer was granted in respect of 11 cases (Table 2.42).

Table 2.42 Offers and Exemptions

Letters of Offer filed			Exemptions granted		
1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000
41	63	83	5	4	11
Source : SEBI					

F] INVESTIGATION, ENFORCEMENT AND SURVEILLANCE

Market Surveillance

Market Surveillance plays a key role in ensuring safety and integrity of the markets. Market Surveillance Division was set up in SEBI in July 1995, with a view to keep a proactive oversight on the surveillance activities of the stock exchanges.

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.

The primary responsibility of market surveillance has been entrusted to the stock exchanges. However, SEBI keeps a proactive oversight on 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 specific complaints or sometimes suo-moto also (on exception basis only), 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.

The Market Surveillance systems are developed and consolidated on a continuous basis. Some of the surveillance systems and risk containment measures that have been put in place are briefly given below:

➢ 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;
- ➢ Reporting by stock exchanges through periodic and event driven reports;
- ➢ Establishment of independent surveillance cells in stock exchanges;
- ➢ Inspection of intermediaries;
- ➢ Suspension of trading in scrips to prevent market manpulation;
- ➢ Formation of Inter Exchange Market Surveillance Group for prompt, interactive and effective decision making on surveillance issues and co-ordination between stock exchanges;
- ➢ Suspension of trading in scrips to prevent market manipulation;
- ➢ Implementation of On-line automated surveillance system (Stock Watch System) at stock exchanges.

- ♦ ***Mechanisms for risk containment***

An essential tool for ensuring the safety of market is the risk containment system. To ensure safety of the market, all the stock exchanges have an elaborate margining system including mark to market margins and daily margins and exposure and intra-day trading limits.

Review of margining system

Different margins were prescribed by the SEBI in consultation with the stock exchanges at different points of time keeping in view the requirements and exigencies of the prevailing situations. Though, largely the existing margining system had worked well. However, it was felt that there was lack of uniformity in the implementation of various margins by the exchanges. The SEBI has constituted a group to review, rationalize and streamline the margining system. As per the recommendations of the group the following changes were made in the margining system during the year 1999-2000 to bring uniformity in implementation of mark to market margin across stock exchanges and remove undue burden on investors who sell for delivery.

A. Mark-to market margin

The mark to market margin is calculated by marking each transaction in a scrip to the closing price of the scrip at the end of trading. It has now been directed/clarified that

1. transactions for sale for delivery would be exempt from payment of this margin after delivery is given to the clearing house / clearing corporation.
2. the margin shall be calculated separately for two trading cycles(the current trading cycle and the closed trading cycle whose settlement is yet to take place) and credit for mark to market of the closed trading cycle may not be given against mark to market losses of the current trading cycle

These provisions would bring uniformity in implementation of mark to market margin across stock exchanges and remove undue burden on investors who sell for delivery.

B. Concentration margin, margin on net exposure and 90 day special margin

Based on the overall assessment of risk it was decided to do away with these three types of margins.

C. Base capital and additional capital

The base capital and additional capital is accepted in cash /FDR/Bank Guarantee/Securities in prescribed proportion. It was decided that for the securities component, while accepting shares, only those scrips would be accepted which are part of BSE Sensex/S&P CNX Nifty/BSE 100/ CNX Nifty Junior/BSE 200/ CNX Midcap 200. Further, the scrips which are in compulsory dematerialised trading for all investors are to be accepted in dematerialised form only. This would improve the quality of the securities component held by the stock exchanges as capital and also guarantee the requisite level of liquidity for these deposits.

It was also decided to increase the frequency of valuation of securities deposited as capital. The valuation would be done at haircut of 15 per cent when it is done more frequently i.e. atleast once a week as compared to haircut of 30 per cent if the valuation is done once a month.

It was also decided to allow the excess additional capital, i.e. the unused capital after meeting the requirements of exposure, lying with the exchanges in the form of cash/bank guarantee/FDR to be utilised for meeting margin requirements.

D. Incremental carry forward margin

The system of incremental carry forward margin was implemented in 1998 to control excessive built up of carry forward positions. The system was modified and it was provided that instead of a flat rate of 10 per cent for every additional 1 per cent increase in carry forward positions the incidence of this margin would be low at low levels of carry forward position in a scrip and high at higher levels. For carry forward positions exceeding 3 per cent a graded structure of rate of margin varying from 5 per cent to 30 per cent was prescribed.

E. Payment of margin by clients

Collection of margins by brokers from their clients was made mandatory. However, exemption from this has been granted when the margin liability on the client is less than Rs.1 lac.

Containing volatility

The system of volatility margin was introduced in June, 1998 to curb excessive volatility in the markets. However, it was felt that this margin addressed volatility over a short period of one week only. Therefore, with a view to address volatility over short term as well as longer period of six weeks, it was decided that the margin would be levied on the basis of volatility computed on a rolling basis over a period of preceding six weeks. For volatility {defined as (6 week high – 6 week low)/ 6 week low} more than 40 per cent graded margin rates from 5 per cent to 20 per cent were prescribed. This system was further modified and the threshold volatility was increased from 40 per cent to 60 per cent and the margin rates were increased to 5 per cent to 30 per cent.

Uniform scrip specific price bands

To contain abnormal price variations, the SEBI had introduced the system of scrip specific daily price bands. In January, 2000 it was decided in principle to allow a further variation of 4 per cent in the scrip prices beyond the existing limit of 8 per cent after a cooling off period of 30 minutes. This is expected to provide additional exit route to investors. This modified system would be implemented shortly after necessary software changes are carried out by the exchanges. To start with, this modification will be applicable in the case of top 100 scrips.

Increase in cash component of total cover available with exchanges to 30 per cent

In order to enhance the safety of the markets, it was decided to increase the cash component of additional capital and margins deposited by brokers with exchanges to 30 per cent of the total deposits.

Margining of institutional trades

Institutional trades form a large part of the trading volumes on major exchanges. These trades are at present not subjected to margin; it has bee decided to examine the issue of margining these trades.

Risk containment – overall responsibility of exchanges

Though the minimum measures for risk containment have been specified by the SEBI, the overall responsibility for risk containment lies with the exchanges. Exchanges have been directed to take further measures as required. Some additional measures taken by the exchanges for risk containment, are intra-settlement and inter-settlement scrip-wise limits on broker positions in addition to the overall limits specified by the SEBI, enforcement of early pay-ins by members with large positions and member-wise adhoc margins.

- ***Mechanisms for a fair and transparent securities market***

In order to make the securities markets fair and transparent and for enhanced investor protection, SEBI had taken initiatives, which are given below:

Dissemination of price sensitive information to public

It is necessary to have a proper method for dissemination of price sensitive and other important information relating to companies and market to the public so that they can make informed investment decisions. The stock exchanges have been advised 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. On being asked by the

SEBI, companies have designated compliance officers who would be contacted by the stock exchanges whenever such verification is needed. Exchanges have been asked to take up quick verification of rumours and proper dissemination of the same. Exchanges have started verifying rumours and since October '99 the same are getting reported to SEBI also.

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 have also been asked to issue press releases when such actions are of serious nature.

Strengthening of insider trading regulations

While insider-trading regulations were framed in 1992, it was felt that there was no framework for prevention of insider trading. A group was set up under the Chairmanship of Shri Kumar Mangalam Birla, member, SEBI, to suggest measures to be taken for strengthening the regulations as well as requirements of procedures, code of conduct and reporting about the entities in the capital market which may have access to non-public information. The group is in the process of coming up with suitable recommendations in this regard.

Surveillance in internet environment

Internet based securities trading was permitted in Indian capital markets in Jan 2000. Internet is a versatile medium and apart from proliferating genuine applications, it has also provided new avenues for market manipulators and fraudsters. The SEBI Committee on Internet based trading and services has set up a working group to look into surveillance and monitoring related issues arising due to Internet based securities trading.

- ***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. During 1999-2000, the SEBI inspected surveillance cells of 7 stock exchanges and shortcomings and suggestions have been communicated to them for improvement of the functioning of surveillance cells.

Reporting by stock exchanges

The SEBI had put in place a system of reporting by the stock exchanges on surveillance related matters. With a view to bring emphasis on oversight and exception reporting, it was decided to modify the reporting requirements on the lines as below:

1. The daily report in the existing format has been done away with and it has been prescribed that daily report will be sent only on exceptional basis if there has been happening / event / trading pattern which have a bearing on the safety /integrity of the market.
2. The settlement report includes details about overall safety level at the exchange, member deactivations, scrip suspension, instances of rumor verifications and working of stock watch system.
3. The monthly report gives details about analysis/investigations taken up by the exchanges following the reference from SEBI or otherwise, outcome of the same and actions taken by the exchange against members/ issuers.

Indefinite suspension of scrips

Earlier, the exchanges had to seek prior approval from SEBI for suspending scrips for more than three days. As all the information required for taking such decisions is available with the exchanges, it was decided that the decision for suspension of trading of scrips including for more than 3 days should be taken at the exchange level itself.

Surveillance staff strength at exchanges

To improve the functioning of the surveillance cells of stock exchanges, it has been decided that exchanges will take steps to assess manpower requirements and deploy adequate staff for surveillance and monitoring. Exchanges are also required to provide appropriate training and certification to surveillance staff and facilitate process of certification.

Development of the stock exchanges as self-regulatory organisations

SEBI has been trying to strengthen the role of exchanges as effective self-regulatory organisations. Setting up of independent surveillance cells directly reporting to the exchange executive directors was a step in this direction. Development of exchange level surveillance capabilities like stock watch system, directing exchanges to augment their surveillance staff strength and devising a training and certification module for the exchange surveillance staff are further initiatives taken by SEBI in this direction. Self-regulatory steps taken by exchanges under the oversight of SEBI have improved market safety and integrity.

In line with their self-regulatory role, the primary responsibility of market surveillance and monitoring, detection of abnormal trading patterns, analysis and initiation of investigations has been entrusted to exchanges. Exchanges are required to make reference to SEBI, in appropriate cases, for further investigations by the SEBI. In the year 1999-2000, in 12 cases, further investigations were taken up by the SEBI on reference from exchanges. Major exchanges conducted suo-moto investigations in more than 100 other cases. As part of its oversight of surveillance activity, SEBI also takes up cases for investigations, but this is done on exceptional basis only. In the year, in 24 cases, exchanges were asked by the SEBI to conduct investigations/ send details to the SEBI. In some of these cases, exchanges had already initiated investigations on their own.

Inter exchange market surveillance group

There are 23 stock exchanges having different trading and settlement cycles and at the same time scrips have multiple listing on these stock exchanges. For effective and meaningful co-ordination between these stock exchanges for healthy functioning of the market, an Inter Exchange Market Surveillance Group was set up by the SEBI. The group meets at regular intervals. Six meetings of the Group were convened by the SEBI during 1999-2000. In these meetings, the Group reviewed the prevailing market conditions and several measures, such as increase in the cash component of margin and additional capital to 30 per cent, imposition of special/ad-hoc margins in scrips with low floating stock and specific measures such as exposure reduction, etc. were initiated to enhance the safety and integrity of the market.

Development and implementation of stock watch system – an on-line automated surveillance system

As trading in the Indian securities markets has become on-line, a sophisticated on-line surveillance system was called for to have effective market surveillance in line with international standards. Development of the Stock Watch System at the exchange level was initiated by the SEBI with this objective. All major exchanges have put in place the basic structure of the stock watch system. The system is fully functional in NSE. In BSE, the system was formally inaugurated in July 1999, and is operational. However, BSE and some other exchanges are now in the process of prioritisation and benchmarking of the alerts generated by the system. Further refinements of the stock watch system will be taken up after the basic system becomes fully functional in all major stock exchanges.

- ### *Regulatory role in the context of market volatility*

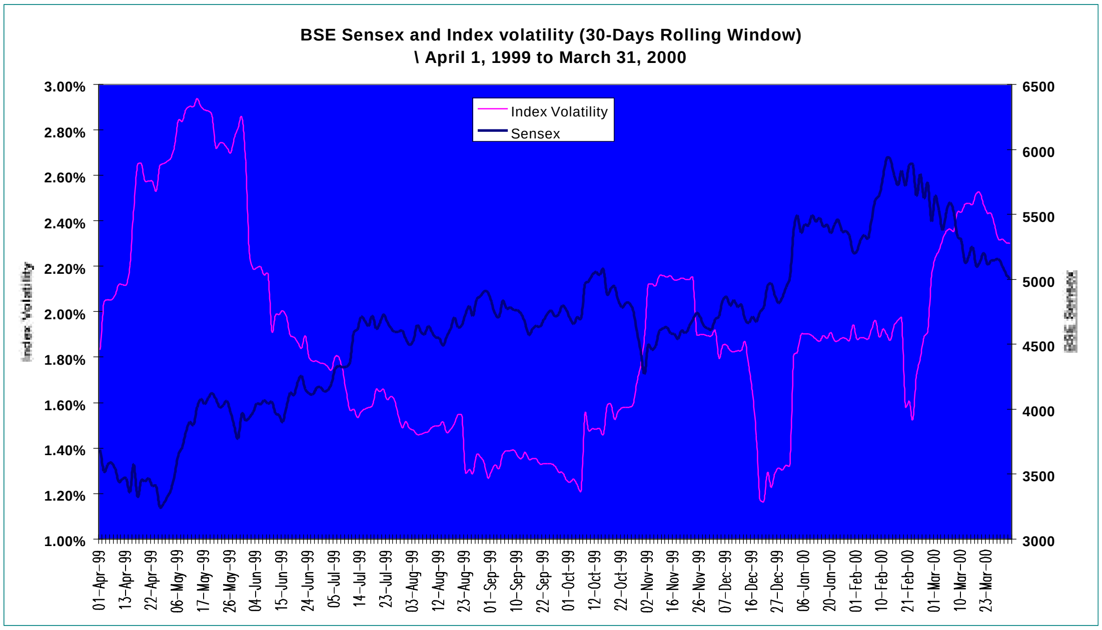
Excessive volatility in the securities markets is a cause of concern for regulators, corporates and investors. When prices swing at extreme levels, they can have a number of adverse consequences:

1. 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.
2. 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.
3. greater volatility can reduce investor confidence in investing in stocks.

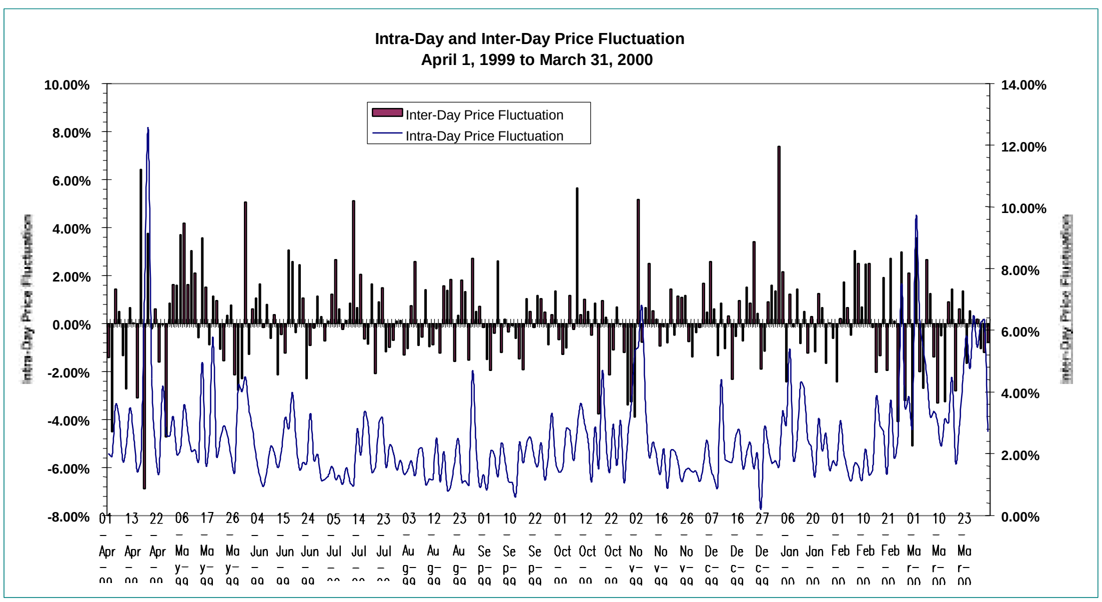
As a result of these effects, increased price volatility could in the long run, impact the securities markets adversely. The regulators across the world remain concerned about excessive price volatility.

The movement of the BSE Sensex and the Index Volatility are shown in Graph 2.25 below. The intra-day and inter-day price fluctuations of the BSE Sensex are shown in Graph 2.26.

Graph 2.25: BSE Sensex and Index Volatility



Graph 2.26 : Intra-Day and Inter-Day Price Fluctuations of BSE Sensex



The BSE Sensex had bottomed out in April 1999 and closed at 3245.27 on April 26, 1999. Thereafter the index has shown steady rise till October 1999. From October 27, 1999, the Sensex witnessed a correction and fell continuously from a level of 4756.2 to 4270.74 on November 1999. The fall in the index was attributed to FII sales due to the redemption pressure at the year end. The Sensex rose substantially from then to reach a level of 5924.31 on February 2000. During this period, sensex crossed 6000 level on February 11, 2000 at 6005.85 and February 14, 2000 at 6150.69 which was also all time high for the index. This rally could not be sustained and Sensex closed at 5001.28 on 31st March, 2000. The fall was attributed to the profit taking in the software scrips after a meteoric rise.

Excessive volatility has been observed in world markets as well, mainly on account of the popularity of telecom, media and technology stocks. These stocks are inherently volatile because of "uncertainty element" associated with them, absence of any clear cut method of valuation and fast pace of change in technology. These stocks have also been favourites in the Indian markets, and contributed a major portion of trading volumes in this period.

A lot of activity was observed in the case of companies which have changed their names to suggest software / Infotech activity. SEBI brought the phenomenon of change in names by companies to reflect software / it activity to the notice of Department of Company Affairs, Govt. of India. With a view to protect the interest of investors, SEBI has also taken the following steps:-

1. alerted the investors by issuing press release advising them to be cautious in trading in such scrips.
2. asked exchanges to closely monitor the trading and other developments in respect of shares of such companies.
3. made it mandatory for such companies to separately show the performance and results of software activity in quarterly / annual report.
4. further tightened entry norms for public / rights issues by such companies by way of requirement of profitability track record of 3 years in the sector of information technology.

It was also observed that the activity in the area of restructuring of companies including mergers, acquisitions, strategic stakes and brand acquisitions had increased in 1999-2000. The exchanges were advised to ensure that news and information with respect to such corporate developments is properly disseminated in a timely and effective manner. Exchanges were also asked to be watchful and alert and verify rumours to ensure fairness in the securities market. In the wake of such events, reported or rumoured, exchanges were also advised to analyse trading patterns quickly.

In view of sharp and sudden variations in scrip prices of certain sectors, it was suggested to exchanges in December 1999 to take possible proactive actions such as

1. putting the scrips on spot or 100 per cent margin.
2. also warning the investors appropriately along with other actions.
3. suspension of the trading in the scrip for shorter or longer period when there is reasonable belief on the part of the exchange of manipulative activity.

SEBI held discussions with major stock exchanges in January 2000 on increased volatility and sharp up trend in the market and on further measures being taken /to be taken for ensuring safety and stability in the market. Some of the measures taken to enhance market safety and described earlier also, are as follows:

- Slabs of volatility margin were increased from 5 per cent to 20 per cent to a range of 5 per cent to 30 per cent
- Cash component of margin and additional capital was increased to 30 per cent

- Imposition of higher special / ad-hoc margins in respect of scrips which have relatively low floating stock.
- In respect of brokers, which according to exchanges have taken large and concentrated positions, specific measures by way of exposure reduction/ additional margins/early pay-in etc.

In addition to these measures, press releases were issued on two occasions for the benefit of small investors, cautioning investors to exercise due diligence while transacting in securities.

Implementation of the measures described above have resulted into margin cover to the tune of around 45 per cent in the Indian capital markets. This along with SEBI's proactive and consultative approach has helped in containing volatility and ensuring safety of the markets. This is borne out by the fact that despite sharp fluctuation in market prices and several instances of high market volatility, the Indian markets have remained safe and stable.

INVESTIGATIONS

Investigations are carried out with a view to gather evidence of alleged violations of securities market such as price rigging, creation of artificial market, insider trading, public issue related irregularities and other misconduct, as well as to find out persons/entities behind these irregularities and violations. SEBI has been strengthening its investigation activities over the years and these activities were further strengthened during 1999-2000.

Investigations carried out by SEBI during the last few years have produced salutary impact the capital market. The investigations coupled with proactive surveillance measures have resulted in reduction in number of instances of alleged market manipulations and price rigging. Pursuant to completion of investigation, a number of actions like administrative directions and penal actions under the SEBI Act and the various SEBI Rules and Regulations were effected. These actions include monetary penalties, warning, suspension of activities and cancellation of registration, refund of issue proceeds, prohibiting dealing in securities and access to the capital market, asking trustees and key persons of mutual fund to step down for their failure to protect the interest of the investors, etc.

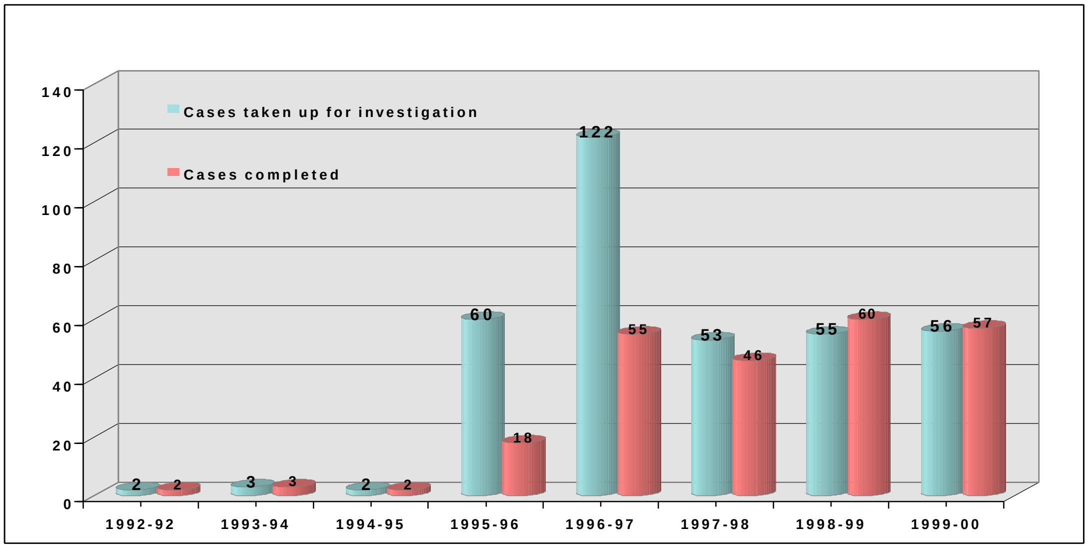
Investigation proceedings

During 1999-2000, investigations were taken up in several cases alleging market manipulations and price rigging, issues related to manipulations, insider trading and non-compliance of regulations of mutual funds and take-over of companies. The details of these are given in Table 2.43 and the corresponding Graph 2.27.

Table 2.43: Investigations by SEBI

Particulars	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	Total
Cases taken up for investigation	2	3	2	60	122	53	55	56	353
Cases completed	2	3	2	18	55	46	60	57	243
Source : SEBI									

Graph 2.27: Investigations by SEBI



As can be seen from table, SEBI took up investigations in 56 cases in 1999-2000 bringing the total cases taking up the cumulative total to 353 cases. Out of these, 57 cases were completed during 1999-2000 bringing the total cases completed till 31/3/2000 to 243 cases. The break up of 56 cases in respect to nature of violations alleged, taken up during 1999-2000 is given in table 2.44 and Graph 2.28 below. Likewise, the break up of 57 cases in respect to nature of violations completed during 1999-2000 is given in Table 2.45 and Graph 2.29 below.

Table 2.44 : Nature of Investigations Taken up by the SEBI in 1999-2000

Particulars	Number of Cases Taken up for Investigation
Market manipulation and price rigging	47
"Issue" related manipulation	2
Insider trading	3
Take-overs	1
Miscellaneous	3
Total	56
Source : SEBI	

Graph 2.28: Nature of Investigations taken up by SEBI in 1999-2000

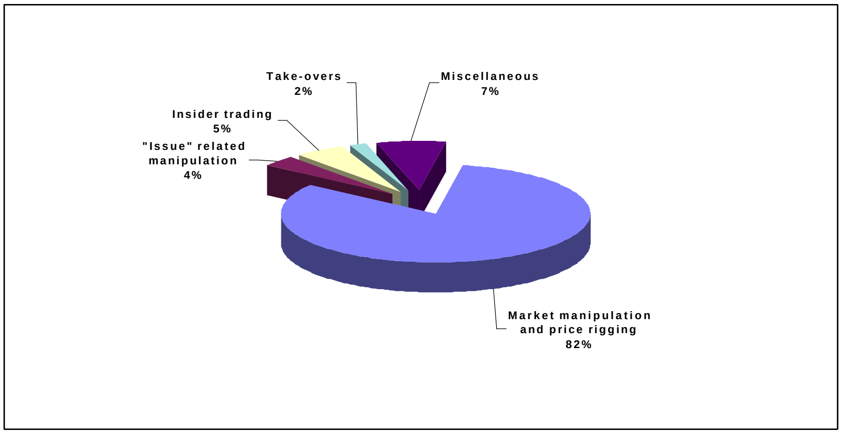
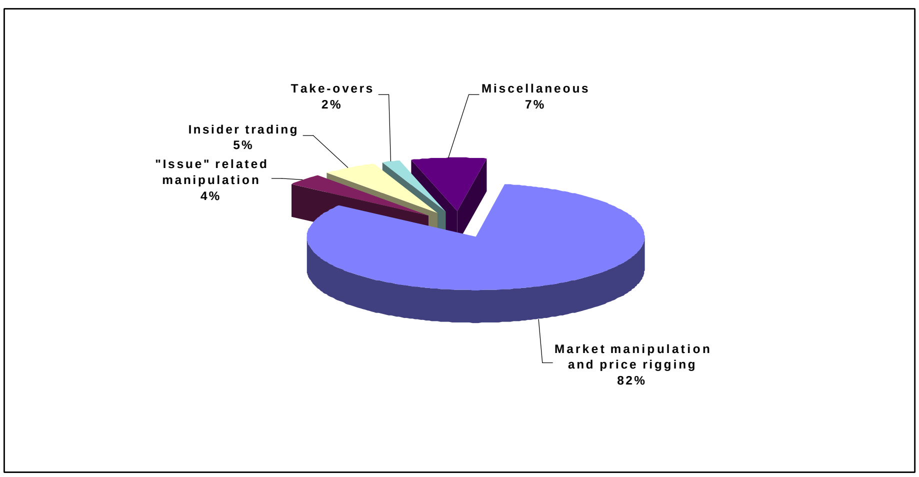


Table 2.45 : Nature of Investigations Completed by SEBI in 1999-2000

Particulars	**Number of Cases Completed**
Market manipulation and price rigging	37
"Issue" related manipulation	8
Insider trading	5
Miscellaneous	7
Total	**57**
Source : SEBI	

Graph 2.29: Nature of investigations completed by SEBI in 1999-2000



On completion of investigations, SEBI Regulations provide procedure of enquiry proceedings in respect of intermediaries for their prima facie violations of SEBI Act and its Regulations. Show cause notices have been issued during this year to 52 intermediaries by the Enquiry Officer pursuant to enquiry proceedings. Likewise, show cause notices have also been issued in this year to 98 non-intermediaries, pursuant to the completion of the investigation, asking them to show-cause as to why suitable directions including directions prohibiting them from dealing in securities and accessing the capital market, for an appropriate period, should not be issued, for creation of artificial market, price manipulations, insider trading, non-compliance of takeover codes etc. 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 for mis-statement in prospectus, market manipulations, delay in transfer of shares, substantial acquisition without following procedure of open offer in violation of takeover code, etc.

Enquiry and adjudication proceedings

During 1999-2000, on completion of investigations, enquiry proceedings were initiated in respect of 52 intermediaries i.e. stock brokers, merchant bankers, registrars to an issue and share transfer agents, bankers to an issue, etc. under the provisions of the relevant SEBI Regulations. The break up of these 52 intermediaries is given in Table 2.46. In 1999-2000 enquiry proceedings have been completed against 81 intermediaries, the details of which is given in Table 2.47.

During 1999-2000, adjudication proceedings have been initiated in 16 cases and out of these, adjudication proceedings were completed in one case.

Table 2.46 : Details of Cases Where Enquiry Officer has been Appointed in 1999-2000

Intermediaries	Number of Cases
Stock brokers	39
Merchant bankers	6
Registrars to an issue and share transfer agents	4
Bankers to an issue	2
Sub-brokers	1
Total	**52**
Source : SEBI	

Table 2.47 : Details of Cases Where Enquiry Proceedings Have Been Completed in 1999-2000

Intermediaries	Number of cases
Stock brokers	65
Merchant bankers	2
Registrars to an issue and share transfer agents	6
Bankers to an issue	8
Total	**81**
Source : SEBI	

Action taken

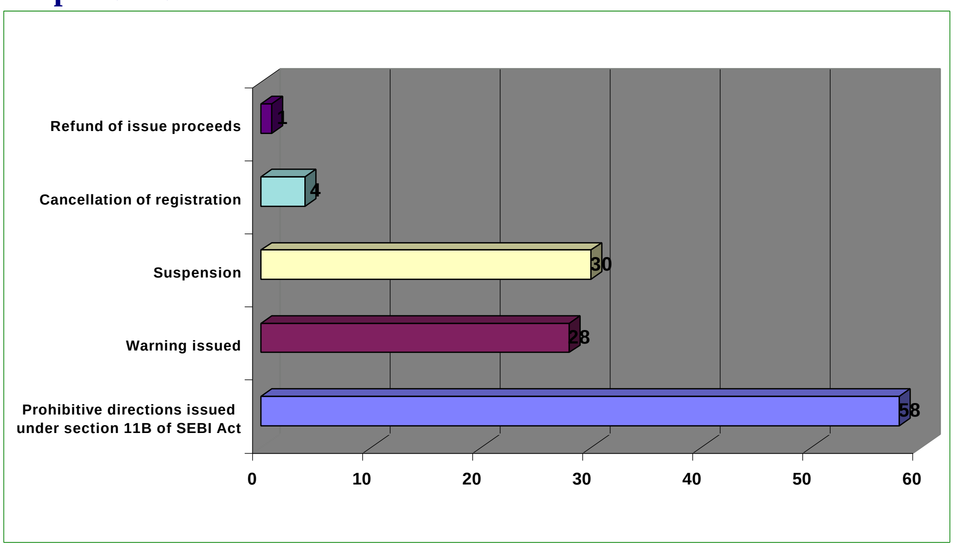
On completion of investigations and after following the procedure of enquiry proceedings in respect of intermediaries, i.e. stock brokers and sub-brokers, merchant bankers, registrars to an issue and share transfer agents and bankers to an issue, orders were passed for cancellation of registration in 4 cases, suspension in 30 cases, warning issued in 28 cases and refund of issue proceeds in one case.

Apart from action against the intermediaries, prohibitive directions were issued under section 11B of the SEBI Act against 58 non-intermediaries, i.e. individuals, firms, companies, etc. for their involvement in creation of artificial market, price manipulations, irregularities in public issue process, failure to protect interest of the unit holders of the Mutual Fund, non-compliance of SEBI Directives by the Exchange officials etc. Action taken during 1999-2000 is given in Table 2.48 and Graph 2.30.

Table 2.48: Action taken in 1999-2000

Particulars	No. of Cases
Refund of issue proceeds	1
Cancellation	4
Suspension	30
Warning issued	28
Prohibitive directions issued under section 11B of SEBI Act	58
Total	**121**
Source : SEBI	

Graph 2.30 : Action taken



Summary of representative investigation cases

During the year 1999-2000, 56 cases were taken up for investigation. These cases pertained to allegations of market manipulations and price rigging, issue related manipulations, insider trading, non-compliance with Takeover Regulations, mis-statement in the prospectus, etc. Out of these 56 cases, investigations were taken up in 47 cases of alleged market manipulation and price rigging, 2 cases of issue related manipulations, 3 fresh cases of alleged insider trading, etc. Such investigations coupled with effective market surveillance under the oversight of SEBI have resulted in significant reduction in cases of market manipulation and price rigging.

During 1999-2000, investigations in 37 cases of market manipulation and price rigging, 8 cases of issue related manipulations, 5 cases of insider trading, 3 cases of takeover code violations were completed. The investigations into market manipulation cases have brought out that certain persons / entities created artificial market and manipulated the prices of certain scrips. Likewise, investigations into issue related manipulations showed that there was mis-use of stock invests, arrangement of subscription to circumvent requirement of minimum subscription, buy-back of shares by the company in contravention of provisions of the Companies Act, acceptance of applications after the closure of the issue, grey market operations, mis-statement in prospectus etc. After completion of investigations, SEBI has ordered refund of the issue proceeds in one case. Investigations into alleged insider trading cases revealed that in one instance insider trading had taken place.

Apart from price manipulations, issues related to irregularities, takeover code violations and insider trading. During this year investigations into irregularities by Mutual Fund were also conducted for the first time. Further, investigations were also made into attempt of certain entities to trigger fall in the market and defraud the settlement guarantee scheme of NSE.

The cases where investigations were completed during 1999-2000 are discussed below :-

Shriram Mutual Fund

In the wake of sudden payment crisis in the month of June 1998, on The Stock Exchange, Mumbai (BSE) and National Stock Exchange (NSE) and allegations of manipulation in the scrips of BPL Ltd., Videocon International Ltd. (Videocon) Sterlite Industries Ltd., investigations were undertaken by SEBI. It was also alleged that Shriram Mutual Fund (SRMF) had helped certain brokers of BSE who were having payment problems and purchased shares of Videocon in pursuance to buy-back arrangement. Investigations by SEBI revealed that a company belonging to Shriram group, purchased large quantities of shares of Videocon to help out brokers of BSE who were having payment problems. Out of these purchases, part of the shares were sold to SRMF as cross deal at a price which was much higher than the market price prevailing on the date of purchase. Investigations also revealed that the purchase of these shares by SRMF, in a falling market, was for extraneous considerations rather than a normal investment decision and pursuant to buy-back arrangement. It was also seen that Shriram Group (who is the promoter of Shriram Mutual Fund) and Videocon Group of Companies were close associates of each other. An attempt was made to create record to show that purchase price was not higher than the market price by ante-dating the purchase i.e. showing that the purchase was made on a date prior to the actual date of purchase.

As a result of investigations, enquiry proceedings were initiated against the brokers involved for falsifying the records. Adjudication proceedings were initiated against Shriram Asset Management Co. Ltd. (SAMC) and on completion of the proceedings a fine of Rs. 5 lacs was imposed on SAMC. Further, directions were given under Section 11B of the SEBI Act, to the Sponsors of SRMF to pay with interest towards the loss caused to the unit-holders for making purchases at a price higher than the market price. Consequent to initiation of proceedings, the Managing Director of SAMC, resigned from the office. Directions have been issued making him ineligible to hold any public position in any capital related public institution for a period of three years. It was also directed that 2 other key persons who assisted the Managing Director in these operations and were still with SAMC should resign with immediate effect. The trustees were also asked to step down and Board of Trustees be reconstituted.

Kamal Overseas Limited

Investigations were conducted by SEBI into the alleged creation of a false market and price rigging in the scrip of Kamal Overseas Limited. Investigations brought out various irregularities in the preferential issue of the company and it was observed that money shown towards application / allotment was not actually received by the company and only a fraction of the amount received was circulated between various group entities time and again for the purpose of showing payment towards allotment money. The allotment money was shown as brought in by means of fictitious book entries without infusion of genuine funds and the shares were issued without receipt of consideration. It was also seen that preferential shares were issued much after the expiry of validity of shareholders' resolution and without marking these shares for lock-in period. Investigations further revealed that certain entities tried to create a false market for the shares through circular trading i.e. by making simultaneous sales and purchases, through the counters of various brokers. Investigations brought out that there was an attempt to defraud the Clearing Corporation of National Stock Exchange (settlement guarantee scheme), as sellers connived with the buyers and created large buy positions, when purchasers had no intention to honour the purchase obligation. Pursuant to the findings of the investigations, enquiry proceedings were initiated against the brokers and sub-brokers and actions are being undertaken against the promoters and their abettors. Trades were annulled by the stock exchange

Maruti Organics Ltd

SEBI initiated investigation on the receipt of a reference from NSE alleging that there was an attempt to defraud the clearing corporation of NSE by certain clients who built up large purchase positions and then vanished without paying to the brokers for the purchases made by them. It was also alleged that sellers and buyers connived in this operation. The buying position was built up across the country i.e. at Ahmedabad, Bangalore, Mumbai, Hyderabad, Chennai, etc. Investigations revealed that brokers at whose terminal buying positions were built up, were not acting diligently and failed to obtain basic details such as address, reference, bank account of the client, etc. It was also seen that clients were allowed to trade without obtaining margins as prescribed by the SEBI and the NSE. Enquiry proceedings have been initiated against these brokers. Police authorities are looking for absconding clients and proceedings would be initiated on tracing them.

ABS Industries Ltd.

Investigations were conducted by the SEBI into the alleged insider trading in the scrip of ABS Industries Ltd. It was seen that ABS Industries was taken over by the Bayer Industries Ltd. (BIL) with 51 per cent holding. In order to achieve this objective, preferential allotment was made to BIL and in addition, an open offer was given by BIL to the shareholders of ABS Industries for acquiring 20 per cent holding. Investigations revealed that there were large purchases by a close relative of the Managing Director of the company, prior to this public offer. Investigations revealed that these purchases were financed by the Managing Director. The shares acquired from the open market were also offered in the public offer by this relative alongwith companies of the Managing Director. Investigations brought out that purchase of shares were made with the prior knowledge of the impending tie-up/takeover by Bayer Industries. Show-cause notice was issued for violation of the Insider Trading Regulations and proceedings are in progress.

Bestavision Electronics

Investigations revealed that company purchased large quantities of shares through its front entities prior to coming out with the right issue at premium. Investigations brought out that these purchases were made with a view to create artificial market in the scrip of the company and to increase the price of its shares. This was done so that public is induced to invest in the rights issue, which was being brought out at premium. Pursuant to investigations, show cause notices were issued to the promoters and their front entities asking them to show cause why suitable directions including prohibiting them from accessing the capital market, should not be issued. Enquiry proceedings have been initiated against the concerned brokers, merchant bankers, etc.
Baroda Agro Industries Ltd.

Investigations were undertaken by the SEBI on the basis of complaints alleging that shares allotted during the public issue on being sold, were declared by exchanges as bad deliveries. Investigations revealed that the company had allotted shares in promoters' quota which were actually under lock-in provision, without informing the investors and without endorsing "subject to lock-in" on the shares. These shares on being sold by the allottees, were declared as bad deliveries.

Further, investigations revealed that the issue was not fully subscribed and the prices of this scrip were manipulated by some stock brokers. Pursuant to investigations, enquiry proceedings initiated against the brokers and merchant bankers to the issue involved in the price rigging. Prosecution proceedings initiated against the company and its directors u/s 68 of the Companies Act, 1956.

Trident Steels Limited

Investigations revealed that company had made false claims of dividend payment for previous years in the prospectus to meet the requirement of dividend paying track record for companies coming out with the public issue. Further, there were other material of misstatements in the prospectus such as pledge of large quantity of shares of the promoters to the bank. Action was initiated against merchant banker for not acting diligently. Suitable proceedings were initiated against the company / its directors etc.

Karwa Salt Refinery and Industries Ltd.

Investigations were undertaken by SEBI into the alleged irregularities in the public issue and price manipulations in the scrip of Karwa Salt Refinery and Industries Ltd, Hyderabad. Investigations prima facie revealed that the issue did not receive the required minimum subscription and promoters entered into a financing arrangement for circumventing this requirement. The subscription was arranged with the understanding that shares would be purchased back by the company from the allottees immediately after completion of allotment process. This also led to cornering of large quantity of shares in the hand of promoters, which facilitated price rigging.

Investigations also brought out that the promoters did not bring the contribution as required under the SEBI guidelines. It was noticed that almost the entire promoters' contribution was shown as brought in by means of "fictitious book entry" without genuine infusion of funds. Later, on listing of the scrip on the exchanges, promoters manipulated the prices of the scrip by continuous buying on the exchange. Pursuant to investigations, enquiry proceedings have been initiated against the registrars to the issue and also the stock brokers etc. Show cause notices have also been issued to the promoters and also other related entities.

Investigations brought out that promoters of Rajesh Exports, Elvis India Ltd., Ma-Leafin & Capital Ltd., VR Mathur Mass Communications Ltd. also resorted to similar issue related manipulations i.e. getting the issue financed through ante-dated stock invests, accepting applications after closure of the issue, buy-back of shares after the completion of allotment process by the company with public issue funds. Likewise, it was observed that prices were manipulated in the case of Ideal Hotels & Industries Ltd., Hitek Industries (Bihar) Ltd., Karwa Salt Refinery & Industries Ltd., Chabbra Land & Housing Ltd., Barasia Holdings Ltd.

Prosecutions

The SEBI initiated prosecution proceedings in 19 cases in 1999-2000 bringing the total prosecution proceedings initiated so far to 63 in the last six years. Out of these, 42 prosecution proceedings were initiated under the powers delegated to SEBI under the Companies Act. Likewise, 8 prosecution proceedings were initiated for violations of the SEBI (Substantial Acquisitions of Shares and Take-overs) Regulations, 1997. Similarly, seven prosecution proceedings were initiated for violations of the SEBI (Prohibition of

Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995, one for violations of the SEBI (Insider Trading) Regulations, 1992 and other one was initiated for non-cooperation during the investigation proceedings. Further during the year 1999-2000, SEBI for the first time also initiated two prosecution proceedings each against Portfolio Managers and unregistered entities. The details of the above prosecution cases filed in the Court of Law till the end of 1999-2000 are given in Table 2.49 and Graph 2.31. Prosecution proceedings were initiated in nineteen cases in the financial year 1999-2000, which involved 121 persons. The persons against whom prosecution proceedings have been initiated by SEBI till the end of 1999-2000 numbered 457. The breakup of the cases and the number of persons involved which is given in Table 2.50. (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.)

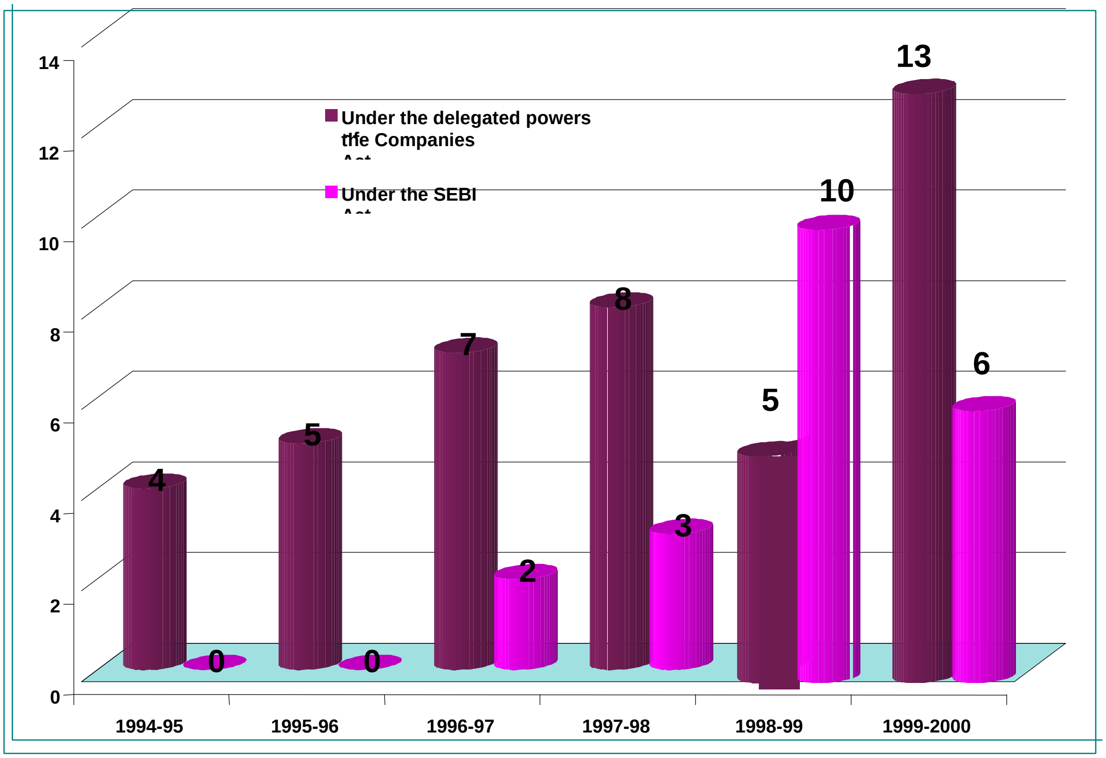
Table2.49: Nature of Prosecution Initiated

Particulars	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00**
Under powers delegated under the Companies Act						
Delay in refund of excess application money, delay transfer of shares and non-payment of dividend	4	3	4	6	4	10
Mis-statement in offer document and fraudulent inducement	0	2	3	2	1	3
Under powers given by the SEBI Act						
Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997	0	0	2	1	4	1
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	2	4	1
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	1	0
Violation of SEBI (Portfolio Managers) Rules, 1993	0	0	0	0	0	2
Unregistered entities	0	0	0	0	0	2
Others: non-cooperation during investigation proceedings	0	0	0	0	1	0
Total	**4**	**5**	**9**	**11**	**15**	**19**
Source : SEBI						

Table 2.50: Number of Persons Prosecuted

Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Under powers delegated under the Companies Act						
Delay in refund of excess application money, delay transfer of shares and non-payment of dividend	27	14	22	34	33	29
Mis-statement in offer document and fraudulent inducement	0	17	20	23	5	13
Under powers given by the SEBI Act						
Violation of SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997	0	0	10	4	52	31
Violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the securities market) Regulations, 1995	0	0	0	20	38	30
Violation of SEBI (Insider Trading) Regulations, 1992	0	0	0	0	6	0
Violation of SEBI (Portfolio Managers) Rules, 1993	0	0	0	0	0	10
Unregistered entities	0	0	0	0	0	8
Others: non-cooperation during investigation proceedings	0	0	0	0	11	0
Total	**27**	**31**	**52**	**81**	**145**	**121**
Source: SEBI						

Graph 2.31: Nature of prosecution initiated



SEBI issued 60 Show Cause Notices and 24 warning letters to them for violation/contravention of various Rules and Regulations. A total of 13 Registrars to an Issue and Share Transfer Agents were suspended for non-payment of fees. One Registrar has been referred to adjudication as it had not entered into valid agreement with their clients. 15 applications for registration were rejected on account of non – fulfillment of the requirements prescribed under the SEBI (Registrar to an Issue and Share Transfer Agents) Rules and Regulations.

Action taken – bankers to an issue

During the year 5 Banks were Show-Caused and 2 Warning Letters were issued to them for non compliance with SEBI directives and various rules and regulations.

In the public issue of M/s Jaltarang Motels, the bankers to the Issue, Union Bank of India and Bank of Baroda, the banks had allowed the company in withdrawing the funds and also transferred the funds to third party before the listing permission was granted by the Bombay stock Exchange. In view of this, as a remedial measure, the Chairman issued direction under section 11 B of the SEBI Act, 1992 directing the banks to refund a sum of Rs 353.32 lakhs and Rs 40.31 lakhs respectively to the investors together with 15 per cent interest p.a.

Action taken - registrar to an issue and share transfer agents

Chairman, SEBI has issued a direction on April 6, 2000 under section 11 B of the SEBI Act, 1992 debarring Shri Rajesh Gupta, a director of M/s Sungrow datasoft Pvt. Ltd. (formerly known as Elite Computer Technics Pvt. Ltd. who were registered with SEBI as category I RTI and STA) from associating with the capital market related activities , dealing in securities , accessing the capital market and associating with any of the intermediaries in the capital market for a period of 5 years . Shri Rajesh Gupta was instrumental in committing irregularities in the public issues of M/s Karan Finance Ltd., M/s Mahanivesh (India) Ltd., M/s Geefcee Finance Ltd. and M/s Kalyani Finance Ltd., the irregularities interalia fraudulent incorporation of the company, mis -statements in the prospectus, non existence of registered office of the company and fabricated auditors reports and financial projections. Facts on record indicate that Shri Rajesh Gupta apparently colluded with Shri Traun Goyal and made Elite Computer Technics Pvt. Ltd a party to the aforesaid public issues.. No due diligence was exercised by Shri Rajesh Gupta while accepting the assignments and he had acted recklessly in collusion with Shri Tarun Goyal in becoming a party in committing the above said irregularities.

Prosecutions

Table 2.51: Nature of Prosecution Initiated

	Total no. of Complaints Filed	19
	Total no. of persons prosecuted	124
	Prosecutions under SEBI Act	6
	Persons prosecuted for violation of the provisions of SEBI Act and Rules and Regulations made thereunder	84
	Prosecutions under Companies Act, 1956	13
	Persons prosecuted for violation of the provisions of Companies Act, 1956	40
Source : SEBI		

G] LITIGATIONS APPEALS AND COURT PRONOUNCEMENTS

Civil litigation

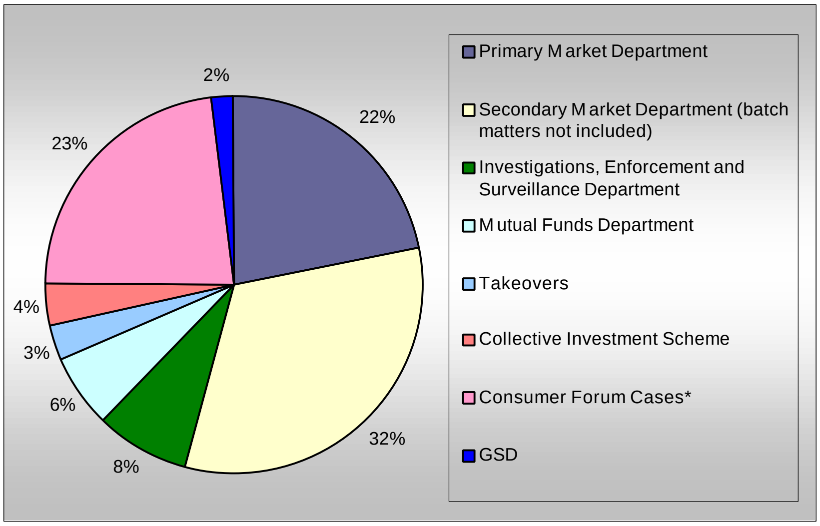
The details of cases that were filed in the Courts during 1999-2000 where the SEBI was a party are given in Table 2.52.

Table 2.52 : Status of Litigation where SEBI was a Party

Sr.No.	Subject Matter	1999-2000		
		Cases Filed	Cases Dismissed	Cases Allowed
1.	Primary Market Department	36	37	0
2.	Secondary Market Department (batch matters not included)	53	18	0
3.	Investigations, Enforcement and Surveillance Department	13	07	0
4.	Mutual Funds Department	10	05	0
5.	Takeovers	05	02	0
6.	Collective Investment Scheme	06	16	0
7.	Consumer Forum Cases *	38	16	0
8.	GSD	03	0	0
	Total	**164**	**91**	**0**

* 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.
Source : SEBI

Graph 2.32: Status of Litigation where SEBI was a Party



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 2.53 gives status of appeals that were filed before the Appellate Authority in the financial year 1999-2000.

Table 2.53: Appeals Filed under Section 20 to the Central Government for the year 1999-2000

Status of Appeals	No. of Appeals
Appeals filed	9
Appeals dismissed	4
Appeals allowed	1 (Remanded back for reconsideration)
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 2.54 gives the status of the appeal pending before the Tribunal.

Table2.54: Appeals filed under section 15T Before the Securities Appellate Tribunal (SAT) for the year 1999-2000

Appeals filed	**8**
Appeals dismissed	2
Appeals allowed	3
Source : SEBI	

Important court pronouncements relating to securities laws

High Court of Gujarat - SEBI & Rich paints Ltd. vs. Kamlesh Jain & others
The Gujarat High Court held that the subscription money does not belong to the company and hence neither the Directors of the company can handle it the way they want nor can the Income Tax department attach the same.

High Court of Mumbai - The Stock Exchange, Mumbai vs. Vinay Bubna
The Supreme Court held that once a defaulting member ceases to be member, no interest remains in the card and hence can not be considered as an asset. With regard to Rule 16 of BSE, the Supreme Court held that Rule 16 makes a provision for clearing the debts etc., of erstwhile members which gives a hope to the credits. Hence Rule 16 of BSE is not illegal or arbitrary.

High Court of Mumbai - Krishna H. Bajaj Vs, Sesa Industries & others
The petitioner was not allotted shares in a public issue. The Court in this case held that the SEBI does not have any such statutory duty to direct any company to issue shares.

The Securities Appellate Tribunal, Mumbai - Sailesh Thakkar & others Vs. SEBI
The Appellants and others in this case rigged, large quantities of shares were shown to have been sold and purchased which resulted in the Appellants have bulk of floating stock with them. This resulted in the increase of the price. The Securities and Exchange Board of India (SEBI) had suspended the Appellants from the market for a year. The Ministry of Finance upheld the order of the SEBI and rejected the appeal.

The Securities Appellate Tribunal, Mumbai - Dhanalakshmi Bank Lt. Vs. SEBI, Karnataka Bank Ltd Vs. SEBI & Punjab & Sind Bank Vs. SEBI
The SAT held that the letters exchanged between the banker to an issue and the bodies corporates on behalf of whom the banker is going to act as banker, which contained offer and acceptance, amounted to an agreement.

The Securities Appellate Tribunal, Mumbai - State Bank of Indore Vs. SEBI
The SAT in this case did not find enough evidence to constitute an agreement between the Appellant and the bodies corporates, dismissed the appeal.

The Securities Appellate Tribunal, Mumbai - R.R. Mohta Vs. SEBI
Impugned order issued by SEBI suspending the broker for 3 years, held not in violation of Section 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to

Securities Markets) 1995- Factors like increase in price, cornering of stocks, movement of index are all relevant factors in establishing price rigging - suspension of appellant for a period of 3 years not unduly harsh - Order by SEBI upheld by Central Government.

The Securities Appellate Tribunal, Mumbai - M/s. Indian Bank Mutual Fund & Indian Bank Vs. SEBI

Wordings indicated in the offer document involved assured return-trustee bank liable to make good the losses made by the Fund – proceedings before MRTP Commission no bar to proceedings with SEBI as the provisions of law as well as nature of obligations are different - Directions of SEBI under Section 11B of SEBI Act, 1992 are in order.

High Court of Mumbai - M/s. Universal Incast Ltd. Vs. SEBI

The High Court of Punjab and Haryana in this case held that a company cannot be permitted to list its shares on a stock exchange unless the minimum subscription clause is complied with and the subscription amount shall be deposited with the banker to an issue only and no one else.

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, SEBI has been empowered to conduct inspection of stock exchanges. The SEBI has been inspecting all the stock exchanges once every year since 1995-96. However, in view of the low/insignificant turnover recorded at the OTCEI, Saurashtra-Kutch, MadhyaPradesh, Jaipur, Mangalore, Magadh, Bhubaneswar and Gauhati Stock Exchanges, these exchanges were not inspected during 1999-2000.

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

It was observed in the inspections conducted during 1998-99 and 1999-2000 that there has been 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, better monitoring of payment of margins by brokers, etc.

B] REGISTRATION AND REGULATION OF WORKING OF INTERMEDIARIES

Primary Market

Merchant bankers

During 1999-2000, 11 Merchant Bankers were granted registration in Category I. Registration of 68 Category I merchant bankers expired during the year and they did not apply for renewal of registration. Category-wise details of registration of merchant bankers are given in the Table 3.1 below.

Table 3.1: Details of Registration of Merchant Bankers During 1999-2000

Category	No. Registered as on March 31, 1999	Registration Given during 1999-2000	*Deletions During 1999 – 2000	No. Registered as on March 31, 2000
I	243	11	80	174
II	31	NIL	31	NIL
III	14	NIL	14	NIL
IV	127	NIL	115	12
Total	**415**	**11**	**240**	**186**

**This figure is the sum of registrations expired, renewal rejected/withdrawn and applications closed due to non submission of information during 1999-2000.*
Source : SEBI

Underwriters

The number of underwriters registered with SEBI in terms of SEBI (Underwriters) Rules and Regulations, 1993 as on March 31, 2000 is 42. 24 underwriters were granted registration during the year 1999-2000.

Portfolio managers

The number of Portfolio Managers as on March 31, 2000 is 23. During the year 1999-2000, 13 Portfolio Manager were granted registration.

Bankers to an issue

As on March 31, 2000 68 Banks were registered with SEBI as Bankers to an Issue.

Registrars to an issue and share transfer agents

As on March 31, 2000, a total of 242 Registrar to an Issue and/or Share Transfer Agents were registered with SEBI. Out of the above 128 were registered in Category I and the remaining 114 in Category II.

Secondary Market

Stock brokers

Stock brokers services form integral part of stocks market expansion and growth which is an indication of deepening of the market. The year of 1999-2000 has witnessed large expansion in the number of brokers. As such during the year, 400 new brokers were registered and 277 registrations were cancelled or were surrendered. As a result total number of registered expanded from 9069 as on March 31, 1999 to 9192 as on March 31, 2000. It may be noted that this figure includes multiple registration also. The details of registrations are given in Table 3.2

Table 3.2 : Details of Registered Brokers

Total no. of Registered Brokers as on 31.03.99	Addition During the Year 1999-2000	Reconciliation/ Cancellation/ Surrender of Memberships	Total no. of Registered Brokers as on 31.03.2000
9069	400	277	*9,192

*Inclusive of 1231 multiple registrations.
Source :SEBI

Stock exchange-wise break-up of stock brokers classified into corporate brokers and others is presented in table below. It would be observed that NSEIL accounted for 10.8 per cent of the total brokers followed by CSE with 10.3 per cent, Mumbai with 6.8 per cent, OTCEI with 9.7 per cent, Jaipur with 6.4 per cent, Uttar Pradesh with 6.4 per cent and Cochin with 5.3 per cent. Stock exchanges like Mangalore, Magadh and Coimbatore have less than 200 brokers (Table 3.3).

Table 3.3 : Exchange-wise Brokers Registered with SEBI

No.	Stock Exchange	1998-99			1999-2000		
		Total Regd. Brokers	Corporate Regd. Brokers	Corporate brokers as % of total	Total Regd. Brokers	Corporate Regd. Brokers	Corporate Brokers as % of total
1	Mumbai	637	352	55.26	631	385	61.01
2	Ahmedabad	297	105	35.35	301	118	39.20
3	Calcutta	935	155	16.58	949	159	16.75
4	Madras	201	67	33.33	200	67	33.50
5	Delhi	392	187	47.07	392	201	51.28
6	Hyderabad	310	91	29.35	310	102	32.90
7	Madhya Pradesh	187	24	12.83	187	28	14.97
8	Bangalore	241	96	39.83	241	103	42.74
9	Cochin	491	67	13.65	491	67	13.65
10	Uttar Pradesh	513	80	15.59	514	86	16.73
11	Pune	200	42	21.00	200	45	22.50
12	Ludhiana	280	67	23.93	284	70	24.65
13	Gauhati	206	5	2.43	206	5	2.43
14	Mangalore	149	14	9.40	146	14	9.59
15	Magadh	196	15	7.65	199	15	7.54
16	Jaipur	594	17	2.86	593	16	2.70
17	Bhubaneshwar	234	15	6.41	234	15	6.41
18	Saurashtra	445	60	13.48	445	64	14.38
19	Vadodara	321	65	20.25	321	65	20.25
20	OTCEI	885	678	76.61	890	668	75.06
21	Coimbatore	198	61	30.81	198	62	31.31
22	NSEIL	990	856	86.46	991	861	86.88
23	ICSEIL	167	54	32.34	269	100	37.17
	Total	9,069	3,173	34.99	9,192	3,316	36.07

Source : SEBI

An important development in the broking services is the diversified ownership structure which has emerged recently. It is observed that out of more than 9,192 brokers, 3,316 brokers were corporate and 19 brokers were FIs. Of the new 400 brokers registered during 1999-2000, 225 were corporate, 10 brokers were composite corporate and 164 were proprietors. This stratification of broker services can be expected to increase healthier functioning of broker houses. The corporatisation and institutionalisation of the brokers should result in more organized and efficient services leading to healthier trading and accounting standards (Table 3.4).

Table 3.4 : Classification of Registered Brokers According to Nature of Ownership as March 31, 2000

No.	Stock Exchange	Proprietor	Partnership	Corporate	Financial Institution	Composite Corporate	S.E. Total
1	Mumbai	185	49	385		12	631
2	Ahmedabad	157	26	118			301
3	Calcutta	738	51	159	1		949
4	Madras	112	20	67			200
5	Delhi	150	40	201	1		392
6	Hyderabad	202	6	102			310
7	Madhya Pradesh	155	4	28			187
8	Bangalore	134	4	103			241
9	Cochin	412	12	67			491
10	Uttar Pradesh	422	6	86			514
11	Pune	147	8	45			200
12	Ludhiana	212	2	70			284
13	Gauhati	200	1	5			206
14	Mangalore	125	7	14			146
15	Magadh	183	1	15			199
16	Jaipur	570	7	16			593
17	Bhubaneshwar	219		15			234
18	Saurashtra	379	2	64			445
19	Vadodara	253	3	65			321
20	OTCEI	184	22	668	16		890
21	Coimbatore	136		62			198
22	NSE	66	63	861	1		991
23	ICSEIL	168	1	100			269
	Total	5,510	335	3,316	19	12	9,192

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 493 brokers had membership at two stock exchanges as on March 31, 2000 as compared to 444 brokers with double memberships as on March 31, 1999. It is seen that 61 members had membership at three stock exchanges as on March 31, 2000 (Table 3.5 and 3.6).

Table 3.5 : Multiple Membership of Brokers

No. of Membership held	Total no. of Members as on 31.03.1999	Total no. of Membership (IxII)	Total no. of Members as on 31.03.2000	Total no. of Membership (IxIV)
I	II	III	IV	V
1	7,983	7,983	7,961	7,961
2	444	888	493	986
3	46	138	61	183
4	12	48	10	40
5	0	0	2	10
6	02	12	2	12

Total		9,069		9,192
Source : SEBI				

Sub-Brokers

There were 5675 sub-brokers registered as on March 31, 2000, as compared with 4589 sub-brokers in the previous year. It would be seen from table below 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. The high concentration of sub-brokers at Mumbai and NSEIL indicates skewed availability of brokers' services at smaller stock exchanges like MadhyaPradesh, Guwahati, Managalore, Magadh, Coimbatore, Ludhiana etc. probably due to non-availability of adequate business. In these areas lack of sufficient business discourages the brokers / sub-brokers to take up thinly available broking services. Sub-broker services are very crucial in educating the potential investors in the primary as well as secondary market.

Table 3.6 : Stock Exchange-wise Registered Sub-Brokers

Name of Stock	No. of Sub-brokers registered with SEBI during the financial year 1999-2000	Total No. of Sub-brokers Registered as on March 31, 2000
Mumbai	642	3,363
Ahmedabad	13	66
Calcutta	6	46
Madras	3	125
Delhi	111	379
Hyderabad	0	198
Madhya Pradesh	1	5
Bangalore	2	160
Cochin	1	32
UPSE	1	30
Pune	0	169
Ludhiana	2	23
Gauhati	0	4
Mangalore	0	4
Magadh	0	2
Jaipur	0	32
Bhubaneshwar	0	17
Saurashtra-kutch	0	0
Vadodara	0	85
OTCEI	1	35
Coimbatore	0	26
NSEIL	303	874
Total	1,086*	5,675

*Includes multiple registration of 360 sub-brokers.
Source : SEBI

C] REGISTRATION AND REGULATION OF MUTUAL FUNDS

Registration of mutual funds

During the year under review registration was granted to 3 new mutual funds in the private sector out of which one is sponsored by a foreign entity. These mutual funds are - KJMC Mutual Fund, ANZ Grindlays Mutual Fund and ICICI Securities Fund. The GE Mutual Fund (formerly known as SRF Mutual Fund) has surrendered the certificate of registration on the advice of SEBI. They have not launched any scheme and no funds were collected from the public.

In accordance with the provisions of the SEBI (Mutual Funds) Regulations, 1996, the SEBI has also cancelled the certificate of registration of 2 mutual funds viz. GFC Mutual Fund and Asia Pacific Mutual Fund and approval granted to their asset management companies have been withdrawn. These mutual funds had not launched any schemes and no funds were collected from the public.

During 1999-2000 the schemes of 3 mutual funds, viz. ITC Threadneedle Mutual Fund, Apple Mutual Fund and HB Mutual Fund migrated to Zurich India Mutual Fund, Birla Mutual Fund and Taurus Mutual Fund respectively. ITC Threadneedle Mutual Fund, Apple Mutual Fund and HB Mutual Fund surrendered their certificates of registration. In case of HB Mutual Fund and Taurus Mutual Fund, there was merger of their asset management companies and trustee companies

With these registrations and after the withdrawal/merger of some mutual funds, there were a total of 37 mutual funds, (excluding UTI) operating in India as on March 31, 2000. Though UTI is not registered with SEBI, there is an arrangement of voluntary compliance of regulations with the UTI. The details of mutual funds registered with SEBI are given in Table 3.7.

Table 3.7: Mutual Funds Registered with SEBI

Sector	As on 31-03-1999	As on 31-03-2000
Public Sector	9	9
Private Sector	31	28
Total	**40**	**37**
Source : SEBI		

Registration of mutual funds under SEBI (Collective Investment Schemes) Regulations, 1999

Upto March 31, 2000, which was the extended last date for making an application by existing collective investment entities, the SEBI has received applications for grant of certificate of registration from 35 existing entities, who had earlier filed information with the Board. In addition, 2 entities who had earlier not filed information with the Board have also applied for registration (Table 3.8).

Table 3.8 : Analysis of Filing of Applications for Grant of Registration

Region-wise	No. of Existing Entities who have filed Application	No. of Other Entities who have filed Application
Northern Regional Office	11	1
Southern Regional Office	8	
Eastern Regional Office	4	1
Head Office	12	
Total	**35**	**2**
Source : SEBI		

D] 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 manipulations and fraudulent and unfair trade practices, vigorous efforts were undertaken to unearth these manipulations and practices and take action against the manipulators/violators. During 1999-2000, 47 cases were taken up for alleged market manipulation and price rigging; 2 cases were taken up for alleged “issue” related manipulation, etc. The details of the same have been elaborated in Part II of the report.

E] PROHIBITION OF INSIDER TRADING

During 1999-2000, 3 new cases were taken up. Inquiries/Investigations were completed in five cases of insider trading during the year under review. Show cause notices were issued to the insiders pursuant to successful investigations in one case. On full working of the Stock Watch System, which was put in place, surveillance over insider trading would be further strengthened.

F] SUBSTANTIAL ACQUISITION OF SHARES AND TAKE-OVERS

SEBI has taken up one case of alleged violation of the SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997. Inquiries/Investigations were completed in four other cases and pursuant to investigations, adjudication proceedings were initiated in 16 cases and further proceedings under the regulations are in progress.

G] INVESTOR EDUCATION AND THE TRAINING OF INTERMEDIARIES

Investors' education

During the year 1999-2000, the following steps were taken by SEBI for educating investors:

- An advertisement educating the investors, inter-alia, about their rights, responsibilities and key terms used in Capital Market was issued by the SEBI during the period September 28, 1999 to October 30, 1999 in various editions of 13 national newspapers both in Hindi and English.
- The SEBI also issued a series of advertisement /public notices in national as well as regional newspapers to educate and caution the investors about the risks associated with the investment in collective investment schemes.
- The SEBI distributed the booklet titled " A Quick Reference Guide For Investors" to the investors visiting the SEBI offices.

Access to final prospectus on SEBI website

In addition to the draft offer document submitted to the SEBI, final prospectus filed with Registrar of companies can also be accessed on the SEBI web site. This step was taken to offer easier and faster dissemination of information regarding the issue to the investing public all over the country.

H] INSPECTION AND INQUIRIES

Merchant bankers:

Merchant bankers and underwriters

An inspection of Systematics Corporate Services Ltd., Chennai, was conducted in terms of Regulation 29 (1) of SEBI (Merchant Bankers) Regulations., 1992 with particular reference to due diligence exercised in respect of the issues lead managed by them. The Report is under consideration of the Board.

Inspection and enquries – 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 objective, the SEBI carries out inspections of the books and records of stock brokers to verify whether:

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

As 9192 brokers and 5283 sub-brokers are registered with SEBI, it is difficult for SEBI to inspect all the brokers with its limited resources. Brokers are therefore selected for inspection on sample basis by the SEBI. Apart from SEBI, stock exchanges as self-regulatory organizations are also expected to carry out inspection of 10 per cent of their respective active member-brokers.

During 1999-2000, 80 brokers from the 14 exchanges across the country were inspected by the SEBI. The SEBI inspected the brokers of fewer exchanges this year, as most of the smaller exchanges had very little trading activities and very few active trading members. A sample of brokers was selected for the inspection from the medium to big exchanges.

For inspection of brokers of BSE and NSE, the services of Chartered Accountants were availed, whereas officers of SEBI undertook inspection of brokers of other stock exchanges. During the inspection, following features were observed:

i. Brokers of regional stock exchanges were hit hard by 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 NSE members.
ii. Due to boom in the latter part of the year, clientele business in general had picked up .
iii. Brokers and investors were trading mainly to avail of the benefit of arbitrage.
iv. Most of the brokers computerised their books of accounts and other relevant records
v. Subsequent to dematerialisation of most actively traded scrips, the problem of bad delivery faced by the brokers has gone down substantially.
vi. Most of the large stock broking houses are providing the services as DP.
vii. Equity research has started to gain prominence again.

Common irregularities noticed in certain cases during inspection were the following:

i. Non-issuance of Contract notes.
ii. Non segregation of clients and own funds.
iii. Client database and agreement with clients not maintained/entered.
iv. Dealing with unregistered sub brokers.
v. Non reporting of ‘off the floor transactions’ to the Exchange.

Inspections of brokers conducted by the SEBI from time to time have resulted in better compliance to SEBI Rules/Regulations/Circulars by them.

A comparative statement of inspection of brokers carried out during the year, enquiries ordered and their outcomes for the year 1998-99 and 1999-2000 are given in the Table 3.9.

Table 3.9 : Inspection of Brokers Carried Out During 1999-2000

Particulars	1998-1999	1999-2000
Inspections	103	80
Enquiries ordered	307	38
Warned	109	115
Suspended	64	31
Registration cancelled	6	7
Adjudication	9	3
No Action	16	43
Source : SEBI		

From the table it may be noticed that a number of enquiries ordered during 1999-2000 showed a significant fall over the previous year's level. This was mainly on account of 199 enquiry orders in the previous year initiated against brokers who had failed to fulfil the underwriting devolvement in various issues.

The number of cases where no action has been taken stands at 43, out of which 35 relates to enquiry against brokers who had failed to fulfil the underwriting devolvement in various issues.

Inspection of mutual funds

Since mutual funds have become important mobilser of savings from the markte and they invest in wide range of instruments in the securities, their continuous monitoring is important for the protection of investors. Hence the SEBI took disciplinary action against a number of mutual funds in the year 1999-2000, the details of which are given in the following table 3.10.

Inspections of 33 active mutual funds (including UTI) was ordered during the year to be carried out by independent chartered accountancy firms covering the period till March 1999.

Table 3.10 : Action Taken During 1999-2000

Sr. No.	Description	No. of Mutual Funds
1.	Adjudication Ordered	5
2.	Enquiry Ordered	1
3.	Financial Penalty and action against trustees and Key Personnel	1
4.	Warning/Deficiency Letters	26
5.	Cancellation of Registration	2
6.	Advertisements Witdrawn	4
7.	Payment of Interest	4

Source : SEBI

Two separate adjudication proceedings were ordered against Taurus Mutual Fund. The Fund's investments in unrated fixed income securities were not in accordance with the disclosures made in the offer document and also the redemption/ repurchase proceeds were not dispatched within the statutory time limit and there were inadequate disclosures in the abridged audited balanced sheet. Adjudication cases were referred against Canbank Mutual Fund and Kothari Pioneer Mutual Fund for inadequate disclosures in offer documents and against Shriram Mutual Fund for delay in despatch of repurchase proceeds for which it was also advised to pay interest to the investors.

In the case relating to irregularities in the dealings of Shriram Mutual Fund in the scrip of Videocon International Ltd. during June 1998, the Adjudicating & Enquiry Officer imposed a penalty of Rs.5 lakh on Shriram Asset Management Company Ltd. under section 15 I of the SEBI Act for having violated the SEBI (Mutual Funds) Regulations. The SEBI also ordered the sponsors of Shriram Mutual Fund, under the provisions of SEBI Act, 1992, to pay towards the corpus of the concerned schemes of mutual fund a sum of Rs. 25,62,750 with 15 per cent interest per annum, being the loss caused to the unitholders. The SEBI also directed two officials of the Asset Management Company (AMC) of the mutual fund to resign from the AMC. The SEBI further directed that its managing director shall not be eligible to hold any public position in any capital market related public institution for a period of 3 years w.e.f. February 1, 2000. The SEBI also directed to change the composition of the board of trustees. According to which, at least three trustees out of existing four trustees had to step down within a month of receipt of the order. The remaining one trustee would continue to hold office for a year to ensure smooth takeover by the new board and for the sake of continuity of operations and would have to step down after the expiry of one year from the date of constitution of the new board of trustees.

Warning/deficiency letters were issued to 26 mutual funds on the basis of findings of inspection reports, delay in submission of periodical reports, non-exercise of due diligence in drafting the offer document, not providing factually correct information to SEBI on the status of directors of trustee company – "independent" or "associates, delay in the despatch of redemption proceeds (i.e. beyond time stipulated in the Regulations), misleading advertisements, exceeding 5 per cent limit with respect to transactions through associate brokers during a quarter and non-disclosure of amount of brokerage paid to associate brokers in the annual accounts.

The SEBI had prohibited GFC Mutual Fund and Asia Pacific Mutual Fund from launching any scheme under Section 11B of the SEBI Act in June 1997 and October 1997 respectively after RBI prohibited their sponsors which were NBFCs from accepting any deposits and disposing off any of their assets. Both the mutual funds have not launched any scheme since registration. In accordance with the Regulations, their certificates of registration were cancelled.

In all Four mutual funds viz. Prudential ICICI Mutual Fund, Sun F&C Mutual Fund, SBI Mutual Fund and Alliance Capital Mutual Fund were advised to withdraw advertisements as these were misleading or the disclosures were not in accordance with the Advertisement Code.

The SEBI directed the AMCs of Taurus Mutual Fund, IDBI Mutual Fund, Reliance Capital Mutual Fund and Shriram Mutual Fund were directed to pay interest to the unitholders at the rate of 15 per cent for the delay in despatch of redemption/repurchase proceeds. A total interest of Rs.17.24 lakh was paid to 14686 investors. The details of amount paid and the number of investors who benefited are given in Table 3.11.

Table 3.11 :Details of Refund by Mutual Funds

Name of the Mutual Fund	Amount Paid (Rs. Lakh)	No. of Investors
Taurus Mutual Fund	9.94	4,945
IDBI Mutual Fund	4.95	6,182
Reliance Capital Mutual Fund	0.05	82
Shriram Mutual Fund	2.30	3,477
Total	17.24	14,686

Source : SEBI

I] FEES AND OTHER CHARGES

Table 3.12: Fees and Other Charges Received **Rs. In Lakh)**

Item	Fees Received	Fees Received
	1999-2000	1998-1999
	(Unaudited)	
(1)	(2)	(3)
Offer Documents and prospectuses filed	156.95	92.80
Merchant Bankers	277.95	151.87
Underwriters	136.40	29.20
Portfolio Managers	61.75	25.00
Registrars to an Issue and Share Transfer Agents	35.90	34.78
Bankers to an Issue	58.30	99.50
Debenture Trustees	47.20	33.52
Takeover offer documents filed	71.25	57.20
Mutual Funds	169.50	150.75
Stock Brokers and Sub-Brokers	757.88	530.31
Foreign Institutional Investors	263.72	263.20
Sub Account- Foreign Institutional Investors	98.48	34.60
Depository	23.84	41.66
Depository Participants	106.07	47.81
Venture Capital Funds	66.75	25.75
Custodian of Securities	115.00	230.20
Approved Intermediaries under Securities Lending Scheme	8.20	17.37
Penalties	29.00	1.65
Collective Investment Scheme	13.25	-
Credit Rating Agencies	21.00	-
Total	**2,518.39**	**1,867.17**

Notes:
Figures for 1999-2000 are yet to be checked by the Internal Auditors.
Figures in columns 2 & 3 are as per the Receipt and Payment account i.e. on actual receipt basis.
Source : SEBI

Merchant bankers, underwriters and portfolio managers

Brokers and sub-brokers fees

Total fees received for brokers & sub brokers were Rs.7,31,82,813/- and 15,42,500/- respectively in 1999-2000.

J] RESEARCH AND OTHER STUDIES

The research department took a number of initiatives for completing studies / research reports in 1999-2000. A tie-up was done with IIM, Ahmedabad and National Council of Applied Economic Research (NCAER) for taking up research studies/projects in capital market .

The SEBI had undertaken an Investors' Survey in collaboration with the NCAER. The report based on the results/data available from the survey, has already been prepared by the research department of SEBI. The Department also completed a few studies which were published. The department prepared Annual Report of SEBI. The chapter on 'Capital Market' pertaining to the Economic Survey of Government of India and material for Annual Report of Ministry of Finance, Government of India and Reserve Bank of India were prepared by the department. The Department provides research inputs to the SEBI Management for formulating its policies besides offering faculty assistance to outside institutions. The SEBI Monthly Bulletin is being prepared regularly which is available on SEBI website.

K] OTHER FUNCTIONS

Rollover to year 2000

The SEBI had initiated steps in 1998 to co-ordinate and synchronize the efforts made by the various agencies operating in the capital market to combat the Y2K problem in order to ensure a smooth and unhampered transition into the next millennium. A time bound schedule for implementation of a comprehensive plan to combat the Y2K problem was drawn up by the SEBI and circulated to all the intermediaries functioning in the capital market either directly or through SROs. A detailed list of complaint and non-compliant market intermediaries was also posted on SEBI's website.

The SEBI coordinated the Y2K efforts with Government, other domestic and international regulatory agencies. In order to mitigate global concerns over capital market's preparedness on the Year 2000 problem, the SEBI was also in touch with the Joint Year 2000 Council and the IOSCO. The measures taken by the SEBI in this regard were appreciated by the IOSCO. Shri D.R. Mehta, Chairman, SEBI, was designated as the representative of IOSCO to the Joint Year 2000 Council.

In order to mitigate the Y2K crisis, SEBI took the following pre-emptive measures:

- All the stock exchanges were asked to prepare a detailed contingency plans for themselves and the member brokers and forward it to SEBI .

- It was also decided that December 30, 1999 should be the last trading day of the last trading cycle in the calendar year 1999 for all stock exchanges. This implied that all outstanding positions at the close of business on December 30, 1999, on all Stock

Exchanges which did not have carry forward trading facilities, would result in delivery. In the Exchanges having carry forward facilities; outstanding positions, as determined at the end of business on December 30, 1999, were allowed to be carried forward to the next settlement i.e. the first settlement in January 2000;

- All the exchanges were directed to conduct mock trading sessions on January 1 and January 2, 2000 to test all the systems including connectivity with depositories and submit a report to the SEBI.

- The exchanges were also asked to submit daily reports to the SEBI on actual trading indicating software problems if any, at the end of each day for the first trading cycle commencing in the year 2000.

- It was made mandatory for all intermediaries registered with the SEBI to keep hard copies of all the current records pertaining to their own and their client's operations as on December 30, 1999.

- It was made mandatory for all the listed companies to disclose their Y2K preparedness status in their quarterly reports.

- In order to ensure a smooth rollover to the year 2000, the SEBI instructed all the stock exchanges to conduct a mock trading session and test connectivity with clearing houses and depositories. Similarly other market players viz. mutual funds, registrars, custodians etc. were also asked to test their systems and confirm smooth transition to the year 2000.

- In the light of these instructions, the market players had reported a smooth and disruption free roll over to the year 2000. Brief details of the status of roll over to year 2000 in respect of various capital market players are given below;

A. Stock exchanges

All the stock exchanges reported that Mock Trading and Settlement Session on January 1, 2000 covering trading system, settlement system, etc., was completed successfully.

The following stock exchanges viz. Saurashtra Kutch Stock Exchange, Coimbatore Stock Exchange which are Y2K compliant did not conduct mock trading as there were no trading activities in these exchanges. Gauhati Stock Exchange did not conduct mock trading as the systems at the exchange had been reported as damaged due to fire.

B. Depositories

Tests were undertaken by the two depositories- National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL)- to test for any potential Y2K related problems in the over all depository set-up. The roll over from year 1999 to year 2000 passed off smoothly for the depository system in India.

C. Custodians

After testing their internal system, all custodians reported that the Year 2000 roll over had proceeded satisfactorily to allow the normal conduct of business. The external linkages and connectivity with their clients and global custodians was found to be functioning smoothly.

D. Merchant bankers and registrars

Merchant Bankers and Share Registrars reported that the year 2000 roll over proceeded successfully without any operational problems.

E. Mutual funds

The mutual funds reported to SEBI that the year 2000 roll over proceeded satisfactorily to allow the normal conduct of business. They did not face any difficulty in conducting their core business. They did not come across any external factor affecting the ability to conduct their business.

F. SEBI

All the Database Servers, Internet/Mail Servers and the Workstations together with application software packages installed at SEBI made a smooth transition to the millennium year 2000. A review was also conducted on January 1, 2000 and it was found that all the information technology related equipment functioned normally.

Trading at all exchanges was conducted normally on January 3, 2000 and none of the market intermediaries reported any disruption due to the Y2K problem.

Government of India, the Reserve Bank of India, IOSCO, Joint Year 2000 Council were also apprised of these results. Besides, these results were also posted on SEBI's website www.sebi.gov.in.

Co-ordination with overseas regulators

India is an active and a leading member of The International Organisation of Securities Commissions (IOSCO). Shri D.R. Mehta, Chairman SEBI is the Chairman of the Asia Pacific Regional Committee (APRC), a regional committee of IOSCO. SEBI is also member of the Executive Committee of IOSCO-the apex policy making body of IOSCO. Shri D.R. Mehta was also IOSCO's nominee on the Joint Year 2000 Council .

India also hosted the IOSCO Emerging Markets Committee meeting in New Delhi in November 1999. The EMC's membership is composed of 67 securities regulatory agencies and of the International Finance Corporation. It endeavors to promote the development and improvement of efficiency of emerging securities and futures markets by establishing principles and minimum standards, preparing training programs for the personnel of members and facilitating exchange of information and transfer of technology and expertise. The meeting was inaugurated by Finance Minister Shri.Yashwant Sinha.

The EMC reviewed the ongoing works undertaken by its five functional areas :
disclosure and accounting, regulation of secondary markets, regulation of market intermediaries, enforcement and exchange of information, and investment management.

A decision was taken to initiate new work on the following regulatory issues :
- Corporate governance;
- Framework for the development of domestic secondary markets in emerging markets debt securities;
- Internet trading;
- Demutualization of Stock Exchanges;
- Regulatory implications of cross-border activities of market intermediaries;
- Rules of conduct for market intermediaries with their clients;
- Investor education

During this meeting, the EMC approved and authorised the public release of the Report entitled *'Causes, Effects and Regulatory Implications of Financial and Economic Turbulence in Emerging Markets'*. The purpose of this report is to provide an update of current views on the likely causes and effects of the period of financial and economic turbulence during 1997-99.

India continued its efforts to foster the spirit of co-operation amongst the international bodies and regulatory bodies in the Asia Pacific region. Some of the issues which were raised by India during the APRC meeting were:
- Effective implementation of IOSCO principles and objectives of Securities Regulation.
- Enhancement of corporate governance for ensuring transparency.
- Effective co-ordination and information sharing amongst the regulators in the region.
- The role of regulatory agencies in the new millennium
- The impact of technology on the market structure
- The role of credit rating agencies in the international markets

Grievances redressal – mutual funds

SEBI follows up the complaints of investors with mutual funds on a constant basis. Out of a total of 35,008 complaints which were received by the SEBI against 20 mutual funds till March 31, 2000, 33,371 complaints were redressed. The rate of redressal of investors' grievances by mutual funds as a whole is 95.32 per cent . UTI, which accounted for 67.15 per cent of the total complaints, showed a redressal rate of 97.05 per cent .

Investors' grievances redressal – securities market

The SEBI has established a comprehensive investor grievances redressal mechanism. The Investor Grievances Redressal and Guidance Division of SEBI assists investors who prefer to make complaints to SEBI against companies. A standardized complaint format is available at all SEBI offices and on the SEBI Website for the convenience of investors. Each complaint received by the SEBI from the investors is acknowledged and a reference number is sent to the complainant. Each complaint is taken up with the company and if the complaint is not resolved within a reasonable time, a periodical follow up is also made with the company. The SEBI officers also hold meetings with the company officials to impress upon them their obligation to redress the grievances of investors. Errant companies are warned of stern action for their failure to redress grievances. Recalcitrant companies are referred for prosecution. The SEBI also issues fortnightly press release for public information on the status of redressal of investor grievances highlighting the companies against whom more than 1000 complaints are outstanding.

During the period 1991-92 to 1999-2000, the SEBI received 25,32,969 grievances from investors against companies and the same were taken up by the SEBI with the concerned companies for redressal. Of this a total of 24,16,218 grievances were redressed by the companies, which indicates a redressal rate of 95.39 per cent . Further, during the year 1999-2000, SEBI received 98,605 grievances from the investors as against 99,132 grievances received during the year 1998-99. During the year 1999-2000, 1,46,553 complaints were redressed by the companies as against 1,27,227 grievances redressed during the year 1998-99. These redressed grievances include grievances pending from the previous period. The cumulative status of investor grievances received by the SEBI, resolved by companies and the redressal rate in this regard from the year 1991-92 to 1999-2000 is furnished in the Table 3.13.

Table 3.13: Investors Grievances – Cumulative

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

Source : SEBI

The data furnished above, reveal that there has been a sustained increase in the number of investor grievances resolved through SEBI's intervention, over the period of time.

In order to ascertain correct status of redressal of grievances, the SEBI has been conducting an exercise of sending reply paid post cards to investors requesting them to reply as to whether their complaint has been resolved by the companies or not. During the year 1999-2000, the SEBI sent 78,239 reply paid post cards to investors whose grievances were pending with SEBI head office as on March 31, 1999. A total of 49,513 postcards were received back of which 3451 replied that the complaints were resolved and 45044 replied that the complaints were not resolved.

Activities of vigilance division

The ever increasing role of SEBI as regulator and supervisor in the Securities Markets has necessitated a proactive role to be played by Vigilance division. The Vigilance division is required to put a system with proper checks and balances for ensuring a transparent decision making mechanism and also for ensuring that all the decisions are fair, transparent and in consonance with the rules and regulations laid down from time to time.

The vigilance set up in SEBI at present is small. It is gearing up to strengthen the preventive vigilance activities. The foremost objective is to set up a proper vigilance system and procedures in place. It acts in close coordination with the Personnel Department to prevent instances of financial irregularities, misconduct and impropriety by putting certain systems into place. The procedures for handling complaints are being standardised. The division is also coordinating for one departmental inquiry which is being conducted against one officer. The vigilance set up in SEBI ensures that all the guidelines, rules, regulations issued by Central Vigilance Commission and other competent authorities are followed and implemented. The division coordinates and cooperates with other governmental agencies for ensuring fair and transparent policies in the capital market.

Defaulting companies

During 1999-2000 also, periodic meetings were held by the SEBI officials with the CEOs / Compliance Officers of the companies which did not register satisfactory investor grievance redressal position. During such meetings, the SEBI impressed on the companies the need to redress the investor grievances with greater urgency. The impact of these meetings on the redressal rate of grievances has been found to be very good and therefore SEBI has been undertaking this exercise on an on-going basis.

Investors' associations

With a view to create a greater degree of awareness among the investors leading to a more healthy, transparent and efficient securities market in India, the SEBI has been registering Investors' Associations. During 1999-2000, under the revised criteria for registration which was finalized by the SEBI in consultation with the representatives of Investors' Associations, SEBI has renewed the registration of 6 Investors' Associations for a period of 3 years and has granted provisional Registration to 1 Investors' Association for a period of 1 year. Accordingly, as on March 31, 2000, the following Investors' Associations were registered with SEBI:

(a) All Body Corporate Shareholders' Forum, Secunderabad.
(b) Consumer Education and Research Society, Ahmedabad.
(c) Jagrut Grahak Mandal, Patan (Gujarat)
(d) Kovai Investors' Association, Coimbatore
(e) Tamil Nadu Investors' Association, Chennai
(f) The Gujarat Investors' and Shareholders' Association, Ahmedabad
(g) Investors' Grievances Forum, Mumbai (Provisional registration for 1 year)

The recognized Investor' Associations are eligible to draw a sum upto Rs. 1 Lac each per year from SEBI to meet their expenses on conducting seminars related to securities market, publication and circulation of investor education material, one time capital expenditure towards setting up computer terminals and installation of database on companies and internet services.

Appointment of auditor

The Board approved amendments to provide for appointment of professional auditors for inspection or investigation of books of accounts, documents, infrastructure systems of a depository, participant, beneficial owner and issuer or its agent. The expenses including fees paid to the auditors would be recovered from such entities.

Y2K preparedness project

During the year, which saw the change over to the year 2000, the SEBI had taken up the task of ensuring that the intermediaries were Y2K compliant. The SEBI had collected information through questionnaires in a phased manner. The Registrars who were not Y2K complaint before 30/9/99 were advised not to undertake fresh assignments. The SEBI had also obtained confirmation from RTI as to smooth transition to the year 2000.

PART IV

ORGANISATIONAL MATTERS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA

Board

During the year 1999-2000 (April to March), four Board Meetings were held.

Human resources

As on March 31, 2000, SEBI had 196 Officers and 161 Staff Members (Total 357) in various other cadres. During the year, the Board recruited 34 candidates in various cadres. Of the total staff 357, 18 persons belong to SC, 44 to OBC and 2 to ST categories.

Parliamentary committee

A Study Group of the Standing Committee on Subordinate Legislation, Rajya Sabha under the Chairpersonship of Ms Saroj Khaparde held a meeting with the Chairman and other Senior Officials of the Board at Mumbai on November 20, 1999.

Promotion of official language

While regulating the capital market, the SEBI is also putting in vigorous efforts to implement the Official Language Policy of the Government of India. Thus, SEBI has been paying due attention to ensure proper implementation of the Official Language Policy of the Government of India, as applicable to the capital market and various related institutions. Development of capital market and implementation of the official language, both are equally important for SEBI and thus the Board is making continuous efforts for accomplishment of these objectives.

The SEBI has also been making available its various publications, regulations, notifications and other useful material in bilingual form. In order to educate and guide the investors, the relevant material is also being made available in bilingual form. Efforts are also being made to get this material published in regional languages.

In a short span of its existence, the SEBI has been making available material of quality for implementation of the official language in its offices and the capital market. In this direction, five publications viz. “Capital Market Guide”, “SEBI – Rajbhasha Sahayika”, “Rajbhasha Sandarshika”, “Hindi Aashu-Tankan Sandarshika” and “Vidhi Karya Sahayika – Vol.-I” have been made available in diglot form (Hindi and English), which is one of the major achievements of the official language division of the Board. These publications spell out the Official Language Policy of the Government of India and provide information regarding various aspects of the capital market in Hindi and English too. In these publications, efforts have also been made to standardize capital market glossary as well as to establish clear and well-organized systems, so that uniformity may be maintained in the usage of various words, terms and phrases used in the Capital Market. SEBI has taken a lead in providing computer package based Hindi material which is useful in imparting Hindi typewriting and shorthand training. "Vidhi Karya Sahayika" is also useful in discharging the legal work relating to various activities of the capital market in Hindi. The work of standardization and preparation of the technical terminology of the capital market is in progress.

Efforts are also being made for further progress of the official language in day to day activities in various offices of the Board. The Board is making valuable contribution in various programmes organized by other institutions for implementation of the Official Language. The SEBI is also providing expertise to various institutions, which are facilitating the preparation of educative material related to capital market in Hindi. In future also, the Board's endeavour would always be to implement the Official Language more effectively.

Premises

During the year 1999-2000, the SEBI incurred capital expenditure amounting to Rs.6.20 crore towards purchase of 30 flats from Maharashtra Housing And Area Development Authority, for its officers posted at Mumbai. The SEBI continued its efforts in acquiring residential accommodation for officers to allot residential accommodation to all eligible officers posted at Head Office in Mumbai.

The SEBI was also in the process of acquiring suitable office space in Mumbai which can meet its present and future requirements. The SEBI provided office space to Securities Appellate Tribunal (SAT) to start its functioning from its office premises in Mumbai.

Status of information technology in SEBI

The SEBI has continuously been in the process of adopting emerging technologies to maintain the status of advanced users of the modern techniques. During 1999-2000, the SEBI initiated the process of consolidation of databases to implement effective Management Information Systems on the securities market, enhancement of Network Communication and implementation of workflow applications.

SEBI's databases

With the installation of state-of-the-art database servers, during the year 1999-2000, the emphasis was given to migration and re-engineering of SEBI's internal databases from legacy systems to Relational Database Management Systems (RDBMS).

The internal database primarily comprises of information pertaining to initial public offers, securities market intermediaries, Investments by Foreign Institutional Investors (FII), investigations/action taken, legislation matters, Investor Grievances and Internal

Administration. Consequently the application software packages have been developed and deployed for up-to-date maintenance of these databases. A suitable security and audit mechanism has also been implemented to protect the data from unauthorized access.

With the strengthening of the team of IT Professionals at SEBI, the application software development is being done in-house, with an aim to provide Executive Information System and to provide quick response to the departmental needs.

Networking

During the year 1999-2000, the Network Communication Systems were enhanced. The local area network (LAN) was established at all the regional offices for implementing the basic infrastructure for client-server computing. With the installation of LAN at the Regional Offices, Database applications, E-mail, Internet and Intranet were all configured in tandem with the head-office.

As part of the Wide Area Network (WAN) between SEBI offices and the offices in Mumbai have been inter-connected by Integrated Services Digital Network (ISDN) link for the unified Database Applications and Web access. A feasibility study has also been initiated to form a SEBI-Net linking Head-Office and the Regional Offices.

SEBI web site

As part of our constant endeavour in promoting the development of the securities market by providing the latest information, the official web site of SEBI http://www.sebi.gov.in was enhanced during the year 1999-2000. The enhancements included Daily Market Trends pertaining to FII and Mutual Funds, Hosting Draft Prospectus, SEBI Bulletin, Department-Wise Classification of Contents, etc.

Electronic office

Pursuing the philosophy of "Less Paper" office, Intranet and workflow applications have been implemented, featuring hosting of internal circulars, various application formats etc. and enhancement of the correspondence tracking system. The Work has been initiated to foster the knowledge base management, by way of electronic hosting of internal bulletin and discussion forums.

During 1999-2000 state-of-the-art multimedia notebook computers equipped with latest office automation tools for presentations and mobile computing were procured.

Year 2000 initiative

The 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 and also ensured that the roll over to the Millennium year was smooth.

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Annexure 1

Action Taken Against the Brokers During the Period 01-04-1999 to 31-3-2000

Sr. No.	Name	Exchange	Punishment	Period	From	To	Order Date
1	Shailendra Kumar Tandon	UPSE	Suspended	2 months	27-Apr-99	26-Jun-99	16-Apr-99
2	Bharat Kumar	UPSE	Suspended	2 months	27-Apr-99	26-Jun-99	16-Apr-99
3	Suresh Bhardwaj	Magadh	Reg. Cancelled		23-Apr-99		23-Apr-99
4	Chhanganlal Jain	CoSE	Suspended	6 months	10-May-99	9-Nov-99	23-Apr-99
5	A. K. Ahilan	CSX	Reg. Cancelled		17-May-99		17-May-99
6	Bharti Sharma	Magadh	Suspended	6 months *	27-May-99		19-May-99
7	Yogendra Sharma	UPSE	Suspended	6 months	1-Jun-99	30-Nov-99	19-May-99
8	Dinesh G. Ved	SKSE	Suspended	6 months	11-Jun-99	10-Dec-99	3-Jun-99
9	Moti Lal Agrawal	Magadh	Suspended	6 months *	17-Jun-99		4-Jun-99
10	P. S. Securities Ltd.	NSE	Reg. Cancelled		4-Jun-99		4-Jun-99
11	Surendra Kumar Rungta	Magadh	Suspended	6 months	10-Jun-99	9-Dec-99	4-Jun-99
12	Shekhar Agrawal	Magadh	Suspended	6 months *	17-Jun-99		8-Jun-99
13	Vipin Ahuja	UPSE	Suspended	6 months	22-Jun-99	21-Dec-99	11-Jun-99
14	Manoj Harlalka	GSE	Suspended	6 months *	29-Jun-99		28-Jun-99
15	Rajan Maheshwari	JSE	Suspended	1 month	2-Jul-99	1-Aug-99	2-Jul-99
16	Singhania Brothers Pvt. Ltd.	CSE	Suspended	1 month	23-Jul-99	22-Aug-99	16-Jul-99
17	Pradeep Baheti	JSE	Suspended	2 months	5-Aug-99	4-Oct-99	23-Jul-99
18	Edassery Stock & Investments Pvt Ltd	CoSE	Suspended	2 months	9-Aug-99	8-Oct-99	4-Aug-99
19	P. N. Boda	SKSE	Suspended	3 months	13-Aug-99	12-Nov-99	4-Aug-99
20	Trimiti Investments & Financial Services Pvt. Ltd.	PSE	Suspended	2 months	13-Aug-99	12-Oct-99	4-Aug-99
21	Deval Sheth	ASE	Suspended	2 months	16-Aug-99	15-Oct-99	5-Aug-99
22	Rabindra Bajoria	BhSE	Suspended	6 months	10-Aug-99	9-Feb-00	6-Aug-99
23	Kunverji Finstock Ltd. (Nayan K. Thakkar)	ASE	Suspended	2 months	16-Aug-99	15-Oct-99	10-Aug-99
24	Anil Shah Securities & Finance Ltd.	ASE	Suspended	2 months	27-Aug-99	26-Oct-99	23-Aug-99
25	Apurva Ramanlal Shah	ASE	Suspended	2 months	3-Sep-99	2-Nov-99	25-Aug-99
26	Hoffland Finance Ltd.	BgSE & JSE	Reg. Cancelled		25-Aug-99		25-Aug-99
27	Hoffland Share Shoppe Ltd.	DSE & MSE	Reg. Cancelled		25-Aug-99		25-Aug-99
28	Bhupendra Talakchand Mehta	BSE	Suspended	**	6-Sep-99		31-Aug-99
29	Atul Chhabildas Doshi	ASE	Suspended	2 months	27-Sep-99	26-Nov-99	22-Sep-99
30	Kirit Shah Securities Pvt. Ltd.	ASE	Suspended	3 months	11-Oct-99	10-Jan-00	30-Sep-99
31	Dinesh Babulal Jain	ASE	Suspended	3 months	5-Nov-99	4-Feb-00	25-Oct-99
32	Poise Securities & Exchange Ltd.	NSE	Suspended	12 months	1-Dec-99	30-Nov-00	19-Nov-99
33	Mid East Investments Services Ltd.	OTCEI	Suspended	3 months #	24-Dec-99	23-Mar-00	15-Dec-99
34	Ramesh Kumar P.	BgSE	Reg. Cancelled		29-Dec-99		29-Dec-99
35	Sumitra Muthukumar	MSE	Suspended	4 months ##	6-Jan-00		29-Dec-99
36	Bimal Kumar Jalan	UPSE	Suspended	2 months	8-Feb-00	7-Apr-00	31-Jan-00
37	Swarn Munjal	DSE	Reg. Cancelled		2-Feb-00		2-Feb-00
38	Jagdish Pannalal Gandhi	BSE	Suspended	**	14-Feb-00		9-Feb-00

* or till the broker produces his books for inspection.
** Till SEBI fees are paid
# till the broker redresses the complaints.
or till the suspension is revoked by MSE, whichever is later

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Annexure 2

Action Taken by SEBI Pursuant to Investigations

A)	Suspension
	Stock Brokers
1	Mefcom Securities Ltd.: Suspended for 18 months till 9/12/99 w.e.f. 10/6/98
2	P R Shah & Stock Broker Pvt Ltd.: Suspended for 24 months till 14/6/2000 w.e.f. 15/6/98
3	Lallar Securities Pvt Ltd.: Suspended for 16 months till 4/12/99 w.e.f. 15/6/98
4	Sony Securities Ltd.: Suspended for a period of 2 years from 11/6/98 till 10/6/2000
5	Shri Ashok Kumar Kayan : Suspended for 3 months w.e.f. 27/8/99.
6	Shri Ashok Kumar Kayan: Suspended for 3 months w.e.f. 27/8/99.
7	Shri Ashok Kumar Kayan: Suspended for 3 months w.e.f. 27/8/99.
8	GNH Global Securities Ltd.: Suspended for 36 months from 15/6/98 till 14/6/2000
9	Mahico Pvt. Ltd. : Suspended for 13 months from 22/6/98 to 3/8/98 and from 14/1/99 till 31/12/99.
10	Star Share & Stock Brokers Ltd.: Suspended for 12 months from 5/12/98 till 16/9/99.
11	Satyanarayan Nangalia : Suspended for a period of 3 years from June 15, 1998 till June 14, 2001.
12	Satyanarayan Nangalia : Suspended for a period of 3 years from June 15, 1998 till June 14, 2001.
13	Valfin Financial Services Pvt Ltd. : Suspended for a period of 18 months from June 17, 19998 till Dec 16, 1999.
14	Asian Securities and Stocks Ltd.: Suspended for a period of 18 months from Aug 17, 1998 till Feb 16, 2000.
15	Mahico Pvt Ltd.: Suspended for 13 months from 22/6/98 to 3/8/98 and from 14/1/99 till 31/12/99.
16	Rajratan R Mohta: Suspended for the period of 3 years from June 12, 1998 till June 11, 2001.
17	Ramrakh R Bohra: Suspended for the period of 18 months from Jan 4, 1999 till July 3, 2000.
18	Ramrakh R Bohra : Suspended for the period of 18 months from Jan 4, 1999 till July 3, 2000.
19	Digital Leasing & Finance Ltd. : Suspended for the period of 3 years from June 10, 1998 till June 9, 2001.
20	M/s. Bharat J Patel: Suspended for the period of 18 months from November 2, 1998 till May 1, 2000.
21	Mansi investments : Suspended for one month
22	Amgis Holdings Pvt Ltd. : Suspended for 18 months.
	Bankers to an Issue
23	State Bank of Saurashtra, Shahibaugh branch : Suspended for the period of 3 months (31.1.2000)
24	Punjab National Bank (new cloth market branch): Suspended for one month (22.02.2000)

25	Punjab National Bank (Raopur Branch) : Prohibited from acting as a BTI for a period of three months
26	Canara Bank (Bhadra Branch) : Prohibited from acting as a BTI for a period of three months
27	Canara Bank (Thousand Lights Branch): Prohibited from acting as BTI for a period of three months.
	Sub-Brokers
28	Malar Shareshoppe Ltd. : Suspended for the period of 18 months from Nov 2, 1998 till May 1, 2000.
	Registrars and Share Transfer Agents
29	Vibra Financial Services Ltd. : Suspended for a period of one month.
30	M/s. Chokshi Securities Ltd. (presently Chokshi Infotech Ltd.) : Suspended for the period of 3 months (Feb, 2000)
B)	**Warning issued**
	Stock Brokers
1.	Shri Mangal Keshav
2.	M/s. Libord Securities Ltd.
3.	Mr.M K Poladia
4.	M/s. Saurashtra Capital Services Ltd.
5.	M/s. Wideangle Financial Services Ltd.
6.	M/s. Arihant Fincap Ltd.
7.	M/s. Purnarth Credit and Capital Ltd.
8.	M/s. Nouveau Shares and Securities Ltd., member NSE.
9.	M/s. D S Sancheti Securities & Finance Ltd.
10.	M/s. Indo Thai Securities Ltd.
11.	M/s. Shreyas Securities & Finance Ltd.
12.	M/s. K K Jalan Securities P Ltd.
13.	M/s. Babubhai Purshottamdas Stock Brokers P Ltd.
14.	M/s. Parthiv Parekh & Co.
15.	M/s. Century Consultants Ltd.
16.	M/s. Saurabh Dani - Broker BSE
17.	M/s. Skyes & Ray Equities Pvt Ltd. (formerly M/s. Yogesh R Gupta)
18.	M/s. C R Kothari & Sons Share & Stock Brokers Pvt Ltd.
19.	N C Jain
20.	B R Jalan Securities Pvt Ltd.
21.	SVS Securities Pvt Ltd.
22.	M/s. Rajesh Meghani
23.	M/s. Goldcrest Capital Markets Ltd.

24.	Shailbhadra Securities Ltd.

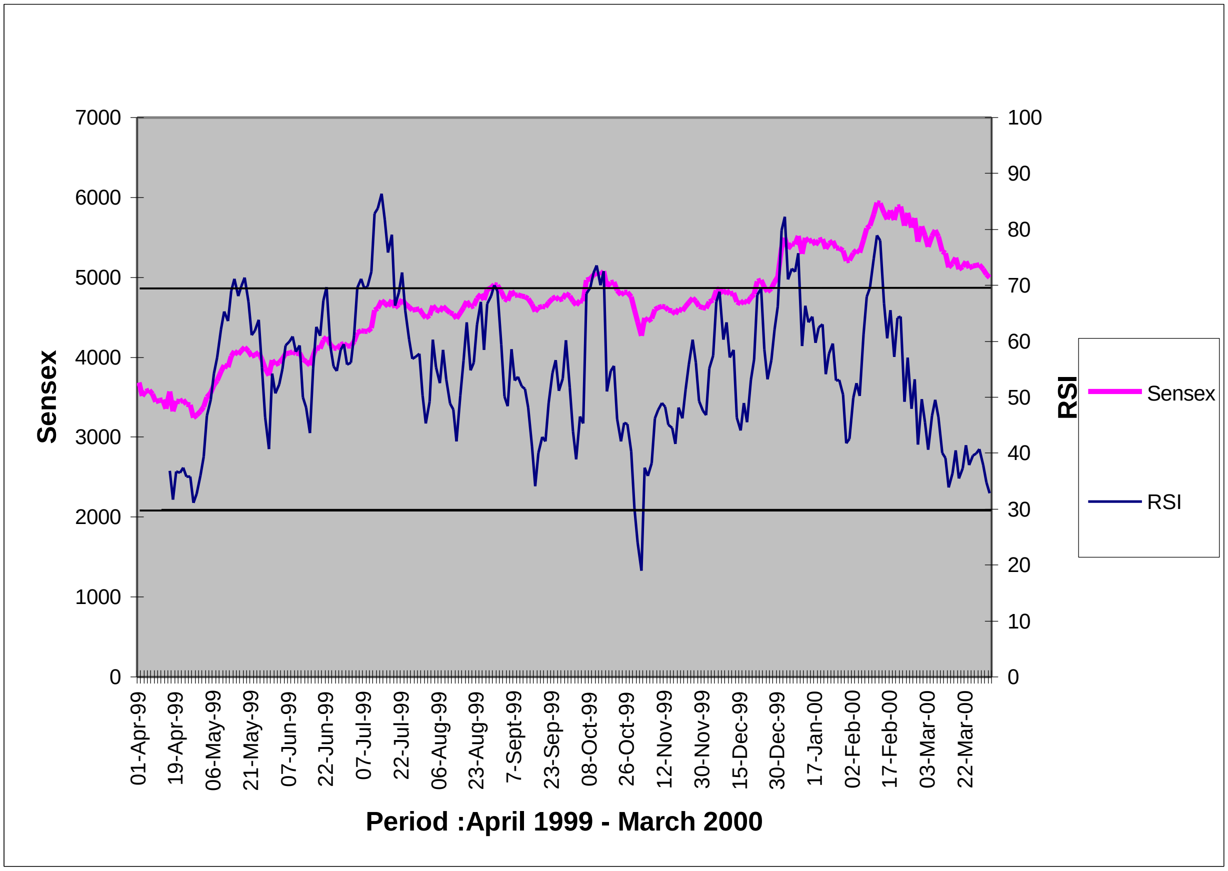
	Bankers
25.	State Bank of Hyderabad
	Merchant Banker
26.	SBI & T International Ltd. (presently known as Nigam Finvest Ltd.)
27.	M/s. SMIFS Capital Markets Ltd.,
	Registrars and Share Transfer Agents
28.	M/s. MN Dastur & Co. Ltd.,
C)	**Refund of Issue Proceeds**
1	Hindustan Finstock Ltd.
D)	**Cancellation**
1	Shahrukh N Tara, member (in respect to involvement in two cases)
2	Pankaj Shah, member
3	Kishore Janani, member
E)	**Directions issued under section 11 B**
1.	. Loggar Finance & Trading Ltd: Prohibited from dealing in securities for a period of one year wef 19/4/99
2.	Shri Kumar Shah: -do-
3.	Kirtibhai Shah: -do-
4.	Yogesh Rupareil Prohibited from dealing in Securities for 2 years w.e.f. April 6, 1999.
5.	Mihir Ghelani: -do-
6.	Depak Dalal -do-
7.	Sohanlal Binjrajka & M/s. Binjrajka Portfolio Pvt. Ltd.: Prohibited from dealing in Securities Market for the period of 5 years wef 28/5/99
8.	Dimpel Shah & M/s. Mukut Stock Brokers Pvt. Ltd: -do-
9.	Rajesh R Shetti & M/s. Anubhav Investments: -do-
10.	M K Rupareil & M/s. Shreeji Investments: -do-
11.	Kamlesh Crores Bharwada & M/s. Virajka Associates: -do-
12.	Dr. Amit Shah: Prohibited from dealing in securities for the period of 3 years wef 30/6/99
13.	M/s. S R Invest -do-
14.	Shri Kishore Barot -do-
15.	Shri Arvind K Shah: -do-
16.	M/s. Akash Shellers and Finstock Ltd.: -do-
17.	Shri Satish Pacharia, Ahmedabad: Prohibited from dealing in the securities markets for a period of 2 years wef 30/7/99
18.	Shri Shamji Kanji Gala, Mumbai: -do-
19.	Alla Synthetics Ltd., Ahmedabad: -do-

20.	Alka Spinners Ltd., Ahmedabad: -do-
21.	Karnavati Fincap Ltd., Ahmedabad: -do-
22.	Shri Mohindra Patodia, Mumbai: -do-
23.	Patodia Textiles Industries Ltd., Mumbai: -do-
24.	Patodia Securities Ltd., Mumbai: -do-
25.	Patodia Polyster Ltd., Mumbai: -do-
26.	Shri Lalit Thakkar / M/s. Stock Finance, Mumbai: -do-
27.	M/s. Stock Street Services, Mumbai: -do-
28.	Dr. Amit Shah: Prohibited from dealing in securities including NSGIL and accessing capital market for a period of 5 years wef 30/8/99
29.	Dr. Piyush Mehta: Prohibited from dealing in securities including NSGIL and accessing capital market for public subscription for a period of 3 years wef 30/8/99
30.	Shri Dipak Dalal: Prohibited from dealing in securities including NSGIL and accessing capital market for public subscription for a period of 5 years wef 30/8/99
31.	Shri Girish Shah: Prohibited from dealing in securities for a period of 3 years wef 30/8/99
32.	Shri Mihir Ghelani: Prohibited from dealing in securities for a period of 5 years wef 30/8/99
33.	Shri Gaurav Shah: Prohibited from dealing in securities for a period of 2 years wef 30/8/99
34.	Ms. Alka Shah: Prohibited from dealing in securities for a period of 2 years wef 30/8/99
35.	Shri Dharmendra Barot Prohibited from dealing in securities for a period of 2 years wef 30/8/99
36.	M/s. Yashaswi Engg. Pvt. Ltd. and its directors namely, Dhamistha K. Panchal, Meena N. Panchal, Raju Panchal and Prakash P Bhat Prohibited from dealing in securities for a period of 3 years wef 30/8/99
37.	M/s. Ekta Ceramics Ltd. and its directors namely, Rajendra V Panchal, Sailesh Bhatt and Nilesh N Barot Prohibited from dealing in securities for a period of 3 years wef 30/8/99
38.	Shri Kanta Das: Prohibited from dealing in securities for one year wef 16/9/99
39.	Shri Sanjay Kumar Khemka: Prohibited from dealing in securities for one year wef 16/9/99
40.	Shri Sanjay Dutta: Prohibited from dealing in securities for one year wef 16/9/99
41.	R C Mathur, ED BSE: Shall not be eligible to become an office bearer of any exchange and to hold any public position in any capital market related public institution for a further period of 3 years.
42.	Jain Corporation Services.: Prohibited from accessing the capital market and also restrained from dealing in securities under 11B of SEBI Act 1992, w.e.f. 8/12/99 for a period of 5 years.
43.	Vipul R Kedia.: Prohibited from accessing the capital market and also restrained from dealing in securities under 11B of SEBI Act 1992, w.e.f. 8/12/99 for a period of 5 years.
44.	Vruddhi Securities Ltd.: Prohibited from accessing the capital market and also restrained from dealing in securities under 11B of SEBI Act 1992, w.e.f. 8/12/99 for a period of 5 years.
45.	M/s. Mefcom Securities Ltd., NSE & BSE: SEBI has ordered suspension of registration, for a further period of nine months w.e.f Dec 9, 1999 till Sept 8, 2000.
46.	M/s. Hemendra Shah: Prohibited from dealing in securities for a period of five years w.e.f. 16th Feb 2000 under Reg 11 of (Fraudulent & Unfair Trade Practice)

47.	Shri Bajrang Lal Agarwal, Promoter Director: Prohibited from accessing capital market for a period of five years w.e.f.16th Feb 2000.
48.	R C Betala: Prohibited from accessing capital market for a period of 5 years with immediate effect (22.2.00). He shall purchase shares at face volume from any subscriber or existing shareholder who exercise an option to sell these shares in response to offer made by the company.
49.	M/s. Betala Global Securities Ltd.: The company to write to all the applicants / existing shareholders giving them an option – to claim refund for the subscription made in the public issue of BGSL or sell their shares at the face value to Mr. R C Betala and other promoters. On receipt of such request from the applicants / existing shareholders the company shall refund the subscription amount to the applicants / Mr. R C Betala shall buy the shares from the shareholders at the face value of the shares within three months of this order.
50.	Janak Doshi: Prohibited from accessing capital market & dealing in the securities for 2 years w.e.f 28.2.00
51.	Sohanlal Binjrajka: Prohibited from accessing capital market & dealing in the securities for 2 years w.e.f 28.2.00
52.	Rajesh Bhanushali: Prohibited from dealing in securities for a period of one year w.e.f. 28.2.00
53.	Rajiv Mehta: Prohibited from dealing in securities for a period of 3 years w.e.f. 28.2.00
54.	Mr. R Ramakrishnan: Composition of Board of Trustees, where he is one of the Trustees, should be changed. At least three trustees out of existing four trustees should step down within a month of receipt of this order. The remaining trustee may continue to hold office for a year to ensure smooth takeover by the new Board and for the sake of continuity of the operations. The fourth Trustee should then step dwon after the expiry of one year from the date of constitution of the new Board of Trustees.
55.	Mr. P A Seshan : -do-
56.	Mr. G V Raman: -do-
57.	Mr. R Thyagarajan: -do-
58.	Mr. Shenoy and Mr. Prakash who assisted Shri Gadgil should be asked to resign with immediate effect. Shri Gadgil who had already resigned shall not be eligible to hold any public position in any capital market related public institution for a further period of 3 years with immediate effect. Further, sponsors to pay with interest, towards the loss caused to unit holders of Shriram Mutual Fund

Annexure 3

Relative Strength Index(RSI) for Sensex (April '99 - March 2000)



Annexure 4

Relative Strength Index (RSI) for S&P CNX Nifty (April '99-March,2000)