

## **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**

The SEBI has been inspecting all the stock exchanges once every year since 1995-96 under the SEBI Act, 1992. However, in view of the low/insignificant turnover recorded at the OTCEI, Saurashtra-Kutch, Madhya Pradesh, Jaipur, Mangalore, Magadh, Bhubaneswar and Gauhati Stock Exchanges, these exchanges were not inspected during 1999-2000. In the year 2000-2001 four more exchanges viz. Madras, Vadodara, Coimbatore and Inter-connected Stock Exchange were added to this list of exchange not to be inspected.

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.

### **B] REGISTRATION AND REGULATION OF THE WORKING OF INTERMEDIARIES**

#### *Primary Market*

#### **Merchant bankers**

As on March 31, 2001, there were 162 Category I Merchant Bankers registered with SEBI. 16 Merchant Bankers were given fresh registration during the year 2000-01.

### Underwriters

The number of underwriters registered with SEBI in terms of SEBI (Underwriters) Rules and Regulations, 1993 as on March 31, 2001 was 57 during the year. 19 underwriters were granted fresh registration during the year 2000-01.

### Portfolio managers

The number of Portfolio Managers registered as on March 31, 2001 was 39. During the year 2000-01, 16 Portfolio Managers were granted fresh registration.

**Table 3.1 : Details of Intermediaries Registered as at end March 2001**

Intermediaries		HO	NRO	ERO	SRO	Total
Merchant Banker	Cat-I	162	162			
	Cat-II					
	Cat-III				35	35
	Cat-IV				36	36
Portfolio Mangers		40				40
Underwriters		56				56
Bankers to an Issue		69				69
Debenture Trustees		37				37
RTI & STA						
Category I		119				119
Category II						
	a) RTI					
	(b) STA	12	17	5	11	45
	(c) In-House	22				22

Source : SEBI.

### 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 2000-01 has again witnessed large expansion in the number of brokers as observed during the previous year. During the current financial year under review, 919 new brokers were registered and 329 registrations were de-registered due to cancellation or surrendered. As a result total number of registered brokers increased from 9,192 as on March 31, 2000 to 9,782 as on March 31, 2001. The details of registrations are given in Table 3.2.

**Table 3.2 : Details of Registered Brokers**

Total No. of Registered Brokers as on 31-3-2000	Addition during the Year 2000-01	Reconciliation/ Cancellation/Surrender of Memberships	Total No. of Registered Brokers as on March 31, 2001
9,192	919	329	9,782

Source: SEBI.

Stock exchange-wise distribution of brokers classified into corporate brokers and others is given in table 3.3 below. It would be observed that NSEIL accounted for 11 per cent of the total brokers at end March 2001 compared to 10.8 per cent as on end March 2000, followed by CSE with 10.2 per cent, Mumbai with 7.04 per cent, OTCEI with 9.2 per cent, Jaipur with 6.1 per cent, Uttar Pradesh with 5.5 per cent and Cochin with 5.0 per cent. Stock exchanges like Mangalore, Magadh and Coimbatore have less than 200 brokers.

**Table 3.3 : Exchange-wise Brokers Registered with SEBI**

Sr. No.	Stock Exchange	1999-2000				2000-01			
		Total Regd. Brokers	Total Regd. Brokers as % of Total	Corp. Regd. Brokers	Corp. Brokers as % of Total (Stock Exchange-wise)	Total Regd. Brokers	Total Regd. Brokers as % of Total	Corp. Regd. Brokers	Corp. Brokers as % of Total (Stock Exchange-wise)
1.	Mumbai	631	6.86	385	61.01	689	7.04	463	67.20
2.	Ahmedabad	301	3.27	118	39.2	326	3.33	144	44.17
3.	Calcutta	949	10.32	159	16.75	993	10.15	203	20.44
4.	Madras	200	2.18	67	33.5	202	2.07	71	35.15
5.	Delhi	392	4.26	201	51.28	393	4.02	215	54.71
6.	Hyderabad	310	3.37	102	32.9	310	3.17	114	36.77
7.	Madhya Pradesh	187	2.03	28	14.97	187	1.91	34	18.18
8.	Bangalore	241	2.62	103	42.74	249	2.55	110	44.18
9.	Cochin	491	5.34	67	13.65	492	5.03	71	14.43
10.	UPSE	514	5.59	86	16.73	541	5.53	100	18.48
11.	Pune	200	2.18	45	22.5	201	2.05	56	27.86
12.	Ludhiana	284	3.09	70	24.65	302	3.09	79	26.16
13.	Gauhati	206	2.24	5	2.43	193	1.97	5	2.59
14.	Mangalore	146	1.59	14	9.59	139	1.42	14	10.07
15.	Magadh	199	2.16	15	7.54	204	2.09	19	9.31
16.	Jaipur	593	6.45	16	2.7	595	6.08	17	2.86
17.	Bhubaneshwar	234	2.55	15	6.41	234	2.39	17	7.26
18.	Saurashtra Kutch	445	4.84	64	14.38	448	4.58	78	17.41
19.	Vadodara	321	3.49	65	20.25	322	3.29	65	20.19
20.	OTCEI	890	9.68	668	75.06	896	9.16	694	77.46
21.	Coimbatore	198	2.15	62	31.31	197	2.01	62	31.47
22.	NSE	991	10.78	861	86.88	1074	10.98	947	88.18
23.	ICSE	269	2.93	100	37.17	595	6.08	230	38.66
	<b>Total</b>	<b>9,192</b>	<b>100.00</b>	<b>3316</b>	<b>36.07</b>	<b>9,782</b>	<b>100.00</b>	<b>3,808</b>	<b>38.93</b>

Source : SEBI.

The table 3.4 presents the stock exchange-wise broker details according to their ownership structure. A number of brokers, proprietor firms and partnership firms have converted themselves into corporates. A number of FIs have also been registered as brokers. This diversification reflects increase in decentralised ownership patterns. This is a sign of healthy development of stock market in the country. It would be observed that of the 9,782 brokers, 3,763 brokers were corporate brokers as on March 31, 2001. In terms of percentage corporate brokers accounted for about 36 per cent in total brokers as on end March 2000. This percentage increased to

nearly 39 per cent as on March 31, 2001. FIs numbered 20 as on March 31, 2001 compared to 19 brokers as on March 31, 2000. It would be also observed that of the new 590 brokers registered during 2000-01, 447 were corporate brokers and 140 were proprietors. The number of partnership firms in brokerage business, however, decreased from 335 to 325. Thus brokerage service are increasingly better organised than before. 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 : Classification of Registered Brokers According to Nature of Ownership as on March 31, 2001**

Sr. No.	Stock Exchange	Proprietor	Partnership	Corporate	Financial Institution	Composite Corporate	Total
1.	Mumbai	178	48	440		23	689
2.	Ahmedabad	157	25	143		1	326
3.	Calcutta	739	51	202	1		993
4.	Madras	111	20	71			202
5.	Delhi	141	37	214	1		393
6.	Hyderabad	190	6	114			310
7.	Madhya Pradesh	150	3	34			187
8.	Bangalore	135	4	110			249
9.	Cochin	409	12	71			492
10.	UPSE	436	6	99			541
11.	Pune	137	8	56			201
12.	Ludhiana	221	2	79			302
13.	Gauhati	187	1	5			193
14.	Mangalore	120	5	14			139
15.	Magadh	184	1	19			204
16.	Jaipur	571	7	17			595
17.	Bhubaneshwar	217	17	234			
18.	Saurashtra Kutch	368	2	78			448
19.	Vadodara	254	3	65			322
20.	OTCEI	182	20	678	16		896
21.	Coimbatore	135	62	197			
22.	NSE	64	63	946	1		1074
23.	Inter-Connected Stock Exch.	364	1	229	1		595
	<b>Total</b>	<b>5,650</b>	<b>325</b>	<b>3,763</b>	<b>20</b>	<b>24</b>	<b>9,782</b>

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 3.5 below that 621 brokers had membership at two stock exchanges as on March 31, 2001 as compared to 493 brokers with double memberships as on March 31, 2000. Whereas 82 brokers had membership on 3 stock exchanges as on March 31, 2001 as compared 61 members as on March 31, 2000. Thus multiple membership is increasing on Indian stock exchanges which a number of times results in cross trading over the stock exchanges for arbitrage etc.

**Table 3.5 : Multiple Membership of Brokers**

No. of Multiple Memberships	1999-2000		2000-01	
	No. of Members (1 x 2)	Gross Total of Membership	No. of Members (1 x 5)	Gross Total of Membership
1	2	3	5	6
1.	7,961	7,961	8,227	8,227
2.	493	986	621	1242
3.	61	183	82	246
4.	10	40	10	40
5.	2	10	3	15
6.	2	12	2	12
<b>Total</b>	<b>8,529</b>	<b>9,192</b>	<b>8,945</b>	<b>9,782</b>

Source : SEBI.

### **Sub-brokers**

The services of sub-brokers provide link between the investors and the brokers. Since sub-brokers are located at far flung areas from the stock exchanges, they provide network of stocks market in the hinterland of the country. There were 9957 sub-brokers registered as on March 31, 2001, as compared with 5675 sub-brokers in the previous year. As such the growth of sub-brokers has been high and this is the indication that their services are in demand in the market. It would be seen from table 3.6 below that 92 per cent of the total sub-brokers registered with the SEBI during the current year were from the Stock Exchange, Mumbai and NSEIL. This ratio was 90 per cent as on March 31, 2000. The high concentration of sub-brokers at Mumbai and NSEIL indicates skewed availability of brokers' services at smaller stock exchanges like Madhya Pradesh, 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.

The high growth in number of brokers and sub-brokers warrants strengthening and expanding of surveillance and regulatory framework.

**Table 3.6 : Stock Exchange-wise Registered Sub-Brokers**

Sr. No.	Name of Stock Exchange	No. of Sub-Brokers Regd. with SEBI during the Financial year 2000-01	Total No. of Sub-Brokers Regd. as on March 31 2001
1.	Mumbai	2,475	5,553
2.	Ahmedabad	73	138
3.	Calcutta	91	135
4.	Madras	1	125
5.	Delhi	127	486
6.	Hyderabad	7	201
7.	Madhya Pradesh	0	5
8.	Bangalore	1	157
9.	Cochin	0	45
10.	UPSE	0	27
11.	Pune	9	169
12.	Ludhiana	4	27
13.	Gauhati	0	4
14.	Mangalore	0	3
15.	Magadh	0	2
16.	Jaipur	2	34
17.	Bhubaneshwar	0	17
18.	Saurashtra Kutch	0	0
19.	Vadodara	1	85
20.	OTCEI	0	34
21.	Coimbatore	0	26
22.	NSE	1,670	2,684
<b>Total</b>		<b>4,461</b>	<b>9,957</b>

Source : SEBI.

## C] REGISTRATION AND REGULATION OF MUTUAL FUNDS

### *Registration of mutual funds*

During the year, registration was granted to one new mutual fund in the private sector viz. HDFC Mutual Fund.

With the registration of the above mutual fund, there are a total of 39 mutual funds, (including UTI which is not registered with SEBI) operating in India as on March 31, 2001. Though UTI is not registered with SEBI, there is an arrangement of voluntary compliance of regulations by the UTI for the schemes launched after July 1, 1994. Subsequently, UTI has brought some more schemes launched before July 1994 under the voluntary compliance arrangement. However, five schemes including the largest scheme US-64 scheme do not come under the purview of SEBI.

The details of mutual funds registered with SEBI are given in Table 3.7.

<b>Sector</b>	<b>As on 31-03-2000</b>	<b>As on 31-03-2001</b>
Public Sector	9	9
Private Sector	28	29
<b>Total</b>	<b>37</b>	<b>38</b>

Source : SEBI.

### **Registration of Venture Capital Funds**

During the year under review, registration was granted to 13 new domestic venture capital funds.

	<b>As on 31-03-2000</b>	<b>As on 31-03-2001</b>
Total No. of funds registered with SEBI	22	35

### **Registration of Foreign Venture Capital Investor:**

During the year under review, registration was granted to one Foreign Venture Capital Investor.

	<b>As on 31-03-2000</b>	<b>As on 31-03-2001</b>
Total No. of FVCIs registered with SEBI	—	1

## **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 2000-2001, 47 cases were taken up for alleged market manipulation and price rigging; 5 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 2000-2001, 6 new cases were taken up. Inquiries/Investigations were completed in four cases of insider trading in this year. Show cause notices have been issued to the insiders pursuant to successful investigations in one case. On full working of the Stock Watch System, which has been 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 three other cases and pursuant to investigations, adjudication proceedings have been initiated in one cases and further proceedings under the regulations are in progress (Annexure 2).

## G] INVESTOR EDUCATION AND THE TRAINING OF INTERMEDIARIES

### Investors' Education

Some of the steps taken by SEBI for educating investors during the year 2000-01 are as under:

1. SEBI distributed the booklet titled "A Quick Reference Guide for Investors" to the investors.
2. SEBI has written to Stock Exchanges and various corporates to distribute the booklet titled "A Quick Reference Guide for Investors" to their shareholders/ investors.
3. 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 investments in collective investment schemes.
4. SEBI has also broadcast message for investors in Collective Investment Schemes through National Hook-up and Regional Stations of Vividh Bharati.
5. SEBI has also issued messages in the interest of investors on National Channel and Regional Stations on Doordarshan.

## H] INSPECTION AND INQUIRIES

### Merchant Bankers

Inspections of 2 Merchant Bankers namely, Ashika Credit and Capital Ltd. and Financial and Management Services Ltd. were conducted in terms of Regulation 29(1) of SEBI (Merchant Bankers) Regulations, 1992 with particular reference to due-diligence in respect of issues lead managed by them.

Pursuant to the findings of the inspection M/s.Financial and Management Services Ltd., was warned for not exercising due diligence as a lead manager.

As regards to M/s. Ashika Credit Capital Ltd., pursuant to the findings of the inspection an enquiry was ordered for failure to exercise due diligence in the issues handled by them.

Further, enquiries were ordered on 2 Merchant Bankers and the details are as given in tabular form below.

**Table 3.8: Enquiry of Merchant Bankers**

Sr. No.	Name of the Merchant Banker	Reason
1.	Aryaman Financial Services Ltd.	Enquiry was ordered due to non-compliance of due diligence in the rights issue of Ashu Motor and General Finance Ltd.
	Aryaman Financial Services Ltd.	Enquiry was ordered for wrong disclosures in the offer document and due to lapses in the public issue of Eider E-Commerce Ltd.
2.	Systematix Corporate Services Ltd.	Enquiry was ordered due to non-compliance of due diligence in the issued managed by them.

Source : SEBI

***Inspection and enquiries – stock brokers and sub brokers***

Section 11(2) of Securities and Exchange Board of India Act, 1992 provides that SEBI shall register and regulate the working of stock brokers and sub-brokers. In fulfillment of the above, SEBI carries out inspections of the books and records of stock brokers to verify whether:

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

As 9,782 brokers and 9,957 sub-brokers are registered with SEBI, it is not possible for SEBI to inspect all the brokers with its limited resources. Brokers are therefore selected for inspection, on sample basis, by 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 2000-2001, 98 brokers from the 12 Exchanges across the country were inspected by SEBI. For the first time, Sub-Brokers were inspected during the year.

During the inspection the following features were observed:

1. 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.
2. Due to slow down in the Stock Market, clientele business in general had diminished.
3. Brokers and investors were trading mainly to avail of the benefit of arbitrage.
4. Most of the brokers have already computerised their books of accounts and other relevant records
5. Subsequent to dematerialisation of most actively traded scrips, the problem of bad delivery faced by the brokers has gone down substantially.
6. Most of the large stock broking houses are providing the services as DP.
7. In some of the Stock Exchanges, some brokers are trading in other Stock Exchanges through Subsidiary route.

Common irregularities noticed during inspection were the following:

1. Irregularities in issuance of Contract notes.
2. Non segregation of clients and own funds.
3. Client database and agreement with clients not maintained/entered.

4. Dealing with unregistered Sub-Brokers.
5. Dealing as unregistered Sub-Brokers.
6. Delay in transfer of securities from Broker's Pool Account to Client's Beneficiary Account.

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 its outcome for the year 1999-2000 and 2000-2001 are given in the table 3.9.

**Table 3.9: Inspection of Brokers and Sub-brokers**

Particulars	1999-2000	2000-2001
Inspections – Brokers	80	99
Inspections – Sub Brokers	Nil	16
Enquiries ordered – Brokers	38	217
Enquiries ordered – Sub Brokers	Nil	1
Warned	115	41
Suspended	31	2
Registration cancelled	7	4
Entitlement Of Underwriting cancelled	Nil	2
Adjudication	3	2
No Action	43	5

Source : SEBI

It is noticed that number of enquiries ordered has shown significant increase over the previous year's figure. This is because of enquiry initiated against 188 brokers for the failure to fulfill underwriting devolvment in various issues.

### *Inspection of mutual funds*

Inspections of 33 active mutual funds (including those schemes of UTI which come under the purview of SEBI) have been ordered during the year to be carried out by independent chartered accountancy firms covering the period April 1999 to September 2000. Necessary action has been taken on the findings of inspections carried out in the last year.

### *Disciplinary action taken*

Monitoring of mutual funds was further strengthened to ensure that interests of investors are protected. SEBI took disciplinary action against a number of mutual funds in the year 2000-01, the details of which are given in the following Table 3.10.

**Table 3.10 : Action Taken During 2000-01**

<b>Sr. No.</b>	<b>Description</b>	<b>No. of Mutual Funds</b>
1.	Adjudication Ordered	4
2.	Penalties Imposed	3
3.	Warning/Deficiency Letters	22
4.	Payment of Interest	22
5.	Compensation to unitholders	2
6.	Compensation to scheme	1
7.	Exit Option to investors	2

Source : SEBI.

***Adjudication Ordered***

During the year 2000-01, adjudication proceedings were ordered against the asset management companies of 4 mutual funds. The details/reasons for the adjudication proceedings are as follows:

- (a) Alliance Capital Mutual Fund - The mutual fund exceeded the investment limit of 10 per cent, in five schemes, in violation of clause 10 of the Seventh Schedule to the SEBI (Mutual Funds) Regulations, 1996.
- (b) SBI Mutual Fund - The mutual fund delayed the despatch of unit certificates/ account statements in 2 schemes. The period of delay ranged from 2 days to 396 days.
- (c) PNB Mutual Fund - The mutual fund exceeded the investment limit of 10 per cent, in two schemes, in violation of clause 10 of the Seventh Schedule to the SEBI (Mutual Funds) Regulations, 1996.
- (d) Escorts Mutual Fund - The mutual fund failed in finalising the scheme-wise annual report and despatching them to the unitholders in violation of clause 56 of the SEBI (Mutual Funds) Regulations, 1996. Further, the fund also delayed in forwarding the copy of the annual report to SEBI within the six months period from the date of closure of the financial year thus violating clause 57 of the Regulations.

***Penalties Imposed***

The details of penalties imposed on mutual funds on the basis of adjudication proceedings are as follows:

- (a) Shriram Mutual Fund – The mutual fund had violated the investment restrictions and had delayed in despatching redemption/repurchase proceeds.

The Adjudication officer vide order dated 9/10/2000 imposed a penalty of Rs.5 lakh on the AMC. However, the AMC filed an appeal before the Securities Appellate Tribunal and the Appellate Authority reduced the penalty to Rs.2,50,000/- vide order dated 28/2/2001.

- (b) Canbank Mutual Fund – The memorandum i.e. abridged offer document-cum -application form of the Canpep 93 scheme, a close-ended scheme which was converted into an open-ended scheme, did not contain the prescribed disclosures, which was in violation of clauses 29(2) and 29(4) of the Regulations. The Adjudicating officer imposed a penalty of Rs.3 lakh on the AMC. The AMC filed an appeal, however, the order of adjudicating officer was upheld.
- (c) PNB Mutual Fund – The mutual fund exceeded the investment limit of 10 per cent, in two schemes, in violation of clause 10 of the Seventh Schedule to the SEBI (Mutual Funds) Regulations, 1996. The adjudicating officer imposed a fine of Rs.2 lakh on the AMC.

### *Warning / Deficiency Letters*

Considering the magnitude and seriousness, 33 warning/deficiency letters were issued to 22 mutual funds on the basis of monitoring through various periodical reports and deficiencies pointed out in the inspection reports.

The main reasons for which warning letters were issued to mutual funds were:

- (i) violation of advertisement code/guidelines,
- (ii) delay in submission of periodical reports,
- (iii) non-exercise of due diligence in draft offer document and smaller font size,
- (iv) delays in publication of NAVs and wrong publishing of NAVs
- (v) discrepancies in recording of investment decisions
- (vi) Inadvertent short-selling,
- (vii) failure to install systems and compliance mechanism in place,
- (viii) unsatisfactory standard of investor services,
- (ix) delay in filing details of trustees transactions,
- (x) discrepancies in calculation of investment management fees,

- (xi) systemic deficiencies for delays in remitting the repurchase/ redemption proceeds,
- (xii) delay in transfer of consideration in case of inter-scheme transfers,

### ***Payment of Interest***

SEBI has made it mandatory that the mutual funds must pay interest @ 15 per cent for the delays in despatch of repurchase/redemption proceeds to the unitholders. The mutual funds are required to report these cases of delays to SEBI on quarterly basis.

During the year 2000-01, 22 mutual funds including UTI, paid interest to the unitholders at the rate of 15 per cent for the delay in despatch of redemption/repurchase proceeds. A total interest of about Rs.8.37 lakh was paid to 6,722 investors. During the last financial year 1999-2000, on the intervention of SEBI, a total amount of Rs 17.24 lakh was paid to 14, 686 investors by 4 mutual funds. Because of strict action by SEBI and making it mandatory to pay interest for the delays in despatch of redemption/repurchase proceeds, the number of such cases has declined.

### ***Compensation to Unitholders***

In the case of Templeton Mutual Fund, in one of its offer document, the disclosures relating to variable load structure applicable during the IPO were confusing and the mutual fund issued lesser number of units to the investors. On SEBI's intervention, the AMC compensated the load amount of Rs.37.7 lakh to the scheme and the unitholders were allotted additional units. The unitholders who redeemed their holdings before the directive of SEBI, were paid the difference in amount to compensate them.

In case of BOI Mutual Fund, the unitholders were compensated for the loss incurred by them due to incorrect repurchase price alongwith interest @15 per cent for the period commencing from the date of despatch of redemption proceeds till date.

### ***Compensation to Schemes***

In the inspection report of SBI Mutual Fund, it was observed that in 3 cases of inter-scheme transfers, funds had not been transferred on spot-basis. SEBI, therefore, directed the AMC to pay the schemes an amount of Rs.60,195/- on account of interest for delay in transfer of funds.

### ***Exit Option to Investors***

In case of some of the schemes of Tata Mutual Fund and a scheme of Prudential ICICI Mutual Fund, advertisements were issued by them in which the figures of returns was not compounded in accordance with the Advertisement Code and the guidelines. Apart from issuing warning letters, SEBI directed them to disclose the factual position to their unitholders and give them an option to exit at prevailing NAVs without exit loads.

**I] FEES AND OTHER CHARGES****Table 3.11 : Fees and Other Charges Received**

(Rs. in Lakh)

Item	Fees Received 2000-2001 (Unaudited)	Fees Received 1999-2000
(1)	(2)	(3)
Offer Documents and prospectuses filed	183.80	156.95
Merchant Bankers	206.69	277.95
Underwriters	132.33	136.40
Portfolio Managers	115.00	61.75
Registrars to an Issue and Share Transfer Agents	36.20	35.90
Bankers to an Issue	165.00	58.30
Debenture Trustees	65.50	47.20
Takeover offer documents filed	73.60	71.25
Mutual Funds	116.25	169.50
Stock Brokers and Sub-Brokers	3,064.28	757.88
Foreign Institutional Investors	941.48	263.72
Sub Account - Foreign Institutional Investors	305.91	98.48
Depository	20.00	23.84
Depository Participants	174.03	106.07
Venture Capital Funds	70.00	66.75
Custodian of Securities	60.00	115.00
Approved Intermediaries under Securities Lending Scheme	61.32	8.20
Penalties	60.98	29.00
Collective Investment Scheme	23.50	13.25
Credit Rating Agencies	0.00	21.00
Listing Fee Contribution from Stock Exchanges	199.52	235.36
Foreign Venture Capital Funds	6.02	0.00
Derivatives	112.80	0.00
<b>Total</b>	<b>6,194.21</b>	<b>2,753.75</b>

Figures for 2000-2001 are yet to be audited by the CAG.

Figures in columns 2 and 3 are as per the Receipt and Payment account i.e. on actual receipt basis.

Source : SEBI.

**Brokers and sub-brokers fees****Registration fees payable by stock brokers**

Supreme Court vide judgement dated February 01, 2001 rejected the challenge made by brokers towards levy of fees by SEBI based on the measure of turnover and upheld SEBI's right to levy fees based on turnover of the brokers.

### **Partial relief from payment of turnover based fees to subsidiaries of small stock exchanges**

The Board agreed to the proposal to exclude the turnover of those sub-brokers who have paid registration fees as members of the regional stock Exchange in accordance with Regulation 10 read with Schedule III of SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations 1992 (turnover based fee for five years and also block of five years fees) from the total turnover of the subsidiary.

### **Substantial acquisition of shares and take-overs**

During the year, 25 cases were referred for adjudication under Section 15 of SEBI Act, 1992 for alleged violation of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and a total of Rs.53,47,500/- were received towards payment of monetary penalties.

## **J] ACTIVITIES OF RESEARCH DEPARTMENT**

The Research department had undertaken Investors' Survey in collaboration with the NCAER. The report of the survey was published in June 2000. The report was released by the Honourable Finance Minister in New Delhi. The results of the survey are being further updated through a special survey in collaboration with NCAER. A tie-up has been made with NCAER for taking up research studies / projects on capital market. The same agreement is in progress with IIM, Ahmedabad. The SEBI has launched with NCAER a study on 'Cost of Compliance by the Intermediaries in the Capital Market'. The department has already brought out several studies on topics relating to secondary market.

Annual Report of SEBI was also prepared and published by the research department. The department provide assistance to Ministry of Finance, Department of Economic Affairs for preparing the chapter on 'Capital Market' pertaining to the Economic Survey of Government of India. Research input was furnished to Ministry of Finance, Government of India and Reserve Bank of India for preparing their Annual Report. 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. The SEBI is now proposing to print the Bulletin through a publisher.

## **K] OTHER FUNCTIONS**

### ***Grievances redressal – mutual funds***

Redressal of grievances of investors is given a lot of importance in SEBI. Out of a total of 38,452 complaints (cumulative) which have been received by SEBI against 33 mutual funds till March 31, 2001, 38,115 complaints stand redressed. The rate of redressal of investors' grievances by mutual funds as a whole has gone up to 99.12 per cent as compared to the redressal rate of 95.32 per cent during the last year. This has been achieved due to constant follow up with the mutual funds. UTI, which accounts for 64.55 per cent of the total complaints, shows a redressal rate of 99.24 per cent.

**Investors' grievances redressal – securities market**

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 listed companies. A standardised complaint format is available at all SEBI offices and on the SEBI Website for the convenience of investors. Each complaint received by 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. 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. SEBI also issues fortnightly press release for public information, on the status of redressal of investor grievances highlighting companies against whom more than 1000 complaints are outstanding and the redressal rate is below 40 per cent . SEBI has also put, on its website, information with regard to companies against which maximum number of complaints are pending.

During the period 1991-92 to 2000-01, SEBI has received 26,29,882 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 25,01,801 grievances were redressed by companies, which indicates a redressal rate of 95.13 per cent. The cumulative status of investor grievances received by SEBI, resolved by companies and the redressal rate in this regard from the year 1991-92 to 2000-01 (Table 3.12).

**Table 3.12: Investors Grievances – Cumulative**

Financial Year End March)	Grievances Received	Grievances Resolved	Redressal Rate (Per cent)
1991-92	18,794	4,061	21.61
1992-93	1,29,111	27,007	20.92
1993-94	7,13,773	3,66,524	51.35
1994-95	12,29,853	7,18,366	58.41
1995-96	16,06,331	10,34,018	64.37
1996-97	18,23,725	14,65,883	80.38
1997-98	23,35,232	21,42,438	91.74
1998-99	24,34,364	22,69,665	93.24
1999-2000	25,32,969	24,16,218	95.39
2000-01	26,29,882	25,01,801	95.13

Source : SEBI.

In order to ascertain correct status of redressal of grievances, 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 companies or not. During the year 2000-01, SEBI sent 69,131 reply paid post cards to investors whose grievances were received upto 31/12/99 and

were pending with SEBI as on 30/4/2000. A total of 44,915 postcards were received back, of which 3,621 replied that the complaints were resolved and 40,629 replied that the complaints were not resolved.

### *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, SEBI has been registering Investors' Associations. Under the revised criteria for registration, which was finalised by 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 5 Investors' Association for a period of 1 year. Accordingly, the following Investors' Associations are registered with SEBI:

1. All Body Corporate Shareholders' Forum, Hyderabad.
2. Consumer Education and Research Society, Ahmedabad.
3. Jagrut Grahak Mandal, Patan (Gujarat)
4. Kovai Investors' Association, Coimbatore
5. Tamil Nadu Investors' Association, Chennai
6. The Gujarat Investors' and Shareholders' Association, Ahmedabad
7. Investors' Grievances Forum, Mumbai, (Provisional registration for 1 year)
8. Kolhapur Investors' Association, Kolhapur (Provisional registration for 1 year)
9. Midas Touch Investors' Association, Kanpur (Provisional registration for 1 year)
10. Consumer Unity and Trust Society, Jaipur (Provisional registration for 1 year)
11. Ghatkopar Investors' Welfare Association, Mumbai.(Provisional registration for 1 year)

The recognised investors' associations are eligible to draw a sum upto Rs. 1 lakh each from SEBI to meet their one time capital expenditure towards setting up computer terminals and installation of database on companies and internet connectivity. They are also entitled to draw upto Rs. 5 lakh per association for organising seminars for investor education on capital market subject to a limit of Rs. 50,000/- per seminar and for publication and circulation of Investor Education material and upto Rs. 5,000 per association for translating, printing and circulating the SEBI booklet titled "A Quick Reference Guide for Investors'.

### *Co-operation With International Regulators*

SEBI continued to play an important role at the international forum by extending co-operation to international regulatory bodies and other international organisations.

Shri D. R. Mehta was elected as Chairman of the IOSCO (International Organisation of Securities Commissions) Emerging Markets Committee for two years at the 25<sup>th</sup> IOSCO Annual Conference in Sydney in May 2000. The Emerging Markets Committee is one of the core decision-making committee of IOSCO besides the Executive and the Technical Committee respectively. Shri Mehta is also the member of these two committees and also represents IOSCO at the Financial Stability Forum.

During this year the following international meetings were attended by SEBI representatives:

1. Financial Stability Forum meeting at Basle.
2. IOSCO Asian Pacific Regional Committee (APRC) meeting at Bhurban, Pakistan.
3. IOSCO Emerging Markets Committee meeting at Jordan
4. IOSCO APRC Enforcement Director's conference at Taipei.
5. IOSCO Executive Committee Meeting at Funchal, Portugal

Shri Pratip Kar, Executive Director, was also a member of the IOSCO-CPSS (Committee on Payment and Settlement System) Task force , which released recommendations pertaining to securities settlement system for ensuring an efficient global securities market.

## **PART IV**

# **ORGANISATIONAL MATTERS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA**

### ***Board***

During the year 2000-01 (April to March), seven Board Meetings were held. Dr Rakesh Mohan, Advisor to Finance Minister was nominated as one of the Members on the Board in terms of Government of India notification No.5/56/CM/2000 dated January 31, 2001 in pursuance of Section 3 read with Section 4 (15 of 1992) of SEBI Act of 1992 in place of Dr Shankar N Acharya.

Shri V Govindarajan, Secretary, Department of Company Affairs was also nominated as one of the Members on the Board in terms of Government of India notification No. 5/11/CM/2000 dated January 31, 2001 in pursuance of Section 3 read with Section 4 (15 of 1992) of SEBI Act of 1992 in place of Dr P L Sanjeev Reddy.

### ***Human resources***

As on March 31, 2001, SEBI had 182 Officers and 155 Staff Members (Total 337) in various other cadres. During the year the Board recruited 13 candidates in various cadres. Of the total staff of 337, 19 persons belong to SC, 44 to OBC and 1 to ST categories.

### ***Parliamentary committee***

A study Group of the Committee on Petitions of Lok Sabha under the Chairpersonship of Shri Basudeb Acharia held a meeting with the Chairman and other Senior Officials of the Board at Mumbai on June 27, 2000.

A study Group of the Public Accounts Committee on Lok Sabha under the Chairpersonship of Shri Narayan Datt Tiwari held a meeting with the Chairman and other Senior Officials of the Board at Mumbai on July 11, 2000.

### ***Promotion of official language***

SEBI is putting in vigorous efforts to implement effectively the provisions of Official Languages Act and rules made thereunder as applicable to the capital market.

In the direction of achievement of desired goals, Official Language Division of the Board has put in laudable efforts to prepare the relevant educative material useful in guiding and educating the investors of the capital market. In its continuous efforts in furtherance of implementation of Official Language in the capital market, the Board has not only brought out publications in Hindi, bilingual but also making available the relevant publications in respective regional languages. These publications include Capital Market Guide, Rajbhasha

Sahayika, Rajbhasha Sandarshika, Hindi Aashu-Tankan Sandarshika and Vidhi Karya Sahayika. These publications not only pave the way for smooth understanding of basic concepts of the capital market, but also are helpful in discharging official functions smoothly in Hindi. These publications also provide for standardization of words and phrases along with standardized equivalents of terminology emerging out of new financial products and cross-border transactions of the capital market and also globalization of activities of the capital market.

The Board has also participated actively in various programmes organized by various institutions for the development of Official Language. In future also, the Board is determined to accelerate the progress of implementation of Official Language in the capital market.

### *Status of information technology at SEBI*

Information Technology is regarded as vital area in SEBI and deployment of cutting edge technology has always been given a top priority in SEBI. SEBI's Information Technology policy is centred on collaborative computing, while maintaining the information integrity and security. Consequently during the year 2000-2001, SEBI enhanced the scope of its central databases, increased the network bandwidth for swift communication and upgraded the computing facilities at users' workstation.

### *Databases at SEBI*

SEBI's Databases, engineered on Relational Database Management System (RDBMS) model, were upgraded to harness the advancements in Internet based technologies.

The hierarchical security model has been developed to ensure secured dissemination of information. SEBI has a team of trained and qualified Information Technology professionals and software development is being done in-house.

During the year, existing application software packages like Foreign Institutional Investment, Legal, Intermediaries Administration, Take-overs, Initial Public Offering, Action Taken Reports were enhanced substantially and new software packages for Executive Information System, Mutual Funds, Derivatives, Payroll / employee benefits were developed and implemented successfully.

### *Extranet*

SEBI took initiative to build an Extranet to collect the information from external entities, through the Internet. Presently data is being collected from SEBI's Regional offices on daily basis.

### *Networking*

Communication facilities and network bandwidth is constantly being reviewed at SEBI. The two offices at Mumbai were connected by high-speed 2 MBPS lease link, with 128 KBPS ISDN link as fallback option. To meet the growing demands on Internet accessibility, the Internet connectivity was upgraded.

### *SEBI's web-site*

The official web-site of SEBI, <http://www.sebi.gov.in>, a source for dissemination of information at SEBI was regularly updated. Features like departmental classification, Legal diary (a compendium of legal department), circular archive, have been added during the year.

### *Electronic office*

Periodic review, training and discussions were organised to nurture "less paper" office environment and accordingly the existing application software packages were upgraded.

To encourage the development of Knowledge Management, the Intranet at SEBI has been enhanced with electronic hosting of internal bulletins.