

## PART THREE: REGULATION OF SECURITIES MARKET

This part of the Report delineates the functions of SEBI as specified in Section 11 of the SEBI Act, 1992

### 1. PRIMARY SECURITIES MARKET

The market intermediaries play an important role in the development of securities market by providing different types of services. Major intermediaries in the securities market regulated by SEBI are brokers, sub-brokers, portfolio managers, merchant bankers, depository participants, bankers to an issue and share transfer agents.

During 2007-08, there was an increase in the number of intermediaries registered. As on March 31, 2008, the highest increase in absolute terms, was observed in case of depository participants (DPs) of CDSL (52) followed by portfolio managers (47). A decline was witnessed, in the number of underwriters followed by registrar to an issue and share transfer agent and debenture trustees as compared to 2006-07. The details are provided in Table 3.1.

Some of the intermediaries' applications for registration were in the process, the details of which are provided in Table 3.2.

### 2. SECONDARY SECURITIES MARKET

#### I. Registration of Stock Brokers

During 2007-08, 218 new stock brokers registered with SEBI (Table 3.3). There were 174 cases of cancellation/ surrender of membership which was higher than 155 in 2006-07. The total number of registered stock brokers as on March 31, 2008, was 9,487 as compared to 9,443 in 2006-07. The share of corporate brokers to the total stock brokers increased marginally to 44.1 per cent in 2007-08 from 43.5 per cent in 2006-07 (Table 3.5).

NSE had the highest number of 1,129 registered stock brokers, followed by the Calcutta Stock Exchange (957), Bombay Stock Exchange Ltd. (946) and Inter-connected Stock Exchange (ISE) (935). NSE had also the highest number of corporate brokers (1,039), constituting 92.0 per cent of the total stock brokers of NSE. The proportion of corporate brokers at BSE and OTCEI was 81.1 per cent and 76.6 per cent, respectively.

Table 3.1: Registered Intermediaries

Type of Intermediary	As on March 31		Absolute Variation	Percentage Variation
	2007	2008		
1	2	3	4	5
Registrar to Issue and Share Transfer Agent	82	76	-6	-7.32
Banker to an Issue	47	50	3	6.38
Debenture Trustee	30	28	-2	-6.67
Merchant Banker	152	155	3	1.97
Portfolio Manager	158	205	47	29.75
Underwriter	45	35	-10	-22.22
DPs – NSDL	230	239	9	3.91
DPs – CDSL	363	415	52	14.33
Credit Rating Agency	4	5	1	25.00

**Table 3.2: Intermediaries in the Process of Registration**

Type of Intermediary	Pending as on March 31, 2008
1	2
Merchant Banker	32
Banker to an Issue	7
Depository Participant	52
Registrar to an Issue and/or Share Transfer Agent	9
Debenture Trustee	1
Underwriter	0
Credit rating Agency	0
Custodian	4

**Table 3.3: Registered Stock Brokers**

Registered Stock Brokers as on March 31, 2007	Addition during 2007-08	Reconciliation / Cancellation / Surrender of Memberships	Registered Stock Brokers as on March 31, 2008
1	2	3	4
9,443 (9,335)	218 (263)	174 (155)	9,487 (9,443)

Note: Data in parentheses pertain to previous year.

**Table 3.4: Stock Broker Applications in the Process of Registration/Renewal or any other Approval**

Category of Application	In the Process of Registration/Renewal or any other Approval *
1	2
Registration – Cash Segment	37
Registration – Derivatives Segment	44
Prior Approval	56
Fee Clearance	36
Sub-broker	6,311

\* As on March 31, 2008.

On the basis of ownership, stock brokers are classified as proprietary, partnership, corporate, institution, composite corporate, etc. Details of stock brokers on the basis of ownership are provided in Table 3.6, Chart 3.1 and Chart 3.2.

The proportion of stock brokers in category of 'proprietorship' was higher than

50 per cent in 14 out of 19 recognised stock exchanges. Highest percentage of stock brokers in 'proprietorship' category was in Gauhati Stock Exchange Ltd. at 96.1 per cent, followed by 95.1 per cent in Jaipur Stock Exchange. However, number of stock brokers in 'proprietorship' category was the lowest for NSE at 4.1 per cent of the total stock brokers.

Table 3.5: Exchange-wise Stock Brokers Registered with SEBI

S. No.	Stock Exchange	As on March 31, 2007			As on March 31, 2008		
		Total Number of Stock Brokers	Number of Corporate Brokers	Corporate Brokers as a percentage of Total Brokers*	Total Number of Stock Brokers	Number of Corporate Brokers	Corporate Brokers as a percentage of Total Stock Brokers*
1	2	3	4	5	6	7	8
1.	Ahmedabad	317	153	48.26	321	157	48.91
2.	Bangalore	256	125	48.83	256	124	48.44
3.	BSE	901	722	80.13	946	767	81.08
4.	Bhubaneswar	216	19	8.80	214	19	8.88
5.	Calcutta	960	204	21.25	957	204	21.32
6.	Cochin	432	80	18.52	435	80	18.39
7.	Coimbatore	135	48	35.56	135	48	35.56
8.	Delhi	374	213	56.95	374	213	56.95
9.	Gauhati	104	3	2.88	103	3	2.91
10.	ISE	925	336	36.32	935	345	36.90
11.	Jaipur	492	18	3.66	488	18	3.69
12.	Ludhiana	293	85	29.01	297	85	28.62
13.	MPSE	174	35	20.11	174	34	19.54
14.	Madras	181	71	39.23	181	71	39.23
15.	NSE	1,077	988	91.74	1,129	1,039	92.03
16.	OTCEI	752	574	76.33	719	551	76.63
17.	Pune	188	55	29.26	188	55	29.26
18.	UPSE	384	82	21.35	354	78	22.03
19.	Vadodara	311	64	20.58	311	64	20.58
<b>Number of Stock Brokers on De-recognised Stock Exchanges</b>							
1.	Hyderabad	304	122	40.13	304	122	40.13
2.	Magadh	197	22	11.17	197	22	11.17
3.	Mangalore	59	9	15.25	59	9	15.25
4.	Saurashtra and Kutch	411	82	19.95	410	82	20.00
	<b>Total</b>	<b>9,443</b>	<b>4,110</b>	<b>43.52*</b>	<b>9,487</b>	<b>4,190</b>	<b>44.17</b>

\* Column 4 divided by col. 3, col. 7 divided by col. 6.

The percentage of stock brokers in 'partnership' category was the highest in Delhi Stock Exchange Ltd. (8.6 per cent), followed by Madras Stock Exchange Ltd (7.7 per cent). There were no stock brokers in 'partnership' category in Bhubaneswar Stock

Exchange Ltd. and Coimbatore Stock Exchange Ltd.

## II. Registration of Sub-brokers

The number of sub-brokers registered during 2007-08 witnessed a significant rise as

Chart 3.1: Number of Stock Brokers (By Ownership) (As on March 31, 2008)

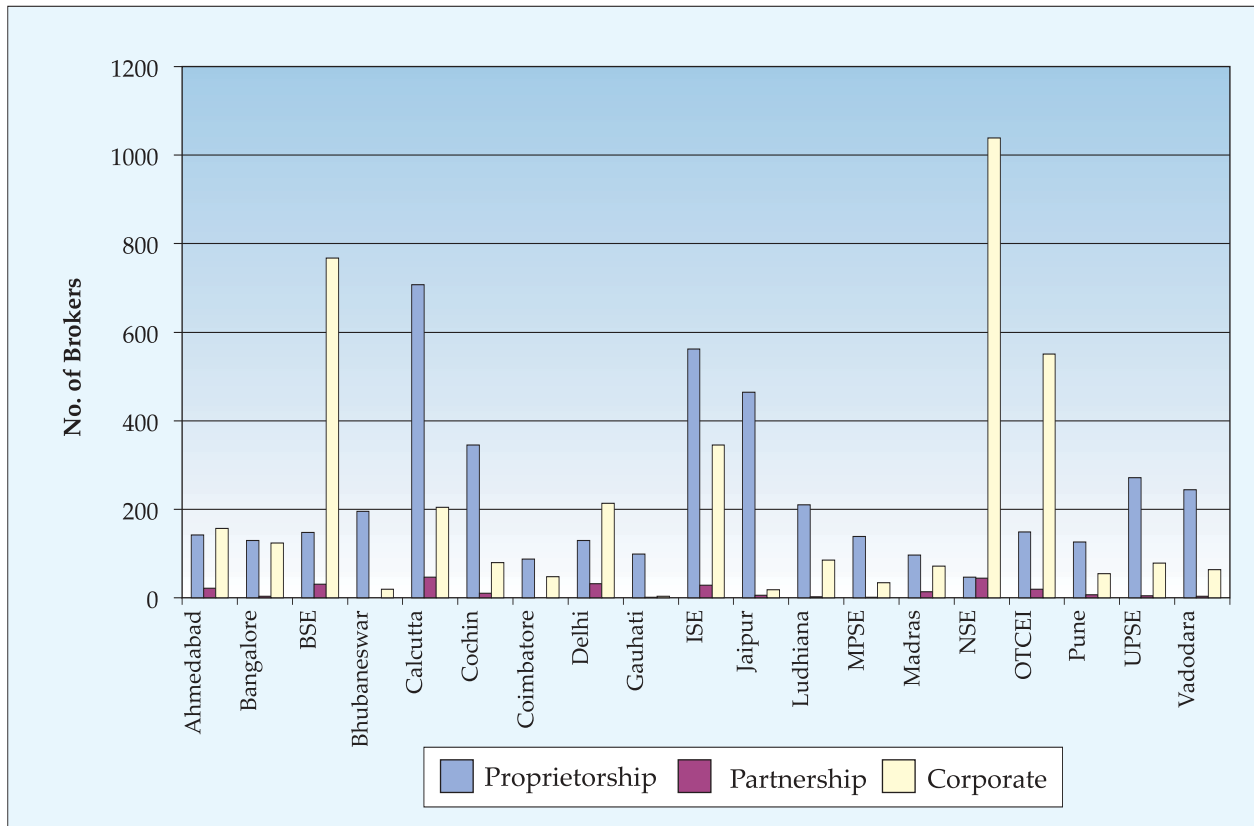


Chart 3.2: Percentage Share of Stock Brokers (By Ownership) (As on March 31, 2008)

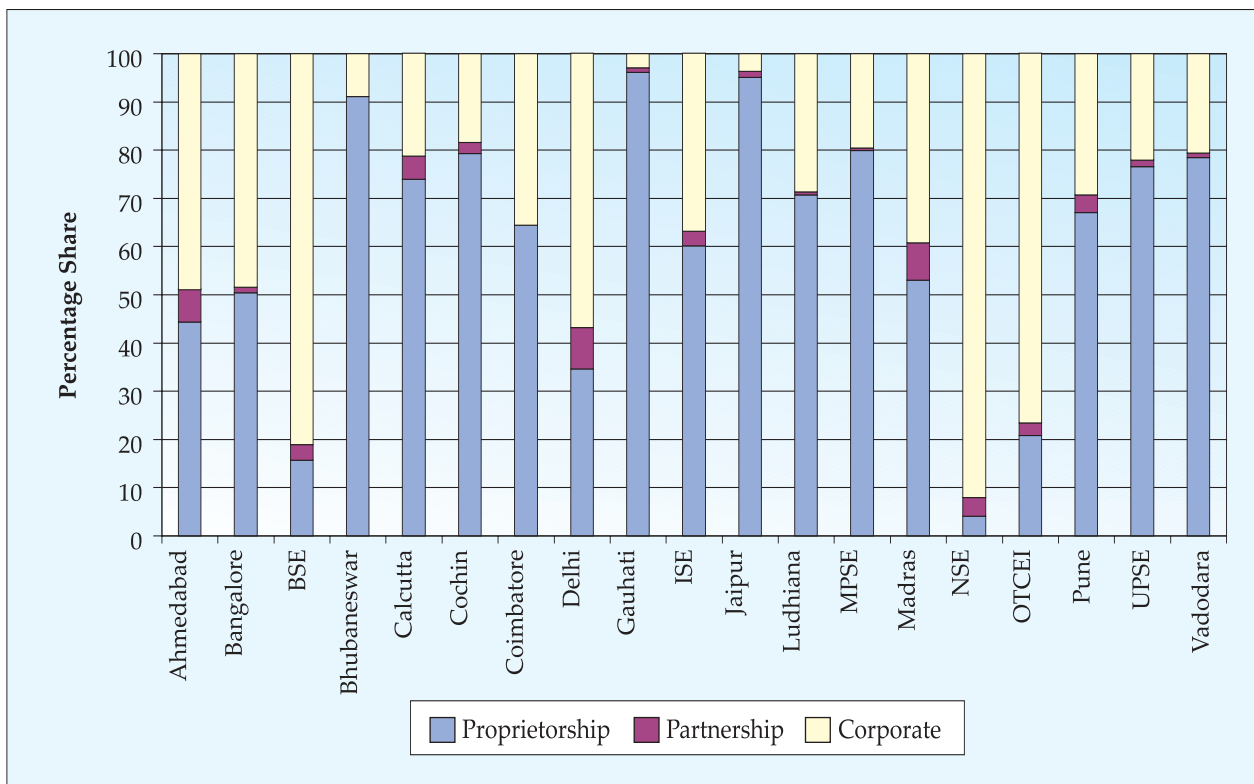


Table 3.6: Classification of Stock Brokers on the Basis of Ownership\*

S. No.	Stock Exchange	Proprietorship				Partnership				Corporate **				Total	
		2007		2008		2007		2008		2007		2008		2007	2008
		Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Per-cent	Nos.	Nos.
1	2	5	6	5	6	9	10	9	10	13	14	13	14	16	16
1.	Ahmedabad	142	44.79	142	44.38	22	6.94	22	6.88	153	48.26	157	48.91	317	321
2.	Bangalore	128	50	129	50.39	3	1.17	3	1.17	125	48.83	124	48.44	256	256
3.	BSE	148	16.43	148	15.66	31	3.44	31	3.28	722	80.13	767	81.08	901	946
4.	Bhubaneswar	197	91.2	195	91.12	0	0	0	0	19	8.8	19	8.88	216	214
5.	Calcutta	710	73.96	707	73.95	46	4.79	46	4.81	204	21.25	204	21.32	960	957
6.	Cochin	342	79.17	345	79.31	10	2.31	10	2.3	80	18.52	80	18.39	432	435
7.	Coimbatore	87	64.44	87	64.44	0	0	0	0	48	35.56	48	35.56	135	135
8.	Delhi	129	34.49	129	34.58	32	8.56	32	8.58	213	56.95	213	56.95	374	374
9.	Gauhati	100	96.15	99	96.12	1	0.96	1	0.97	3	2.88	3	2.91	104	103
10.	ISE	562	60.76	562	60.17	27	2.92	28	3	336	36.32	345	36.90	925	935
11.	Jaipur	468	95.12	464	95.08	6	1.22	6	1.23	18	3.66	18	3.69	492	488
12.	Ludhiana	206	70.31	210	70.71	2	0.68	2	0.67	85	29.01	85	28.62	293	297
13.	MPSE	137	78.74	139	79.89	2	1.15	1	0.57	35	20.11	34	19.54	174	174
14.	Madras	95	52.49	96	53.04	15	8.29	14	7.73	71	39.23	71	39.23	181	181
15.	NSE	44	4.09	46	4.07	45	4.18	44	3.9	988	91.74	1039	92.03	1,077	1,129
16.	OTCEI	159	21.14	149	20.81	19	2.53	19	2.65	574	76.33	551	76.63	752	719
17.	Pune	126	67.02	126	67.02	7	3.72	7	3.72	55	29.26	55	29.26	188	188
18.	UPSE	297	77.34	271	76.55	5	1.3	5	1.41	82	21.35	78	22.03	384	354
19.	Vadodara	244	78.46	244	78.46	3	0.96	3	0.96	64	20.58	64	20.58	311	311
<b>Number of Stock Brokers on De-recognised Stock Exchanges</b>															
1.	Hyderabad	176	57.89	176	57.89	6	1.97	6	1.97	122	40.13	122	40.13	304	304
2.	Magadh	174	88.32	174	88.32	1	0.51	1	0.51	22	11.17	22	11.17	197	197
3.	Mangalore	47	79.66	47	79.66	3	5.08	3	5.08	9	15.25	9	15.25	59	59
4.	Saurashtra and Kutch	327	79.51	326	79.51	2	0.49	2	0.49	82	19.95	82	20.00	411	410
	<b>Total</b>	<b>5,045</b>	<b>53.43</b>	<b>5,011</b>	<b>52.86</b>	<b>288</b>	<b>3.05</b>	<b>286</b>	<b>3.02</b>	<b>4,110</b>	<b>43.52</b>	<b>4,190</b>	<b>44.19</b>	<b>9,443</b>	<b>9,487</b>

\* As on March 31 of the respective year.

\*\* The categories of Financial Institutions and Composite Corporate are clubbed within the category of corporate broker.

compared to 2006-07. The total number of registered sub-brokers at the end of 2007-08, increased to 44,074 against 27,541 in the previous year. There was a net addition of 16,533 sub-brokers during 2007-08, reflecting

an increase of 60.0 per cent (Table 3.7). The two major stock exchanges, viz., BSE and NSE accounted for 97.0 per cent of the total sub-brokers in 2007-08 as compared to 95.2 per cent a year ago.

Table 3.7: Registered Sub-brokers

Sr. No.	Stock Exchange	Sub-brokers as on March 31			
		2007		2008	
		Number	Percentage of Total	Number	Percentage of Total
1	2	3	4	5	6
1.	Ahmedabad	97	0.35	97	0.22
2.	Bangalore	156	0.57	156	0.35
3.	BSE	13,482	48.95	20,616	46.78
4.	Bhubaneswar	17	0.06	17	0.04
5.	Calcutta	87	0.32	87	0.2
6.	Cochin	42	0.15	42	0.1
7.	Coimbatore	21	0.08	21	0.05
8.	Delhi	292	1.06	277	0.63
9.	Gauhati	4	0.01	4	0.01
10.	ISE	3	0.01	3	0.01
11.	Jaipur	33	0.12	33	0.07
12.	Ludhiana	37	0.13	37	0.08
13.	MPSE	5	0.02	5	0.01
14.	Madras	112	0.41	112	0.25
15.	NSE	12,724	46.20	22,144	50.24
16.	OTCEI	19	0.07	19	0.04
17.	Pune	158	0.57	158	0.36
18.	UPSE	14	0.05	8	0.02
19.	Vadodara	38	0.14	38	0.09
<b>Number of Sub-brokers on De-recognised Stock Exchanges</b>					
1.	Hyderabad	196	0.71	196	0.44
2.	Magadh	3	0.01	3	0.01
3.	Mangalore	1	0.00	1	0.00
4.	Saurashtra and Kutch	0	0	0	0
	<b>Total</b>	<b>27,541</b>	<b>100</b>	<b>44,074</b>	<b>100</b>

### III. Recognition of Stock Exchanges

Stock exchanges are granted recognition by SEBI under Section 4 of the Securities Contracts (Regulation) Act, 1956. There are nineteen stock exchanges recognised under SC(R)A as of March 31, 2008. Of the 19 stock exchanges, seven have been granted

permanent recognition. During 2007-08, SEBI had granted yearly renewal to nine stock exchanges (Table 3.8 and 3.9). Due to pending litigation before the Hon'ble Madras High Court, Coimbatore Stock Exchange Ltd. (CSX) has not filed application for renewal of recognition which expired on September 17,

**Table 3.8: Renewal of Recognition Granted to Stock Exchanges during 2007-08**

Sr. No.	Exchange	Date of Notification	Period
1	2	3	4
1.	The Ludhiana Stock Exchange Association Ltd.	April 11, 2007	1 year, w.e.f. April 28, 2007 to April 27, 2008
2.	The Gauhati Stock Exchange Ltd.	April 18, 2007	1 year, w.e.f. May 1, 2007 to April 30, 2008
3.	Bhubaneswar Stock Exchange Ltd.	May 16, 2007	1 year, w.e.f. June 5, 2007 to June 4, 2008
4.	The Uttar Pradesh Stock Exchange Association Ltd.	May 29, 2007	1 year, w.e.f. June 3, 2007 to June 2, 2008
5.	OTC Exchange of India	August 01, 2007	1 year, w.e.f. August 23, 2007 to August 22, 2008
6.	The Pune Stock Exchange Ltd.	August 29, 2007	1 year, w.e.f. September 2, 2007 to September 1, 2008
7.	The Cochin Stock Exchange Ltd.	October 15, 2007	1 year, w.e.f. November 8, 2007 to November 7, 2008
8.	Inter-connected Stock Exchange of India Ltd.	November 13, 2007	1 year, w.e.f. November 18, 2007 to November 17, 2008
9.	Vadodara Stock Exchange Ltd.	January 03, 2008	1 year w.e.f. January 4, 2008 to January 3, 2009

**Table 3.9: Status of Recognition Granted to other Stock Exchanges**

Sr. No.	Exchange	Status
1	2	3
1.	National Stock Exchange of India Ltd.	5 years w.e.f. April 26, 2003 to April 25, 2008.
2.	Jaipur Stock Exchange Ltd.	3 years, w.e.f. January 9, 2006 to January 8, 2009.
3.	Bombay Stock Exchange Ltd.	Permanent
4.	Ahmedabad Stock Exchange Ltd.	Permanent
5.	Bangalore Stock Exchange Ltd.	Permanent
6.	The Calcutta Stock Exchange Association Ltd.	Permanent
7.	The Delhi Stock Exchange Association Ltd.	Permanent
8.	Madhya Pradesh Stock Exchange Ltd.	Permanent
9.	Madras Stock Exchange Ltd.	Permanent

2006. However, in terms of order dated September 15, 2006, of the Hon'ble Court, the right of CSX to apply for renewal is subjected

to further orders of the Court and the stock exchange is not entitled to oppose the renewal solely on the ground of lapse of time.

**Table 3.10: De-recognition of Stock Exchanges during 2007-08**

Sr. No.	Stock Exchange	Order dated
1	2	3
1.	Saurashtra Kutch Stock Exchange Limited	July 06, 2007
2.	Magadh Stock Exchange Limited	September 03, 2007
3.	Hyderabad Stock Exchange Limited	September 19, 2007*

\* Central Government vide notification dated September 19, 2007 derecognised Hyderabad Stock Exchange w.e.f. August 29, 2007 for failing to demutualise within the specified time i.e. on or before August 28, 2007.

#### IV. Corporate Restructuring

##### A. Substantial Acquisition of Shares and Takeovers

During 2007-08, 116 letters of offer were filed with SEBI of which 115 public offers were opened. Total 44 cases were placed before the Takeover Panel for grant of exemption from open offer, out of which exemption was granted to 31 cases.

##### B. Buy-back

In 2007-08, there were seven cases of buy-back through open market, of which four

**Table 3.11: Open Offers and Exemptions**

Period	Letters of Offer Filed	Exemptions Granted by Panel
1	2	3
2005-06	104	13
2006-07	104	15
2007-08	116	31

cases were opened and closed whereas three cases were opened but not closed. In addition, there were three cases of buy-back through tender offer (Table 3.13).

**Table 3.12: Status of Open Offers and Takeover Panel Applications**

Status	Number of Applications
<b>Open Offers</b>	
Pending Cases as on March 31, 2007	45
Cases received during 2007-08	116
<b>Total</b>	<b>161</b>
Comments sent during 2007-08	121
Cases in Process as on March 31, 2008	40
<b>Takeover Panel Cases</b>	
Applications Pending as on March 31, 2007	16
Applications Received during 2007-08	28
<b>Total Applications</b>	<b>44</b>
Applications disposed/Orders Passed during 2007-08	31
Applications in Process as on March 31, 2008	13



Table 3.13: Buy-back Cases during 2007-08

Buy-back Cases	No. of Cases	Buy-back Size (Rs. crore)	Actual Amount utilized for Buy-back of Securities (Rs. Crore)
1	2	3	4
Buy-back through Open Market			
Cases Opened and Closed	4	665	639
Cases Opened but not Closed	3	1,076	Not Applicable
Buy-back through Tender Offer			
Cases Opened and Closed	3	263	260

### V. Registration of Foreign Institutional Investors and Custodians of Securities

The total number of Foreign Institutional Investors (FIIs) registered with SEBI increased to 1,319 as on March 31, 2008, compared to 997 a year ago, showing a net increase of 322 over the year.

As on March 31, 2008, there were 15 custodians registered with SEBI, under SEBI (Custodian of Securities) Regulations, 1996. One new custodian, Axis Bank Ltd. (earlier known as UTI Bank Ltd.) was registered with SEBI, during 2007-08.

### VI. Registration of Collective Investment Schemes (CIS)

During 2007-08, it was found that some entities were raising money by launching Art Fund schemes. Under these schemes, money was collected from the investors and invested

in the art work, painting, etc. The funds were mainly in the nature of close-ended funds ranging from three to five years and the schemes were found to be collective investment schemes. However, none of the collective investment schemes/art funds were registered under the SEBI (CIS) Regulations, 1999. Therefore, SEBI issued a press release:

- i. Advising the investors that “Art Funds” are “Collective Investment Schemes” as defined under the SEBI Act. At present, no entity was registered with SEBI, under the SEBI (Collective Investment Schemes) Regulations; and
- ii. Launching/floating of “Art Funds” or Schemes without obtaining registration from SEBI amounts to violation of SEBI Act and Regulations.

Appropriate actions, civil and criminal, under the SEBI Act may be taken by SEBI against such funds/companies.

Table 3.14: Status of Registration of Foreign Institutional Investors during 2007-08

S. No.	Particulars	FIIs	Sub-Accounts	Custodians
1	2	3	4	5
1.	Application Received	643	1,746	5
2.	Applications Processed	505	1,533	1
3.	Applications Pending	138	213	3

## VII. Registration of Mutual Funds

As on March 31, 2008, 40 mutual funds were registered with SEBI, of which 35 were in the private sector and five (including UTI) were in the public sector. The Certificate of Registration granted to GIC Mutual Fund and PNB Mutual Fund was cancelled. Mirae Asset Mutual Fund and Bharti AXA Mutual Fund were registered with SEBI during 2007-08 (Table 3.15).

**Table 3.15: Mutual Funds Registered with SEBI**

Sector	March 31, 2007	March 31, 2008
1	2	3
Public Sector (Including UTI)	7	5
Private Sector	33	35
<b>Total</b>	<b>40</b>	<b>40</b>

## VIII. Registration of Venture Capital Funds

Venture capital funds play an important role in development of entrepreneurship and help in the technological progress of an economy by providing the seed capital required for various industries with limited access to conventional sources of finance. The number of domestic venture capital funds increased to 106 in 2007-08 from 90 in 2006-07 whereas the number of foreign venture capital funds rose to 97 from 78 during the same period (Table 3.16).

**Table 3.16: Registration of Venture Capital Funds**

	March 31, 2007	March 31, 2008
1	2	3
VCF	90	106
FVCI	78	97

## IX. Fees and Other Charges

SEBI collects fees and other charges from different market intermediaries on both recurring and non-recurring basis as per relevant Regulations. Details of the amount of fees and other charges (un-audited) received by SEBI during 2007-08 are given in Table 3.17.

During 2007-08, the total amount of fees and other charges received was Rs. 397.5 crore as against Rs. 200.8 crore in 2006-07. The largest amount of Rs. 84.9 crore was collected from offer documents and prospectus filed, followed by Rs. 65.6 crore as takeover fees, and Rs. 64.3 crore fees from derivatives.

### 3. SUPERVISION

Enforcement of the regulations requires effective supervision through on-site and off-site inspections, enforcement, enquiry against violations of rules and regulations, and prosecutions. SEBI conducts inspections either directly or through Self Regulatory Organisations (SROs) like stock exchanges, depositories, etc. Inspections on a periodic basis are conducted to verify the compliance levels of intermediaries. Specific/ limited purpose inspections were conducted on the basis of complaints, references, surveillance reports, specific concerns, etc. Stock exchanges and depositories were also directed by SEBI to carry out periodic/specific purpose inspections of their members/participants.

#### I. Inspection of Market Intermediaries

Risk-based inspection was carried out by SEBI as per the revised inspection policy. Routine inspections of stock brokers/sub-brokers and depository participants were conducted by stock exchanges and depositories. The quality of such inspections

Table 3.17: Fees and other Charges

(Rs. crore)

Particulars	2006-07			2007-08		
	Recurring fees #	Non-recurring fees ##	Total Fees Received	Recurring fees #	Non-recurring fees ##	Total Fees Received (Unaudited)
1	2	3	4	5	6	7
Offer Documents and prospectuses filed	0.00	34.45	34.45	0.00	84.91	84.91
Merchant Bankers	0.98	1.95	2.93	0.95	2.05	3.00
Underwriters	0.24	0.16	0.40	0.10	0.01	0.11
Portfolio Managers	0.83	3.54	4.37	1.40	6.30	7.70
Registrars to an Issue and Share Transfer Agents	0.26	0.07	0.33	0.34	0.09	0.43
Bankers to an Issue	1.45	0.19	1.64	0.70	0.24	0.94
Debenture Trustees	0.45	0.12	0.57	0.50	0.12	0.62
Takeover fees	0.00	52.00	52.00	0.00	65.59	65.59
Mutual Funds	1.65	19.27	20.92	1.87	56.18	58.05
Stock Brokers and Sub-Brokers	45.02	0.00	45.02	63.99	0.00	63.99
Foreign Institutional Investors	0.00	9.45	9.45	0.00	16.31	16.31
Sub Account - Foreign Institutional Investors	0.00	8.01	8.01	0.00	11.11	11.11
Depositories	0.20	0.00	0.20	0.20	0.00	0.20
Depository Participants	0.06	1.63	1.69	0.07	1.37	1.44
Venture Capital Funds	0.00	0.98	0.98	0.00	2.00	2.00
Custodian of Securities	0.54	0.47	1.01	6.07	0.30	6.37
Approved Intermediaries under Securities Lending Scheme	0.04	0.00	0.04	0.14	0.002	0.14
Credit Rating Agencies	0.00	0.00	0.00	0.00	0.21	0.21
Listing Fees Contribution from Stock Exchanges	2.16	0.00	2.16	3.64	0.00	3.64
Foreign Venture Capital	0.00	3.87	3.87	0.00	2.19	2.19
Derivatives	10.77	0.00	10.77	64.31	0.00	64.31
Informal Guidance Scheme	0.00	0.03	0.03	0.00	0.06	0.06
Regulatory Fees	0.00	0.00	0.00	4.17	0.00	4.17
<b>Total</b>	<b>64.65</b>	<b>136.18</b>	<b>200.83</b>	<b>148.45</b>	<b>249.04</b>	<b>397.49</b>

# Recurring fees: Fees which is received on annual / three-yearly / five-yearly basis (includes Renewal Fee/ Service Fee / annual fee / Listing Fees from exchanges/ Regulatory Fees from stock exchanges).

## Non-recurring fees: Fees which is received on one time basis. Includes fee for Offer Documents Filed / Registration Fee/ Application Fee / Takeover Fees / Informal Guidance Scheme / FII Registration and FII Sub - Accounts Registration.

**Notes:**

1. Since the amount realised by way of penalties on or after October 29, 2002 has been credited to the Consolidated Fund of India, therefore, the same has not been included in the fees income of SEBI since 2003-04.
2. Stock brokers and Sub-Brokers registration fee includes annual fees and turnover fees.
3. Stock brokers and Derivatives fees are of recurring nature and depends on the turnover of the stock brokers and Member of Derivatives Segment.

was overseen by SEBI by calling for periodic reports on inspections conducted, violations observed and actions taken.

**i. Inspection of Stock Brokers / Sub-brokers**

During 2007-08, the number of regular inspections of stock brokers was 16 as compared to 30 in the previous year (Table 3.18). No regular inspections of sub-brokers were conducted during 2007-08. The number of surprise/limited purpose inspections carried out on stock brokers increased to 47 in 2007-08 as compared to 37 in the previous year.

**Table 3.18: Inspection of Stock Brokers/ Sub-brokers**

*(Numbers)*

Particulars	2006-07	2007-08
1	2	3
Regular Inspections Completed – Stock Brokers	30	16
Regular Inspections Completed– Sub Brokers	Nil	Nil
Surprise/Limited Purpose Inspections –Stock Brokers/Sub-brokers	37	47

**ii. Inspection of Other Intermediaries**

As per section 11(2) of the SEBI Act, 1992, SEBI shall register intermediaries and regulate their working. During 2007-08, regular inspections were completed of nine depository participants (inspection of one DP undertaken through both the depositories), one credit rating agency, four registrars to an issue & share transfer agent, two merchant bankers, one banker to an issue and one debentures trustee.

**II. Inspection of Stock Exchanges**

During 2007-08, seven stock exchanges viz., Inter Connected Stock Exchange (ISE), Over-the-Counter Exchange of India (OTCEI),

Bhubaneswar Stock Exchange, Calcutta Stock Exchange, Cochin Stock Exchange, Bangalore Stock Exchange and Ludhiana Stock Exchange were inspected.

**III. Inspection of Depositories**

Inspection of National Securities Depositories Ltd. was carried out by SEBI during the 2007-08.

**4. SURVEILLANCE**

**I. Mechanism of Market Surveillance**

An effective surveillance mechanism is one of the prime requirements for well functioning of securities market. The stock exchanges are the first-level regulators and are charged with the primary responsibility of safe-guarding the integrity of the market and ensuring that the market is performing in accordance with the stipulated norms and practice.

The Integrated Surveillance Department of SEBI is in charge of overall market surveillance and scope of its activities includes monitoring market movements and detecting potential breaches of Regulations, analysing the trading pattern of scrips and indices and initiation of appropriate action wherever warranted. To enhance the efficacy of the surveillance function, SEBI has put in place a comprehensive Integrated Market Surveillance System (IMSS) which generates alerts arising out of unusual market movements. SEBI also keep a continuous vigil on the activities of the stock exchanges to promote an effective surveillance mechanism.

**II. Surveillance Actions**

During 2007-08, Integrated Surveillance Department of SEBI made 32 and 116 references to NSE and BSE, respectively, for examination / investigation. NSE initiated preliminary examination and investigation in

a total 123 cases and BSE initiated examination and investigation in 1,855 cases. NSE and BSE completed investigation in 105 and 193 cases, respectively, including the cases initiated on the basis of alerts generated by themselves.

During the year, as a surveillance measure, NSE shifted 244 scrips to trade-for-trade segment and BSE shifted 1,582 scrips to trade-for-trade segment. NSE imposed a price band (2 per cent, 5 per cent and 10 per cent) in 1,098 instances and BSE in 3,971 instances. Further, NSE and BSE verified 184 and 253 rumours, respectively (Table 3.19).

**Table 3.19: Number of Surveillance Actions during 2007-08**

Nature of Action	NSE	BSE
1	2	3
<b>Scrips shifted to Trade for Trade segment</b>	244 (247)	1,582 (1,463)
<b>No. of scrips in which price bands were imposed (2 per cent, 5 per cent &amp; 10 per cent)</b>	1,098 (2,174)	3,971 (1,323)
<b>Preliminary Investigations taken up</b>	123 (246)	1,855 (943)
<b>Rumours verification</b>	184 (247)	253 (304)

\*Note: Figures in the parentheses pertain to 2006-07.

### III. Surveillance Measures

SEBI took a range of pre-emptive and pro-active measures to enhance market safety and integrity. The surveillance measures taken during the year include shifting of scrips to Trade for Trade segment, reduction of price band, taking up trading in scrips for examination etc. Further, in order to protect the interests of investors and to enhance transparency in the markets, SEBI took the following measures during 2007-08:

- SEBI observed that there had been a marked increase in the market

participation of domestic institutional investors (DIIs) such as mutual funds, banks, insurance companies and Indian Financial Institutions. In order to reflect such increased participation and to provide investors with meaningful information for taking well-informed decisions, SEBI advised the stock exchanges to disseminate daily trading data of DIIs as a separate category on their website. Exchanges have commenced disseminating the trading data with effect from April 16, 2007.

- SEBI observed repetitive instances of violations of similar nature by stock brokers. In order to discourage brokers from repeating similar violations and to present an effective deterrent, the stock exchanges were advised to take strict action against such brokers.
- During the course of investigations, SEBI noticed that trade/exposure limits given by brokers to their clients was excessive and not commensurate with the income disclosed by the client in the Know Your Client (KYC) documentation to the brokers. It was also noticed that the KYC documentation was outdated. In view of this, the KYC norms for the clients were strengthened and SEBI advised the brokers, through the stock exchanges, to periodically update the KYC forms and also retain proper documentation of financial strength of their clients based on which clients were granted trade/exposure limits
- SEBI observed that the Open Interest (OI) data for trading in the F & O segment was generally disseminated in value terms. This presented an incomplete picture of the trading, especially in times of unusual volatility since the change in OI could either be due to price variation or due to variation in the number of traded contracts.

Further, it was noted that internationally, data of OI is disseminated in quantity terms. In order to present a complete picture of trading and also to serve as a meaningful basis for comparison, SEBI advised the exchanges to report F&O trades in terms of number of contracts.

- In order to enhance transparency in broker–client dealings, SEBI advised stock exchanges to ensure that brokers provide daily report to each of their clients, clearly bringing out the client trades and margin liability.
- SEBI observed that on days of unusual volatility, certain sections of the media had reported that (according to some investors), the stock exchanges had unilaterally increased the margins and this had adversely affected the investors. SEBI took up the matter with the stock exchanges who clarified that there was no change in the margin structure or in the methodology followed in margin computation. SEBI also advised the stock exchanges to clarify the same to the media / public at large.
- During the course of inquiries, SEBI noticed that several market participants as well as the general public were not aware about the calculations and imposition of Value at Risk (VaR) margins / SPAN margins by the stock exchanges, analysis of open interest, put call ratio and other key concepts in the F&O segment. This led to misconception and hampered the making of well-informed investment decisions which is very vital in this segment. SEBI, therefore, advised the stock exchanges to conduct public awareness programmes across the market addressing the above issues so as to create awareness of key concepts, especially margin computation and

imposition, their interpretation and their implications on investment decisions. In this regard, stock exchanges also issued advertisement as well as distributed booklets to their members for communication to their clients.

- Trading and investment in the securities market is always associated with the risk to the investors. In view of the volatility observed in the market, SEBI periodically advised the stock exchanges to issue a cautionary list of 'Do's and Don'ts' to the investing community at large through notices and advertisements in various media, so as to highlight the risks associated with investing in securities without having due regard to the fundamentals of the company and the scrip volatility.
- To strengthen the surveillance machinery at the exchanges and to examine and monitor the surveillance activities of the exchanges, SEBI advised that the surveillance committee of the exchange shall be headed by a non-executive member of the Exchange's Board. SEBI also advised that the committee shall conduct a periodic review of the surveillance activities carried out by the surveillance department of the stock exchange and make recommendations for improvements. SEBI further, advised that the report of the committee indicating the recommendations made by them and the action initiated thereon, should be made available to the Board of the exchange as well as to SEBI on a quarterly basis.
- SEBI received representations expressing concerns of effect of price bands on price discovery of scrip on first day of recommencements/commencement of trading. In order to facilitate effective

price discovery based on demand-supply interplay and after consulting with the stock exchanges, SEBI advised the stock exchanges to permit free price discovery on the first day of trading in cases of merger, demergers, amalgamations, capital reduction, scheme of arrangement, in terms of the Companies Act and/or as sanctioned by the Courts, in cases of rehabilitation packages approved by the Board of Industrial and Financial Reconstruction under Sick Industrial Companies Act and in cases of Corporate Debt Restructuring (CDR) packages by the CDR cell of the RBI.

- SEBI received suggestions for further improvement in sales practices followed by brokers of the stock exchanges. The matter was internally examined in consultation with the stock exchanges. Subsequently, a draft prepared by stock exchanges for improvement in sales practices by brokers was put up on SEBI website for public comments.

#### IV. Significant Market Movements during 2007-08

- On October 17, 2007, the Nifty fell by 524.15 points from the previous day's close of 5668.05 thereby hitting market-wide circuit filter of 10 per cent. This resulted in halt in trading on NSE and BSE. The BSE Sensex was down by 1743.96 points from previous day's close of 19051.86. The market had recovered during the day and Sensex and Nifty closed at 18715.82 points & 5559.3 points, respectively.
- On January 22, 2008, Sensex fell by 2029.00 points (from previous days closing of 17605.35), thereby hitting market-wide circuit filter of 10 per cent. Nifty fell by 630.45 points (from previous days closing of 5208.80). After this sharp

fall during the early morning session, the market had recovered during the day and Sensex and Nifty closed at 16,729.94 points & 4,899.30 points, respectively.

- The risk management system, real-time monitoring of the broker terminals and market-wide circuit filter got tested and the market withstood a fall of this magnitude without any disruption in settlement process. During the above market fall, the SEBI was in constant touch with the stock exchanges to ensure smooth functioning of the market. The situation was also monitored in co-ordination with the RBI so as to ensure smooth settlement by market participants.

#### V. Enforcement

On the basis of surveillance alerts, SEBI initiated enforcement actions and passed interim ex-parte orders in the following cases:

##### i. Orders in the matter of GHCL Ltd.

A preliminary examination of the IMSS alerts and the trading activities in the scrip of GHCL revealed certain abnormal dealings in the shares of GHCL by entities related to Jalco Financial Service Pvt. Ltd. (Jalco Group). It was observed that the Jalco Group entities who were also enlisted as promoter group entities of GHCL traded among themselves in the shares of GHCL and created artificial market to mislead genuine investors. It was observed that seven entities of Jalco Group traded in the shares of GHCL through 70 accounts with 38 brokers of BSE and NSE. The Jalco group entities were having 145 beneficial accounts with NSDL and CDSL from a single address. SEBI passed following directions on April 25, 2007, after completion of the preliminary examination:

- a) 14 entities belonging to Jalco Group and promoter group entities shall not buy, sell or deal in shares of GHCL., directly or indirectly;

- b) 9 directors of the Jalco Group shall not buy, sell or deal in shares of GHCL, directly or indirectly; and
- c) The Depositories shall not give effect to any transfer of shares of GHCL lying in the beneficial owner accounts of the entities belonging to Jalco Group and their directors.

**ii. Orders in the matter of Order Book Manipulation on the First Day of Listing**

SEBI observed that the prices of certain stocks witnessed dramatic upsurges on the day of listing or soon thereafter. Based on the alerts received from the IMSS of SEBI, preliminary analysis was carried out in the dealings of shares on their first day of listing of select companies. The preliminary examination revealed the following:

- a) The orders were placed much below the prevailing market price on the day of listing of the shares of the companies, thereby rendering them as frivolous or non-serious orders making no commercial sense.
- b) The entire large order quantity was revealed to the market in one stroke, which is an uncommon practice in the market.
- c) The likely financial exposure that such large orders would have entailed in the event of execution, which was liable to be borne by the identified entities, was disproportionate to the annual income disclosed by these entities in the KYC forms submitted to their respective brokers. Their trading history over the preceding six months suggested that these entities had not executed any trade remotely close to the large numbers under scrutiny.
- d) The likely purpose of placing such large orders seemed to be providing artificial

depth to the order book thereby seeking to sub-serve their own interest in the market besides misleading the lay investors.

Based on the above findings, SEBI passed directions on April 26, 2007, to the effect that the identified entities shall cease and desist from dealing in shares in the manner described in the order as would impart artificiality to the order book with the concomitant impact on the market. It was also directed that these entities shall not buy, sell or deal in securities, directly or indirectly, on the day of listing of any securities on the stock exchanges, till further directions in this regard. Further, the brokers through whom these identified entities had dealt in the shares of the companies were directed to be cautious and exercise due diligence while dealing on behalf of their clients in future.

Subsequently, all the entities and brokers applied to SEBI to initiate Consent Proceedings.

**iii. Orders in the matter of dealings in F&O Segment**

SEBI observed some unusual and inconsistent trading pattern in the futures and options segment. A preliminary examination was carried out with the help of the Integrated Market Surveillance System (IMSS) of SEBI. The preliminary examination revealed that the brokers and clients at NSE were buying and selling almost equal quantities of contracts in F&O segment within the day and such buy/sell was synchronised in nature. In most of the cases, the same quantity and in few cases substantially the same quantity of the original trade was closed out /reversed during the day at a price which was significantly above or below the price at which the first/original transaction was executed, without significant variations in the traded price of the underlying. The entities /brokers had indulged in non-genuine



transactions to create false and misleading appearance of trading. Based on the above findings, SEBI passed orders against 15 brokers and 10 clients on June 18, 2007, directing them to cease and desist from indulging in futures & options contracts in the above manner

Subsequently, several brokers and clients applied to SEBI to initiate Consent Proceedings.

**iv. Orders in the matter of M/s Jaybharat Textile and Real Estate Ltd. and M/s KSL & Industries Ltd.**

The Integrated Market Surveillance System (IMSS) of SEBI generated alerts relating to dealings in the shares of M/s. KSL & Industries Ltd. (KSLIL) and M/s. Jaybharat Textile & Real Estate Ltd. (JTREL). It was observed that some entities had been found to be dealing in the shares of both these companies with a strategic shift viz., first dealing in KSLIL followed by similar concerted activity in the shares of JTREL and contributing significant rise in the price and volume. In the case of KSLIL, these entities had subsequently sold substantial number of shares. The trading by these entities *prima facie* appeared to be carried out with an intention to artificially inflate the price and volume in the scrips, thereby inducing lay investors to deal in the shares of these companies.

In view of the above, SEBI passed an ad interim ex-parte order on September 07, 2007, directing six entities not to buy, sell or deal in shares of M/s. KSL & Industries Ltd. and M/s. Jaybharat Textile & Real Estate Ltd., directly or indirectly, in any manner, till further directions in this regard. The Depositories were also directed not give effect to any transfer of shares of KSL & Industries Ltd. and Jaybharat Textile & Real Estate Ltd. lying in the beneficial owner accounts of the above-mentioned entities.

**v. Orders in the matter of M/s Atlanta Ltd.**

SEBI had passed an order on September 27, 2007, in respect of Atlanta Ltd. and its promoters in the matter of Atlanta Ltd. confirming the directions in the ad-interim Order dated February 22, 2007, against Atlanta Ltd. and promoters with certain conditions for the promoters. Subsequently, several entities applied to SEBI to initiate Consent Proceedings.

**vi. Orders in the matter of M/s Ballarpur Industries Ltd.**

Analysis of the trading pattern in the shares of M/s. Ballarpur Industries Ltd. (BILT) during the period November 01, 2006 to June 13, 2007, brought out that a set of clients, all registered with one broker as well as a director of another broking firm were dealing in the shares of BILT around the time of large sell orders by a foreign institutional investor (FII). The FII was observed to be selling its holdings in BILT, through its broker on different dates within this period. On each of these dates, a few from amongst these identified clients sold prior to the FII sale and bought almost an identical quantity after the sell order was placed on behalf of the FII. This trading strategy adopted by these clients appears to be in the nature of 'customised front running'. Front running is an activity in which a trader takes a position of unfair advantage in advance of a large buy or sell order that the trader knows will move the price of that equity in a predictable fashion.

*Prima-facie* it appeared to be a clear pattern of passing information to a group of apparently set up clients. The pattern of order placement by the identified clients in order to benefit from the spread in prices at the time of short selling and short covering, indicated that the timing and quantity of orders of the FII was well within the knowledge of the identified clients who were

observed to be 'customised front running'. In view of the above, SEBI passed an ad interim ex-parte order in the matter of dealing in the shares of Ballarpur Industries Ltd. (BILT) on October 01, 2007 as under

- a) Directing 34 client entities not to buy, sell or deal in any securities, directly or indirectly till further directions in this regard.
- b) Further, the 34 clients were directed to deposit the profits made by them, with the National Stock Exchange of India Ltd. (NSE) within 15 days from the date of issue of the order.
- c) The 34 identified clients were also directed to cease and desist from indulging in any such trading activity, directly or indirectly which amounts to violation of Section 12A (a), (b) and (e) of the SEBI Act, 1992 or Regulations 3 (a) to (d) and Regulation 4(q) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.
- d) The concerned brokers were ordered to conduct an internal enquiry into the above matter and initiate appropriate actions against their employees or agents named in this order and submit an action taken report within 30 days of this order to SEBI. Further, the brokers were also advised to take steps to ensure that their trading systems, client information and other facilities are not misused to the detriment of their clients or market integrity and that they fulfil their fiduciary obligations to their clients. They were also advised to exercise due diligence in supervising their dealers and other employees to the above end.

All these entities have applied for an opportunity for Consent Proceedings.

## VI. Prevention of Money Laundering

Rapid developments and integration of financial markets coupled with improvements in technology and communication channels pose serious challenges to authorities and institutions dealing with prevention of money laundering and combating financing of terrorism. SEBI is committed to the global and national initiatives and efforts are being made in the direction to counter the threat of money laundering.

The Prevention of Money Laundering Act, 2002 (PMLA) and rules framed thereunder, brought into force with effect from July 01, 2005, is a testimony to India's joining the global war against money laundering and financing of terrorism. While the necessary guidelines and requirements as enshrined under PMLA and rules have already been issued by SEBI to market intermediaries, a greater emphasis was laid during the year to further sensitize the market participants about their key obligations and requirements to be fulfilled.

### i. Conferences, Workshops and Seminars

SEBI organised/ participated in a number of meetings with industry associations, stock exchanges, depositories, mutual funds and custodians wherein key requirements of the reporting entities were highlighted and necessary guidance to the industry was provided for going ahead with operationalising the legislative requirements. Officers of SEBI also participated in interactive seminars and workshops organised jointly by stock exchanges (NSE and BSE) and depositories (NSDL and CDSL) for creating awareness amongst brokers and depository participants about their obligations under various Act, rules and circulars issued by SEBI. During 2007-08, three such seminars were organised at major centres such as Mumbai, Delhi and Kolkata

and were attended by more than 1,100 securities market professionals.

**ii. Fulfilling of Reporting Obligations by Entities**

With the joint efforts of SEBI, Financial Intelligence Unit-India (FIU-IND), Association of Mutual Funds of India (AMFI) and mutual funds industry, uniformity has been achieved in the process flow for generation of alerts, based on certain pre-defined parameters, detailed analysis of these alerts and reporting of transactions based on such analysis by the industry. Similar exercise was carried out for depositories' transactions and the process is under further fine-tuning.

**iii. Guidance to Stock Exchanges and Depositories**

SEBI provided the necessary guidance and inputs to stock exchanges and depositories for issuance of directives for compliance by their members and participants. These directives further highlighted the requirements of reporting entities along with typologies for possible generation of suspicious transactions reports (STR) for reporting to authorities.

**iv. International Initiatives**

SEBI hosted a high level delegation led by the President of Financial Action Task Force (FATF), Sir James Sassoon on February 14, 2008. Sir James Sassoon had a detailed and fruitful discussion with the Chairman, Whole Time Member and other senior officers regarding efforts made by India in general and SEBI in particular in the area of Anti-Money Laundering and Combating Financing of terrorism (AML and CFT).

**VII. Integrated Market Surveillance System**

The integrated market surveillance system (IMSS) continued to help SEBI in

effective discharge of its regulatory functions. The system was put to effective and timely use for analyzing, detecting, identifying and taking preventive action in a number of cases where abnormal trading pattern or aberration was observed. The timely action taken in such cases led to significant positive impact on ensuring orderly conduct of the market players and market integrity. IMSS is being used for carrying out investigation into cases as well as issuing necessary directives to stock exchanges and market participants to keep up the vigil on happenings in the stock exchanges. In a number of cases, observations made possible from the system were also shared with stock exchanges for appropriate action. This fulfils the regulatory objective of ensuring that stock exchanges continue to act as the first level regulator for proactively detecting and examining abnormal trading pattern.

Based on an analysis made possible through IMSS, several letters were issued during 2007-08 to stock exchanges/market intermediaries/investors regarding trading pattern and behaviour seen across various securities. Communications sent across to different segments of the market, based on functionalities provided by the IMSS were intended to obtain necessary clarifications as also to ensure market integrity and promote professional standards of participants, which is vital for smooth and vibrant functioning of the securities markets.

**5. INVESTIGATION**

Investigations are undertaken to examine alleged or suspected violations, to gather evidence, and to identify persons/entities behind irregularities and violations, viz., price manipulation, creation of artificial market, insider trading, primary issue related irregularities, takeover violations, non-compliance of disclosure requirements and any other misconduct.

## I. Trends in Investigation Cases

Since 1992-93, SEBI has undertaken 1,212 investigation cases. In 1,107 cases investigations have been completed. The experience gained during investigations had contributed significantly to evolution of policies and procedures in strengthening regulatory and enforcement environment. During 2007-08, 25 new cases were taken up for investigation and 169 cases were completed (Table 3.20 and Chart 3.3). The number of investigations completed had gone up substantially from 102 during 2006-07 to 169 in 2007-08.

### i. Nature of Investigation Cases Taken Up

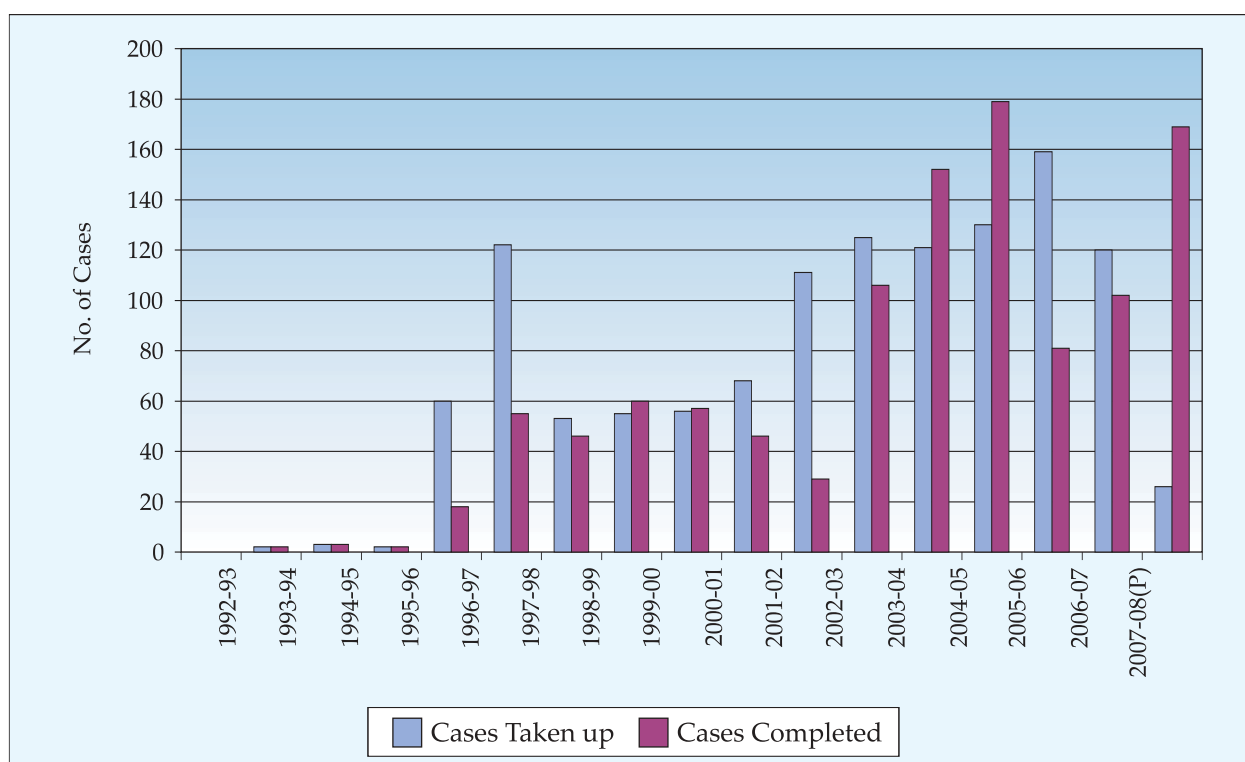
During 2007-08, about 50 per cent of the cases taken up for investigation pertain to market manipulation and price rigging, as against about 79 per cent of such cases in the previous year. Other cases pertain to insider trading, takeover violations, irregularities in capital issues, and other miscellaneous issues.

Table 3.20: Investigations by SEBI

Year	Cases Taken up for Investigation	Cases Completed
1	2	3
1992-93	2	2
1993-94	3	3
1994-95	2	2
1995-96	60	18
1996-97	122	55
1997-98	53	46
1998-99	55	60
1999-00	56	57
2000-01	68	46
2001-02	111	29
2002-03	125	106
2003-04	121	152
2004-05	130	179
2005-06	159*	81
2006-07	120*	102
2007-08 (P)	25	169
<b>Total</b>	<b>1,212</b>	<b>1,107</b>

\* : Revised P: Provisional.

Chart 3.3: Investigation Cases



Since, several investigation cases were taken up on the basis of multiple allegations of violations, strict classification under specific category becomes difficult. Such cases were classified on the basis of main charge/violations.

**ii. Nature of Investigation Cases Completed**

During 2007-08, of the 169 cases in which investigation were completed about 68

per cent pertain to market manipulation and price rigging, misleading advertisements by the companies and unfair practices. Other cases in which investigation were completed pertain to insider trading, capital issue related irregularities, takeover violations, non-compliance of disclosure requirements etc. The number of cases in which investigation were taken up and completed is given in Table 3.21, Chart 3.4 and Chart 3.5.

**Table 3.21: Nature of Investigations Taken up and Completed by SEBI**

Particulars	Investigations Taken up		Investigations Completed	
	2006-07	2007-08	2006-07	2007-08
1	2	3	4	5
Market manipulation and price rigging	95	12	77	115
Capital "Issue" related manipulation	0	0	4	3
Insider trading	18	7	10	28
Takeovers	2	2	3	2
Miscellaneous*	5	4	8	21
<b>Total</b>	<b>120</b>	<b>25</b>	<b>102</b>	<b>169</b>

\* Miscellaneous cases include investigations pertaining to GDR conversions, trading in the market after public issue, illegal carry forwards, non-disclosures under SEBI Regulations, fit & proper, etc.

**Chart 3.4: Nature of Investigation Cases Taken Up (2007-08)**

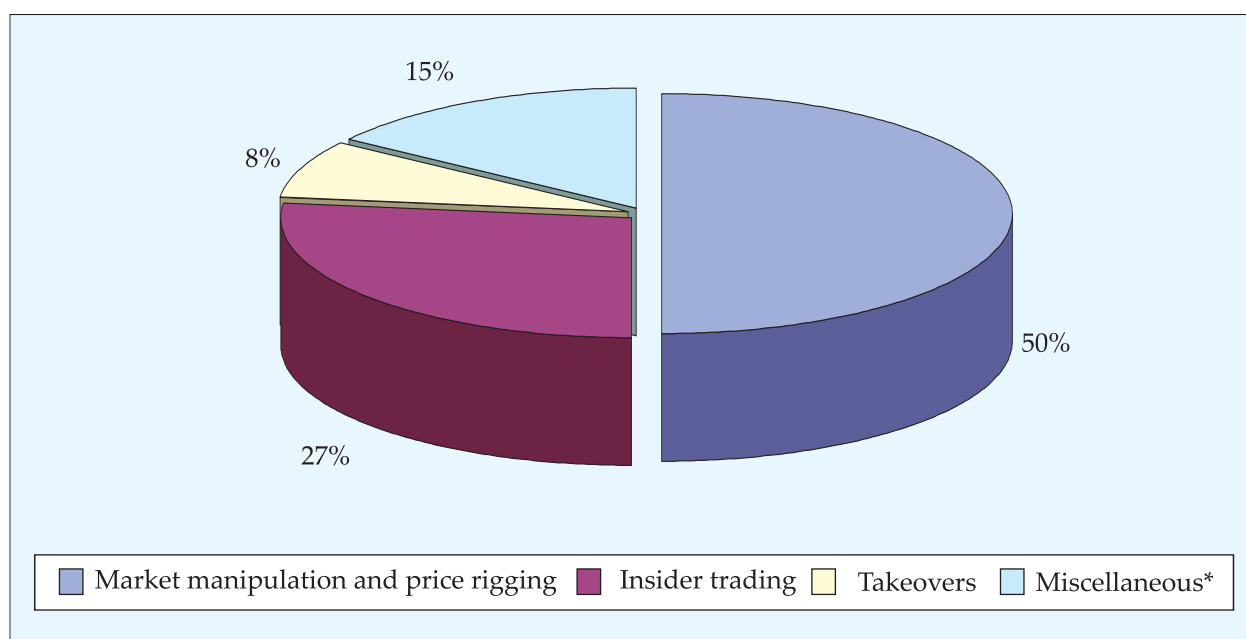
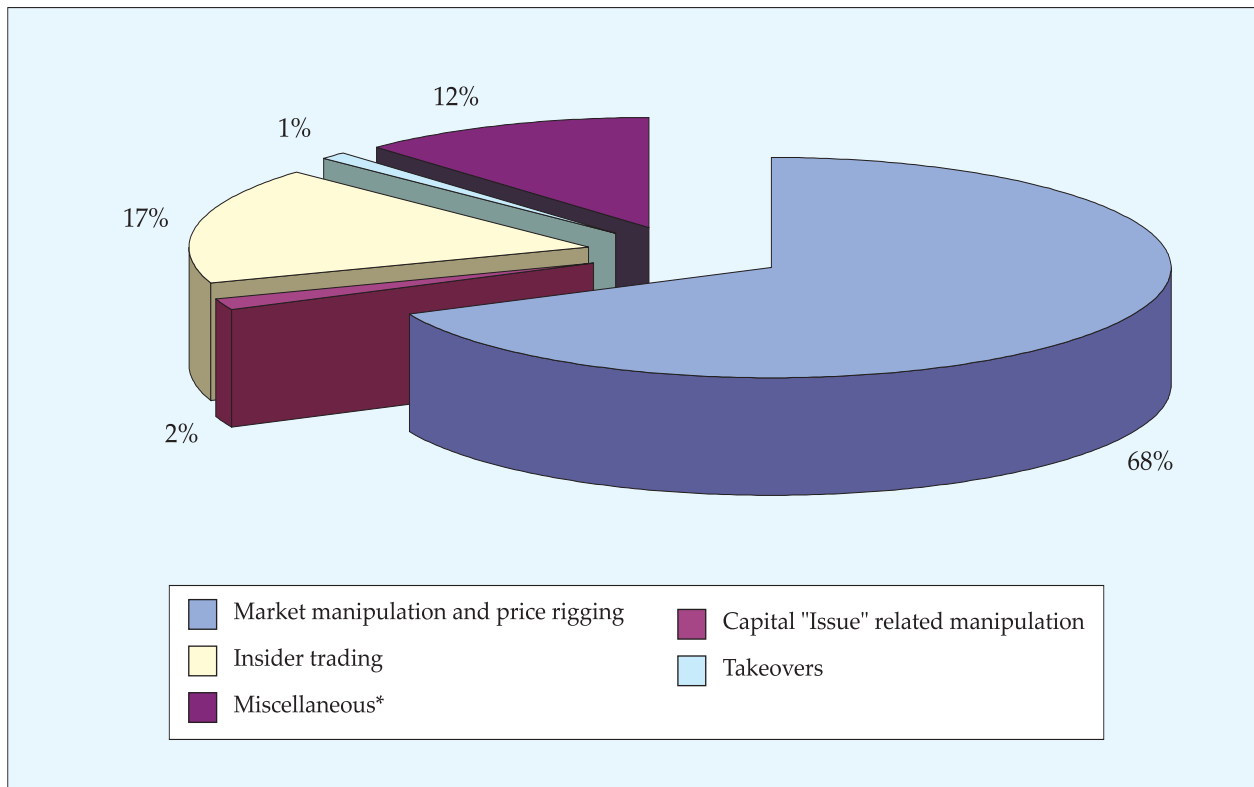


Chart 3.5: Nature of Investigation Cases Completed (2007-08)



## II. Regulatory Action

After completion of investigation, further action was initiated as per the recommendations made in the investigation reports and as approved by the competent authority. Action was decided based on the principles of objectivity, consistency and evidence available. The action included issuing warning letters, initiating enquiry proceedings for registered intermediaries, initiating adjudication proceedings against levy of monetary penalties, passing directions under Section 11 of SEBI Act and initiating prosecution.

Based on the investigation reports and with a view to enhancing regulatory effectiveness, prompt actions were taken during the year, against various entities.

During 2007-08, 544 prohibitive directions were issued under Section 11 of SEBI Act against various entities as against 345 in the previous year. A total of 44

intermediaries were suspended during 2007-08 (Table 3.22 and Chart 3.6).

Table 3.22: Type of Regulatory Actions Taken

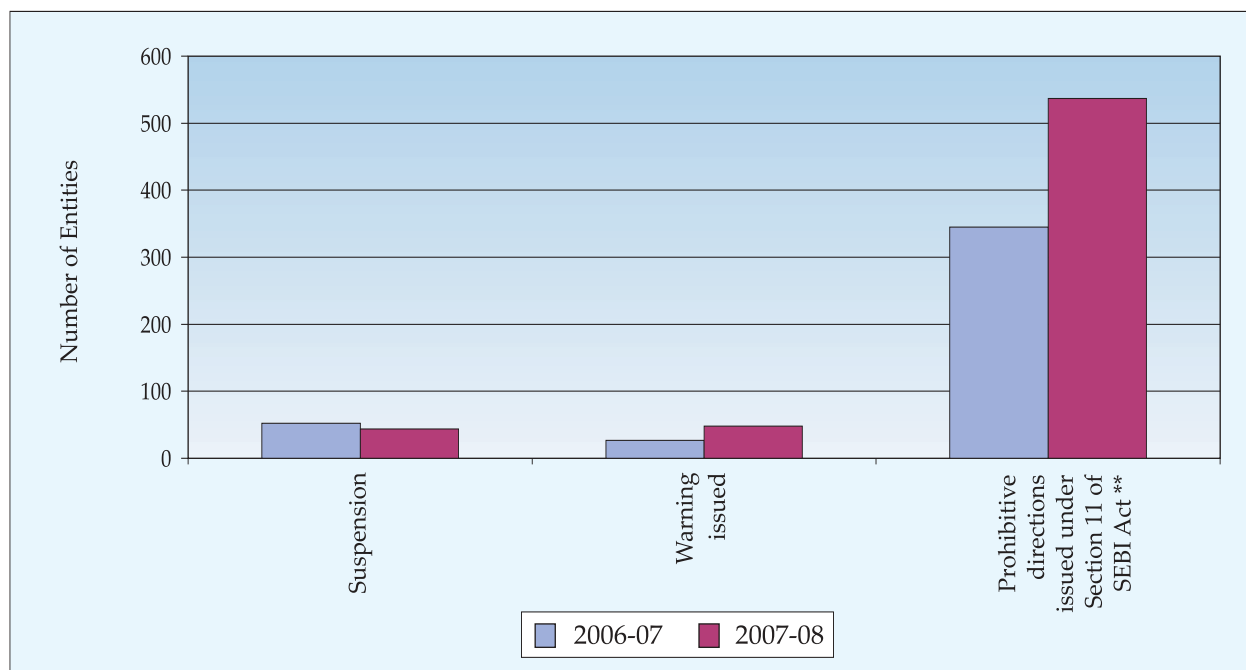
Particulars	No. of Entities	
	2006-07	2007-08
1	2	3
Suspension	52	44
Warning issued	27	48
Prohibitive directions issued under Section 11 of SEBI Act * *	345	537
<b>Total</b>	<b>424</b>	<b>629</b>

\*\* Against intermediaries and non-intermediaries.

## 6. ENFORCEMENT OF REGULATIONS

Effective enforcement is essential to make a regulatory system effective. Active follow-up of cases of misconduct and

Chart 3.6: Type of Regulatory Actions Taken



disciplinary actions in the form of justified penalties are indispensable for ensuring market integrity.

### I. Enquiry and Adjudication

During 2007-08, 218 orders were passed/ reports submitted, of which, 62 pertained to enquiries and 156 pertained to adjudications. During the same period, hearings for 317 cases were conducted; of which, 39 belonged to enquiries and 278 to adjudications. However, 918 show-cause notices were issued to different entities, of which, 60 pertained to enquiries and 858 cases pertained to adjudication (Table 3.23).

Details of pending enforcement actions as on March 31, 2008 are provided in Table 3.24.

### II. Market Intermediaries

SEBI initiated enquiry proceedings against five stock brokers in 2007-08 as against 11 stock brokers in the previous year (Table 3.25). Adjudication proceedings were initiated against 23 stock brokers in 2007-08 as against 38 stock brokers in 2006-07. During

Table 3.23: Enquiry and Adjudication during 2007-08

Particulars	Enquiry	Adjudication	Total
1	2	3	4
Orders Passed/ Report Submitted	62	156	218
Hearing Conducted	39	278	317
Show Cause Notices Issued	60	858	918

2007-08, only one warning was issued to stock brokers and three consent orders were passed (Table 3.25).

During 2007-08, enquiry proceedings were initiated against one merchant banker and one depository participant whereas adjudication proceedings were initiated against two depository participants and four registrars to an issue. Warning letters were issued to six depository participants, six registrars to an issue and one merchant banker (Table 3.26).

**Table 3.24: Pending Enforcement Actions\***

Pending with the Board	No. of Cases
1	2
Enquiry Related (excluding summary proceedings)	280
11B/11(4) Proceedings	1,189
<b>Total</b>	<b>1,469</b>
Pending with Enquiry and Adjudicating Officers	
Enquiry (Excluding summary proceedings)	268
Adjudications	1,919
<b>Total</b>	<b>2,187</b>
Total with SEBI	3,656
Prosecution Cases Pending before Courts	
CIS	545
Others	520
<b>Total</b>	<b>1,065</b>

\* As on March 31, 2008.

During 2007-08, adjudication proceedings were initiated against 96 issuer companies for delay in dematerialisation and prosecution were launched against one RTI/STA and its directors for dealing as transfer agent without registration.

**Table 3.25: Enquiry and Adjudication Proceedings against Stock Brokers/Sub-brokers**

Particulars	2006-07	2007-08
1	2	3
Enquiry Proceedings initiated– Stock Brokers	11	5
Summary Proceedings Initiated – Stock Brokers/ Sub- brokers	2	2
Enquiry Proceedings initiated – Sub-brokers	3	3
Adjudication Proceedings initiated	38	23
Warning - Pursuant to Chairman/Members Orders	1	1
Suspensions	32	7
Cancellation of Registration	40	38
Censure	11	10
Consent Orders	—	3

### III. Regulatory Actions against Stock Exchanges under Delegated Powers and Functions

The following regulatory actions were initiated by SEBI during 2007-08 under delegated powers and functions:

- i. SEBI withdrew the recognition u/s 5 (1) of SCR (A) granted to Saurashtra Kutch Stock Exchange Limited (SKSE) vide

**Table 3.26: Enquiry and Adjudication Proceedings against other Intermediaries\***

Intermediary	Adjudication	Enquiry	Warning	Cease and Desist	Warning / Censure Pursuant to Enquiry	Rejection of Application Pursuant to Enquiry
1	2	3	4	5	6	7
Depository Participant	2	1	6	0	0	0
Registrar to an Issue	4	0	6	1	0	0
Merchant Banker	0	1	1	0	0	0
Bankers to Issue	0	0	0	0	0	0

\* As on March 31, 2007-08.



order dated July 06, 2007, which was upheld vide SAT order dated July 13, 2007. The stock exchange had subsequently appealed to the Hon'ble High Court of Gujarat, where the appeal was dismissed by the Hon'ble High Court vide Order dated November 19, 2007. Further, Hon'ble Supreme Court has also dismissed an appeal filed by SKSE challenging withdrawal of its recognition by SEBI.

- ii. The permanent recognition granted to Hyderabad Stock Exchange Limited was withdrawn u/s 5 (2) of SCR (A) with effect from August 29, 2007, due to its failure to dilute at least 51 per cent of its equity share capital to public other than shareholders having trading rights on or before the stipulated date i.e. August 28, 2007, as per Corporatisation and Demutualisation Scheme. The Hon'ble High Court of Andhra Pradesh at Hyderabad vide order dated January 17, 2008 dismissed the Writ Petition filed by the broker members of the exchange.
- iii. SEBI refused to grant renewal of recognition u/s 4 (4) of SCR (A) to Magadh Stock Exchange Limited vide order dated September 3, 2007.
- iv. An order dated February 18, 2008 was passed against Madhya Pradesh Stock Exchange Ltd. granting an opportunity to rectify the deficiencies observed in the

inspection report of SEBI and put in place the basic systems required to perform as a recognised stock exchange within a period of three months from the date of the order, failing which SEBI would withdraw the permanent recognition granted to the stock exchange.

- v. Interconnected Stock Exchange of India Limited had appointed a public representative director without the prior approval of SEBI. Upon direction of SEBI he relinquished his office on November 08, 2007.
- vi. CEO of LSE Securities Limited was directed to relinquish office on December 20, 2007, as he was appointed without the prior approval of SEBI.

The governing board of three stock exchanges was reconstituted during 2007-08 (Table 3.27).

#### IV. Regulatory Actions against Mutual Funds

##### i. Warning and Deficiency Letters

During 2007-08, 13 warning letters were issued to ten mutual funds considering the magnitude and seriousness of violations of SEBI regulations/guidelines. Of the total, three warnings were issued for violating the advertising code. Nine deficiency letters were issued on the inspection report for the period

**Table 3.27: Re-constitution of the Governing Boards of Stock Exchanges during 2007-08**

S. No.	Stock Exchange	Superseded since	Date of Re-constitution
1	2	3	4
1.	The Uttar Pradesh Stock Exchange Association Ltd.	July 12, 2002	March 31, 2008
2.	The Calcutta Stock Exchange Association Ltd.	December 04, 2003	December 24, 2007
3.	Bhubaneswar Stock Exchange Limited	January 03, 2003	March 26, 2008

from July 01, 2003 to June 30, 2005 to nine mutual funds to strengthen their systems and improve compliance standards.

## ii. Payment of Penal Interest

SEBI has made it mandatory for mutual funds to pay interest at the rate of 15 per cent per annum for delays in the dispatch of repurchase/redemption proceeds to the unit holders. The mutual funds are required to report these cases of delays to SEBI on a bi-monthly basis. During 2007-08, 32 mutual funds paid Rs. 20.2 lakh to 3,644 investors for delay in dispatch as against Rs. 5.9 lakh paid to 1,530 investors in 2006-07 (Table 3.28).

## V. Regulatory Actions under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997

During 2007-08, 30 cases were referred for adjudication under Section 15 of the SEBI Act, 1992 for alleged violation of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. During the year, a sum of Rs. 29, 35,000 was received as monetary penalty.

## 7. PROSECUTION

### I. Trends in Prosecution

#### i. Number of Prosecutions Launched

During 2007-08, number of cases where prosecution launched increased to 39 from 21 in 2006-07 (Table 3.29). Till 2007-08, region-wise, the highest number of prosecutions were launched Western Region (539) followed by the Northern region (327) (Table 3.30).

#### ii. Higher Court Proceedings

During 2007-08, 64 applications/petitions filed in the Higher Courts viz. Sessions Courts, High Courts and Supreme Court challenging the Prosecution cases, of which, 24 had been decided.

### iii. Important Court Pronouncements in Prosecution Matters

- a. Special Case No.287 of 2006 decided by the Ld. Additional Sessions Court/ Designated Court for SEBI cases at Kurla, convicting the accused for one year imprisonment and Rs. 5,000 fine for each of the two offences under SEBI Act and SC(R)Act for acting as unregistered sub-broker.
- b. On the issue of Trial Jurisdiction of the cases filed under SEBI Act, the Ld. Sessions Court, Mumbai upheld the stand of SEBI that pursuant to the amendment in SEBI Act w.e.f. October 10, 2002, all the cases whether offences committed and/or complaints filed before or after the said amendments shall be triable by the Sessions Court and not by the Magistrate Court. On an appeal by the accused, the Single Bench of Hon'ble Bombay High Court held that all cases where the offences committed prior to the said amendment whether filed before or after the amendment are required to be tried by the Magistrate Court and not by the Sessions Court. On the contrary, the Division Bench of Hon'ble Delhi High Court held that all the cases filed after the amendment notwithstanding whether offence was committed before or after the said amendment is triable by the Sessions Court and not the Magistrate Court. Aggrieved by the decision of the Hon'ble Bombay High Court, SEBI has filed Special Leave Petitions (SLP) before the Hon'ble Supreme Court, which are pending.

### II. Nature of Prosecution

Prosecutions are launched by SEBI under the Companies Act, Depositories Act, SC(R)A and the Indian Penal Code. Of 1,065 prosecution cases launched as on March 31,

**Table 3.28: Interest Paid by Mutual Funds to the Investors for Delayed Redemptions / Repurchases**

Bi-Monthly Mutual Funds	May-07		Jul-07		Sep-07		Nov-07		Jan-08		Mar-08		Fund-wise Total	
	Amt.	#	Amt.	#	Amt.	#	Amt.	#	Amt.	#	Amt.	#	Amt.	#
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ABN AMRO MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
AIG Global Investment Group MF	0.00	0	0.00	0	0.00	0	0.00	0	475	2	0.00	0	475.00	2
Benchmark MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Birla Sun Life MF	2,131.00	2	0.00	0	0.00	0	0.00	0	0.00	0	2,318	11	4,449.00	13
BOB MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Canara Robeco MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	14802	4	14,802.00	4
DBS Chola MF	419.00	1	1,237.00	8	0.00	0	0.00	0	0.00	0	2,568.00	2	4,224.00	11
Deutsche MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
DSP ML MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Escorts MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Fidelity MF	521.20	21	4,606.15	16	48.66	4	3,635.04	16	325.16	8	10,600.33	8	19,736.54	73
HDFC MF	1,331.51	1	102.59	1	178.19	1	5,527.04	6	12,579.84	48	20,772.37	32	40,491.54	89
HSBC MF	426.13	1	2,846.09	6	3,114.57	19	1,313.00	5	885.07	2	923.23	2	9,508.09	35
ING MF	0.00	0	261.25	6	0.00	0	1,876.43	16	438.48	2	135	9	2,711.60	33
J M Financial MF	5,559.74	1	0.00	0	54,301	1	0.00	0	0.00	0	1,613	4	7,715.75	6
JP Morgan MF	0.00	0	0.00	0	0.00	0	0.00	0	205.21	2	0.00	0	205.21	2
Kotak Mahindra MF	1,497.19	6	0.00	0	16.98	2	17.48	1	319.83	1	2,103.88	7	3,955.36	17
LIC MF	208.85	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	208.85	1
Lotus India MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Morgan Stanley MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Principal MF	93,573.26	10	16,711.50	6	0.00	0	0.00	0	0.00	0	17,057.70	13	1,27,342.46	29
ICICI Prudential MF	2,743.31	3	84,497.31	8	0.00	0	62	1	0.00	0	1800	3	89,102.62	15
Quantum MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Reliance MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	2,339.00	3	2,339.00	3
Sahara MF	496.00	1	0.00	0	0.00	0	0.00	0	0.00	0	957.28	1	1,453.28	2
SBI MF	51,052.15	42	9,547.52	60	17,669.83	66	26,954.00	120	37,620.36	134	45,161.95	177	1,88,005.81	599
Standard Chartered MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	2719.90	5	2,719.90	5
Sundaram BNP Paribas MF	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	—	—
Tata MF	451.53	3	208.04	1	5,390.57	13	279.68	3	20,049.80	4	4,667.28	10	31,046.90	34
Taurus MF	2,700.86	3	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	2,700.86	3
Franklin Templeton MF	9,302.41	2	8,934.14	4	5,313.59	8	5,286.07	3	1629.22	4	10,290.93	9	40,756.36	30
UTI MF	17,265.02	151	27,477.28	211	31,212.98	243	40,115.29	389	1,310.97	3	13,07,261	1,641	14,24,642.54	2,638
<b>TOTAL</b>	<b>1,89,679.16</b>	<b>249</b>	<b>1,56,428.87</b>	<b>327</b>	<b>63,488.38</b>	<b>357</b>	<b>85,066.03</b>	<b>560</b>	<b>75,838.94</b>	<b>210</b>	<b>14,48,090.85</b>	<b>1,941</b>	<b>20,18,592.67</b>	<b>3,644</b>

# - indicates number of investors.

Table 3.29: Prosecutions Launched

Year	No. of cases in which prosecution has been launched	No. of persons/entities against whom prosecution has been launched
1	2	3
Up to and including 1995-96	10	58
1996-97	13	63
1997-98	11	81
1998 -99	15	145
1999-2000	23	121
2000-01	20	98
2001-02	115	613
2002-03	229	848
2003-04	458	2377
2004-05	84	410
2005-06	27	81
2006-07	21	149
2007-08	39	188
<b>Total</b>	<b>1,065</b>	<b>5,232</b>

Table 3.30: Region-wise Data on Prosecution Cases\*

Region	Number of Cases	Percentage of Total
1	2	3
Western Region	539	50.61
Northern Region	327	30.70
Southern Region	113	10.61
Eastern Region	86	8.08
<b>Total</b>	<b>1,065</b>	<b>100.00</b>

\* Up to March 31, 2008.

2008, 966 cases were launched under the SEBI Act, 1992, 62 cases under Companies Act, 1956, 16 under SC(R)A, 1956, 13 under Depositories Act and eight under IPC (Table 3.31).

Table 3.31: Nature of Prosecutions Launched\*

Nature of Prosecution Launched	Number of Cases
1	2
Securities and Exchange Board of India Act, 1992	966
Companies Act, 1956	62
Securities Contracts (Regulation) Act, 1956	16
Depositories Act, 1996	13
IPC	8
<b>Total</b>	<b>1,065</b>

\* Up to March 31, 2008.

Table 3.32: Number of Cases Decided by the Courts\*

Type of Decision by Courts	Number of Cases
1	2
Convictions	56
Cases where Accused Declared as Proclaimed Offender	19
Compounded (Fully)	45
Compounded (Partly)	7
Abated	4
Withdrawn	1
Dismissed	25
<b>Total</b>	<b>157</b>

\* Up to March 31, 2008.

### III. Disposal of Prosecution Cases

Of the 157 court cases decided by the Court in 2007-08, 56 cases resulted in convictions and 25 cases were dismissed. In 15 out of 25 dismissed cases, SEBI has challenged the dismissal in Higher Courts.

### IV. Litigations, Appeals and Court Pronouncements

During 2007-08, 179 cases were filed and 92 cases were admitted/allowed/withdrawn,

351 such cases are pending, where SEBI was a party (Table 3.33). During the year, 250 appeals were filed before Securities Appellate Tribunal (SAT), whereas 73 appeals were dismissed (Table 3.34). Under section 15Z of the SEBI Act, in 12 cases appeals were filed by SEBI whereas 27 appeals were filed against SEBI, against the orders of SAT

during 2007-08 (Table 3.35). Out of 604 consent applications received during 2007-08, 51 were disposed off whereas 21 were rejected (Table 3.36). In case of 81 compounding applications filed, 47 applications were disposed off and six were rejected during 2007-08 (Table 3.37).

**Table 3.33: Court Cases where SEBI was a Party during 2007-08**

(Number)

Subject Matter	Cases Filed	Cases Pending	Cases Admitted/ Allowed/Withdrawn
1	2	3	4
Stock Brokers Registration Fees Cases	23	33	18
Collective Investment Schemes	3	23	Nil
Consumer Forum Cases	16	33	5
General Services Department	2	1	1
Investigations Enforcement And Surveillance Department	84	82	52
Primary Market Department	14	37	06
Secondary Market Department	12	53	4
Takeovers	3	33	3
Depositories And Participants	2	1	2
Mutual Funds	Nil	11	1
OIAE	1	3	1
Civil/Criminal Courts	7	7	Nil
Policy	4	24	Nil
<b>Total</b>	<b>171</b>	<b>341</b>	<b>93</b>

**Table 3.34: Appeals before the Securities Appellate Tribunal during 2007-08**

(Number)

Status of Appeals	Number of Appeals
1	2
Appeals Filed	203
Appeals Dismissed	69
Appeals Remanded	12
Appeals Allowed	52
Appeals Modified	29
Appeals Withdrawn	6
Appeals Disposed As Infructuous	8
Appeals Pending	138

**Table 3.35: Appeals under Section 15Z of the SEBI Act against the Order of Securities Appellate Tribunal during 2007-08**

(Number)

Subject Matter	Cases filed	Cases pending	Cases dismissed / allowed
1	2	3	4
Appeals filed by SEBI	15	25	2 (1 withdrawn, 1 dismissed)
Appeals filed against SEBI	29	23	17 (14 dismissed, 3 remanded), 1 allowed

**Table 3.36: Consent Applications filed with the SEBI during 2007-08**

Number of Consent Applications Received	Number of Applications Disposed of*	Consent Terms** (Rs.)	Number of Applications Rejected
1	2	3	4
604	51	2,49,35,000	21

\* including proceedings with SEBI, SAT &amp; Courts.

\*\* Amount received towards disgorgement, settlement &amp; legal expense.

**Table 3.37: Compounding Applications filed by the Accused in Criminal Courts during 2007-08**

Number of Compounding Applications filed	Number of Applications Compounded		Compounding charges rejected by SEBI*	Number of Applications rejected
	Fully Compounded	Partly Compounded		
1	2	3	4	5
81	42	6	91, 74, 800	6

\* Amount received including disgorgement and legal expense.

## 8. RESEARCH ACTIVITIES

The main activities of the Research Department comprises of the publication of SEBI Annual Report, SEBI Bulletin, Handbook of Statistics on the Indian Securities Market, preparation of regular reviews, policy notes and country profiles etc. Monthly reviews include reviews on derivative markets and emerging markets (along with the database). Department is also

actively involved in third Investor Survey to be conducted in collaboration with NCAER. During 2007-08, presentation was made by the Research Department before the delegation from the National Defense College. The department also generates periodic reports for internal and external uses including weekly and monthly reports for the Ministry of Finance.