PART ONE: POLICIES AND PROGRAMMES

SEBI functions within the legal framework of the SEBI Act, 1992. The statutory objectives of SEBI as enshrined in the SEBI Act, 1992 are fourfold:

- Protection of the interests of investors in securities;
- Development of the securities market;
- Regulation of the securities market; and
- Matters connected therewith and incidental thereto.

In keeping with these objectives, SEBI has set for itself strategic aims in the four key spheres which encompass SEBI's activities, namely, investors, issuers, intermediaries and regulatory regime.

To the **investors**, SEBI strives to assure that their rights are protected, they are able to make informed choices and decisions and the market is fair in its financial dealings.

To the **issuers**, SEBI strives to provide a transparent, efficient market where they are able to raise resources at reasonable cost, conduct themselves in accordance with the highest standards of corporate governance, and diligently meet their regulatory obligations.

To the **intermediaries**, SEBI strives to provide a market in which they can compete freely and operate in a manner which gives the investors and market participants confidence that the market is efficient, orderly and fair. In the regulatory regime, SEBI seeks to ensure transparency - that it always remains appropriate, proportionate and effective.

With these strategic aims in view, SEBI has been constantly reviewing and reappraising its policies and programmes, formulating new policies and regulations to cover areas hitherto unregulated or inadequately regulated and implementing them in a manner so as to promote the growth of the market with transparency, fairness, efficiency and integrity.

The major policy reforms and developments in the Indian capital market during 2003-04 are presented in Box 1.1.

Box 1.1: Major Policy Reforms and Developments in the Capital Market during 2003-04

Issue Norms

- In order to ensure the high quality of issuers accessing the primary securities market, SEBI has introduced an additional criteria of 'net tangible assets', 'minimum number of allottees in public issue' and 'profitability'.

Disclosure Requirements

- With a view to making Indian primary market more disclosure based and comparable with international standards, amendments have been made to the Guidelines to add additional disclosures in the offer documents. The offer documents should contain information relating to financial statements as per the Indian Accounting Standards.

Amendments in Book Building Guidelines

- In order to make price discovery process more realistic, immune from artificial demand and more responsive to market expectations, the companies have been provided with some flexibility in the indication of price band either movable or fixed floor price in the Red Herring Prospectus. Qualified institutional buyers (QIBs) have been prohibited from withdrawing their bids after the closure of bidding.

Box 1.1: Major Policy Reforms and Developments in the Capital Market during 2003-04 *(Contd.)*

Green Shoe Option

- As a stabilization tool for post listing price of newly issued shares, SEBI has introduced the green shoe option facility in IPOs.

Central Listing Authority

- The Central Listing Authority has been set up with Shri M. N. Venkatachalaiah, former Chief Justice of India as its President. The aim of CLA is to ensure uniform and standard practices for listing the securities on stock exchanges.

Margin Trading

- With a view to providing greater liquidity in the secondary securities market, SEBI has allowed corporate brokers with a net worth of at least Rs.3 crore to extend margin trading facility to their clients in the cash segment of stock exchanges.
- The brokers may use their own funds or borrow from scheduled commercial banks or NBFCs regulated by RBI but the total indebtedness for this purpose should not exceed five times the net worth.

Securities Lending and Borrowing

- A clearing corporation/clearing house, after registration with SEBI, under the SEBI scheme for Securities Lending and Borrowing, as an approved intermediary, may borrow securities for meeting shortfalls in settlement, on behalf of the members.

Secondary Market for Corporate Debt Securities

- With a view to providing greater transparency and protecting the interests of investors in debt securities, SEBI has prescribed new guidelines for regulating private placement of debt securities issued by the corporates.
- Full disclosure (initial and continuing) as per Companies Act 1956, SEBI (DIP) Guidelines 2000 and Listing Agreement are to be made by the companies.
- Credit rating of debt securities, appointment of debenture trustees, separate Listing Agreement, frequent furnishing of periodical reports to SEBI etc. have been made mandatory to enhance the protection of investors in debt instruments.

Central Database of Market Participants

- With a view to promoting up-to-date information about all market participants, SEBI has made it mandatory for every intermediary, to make an application for allotment of unique identification numbers for itself and for its related persons, under the SEBI (Central Database of Market Participants) Regulations, 2003).
- This will be made mandatory for investors and companies at a later date.

Additional Continual Disclosures

- With a view to providing further transparency and mitigating impacts of rumours and speculation, the brokers have been advised to disclose the details of bulk deals. Stock exchanges were advised to amend Clause 41 of the Listing Agreement to make it mandatory for the listed companies to publish the number of investor complaints received, disposed of, unresolved alongwith their quarterly results.

Enhance Market Safety and Reduce Credit Risk

- Clearing and settlement cycle time has been further contracted to T+2 with effect from April 1, 2003 and this measure is expected to result in faster settlement, higher safety and lower settlement risk in the Indian capital market.

Mutual Funds

- With a view to strengthening the position, specifying accountability and protecting the interest of investors, SEBI has defined the roles of Chief Executive Officer and Fund Manager of mutual funds.
- Regulatory practices should be fair to all concerned in the market place. In order to enhance fairness, a uniform cut-off time for calculating and applying NAVs, both for subscriptions and redemptions have been prescribed.

Box 1.1: Major Policy Reforms and Developments in the Capital Market during 2003-04 *(Contd.)*

- Skewed holdings in mutual funds schemes may lead to distortion. To avoid any distortion in the unit holding pattern and its impact, minimum number of investors in a scheme has been prescribed. Further, it has been specified that no single investor should hold more than 25 per cent of the corpus of any scheme/ plan.
- Opportunities for investing have been widened for mutual funds by allowing them to invest in derivative securities. They have also been permitted to invest up to 10 per cent of the net assets as on January 31 of each year in foreign securities with the limit of minimum US $ 5 million and maximum of US $ 50 million.

Derivatives Contracts Trading

- To make Indian capital market more efficient and world class, new products have been permitted. Interest rate futures contracts were introduced in June 2003 and futures and options contracts on sectoral indices have been introduced in August 2003.
- FIIs and NRIs have been permitted to invest in all exchange traded derivative contracts.
- Exchange traded derivatives contracts on a notional 10 year Government bond have been allowed for trading.
- Stock brokers have been allowed to trade in commodity derivatives.

Foreign Institutional Investors (FIIs)

- To strengthen the "know your client" regime and in the interest of greater efficiency of the market, it has been made mandatory for the FIIs, to report issuance / renewal / cancellation / redemption of off-shore derivatives instruments against underlying Indian securities. Issuance of such derivatives has been limited only to regulated entities.
- FIIs have been allowed to participate in de-listing offers to afford an exit opportunity. They have also been allowed to participate in sponsored ADR/ GDR programmes.
- FIIs have also been permitted to participate in divestment by the Government in listed companies.

With a view to making markets more competitive and compliant, SEBI has brought in the following new regulations

- SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003
- SEBI (Ombudsman) Regulations, 2003
- SEBI (Central Listing Authority) Regulations, 2003
- SEBI (Central Database for Market Participants) Regulations, 2003
- SEBI (Self Regulatory Organizations) Regulations, 2004
- SEBI (Criteria For Fit and Proper Person) Regulations, 2004

As a measure of regulatory pro-activeness, the existing regulations were reviewed and the following amendment to regulations were notified

- SEBI (Foreign Institutional Investors) (Amendment) Regulations, 2003
- SEBI (Mutual Funds) (Amendment) Regulations, 2003
- SEBI (Depositories and Participants)(Amendment) Regulations, 2003
- SEBI(Debenture Trustees) (Amendment) Regulations, 2003
- SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2003
- SEBI (Issue of Sweat Equity)(Amendment) Regulations, 2003
- SEBI (Stock Brokers and Sub-Brokers)(Amendment) Regulations, 2003
- SEBI (Stock Brokers and Sub-Brokers) (Second Amendment) Regulations, 2003
- SEBI(Procedure for Holding Enquiry and Imposing Penalty)(Amendment) Regulations, 2003
- SEBI (Ombudsman)(Amendment) Regulations, 2003
- SEBI (Foreign Institutional Investors) (Amendment) Regulations, 2004

1. CURTAIN RAISER: THE ENVIRONMENT FOR CAPITAL MARKET

I. General Economic Environment

Real GDP witnessed a growth of 8.1 per cent during the year 2003-04 as compared to 4.0 per cent growth in the year 2002-03. Even though growth was experienced in all the three segments of the economy, viz., manufacturing, services and agriculture, the rebound in performance in agriculture sector exhibiting the growth to 9.1 per cent during the year 2003-04 against the negative growth to 5.2 per cent in the previous year, had substantial impact on the record breaking performance. In fact, trade, hotels, transport and communication together performed very well in the increased growth of 10.9 per cent in 2003-04 as compared to 7.0 per cent growth in 2002-03. The loss of growth in mining and quarrying industries from 8.8 per cent in 2002-03 to 4.0 per cent in 2003-04 was very well absorbed without a negative impact on the overall growth of GDP. Thus, the high GDP growth of 8.1 per cent during 2003-04 seems to have been propelled by the growth rates of over 5.0 per cent in sectors like agriculture, forestry and fishing, manufacturing, electricity, gas and water supply, construction, trade, hotels, transport and communication, financing, insurance, real estate and business services, and community, social and personal services. The share of agriculture sector to GDP increased marginally from 21.95 per cent to 22.16 per cent during 2003-04. While the share of industry to GDP declined marginally from 22 per cent in 2002-03 to 21.70 per cent in 2003-04, the share of services sector to GDP, increased slightly from 56.05 per cent in 2002-03 to 56.13 per cent in 2003-04.

Gross Domestic Savings (GDS) increased from 23.5 per cent in 2001-02 to 24.2 per cent of the GDP at market prices. The steady growth of Gross Domestic Savings (GDS) at current prices has been facilitated by improvement in the personal disposable income emanating from high GDP growth and low inflation rates. There was growth in both the financial and physical assets owned by the household sector during the year 2002-03 as compared to that in 2001-02. The savings in term of physical assets by households was higher at Rs.3,04,851 crore compared to Rs.2,54,407 crore in financial assets as at the end of the year 2002-03. There has been some shift in the movement of household savings to physical assets which indicates that household savings in the system are being driven not only by current incomes but also on expected future cash flows.

Further, the composition of household savings in financial assets reflects that the share of investment by households in shares and debentures has gone up to 3.9 per cent in 2002-03 from 2.8 per cent in 2001-02 – a marginal increase of 1.1 per cent. In 1999-2000, shares and debentures accounted for 7.5 per cent of the total household financial savings which dropped to 4.2 per cent in 2000-01 and further to 2.8 per cent in 2001-02 and has now increased to 3.9 per cent in 2002-03. In the contractual savings also, there was a rise from 30.6 per cent in 2001-02 to 32.6 per cent in 2002-03. However, the share of household investments in bank deposits declined from 39.8 per cent in 2001-02 to 37.4 per cent in 2002-03. The investments of households in financial assets as a per centage of GDP at current market prices declined from 11.1 per cent in 2001-02 to 10.3 per cent in 2002-03.

There has been a substantial growth in foreign exchange reserves in recent years. The foreign exchange reserves including reserve tranche position in IMF increased to US$ 1,12,959 million in 2003-04 from US $ 76,100 million in 2002-03 due to the strong confidence reposed by international investors in the Indian economy leading to large portfolio investments. The financial markets too experienced a decline in real interest rates and easy liquidity situation.

The market witnessed availability of wide spectrum of financial products including derivatives for the investors leading to stock market boom in the country.

Table 1.1: National Income (At 1993-94 prices)

(Rs. Crore)

Item	2001-02	2002-03 (Quick Estimate)	2003-04 (Advance Estimate)
A. Estimates at Aggregate Level			
1. National Product			
1.1 Gross national product (GNP) at factor cost	12,59,829	13,06,811 (3.70)	14,12,997 (8.10)
1.2 Net national product (NNP) at factor cost	11,17,282	11,56,714 (3.50)	12,53,732 (8.40)
2. Domestic Product			
2.1 Gross domestic product (GDP) at factor cost	12,67,833	13,18,321 (4.00)	14,24,507 (8.10)
2.2 Net domestic product (NDP) at factor cost	11,25,286	11,68,224 (3.80)	12,65,242 (8.30)
B. Estimates at Per Capita Level			
1. Population (million)	1,037	1,055 (1.70)	1,073 (1.70)
2. Per capita NNP at factor cost (Rs.)	10,774	10,964 (1.80)	11,684 (6.60)

Note: The figures in parenthesis show the percentage change over previous year.

Source: Central Statistical Organization (CSO).

Chart 1.1: Share of Various Savings in Gross Savings

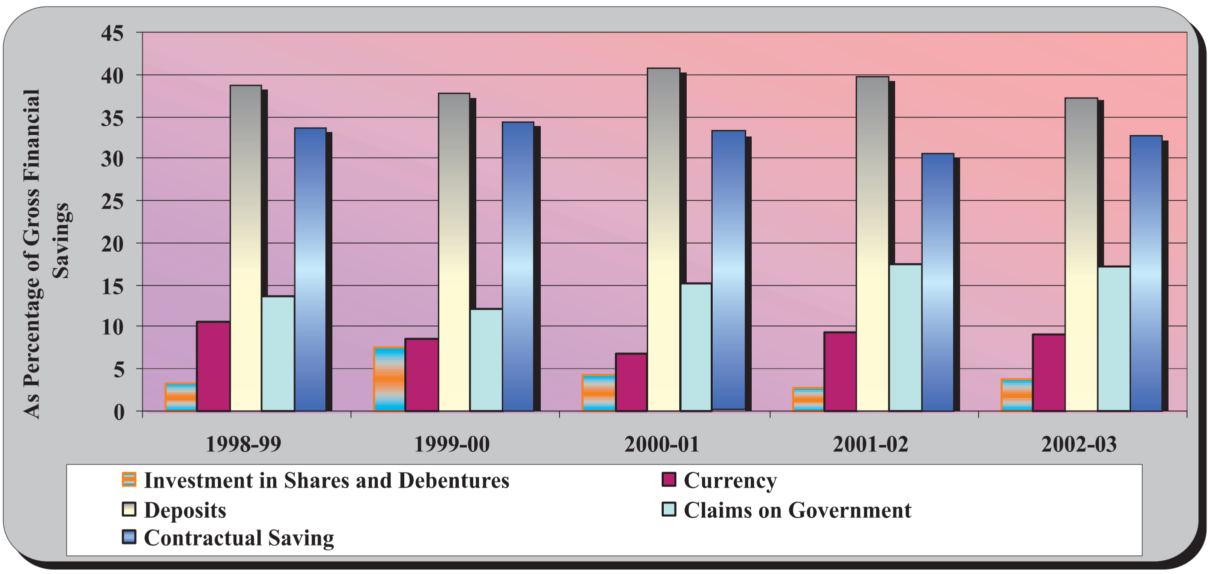


Table 1.2: Gross Domestic Saving and Investment

	*Percentage of GDP ***				(Rs. Crore)			
Item	***1999-00***	***2000-01***	***2001-02@***	**2002-03***	**1999-00**	**2000-01**	**2001-02**	**2002-03**
1	*2*	*3*	*4*	5	6	7	8	9
Household Sector Saving	*20.8*	*21.7*	*22.7*	22.6	4,02,360	4,53,641	5,19,040	5,59,258
a. Financial Assets	*10.5*	*10.4*	*11.1*	10.3	2,03,702	2,17,841	2,54,304	2,54,407
b. Physical Assets	*10.3*	*11.3*	*11.6*	12.3	1,98,658	2,35,800	2,64,736	3,04,851
Private Corporate Sector Savings	*4.4*	*4.1*	*3.5*	3.4	84,329*	86,142	78,849	84,169
Public Sector Savings	*-1*	*-2.3*	*-2.7*	-1.9	-20,049	-48,022	-62,704	-45,730
Gross Domestic Savings (GDS)	*24.1*	*23.5*	*23.5*	24.2	4,66,640	4,91,761	5,35,185	5,97,697
Net capital inflow	*1.1*	*0.6*	*-0.3*	-0.9	21,988	12,977	-7,268	-22,664
Gross Domestic Capital Formation (GDCF)	*25.2*	*24.2*	*23.1*	23.3	4,88,628	5,04,738	5,27,917	5,75,033
Total Consumption Expenditure	*78.6*	*77.7*	*77.9*	76.9	15,22,664	16,24,255	17,78,358	18,99,959
a. Private Final consumption expenditure	*65.7*	*65.1*	*65.5*	64.4	12,71,556	13,60,018	14,94,050	15,91,132
b. Government final consumption expenditure	*13*	*12.6*	*12.5*	12.5	2,51,109	2,64,237	2,84,308	3,08,827
Memo Items								
Savings-Investment Balance (4-6)	*-1.1*	*-0.6*	*0.3*	0.9	-21,988	-12,977	7,268	22,664
Public Sector Balance#	*-8*	*-8.7*	*-8.6*	-7.5	-1,54,533	-1,82,047	-1,95,707	-1,86,116
Private Sector Balance #	*8.4*	*9.6*	*9.7*	8.9	1,62,911	2,00,187	2,21,832	2,19,997
a. Private Corporate Sector	*-2.1*	*-0.8*	*-1.4*	-1.4	-40,791	-17,654	-32,472	-34,410
b. Household Sector	*10.5*	*10.4*	*11.1*	10.3	2,03,702	2,17,841	2,54,304	2,54,407
Investment in Shares and Debentures as per centage of financial assets (gross)+	*7.50*	*4.20*	*2.80*	3.90				

@ Provisional Estimates;

* Quick Estimates;

\# Investment figures not adjusted for errors and omissions.

** At current Market Prices.

\+ Including Units of UTI and Other Mutual funds. $ data pertain to July 2003

Source: RBI.

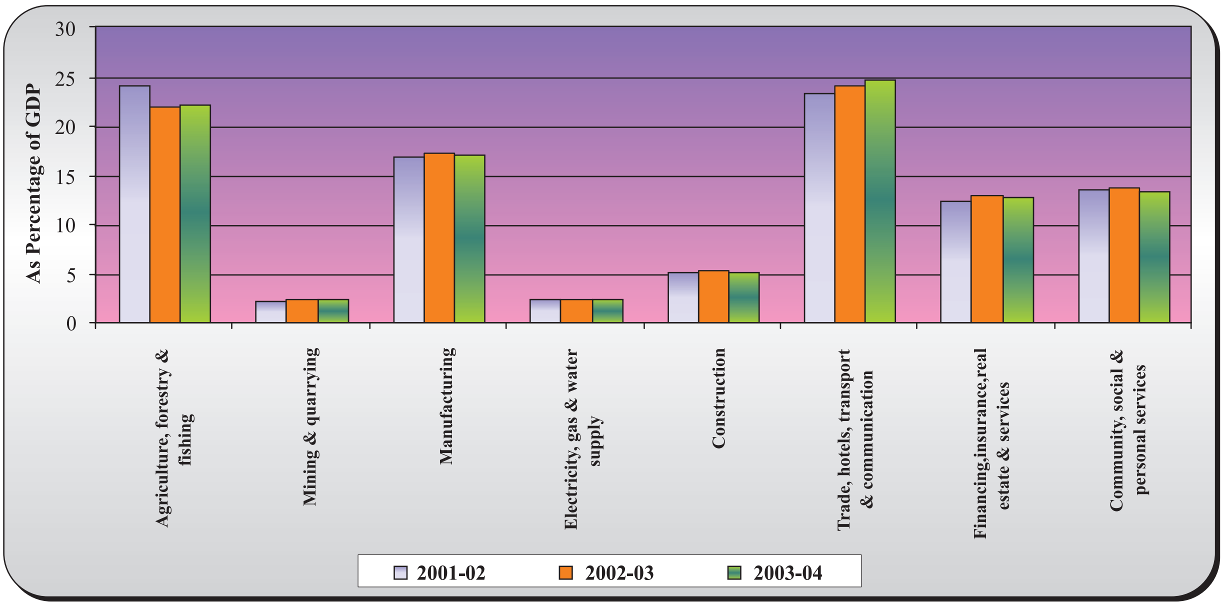
Table 1.3: GDP at Factor Cost by Economic Activity (At 1993-94 prices)

(Rs. Crore)

Industry	2001-2002	2002-2003 (Quick Estimate)	2003-2004 (Advance Estimate)	Percentage change over previous year	
				2002-2003	*2003-2004*
1. Agriculture, forestry and fishing	3,05,263	2,89,386	3,15,786	*-5.2*	*9.1*
2. Mining and quarrying	28,545	31,047	32,286	*8.8*	*4.0*
3. Manufacturing	2,13,681	2,27,035	2,43,162	*6.2*	*7.1*
4. Electricity, gas and water supply	30,692	31,861	33,575	*3.8*	*5.4*
5. Construction	64,562	69,273	73,464	*7.3*	*6.0*
6. Trade, hotels, transport and communication	2,96,905	3,17,788	3,52,537	*7.0*	*10.9*
7. Financing, insurance, real estate and business services	1,57,733	1,71,645	1,82,699	*8.8*	*6.4*
8. Community, social and personal services	1,70,452	1,80,286	1,90,999	*5.8*	*5.9*
GDP at Factor Cost	**12,67,833**	**13,18,321**	**14,24,508**	***4.0***	***8.1***

Source: Central Statistical Organization (CSO).

Chart 1.2: Share of Components of GDP at Factor Cost



2. REVIEW OF POLICES AND PROGRAMMES

I. Primary Securities Market

The reforms process continues unabated with significant changes in the capital market. For the first time, in the history of Indian capital market, a public offer of more than Rs.10,000 crore was made by a listed Government of India company. The primary market has witnessed a highly encouraging response from foreign institutional investors (FIIs). For the first time in a single month, that too at the fag end of the fiscal year, a large amount was mobilized by several public and private sector companies, amounting to more than three times the total amount mobilized in the previous year. All these have been possible because of many proactive issuer as well as investor friendly regulatory reforms initiated by SEBI. In addition, disclosure and corporate governance standards have been enhanced so that not only Indian investors but also foreign investors repose confidence in the market. Testimony of this lies in the number of public issues, amount mobilized, variety of investors and increasing response from new issuers accessing the Indian primary market.

A. Information and Investor Protection

SEBI has been pro-active and dynamic in responding to national and international challenges in the primary securities market and to make the Indian market more scientific, transparent and investor-centric, SEBI has taken several new policy initiatives. A few of them are briefly discussed in this section.

a. Issue Standards

With a view to facilitating quality issuers to access capital market, several reforms have been introduced during the year and they include: track record of financial performance, best of accounting polices, introduction of new parameters such as net tangible assets, minimum number of allottees in a public issue, etc. Issuers unable to fulfil these requirements can also access primary market provided:

i. The project has been appraised by financial institutions/scheduled commercial banks who have participated in the project to the extent of 15 per cent; or

ii. The issue is made through book building route with participation by QIBs to the extent of at least 50 per cent.

Subject to the fulfilling of other criteria including minimum number of allottees.

b. Enhanced Disclosure Requirement

Reliable and dependable information is expected to help investors to take informed decisions about investment in primary market. The prospectus should contain all relevant and necessary information about the issuer and the securities under issue. SEBI aims to ensure that the prospectus is the single most important source of information for investors to base their investment decision.

Towards this objective, offer documents of domestic issuers have been made to contain additional information such as PAN number/ voter identity number/driving license number of the promoters of the company, etc. “Management discussions and analysis (MDA) and accounting and other ratios” are required to be contained in the offer document and these are expected to provide information relating to the management’s view on the performance of the company.

c. Transparency and Governance

Enhanced corporate governance standards are expected to create sustainable value for stakeholders. Confidence of investors in the market place will increase if corporate governance standards are adhered to in true letter and spirit.

Shri G N Bajpai, Chairman, addressing the 4TH International Conference on Governance

B. Other Policy Initiatives

a. Definition of Small Investor (Primary Market)

The basis of defining a 'small investor' has been changed from number of shares to value of application made by him. An investor is now considered to be a small investor when he/she invests Rs.50,000/- or less.

b. Book Building Guidelines

SEBI has been constantly reviewing and making changes in the book building process so as to make price discovery immune to artificial factors and responsive to the market forces. Companies have now been given flexibility in terms of indicating either a movable price band or a fixed floor price in the Red Herring prospectus. Qualified institutional buyers have been prohibited from withdrawing their bids after closure of bids, QIB definition has been enlarged to include insurance companies, pension and provident funds.

c. Greenshoe Option

Unexpected developments may have an adverse impact on price of newly listed securities. The facility of greenshoe option introduced by SEBI facilitates the investment bankers to stabilize the post listing price of the security. This measure is expected to mitigate volatility and enhance investor confidence.

d. Debt Instruments and Debenture Trustees

SEBI has reviewed the role of debenture trustees as well as provisions concerning issuance of debt instruments. Consequently, it has carried out several amendments, for example prohibition of willful defaulters from making further debt issue, requirement of investment grade rating, execution of trust deed within three months, etc.

e. Designated Stock Exchange

Pursuant to withdrawal of the concept of regional stock exchange, companies have been granted an option to choose one stock exchange as a designated stock exchange, for the purpose of finalization of basis of allotment.

f. Employee Stock Option Scheme

SEBI (ESOP and ESPS) guidelines have been modified to *inter-alia* include provisions of mandatory disclosures of employee compensation cost using fair value of ESOPs/ ESPS, calculated based on option pricing model and also the impact of the same on profits and EPS of the company. This is in addition to expensing of the said cost in the financial statements based on either intrinsic or fair value. The amendments have also included provisions to facilitate faster listing of shares arising out of exercise of ESOP etc.

g. Bonds by Foreign Entities

Multilateral development institutions and other supra-national organizations have been permitted to access the domestic market and list the rupee denominated securities on Indian stock exchanges. SEBI has prepared a model listing agreement to be signed by such entities before they access and seek listing. Subsequently, Asian Development Bank floated rupee denominated bond on private placement basis for Rs.500 crore and these bonds have been listed on NSE.

h. Corporate Governance

SEBI constituted a Committee on Corporate Governance under the Chairmanship of Shri N.R. Narayanamurthy to frame new standards for corporate governance. Based on the recommendations of the committee and the submission of public comments, the listing agreement has been amended suitably. All the listed companies with paid up capital of Rs. 3 crore and above, or networth of Rs.25 crore and above, at any time in the history of the companies are covered under these corporate governance principles with effect from March 31, 2004. Implementation of the recommendations of the Committee have been, put on hold for the time being, owing to representations received from various market participants.

i. Book Closure Date

The notice period for intimation of record date has been reduced to 15 calendar days from the earlier 30 days in case of demat scrips and to 21 calendar days from 42 days with respect to physical scrips.

j. Central Listing Authority (CLA)

Standardization of listing requirements and implementation of the same across all exchanges are very important prerequisites for a uniform national market. To achieve this objective SEBI has set up a single listing authority called ‘Central Listing Authority’. The Regulations for setting up of this authority were notified on August 21, 2003. The CLA has been set up under the presidentship of Justice M N Venkatachaliah, former Chief Justice of India.

II. Secondary Securities Market

Market micro structure of secondary securities market and its robustness are *sine qua non* for promoting investors’ confidence and maintaining the integrity of the market. Trading, clearance and settlement are some of the major functions of the secondary market. Globalization of economies and rapid changes in information technology have made countries and exchanges virtually borderless. Rapid changes in technologies have made transactions less costly and faster. Some of these developments have had significant impact on the way stock exchanges are organized, managed, supervised and monitored. Indian capital market regulator, SEBI, has been continuously responding to changes and challenges offered by macro-micro economic forces towards making Indian capital market the most efficient, transparent and clean. The regulator has initiated many measures during the year 2003-04. A few of these measures are discussed below:

A. Margin Trading

Liquidity is one of the important characteristics of a financial market. Illiquidity can lead to "liquidity risk" which has been reported to drive away institutional/high net worth investors from the market. Illiquidity / poor liquidity is known to have caused high transaction costs. With a view to providing more liquidity in the Indian equity market, SEBI has initiated steps to introduce margin trading with effect from April 1, 2004.

The salient features of margin trading include:

a. It is available only with respect to the securities in Group 1 of the stock exchanges, i.e. securities having mean impact cost of less than or equivalent to one per cent and having traded at least for 80 per cent (plus or minus 5 per cent) of the days in the previous 18 months;

b. Only corporate brokers with net worth of at least Rs.3 crore are eligible to offer this facility;

c. A broker may use his own funds or borrow from the specified institutions;

d. Total indebtedness of a broker shall not exceed 5 times his net worth;

e. A broker is expected to be prudent and should ensure that no concentration takes place in any single client;

f. The initial and maintenance margin for the client, shall be a minimum of 50 per cent and 40 per cent respectively, to be paid in cash; and

g. The arbitration mechanism of the exchange shall not be available for grievances arising out of this facility.

A review of margin trading, practices and regulatory developments in other jurisdictions are provided in Box 1.2. The box also presents some research evidence with regard to its impact on the market.

B. Securities Lending and Borrowing

Both buyers and sellers, in the securities market, need to have equal opportunities either to carry on margin trading and /or short sales. One-sided facilities can lead to imbalances. Most of the major markets in the world provide facilities to over come the problems of short sales/failed trades so that delivery is ensured. One of the mechanisms that is available to ensure non failure of delivery is through Securities Lending and Borrowing (SLB). SLB also facilitates liquidity and price discovery. SLB is expected to facilitate securities prices to achieve the equilibrium level.

The SLB was formulated in 1997 under which, approved intermediaries were permitted to carry on SLB activities. Subsequently, SEBI stopped granting further registration. Now the registration process has been restarted. In order to address the issue of settlement shortage through borrowing and lending of securities, the clearing corporation/clearing house has been allowed to get registered as an approved intermediary with SEBI. Once registered, these entities may borrow securities on behalf of the member for the purpose of meeting short falls subject to some of the following conditions:

a. The clearing corporation (CC) /clearing house (CH) shall borrow the required securities to meet the short fall on the day of settlement for a maximum period of 7 trading days, excluding the day of borrowing;

b. The defaulter selling broker may make a delivery within 3 trading days from the due date i.e. settlement date; and

c. In the event of selling broker failing to make delivery within 3 days, the CC/CH

Box 1.2: Margin Trading and Securities Lending

Margin trading: It is a trading in the securities market with borrowed resources – funds or securities. As margin trading is providing a facility to investors to trade in the market with the margin money, it is essentially, a leverage mechanism. It arises in a market where there is insufficient flow of the supply and demand forces due to lack of adequate funds. Margin trading injects liquidity in the market and provides an avenue of investment for risk taking investors and those willing to finance them.

Margin trading enables the investors to increase their purchasing/selling power and raises the possibility to reap substantial profits if the market movements are according to one's expectations. It injects liquidity into the system which in turn adds to the depth of the market and leads to an effortless formation of prices. It mitigates the quantum of failed trades by supporting the buy and sell sides of trades for smooth settlement. A sound margin policy can alter the credit flow in the economy. When the stock prices rise continuously, imposing a high margin requirement would lower the demand for stocks and thus halt the rising trend in prices

On the flip side, certain adverse effects of margin trading have also been noticed. J.K.Galbraith had mentioned margin loans as a major cause for the gravity of the market downturn that brought forth the Great Depression. A low margin requirement in stock index futures was cited by Brady Commission as a reason for 1987 crash. Margin loans reduce the credit available for more legitimate uses i.e. it affects the way credit is allocated.

The risks accompanying margin trading would be mitigated if a well drafted and active margin trading policy is instituted. Further there is a need for a uniform and standardized margin requirement across the board. Otherwise each brokerage house would set margins as per its whims and fancies. Competition would force them to impose a set of low margins which would lead to a spate of possible margin calls in the event of a down turn and lead to a possible enhanced volatility in the market.

Margin trading is an important form whereby the integration of money and capital markets is achieved. In many countries there are margin requirements that impose specific limits on the amounts that brokers and institutions can lend.

US Scenario

The Securities Exchange Act, 1934 had stated three reasons for imposing the Federal Reserve margin requirements: (1) to re-allocate credit for more productive uses, (2) to protect investors from having too much debt, and (3) to reduce stock price volatility. It would be pertinent to mention here that the business models for the margin trading and securities lending are different in different markets. SEC limits the aggregate indebtedness of a broker towards all other persons to 1500 per cent of its net capital. The Federal Reserve, NYSE and NASD have instituted rules that govern margin trading.

Margin trading in Japan

Margin trading in Tokyo Stock Exchange (TSE) began in 1951 i.e. two years after it restarted its operation. The stocks traded in TSE are divided into three categories: largest stocks which occupy 90 per cent of the market capitalization of TSE, newly listed stocks and the foreign category which includes non-Japanese stocks. Until November 1991, trading on margin was allowed only in the first category. From December of that year, some selected newly listed stocks were also included in the permitted category.

Present Status of Margin trading in India

Securities Contracts (Regulation) Rules, 1957 did not permit a broker to take up any fund based activity. Hence, there was an apprehension that brokers would not be able to lend funds for margin trading in view of provisions therein. This was examined by SEBI in 1997 and a view was taken that a broker cannot lend funds as a regular business activity or lending of funds cannot be his prime activity. The margin trading issues were reviewed by SEBI in 2003 and based on the recommendation of its advisory committee, the member-brokers have been allowed to provide margin trading facility to their clients, in the cash segment.

The Reserve Bank of India has instructed the commercial banks to provide loans to individuals against physical securities up to Rs.10 lakh and Rs.20 lakh for securities held in demat form. Further, guidelines were issued in November 2001, allowing Banks to finance margin trading within the overall ceiling of 5 per cent prescribed for exposure to capital market, a minimum margin of 40 per cent of the funds lent for margin trading, shares purchased to be in demat mode under pledge to the lending bank and Bank's Boards to prescribe necessary safeguards to ensure that no nexus develops between inter-connected stock broking entities/stock brokers and the bank in respect of margin trading.

As per the guidelines issued by SEBI, securities having mean impact cost of less than or equal to 1 and having traded on at least 80 per cent (+/-5 per cent) of the days for the previous eighteen months, have been categorized as Group 1. The securities in Group 1 are eligible for margin trading facility. Only corporate brokers with a "net worth" of at least Rs.3 crore would be eligible to offer margin trading facility to their clients. For the purpose of providing the margin trading facility, a broker may use his own funds or borrow from scheduled commercial banks and/or NBFCs regulated by RBI. A broker shall not be permitted to borrow funds from any other source.

Box 1.2: Margin Trading and Securities Lending *(Contd.)*

At any point of time, the total indebtedness of a broker for the purpose of margin trading shall not exceed five times his net worth. The "total exposure" of the broker towards the margin trading facility shall be within self imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50 per cent of his "net worth". The exposure to any single client at any point of time shall not exceed 10 per cent of the broker's lendable resource. The initial and maintenance margin for the client shall be a minimum of 50 per cent and 40 per cent respectively, to be paid in cash. The broker shall maintain separate client wise accounts of the securities purchased on margin trading with depositories and shall enable the client to observe the movement of securities from his account (through internet). The broker shall also maintain a separate record of details (including the sources) of funds used for the purpose of margin trading.

Securities Lending and Borrowing

The clearing corporation/clearing house will be permitted to act as approved registered intermediary for lending and borrowing securities and for handling settlement shortages. On behalf of the member, they may borrow securities for the purpose of meeting shortfalls in the settlement for a maximum period of seven days. They have to follow other conditions imposed on settlement, delivery, trading days, recovery from the defaulting broker, etc. The exchanges and the clearing house/corporation have been asked to monitor the shortages in securities in every exchange at the time of delivery/settlement and if need arises, take appropriate action against any frequently defaulting in the delivery of securities.

shall buy the securities from the open market and return the same to the lender within 7 trading days. The Clearing corporation/house shall effect close out of such remaining quantity and/or securities by paying monetary compensation to the receiving/buying clearing member/members worked out as 10 per cent of the highest of the closing prices on the days from the trading day till the settlement day on delivering such amount to the account of the defaulting selling/delivering clearing member/members.

C. *Secondary Market for Corporate Debt*

Integrated development of all segments of financial markets is necessary to mitigate arbitrage opportunities and also to reduce risk-return imbalances between the market segments. Equity and debt markets are two important segments of financial markets. Any unequal development between two markets will lead to inefficiency in the market structure. In India, the issuance of corporate debt has been substantial but most of it has been issued through private placement and this privately placed debt is generally not listed on the stock exchange thus eluding liquidity and transparency. In order to provide greater transparency and protect interest of investors in debt securities, SEBI has prescribed some of the major conditions to be complied with by corporates for listing privately placed debt securities, for example:

a. The company shall make full disclosures as per the Companies Act, 1956, SEBI (Disclosure and Investor Protection) Guidelines 2000 and the Listing Agreement with the stock exchanges.

b. The debt securities shall carry credit rating from a recognized credit rating agency. Each company shall appoint a debenture trustee registered with SEBI.

Box 1.3 provides details of private placement, issues related to private placement and regulations and developments in some of the other markets.

D. *SEBI (Central Database of Market Participants) Regulations, 2003*

Availability of information on all market participants is important for effective enforcement of regulations. The information should be correct, up-to-date and easily accessible as and when the regulator or any

Box 1.3: Private Placement of Securities

Private Placement

Private Placement is defined as issuance of securities to fewer than 50 persons, without issuing prospectus/ letter of offer and without seeking permission for listing on the stock exchanges for the debt securities issued. This definition is derived on the basis of non-compliance of Rule 19 (2) (b) of SC(R) Act, 1957 a pre-condition for listing of the securities to be issued. Over the past years, private placement has emerged as an additional method of raising funds by the corporate sector. The specified investors of private placement include institutional buyers, high networth individuals and corporates.

Relevance of Private Placement

A private placement is essentially resorted to when a corporate desires to raise funds in a timely and cost effective manner. It affords flexibility, time saving and easy access to funds, which are necessary in a scenario where interest rates are dynamic and subject to quick changes. The decision for a public issue at large or a private placement with limited number of persons largely hinges upon the amount to be raised, the reputation of the issuer, the frequency with which the issuer has tapped the market for funds in the past, the time frame for actually raising the money, the willingness to administer a large number of small ticket holdings and the price to pay.

It is time saving and cheaper, i.e., no cost on advertisement and limited expenses on printing and brokerage. Hence, issue cost for private placement is lower than public issues. It is argued that private placement ensures accuracy in pricing and the price is known at the time of launch itself. It caters to specific investor needs and issuer preferences; leads to innovation and development of new products. It is also flexible as the issuer can alter the terms of issue later on, depending on the market conditions. Funds can be accessed in quicker time compared to public issues, where a number of formalities have to be completed post-issue.

Private placements are neither underwritten nor do they have any minimum subscription requirement. These private placement issues can be tailored to meet specific requirements. The terms and conditions of issuers are negotiable on each deal. The instruments made under private placement are confidential and provide inherent advantages to the corporates.

Issues of Private Placements

In India, the private placement market has been in existence for a long time, although it acquired prominence only from 1990-91. This market has become an important avenue for sourcing funds by both the private and government sector. The public sector has been the major mobiliser of resources through private placements. Most of the private placements were in the form of long term issues of three to seven years. In recent times, innovative bonds with call/put options have been introduced, which have improved liquidity for both the issuer and the borrower.

In 2003, the SEBI Secondary Market Advisory Committee made the following recommendations:

- A listed company issuing debt securities on private placement basis should make full disclosures on its websites or to stock exchanges and SEBI.
- Even unlisted companies making private placement of debt securities and getting them listed on the stock exchanges will have to make disclosures in line with Listing Agreements and other regulatory requirements.
- For other denominations, the relaxation is only with regard to the modalities of disclosure, and not with regard to quality and nature of disclosures.
- For a listed company (either equity or debt) issuing debt securities either on private placement basis or through public issue, the same exhaustive disclosure requirements, as are normally required under the Companies Act, SEBI Guidelines and the Listing Agreement of the stock exchanges, will be applicable.
- An unlisted company making private placement of debt securities and intending to list them should also make similar disclosures.
- However, if the securities are not proposed to be listed, SEBI-registered intermediaries should be discouraged from associating with issuance and trading of such securities.
- Companies must appoint debenture trustees for all securities issued through private placement.
- Once these securities are listed, the continuing disclosures, as stipulated under the Listing Agreement, shall be made by listed companies also with respect to all outstanding debt issues.

Recent Regulations

SEBI introduced structured regulations September, 2003 to regulate private placement effectively. These comprehensive guidelines state that all listed companies making issue of debt securities on a private placement

Box 1.3: Private Placement of Securities *(Contd.)*

basis and listed on the stock exchange should make full disclosures and enter into Listing Agreement with the exchanges. Debt securities should carry a credit rating of not less than investment grade and they should be in the demat form. The trading in privately placed debts should take place only between qualified institutional investors (QIIs) and high networth individuals (HNIs), in standard denomination of Rs.10 lakh.

Private Placement Market in Other Countries

The United States of America (USA)

The private placement market in the United States has been in existence for a very long time providing access to domestic as well as international issuers. In the US market, debt instruments are predominantly privately placed. Since mid-1960s, as much as one-third of long term debt and equity offerings issued by domestic and foreigners used to be privately placed. The US bond market recorded phenomenal growth in the late 1980s which was essentially due to increased resort to the private placement of bonds. The life insurance companies of the US are the most active investors in this market. The share of foreigners in the total amount of private placement is also on the rise.

In 1972, the Securities and Exchange Commission (SEC) introduced Rule 144, allowing resale of privately placed instruments after a two-year lock-in-period and unlimited transfer after three years. In April, 1990, Rule 144A was put into effect, permitting qualified institutional buyers (QIBs) to trade on privately placed securities without a two year holding restriction and these securities were exempted from registration with the SEC. The QIBs include life insurance companies, pension funds, investment companies, foreign and domestic commercial banks. The rationale behind adopting Rule 144A was to increase the liquidity in the private placement market and to lower the differential between private and public yields. The other one was, of course, to attract the foreign investors.

In November 1992, Rule 144A was amended, allowing bank trust funds and master trusts for pension funds to buy unregistered bonds and stocks.

The United Kingdom (The UK)

Unlike in the US, the private placement market in the UK is not well established. English Law had a traditional private placement exemption, but in general this was too narrow to constitute an adequate mechanism through which a bond issue can flow. According to Section 59 and 60 of the Companies Act, 1985, “consequently where an issuing house places the whole or part of a new issue privately with a few institutional investors like pension funds which have agreed to hold the securities as long-term investments, the investments should appear to be made to the public”. This implies that since there was no issue to the public, the prospectus requirements did not apply.

Japan

Under the Japanese Securities and Exchange Law, private placement of issues need not be registered and no filing of document in the form of prospectus is required. While the Securities and Exchange Law defines a public offering and secondary distribution as solicitation towards “many unspecified persons”, offer to a small group of specified persons can be termed as ‘private placement’. In Japan, most domestic bonds and municipal bonds are privately placed.

Private placement market in Japan is accessed mainly by the issuers from the Third World countries and private companies of Japan, which do not have enough credibility to float public issues. Hence, private placement in the Japanese market is not significant. However, the private placement market operates according to the certain guidelines prescribed by the Trustee Banks Committee, 1977.

Germany

In Germany, private placement of securities is made in the form of certificate of indebtedness in the domestic Deutschemark market. The certificates creating payment liability are treated as debts and are transferable instruments. The issuers get the inherent advantage of saving the costs involved in public issues. Normally, private placement of securities will have to get the concurrence of Ministry of Finance.

References

1. R.B.I (1997), Staff Paper on Private Placement Market in India.
2. Discussion paper (2003) on “Developing Secondary Corporate Debt Market” prepared for Secondary Market Advisory Committee, SEBI.
3. SEBI Website (www.sebi.gov.in).

other agency intends to use it. Towards this end, SEBI notified the above regulations on January 21, 2003. These regulations require every intermediary, listed company and investor, as specified by SEBI from time to time, to make an application for the allotment of a unique identification number for itself and its related person in accordance with these regulations. For the purpose of these regulations a “unique identification number” (UIN), an identification number generated in the central database is allotted to each applicant. In terms of these regulations, SEBI has appointed NSDL, as the designated service provider. SEBI has subsequently issued a notification on November 25, 2003 and December 8, 2003 to specify intermediaries and their related persons who are required to obtain the unique identification number.

E. Risk Containment Measures

Integrity of market is sacrosanct in the capital market. Many important measures have been initiated during the year to promote integrity of Indian market.

a. Pro-account Trading

With a view to checking the practice of execution of orders in proprietary account of member and later transferring it into client account, it was mandated that the facility of placing orders on “pro-account” through trading terminals, shall be generally extended only at one location of the members as specified / required by the members.

b. Payment and Deliveries

Brokers and sub-brokers have been directed not to accept cash from the clients whether against obligation or as margin for purchase of securities and /or give cash against sale of securities to the clients. All the payments received/made from/to clients should be through banking channels.

c. New Trading Segment

Stock exchanges are required to take prior approval of SEBI before starting any new trading segment.

d. Usage of Software

To safeguard the interest of securities market, all stock exchanges were advised to obtain an undertaking in the form of an affidavit from the members on the exchange to the effect that the members as well as their sub-brokers use only authorized software.

F. Disclosures

To enhance disclosure standards the following measures have been initiated.

a. Insiders and promoters are required to disclose as per Insider Trading and Takeover Regulations.

b. A broker is required to disclose to his client his proprietary as well as client trading details. All the bulk deals in excess of 0.5 per cent of the number of equity shares of the company listed on the stock exchanges are required to be disclosed to the exchange/public.

c. Members of the stock exchanges are required to obtain risk disclosure documents signed by their clients.

d. Companies are required to publish the status of investor complaints along with the quarterly results.

e. Companies have been asked to speed up redressal of investors grievances and they have been brought under the purview of arbitration mechanism of the stock exchanges.

III. Mutual Funds

In many developed markets, institutional investors namely mutual funds, pension funds, insurance companies and other alternative investment vehicles are major drivers of capital markets. In India, mutual funds have been active in the primary as well as in the secondary capital market. Both structurally and functionally Indian mutual funds have acquired the best expertise available in the world. SEBI has taken many measures during the year to develop this industry and to protect the interest of the investors.

A. Corporate Governance / Professionalism

Governance and disclosure standards are important pillars of the industry. Good governance standards enhance confidence of the investors in mutual fund the industry. The following measures have been taken in this direction.

a. Certification and Code of conduct

With a view to utilizing the services of experienced distributors/agents, the certification standards have been relaxed in certain categories of agents/distributors.

b. Role of Chief Executive Officer (CEO) and Fund Manager (FM)

The positions of CEOs and FMs have been strengthened as they hold a specific accountability to protect the interest of the investors. CEOs are required to ensure mutual fund compliance as per the regulations and the Fund Managers are required to ensure investment as per the objective of the scheme and interest of unitholders.

c. Investment/Trading in Securities by Employees of Asset Management Companies and Mutual Fund Trust Companies

In consonance with SEBI (Insider Trading) Regulations, the time validity of transactions by employees of AMCs and mutual fund trust companies has been cut down to one week and the time limit for purchase and sale has been reduced to 30 days.

d. Unique Client Code (UCC)

Mutual Funds have been instructed to obtain UCC either from the Bombay Stock Exchange or National Stock Exchange before commencing trading on behalf of the schemes/clients.

e. Uniform Cut Off Time

One of the main objectives of a regulator is to provide fairness to all concerned in the market place. To achieve this, SEBI has issued the Guidelines for uniform cut off timing for applicability of net asset value (NAV) of mutual fund schemes/plan (s). This is applicable both for subscription and redemption.

f. Minimum Number of Investors

Skewed distribution of investors may lead to some anomalies in the management and distribution of funds. Therefore, SEBI prescribed that each scheme of an an individual plan should have a minimum of 20 investors and that no single investor should account for more than 25 per cent of the corpus.

g. Bank Account Number and PAN by Investors

Reliable and up to date information of market participants is essential for regulatory effectiveness. Towards this objective, SEBI has been strengthening the process of "know your client". Mutual funds have also been advised to collect adequate information regarding the investors, wherever the total value of investment is Rs.50,000/- or more.

B. Prudential Investment

Mutual funds have been advised that they can invest in short-term deposit with disclosures to trustees along with the reasons for investment. SEBI (Mutual Funds) Regulations, 1996 contain prudential investment norms for investing in debt securities. Government securities issued by the Centre/State

Government or on its behalf by the RBI are exempt from the prudential investment norms.

Indian mutual funds have been permitted to invest in equities of listed overseas companies by the Government of India. SEBI has decided to permit each mutual fund to invest up to 10 per cent of its net assets as on January 31, of each relevant year in foreign securities. However, the minimum and maximum investment limits are fixed at US$ 5 million and US$ 50 million respectively for each mutual fund irrespective of the size of the assets.

It has been clarified that mutual funds can invest in interest rate derivatives subject to disclosures in offer documents.

C. New Products

a. Fund of Funds (FoFs)

Indian mutual funds have been permitted to float Fund of Funds (FoFs) and invest in funds of other mutual funds. The FoFs schemes will be subject to maximum limit on expenses to the extent of 0.75 per cent of net assets and other restrictions and disclosures.

D. Disclosure Standards

In order to provide effective and appropriate communication to the investors and improve standards of disclosures in advertisement, to implement regulatory intent effectively and to remove difficulties in the application of regulations, the following guidelines have been issued:

a. Standardization in hoarding/posters;

b. Advertisements through audio-visual media;

c. Promotional activities, sales literature;

d. Performance advertisements; and

e. Ranking advertisements.

E. For the Investors

a. Nomination facility for unitholders of mutual funds

SEBI (Mutual Funds) Regulations were amended by including a provision for the AMCs to provide an option to the unitholder(s) so that nomination can also be in favour of the Central Government, State Government, a local authority, any person designated by virtue of his office or a religious or charitable trust.

IV. Foreign Institutional Investors (FIIs)

Institutionalization of financial markets is gaining importance worldwide and India is marching ahead in this respect. FIIs have become an important segment of the Indian capital market. All past records have been broken and new history has been created in terms of fresh investment by FIIs in 2003-04. This shows the confidence and faith of FIIs in Indian market and in its regulatory system.

A. Regulatory Initiatives with respect to FIIs

With a view to monitoring the investment through offshore derivatives issued against underlying Indian securities (collectively known as participatory notes) , SEBI inserted Regulation 20A in the FII Regulations , making it mandatory for the FIIs to report the issuance/renewal/cancellation/ redemption of such instruments. The FII regulations have been further amended stating that FIIs can issue offshore derivatives against underlying securities listed or proposed to be listed on any stock exchange in India only in favour of regulated entities subject to compliance with “know your client” requirements. Further , FIIs or sub-accounts have to ensure that no downstream issue or transfer of such offshore derivative instrument will be made to any person other than a regulated entity.

The FII Regulations have also been amended to allow FIIs to participate in delisting offers so as to extend the exit opportunity (provided to all other shareholders) to them. FIIs have also been allowed to participate in sponsored ADR/GDR programs as well as in disinvestment of securities by the Government of India.

V. Investor Awareness/ Assistance and Investor Education/Protection

SEBI has a comprehensive investor grievances processing mechanism. Office of Investor Assistance and Education (OIAE) is the single window interface of SEBI with the investors. OIAE accepts grievances of all investors who prefer to file their complaints with SEBI for matters falling within its jurisdiction. A standardized complaint format is available at all SEBI offices and on the SEBI website for the convenience of investors. Complaints received from investors are acknowledged and a reference number is sent to the complainant. Complaints are taken up with the concerned entities either directly by OIAE or by the Investor Complaint Cell of the concerned department. SEBI officers also hold meetings with the company officials to impress upon them their obligation to redress the grievances of investors. Action u/s 11B and 15C of SEBI Act is initiated against recalcitrant companies.

A. Internet Based Response System

As a new endeavour in investor assistance, a simple and effective internet based response system to investor complaints has been set up. When an investor files a complaint electronically, a system generated acknowledgement letter is issued to him/her.

B. Securities Market Awareness Campaign (SMAC)

SEBI launched a comprehensive education campaign aimed at investors in the securities market – "Securities Market Awareness

Shri G N Bajpai, Chairman, lighting the lamp at First Investor Education Programme conducted by Interconnected Stock Exchange

Campaign" (SMAC). **The motto of the campaign is – 'An Educated Investor is a Protected Investor**.'

The nation wide launch of this campaign was flagged off by the then Hon'ble Prime Minister, Shri Atal Bihari Vajpayee, on January 17, 2003, who in his speech highlighted the importance of an empowered investor in the economic development of the country.

Following the national launch, the campaign has already been extended to 12 states. In Bangalore, Kolkata and Chennai, the Governors of the respective states launched the campaigns. In Hyderabad and Rajkot, the Chief Ministers of the concerned states inaugurated the programmes and extended considerable support to the programme.

While the national as well as the state level launches have been aimed at generating wide and adequate publicity and visibility for the campaign, the structural foundation of the campaign is based on the continued and active participation of market participants, market intermediaries, Investors Associations etc., who have, under the aegis of SEBI, undertaken to organise workshops at various cities/medium and small towns in the country to spread SEBI's message of "**Invest with Knowledge**". The details of the campaign are discussed below:

a. Workshops

The workshops are aimed at reaching out to the common investors and are held in small and medium towns and cities all over the country. At the workshops, the investors are educated about the functioning of the securities market, the basic fundamentals of investment and risk management and the rights and responsibilities of an investor. The message is couched in simple language, with lectures and discussions conducted in the local/regional language.

In an attempt to decentralize the campaign keeping in mind the geographical spread of the investors in the country, SEBI has enlisted the support, directly as well as indirectly, of investors' associations, market participants, ICAI, ICSI, reputed banks etc. Till March 2004, more than 370 workshops were conducted in around 235 cities/towns in the country. To accelerate the speed of coverage of the programme and to increase the number of workshops to be conducted each month, a meeting of market participants/ stock exchanges was held wherein it was decided to conduct at least 1500 workshops, spread over 350 towns/cities, across all the states, by March, 2005. It was also decided that each state be allocated to a market participant(s), who will be responsible for conducting the agreed number of workshops in each of those states.

Letters were sent to all the Hon'ble MPs of both the Lok Sabha and Rajya Sabha narrating therein the details of the Securities Market Awareness Campaign and requesting them to indicate names of centres in their constituencies where SEBI could organize workshops for investor education. Continuous efforts are being made to arrive at venues and dates to hold such workshops according to the convenience of the concerned Members of Parliament. Accordingly, several workshops have been held in the centres indicated by the MPs.

In addition to the above workshops, stock exchanges have been requested to hold an "Open House" for investors, once a month (preferably on the first Saturday of each month), in their premises. At these "Open Houses", the exchanges have been requested to invite the compliance officers of listed companies (majority of complaints are against listed companies), mutual funds, stock brokers and other market intermediaries to not only address/educate the investors but to also attend to their grievances. The response of the stock exchanges to this initiative of SEBI has been very positive.

b. Audio-Visual Clip

At the time of the national level launch, SEBI presented an audio-visual clip depicting some of the concerns of the common investor and detailing the theme of the Securities Market Awareness Campaign. This short but extremely effective audio-visual helps to set the tone at all the workshops being organized across the country.

c. Distribution of Educative Materials

SEBI has prepared a standardized reading material and presentation material for the workshops. In addition, reference guides on the following topics have been prepared for distribution:

- Rights and responsibilities of investors;
- Substantial acquisition of shares and takeovers;
- Simple "dos and don'ts" relating to various aspects of the securities market; and
- Mutual funds.

These reference guides/booklets have been translated into Hindi and the workshop material has been translated into 10 major regional languages in order to cover a substantial portion of the investor base in the country. Till date, during the current financial year, approximately 2.40 lakh reference guides/brochures/ pamphlets/ material etc. have been distributed across the country.

d. Investor Website

With a view to making relevant information available to the investor at one place, a dedicated investor website (**http://investor.sebi.gov.in**) has been operationalised and the information content on this website is augmented periodically.

All the booklets/pamphlets prepared by SEBI have been posted on this website and appear in a bilingual form. In response to the feedback received from investors, frequently asked questions (FAQs), pertaining to the important regulations framed by SEBI have been posted on this website. In addition, a glossary of commonly used terms relating to capital market also appears on this site.

e. Advertisements

SEBI has prepared simple "dos and don'ts" for investors relating to various aspects of the securities market. While these simple messages have been put on the investor website and have been printed in the form of leaflets to be distributed across the country, it was felt that these messages could be spread across the investor base by way of advertisements in newspapers, especially in the regional newspapers. Keeping the cost constraint in mind, it was decided that these advertisements could be released in association with market participants, with the name and logo of the market participants appearing in the advertisements along with the name and logo of SEBI. This has provided inducement to the market participants to bear the cost of these advertisements and the response has been overwhelming.

Till March 2004, over 700 advertisements relating to various aspects of securities market appeared in 48 different newspapers/ magazines, covering approximately 111 cities and 9 regional languages, apart from English and Hindi.

f. All India Radio

With regard to educating investors through the medium of radio, All India Radio was requested to allot free slots to SEBI on their various programmes. AIR allotted five free slots in the month of January, 2004 in its programme "People's Corner". This programme is aimed to create awareness among the common public regarding the functioning of various public service departments. SEBI officials participated in this live interactive (with "phoned in" queries from investors) programme covering topics such as mutual funds, secondary market, risk management, derivatives, investor education and grievance redressal mechanism, etc. This prime time programme was aired every Friday in the month of January, 2004 between 9.30 p.m. to 10 p.m.

g. Campaign on Television

SEBI proposes to use the electronic media to reach out to a large number of investors. A forty second filmlet with a short cautionary message is being aired on television.

h. Grievances Redressed

During the period 1991-92 to 2003-2004, SEBI has received 27,85,660 grievances from investors, of which, a total of 26,32,632 grievances have been redressed by respective entities, which indicates a redressal rate of 94.50 per cent. The cumulative status of investor grievances received by SEBI, resolved by respective entities and the rate of redressal in this

Table 1.4: Securities Market Awareness Campaign

Item	Particulars	
State Level Seminars	States Covered	12
	Inaugurated by	Governor / Chief Minister
Workshops	Number held	374
	Cities/Towns Covered	235
Educative Material	Copies Distributed	2,40,000
Media – Print	Total Appeared	721
Advertisements / announcements	Languages Covered	11
Media – Electronic (Radio)	Cities Covered	111
	Newspapers/ Magazines	48
	Timing	Every Friday of Jan 04 – 9:30 to 10:00 PM
	Programme	People's Corner
	Topics	• Brief overview, role and mandate, registering and licensing functions related to different intermediaries. • Derivatives, settlement system and risk management etc. • Foreign Institutional Investors (FII), Custodians, Participatory Notes, Investment Trends etc. • Mutual Funds, Portfolio Managers, etc. • Investor Education and Grievances redressal mechanism.

regard from the year 1991-92 to 2003-04 is provided in Table 1.5.

VI. Retrospect and Prospects

A. Retrospect

2003-04 was a significant year in terms of challenges and opportunities. Nearly all segments of Indian capital market registered new records. Secondary spot market, derivatives, primary market, mutual funds and foreign institutional investors - all these segments created records of sorts by registering a high turnover, a high rate of return, a large amount of mobilization, a large custody of assets under management and the highest fresh investment interest, respectively.

Physical infrastructure of capital market has been put to its severest test in the year 2003-04. A number of Public Sector Enterprises (PSEs) accessed the capital market with some of the biggest issues in the history of Indian capital market. Most of these issues came in a close succession, putting heavy workload on various categories of intermediaries. The Indian derivatives market segment has become one of the largest markets in the world in terms of number of contracts traded.

SEBI has set for itself a vision – "**To be the most dynamic and respected regulator globally**" and carefully crafted a strategic action plan(SAP), in consonance with its objectives. **The objective is to help the securities market and to address the structural, systemic and operational risks of the market.** The full team of SEBI is working assiduously to achieve the activities of SAP. Some of the activities are continuous in nature and all efforts are being made to complete the remaining tasks in the years to come. The major milestones crossed by SEBI during the year have already been listed in this chapter.

Table 1.5: Status of Investor Grievances Received and Redressed

Year	Received		Redressed		*Redressal Rate percentage (cumulative)*
	During the year	Cumulative	During the year	Cumulative	
1991-92	18,794	18,794	4,061	4,061	*21.61*
1992-93	1,10,317	1,29,111	22,946	27,007	*20.92*
1993-94	5,84,662	7,13,773	3,39,517	3,66,524	*51.35*
1994-95	5,16,080	12,29,853	3,51,842	7,18,366	*58.41*
1995-96	3,76,478	16,06,331	3,15,652	10,34,018	*64.37*
1996-97	2,17,394	18,23,725	4,31,865	14,65,883	*80.38*
1997-98	5,11,507	23,35,232	6,76,555	21,42,438	*91.74*
1998-99	99,132	24,34,364	1,27,227	22,69,665	*93.24*
1999-00	98,605	25,32,969	1,46,553	24,16,218	*95.39*
2000-01	96,913	26,29,882	85,583	25,01,801	*95.13*
2001-02	81,600	27,11,482	70,328	25,72,129	*94.86*
2002-03	37,434	27,48,916	38,972	26,11,101	*94.99*
2003-04	36,744	27,85,660	21,531	26,32,632	*94.50*

B. Prospects

- After considerable deliberations, the following issues have been incorporated for Strategic Action Plan, 2004-05:
- Issuance of eligibility norms for Indian Depositary Receipts;
- Shelf registration facility for the issuance of securities;
- Complete corporatization and demutualisation of stock exchanges;
- Promote new trading platform INDONEXT;
- T+1 rolling settlement;
- Implementation of Integrated Straight Through Processing (STP);
- Facilitate introduction of property fund/ real estate fund;
- Provide regulatory framework for hedge funds;
- Strengthen risk management systems;
- Settlement of all transactions through clearing corporation;
- Implementation of margin trading and securities lending and borrowing scheme;
- Implementation of MAPIN;
- Settlement of derivatives contracts by underlying assets;
- Bring transparency in debt market operations;
- Conduct investors survey;
- Broaden and deepen investor education measures;
- Regulatory frame-work for clearing corporation and settlement guarantee fund;
- Setting up of designated courts;
- Setting up of a National Institute of Securities Market(NISM);
- Construction of SEBI Bhawan;
- Develop India as a Regional Financial Centre.