

## PART THREE: REGULATION OF SECURITIES MARKET

This section delineates upon the functions as enshrined in  
Section 11 of SEBI, Act 1992

### 1. PRIMARY SECURITIES MARKET

In a market economy, primary securities market of capital market plays a significant role in helping mobilisation of capital and investment formation. Many types of intermediaries carry out this role very effectively. Some of the major intermediaries in this segment are: merchant bankers, underwriters, bankers to an issue, registrars to an issue and share transfer agents and debenture trustees. Table 3.1 provides details of various classes of intermediaries as on March 31, 2004 and also as on March 31, 2003. A close examination of the total number brings out two important revelations. Traditionally, the number of intermediaries has gone down substantially. This is led by registrars to an issue and share transfer agents category. Their number fell by 65 –

from 143 to 78 and in terms of per centage, it declined by about 45 per cent. The next category in this class includes bankers to an issue, whose number has come down to 55 from 67, a decline of 12. The other two categories - merchant bankers and debenture trustees, also registered a decline of one per cent to stand at 123 and 34 respectively. Only two categories of intermediaries; portfolio managers and underwriters showed positive growth of six and four at 60 and 47 respectively. The overall decline can be attributed to the excessive supply, i.e., the large number of intermediaries who have entered the market. Compared to many of the international markets, the number of intermediaries registered in India, in certain categories, still continues to be on the high side.

**Table 3.1: Details of Intermediaries Registered**

Type of Intermediary		2002-03	2003-04	Variation in Nos.	Percentage Variation
Registrar to an Issue and Share Transfer Agent (Head Office only)	Category I	90	56	-34	-37.78
	Category II	53	22	-31	-58.49
	<b>Total</b>	<b>143</b>	<b>78</b>	<b>-65</b>	<b>-45.45</b>
Bankers to an Issue		67	55	-12	-17.91
Debenture Trustee		35	34	-1	-2.86
Merchant Banker		124	123	-1	-0.81
Portfolio Manager		54	60	+6	11.11
Underwriter		43	47	+4	9.30

## 2. SECONDARY SECURITIES MARKET

Brokers play a significant economic role in the secondary securities market of the capital market. They bring investors, both buyers and sellers, together to make aggregate demand and supply at any point of time. The aggregate demand and supply decide the price discovery and the level of transaction costs. Therefore, brokers have a crucial role to play in the functioning of stock markets. As on March 31, 2004, the total number of brokers stood at 9,368, which was at 9,519 as on March 31, 2003 - a decline of 15 per cent. In the year, there were 141 new brokers registered while 292 existing members went out of the system. This registered a fall of 15 per cent. Several structural changes have taken place in the Indian broking industry over the past few years. Consolidation and restructuring have assumed considerable importance in this segment. Table 3.3 provides details of corporate brokers and total brokers for both the previous and the current year for all the 23 stock exchanges. The Calcutta Stock Exchange has the highest number of brokers (980). However, the figure declined by seven from the previous year. NSE with 970 brokers ranks second in terms of number of brokers, followed by OTCEI and BSE. For the past few years, many brokers converted themselves into corporate brokers. Out of the total brokers, 89 per cent of the brokers on NSE are corporate brokers (863), which ranks first, followed by OTCEI – 78 per cent, BSE – 71 per cent and the Delhi Stock Exchange – 58 per cent. The Gauhati Stock Exchange with about 3 per cent came last in terms of corporatisation of its broking community. Compared to the previous year, there is a slight increase in terms of corporatisation of broking industry and the figure rose marginally from 40.29 per cent in the previous year by one per cent to 40.42 per cent. A close look at the table suggests almost no significant change in any exchange over the previous year.

There are three classes of brokers, namely proprietary, partnership and corporate. Table 3.4 provides details of brokers on the basis of ownership. In the old exchanges, most of the brokers are proprietary in nature, whereas in the new exchanges, they are corporate members.

Prior to screen based trading and the spread of trading network across the country, brokers in some of the exchanges acquired membership in more than one exchange (multiple membership) to expand their business and serve clients spread across the country. With the on-set of screen-based trading and expansion of networking to almost 400 cities and towns of the country, the concept of multiple partnerships has become irrelevant. This also became irrelevant as most of the trading takes place on the two major stock exchanges and most of the companies traded are listed on these two exchanges.

Table 3.5 presents details of multiple membership. Multiple membership ranges from two to six. There are several interesting facts that emerge from the table for these two years. There is a sharp fall in the category of bi-membership. In the past year, there were 854 brokers having dual membership of stock exchanges, which has fallen to 798. Except in one category, i.e., five memberships, in rest of the categories there is a decline. These developments could be attributed to the availability of trading facilities throughout the country by members of both the NSE and the BSE.

### I. Sub-broker Registration

Sub-brokers are considered to play useful economic role between the broker and the investor. In buoyant market conditions, sometimes, brokers do not entertain small investors. As a result, they could not carry out their transactions effectively. In order to

fill this void, this class of intermediaries emerged on the scene. Once again, in the several structural changes that have taken place in the Indian capital market, the sub-broking community appears to be on the wane. Table 3.6 provides information on the number of sub brokers of each exchange and as a percentage of the total. The two

major exchanges top the sub-brokers registration. Between them, they (BSE and NSE) share almost nine-tenth of the number of sub brokers. Some stock exchanges have almost no sub brokers, while the remaining share about one-tenth of the sub-broking industry. Further details are contained in Table 3.6.

**Table 3.2: Brokers Registered**

Brokers as on March 31, 2002	Brokers as on March 31, 2003	Addition during the year 2003-04	Reconciliation/ Cancellation/ Surrender of Memberships	Brokers as on March 31, 2004
9,687	9,519	141	292	9,368

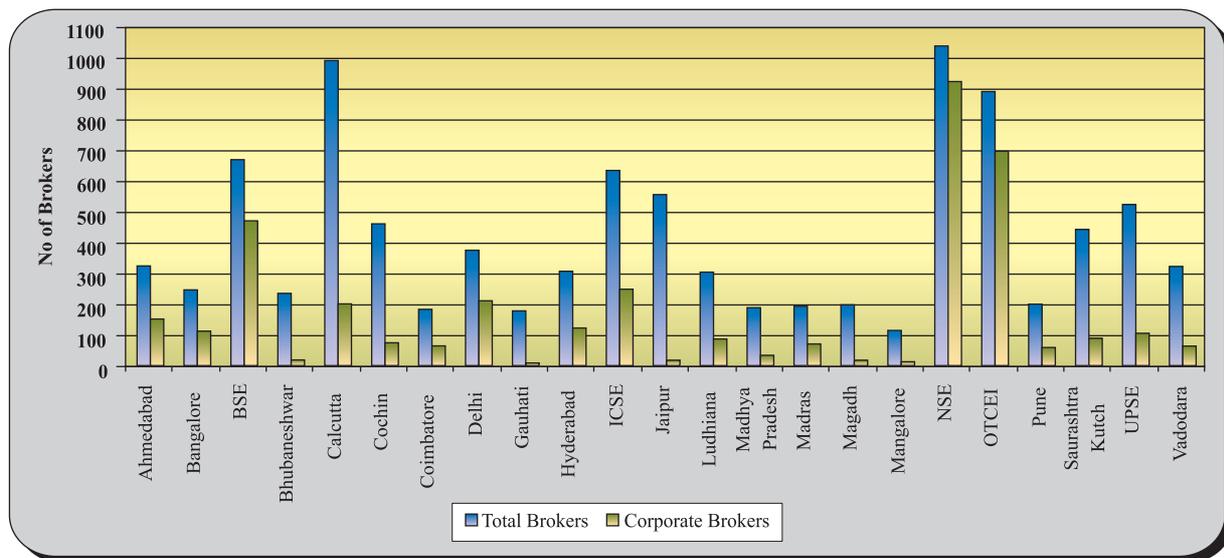
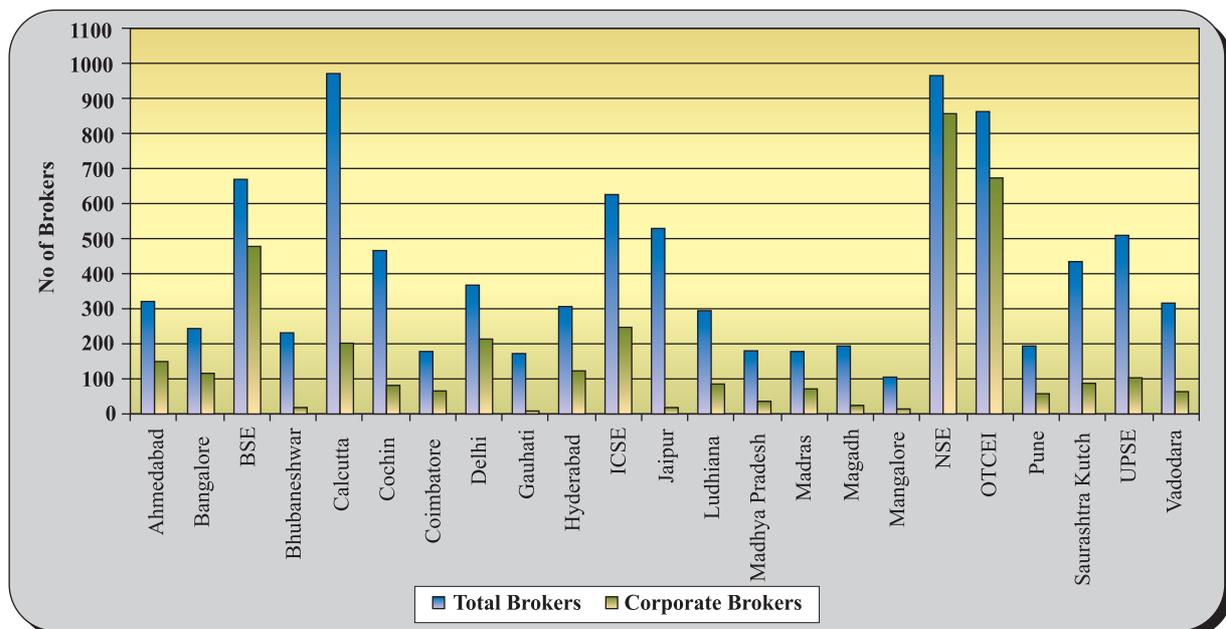
**Table 3.3: Exchangewise Brokers Registered with SEBI**

Stock Exchange	2002-03			2003-04		
	Total Brokers	Corporate Brokers	Corporate Brokers as a percentage of total brokers	Total Brokers	Corporate Brokers	Corporate Brokers as a percentage of total brokers
Ahmedabad	323	152	47.06	323	152	47.06
Bangalore	245	114	46.53	242	116	47.93
BSE	665	468	70.38	673	479	71.17
Bhubaneswar	233	18	7.73	229	18	7.86
Calcutta	987	201	20.36	980	200	20.41
Cochin	464	75	16.16	468	82	17.52
Coimbatore	182	62	34.07	177	61	34.46
Delhi	374	213	56.95	373	215	57.64
Gauhati	175	5	2.86	172	5	2.91
Hyderabad	306	120	39.22	305	119	39.02
Inter-Connected Stock Exchange	630	247	39.21	633	248	39.18
Jaipur	555	19	3.42	532	19	3.57
Ludhiana	302	85	28.15	297	85	28.62
Madhya Pradesh	188	34	18.09	179	35	19.55
Madras	186	71	38.17	182	70	38.46
Magadh	199	20	10.05	195	22	11.28
Mangalore	116	11	9.48	105	10	9.52
NSE	1,036	918	88.61	970	863	88.97
OTCEI	883	690	78.14	867	675	77.85
Pune	197	59	29.95	197	59	29.95
Saurashtra Kutch	436	85	19.50	437	86	19.68
UPSE	518	103	19.88	514	104	20.23
Vadodara	319	65	20.38	318	64	20.13
<b>Total</b>	<b>9,519</b>	<b>3,835</b>	<b>40.28</b>	<b>9,368</b>	<b>3,787</b>	<b>40.43</b>

**Table 3.4: Stock Brokers on the Basis of Ownership as on March 31, 2003 and March 31, 2004\***

Stock Exchange	Proprietorship		Percentage to Total		Partnership		Percentage to Total		Corporate		Percentage to Total		Total	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
Ahmedabad	147	148	2.73	2.80	24	23	7.92	8.01	152	152	3.96	4.01	323	323
Bangalore	128	123	2.94	2.32	3	3	12.87	1.05	114	116	12.20	3.06	245	242
BSE	158	157	1.88	2.97	39	37	1.32	12.89	468	479	0.29	12.65	665	673
Bhubaneswar	215	211	2.38	3.99	0	0	0.99	0.00	18	18	2.97	0.48	233	229
Calcutta	735	729	4.00	13.77	0	51	0.00	17.77	201	200	0.47	5.28	987	980
Cochin	379	376	13.66	7.10	10	10	16.83	3.48	75	82	5.24	2.17	464	468
Coimbatore	120	116	7.04	2.19	0	0	3.30	0.00	62	61	1.96	1.61	182	177
Delhi	127	126	2.23	2.38	34	32	0.00	11.15	213	215	1.62	5.68	374	373
Gauhati	169	166	2.36	3.14	1	1	11.22	0.35	5	5	5.55	0.13	175	172
Hyderabad	180	181	3.14	3.42	6	5	0.33	1.74	120	119	0.13	3.14	306	305
Inter-Connected Stock Exch.	382	384	3.35	7.25	1	1	1.98	0.35	247	248	3.13	6.55	630	633
Jaipur	529	507	7.10	9.58	7	6	0.33	2.09	19	19	6.44	0.50	555	532
Ludhiana	215	210	9.83	3.97	2	2	2.31	0.70	85	85	0.50	2.24	302	297
Madhya Pradesh	151	141	4.00	2.66	3	3	0.66	1.05	34	35	2.22	0.92	188	179
Madras	97	95	2.81	1.79	18	17	0.99	5.92	71	70	0.89	1.85	186	182
Magadh	178	172	1.80	3.25	1	1	5.94	0.35	20	22	1.85	0.58	199	195
Mangalore	101	91	3.31	1.72	4	4	0.33	1.39	11	10	0.52	0.26	116	105
NSE	58	54	1.08	1.02	60	53	19.80	18.47	918	863	23.94	22.79	1036	970
OTCEI	173	172	3.22	3.25	20	20	6.60	6.97	690	675	17.99	17.82	883	867
Pune	130	131	2.42	2.47	8	7	2.64	2.44	59	59	1.54	1.56	197	197
Saurashtra Kutch	349	349	6.49	6.59	2	2	0.66	0.70	85	86	2.22	2.27	436	437
UPSE	409	404	7.60	7.63	6	6	1.98	2.09	103	104	2.69	2.75	518	514
Vadodara	251	251	4.66	4.74	3	3	0.99	1.05	65	64	1.69	1.69	319	318
<b>Total</b>	<b>5381</b>	<b>5294</b>	<b>100.0</b>	<b>100.0</b>	<b>303</b>	<b>287</b>	<b>100.0</b>	<b>100.0</b>	<b>3835</b>	<b>3787</b>	<b>100.0</b>	<b>100.0</b>	<b>9519</b>	<b>9368</b>

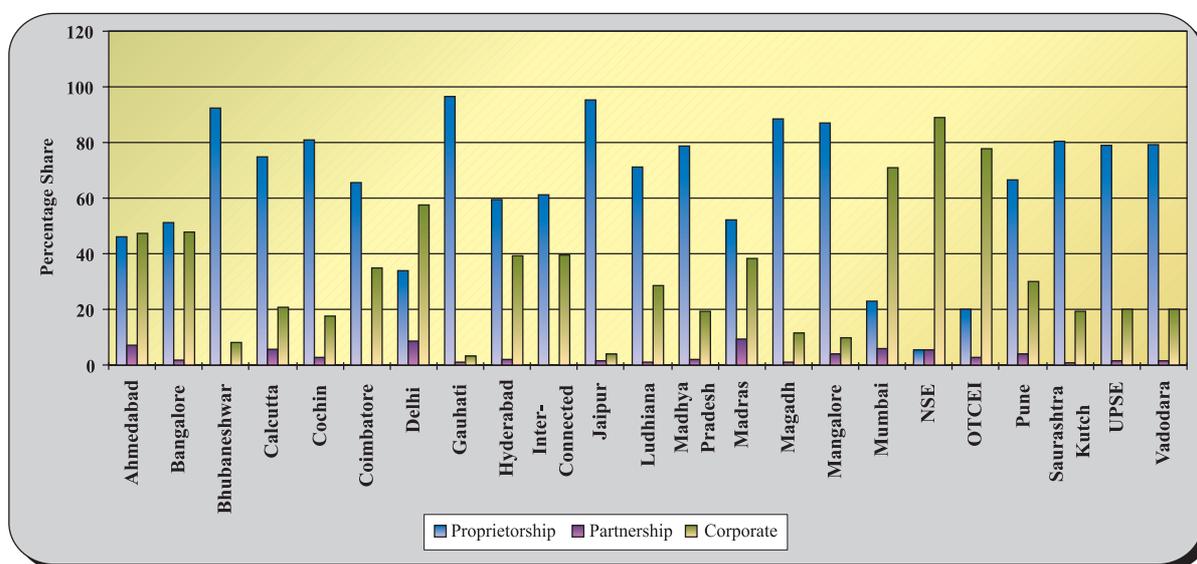
\* Classification for 2002-03 had 5 Categories. The categories of Financial Institutions and Composite Corporate are clubbed as per 2003-04 fashion in the Corporate section.

**Chart 3.1: Corporate Brokers and Total Brokers (2002-03)**

**Chart 3.2: Corporate Brokers and Total Brokers (2003-04)**


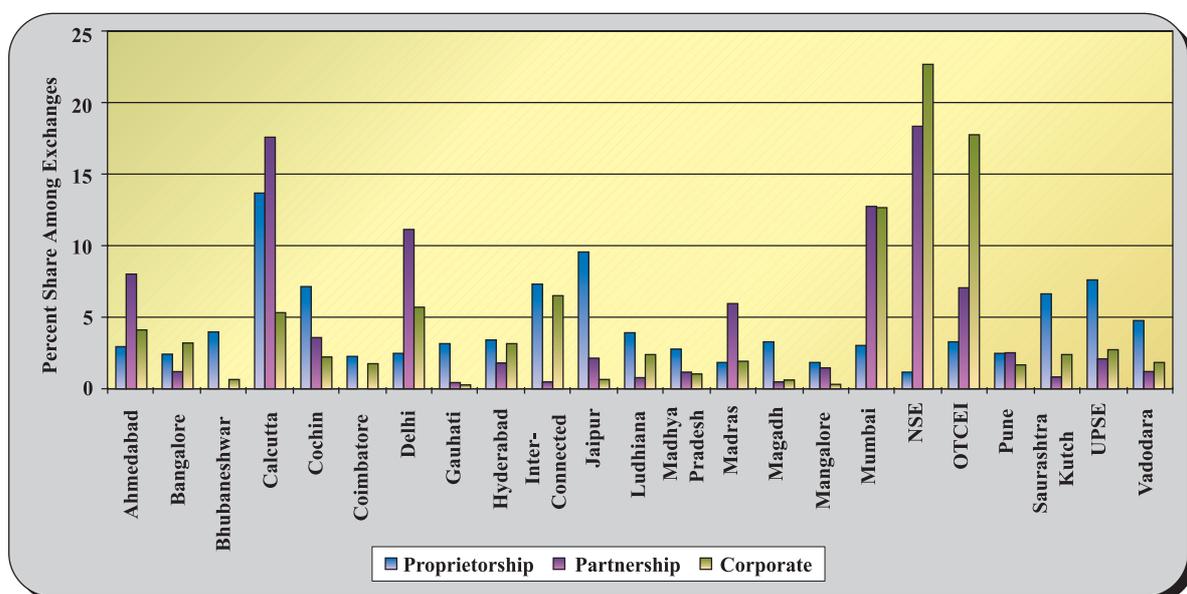
**Table 3.5: Multiple Membership Details**

No. of Multiple Memberships	2002-03			2003-04		
	No. of members	Total Multiple Membership	Multiple Membership as percentage of Total	No. of members	Total Multiple Membership	Multiple Membership as percentage of Total
2	854	1708	17.94	798	1596	17.06
3	82	246	2.58	60	180	1.92
4	10	40	0.42	9	36	0.38
5	3	15	0.16	4	20	0.21
6	3	18	0.19	1	6	0.66

**Chart 3.3: Percentage Share of Classification of Brokers on the Basis of Ownership (as on March 31, 2004)**



**Chart 3.4: Percentage Share of Classification of Brokers Distributed among All Exchanges (as on March 31, 2004)**



## II. Anjaria Committee on Broker Turnover Fees

The fee structure for brokers as prescribed in 1992 is not in tune with the level of brokerage prevailing after a decade. This necessitated a review of the fee structure for stock brokers. Accordingly, a Committee was constituted under the Chairmanship of D.C.Anjaria to consider a revision of the fee structure for the brokers as laid down in the R.S.Bhatt Committee report. The Committee had representations from broker associations,

Exchanges, the Institute of Chartered Accountants of India, the Investor Grievance Forum and SEBI.

The Committee held six meetings to deliberate on what would constitute a reasonable level of fees in the three market segments – cash equity, cash debt and derivatives, so that fees payable by brokers are fair in the light of the present level of brokerage charged by the brokers to their clients. The Committee has finalized its report and the same is under consideration.

**Table 3.6: Registered Sub-Brokers**

Stock Exchange	Sub Brokers during the year				Sub Brokers as on March 31			
	2002-03		2003-04		2002-03		2003-04	
	No.	Percentage to Total	No.	Percentage to Total	No.	Percentage to Total	No.	Percentage to Total
Ahmedabad	6	0.29	141	1.06	1	0.08	124	0.97
Bangalore	0	0.00	159	1.20	0	0.00	156	1.22
BSE	925	45.30	6890	51.84	567	44.86	6600	51.50
Bhubaneshwar	0	0.00	17	0.13	0	0.00	17	0.13
Calcutta	2	0.10	142	1.07	0	0.00	92	0.72
Cochin	0	0.00	43	0.32	1	0.08	42	0.33
Coimbatore	0	0.00	26	0.20	0	0.00	24	0.19
Delhi	0	0.00	460	3.46	0	0.00	363	2.83
Gauhati	0	0.00	4	0.03	0	0.00	4	0.03
Hyderabad	0	0.00	201	1.51	0	0.00	199	1.55
Inter-Connected Stock Exchange	2	0.10	2	0.02	1	0.08	3	0.02
Jaipur	0	0.00	34	0.26	0	0.00	34	0.27
Ludhiana	1	0.05	34	0.26	7	0.55	38	0.30
Madhya Pradesh	0	0.00	124	0.93	0	0.00	115	0.90
Madras	0	0.00	3	0.02	0	0.00	3	0.02
Magadh	0	0.00	3	0.02	0	0.00	1	0.01
Mangalore	0	0.00	5	0.04	0	0.00	5	0.04
NSE	1105	54.11	4703	35.38	687	54.35	4717	36.81
OTCEI	0	0.00	32	0.24	0	0.00	25	0.20
Pune	1	0.05	161	1.21	0	0.00	161	1.26
Saurashtra Kutch	0	0.00	0	0.00	0	0.00	0	0.00
UPSE	0	0.00	25	0.19	0	0.00	19	0.15
Vadodara	0	0.00	82	0.62	0	0.00	73	0.57
<b>Total</b>	<b>2,042</b>		<b>13,291</b>		<b>1,264</b>		<b>12,817</b>	

**Table 3.7: Exchanges Granted Renewal of Recognition during 2003-04**

	Exchange	Notification date	Period
1.	National Stock Exchange	April 10, 2003	5 years w.e.f. April 26, 2003 to April 25, 2008
2.	Ludhiana Stock Exchange	April 25, 2003	1 year w.e.f. April 28, 2003 to April 27, 2004
3.	Gauhati Stock Exchange	April 29, 2003	1 year w.e.f. May 1, 2003 to April 30, 2004
4.	Uttar Pradesh Stock Exchange	May 29, 2003	1 year w.e.f. June 3, 2003 to June 2, 2004
5.	Bhubaneshwar Stock Exchange	May 29, 2003	1 year w.e.f. June 5, 2003 to June 4, 2004
6.	Saurashtra Kutch Stock Exchange	July 8, 2003	1 year w.e.f. July 10, 2003 to July 9, 2004
7.	OTCEI	August 28, 2003	1 year w.e.f. August 23, 2003 to August 22, 2004
8.	Pune Stock Exchange	September 1, 2003	1 year w.e.f. September 2, 2003 to September 1, 2004
9.	Coimbatore Stock Exchange	September 15, 2003	1 year w.e.f. September 18, 2003 to September 17, 2004
10.	Cochin Stock Exchange	November 6, 2003	1 year w.e.f. November 8, 2003 to November 7, 2004
11.	Magadh Stock Exchange	February 19, 2004	1 year w.e.f. December 11, 2003 to December 10, 2003
12.	Vadodara Stock Exchange	January 5, 2004	1 year w.e.f. January 4, 2004 to January 3, 2005
13.	Jaipur Stock Exchange	January 6, 2004	1 year w.e.f. January 9, 2004 to January 8, 2005

### III. Registration of Stock Exchanges

Some exchanges have been granted permanent recognition, few are granted a tenure period renewal and most other exchanges have been granted yearly renewals. During the current year, registration of thirteen exchanges has been renewed. Of these thirteen, National Stock Exchange of India (NSE) has been granted for renewal a five year period from April 26, 2003 to April 25, 2008 and the registration of remaining twelve exchanges has been renewed for one more year. The details of the renewals are provided in Table 3.7.

### IV. Registration of FIIs

Foreign Institutional Investors have started playing a very significant role in the Indian capital market. They have been setting standards in the market place. Their role in the primary market has also gained momentum. As on March 31, 2004, there were 540 FIIs and 1,542 sub-accounts, operating in the Indian market. These figures

for the previous year were at 502 and 1,350 respectively.

### V. Corporate Restructuring

Indian corporates have started responding positively to global challenges. SEBI, in its initiative to enable the Indian corporates to face competition and to strengthen their operations worldwide, has made, several reforms to substantial acquisition of shares and takeover regulations.

In response to the regulations and corporate developments, there were sixty-five public offers during the year. One hundred and seventy one reports were filed for exemptions from open offer obligations. The offers that are not covered under the exemptions category are required to be referred to Takeover Panel for exemption from open offers. During the year 2003-04, thirty-five applications were forwarded by SEBI to the Takeover Panel for its consideration, of which eighteen cases were granted exemptions. Details of these are provided in Table 3.8.

**Table 3.8: Offers and Exemptions**

	Letter of Offer Filed			Exemptions Granted by Panel		
	2001-2002	2002-03	2003-2004	2001-2002	2002-03	2003-2004
Absolute Change	81	88	65	16	17	18
per centage Variation		7	-23		1	1
		8.64	-26.14		6.25	5.88

### VI. Registration of Custodian of Securities

Total custodians registered with SEBI as on March 31, 2004 stood at 11 as against 12 as on March 31, 2003. One custodian registration was cancelled during the year.

### VII. Registration and Regulation of Collective Investment Schemes (CIS)

#### A. Registration of CIS

Subsequent to the notification of the Regulations 1999, as on date, no CIS entity is registered with SEBI.

**B. CIS Action Initiated** SEBI has taken the following action against 568 CIS entities for their failure to wind up their schemes and make repayments to investors:

- Orders passed under section 11B of the SEBI Act, 1992, debarring the entities and their concerned officials from operating in the capital market and/or from accessing the capital market for a period of 5 years from the date of the Orders;
- The concerned State Governments have been requested to initiate civil/criminal proceedings against the entities for apparent offences of fraud, cheating, criminal breach of trust and misappropriation of public funds; and
- The Department of Company Affairs has been requested to initiate

winding up of the entities under section 433 of the Indian Companies Act.

Prosecution under Section 24 of SEBI Act, 1992 has been filed by SEBI against 520 erring CIS entities.

Requests have been made to police authorities to file the First Information Reports against 70 CIS entities.

SEBI has cautioned the investors about Collective Investment Schemes through its web-site. Members of the public have been cautioned that they should not invest in CIS entities which are not registered with SEBI.

In Writ Petition no. 51911 of 1999 (Paramount Bio-Tech Industries Ltd. vs. Union of India and others), M/s. Paramount Bio-Tech Industries Ltd. had filed a writ petition in Hon'ble High Court, Allahabad for quashing the CIS Regulations. Vide its Order passed on November 25, 2003, the Hon'ble High Court dismissed the writ petition filed by M/s. Paramount Bio-Tech Industries Ltd. and upheld the validity of the CIS Regulations.

In the matter of M/s. Seth Dhanraj Agro India Ltd., where SEBI had filed prosecution against the CIS entity for its failure to wind up its schemes and repay investors, the Court of Additional Chief Metropolitan Magistrate, Delhi convicted all the accused persons and as such the accused persons were held guilty for offence punishable under section 24 read with section 27 of the SEBI Act, 1992. The

court imposed a fine of Rs. 5000/- each on the accused.

### **VIII. Registration and Regulation of Mutual Funds**

Competition in the mutual fund industry has become intense and many small mutual funds have been striving to achieve critical mass over the past few years. There was initial exuberance and enthusiasm for getting licenses to start a mutual fund. Many sponsors and asset management companies were registered to start mutual funds. Over a period of time, the sponsors can achieve break-even point only if they cross hurdle assets under management. Global as well as domestic factors have also contributed to the consolidation in the mutual fund industry. Small mutual funds have been taken over by some of the big mutual funds and new mutual funds are also getting licenses.

As on March 31, 2004, there were 37 mutual funds operating, one less than that of the previous year. The distribution between the public sector and private sector is 8:29 as on March 31, 2004 as against 9:29 as on March 31, 2003 (see Table 3.9).

**Table 3.9: Mutual Funds**

Sector	March 31, 2003	March 31, 2004
Public Sector (including UTI)	9	8
Private Sector	29	29
<b>Total</b>	<b>38</b>	<b>37</b>

### **IX. Registration of Venture Capital Funds**

Fast economic growth requires speedy availability of risk capital. Before the issue can be supported by the capital market participants, they expect the companies to show commercial performance and only then do they support them. Many a time, innovators, incubators and other first generation entrepreneurs need capital to

exploit their ideas. Venture capital plays a very significant and useful economic role in promoting, developing and sustaining the ideas of entrepreneurs. Many countries have framed regulations to encourage venture capital financing and India has been on the forefront for the past few years in responding to the needs of this class of entrepreneurs.

There are different variations of venture capital funding – private equity, venture capital, etc. As on March 31, 2004, there were 45 venture capital funds and nine foreign venture capital investors registered with SEBI. These numbers are higher by two and three respectively compared to the previous year. In terms of percentage, they have grown by about five per cent and 50 per cent (See Table 3.10).

**Table 3.10: Venture Capital Funds**

	March 31, 2003	March 31, 2004
Venture Capital Funds	43	45
Foreign Venture Capital Investor	6	9

### **X. Fees and Other Charges Received**

SEBI receives money from different sources under different heads, which are provided in Table 3.11, for the current year as well as for the previous year. The sources are divided broadly into two categories namely, Recurring and Non-recurring. About 85 per cent of the income comes from recurring sources and the balance from non-recurring sources. The classification indicates that recurring income has declined from Rs. 108 crore in 2002-03 to Rs. 73 crore in 2003-04. However, there is a marginal increase in respect of non-recurring income by about Rs. 3 crore. In the year 2003-04, SEBI received Rs.87.89 crore under various heads as compared to Rs.120.19 crore in the previous year, a fall of 25 per cent. There are certain areas under which the amount received has gone up substantially, while in many others they have

come down. Fees received from brokers and sub-brokers amounted to Rs.63.43 crore, compared to Rs.100.04 crore in the previous year, a fall of about 37 per cent. Yet another significant fall has taken place in the amount received from merchant bankers, from Rs.2.13 crore to Rs.1.05 crore, a decline of about 51 per cent. One area which has registered substantial appreciation is fee received from takeover documents filed with SEBI. Under this head, the fee received has gone up from Rs.2.53 crore to Rs.5.89 crore, an appreciation of 132.81 per cent. Fee received from debenture trustees also went up substantially from Rs.10 lakh to Rs. 63 lakh, a 530 per cent increase *albeit* with a low base.

### 3. SUPERVISION

#### *1. Promotion and Regulation of Self – Regulatory Organizations*

Arguments in favour and against decentralized versus one source regulation have been put forward by analysts, academicians, regulators and policy makers for several years. However, there is no consensus on this issue. One school of thought believes that self-regulation brings more effectiveness and improvement governance standards. Another school of thought forwards that one source of regulation is very effective and responsive to the changing nature of the market structure and that the regulator will have an integrated approach to the problems in the market place. SEBI, in its efforts to make regulation more effective and responsive to the fast changing market requirements has thought of promoting self-regulatory organizations in the Indian capital market. Several steps have been initiated towards this objective.

SEBI is contemplating the development of self-regulatory organizations (SRO) for market

intermediaries. Stock exchanges are already acting as SROs and the SRO structure needs to be strengthened further. The objective for promoting intermediaries like stock exchanges as SRO is that since they have a better feed on the ground reality, they should take care of the micro aspects of regulations. The several inherent conditions of self-regulation are:

- A. Self-regulation becomes the responsibility of the market and may result in greater acceptance of rules by the members of SRO;
- B. It also provides market players with greater flexibility to respond to securities market;
- C. It avoids duplication of responsibility: It is observed that over the years that if the regulatory body gets into micro regulation, it loses sight of the fundamentals, which in turn results in duplication of responsibilities; and
- D. Besides, SROs are expected to have a better understanding of the ground realities.

However, for any organization/body like a stock exchange to function effectively as an SRO, it is necessary for it to enforce compliance of bye-laws, rules and regulations laid down by itself. Further, these SROs should be able to enforce and establish rules, which prevent manipulative trade practices and permit just and equitable principles of trade. Presently, such powers are conferred on the stock exchanges by Section 9 of the SC(R) Act, 1956, whereby they have to make bye-laws for the conduct of business, regulation and control of contracts.

Further, developing stock exchanges as self-regulatory organizations and enhancing their

effective regulatory role, puts additional responsibility on SEBI to ensure that SROs are efficiently carrying out/conducting their mandatory responsibilities.

## ***II. Development of Stock Exchanges as Self-Regulatory Organisations***

There are 23 stock exchanges recognized under Section 4 of the Securities Contracts (Regulations) Act, 1956. These exchanges were recognized/set up over a period of time to stimulate the growth of the capital market by channelising the savings of households and others. These exchanges are suitably empowered by Section 9 of SC(R) Act, 1956 to make bye-laws for the conduct of business, regulation and control of contracts.

## ***III. Inspection of Primary Market Entities***

Section 11(2) of SEBI Act 1992 provides that SEBI shall register and regulate the working of intermediaries. In fulfillment of the above, SEBI has completed the inspection of the books and records of 39 depository participants and three registrars to an issue. Further, based on the investors' complaints, regarding delay in dematerialisation of shares and also on the basis of reports submitted by both the depositories, show cause notices (SCNs) under Depositories Act 1996 were issued to 45 companies. These have been issued after examination of the records submitted by the depositories.

## ***IV. Inspection of Stock Exchanges***

Stock exchanges facilitate transaction in securities and clearing and settlement of transactions. Indian stock exchanges have undergone several transformations during the past one year, in terms of management structure, functional details and effective

regulation. SEBI annually inspects a sample of stock exchanges.

The objectives of the inspections are to ensure that:

- A. The exchange provides a fair, equitable and growing market to investors;
- B. The exchange has complied with the conditions, if any, imposed on it at the time of renewal/grant of its recognition under Section 4 of the SC(R)Act, 1956;
- C. The exchange's organization, systems and practices are in accordance with the Securities Contracts (Regulation) Act, 1956 and rules framed thereunder;
- D. The exchange has implemented the directions, guidelines and instructions issued by the SEBI from time to time;
- E. There are adequate control mechanisms and risk management systems.

During the year 2003-04, stock exchanges have been inspected and a thorough review of operations, organizational structure and administrative control of each exchange have been examined.

Indian stock markets have been buoyant during the year 2003-04 and indices registered significant growth. Because of this, special inspection of risk management of NSE, BSE, CSE, ASE and UPSE has been conducted. Follow-up inspections have also been conducted by procuring periodical compliance reports from the stock exchanges and conducting regular meetings with senior management of exchanges.

Follow-up of inspection reports was done by obtaining periodic compliance reports from stock exchanges and through meetings with the senior management of stock exchanges.

**Table 3.11: Fees and Other Charges Received**
*(Rs. Lakh)*

Particulars	2002-03			2003-04		
	Recurring revenue	Non-recurring revenue	Total Fees Received	Recurring revenue	Non-recurring revenue	Total Fees Received (Unaudited)
	#	##		#	##	
Offer Documents and prospectuses filed	—	105.60	<b>105.60</b>	—	176.90	<b>176.90</b>
Merchant Bankers	167.70	45.00	<b>212.70</b>	65.40	39.80	<b>105.20</b>
Underwriters	24.00	30.00	<b>54.00</b>	42.00	25.00	<b>67.00</b>
Portfolio Managers	25.00	90.00	<b>115.00</b>	22.50	95.00	<b>117.50</b>
Registrars to an Issue and Share Transfer Agents	5.45	0.50	<b>5.95</b>	15.05	1.50	<b>16.55</b>
Bankers to an Issue	7.50	5.00	<b>12.50</b>	117.50	10.00	<b>127.50</b>
Debenture Trustees	10.00	—	<b>10.00</b>	52.50	10.00	<b>62.50</b>
Takeover fees	—	252.85	<b>252.85</b>	—	589.05	<b>589.05</b>
Mutual Funds	92.50	50.75	<b>143.25</b>	147.50	25.50	<b>173.00</b>
Stock Brokers and Sub-Brokers	10,003.56	—	<b>10,003.56</b>	6,342.58	—	<b>6,342.58</b>
Foreign Institutional Investors	—	338.79	<b>338.79</b>	—	248.65	<b>248.65</b>
Sub Account - Foreign Institutional Investors	—	113.13	<b>113.13</b>	—	168.08	<b>168.08</b>
Depository	20.00	—	<b>20.00</b>	20.00	—	<b>20.00</b>
Depository Participants	4.39	64.75	<b>69.14</b>	4.62	94.85	<b>99.47</b>
Venture Capital Funds	—	46.50	<b>46.50</b>	—	11.00	<b>11.00</b>
Custodian of Securities	50.00	—	<b>50.00</b>	60.00	—	<b>60.00</b>
Approved Intermediaries under Securities Lending Scheme	29.21	—	<b>29.21</b>	16.39	—	<b>16.39</b>
Penalties	—	101.45	<b>101.45</b>	—	—	<b>—</b>
Collective Investment Scheme	—	0.25	<b>0.25</b>	—	0.25	<b>0.25</b>
Credit Rating Agencies	12.00	—	<b>12.00</b>	—	—	<b>—</b>
Listing Fees	194.02	—	<b>194.02</b>	170.46	—	<b>170.46</b>
Contribution from Stock Exchanges	—	—	—	—	—	—
Foreign Venture Capital	—	21.85	<b>21.85</b>	—	15.26	<b>15.26</b>
Derivatives	144.59	—	<b>144.59</b>	190.78	—	<b>190.78</b>
Informal Guidance Scheme	—	—	—	—	9.95	<b>9.95</b>
<b>Total</b>	<b>10,789.92</b>	<b>1,266.42</b>	<b>12,056.34</b>	<b>7,267.28</b>	<b>1,520.79</b>	<b>8,788.07</b>

# Recurring revenue : Fees which are received on annual/3-yearly/5-yearly basis. Includes Renewal Fee/ Service Fee/ annual fee/ Listing Fees from exchanges

## Non-recurring revenue : Fees which are 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.

### **V. Action Taken against Illegal Stock Exchanges**

SEBI has for some time been coming across information regarding illegal trading in securities by unregistered entities outside the stock exchanges. Illegal trading is a cognizable offence under section 19 of Securities Contracts (Regulations) Act, 1956 within the meaning of Code of Criminal Procedures which does not fall into the regulatory competence of SEBI. Therefore, SEBI has written several letters to Chief Ministers of all states and Governors of Union Territories apprising them of such activities and requesting them to put the police on a continuous alert and to take suitable action against any person/entity violating the provisions of SC(R)A. Further, specific information regarding illegal trading received by SEBI as well as press articles in this regard have been forwarded to Chief Ministers from time to time seeking their help to look into the matter and take action against those found to be involved in the illegal trading of securities.

A public notice was issued in the newspapers in English, Hindi and major regional languages warning the investors against the functioning of illegal stock exchanges and advising investors not to deal, in any manner whatsoever, with the entities providing illegal trading facilities in contravention of the provisions of law.

There were some complaints regarding illegal trading outside stock exchanges by registered entities also. In July 2003, SEBI in a nationwide operation carried out an inspection of a broker(BSSL), who was a member of several stock exchanges and was involved in illegal trading in securities, simultaneously at his offices located in Kolkata, Bangalore, Bhuj, Mathura and Mumbai. SEBI also conducted a search and seizure operation against BSSL. The inspection revealed the

involvement of the alleged broker in illegal trading in securities. The broker and its associated entities were prohibited from buying, selling or dealing in securities till completion of post-inspection action. An FIR was also filed with the state police.

A surprise inspection of a registered broker in Kolkata in August 2003 revealed that he was involved in illegal trading activities by using unauthorized stock exchange terminals provided by a sub-broker and a broker. An inspection was carried out and all the involved entities have been debarred from the securities market till completion of post-inspection action.

### **VI. Inspection of Broking/Sub Broking Entities**

- A. SEBI has directed the exchanges to carry out comprehensive inspection of at least 20 per cent of the active brokers every year beginning from the financial year 2003-2004 in place of the existing requirement of 10 per cent. It has also been stipulated that these inspections shall invariably include the subsidiaries of other stock exchanges registered as brokers.
- B. SEBI has directed stock brokers/ sub-brokers of an exchange not to deal with brokers/sub brokers of the same exchange either for proprietary trading or for trading on behalf of clients, except with the prior permission of the exchange, in order to avoid taking excessive exposure, executing pro account trading from multiple locations.
- C. SEBI has initiated cancellation of registration of broker declared defaulter or expelled from the exchange since 1992 as an one-time exercise.
- D. In order to ensure transparency and fair play in the securities market and to empower investors to take informed

decisions regarding their dealings with market intermediaries, SEBI has devised a comprehensive disclosure requirement framework for stock brokers. Such disclosures will include relevant information about the registration details of the entity and its associates, background and history including details of complaints/arbitration and regulatory action initiated, so that all the stakeholders in the securities market including investors, SROs and regulators have access to updated information.

With a view to enhancing the compliance standards of stock brokers, the scope of annual audit of books of accounts and other records of stock brokers is proposed to be enhanced so as to include key regulatory requirements which may be verified at the time of annual audit and instances of non compliance/violations may be reported in the form of annexure to the audit report. Some of the areas identified in this regard include requirements relating to maintenance of books of accounts, collection of margins from clients, maintaining segregation between clients funds and own funds, payment and deliveries to clients and details of related party transactions.

### ***VII. Inspection of Subsidiaries of the Stock Exchange***

Many stock exchanges floated subsidiaries to become members of major stock exchanges such as NSE and BSE. These subsidiaries function as brokers of the major exchanges. During the year, 15 subsidiaries have been inspected. The inspection of the books and records of the subsidiaries were verified to find out if:

- A. Books of accounts, records and other documents have been maintained in the manner specified by the Securities Contracts (Regulations) Rules, 1957 and

SEBI (Stock Brokers and Sub-brokers) Regulations, 1992;

- B. Provisions of the SEBI Act, the Securities Contracts (Regulations) Act, 1956 and the provisions made thereunder are being complied with by the subsidiary; and
- C. Provisions of the bye-laws to business rules, etc. of the exchange and the subsidiary are adhered to.

In case of subsidiaries too, follow-up inspections were conducted by obtaining periodical compliance reports from the subsidiaries and holding regular meetings with the senior management of the subsidiaries and their respective parent exchanges.

### ***VIII. Inspection of Depositories***

Depositories play an important role in the Indian capital market. They are the depositories of securities and the confidence of the investors depends on the healthy functioning of depository system. During the year, there has been an inspection of Central Depository Services Ltd. (CDSL) to examine its functioning and compliance.

### ***IX. System Audit***

Securities transactions and subsequent clearing and settlement system is now technology driven. Exchanges depend largely on the state-of-the art technology and reliable software. Relevance of technology and functional algorithm of software are crucial for the efficient trade execution and clearing and settlement processes. In order to ensure the quality of systems used by the stock exchanges, SEBI has advised all the active stock exchanges to carry out a system audit. After examining the audit reports, SEBI advised the stock exchanges to rectify the deficiencies mentioned in the system audit report. This was done through correspondence as well as by holding

meetings with the senior management of the exchanges.

#### 4. SURVEILLANCE

##### *I. Market Surveillance Mechanism*

Market Surveillance plays a key role in ensuring safety and integrity of the market. It also ensures effectiveness and efficiency of the regulatory system. The separate market surveillance department has been strengthened to monitor market movements, identify price volatility, analyse its causes and take prompt action in close coordination with stock exchange and depositories. While the front line responsibility for market surveillance lies with the stock exchanges, SEBI keeps a constant oversight on the surveillance activities of stock exchanges as well.

Periodical meetings are held with market intermediaries to gather information and exchange views. Any unusual market movement arousing suspicion of any possible wrong doing on the part of the participants, even informal alerts and rumours from various sources, formal data and reports from stock exchanges and specific complaints trigger data analysis and preliminary enquiry by the surveillance department. Based on findings of such analysis, surveillance action is taken in close co-ordination with stock exchanges and depositories and, if called for, full-scale investigation is launched.

##### *II. Sophisticated and Integrated Surveillance System*

In the wake of growing size and complexity of the market, the market surveillance system



**Shri T M Nagarajan, Whole Time Member, delivering inaugural address at the meeting of CPSS – IOSCO Task Force on Securities Settlement System in New Delhi on November 20, 2003**

was reviewed keeping in view the present environment of T+2 rolling settlement and risk management system. Pursuant to the review and in recognition of the need for an integrated and futuristic surveillance system to generate early alerts and facilitate quick action, SEBI commissioned a study under USAID assistance as part of Financial Institutions Reform & Expansion (FIRE) Project to design an appropriate structure for the proposed sophisticated surveillance model. It has been decided to have state of the art technology-based system, capable of automatic alert generation in respect of price rigging, creation of artificial volumes, insider trading etc. by accessing and analysing variegated data from multiple sources - exchanges, clearing houses, depositories, EDIFAR/ listed companies and market participants. A technical committee of experts constituted by SEBI is engaged in guiding on the implementation of the project.

### ***III. Interim Surveillance Arrangement***

Pending completion of the said sophisticated automated integrated surveillance mechanism, an interim enhanced surveillance mechanism has been put in place since late June 2003. As a coordinated surveillance platform, a group of top executives of two major stock exchanges, depositories and SEBI meet regularly every week. These meetings, attended by Whole Time Members of SEBI and usually chaired by Chairman of SEBI provide a standing forum, for exchange of information/ data, views and perceptions on market movement during the week, and to discuss emerging concerns or surveillance issues, if any, and to consider possible, appropriate surveillance actions, called for. Accordingly, action is taken in coordination with all concerned. On many occasions during the year, such surveillance meetings were held more than once in a week, if situation

demand. 45 surveillance meetings were held during the period July 03 to March 04. The interim surveillance mechanism was instrumental in taking a number of pre-emptive actions and policy measures / procedural changes.

### ***IV. Inter Regulatory Alert System***

SEBI-RBI Group on Integrated System of Alerts was set up to recommend suitable measures for co-ordinated action. As recommended by the Group, the required alerts and information/ data have been identified and the system was put in place in February 2004 and is operative.

### ***V. Surveillance Actions***

Pursuant to the deliberations and decisions at the weekly surveillance meetings, regulatory actions have been taken from time to time. The surveillance action taken during the year include placing select scrips on trade to trade basis for such period as was considered necessary, based on certain predetermined objective criteria, so as to arrest suspected manipulative/ speculative price rise in certain scrips. The prompt action was found to have had softening effect on the price rise of the scrips. The objective criteria was also reviewed as circumstances warranted. Similarly, calibration of margining was also done as and when considered necessary.

The surveillance department was instrumental for a surprise inspection on certain reported dabba trading operators at multi locations. The inspections were conducted for the first time, in close co-ordination with other regulatory/ enforcement agencies, making use of search and seizure powers. Entities concerned have been banned from carrying out operations in the market and further prosecution action is in progress. As the illegal trading falls outside the market regulatory jurisdiction, all the State

Governments have been requested to take their own administrative action to prevent/curb such activities.

Unusual movements in the price of penny stocks and the shares of loss making companies came under the scrutiny of SEBI and appropriate action was taken.

Whenever there were abnormal sudden movements in index level, probing analysis was made of the time slot data relating trade log and order log and some of the market participants were called for discussions on a few occasions.

Preferential allotments to promoters, bulk deals, margin funding, cash payments for share deals, proprietary trading of brokers at more than one specified location, use of unauthorised software by brokers and issuance of participatory notes by foreign institutional investors were some of the areas which came under surveillance during the year. These triggered changes in policy directions/ disclosure requirements. Appropriate instructions were issued to stock exchanges in these matters.

Pursuant to inspection of surveillance cell of 4 stock exchanges during the year 2002-03, SEBI had recommended further improvements in the areas such as strengthening the surveillance department of exchanges, integrated approach for surveillance in the cash and derivatives markets, criteria for selection of members for investigations, documentations of the complaints received and follow-up actions etc. The exchanges have implemented Stock Watch System. The stock watch system of the exchanges provide for benchmarking of parameters and prioritization of alert generation. During the year NSE (85) and BSE (24) had taken up 109 cases based on the alerts generated by their system.

Additionally, Surveillance Department of SEBI referred 88 cases to Stock Exchanges for detailed investigations during the year. During the year, NSE completed investigations in 82 cases and BSE 92 cases. Based on the findings, actions were required and initiated in respect of 52 cases by NSE (17) and BSE (35).

## 5. INVESTIGATIONS

SEBI is empowered to investigate the affairs of any securities market intermediary or persons associated with security market or any other persons suspected to have violated any regulatory provisions, if it has reasonable grounds to believe that transactions in securities are being dealt with in a manner detrimental to the investors or the market or that the intermediary or person concerned has violated any regulatory provisions. Investigations are undertaken to probe into possible or suspected or alleged infringements of security market regulations such as price-manipulation, artificial volume-creation, insider-trading, violation of takeover code or any other regulations, public issue related irregularities or any fraudulent or unfair trade practices. Investigations are initiated based on evidence available from various sources including SEBI's own surveillance activities and its other divisions, stock exchanges and other intermediaries, complaints from various sources and even press reports. As a prelude to full-fledged investigation, preliminary probe is carried out. If the findings of the preliminary investigations warrant, a case is taken up for formal investigation. In carrying out formal investigation, SEBI, as it is empowered, calls for information, compels production of documents, summons persons for interrogation, examines witnesses and, where necessary, with magistrate's approval, carry out even search and seizure operations. On completion of investigation, enforcement

actions are taken through quasi-judicial process of enquiry, personal hearing etc. Depending on the nature and the gravity of offences, penal actions are taken. These include warning, suspension of activities, and cancellation of registration, prohibition of dealing in securities, denial of access to the capital market for a specified period and imposition of monetary penalties. And, where appropriate, prosecution proceedings are also launched.

Measures have been taken to expedite the process of investigation and enhance the quality and effectiveness thereof. With a view to ensuring objectivity, uniformity, coverage and consistency, two internal committees comprising of Division Chiefs deliberate on main findings of all investigation reports, evaluate evidence available and suggest appropriate course of action. A benchmark

time limit has been set at four months for completion of preliminary investigations and eight months for completion of formal investigations.

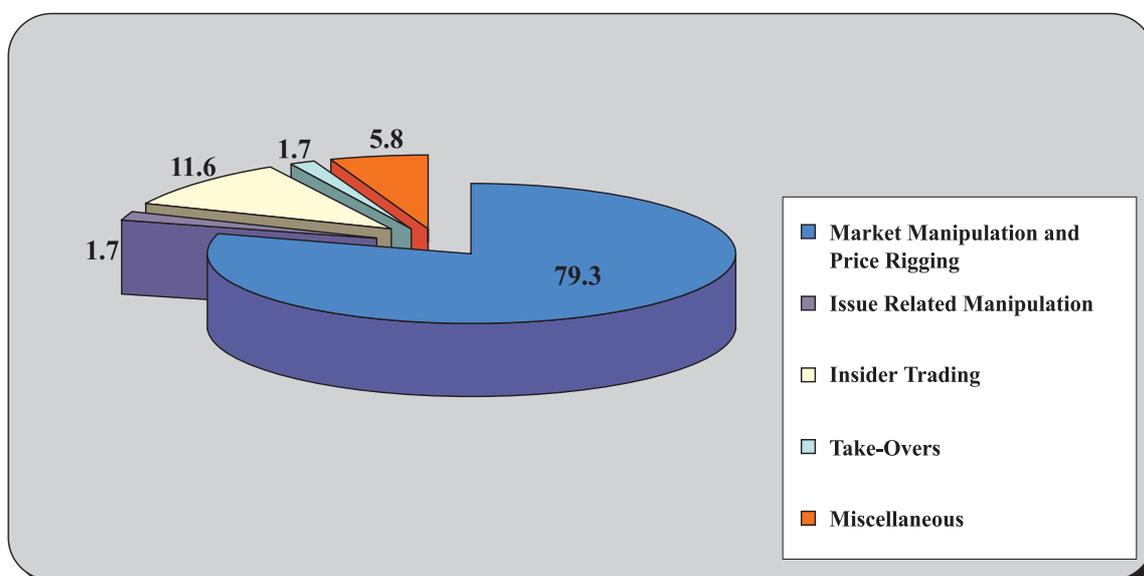
Details of investigations taken up and completed year-wise during the period 1992-93 to 2003-04 are given below. [See Table 3.12 and Chart 3.5]

As may be seen from Table 3.12, the focus on and intensity of investigation have gone up during the last two years. During 2003-04, 152 investigation cases were completed as against 106 cases in the previous year, registering a substantial increase of 42 per cent. As on March 31, 2004, there were only 31 cases pending for more than one year. The investigations of the cases were expedited so as to bring down pendency of the cases to below one year.

**Table 3.12: Investigations from 1992-93 to 2003-04**

Particulars	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Cases taken up for investigation	2	3	2	60	122	53	55	56	68	111	125	121
Cases completed	2	3	2	18	55	46	60	57	46	29	106	152

**Chart 3.5: Classification of Investigation Cases Taken up (2003-04)**



### I. Classification of Cases Taken Up

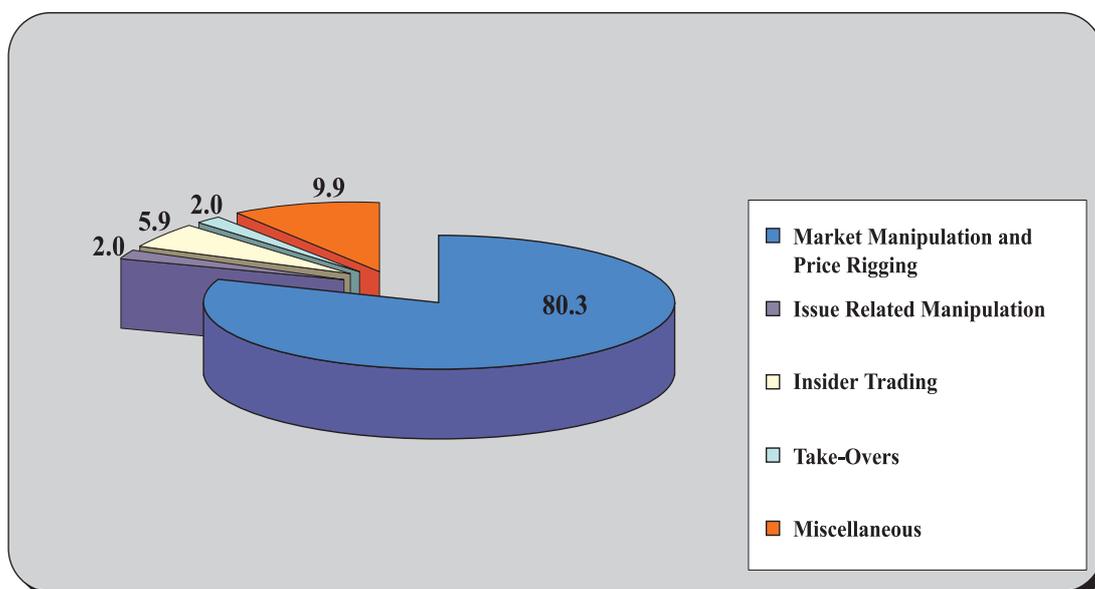
During the year 2003-04, the majority of cases, (78 per cent) of cases taken up, pertained to market manipulation and price rigging as against 76 per cent of such cases in the previous year. Other cases pertain to insider trading, takeover violations, irregularities in public issues, and other miscellaneous cases. Trend of investigation

cases taken up remains almost the same in both the last two years. It may be mentioned here that many investigation cases are taken up on the basis of multiple allegations, multiple of violations and hence strict classification under specific category becomes difficult. Such cases have been classified on the basis of main charge/violations. {See Table 3.13 and Chart 3.5.}

**Table 3.13: Classification of Investigation Cases taken up by SEBI in 2002-03 and 2003-04**

Particulars	Number of Cases 2002-03	Number of Cases 2003-04
Market manipulation and price rigging	95	96
"Issue" related manipulation	2	2
Insider trading	13	14
Take-overs	9	2
Miscellaneous	6	7
<b>Total</b>	<b>125</b>	<b>121</b>

**Chart 3.6: Classification of Investigation Cases Completed (2003-04)**



## II. Classification of Cases Completed

During the year 2003-04, 80 per cent of cases completed pertained to market manipulation and price rigging as against 68 per cent in the previous year. Other cases which have been completed pertain to insider trading, public issue related irregularities and others like takeover violations, misleading

advertisements, unfair practices, etc. See Table 3.14 and Chart 3.6}.

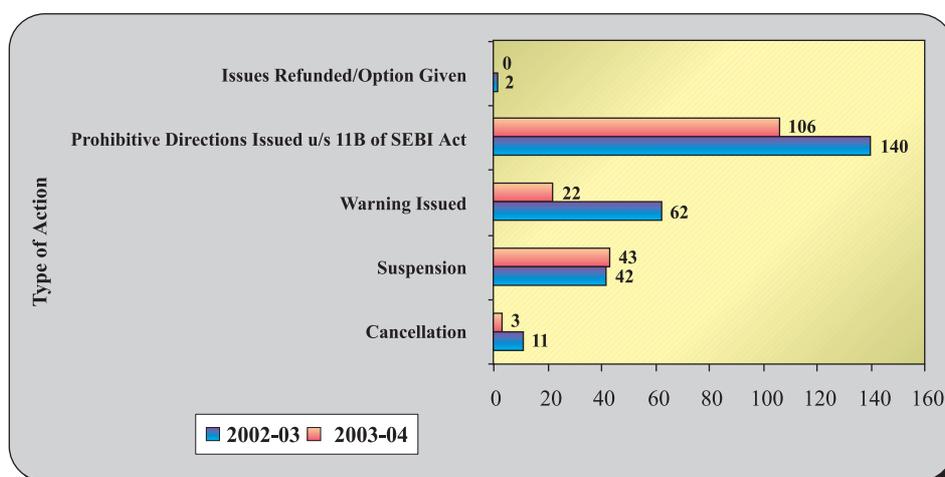
### Action Taken

Table 3.15 and Chart 3.7 presents classification of regulatory action taken against various entities on the basis of investigations

**Table 3.14: Classification of Cases Completed by SEBI in 2002-03 and 2003-04**

Particulars	Number of cases 2002-03	Number of Cases 2003-04
Market manipulation and price rigging	72	122
Issues related manipulation	8	3
Insider trading	14	9
Take overs	7	3
Miscellaneous (Unfair practices, misleading advertisements, etc.)	5	15
<b>Total</b>	<b>106</b>	<b>152</b>

**Chart 3.7: Nature of Investigations Completed 2003-04**



**Table 3.15: Action Taken in 2002-03 and 2003-04**

Particulars	No. of Entities 2002-03	No. of Entities 2003-04
Cancellation	11	3
Suspension	42	43
Warning issued	62	22
Prohibitive directions issued under section 11B of SEBI Act *	140	106
Issues Refunded / Option Given	2	—
<b>Total</b>	<b>257</b>	<b>174</b>

Chart 3.8 : Action Taken

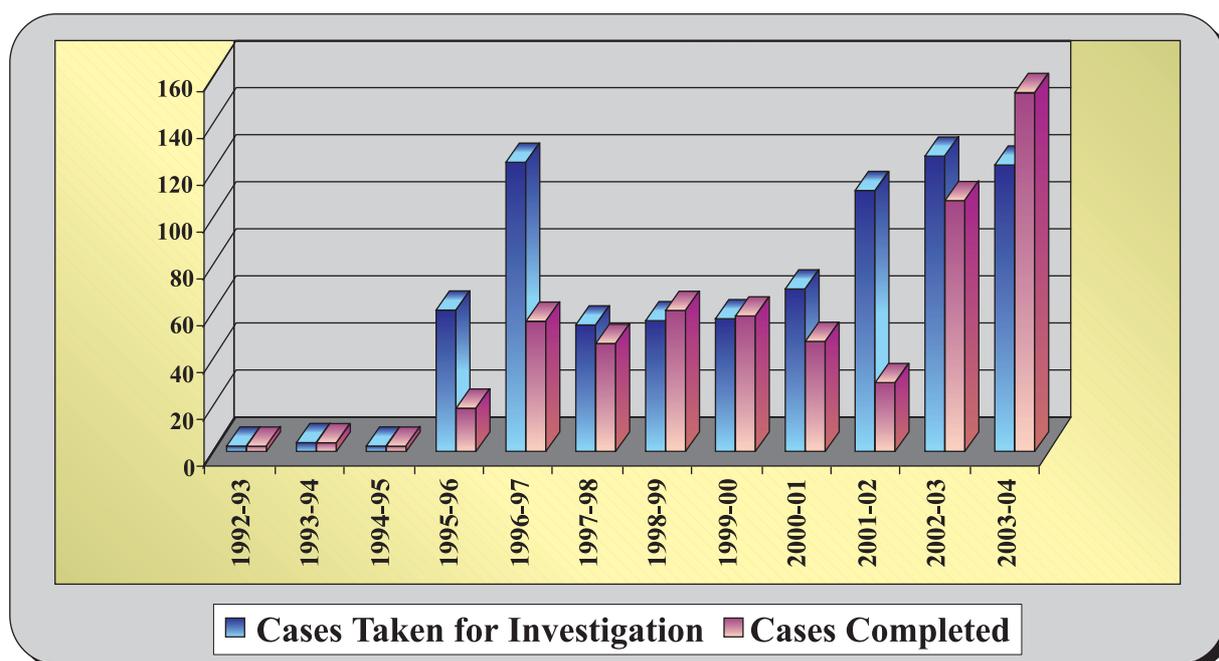


Table 3.16: Details where Enquiry Officer has been appointed

Intermediary	2002-03	2003-04	Absolute Variation	Percentage Variation
Stock Brokers	158	272	114	72.15
Sub Brokers	13	32	19	146.15
Merchant Bankers	4	3	-1	-25.00
Bankers to an Issue	3	2	-1	-33.33
RTA / STI	6	1	-5	-83.33
Mutual Fund	Na	1	Na	Na
Portfolio Manager	Na	1	Na	Na
Depository Participant	Na	2	Na	Na
<b>Total</b>	<b>184</b>	<b>314</b>	<b>120</b>	<b>65.22</b>

Na - Not Applicable

Table 3.17: Details where Enquiry Proceedings have been completed

Intermediary	Number of cases		Absolute Variation	Percentage Variation
	2002-03	2003-04		
Stock Brokers	41	164	123	300.00
Sub Brokers	5	9	4	80.00
Merchant Bankers	0	3	3	Na
RTA / STI	—	2	2	Na
<b>Total</b>	<b>46</b>	<b>178</b>	<b>132</b>	<b>286.00</b>

## 6. ENFORCEMENT OF REGULATIONS

Enforcement makes a regulatory system look effective. Active pursuance of cases of misconduct sends out a tough signal for market participants. Disciplinary actions in the form of justified penalties are indispensable to protection of market integrity.

### I. Primary Market Intermediaries

- A. Based on the inspection, adjudication proceedings have been initiated against two category 1 registrars to the issue.
- B. Based on inspection of books and records, cease and desist proceeding have been initiated against four depository participants under Section 11 D of SEBI Act 1992.
- C. Enquiry proceeding has been initiated against three merchant bankers and one underwriter to the issue.
- D. Based on the investor complaints, prosecution u/s 24 of SEBI Act has been initiated against 51 entities who have been found to be dealing in securities market without appropriate registration.

### II. Under Delegated Powers and Functions

**Table 3.18: Governing Boards of Exchanges Superseded during 2003-04**

Exchange	Notification dated	Period
Pune Stock Exchange	April 4, 2003.	Effective from April 4, 2003 for a period of one year.
Calcutta Stock Exchange	December 4, 2003.	Effective from December 4, 2003 for a period of one year.

**Table 3.19: Supersession of the Governing Boards of Exchanges Extended during 2003-04**

Exchange	Notification dated	Period
Bhubaneshwar Stock Exchange	January 1, 2004.	Supersession extended with effect from 3 <sup>rd</sup> January, 2004 for a period of six months
Uttar Pradesh Stock Exchange	July 9, 2003	Supersession extended with effect from July 12, 2003 for a period of six months.
	January 8, 2004.	Subsequently further extended with effect from January 12, 2003 for a period of six months.
Ahmedabad Stock Exchange	March 24, 2004	Supersession extended with effect from March 25, 2004 for a period of six months.

### Other Actions Initiated under Delegated Powers and Functions

- A. Show cause notice dated August 13, 2003 was issued to Gauhati Stock Exchange (GSE) for non-submission of its Corporatisation and demutualisation scheme within the time stipulated as per SEBI Circular dated January 30, 2003. Subsequently the scheme was submitted by GSE.
- B. Show cause notice was issued to Bangalore Stock Exchange (BgSE) and vide Order dated August 27, 2003 warned the Governing Board of the BgSE to be more vigilant, cautious and careful in future in discharge of its functions as a self-regulatory organization.
- C. SEBI directed the Ahmedabad Stock Exchange to conduct inquiry for

Executive Director's failure to prevent unofficial trading in securities, and his involvement with brokers in illegal carry forward trading. Subsequently, the Executive Director has resigned.

## 7. ADJUDICATION

Details of adjudication/penalty imposed on various mutual funds for various kinds of violations are provided in Table 3.20. The table provides monthwise breakup and total for the year.

### I. Adjudication Ordered

The details of adjudication ordered have been provided below.

#### A. JM Mutual Fund

For not making disclosures in offer document penalties have been imposed on the sponsor.

#### B. Alliance Capital Mutual Fund

Adjudication proceedings have been initiated against the mutual fund and the AMC for processing two applications in their Alliance Income Fund Scheme as of September 29, 2003 NAV even though these applications were received after the cut-off time for September 29, 2003 NAV. In this process, they have failed to exercise due diligence thereby violating Regulation 18(22) and 25(16) read with clause 9 of the Fifth Schedule to the SEBI (Mutual Funds) Regulations, 1996.

### II. Adjudication Completed

#### A. JM Mutual Fund

The final order in respect of JM Capital Management Pvt. Ltd. and JM Mutual Fund was passed under section 15D(b) and section 15E of SEBI Act, 1992 for violation of SEBI (MF) Regulations, 1996. A penalty of Rs. 30 lakh was imposed on JM Capital Management Pvt. Ltd. and Rs. 20 lakh on JM Mutual Fund.

#### B. Violation of (Substantial Acquisition of Shares and Takeovers) Regulations

During the year, 73 cases were referred for adjudication under section 15 of SEBI Act, 1992 for alleged violation of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and a sum of Rs. 54.92 lakh were received towards monetary penalty.

### III. Adjudication Details

Tables 3.21 to 3.24 provide details with regard to adjudication and prosecution. Table 3.21 presents information relating to adjudication and enquiry. During the year, a total of 167 orders have been passed/reports have been submitted, of which 54 are enquiry and 113 are of adjudication in nature. A total of 221 hearings have been given, of which 100 pertain to enquires and 121 belong to

**Table 3.20: Adjudication/penalty imposition – Mutual Funds**

Particulars	2003-04												Total
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
(A) Adjudication Ordered	1	—	—	—	—	—	—	1	—	—	—	—	2
(B) Adjudication Completed	—	—	—	—	—	—	—	—	—	1	—	—	1
(C) Warning/Deficiency	2	1	2	—	1	3	2	6	10	2	5	1	35

adjudication proceedings. 554 show-cause notices have been issued, of which 152 show-cause notices are with regard to enquires and the remaining with regard to adjudication proceedings.

**Table 3.21: Adjudication Details 2003-04**

Particulars	Adjudication	Enquiry	Total
Orders passed/ Reports submitted	113	54	167
Hearings conducted	121	100	221
Show cause notices issued	402	152	554

## 8. PROSECUTION

During the year, prosecutions have been launched in respect of 464 companies, compared to 229 in the previous year. Number of persons/entities against whom prosecutions have been launched, has gone up substantially to 2375 compared to 848 in the previous year, a record growth of 200 per cent.

The total number of prosecutions launched filed till March 31, 2004 numbers to 886 and number of persons/entities work out to 4,396. Regionwise break up indicates that Western Region has topped with 408 cases, followed by Northern Region, Southern Region and Eastern Region with 306, 95 and 77 cases respectively.

Table 3.24 depicts the nature of prosecutions launched under various Sections of different Acts. The prosecutions have been launched under the Companies Act, the SEBI Act, the Depositories Act, the Securities Contract Regulations Act and the Indian Penal Code. Maximum number of prosecutions have been launched under the SEBI Act and least number of prosecutions under the IPC.

**Table 3.22: Number of Prosecutions Launched**

Year	Number of prosecutions launched	Number of persons/ entities against whom prosecution launched
1995-96	9	58
1996-97	10	57
1997-98	11	81
1998-99	15	145
1999-00	19	121
2000-01	20	98
2001-02	109	613
2002-03	229	848
2003-04	464	2,375
<b>TOTAL</b>	<b>886</b>	<b>4,396</b>

**Table 3.23: Regionwise Data**

Region	Number of prosecutions launched
Northern	306
Western	408
Southern	95
Eastern	77
<b>TOTAL</b>	<b>886</b>

**Table 3.24: Nature of Prosecutions**

Sections 63, 68 of Companies Act, 1956	18
Sections 73, 77 and 113 of Companies Act, 1956	41
Indian Penal Code	5
Securities and Exchange Board of India Act, 1992	795
Depositories Act, 1996	13
Securities Contracts (Regulation) Act, 1956	14
<b>Total</b>	<b>886</b>

### I. Litigations, Appeals and Court Pronouncements

Table 3.25 to 3.27 present details with regard to the cases lying before the Securities Appellate Tribunal. Table 3.25 provides information on the nature of activity. A total

of 126 cases have been filed in 2003-04, making SEBI a party. During the year, 36 cases have been either withdrawn or allowed or dismissed. Number of pending cases has gone up to 303 as on March 31, 2004.

Table 3.26 gives information relating to appeals filed with Securities Appellate Tribunal during the year. A total of 175 appeals have been filed, of which 31 have been dismissed, five have been remanded and 13 cases where appeals have been allowed. The remaining 126 continue to remain pending.

Appeals under Section 15Z of the SEBI Act against the order of the Securities Appellate Tribunal (SAT) are provided in Table 3.27. During the year, SEBI has filed seven cases and others filed five cases against SEBI. The SAT has disallowed/dismissed one out of the seven cases filed by SEBI. As on March 31, 2004, 24 cases are pending.

**Table 3.25: Details of Court cases where SEBI was a party in 2003-04**

Subject Matter	Cases filed	Cases Pending	Cases dismissed/ allowed/ withdrawn
Brokers Registration fee cases	0	42	11
Collective Investments Scheme	5	22	3
Consumer Forum Cases	16	16	0
General Services Department	5	7	0
Investigations, Enforcement and Surveillance Department	46	37	9
Primary Market Department	21	44	0
Secondary Market Department	23	87	12
Takeovers	3	24	1
Depositories and Participants	6	6	0
Mutual Funds	1	18	0
<b>Total</b>	<b>126</b>	<b>303</b>	<b>36</b>

**Table 3.26: Details of Appeals filed before the Securities Appellate Tribunal- 2003-04**

Status of Appeals	No. of Appeals
Appeals filed	175
Appeals dismissed	31
Appeals remanded	5
Appeals allowed	13
Appeals pending	126

**Table 3.27: Details of Appeals under Section 15Z of the SEBI Act against the Order of Securities Appellate Tribunal 2003-04**

Subject Matter	Cases Filed	Cases pending	Cases dismissed/ allowed
Appeals filed by SEBI	7	18	1
Appeals filed by other parties against SEBI	5	6	NIL
<b>Total</b>	<b>12</b>	<b>24</b>	<b>1</b>