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CS EXECUTIVE

MODULE-2

SECURITIES LAW

BY:- CS NITESH KR. JAISWAL
(Company Secretary (FCS), LL.B.)

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FIRST EDITION	: June 2010 (SLC – ICSI Syllabus 2007)
SECOND EDITION	: January 2011 (SLC – ICSI Syllabus 2007)
THIRD EDITION	: January 2012 (SLC – ICSI Syllabus 2007)
FOURTH EDITION	: June 2012 (SLC – ICSI Syllabus 2007)
FIFTH EDITION	: June 2013 (CMSL – ICSI Syllabus 2012)
SIXTH EDITION	: January 2014 (CMSL – ICSI Syllabus 2012)
SEVENTH EDITION	: June 2015 (CMSL – ICSI Syllabus 2012)
EIGHTH EDITION	: January 2017 (CMSL – ICSI Syllabus 2012)
NINETH EDITION	: June 2018 (SLCM – ICSI Syllabus 2017)
TENTH EDITION	: January 2019 (SLCM – ICSI Syllabus 2017)
ELEVENTH EDITION	: June 2019 (SLCM – ICSI Syllabus 2017)
TWELTH EDITION	: January 2020 (SLCM – ICSI Syllabus 2017)

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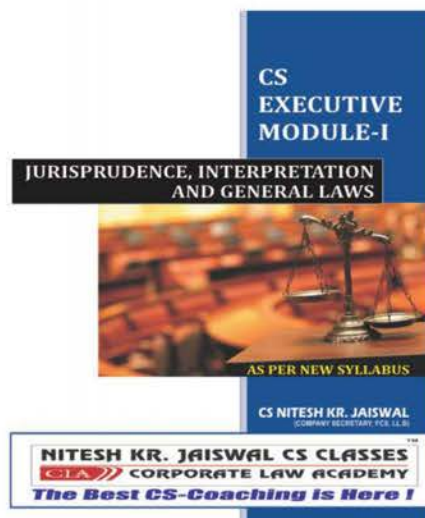
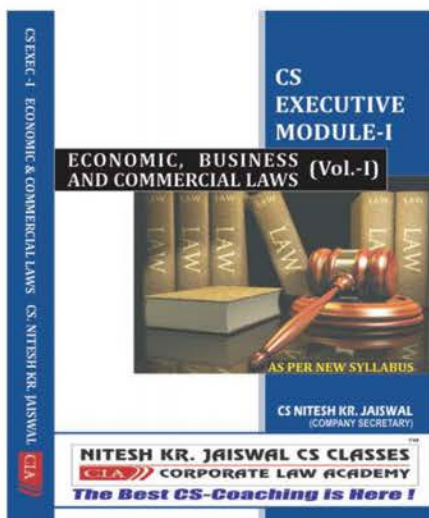
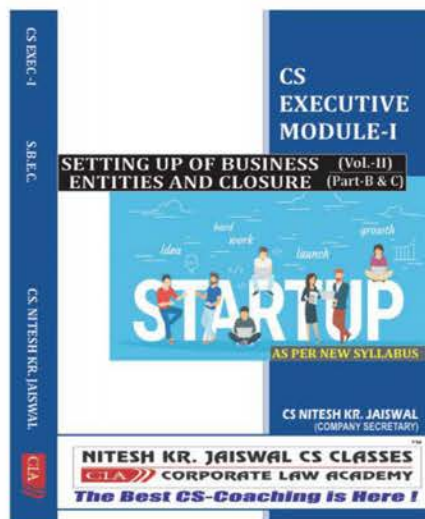
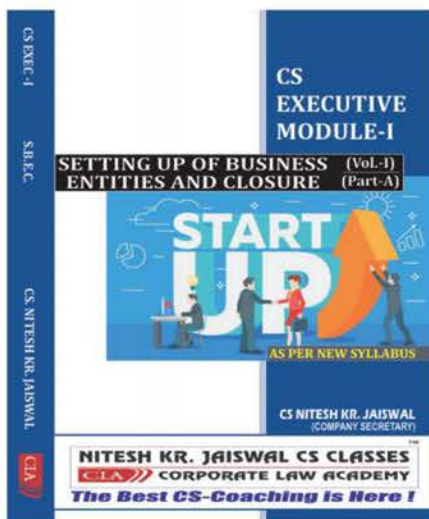
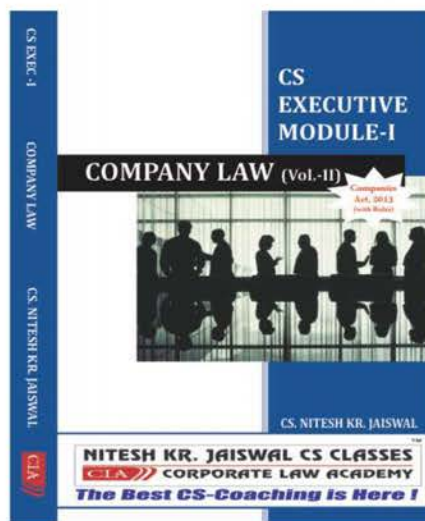
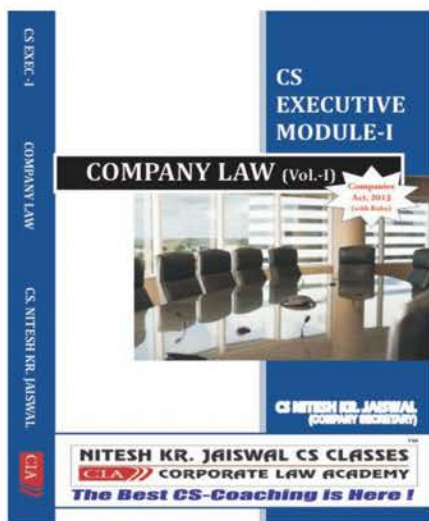
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with the blessings of
“maa sidhidatri”

Dedicated to
My mother **Late SUNITA JAISWAL**
And father **SHRI SURENDRA PRASAD**

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Acknowledgements

The author thanks the fellow professionals and friends for their fruitful contribution

**CS. Vinita Jangra
CS. Ashutosh Kumar
CS. Rohit Kashyab
CS. Sudhir Kumar
CS. Sourabh Raha**

Preface

We have great pleasure in placing the book on Securities Laws and Capital Markets in the hands of students. This book gives a complete and overall prospect about Securities Laws and Capital Markets from examination point of view and meets the requirements of all levels of students preparing for Company Secretaryship examination. The focus continues on equipping the students with theories, concepts and techniques that can be applied to various spheres of Company Secretary professional.

The important features of this book are as follows:

- ❖ It is user friendly and provides information in well structured manner.
- ❖ It incorporates latest changes relating to the subject, Securities Laws and Capital Markets.
- ❖ It elaborates the concept through practical problems.
- ❖ Tables and diagrams are used for explaining the key concepts.
- ❖ Lucid and comprehensive presentation of the complex and advanced subjects matter will help the students in easy understanding.
- ❖ **The book is comprehensive and even a student who has not studied the subject earlier can easily understand the concept and system of Securities Laws and Capital Markets.**

There is no denying the fact that improvement is an unending process.

We look forward to the comments, suggestions and criticisms from the readers for improvement of this book and will be gratefully acknowledged.

However, it becomes necessary for every student to constantly update with legislative changes made as well as judicial pronouncements rendered from time to time by referring to the ICSI's monthly journal 'Chartered Secretary' and e-bulletin 'Student Company Secretary' as well as other law/professional journals and reference books.

Besides, as per the Company Secretaries Regulations, 1982, students are expected to be conversant with the amendments to the laws made upto six months preceding the date of examination.

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SECURITIES LAWS AND **CAPITAL MARKETS (VOL-1)**

*{Strictly as per new syllabus (2017) prescribed by
The Institute of Company Secretaries of India (ICSI)}*

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This book should be read along with “Securities Laws & Capital Markets Vol-2” containing additional 12 Chapter

**This book is updated
With all amendments
Till 30th December, 2019**

***(Afterwards amendments will be included / discussed
in live lectures at classroom)***

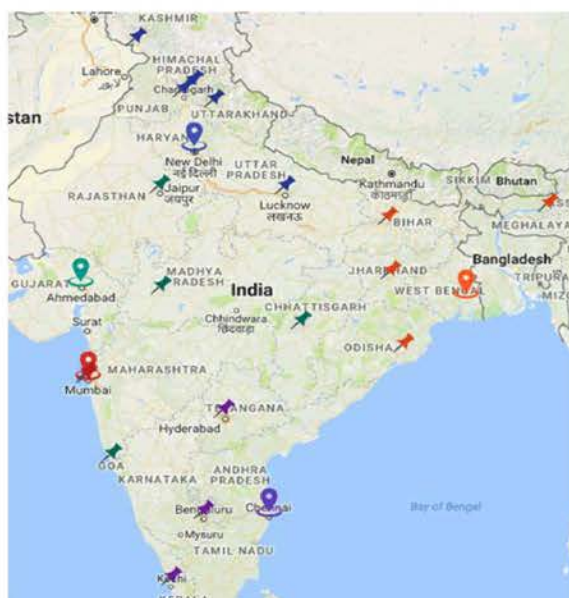
General Legal Knowledge

SPECIFIC SECTORAL REGULATORS

SECTORS	REGULATORS
BANKS	RESERVE BANK OF INDIA (RBI)
CHIT FUNDS	RBI
CHARTERED ACCOUNTANTS / AUDITORS	The Institute of Chartered Accountants of India (ICAI) / CAG
COMPANIES – ALL	Ministry of Corporate Affairs (MCA)/ Registrar of Companies (ROC)
COMPANY SECRETARIES	The Institute of Company Secretaries of India (ICSI)
DEPOSITORIES & D.P	SEBI
FII	SEBI
INSURANCE COMPANIES	IRDA
MUTUAL FUNDS	SEBI
REAL ESTATE	Real Estate Regulatory Authority (RERA)
SOLICITORS & LEGAL ADVISORS	Bar Council of India (BCI)
TELECOM INDUSTRY	Telecom Regulatory Authority of India (TRAI)
FOOD SAFETY	Food Safety and Standards Authority of India (FSSAI)

General Legal Knowledge

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NEW SYLLABUS

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Roll No.

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : Answer ALL Questions.

PART-I

1. (a) A Mutual Fund having 300 units has shown Net Asset Value (NAV) of ₹ 8.75 and ₹ 9.45 at the beginning and at the end of the year respectively. The Mutual Fund has given two options :
- (i) Pay ₹ 0.75 per unit as dividend and ₹ 0.60 per unit as capital appreciation; or
- (ii) These distributions are to be reinvested at an average NAV of ₹ 8.65 per unit.
- What difference it would make in terms of return available and which option is preferable ?
- (b) 'A stock exchange on its own can delist any security thereon'. Explain how Recognized Stock Exchange delists any securities listed thereon under Securities Contracts (Regulations) Rules, 1957.
- (c) Your Board of directors is contemplating to take-up the agenda to issue ESOS in next meeting. Being a Company Secretary, advise your Board of directors about brief procedure for issuing of securities under SEBI Employees Stock Option Scheme (ESOS) by a listed Company.
- (d) Can a Company buy-back its own shares or any specified securities through negotiated deals or through any private arrangements ? Comment with methods allowed for buy-back.

(5 marks each)

Attempt all parts of either Q. No. 2 or Q. No. 2A

2. (a) A listed company can apply to stock exchange for re-classification of the Promoter's holdings as public shareholders under SEBI regulations. Whether following promoters can apply for re-classification with reference to SEBI regulations ?
- (a) Promoter is declared as willful defaulter as per RBI guidelines.
 - (b) Promoter is holding 12% of total voting rights in the listed entity.
 - (c) Promoter is acting as CEO of the listed entity.
 - (d) The promoter company has outstanding listing fees only for one year.
- (b) Explain the Modes of Payment to the shareholders of the Target Company on acquisition of shares by the acquirer under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.
- (c) An acquirer, holding 25% or more but less than maximum permissible non-public shareholding of the Target Company can acquire such additional shares as would entitle him to exercise more than 5% of the voting rights in any financial year. Explain the statement indicating the creeping acquisition limit for making an open offer by an acquirer.
- (d) SEBI has been given necessary autonomy and authority to regulate and develop an orderly market. Elucidate the statement in the light of statutory powers vested with SEBI.
- (e) Life-Changing Assets Management Ltd., a mutual funds company desires to engage a bollywood celebrity to popularize its schemes. Explain the SEBI provisions with regard to celebrity endorsements of Mutual Funds at industry level.

(4 marks each)

: 3 :

OR (Alternate question to Q. No. 2)

- 2A.** (i) M/s Highspeed Ltd. manufacturing a car components for leading car manufacturer. Its public issue of ₹ 500 crore was fully subscribed. The public issue money ought to be utilized for setup an assembly-line for the existing business. Out of ₹ 500 crore, the company spent ₹ 400 crore for assembly-line. The management consultant, hired for Business Process re-engineering has suggested to invest balance amount to setup bike components manufacturing unit. You, being company secretary of the company, advise on the opinion of management consultant by referring provisions of SEBI Guidelines.

(4 marks)

- (ii) From the following information, calculate the Enterprise Value of E Ltd. :

Balance Sheet of E Ltd. as on 31st March, 2018

Liabilities	Amount (₹ Lakh)	Assets	Amount (₹ Lakh)
Share Capital (Face Value ₹ 2)	952	Non-Current Assets	2,550
Reserves & Surplus	48	Current Assets :	
Minority Interest	115	Cash & Cash Equivalent	102
Short-term Borrowings	2,860	Other Current Assets	1,323
	3,975		3,975

Current Market Price Per Share is ₹ 96.

(4 marks)

: 4 :

- (iii) The Board of directors of a listed company desires to delist its equity shares from all the recognised stock exchanges. The voting details through postal ballot are as under :

— Total nos. of voters : 7,000 (Public : 5,000 & Promoters : 2,000)

— Voting at shareholders meeting :

- (a) Public shareholders :

In favour : 3,300 votes

In against : 1,700 votes

- (b) All promoters shareholders have voted in favour of resolution.

By referring SEBI delisting regulation, decide upon the resolution passed by the shareholders.

(4 marks)

- (iv) The financial data of a listed company as on 31st March, 2018 are as follows :

Authorized equity share capital ₹ 10 crore

(1 crore shares of ₹ 10 each)

Paid-up equity share capital ₹ 5 crore

General reserve ₹ 3 crore

Debenture redemption reserve ₹ 2 crore

The Board of directors of your company passed resolution by circulation for buy-back of shares to the extent of 9% of the company's paid-up share capital and free reserves. You are required to examine the validity of the proposal with reference to the provisions of the SEBI Regulations.

(4 marks)

- (v) Z Ltd. has issued Sweat Equity Shares for a non-cash consideration. What are the possible accounting treatments in the books of Z Ltd. ?

(4 marks)

: 5 :

3. (a) A listed NBFC has been granted licence to run as small finance bank by the Reserve Bank of India under recently announced policy to improve the financial inclusion of the country. During the last three years, the attrition rate for top level management employees was not too high As, RBI has granted licences to many small banks, therefore, the promoters of the Bank feels that attrition rate will be high in coming period. The Board of directors wishes to allot Sweat Equity shares to employees. You, being compliance officer of the Bank, advise the Board about pricing of the Sweat Equity shares.
- (b) An unlisted public company (“Acquirer”) doing business of exporting steel and it is a part of the Promoter Group of Maurya Hotels (India) Ltd. (MHIL), a company listed on stock exchange. In view of improving its efficiency, MHIL is planning to restructure its group. The Acquirer has agreed to enter into a scheme of arrangement where the shares held by the promoter group companies (eight companies) will be transferred to it. Post-merger, the shareholding of the Acquirer in the Company will increase from 2% to 24%. However, the overall promoter shareholding will remain unchanged. You, being practicing company secretary, appointed as consultant by the Acquirer, answer the following :
- (i) Will the transfer of shares trigger an obligation to make an open offer under the SEBI (SAST) Regulations on the Acquirer ?
- (ii) What are the disclosure requirements under the SAST Regulations, if any, that the parties to the scheme will have to comply with ?
- (c) Explain what is Informal Guidance under SEBI (Informal Guidance) Scheme, 2013 and who can seek guidance from SEBI ?

(5 marks each)

: 6 :

4. (a) The price of equity share of a listed company viz. NextDial Ltd. (NDL) increased from ₹ 10 to high of ₹ 50 i.e. a rise of 500% during the period 1st April, 2018 to 30th Sept., 2018. NDL had entered into a Share Purchase Agreement (SPA) with the proposed acquirer(s) to acquire 40% of the subscribed equity share capital as of 31st Aug., 2018 which would result in change of management. This initial discussion on the deal was made on 1st April, 2018 but SPA was signed on 25th April, 2018. During 1st April, 2018 to 30th Sept., 2018, the promoter and his wife dealt in the script of NextDial Ltd. Referring to the provisions of SEBI (PIT) Regulations, answer the following :

- (i) Define Unpublished Price Sensitive Information.
- (ii) Whether there was any Unpublished Price Sensitive Information (UPSI) ?
- (iii) What will be the date of UPSI ?
- (iv) What are the factors to be taken into account by the adjudicating officer while imposing penalty for the act ?

(8 marks)

- (b) The financial data of Natural Energy Limited as on 31st March, 2018 are as under :
- (i) Authorised Share Capital : ₹ 700 crore
 - (ii) Paid-up Capital : ₹ 300 crore
 - (iii) Free Reserves : ₹ 800 crore

The company has pending convertible debenture of ₹ 150 crore, due for conversion in financial year 2018-19. The company proposes to issue bonus shares in the ratio of 1 : 1 after conversion of debenture. You being a company secretary, advise on the procedure to be followed by referring SEBI regulations.

(7 marks)

: 7 :

PART-II

5. (a) What are the Option contracts ? You are required to compute the profit/loss for each investors in below option contracts :
- (i) Mr. X writes a call option to purchase share at an exercise price of ₹ 60 for a premium of ₹ 12 per share. The share price rises to ₹ 62 by the time the option expires.
 - (ii) Mr. Y buys a put option at an exercise price of ₹ 80 for a premium of ₹ 8.50 per share. The share price falls to ₹ 60 by the time the option expires.
 - (iii) Mr. Z writes a put option at an exercise price of ₹ 80 for a premium of ₹ 11 per share. The price of the share rises to ₹ 96 by the time the option expires.
 - (iv) Mr. XY writes a put option with an exercise price of ₹ 70 for a premium of ₹ 8 per share. The price falls to ₹ 48 by the time the option expires.
- (b) What do you mean by 'Research Analysts' ? Elucidate the net worth requirements, and role and responsibilities of Research Analyst as per SEBI (Research Analyst) Regulations, 2014.
- (c) "Prior information of open position of any share during market hours can easily fluctuate the price of the share". How Preventive Surveillance helps to reduce the fraudulent price variation in the shares in a day ?

(5 marks each)

Attempt all parts of either Q. No. 6 or Q. No. 6A

6. Write short notes on the following :
- (a) Custodian of Securities
 - (b) Key difference between WPI & CPI
 - (c) Basis of SENSEX
 - (d) High Net Worth Individuals
 - (e) Bulk Deal.

(3 marks each)

OR (Alternate question to Q. No. 6)

- 6A.** (i) “An Alternative Investment Fund which has been granted registration under a particular category cannot change its category subsequent to registration, except with the approval of the SEBI”. Enumerate the conditions for approval of SEBI.
- (ii) Dhruv has purchased 1000 shares @ ₹ 80 per share of a company. He wanted to pay ₹ 5,000 in cash and balance through bank transfer to stock broker. As a Company Secretary advise Dhruv by referring SEBI regulation/circular.
- (iii) “SEBI has amended the provisions related to registration of Sub-Broker to act as a market intermediary”. Elucidate the statement and discuss the migration path for existing registered Sub-Brokers.

(5 marks each)

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NEW SYLLABUS

426

Roll No.

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : *Answer ALL Questions.*

PART-I

1. (a) A mutual fund has a NAV of ₹ 11.50 at the beginning of the year. At the end of the year NAV increases to ₹ 12.10. Meanwhile the fund distributes ₹ 0.80 as dividend and ₹ 0.70 as capital gains.
- (i) What is the fund's return during the year ?
- (ii) Had these distributions been re-invested at an average NAV of ₹ 11.80, what is the return for 200 units ?
- (5 marks)
- (b) "Expense Ratio for a mutual fund should be as low as possible." Explain how increase or decrease in Total Expense Ratio (TER) shall be disclosed by Asset Management Company under SEBI (Mutual Funds) Regulations, 1996?
- (5 marks)
- (c) Explain the Stock Appreciation Rights Scheme (SARS).
- (5 marks)
- (d) Answer the following with reference to the Companies (Share Capital and Debentures) Rules, 2014, as to whether these are the eligible employees under Employee Stock Option ? (Yes/No with reasons)
- (i) Ankit is a permanent employee deputed in USA for a specific project.

: 2 :

- (ii) Smart Ltd. is an independent company.
- (iii) Anil is a promoter and employee.
- (iv) Aneesh is a director holding 11% of outstanding equity shares of the company.
- (v) If it is a startup company, will the situation be the same in (iii) & (iv) above ?

(5 marks)

Attempt all parts of either Q. No. 2 or Q. No. 2A

2. (a) What are the provisions for continuous listing requirement under Securities Contracts (Regulation) Rules, 1957 ? List any *six* methods for achieving minimum public shareholding by a listed company.

(4 marks)

- (b) Girdhar (Retail Individual Investor) had applied for Initial Public Offer of Six Sigma Ltd. through Applications Supported By Block Amount (ASBA) process. The Self Certified Syndicate Banks (SCSBs) failed to make bids in the Stock Exchange system even after the amount has been blocked. The issue was oversubscribed. Based on the SEBI guidelines/circulars, answer the following :

- (i) What are the factors that have been taken into account by SEBI for finalization of uniform policy for calculation of the minimum fair compensation ?
- (ii) Calculate the minimum fair compensation payable to Girdhar based on the following information : Listing Price : ₹ 350, Issue Price : ₹ 300, Minimum Bid lot-20 shares, probability of allotment of shares on the basis of allotment (ratio 7 : 8).

(4 marks)

: 3 :

- (c) For ensuring independence in the spirit of Independent Directors and their active participation in functioning of the company, SEBI has accepted many recommendations of Committee setup under the Chairmanship of Shri Uday Kotak and made amendments in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Explain any four amended provisions related to Independent Directors.
- (4 marks)
- (d) Bombay Stock Exchange Ltd. had suspended trading in shares of XYZ Ltd. for violating conditions of listing agreement. The company has now complied with the listing regulations requirements. By referring to SEBI circular/regulations, discuss the criteria for suspension of the trading in the shares of the listed entities.
- (4 marks)
- (e) Explain the following :
- (i) Dematerialization
 - (ii) Fungibility.
- (4 marks)

OR (Alternative question to Q. No. 2)

- 2A. (i) Hon'ble Justice A, a retired Chief Justice of a High Court, attained the age 62 years on December 31, 2017. The Central Government had appointed him as the Presiding Officer of the Securities Appellate Tribunal (SAT) with effect from January 1, 2018. You are required to state with reference to SEBI Act, 1992, (a) the term for which he may be appointed as Presiding Officer of the SAT (b) Whether he can be re-appointed as such and remains as Presiding Officer of the Securities Appellate Tribunal ?

(4 marks)

- (ii) The equity share of Ashina Buildcon Ltd., was listed on National Stock Exchange Ltd. (NSE). NSE delisted its shares by complying SEBI guidelines on delisting. The order of delisting was passed on March 05, 2017. Kunj, one of the shareholder has not participated in the bidding process due to ill health, He wanted to tender shares on January 01, 2018. Analyze the problem in the light of the SEBI (Delisting of Equity Shares) Regulations, 2009.

(4 marks)

- (iii) Define “Dissenting shareholders”. What are the conditions for applicability of Exit offers by dissenting shareholders according to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ?

(4 marks)

- (iv) You are the Company Secretary of Sunglow Ltd., which being listed on the Stock Exchange after an IPO is made by the company. The Managing Director desires to know about quarterly compliance requirements under listing agreement. Prepare a list of quarterly compliances as per the listing regulations.

(4 marks)

- (v) What is Trading Plan under SEBI (Prohibition of Insider Trading) Regulations, 2015 ? State the requirements to be complied with in this regard.

(4 marks)

3. (a) Technopoly Ltd., an unlisted public company, having a paid up equity share capital of ₹ 3.00 crore consisting of 30,00,000 equity shares of ₹ 10 each fully paid up,

: 5 :

proposes to reduce the denomination of equity shares to less than ₹ 10 per share and make the initial public offer of equity shares at a premium. Whether it is possible for the company to issue shares at a denomination of less than ₹ 10 ? Based on the above facts, you are required to state the minimum issue price, with reference to the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

(5 marks)

- (b) MCS Ltd. is a listed company with Bombay Stock Exchange Ltd. The Company enters into related party transactions frequently with MAP Ltd. in which one of director of MCS Ltd. holds 3% paid up capital of MAP Ltd. MCS Ltd. feels that getting the approval of Audit Committee for each transaction is time-consuming and delaying the operational plan. You, being a Company Secretary of MCS Ltd., advise the management with reference to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for approval of the related party transactions from the Audit Committee for next one year. Will your answer be different if MAP Ltd. is wholly owned subsidiary of MCS Ltd. ?

(5 marks)

- (c) Startups companies have now come up with an Initial Public offer with relaxation of many conditions applicable for Initial Public Offer. In this context, briefly, explain about the “Institutional Trading Platform (ITP)” and eligibility for listing.

(5 marks)

4. (a) Prateek applied in the IPO of Maxgrow Ltd. for 100 Equity Shares. He was not eligible to get any shares according to the allotment schedule and also has not received the refund amount within the time stipulated under the Companies Act, 2013. Prateek approached the Company through written representation on January 10, 2018. The company neither replied nor processed the refund claim. In the light of the SEBI Regulations, answer the following :

- (i) How much time should elapse before approaching Ombudsman from the date of written representation ?
- (ii) State the grounds and the procedure for filing a complaint before Ombudsman.
- (iii) Whether Prateek can hire services of a legal practitioner to plead his case before Ombudsman ?

(8 marks)

- (b) You are working as the Company Secretary of a listed company viz. Mindspare Ltd. The company is in advance stage of negotiation with a buyer, who will drastically improve the profitability and financial position of the company. You have got some information that one of the employees of the company, who is involved in the negotiation may indulge in trading of shares of the company. Being a compliance officer, you are required to formulate a code of conduct to regulate, monitor and report trading by employees and other connected persons towards achieving compliance with the SEBI (Prohibition of Insider Trading) Regulations, 2015.

(7 marks)

: 7 :

PART-II

5. (a) Naman had executed following trades on Gama Ltd. stock :
- (i) Purchased one 3-month call option with a premium of ₹ 25 at an exercise price of ₹ 530.
 - (ii) Purchased one 3-month put option with a premium of ₹ 5 at an exercise price of ₹ 430.
- The lot size is 100 share per lot and the current price of Gama Ltd. stock is ₹ 500. Determine Naman's profit or loss, if the price of Gama Ltd. stock after 3 months is :
- (a) ₹ 500
 - (b) ₹ 350.
- (b) What is meant by Anchor Investor ? What are the limitations of allocation to anchor investors in the Book building process ?
- (c) A listed company, Nishan Hitech Ltd. issued 10 lakh equity shares at a price of ₹ 150 per share. The company provided Green shoe option for stabilizing the post listing price of the shares. On the day of listing of shares, the news of trade war between the two developed countries flashes and the price of shares of company fall to ₹ 110. Decide how many shares can be purchased by the stabilizing agent to control the price ? State the provisions for balance money lying in the special account for green shoe option.

(5 marks each)

Attempt all parts of either Q. No. 6 or Q. No. 6A

6. Write short notes on the following :

- (a) Private Equity
- (b) Book Closure and Record Date
- (c) Bankers to an issue
- (d) Venture capital
- (e) Pension Fund.

(3 marks each)

OR (Alternative question to Q. No. 6)

- 6A. (i) What is meant by Block deal ? How is it being executed in the Stock Exchange ?
- (ii) Credit Rating Agencies may not be taking cognizance of information for delays in servicing debt obligations while reviewing of its ratings. What are the material events requiring a review by the Credit Rating Agencies as per SEBI's circular ?
- (iii) Explain the provisions for compulsory internal audit of Registrars to an Issue/Share Transfer Agents (RTAs).

(5 marks each)

————— o —————

Important Abbreviations

S. No.	Acronym	Expansion
1.	ADR	American Depository Receipt
2.	ALBM	Automated Lending and Borrowing Mechanism
3.	ASBA	Applications Supported by Blocked Amount
4.	CAG	Comptroller and Auditor General of India
5.	CARE	Credit Analysis and Research Limited
6.	CBCA	Canada Business Corporation Act
7.	CDS(I)L	Central Depository Services (India) Limited
8.	CFC	Certified Filing Centre
9.	CFDS	Corporate Filing and Dissemination System
10.	CFTC	Commodity Futures Trading Commission
11.	CIN	Corporate Identity Number
12.	CIS	Collective Investment Schemes
13.	CLA	Central Listing Authority
14.	CoBoSAC	Corporate Bonds and Securitisation Advisory Committee
15.	CRA	Credit Rating Agencies
16.	DFHI	Discount and Finance House of India Limited
17.	DFI	Development Financial Institution
18.	DIN	Director Identification Number
19.	DMA	Direct Market Access
20.	DVP	Delivery versus Payment
21.	DP	Depository Participants
22.	DSC	Digital Signature Certificate
23.	ECB	External Commercial Borrowings
24.	ECN	Electronic Contract Note
25.	ECS	Electronic Clearing Services
26.	EDIFAR	Electronic Data Information Filing and Retrieval
27.	ESOS	Employee Stock Option Scheme
28.	FCCB	Foreign Currency Convertible Bond
29.	FCEB	Foreign Currency Exchangeable Bond
30.	FII	Foreign Institutional Investors
31.	FIMMDA	Fixed Income Money Market and Derivatives Association of India
32.	FTI	Fast Track Issues
33.	GDR	Global Depository Receipts
34.	GETF	Gold Exchange Traded Fund
35.	GLN	Global Location Number
36.	HPAC	High Powered Advisory Committee

37.	HLCC	High Level Committee on Capital Markets
38.	IBP	Inter- Bank Participation
39.	IPA	Issuing and Paying Agent
40.	IRDA	Insurance Regulatory and Development Authority
41.	JRE	Java Runtime Environment
42.	KYC	Know Your Client
43.	MCFS	Modified Carry- Forward System
44.	MoU	Memoranda of Understanding
45.	MTM	Market Trade Mechanism
46.	NAV	Net Asset Value
47.	NCDS	Non- Convertible Debt Securities
48.	NDTL	Net Demand and Time Liabilities
49.	NDS	Negotiated Dealing System
50.	NPA	Non- Performing Assets
51.	ODI	Overseas Derivative Instrument
52.	OTCEI	Over the Counter Exchange of India
53.	PDO	Public Debt Office
54.	QIB	Qualified Institutional Buyers
55.	SEFT	Special Electronic Fund Transfer
56.	SIP	Systematic Investment Plan
57.	SGL	Subsidiary General Ledger
58.	SMART	Simple, Moral, Accountable, Responsive and Transparent
59.	SMC	Small and Medium Sized Companies
60.	SMILE	Securities Markets Infrastructure Leveraging Expert
61.	SPDR	Standard and Poor Depository Receipt
62.	SPN	Secured Premium Notes
63.	SRN	Service Request Number
64.	SRO	Self Regulatory Organizations
65.	STP	Straight Through Processing/ Systematic Transfer Plan
66.	SWP	Systematic Withdrawal Plan
67.	UGC	Unique Client Code
68.	VaR	Value at Risk

Practical Questions with Answers

Q.1. Jai Ltd. announced issue of bonus shares in the ratio of 1:3 (i.e., one share for every three shares held). At present the face value of share is ₹10, current market price is 621. In addition, it announced split of shares by reducing the face value from ₹10 to ₹2. Calculate the share price if all other things remain constant. What would have been the situation if split would have been done before the issue of bonus shares? **(Dec. 15, 5 marks)**

Ans. (i)	Stock split post bonus issue	₹
	Market value of 3 shares required to be held by shareholder [3x621]	1,863
	Add: issue price of bonus share [1x0]	0
	Total price of 4 shares	1863
	Stock split from 10/- to ₹2/-	
	No of shares post stock split [4x5]	20
	Average price [1863/20]	93.15
(ii)	Stock split before bonus issue	
	Market value of 3 shares required to be held by Shareholder [3x621]	1863
	No. of shares post stock split [3x5]	15
	No. of bonus shares to be received [15/3]	5
	Total price of 20 shares	1863
	Average price [1863/20]	93:15

Thus, there would be no change in the situation if the stock split taken place before issue of bonus shares.

Q. 2. Somnath Ltd. has a share capital of 50,000 equity shares of ₹100 each. Market value is ₹250 per share. The company decides to make a rights issue to the existing shareholders in proportion of one new rights share of ₹100 at a premium of ₹30 per share for every 5 shares held. Calculate the value of rights. **(Dec. 15, 5 marks)**

Ans.	Computation of value of rights:	₹
	Market value of 5 shares required to be held by shareholder [5x250]	1250
	Add: issue price of rights shares [1x30]	130
	Total price of 6 shares	1380
	Average price of per share [1380/6]	230
	Value of rights = Market value of the shares – Average price of the shares	
	= ₹250-230 = ₹20	

Q. 3. As on 1st April, 2016, Russel Ltd. has surplus cash for six months. It has following two options under consideration for investing the surplus cash:

(i) To invest in fixed deposit at an interest rate of 8% per annum payable quarterly; or

(ii) To buy treasury bills of the face value of ₹100 at ₹98.019 maturing after six months.

Presuming that the risk involved in both the options is identical, state with reasons as to which option should be selected by the company for investing its surplus funds. **(Dec. 16, 5 marks)**

Ans. (i) Computation of effective rate of interest

Rate of interest = 8% per annum

Quarterly rate of interest = 2%

Effective rate of interest = $[(1.02)^2 - 1] \times 100 = 4.04\%$ (considering 6 months)

(ii) Computation of yield of a treasury bill $Y = \frac{(100-P) \times 365 \times 100}{P \times D}$

Wherein Y= Discounted yield

P= Price

D= Days to maturity. The days to maturity of treasury bill are (April -30 days, May-31 days, June-30 days, July-31 days, August -31 days, September-30 days)

$$= \frac{(100-98.019) \times 365 \times 100}{98.019 \times 183}$$

$$= 4.03\%$$

Since the effective rate of interest on fixed deposit is more than the yield from T bill, it shall be advantageous to invest the money in fixed deposit.

Q. 4. Compute NAV and rate of return for a unit holder who bought a unit at ₹17.60 and received a dividend of ₹2 per unit during the period. Face value of the unit is ₹10.

Other details are as under:

	(in crore)
Market value of funds portfolio	4,200
Size of the scheme	2,000
Accrued income	100
Receivables	100
Accrued expenses	275
Liabilities	150
Number of outstanding units: 200 crores.	(Dec, 16, 4 Marks)

Ans. Compute of net asset value (NAV) and rate of return

NAV = (Market value + current liabilities) / No. of units outstanding

$$= (4200 + 100 + 150 - 275) / 200 \text{ units}$$

$$= 3975 / 200$$

$$= ₹19.875$$

Rate of return = income earned – amount expended / initial investment x 100

$$= (19.875 + 2 - 17.60) / 17.60 \times 100$$

$$= 40275 / 17.60$$

$$= 24.29\%$$

Q. 5. Following information has been collected regarding Share-X trading at NSE on 2nd September, 2016:

Date	Time	Price (₹)	No. of shares traded
2 nd September, 2016	14:42:10	265.60	550
2 nd September, 2016	14:53:35	262.78	1,575
2 nd September, 2016	15:00:20	260.99	1,514
2 nd September, 2016	15:03:30	261.79	1,625
2 nd September, 2016	15:05:40	260.38	1,025
2 nd September, 2016	15:12:20	261.51	1,390
2 nd September, 2016	15:21:25	261.42	800
2 nd September, 2016	15:22:20	264.07	600
2 nd September, 2016	15:26:55	263.74	1,200

You are required to determine the closing price and last traded price for Share-X for 2nd September, 2016.

[Dec. 2016, 3 Marks]

Ans. Closing price is calculated by taking the weighted – average of prices of a stock during the last half an hour i.e. from 3:00pm to 3:30 pm for every trading session. However, if there is no trade recorded during last 30 minutes then the last traded price of a stock is taken as the closing price. last trading price is the price at which the last transaction of a stock is recorded on a trading day. Accordingly, the prices are calculated as thus:

Share A				
Date	Time	Price	No. of shares traded	price x shares traded
2-sep-16	15:00:20	₹260.99	1,514	₹3,95,138.88
2-sep-16	15:03:30	₹261.07	1,625	₹4,25,408.75
2-sep-16	15:05:40	₹260.38	1,025	₹2,66,889.50
2-sep-16	15:12:20	₹261.51	1,390	₹3,63,498.90
2-sep-16	15:21:25	₹261.51	800	₹2,09,136.00
2-sep-16	15:22:20	₹264.07	600	₹1,58,442.00
2-sep-16	15:26:55	₹263.74	1,200	₹3,16,488.00
Total			8,154	₹21,35,002.01

Closing price = ₹21,35,002.01/8154 = ₹25183

Last trading price for share X = ₹263074

Q. 6. Super mutual fund has launched a scheme named 'Super Bonanza'. The net asset value (NAV) of the scheme is ₹12.00 per unit. The redemption price is ₹11.65 per unit and offer price is ₹12.50 per unit. You are required to calculate —

(i) Front-end load; and

(ii) Back-end load.

(June, 2015, 6 marks)

Ans. Net asset value of the scheme “Super Bonanza” is ₹12.00 per unit. Redemption price is ₹11.65 per unit and offer price is ₹12.50 per unit

(i) Front-end load charges

Public Offer Price = NAV / (1 - front end load)

Let us assume that front end load = x

$$12.50 = 12 / (1 - x)$$

$$12.50 - 12.50x = 12$$

$$X = 0.50 / 12.50 = 0.04$$

Front end load = 4%

Front end load charges = ₹0.48/- per unit

(ii) Back end load charges:

Redemption Price = NAV / (1 + back end load)

Let us assume that back- end load = x

$$11.65 = 12 / (1 + x)$$

$$X = 0.35 / 11.65 = 0.03$$

Back-end load = 3%

Back-end load charges = ₹0.36/- per unit

Q. 7. Calculate value of 'rights' from the following information —

Number of rights shares offered	2,500
Number of shares held	1,000
Ex-rights price	₹18
Rights offer price	₹15
Face value of a share	₹10

(June 2015, 4 marks)

Ans. Value of right, $Vr = \frac{n}{m}(P_{ex} - P_{of})$

where, n= No. of rights shares offered

m = No. of shares held

P_{ex} = Ex-rights price

P_{of} = Right Offer Price

$$= \frac{2500}{1000}(18 - 15)$$

$$= 2.5 \times 3 = ₹7.5$$

Q. 8. Prime Ltd. issued some warrants which allowed the holders to purchase, with one warrant, one equity share at ₹18.275 per share. The equity share was quoted at ₹25 per share and the warrant was selling at ₹9.50. In this case, you are required to compute —

- The minimum price of warrant; and
- The warrant premium.

(June 2016, 4 marks)

Ans. (i) Computation of minimum Price of Warrant

Minimum price + (market price of Equity Share - exercise price) * (exercise ratio)

$$= (₹25 - 18.275) * (1-0)$$

$$= ₹6.725$$

(ii) Computation of warrant Premium

Warrant Premium = (Market Price of warrant) - (minimum Price of warrant)

$$= ₹9.50 - ₹6.725$$

$$= ₹2.775$$

Q. 9. Manish owns 250 preference shares of Amaze Ltd. which currently sells for ₹77 per share and pays annual dividend of ₹13 per share —

- What is Manish's expected return?
- Manish requires 13% return, should he sell or buy more preference shares at the current price ?

(June 2016, 4 marks)

Ans. (i) Expected Return = dividend / Market price

$$= ₹13.00 / 77.00$$

$$= 16.88\%$$

(ii) Given 13% required rate of return, the stock worth is: -

$$V_p = \text{Dividend} / \text{Required rate}$$

$$= ₹13.00 / 0.13$$

$$= ₹100$$

Because the expected rate of return (16.88%) is greater than the required rate of return (13%) or because the current market price (₹77.00) is less than ₹100, the stock is undervalued and it is worth buying and accordingly Manish should buy more shares at current price.

Q.10. The redemption price of a mutual fund unit is ₹48 while the front-end load and back-end load charges are 2% and 3% respectively. Compute:

- (i) NAV per unit and
- (ii) Public offer price of the unit.

(June 2017, 4 Marks)

Ans. (i) Computation of Net Asset value per unit

Redemption price = NAV/(1+back end load)

$$48 = \text{NAV} / (1 + 0.03)$$

$$\text{NAV} = ₹49.44$$

(ii) Computation of Public Offer price of the unit

$$= \text{NAV} / 1 - \text{Frontend load}$$

$$= 49.44 / 1 - 0.02$$

$$= ₹50.45$$

Q.11. What are treasury bills? A registered society bought 91 days treasury bills on August 24, 2015 which matured on October 19, 2015. The rate quoted by seller was ₹99.0894 per ₹100 face value. Calculate YTM.

(June 2017, 4 Marks)

Ans. Treasury bills are money instrument issued by RBI to finance the short term requirements of the Government of India. These are discounted securities and thus are issued at a discount to face value. The return to the investor is the difference between the maturity value and issue price.

$$Y = \frac{(100 - P) \times 365 \times 100}{P \times D}$$

Wherein Y = Discounted yield

P = Price

D = Days to maturity

$$= \frac{(100 - 99.0894) \times 365 \times 100}{99.0894 \times 56}$$

$$= 5.99\%$$

The days to maturity of treasury bill are (August- 8 days, September -30 days, October- 18 days = 56 days)

Q.12. Calculate the value of rights if:

Number of rights shares offered (n)	3,000
No. of shares held (m)	1,800
Ex-right price (P _{ex})	₹24
Right offer price (P _{of})	₹21
Face value of shares	₹10

(June 2017, 2 Marks)

Ans. Calculate the value of rights

$$\text{Value of right, } V_r = n (P_{ex} - P_{of}) / m$$

$$= \frac{3000}{1800} (24 - 21)$$

$$= ₹5$$

Q.13. ABC Ltd. a company whose equity shares are listed at BSE and NSE is seeking delisting of its equity shares from both the recognized stock exchanges. It provides an exit opportunity to all public shareholders in accordance with SEBI (Delisting of Equity shares) Regulations 2009. Calculate the minimum number of equity shares to be acquired for the delisting offer to be successful. Also determine the final offer price from the details given here under:

(i)	Number of Shares	Percentage holding
Promoter	75,00,000	75
Public	25,00,000	25
	1,00,00,000	100

(ii) The floor price in terms of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 is ₹550 per shares.

(iii) Assume that all the public shareholders holding shares in the demat mode had participated in the book building process as follows:

Bid Price (₹)	Number of Investors	Demand (Numbers of Shares)	
550	5	2,50,000	
565	8	4,00,000	
575	10	2,00,000	
585	4	4,00,000	
595	6	1,20,000	
600	5	1,30,000	
605	3	2,10,000	
610	3	1,40,000	
615	3	1,50,000	
620	1	5,00,000	
	48	25,00,000	[Dec. 2017]

Ans. Calculation of minimum number of Equity Shares & Final offer price.

Bid Price (₹)	Number of Investors	Demand (no. of Shares)	Cumulative Demand (no. of shares)
		2,50,000	
550	5	4,00,000	2,50,000
565	8	2,00,000	6,50,000
575	10	1,20,000	8,50,000
585	4	1,30,000	12,50,000
595	6	2,10,000	13,70,000
600	51	1,40,000	15,00,000
605	3	1,50,000	17,10,000
610	3	1,50,000	18,50,000
615	3	5,00,000	20,00,000
620	1		25,00,000
	48	25,00,000	

As per SEBI (Delisting of Equity Shares) Regulations, 2009 a delisting offer made shall be deemed to be successful only if the post offer promoter shareholding taken together with the shares accepted through eligible bids at the final price determined reaches ninety percent of the total issued shares of that class.

Let the minimum number of equity share to be acquired be x:

$$X + 75\% = 90\% \text{ of total issued shares}$$

$$X = 15\% \text{ of total issued shares}$$

$$X = 15,00,000 \text{ shares}$$

Final offer price = price at which post offer promoter shareholding reaches the threshold of 90% i.e. ₹600/- per share.

Q.14. XYZ Ltd. is proposing to make a public issue of 400 crore equity shares through the book building mechanism where 50% of the issue size is required to be allotted to Qualified Institutional Buyers, Determine the following:

- (i) The quantum available for allocation to anchor investors.
- (ii) The quantum reserved for domestic mutual funds in the anchor investor portion, if any,
- (iii) The amount, if any, required to be brought in by the anchor investors given:
 - (a) The price at which allocation is made to anchor investors is ₹855 per share, and
 - (b) The price fixed as a result of book building is ₹858 per share.

[Dec. 2017]

Ans. (i) Computation of the quantum available for allocation to anchor investors.

Issue Size = 400 crore equity shares

Portion available to QIBs = 50%

= 200 crore equity shares

Anchor Investment portion = Up to 60% of the portion available to QIBs

= 120 crore equity shares.

(ii) Computation of the quantum reserved for domestic Mutual in the anchor investor portion

= One – third of the Anchor Investor Portion

= 40 crore equity shares.

(iii) Computation of amount required to be brought in by anchor investor given

Book building price = ₹858/- per equity share

Anchor Investor allocation price = ₹858/- per equity share

Since the price fixed as a result of book building is higher than the price at which allocation is made to anchor investor, hence the anchor investor shall be required to bring in the additional amount i.e. ₹3/- per equity share allocated.

Q.15. Earnings per share of Alxa Piston Ltd. expected at the end of the year 2015-2016 is ₹18. The earnings per share in the year 2014-2015 is ₹16. The required rate of return is 25% p.a. and the dividend pay-out ratio is 30% which is expected to remain constant. If the earnings are expected to grow at the historical growth rate, compute the value of the share of the company at the beginning of 2015-2016. (June 2018, 4 Marks)

Ans. Computation of Value of shares of the company at the beginning of 2015-2016

Current value of the share = Expected dividend a year/ (Required rate of return-Growth rate in dividends)

$$\begin{aligned} \text{In the given case, dividend a year hence} &= \text{EPS} \times \text{Dividend Payout} \\ &= ₹18 \times 0.3 \\ &= ₹5.4 \end{aligned}$$

Required Rate of return = 0.25

Growth rate (as payout ratio remains constant)

Growth rate in EPS = $(₹18/₹16) - 1 = 12.5\%$

Value of share = $₹5.4 / (0.25 - 0.125) = ₹43.2$

Q.16. Narender purchased a bond with face value of ₹1,000 for ₹950. The coupon rate on the bond is 12%. If he sells the bond one year later for ₹960. Compute the holding period return for Narender.

(June 2018, 3 Marks)

Ans. Computation of the holding period return for Narender

$$\begin{aligned}\text{Holding period return for Bond} &= (\text{Sale Price} - \text{Purchase Price}) / \text{Purchase Price} + \text{Interest} / \text{Purchase Price} \\ &= (\text{₹960} - \text{₹950}) / \text{₹950} + \text{₹120} / \text{₹950} \\ &= 13.68\%\end{aligned}$$

Q.17. The following is the information pertaining to the portfolio of Dolex Mutual Fund :

Stock	No. of Shares	Current Market Price (₹)
L&T	1,10,000	2,685.45
Cipla	3,12,000	259.95
Wipro	4,50,000	523.10
HDFC	3,90,000	883.30
Tata Steel	2,99,000	502.75

The fund has not borrowed any money, but its accrued management fee with the portfolio manager currently total ₹30,00,000. The number of units outstanding is 10,75,73,000.

Compute the value of the portfolio and NAV.

(June 2018, 4 Marks)

Ans. Computation of value of portfolio and NAV

$$\begin{aligned}\text{Value of the Portfolio} &= 1,10,000 \times 2,685.45 + 3,12,000 \times 259.95 + 4,50,000 \times 523.10 + \\ &\quad 3,90,000 \times 883.30 + 2,99,000 \times 502.75 \\ &= 1,10,67,08,150 \\ &= 1,10,67,08,150 - 30,00,000 = 1,10,37,08,150 \\ \text{NAV} &= 1,10,37,08,150 / 10,75,73,000 \\ &= 10.26\end{aligned}$$

Q.18. Blue Line Shoe Company is contemplating a debenture issue on the following terms :

Face Value	₹1,000
Term Maturity	7 year
Coupon Rate of Interest :	
Years 1-2	10% p.a.
3-4	12% p.a.
5-7	15% p.a.

The current market rate of interest on similar debentures is 15% p.a. The company proposes to price the issue so as to yield a (compounded) return of 16% p.a. to the investors. The debentures would be redeemed at a premium of 12% at the end of seven years.

Compute the maturity price of the debentures.

(June 2018, 4 Marks)

Ans. Computation of maturity price of debentures

Year	Coupon (₹)	PV of Coupon @ 16% (₹)
1	100	86.21
2	100	74.32
3	120	76.88
4	120	66.27
5	150	71.42
6	150	61.57
7	150	53.07
PV of Coupons		489.74

Redemption Value = ₹1,000 (1.12)

= ₹1,120

PV of redemption value = ₹1,120/(1.16)⁷

= ₹396.29

Price of the debentures = ₹489.74 + ₹396.29

= ₹886.03

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CHAPTER

1

FINANCIAL SYSTEM

Covering-

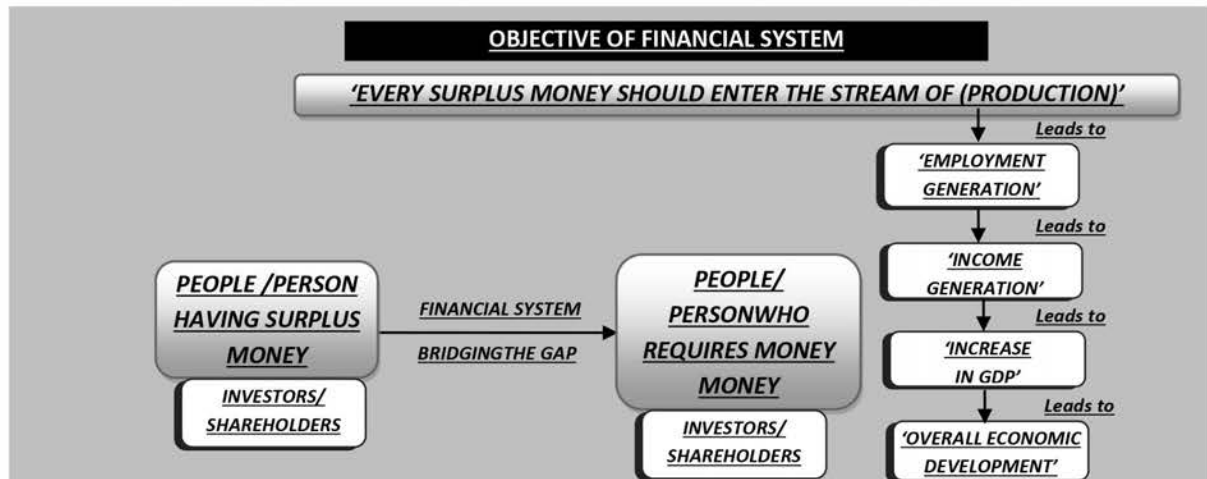
- ABC Analysis
- Financial System – Function
- Original Structure of Financial System
- Financial Markets
- Financial Products
- Financial Market Participants/Intermediaries
- Function of Securities Market
- Role of Securities Market in Economic Growth
- Securities market reforms & Regulatory Measures to promote investor confidence
- Regulatory Framework for Securities Market
- Self-Test Questions
 - From Past CS Exam
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(5 to 10)**

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FINANCIAL SYSTEM

ABC Analysis (IOS) -Exam Point of view)

A

1. Function of Securities Market
2. Securities Appellate Tribunal
3. IOSCO

B

4. Financial Markets
5. Regulatory Framework for Securities Market

C

6. Role of Securities Market in Economic Growth

Every modern economy is based on a sound financial system which helps in economic growth by encouraging savings habits, mobilising savings from households and allocating savings into productive usage such as trade, commerce, manufacture etc.

A financial system is a set of institutional arrangements through which financial surpluses are mobilised from the units generating surplus income and transferring them to the others in need of them.

Financial system covers both credit and cash transactions.

FINANCIAL SYSTEM- FUNCTIONS

- (i) Regulation of currency
- (ii) Banking functions
- (iii) Custody of cash reserves
- (iv) Management of national reserves of international currency
- (v) Credit control
- (vi) Administering national, fiscal and monetary policy to ensure stability of the economy
- (vii) Supply and deployment of funds for productive use
- (viii) Maintaining liquidity.

Long term growth of financial system is ensured through:

- (i) Education of investors
- (ii) Giving autonomy to Financial institutions to become efficient under competition
- (iii) Consolidation through mergers
- (iv) Facilitating entry of new institutions to add depth to the market
- (v) Minimising regulatory measures.

ORGANISATIONAL STRUCTURE OF FINANCIAL SYSTEM

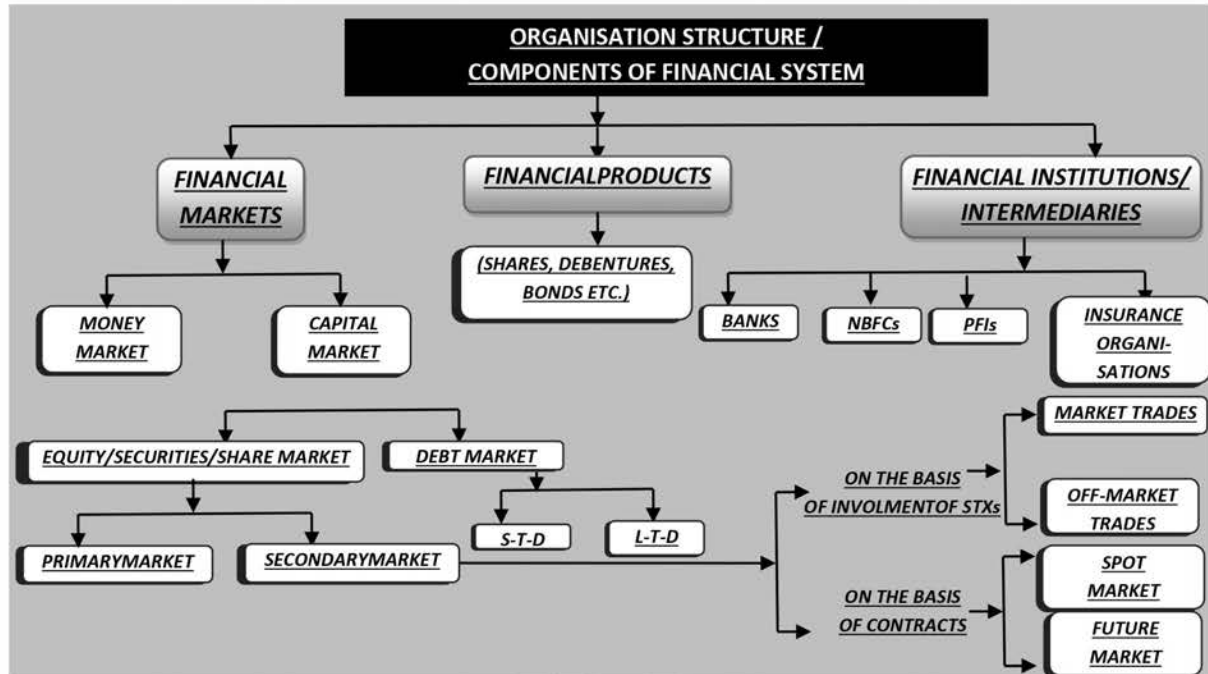
Broadly, organisational structure of financial system includes various components i.e.

1. Financial Markets,
2. Financial Products /instruments.
3. Financial Market Participants /intermediaries.

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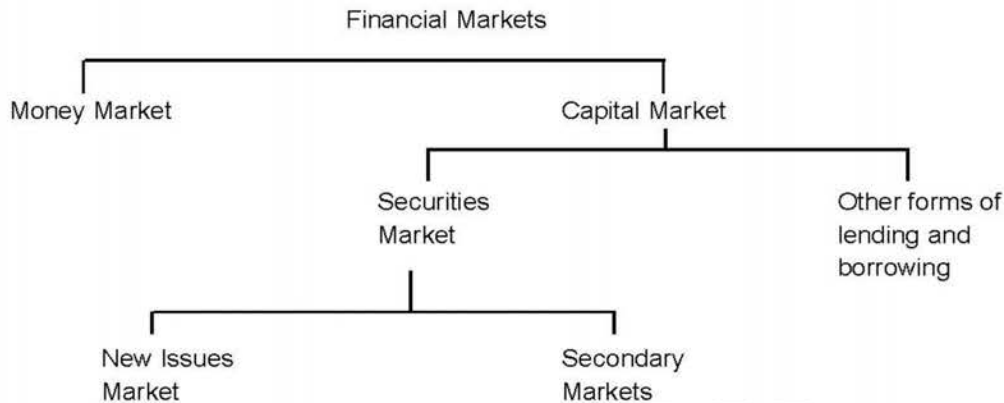
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FINANCIAL MARKETS

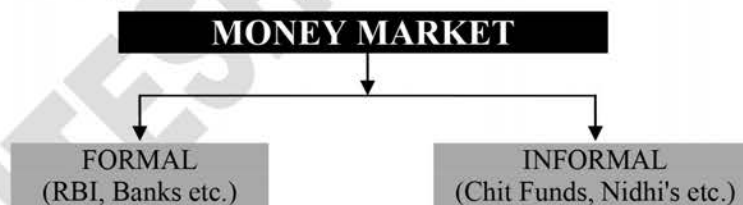
Financial markets provide channels for allocation of savings to investment. These provide a variety of assets to savers as well as various forms in which the investors can raise funds and thereby decouple the acts of saving and investment.



The financial markets have two major components; the money market and the capital market.

MONEY MARKET

The money market refers to the market where borrowers and lenders exchange short-term funds to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability. Indian money market consists of formal and informal segments. The formal market comprises of RBI, various commercial banks, cooperative banks, UTI etc. Informal market consists of chit funds, nidhis, indigenous bankers etc. Money market instruments include treasury bills, commercial bills, certificate of deposit.



CAPITAL MARKET

The Capital Market is a market for financial investments that are direct or indirect claims to capital. It is wider than the Securities Market and embraces all forms of lending and borrowing. The capital market and in particular the stock exchange is referred to as the barometer of the economy.

Various factors influence the capital market and its growth. These include level of savings in the household sector, taxation levels, health of economy, corporate performance, industrial trends and common patterns of living.

SECURITIES MARKET

The Securities Market refers to the markets for those financial instruments/claims/obligations that are commonly and readily transferable by sale.

The Securities Market has two inter-dependent and inseparable segments, the new issues (primary) market and the stock (secondary) market.

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➤ **Primary Market**

The market wherein resources are mobilised by companies through issue of new securities is called the primary market. The primary market provides the channel for sale of new securities.

The issue of securities by companies can take place in any of the following methods:

1. Initial public offer (securities issued for the first time to the public by the company);
2. Further issue of capital;
3. Rights issue
4. Bonus Issue. Etc

➤ **Secondary Market**

The secondary market enables those who hold securities to adjust their holdings in response to changes in their assessment of risk and return. They also sell securities for cash to meet their liquidity needs. Secondary market essentially comprises of stock exchanges which provide platform for purchase and sale of securities by investors. The trading platform of stock exchanges is accessible only through brokers and trading of securities is confined only to stock exchanges. The stock market or secondary market ensures free marketability, negotiability and price discharge.

Secondary market has further two components.

1. First, the **spot market** where securities are traded for immediate delivery and payment.
2. The other is **futures market** where the securities are traded for future delivery and payment.

Another variant is the **options** market where securities are traded for conditional future delivery. Generally, two types of options are traded in the options market. A **put option** permits the owner to sell a security to the writer of the option at a pre-determined price before a certain date, while a **call option** permits the buyer to purchase a security from the writer of the option at a particular price before a certain date.

FINANCIAL PRODUCTS

“**Securities**” is defined in the Securities Contracts (Regulation) Act, 1956 to **include shares, scrips, stocks, bonds, debentures, or other marketable securities of like nature** of any incorporate company or body corporate, government securities, derivatives, units of collective investment scheme, any other instruments so declared by the central government.

There are a set of economic units who demand securities in lieu of funds and others who supply securities for funds. These demand for and supply of securities and funds determine, under competitive market conditions in goods and securities market, the prices of securities.

FINANCIAL MARKET PARTICIPANTS/INTRMEDIARIES

The securities market has essentially three categories of participants, namely the issuers of securities, investors in securities and the intermediaries.

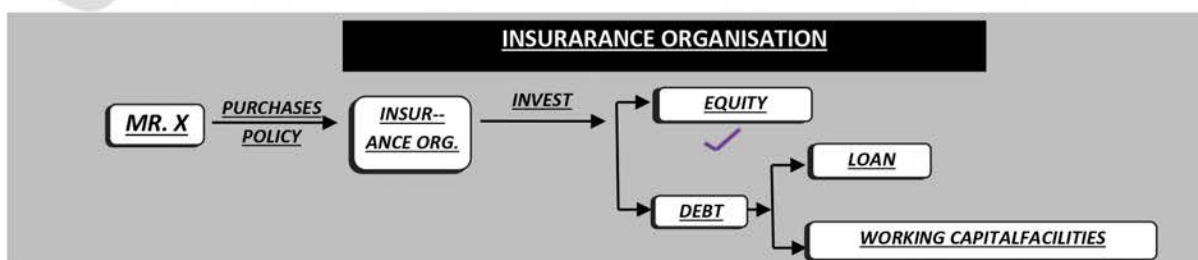
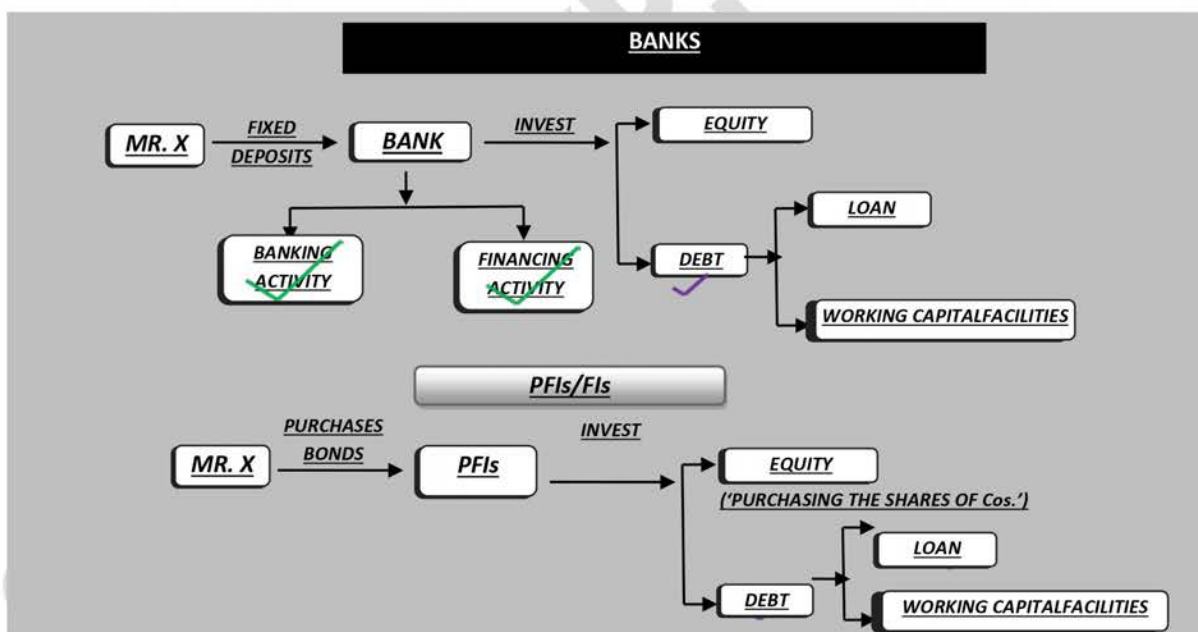
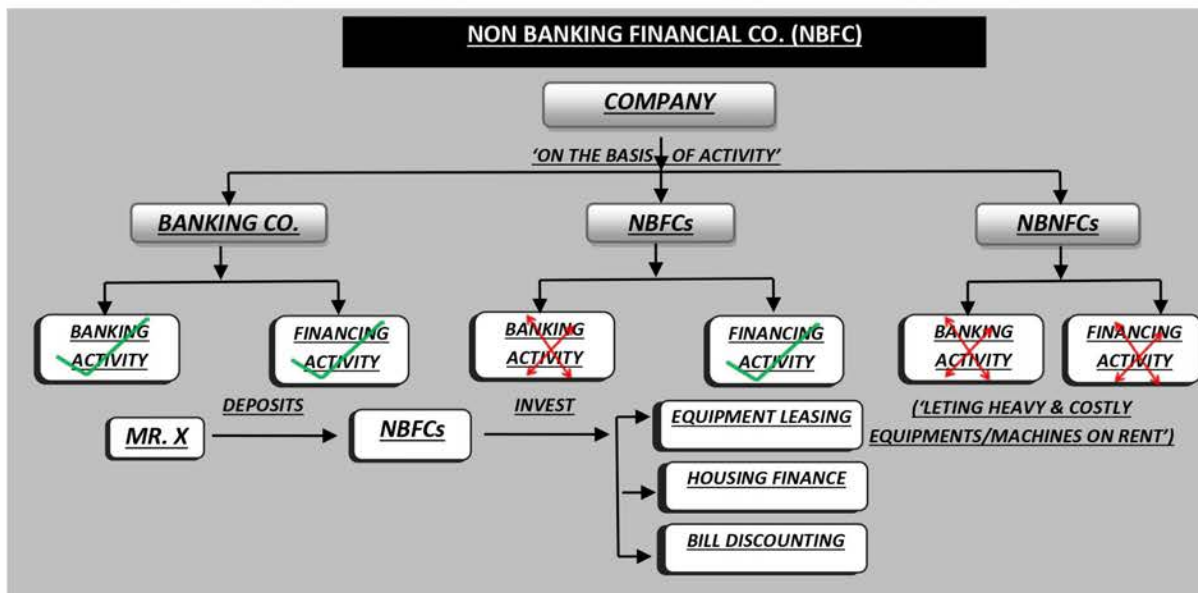
There are mainly four types of financial intermediaries and institutions:

1. PFIs
2. Banks
3. NBFCs
4. Insurance organisations.

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FUNCTIONS OF SECURITIES MARKET

- (a) The Securities Market provides a **linkage between the savings and the investment** across the entities, time and space.
- (b) It mobilises savings and channelizes them through securities into **preferred enterprises**.
- (c) The Securities Market also provides a market place for purchase and sale of securities and thereby ensures **transferability of securities**, which is the basis for the joint stock enterprise system.
- (d) The existence of the Securities Market makes it possible to satisfy simultaneously the **needs of the enterprises for capital and the need of investors for liquidity**.
- (e) The Securities Market allows individuals **who cannot carry an activity in its entirety within their resources** to invest. Individuals can attract enough investment from others to make a start.
- (f) The Securities Market allows to **diversify risk** among many ventures to offset gains and loss.

NKJ-CLASSROOM PRACTICE



Q. 1. Explain the following Functions of Securities Market.

[June 2017, 3 Marks]

ROLE OF SECURITIES MARKET IN ECONOMIC GROWTH

A well-functioning securities market is conducive to sustained economic growth. The securities market fosters economic growth to the extent that: -

- (a) It increases the quantities of real savings and capital formation from any given level of national income,
- (b) It increases net capital inflow from abroad,
- (c) It raises the productivity of investment by improving allocation of investible funds, and
- (d) It reduces the cost of capital.
- (e) It forms the basis for well performing domestic corporate to raise capital in the international market

NKJ-CLASSROOM PRACTICE



Q. 1. Explain the role of securities market in economic growth.

[June 2018, 5 Marks]

SECURITIES MARKET REFORMS & REGULATORY MEASURES TO PROMOTE INVESTOR CONFIDENCE

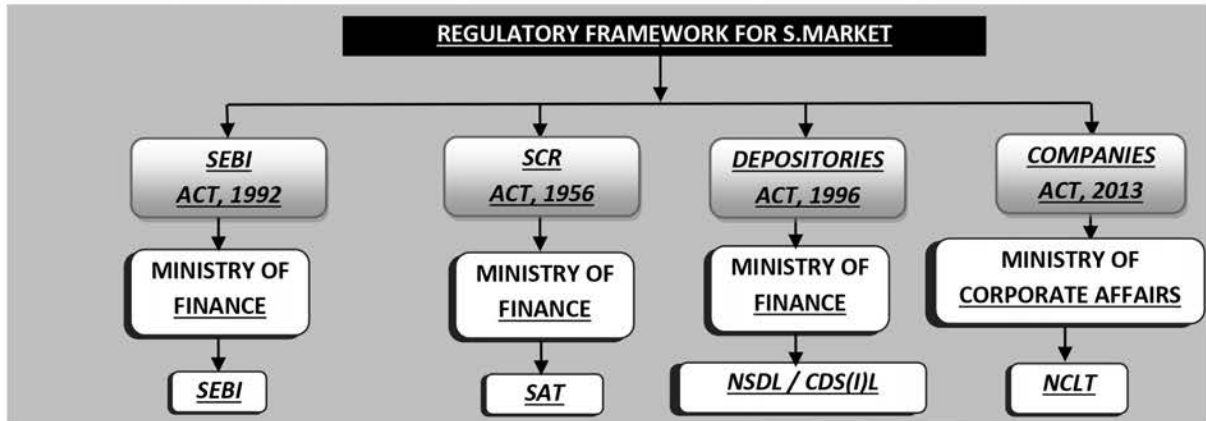
SEBI has come a long way since its inception as an institution regulating the Indian Capital Markets. It has initiated a lot of reforms to make the market safer for investors. The following are the major policy initiatives taken by SEBI since its inception.

1. **Establishment of Regulator:** A major initiative of regulation was, establishment of a statutory autonomous agency, called SEBI, to provide reassurance that it is safe to undertake transactions in securities.
2. **Control over Issue of Capital:** A major initiative of liberalization was the repeal of the Capital Issues (Control) Act, 1947 in May 1992. In the interest of investors, SEBI issued Disclosure and Investor Protection (DIP) guidelines.
3. **Screen Based Trading:** A major developmental initiative was a nation-wide on-line fully-automated screen-based trading system (SBTS).
4. **Risk management:** A number of measures were taken to manage the risks in the market so that the participants are safe and market integrity is protected.

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5. **Depositories Act:** The Depositories Act, 1996 was passed to provide for the establishment of depositories in securities.
6. **Settlement Guarantee:** A variety of measures were taken to address the risk in the market. Clearing corporations emerged to assume counter party risk.
7. **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.
8. **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.
9. **Corporate Governance -** To improve the standards of corporate governance, SEBI had issued SEBI (LOADR) Regulations, 2015.
10. **Introduction of Fast Track Issuances-** To enable compliant listed companies to access Indian primary market in a time effective manner through follow-on public offerings and rights issues, SEBI introduced fast track issue mechanism.

NKJ-CLASSROOM PRACTICE	
	Q. 1. "SEBI has come a long way since its inception as an institution regulating the Indian Capital Markets. It has initiated a lot of reforms to make the market more safer for customers." Explain briefly the major policy initiatives taken by SEBI since its inception. [Dec. 2018, 8 Marks]
	Q. 2. Explain the role of SEBI in strengthening regulatory framework and fostering investor confidence.

REGULATORY FRAMEWORK FOR SECURITIES MARKET

Following Laws play important role in administering securities market / laws: -

SEBI Act, 1992:

The SEBI Act, 1992 establishes SEBI with statutory powers for

- (a) *Protecting the interests of investors in securities,*
- (b) *Promoting the development of the securities market, and*
- (c) *Regulating the securities market.*

SEBI's regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. It can conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act. It has powers to register and regulate all market intermediaries and also to penalise them in case of violations of the provisions of the Act, Rules and Regulations made there under. SEBI has full autonomy and authority to regulate and develop an orderly securities market.

Securities Contracts (Regulation) Act, 1956:

It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities.

Depositories Act, 1996:

The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerialising the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form.

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Companies Act, 2013:

It deals with issue, allotment and transfer of securities and various aspects relating to company management. It provides for standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information.

RULES AND REGULATIONS

The Government has framed rules under the SCRA, SEBI Act and the Depositories Act. SEBI has framed regulations under the SEBI Act and the Depositories Act for registration and regulation of all market intermediaries, and for prevention of unfair trade practices, insider trading, etc.

REGULATORS

The responsibility for regulating the securities market is shared by Department of Economic Affairs (DEA), Ministry of Corporate Affairs, Reserve Bank of India (RBI) and SEBI. The activities of these agencies are coordinated by a High-Level Committee on Capital Markets. The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal.

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Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

2

SECURITIES AND EXCHANGE BOARD OF INDIA

Covering-

- Securities and Exchange Board of India
- Securities Appellate Tribunal
- Powers of Securities Appellate Tribunal
- Functions and Duties of the Registrar
- IOSCO
- Multilateral Memorandum of Understanding Concerning Consultation and Co-Operation and Exchange of Information (MMoU)
- Self-Test Questions
 - From Past CS Exam
 - From ICSI Module

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SECURITIES AND EXCHANGE BOARD OF INDIA



The SEBI Act, 1992 establishes SEBI. SEBI has its Head Office at Mumbai and has powers to establish its offices at other places in India. SEBI presently has offices also in Kolkata, New Delhi and Chennai.

SEBI Act provides that the SEBI Board shall consist of the following members, namely:

- (a) a Chairman;
- (b) two members from amongst the officials of the Ministry of the Central Government dealing with Finance and administration of the Companies Act, 2013;
- (c) one member from amongst the officials of the Reserve Bank;
- (d) Five other members of whom at least three shall be the whole-time members, to be appointed by the Central Government.

The **Chairman and the other members are from amongst the persons of ability, integrity and standing** who have shown capacity in dealing with problems relating to securities market or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to SEBI. The terms and conditions of service of Chairman and members are determined in the rules framed by Government in this regard.

The general superintendence, direction and management of the affairs of SEBI vests in a Board of members, which exercises all powers and do all acts and things which may be exercised or done by SEBI. Unless determined otherwise through regulations, **the Chairman shall also have all these powers.**

POWERS AND FUNCTIONS OF SEBI

Chapter IV of SEBI Act, 1992 deals with the powers and functions of the Board.

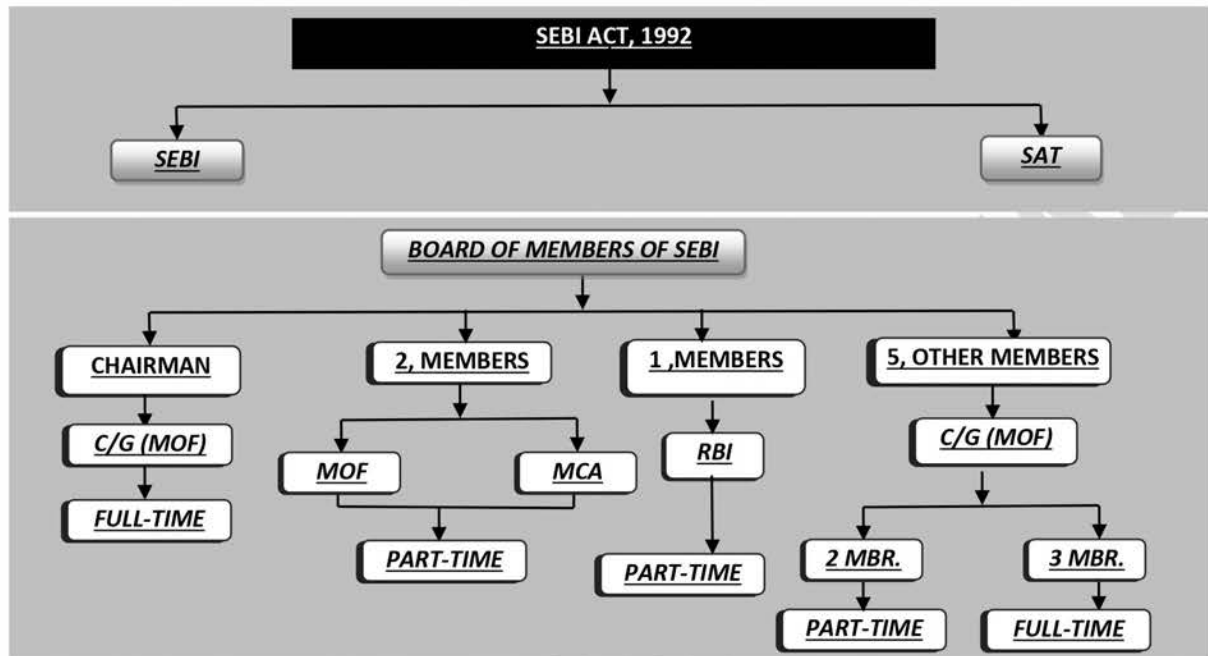
Section 11 of the Act lays down **functions of Board; -**

- (a) Protecting the interests of investors in securities market,**
- (b) Promoting the development of the securities market, and**
- (c) Regulating the securities market**

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These measures would include:

- (i) regulating the business in stock exchanges and any other securities markets;
- (ii) registering and regulating the working of various market intermediaries.
- (iii) prohibiting fraudulent and unfair trade practices relating to securities markets;
- (iv) promoting investors' education and training of intermediaries of securities markets;
- (v) prohibiting insider trading in securities;
- (vi) regulating substantial acquisition of shares and takeover of companies;
- (vii) calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries in the securities market;
- (viii) performing such functions and exercising such powers under the provisions of the Securities Contracts (Regulation) Act, 1956, as may be delegated to it by the Central Government;
- (ix) levying fees or other charges for carrying out the purposes of this section;
- (x) conducting research for the above purposes;
- (xi) calling from or furnishing to any such agencies, as may be specified by the Board, such information as may be considered necessary by it for the efficient discharge of its functions;
- (xii) performing such other functions as may be prescribed.

For carrying out the duties assigned to it under the Act, SEBI has been vested with the same **powers** as are available to a Civil Court under the Code of Civil Procedure, 1908 for trying a suit in respect of the following matters:

- (a) the discovery and production of books of account and other documents at the place and time indicated by SEBI.
- (b) summoning and enforcing the attendance of persons and examining them on oath.
- (c) inspection of any books, registers and other documents of any person listed in section 12 of the Act, namely stock brokers, sub brokers, share transfer agents, bankers to an issue, trustee of trust deed, registrar to an issue, merchant bankers, underwriters, portfolio managers, investment advisors and other such intermediaries associated with securities markets.
- (d) issuing commissions for the examination of witnesses or documents.

NKJ-CLASSROOM PRACTICE	
 SCANNER	Q. 1. "SEBI has been established with objective of protecting the interest of investors and to promote the development of and to regulate the securities market (SEBI Act, 1992)". Discuss its composition and initiatives taken by SEBI for development and regulation of securities market. [June 2018, 8 Marks]
 MODULE	Q. 2. Discuss the various functions and powers of the SEBI.

POWER TO MAKE A CEASE AND DESIST ORDER

Section 11D

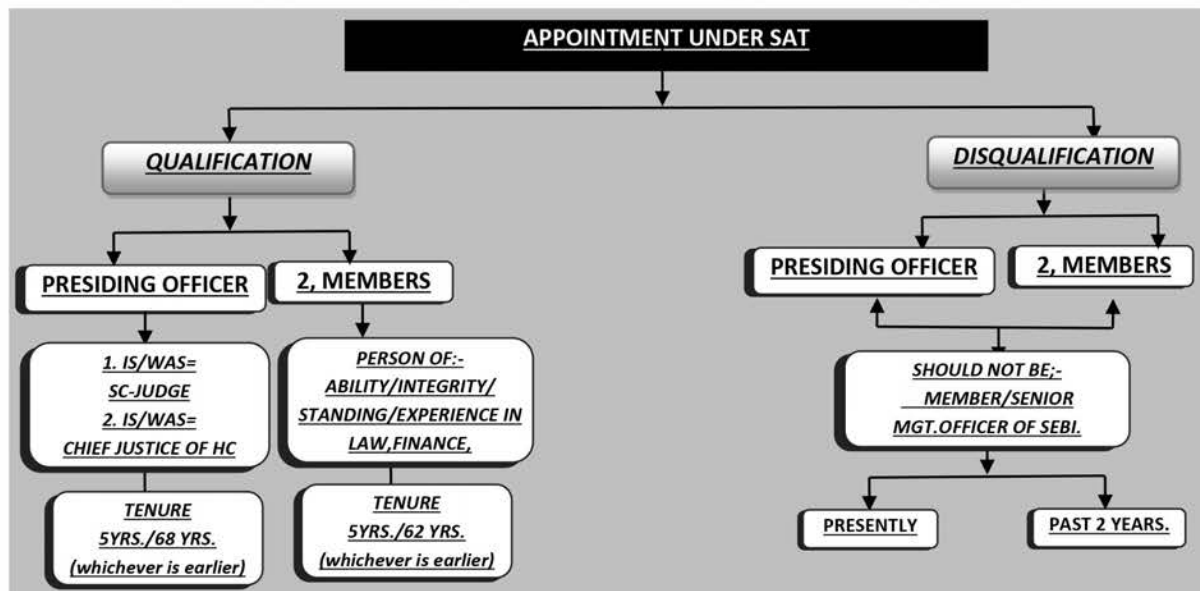
SEBI may pass an order thereby requiring a person to **cease and desist from committing violation of SEBI Act or rules made there under**. SEBI shall exercise the aforesaid power only after conducting an enquiry regarding violation.

It may be noted that SEBI shall not pass a cease and desist order against any listed company or a public company which intends get its securities listed on any recognized stock exchange, unless it has reasonable ground to believe such company has indulged '**insider trading or market manipulation**'.

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Q. 1. Discuss the various power and functional of SEBI under SEBI Act, 1992.

[June 2017; 4 Marks]

SPECIAL COURTS

Section 26A

Section 26A provides that the **Central Government** may, for the purpose of providing speedy trial of offences under SEBI Act, by Notification, establish or designate as many Special courts as may be necessary.

A special Court shall consist of a **single judge** who shall be appointed by the Central Government with the concurrence of the Chief justice of High Court within whose jurisdiction the judge to be appointed is working. A person shall not be qualified for appointment as a judge of a Special Courts unless he is, immediately before such appointment, holding the office of **Session Judge or an Additional Sessions Judge**, as the case may be

Section 26B

Provides that, notwithstanding anything contained in the Code of Criminal Procedure, 1973, all **offences committed under SEBI Act shall be taken cognizance of and triable by the special court** establishment for the area in which the offence is committed or where there are more Special courts than one for such area, by such one of them as may be specified in this behalf by the High Court Concerned

PENALTIES FOR FAILURES

Chapter VIA of SEBI Act, 1992, contains Section **15A to 15J** which deals with penalties which can be imposed under the Act for various failures, defaults, non-disclosure and other offences.

Section 15A lays down that if any person who is required under SEBI Act or any rules or regulations made there under:

- | | |
|-----|--|
| (a) | To furnish any document return or report to the Board ,fails to furnish the same , he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees whichever is less. |
| (b) | To file any return or furnish any information , books or other documents within the time specified therefore in the regulations, fails to file return or furnish the same within the time specified therefore in the regulations, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees whichever is less. |
| (c) | To maintain books of accounts or records, fails to maintain the same, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees whichever is less. |



Q. 1. Enumerate the various penalties which can be imposed under SEBI Act, 1992 for various failures, defaults, non-disclosure and other offences.

FACTORS TO BE TAKEN INTO ACCOUNT BY THE ADJUDICATING OFFICER

Section 23J provides for the factors to be taken into account by the adjudicating officer. **While adjudging the quantum of penalty**, the adjudicating officer shall have due regard to the following factors, namely –

- | | |
|-----|--|
| (a) | the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default; |
|-----|--|

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(b) the amount of loss caused to an investor or group of investors as a result of the default;
(c) the repetitive nature of the default.

Offences by Companies

Section 27 on offences by company lays down that:

- (1) Where an offence under this Act has been committed by a company, every person who at the time the offence was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly;

However, this provision shall not render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence.

- (2) Where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

COMPOUNDING OF OFFENCES UNDER SEBI ACT 1992

THERE ARE TWO WAYS OF COMPOUNDING UNDER SEBI ACT

CONSENT ORDER	COMPOUNDING OF OFFENCE
This is used where compounding is to be done for those offences punishable with fine only.	This is used where compounding is to be done for those offences punishable <ul style="list-style-type: none"> ➤ Imprisonment only ➤ Imprisonment or fine ➤ Imprisonment and fine

PROCESS OF COMPOUNDING OF OFFENCE

1. Section 24A of SEBI Act, 1992 permits compounding of offences by the court, in respect of criminal prosecution proceedings.
2. Section 24A provides that any offence punishable with imprisonment only, or with imprisonment and also with fine, may either before or after the institution of any proceeding, be compounded by a court before which such proceedings are pending. This Section has the overriding effect over the provisions of CrPC, 1973.
3. So far as process of compounding of offences is concerned, any party who wishes to compound an offence shall file an appropriate application before the court where complaint is pending with a copy addressed to the Prosecution Division, Enforcement Department of SEBI's Mumbai office which will forward the application/ request to be placed before the High Powered Committee.
4. The terms of compounding as recommended by the Committee and approved by the Competent Authority would be placed before the court by the Prosecution Division by way of written submissions or application, as appropriate, for passing orders as the court deems fit.
5. The final acceptance of any offer of compounding will come in to effect only upon the court passing the compounding order.

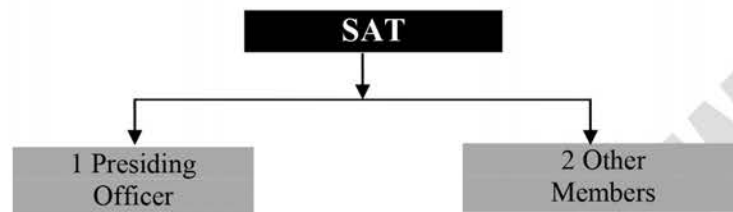
CONSENT ORDERS OF SEBI

1. Consent Order means "an order settling administrative or civil proceedings between the regulator and a Party who may prima facie be found to have violated securities laws.

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2. Legislature has recognized SEBI and its Adjudicating Officers to pass Consent Orders for resolving the disputes in more smooth manner through negotiations and discussions instead of lengthy litigation.
3. Consent Order provides flexibility of wider array of enforcement and remedial actions which will achieve the twin goals of an appropriate sanction, remedy and deterrence without resorting to litigation, lengthy proceedings and consequent delays.
4. After passing Consent Order, the Consent Order will be published through press release and would be put on SEBI website. In cases where a Party undertakes compliances, it has to comply with the same as per agreed schedule.
5. Violation of Consent Order by a Party would invite appropriate action, including for violating SEBI orders, besides revival of the pending action.

DIFFERENCE BETWEEN

CONSENT ORDER	COMPOUNDING OF OFFENCE
This is used where compounding is to be done for those offences punishable with fine only.	This is used where compounding is to be done for those offences punishable with:- <ul style="list-style-type: none"> ➤ Imprisonment only ➤ Imprisonment or fine ➤ Imprisonment and fine

SECURITIES APPELLATE TRIBUNAL (SAT)

In order to afford proper appellate remedies, Chapter VIB of SEBI Act provides for the establishment of the Securities Appellate Tribunals to consider appeals against SEBI's orders, of penalties. The Central Government has set up a tribunal at Mumbai.

The Securities Appellate Tribunals shall consist of a Presiding Officer and two other members to be appointed by the Central Government by notification.

QUALIFICATION

Only a person who is a sitting or retired Judge of the Supreme Court or a sitting or retired Chief Justice of a High Court is qualified for appointment as the Presiding Officer of Securities Appellate Tribunals. It has also been prescribed that the presiding officer of the Securities Appellate Tribunal shall be appointed by the Central Government in consultation with chief justice of India or his nominee.

A person shall not be qualified for appointment as a member of Securities Appellate Tribunal unless he is a person of ability, integrity and standing who has shown capacity in dealing with problems relating to securities market and has qualification and experience of corporate law, securities laws, finance, economics or accountancy.

DISQUALIFICATION

A member of SEBI or any person holding a post at senior management level at SEBI cannot be appointed as presiding officer or member of Securities Appellate Tribunal during his service or tenure as such with the Board or within two years from the date on which he ceases to hold office as such in the Board.

TERM OF OFFICE

Section 15N lays down that the Presiding Officer and every other member of Securities Appellate Tribunal shall hold office for a term of **five years** from the date he enters upon his office and is eligible for reappointment. It has also been provided that the person attaining the age of **sixty-eight years** cannot hold office as the presiding officer of Securities Appellate Tribunal.

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A person who has attained the age of **sixty-two years** cannot hold office as **member** of Securities Appellate Tribunal.

REQUIREMENTS FOR APPEAL TO THE TRIBUNAL

Section 15T and 15U deal with the appeal procedure and power of Securities Appellate Tribunals.

Section 15T lays down that any person aggrieved:

- (a) by an order of SEBI made, under this Act, or the rules or regulations made there under; or
 - (b) by an order made by an adjudicating officer under this Act
- may prefer an appeal to a Securities Appellate Tribunal having jurisdiction in the matter.*

No appeal shall lie to the Securities Appellate Tribunals from an order made

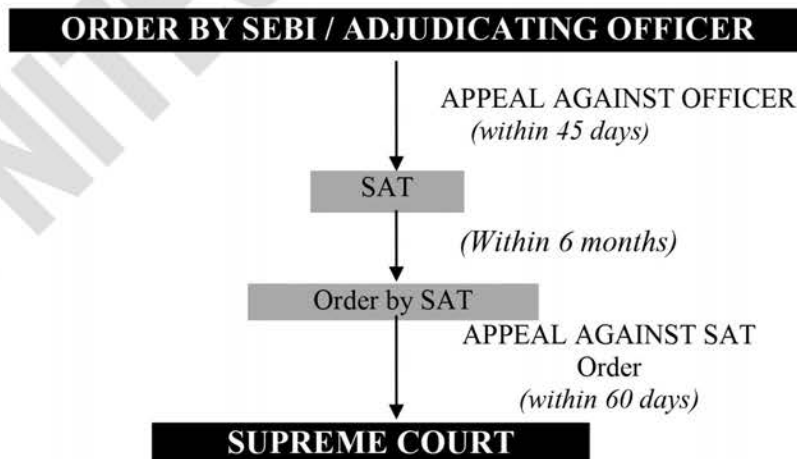
- (a) by SEBI;
 - (b) by an adjudicating officer,
- with the consent of the parties.**

Every appeal under sub-section (1) shall be filed within a period of **45 days** from the date on which a copy of the order made by SEBI or the Adjudicating Officer, is received by him and it shall be in such form and be accompanied by such fee as may be prescribed. These details have been prescribed in the Rules. Provided that the Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of 45 days if it is satisfied that there was sufficient cause for not filing it within that period.

On receipt of an appeal, the Securities Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against. The Securities Appellate Tribunal shall send a copy of every order made by it to SEBI and the parties to the appeal and to the concerned Adjudicating Officer.

The appeal filed before the Securities Appellate Tribunal shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within **six months** from the date of receipt of the appeal.

APPEAL PROCEDURE



NKJ-CLASSROOM PRACTICE



Q. 1. Explain the procedure for Appeal to the Securities Appellate Tribunal.

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PROCEDURE OF SECURITIES APPELLATE TRIBUNAL

As regards the procedure and powers of Securities Appellate Tribunal, Section 15U lays down that the Securities Appellate Tribunal **shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908, but shall be guided by the principles of natural justice** and, subject to the other provisions of this Act and of any rules, the Securities Appellate Tribunal shall have powers to regulate their own procedure including the places at which they shall have their sittings.

POWERS OF SECURITIES APPELLATE TRIBUNAL

The Securities Appellate Tribunals shall have, for the purposes of discharging their functions under this Act, the same powers as are vested in a civil court under the Code of Civil Procedure, 1908, while trying a suit, in respect of the following matters, namely: -

(a) summoning and enforcing the attendance of any person and examining him on oath;
(b) requiring the discovery and production of documents;
(c) receiving evidence on affidavits;
(d) issuing commissions for the examination of witnesses or documents;
(e) reviewing its decisions;
(f) dismissing an application for default or deciding it ex-parte;
(g) setting aside any order of dismissal of any application for default or any order passed by it ex-parte;
(h) any other matter which may be prescribed.

Every proceeding before the Securities Appellate Tribunal shall be deemed to be a judicial proceeding within the meaning of sections 193 and 228, and for the purposes of section 196 of the Indian Penal Code and the Securities Appellate Tribunal shall be deemed to be a civil court for all the purposes under Code of Criminal Procedure, 1973.

LEGAL REPRESENTATION

Section 15V permits the Appellant either to appear in person or authorise one or more of **practising Company Secretaries**, Chartered Accountants, Cost Accountants or Legal practitioners or any of its officers to present his or its case before the Securities Appellate Tribunal.

JURISDICTION OF CIVIL COURT

Section 15Y lays down that **no** civil court has jurisdiction to entertain any suit or proceeding in respect of any matter which an Adjudicating Officer appointed under this Act or a Securities Appellate Tribunal under this Act is empowered by or under this Act to determine and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act.

APPEAL TO SUPREME COURT

Section 15Z lays down that any person aggrieved by any decision or order of the Securities Appellate Tribunal may file an appeal to the Supreme Court within **60 days** from the date of communication of the decision or order of the Securities Appellate Tribunal to him on any **question of fact or law** arising out of such order; It has been provided that the Supreme Court may, if it is satisfied that the applicant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding 60 days.

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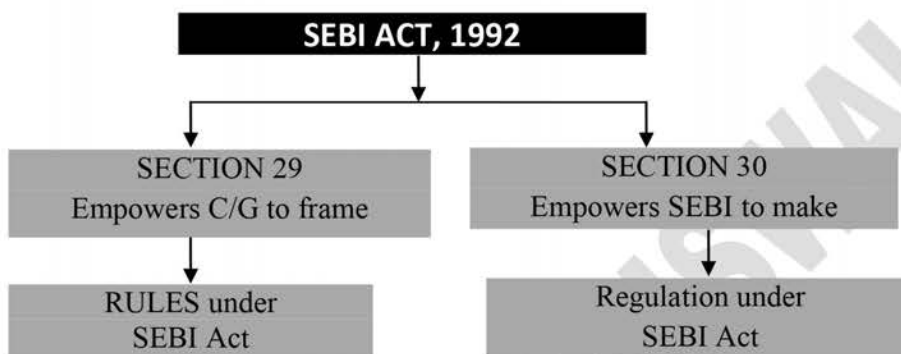
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POWER TO MAKE RULES

Section 29 empowers the Central Government to make rules for carrying out the purposes of this Act.

POWER TO MAKE REGULATIONS

Section 30 empowers SEBI by notification to make regulations consistent with this Act and the rules made thereunder to carry out the purposes of this Act.



FUNCTIONS AND DUTIES OF THE REGISTRAR

In addition to the functions and duties assigned in the rules, the Registrar shall have the following functions and duties subject to any general or special orders of the Presiding Officer of SAT namely:

- (a) to receive all appeals, replies and other documents;
- (b) to decide all questions arising out of the scrutiny of the appeals before they are registered;
- (c) to require any appeal presented to the Appellate Tribunal to be amended in accordance with the rules;
- (d) subject to the directions of the Presiding Officer to fix date of hearing of the appeals or other proceedings and issue notices thereof;
- (e) direct any formal amendment of records;
- (f) to order grant of copies of documents to parties to proceedings;
- (g) to grant leave to inspect the record of the Appellate Tribunal;
- (h) dispose of all matters relating to the service of notices or other processes, application for the issue of fresh notice or for extending the time for or ordering a particular method of service on a respondent including a substituted service by publication of the notice by way of advertisement in the newspapers;
- (i) to requisition records from the custody of any court or other authority.



Q. 1. What is Securities Appellate Tribunal (SAT)? Explain the procedure for appeal to SAT. **[June 2011; 6 Marks]**

NKJ-CLASSROOM PRACTICE



Q. 1. What do you mean by Securities Appellate Tribunal (SAT)? What is its composition? As a Company Secretary, advise the aggrieved party about the appeal procedure and powers of SAT. **[June 2016; 6 Marks]**

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POWERS OF CENTRAL GOVERNMENT UNDER SEBI ACT, 1992

(a) To issue directions

Section 16 empowers Central Government to issue directions in writing to SEBI on questions of policy as it may deem fit from time to time.

(b) To Supersede SEBI

Section 17 lays down that if at any time the Central Government is of opinion that:

- (a) on account of grave emergency, SEBI is unable to discharge the functions and duties imposed on it by or under the provisions of this Act; or
- (b) SEBI has persistently made default in complying with any direction issued by the Central Government under this Act or in the discharge of the functions and duties imposed on it by or under the provisions of this Act
- (c) circumstances exist which render it necessary in the public interest so to do, it may, by notification, supersede SEBI for such period, not exceeding six months, as may be specified in the notification.

(c) Power to grant Immunity

As per Section 24B of the Act, the Central Government may on the recommendations by SEBI, if satisfied that any person who is alleged to have violated any of the provisions of this Act or the rules or regulations made thereunder has made a full and true disclosures in respect of alleged violations, grant to such persons, subject to conditions as it may think fit, immunity from prosecution for any offence under this Act with respect to the alleged violation.

NKJ-CLASSROOM PRACTICE



Q. 1. Discuss the various powers of the Central Government under SEBI Act, 1992.

THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSION (IOSCO)

The international Organization of securities Commissions (IOSCO), established in 1983 for the purpose to **bring together the world's securities regulators**. It is a recognized **global standard setter for the Securities sector**.

IOSCO develops implements and promotes adherence to internationally recognized standards for securities regulation and is working intensively with G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

IOSCO's membership **regulates more than 95% of the world's securities markets**. Its members include over 120 securities regulators and 80 other securities markets participants (i.e. stock exchanges, financial regional and international organizations etc.).

IOSCO's is the only international financial regulatory organization which includes all the major emerging markets jurisdictions within its membership.

IOSCO provides comprehensive technical assistance to its members to its members which regulates the emerging markets.

Currently, IOSCO has **145 members** categorized into 118 Ordinary members, 12 Associate members, and 15 Affiliate members.

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IOSCO OBJECTIVES

IOSCO has been established for achieving the following objectives: -

(i) **To protect Investor:**

To enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries;

(ii) **To Ensure that Markets are Fair, Efficient and Transparent:**

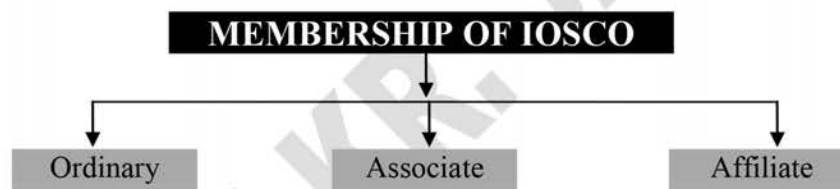
To cooperate in developing, implementing and promoting adherence and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks; and

(iii) **To Reduce Systemic Risk:**

To reduce systemic (universal) risk, IOSCO exchanges information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

MEMBERSHIP OF IOSCO

There are three types of membership of IOSCO based on the different approaches to the securities markets issues.



1. **Ordinary Member:** - Ordinary members of IOSCO are those members who are primary working as **regulators of securities or futures markets** in a jurisdiction and each ordinary member has **one vote**.

For Example: SEBI is the regulator of Indian Securities Markets. Securities Exchange commission is the regulator of USA securities Market. They can be admitted as ordinary member.

In other words, **all government body which are responsible for regulation of securities** can only be entered as ordinary member under the category. The ordinary membership of a self-regulatory body admitted to IOSCO will lapse if a governmental regulatory body from the same jurisdiction becomes the ordinary member for that jurisdiction.

2. **Associate Member:** - Associate members of IOSCO are those members which are other securities and or futures regulators in jurisdiction, if that jurisdiction has more than one.

Example: The commodity future trading Commission, the International Commission of Securities and the north American Securities Administrators Association in the United States are associate members of IOSCO with the U.S. Securities and Exchange Commission Being the ordinary members for the United States

Associate members have **no vote** rights in IOSCO. A self-regulatory body is not eligible for associate membership.

3. **Affiliate Member:** - **Affiliate** members of IOSCO are **those members other than regulators**.

Example: Stock exchanges, self-regulatory organization, and various stock market industry associations. Affiliate members have no voting rights.

In Other words, A self-regulatory body (SRO), or an international body, with an appropriate interest in securities regulation is eligible for this category of membership.

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NKJ-CLASSROOM PRACTICE



Q. 1. What is the eligibility criteria for securing the different categories of membership within IOSCO? Describe. [Dec. 2017, 5 Marks]

MULTILATERAL MEMORANDUM OF UNDERSTANDING CONCERNING CONSULTATION AND CO-OPERATION AND EXCHANGE OF INFORMATION (MMoU)

- (a) The MMoU sets an international benchmark for cross-border co-operation critical to combating violations of securities and derivatives laws.
- (b) The MMoU represents a common understanding amongst its signatories about how they will consult, cooperate, and exchange information for securities regulatory enforcement purposes.
- (c) The MMoU itself sets out the specific requirements for what information can be exchanged and how it is to be exchanged: legal ability to compel information; types of information that can be compelled; legal ability to share information; and permissible uses of information.
- (d) The MMoU sets out specific requirements regarding the confidentiality of the information exchanged.
- (e) The MMoU ensures that no domestic banking secrecy, blocking laws or regulations prevents securities regulators from sharing this information with their counterparts in other jurisdictions.

ROLE OF COMPANY SECRETARY UNDER SEBI ACT

- (a) Right to Legal Representation (Section 15V of the SEBI Act): Any person aggrieved (the appellant) may either appear in person or authorise one or more chartered accountants or company secretaries (PCS) or cost accountants or legal practitioners or any of its officers to present his or its case before the Securities Appellate Tribunal (SAT).
- (b) The Securities and Exchange Board of India (SEBI) also recognises the Company Secretary as the Compliance Officer and authorises practising company secretaries to issue various certificates under its Regulations. Further, practising Company Secretaries are also authorised to certify compliance of conditions of corporate governance in case of listed companies.

NKJ-CLASSROOM PRACTICE



Q. 1. Hon'ble Justice A, a retired Chief Justice of a High Court, attained the age 62 years on December 31, 2017. The Central Government had appointed him as the Presiding Officer of the Securities Appellate Tribunal (SAT) with effect from January 1, 2018. You are required to state with reference to SEBI Act, 1992, (a) the term for which he may be appointed as Presiding Officer of the SAT (b) Whether he can be re-appointed as such and remains as Presiding Officer of the Securities Appellate Tribunal?

[Dec. 2018; 4 Marks]

Ans. According to **Section 15N of SEBI Act, 1992**, the Presiding Officer or every Judicial or Technical Member of the Securities Appellate Tribunal shall hold office for a term of five years from the date on which he enters upon his office, and shall be eligible for reappointment for another term of maximum 5 years. However, no Presiding Officer or the Judicial or Technical Member shall hold office after he has attained the age of seventy years.

In the given case, Hon'ble Justice A has already attained age of 62 years at the time of first appointment as Presiding Officer of SAT, hence he can be appointed for first five years. He can be also re-appointed further but only for 3 years, as after further 3 years he will attain the age of 70 years.

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Q. 1. "SEBI has been established with objective of protecting the interest of investors and to promote the development of and to regulate the securities market (SEBI Act, 1992)". Discuss its composition and initiatives taken by SEBI for development and regulation of securities market. [Dec. 2017]

Ans. Section 4 of the SEBI Act, 1992 provides that the Board shall consist of the following members, namely –

- (a) A Chairman;
- (b) 2 member form amongst the officials of the Ministry of the Central Government dealing with finance and administration of the Companies Act, 2013;
- (c) One member from amongst the officials of the Reserve Bank;
- (d) 5 other members of whom at least 3 shall be the whole time members, to be appointed by the Central Government.

The Chairman and the other members shall be persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market or have special knowledge or experience of law, finance economics accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to SEBI.

Initiatives Taken by SEBI for development and regulation of Securities Market

SEBI has come a long way since its inception as an institution regulating the Indian Capital Market safer for investors. The following are the major policy initiatives taken by SEBI since its inception.

Screen Based Trading: A major developmental initiative was a nation-wide on-line fully- automated screen based trading system (SEBI) since its inception.

Screen Based Trading: A major developmental initiative was a nation – wide on- line fully-automated screen based trading system (SBTS) where a member can punch into the computer quantities of securities and the prices at which he likes to transaction and the transaction is executed as soon as it finds a matching sale or buy order form a counter party.

Risk management: A number of measures wear taken to manage the risk in the market so that the participants are safe and market integrity is protected. The trading cycle varied from 14 days for specified securities to 30 days for others and settlement took another fortnight. Rolling settlement on T+5 basis was introduced in phases. All scripts moved to rolling settlement from December 2001. T+ 5 gave way to T+3 from April 2002 and T+ 2 from April 2003.

Depositories Act: The earlier settlement system gave rise to settlement risk. This was due to the time taken for settlement and due to the physical movement of paper. Further, the transfer of shares in favors of the purchaser by the company also consumed considerable amount of time. To obviate these problems, the Depositories Act, 1996 was passed to provide for the establishment of depositories in securities.

- (a) **Derivatives:** To assist market participants to manage risks better through hedging, speculation and arbitrage, SC(R)A was amended in 1995 to lift the ban on options in securities.
- (b) **Settlement Guarantee:** A variety of measures were taken to address the risk in the market, Straight through processing has been made mandatory for all institutional trades executed on the stock exchange.
- (c) **Securities Market Awareness:** In January 2003, SEBI launched a nation –wide Securities Market Awareness Campaign that aims at educating investors about the risks associated with the market as well as the rights and obligations of investors.
- (d) **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.
- (e) **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.
- (f) **Debt Listing Agreement:** In order to further develop the corporate debt market, SEBI prescribed a model debenture listing agreement for all debenture securities issued by an issuer irrespective of the mode of issuance.
- (g) **Gold Exchange Traded Funds in India:** Pursuant to the announcement made by the Honorable Finance Minister in his Budget Speech for 2005-06, SEBI appointed a Committee for the introduction of Gold Exchange Traded Fund (GETF) in India. Based on the recommendations of the said Committee, the SEBI (Mutual Funds) Regulations, 1996 were amended and notification was issued on January 12, 2006 permitting mutual funds to introduce GETFs in India subject to certain investment restrictions.

- (h) Guidelines for Issue of Indian Depository Receipts (IDRs): SEBI issued Guidelines on disclosures and related requirements for companies desirous of issuing IDRs in India. SEBI also prescribed the listing agreement for entities issuing IDRs.
- (i) Grading of Initial Public offerings (IPOs): Grading of all IPOs was made mandatory. The grading would be done by credit rating agencies, registered with SEBI. It would be mandatory. To obtain grading from at least one credit rating agency. The grading would be disclosed in the prospectus, abridged prospectus and in every advertisement for IPOs.
- (j) Introduction of Fast Track Issuances: To enable compliant listed companies to access Indian primary market in a time effective manner through follow-on Public offerings and right issues, SEBI introduced fast track issue mechanism. To make the issuance process fast, the earlier requirement of filing draft offer documents was amended and the need to file draft offer documents with SEBI and the stock exchanges was done away with.



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

3

CAPITAL MARKET INSTRUMENTS

Covering-

- Classification of Instruments
- Share – Meaning and Nature
- Kind of Shares
- Equity Shares
- Preference Shares
- Debenture – Definition
- Debenture – Features / Characteristics
- Kinds of Debenture
- Secured Premium Notes
- Dual Option Warrants
- Capital Indexed Bonds
- Inflation Indexed Bond
- Deep Discount Bond
- Mortgage Backed Securities
- Exchange Traded Funds
- Instrument for International Market
- Self Test Questions
 - From Past CS Examination Questions
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(5 to 10)**

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CAPITAL MARKET INSTRUMENTS

One of the various components of financial system is Financial Products. **The instruments used by the corporate sector to raise funds are known as Financial Products.**

SECURITIES

According to SCRA, 1956, Securities include

- (i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or body corporate;
- (ii) derivative;
- (iii) units or any other instrument issued by any Collective Investment Scheme to the Investors in such schemes;
- (iv) security receipt as defined in clause (zg) of Section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- (v) units or any other such instrument issued to the investors under any Mutual Fund Scheme;
Explanation: "Securities" shall not include any unit linked insurance policy or scrips or any such instrument or unit, by whatever name called, which provides a combined benefit risk on the life of the persons and issued by an insurer referred to in Insurance Act, 1938;
- (vi) any certificate or instrument (by whatever name called) issued to an investor by any issuer being a special purpose distinct entity which possess any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case may be;
- (vii) government securities;
- (viii) such other instruments as may be declared by the Central Government to be securities; and
- (ix) rights or interests in securities.

SELECTION OF FINANCIAL PRODUCT/INSTRUMENTS

Financial Products are selected on the basis of—

- (i) investor preference for a given instrument and
- (ii) the regulatory framework, where under the company has to issue the security.

Factors effecting the preferences for choosing any instruments:

For issuer	For investor
(a) Cost	(a) Return
(b) Post Tax Cost of Capital	(b) Tax on return received
(c) Servicing	(c) Yield
(d) Debt-equity ratio	(d) Risk reward ratio
(e) Ceding the control in case of equity	(e) Gaining the control in case of equity

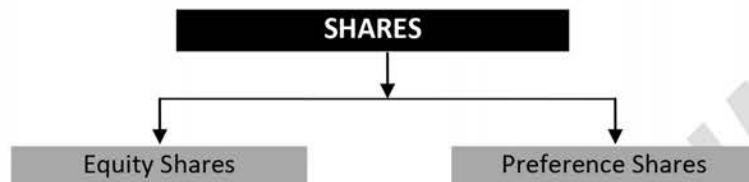
Convertible debenture is the most popular instrument in the current scenario to raise funds from the markets. The attraction for the instrument for both the corporate sector and the investor lies in—

- (a) the investor gets a reasonable return during the initial years, followed by equity participation on conversion, and
- (b) the issue involves lower post-tax cost of capital, thereby entailing a lesser strain on liquidity.

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CLASSIFICATION OF INSTRUMENTS

Instruments can be classified into three categories:

Pure Instruments:

Equity shares, preference shares and debentures/bonds which were issued with their basic characteristics intact without mixing features of other classes of instruments are called Pure instruments.


Hybrid instruments:

Hybrid instruments are those which are created by combining the features of equity with bond, preference and equity etc. Examples of Hybrid instruments are: Convertible preference shares, Cumulative convertible preference shares, non-convertible debentures with equity warrants, partly convertible debentures, partly convertible debentures etc.

Derivatives:

Derivatives are contracts which derive their values from the value of one or more of other assets (known as underlying assets). Some of the most commonly traded derivatives are futures, forward, options and swaps.

Salient features of instruments available in securities markets are discussed below:

NKJ-CLASSROOM PRACTICE	
 SCANNER	<p>Q. 1. Critically comment on the following statements:</p> <p>"Derivatives are contracts which derive their value from the value of one or more of other assets."</p> <p>[Dec. 2014; 5 Marks]</p>

SHARE- MEANING AND NATURE

Section 2(84) of the Act defines a share as *"a share in the share capital of a company and includes stock except where a distinction between stock and shares is expressed or implied."*

NATURE OF A SHARE

- (a) A share is a **right to a specified amount of the share capital** of a company, carrying with it certain rights and liabilities while the company is a going concern and, in its winding, up.
- (b) A share is **not a sum of money but a bundle of rights and liabilities**; it is an interest measured by a sum of money. These rights and liabilities are regulated by the articles of a company.
- (c) A share is a right to participate in the profits made by a company, while it is a going concern and declares a dividend and in the assets of company when it is wound up.
- (d) **Section 44** of the Companies Act provides that a share or other interest of any member in a company is a movable property transferable in the manner provided by the articles of the company.

KINDS OF SHARES

According to **Section 43** of the Companies Act, 2013, following are two kind/classes of shares; -

1. Equity share
2. Preference Share

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1. EQUITY SHARES

Equity share means the share which is not a preference share.

Equity shares, commonly referred to as ordinary share also represents the form of fractional ownership in company. The holders of such shares are member of the company and have voting rights.

A company may issue equity shares with; -	(a) Equal rights. (as to voting, payment of dividend etc.)
	(b) Differential rights (as to voting, payment of dividend etc.)

➤ EQUITY SHARES WITH DIFFERENTIAL VOTING RIGHTS

While Section 43 enables companies to issue a variety of equity shares with differential rights etc.

Rule 4 of Companies (Share Capital and Debentures) Rules, 2014 states the following **conditions** regarding issue of shares with differential voting rights by co. Limited by shares; -

- (a) the articles of association of the company authorizes the issue of shares with differential rights;
- (b) the issue of shares is authorized by an **ordinary resolution** passed at a general meeting of the shareholders: *(postal ballot in case of listed co)*.
- (c) the shares with differential rights **shall not exceed twenty-six percent** of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;
- (d) the company having consistent track record of distributable profits for the last three years;
- (e) the company has not defaulted in filing financial statements **and** annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- (f) the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures.
- (g) the company has not defaulted in payment of the **dividend on preference shares** or **repayment of any term loan** from a public financial institution or State level financial institution or scheduled Bank that has become repayable or **interest** payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in **crediting the amount in Investor Education and Protection Fund** to the Central Government;
- (h) the company has not been penalized by Court or Tribunal during the last three years of any offence under the RBI Act, 1934, the SEBI Act, 1992, the SCR Act, 1956, the FEMA, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

Conversion of existing equity share capital into differential voting rights and vice-versa

Rule 4(3) states that the company **shall not** convert its existing equity share capital with voting rights into equity share capital carrying differential voting rights and *vice-versa*.

➤ SWEAT EQUITY SHARES

According to **section 2(88)**, sweat equity shares mean *equity shares issued by a company to its directors or employees at a discount or for consideration, other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.*

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CONDITIONS FOR ISSUE OF SWEAT EQUITY SHARES

Section 54 provides that **notwithstanding anything contained in Section 53**, a company can issue sweat equity shares, of a class of shares already issued, if the following conditions are satisfied: -

- (i) The shares must be of class already issued.
- (ii) The issue has been authorized by a **special resolution** passed by the company in the general meeting.
- (iii) the following are clearly specified in the resolution: -
 - (a) number of shares;
 - (b) current market price;
 - (c) consideration, if any; and
 - (d) class or classes of directors or employees to whom such equity shares are to be issued.
- (iv) At least **one year should have elapsed** from the date on which the company had commenced business.
- (v) a company whose shares are listed on a recognized stock exchange issuing sweat equity shares should comply with the regulations made in this behalf by SEBI.
- (vi) a company whose shares are not so listed should issue sweat equity shares in compliance with the rules made in this behalf by the Central Government (i.e., *Companies (Share Capital and Debentures) Rules, 2014*)

“COMPANIES (SHARE CAPITAL AND DEBENTURES) RULES, 2014”

- (a) Special resolution authorizing the issue of sweat equity shares shall be valid for a period of not more than **twelve months** from the date of passing of the special resolution.
- (b) the company shall not issue sweat equity shares for more than **fifteen percent** of the existing paid up equity share capital in a year or shares of the issue value of rupees **five crores**, whichever is higher.
- (c) The issuance of sweat equity shares in the Company shall **not exceed twenty five percent**, of the paid-up equity capital of the Company at **any time**.
- (d) Sweat Equity Shares to be locked for **three years**.
- (e) the sweat equity shares to be issued shall be valued at a price determined by a registered valuer.
- (f) the valuation of intellectual property rights or of know how or value additions shall be carried out by a registered valuer.
- (g) the Board of Directors shall, disclose in the Directors' Report for the year in which such shares are issued, details of issue of sweat equity shares.
- (h) The company shall maintain a Register of Sweat Equity Shares in **Form No. SH.3**.

Holders of Sweat Equity Shares to be ranked paripassu with other Equity share holders

Section 54 provides that the rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *paripassu* with other equity shareholders.

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SEBI (ISSUE OF SWEAT EQUITY) REGULATIONS, 2002

1. APPLICABILITY

Listed companies which are issuing sweat equity shares are required to comply with SEBI (Issue of Sweat Equity) Regulations, 2002.

2. ISSUE OF SWEAT EQUITY SHARES TO PROMOTERS

In case of Issue of sweat equity shares to promoters, the same shall also be approved by simple majority of the shareholders in General Meeting.

Further, the promoters to whom such Sweat Equity Shares are proposed to be issued shall not participate in such resolution and separate resolution shall be passed for each transaction of issue of Sweat Equity. Such resolution shall be valid for a period of not more than twelve months from the date of passing of the resolution.

3. PRICING OF SWEAT EQUITY SHARES

The price of sweat equity shares shall **not be less than the higher** of the following:

- (a) The average of the weekly high and low of the closing prices of the related equity shares during last six months preceding the relevant date; or
- (b) The average of the weekly high and low of the closing prices of the related equity shares during the two weeks preceding the relevant date.

If the shares are listed on more than one stock exchange then the stock exchange where there is highest trading volume during that date shall be considered.

“**Relevant date**” for this purpose means the date which is thirty days prior to the date on which the meeting of the General Body of the shareholders is convened, in terms of section 54 of the Companies Act, 2013.

4. VALUATION OF INTELLECTUAL PROPERTY

- (a) The valuation of the intellectual property rights or of the know how provided or other value addition mentioned shall be carried out by a merchant banker.
- (b) The merchant banker may consult such experts and valuers, as he may deem fit having regard to the nature of the industry and the nature of the property or other value addition.
- (c) The merchant banker shall obtain a certificate from an independent Chartered Accountant that the valuation of the intellectual property or other value addition is in accordance with the relevant accounting standards.

5. ACCOUNTING TREATMENT

Where the sweat equity shares are issued for a non-cash consideration, such non cash consideration shall be treated in the following manner in the books of account of the company:-

- (a) where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the relevant accounting standards; or
- (b) where the above clause is not applicable, it shall be expensed as provided in the relevant accounting standards.

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6. CEILING ON MANAGERIAL REMUNERATION

The amount of Sweat Equity shares issued **shall be treated** as part of managerial remuneration for the purpose of sections 197 of the Companies Act, 2013, if the following conditions are fulfilled:

- (i) the Sweat Equity shares are issued to any director or manager; and
- (ii) they are issued for non-cash consideration, which does not take the form of an asset which can be carried to the balance sheet of the company in accordance with the relevant accounting standards.

7. LOCK-IN

The Sweat Equity shares shall be locked in for a period of **three years** from the date of allotment.

8. LISTING

The Sweat Equity issued by a listed company shall be eligible for listing only if such issues are in accordance with these regulations.

Whether Issue of sweat equity shares can be in the form of preferential Issue?

Issue of Sweat Equity Shares is not a 'preferential issue' as per regulation 2(1)(z) of SEBI (ICDR) Regulations, 2009 which gives the meaning of a preferential issue excludes an issue of sweat equity shares there from, which means issue of sweat equity shares is not a preferential issue within the meaning of preferential issue.

Further Rule 8 (13) of The Companies (Share Capital and Debentures) Rules, 2014, clearly excludes issue of sweat equity shares from the definition of preferential offer.

2. PREFERENCE SHARES

A preference share or preference share capital is that part of share capital which fulfils both the following requirements:-

- (a) With respect to dividend, it carries a preferential right to be paid a fixed amount or an amount calculated at a fixed rate.
- (b) With respect to capital, it carries on winding up or re-payment of capital a preferential right to be repaid

CONDITIONS OF ISSUE OF PREFERENCE SHARES

Section 55 read with Companies (Share Capital and Debentures) Rules, 2014)

- (a) A company limited by shares can not issue any preference shares which are irredeemable. **(Section 55)**
- (b) A company limited by shares may, if so authorised by its articles, issue preference shares which are redeemable within a period not exceeding twenty years. **(Section 55)**

Exception:-

*A company engaged in the setting up and dealing with of infrastructural projects may issue preference shares for a period **exceeding twenty years but not exceeding thirty years, subject to the redemption of a minimum ten percent of such preference shares per year from the twenty first year onwards or earlier, on proportionate basis, at the option of the preference shareholders. (Rule 10)***

- (c) a company having a share capital may, if so authorised by its articles, issue preference shares by passing a special resolution in the general meeting of the company. **(Rule 9)**

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Preference shares may be of various types, namely:

1. PARTICIPATING OR NON-PARTICIPATING PREFERENCE SHARES

Participating preference shares are those shares which are entitled to a fixed preferential dividend and, in addition, they carry a right to participate in the surplus profits along with equity shareholders after dividend at a certain rate has been paid to equity shareholders. The right to participate may be given either in the memorandum or articles or by virtue of their terms of issue.

Non-participating preference shares don't have a right to participate in the surplus profits.
Unless expressly provided, preference share are always non-participating.

2. CUMULATIVE AND NON-CUMULATIVE SHARES

A cumulative preference share confers a right on its holder to claim fixed dividend of the past and the current year(s) and out of future profits. The dividend keeps on accumulating until it is fully paid. In the case of non-cumulative shares, dividend does not accumulate. If there are no profits or the profits are inadequate in any year, the shares are not entitled to any dividend for that year.

3. CONVERTIBLE PREFERENCE SHARES

If the terms of issue of preference shares includes a right for converting them into equity shares at the end of a specified period they are called convertible preference shares.
These shares are sometimes referred to as quasi equity shares in common parlance.

DEBENTURE- DEFINITION

According to **Section 2 (30):-**

"Debenture includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not".

Basically, a debenture is an instrument which acknowledges a debt by a company to some person or persons.

DEBENTURE- FEATURES/ CHARACTERISTICS

Following are some features of a debenture:-	(a) A debenture is usually in the form of a certificate (like a share certificate) issued under the common seal of the company.
	(b) Debenture holders are treated as the creditors of the company.
	(c) The certificate is an acknowledgement by the company of indebtedness to a holder.
	(d) A debenture provides for the payment of a specified sum at a specified date.
	(e) A debenture usually provides for payment of interest until the principal sum is paid back.
	(f) A company shall not issue any debentures carrying voting rights. (Sec. 71)

KINDS OF DEBENTURE

Debentures may be of various types, namely:

Naked or unsecured debentures:

Debentures of this kind do not carry any charge on the assets of the company. The holders of such debentures do not therefore have the right to attach particular property by way of security as to repayment of principal or interest.

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Secured debentures:

Debentures that are secured by a mortgage of the whole or part of the assets of the company are called mortgage debentures or secured debentures.

A company shall not issue secured debentures, unless it complies with the following conditions, namely:-	(a) An issue of secured debentures may be made, provided the date of its redemption shall not exceed ten years from the date of issue. However, a company engaged in the setting up of infrastructure projects may issue secured debentures for a period exceeding ten years but not exceeding thirty years;
	(b) such an issue of debentures shall be secured by the creation of a charge on the assets of the company, by way of either mortgage or hypothecation only, having a value which is sufficient for the due repayment of the amount of debentures and interest thereon;
	(c) the company shall appoint a debenture trustee before the issue of prospectus or letter of offer for subscription of its debentures; and
	(d) the company shall execute a debenture trust deed in Form No. SH.12 or as near thereto as possible, within sixty days from the date of allotment of the debentures.

Redeemable debentures:

Debentures that are redeemable on expiry of certain period are called redeemable debentures.

Perpetual debentures:

If the debentures are issued subject to redemption on the happening of specified events which may not happen for an indefinite period, e.g. winding up, they are called perpetual debentures.

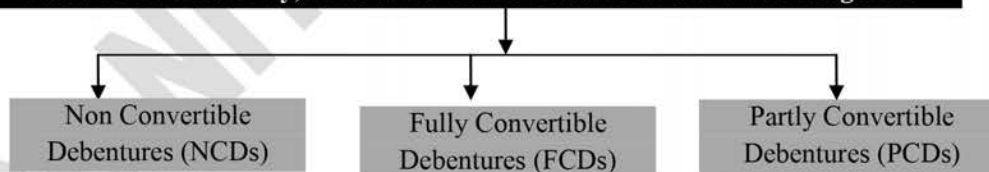
Bearer debentures:

Such debentures are payable to bearer and are transferable by mere delivery. The name of the debenture holder is not registered in the books of the company, but the holder is entitled to claim interest and principal as and when due.

Registered debentures:

Such debentures are payable to the registered holders whose name appears on the debenture certificate/letter of allotment and is registered on the companies register of debenture holders.

Based on convertibility, debentures can be classified under three categories:



(a) Fully Convertible Debentures (FCDs):

These are converted into equity shares of the company with or without premium as per the terms of the issue, on the expiry of specified period or periods.

A company may issue convertible debentures subject to the approval of shareholders by way of special resolution passed at a general meeting.

(b) Non Convertible Debentures (NCDs):

These debentures do not carry the option of conversion into equity shares and are therefore redeemed on the expiry of the specified period or periods.

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(c) **Partly Convertible Debentures (PCDs):**

These may consist of two kinds namely - convertible and non-convertible. The convertible portion is to be converted into equity shares at the expiry of specified period. However, the non convertible portion is redeemed at the expiry of the stipulated period.

➤ **ROLL OVER OF NON CONVERTIBLE PORTION OF PARTLY CONVERTIBLE DEBT INSTRUMENTS**

The non-convertible portion of partly convertible debt instruments issued by a listed issuer, the value of which exceeds 50 lakh rupees, may be rolled over without change in the interest rate, subject to the following conditions:-

- (a) seventy five per cent; of the holders of the convertible debt instruments of the issuer have, “through a resolution, approved the rollover through postal ballot ;)
- (b) the issuer has, along with the notice for passing the resolution, sent to all holders of the convertible debt instruments, an auditors certificate on the cash flow of the issuer and with comments on the liquidity position of the issuer;
- (c) The issuer has undertaken to redeem the non-convertible portion of the partly convertible debt instruments of all the holders of the convertible debt instruments who have not agreed to the resolution;
- (d) credit rating has been obtained from at least one credit rating agency registered with the SEBI within a period of six months prior to the due date of redemption and has been communicated to the holders of the convertible debt instruments, before the roll over.

The creation of fresh security and execution of fresh trust deed shall not be mandatory if the existing trust deed or the security document provide for continuance of the security till redemption of secured convertible debt instruments. However whether the issuer is required to create fresh security and to execute fresh trust deed or not shall be decided by the debenture trustee.

ADVANTAGES OF CONVERTIBLE DEBENTURES

<u>The advantages to the company</u>	<u>The advantages to the investor</u>
1. Convertible debentures carry lower interest as compared to the rate charged by the Banks and Financial Institutions.	1. The investor is assured of a fixed return by way of interest on the debentures till conversion. On conversion into equity the investor becomes entitled to receive dividend declared on equity shares.
2. From the point of view of the debt equity ratio the convertible part of the debentures is treated as equity by financial institutions.	2. As price of equity shares tends to rise on completion of the project of the company, the investor gets value appreciation on his investment, if converted into equity.
3. Equity capital gets increased after each conversion, facilitating easier servicing of equity by payment of dividend.	3. A fair amount of liquidity is enjoyed by convertible debentures listed on the stock exchanges depending on the track record of the companies. Even if debentures are not traded as actively as equity shares, convertible debentures of good companies command reasonable liquidity.

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DISTINCTION BETWEEN PARTLY CONVERTIBLE AND FULLY CONVERTIBLE DEBENTURES

Characteristics	Partly convertible debentures	Fully convertible debentures
Suitability	Better suited for companies with established track record.	Better suited for companies without established track record.
Capital base	Relatively lower equity capital on conversion of debentures.	Relatively Higher equity capital on conversion of debentures.
Flexibility in financing	Favourable debt equity ratio.	Highly favourable debt equity ratio
Classification for debt	Convertible portion classified as equity' 'and non-convertible portion as 'debt'.	Computation as equity for debt-equity computation.
Popularity	Not so popular with investors	Highly popular with investors
Servicing of equity	Relatively lesser burden of equity servicing.	Higher burden of servicing of equity.

SECURED PREMIUM NOTES

These instruments are issued with detachable warrants and are redeemable after a notified period say 4 to 7 years. **The warrants enable the holder to get equity shares allotted provided the secured premium notes are fully paid. It combines the feature of both debt and equity.** During the lock in period no interest is paid.

The holder has an option to sell back the SPN to the company at par value after the lock in period. If the holder exercises this option, no interest/premium is paid on redemption. In case the holder keeps it further, he is repaid the principal amount along with the additional interest/premium on redemption in installments as per the terms of issue. The conversion of detachable warrants into equity has to be done within the specified time.

DUAL OPTION WARRANTS

Dual option warrants are designed to provide the buyer with good potential of capital appreciation and limited downside risk. Dual option warrants may be used to sell equity shares in different markets.

For example, equity shares or debentures may be issued with two warrants - **one warrant giving right to the purchaser to be allotted one equity share** at the end of a certain period and **another warrant with a debt or preference share option**.

CAPITAL INDEXED BONDS

Capital indexed bonds are inflation-protection securities. Such bonds, therefore, provide good hedge against inflation risk. The benefits do extend beyond hedging. Capital index bonds can be used as a market indicator for inflation expectation. This will help investors take a more intelligent decision on their current consumption.

INFLATION INDEXED BOND

Inflation indexed bonds may be defined as inflation protection securities, in which interest rate is adjusted as per change in inflation rate a economy. Inflation indexed bonds may be called as "hedge" or shield or cushion for investors against inflation risk.

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Difference between inflation Indexed Bond and Ordinary Bonds:

BOD	Inflation Bond	Ordinary Bond
(i) Rate of Interest	Here there is no fixed rate of interest or rate is always adjusted against inflation rate	Ordinary bonds give fixed rate interest.
(ii) Protection from Inflation	These bonds provide a protection to the investors from the inflation and capital of investor remains shielded from inflation.	These bonds don't provide a protection to the investors from the inflation.
(ii) Popular	These are very popular.	These bonds are relatively less popular.

DEEP DISCOUNT BOND

IDBI and SIDBI had issued this instrument. For a deep discount price of ₹2,700/- in IDBI the investor got a bond with the face value of ₹1,00,000. The bond appreciates to its face value over the maturity period of 25 years. Alternatively, the investor can withdraw from the investment periodically after 5 years. The capital appreciation is charged to tax at capital gains rate which is lower than normal income tax rate. The deep discount bond is considered a safe, solid and liquid instrument and assigned the best rating by CRISIL.

MORTGAGE BACKED SECURITIES

These securities assure a fixed return which is derived from the performance of the specific assets. They are issued with a maturity period of 3 to 10 years and backed by pooled assets like mortgages, credit card receivables, etc.

There is a commitment from the loan originator and/or intermediary institution to ensure a minimum yield on maturity.

Features of assets to be securitised	(a) The cash flows generated from the assets should be received periodically in accordance with a pre-determined schedule.
	(b) The actual cash flows generated from the assets should be predictable.
	(c) The assets should be large in number and total value to be issued in securitized form.
	(d) The assets should be sufficiently similar in nature to enable pooling of their cash flows.
	(e) The assets should be marketable.

ADVANTAGES OF ASSET BACKED SECURITIES

1. Advantages to Issuer

- (a) The issuer can generate cash from the assets immediately enabling funds to be redeployed in other projects.
- (b) The issuer may be able to improve balance sheet ratios by excluding the original assets and the securities created by the assets from the balance sheet by suitable structuring of the transaction.

2. Advantages of Asset backed Securities to Investor

- (a) These instruments have a relatively low credit risk since the securities are backed by good quality collateral and offer a higher yield than Government securities.

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EXCHANGE TRADED FUNDS

Exchange traded funds (ETFs) are a new variety of mutual fund that was first introduced 1993. ETFs are sometimes described as more “tax efficient” than traditional equity mutual funds.

In short, they are similar to index mutual funds but are traded more like a stock. As their name implies, Exchange Traded Funds represent a basket of securities that are traded on an exchange. Gold ETFs are most popular among other ETFs, physical gold is kept as underlying security.

ADVANTAGES OF EXCHANGE TRADED FUNDS **DISADVANTAGES OF EXCHANGE TRADED FUNDS**

<u>ADVANTAGES</u>	<u>DISADVANTAGES</u>
ETFs can be bought and sold throughout trading day, allowing intraday trading which is rare with mutual funds.	Commissions - like stocks, trading exchange traded- funds are an extra cost.
Traders have the ability to short or buy ETFs on margin.	Only institutions and the extremely wealthy can deal directly with ETF. Companies must buy through a Broker.
Low annual expenses rival the cheapest mutual funds.	Unlike mutual funds, ETFs don't necessarily trade at the net asset values of their underlying holdings, meaning an ETF could potentially trade above or below the value of the underlying portfolios.

INSTRUMENTS FOR INTERNATIONAL MARKET

Global Depository Receipts

It is a form of depository receipt or certificate created by the Overseas Depository Bank outside India denominated in dollar and issued to non-resident investors against the issue of ordinary shares or foreign currency convertible bonds of issuing company.

Foreign Currency Convertible Bonds (FCCBs)

A foreign currency convertible bond (FCCB) is a quasi debt instrument which is issued by any corporate entity, international agency or sovereign state to the investors all over the world. They are denominated in any freely convertible foreign currency. FCCBs represent equity linked debt security which can be converted into shares or into depository receipts.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Write short notes on the following:
 - (i) Dual option warrants
 - (ii) Exchange traded fund
 - (iii) Mortgage backed securities
 - (iv) Hybrid instruments
 - (v) Secured premium notes
 - (vi) Private equity fund
 - (vii) Mini contracts on derivatives
 - (viii) Sweat equity shares
 - (ix) Secured premium notes.
2. Distinguish between the following:
 - (i) 'Debt market' and 'equity market'.
 - (ii) 'Partly convertible debentures' and 'non-convertible debentures'.
3. What is meant by differential voting rights (DVR)? Discuss the conditions subjects to which a company to which a company may issues shares with DVR.
4. What is an 'inflation indexed bond'? How is it different from ordinary bonds?
5. An Indian company is planning to issue sweat equity shares of a class already issued. Explain the meaning of sweat equity and advise the company regarding the conditions to be fulfilled to issue sweat equity.

FROM ICSI MODULE



Answer the following

1. State and explain in brief about various capital market instruments in Indian Securities Market.
2. Give a comparative view of various types of preference shares prevalent in the market.
3. Dwell upon the features and advantages of convertible debentures. Distinguish between fully and partly convertible debentures.
4. What is Exchange Traded Funds (ETFs)? Briefly discuss the advantages and disadvantages of ETFs.
5. Write short notes on –
 - (a) Sweat Equity Shares
 - (b) Mortgage Backed Securities
 - (c) Derivatives
 - (d) Pure and Hybrid Instrument



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

4

BUY BACK OF SECURITIES

Covering-

- Need for Financial Restructuring
- Over Capitalisation and under capitalization of companies
- Buy Back of Shares – Meaning
- Buy Back – Objective
- Provisions of Section 68 in Case of Buy Back of Shares
- Transfer to and Application of Capital Redemption Reserve Account
- Prohibition on Buy-Back
- Securities which can't be bought back
- Obligations of the Merchant Banker
- Income tax aspects
- Stamp Duty on buy-back
- Procedure for buy-back of securities by a listed company
- Procedure for Buy-Back of securities by a unlisted company
- Practical Questions
- Self Test Questions
 - From Past CS Exam
 - From ICSI Module
- Advance Your Knowledge

**EXPECTED
MARKS COVERAGE
(5 to 10)**

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BUY BACK OF SECURITIES



BUY BACK OF SHARES - MEANING

- Buy back of its own shares by a company is nothing but reduction of share capital. It is nothing but a process which enables a company to go back to the holders of its shares and offer to purchase from them the shares that they hold.
- Buy back results in the return of the shareholders' money and a reduction of the floating stock of the company's securities in the market while at the same time creating value for the remaining equity.
- Buy back benefit companies, shareholder, promoters and the economy as a whole. If shareholders sell they can then reinvest their gains elsewhere in the economy, where the returns are higher.
- Companies are saving their shareholders millions in taxes by buying back stock, rather than by increasing dividends as dividends attract tax.

BUY BACK - OBJECTIVE

Buy back of securities is one of the methods of financial reconstruction.

Securities may be brought back by the company on account of one or more of the following reasons:	➤ To increase promoters holding
	➤ Increase Earning per share
	➤ Maintaining shareholders' value in a situation of poor state of secondary market by a return of surplus cash to the shareholders
	➤ To counter a hostile takeover.
	➤ To return surplus cash not required by business to share holders
	➤ Some companies use this as a tool to maintain share prices in a bear run market by buying shares from the open market at a premium over the prevailing market price.
	➤ It is an alternative mode of reduction in capital without requiring approval of the National Company Law Tribunal
	➤ To serve the equity more efficiently.

LEGAL FRAMEWORK FOR BUY-BACK

- (a) Companies Act, 2013
- (b) Companies (Share Capital and Debentures) Rules, 2014.
- (c) Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018.

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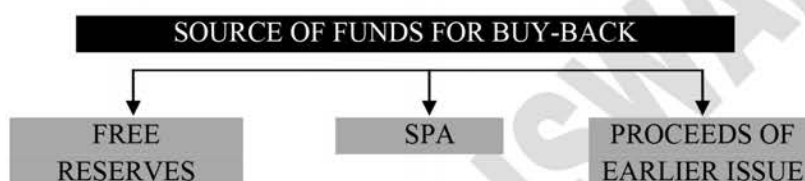
PROVISIONS OF SECTION 68 IN CASE OF BUY BACK OF SHARES

SOURCE OF FUNDS FOR BUY-BACK

Notwithstanding anything contained in this Act, but subject to the provisions of sub-section 68(2), a company may purchase its own shares or other specified securities out of—

- | |
|--|
| (i) its free reserves; or |
| (ii) the securities premium account; or |
| (iii) the proceeds of any shares or other specified securities |

Provided that no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.



Free Reserves

Following reserve can be utilised for the proposed buy-back of shares: (a) Investment fluctuation reserve (b) Securities premium account (c) General reserve (d) Foreign currency fluctuation reserve (provided it is not in the nature of provision)	Following reserves cannot be utilized for the buy-back of shares of the company. (a) Statutory reserve (b) Foreign currency fluctuation reserve (c) Dividend redemption reserve preference shares) (d) Capital redemption reserve.
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AUTHORISATION REQUIRED FOR BUY-BACK

The primary requirement is that the **articles of association** of the company should authorise buyback. Buy-back can be made with the approval of the Board of directors at a **board meeting and/or by a special resolution** passed by shareholders in a general meeting, depending on the quantum of buy back.

MAX. LIMIT / QUANTUM OF BUY-BACK

- (a) A company can buy-back **up to 10%** of the total paid-up equity capital and free reserves of the company by the means of a **board resolution** passed at the board meeting.
- (b) A company can buy-back **more than 10 % but up to 25%** of the total paid-up capital and free reserves of the company by the means of a **special resolution** passed at the general meeting. However In case of a **listed company**, approval of shareholders shall be obtained by **postal ballot**.
- (c) In respect of any financial year, the shareholders can approve by special resolution **upto 25% of total equity capital** in that year.

SPECIAL RESOLUTION TO BE ACCOMPANIED BY EXPLANATORY STATEMENT

The notice of the meeting at which the special resolution is proposed to be passed shall be accompanied by an explanatory statement stating—

- | |
|--|
| (a) a full and complete disclosure of all material facts; |
| (b) the necessity for the buy-back; |
| (c) the class of shares or securities intended to be purchased under the buy-back; |
| (d) the amount to be invested under the buy-back; and |
| (e) the time-limit for completion of buy-back. |

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POST BUY-BACK DEBT-EQUITY RATIO

The ratio of the aggregate of secured and unsecured debts owed by the company after buy-back is **not more than twice** the paid-up capital and its free reserves:

Provided that the Central Government may, by order, notify a higher ratio of the debt to capital and free reserves for a class or classes of companies;

ALL THE SHARES OR OTHER SPECIFIED SECURITIES for buy-back are to be fully paid-up.

TIME GAP BETWEEN TWO BUYBACKS

No offer of buy-back shall be made within a period of **one year** reckoned from the date of the closure of the preceding offer of buy-back, if any.

Every buy-back shall be completed within a period of **one year from the date of passing of the special resolution, or as the case may be, the resolution passed by the Board.**

METHODS OF BUY-BACK

The buy-back may be—

- (a) from the existing shareholders or security holders on a proportionate basis;
- (b) from the open market through
 - (i) book-building process
 - (ii) stock exchange
- (c) by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.
- (d) from odd-lot holders.

It may be noted that no offer of buy back for 15% or more of paid up capital and free reserves, shall be made from the open market.

FILING DECLARATION OF SOLVENCY WITH ROC/ SEBI

When a company proposes to buy-back its own shares or other specified securities it shall, **before making such buyback**, file with the Registrar and the Securities and Exchange Board of India (in case of listed companies), a declaration of solvency signed by at least **two directors** of the company, one of whom shall be the managing director, if any, in **Form No. SH. 9** and verified by an affidavit to the effect that the Board of Directors of the company has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered **insolvent within a period of one year** from the date of declaration adopted by the Board.

EXTINGUISHMENT OF SECURITIES BOUGHT BACK

When a company buys back its own shares or other specified securities, it shall extinguish and physically destroy the shares or securities so bought back within **seven days** of the last date of completion of buy-back.

PROHIBITION OF FURTHER ISSUE OF SHARES OR SECURITIES

When a company completes a buy-back of its shares or other specified securities it shall not make a further issue of the same kind of shares or other securities including allotment of new shares **within a period of six months** except by way of a bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares.

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REGISTER OF BUY-BACK

When a company buys back its shares or other specified securities under this section, it shall maintain a register of the shares or securities so bought in **Form No. SH.10** containing; - the consideration paid for the shares or securities bought back, the date of cancellation of shares or securities, the date of extinguishing and physically destroying the shares or securities and such other particulars as may be prescribed.

RETURN OF BUYBACK

A company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board (in case of listed companies) a return in **Form No. SH.11** containing such particulars relating to the buy-back within thirty days of such completion, as may be prescribed.

PUNISHMENTS FOR CONTRAVENTION OF SECTION 68

If a company makes any default in complying with the provisions of 68 or any regulation made by the Securities and Exchange Board, in case of listed companies, the company shall be punishable with fine which shall not be less than **one lakh rupees** but which may extend to **three lakh rupees** and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to **three years** or with fine which shall not be less than **one lakh rupees** but which may extend to **three lakh rupees**, or with **both**.

TRANSFER TO AND APPLICATION OF CAPITAL REDEMPTION RESERVE ACCOUNT

(SECTION 69)

When a company purchases its own shares out of **free reserves or securities premium account**, a sum equal to the nominal value of the shares so purchased shall be transferred to the capital redemption reserve account and details of such transfer shall be disclosed in the balance sheet. The capital redemption reserve account may be applied by the company, in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.

PROHIBITIONS ON BUY-BACK

(SECTION 70)

- (a) No company shall directly or indirectly purchase its own shares or other specified securities—
- (i) through any subsidiary company including its own subsidiary companies;
 - (ii) through any investment company or group of investment companies; or
 - (iii) if a default, is made by the company, in the **repayment** of deposits accepted either before or after the commencement of this Act, **interest payment** thereon, redemption of debentures or preference shares or **payment of dividend** to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company:

However, the buy-back is not prohibited, if the default is **remedied and a period of three years has lapsed** after such default ceased to subsist.

- (b) No company shall, directly or indirectly, purchase its own shares or other specified securities

In case such company has not complied with the provisions of **sections 92** (Annual Return), **123** (Declaration of Dividend), **127**(punishment for failure to distribute dividend) and section **129** (Financial Statement).

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CASE LAW



UNION OF INDIA V. STERLITE INDUSTRIES (INDIA) LTD.	In this case it was held that company can buy-back its shares subject to the compliance with the conditions mentioned in Section 68, without approaching the NCLT under Sections 66 or 230-234 of Companies Act, 2013
GURMIT SINGH V. POLYMERS PAPERS LTD.	In this case it was held that Section 68 has no application in a case where NCLT exercises its power under section 242 and powers of NCLT u/s 242 to direct purchase of shares by the co. Is not curtailed by Section 68.

SECURITIES WHICH CAN'T BE BOUGHT BACK

Following securities are not available for buy-back:-

- (a) **Lock-in securities:-** any securities issued by a Listed company to its promoters or group of employees, which subject to lock-in period, are not available for buy-back before expiry of lock-in period.
- (b) **Partly paid –up shares:-** a company can't buy-back its partly-paid up shares, on which call money is in arrears.
- (c) **Disputed securities kept in abeyance:-** any disputed securities which are kept in abeyance can't be bought –back by the company.
- (d) **Non-transferrable securities:-** those securities which are subject to lien or are pledged or restricted by an court, can't be bought –back by the company.

INCOME TAX ASPECTS

Section 46A of the Income-tax Act, 1961 provides that any consideration received by a security holder from any company on buy back shall be chargeable to tax on the difference between the cost of acquisition and the value of consideration received by the security holder as capital gains.

The computation of capital gains shall be in accordance with the provisions of Section 48 of the Income-tax Act, 1961.

STAMP DUTY ON BUY-BACK

- (a) In the case of buy-back, the shares bought back have to be statutorily extinguished within 7 days from the last date of completion of buy-back.
- (b) Hence, no registration of such shares takes place in the name of the company.
- (c) The names of the members/holders of the shares have to be struck off from the register of members if the entire holding is bought back .
- (d) Therefore, buy-back cannot be construed as transfer and stamp would not be payable in a case where buy-back of shares takes place in physical form even if the shares are accompanied by an application form for transfer of shares in favour of the company.
- (e) Further, buy-back of shares will not be construed as “release” falling under Article 55 of the Indian Stamp Act attracting stamp duty.

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PROCEDURE FOR BUY-BACK OF SECURITIES BY A LISTED COMPANY

SECTIONS 68, 69 & 70 OF THE COMPANIES ACT, 2013 READ WITH SEBI (BUY-BACK OF SECURITIES) REGULATIONS 2018 (w.e.f. September 11, 2018)

➤ SOME COMMON STEPS FOR ALL METHODS

1. AMENDMENT OF ARTICLES OF ASSOCIATION

Where articles do not contain a provision authorizing buy-back they should be first amended by passing a special resolution in the general meeting.

2. FILING OF BOARD RESOLUTION

Where the buy-back is pursuant to Board's Approvals Approval a copy of the Board Resolution, authorizing buy- back shall be filed by the company with SEBI and the Stock Exchange (s), where the securities of the company are listed, within 2 days of the date of passing of the resolution.

3. APPROVAL OF SHAREHOLDERS BY POSTAL BALLOT

Where the buy- back is pursuant to shareholder's Approval the company shall seek the approval of shareholders for buy-back by way of special resolution only by postal ballot. The company shall file a certified true copy of the special resolution, authorizing the buy-back, with the Registrar of Companies SEBI and the Stock Exchange (s) where the securities of the company are listed within 7 days of passing of the resolution.

4. EXPLANATORY STATEMENT

An explanatory statement containing full and complete disclosure of all the material facts and the disclosures, as prescribed in **Schedule I** to the Regulations shall be annexed to the notice, where the buy-back is pursuant to shareholders approval.

5. EXPLANATORY STATEMENT DISCLOSURES UNDER SCHEDULE I (CONTENTS OF EXPLANATORY STATEMENT)

An explanatory statement containing full and complete disclosure of all the material facts and the following disclosures prescribed in Schedule I of the Regulations should be annexed to the notice where the buy-back is pursuant to shareholders' approval:

- (i) Date of the Board meeting at which the proposal for buy back was approved by the Board of Directors of the company;
- (ii) Necessity for the buy back;
- (iii) Maximum amount required under the buy back and its percentage of the total paid up capital and free reserves;
- (iv) Maximum price at which the shares or other specified securities are proposed be bought back and the basis of arriving at the buy-back price;
- (v) Maximum number of securities that the company proposes to buy back;

6. NOMINATION OF COMPLIANCE OFFICER

The company shall nominate a compliance officer for ensuring compliance of the provisions of the Act, the Regulations, Listing Agreement and any other applicable laws relating to buy-back of securities and to redress the grievances of the investors.

The name telephone no. fax no. and e-mail ID of the compliance officer shall be given in the public announcement and letter of offer.

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7. INVESTOR SERVICE CENTRE

The company shall have at least one investor service center. It is desirable that such centers are opened in all such cities where the security holders holding 10 % or more of voting rights reside.

8. APPOINTMENT OF MERCHANT BANKER

The company shall appoint a merchant banker. Such appointment shall be made before the public announcement for buy-back of securities.

➤ (A) BUY-BACK THROUGH TENDER OFFER

Regulation 6

A listed company may buy-back its securities from existing security holders in a proportionate basis through the tender offer.

In addition to common steps -Following are the important steps in this method:

1. PUBLIC ANNOUNCEMENT

The company which has been authorized by a special resolution or a resolution passed by the Board of Directors at its meeting shall make a public announcement within two working days from the date of Resolution in at least one English, Hindi and Regional Language Newspaper. Such public announcement shall contain the particulars specified in **Schedule II** to the Regulation.

2. FILING OF LETTER OF OFFER AND DECLARATION OF SOLVENCY TO SEBI

The company shall within five working days of the public announcement file with the Board a draft-letter of offer, along with soft copy, containing disclosures as specified in Schedule III through a merchant banker who is not associated with the company.

The Board may give its comments on the draft letter of offer not later than seven working days of the receipt of the draft letter of offer. In the event the Board has sought clarifications or additional information from the merchant banker to the buy-back offer, the period of issuance of comments shall be extended to the seventh working day from the date of receipt of satisfactory reply to the clarification or additional information sought.

In the event the Board specifies any changes, the merchant banker to the buyback offer and the company shall carry out such changes in the letter of offer before it is dispatched to the shareholders.

The company shall file along with the draft letter of offer, a declaration of solvency in the **Form No. SH.9** As provided in section 68(6) in the Companies Act.

3. DISPATCH OF LETTER OF OFFER TO SECURITY HOLDER

- (1) A company making a buyback offer shall announce a record date for the purpose of determining the entitlement and the names of the security holders, who are eligible to participate in the proposed buy-back offer.
- (2) The letter of offer along with the tender form shall be dispatched to the security holders who are eligible to participate in the buy-back offer, not later than five working days from the receipt of communication of comments from the Board.

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4. OPENING AND CLOSING OF OFFER

The date of the opening of the offer shall be not later than five working days from the date of dispatch of letter of offer. The offer for buy back shall remain open for a period of ten working days.

5. ESCROW ACCOUNT

Escrow Account is an account opened by an obligator in a bank in which money payable under the obligation is credited, but the operation of the account of the account is left with a third party.

The company shall open an open an Escrow Account with a scheduled Commercial Bank on or before the date of opening of offer. The company shall deposit therein a specified amount as and by way of security for due performance of its obligations arising out of buy-back offer.

The specified sum to be deposited in the Escrow Account is as follows:-

- (a) Where the consideration to be deposition payable for buy-back **does not exceed ₹100 crores –25% of the consideration payable**
- (b) Where the consideration payable for buy-back **exceeds ₹100 crores - 25% of ₹100 crores consideration and 10% of the balance** of the consideration payable.

The escrow account referred to above shall consist of:

- (i) cash deposited with a scheduled commercial bank, or
- (ii) bank guarantee in favour of the merchant banker, or
- (iii) deposit of acceptable securities with appropriate margin, with the merchant banker, or
- (iv) a combination of (i),(ii) and (iii) above;

6. SUBMISSION OF TENDER OFFER

The Security holder shall submit their /offer from. They should submit separate tender/ offer forms for each of his folios or each of the depository accounts.

7. SPECIAL DEPOSITORY ACCOUNT

For shares tendered in dematerialized mode, the company shall open a special Depository Account through the Registrar to the Offer.

8. SPECIAL BANK ACCOUNT

The company shall open a special bank account with the Banker to the Issue.

The special account shall be opened immediately after the date of closure of the offer. Such amount as together with ninety percent of the amount lying in a escrow account make up the entire sum due and payable as consideration for Buy-back of securities shall be deposited in such account at the time of opening of the account. For the purpose of deposit in such account, the amount lying in the escrow account may be transferred to such special bank account.

9. VERIFICATION OF OFFER

The Company shall complete the verification of the offer received.

10. ACCEPTANCE OF SECURITIES ON PROPORTIONATE BASIS

Where the number of securities offered by the holders is more than the total number of securities to be bought back by the company, by acceptance shall be on a proportionate basis related to the number of securities offered per security holder.

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11. PAYMENT OF CONSIDERATION

The payment for buy-back of securities shall be made within 7 days from the date of completion of offer.

12. EXTINGUISHMENT OF SECURITY CERTIFICATES

The Company shall extinguish and physically destroy the security certificates so bought back in the Registrar to the Issue/ Merchant Banker and Statutory Auditors of the Company, within 7 days from the date of acceptance of securities.

13. CERTIFICATE OF EXTINGUISHMENT

The company shall furnish a certificate to SEBI and the Stock Exchange (s), certifying the compliance of the Regulations relating to extinguishments of certificates, within 7 days of extinguishments and destruction of the certificates.

Such certificate shall be duly verified by the Registrar to the Issue/ Merchant Banker; the Statutory Auditors of the Company; and two Whole-time Directors of the Company including the Managing Director.

14. PUBLIC ADVERTISEMENT- POST BUY -BACK

The company shall issue a public advertisement in a national daily, giving the details of buy-back within 2 days of completion of buy-back.

15. REGISTER OF BUY- BACK

The company shall prepare a register of securities bought- back in **Form No. SH.10**.

16. RETURN OF BUY – BACK

The Company shall file a return in **Form No. SH.11** with the ROC and SEBI, within 30 days of completion of buy-back.

➤ (B)BUY- BACK THROUGH STOCK EXCHANGE

(Regulation 16 to 18)

A company can buy-back its securities from the open market through stock exchanges.

In addition to common steps -Following are the important steps in this method:-

- (a) the buy-back of securities should not be from the promoters or persons in control of the company;
- (b) the company shall appoint a merchant banker and make a public announcement as referred to in Regulation 7 pertaining to tender offer;
- (c) the public announcement shall be made within 2 working days from the date of passing special resolution;
- (d) simultaneously with the issue of such public announcement, the company shall file a copy of the public announcement with the Board;
- (e) the company shall submit the information regarding the shares or other specified securities bought back, to the stock exchange on a daily basis in such form as may be specified by the Board and the stock exchange shall upload the same on its official website immediately;
- (f) the company shall upload the information regarding the shares or other specified securities bought back on its website on a daily basis;
- (g) the buy-back offer shall open not later than seven working days from the date of public announcement and shall close within six months from the date of opening of the offer.

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- (h) the buy-back should be made only on stock exchanges having Nationwide Trading Terminal facility and only through the order matching mechanism except 'all or none' order matching system;
- (i) the identity of the company as a purchaser would appear on the electronic screen when the order is placed.
- (j) The company shall upload the information regarding the shares or other specified securities bought back, on its website on daily basis.

Escrow account for Open Market Buy-back through Stock Exchange (Regulation 20)

- (1) The Company shall, before opening of the offer, create an escrow account towards security for performance of its obligations under these regulations, and deposit in escrow account 25 per cent of the amount earmarked for the buy-back as specified in the resolutions.
- (2) The escrow account referred to may be in the form of,—
 - (a) cash deposited with any scheduled commercial bank; or
 - (b) bank guarantee issued in favour of the merchant banker by any scheduled commercial bank.

➤ **(C)BUY- BACK THROGH BOOK- BUILDING**

Regulation 22

In addition to common steps -Following are the important points in this method:-

- (a) The special resolution or the Board of Directors resolution, as the case may be, shall be passed in accordance with the Regulation 5.
- (b) The company should appoint a merchant banker and make public announcement.
- (c) A public announcement shall be made at least seven days prior to the commencement of the buy-back.
- (d) Subject to the provisions of Sub-clauses (i) and (ii), the provisions of Regulation 9 shall apply:
 - (i) The deposit in the escrow account should be made before the date of the public announcement.
 - (ii) The amount to be deposited in the escrow account should be determined with reference to the maximum price as specified in the public announcement.
- (e) A copy of the public announcement must be filed with SEBI within two days of the announcement along with the fees as specified in Schedule V to the Regulations. The Public announcement shall also contain the detailed methodology of the book building process, the manner of acceptance, the format of acceptance to be sent by the security holders pursuant to the public announcement and the details of bidding centres.
- (f) The book-building process should be made through an electronically linked transparent facility.
- (g) The number of bidding centres should not be less than thirty and there should be at least one electronically linked computer terminal at all the bidding centres.
- (h) The offer for buy-back shall be kept open to the security-holders for a period of not less than fifteen days and not exceeding thirty days.
- (i) The merchant banker and the company should determine the buy-back price based on the acceptances received and the final buy-back price, which should be the highest price accepted should be paid to all holders whose securities have been accepted for the buy-back.

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- (j) The procedure for verification of acceptances, opening of a account, payment of consideration and extinguishments of security certificate shall be followed in the same manner as is prescribed in the case of buy-back through tender offer.

➤ **(D) ODD LOT BUY BACK**

Regulation 12

Regulation 12 states that the provisions pertaining to buy-back through tender offer as specified shall be applicable mutatis mutandis to odd-lot shares or other specified securities.

OBLIGATIONS OF THE COMPANY

Regulation 24

According to Regulation 24 of the Regulations, the company shall ensure that:

- (a) the letter of offer, the public announcement of the offer or any other advertisement, circular, brochure, publicity material contains true, factual and material information and shall not contain any misleading information and must state that the directors of the company accept the responsibility for the information contained in such documents;
- (b) the company shall not issue any shares or other specified securities including by way of bonus till the date of expiry of buy-back period for the offer made under these Regulations;
- (c) the company shall pay consideration only by cash;
- (d) the company shall not withdraw the offer to buy-back after the draft letter of offer is filed with the SEBI or public announcement of the offer to buy-back is made;
- (e) the promoter or his/their associates shall not deal in the shares or other specified securities of the company in the stock exchange or off market, including inter-se transfer of shares among the promoters during the period "from the date of passing the resolution of the board of directors or special resolution, as the case may be, till the closing of the offer.
- (f) the company shall not raise further capital for a period of one year from the expiry of buy-back period, except in discharge of its subsisting obligations.
- (g) The company shall nominate a compliance officer and investors service centre for compliance with the buyback regulations and to redress the grievances of the investors.

OBLIGATIONS OF THE MERCHANT BANKER

Regulation 25

Regulation 25 provides that the merchant banker should ensure that:-

- (a) the company is able to implement the offer;
- (b) the provision relating to escrow account has been made;
- (c) firm arrangements for monies for payment to fulfil the obligations under the offer are in place;
- (d) the public announcement of buy-back is made and the letter of offer has been filed in terms of the Regulations;
- (e) the merchant banker should furnish to SEBI, a due diligence certificate which should accompany the draft letter of offer;
- (f) the merchant banker should ensure that the contents of the public announcement of offer as well as the letter of offer are true, fair and adequate and quoting the source wherever necessary.
- (g) the merchant banker should ensure compliance of Section 68, 69 and 70 of the Companies Act, 2013 and any other applicable laws or rules in this regard;

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- (h) upon fulfillment of all obligations by the company under the Regulations, the merchant banker should inform the bank with whom the escrow or special amount has been deposited to release the balance amount to the company and send a final report to SEBI in the specified form, within 15 days from the date of closure of the buy-back offer.

PROCEDURE FOR BUY-BACK OF SECURITIES BY AN UNLISTED COMPANY

SECTIONS 68, 69 & 70 OF THE COMPANIES ACT, 2013 READ WITH RULE 17 OF COMPANIES (SHARE CAPITAL AND DEBENTURES) RULES, 2014

METHODS OF BUY-BACK

A company may buy-back its securities by either of the following methods:-

- (a) From the existing shareholders on a proportionate basis through private offer
- (b) By purchasing the securities from the employees of the company to whom securities have been issued under a scheme of stock option or as sweat equity.

EXPLANATORY STATEMENT

An explanatory statement containing full and complete disclosure of all the material facts and the disclosures, as prescribed in rule 17 to the rules, shall be annexed to the notice, where the buy-back is pursuant to shareholders' approval.

LETTER OF OFFER AND DECLARATION OF SOLVENCY

After passing the special resolution or board resolution and before making buy-back, the company is required to file a 'letter of offer' in form no. SH.8 along with 'declaration of solvency' in Form No. SH. 9 with the registrar of companies.

DESPATCH OF LETTER OF OFFER TO SECURITYHOLDERS

The company shall dispatch the letter of offer to the securityholders only after filing it with the registrar of companies but not later than 20 days from the date of filing with it.

OPENING AND CLOSING OF OFFER

The offer should remain open for a period of not less than 15 days and not more than 30 days from the date of dispatch of letter of to the securityholders.

SPECIAL BANK ACCOUNT

The company shall open a special bank account with a scheduled bank for payment to securityholders immediately after the date of closure of the offer. The entire sum due and payable as consideration for buy-back shall be deposited in such account at the time of opening of the account.

VERIFICATION OF OFFER

The company shall complete the verification of the offers received within 15 days of the closure of the offer.

ACCEPTANCE OF SECURITIES ON PROPORTIONATE BASIS

Where the number of securities offered by the holders is more than the total number of securities to be bought back by the company, the acceptance shall be on a proportionate basis, related to the number of securities offered per securityholder.

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PAYMENT OF CONSIDERATION

The payment for buy-back securities shall be made within 7 days from the date of completion of verification of offers, as mentioned in the letter of offer.

REGISTER OF BUY-BACK

The company shall prepare a register of securities bought-back in form no. SH.10.

RETURN OF BUY-BACK

The company shall file a return in form no. **SH.11** with the ROC, within 30 days of completion of buy back. There shall be annexed to return filed with the ROC in form no. SH.11, a certificate in form no. **SH.15 signed by two directors of the company including the managing director, if any**, certifying that the buy-back of securities has been made in compliance with the provisions of the companies act, 2013 and the rules made there under.

COMPANY'S OBLIGATIONS

The company shall ensure that:-

- (a) The company shall not issue any new shares including by way of bonus shares from the date of passing resolution authorizing the buy-back till the closure of offer, except those arising out of any outstanding convertible instruments
- (b) The company shall not utilize any money borrowed from banks or financial institutions for the purpose of buying-back its shares.
- (c) The company shall not withdraw the offer once it has announced the offer to the shareholders

Practical Question

Q. 1. The position of capital and reserves as on 31st March, 2009 of Matrix Ltd. are given below:

	₹
Equity shares (Fully paid-up of face value ₹10 each)	1,00,00,000
Equity shares (₹5 is paid-up on face value ₹10 each)	1,00,00,000
Equity shares with differential voting rights (Fully paid-up of face value of ₹10 each)	1,00,00,000
Preference shares (Fully paid-up of ₹100 each)	1,00,00,000
Free reserves	7,50,00,000

The managing director of Matrix Ltd. wanted to place proposal before the Board for buy-back of its 100% preference share capital. You, as a Company Secretary, advise your managing Director on the following issues:

- (i) Maximum limit upto which Board can approve buy-back of shares.
- (ii) Maximum limit upto which Shareholder can approve buy-back of shares.
- (iii) Maximum limit upto which company can buy-back its own shares.

Ans. (i) Maximum amount upto which board can approve buy-back of shares is 10% of total paid-up equity capital & free reserves of the company.

In this case Matrix Ltd. has a paid-up equity capital = 3,00,00,000 and

Free reserves = 7,50,00,000

Total = 10,50,00,000

Maximum amount board can approve buy-back of shares

= 10% of 10,50,00,000

= ₹1,05,00,000

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(ii) Maximum amount upto which the shareholder can approve buy-back of shares is 25% of paid up capital & free reserves.

In this case; total paid up capital & free reserves

$$= (3,00,00,000 + 1,00,00,000 + 7,50,00,000) = 11,50,00,000$$

Shareholders can approve upto 25% of 11,50,000 = 2,87,50,000

(iii) Company can buy-back upto 25% of total paid-up capital & free reserves.

- Buy-back of equity shares should not exceed 25% of total paid up equity capital of the company in any financial year.
- Company is free to buy-back its entire preference share capital.
- In this question, due to above provisions, Matrix Ltd. will buy-back 25% of paid up equity share capital i.e. 25% of 3,00,00,000 = 75,00,000

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SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Explain the Buy-back through reverse book-building.
2. ABC Ltd. has completed buy-back of equity shares on 30th April, 2014. The company desires to make further of equity shares on 31st August, 2014. Can the company proceed and allot further equity shares on 31st August, 2014 assuming that all other requirements are complied with or will be complied with?
3. The position of capital and reserves as on 31st March, 2009 of Matrix Ltd. are given below:

Equity shares (Fully paid-up of face value ₹10 each)	1,00,0,000
Equity shares (₹5 is paid-up on face value of ₹10 each)	1,00,00,000
Equity shares with differential voting rights (Fully paid-up of face value of ₹10 each)	1,00,00,000
Preference shares (Fully paid-up of ₹100 each)	1,00,00,000
Free reserves	7,50,00,000

The managing director of Matrix Ltd. wanted to place proposal before the Board for buy-back of its 100% preference share capital. You, as a Company Secretary, advise your managing director on the following issues:

- (i) Maximum limit upto which Board can approve buy-back of shares.
- (ii) Maximum limit upto which shareholders can approve buy-back of shares.
- (iii) Maximum limit upto which company can buy-back its own shares.
- (iv) The situation in which further offer of buy-back can be given by the company within a period of 365 days.

FROM ICSI MODULE



Answer the following:

1. Briefly explain the need of financial restructuring and highlight reasons in the context of over capitalised and under capitalised companies.
2. What do you mean by 'buy-back' of shares or specified securities as under the Companies Act, 2013? Explain the relevant provisions of the Act.
3. What are the different alternatives available to a public company for 'buy-back'?
4. Enumerate the provisions relating to Escrow account and offer procedure as under SEBI (Buy-back of Securities) Regulations, 1998.
5. Discuss the obligation of Merchant Banker under SEBI (Buy-back of Securities) Regulations, 1998.

Elucidate the obligations of a merchant banker as per Regulation 20 of SEBI (Buy-back of Securities) Regulations 1988.

Regulation, 20 provides that the merchant banker should ensure that:

- (a) the company is able to implement the offer
- (b) the provision relating to escrow account has been made;
- (c) firm arrangements for monies for payment to fulfill the obligations under the offer are in place.
- (d) the public announcement of buy-back is made and the letter of offer has been filed in terms of the Regulations;
- (e) the merchant banker should furnish to SEBI, a due diligence certificate which should accompany the draft letter of offer.
- (f) the merchant banker should ensure that the contents of the public announcement of offer as well as the letter of offer true, fair and adequate and quoting the source wherever necessary
- (g) the merchant banker should ensure compliance of **Section 77A [Section 68 of Companies Act 2013]** and **Section 77B [Section 70 of Companies Act, 2013]** of the Companies Act, and any other applicable laws or rules in this regard
- (h) upon fulfillment of all obligations by the company and under the regulations, the merchant banker should inform the bank with whom the escrow or special amount has been deposited to release the balance amount to the company and send a final report of SEBI in the specified form, within 15 days from the date of closure off the buy-back offer.



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

5

REDUCTION OF SHARE CAPITAL

Covering-

- Procedure for Reduction of Share Capital
- Procedure for Reduction of Share Capital-Flow Chart
- Self Test Questions
 - From Past CS Exams
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(0 to 5)**

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REDUCTION OF SHARE CAPITAL

PROCEDURE FOR REDUCTION OF SHARE CAPITAL

The procedure is prescribed under **National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016**, Which is as follows:

Form of application or petition for Reduction of Share capital under section 66:-

- (1) An application to the Tribunal to confirm a reduction of share capital of a company shall be in **Form No. RSC-1** along with the prescribed fees of ₹5,000/-.
- (2) An application to confirm a reduction of share capital of a company shall be accompanied with-
 - (a) The list of creditors duly certified by the managing Director, or in his absence, by two directors, as true and correct, which is made as on a date not earlier than fifteen days prior to the date of filing of an application showing the details of the creditors of the company, class-wise, indicating their names, addresses and amounts owed to them;
 - (b) A certificate from the auditor of the company to the effect that the list of creditors referred to in clause (a) is correct as per the records of the company verified by the auditor;
 - (c) A certificate by the auditor and declaration by a director of the company that the company is not, as on the date of filing of the application, in arrears in the repayment of the deposits or the interest thereon; and
 - (d) A certificate by the company's auditor to the effect that the accounting treatment proposed by the company for the reduction of share capital is in conformity with the accounting standards specified in section 133 or any other provisions of Act.
- (3) Copies of the list of creditors shall be kept at the registered office of the company and any person desirous of inspecting the same may, at any time during the ordinary hours of business, inspect and take extracts from the same on payment of the sum of rupees fifty for inspection and for taking extracts on payment of the sum of rupees ten per page to the company.

Issue of notice and directions by the National Company Law Tribunal.-

- (1) The Tribunal shall, within fifteen days of submission of the application under rule 2, give notice, or direct that notice be gives to-
 - (i) The Central Government, Registrar of Companies, in all cases, in Form No. RSC-2;
 - (ii) The Securities and Exchange Board of India, in the case of listed companies in Form No. RSC-2;
 - (iii) The creditors of the company, in all cases in Form No. RSC-3; seeking their representations and objections, if any.

Seeking their representations and objections, if any.

- (2) The notice under clause (iii) of sub-rule (1) shall be sent, within seven days of the direction given under that sub-rule or such other period as may be directed by the Tribunal, to each creditor whose name is entered in the list of creditors submitted by the company about the presentation of the application and of the said list, stating the amount of the proposed reduction of share capital and the amount or estimated value of the debt or the contingent debt or claim or both for which such creditor's name is entered in the said list, and the time within which the creditor may sent his representations and objections.
- (3) The tribunal shall along with directions under sub-rule (1) give directions for the notice to be published, in Form No. RSC-4 within seven days from the date on which the directions are given, in English language in leading English news paper and in a leading vernacular language newspaper, both having wide circulation in the State in which the registered office of the company is situated, or such newspapers as may be directed by the Tribunal and for uploading on the website of the company (if any) seeking objections from the creditors and intimating about the date of hearing.

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- (4) The notice under sub-rule (3) shall state the amount of the proposed reduction of share capital, and the places, where the aforesaid list of creditors may be inspected, and the time as fixed by the Tribunal within which creditors of the company may send their objections:

Provided that the objections, if any, shall be filed in the Tribunal within three months from the date of publication of the notice with a copy served on the company.

- (5) The company or the person who was directed to issue notice and the publication in the newspaper under this rule shall, as soon as may be, but not later than seven days from the date of issue of such notices, file an affidavit in **Form No. RSC- 5** confirming the dispatch and publication of the notice.
- (6) Where the Tribunal is satisfied that the debt or claim of every creditor has been discharged or determined or has been secured or his consent is obtained. It may dispense with the requirement of giving of notice to creditors or publication of notice under this rule or both.

Representation by Central Government, Registrar etc. under sub-section (2) of section 66.

If the authorities or the creditors of the company referred to in clause (i), clause (ii) and clause (iii) of sub-rule (1) of rule 3 desire to make any representation under sub-section (2) of section 66, the same shall be sent to the Tribunal within a period of three months from the date of receipt of notice and copy of such representation shall simultaneously be sent to the company and in case no representation has been received within the said period by the Tribunal it shall be presumed that they have no objection to the reduction.

Procedure with regard to representations and objections received.-

- (1) The company shall submit to the Tribunal, within seven days of expiry of period upto which representations or objections were sought, the representations or objections or objections so received along with the responses of the company thereto.
- (2) The Tribunal may give such directions as it may think fit with respect to holding of any enquiry or adjudication of claims or for hearing the objection or otherwise.
- (3) At the hearing of the application, the Tribunal may, if it thinks fit, give such directions as may deem proper with reference to securing the debts or claims of creditors who do not consent to the proposed reduction, and the further hearing of the petition may be adjourned to enable the company to comply with such directions.

Order on application and Minute thereof:-

- (1) Where the Tribunal makes an order confirming a reduction, the order confirming the reduction and approving the minute may include such directions or terms and conditions as the Tribunal deems fit.
- (2) The order confirming the reduction of share capital and approving the minute shall be in **Form No. RSC – 6** on such terms and conditions as may be deemed fit.
- (3) The certificate issued by the Registrar under sub-section (5) of section 66 shall be in **Form No. RSC -7**.

Can appeal against order of Single Judge allowing reduction, by a sole public shareholder, be allowed, when there is no fault in reasoning of Single Judge?

Where a company, reducing its share capital by cancelling and extinguishing some equity shares held by its subsidiary and some shares held by the public, passes the requisite resolution approving the reduction by a special majority in an extraordinary general meeting called for in this regard, and there is no fault in the reasoning given by the Single Judge approving the same, and also the valuation of shares, the appeal by a sole shareholder objecting to the said reduction is liable to be dismissed.

(Chander Bhan Gandhi v. Reckitt Benckiser (India) Ltd.

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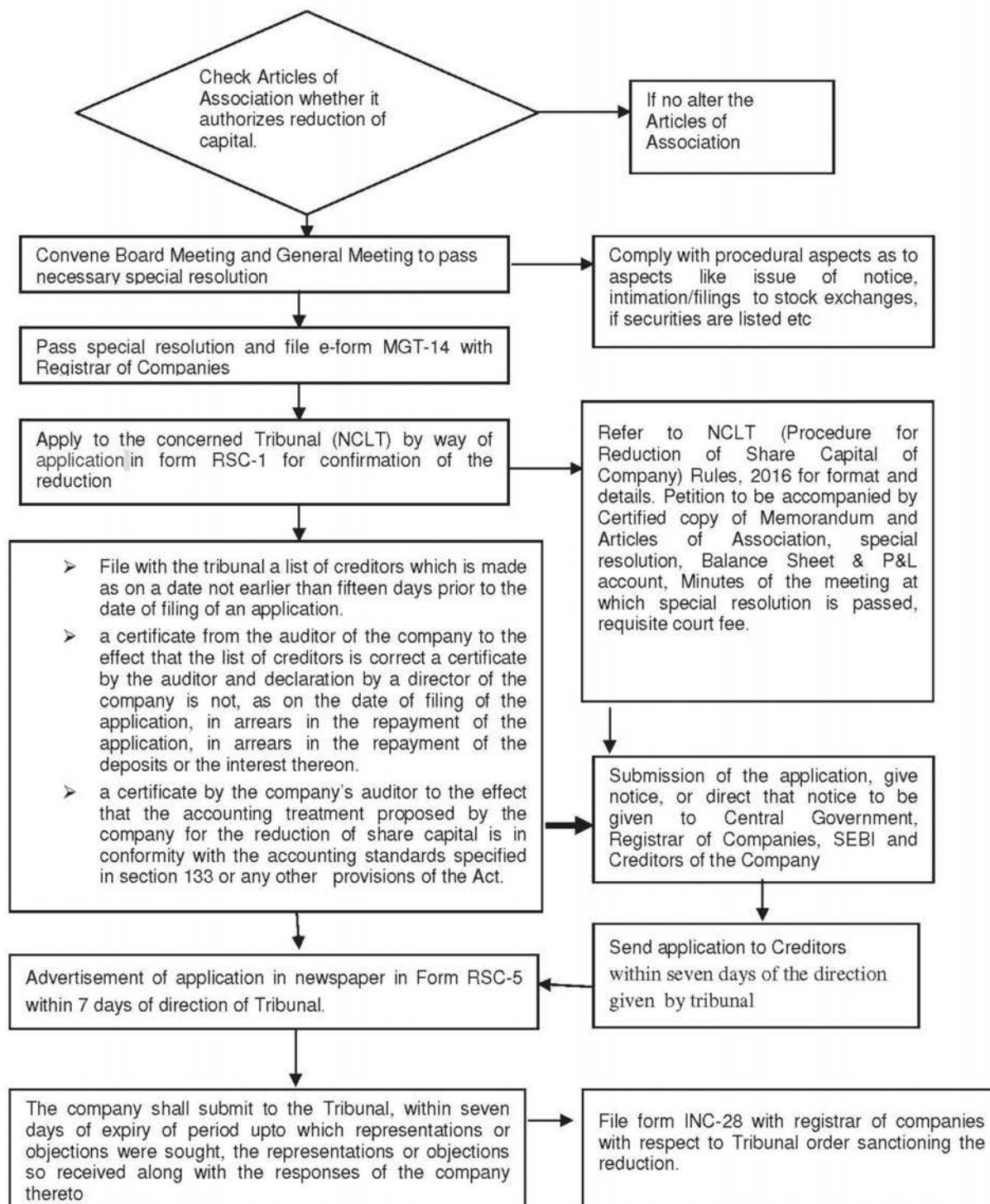
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PROCEDURE FOR REDUCTION OF CAPITAL – A FLOW CHART



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**BEFORE THE NATIONAL COMPANY LAW TRIBUNAL,
MUMBAI BENCH, MUMBAI
COMPANY PETITION NO. 407 OF 2017**

In the matter of the Companies Act, 2013

And

In the matter of Section 66 of the Companies Act, 2013

And

In the matter of reduction of capital of Vodafone India Limited

Vodafone India Limited, a public limited company, incorporated under the provisions of the Companies Act, 1956 and having its registered office at Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400013, India.

CIN: U32200MH1992PLC119108

...Petitioner/ Petitioner Company

**Approval of Reduction of Share Capital by the National Company Law Tribunal,
Mumbai Bench &**

Notice of Registration of Order and Form of Minute

NOTICE is hereby given that vide order delivered on 17 May 2018 by the Hon'ble National Company Law Tribunal, Mumbai Bench ("Tribunal"), Company Petition No. 407 of 2017 was made absolute, whereby the Form of Minute of reduction of share capital of Vodafone India Limited was approved, as under:

"The issued and paid-up equity share capital of Vodafone India Limited (the "Company"), is henceforth reduced from Rs.28,132,958,230 (Rupees Twenty Eight Billion One Hundred Thirty Two Million Nine Hundred Fifty Eight Thousand Two Hundred Thirty) divided into 2,813,295,823 (Two Billion Eight Hundred Thirteen Million Two Hundred Ninety Five Thousand Eight Hundred Twenty Three) equity shares of Rs.10 (Rupees Ten) each to Rs.15,011,746,520 (Rupees Fifteen Billion Eleven Million Seven Hundred Forty Six Thousand Five Hundred Twenty) divided into 1,501,174,652 (One Billion Five Hundred One Million One Hundred Seventy Four Thousand Six Hundred Fifty Two) equity shares of Rs.10 (Rupees Ten) each, to be effected by cancelling an aggregate of 1,312,121,171 (One Billion Three Hundred Twelve Million One Hundred Twenty One Thousand One Hundred Seventy One) equity shares of Rs.10 (Rupees Ten) each of the Company, allocated among the shareholders pro rata to their shareholding in the Company, and distributing in consideration therefor, an aggregate of 500,504 (Five Hundred Thousand Five Hundred Four) equity shares of Re.1 (Rupee One) each held, directly or beneficially, by the Company in Indus Towers Limited to the shareholders of the Company pro rata to their shareholding in the Company."

TAKE NOTICE ALSO THAT the order delivered on 17 May 2018 by the Hon'ble Tribunal, along with the Form of Minute approved by the Hon'ble Tribunal, was duly filed by Vodafone India Limited, with the Registrar of Companies, Mumbai, on 22 June 2018, and has taken effect on 22 June 2018, accordingly.

Dated, at Mumbai, this 3rd day of July 2018.

Sd/-
Authorised Representative
VODAFONE INDIA LIMITED

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Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

6

CAPITAL MARKET INTERMEDIARIES

Covering-

- ABC Analysis
- Primary Market Intermediaries
- Merchant Bankers
- Duties / Responsibilities towards inspecting authority
- Registrars and Share Transfer Agents
- Underwriters
- Bankers to an Issue
- Debenture Trustees
- Stock Broker & Sub Brokers
- Duties / Responsibilities Towards Inspecting Authority
- Portfolio Managers
- Custodians of Securities
- Self Regulatory organization
- Know your client (KYC) and registration agency (KRA)
- Guidelines on Anti Money Laundering Measures
- Self Test Questions
 - From Past CS Exams
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(5 to 15)**

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CAPITAL MARKET INTERMEDIARIES

ABC Analysis (ICSI -Exam Point of view)

A

1. Merchant Bankers
2. Duties / Responsibilities towards inspecting authority
3. Stock Broker & Sub Brokers

B

4. Registrars and Share Transfer Agents
5. Portfolio Managers

C

6. Know your client (KYC) and registration agency (KRA)
7. Guidelines on Anti Money Laundering Measures

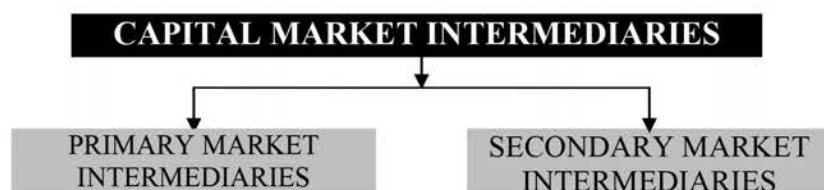
One of the various components of financial system is Market Intermediaries. Capital market intermediaries are a vital link between the regulators, issuers and investor. SEBI has issued regulations in respect of each intermediary to ensure proper services to be rendered by them to the investors and the capital market.

REGISTRATION OF INTERMEDIARIES

Chapter V of the SEBI Act, 1992 provides for registration of various intermediaries such as stock broker, sub-broker, share transfer agents etc.

Section 12 of the Act provides that the following intermediaries are required to obtain a registration certificate from SEBI to buy, sell or deal in securities :

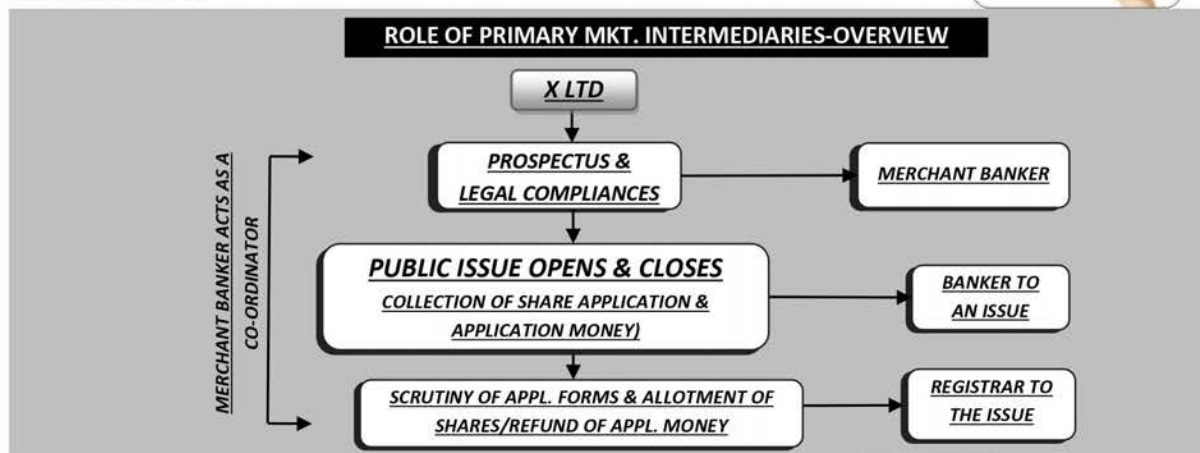
- Stock-Broker
- Sub-Broker
- Share Transfer Agent
- Banker to an issue different market policy,
- Trustee of Trust Deed
- Registrar to an Issue
- Merchant Banker
- Underwriter
- Portfolio Manager
- Investment Adviser
- Depository Participant
- Custodian of Securities
- Foreign Institutional Investor
- Credit Rating Agency
- Such other intermediary



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PRIMARY MARKET INTERMEDIARIES

The following market intermediaries are involved in the primary market:	1. Merchant Bankers/Lead Managers
	2. Registrars and Share Transfer Agents.
	3. Underwriters
	4. Bankers to issue.
	5. Debenture Trustees.

MERCHANT BANKERS



‘Merchant Banker’ means any person engaged in the business of issue management by making arrangements regarding selling buying or subscribing to securities or acting as manager/consultant/advisor or rendering corporate advisory services in relation to such issue management.

MERCHANT BANKERS-ACTIVITIES

(a)	Managing of public issue of securities;
(b)	Underwriting connected with the aforesaid public issue management business;
(c)	Managing/Advising on international offerings of debt/equity i.e. GDR, ADR, bonds and other instruments;
(d)	Private placement of securities;
(e)	Corporate advisory services related to securities market including takeovers, acquisition and disinvestment; etc.

The activities of the merchant bankers in the Indian capital market are regulated by **SEBI (Merchant Bankers) Regulations, 1992**.

MERCHANT BANKERS - REGISTRATION

Regulation 3 of SEBI (Merchant Bankers) Regulations, 1992 lays down that an application by a person desiring to become merchant banker shall be made to SEBI in the prescribed form seeking grant of a certificate of registration along with a non-refundable application fee as specified

Regulation 6 lists out the following considerations/conditions for being taken into account by SEBI to grant the certificate of registration.	(a)	the applicant shall be a body corporate other than a non-banking financial company as defined under clause(f) of section 45-I of the RBI Act, 1934;
	(b)	the applicant has the necessary infrastructure like adequate office space, equipments and manpower to effectively discharge his activities;
	(c)	the applicant has in his employment a minimum of two persons who have the experience to conduct the business of the merchant banker;
	(d)	a person directly or indirectly connected with the applicant has not been granted registration by SEBI;
	(e)	the applicant fulfills the capital adequacy requirement ;(capital adequacy requirement shall be a net worth of not less than five crore rupees . <i>‘Net worth’ means the sum of paid-up capital and free reserves of the applicant at the time of making application.</i>

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	(f) the applicant, his partner, director or principal officer is not involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant;
	(g) the applicant, his director, partner or principal officer has not at any time been convicted for any offence involving moral turpitude or has been found guilty of any offence;
	(h) the applicant has the professional qualification from an institution recognised by the Government in finance, law or business management;
	(i) the applicant is a fit and proper person;
	(j) grant of certificate to the applicant is in the interest of investors.

Regulation 12 provides for payment of fees and consequences of failure to pay annual fees. It provides that SEBI may suspend the registration certificate if merchant banker fails to pay fees.

GENERAL OBLIGATIONS AND RESPONSIBILITIES OF MERCHANT BANKER (CODE OF CONDUCT)

Regulation 13 stipulates that every merchant banker shall abide by the code of conduct as provided in the revised schedule is as under:-	(a) A merchant banker shall make all efforts to protect the interests of investors.
	(b) A merchant banker shall maintain high standards of integrity, dignity and fairness in the conduct of its business.
	(c) A merchant banker shall fulfil its obligations in a prompt, ethical, and professional manner.
	(d) A merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgement.
	(e) A merchant banker shall <u>endeavour to ensure that—</u> <i>inquiries from investors are adequately dealt with;</i> <i>grievances of investors are redressed in a timely and appropriate manner;</i> <i>where a complaint is not remedied promptly, the investor is advised of any further steps which may be available to the investor under the regulatory system.</i>
	(f) A merchant banker shall avoid conflict of interest and make adequate disclosure of its interest.
	(g) A merchant banker shall not indulge in any unfair competition, such as weaning away the clients on assurance of higher premium or advantageous offer price or which is likely to harm the interests of other merchant bankers or investors or is likely to place such other merchant bankers in a disadvantageous position while competing for or executing any assignment.
	(h) A merchant banker shall maintain arms length relationship between its merchant banking activity and any other activity.
	(i) A merchant banker shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Board.
	(j) A merchant banker shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made there under, circulars and guidelines, which may be applicable and relevant to the activities carried on by it. The merchant banker shall also comply with the award of the Ombudsman passed under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003.
	(k) A merchant banker shall ensure that the Board is promptly informed about any action, legal proceedings, etc., initiated against it in respect of material breach or non-compliance by it, of any law, rules, regulations, directions of the Board or of any other regulatory body.
	(l) A merchant banker shall provide adequate freedom and powers to its compliance officer for the effective discharge of the compliance officer's duties.

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- (m) A merchant banker shall not be a party to or instrument for—
creation of false market;
price rigging or manipulation; or
passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary in the securities market.

LEAD MERCHANT BANKER/LEAD MANAGER

Regulation 18 lays down that all public issues should be managed by at least one merchant banker functioning as the lead merchant banker.

Every lead merchant banker shall, before taking up the assignment relating to an issue, enter into an agreement with the issuing company setting out their mutual rights, liabilities and obligations relating to such issue and in particular to disclosures, allotment and refund.

RESPONSIBILITIES OF LEAD MANAGERS

Regulation 20 provides that no lead manager shall agree to manage or be associated with any issue unless his responsibilities relating to the issue mainly those of disclosures, allotment and refund are clearly defined, allocated and determined and a statement specifying such responsibilities is furnished to SEBI at least **1 month before the opening of the issue** for subscription but where there are more than 1 lead merchant banker to the issue the responsibility of each such lead merchant banker shall clearly be demarcated and the **statement specifying such responsibilities** shall be furnished to SEBI at least 1 month before the opening of the issue for subscription.

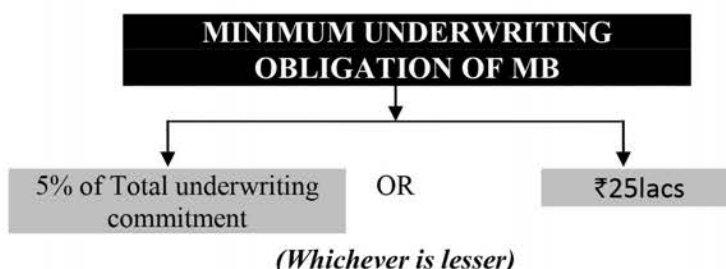
No lead merchant banker shall agree to manage the issue made by anybody corporate if such body corporate is **an associate** of the lead merchant banker.

Regulation 21 stipulates that a lead merchant banker shall not associate himself with any issue if a merchant banker **not holding a certificate from SEBI** is associated with the issue.

The lead manager should also see that the various intermediaries associated by the issue are registered with SEBI and that they are competent and capable to discharge their responsibilities

MINIMUM UNDERWRITING OBLIGATION

In respect of every issue to be managed, the lead merchant banker shall accept a minimum underwriting obligation of **5% of the total underwriting commitment or ₹25 lakhs whichever is less** but if the lead merchant banker is unable to accept the minimum underwriting obligation, that lead merchant banker shall make arrangement for having the issue underwritten to that extent by a merchant banker associated with the issue and shall keep SEBI informed of such arrangement.



DUE DILIGENCE BY MERCHANT BANKER

Regulation 23 requires the lead merchant banker, to submit to SEBI at least **2 weeks prior to the opening of the issue** for subscription, a due diligence certificate in the prescribed form.

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By filing the Due-Diligence certificate merchant Banker confirms that:-	(i) the draft prospectus/letter of offer forwarded to SEBI is in conformity with the documents, materials and papers relevant to the issue,
	(ii) all the legal requirements connected with the said issue have been duly complied with and
	(iii) the disclosures made in draft prospectus/letter of offer are true, fair and adequate to enable the investors to make a well informed decision as to the investments in the proposed issue.

Filing of Due-diligence make Merchant Banker **responsible for verification of the contents of a prospectus or the letter of offer** in respect of an issue and reasonableness of the views expressed therein.

A merchant banker **shall also include** in the due diligence certificate, important documents including documents in support of the track record and experience of the promoters and their professional competence, listing agreement of the company for existing securities traded on the stock exchanges, consent letters from company's auditors, bankers to issue etc

The merchant banker shall ensure that **every draft offer document submitted to SEBI shall be accompanied by undertakings and certificates** from CEO of the company, Company Secretary/Promoters/Lead Manager to assure that all necessary arrangements have been made to ensure compliance of the various laws falling within their responsibility and to offer due protection to the investors.

APPOINTMENT OF COMPLIANCE OFFICER BY ISSUER

The Merchant Bankers should see that the **listed company appoints a compliance officer** to directly liaise with SEBI in regard to implementation/ compliance of the various laws, rules and regulations and directives and for settlement of investors complaints. The name of the compliance officer should be intimated to SEBI and also mentioned in the offer document relating to the capital issue with details, telephone number, fax number and address of the said compliance officer.

INCLUSION OF DISCLAIMER CLAUSE

The lead manager shall ensure that the **disclaimer clause** (not to hold SEBI responsible for the statements in the offer documents) and the risk factors are printed prominently in the offer document/prospectus while highlighting issue highlights, capital structure etc.

FURNISHING OF VARIOUS DOCUMENT TO SEBI BY LEAD MANAGER

Regulation 24 states that the lead manager responsible for the issue shall furnish to SEBI the following documents:	(a) particulars of the issue;
	(b) draft prospectus or the draft letter of offer;
	(c) any other literature to be circulated to the investors including the existing shareholders
	(d) such other documents relating to prospectus or letter of offer which are relevant.

These documents shall be furnished to SEBI at least **2 weeks prior to the date of filing the draft prospectus/letter** of office with the ROC and/or the Regional Stock Exchange or with both. In case SEBI makes any modification or suggestion in respect of draft prospectus or letter of offer, the lead manager shall ensure that these are incorporated in the said documents before issue to the investors.

POST ISSUE RESPONSIBILITY OF LEAD MANAGER

Regulation 25 enjoins that the lead manager undertaking the responsibility for refunds or allotment of securities in respect of any issue shall continue to be associated with the issue till the subscribers receive the share or debenture certificate or refund of excess application money.

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Even where a person other than the lead manager is entrusted with the refund or allotment of securities, the lead manager shall continue to be responsible for ensuring that such other person discharges the requisite responsibilities in accordance with the provisions of the Companies Act, 2013 and the listing agreement entered into by the issuing company with the stock exchange.

PROHIBITION TO ACQUIRE SHARES

Regulation 26 lays down that no merchant banker or any of its directors, partners or manager or principal officer shall either on their own account or through their associates or relatives, enter into any transaction in securities of bodies corporate on the basis of unpublished price sensitive information obtained by them during the course of any professional assignment either from the clients or otherwise.

Regulation 27 requires every merchant banker to submit to SEBI complete particulars of any transaction for acquisition of securities of anybody corporate whose issue is being managed by that merchant banker, within **15 days from the date of entering into such transaction**.

APPOINTMENT OF COMPLIANCE OFFICER BY MERCHANT BANKER

Regulation 28A requires every merchant banker to **appoint a compliance officer** who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications guidelines, instructions etc. issued by SEBI or Central Government and for redressal of investor grievances. Compliance officer is required to immediately and independently report to SEBI, any non-compliance observed by him and ensure that observations made or deficiencies pointed out by SEBI on/in the draft prospectus or letter of offer as the case may be, do not occur.

PROCEDURE FOR INSPECTION

Regulation 29 empowers SEBI to appoint one or more persons as inspecting authority to undertake inspection of books of accounts, records etc. of the merchant banker, to ensure that:-	(a) such books and records are maintained in the prescribed manner,
	(b) the provisions of SEBI Act and the rules and regulations thereunder are complied with
	(c) to investigate into complaints from investors, other merchant bankers or other persons on any matter having a bearing on the activities of the merchant banker and
	(d) to investigate suo-motu in the interest of the securities business or investors interest into the working of the merchant banker.

Regulation 30 and 31 authorise SEBI to undertake such inspection with or without notice and the obligations of the merchant bankers in relation to such inspection.

Regulation 32 provides for the submission of an inspection report to SEBI by the inspecting authority on completion of inspection. Regulation 33 requires that SEBI or chairman shall after consideration of inspection or investigation report take such action as SEBI or chairman may deem fit and appropriate including action under **SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002**.

Regulation 34 permits SEBI to appoint a qualified auditor to investigate into the books of accounts or the affairs of the merchant banker and such auditor shall have the same powers of the inspecting authority referred to above.

DUTIES/RESPONSIBILITIES TOWARDS INSPECTING AUTHORITY

The merchant banker shall **allow the inspecting authority to have reasonable access to the premises** occupied by such merchant banker or by any other person on his behalf and also **extend reasonable facility for examining any books, records, documents and computer data** in the possession of the stock broker or any other person and also provide copies of documents or other materials which in the opinion of the inspecting authority are relevant.

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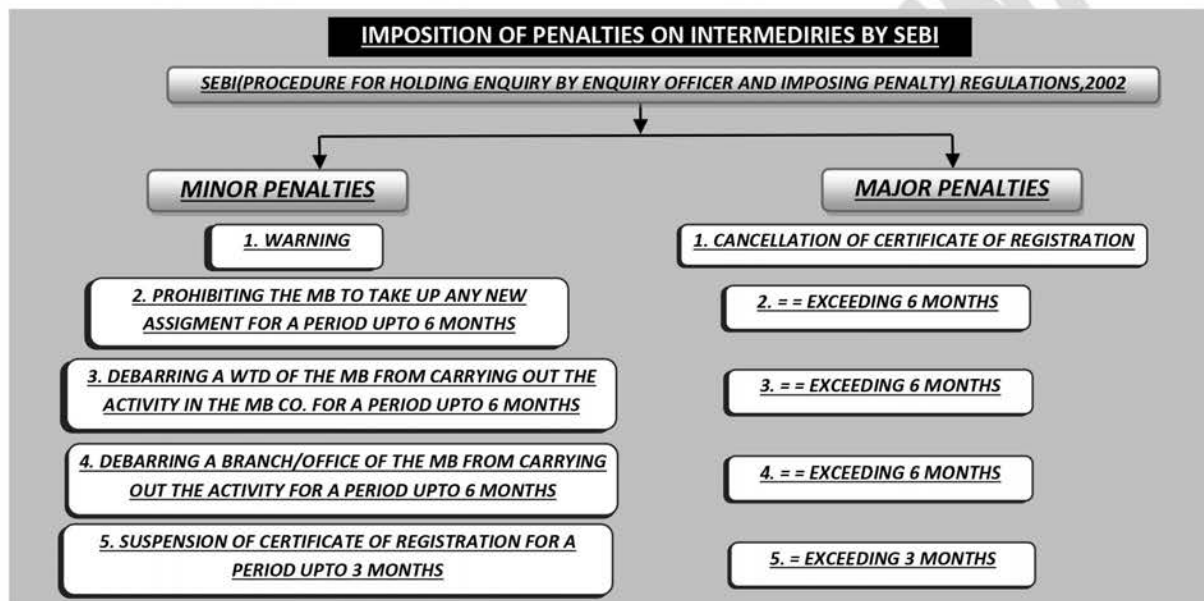


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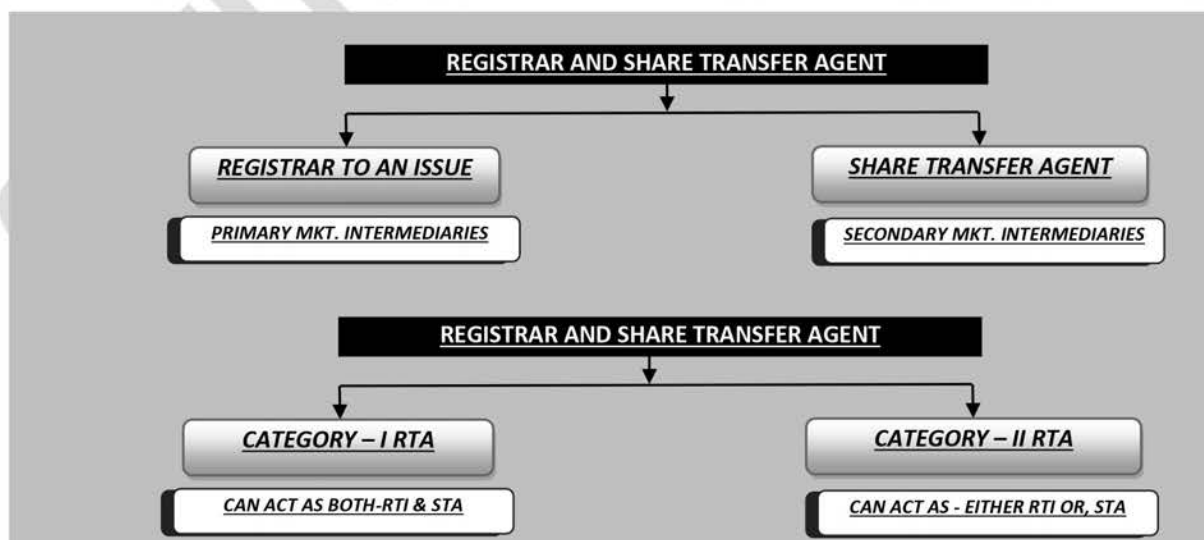
The said authority in the course of inspection shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the stock broker. It shall be duty of every director, proprietor, partner, officer and employee of stock broker to **give the said authority all assistance in connection with the inspection**, which the merchant banker may be reasonably expected to give.

PROCEDURE FOR ACTION AGAINST MERCHANT BANKER IN CASE OF DEFAULT

Regulation 35 provides that a merchant banker who	<p>(a) fails to comply with any conditions subject to which certificate has been granted and</p> <p>(b) contravenes any of the provisions of the Act, rules or regulations, he shall be dealt in the manner provided under SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.</p>
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REGISTRARS AND SHARE TRANSFER AGENTS



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REGISTRAR TO AN ISSUE

‘Registrar to an Issue’ means the person appointed by a body corporate or any person or group of persons to carry on the following activities on its or his or their behalf i.e.:

- (a) collecting application for investor in respect of an issue;
- (b) keeping a proper record of applications and monies received from investors or paid to the seller of the securities;
- (c) assisting body corporate or person or group of persons in determining the basis of allotment of the securities in consultation with the stock exchange;
- (d) finalising the list of person entitled to allotment of securities;
- (e) processing and despatchment of allotment letters, refund orders or certificates and other related documents in respect of the issue;

SHARE TRANSFER AGENT

‘Share Transfer Agent’ means:	<p>(a) any person who on behalf of anybody corporate, maintains the records of holders of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities;</p> <p>(b) the department or division, by whatever name called, of a body corporate performing the activities as share transfer agents if at any time the total number of holders of its securities issued exceed one lakh.</p>
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The activities of the RTAs in the Indian capital market are regulated by **SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993**.

REGISTRARS AND SHARE TRANSFER AGENTS - REGISTRATION

SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 lays down that an application by a person desiring to become RTA shall be made to SEBI in the prescribed form seeking grant of a certificate of registration along with a non-refundable application fee as specified.

Regulation 6 lays down that SEBI shall take into account the following matters while considering the applications for registration. It shall assess whether the applicant:

- (a) has the necessary infrastructure like adequate office space, equipments and manpower to effectively discharge his activities;
- (b) has any past experience in the activities;
- (c) any person directly or indirectly connected with him has been granted registration by SEBI under the Act;

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- (d) fulfills the capital adequacy requirement; (Category-I = ₹6 lacs, Category-II = ₹3 lacs)
- (e) has been subjected to any disciplinary proceedings under the Act;
- (f) any of its director, partner or principal officer is or has at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence;
- (g) is a fit and proper person.

Regulation 11 says that in case of refusal to grant or renew a certificate of registration, the concerned person shall cease to carry on any activity as registrar or share transfer agent.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Regulation 13A prohibits an RTA from acting as such Registrar in case he or it is an associate of the body corporate issuing the securities. For the purposes of this regulation, Registrar to an Issue or the body corporate, as the case may be, shall be deemed to be an associate of other where—

- (a) he or it controls directly or indirectly not less than 10% of the voting power of the body corporate or of Registrar to an issue, as the case may be or
- (b) he or any of his relative is a director of the body corporate or of the Registrar to an issue, as the case may be.

The term 'relative' shall have the same meaning as assigned to it under Section 2(77) of the Companies Act, 2013.

APPOINTMENT OF COMPLIANCE OFFICER BY RTA

Regulation 15A provides that every Registrar to an Issue and share transfer agent shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or Central Government and for redressal of investor grievances.

INTERNAL AUDIT OF INTERMEDIARIES BY A COMPANY SECRETARY IN PRACTICE

SEBI has mandated that RTA has to undergo for compulsory internal audit for which a PCS is authorised by SEBI to carry out the internal audit at par with other professionals.

PROCEDURE FOR INSPECTION

Regulation 16 to 21 deals with procedure for inspection by SEBI. It empowers SEBI to appoint one or more persons as inspecting authority to undertake inspection of books of accounts, records etc. of the RTAs, to ensure that:-

- (a) such books and records are maintained in the prescribed manner,
- (b) the provisions of SEBI Act and the rules and regulations thereunder are complied with
- (c) to investigate into complaints from investors, other RTAs or other persons on any matter having a bearing on the activities of the RTA and
- (d) to investigate suo-motu in the interest of the securities business or investors interest into the working of the RTAs.

Regulations 19 and 20 stipulate that the inspecting authority shall on the conclusion of his inspection submit a report to SEBI. SEBI after considering the inspection or investigation report take such action as SEBI or chairman may deem fit and appropriate including action under **SEBI (Procedure for Holding Enquiry officer and Imposing Penalty) Regulations, 2002.**

Regulation 21 authorises SEBI to appoint an Auditor to investigate into the books of account or the affairs of the RTA and STA. The Auditor shall have the same powers as SEBI appointed inspecting authority.

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LIABILITY FOR ACTION IN CASE OF DEFAULT

A registrar to an Issue who—

- (a) fails to comply with any conditions subject to which registration has been granted
- (b) Contravenes any of the provisions of the Act, rules or regulations.
- (c) Contravenes the provisions of the SCRA and the rules made thereunder, provisions of the Depositories Act or rules made thereunder, the rules, regulations or bye laws of the stock exchange, shall be dealt with in the manner provided under **SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

OPERATIONAL GUIDELINES

On 11th October, 1994, SEBI issued Operational Guidelines and instructions to be followed by RTAs. The instructions stipulate:

- (a) agreement to be entered into by RTA with issuer/body corporate.
- (b) records to be maintained by RTA.
- (c) periodical reports to be furnished to SEBI.
- (d) mandatory obligations relating to despatch of allotment letters/certificates/ refund orders/cancelled stock invest/duplicate refund orders or revalidation of refund orders .

UNDERWRITERS

‘Underwriter means a person who engages in the business of underwriting of an issue of securities of a body corporate.

‘Underwriting’ means an agreement with or without conditions to subscribe to the securities of a body corporate when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.

The activities of the Underwriters in the Indian capital market are regulated by **SEBI (Underwriters) Regulations, 1993.**

UNDERWRITERS - REGISTRATION

Regulation 6 prescribes the following conditions for consideration of the application:

- (a) the applicant shall have necessary infrastructure like adequate office space, equipments and manpower and past experience in underwriting, employing at least two persons with such experience.
- (b) No person directly or indirectly connected with the applicant should have been granted registration by SEBI.
- (c) SEBI shall take into account whether a previous application for a certificate of any person directly or indirectly connected with the applicant has been rejected by SEBI or any disciplinary action has been taken against such person under the Act or any rules/regulations.
- (d) the applicant should be a fit and proper person, the applicants fulfill the capital adequacy requirements(The networth should not be less than ₹20 lakhs).
- (e) no director, partner or principal officer should have been at any time convicted for an offence involving moral turpitude or found guilty of any economic offence.

OBLIGATIONS AND RESPONSIBILITIES OF UNDERWRITERS

Chapter III consisting of Regulation 13 to 18 deals with these matters Every underwriter shall abide by the following code of conduct:-

- (a) The contents of the agreement shall include the period of agreement, the amount of underwriting obligations, the period by which the underwriter should subscribe, the amount of commission/brokerage payable, and other details for fulfilling the underwriting obligations.

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- (b) The underwriter shall not derive any direct or indirect benefit from underwriting the issue other than the commission or brokerage payable under an agreement for underwriting.
- (c) The total underwriting obligations under all the agreements shall not exceed 20 times the networth.
- (d) Every underwriter, in the event of being called upon to subscribe for securities of a body corporate pursuant to an agreement shall subscribe to such securities within 45 days of the receipt of such intimation from such body corporate.

APPOINTMENT OF COMPLIANCE OFFICER BY UNDERWRITER

Regulation 17A requires every underwriter to appoint a compliance officer responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or the Central Government and for redressal of investors' grievances.

PROCEDURE FOR INSPECTION

Regulation 19 to 24 deals with procedure for inspection by SEBI. It empowers SEBI to appoint one or more persons as inspecting authority to undertake inspection of books of accounts, records etc. of the Underwriters, to ensure that:-

- (a) such books and records are maintained in the prescribed manner,
- (b) the provisions of SEBI Act and the rules and regulations there under are complied with
- (c) to investigate into complaints from investors, other underwriters or other persons on any matter having a bearing on the activities of the underwriters and
- (d) to investigate suo-motu in the interest of the securities business or investors interest into the working of the underwrite.

Regulation 23 provides that SEBI Board or chairman after the consideration of inspection or investigation report may take action under **SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

Regulation 24 authorises SEBI to appoint a qualified auditor to investigate into the affairs and the accounts of the underwriter with the same powers as applicable in the case of SEBI appointed inspector.

LIABILITY FOR ACTION IN CASE OF DEFAULT

A Underwriter who—

- (a) fails to comply with any conditions subject to which registration has been granted
- (b) Contravenes any of the provisions of the Act, rules or regulations.

shall be dealt with in the manner provided under **SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

BANKERS TO AN ISSUE

Banker to an Issue means a scheduled bank carrying on all or any of the following activities:-	(a) Acceptance of application and application monies;
	(b) Acceptance of allotment or call monies;
	(c) Refund of application monies;
	(d) Payment of dividend or interest warrants.

The activities of the Banker to an issue in the Indian capital market are regulated by **SEBI (Bankers to an Issue) Regulations, 1994.**

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BANKERS TO AN ISSUE - REGISTRATION

Regulation 6 prescribes the matters that are considered by SEBI in relation to the application:

- (a) the applicant has the necessary infrastructure, communication and data processing facilities and manpower to effectively discharge his activities;
- (b) the applicant or any of its directors is not involved in any litigation connected with the securities market and which has an adverse bearing on the business of the applicant or has not been convicted of any economic offence;
- (c) the applicant is a scheduled bank and a fit and a proper person;
- (d) the applicant is a fit and proper person;
- (e) grant of certificate to the applicant is in the interest of investors

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Regulation 12 requires every banker to an issue to maintain the following records:

- (a) the number of applications received, the names of the investors, the dates on which the applications were received and the amounts so received from the investors;
- (b) the time within which the applications received from the investors were forwarded to the body corporate or registrar to an issue as the case may be;
- (c) the dates and amount of the refund monies paid to the investors;
- (d) dates, names and amount of dividend/interest warrant paid to the investors
- (e) The Banker to an issue shall intimate SEBI about the place where these documents are kept and shall preserve them for a minimum period of 3 years

Regulation 14 requires the **banker to enter into an agreement with the body corporate** for whom he is the banker to an issue with regard to the following matters:

- (a) the number of centres at which the application and the application monies of an issue of a body corporate will be collected from the investors;
- (b) the time within which the statements regarding the applications and the application monies received from the investors investing in an issue of a body corporate will be forwarded to the registrar to an issue of the body corporate, as the case may be;
- (c) the daily statement will be sent by the designated controlling branch of the bankers to the issue to the registrar to an issue indicating the number of body corporate and the amount of application money received.

Regulation 15 requires the **banker to inform SEBI about disciplinary action taken, if any by the RBI against him** in relation to issue payment work. If as a result of such action the banker is prohibited from carrying on the activities, the certificate shall be deemed to have been cancelled or suspended as the case may be.

Regulation 16 prescribes that every banker to an issue shall abide by the Code of Conduct as specified in Schedule III of the Regulations.

APPOINTMENT OF COMPLIANCE OFFICER BY BANKER TO THE ISSUE

Regulation 16A provides that every banker to an issue is required to appoint a compliance officer responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or Central Government. He shall also be entrusted with the responsibility of redressal of investors' grievances. He is required to immediately and independently report to SEBI regarding any non-compliance observed by him.

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PROCEDURE FOR INSPECTION

Regulation 17 and 18 authorise SEBI to request RBI to undertake inspection of the books of accounts, records and documents of the banker, to ensure that:-

- (a) books and records are maintained in the prescribed manner,
- (b) the provisions of SEBI Act and the rules and regulations thereunder are complied with
- (c) to investigate into complaints from investors, other BTI or other persons on any matter having a bearing on the activities of the BTI and
- (d) to investigate suo-motu in the interest of the securities business or investors interest into the working of the BTI.

Regulation 19 lays down that RBI shall on receipt of the request from SEBI take appropriate steps to undertake inspection of Bankers to an Issue for such purposes as may be required by SEBI.

Regulation 21 stipulates that the RBI shall furnish to SEBI, copy of the inspection report along with copies of other relevant documents in support of the observations made by the inspecting authority.

SEBI Board or the Chairman after consideration of inspection or investigation report may take such action as the Board or SEBI may deem fit and appropriate including action under **SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

ACTION IN CASE OF DEFAULT

A Banker to an issue who—

- (a) fails to comply with any conditions subject to which registration has been granted
- (b) Contravenes any of the provisions of the Act, rules or regulations.

shall be dealt with in the manner provided under **SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

DEBENTURE TRUSTEES



**IDBI Trusteeship
Services Ltd.**



**SBICAP Trustee
Company Ltd.**



**IFCI
LIMITED**
आई एफ सी आई लिमिटेड



IL&FS Trust Company Ltd.

‘**Debenture Trustee**’ means a trustee of a trust deed for securing any issue of debentures of a body corporate.

‘**Debenture**’ means a debenture as defined in Companies Act, 2013.

‘**Trust Deed**’ means a deed executed by the body corporate in favour of the trustee named therein for the benefit of the debenture holders.

The activities of Debenture Trustee in the Indian capital market are regulated by **SEBI (Debenture Trustees) Regulations, 1993.**

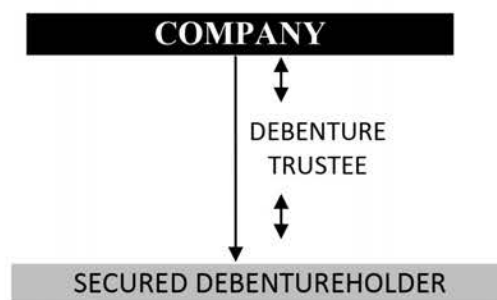
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DEBENTURE TRUSTEES - REGISTRATION

Regulation 6 lays down that SEBI shall take into account the following matters in considering the application, namely that the applicant:

- has the necessary infrastructure like adequate office space, equipments, and manpower to effectively discharge his activities;
- has any past experience as a debenture trustee or has in his employment minimum two persons who had the experience in matters which are relevant to a debenture trustee; or
- any person, directly or indirectly connected with the applicant has not been granted registration by SEBI under the Act;
- has in his employment at least one person who possesses the professional qualification in law from an institution recognised by the Government; or
- any of its director or principal officer is or has at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence and is a fit and proper person;
- is a fit and proper person;
- fulfills the capital adequacy requirements. (net worth of not less than ₹One crore)

Regulation 7 lays down that to be a debenture trustee the applicant shall be a **scheduled bank carrying on commercial activity, a public financial institution, an insurance company or a body corporate**.

Regulation 13A stipulates that no debenture trustee shall act as such for any issue of debentures in case:

- it is an associate of the body corporate; or
- it has lent and the loan is not yet fully repaid or is proposing to lend money to the body corporate.

DUTIES OF DEBENTURE TRUSTEES

Regulation 15 <u>casts the following duties on the debenture trustees:</u>	(a) call for periodical reports from the body corporate;
	(b) take possession of trust property in accordance with the provisions of the trust deed;
	(c) enforce security in the interest of the debenture holders;
	(d) do such acts as necessary in the event the security becomes enforceable;
	(e) carry out such acts as are necessary for the protection of the debenture holders and to do all things necessary in order to resolve the grievances of the debenture holders;
	(f) ascertain and specify that: <ol style="list-style-type: none"> in case where the allotment letter has been issued and debenture certificate is to be issued after registration of charge, the debenture certificates have been despatched by the body corporate to the debenture holders within 30 days of the registration of the charge with ROC; debenture certificates have been despatched to the debenture holders in accordance with the provisions of the Companies Act;

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	<ul style="list-style-type: none"> (iii) interest warrants for interest due on the debentures have been despatched to the debenture holders on or before the due dates; (iv) debentureholders have been paid the monies due to them on the date of redemption of the debentures; (v) ensure on a continuous basis that the property charged to the debenture is available and adequate at all time to discharge the interest and principal amounts payable in respect of the debentures and that such property is free from any other encumbrances save and except those which are specifically agreed to by the debenture trustee. (g) exercise due diligence to ensure compliance by the body corporate, with the provisions of the Companies Act, the listing agreement of the stock exchange or the trust deed; (h) to take appropriate measures for protecting the interest of the debenture holders as soon as any breach of the trust deed or law comes to his notice; (i) to ascertain that the debentures have been converted or redeemed in accordance with the provisions and conditions under which they are offered to the debentureholders; (j) inform SEBI immediately of any breach of trust deed or provision of any law; (k) appoint a nominee director on the Board of the body corporate <u>in the event of:-</u> <ul style="list-style-type: none"> (i) two consecutive defaults in payment of interest to the debentures; or (ii) Default in creation of security for debentures; or (iii) Default in redemption of debentures. (l) communicate to the debenture holders on half yearly basis the compliance of the terms of the issue by the body corporate, defaults, if any, in payment of interest or redemption of debentures and action taken therefore;
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Regulation 16 requires that every debenture trustee shall abide by the code of conduct as specified in Schedule III to the Regulations.

APPOINTMENT OF COMPLIANCE OFFICER BY DEBENTURE TRUSTEE

Every debenture trustee is required to appoint a **compliance officer** responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or Central Government.

PROCEDURE FOR INSPECTION

Regulation 19-24 deals with procedure for inspection by SEBI. It empowers SEBI to appoint one or more persons as inspecting authority to undertake inspection of books of accounts, records etc. of the debenture trustee, to ensure that:-

- (a) such books and records are maintained in the prescribed manner,
- (b) the provisions of SEBI Act and the rules and regulations there under are complied with
- (c) to investigate into complaints from investors, other debenture trustee or other persons on any matter having a bearing on the activities of the debenture trustee and
- (d) to investigate suo-motu in the interest of the securities business or investors interest into the working of the debenture trustee

It further stipulates that the inspecting authority shall on the conclusion of his inspection submit a report to SEBI. SEBI after considering the inspection or investigation report take such action as SEBI or chairman may deem fit and appropriate including action under **SEBI (Procedure for Holding Enquiry officer and Imposing Penalty) Regulations, 2002.**

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Regulation 24 authorises SEBI to appoint an Auditor to investigate into the books of account or the affairs of the debenture trustee. The Auditor shall have the same powers as SEBI appointed inspecting authority.

ACTION IN CASE OF DEFAULT

A debenture trustee who—

- (a) fails to comply with any conditions subject to which registration has been granted
- (b) Contravenes any of the provisions of the Act, rules or regulations.

shall be dealt with in the manner provided under **SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

SECONDARY MARKET INTERMEDIARIES

The following market intermediaries are involved in the secondary market:

1. Stock brokers
2. Portfolio managers

STOCK BROKER & SUB BROKERS



A stock broker plays a very important role in the secondary market. Stock broker is a registered member of the stock exchange.

Stock broker helps both the seller and the buyer of the securities to enter into a transaction. The buyer and seller may be either a broker or a client. When executing an order the stock broker may on behalf of his client buy or sell securities from his own account i.e. as principal or act as an agent. For each transaction he has to issue necessary contract note indicating whether the transaction has been entered into by him as a principal or as an agent for another.

A **sub-broker** is one who works along with the main broker and is not directly registered with the stock exchange as a member. He acts on behalf of the stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers.

No stock broker or sub-broker shall buy, sell or deal in securities unless he holds a certificate of registration granted by SEBI under the Regulations made by SEBI in relation to them.

The activities of the Stock brokers in the Indian capital market are regulated by **SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992**

STOCK BROKERS- REGISTRATION

An application by a stock broker for grant of a certificate of registration shall be made through the Stock exchange or stock exchanges, as the case may be, of which he is admitted as a member. The stock exchange shall forward the application form to SEBI as early as possible but not later than 30 days from the date of its receipt.

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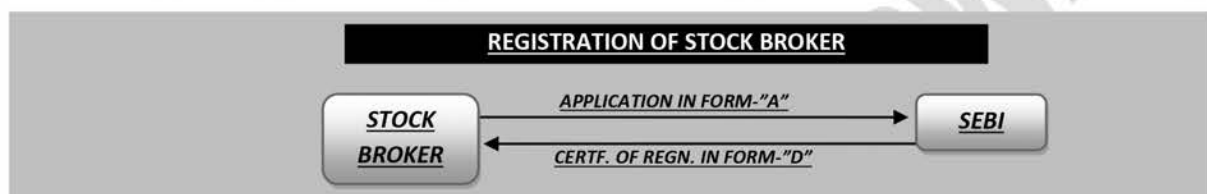
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SEBI shall take into account the following aspects before granting a certificate:

- (a) whether he has the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge his activities;
- (b) whether he has any past experience in the business of buying, selling or dealing in securities;
- (c) whether he was subjected to disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange with respect to his business as a stock broker involving either himself or any of his partners, directors or employees; and
- (d) Whether he is a fit and proper person.

SEBI, on being satisfied that the stock broker is eligible, shall grant a certificate of registration to him and send an intimation to that effect to the stock exchange or stock exchanges as the case may be.

The stock broker holding a certificate shall at all times abide by the Code of Conduct as specified in Schedule II of the Regulations.



SUB-BROKERS - REGISTRATION

An application by a sub-broker for the grant of certificate shall be made in Form-B of **SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992**

Such application from the sub-broker applicant shall be accompanied by a recommendation letter in Form-C from a stock broker of a recognised stock exchange with whom the former is to be affiliated along with two references including one from his banker. The application form shall be submitted to the stock exchange of which the stock broker with whom he is to be affiliated is a member.

The stock exchange on receipt of an application shall verify the information contained therein and shall also certify that the applicant is eligible for registration as per criteria specified below:

- (a) the applicant is not less than 21 years of age;
- (b) the applicant has not been convicted of any offence involving fraud or dishonesty;
- (c) the applicant has at least passed 12th standard equivalent examination from an Institution recognised by the Government. However, SEBI may relax this criterion on merits having regard to the applicant's experience;
- (d) the applicant is a fit and proper person.
- (e) whether the applicant has necessary infrastructure like adequate office space, equipment and manpower to effectively discharge his activities.
- (f) The applicant should be person recognised by the stock exchange as a sub-broker affiliated to a member broker of the stock exchange.

The stock exchange shall forward the application form of such applicants, along with recommendation letter issued by the stock broker with whom he affiliated along with a recognition letter issued by the stock exchange to SEBI within 30 days from the date of its receipt.

SEBI on being satisfied that the sub-broker is eligible, shall grant a certificate in Form-E to the sub-broker and send an intimation to that affect to the stock exchange or exchanges as the case may be.

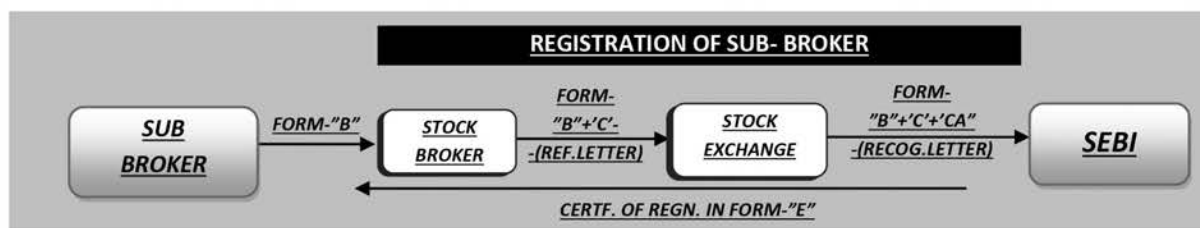
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The sub-broker has the following general obligations

- (a) pay the fees as per Schedule III;
- (b) abide by the Code of Conduct specified in Schedule II;
- (c) enter into an agreement with the stock broker for specifying the scope of his authority and responsibilities;
- (d) comply with the rules, regulations and bye laws of the stock exchange;
- (e) not be affiliated to more than one stock broker of one stock exchange.
- (f) the sub-broker shall keep and maintain the books and documents specified in the Regulations.
- (g) No director of a stock broker can act as a sub-broker to the same stock broker.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Regulation 17 & 18 casts the following duties on the stock brokers:-

- (a) every stock broker shall keep and maintain books of accounts, records and documents for e.g.- Register of Transactions (Sauda book); clients ledger; general ledger; register including particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt and delivery of securities provided by the depository participants in respect of dematerialised securities,
- (b) Every stock broker shall intimate to SEBI the place where the books of accounts, records and documents are maintained.
- (c) He shall, after the close of each accounting period, furnish to SEBI if so required, as soon as possible but not later than 6 months from the close of the said period, a copy of the audited balance sheet and profit and loss account for the said accounting period.
- (d) Every stock broker shall preserve the books of accounts and other records for a minimum period of 5 years
- (e) Every stock broker is required to appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or Central Government and for redressal of investors' grievances. Compliance officer shall immediately and independently report to SEBI any non-compliance observed by him.

PROCEDURE FOR INSPECTION

Regulation 19-24 deals with procedure for inspection by SEBI. It empowers SEBI to appoint one or more persons as inspecting authority to undertake inspection of books of accounts, records etc. **of the stock brokers, to ensure that:-**

- (a) such books and records are maintained in the prescribed manner,
- (b) the provisions of SEBI Act and the rules and regulations there under are complied with
- (c) to investigate into complaints from investors, other stock brokers or other persons on any matter having a bearing on the activities of the stock broker, and
- (d) to investigate suo-motu in the interest of the securities business or investors interest into the working of the stock brokers.

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DUTIES/RESPONSIBILITIES TOWARDS INSPECTING AUTHORITY

The stock broker shall allow the inspecting authority to have reasonable access to the premises occupied by such stock broker or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the stock broker or any other person and also provide copies of documents or other materials which in the opinion of the inspecting authority are relevant. The said authority in the course of inspection shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the stock broker. It shall be duty of every director, proprietor, partner, officer and employee of stock broker to give the said authority all assistance in connection with the inspection, which the stock broker may be reasonably expected to give.

Inspecting authority shall on the conclusion of his inspection submit a report to SEBI. SEBI after considering the inspection or investigation report take such action as SEBI or chairman may deem fit and appropriate including action under SEBI (Procedure for Holding Enquiry officer and Imposing Penalty) Regulations, 2002.

SEBI has power to appoint an Auditor to investigate into the books of account or the affairs of the stock broker. The Auditor shall have the same powers as SEBI appointed inspecting authority.

ACTION IN CASE OF DEFAULT

A stock broker who—

- (a) fails to comply with any conditions subject to which registration has been granted
 - (b) Contravenes any of the provisions of the SEBI Act, rules or regulations.
 - (c) Contravenes the provisions of the SCRA and the rules made there under,
 - (d) Contravenes the provisions of the Depositories Act or rules made there under,
 - (e) Contravenes the rules, regulations or bye laws of the stock exchange,
- shall be dealt with in the manner provided under **SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

PORTFOLIO MANAGERS

“Portfolio” means the total holdings of securities belonging to any person.

Portfolio manager means any person who pursuant to contract or arrangement with the client, advises or directs or undertakes on behalf of the client (*whether as a discretionary portfolio manager or non-discretionary*) the management or administration of a portfolio of securities or the funds of the clients as the case may be.

“Discretionary portfolio manager” is defined as one who exercises or may exercise, under a contract relating to portfolio management, any degree of discretion as to the investment or the management of the portfolio of the securities or the funds of the client. He manages the funds of his client with full independence and discretion.

“Non-Discretionary portfolio manager” is defined as one who manages the portfolio of client under a contract relating to portfolio management, in accordance with directions and instructions of client. He manages the funds of his client without having full independence and discretion.

A portfolio manager thus, with professional experience and expertise in the field, studies the market and adjusts the investment mix for his client on a continuing basis to ensure safety of investment and reasonable returns there from.

The activities of the portfolio manager in the Indian capital market are regulated by **SEBI (Portfolio Managers) Regulations, 1993**

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PORTFOLIO MANAGER- REGISTRATION

Regulation 3A lays down that an application by a portfolio manager for grant of the certificate shall be made to SEBI in the prescribed form-A.

Regulation 6 lays down that SEBI shall take into account the following matters in considering the application, namely that:-

- (a) the applicant is a body corporate;
- (b) the applicant has the necessary infrastructure to effectively discharge the activities of a portfolio manager;
- (c) the principal officer of the applicant has the professional qualifications in finance, law, accountancy or business management from an institution recognised by the Government;
- (d) the applicant has in its employment minimum of two persons who, between them, have at least five years experience as portfolio manager or stock broker or investment manager or in the areas related to fund management;
- (e) any previous application for grant of certificate made by any person directly or indirectly connected with the applicant has been rejected by the Board;
- (f) any disciplinary action has been taken by the Board against a person directly or indirectly connected with the applicant under the Act or the Rules or the Regulations made there under.
- (g) the applicant, its director, principal officer or the employee is involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant;
- (h) the applicant, its director, principal officer or the employee has at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence;
- (i) the applicant is a fit and proper person;
- (j) grant of certificate to the applicant is in the interests of investors
- (k) The applicant fulfils the Capital adequacy requirement of not less than net worth of **fifty lacs rupees**.

SEBI, in addition to the information furnished in form A, has prescribed for certain additional information to be submitted by the applicant while seeking registration/ renewal as portfoliomangers

The applicant has been required to furnish the additional detailed information in the following areas:

- (a) Memorandum and Articles of Association of the applicant
- (b) Details of Directors, promoters & shareholding pattern
- (c) Details of Key managerial personnel
- (d) Details of infrastructure facilities
- (e) Details of the proposed Schemes
- (f) Report from principal bankers
- (g) List of brokers
- (h) Declaration by at least two directors

SEBI on being satisfied that the applicant fulfils the requirement specified above shall send an intimation to the applicant. On payment of the requisite fees by the applicant in accordance with Schedule II of the Regulations, he will be granted a certificate of Registration in Form-B.

Renewal of Certificate

A portfolio manager may make an application for renewal of his registration at least three months before the expiry of the validity of his certificate.

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GENERAL OBLIGATIONS AND RESPONSIBILITIES

Regulation 15 casts the following duties on the portfolio manager

- (a) Discretionary portfolio manager shall individually and independently manage the funds of each client in accordance with the needs of a client, whereas the non discretionary portfolio manager shall manage the funds in accordance with the directions of the client.
- (b) The portfolio manager shall act in a fiduciary capacity with regard to the clients funds. He shall transact in securities within the limitation placed by the client for dealing in securities under the provisions of RBI Act, 1934.
- (c) He shall not derive any direct or indirect benefit out of the clients funds or securities.
- (d) He shall ensure proper and timely handling of complaints from his clients and take appropriate action promptly.
- (e) The portfolio manager shall not accept money or securities from his client for a period less than one year.
- (f) The portfolio manager shall not while dealing with clients funds indulge in speculative transactions,
- (g) The portfolio manager shall ordinarily purchase or sell securities separately for each client.
- (h) Regulation 17 lays down that every portfolio manager shall keep and maintain the following books of accounts, records and documents,
- (i) Regulation 20 lays down that the portfolio manager shall maintain separate client-wise accounts.
- (j) The portfolio accounts of the portfolio manager shall be audited annually by an independent chartered accountant and a copy of the certificate issued by the chartered accountant shall be given to the client.
- (k) Every portfolio manager is required to appoint a compliance officer responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the Board or the Central Government and for redressal of investors' grievances. The compliance officer should independently and immediately report to SEBI for any non-compliance observed by him.

PROCEDURE FOR INSPECTION

Regulation 24-29 deals with procedure for inspection by SEBI. It empowers SEBI to appoint one or more persons as inspecting authority to undertake inspection of books of accounts, records etc. of the portfolio manager, to ensure that:-

- (a) such books and records are maintained in the prescribed manner,
- (b) the provisions of SEBI Act and the rules and regulations there under are complied with
- (c) to investigate into complaints from investors, other portfolio manager or other persons on any matter having a bearing on the activities of the debenture trustee and
- (d) to investigate suo-motu in the interest of the securities business or investors interest into the working of the portfolio manager

Inspecting authority shall on the conclusion of his inspection submit a report to SEBI. SEBI after considering the inspection or investigation report take such action as SEBI or chairman may deem fit and appropriate including action under SEBI (Procedure for Holding Enquiry officer and Imposing Penalty) Regulations, 2002.

SEBI has power to appoint an Auditor to investigate into the books of account or the affairs of the debenture trustee. The Auditor shall have the same powers as SEBI appointed inspecting authority.

ACTION IN CASE OF DEFAULT

A stock broker who—

- (a) fails to comply with any conditions subject to which registration has been granted
- (b) Contravenes any of the provisions of the SEBI Act, rules or regulations.

shall be dealt with in the manner provided under **SEBI (Procedure for holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.**

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INTERNAL AUDIT OF PORTFOLIO MANAGER

Every Portfolio manager is required to appoint a **Practising Company Secretary** or a **Practising Chartered Accountant** for conducting the internal audit. The Portfolio manager is required to report the compliance of the aforesaid requirement to SEBI while submitting the half yearly report.

The report is to be submitted twice a year, as on 31st of March and 30th of September. The report should reach SEBI within thirty days of the period to which it relates.

The scope of the internal audit would comprise the checking of compliance of SEBI (Portfolio Managers) Rules, 1993 and SEBI (Portfolio Managers) Regulations 1993 and circulars notifications or guidelines issued by the Securities and Exchange Board of India and internal procedures followed by the Portfolio Manager.

FOREIGN PORTFOLIO INVESTOR

Foreign Portfolio Investor (FPI) means a person who satisfies the eligibility criteria prescribed under SEBI (Foreign Portfolio Investors) Regulations, 2014 and has been registered under Chapter II of these regulations, which shall be deemed to be an intermediary in terms of the provisions of the SEBI Act, 1992. All existing Foreign Institutional Investors (FIIs) and QFIs are to be merged into one category called FPI.

Categories of FPI

➤ *Category I FPIs include:*

Government and Government-related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organisations or agencies.

➤ *Category II FPIs include:*

- appropriately regulated broad based funds such as mutual funds, investment trusts, insurance/reinsurance companies;
- appropriately regulated persons such as banks, asset management companies, investment managers/advisors, portfolio managers;
- university funds and pension funds; and
- university-related endowments already registered with SEBI as FIIs or subaccounts.

➤ *Category III FPIs include:*

It includes all other FPIs which not eligible under Category I and II of FPIs such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices.

INVESTMENT ADVISER

“Investment Adviser” means any person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever name called. Investment advisers are those, who guide one about his or her financial dealings and investments.

The role of investment adviser has got a lot of significance in the present time. Investment adviser serve as facilitators, making sure that all clients have many opportunities to express their financial concerns and issues. Basically Investment adviser give advice and provide services related to the investment management process.

RESEARCH ANALYSTS

“Research analyst” means a person who is primarily responsible for,

- (a) preparation or publication of the content of the research report; or
- (b) providing research report; or

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- (c) making 'buy/sell/hold' recommendation; or
- (d) giving price target; or.

They study Companies and industries, analyse raw data, and make forecasts or recommendations about whether to buy, hold or sell securities. They analyse information to provide recommendations about investments in securities to their clients. Investors often view analysts as experts and important sources of information about the securities they review and often rely on their advice. There are basically three broad types of analysts, viz. sell-side analysts, buy-side analysts and independent analysts.

SEBI (Research Analysts) Regulations, 2014

- (a) Body corporate or limited liability partnership firm – not less than ₹25 Lakh
- (b) Individual or partnership firm shall have net tangible assets of value not less than ₹1 Lakh

CUSTODIANS OF SECURITIES

A custodian is a person who carries on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities.

Every custodian should have adequate facilities, sufficient capital and financial strength to manage the custodial services.

According to the SEBI (Custodian of Securities) Regulations, 1996 the roles and responsibilities of the custodians are to:-

(a)	Administrate and protect the assets of the clients.
(b)	Open a separate custody account and deposit account in the name of each client.
(c)	Record assets.
(d)	Conduct registration of securities.

Custodial services refer to the safeguarding of securities of a client. The activities relating to custodial services involve collecting the rights benefiting the client in respect to securities, maintaining the securities' account of the client, informing the clients about the actions taken or to be taken, and maintaining records of the services.

SYNDICATE MEMBERS

Syndicate Member means an intermediary registered with SEBI and who is permitted to carry on the activity as an underwriter. The Book Runner(s) may appoint those intermediaries who are registered with the SEBI and who are permitted to carry on activity as an 'Underwriter' as syndicate members.

The syndicate members are mainly appointed to collect the entire bid forms in a book built issue. Syndicate Member/Broker is a member of the Stock Exchange to whom the investor has to submit the IPO Bid/ Application form.

SELF REGULATORY ORGANIZATION

It means an organization of intermediaries which is representing a particular segment of the securities market and which is duly recognised by SEBI under these regulations, but excludes a stock exchange.

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RECOGNITION OF SELF REGULATORY ORGANIZATION

Regulation 3 of **SEBI (Self Regulatory Organizations) Regulations, 2004** provides that any group or association of intermediaries, which is desirous of being recognized as a Self Regulatory Organization, may form a company under section 8 of the Companies Act, 2013 and such company may make an application to the SEBI for grant of certificate of recognition as a Self Regulatory Organization.

ELIGIBILITY CRITERIA

Regulation 4 provides the following criteria to be fulfilled by an association seeking registration under these regulations:-

(a)	the applicant should have been granted license under section 8 of Companies Act, 2013;
(b)	the memorandum of association, should specify admission of members and discharging the functions of Self Regulatory Organization as one of its main objects;
(c)	the applicant should have a minimum networth of one crore rupees ;
(d)	the applicant is to have adequate infrastructure, to enable it to discharge its functions as a Self Regulatory Organization in accordance with the provisions of the Act and these regulations;
(e)	the directors have the professional competence, financial soundness and general reputation of fairness and integrity to the satisfaction of SEBI;
(f)	neither the applicant, nor any director of the applicant is involved in any legal proceeding connected with the securities market, which may have an adverse impact on the interests of the investors;
(g)	neither the applicant, nor any director has at any time in the past been convicted of any offence involving moral turpitude or any economic offence;
(h)	the applicant has, in its employment, persons having adequate professional and other relevant experience to the satisfaction of SEBI;
(i)	the applicant, is a fit and proper person
(j)	grant of certificate to the applicant is in the interest of investors and the securities market.

KNOW YOUR CLIENT (KYC) AND REGISTRATION AGENCY (KRA)

At present, if a client intends to open accounts with different intermediaries for the purpose of trading/ investment in the securities market, he has to undergo the process of know your client (KYC) again and again. Therefore, to avoid duplication of KYC process with every intermediary, a mechanism for centralisation of the KYC records in the securities market has been developed.

An intermediary shall perform the initial KYC of its clients and upload the details on the system of KYC Registration Agency (KRA). When the Client approaches another intermediary, the intermediary can verify and download the client's details from the system of the KRA. As a result, once the client has done KYC with a SEBI registered intermediary undergo the same process again with another intermediary.

INTERNAL AUDIT OF INTERMEDIARIES BY COMPANY SECRETARY IN PRACTICE

Efficient internal control systems and processes are pre-requisite for good governance. The governance being a dynamic concept requires constant evaluation and monitoring of the systems and processes. In the context of Capital Markets, capital markets intermediaries are an important constituent of overall governance framework. Being an important link between regulators, investors and issuers, they are expected to ensure that their internal controls are so efficient that ensure effective investor service at all times and provide regulators comfort as to the compliance of regulatory prescription. It is in this direction that SEBI has authorised Practising Company Secretaries to undertake internal audit of various capital market intermediaries.

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GUIDELINES ON ANTI MONEY LAUNDERING MEASURES

As per the provisions of PML Act, every banking company, financial institution and intermediary shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA.

The intermediaries are required to designate an officer as 'Principal Officer' who would be responsible for ensuring compliance of the provisions of the PMLA.

OBLIGATIONS OF INTERMEDIARIES UNDER PREVENTION OF MONEY LAUNDERING ACT, 2002

Section 12 of the Prevention of Money Laundering Act, 2002 lays down following obligations on an intermediary:-

Every banking company, financial institution and intermediary shall –

- (a) maintain a record of all transactions, the nature and value of which may be prescribed,
- (b) furnish information of transactions referred to above to the **Director** within such time as may be prescribed;
- (c) verify and maintain the records of the identity of all its clients, in such a manner as may be prescribed.

CASH TRANSACTION REPORT

The Prevention of Money Laundering Act, 2002 and the Rules thereunder require every intermediary to furnish details of the following cash transactions:-

- (a) All cash transactions of the **value of more than rupees ten lakhs or its equivalent** in foreign currency.
- (b) All series of cash transactions integrally connected to each other which have been valued **below rupees ten lakhs or its equivalent** in foreign currency where such series of transactions **have taken place within a month.**

SUSPICIOUS TRANSACTION REPORT

The Prevention of Money Laundering Act, 2002 and the Rules notified thereunder require every intermediary to furnish details of suspicious transactions whether or not made in cash.

Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith –

- (a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- (b) appears to be made in circumstances of unusual or unjustified complexity; or
- (c) appears to have no economic rationale or bonafide purpose.

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THESE PROSPECTUS AND INFORMATION MEMORANDUM ARE NOT TO BE USED FOR ANY PURPOSE OTHER THAN THAT SPECIFICALLY STATED HEREIN. PURCHASE OR ACQUISITION OF SECURITIES FOR INVESTMENT OR FOR RESALE OR DISTRIBUTION OF SECURITIES IS NOT GUARANTEED BY THE ISSUING COMPANY.

BSE LIMITED

BSE was incorporated as a public limited company under the Companies Act, 1956 and is a listed company on the Bombay Stock Exchange. The company is a public limited company under the Companies Act, 1956 and is a listed company on the Bombay Stock Exchange. The company is a public limited company under the Companies Act, 1956 and is a listed company on the Bombay Stock Exchange.

BSE is professionally managed and does not have an identifiable promoter. In terms of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended ("ICDR Regulations")

INITIAL PUBLIC OFFERING OF UP TO 15,427,197 EQUITY SHARES OF FACE VALUE OF ₹ 2 EACH ("EQUITY SHARES") OF BSE LIMITED ("EXCHANGE" OR "BSE") FOR CASH AT A PRICE OF ₹ 14 PER EQUITY SHARE INCLUDING A SHARE PREMIUM OF ₹ 12 PER EQUITY SHARE, AGGREGATING UP TO ₹ 216.04 BILLION (CONVERTING UP TO 100% OF THE FULLY DILUTED POST-OFFER ISSUED SHARE CAPITAL OF BSE. THE FACE VALUE OF THE EQUITY SHARES IS ₹ 2 EACH.

Price Band: ₹ 805 to ₹ 806 per equity share of face value of ₹ 2 each.
The Floor Price is 402.5 times the face value and the Cap Price is 403 times the face value.
Bids can be made for a minimum of 18 Equity Shares and in multiples of 18 Equity Shares thereafter.

- Risks to Investors:**
- i. The Eight Managers associated with the Offer have handled 34 public issues in the past three years, out of which 10 issues closed below the issue price on listing date.
 - ii. There are no listed peers for the Exchange.
 - iii. The Price/Earnings ratio based on diluted EPS of ₹ 22.45 on a restated consolidated basis and of ₹ 24.16 on a restated unconsolidated basis in Fiscal 2016 for the Exchange at the upper end of the Price Band is as high as 35.99 times on restated consolidated basis and 33.36 times on restated unconsolidated basis, respectively as compared to the NIFTY 50 PE ratio of 22.50 (as on January 12, 2017).
 - iv. Weighted Average Return on Networth of FY 2014, FY 2015 and FY 2016 is 5.20% on a restated consolidated basis and 4.67% on a restated unconsolidated basis.

OFFER PROGRAMME

OPENS ON: MONDAY, JANUARY 23, 2017

CLOSES ON: WEDNESDAY, JANUARY 25, 2017

BSE is associated with 8 Managers, all of whom are members of the Institute of Directors, India. The offer is being made by BSE Limited, a public limited company, under the Companies Act, 1956 and is a listed company on the Bombay Stock Exchange.

ASBA Simple, Safe, Smart way of Application

Mandatory in public issues from January 1, 2016. No cheque will be accepted.

The offer is being made by BSE Limited, a public limited company, under the Companies Act, 1956 and is a listed company on the Bombay Stock Exchange. The offer is being made by BSE Limited, a public limited company, under the Companies Act, 1956 and is a listed company on the Bombay Stock Exchange. The offer is being made by BSE Limited, a public limited company, under the Companies Act, 1956 and is a listed company on the Bombay Stock Exchange.

REGULATORY		AXIS CAPITAL		Jefferies		NOMURA		KARVY	
<p>Axis Capital 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 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<p>Axis Capital 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247</p>	<p>AXIS CAPITAL 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247</p>	<p>Jefferies 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 18</p>							

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Q. 1. Each registered intermediary should adopt written procedures to implement the anti-money laundering provisions as envisaged under the Anti Money Laundering Act, 2002. Explain the obligations of intermediaries under prevention of Money Laundering Act, 2002. [June. 2018]

Ans. Section 12 of the Prevention of Money Laundering Act, 2002 lays down following obligation on an intermediary:

1. Every banking company, financial institution and intermediary shall –
 - (a) maintain a record of all transactions, and where such series of transactions take place within a month;
 - (b) furnish information of transactions referred to in clause (a) to the Director within such time as may be prescribed;
 - (c) verify and maintain the records of the identity of all its clients, in such a manner as may be prescribed.

However, where the principal officer of an Intermediary or financial institution or intermediary, as the case may has reason to believe that a single transaction or series of transaction integrally connected to each other have been valued below the prescribed limit so as to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

2. The records shall be maintained for a period of ten years from the date of cessation of the transaction between the clients of the banking company or financial institution or intermediary, as the case may be.
3. Every intermediary is required to furnish details of the following cash transactions:
 - (a) All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency.
 - (b) All series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month.
4. Every intermediary is required to furnish details of suspicious transactions whether or not made in cash. Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith-
 - (a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
 - (b) appears to be made in circumstances of unusual or unjustified complexity; or
 - (c) appears to have no economic rationale or bona fide purpose.

Q. 2. Write note on Portfolio Managers and Custodian. [June. 2018]

Ans. **Portfolio Managers and Custodian**

Portfolio manager means any person who pursuant to contract or arrangement with the client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the clients as the case may be. A portfolio manager is responsible for making an individual aware of the various investment tools available in the market and benefits associated with each plan.

A custodian is a person who carries on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities. Every custodian should have adequate facilities, sufficient capital and financial strength to manage the custodial services.

Q. 3. Write note on Registrar and Share Transfer Agent. [June. 2018]

Ans. **Registrar and Share Transfer Agents**

'Registrar to an Issue' means the person appointed by a body corporate or any person or group of persons to carry on the following activities on its or his or their behalf i.e.:

- (i) Collecting application for investor in respect of an issue;
- (ii) Keeping a proper record of applications and monies received from investors or paid to the seller of the securities;
- (iii) Assisting body corporate or person or group of persons in determining the basis of allotment of the securities in consultation with the stock exchange, finalizing the list of person entitled to allotment of securities and processing and dispatch of allotment letters, refund orders or certificates and other related documents in respect of the issue;

'Share Transfer Agent' means:

- (i) Any persons who on behalf of anybody corporate, maintain the record of holders of securities issued by such body corporate and deals with all matters connected with all matters connected with the transfer and redemption of its securities;
- (ii) The department or division, by whatever name called, of a body corporate performing the activities as share transfer agents if at any time total number of holders of its securities issued exceed one lakh.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



- Write short notes on the following:
 - Portfolio manager
 - Debenture trustee.
 - Minimum underwriting obligation.
 - Internal audit of portfolio manager
 - Debenture trustee
- Distinguish between the following:
 - 'Merchant banker' and 'portfolio manager'.
- Explain briefly the role of the following in capital market:
 - Merchant banker
 - Bankers to the issue
- What do you understand by 'registrar to an issue'? State various activities carried out by the registrar to an issue.
- "Investment advisors provide guidance about financial dealings and investments. "Comment on this statement and state the role of investment advisors in capital market.
- Define and state the functions of any four of the following:
 - Lead manager
 - Banker to an issue
 - Share transfer agent
 - Debenture trustee
 - Underwriter.
- Comment on the role of stock-brokers and sub-brokers in Indian stock market.
- Descriptive Questions:-
 - "Capital market intermediaries are a vital link between the SEBI and investors in a public issue." comment.
 - What are the obligations of a capital market intermediary under the Prevention of Money Laundering Act, 2002?
 - What is a 'self-regulatory organization'? What are its functions and obligations?
- Explain briefly the responsibilities and obligations of a debenture trustee.
- Explain briefly the role and responsibilities of Registrar and Transfer agent (RTA) in an IPO.
- Explain briefly the code of conduct for merchant bankers prescribed SEBI Regulations

FROM ICSI MODULE



Answer the following:

- Explain briefly the role and responsibilities of Registrar and Transfer Agent.
- Enumerate the functions of Banker to An Issue in the securities market.
- What is a debenture trustee? Discuss the responsibilities of a debenture trustee.
- What is an Investment Adviser? Briefly explain the role and functions of investment advisers in capital market.
- Explain general obligations and responsibilities of merchant banker and due diligence certificate issued by the merchant banker.
- Discuss the role and obligation of portfolio manager.
- Discuss the obligation of intermediaries under Prevention Money Laundering Act, 2002.
- Explain the inspection and disciplinary proceedings which can be initiated by against SEBI registered intermediaries.
- What are actions taken by SEBI, if a Self-Regulatory Organization violates any provisions of SEBI Act or the regulation make there under.



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

7

CREDIT RATING

Covering-

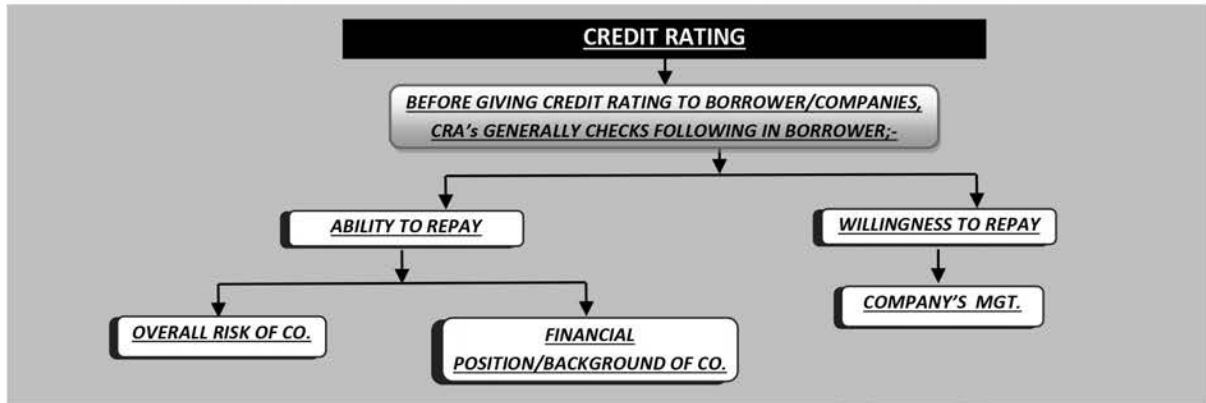
- ABC Analysis
- Uses of Credit Rating
- Factors for Success of a Rating System
- Credit Rating Agencies
- Important CRAs in India
- Code of Conduct
- Factors Considered by Credit Rating Agencies for Rating of an Instrument
- Monitoring of Ratings
- Appointment of Compliance Officer
- Maintenance of Books of Accounts Records, Etc.
- Disclosures
- Rating Symbols of Various CRAs
- IPO Grading
- Self Test Questions
 - From Past CS Exams
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(0 to 5)**

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CREDIT RATING

ABC Analysis (IOSI -Exam Point of view)

<i>A</i>	1. Uses of Credit Rating 2. Factors Considered by Credit Rating Agencies for Rating of an Instrument 3. Rating Symbols of Various CRAs
<i>B</i>	4. Factors for Success of a Rating System 5. Credit Rating Agencies
<i>C</i>	6. Monitoring of Ratings 7. IPO Grading

Credit rating is the evaluation of the credit worthiness of an individual or of a business concern or of an instrument of a business based on relevant factors indicating ability and willingness to pay obligations as well as net worth.

Credit ratings establish a link between risk and return. An investor or any other interested person uses the rating to assess the risk-level and compares the offered rate of return with his expected rate of return.

Credit Rating is a symbolic indication of the current opinion regarding the relative capability of a corporate entity to service its debt obligations in time with reference to the instrument being rated. To facilitate simple and easy understanding, credit rating is expressed in alphabetical or alphanumerical symbols.



USES OF CREDIT RATING

Credit rating is useful to **investors, issuers, intermediaries and regulators.**

For Investors:

Credit rating communicates to the investors the relative ranking of the default loss probability for a given investment, in comparison with other rated instruments. In the absence of professional credit rating, the investor has to largely depend upon general information about promoters and the company. This is not a reliable method. Well researched and properly analysed opinions in the forms of Credit Rating helps investors in taking well informed decisions for investments and thus helps in minimising the risks.

For Issuers:

The market places immense faith in opinion of credit rating agencies, this enables the issuers of highly rated instruments to access the market even during adverse market conditions.

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For Intermediaries:

Rating is useful to Intermediaries such as merchant bankers for planning, pricing, underwriting and placement of the issues. Intermediaries like brokers and dealers in securities use rating as an input for monitoring risk exposures.

For Regulators:

SEBI by making Credit rating mandatory for issuers ensures protection of investors in securities market.

FACTORS FOR SUCCESS OF A RATING SYSTEM

- (a) Credible and independent structure and procedures;
- (b) Objectivity and impartiality of opinions;
- (c) Analytical research, integrity and consistency;
- (d) Professionalism and industry related expertise;
- (e) Confidentiality;
- (f) Timeliness of rating review and announcement of changes;
- (g) Ability to reach wide range of investors by means of Press reports, print or electronic media and investor oriented research services;

CREDIT RATING AGENCIES

Credit Rating Agency means a body corporate engaged in or proposes to be engaged in the business of rating of securities offered by way of public or rights issue.

The activities of the Credit Rating Agencies in the Indian capital market are regulated by **SEBI (Credit Rating Agencies) Regulations, 1999**

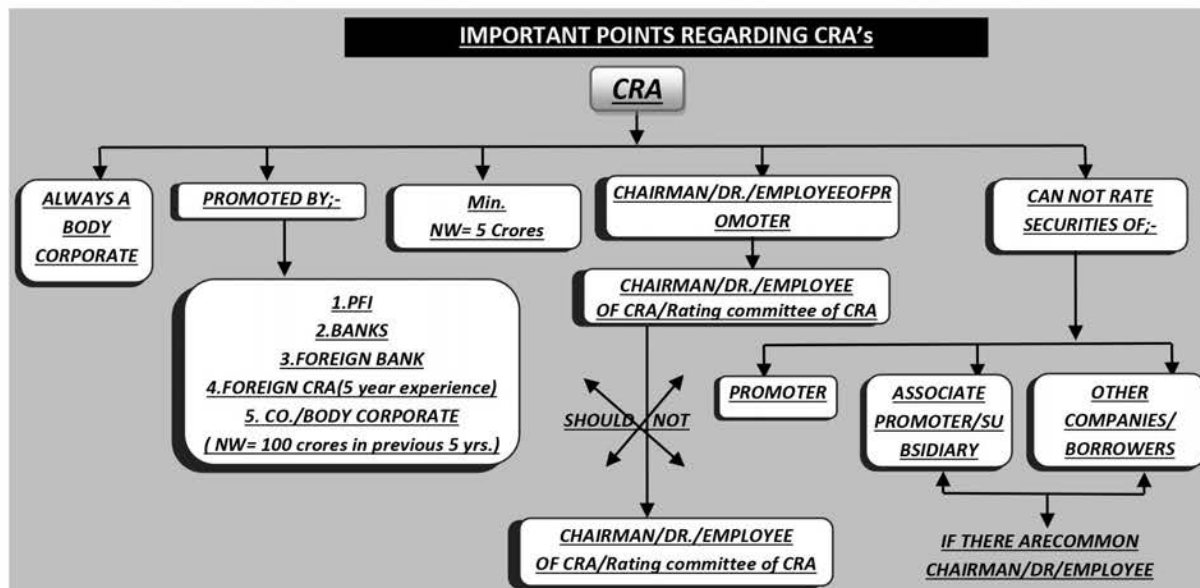
- (a) CRAs can be promoted by public financial institutions, scheduled commercial banks, foreign banks operating in India, foreign credit rating agencies recognised in the country of their incorporation, having at least five years experience in rating, or any company or a body corporate having continuous net worth of minimum ₹100 crore for the previous five year.
- (b) CRAs would be required to have a minimum net worth of rupees twenty five crores;.
- (c) A CRA cannot rate a security issued by its promoter.
- (d) No Chairman, Director or Employee of the promoters shall be Chairman, Director or Employee of CRA or its rating committee.
- (e) A CRA cannot rate securities issued by any borrower, subsidiary, an associate promoter of CRA, if there are common Chairman, Directors and Employees between the CRA or its rating committee and these entities.
- (f) A CRA cannot rate a security issued by its associate or subsidiary if the CRA or its rating committee has a Chairman, Director or Employee who is also a Chairman, Director or Employee of any such entity.
- (g) A credit rating agency shall not: (a) directly or indirectly, hold 10 per cent or more shareholding and/or voting rights in any other credit rating agency, or (b) have representation on the Board of any other credit rating agency.

Issuers coming out with a public/rights issue of debt securities would be required to incorporate an undertaking in the offer documents promising necessary co-operation with the rating agency in providing true and adequate information.

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IMPORTANT CRAs IN INDIA



1.	Investment information and Credit Rating Agency of India limited (ICRA)
2.	Credit rating and information services (India) limited (CRISIL)
3.	Credit analysis and research limited (CARE)
4.	Standard and poor's corporation
5.	FITCH credit rating India private limited
6.	SME Rating Agency of India Ltd. (SMERA)
7.	ONICRA credit rating agency of India ltd
8.	Credit Information Bureau India Limited (CIBIL)

CREDIT RATING AGENCIES- REGISTRATION

Any person proposing to commence any activity as a credit rating agency should make an application to SEBI for the grant of a certificate of registration for the purpose.

Promoter of credit rating agency

SEBI should consider an application only if the applicant is promoted by a person belonging to any of the following categories, namely:

- (a) a public financial institution;
- (b) a scheduled commercial bank;
- (c) a foreign bank operating in India with the approval of the Reserve Bank of India;
- (d) a foreign credit rating agency incorporated in a Financial Action Task Force (FATF) member jurisdiction and recognised under their Law and having at least five years experience in rating securities;
- (e) any company or a body corporate, having continuous net worth of minimum rupees one hundred crores as per its audited annual accounts for the previous five years in relation to the date on which application to SEBI is made seeking registration.

The promoter of the credit rating agency, has a minimum shareholding of 26% in the credit rating agency. SEBI grants a certificate after getting satisfied that the applicant is eligible for the grant of a certificate of registration. The grant of certificate of registration should be subject to the payment of the specified registration fee in the manner prescribed.

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The certificate granted is subject to the condition that the credit rating agency should comply with the provisions of the Act, the regulations made there under and the guidelines, directives, circulars and instructions issued by SEBI from time to time on the subject of credit rating.

The period of validity of certificate of registration shall be three years

Renewal of certificate

A credit rating agency, if it desires renewal of the certificate granted to it, should make to SEBI an application for the renewal of the certificate of registration accompanied by a non-refundable application fee as prescribed.

Such application should be made not less than three months before expiry of the period of validity of the certificate in the manner specified.

CODE OF CONDUCT

Every credit rating agency is required to abide by the Code of Conduct as per SEBI Regulations:

- (a) A credit rating agency in the conduct of its business should observe high standards of integrity and fairness in all its dealings with its clients.
- (b) A credit rating agency should fulfil its obligations in an ethical manner.
- (c) A credit rating agency should render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgement. It shall wherever necessary, disclose to the clients, possible sources of conflict of duties and interests, while providing unbiased services.
- (d) The credit rating agency should avoid any conflict of interest of any member of its rating committee participating in the rating analysis. Any potential conflict of interest shall be disclosed to the client.
- (e) A credit rating agency should not indulge in unfair competition nor they wean away client of any other rating agency on assurance of higher rating.
- (f) A credit rating agency should not make any exaggerated statement, whether oral or written, to the client either about its qualification or its capability to render certain services or its achievements in regard to services rendered to other clients.
- (g) A credit rating agency should always endeavour to ensure that all professional dealings are effected in a prompt and efficient manner.
- (h) A credit rating agency should not divulge to other clients, press or any other party any confidential information about its client, which has come to its knowledge, without making disclosure to the concerned person of the rated company/client.
- (i) A credit rating agency should not make untrue statement or suppress any material fact in any documents, reports, papers or information furnished to SEBI or to public or to stock exchange.
- (j) A credit rating agency should maintain an arm's length relationship between its credit rating activity and any other activity.
- (k) A credit rating agency is required to abide by the provisions of the Act, regulations and circulars which may be applicable and relevant to the activities carried on by the credit rating agency.

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FACTORS CONSIDERED BY CREDIT RATING AGENCIES FOR RATING OF AN INSTRUMENT

Every credit rating agency develops its own rating parameters/ model/ weightages for rating of respective instruments. Some of the common factors that may be taken into consideration for credit rating are-

Issuer Company's operational for credit rating are-
(a) Level of technological development
(b) financials
(c) competence and effectiveness of management
(d) past record of debt servicing
(e) working capital etc.

MONITORING OF RATINGS

Credit rating agency should during the lifetime of securities rated by it, unless the rating is withdrawn continuously monitor the rating of such securities. It should also disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases and websites, and, in the case of securities issued by listed companies, such information should also be provided simultaneously to the concerned to all the stock exchanges where the said securities are listed.

APPOINTMENT OF COMPLIANCE OFFICER

It is under an obligation to appoint a compliance officer who will be responsible for monitoring the compliance of the Act, Rules and Regulations, notifications, guidelines, instructions etc issued by SEBI or the Central Government. The compliance officer should immediately and independently report to SEBI any non-compliance observed by him.

MAINTENANCE OF BOOKS OF ACCOUNTS RECORDS, ETC.

Credit rating agency should keep and maintain, for a minimum period of five years, books of accounts, records and other useful documents etc.

DISCLOSURES

A CRA shall make all the disclosures stipulated below on their websites:-	(a) A CRA shall formulate and disclose its policies, methodology and procedures in detail regarding solicited and unsolicited credit ratings;
	(b) A CRA shall disclose in the formats prescribed about details of new credit ratings assigned during last six-months and movement of credit rating of all outstanding securities during the last six-months;
	(c) On annual basis, the list of defaults separately for each rating category (e.g. AAA, AA, A, BBB, BB, B, C)
	(d) A CRA shall disclose the general nature of its compensation arrangements with the issuers
	(e) A CRA shall disclose its shareholding pattern as prescribed by stock exchanges for a listed company under clause 35 of Listing Agreement.
	(f) A CRA shall disclose the compliance status of each provision of IOSCO code of conduct.

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RATING SYMBOLS OF VARIOUS CRAs

SEBI in consultation with the CRAs and on the recommendation of its Corporate Bonds and Securitisation Advisory Committee, **standardised rating symbols** and their definitions have been devised for the following :-

(a)	Long term debt instruments
(b)	Short term debt instruments
(c)	Long term structured finance instruments
(d)	Short term structured finance instruments
(e)	Long term mutual fund schemes and
(f)	Short term mutual fund schemes.

Rating symbols should have **CRA's first name as prefix**. For Example: CARE AAA, CARE AA etc.

➤ **RATING SYMBOLS FOR LONG TERM DEBT INSTRUMENTS**

These instruments are with original maturity exceeding one year.

AAA– Instruments with this rating are considered to have the **highest degree of safety** regarding timely servicing of financial obligations. Such instruments carry **lowest** credit risk.

AA– Instruments with this rating are considered to have **high degree of safety** regarding timely servicing of financial obligations. Such instruments carry **very low** credit risk.

A– Instruments with this rating are considered to have **adequate degree of safety** regarding timely servicing of financial obligations. Such instruments carry **low** credit risk.

BBB– Instruments with this rating are considered to have **moderate degree of safety** regarding timely servicing of financial obligations. Such instruments carry **moderate** credit risk.

BB– Instruments with this rating are considered to have **moderate risk of default** regarding timely servicing of financial obligations.

B– Instruments with this rating are considered to have **high risk of default** regarding timely servicing of financial obligations.

C– Instruments with this rating are considered to have **very high risk of default** regarding timely servicing of financial obligations.

D– Instruments with this rating **are in default** or are expected to be in **default soon**.

➤ **RATING SYMBOLS FOR SHORT TERM DEBT INSTRUMENTS**

These instruments are with original maturity of upto one year.

A1 – Instruments with this rating are considered to have **very strong degree of safety** regarding timely payment of financial obligations. Such instruments carry **lowest** credit risk.

A2 – Instruments with this rating are considered to have **strong degree of safety** regarding timely payment of financial obligations. Such instruments carry **low** credit risk.

A3 – Instruments with this rating are considered to have **moderate degree of safety** regarding timely payment of financial obligations.

A4 – Instruments with this rating are considered to have **minimal degree of safety** regarding timely payment of financial obligations.

D – Instruments with this rating **are in default** or expected to be in default on maturity.

Modifier {"+" (plus)} can be used with the rating symbols. The modifier reflects the comparative standing within the category.

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➤ **RATING SYMBOLS FOR LONG TERM STRUCTURED FINANCE INSTRUMENTS**

1. AAA (SO)
2. AA (SO)
3. A (SO)
4. BBB (SO)
5. BB(SO)
6. B(SO)
7. C (SO)
8. D (SO)

➤ **RATING SYMBOLS FOR SHORT TERM STRUCTURED FINANCE INSTRUMENTS**

1. A1 (SO)
2. A2 (SO)
3. A3 (SO)
4. A4 (SO)
5. D (SO)

➤ **RATING SYMBOLS FOR LONG TERM MUTUAL FUND SCHEMES**

1. AAAmfs
2. AAmfs
3. Amfs
4. BBBmfs
5. BBmfs
6. Bmfs
7. Cmfs

➤ **RATING SYMBOLS FOR LONG TERM MUTUAL FUND SCHEMES**

1. A1mfs
2. A2mfs
3. A3mfs
4. A4mfs

IPO GRADING

IPO grading is the grade assigned by a credit rating agency (CRAs) Registered with SEBI, to the initial public offering (IPO) of equity shares.

The grade represents a relative assessment of the fundamentals of that issue in relation to the other equity securities in India. IPO grading has been introduced as an endeavor to make additional information available for the investors in order to facilitate their assessment of equity issues offered through an IPO.

Such grading is generally assigned on a five point scales with higher scores indicating stronger fundamentals and vice versa as below:

<u>GRADE</u>	<u>INDICATIONS</u>
IPO grade 1	Poor fundamentals
IPO grade 2	Below Average fundamentals
IPO grade 3	Average fundamentals
IPO grade 4	Above average fundamentals
IPO grade 5	Strong fundamentals

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PROCEDURE FOR IPO GRADING

The company shall enter into an agreement with any one credit rating agency registered with SEBI. The CRA would follow the below mentioned process:-

- (a) Seek information required for the grading from the company.
- (b) On receipt of required information, have discussions with company's management and visit the company's operating locations, if required.
- (c) Prepared an analytical assessment report
- (d) Present the analysis to a committee comprising executives of the concerned grading agency. This committee would discuss all relevant issues and assign a grade.

Communicate the grade to the company along with an assessment report outlining the rationale for the grade assigned.

However SEBI vide its Circular No. LAD-NRO/GN/2013-14/44/226 dated February 4, 2014, by amending the SEBI (ICDR) Regulations, 2009, made IPO grading optional for public issue of securities.

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9.65%
Interest p.a. for 5 years
under Series IV, Annual Option,
in Category I, II, III and IV

9.75%
Interest p.a. for 10 years
under Series VI, Annual Option,
in Category I, II, III and IV

9.60%
Interest p.a. for 3 years
under Series II, Annual Option,
in Category I, II, III and IV


Secured Redeemable NCDs with 3/5/10 year options

Public issue of up to 1,40,00,000 secured redeemable non-convertible debentures ("NCDs") of face value of ₹1,000 for an amount of ₹50,000 lakhs ("Base Issue Size") with an option to retain oversubscription up to ₹90,000 lakhs aggregating up to ₹1,40,000 lakhs ("Tranche 1 Issue Limit") ("Tranche 1 Issue")

CREDIT RATING: "CARE AA+ (SO); Outlook: Stable by CARE" and "BWR AA+ (SO), Outlook: Stable by Brickwork"

ALLOTMENT ON FIRST COME FIRST SERVE BASIS^{*}

TRANCHE 1 ISSUE OPENS ON 14th SEPTEMBER, 2018
TRANCHE 1 ISSUE CLOSURES ON 28th SEPTEMBER, 2018^{*}

 **Aadhar**
Housing Finance Ltd.
Formerly known as DHFL Vysya Housing Finance Ltd.
A subsidiary of Wadhawan Global Capital Ltd.

AADHAR HOUSING FINANCE LIMITED

Registered Office: No. 3, 'JVT Towers', 8th A Main Road, Sampangi Rama Nagar, Bengaluru - 560 027, Karnataka, India; Tel: +91 80 2221 7637/2227 6764; Fax: +91 80 2229 0668
Corporate Office: 201, Raheja Point -1, Near Shamrao Vithal Bank, Nehru Road, Vakola, Santacruz (E), Mumbai - 400 055, Maharashtra, India;
Website: www.aadharhousing.com; CIN: U68010KA1990PLC011409;
Company Secretary and Compliance Officer: Sreekanth V. N.; Email: complianceofficer@aadharhousing.com

^{*}For further details please refer to the Tranche I Prospectus dated September 3, 2018. Allotment shall be made in consultation with the Stock Exchange.

^{*}The Issue shall remain open for subscription on Working Days from 10 a.m. to 5 p.m. (Indian Standard Time) during the period indicated above, except that this Tranche 1 Issue may close on such earlier date or extended date as may be decided by the Board of Directors of our Company ("Board") or the Management Committee, thereof, subject to relevant approvals. In the event of an early closure or extension of this Tranche 1 Issue, our Company shall ensure that notice of the same is provided to the prospective investors through an advertisement in a daily national newspaper with wide circulation on or before such earlier or initial date of Tranche 1 Issue closure. On the Issue Closing Date, the Application Forms will be accepted only between 10 a.m. and 3 p.m. (Indian Standard Time) and uploaded until 5 p.m. or such extended time as may be permitted by the BSE.

DISCLAIMER CLAUSE OF BSE: It is to be distinctly understood that the permission given by BSE should not in any way be deemed or construed that the Prospectus has been cleared or approved by BSE nor does it certify the correctness or completeness of any of the contents of the Prospectus. The investors are advised to refer to the Prospectus for the full text of the Disclaimer Clause of BSE.

DISCLAIMER CLAUSE OF USE OF BSE ELECTRONIC PLATFORM: It is to be distinctly understood that the permission given by BSE to use their network and software of the Online system should not in any way be deemed or construed that the compliance with various statutory requirements approved by the Exchange; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of the Company, its promoters, its management or any scheme or project of the Company.

Disclaimer: Aadhar Housing Finance Limited, subject to market conditions and other considerations, is proposing a public issue of Secured Redeemable Non-Convertible Debentures ("NCDs") and has filed the Shelf Prospectus dated September 3, 2018 and Tranche I Prospectus dated September 3, 2018 with the Registrar of Companies, Karnataka at Bengaluru, BSE Limited and SEBI. The Shelf Prospectus dated September 3, 2018 and Tranche I Prospectus dated September 3, 2018 are available on our website at www.aadharhousing.com, on the website of the stock exchange at www.bseindia.com and the respective websites of the Lead Managers at www.yesinvest.in, www.edelweissfin.com, www.yesbank.in, www.axisbank.com, www.akgroup.co.in, www.greenbridge.in and www.trustgroup.in. Investors proposing to participate in the Issue should invest only on the basis of information contained in the Shelf Prospectus dated September 3, 2018 and Tranche I Prospectus dated September 3, 2018. Investors should note that investment in NCDs involves a high degree of risk and for details relating to the same, please refer to the Shelf Prospectus dated September 3, 2018, including the section 'Risk Factors' beginning on page 11 of the said Shelf Prospectus.

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LONG TERM CREDIT RATINGS

Q3 FY 18 Performance		Indiabullshousing Finance Limited Extract of Consolidated Unaudited Financial info for the quarter and nine months ended December 31, 2017 (in Crores)			
Assets up by 20% at ₹ 1,22,856 cr.		Particulars	Quarter ended 31.12.17 (Unaudited)	Nine months ended 31.12.17 (Unaudited)	Quarter ended 31.12.16 (Unaudited)
NII up by 24% at ₹ 1,410 cr.		Total Income from Operations (Net)	3,349.17	9,372.20	2,585.86
PAT up by 55% at ₹ 1,168 cr.		Net Profit after Taxes, Minority Interest and Share of Profit / (Loss) of Associate	1,167.73	2,817.02	751.49
Net NPA 0.31%		Net Profit after Taxes, Minority Interest and Share of Profit / (Loss) of Associate (after extraordinary items)	1,167.73	2,817.02	751.49
Quarterly Dividend ₹ 14		Paid-up Equity Share Capital	85.19	85.19	84.75
		Earnings per Share (EPS) before extraordinary items (EPS for the quarters and nine months are not annualised)			
		-Basic (Amount in ₹)	27.45*	66.34*	17.77*
		-Diluted (Amount in ₹)	27.13*	65.53*	17.57*
		Earnings per Share (EPS) after extraordinary items (EPS for the quarters and nine months are not annualised)			
		-Basic (Amount in ₹)	27.45*	66.34*	17.77*
		-Diluted (Amount in ₹)	27.13*	65.53*	17.57*
Notes:					
1. The above results have been reviewed by the Audit Committee and subsequently approved at the meeting of the Board of Directors held on January 23, 2018.					
2. Key Standalone Financial Information:					
		Particulars	Quarter ended 31.12.17 (Unaudited)	Nine months ended 31.12.17 (Unaudited)	Quarter ended 31.12.16 (Unaudited)
		Total Income	3,871.74	10,100.62	2,927.85
		Profit before Tax	1,437.72	3,457.18	1,013.32
		Net Profit after Tax	1,084.05	2,614.17	753.10
3. The above is an extract of the detailed format of Quarterly / Annual Financial Results filed with the Stock Exchanges under Regulation 33 of the SEBI (Listing and Other Disclosure Requirements) Regulations, 2015. The full format of the Quarterly / Annual Financial Results are available on the Company's website (www.IndiabullsHomeLoans.com) and on the website of BSE (www.bseindia.com) and NSE (www.nseindia.com).					
4. Figures for the prior year / period have been regrouped and / or reclassified wherever considered necessary.					
Registered Office: M-62863, First Floor, Connaught Place, New Delhi - 11 001. CIN: L65922DL2005PLC136029					
Mumbai, January 23, 2018					
			For and on behalf of the Board of Directors Gagan Banga Vice Chairman, Managing Director & CEO		
			 		

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Q. 1. The judgement is qualitative in nature and the role of the quantitative analysis is to help make the best possible overall qualitative judgement or opinion. The reliability of the rating depends on the validity of the criteria and the quality of analysis." Discuss the statement in context of SEBI (Credit Rating Agencies) Regulations, 1999. **[June 2018]**

Ans. Credit rating agencies have come to play an important role in the capital markets. Their assessment on various instruments and also sovereign and corporate entities has been increasingly used as benchmarks by regulators and investors. The rating industry counts-CRISIL, ICRA, CARE, Brickwork Ratings Pvt.Ltd. SMERA on the domestic front and Moody's Investor Services, Standard & Poor's (S&P), Fitch Group, as important global credit rating agencies following the dramatic growth of international financial markets.

The rating process is itself based on certain given variables. The CRA does not perform an audit. Rather, it is required to rely on information provided by the issuer and collected by the analysts from different sources, including interactions in-person with various entities. Consequently, the agency does not guarantee the completeness or accuracy of the information on which the rating is based. Standard and Poor's has rightly pointed out in determining a rating, both quantitative and qualitative analyses are employed. The judgment is qualitative in nature and the role of the quantitative analysis is to help make the best possible overall qualitative judgment because, ultimately, a rating is an opinion.

Rating assigned by CRAs are opinions based on established criteria and methodologies. As the rating process has to rely on audited figures and information supplied by the management, CRAs are, thus, required to ensure that they have systematically used all data available to them and which they have declared important to their rating. They should also have measures to establish whether the information used is accurate, authentic and from reliable sources. CRAs should not be allowed to rate instruments in cases where they do not have sufficient quality information to do so, increase disclosure about rating processes and decision outcomes would also improve their transparency.

It is obligatory on the party of rating agency to provide current opinions on the credit-worthiness of the issuer. Quarterly results announced by the companies are analyzed to see if they are at variance with the rating agencies expectations. A continuous review is essential and not just desirable.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Write notes on the following.
 - (i) IPO grading.
2. What is 'initial public offering' (IPO) grading? Explain the procedure for IPO grading.
3. "IPO grading is service aimed at facilitating the assessment of the equity issue offered to the public." Discuss.
4. Comment on the following statements:
 - (i) "Credit rating is a marketing tool for the companies."
5. "Credit rating establishes a link between risk and return."
6. Comment briefly on the following statements:
 - (i) "Credit rating is useful to investors and issuers."
7. Discuss the factors considered by credit rating agencies for rating of an instrument.
8. "Credit rating is a one-time job on the part of credit rating agencies." Comment in the light of the SEBI regulations.

FROM ICSI MODULE



Answer the following:

1. What do you understand by credit rating?
2. Explain major provisions of SEBI (Credit Rating Agencies) Regulations, 1999.
3. Explain general obligations of Credit Rating Agencies under Chapter III of SEBI (Credit Rating Agencies) Regulations, 1999.
4. Discuss the procedure relating to inspection and investigation of the credit rating agencies.
5. Explain important uses of credit rating and factors contributing to the success of a rating system.
6. Briefly discuss the disclosures required to be made by a Credit Rating Agency (CRA) under the Guidelines issued by SEBI for CRAs.
7. What is IPO Grading? Discuss briefly the procedure for grading of IPO.



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

8

STOCK EXCHANGES

**EXPECTED
MARKS COVERAGE
(15 to 20)**

Covering-

- ABC Analysis
- Recognised Stock Exchange
- Corporatization and Demutualization of Stock Exchanges
- Types of Securities
- Types of Delivery
- Trend Line
- Market Making
- Securities Lending
- Settlement System
- Trading Cycle / Rolling Settlement
- Pay-in and Pay-out
- No delivery Period
- Clearing Corporation
- Circuit Breakers
- Bolt & Basket Trading System
- National Exchange for Automated Trading (NEAT)
- Margin Trading
- Foreign Institutional Investors
- Derivatives
- Futures
- Option Trading
- Differences between Futures and Options
- Commodity Exchange
- SME Exchange
- Straight Through Processing
- Direct Market Access (DMA)
- Algorithmic Trading
- Self Test Questions
 - From Past CS Exams
 - From ICSI Module

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STOCK EXCHANGES

ABC Analysis (ICSI -Exam Point of view)	
<i>A</i>	<ol style="list-style-type: none"> 1. Corporatization and Demutualization of Stock Exchanges 2. Settlement System 3. Derivatives 4. Futures
<i>B</i>	<ol style="list-style-type: none"> 5. Commodity Exchange 6. SEM Exchange
<i>C</i>	<ol style="list-style-type: none"> 7. Circuit Breakers 8. Bolt & Basket Trading System 9. National Exchange for Automated Trading (NEAT)



Stock exchanges constitute the primary institution of the secondary market. It is a pivot around which every activity of the capital market revolves. *Stock exchanges represent the market place for buying and selling of securities and ensuring liquidity to them in the interest of the investors.* The stock exchanges are virtually the nerve centre of the capital market and reflect the health of the country's economy as a whole.

There are 23 stock exchanges in India. All of them are regulated in terms of **Securities Contract (Regulation) Act, 1956** and SEBI Act, 1992 and the rules and regulations made thereunder.

The stock exchanges are **managed by Board of Directors or Council of Management** consisting of elected brokers and representatives of Government and Public appointed by SEBI. The Boards of stock exchanges are empowered to make and enforce rules, bye-laws and regulations with jurisdiction over all its members.

STOCK EXCHANGE

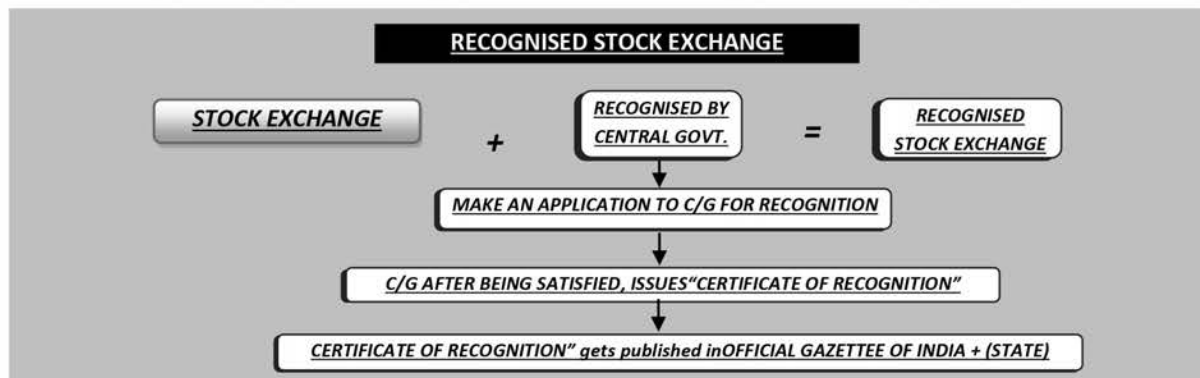
Stock Exchange means –

- anybody of individuals, whether incorporated or not, constituted before corporatisation and demutualisation under Sections 4A and 4B, or
- a body corporate incorporated under the Companies Act, 2013 whether under a scheme of corporatisation and demutualisation or otherwise, for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

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RECOGNISED STOCK EXCHANGE

Recognised Stock Exchange means a stock exchange which is for the time being recognised by the Central Government.

RECOGNISED STOCK EXCHANGE- RECOGNITION

Section 3 of SCRA lays down that any stock exchange, desirous of being recognised for the purposes of this Act may make an application in the prescribed manner to the Central Government.

Every application under sub-section (1) shall contain such particulars as may be prescribed, and shall be accompanied by a copy of the **bye-laws of the stock exchange** for the regulation and control of contracts and also a copy of the rules relating in general to the **constitution of the stock exchange**.

Section 4 lays down that if the Central Government is satisfied after making such inquiry as may be necessary in this behalf and after obtaining such further information, if any, as it may require:-

(a)	that the rules and bye-laws of a stock exchange applying for registration are in conformity with such conditions as may be prescribed with a view to ensure fair dealing and to protect investors;
(b)	that the stock exchange is willing to comply with any other conditions which it may impose for the purpose of carrying out the objects of this Act; and
(c)	that it would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange;

It may grant recognition to the stock exchange subject to the conditions imposed upon it as aforesaid and in such form as may be prescribed.

Every grant of recognition to a stock exchange under this section **shall be published in the Gazette of India** and also in the **Official Gazette of the State** in which the principal office of the stock exchange is situated, and such recognition shall have effect as from the date of its publication in the Gazette of India.

WITHDRAWAL OF RECOGNITION

If the Central Government is of opinion that the recognition granted to a stock exchange should in the interest of the trade or in the public interest, be withdrawn, the Central Government may serve on the governing body of the stock exchange a written notice that the Central Government is considering the withdrawal of the recognition for the reasons stated in the notice and after giving an opportunity to the governing body to be heard in the matter, the Central Government may withdraw, by notification in the Official Gazette, the recognition granted to the stock exchange;

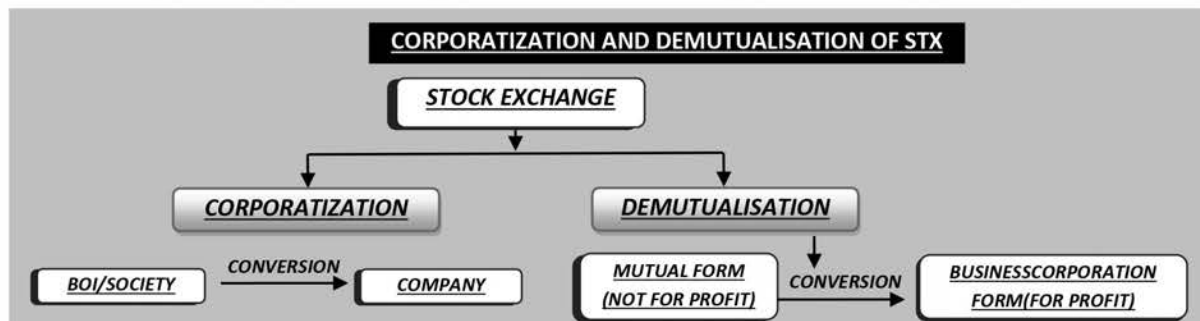
POWERS OF CENTRAL GOVERNMENT

1. To call for periodical returns and make direct enquiries [Section 6]
2. To direct rules or make rules [Section 8]
3. To Supersede Companies of Stock Exchanges [Section 11]
4. To Suspend Business of Recognised Stock Exchange [Section 12]
5. To Issue Directions [Section 12A]
6. To prohibit contracts in certain cases [Section 16]
7. To grant Immunity [Section 23-O]
8. To delegate or to make rules [Section 29A]

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CORPORATISATION AND DEMUTUALISATION OF STOCK EXCHANGES

“**Corporatisation**” means the succession of a recognised stock exchange, being a body of individuals or a society registered under the Societies Registration Act, 1860, by another stock exchange, **being a company incorporated** for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities carried on by such individuals or society;

“**Demutualisation**” means the **segregation of ownership and management** from the trading rights of the members of a recognised stock exchange in accordance with a scheme approved by the Securities and Exchange Board of India. The process of demutualisation is to convert the traditional ‘**not for profit**’ stock exchanges **into a “for profit” company** and this process is to transform the legal structure from a **mutual form to a business corporation form**.

IMPORTANT FEATURES:-

- (a) Section 4A & 4B of the Act provides that all recognised stock exchanges shall be corporatised and demutualised in accordance with the provisions contained Act.
- (b) The board of a stock exchange should consist of 75% public interest/ Shareholder directors and only 25% broker directors.
- (c) 51% shareholding of the stock exchange should be divested to public/investors other than trading member brokers and only 49% of shareholding can remain with the trading member brokers.

NKJ-CLASSROOM PRACTICE



Q. 1. Explain briefly the demutualisation of stock exchanges.

[June 2016; 3 Marks]

POWER OF RECOGNISED STOCK EXCHANGES TO MAKE BYE-LAWS

Any recognised stock exchange may, subject to the previous approval of the Securities and Exchange Board of India, make bye-laws for the regulation and control of contracts. In particular, and without prejudice to the generality of the foregoing power, such bye-laws may provide for:

- (a) the opening and closing of markets and the regulation of the hours of trade;
- (b) the fixing, altering or postponing of days for settlements;
- (c) the determination and declaration of market rates, including the opening, closing, highest and lowest rates for securities;
- (d) the listing of securities on the stock exchange, the inclusion of any security for the purpose of dealings and the suspension or withdrawal of any such securities, and the suspension or prohibition of trading in any specified securities;
- (e) the method and procedure for the settlement of claims or disputes, including settlement by arbitration;
- (f) the levy and recovery of fees, fines and penalties;
- (g) the fixing of a scale of brokerage and other charges; etc.

Any **bye-laws** made, when **approved** by the Securities and Exchange Board of India, shall be **published** in the **Gazette of India** and also in the Official Gazette of the **State** in which the principal office of the recognised stock exchange is situated, and shall have **effect** as from the **date of its publication** in the Gazette of India.

Provided that if the Securities and Exchange Board of India is satisfied in any case that in the **interest** of the trade or in the **public** interest any bye-laws should be made immediately, it may, by order in writing specify the reasons therefor, **dispense** with the condition of **previous publication**.

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POWER OF SEBI TO MAKE OR AMEND BYE-LAWS OF RECOGNISED STOCK EXCHANGES

The Securities and Exchange Board of India may, either on a **request** in writing received by it in this behalf from the governing body of a recognised stock exchange or on its **own motion**, if it is satisfied after consultation with the governing body of the stock exchange that it is necessary or expedient so to do and after recording its reasons for so doing, **make bye- laws**, for all or any of the matters specified in section 9 or **amend** any bye-laws made by such stock exchange under that section.

Where in pursuance of this section any bye-laws have been made or amended, the bye-laws so made or amended shall be published in the **Gazette of India** and also in the Official Gazette of the **State** in which the principal office of the recognised stock exchange is situated, and on the publication thereof in the Gazette of India, the bye-laws so made or amended shall have effect as if they had been made or amended by the recognised stock exchange concerned.

PUNISHMENTS FOR CONTRAVENTIONS OF BYE-LAWS

The contravention of the bye-laws made shall make a contract **void** under sub-section (1) of section 14;

Further the contravention of any of the bye-laws shall render the member concerned liable to one or more of the following punishments, namely: -

(a) fine,
(b) expulsion from membership,
(c) suspension from membership for a specified period,
(d) any other penalty of a like nature not involving the payment of money.

PENALTIES UNDER THE SECURITIES CONTRACTS (REGULATION) ACT, 1956

Whoever fails to comply with any provision of this Act, the rules or articles or bye-laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which may extend to **one crore** rupees.

APPEAL TO SECURITIES APPELLATE TRIBUNAL

Any person aggrieved, by the order or decision of the recognised stock exchange or the adjudicating officer or any order made by the Securities and Exchange Board of India may prefer an appeal before the Securities Appellate Tribunal

Every appeal shall be filed within a period of **forty-five** days from the date on which a copy of the order or decision is received by the appellant and it shall be in such form and be accompanied by such fee as may be prescribed:

Provided that the Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.

ESTABLISHMENT OF SPECIAL COURT

Section 22C provides that the Central Government may, for the purpose of providing speedy trial of offences under this Act, by notification, establish or designate as many Special Courts as may be necessary. A Special Court shall consist of a single judge who shall be appointed by the Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working. A person shall not be qualified for appointment as a judge of a Special Court unless he is , immediately before such appointment, holding the office of a Sessions Judge or an Additional Sessions Judge, as the case may be.

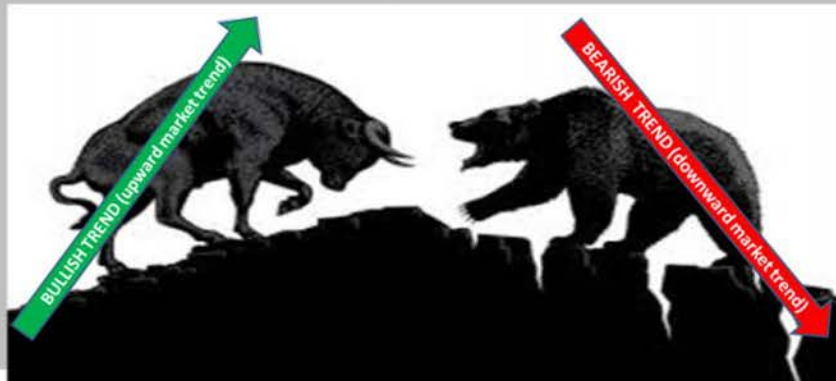
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MARKET TREND LINE



TREND LINE

BEARISH

BULLISH

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TYPES OF SECURITIES

Securities traded in the stock exchanges can be classified as under:

1. **Listed cleared Securities:** The securities admitted for dealing on stock exchange after complying with all the listing requirements and played by the Board on the list of cleared securities are called by this name.
2. **Permitted Securities:** The securities listed on some of the recognised stock exchanges, when permitted to be traded by those stock exchanges where they are not listed are called permitted securities. Such permission is given if suitable provisions exist in the regulations of the concerned stock exchanges.
3. **Specified securities:** The securities in which forward trading is permitted is known as specified securities.
4. **Unspecified securities:** The securities in which forward trading is not permitted is known as unspecified securities. The securities in this case is only traded on cash basis and are settled within one settlement period.

TYPES OF DELIVERY

Types of delivery in the stock exchanges are spot delivery, hand delivery and special delivery.

The delivery is said to be **spot delivery**, if the delivery of and payment for securities are to be made on the same day or the next day.

The delivery is said to be **hand delivery**, if the delivery and payment are to be made **on** the delivery date fixed by the stock exchange authorities.

A **special delivery** is one where the delivery is to be made **after** the delivery period fixed by the stock exchange authorities.

TREND LINE

When the **price** of shares **moves** in a particular **direction** which **persists** for a **period of time**, a **price line** is regarded as **established**. When the movement is upward, the trend is called '**BULLISH**' and when the movement is downward it is called '**BEARISH**'. Bear market is a weak or **falling market** characterised by the dominance of sellers. Whereas Bull market is a **rising market** with abundance of buyers and relatively few sellers. Moving average shows the trend of market indices.

MARKET MAKING

Though there are about 50000 companies listed on the stock exchanges in India only a few of them are being actively traded in the market. Thus the market sentiment was not representative of a wide range of industries or companies, because mostly concentrated on a few scrips. This leads one to conclude that mere listing of securities does not provide liquidity to scrips. A process known as market making was clearly needed to build up liquidity. The market maker by offering a **two way quote** not only increases the supply of scrips but also triggers of a demand in the scrips. SEBI has taken the view that market making will go a long way in reducing the bane of concentration and thus eliminating the influence of the unbalanced Sensitive Index.

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SECURITIES LENDING

Under this scheme, a person with idle shares can lend them to another who does not have the shares to fulfill his obligation under a trade finalised by him. There will be no direct contacts between the borrower and lender of securities. An intermediary who can guarantee the scheme and make good the loss in the borrower who fails to honour his obligations can alone provide substance to the scheme.

Income from securities lending is exempt from Capital Gains Tax.

SECURITIES' LENDING AND BORROWING

Securities' Lending and Borrowing describes the market practice whereby securities are temporarily transferred by one party (the lender) to another (the borrower) via an approved intermediary.

The Borrower is obliged to return them either on demand or at the end of an agreed term and also has an option to early return. Lender may recall securities at any time within normal market settlement cycle.

SHORT SELLING AND SECURITIES LENDING AND BORROWING

Framework for SLB are as follows:-	(a) "Short selling" shall be defined as selling a stock which the seller does not own at the time of trade.
	(b) All classes of investors, viz., retail and institutional investors, shall be permitted to short sell.
	(c) Naked short selling shall not be permitted in the Indian securities market and accordingly, all investors would be required to mandatorily honour their obligation of delivering the securities at the time of settlement.
	(d) The stock exchanges shall frame necessary uniform deterrent provisions and take appropriate action against the brokers for failure to deliver securities at the time of settlement which shall act as a sufficient deterrent against failure to deliver.
	(e) A scheme for Securities Lending and Borrowing (SLB) shall be put in place to provide the necessary impetus to short sell.
	(f) The securities traded in F&O segment shall be eligible for short selling.
	(g) the SLB shall be operated through Clearing Corporation/ Clearing House of stock exchanges having nation-wide terminals who will be registered as Approved Intermediaries under the SLS, 1997.

SETTLEMENT SYSTEM

Settlement is the process of netting of transactions and actual delivery/receipt of securities and transfer deeds against receipts/payment of agreed amount. It is necessary to make a settlement to know the net effect of a series of transaction during a given period. Settlement date is the date specified for delivery of securities between securities firms.

All the securities in BSE and NSE are settled by payment of monies and delivery of securities on **T+2** basis.

TRADING CYCLE / ROLLING SETTLEMENT

Trading in Market is permitted under **Rolling Settlement**, where in each trading day is considered as a trading period and trades executed during the day are settled based on the net obligations for the day.

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Settlement is on a **T+2 basis** i.e. on the 2nd working day. For arriving at the settlement day all intervening holidays, which include bank holidays, NSE holidays, Saturdays and Sundays are excluded. Typically trades taking place on Monday are settled on Wednesday, Tuesday's trades settled on Thursday and so on.

SETTLEMENT CYCLE FOR ROLLING SETTLEMENT

	Activity	Day
Trading	Rolling settlement	T
Clearing	Custodial confirmation and delivery generation	T+1 working days
Settlement	Securities and funds pay-in and pay-out	T+2 working days
Post settlement	Auction	T+3 working days
	Bad delivery reporting	T+4 working days
	Auction settlement	T+5 working days
	Rectified bad delivery pay-in and pay-out	T+6 working days
	Re-bad delivery reporting and pick up	T+8 working days
	Close out of re-bad delivery and funds pay-in and pay-out	T+9 working days

PAY-IN AND PAY-OUT

Pay-in day is the day when the securities sold are delivered to the exchange by the sellers and funds for the securities purchased are made available to the exchange by the buyers. Pay-out day is the day the securities purchased are delivered to the buyers and the funds for the securities sold are given to the sellers by the exchange. At present, the pay-in and pay-out happens on the 2nd working day after the trade is executed on the exchange, that is settlement cycle is on T+2 rolling settlement.

NO-DELIVERY PERIOD

Whenever a company announces a book closure or record date, the exchange set up a no-delivery period for that security. During this period only trading is permitted in the security. However, these trades are settled only after the no-delivery period is over. This is done to ensure that investor's entitlement for the corporate benefit is clearly determined.

AUCTION

On account of non-delivery of securities by the trading member on the pay-in day, securities are put up for auction by the exchange. This ensures that buying trading member receives the securities. The Exchange purchases the requisite quantity in auction market and gives them to the buying trading member.

CLEARING CORPORATION

Section 8A of the Securities Contract (Regulations) Act, 1956 provides for establishment of clearing corporation for the purpose of settlement of contracts, delivery of and payment of contracts and incidental thereto.

The **Clearing Corporation of India Ltd. (CCIL)** was set up in April, 2001 for providing exclusive clearing and settlement for transactions in Money and Foreign Exchange. The prime objective has been to improve efficiency in the transaction settlement process, insulate the financial system from shocks emanating from operations related issues, and to undertake other related activities that would help to broaden and deepen the money, debt and forex markets in the country.

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NATIONAL SECURITIES CLEARING CORPORATION LIMITED (NSCCL)/ NSE CLEARING LIMITED

This company incorporated as a **wholly owned subsidiary of the National Stock Exchange of India Limited carries out clearing and settlement of the trades executed in the capital market segment of National Stock Exchange**. This company completes the settlement promptly without delay or deferment. It operates on behalf of the clearing members from and to regional clearing centres and central clearing centres at Mumbai.

This corporation is connected to National Securities Depository Limited (NSDL) and Central Depositories Services (India) Limited (CDSL) and carries out clearing and settlement services for other exchanges as well as for Index Futures.

CIRCUIT BREAKERS

Circuit breakers are the maximum price limit (daily / weekly) of each stock prescribed, beyond which trading is not permitted on any stock exchange. It is prescribed to control excess volatility in price of that stock. The circuit breakers are applicable at three stages of the index movement either way at 10%, 15% and 20%. The daily/weekly price limit is checked against the stock closing price in the previous trading day/week respectively.

The market wide circuit breakers can be triggered by movement of either BSE SENSEX or the NSE NIFTY, whichever is breached earlier.

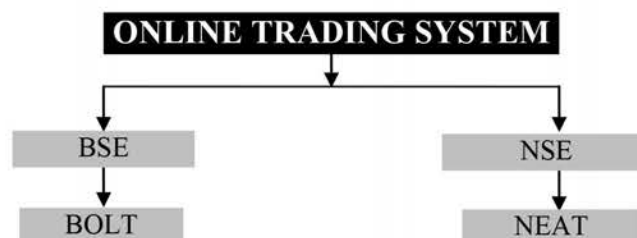
BOLT & BASKET TRADING SYSTEM

Bombay Stock Exchange on-line trading system (BOLT) is a fully automated computerized mode of trading. Through the BOLT system, the member-brokers can now enter orders for purchase or sell of securities from Trader Work Stations (TWSs) installed in their offices instead of going to stock exchanges.

With a view to provide investors the facility of creating Sensex linked portfolios and also to create a linkage of market prices of the underlying securities of Sensex in the Cash Segment and Futures on Sensex, the BSE has provided to the investors as well its member-brokers, a facility of Basket Trading System on BOLT. In the Basket Trading System, the investors through the member-brokers of the Exchange are able to **buy/sell all 30 scrips of Sensex in one go** in the proportion of their respective weights in the Sensex. The investors can also create their own baskets by deleting certain scrips from 30 scrips in the Sensex.

NATIONAL EXCHANGE FOR AUTOMATED TRADING (NEAT)

NSE introduced for the first time in India, fully automated screen based trading. It uses a modern, fully computerised trading system designed to offer investors across the length and breadth of the country a safe and easy way to invest. The NSE trading system called 'National Exchange for Automated Trading' (NEAT) is a fully automated screen based trading system, which adopts the principle of an order driven market.



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MARGIN TRADING

In order to enable the investors to take exposure in market over and above the limit through their own resources, a mechanism of trading through borrowed funds has been introduced, which is called margin trading facility.

Initial margin

“Initial margin” in this context means the minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may advance the balance amount to meet full settlement obligations.

Maintenance margin

“Maintenance margin” means of the securities, calculated respect to last trading day’s closing price, to be maintained by client with the broker.

SENSEX

Sensitive Index or Sensex is the stock market index indicator for the BSE. It is also sometimes referred to as BSE S&P Sensex. It was first published in 1986 and is based on the market weighed stock index of 30 companies based on the financial performance. The large, established companies that represent various industrial sectors are a part of this.

The calculation of Sensex is done by a Free-Float method that came into existence from September 1, 2003. The level of Sensex is a direct indication of the performance of 30 stocks in the market. The free-float method takes into account the proportion of the shares that can be readily traded in the market. This does not include the ones held by various shareholders and promoters or other locked-in shares not available in the market.

Steps to calculate Sensex:

- (a) The market capitalization is taken into account. This is done by multiplying all the shares issued by the company with the price of its stock.
- (b) BSE determines a Free-float factor that is a multiple of the market capitalization of the company. This helps in determining the free-float market capitalization based on the details submitted by the company.

NIFTY

National Stock Exchange Fifty or Nifty is the market indicator of NSE. It is a collection of 50 stocks. It is also referred to as Nifty 50 .it is owned and managed by India Index Services and Products Ltd. (IISL).

Nifty is calculated through the free-float market capitalization weighted method. It multiplies the Equity capital (expressed in terms of number of shares outstanding) with a price to derive the market capitalization.

ADDITIONAL TRADING FLOOR

Additional Trading Floor means a trading ring or trading facility offered by a recognized stock Exchange outside its area of operation to enable the investors to buy and sell securities through such trading floor under the regulatory framework of that stock exchange.

A stock exchange may establish additional trading floor with the prior approval of SEBI in accordance with the terms and conditions stipulated by SEBI.

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FOREIGN INSTITUTIONAL INVESTORS

As per Regulation 2(F) of Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995 'Foreign Institutional Investor' *means institution established or incorporated outside India which proposes to make vestment in India in securities.*

FII's or the foreign institutional investors are foreign institutions that have registered themselves with SEBI to invest in Indian markets. They are big investors and generally buy and sell shares in large quantity. They have a considerable impact over the market.

DERIVATIVES

Derivatives are contracts which derive values from the value of one or more of other assets, called underlying assets. Some of the most commonly traded derivatives are futures, forward, options and swaps.

FUTURES

This is a contract to buy or sell an underlying financial instrument at a specified future date at an **agreed price** (strike price) quoted when the contract is entered.

Main features of future Contract:	(a) There is an agreement
	(b) Agreement is to buy or sell the underlying asset
	(c) The transaction takes place on a predetermined future date
	(d) The price at which the transaction will take place is also predetermined.

Every futures contract has two sides:-

1. A willing buyer
2. A willing seller

If one side of contract makes a profit and the other side will make a loss.

A margin has to be deposited at the clearing house for futures. A buyer is called the '**long**' and the seller '**short**'.

A margin has to be deposited at the clearing house for futures. The size of the market is large.

DIFFERENCE BETWEEN FORWARD CONTRACT AND FUTURES CONTRACT

FEATURES	FORWARD CONTRACT	FUTURES CONTRACT
Contract Terms	Differs from trade to trade	Standardized contracts
Mechanism Terms	Not traded on an exchange	Traded on a exchange
Price discovery	Poor	Better
Liquidity	Poor	Very high

OPTIONS TRADING

An option is a contract between two parties in which the maker of the option (option writer) agrees to buy or sell a specified number of shares at later date for an agreed price (strike price) to the holder of the option (option buyer) on a due date (answer date) and time, when and if the later so desires, in consideration of a sum of money (premium). The strike price or premium is the price which is required to be paid for purchase of right to buy or sell.

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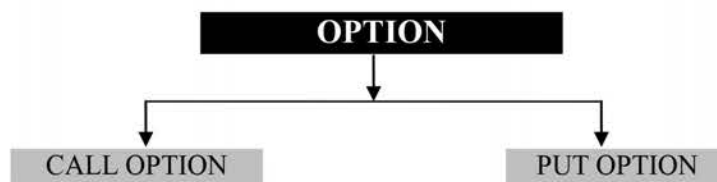
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TYPES OF OPTION

Options are of following two types:-



1. CALL OPTION

In **call option**, an investor has a **right to buy**. It is contract that gives right but not obligation to the purchaser of the option to buy specified quantity of the underlying asset at the specified price (strike price) on or before a specified date. An investor takes a call option if he expects that the market price will be higher than the strike price to earn the difference as his profit.

2. PUT OPTION

In **put option**, an investor has a **right to sell**. It is contract that gives right but not obligation to the seller of the option to sell specified quantity of the underlying asset at the specified price (strike price) on or before a specified date. An investor takes a put option if he expects that the market price will be lower than the strike price. The lower the market price than the strike price, the higher will be the profit for investor.

STRIKE PRICE

It is the fixed price agreed between the purchaser and seller of the option at which the option may be exercised.

OUT OF THE MONEY

It is a situation for the option holder when the option price is more than the current price of the underlying asset in the case of call option and is the option price is less than the prevailing market price of the underlying assets in case of put option.

EXERCISING OPTIONS

There are two ways of exercising options—

- (i) **On the expiry date (European options system)** and
- (ii) **anytime before the expiry of specified time (American option system).**

EUROPEAN OPTION	AMERICAN OPTION
1. It can be exercise by the buyer on the maturity date/expiration day only and not before.	1. The buyer can exercise if any time between the day of purchase of the option and the day of its expiry.
2. They are made over-the counter market.	2. They are generally exchange traded
3. They can be tailor made as per the requirement of the client.	3. They are highly standardized.

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DIFFERENCES BETWEEN 'FUTURES' AND 'OPTIONS'

The-differences between 'Futures' and 'Options' are:-

FUTURES	OPTIONS
1. In future trading both, the buyer and seller must agree to buy / sell underlying assets.	1. In option trading, the buyer enjoys the right but not obligation to buy or sell the securities at his option.
2. Contract price are determined by prices of underlying assets.	2. Prices of the contract are affected by prices of underlying assets, time remaining for expiry of contract and volatility of the underlying contract.
3. In future contract both profit and losses are unlimited for both buyers and sellers.	3. In option contract profit is unlimited and losses are limited for the buyer of the option but for the seller of the option loss is limited to the premium.
4. No premium is required.	4. Strike price of the option include premium money.

INVESTMENT STRATEGIES

STRADDLE: Combination of one put and call option is known as straddle. Here, the investor is insured against any movement on either side and has opportunity to gain from up move and down move.

STRAP: Combination of one put and two calls option is known as strap. Here, the investor is confident that scrip price will change, but it is more likely to go up than go down.

STRIP: Combination of two puts and one call option is known as strip. Here, the investor is confident that scrip price will change, but it is more likely to go down than go up.

MAJORS PLAYERS OF DERIVATIVE MARKET

1. **HEDGERS:-** Those persons who Wish to eliminate the risk to which they are already exposed
2. **SPECULATORS:-** Those persons Who are ready to take risk to earn profit
3. **ARBITRAGEURS:-** Those persons who earns profit from price differential existing in two different markets

PRE-REQUISITIES FOR OPTION TRADING

- (a) Standardization of the terms of contract:-
- (b) Careful selection of underlying securities:
- (c) Setting up of options clearing house:-
- (d) Creation of a central market:-

OVER THE COUNTER EXCHANGE OF INDIA (OTCEI)

In major Stock Exchanges, small companies could not have visible access and thus could not raise funds from the public. In order to provide this facility, the OTCEI was create to offer nationwide on-line access to them by implementing a computerized, ringless, scripless Stock Exchange with trading and settlement standards comparable to the global standards. The market is actually spread across the country through a number of counters which are connected by a computer network wherein transactions take place through satellite communication.

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Following are the benefits of OTCEI Listing:-

- (a) It is the Stock Exchange with a specific mandate to service small and medium, innovative and high growth enterprises, in raising capital efficiency through the capital market.
- (b) This is the only exchange, which offers listing to companies with paid up capital below ₹3 Crores.
- (c) Listing on OTCEI is suitable for startup enterprises, as the requirement of track record is not mandatory.

‘BUY AND HOLD’ AND ‘BUY AND TRADE’

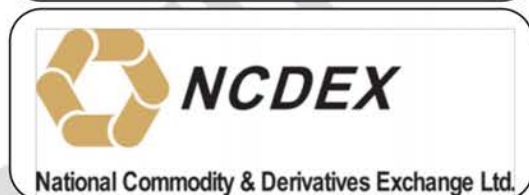
When an investor buys any securities, purely for long term investment purpose & keep it, till maturity, then it is called buy & hold strategy. So there is only one exit-route i.e. redemption of security.

When an investor buys any security; not for investment purpose, but actively trading purpose and making profit by actively dealing in it, then it is called “Buy and trade”.

DIFFERENCES BETWEEN ‘BUY AND HOLD’ AND “BUY AND TRADE”

BASIS OF DIFFERENCE	BUY & HOLD	BUY & TRADE
Nature of Strategy	Buy & hold is passive strategy on the part of investor because he holds the securities till maturity.	It is an active strategy because the investor actively trade in security.
Lock-In Period	In this option, the invested amount of investor can be released only on maturity,	No blockage of fund and amount invested can be released by trading in it.
Benefit	In the form of interest, dividend or difference between redemption price & issue price.	The investor can get benefits from trading in addition to benefits of interest or dividend.

COMMODITY EXCHANGE



Commodity Exchange is an association of persons or a company or any other body corporate organizing futures trading in commodities. A future trading is organized in such goods or commodities are permitted by Central Government.

Commodity Exchanges organizing trading in commodities future contracts are regulated by Forwards Contracts (Regulation) Act, 1952. The nodal agency for such regulation is the Forwards Markets Commission situated at Mumbai. It functions under the control of the Ministry of Consumer Affairs, food and Public Distribution of the Central Government.

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SME EXCHANGE



SME exchange means a trading platform of a recognised stock exchange having nationwide trading terminals permitted by SEBI to list the specified securities issued in accordance with SEBI (ICDR) Regulation and includes a stock exchange granted recognition for this purpose but does not include the Main Board.

Here Main Board means a recognized stock exchange having nationwide trading terminals, other than SME exchange.

The two stock exchange of India i.e. Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) have begun their SME listing platforms. While BSE SME Exchange began its operation in March, 2012, NSE's SME exchange titled EMERGE commenced operations in September, 2012.

BENEFITS OF LISTING ON SME EXCHANGE	(a) Access to capital and future financing opportunities
	(b) Going public would provide the MSME's with equity financing opportunities to grow their business – from expansion of operations to acquisitions.
	(c) Going public is likely to enhance the company's visibility. Greater public awareness gained through media coverage, publicly filed documents and coverage of stock by sector investment analysts can provide the SME with greater profile and credibility.
	(d) Becoming a public company establishes a market for the company's shares, providing its investors with an efficient and regulated vehicle in which to trade their own shares. Greater liquidity in the public market can lead to better valuation for shares than would be seen through private transactions.
	(e) The employees of the SME enterprises can participate in the ownership of their own company and benefit from being a shareholder. This can serve to ensure stronger employee commitment to the company's performance and success.

EXEMPTIONS AVAILABLE FOR SECURITIES LISTED AT SME EXCHANGE

1.	Filing of draft offer document. (Regulation 6(1)(2) and (3))
2.	In-principle approval from the recognized exchanges (Regulation 7)
3.	Submission of certain documents before opening of an issue. (Regulation 8)
4.	Draft offer document to be made to the public. (Regulation 9)
5.	Conditions of initial public offer. (Regulation 26)
6.	Conditions for further public offer. (Regulation 27)

MODEL LISTING AGREEMENT FOR SMEs

To facilitate listing of specified securities in the SME exchange, "Model Equity Listing Agreement" to be executed between the issuer and the Stock Exchange, to list/migrate the specified securities on SME Exchange.

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The listing agreement covers routine listing compliances such as intimation to exchange, publication requirements, Corporate Governance compliances etc.

ROLE OF COMPANY SECRETARY

- (a) All listed SMEs on SME platform are also required to appoint the Company Secretary of the Issuer as Compliance Officer who will be responsible for monitoring the share transfer process and report to the Issuers board in each meeting. The Compliance Officer will directly liaise with the authorities such as SEBI, Stock Exchanges, ROC etc., and investors with respect to implementation of various clause, rules, regulations and other directives of such authorities and investor service & complaints related matter.
- (b) Further Registrar & Transfer Agents of listed SMEs are required to produce a certificate from a practicing company secretary that all transfers have been completed within the stipulated time and certification regarding compliance of conditions of Corporate Governance.
- (c) Companies seeking listing on BSE SME platform through IPO are required to comply with the quantitative eligibility norms as prescribed by BSE. Additionally, it will be desirable for the company to file a compliance certificate by a practicing company secretary as per the guidance note issued by the Institute of Company Secretaries of India as and when such a certification is made applicable by the SME platform of BSE Ltd.

STRAIGHT THROUGH PROCESSING

Straight Through Processing (STP) is generally understood to be a mechanism that automates the end to end processing of transactions of financial instruments. It involves use of a system to process or control all elements of the work flow of a financial transaction, what are commonly known as the Front, Middle, Back office and General Ledger.

In other words, STP allows electronic capturing and processing of transactions in one pass from the point of order origination to final settlement.

STP thus streamlines the process of trade execution and settlement and avoids manual entry and re-entry of the details of the same trade by different market intermediaries and participants. Usage of STP enables orders to be processed, confirmed, settled in a shorter time period and in a more cost effective manner with fewer errors.

ADVANTAGES OF STRAIGHT THROUGH PROCESSING

Advantages of Straight through Processing are as under:	(a) Reduced risk.
	(b) Automation of manual process minimizing errors.
	(c) Improved operational efficiency in handling larger volumes.
	(d) Facilitates movement towards shorter settlement cycles (T+1).
	(e) Lower cost per trade.
	(f) Timely settlement of trades and instructions.
	(g) Eliminates paper work and minimizes manual intervention.
	(h) Enables increased cross border trading (FII trades).

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DIRECT MARKET ACCESS (DMA)

Direct Market Access (DMA) is a facility which allows brokers to offer clients direct access to the exchange trading system through the broker's infrastructure without manual intervention by the broker.

Some of the advantages offered by DMA are:-	(a) direct control of clients over orders,
	(b) faster execution of client orders,
	(c) reduced risk of errors associated with manual order entry,
	(d) greater transparency,
	(e) increased liquidity,
	(f) lower impact costs for large orders,
	(g) better use of hedging and arbitrage opportunities

ALGORITHMIC TRADING

Any order that is generated using automated execution logic shall be known as algorithmic trading.

SEBI have formulated broad guidelines to be followed by both Stock Exchanges and Stock Brokers for Algorithmic Trading. These guidelines permits secure systems for algorithmic trading and help to keep pace with the speed of trade and volume of data that may arise through it.

GUIDELINES

1. The Guidelines provides for following directions to Stock Exchanges:-

(a) To have arrangements, procedures and systems to adequately manage the trade load of algorithm orders.
(b) To ensure all trades are routed through servers of stock brokers located in India only.
(c) To have appropriate risk control mechanisms covering price band check and quantity limit check.
(d) To report algorithmic trading details in the Monthly Development Report submitted to SEBI.
(e) To ensure that the stock brokers provide the facility of algorithmic trading only after obtaining prior permission of the stock exchanges.

2. The Guidelines provides for following directions to Stock brokers:-

(a) Stock Brokers are directed to implement the minimum levels of risk controls.
(b) Stock Brokers are directed to prescribe individual client level cumulative open order value check.
(c) To have pre- defined parameters for algorithm systems, for an automatic stoppage if algorithm execution leads to loop or a runaway situation.
(d) To include a specific report ensuring that the checks are in place in the annual system audit report submitted by the Stock Brokers to Stock Exchanges.
(e) Stock brokers interesting in Algorithmic Trading are required to submit to Stock exchanges undertakings w.r.t. having proper procedures, systems and technical capability to carry such trades, safeguards to protect any misuse, real time monitoring system and logs of all trading to facilitate audit trail etc.

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NATIONAL STOCK EXCHANGE OF INDIA LIMITED

'Exchange Plaza', Bandra-Kurla Complex, Bandra (E), Mumbai-400 051

NOTICE

Notice is hereby given that the following trading member of the National Stock Exchange of India Ltd. (Exchange) has requested for the surrender of its trading membership of the Exchange:

Sr. No.	Name of the Trading Member	SEBI Regn. No.	Last Date for filing complaints
1.	Aadhar Securities Private Limited	INB230856230 INF230856230 INE230856230	28-April-2018

The constituents of the above-mentioned trading member are hereby advised to lodge immediately complaints, if any, against the above trading member on or before the last date for filing complaints as mentioned above and no such complaint filed beyond this period will be entertained by the Exchange against the above mentioned trading member and it shall be deemed that no such complaints exist against the above mentioned trading member or such complaint, if any, shall be deemed to have been waived. The complaints filed against the above trading member will be dealt with in accordance with the Rules, Bye-laws and Regulations of the Exchange/ NSCCL. The complaints can be filed online at www.nseindia.com>Domestic Investors> Complaints>Register an E-complaint. Alternatively, the complaint forms can be downloaded from www.nseindia.com>Domestic Investors>Complaints>Register a complaint offline> Complaints against Trading Members or may be obtained from the Exchange office at Mumbai and also at the Regional Offices.

For National Stock Exchange of India Ltd.

Sd/-

Place: Mumbai

Date: 28th February, 2018

Chief Manager
Compliance

NIFTY *Stock of the nation*

Compiled by:- NITESH KR. JAISWAL.

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INDEX MOVERS

Sensex

Company	Days Close	% Chg	Mcap* (₹ Cr)	Days Weight	PE
SENSEX	27730.21	1.52	2284714	100.00	22.48
HDFC	1268.35	2.50	199873	8.75	22.8
ITC	310.30	1.69	174105	7.62	25.9
Infosys Tech	1024.40	2.77	166405	7.28	19.1
Reliance Ind	991.35	-0.52	165331	7.24	13.6
L&T	1731.05	0.69	157352	6.89	33.8
HDFC Bank	1048.45	1.77	155410	6.85	25.7
Tata Consult	2595.70	1.75	132698	5.81	25.6
ICICI Bank	315.15	3.46	129759	5.66	19.0
Axis Bank	572.00	3.62	92850	4.06	18.5
ONGC	318.45	-0.16	84650	3.71	15.4
SBI	265.85	2.19	78970	3.46	11.8
Sun Pharma	857.00	1.23	75129	3.29	45.4
Hind Unilever	871.75	1.63	61814	2.71	43.7
Bharti Airtel	424.20	-2.25	58705	2.57	32.7
Tata Motors	440.15	1.67	56424	2.47	9.1
M&M	1308.65	0.01	56057	2.45	24.5
Maruti Suzuki	3980.85	0.96	52671	2.31	32.4
Coal India	399.75	1.45	51383	2.25	18.4
Lupin	1811.10	-0.29	43482	1.90	33.9
Bajaj Auto	2425.40	0.82	35611	1.56	24.9
Wipro	581.35	-0.31	34158	1.50	16.0
Hero Motocorp	2580.60	1.13	33683	1.47	21.6
Dr. Reddys Lab	3423.60	1.30	33640	1.47	26.3
Cipla	613.65	1.09	30061	1.32	41.7
NTPC	137.10	0.77	28318	1.24	11.0
BHEL	246.50	2.07	22287	0.98	42.9
Gail India	401.60	1.61	21640	0.95	16.8
Tata Steel	310.40	1.84	20141	0.88	-
Vedanta	176.55	0.71	17278	0.76	-
Hindalco	121.05	0.41	13821	0.60	27.0

Nifty

Company	Days Close	% Chg	Mcap* (₹ Cr)	Days Weight	PE
NIFTY	8353.10	1.56	2810147	100.00	23.15
HDFC	1271.55	2.81	200377	7.13	22.9
ITC	310.40	1.77	174161	6.20	25.9
Infosys	1023.85	2.86	166315	5.92	19.1
Reliance Ind	991.70	-0.50	165390	5.89	13.6
L&T	1732.50	0.96	157484	5.60	33.8
HDFC Bank	1047.15	1.62	156216	5.56	25.7
Tata Consult	2591.50	1.65	137483	4.71	25.6
ICICI Bank	315.05	3.45	129717	4.67	19.0
Axis Bank	572.15	3.73	92874	3.30	18.5
ONGC	318.40	-0.23	84637	3.01	15.4
SBI	266.00	2.25	79015	2.81	11.8
Sun Pharma	856.90	1.29	75120	2.67	45.4
Kutak Man.Bk	1357.90	2.24	74132	2.64	40.7
Hind Unilever	873.45	1.84	61934	2.20	43.8
Bharti Airtel	424.50	-2.19	58747	2.09	32.7
Tata Motors	440.50	1.72	56468	2.01	9.1
M&M	1312.00	0.49	56201	2.00	24.5
Maruti Suzuki	3980.65	1.10	52668	1.87	32.4
HCL Techno.	931.55	1.45	51616	1.84	18.1
Coal India	399.70	1.54	51377	1.83	18.4
Lupin	1806.20	-0.58	43364	1.54	33.8
Idea Cellular	175.20	-0.17	36395	1.30	19.8
Bajaj Auto	2425.05	0.72	35606	1.27	24.9
Wipro	580.20	-0.24	34098	1.21	16.0
Asian Paints	747.70	1.04	33859	1.20	51.4
Hero Motocor	2581.55	1.18	33695	1.20	21.6
Dr. Reddy's	3425.90	1.22	33663	1.20	26.3
Tech Mahindr	551.45	1.34	33632	1.20	20.2
IndusInd Bnk	839.25	0.55	32405	1.15	24.9
Power Grid	141.30	0.93	31121	1.11	14.8
Cipla	613.50	1.13	30054	1.07	41.7
NTPC	137.00	0.70	28297	1.01	11.0
UltraTech Ce	2804.00	0.04	28131	1.00	36.7
Yes Bank	859.40	3.55	28001	1.00	17.9
BPCL	846.15	1.26	27575	0.98	12.0
BHEL	246.65	2.24	22301	0.79	42.5
GAIL (I)	401.40	1.35	21629	0.77	16.8
Tata Steel	310.65	1.87	20157	0.72	-
Bosch	21745.40	3.02	19578	0.70	67.5
Zee Entert.2	345.35	1.54	18882	0.67	33.9
Grasim Inds.	3398.65	0.43	18736	0.67	17.9
Vedanta	176.55	0.97	17278	0.61	-
Ambuja Cemen.	228.45	0.82	16864	0.50	27.4
Hindalco	121.20	0.33	13838	0.49	27.1
Bk of Baroda	146.40	3.03	13750	0.49	9.5
Cairn	181.60	1.03	13656	0.49	7.6
Tata Power	74.50	3.04	13465	0.48	120.2
ACC	1427.45	0.16	13327	0.47	26.8
Pun.Nat.Bank	138.05	3.18	10277	0.37	8.4
NMDC	119.60	0.38	9484	0.34	7.4

Compiled by:-NITESH KR. JAISWAL.

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STOCKS ON BSE/NSE											
BSE 'A' GROUP & NSE											
Company	Close	%Chg	Open	Day H/L	Vol.52Wk H/L	Company	Close	%Chg	Open	Day H/L	Vol.52Wk H/L
ABB(2)	753.40	0.6	755.10	753.40/755.10	5K 915/541	ICI Fluoroch(1)	351.25	-2.2	360	360.90/347	14K 545/317
[N]	752.90	-0.4	754.95	760/749.05	31K 1037/541	[N]	349.90	-2.3	358.05	361.40/345	293K 545/315
ACC	1400.75	-0.2	1414	1414/1390.15	35K 1515/1083	Gul Mineral(2)	217.15	1.7	214.20	218.40H/214	61K 218/151
[N]	1401.30	-0.2	1405.80	1413.50/1369.75	473K 1546/1082	[N]	217.60	1.6	213.95	218.50H/213.60	150K 219/151
Adani Enterp(1)	221.90	-0.7	223.25	225.55/218.05	6756K 487/152	Gul Petro	74.80	-3.0	77.50	77.55/74.15	150K 104/62
[N]	221.80	-0.9	224.40	225.50/218.50	3306K 487/152	[N]	74.55	-3.2	77.35	77.50/73.75	2593K 103/62
Adani Port(2)	130.50	1.8	128.20	132.70/128.15	1536K 170/105	Havells (I)(5)	620.30	-4.2	649	649/616.20	28K 672/352
[N]	130.70	1.7	128	132.90/128	1480K 170/106	[N]	619.35	-4.4	646.10	648.70/614.25	497K 708/354
Adani Power	47.90	0.0	47.90	48.90/47.30	6738K 97/37	HCL Techno(2)	610.20	0.3	607	618.95H/606	44K 619/374
[N]	47.75	-0.3	48.15	48.85/47.30	3455K 97/37	[N]	609.25	0.1	610.90	619.55H/605	1214K 620/373
Aditya Bir.N	901.75	-1.6	920	923.95/892.35	211K 1029/710	HDPC(2)	766.05	2.1	744.65	768.40/744.65	123K 794/601
[N]	901.55	-1.6	915.10	922.65/893.90	153K 1029/708	[N]	765.75	2.0	750	768.90/749	6288K 794/600
Allahabad Bk	139.80	-2.1	142.90	143.75/139.40	151K 211/103	HDPC Bank(2)	637.10	0.6	633	640/629.05	82K 840/400
[N]	139.20	-2.7	142.75	143.80/138.65	3513K 211/113	[N]	637.35	0.5	632.65	641H/629	4253K 641/400
Ambuja Cemin(2)	205.65	1.4	202.35	207.20/201	138K 221/136	HDIL	101.15	-2.1	103.65	104.50/98.75	3433K 135/52
[N]	205.10	1.5	201.25	207.20/201	4318K 223/136	[N]	101.10	-2.2	103.50	104.50/98.60	20966K 135/52
Andhra Bank	112.95	-0.3	113	113.95/111.55	57K 139/79	Hero MotoCorp(2)	1838.25	2.4	1759	1846.70/1751	107K 2279/1703
[N]	112.80	-0.5	113.35	113.80/111.25	822K 138/77	[N]	1832.30	2.0	1755	1840/1751	916K 2279/1662
Apollo Hosp.(5)	76.315	3.2	784.90	811.95H/760.15	68K 812/452	Hexaware Tec(2)	112.40	2.6	109.75	113.20/109.30	245K 142/73
[N]	76.05	2.7	791.05	814H/751.05	743K 814/452	[N]	112.25	2.4	109.85	113.45/109.20	3657K 141/73
Apollo Tyres(1)	86	-0.7	87.25	87.50/85.75	458K 102/53	Hind Copper(5)	259.90	-1.6	266	267.30/257.55	42K 320/146
[N]	85.95	-0.8	87.20	87.50/85.75	4083K 102/54	[N]	260	-1.7	266	268.10/258.15	110K 322/145
Ashok Leylan(1)	23.25	0.4	23.40	23.55/23.15	281K 33/20	Hind Unilieve(1)	563.80	-1.2	570.05	570.15/559.85	193K 580/346
[N]	23.20	0.6	23.35	23.50/23.05	4115K 34/19	[N]	563.95	-1.1	570.95	570.95/559.85	3283K 580/346
Asian Paints	3898.25	-0.4	3914.60	3916.80/3871.60	6K 4170/2551	Hind Zinc(2)	132.40	0.5	139.80	140/131.35	105K 150/107
[N]	3896.15	-0.4	3910	3920/3871.35	131K 4191/2550	[N]	132.25	0.4	131.80	133.40/131.25	889K 154/106
Astrazenca Ph.(2)	1617.45	-0.4	1620	1634.45/1607.05	4K 2649/1162	Hindico(1)	113.85	0.4	113.95	114.70/113.20	427K 165/100
[N]	1616.95	-0.7	1616.05	1637.10/1605	6K 2649/1162	[N]	113.75	0.4	113.45	114.75/112.85	4475K 165/100
Aurobindo Ph(1)	163.15	2.2	160.20	164.10/159.20	276K 165/80	HPCL	302.80	0.6	303	304.65/300.60	58K 357/239
[N]	163.25	2.2	160	164.50/159.15	1743K 165/80	[N]	302.50	0.5	302	304.55/300.55	921K 357/238
Axis Bank	1238.70	1.5	1220	1243.40/1219.70	232K 1309/785	ICICI Bank	1086.15	0.6	1069.10	1090/1069.10	373K 1038/641
[N]	1238.05	1.3	1219.90	1243.40/1218	1858K 1308/784	[N]	1087.15	0.7	1070.10	1091.90/1070.10	4026K 1100/641
Bajaj Auto	1784.60	-0.4	1772.20	1789/1757	44K 1850/1410	ICICI Bank	97.30	-0.5	98.05	98.70/96.40	190K 122/77
[N]	1759.10	-0.6	1765	1789/1752.15	362K 1850/1407	[N]	97.10	-0.7	97.95	98.40/96.25	1664K 127/77
Bajaj Finser(5)	921.60	4.4	888.50	925/888	65K 979/385	Idea Cellular	81.65	0.2	81.30	82.05/80.50	87K 103/71
[N]	920.65	4.3	889.10	926.40/886.90	327K 984/334	[N]	81.75	0.4	81.30	82.40/80.60	1054K 103/66
Bajaj Holdg.	861.30	2.5	839	865/837.10	6K 874/625	IDFC	157.10	2.5	153.25	157.55/152.75	638K 165/90
[N]	861.20	2.1	843.45	863.90/835.25	172K 880/628	[N]	157.40	2.4	153.65	157.75/152.80	8862K 165/90
Bata (I)	908.35	-0.6	914	919.95/894	26K 999/492	IFCI	29.10	-0.7	29.35	29.60/28.95	1119K 49/20
[N]	908.70	-0.6	914.10	917.30/892.95	337K 990/492	[N]	29	-1.0	29.30	29.60/28.90	5913K 49/20
Bayer CropSc	1109.80	0.2	1120	1140H/1101.10	6K 1140/673	Indiabulls F(2)	253.60	4.7	242	260.70H/238.20	620K 261/117
[N]	1108.10	-0.3	1115	1145H/1085	17K 1145/654	[N]	253.80	4.9	242	260.90/238.30	2505K 272/117
Berger Paint(2)	140.40	0.8	139.90	141.60/139.30	30K 156/78	Indian Bank	183.40	1.7	181	184.60/179.10	10K 265/152
[N]	140.25	0.4	139.90	141.50/139.15	62K 157/78	[N]	183.70	1.7	180.75	184.95/179.50	119K 265/151
Bharat Elect	1291.85	0.8	1280.50	1299/1280.50	512 1666/1125	Indian Hotel(1)	65.05	-1.7	66.50	66.50/64.50	157K 80/51
[N]	1293.75	1.0	1280.60	1299/1280.60	8K 1710/1111	[N]	65	-1.8	66.50	66.60/64.50	1590K 80/51
Bharat Forge(2)	295.40	-1.0	298.55	300.80/294.10	17K 347/231	Indian Oil C	260.55	0.3	261	262.75/258.75	80K 308/239
[N]	297.35	-0.4	298.85	301.40/293	636K 358/230	[N]	260.20	0.0	262	262.90/258.75	1242K 308/235
Bharti Art(5)	269.65	-0.6	272	273.65/267	179K 412/239	Indian Ov.Bk	80.05	0.0	80	81/79.50	57K 119/86
[N]	269.65	-0.6	271.50	273.65/268.50	3321K 412/215	Indrapr.Gas	79.90	-0.2	80.30	80.50/79.35	1198K 112/66
BHEL(2)	240.50	0.3	239	242/238.75	288K 340/195	[N]	252.25	-1.1	255.10	256/251.70	34K 436/170
[N]	240.55	0.4	238.10	242/238.10	3524K 339/195	[N]	252.15	-1.4	255.40	255.90/251.35	309K 437/188
Bhushan Steel(2)	497.45	0.4	497.90	499.10/492	67K 513/297	Indusind Bnk	365.25	0.8	363.75	367/360.15	16K 376/222
[N]	496.80	0.5	494.30	498.80/491.50	135K 514/297	[N]	365.45	0.8	361.05	367.50/360.10	291K 376/222
Blocco(5)	261.30	-0.8	269.85	269.85/260	47K 363/208	Infosys(5)	2344.95	-0.3	2346	2355/2331.65	303K 2990/2102
[N]	260.85	-0.9	264.90	264.90/260	309K 361/208	[N]	2344.75	-0.4	2343	2357.10/2330.15	1407K 2994/2061
Bk of Baroda	771	-1.6	787.95	789/766.45	51K 881/606	ING Vysya Bk	462.05	-0.5	467	470.20/454.35	14K 475/276
[N]	763.25	-1.9	783.90	789.50/765	600K 881/606	[N]	462.20	-0.7	468	470.05/454.90	45K 476/276
Bk of India	298.30	0.2	298.90	302/296.85	59K 408/254	IPCA Lab.(2)	459.60	-0.7	465	477/457	82K 495/234
[N]	297.45	-0.2	299.05	302/295.45	1196K 408/253	[N]	460.45	-0.5	475	477.65/457	408K 496/233
Bosch	8900.25	0.2	8939	8939/8870	117 9300/6425	IRB Infrac.	119.05	-15.7	139.40	139.40/114.20	5421K 210/100
[N]	8926.40	0.1	8919.95	8939/8892	3K 9400/6448	[N]	119.10	-0.6	137.95	137.95/114.55	24231K 211/100
BPL	350.45	0.5	356	356/346.85	42K 395/230	ITC(1)	291.80	0.5	292.70	294/288.50	230K 299/189
[N]	350.50	0.6	351.80	352/346.60	779K 395/229	[N]	292.05	0.7	291.30	294/288.65	7943K 299/189
Britannia(2)	485.45	1.2	487	492/483	5K 600/434	J&K Bank	1167.10	0.4	1172	1190H/1150	6K 1190/645
[N]	490.90	1.8	486.85	495/482	46K 600/380	[N]	1169.05	0.6	1165.05	1190/1160.15	43K 1190/645
Cadila Health(5)	876.65	1.5	865	882/864	4K 964/629	Jain Irrig.(2)	69.80	1.5	69.50	70.90/67.40	550K 129/60
[N]	875.90	1.2	852	882/852	176K 965/620	[N]	70.15	2.2	68.70	71.80/67.45	2522K 130/59
Cairn	334.80	-0.9	339.80	341.25/333.05	218K 401/285	Jalprakash Asso(2)	95.30	0.6	94.95	95.85/93.90	1451K 96/50
[N]	334.70	-0.9	339.95	341.35/333.10	10405K 401/284	[N]	95.30	0.6	94.55	95.80/93.90	14475K 96/50
Canara Bank	441.25	-0.4	442.70	446/432.65	44K 566/306	Jalprakash P	40.05	3.4	38.90	40.55/38.90	1011K 50/25
[N]	441.50	-0.4	443.10	446/432.10	526K 566/306	[N]	40	3.1	39.50	40.60/39.20	6903K 50/25
Castrol (I)	318.65	-1.4	323	325.60/316.20	55K 338/193	Jaypee Intra	51	1.8	50.35	51.65/48.75	495K 64/33
[N]	318.15	-1.6	321.05	326/316	704K 338/190	[N]	51	1.6	50.45	51.40/49.50	1179K 64/33
Central Bank	71	-1.9	72.40	72.60/70.65	373K 112/62	Jet Airways	353.50	-0.7	357	357/349.05	125K 411/167
[N]	70.85	-2.1	72.65	72.70/70.50	1719K 112/62	[N]	353.20	-0.5	357.70	357.70/348.15	432K 450/167
Century Text	395.15	-0.1	395	402.25/393	89K 407/216	Jindal Steel(1)	387.10	-1.0	394.50	394.50/382.30	904K 663/321
[N]	394.25	-0.5	395.05	402.30/392.40	798K 407/215	[N]	387.30	-0.9	392.90	394.85/381.95	2670K 664/320
CESC	332	-3.0	340	345/328.55	610K 346/186	JSW Energy	60.50	-3.0	62.10	62.40/60	117K 77/37
[N]	330.45	-3.5	339.85	345.35/327.30	869K 347/191	[N]	60.35	-3.2	62.45	62.50/59.80	1437K 77/37
Cipla(2)	361.90	-0.9	365	365.95/360	103K 395/284	JSW Steel	730.65	-1.9	745.10	749.80/727.70	229K 865/464
[N]	361.95	-1.1	364.10	366.95/360.30	1741K 395/284	[N]	731.10	-2.0	747.05	749.55/728	1176K 866/462
Coal India	357	-0.2	357.75	360.45/355.50	75K 386/294	Jubilant FdW	1257.10				

Q. 1. Explain the Tracking Stocks.

[June 2018]

Ans. Tracking Stocks

A Tracking stock is a type of common stock that “tracks” or depends on the financial performance of a specific business unit or operating division of a company, rather than the operations of the company as a whole. As a result, if the unit or division performs well, the value of the tracking stocks may increase, even if the company’s performance as a whole is not up to mark or satisfactory. The opposite may also be true.

Tracking stock carries dividend rights tied to the performance of a targeted division without transferring ownership or control over divisional assets. In contrast to a spin-off or an equity carve-out, the parent retains full control, allowing it to enjoy any operating synergies, or economies of scale in administration or finance.

Q. 2. Explain the Option Contract.

[June 2018]

Ans. Option Contract

An option contract conveys the right, but not the obligation, to buy or sell a specific security or commodity at specified price within a specified period of time. The right to buy is referred to as a call option whereas the right to sell is known as a put option. An option contract comprises of its type a put or call, underlying security or commodity expiry date, strike price at which it may be exercised.

Option provides the investor with the opportunity to hedge investments in the underlying shares and share portfolios and can thus reduce the overall risk related to the investments significantly.

Q. 3. Explain the Futures.

[June 2018]

Ans. Future

Futures is a contract between two parties to buy or sell a underlying asset of standardized quantity and for a price agreed upon today with delivery and payment occurring at a specified future date. Underlying assets for the purpose include equities, foreign exchange, interest bearing securities and commodities. The idea behind financial futures contract to the other. It offers a means to manage risk in participating financial market. Futures basically transfer value rather than create it. It is a means for reducing risk or assuming risk in the hope of profit. Every futures contract entered into has two side willing buyer and a willing seller. If one side of contract makes a profit, the other side must make a loss. All futures market participants taken together can neither lose nor gain. The futures market is a zero sum game.

Q. 4. Explain the Hedge Funds.

[June 2018]

Ans. Hedge funds

Hedge funds, including fund of funds are unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are not subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardized pricing and valuation information to investors. Usually, hedge funds:

- (a) Are organized as private investment partnerships or offshore investment corporations;
- (b) Use a wide variety of trading strategies involving position-taking in a range of markets;
- (c) Employ as assortment of trading techniques and instruments, often including short-selling, derivation and leverage;
- (d) Pay performance fees to their managers; and
- (e) Have an investor base comprising wealthy individuals and institutions and relatively high minimum investment limit.

Q. 5. Securities Exchange Board of India (SEBI) permitted all classes of investors to short sell subject to the broad framework specified. Enumerate the broad framework for short selling.

[June 2018]

Ans. Broad Framework for short selling

- (a) “Short selling” shall be defined as selling a stock which the seller does not own at the time of trade.
- (b) All classes of investors, viz., retail and institutional investors, shall be permitted to short sell.
- (c) Naked short selling shall not be permitted in the Indian securities market and accordingly, all investors would be required to mandatory hour their obligation of delivering the securities at the time of settlement.
- (d) No institutional investor shall be allowed to do day trading i.e., square-of their transactions intra-day. In other words, all transactions would be grossed for institutional investors at the custodians’ level and the institutions would be required to fulfill their obligations on a gross basis.
- (e) The custodians, however, would continue to settle their deliveries on a net basis with the stock exchanges.

- (f) The stock exchanges shall frame necessary uniform deterrent provisions and take appropriate action against the brokers for failure to deliver securities at the time of settlement which shall act as a sufficient deterrent against failure to deliver.
- (g) A scheme for Securities Lending and Borrowing (SLB) shall be put in place to provide the necessary impetus to short sell. The introduction of fullfledged securities lending and borrowing scheme shall be simultaneous with the introduction of short selling by institutional investors.
- (h) The securities traded in Future and Option (F&O) segment shall be eligible for short selling.
- (i) SEBI may review the list of stocks that are eligible for short selling transactions from time to time.
- (j) The institutional investors shall disclose upfront at the time of placement of order whether transaction is a short sale. However, retail investors would be permitted to make a similar disclosure by the end of the trading hour on the transaction day.
- (k) The brokers shall be mandated to collect the details on scrip-wise short sell positions, collate the data and upload it to the stock exchanges before the commencement of trading on the following trading day. The stock exchanges shall then consolidate such information and disseminate the same on their websites for the information of the public on a weekly basis.
- (l) The frequency of such disclosure may be reviewed from time to time with the approval of SEBI.

BLOCK DEAL

The Exchanges have introduced new block window mechanism for the block trades from January 01, 2018.

A. Session Timings:

- (a) Morning Block Deal Window: This window shall operate between 08:45 AM to 09:00 AM.
- (b) Afternoon Block Deal Window: This window shall operate between 02:05 PM to 2:20 PM

B. In the block deal the minimum order size for execution of trades in the Block deal window shall be ₹10 Crore.

C. The orders placed shall be within $\pm 1\%$ of the applicable reference price in the respective windows as stated above.

D. The stock exchanges disseminate the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc to the general public on the same day, after the market hours

BULK DEAL

Bulk deal is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company.

Bulk deal can be transacted by the normal trading window provided by brokers throughout the trading hours in a day. Bulk deals are market driven and take place throughout the trading day.

The stock broker, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis.

Bulk orders are visible to everyone. If the bulk deal happens through a single trade, it should be notified to the exchange immediately upon the execution of the order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading

MARKET SURVEILLANCE

Market surveillance plays a vital role in ensuring market integrity which is the core objective of regulators. Market integrity is achieved through combination of surveillance, inspection, investigation and enforcement of relevant laws and rules.

Globally market surveillance is either conducted by the Regulators or Exchanges or both. In India, the primary responsibility of market surveillance has been entrusted to Stock exchanges and is being closely monitored by SEBI.

Millions of Orders are transmitted electronically every minute and therefore surveillance mechanisms to detect any irregularities must also be equally developed. Exchanges adopt automated surveillance tools that analyse trading patterns and are installed with a comprehensive alerts management system.

Market Surveillance is broadly categorised in 2 parts viz, Preventive Surveillance and Post trade Surveillance.

IMPACT OF POLICIES ON INDIAN STOCK MARKET

Since monetary policies are influenced by inflation and inflationary expectations in the economy it is therefore, critical that inflation index should be able to predict future inflation with reasonable accuracy. Generally, when a country is operating in a low interest rate regime, borrowers can borrow money at a lower interest rate. This aids in increased purchased power of the consumers. The demand for the goods increase and subsequently sensing a higher demand, the prices will also raise. This condition drives the inflation rates higher. When the inflation rates raise more than the optimal levels, the Reserve Bank of India (RBI) steps into increase interest rate to control inflation rate. When inflationary pressure starts building in the economy RBI hikes the repo rate and/or cash reserve ratio (CRR) to manage the money supply causing higher inflation.

CS NITESH KR. JAISWAL

SELF TEST QUESTIONS

FROM PAST CS EXAMS



- Write short notes on the following:
 - Securities lending.
 - Margin trading
 - Trend line
 - Derivatives' contracts
 - Clearing corporation
 - 'Futures' and 'options'
 - Spot delivery contract
- Distinguish between the following :
 - 'Initial margin' and 'maintenance margin'.
 - 'Book closure' and 'record date'.
 - 'Straight through processing' (STP) and 'direct market access' (DMA).
 - 'Forward' and 'futures'.
 - 'Spot delivery' and 'special delivery'.
 - 'Book closure' and 'record date'.
 - 'Forwards' and 'future'.
- Distinguish between the following
 - 'Bullish trend' and 'bearish trend'.
 - 'Call option' and 'put option'.
 - 'Listed securities' and 'permitted securities'
- Explain briefly the following:
 - Bolt
 - Neat
 - Private placement
 - Surveillance BSE
 - Market making
- What is 'short selling'? Discuss the mechanism of securities lending and borrowing (SLBS).
- Comment briefly on the "Derivative contracts are of various types".
- Explain briefly the following terms associated with securities market:
 - Basket trading system
 - Trading cycle.
 - Multiple listing
 - Clearing
 - Circuit breaker
- Comment briefly on the "Stock exchanges are virtually the nerve centre of the capital market."
- What do mean by SME Exchange? Discuss the role of Company Secretary in the model listing agreement laid down by SEBI for SMEs for the purpose of listing

FROM ICSI MODULE



Answer the following:

- What is a SME Exchange? What are the benefits available to accompany on listing at SME exchange?
- Discuss the procedure for settlement of securities under rolling settlement.
- Discuss the framework for securities lending and borrowing.
- What is straight through processing? What are its advantages?
- Briefly explain about Direct Market Access.
- What is Algorithmic Trading? Enumerated the guidelines prescribed SEBI for Stock Broker in this behalf?
- What is 'demutualization'? Briefly discuss the important features of demutualization.
- State the provisions relating to Corporatization and Demutualization of Stock Exchanges?
- Briefly discuss the powers of stock exchange under the SCRA Act, 1956.
- What is the remedy available to accompany if a stock exchange refuse to list its securities under SCRA Act, 1956?
- Briefly explain the provision relating to continuous listing requirement under SCRR, 1957.
- State the grounds on which a stock exchanges can delist the securities of a company under the SCRR, 1957.



10. “The securities lending does not have direct contract between the borrowers and lender of securities.” Comment.
11. What is ‘algorithmic trading’? Enumerate the guidelines prescribed by SEBI for brokers in the behalf.
12. Explain the following:
- (i) PCS (Practicing Company Secretary) certification for SME platform.
13. Short selling means selling a stock which the seller does not own at the time of trade. In this context, discuss the board framework of short selling.
14. (i) What is ‘market-making’? Discuss in brief the obligation of a market-maker.
(ii) What is meant by demutualization of stock exchange? Explain the purpose of demutualization.
15. Explain briefly Straight through processing (STP).
16. Comment on the following statements:
- (i) “Demutualisation of Stock exchanges is to convert the traditional stock exchanges into a company”.
 - (ii) “Derivatives are contracts which derive their value from the value of one or more of other assests.”
17. What is meant by ‘Demutualisation of stock exchanges’?



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

9

DEPOSITORIES

Covering-

- ABC Analysis
- Depository – Meaning
- Depository Participant (DP) – Meaning
- Depository – Legal Framework
- Eligibility Condition for Depository
- Bye-Laws of a Depository
- Depository System
- Rights and Obligations of depositories and its constituents
- Depository – Services
- Benefits of Depository System
- Models of Depository
- Dematerialization & Rematerialisation
- Immobilisation
- Pledge or Hypothecation of Securities held in a Depository
- Rights of Depositories and Beneficial Owner
- Register of Beneficial Owner (Section 11)
- Basic services Demat Account (BSDA)
- Audit Under SEBI (Depositories and Participants) Regulations, 2018
- Offences and penalties under the Act
- Power to Grant Immunity
- Self Test Questions
 - From Past CS Examination Questions
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(5 to 10)**

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DEPOSITORIES

ABC Analysis (ICSI -Exam Point of view)

A	<ol style="list-style-type: none"> 1. Depository System 2. Dematerialization & Rematerialisation 3. Pledge or Hypothecation of Securities held in a Depository
B	<ol style="list-style-type: none"> 4. Benefits of Depository System 5. Models of Depository
C	<ol style="list-style-type: none"> 6. Rights of Depositories and Beneficial Owner 7. Register of Beneficial Owner (Section 11) 8. Basic services Demat Account (BSDA)



Depositories gave a new dimension and a new scope for conducting transactions in capital market-primary as well as secondary, in a more efficient and effective manner, in a paperless form on an electronic book entry basis. It provided electronic solution to the problems of bad deliveries and long settlement cycles. The main objective of a Depository is to minimize the paper work involved with the ownership, trading and transfer of securities.

Depositories Act, 1996 and **SEBI (Depositories and Participants) Regulations, 2018** provide the regulatory framework for the depositories.

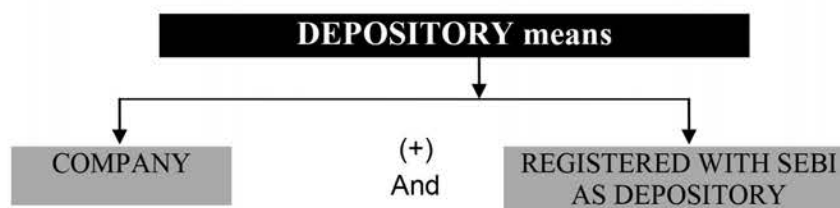
DEPOSITORY-MEANING

A Depository is an organisation like a Central Bank where the securities of a shareholder are held in the electronic form at the request of the shareholder through the medium of a Depository Participant.

According to Section 2(e) of the Depositories Act, 1996,

“Depository means a company formed and registered under the Companies Act, 2013 and which has been granted a certificate of registration under Section 12(1A) of the Securities and Exchange Board of India Act, 1992”.

There are two Depositories functioning in India, namely the **National Securities Depository Limited (NSDL)** and the **Central Depository Services (India) Limited (CDSIL)**.



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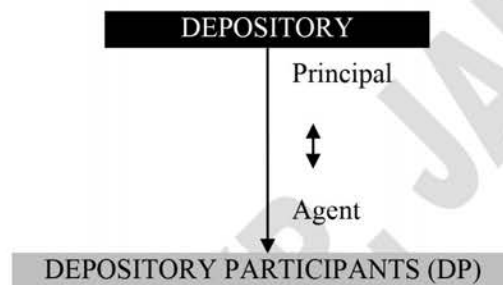


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DEPOSITORY PARTICIPANT (DP)-MEANING



Just as a brokers act an agent of the investor at the Stock Exchange; a Depository Participant (DP) is the representative (agent) of the Depository in the depository system providing the link between the Company and investor through the Depository. According to SEBI guidelines, Financial Institutions like banks, custodians, stockbrokers etc. can become participants in the depository.



DEPOSITORY- LEGAL FRAMEWORK

The legal framework for a depository system has been laid down by the Depositories Act, 1996 and is regulated by SEBI.

Anybody to be eligible for providing depository services must be formed and registered as a company under the Companies Act, 1956 and seek registration with SEBI and obtain a Certificate of Commencement of Business from SEBI on fulfillment of the prescribed conditions. The companies issuing securities are also required to enter into an agreement with the Depository.

ELIGIBILITY CONDITION FOR DEPOSITORY

Any company or other institution to be eligible to provide depository services must:

- (a) be formed and registered as a company under the Companies Act, 1956.
- (b) be registered with SEBI as a depository under SEBI Act, 1992.
- (c) has framed bye-laws with the previous approval of SEBI.
- (d) has one or more participants to render depository services on its behalf.
- (e) has adequate systems and safeguards to prevent manipulation of records and transactions to the satisfaction of SEBI.
- (f) complies with Depositories Act, 1996 and SEBI (Depositories and Participants) Regulations, 2018.

BYE-LAWS OF A DEPOSITORY

Depository is required to frame its bye-laws with the prior approval of SEBI, consistent with the provisions of the Act and the regulations made by SEBI thereunder. SEBI has, however, the power to direct the depository to amend or revoke any bye-laws already made, wherever it considers expedient to do so.

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Contents of the bye-laws

As per Sub-section 2 of Section 26 of the Act, the bye-laws of a depository would include:-

(a)	the eligibility criteria for admission and removal of securities in the depository.
(b)	the conditions subject to which the securities shall be dealt with.
(c)	the eligibility criteria for admission of any person as a participant.
(d)	the manner and procedure for dematerialisation of securities.
(e)	the procedure for ensuring safeguards to protect the interests of participants and beneficial owners.
(f)	the conditions of admission into and withdrawal from a participant by a beneficial owner.
(g)	declaration, shareholder meetings and other matters of interest to the beneficial owners.
(h)	the manner of distribution of dividends, interest and monetary benefits received from the company among beneficial owners.
(i)	the manner of creating pledge or hypothecation in respect of securities held with a depository.
(j)	the internal control standards including procedure for auditing, reviewing and monitoring

DEPOSITORY SYSTEM

(a)	The Depository System functions very much like the banking system .
(b)	A bank holds funds in accounts whereas a Depository holds securities in accounts for its clients.
(c)	A Bank transfers funds between accounts whereas a Depository transfers securities between accounts.
(d)	In both systems, the transfer of funds or securities happens without the actual handling of funds or securities.
(e)	Both the Banks and the Depository are accountable for the safe keeping of funds and securities respectively.

In the depository system, share certificates belonging to the investors are to be dematerialised and their names are required to be entered in the records of depository as **beneficial owners**. Consequent to these changes, the investors' names in the companies' register are replaced by the name of depository as the registered owner of the securities. The **beneficial owner continues to enjoy all the rights and benefits and is subject to all the liabilities** in respect of the securities held by a depository.

RIGHTS AND OBLIGATIONS OF DEPOSITORIES AND ITS CONSTITUENTS

- (a) Every depository is required to enter into an agreement with the issuer.
- (b) The depository is also required to enter into a tripartite agreement with the issuer, its transfer agent and itself where company has appointed a transfer agent.
- (c) Every depository is required to maintain continuous connectivity with issuers, registrars and transfer agents, participants and clearing house or clearing corporations.
- (d) Depositories should take adequate measures including insurance to protect the interest of the beneficial owners.
- (e) Every depository is required to maintain the following records and documents namely:

(a)	records of securities dematerialised and rematerialised;
(ii)	the names of the transferor, transferee, and the dates of transfer of securities;
(iii)	a register and an index of beneficial owners;
(iv)	details of holding of the securities of the beneficial owners as at the end of the each day;
(v)	records of instruction(s) received from and sent to participants, issuers' agents and beneficial owners;

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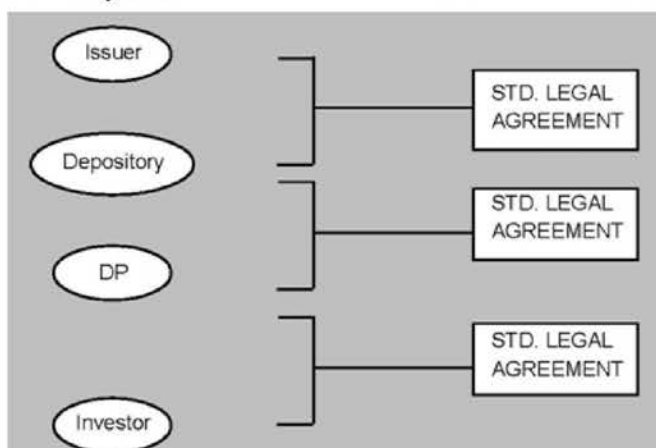
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- (a) Subject to the provisions of any other law, the depository shall preserve records and documents for a minimum period of five years.



DIFFERENCE BETWEEN DEPOSITORY AND CUSTODIAN

Both depository and custodial services are responsible for safe keeping of securities but they are different in the sense that the **Depository can legally transfer beneficial ownership, which a custodian cannot.** The main objective of a Depository is to minimize the paper work involved with the ownership, trading and transfer of securities.

DEPOSITORY-SERVICES

Under the provisions of the Depositories Act, these Depositories provide various services to investors and other Participants in the capital market. These include basic facilities like account opening, dematerialisation, rematerialisation, settlement of trades and advanced facilities like pledging, distribution of non-cash corporate actions, distribution of securities to allottees in case of public issues, etc.

To utilize the services offered by a depository, the investor has to open an account with the depository through a participant, similar to the opening of an account with any of the bank branches to utilize services of that bank.

FUNGIBILITY OF SHARES

Section 9(1) of the Depositories Act, 1996 specifies that all securities held in a depository shall be dematerialized and shall be in a fungible form. It means that ***all certificates of the same security are inter changeable in the sense that investors lose the right to obtain the exact certificate they surrender at the time of entry into depository.***

It is like withdrawing money from bank without bothering about the distinctive number of currencies.

BENEFITS OF DEPOSITORY SYSTEM

(a)	Elimination of bad deliveries.
(b)	Elimination of all risks associated with physical certificates.
(c)	Immediate transfer and registration of securities.
(d)	Faster disbursement of non cash corporate benefits like rights, bonus, etc.
(e)	Reduction in handling of huge volumes of paper and periodic status reports to investors on their holdings and transactions, leading to better controls.
(f)	Elimination of problems related to change of address of investor, transmission, etc.
(g)	No stamp duty on transfer.
(h)	No odd lots problem.

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MODELS OF DEPOSITORY

1. Immobilisation
2. Dematerialisation

DEMATERIALISATION & REMATERIALISATION

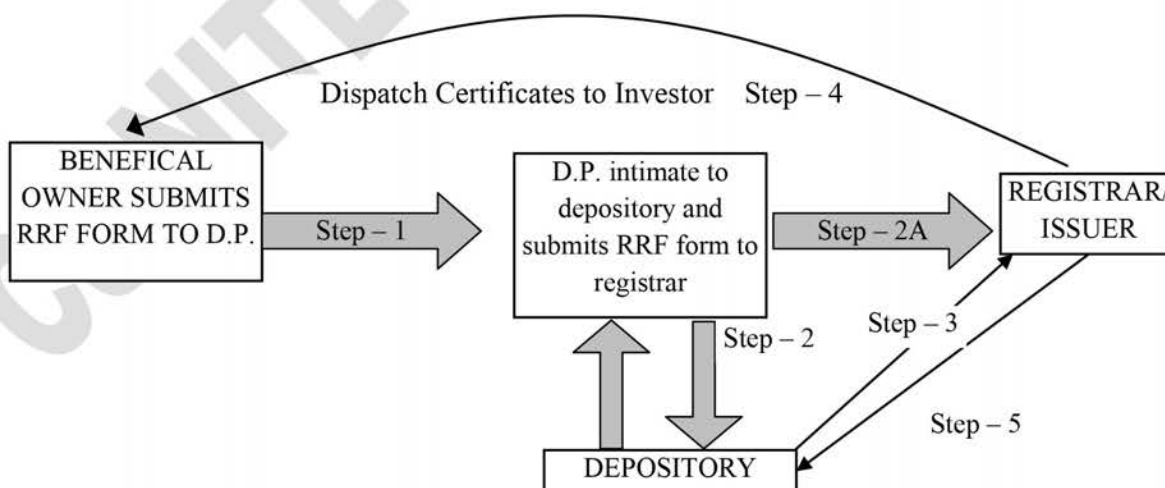
Dematerialisation is a process by which the physical share are converted into electronic shares at the request of the investor. Dematerialisation of shares is optional and an investor can still hold shares in physical form.

Rematerialisation is a process by which the electronic share are converted back into physical shares at the request of the investor

DEMATERIALISATION PROCESS & REMATERIALISATION PROCESS

Dematerialisation process	Rematerialisation process
1. Investor opens account with DP	1. Client submits Rematerialisation Request Form (RRF) to DP
2. Fills Dematerialisation Request Form (DRF) for registered shares	2. DP intimates Depository
3. Investor lodges DRF and certificates with DP	3. Depository intimates the Registrar/Issuer
4. DP intimates the Depository	4. DP sends RRF to the Registrar/Issuer
5. Depository intimates Registrar/Issuer	5. Registrar/Issuer prints certificates and sends to Investor
6. DP sends certificates and DRF to Registrar/Issuer	6. Registrar/Issuer confirms remat to Depository
7. Registrar/Issuer confirms demat to Depository	7. Investor's account with DP debited.
8. Depository credits investor a/c.	

DIAGRAMMATIC REPRESENTATION OF REMATERIALISATION PROCESS



IMMOBILISATION

Immobilisation takes place when **physical share certificates are kept with the depository for safe custody**. All subsequent transactions in these securities take place in **book entry form**. The actual owner has the right to withdraw his physical securities as and when desired. The immobilization of fresh issue may be achieved by issuing a jumbo certificate representing the entire issue in the name of depository, as nominee of the beneficial owners.

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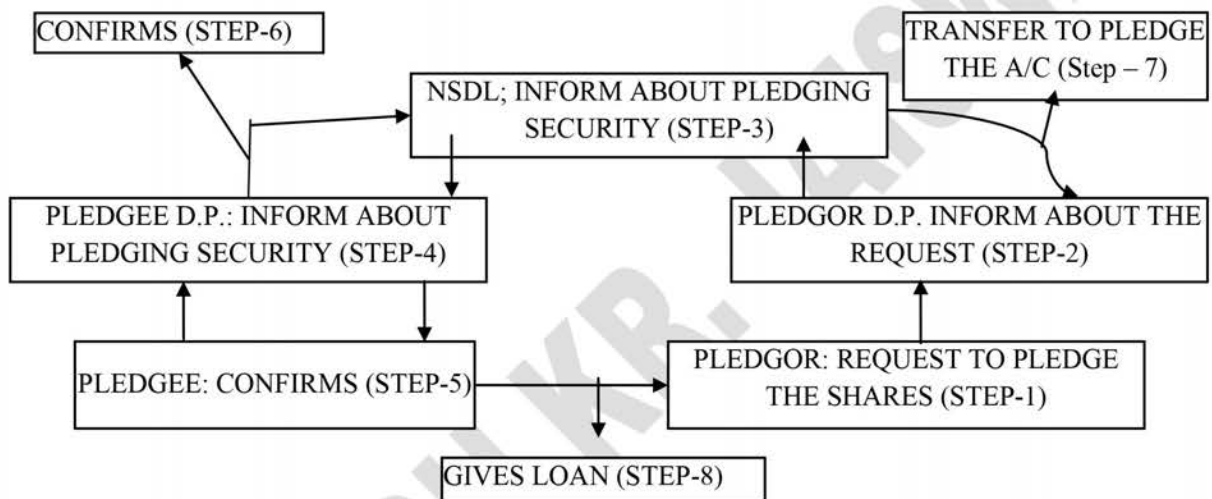


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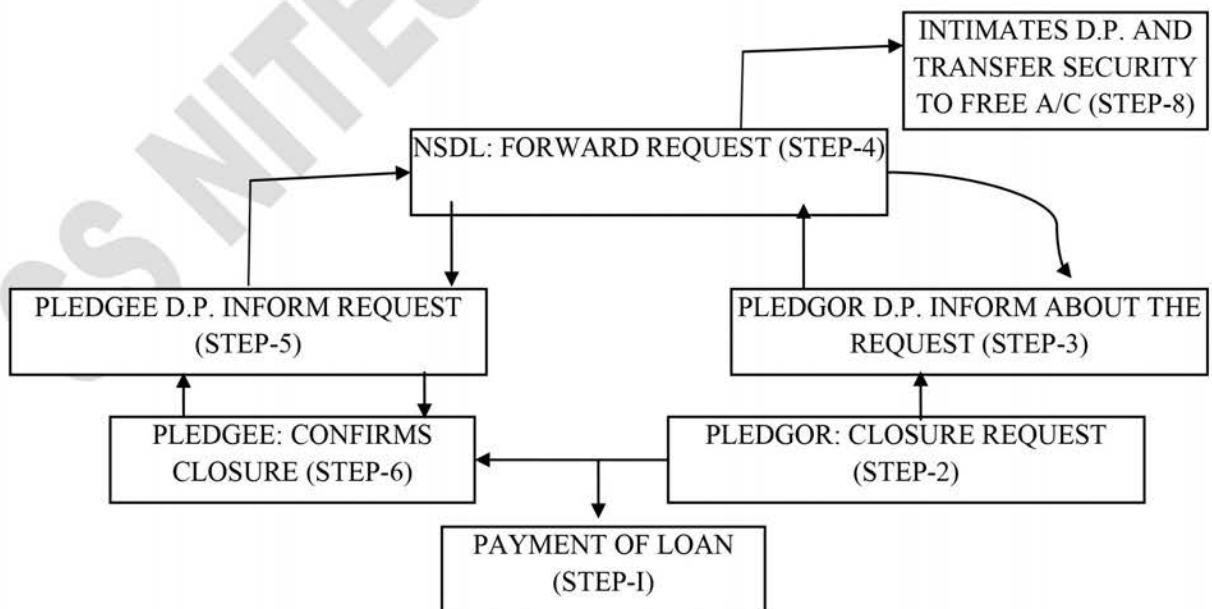
PLEDGE OR HYPOTHECATION OF SECURITIES HELD IN A DEPOSITORY

A beneficial owner may with the previous approval of the depository create a pledge or hypothecation in respect of a security owned by him through a depository. **Every beneficial owner should give intimation of such pledge or hypothecation to the depository participant** and such depository is required to make entries in its records accordingly. Any entry in the records of a depository should be evidence of a pledge or hypothecation.

PLEDGE PROCESS



PLEDGOR: CLOSURE



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RIGHTS OF DEPOSITORIES AND BENEFICIAL OWNER

A depository should be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner. The depository as a registered owner should not have any voting rights or any other rights in respect of securities held by it. The beneficial owner is entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by a depository.

REGISTER OF BENEFICIAL OWNER

Section 11

Every depository is required to maintain a register and an index of beneficial owners in the manner provided in the Companies Act. Companies Act, 2013 provides that the register and index of beneficial owners maintained by a depository Depositories Act, 1996 shall be deemed to be an index of members and register and index of debenture holders, as the case may be, for the purposes Companies Act, 2013.

BASIC SERVICES DEMAT ACCOUNT (BSDA)

With a view to achieve wider financial inclusion, encourage holding of demat accounts and to reduce the cost of maintaining securities in demat accounts for retail individual investors, SEBI introduced the concept of basic services demat account (BSDA).

All depository participants (DPs) shall make available a "Basic Services Demat Account" (BSDA) with limited services and reduced costs compared to conventional demat accounts. These BSDA will also offer SMS alert facility for debit transactions.

Eligible Investor

The "Basic Services Demat Account" (BSDA) promises to provide limited services at reduced costs to retail investors. All individual who currently have one account or plan to open a demat account where they are the sole first holder will be allowed to open the BSDA, provided that the value of securities held will not be more than ₹2 lakh at any given point of time.

Statements to be sent

(a) Transaction statements:

Transaction statements shall be sent to the beneficial owner (BO) at the end of each quarter.

(b) Holding Statement:

(a) One annual physical statement of holding shall be sent to the stated address of the BO

Charges for statements

Electronic statements shall be provided free of cost. However, for physical statements, DPs have to provide two statements free of cost to the account holder during the billing cycle. But additional statements will be charged a fee, which cannot be more than ₹25.

SARAL ACCOUNT OPENING FORM FOR RESIDENT INDIVIDUALS

SARAL it is an account opening process for Resident individual investors with a view to encourage their participation, it is, therefore, decided that such individual investors can open a trading account and demat account by filling up a simplified Account Opening Form ('AOF') termed as 'SARAL AOF'.

This form will be separately available with the intermediaries and can also be downloaded from the Exchanges' and Depositories' website.

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AUDIT UNDER SEBI (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 2018

SEBI (Depositories and Participants) Regulations, 2018 provides that every issuer shall submit audit report on a **quarterly basis** to the concerned stock exchanges audited by a **practicing Company Secretary or a qualified Chartered Accountant**, for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital.

The audit report is required to give the updated status of the register of members of the issuer and confirm that securities have been dematerialized as per requests within 21 days from the date of receipt of requests by the issuer and where the dematerialization has not been effected within the said stipulated period, the report would disclose the reasons for such delay.

INTERNAL AUDIT OF OPERATIONS OF DEPOSITORY PARTICIPANTS

The two Depository service providers in India, viz., National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Limited (CDSL) have allowed **Practising Company Secretaries** to undertake internal audit of the operations of Depository Participants (DPs).

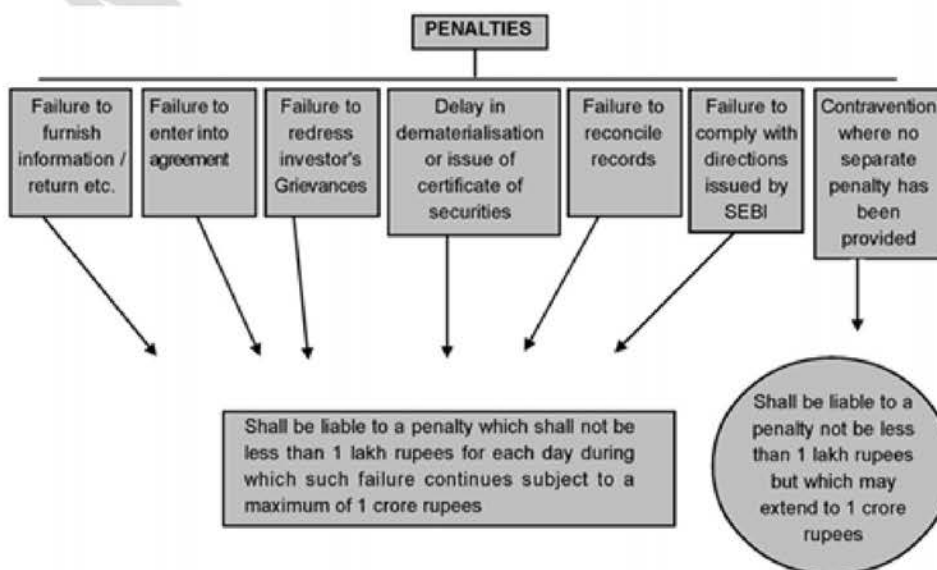
Every Depository Participant shall ensure that an internal audit in respect of the operations of the Depository is conducted at intervals of not more than **three months** by a qualified Chartered Accountant or a Company Secretary holding a certificate of Practice and a copy of the internal audit report shall be furnished to the Depository.”

CONCURRENT AUDIT

Depository Participants are subject to concurrent audit by a **Practising Company Secretary or qualified Chartered Accountant**. Concurrent Audit includes audit of process of demat account opening, control and verification of delivery instruction slips.

However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors

OFFENCES AND PENALTIES UNDER THE ACT



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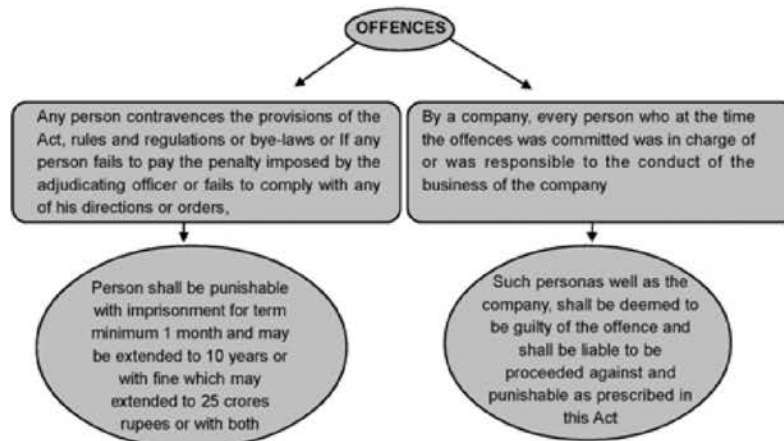
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Section 20 provides that without prejudice to any award of penalty by the adjudicating officer under this Act, if any person contravenes or attempts to contravene or abets the contravention of the provisions of this Act or of any rules or regulations or bye-laws made there under, he shall be punishable with imprisonment for a term which may **extend to ten years**, or with fine, which may extend to **twenty-five crore rupees**, or with **both**.



OFFENCES BY COMPANIES

Section 21 provides that where an offence under this Act has been committed by a company, every person who at the time the offence was committed was **in charge** of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

The proviso to the section also provides that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed **without his knowledge or that he had exercised all due diligence** to prevent the commission of such offence.

Where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any **director, manager, secretary** or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

POWER TO GRANT IMMUNITY

Section 22B empowers the **Central Government** to grant immunity, **on recommendation by the SEBI**, if the Central Government is satisfied, that any person, who is alleged to have violated any of the provisions of this Act or the rules or the regulations made there under, **has made a full and true disclosure in respect of alleged violation**, grant to such person, subject to such conditions as it may think fit to impose, **immunity from prosecution** for any offence under this Act, or the rules or the regulations made there under or **also from the imposition of any penalty** under this Act with respect to the alleged violation.

No such immunity shall be granted by the Central Government in cases where the proceedings for the prosecution for any such offence have been instituted before the date of receipt of application for grant of such immunity.

Recommendation of SEBI under this subsection is not binding upon the Central Government.

The immunity granted to a person may, at any time, be withdrawn by the Central Government, if it is satisfied that such person had, in the course of the proceedings, not complied with the condition on which the immunity was granted.

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Q. 1. Write notes on Concurrent Audit.

[June 2018]

Ans. Concurrent Audit

The bye-laws of Depositories (NSDL/CDSL) provides for concurrent audit of the Depository Participants have been advised to appoint a firm of qualified Chartered Accountant (s) or Company Secretary (ies) holding a certificate of practice for conducting the concurrent audit. However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors. In respect of account opening, the auditor should verify all the documents including KYC documents furnished by the Clients and verified by the officials of the Participants.

Q. 2. Write notes on Models of Depository.

[June 2018]

Ans. Models of Depository

Immobilization- where physical share certificates are kept in vaults with the depository for safe custody. All subsequent transactions in these securities take place in book entry form. The actual owner has the right to withdraw his physical securities as and when desired. The immobilization of fresh issue may be achieved by issuing a jumbo certificate representing the entire the issue in the name of depository, as nominee of the beneficial owners. By depository. This type of system is cost effective and simple and has been adopted in India.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Write short notes on the following:
 - (i) Fungibility
 - (ii) Depository agreement
 - (iii) Depository participants
 - (iv) Concurrent audit of depository participants.
2. "Depository system is a boon to capital market and investors, both." Elucidate the statement and bring out the advantages of the dematerialization of securities.
3. Explain the term 'demat'. State the benefits of demat securities.
4. What do you mean by 'dematerialisation of securities'? State its benefits.
5. Explain the Depository participant.
6. Comment on the following statements:
 - (i) "Depository system works very much like a banking system."
 - (ii) "Dematerialisation and immobilization are distinct activities."
 - (iii) Dematerialisation and immobilization are distinct activities.
7. Explain the powers of the Central Government to grant immunity under the Depositories Act, 1996.
8. Briefly explain the role of a Practicing Company Secretary in concurrent audit of depository participants.
9. Distinguish between the following:
 - (i) 'Dematerialisation' and 're-materialisation'.
 - (ii) 'Depository' and 'custodian'.

FROM ICSI MODULE



Answer the following:

1. Briefly outline the concept of Depository system in India.
2. Enumerate the enquiry, inspection and penalties under the Depositories Act, 1996.
3. Explain in detail the power of depositories to make bye-laws under the Depositories Act, 1996.
4. Give an overview of the rights and obligations of Depositories, Participants and issuers under SEBI (Depositories and Participants) Regulations, 2018.
5. Explain in detail the Statement required to be sent to the beneficial owner by a DP under BSDA facility?
6. Write short note on:
 - (a) Dematerialisation charges.
 - (b) Models of Depository.
 - (c) Internal Audit of Depository Participants.
 - (d) Concurrent Audit.



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

10

MUTUAL FUNDS

Covering-

- ABC Analysis
- Mutual Funds - Meaning
- Mutual Funds – Advantage
- Risk Involved in Mutual Funds
- Administration of Mutual Fund
- Scheme of Mutual Funds
- Types of Mutual Funds
- Infrastructure Debt Fund Schemes
- Capital Protection Oriented Schemes
- Distinguish Between ‘Leverage Funds’ and ‘Hedge Funds’
- Calculation of Net Asset Value (NAV)
- Various Factors for Judging the Efficiency of Mutual Funds
- Valuation of Shares of Right Issue by MFs
- Mutual Fund Costs
- Restriction on Guarantee on Returns
- General Obligations of the Mutual Funds
- Self Test Questions
 - From Past CS Examination Questions
 - From ICSI Module

**EXPECTED
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MUTUAL FUNDS

ABC Analysis (ICSI -Exam Point of view)

<i>A</i>	<ol style="list-style-type: none"> 1. Mutual Funds – Meaning 2. Mutual Funds – Advantage 3. Administration of Mutual Fund 4. Scheme of Mutual Funds
<i>B</i>	<ol style="list-style-type: none"> 4. Calculation of Net Asset Value (NAV) 5. Valuation of Shares of Right Issue by MFs
<i>C</i>	<ol style="list-style-type: none"> 6. Various Factors for Judging the Efficiency of Mutual Funds 7. Mutual Fund Costs



The small investors who generally lack expertise to invest on their own in the securities market prefer some kind of collective investment vehicle like Mutual Funds (MFs), which pool their marginal resources, invest in securities and distribute the returns there from among them on cooperative principles.

This approach was conceived in the **USA in the 1930s**. Experiment with MFs in **India began in 1964** with the establishment of Unit Trust of India (UTI). The industry was opened to private sector, including foreign institutions, in **1993 giving Indian investors a broader choice** and increasing competition to public sector funds.

MUTUAL FUNDS- MEANING

Mutual Fund **means a fund established in the form of a trust to raise monies through the sale of units** to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instruments.

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MUTUAL FUNDS- ADVANTAGES

The advantages of investing in a mutual fund are:

1. **Professional Management:** Investors avail the services of experienced and skilled professionals who are backed by a dedicated investment research team which analyses the performance and prospects of companies and selects suitable investments to achieve the objectives of the scheme.
2. **Diversification:** Mutual funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion. Investors achieve this diversification through a Mutual Fund with far less money than one can do on his own.
3. **Convenient Administration:** Investing in a mutual fund reduces paper work and helps investors to avoid many problems such as bad deliveries, delayed payments and unnecessary follow up with brokers and companies. Mutual funds save investors time and make investing easy and convenient.
4. **Return Potential:** Over a medium to long term, Mutual funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.
5. **Low Costs:** Mutual funds are a relatively less expensive way to invest compared to directly investing in the capital markets because the benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.
6. **Liquidity:** In open ended schemes, investors can get their money back promptly at net asset value related prices from the mutual fund itself. With close ended schemes, investors can sell their units on a stock exchange at the prevailing market price.
7. **Transparency:** Investors get regular information on the value of their investment in addition to disclosure on the specific investments made by scheme, the proportion invested in each class of assets and the fund manager's investment strategy and outlook.

RISKS INVOLVED IN MUTUAL FUNDS

Mutual funds may face the following risks, leading to non-satisfactory performance:	1. Excessive diversification of portfolio, losing focus on the securities of the key segments.
	2. Too much concentration on blue-chip securities which are high priced and which do not offer more than average return.
	3. Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and commission.
	4. Poor planning of investment with minimum returns.
	5. Unresearched forecast on income, profits and Government policies.
	6. Fund managers being unaccountable for poor results.
	7. Failure to identify clearly the risk of the scheme as distinct from risk of the market.

ADMINISTRATION/CONSTITUENTS OF MUTUAL FUND

Five principal constituents

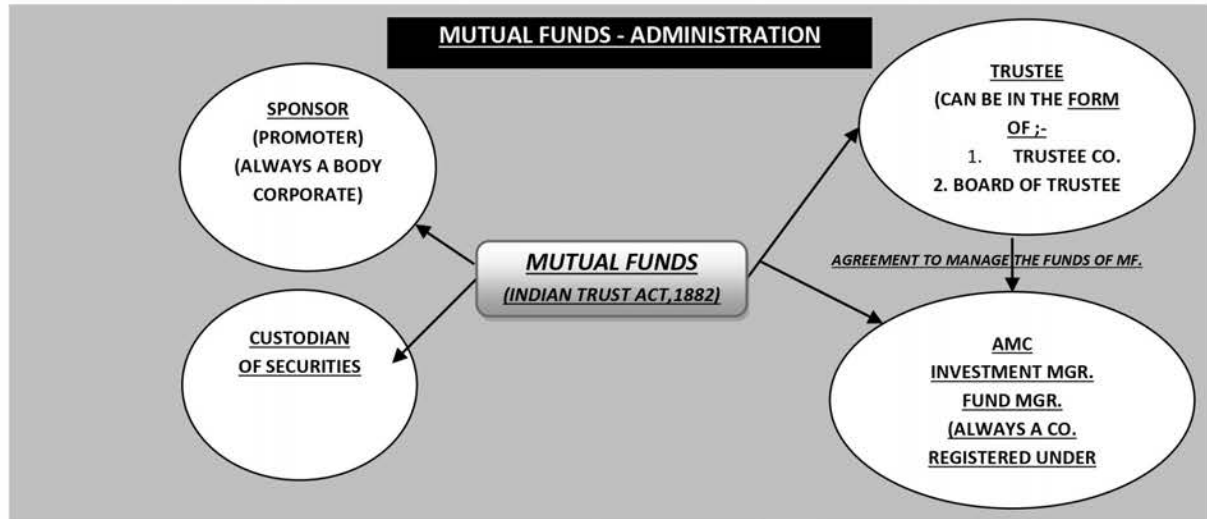
1. MUTUAL FUND

A mutual fund established under the Indian Trust Act to raise money through, the **sale of units** to the public for investing in the **capital market**. The funds thus collected as per the directions of asset Management Company for invested. The mutual fund has to be **SEBI** registered.

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2. ASSET MANAGEMENT COMPANY (AMC)-

Under SEBI (Mutual Fund) Regulations, 1996 every mutual fund is required to have an Asset Management Company (AMC) incorporated in the Companies Act, 1956 to manage the funds of the mutual fund.

The AMC should be approved by SEBI and should enter into an agreement with the trustees of the mutual fund. Appointment of AMC can be terminated by the majority of trustee or by not less than 75% of the unit holders of the scheme.

3. SPONSOR-

Sponsor means any person who, acting alone or in combination with another body corporate establishes a mutual fund.

4. TRUSTEES –

Trustees mean the Board of Trustees or the Trustee Company who hold the property of the mutual fund in trust for the benefit of the unit holders.

5. UNIT HOLDERS–

A unitholder is an investor who owns the **units issued** by a trust, like a real estate investment trust or a master limited partnership (MLP). The securities issued by trusts/MF are called **units**, and investors in units are called unitholders. The unit in turn reflect share of the investor in the Net Assets of the fund.

Three market intermediaries are:

1. CUSTODIAN OF SECURITIES-

Custodian means a person who has been granted a certificate of registration to carry on the business of custodian securities under SEBI (Custodian of Securities) Regulations, 1996.

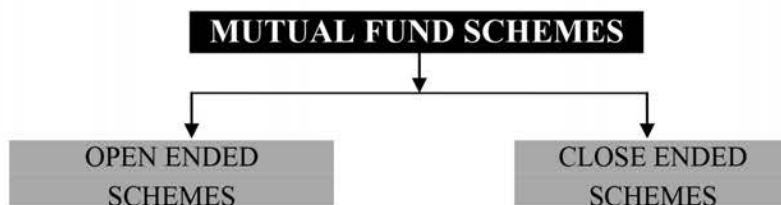
2. TRANSFER AGENTS

A transfer agent is a person who has been granted a Certificate of Registration to conduct the business of transfer agent under SEBI Regulations Act 1993. Transfer agents' services include **issue** and **redemption** of mutual fund units, preparation of transfer documents and maintenance of updated investment records. They also record transfer of units between investors where depository does not function. They also facilitate investors to get customized reports.

3. DEPOSITORY

A depository facilitates the smooth **flow of trading** and ensure the investor's about their investment in securities.

SCHEMES OF MUTUAL FUNDS



- A. **Open ended mutual funds:** An open ended mutual funds is a fund with a non-fixed number of outstanding shares/units, that stands ready at any time to redeem them on demand. The fund itself buys back the shares surrendered and is ready to sell new shares. Generally the transaction takes place at the net asset value which is calculated on a periodical basis.

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- B. Close ended mutual funds:** It is the fund where mutual fund management sells a limited number of shares and does not stand ready to redeem them. The shares of such mutual funds are traded in the secondary markets. The requirement for listing is laid down to grant liquidity to the investors who have invested with the mutual fund. Therefore, close ended funds are more like equity shares.

The main **differences** between close ended and open ended funds are:

CLOSE ENDED SCHEMES	OPEN ENDED SCHEMS
1. Fixed corpus: no new units can be offered beyond the limit	1. Variable corpus due to on going purchase and redemption
2. Listed on the stock exchange for buying and selling	2. No listing on exchange transactions done directly with the fund
3. Two values available namely NAV and the Market Trading Price	3. Only one price namely NAV
4. Mostly liquid	4. Highly Liquid

TYPES OF MUTUAL FUNDS (MFs)

- 1. Income Oriented MF/Schemes:** The fund primarily offer fixed income to investors Naturally enough, the main securities in which investments are made by such funds are the fixed income yielding ones like bonds.
- 2. Growth Oriented MF/Schemes:** These funds offer growth potentialities associated with investment in capital market namely:
 - (i) high source of income by way of dividend and
 - (ii) rapid capital appreciation, both from holding of good quality scrips. These funds, with a view to satisfying the growth needs of investors, primarily concentrate on the low risk and high yielding spectrum of equity scrips of the corporate sector.
- 3. Hybrid MF/ Schemes:** These funds cater to both the investment needs of the prospective investors - namely fixed income as well as growth orientation. Therefore, investment targets of these mutual funds are judicious mix of both the fixed income securities like bonds and debentures and also sound equity scrips. In fact, these funds utilise the concept of balanced investment management. These funds are, thus, also known as “balanced funds”.
- 4. Money Market Mutual Funds:** These funds invest in short- term debt securities in the money market like certificates of deposits, commercial papers, government treasury bills etc. Owing to their large size, the funds normally get a higher yield on such short term investments than an individual investor.
- 5. Tax Saving MF/ Schemes:** These schemes offer tax rebates to the investors under tax laws as prescribed from time to time. This is made possible because the Government offers tax incentive for investment in specified avenues. For example, Equity Linked Saving Schemes (ELSS) and pensions schemes.
- 6. Real Estate Funds:** These are close ended mutual funds which invest predominantly in real estate and properties.

Salient features of REMFS:-

- (1) An Existing Mutual Funds are eligible to launch real estate mutual funds if they have adequate number of experienced key personnel/directors having adequate experience in real estate.
- (2) Every real estate mutual fund scheme shall be close-ended and its units shall be listed on a recognized stock exchange.
- (3) Net asset value (NAV) of the scheme shall be declared daily.

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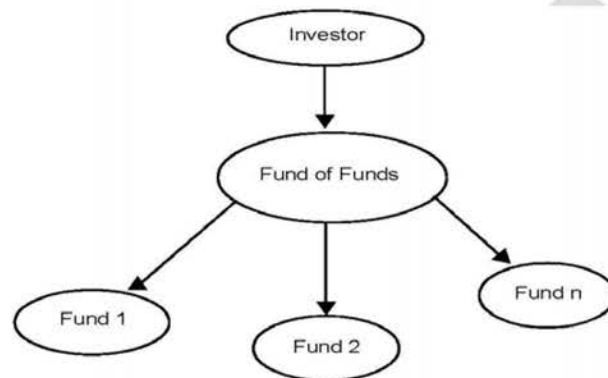
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- (4) At least 35% of the net assets of the scheme shall be invested directly in real estate assets. Balance may be invested in mortgage backed securities, securities of companies engaged in dealing in real estate assets or in undertaking real estate development projects and other securities. Taken together, investments in real estate assets, real estate related securities (including mortgage backed securities) shall not be less than 75% of the net assets of the scheme.
- (5) Unless, otherwise disclosed in the offer document, no mutual fund shall, under all its real estate mutual fund schemes, invest more than thirty percent of its net assets in a single city.
7. **Hedge Funds:** They employ their funds for speculative trading, i.e. for buying shares whose prices are likely to rise and for selling shares whose prices are likely to dip.
8. **Fund of Funds:** They invest only in units of other mutual funds. Such funds do not operate at present in India.



9. **Gold exchange traded funds**

Gold Exchange Traded Fund scheme shall mean a mutual fund scheme that invests primarily in gold or gold related instruments.

SEBI (Mutual funds) Regulations, 1996 permits Gold Exchange Traded Fund (GETF) to invest primarily in –

- Gold.
- Gold related instruments i.e. such instruments having gold as underlying, as are specified by SEBI from time to time.

A gold exchange traded fund scheme is subject to the following investment restrictions:-

- the funds of any such scheme should be invested only in gold or gold related instruments in accordance with its investment objective, except to the extent necessary to meet the liquidity requirements for honouring repurchases or redemptions, as disclosed in the offer document; and
- pending deployment of funds in accordance with clause (a), the mutual fund may invest such funds in short term deposits of scheduled commercial banks.

INFRASTRUCTURE DEBT FUNDS SCHEMES

“Infrastructure debt fund scheme” means a mutual fund scheme that invests primarily (minimum 90% of scheme assets) in the

- debt securities or securitized debt instrument of infrastructure companies or infrastructure capital companies or infrastructure projects or special purpose vehicles which are created for the purpose of facilitating or promoting investment in infrastructure, and
- other permissible assets in accordance with these regulations or bank loans in respect of completed and revenue generating projects of infrastructure companies or projects or special purpose vehicles.

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Eligibility criteria for launching infrastructure debt fund scheme

- (1) An existing mutual fund may launch an infrastructure debt fund schemes if it has an adequate number of key personnel having adequate experience in infrastructure sector.
- (2) A certificate of registration may be granted to an applicant proposing to launch only infrastructure debt fund schemes if the sponsor or the parent company of the sponsor : –
 - (a) has been carrying on activities or business in infrastructure financing sector for a period of not less than five years;

CAPITAL PROTECTION ORIENTED SCHEMES

Regulation 38A of the Regulations provides that a capital protection oriented scheme may be launched, subject to the following:

- | |
|---|
| (a) the units of the scheme are rated by a registered credit rating agency from the viewpoint of the ability of its portfolio structure to attain protection of the capital invested therein; |
| (b) the scheme is close ended; and |
| (c) there is compliance with such other requirements as may be specified by SEBI in this behalf. |

DISTINGUISH BETWEEN ‘LEVERAGE FUNDS’ AND ‘HEDGE FUNDS’

<u>Basis of Difference</u>	<u>Leverage Funds</u>	<u>Hedge Funds</u>
1. Meaning	Leverage funds are also known as borrowed funds.	Hedge funds are not borrowed funds; they are used for speculative trading.
2. Increase in portfolio.	Leverage funds increase the size of portfolio.	Hedge funds don't increase the portfolio size and value.
3. Risk factor.	Leverage funds are less risky.	Hedge funds are more risky.
4. Trading	Leverage funds tend to indulge in speculative trading and risky investments.	Hedge funds employ their funds for speculative trading. i.e. for buying shares, whose price are likely to rise and for selling shares whose prices are likely to fall.

CALCULATION OF NET ASSET VALUE (NAV)

What is NAV?

- The value of one unit of a mutual fund scheme on a given date
 - It has to be declared by fund houses on every business day – on AMC website and AMFI website
- Mutual funds raise money by selling their shares to public and redeeming them at current net asset value.
Net asset value is the value of the assets of each unit of the scheme.

How is it calculated?

(Net Asset Value per share value of the fund's is total net assets after liabilities divided by the total number of shares outstanding on a given day)

$$\text{Net Asset Value} = \frac{\text{Net Asset of the Scheme}}{\text{Number of units outstanding}}$$

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Net Asset of the Scheme = Market value of investments + Receivables+ other accrued income+ other assets – Accrued Expenses –Other Payables – Other Liabilities

Thus if the NAV is the more than the face value of ₹10/-, there is an **appreciation** for the investment. If the NAV is less than the face value, it indicates depreciation of the investment.

Every mutual fund shall compute the NAV of each scheme by dividing the net asset of the scheme by the number of units of that scheme outstanding on the date of valuation and 'disclosed in the manner specified by SEBI

Holding Period Return

Holding period return is the total return received from holding an asset or portfolio of assets over a period of time, generally expressed as a percentage. Holding period return is calculated on the basis of total returns from the asset or portfolio – i.e. income plus changes in value. It is particularly useful for comparing returns between investments held for different periods of time.

Calculation of HPR

$$\text{HPR} = \frac{(\text{Income} + (\text{end of period value} - \text{original value}) \times 100}{\text{Original Value}}$$

VARIOUS FACTORS FOR JUDGING THE EFFICIENCY OF MUTUAL FUNDS

The efficiency of mutual funds may be judged on the factors such as:-

(a)	Stability of funds.
(b)	Liquidity of funds (listed on exchanges)
(c)	Increase in NAV, consistent growth I dividend and capital appreciation.
(d)	Whether the investment objectives are clearly laid and implemented
(e)	Whether the issuer has a proven track record and offer 'assured return or return not less than a percentage.
(f)	Whether it observes investment norms to balance risks and profits

VALUATION OF SHARES OF RIGHT ISSUE BY MFs

Value of the 'rights' shares should be calculated by MF as:

$$V_r = \frac{n}{m} (P_{ex} - P_{of})$$

Where,

V_r=Value of rights

n=no. of rights offered

m=no. of original shares held

P_{ex}=Ex-rights price

P_{of}=Rights Offer Price

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MUTUAL FUND COSTS

1. **Operating Expenses:** Costs incurred in operating mutual funds include advisory fees paid to investment managers, custodial fees, audit fees, transfer agent fees, trustee fees, agents commission etc.
2. **Sales Charges/Loads:** These are otherwise called as sales loads and are charged directly to the investors. Mutual funds use the sales loads for payment of agents commission and expenses for distribution and marketing. Sales charges have no impact on the performance of the scheme as these are collected from the investor.

There are 2 types of Sales Charges/Loads:-

- (a) **Front end load (entry load):** Front end load is a one time fixed fee which is paid by an investor while he buys into a scheme. Front end loads can be calculated as follows:-

$$\text{Public Offer (purchase) Price} = \frac{\text{Net Asset Value}}{(1 - \text{Front end load})}$$

- (b) **Back end Load (exit load):** This will be a fixed fee redemption load and is paid only at the time of redeeming or selling units of a load. This can be calculated as:

$$\text{Redemption price} = \frac{\text{Net Asset Value}}{(1 + \text{Back end load})}$$

It may be noted that SEBI has decided not to charge entry load for direct applications received by the Asset Management Company (AMC) i.e. applications received through internet, submitted to AMC or collection centre/ Investor Service Centre that are not routed through any distributor/agent/broker.

RESTRICTION ON GUARANTEE ON RETURNS

Regulation 38 lays down that no guaranteed return shall be provided in a scheme unless fully guaranteed by the sponsor or AMC. The name of the person guaranteeing the return shall be mentioned in the offer document and the manner in which the guarantee is to be met be also indicated therein.

GENERAL OBLIGATIONS OF THE MUTUAL FUNDS

(a)	Regulation 50 lays down that every AMC for each scheme shall keep and maintain proper books of accounts, records and documents for each scheme. All these documents shall be preserved by the AMC for a period of 8 years.
(b)	Regulation 52A provides that a mutual fund may declare dividends in accordance with the offer document and subject to such guidelines as may be specified by SEBI.
(c)	Regulation 53 lays down that every mutual fund and AMC shall despatch to the unit-holders the dividend warrants within 30 days of the declaration of the dividend.
(d)	Every mutual fund or AMC shall prepare in respect of each financial year an annual report and an annual statement of accounts of the schemes and the fund.
(e)	Every mutual fund shall have the annual statement of accounts audited by a practising Chartered Accountant who is not in any way associated with the auditor of the AMC.
(f)	the scheme wise Annual Report of a mutual fund or an abridged summary thereof shall be mailed to all unitholders as soon as may be but not later than four months from the date of closure of the relevant accounts year.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Write short notes on the following :
 - (i) Hybrid instrument
 - (ii) Money market mutual funds.
2. Distinguish between of the following:
 - (i) 'Close ended schemes' and 'open schemes'.
 - (ii) 'Hedge funds' and 'leverage funds'.
3. What are the 'real estate mutual fund' schemes? Explain their features.
4. Describe briefly the risks involved in mutual funds.
5. Explain briefly the various factors for judging the efficiency of mutual funds.
6. What do you understand by infrastructure debt fund scheme? Discuss the eligibility criteria required to be fulfilled by a mutual fund for launching a scheme.
7. "The mutual funds have emerged as one of the important class of financial intermediaries which cater to the needs of retail investors."
8. Explain briefly the Infrastructure debt fund

FROM ICSI MODULE



Answer the following:

1. Discuss the various advantages, schemes and general obligations of Mutual Funds.
2. Describe various schemes of Mutual funds.
3. What are the risks involved in Mutual funds?
4. Write short notes on:
 - (a) Net Asset Value (NAV)
 - (b) Mutual Fund Cost
 - (c) Asset Management Company
 - (d) Gold Exchange Traded funds
 - (e) Capital Protection Oriented Schemes.
5. Briefly discuss the code of conduct to be followed by mutual funds.
6. What in Infrastructure Debt fund Scheme? Briefly explain the Eligibility criteria to launch such scheme.
7. Enumerate the salient features of Real Estate Mutual Fund Schemes.



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

11

ALTERNATIVE INVESTMENT FUND

Covering-

- Alternative Investment Fund (AIF)
- Important Definitions
- Categories of AIF
- Registration of AIF
- Investment in AIF
- Self Test Questions
 - From Past CS Exam
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(1 to 5)**

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ALTERNATIVE INVESTMENT FUND

ALTERNATIVE INVESTMENT FUND (AIF)

SEBI has notified the SEBI (Alternative Investment Funds) Regulation, 2012 to govern unregulated entities and created a level playing ground for existing venture capital investors. This Regulation has replaced the existing SEBI (Venture Capital Funds) Regulations, 1996 ("VCF Regulations"). Funds registered under the VCF Regulations shall continue to be regulated by the said regulations till the existing fund or scheme is wound up.

Existing VCFs will be permitted to continue and shall be governed by the VCF Regulations till such fund or scheme managed by the fund is wound up. VCFs will not be permitted to raise any fresh funds after notification of these regulations, as aforesaid, except for commitments already made by investors as on the date of the notification. These VCFs may seek re-registration under AIF Regulations, subject to approval of two-thirds of their investors by value.

IMPORTANT DEFINITIONS

➤ Alternative Investment Fund:-

AIF means any fund established in India in the form of a trust, company, limited liability partnership or a body corporate which:-

- (a) Is a privately pooled investment vehicle that collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and
- (b) Is not covered under the SEBI (Mutual Funds) Regulations, 1996 or any other regulations of SEBI, which aims to regulate fund management activities.

The following are specifically excluded from the purview of AIF Regulations (subject to conditions in certain cases):-

- Family Trusts;
- ESOP Trusts;
- Employee Welfare Trusts;
- Holding Companies within the meaning of section 4 companies Act, 1956;
- Other Special Purpose Vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework;
- Funds managed by registered securitization company or reconstruction company; and
- Any such pool of funds which is directly regulated by any other Indian regulator.

➤ Debt Funds:-

These funds will primarily make investments in debt or debt securities of listed or unlisted investee companies.

➤ Angel Fund:-

Angel fund means a sub-category of Venture Capital Fund under Category I- Alternative Investment Fund that raises funds from angel investors and invests in accordance with the provisions of Chapter III-A of these regulations.

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Angel funds shall only raise funds by way of issue of units to angel investors. An angel fund shall have a corpus of **at least five crore rupees**. Angel funds shall accept, up to a **maximum period of five years**, an investment of not less than twenty five lakh rupees from an angel investor.

➤ **Hedge Funds:-**

Hedge Funds will employ diverse or complex trading strategies and invests and trades in securities or partnership interest or listed debt or securitized debt instruments of investee companies or special purpose vehicles engaged in or formed for, the purpose of operating or holding infrastructure projects.

➤ **Investible Funds:-**

It means corpus of the Alternative Investment Fund net of estimated expenditure for administration and management of the fund.

➤ **PRIVATE EQUITY (“PE”) FUNDS:-**

PE funds will invest primarily in equity or equity linked instruments or partnership interests of investee companies.

➤ **SMALL AND MEDIUM ENTERPRISES (“SME”) FUNDS:-**

These funds will invest primarily in unlisted securities of investee companies which are SMEs or securities of those SMEs which are listed or proposed to be listed on a SME exchange or SME segment of an exchange.

➤ **SOCIAL VENTURE FUNDS:-**

These funds will invest primarily in securities or units of social ventures and which satisfy social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns.

➤ **SPONSOR:-**

It means any person or persons who set up the Alternative Investment Fund and includes promoter in case of a company and designated partner in case of a limited liability partnership.

➤ **VENTURE CAPITAL UNDERTAKING:-**

“Venture Capital Undertaking” means a domestic company:-

- (a) Which is not listed on a recognised stock exchange in India at the time of making investment; and
- (b) Which is engaged in the business for providing services, production or manufacture of article or things and does not include following activities or sectors:-
 - 1) Non-banking financial companies;
 - 2) Gold financing;
 - 3) Activities not permitted under industrial policy of Government of India;
 - 4) Any other activity which may be specified by SEBI in consultation with Government of India from time to time.

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CATEGORIES OF AIF

SEBI has classified AIF into the following broad categories	
Category I	Funds that invest in start-up or early stage ventures or social ventures or Small Medium Enterprises (SMEs) or infrastructure or other sectors which the government or regulators consider as socially or economically desirable which include VCF, SME Funds, Socials Venture Funds (SVF), Infra Funds and such other AIFs as may be specified in the AIF Regulations.
Category II	Funds that do not fall in Category I and III AIF and those that do not undertake leverage or borrowing other than to meet the permitted day to day operational requirement including Private Equity Funds or Debt Funds.
Category III	Funds that employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives, for e.g. Hedge Funds.

REGISTRATION OF AIF

All AIFs are required to be mandatorily registered under anyone of the above mentioned categories. AIF Regulation permit launch of multiple schemes under an AIF without separate registration from SEBI subject to filing of Information Memorandum with SEBI. The certificate of registration, once granted, shall be valid till the concerned AIF is wound up.

INVESTMENT IN AIF

Investment in all categories of Alternative Investment Funds shall be subject to the following conditions:-

- (a) The Alternative Investment Fund may raise funds from any investor whether Indian, foreign or non-resident Indians by way of issue of units;
- (b) Each scheme of the Alternative Investment Fund shall have corpus of atleast 25 crore rupees;
- (c) The Alternative Investment Fund shall not accept from an investor, an investment of value less than 1 crore rupees. However, in case of investors who are employees or directors of the Alternative Investment Fund or employees or directors of the Manager, the minimum value of investment shall be 25 lakh rupees.
- (d) The Manager or Sponsor shall have a continuing interest in the Alternative Investment Fund of not less than two and half percent of the corpus or 5 crore rupees, whichever is lower, in the form of investment in the Alternative Investment Fund and such interest shall not be through the waiver of management fees. However, for category III Alternative Investment Fund, the continuing interest shall be not less than five percent of the corpus or 10 crore rupees, whichever is lower.
- (e) The Manager or Sponsor shall disclose their investment in the Alternative Investment Fund to the investors of the Alternative Investment Fund;
- (f) No scheme of the Alternative Investment Fund shall more than 1000 investors;
- (g) The fund shall not solicit or collect funds except by way of private placement.

PLACEMENT MEMORANDUM

Alternative Investment Fund and Angel Fund can raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called.

Such information memorandum or placement memorandum must contain all material information about the Alternative Investment Fund and the Manager, background of key investment team of the Manager, targeted investors, fees and all other expenses proposed to be charged, tenure of the Alternative Investment Fund or scheme etc.

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OBLIGATION OF MANAGER

The Manager shall be obliged to:

- (a) address all investor complaints;
- (b) provide to SEBI any information sought by SEBI;
- (c) maintain all records as may be specified by SEBI;
- (d) take all steps to address conflict of interest as specified in these regulations;
- (e) ensure transparency and disclosure as specified in the regulations.

OVERSEAS INVESTMENT BY ALTERNATIVE INVESTMENT FUNDS

Under Regulation 15(1)(a) of AIF Regulations, "Alternative Investment Fund may invest in securities of companies incorporated outside India subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and SEBI from time to time."

In accordance with the RBI circular:-

1. AIFs may invest in equity and equity linked instruments only of offshore venture capital undertakings, subject to overall limit of USD 500 million
2. AIFs desirous of making investments in offshore venture capital undertakings shall submit their proposal for investment to SEBI for prior approval.
3. Investments would be made only in those companies which have an Indian connection (e.g. company which has a front office overseas, while back office operations are in India).
4. Such investments shall not exceed 25% of the investible funds of the scheme of the AIF.
5. The AIF shall have a time limit of 6 months from the date of approval from SEBI for making allocated investments in offshore venture capital undertakings.
6. AIFs shall not invest in Joint venture/Wholly Owned Subsidiary while making overseas investments.

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Q. 1. SEBI has classified Alternative Investment Fund (AIF) into three board categories i.e. Category I, Category II and Category III. Discuss Key features of AIF categories. **[June 2018]**

Ans. As per regulation 3 of the SEBI(Alternative Investment Funds) Regulations, 2012, Alternative investment funds (AIFs) are classified into three categories i.e. Category I, II & III. The following are the key features of AIFs categories:

- (a) Category I and Category II shall have minimum tenure of 3 year & the tenure may be extended for a further period of 2 years only with the approval of two-third of the unit holders by value of their investment.
- (b) Category I and Category II, investment in one Investor Company shall not invest more than 25% of its investible funds in one Investee Company. In case of Category III, maximum 10% of the investible funds in one Investee Company is allowed.
- (c) Category I AIFs will be considered as venture capital funds/companies for the purpose of Section 10 (23FB) of the Income Tax Act, 1961. The income from Category II and III funds will not be exempt under section 10(23FB) of the Income Tax Act, 1961. Taxation of such funds would depend on the legal status of the fund i.e. company limited liability partnership or trust.
- (d) In case of Category I, Category II & Category III, an annual report is required to be presented to the investor within 180 days from the end of the year. In case of Category III, AIF is also required to provide a quarterly report to the investors within 60 days from the end of the quarter.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Write notes on the following.
 - (i) Alternate investment fund
2. Explain briefly the following:
 - (i) Social venture funds.
 - (ii) Investible fund
3. Discuss briefly the various categories of alternative investment fund (AIF).
4. Descriptive Question
 - (i) What is placement memorandum? List out its essential content.

FROM ICSI MODULE



Answer the following:

1. What is Alternative Investment Fund?
2. Briefly explain the different categories of Alternative Investment Fund.
3. Write Short notes on the following:
 - (i) Angel Fund
 - (ii) Investible Fund
 - (iii) Social Venture Fund
 - (iv) SME Fund
4. What is placement memorandum? Discuss briefly the contents of placement Memorandum?
5. What are the obligation of the manager under the AIF regulation?



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

12

COLLECTIVE INVESTMENT SCHEME

Covering-

- Collective Investment Scheme-Meaning
- Collective Investment Scheme – Registration
- Obligations of collective investment management company
- Rights and Obligations of the Trustee
- Restrictions on Business Activities
- Collective Investment Scheme – Important Points
- Winding up of scheme
- Self Test Questions
 - From Past CS Examination Questions
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(1 to 5)**

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COLLECTIVE INVESTMENT SCHEMES

COLLECTIVE INVESTMENT SCHEME-MEANING

The Collective Investment Scheme means any scheme or arrangement made or offered by any company under which :	(a) the contributions, or payments made by the investors, by whatever name called, are pooled and utilised solely for the purposes of the scheme or arrangement;
	(b) the contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable from such scheme or arrangement;
	(c) the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors; and
	(d) the investors do not have day to day control over the management and operation of the scheme or arrangement.

The CIS, however, **does not include** any scheme or arrangement

- (b) made or offered by a co-operative society,
- (c) under which deposits are accepted by non banking financial companies,
- (d) being a contract of insurance,
- (e) providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provision Act, 1952,
- (f) under which deposits are accepted under section 58A of the Companies Act, 1956,
- (g) under which deposits are accepted by a company declared as Nidhi or a mutual benefit society under section 620A of the Companies Act, 1956,
- (h) falling within the meaning of Chit business as defined in clause (d) of section 2 of Chit Fund Act, 1982 and
- (i) under which contributions made are in the nature of subscription to a mutual fund.

Collective Investment Management Company is regulated by **SEBI (Collective Investment Scheme) Regulations, 1999**.

SEBI (Collective Investment Scheme) Regulations, 1999 **defines Collective Investment Management Company to mean a company incorporated under the Companies Act, 1956 and registered with SEBI** under these regulations, whose object is to organise, operate and manage a collective investment scheme.

COLLECTIVE INVESTMENT SCHEME-REGISTRATION

(a) Any person proposing to carry any activity as a Collective Investment Management Company should make an application to SEBI for the grant of registration in the specified form.
(b) the applicant should be a Public company registered under the Companies Act, 1956;
(c) the applicant should have net worth of not less than rupees five crores . However at the
(d) time of making the application the applicant shall have a minimum net worth of rupees three crores which has to be increased to rupees five crores within three years from the date of grant of registration;
(e) A scheme should be constituted in the form of a trust and the instrument of trust should be in the form of a deed duly registered under the provisions of the Indian Registration Act, 1908 executed by the Collective Investment Management Company in favour of the trustees named in such an instrument.

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Live Lectures

OBLIGATIONS OF COLLECTIVE INVESTMENT MANAGEMENT COMPANY

Every Collective Investment Management Company should:

- (i) be responsible for managing the funds or properties of the scheme on behalf of the unit holders.
- (ii) exercise due diligence and care in managing assets and funds of the scheme and also responsible for the acts of commissions and omissions by its employees or the persons whose services have been availed by it;
- (iii) appoint registrar and share transfer agents and should also abide by their respective Code of Conducts as specified.
- (iv) give receipts for all monies received and report of the receipts and payments to SEBI, on monthly basis;
- (v) hold a meeting of Board of Directors to consider the affairs of scheme, at least twice in every three months and also ensures that its officers or employees do not make improper use of their position or information to gain, directly or indirectly, an advantage for themselves.

RIGHTS AND OBLIGATIONS OF THE TRUSTEE

RIGHT

The trustee have a right to obtain from the CIMC such information as is considered necessary by the trustee and to inspect the books of accounts and other records relating to the scheme.

OBLIGATIONS

- (a) The trustee should be accountable for, and act as the custodian of the funds and property of the respective schemes
- (b) The trustee is required to convene a meeting of the unit holders on requisition of SEBI or unit holders holding at least one-tenth of nominal value of the unit capital of any scheme or when any change in the fundamental attributes of any scheme which affects the interest of the unit holders is proposed to be carried out. However, no such change should be carried out unless the consent of unit holders holding at least three-fourths of nominal value of the unit capital of the scheme is obtained.
- (c) The trustee should review on a quarterly basis i.e. by the end of March, June, September, and December every year all activities carried out by the CIMC;
- (d) The trustee should cause:
 - (a) the profit and loss accounts and balance sheet of the schemes to be audited at the end of each financial year by an auditor empanelled with SEBI.
 - (b) each scheme to be appraised at the end of each financial year by an appraising agency.
 - (c) scheme to be rated by a credit rating agency.
- (e) The trustee should forthwith take such remedial steps as are necessary and immediately inform SEBI of the action taken where the trustee believes that the conduct of business of the scheme is not in accordance with the regulations.

RESTRICTIONS ON BUSINESS ACTIVITIES

The Collective Investment Management Company should not:-	(a) undertake any activity other than that of managing the scheme;
	(b) act as a trustee of any scheme;
	(c) launch any scheme for the purpose of investing in securities;
	(d) invest in any schemes floated by it.

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COLLECTIVE INVESTMENT SCHEME- IMPORTANT POINTS

(a)	Every scheme shall obtain credit rating from a recognised Credit Rating Agency.
(b)	Scheme shall be kept open for subscription for a maximum period of 90 days .
(c)	Duration of schemes shall not exceed 3 years .
(d)	All the schemes should be close ended schemes .
(e)	The units of every scheme shall be listed immediately after the date of allotment of units and not later than six weeks from the date of closure of the scheme on each of the stock exchanges as mentioned in the offer document.

WINDING UP OF SCHEME

<p>A scheme should be wound up on the expiry of duration specified in the scheme or on the accomplishment of the objective of the scheme as specified in the offer document. A scheme <u>may be wound up</u> :</p>	(a)	on the happening of any event which, in the opinion of the trustee, requires the scheme to be wound up and the prior approval of SEBI is obtained; or
	(b)	if unit holders of a scheme holding at least three-fourth of the nominal value of the unit capital of the scheme, pass a resolution that the scheme be wound up and the approval of SEBI is obtained thereto; or
	(c)	if in the opinion of SEBI, the continuance of the scheme is prejudicial to the interests of the unit-holders; or
	(d)	if in the opinion of the CIMC, the purpose of the scheme cannot be accomplished and it obtains the approval of the trustees and that of the unit holders of the scheme holding at least three-fourth of the nominal value of the unit capital of the scheme with a resolution that the scheme be wound up and the approval of SEBI is obtained thereto.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Write short notes on the following:
 - (i) Collective investment schemes
2. Descriptive Questions
 - (i) Explain the concept of 'collective investment scheme' State briefly the obligation of trustees.
3. What is 'Collective investment scheme'? What are the restrictions on their business activities?
4. Comment briefly on the following statement:
 - (i) "Collective investment scheme is constituted as trust."
 - (ii) What is collective investment scheme (CIS)? Discuss the Schemes and arrangements which are not included in CIS.
5. What is collective investment scheme (CIS)? Discuss the schemes and arrangement which are not included in CIS.
6. Discuss the restrictions put by SEBI on the business activities of a collective investment management company (CIMC)
7. Define collective investment scheme and discuss the restrictions on its business activities.
8. Explain the following: collective investment scheme (CIS) provides a relatively secure means of investing on the stock exchange and other financial instruments.

FROM ICSI MODULE



Answer the following:

1. What are the obligations of Collective Investment Management Company?
2. Discuss the various restrictions on business activities of Collective Investment Management Company?
3. Enumerate the rights and obligations of trustees of collective investment schemes?
4. Discuss the circumstances under which a collective investment scheme could be wound up?



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

13

REAL ESTATE INVESTMENT TRUSTS

Covering-

- SEBI (Real Estate Investment Trust) Regulations, 2014
- Registration of Real Estate Investment Trusts
- Eligibility Criteria
- Procedure for Issue and Listing of Units Issue and Allotment of Units
- Listing and Trading of Units
- Investment Conditions
- Dividend / Distribution Policy
- Self Test Questions
 - From Past CS Exam
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(0 to 5)**

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REAL ESTATE INVESTMENT TRUSTS

The Real estate Investment Trusts (REITs) Regulations, 2014, provide a positive push to the Indian Capital Markets and Real Estate & Infrastructure sectors. It also create liquidity to some extent for Real Estate and Infrastructure players. Further, it would provide investors an opportunity to invest in Indian stabilized assets through an Indian listed platform.

REAL ESTATE INVESTMENT TRUST “REIT” or “Real Estate Investment Trust” shall mean a trust registered as such under these regulations.

SEBI (REAL ESTATE INVESTMENT TRUST) REGULATIONS, 2014

The activities of the Real Estate Investment Trust in the Indian capital market are regulated by SEBI (Real Estate Investment Trust) Regulations, 2014.

REGISTRATION OF REAL ESTATE INVESTMENT TRUSTS

Any person shall not act as a REIT unless it is registered with SEBI under these regulations. An application for grant of certificate of registration as REIT shall be made, by the **sponsor** in such form and on such fees as prescribed in these regulations. SEBI may, in order to protect the interests of investors, appoint **any person to take charge of records, documents** of the applicant. SEBI shall take into account requirements as prescribed in these regulations for the purpose of considering grant of registration.

ELIGIBILITY CRITERIA

For the purpose of the grant of certificate to an applicant, SEBI shall consider all matters relevant to the activities as a REIT. *Without prejudice to the generality of the foregoing provision, SEBI shall consider the following, namely, :-*

- (a) **Applicant:** Applicant must be a Trust and the Trust deed must be duly registered in India under the provisions of the Registration Act, 1908 containing the main objective as undertaking activity of REIT in accordance with the Regulations.
- (b) **Sponsor:** There are not more than 3 sponsors, each holding or proposing to hold **not less than 5% of the number of units of the REIT on post-initial offer basis**. The sponsor must have a net worth of **at least ₹100 Crores on a collective basis** and have not less than **5 years’ experience** in the real estate industry on an **individual basis**.
- (c) **Manager:** It must have net worth of not less than **₹10 crore**; not less than **5 years of experience** in fund management/ advisory services/ property management in the real estate industry or in development of real estate; and not less than **2 key personnel** who each have not less than **5 years of experience** in fund management/ advisory services/ property management in the real estate industry or in development of real estate.
- (d) **Trustee:** It should be registered with SEBI under SEBI (Debenture Trustees) Regulations, 1993; not an associate of the sponsor/ manager/ principal valuer and the trustee has such **wherewithal with respect to infrastructure, personnel**, etc. to the satisfaction of SEBI and in accordance with circulars or guidelines as may be specified by SEBI;
- (e) The unit holder of the REIT shall not enjoy preferential voting or any other rights over another unit holder;
- (f) There are no multiple classes of units of REIT;

- (g) The applicant has clearly described details related to proposed activities at the time of application for registration.
- (h) The applicant and parties to the REIT are fit and proper persons based on the criteria as specified in SEBI (Intermediaries) Regulations, 2008;
- (i) Whether any previous application for grant of certificate by the applicant or any related party has been rejected by SEBI.
- (j) Whether any disciplinary action has been taken by SEBI or any other regulatory authority against the applicant or any related party under any Act or the regulations or circulars or guidelines made thereunder.

PROCEDURE FOR ISSUE AND LISTING OF UNITS ISSUE AND ALLOTMENT OF UNITS

1. A REIT shall make an initial offer of its units by way of **public issue only**.
2. REIT, through the manager, shall file a **draft offer document** with the **designated stock exchange(s) and SEBI**, not less than **21 working days** before filing the final offer document with the **designated stock exchange**.
3. The draft offer document filed with SEBI shall be made **public, for comments**, to be submitted to SEBI, within a period of at least **10 days**, by hosting it on the websites of SEBI, designated stock exchanges and merchant bankers associated with the issue.
4. The draft and final offer document shall be accompanied by a **due diligence certificate** signed by the Manager and lead merchant banker.
5. SEBI may communicate its comments and the lead merchant banker shall ensure that all comments received from SEBI on the draft offer document are suitably taken into account prior to the filing of the offer document with the designated stock exchanges.
6. In case no modifications are suggested by SEBI in the draft offer document within 21 working days, then REIT may issue the final offer document to the public after filed with the designated stock exchange.
7. The final offer document shall be filed with the designated stock exchanges and SEBI **not less than 5 working days before opening of the offer**.
8. The initial offer shall be made by the REIT within a period of not more than **six months** from the date of last issuance of observations by SEBI, if any or if no observations have been issued by SEBI, within a period of not more than **six months** from the date of filing of offer document with the designated stock exchanges. The REIT may invite for subscriptions and allot units to any person, whether resident or foreign. In case of foreign investors, such investment shall be subject to guidelines as may be specified by RBI and the government from time to time.
9. The **application for subscription** shall be accompanied by a statement containing the **abridged version of the offer document**, detailing the risk factors and summary of the terms of issue.
10. Under both the initial offer and follow-on public offer, the REIT shall not accept **subscription** of an amount less than **two lakh rupees** from an applicant.
11. Initial offer and follow-on offer shall not be open for subscription for a period of more than **thirty days**.
12. The REIT shall allot units or refund application money as the case may be, within **twelve working days** from the date of closing of the issue.
13. The REIT shall issue units only in **dematerialized form** to all the applicants.

14. The price of REIT units issued by way of public issue shall be determined through the **book building process** or any other process in accordance with the circulars or guidelines issued by SEBI and in the manner as may be specified by SEBI.
15. If the manager fails to allot, or list the units, or refund the money within the specified time, then the manager shall pay interest to the unit holders at **15% per annum**, till such allotment/ listing/refund and such interest shall not be recovered in the form of fees or any other form payable to the manager by the REIT.
16. Units may be offered for **sale to public:-**
 - (a) If such units have been **held by the existing unit holders for a period of at least one year** prior to the filing of draft offer document with SEBI.
 - (b) Subject to other circulars or guidelines as may be specified by SEBI in this regard.
17. If the REIT **fails to make its initial offer within three years from the date of registration** with SEBI, it shall surrender its certificate of registration to SEBI and **cease to operate** as a REIT. SEBI if it deems fit, may **extend** the period by another **one year**. Further, the REIT may later **re-apply** for registration, if it so desires.

LISTING AND TRADING OF UNITS

1. After the initial offer it shall be mandatory for all units of REITs to be listed on a recognized stock exchange having nationwide trading terminals within a period of 12 working days from the date of closure of the offer.
2. The listing of the units of the REIT shall be in accordance with the listing agreement entered into between the REIT and the designated stock exchange.
3. The units of the REIT listed in recognized stock exchanges shall be traded, cleared and settled in accordance with the bye-laws of concerned stock exchanges and such conditions as may be specified by SEBI.
4. Trading lot for the purpose of trading of units of the REIT shall be one lakh rupees.
5. The REIT shall redeem units only by way of a buy-back or at the time of delisting of units. 6. The units of REIT shall be remain listed on the designated stock exchange unless delisted under these regulation.
7. The minimum public holding for the units of the listed REIT shall be 25% of the total number of outstanding units at all times

INVESTMENT CONDITIONS

1. The Investment by a REIT shall only be in **SPVs** or **properties** or **securities** or **TDR** in India.
2. The REIT shall **not invest in vacant land or agricultural land or mortgages other than mortgage backed securities**.
3. The REIT may invest in properties **through SPVs subject to the following:-**
 - (a) no other shareholder or partner of the SPV shall have any rights that prevents the REIT from complying with the provisions of these regulations;
 - (b) the manager, in consultation with the trustee, shall appoint not less than **one authorized representative on the Board of directors or governing board of such SPVs**;
 - (c) the manager shall ensure that in every meeting including annual general meeting of the SPV, **the voting of the REIT is exercised subject to provisions of Companies Act, 2013**.
4. **Not less than 8% of value of the REIT assets shall be invested proportionate to the holding of the REITs in completed and rent generating properties.**

5. **Not more than 20%** of value of the REIT assets shall be invested proportionate to the holding of the REITs in assets other than as provided above and **such other investment shall only be in,-**
 - (a) Properties, in which **not more than 10%** of value of the REIT assets shall be invested, which are:
 - **under-construction properties** which shall be held by the REIT for not less than 3 years after completion;
 - **under-construction properties which are a part of the existing income generating properties** owned by the REIT which shall be held by the REIT for not less than 3 years after completion;
 - **completed and not rent generating properties** which shall be held by the REIT for not less than 3 years from date of purchase;
 - (b) **Listed or unlisted debt** of companies or body corporate in **real estate sector**.
 - (c) Mortgage Backed Securities;
 - (d) **Equity shares** of companies listed on a recognized stock exchange in India which derive **not less than seventy five per cent of their operating income from real estate activity** as per the audited accounts of the previous financial year;
 - (e) Government Securities
 - (h) Money Market Instruments or Cash equivalents.;
6. Not less than 75% of value of the REIT assets proportionately on a consolidated basis shall be rent generating.
7. For any **sale** of property, whether by the REIT or the SPV or for sale of shares or interest in the SPV by the REIT **exceeding 75% of the value of REIT assets in a financial year**, the **manager shall obtain approval from the unit holders** in accordance with these regulations.
8. A REIT shall not invest in units of other REITs.
9. A REIT shall not undertake lending to any person. However, investment in debt securities shall not be considered as lending.
10. SEBI may specify any additional conditions for investments by the REIT as it deems fit.

DIVIDEND /DISTRIBUTION POLICY

1. With respect to distributions made by the REIT and the SPV,-
 - (a) Not less than 90% of net distributable cash flows of the SPV shall be distributed to the REIT in proportion of its holding in the SPV subject to applicable provisions in the Companies Act, 2013 or the LLP Act, 2008;
 - (b) Not less than 90% of net distributable cash flows of the REIT shall be distributed to the unit holders;
 - (c) Such distributions shall be declared and made not less than once every six months in every financial year and shall be made not later than 15 days from the date of such declaration;
2. If the distributions are not made within 15 days of declaration, then the manager shall be liable to pay interest to the unit holders at the rate of 15% per annum till the distribution is made and such interest shall not be recovered in the form of fees or any other form payable to the manager by the REIT.

CHAPTER

14

INFRASTRUCTURE INVESTMENT TRUSTS

Covering-

- Infrastructure Investment Trusts
- SEBI (Infrastructure Investment Trusts) Regulations, 2014
- Registration of Infrastructure Investment Trusts
- Eligibility Criteria
- Issue of units and allotment
- Listing and trading of units
- Investment conditions and dividend policy •
- Self Test Questions
 - From Past CS Exam
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(1 to 5)**

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INFRASTRUCTURE INVESTMENT TRUSTS

SEBI (Infrastructure Investment Trusts) Regulations, 2014 examine a structure that would provide an additional framework for investment in the infrastructure sector in India. Infrastructure Investment Trusts will be able to invest in infrastructure projects only directly or through special purpose vehicles (SPVs).

INFRASTRUCTURE INVESTMENT TRUSTS

“InvIT” or ‘Infrastructure Investment Trust’ shall mean the trust registered as such under these regulations.

SEBI (INFRASTRUCTURE INVESTMENT TRUSTS) REGULATIONS, 2014

The activities of the Infrastructure Investment Trusts in the Indian capital market are regulated by SEBI (Infrastructure Investment Trusts) Regulations, 2014.

REGISTRATION OF INFRASTRUCTURE INVESTMENT TRUSTS

Any person shall not act as a “InvIT” unless it is registered with SEBI under these regulations. An application for grant of certificate of registration as “InvIT” shall be made, by the **sponsor** in such form and on such fees as prescribed in these regulations. SEBI may, in order to protect the interests of investors, appoint **any person to take charge of records, documents** of the applicant. SEBI shall take into account requirements as prescribed in these regulations for the purpose of considering grant of registration.

ELIGIBILITY CRITERIA

For the purpose of the grant of certificate to an applicant, SEBI shall consider all matters relevant to the activities as “InvIT”. *Without prejudice to the generality of the foregoing provision, SEBI shall consider the following, namely, :-*

(a) **Applicant:** Applicant must be a Trust and the Trust deed must be duly registered in India under the provisions of the Registration Act, 1908 containing the main objective as undertaking activity of “InvIT” in accordance with the Regulations.

(b) **Sponsor:** There are not more than **3 sponsors**.

Each sponsor must have:-

(i) Net worth of not less than ₹100 Crores if it is a body corporate or a company; or

(ii) Net tangible assets of value not less than ₹100 crore in case it is a limited liability partnership

(iii) Sound track record in development of infrastructure or fund management in the infrastructure sector.

Explanation:-For the purpose of this clause, ‘sound track record’ means experience of at least 5 years and where the sponsor is a developer, at least two projects of the sponsor have been completed;

(c) **Investment Manager:** The Investment Manager has:-

(i) Net worth of not less than rupees 10 crore if the investment manager is a body corporate or a company or

- (ii) Net tangible assets of value not less than 10 crore rupees in case the investment manager is a limited liability partnership.
 - (iii) Not less than 5 years' experience in fund management or advisory services or development in the infrastructure sector.
 - (iv) Not less than 2 employees who have at least 5 years' experience each, in fund management or advisory services or development in the infrastructure sector;
 - (v) Not less than one employee who has at least 5 years' experience in the relevant sub-sector(s) in which the InvIT has invested or proposes to invest.
 - (vi) Not less than half of its directors in case of a company or members of the governing board and in case of an LLP as independent and not directors or members of the governing board of another InvIT;
 - (vii) An office in India from where the operations pertaining to the InvIT is proposed to be conducted.
 - (viii) Entered into an investment management agreement with the trustee which provides for the responsibilities of the investment manager in accordance with these regulations.
- (d) **Trustee:** It should be registered with SEBI under SEBI (Debenture Trustees) Regulations, 1993; not an associate of the sponsor/ manager and the trustee has such wherewithal with respect to infrastructure, personnel, etc. to the satisfaction of SEBI and in accordance with circulars or guidelines as may be specified by SEBI;
- (e) The unit holder of the InvIT shall not enjoy preferential voting or any other rights over another unit holder;
- (f) There are no multiple classes of units of InvIT;
- (g) The applicant has clearly described details related to proposed activities at the time of application for registration.
- (h) The applicant and parties to the InvIT are fit and proper persons based on the criteria as specified in SEBI (Intermediaries) Regulations, 2008;
- (i) Whether any previous application for grant of certificate by the applicant or any related party has been rejected by SEBI.
- (j) Whether any disciplinary action has been taken by SEBI or any other regulatory authority against the applicant or any related party under any Act or the regulations or circulars or guidelines made thereunder.

ISSUE OF UNITS AND ALLOTMENT

1. No initial offer of units by an InvIT shall be made unless,–

(a) The InvIT is registered with SEBI under these regulations;
(b) The value of the assets held by the InvIT is not less than rupees five hundred crore.
(c) The offer size is not less than rupees two hundred fifty crore.

2. If the InvIT invests or proposes to invest in under-construction projects, value of which is more than ten per cent of the value of the InvIT assets, it shall raise funds,–

(a) by way of private placement only through a placement memorandum;
(b) from qualified institutional buyers and body corporate only, whether Indian or foreign. In case of foreign investors, such investment shall be subject to guidelines as may be specified by RBI and the government from time to time;
(c) with minimum investment from any investor of rupees one crore;
(d) from not less than five and not more than one thousand investors.

LISTING AND TRADING OF UNITS

1. It shall be mandatory for units of all InvITs to be listed on a recognized stock exchange having nationwide trading terminals, whether publicly issued or privately placed.
2. The listing of the units shall be in accordance with the listing agreement entered into between the InvIT and the designated stock exchanges.
3. The units of the InvIT listed in the designated stock exchanges shall be traded, cleared and settled in accordance with the bye-laws of designated stock exchanges and such conditions as may be specified by SEBI.
4. The InvIT shall redeem units only by way of a buy-back or at the time of delisting of units.
5. The units shall remain listed on the designated Stock Exchanges unless delisted under these regulations.
6. The minimum public holding for the units of the publicly offered InvIT after listing shall be 25% of the total number of outstanding units, at all times, failing which action may be taken as may be specified by SEBI and by the designated stock exchanges including delisting of units under these regulations.
7. With respect to listing of privately placed units,–
 - (a) its units shall be mandatorily listed on the designated stock exchange(s) within thirty working days from the date of final closing;
 - (b) trading lot for the purpose of trading of units on the designated stock exchange shall be rupees one crore.
8. With respect to listing of publicly offered units,–
 - (a) Its units shall be mandatorily listed on the designated stock exchange(s) within 12 working days from the date of closure of the initial offer.
 - (b) Trading lot for the purpose of trading of units on the designated stock exchange shall be five lakh rupees.
9. SEBI and designated stock exchanges may specify any other requirements pertaining to listing and trading of units of the InvIT by issuance of guidelines or circulars.

INVESTMENT CONDITIONS

1. The investment by an InvIT shall only be in SPVs or infrastructure projects or securities in India in accordance with these regulations and the investment strategy as detailed in the offer document or Placement memorandum.
2. In case of PPP projects, the InvIT shall mandatorily invest in the infrastructure projects through SPV.
3. The InvIT may invest in infrastructure projects through SPVs subject to the following,–
 - (a) no other shareholder or partner of the SPV shall have any rights that prevents the InvIT from complying with the provisions of these regulations
 - (b) in case the SPV is a company, the investment manager, in consultation with the trustee, shall appoint not less than one authorized representative on the board of directors or governing board of such SPVs ;
 - (c) the investment manager shall ensure that in every meetings including annual general meeting of the SPV, the voting of the InvIT is exercised **subject to provisions of Companies Act, 2013.**
4. In case of InvIT as specified under these regulations, the InvIT shall invest only in eligible infrastructure projects or securities of companies or partnership interests of LLPs in infrastructure sector.
5. In case of InvITs as specified above in these regulations, –
 - (a) not less than 80% of the value of the assets shall be invested, proportionate to the holding of the InvITs, in completed and revenue generating infrastructure projects.

- (b) not more than 20% of value of the assets, proportionate to the holding of the InvITs, shall be invested in, –

(i)	Under-construction infrastructure projects, whether directly or through SPVs. However, investment in such assets shall not exceed ten per cent of the value of the assets of the InvIT;
(ii)	listed or unlisted debt of companies or body corporate in infrastructure sector. However, this shall not include any investment made in debt of the SPV.
(iii)	equity shares of companies listed on a recognized stock exchange in India which derive not less than eighty per cent of their operating income from infrastructure sector as per the audited accounts of the previous financial year;
(iv)	government securities;
(vi)	money market instruments, liquid mutual funds or cash equivalents;

6. An InvIT shall not invest in units of other InvITs.
7. An InvIT shall not undertake lending to any person. However, investment in debt securities shall not be considered as lending.
8. An InvIT shall hold an infrastructure asset for a period of not less than three years from the date of purchase of such asset by the InvIT, directly or through SPV.
9. For any **sale** of property, whether by the InvIT or the SPV or for sale of shares or interest in the SPV by the REIT **exceeding 75% of the value of InvIT assets in a financial year**, the **manager shall obtain approval from the unit holders** in accordance with these regulations.
10. SEBI may specify any additional conditions for investments by the InvIT as deemed fit.

DIVIDEND /DISTRIBUTION POLICY

1. With respect to distributions made by the InvIT and the SPV,-
 - (a) Not less than 90% of net distributable cash flows of the SPV shall be distributed to the InvIT in proportion of its holding in the SPV subject to applicable provisions in the Companies Act, 2013 or the LLP Act, 2008;
 - (b) Not less than 90% of net distributable cash flows of the InvIT shall be distributed to the unit holders;
 - (c) Such distributions shall be declared and made not less than once every six months in every financial year and shall be made not later than 15 days from the date of such declaration;
2. If the distributions are not made within 15 days of declaration, then the manager shall be liable to pay interest to the unit holders at the rate of 15% per annum till the distribution is made and such interest shall not be recovered in the form of fees or any other form payable to the manager by the InvIT.



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

CS NITESH KR. JAISWAL

CHAPTER

15

MONEY MARKET

Covering-

- Money Market – Features/Benefits
- Money Market – Players
- Money Market Vs. Capital Market
- Money Market – Role of RBI
- Money Market Instruments
- Guidelines for Issue of CP
- Factoring
- Bills Rediscounting
- Self Test Questions
 - From Past CS Exams
 - From ICSI Module

**EXPECTED
MARKS COVERAGE
(0 to 5)**

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MONEY MARKET

ABC Analysis (108) -Exam Point of view)

A

1. Money Market – Features/Benefits
2. Money Market Vs. Capital Market
3. Money Market Instruments

B

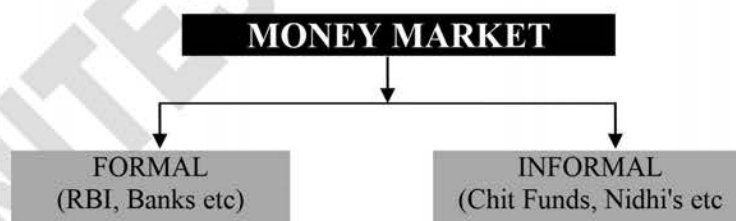
4. Money Market – Players
5. Factoring

C

6. Money Market – Role of RBI
7. Guidelines for Issue of CP

The money market refers to the market where borrowers and lenders exchange short-term funds to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability.

Indian money market consists of formal/organised and informal/unorganised segments. The formal/organised market comprises of RBI, various commercial banks, cooperative banks, UTI etc. Informal/unorganised market consists of chit funds, nidhis, etc. In the unorganised/informal segment interest rates are much higher than in the organised segment. Money market instruments include treasury bills, commercial bills, certificate of deposit.



MONEY MARKET - FEATURES/BENEFITS

(a)	It is the market for dealing in monetary assets of short-term nature.
(b)	Short-term funds up to one year and financial assets that are close substitutes for money are dealt in the money market.
(c)	Money market instruments have the characteristics of liquidity, minimum transaction cost and no loss in value.
(d)	Money market provides access to providers and users of short-term funds to fulfill their borrowings and investment requirements at an efficient market clearing price.
(e)	The money market is the major mechanism through which the Reserve Bank influences liquidity and the general level of interest rates.
(f)	Funds are available in this market for periods ranging from a single day up to a year.

- (g) Mostly government, banks and financial institutions dominate this market.
- (h) The volumes are very large and generally transactions are settled on a daily basis.
- (i) Trading in the money market is conducted over the telephone, followed by written confirmation from both the borrowers and lenders.

MONEY MARKET - PLAYERS

Government is an active player in the money market and in most economies, it constitutes the biggest borrower of this market. Both, Government Securities or G-Secs and Treasury-Bills or T-Bills are securities issued by RBI on behalf of the Government of India to meet the latter's borrowing for financing fiscal deficit. Apart from functioning as a merchant banker to the government, the central bank also regulates the money market and issues guidelines to govern the money market operations.

Another dominant player in the money market is the banking industry. Banks mobilize deposits and utilize the same for credit accommodation.

Moreover, financial institutions also undertake lending and borrowing of short-term funds.

Corporates also transact in the money market mostly to raise short-term funds for meeting their working capital requirements.

Other institutional players like Mutual Funds (MFs), Foreign Institutional Investors (FIIs) etc. also transact in money market.

The volumes are very large and generally transactions are settled on a daily basis. Trading in the money market is conducted over the telephone, followed by written confirmation from both the borrowers and lenders.

MONEY MARKET Vs. CAPITAL MARKET

Basis of difference	Money Market	Capital Market
1. Purpose	The money market fulfils the short-term fund requirements of Business Houses and Govt. of India.	The Capital market fulfils Long-term funds requirements of Business house like expansion of business, purchase of land & Building and machinery.
2. Maturity Period	It deals with raising and deployment of funds for short duration.	It deals with raising and deployment of funds for long duration.
3. Institutions involved	Government of India, Banks, Non-Banking Financial Institutions.	Any company registered in India, Bank and Insurance companies etc.
4. Market Regulator	This market is being regulated and controlled by RBI.	This market is being regulated and controlled by SEBI.
5. Instruments involved	Treasury bills, commercial bills, commercial papers certificate of deposits.	Stocks, shares, debentures, Bonds.
6. Volume of transactions	Very large as compared to capital market.	Less as compared to capital market.

MONEY MARKET- ROLE OF RBI

RBI as the residual source of funds in the country plays a key role and holds strategic importance in the money market. RBI is able to expand or contract the liquidity in the market through different instruments such as Statutory Liquidity Ratio (SLR), Current Liquidity Ratio (CLR) etc. Thus, RBI policy controls the availability and the cost of credit in the economy.

Both, Government Securities or G-Secs and Treasury-Bills or T-Bills are securities issued by RBI on behalf of the Government of India to meet the latter's borrowing for financing fiscal deficit. **Apart from functioning as a merchant banker to the government, the central bank also regulates the money market** and issues guidelines to govern the money market operations.

MONEY MARKET INSTRUMENTS

1. GOVERNMENT SECURITIES

Government securities (G-secs) are sovereign securities which are issued by the Reserve Bank of India on behalf of Government of India, in lieu of the Central Government's market borrowing programme. The term Government Securities includes: Central Government Securities, State Government Securities, and Treasury bills. These are risk free securities. The Central Government borrows funds to finance its 'fiscal deficit'.

Government Securities are of the following types:

Dated Securities

Dated Securities are generally fixed maturity and fixed coupon securities usually carrying semi-annual coupon. These are called dated securities because these are identified by their date of maturity and the coupon, e.g., 11.03% GOI 2012 is a Central Government security maturing in 2012, which carries a coupon of 11.03% payable half yearly.

The key features of these securities are:

- (a) They are issued at face value.
- (b) Coupon or interest rate is fixed at the time of issuance and remains constant till redemption of the security.
- (c) The tenor of the security is also fixed.
- (d) Interest/Coupon payment is made on a half yearly basis on its face value.
- (e) The security is redeemed at par (face value) on its maturity date.

Zero Coupon bonds

Zero Coupon bonds are bonds issued at discount to face value and redeemed at par. These were issued first on January, 1994 and were followed by two subsequent issues in 1994-95 and 1995-96 respectively.

The key features of these securities are:

- (a) They are issued at a discount to the face value.
- (b) The tenor of the security is fixed.
- (c) The securities do not carry any coupon or interest rate. The difference between the issue price (discounted price) and face value is the return on this security.
- (d) The security is redeemed at par (face value) on its maturity date.

Floating Rate Bonds

Floating Rate Bonds are bonds with variable interest rate with a fixed percentage over a benchmark rate.

The key features of these securities are:

- (a) They are issued at face value.
- (b) Coupon or interest rate is fixed as a percentage over a predefined benchmark rate at the time of issuance. The benchmark rate may be Treasury bill rate, bank rate etc.
- (c) Though the benchmark does not change, the rate of interest may vary according to the change in the benchmark rate till redemption of the security.
- (d) The tenor of the security is also fixed.
- (e) Interest/Coupon payment is made on a half yearly basis on its face value.
- (f) The security is redeemed at par (face value) on its maturity date.

Bonds with Call/Put Option

First time in the history of Government Securities market RBI issued a bond with call and put option. This bond is due for redemption in 2012 and carries a coupon of 6.72%. However, the bond has call and put option after five years i.e. in year 2007. In other words, it means that holder of bond can sell back (put option) bond to Government in 2007 or Government can buy back (call option) bond from holder in 2007. This bond has been priced in line with 5-year bonds.

Capital Indexed Bonds

Capital Indexed Bonds are bonds where interest rate is a fixed percentage over the wholesale price index. These provide investors with an effective hedge against inflation.

The key features of these securities are:

- (a) They are issued at face value.
- (b) Coupon or interest rate is fixed as a percentage over the wholesale price index at the time of issuance. Therefore, the actual amount of interest paid varies according to the change in the Wholesale Price Index.
- (c) The tenor of the security is fixed.
- (d) Interest/Coupon payment is made on a half yearly basis on its face value.
- (e) The principal redemption is linked to the Wholesale Price Index.

Day Count

For government dated securities and state government securities the day count is taken as 360 days for a year and 30 days for every completed month. However, for Treasury bills it is 365 days for a year.

Example: A client purchases 7.40% GOI 2012 for face value of ₹10 lacs @ ₹101.80, i.e. the client pays ₹101.80 for every unit of government security having a face value of ₹100/- The settlement is due on October 3, 2002. What is the amount to be paid by the client?

The security is 7.40% GOI 2012 for which the interest payment dates are 3rd May, and 3rd November every year.

The last interest payment date for the current year is 3rd May 2002. The calculation would be made as follows:

Face value of ₹10 lacs. @ ₹101.80%.

Therefore, the principal amount payable is ₹10 lacs? $101.80\% = 10,18,000$

Last interest payment date was May 3, 2002 and settlement date is October 3, 2002. Therefore, the interest has to be paid for 150 days (including 3rd May and excluding October 3, 2002). (28 days of May, including 3rd May, up to 30th May + 30 days of June, July, August and September + 2 days of October). Since the settlement is on October 3, 2002, that date is excluded.

$$\text{Interest Payable} = \frac{10 \text{ lacs} \times 7.40\% \times 150}{360 \times 100} = ₹30833.33$$

Total amount payable by client = 10,18,000 + 30833.33 = ₹10,48,833.33

CARROT AND STICK BOND

The carrot is the lower than normal conversion premium i.e. the premium over the present market price of the equity shares is fixed at a reasonable level so that the price of the equity shares need not increase significantly to make conversion practical. The stick is the issuer's right to call the issue at a specified premium if the price of the equity shares is traded above a specified percentage of the conversion price.

EQUIPREF

This instrument is in two parts A&B. Part A is convertible into equity shares automatically and compulsorily on the date of allotment without any application by the allotted, and Part B is redeemed at par/converted into equity after a lock in period at the option of the investor, at a price 30% lower than the average market price. The dividend is given for part B shares.

Upon conversion of each part, the face value stands reduced proportionately on the date of conversion.

BENEFITS OF INVESTING IN GOVERNMENT SECURITIES

- (a) No tax deducted at source
- (b) Additional Income Tax benefit u/s 80L of the Income Tax Act for Individuals
- (c) Qualifies for SLR purpose
- (d) Zero default risk being sovereign paper
- (e) Highly liquid
- (f) Transparency in transactions and simplified settlement procedures through CSDL/NSDL

Method of issue of govt. securities

A. AUCTION

There are following two methods of auction of govt. securities:

1. **UNIFORM PRICE BASED OR DUTCH AUCTION** procedure is used in auctions of dated government securities. The bids are accepted at the same prices as decided in the cut off.
2. **MULTIPLE/VARIABLE PRICE BASED OR FRENCH AUCTION** procedure is used in auctions of Government dated securities and treasury bills. Bids are accepted at different prices/yields quoted in the individual bids.

B. OPEN MARKET OPERATIONS (OMO)

Government securities that are privately placed with the Reserve Bank of India are sold in the market through open market operations of the Reserve Bank of India. The yield at which these securities are sold may differ from the yield at which they were privately placed with Reserve Bank of India. Open market operations are used by the Reserve Bank of India to infuse or suck liquidity from the system. Whenever the Reserve Bank of India wishes to infuse the liquidity in the system, it purchases government securities from the market, and whenever it wishes to suck out the liquidity from the system, it sells government securities in the market.

2. MONEY AT CALL AND SHORT NOTICE

Money at call is outright money. Money at short notice is for a maturity of or up to 14 days. Money for higher maturity is known as inter-bank deposits. The participants are banks and all India financial institutions as permitted by RBI.

3. INTER-BANK PARTICIPATION (IBP)

Two types of IBP are allowed to be issued by banks as per RBI guidelines:

- 1. on risk sharing basis**
- 2. without risk sharing**

These instruments are used by Scheduled Commercial Banks other than Regional Rural Banks. IBP with sharing is issued for 91 to 180 days. In connection with corporate lending, the lender bank shares the losses with borrower banks. The rate of interest is mutually determined by the issuing bank and the participating bank.

IBP without risk sharing can have a tenor of 90 days only. The issuing banks show participation as borrowing, while the participating banks show it as advances to banks. The IBP scheme is advantageous as it is more flexible for access compare to the regular consortium tie up.

However, IBP has not become very popular because it is not transferable and there is absence of the ceiling on interest rate.

4. MONEY MARKET MUTUAL FUNDS (MMMFs)

Money market is an avenue for obtaining higher returns on short term funds. The concept of a mutual fund in relation to a capital market can naturally be extended to money market. The concept has been worked in the USA and other advanced countries. In India, the decision to promote MMMFs was announced by RBI while unveiling its credit policy in April, 1991.

MMMF schemes like any other mutual fund schemes, would exclusively be governed by SEBI (Mutual Funds) Regulations, 1996

5. TREASURY BILLS

Treasury Bills are money market instruments to finance the short term requirements of the Government of India. These are discounted securities and thus are issued at a discount to face value. The return to the investor is the difference between the maturity value and issue price. In the short term, the lowest risk category instruments are the treasury bills. A considerable part of the government's borrowings happen through T-bills of various maturities

The treasury bills are issued in the form of promissory note in physical form or by credit to Subsidiary General Ledger (SGL) account or Gilt account in dematerialised form.

Bids for treasury bills are to be made for a minimum amount of ₹25000/- only and in multiples thereof.

There are four types of treasury bills.

- 1. 14-day Tbill-** maturity is in 14 days. Its auction is on every Friday of every week. The notified amount for this auction is ₹100 crores.
- 2. 91-day Tbill-** maturity is in 91 days. Its auction is on every Friday of every week. The notified amount for this auction is ₹100 crores.
- 3. 182-day Tbill-** maturity is in 182 days. Its auction is on every alternate Wednesday (which is not a reporting week). The notified amount for this auction is ₹100 crores.

4. **364-Day Tbill**- maturity is in 364 days. Its auction is on every alternate Wednesday (which is a reporting week). The notified amount for this auction is ₹500 crores.

Yield Calculation

The yield of a Treasury Bill is calculated as per the following formula:

$$Y = \frac{(100 - P) \times 365 \times 100}{P \times D}$$

Wherein Y = Discounted yield

P = Price

D = Days to maturity

Example:-

A cooperative bank wishes to buy 91 Days Treasury Bill Maturing on Dec. 6, 2006 on Oct. 12, 2006. The rate quoted by seller is ₹99.1489 per ₹100 face values. The YTM can be calculated as following: The days to maturity of Treasury bill are 55 (October – 20 days, November – 30 days and December – 5 days)

$$YTM = (100 - 99.1489) \times 365 \times 100 / (99.1489 \times 55) = 5.70\%$$

Similarly if the YTM is quoted by the seller price can be calculated by inputting the price in above formula

There are two types of auction for treasury bills:

Multiple Price Based or French Auction: Under this method, all bids equal to or above the cut-off price are accepted. This method is followed in the case of 364 days treasury bills and is valid only for competitive bidders

Uniform Price Based or Dutch Auction: Under this system, all the bids equal to or above the cut-off price are accepted at the cut-off level. This method is applicable in the case of 91 days treasury bills only. The system of Dutch auction has been done away with by the RBI.

BENEFITS OF INVESTMENT IN TREASURY BILLS

- (a) No tax deducted at source
- (b) Zero default risk being sovereign paper
- (c) Highly liquid money market instrument
- (d) Better returns especially in the short term
- (e) Transparency
- (f) Simplified settlement

6. CERTIFICATES OF DEPOSITS

Certificates of Deposit (CDs) is a negotiable money market instrument and issued in dematerialised form or as a Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period.

Eligibility

CDs can be issued by (i) scheduled commercial banks excluding Regional Rural Banks (RRBs) and Local Area Banks (LABs); and (ii) select all-India Financial Institutions that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI.

Minimum amount of a CD should be ₹1 lakh and in the multiples of ₹1 lakh thereafter.

The maturity period of CDs issued by banks should be not less than 15 days and not more than one year. The FIs can issue CDs for a period not less than 1 year and not exceeding 3 years from the date of issue.

Physical CDs are freely transferable by endorsement and delivery. Demat CDs can be transferred as per the procedure applicable to other demat securities. There is no lock-in period for the CDs.

7. COMMERCIAL BILLS

Commercial bills are basically negotiable instruments accepted by buyers for goods or services obtained by them on credit. Such bills being bills of exchange can be kept up to the due date and encashed by the seller or may be endorsed to a third party in payment of dues owing to the latter. But the most common method is that the seller who gets the accepted bills of exchange discounts it with the Bank or financial institution or a bill discounting house and collects the money.

8. COMMERCIAL PAPER

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP can be issued for maturities between a minimum of 7 days and a maximum up to one year from the date of issue. CP can be issued in denominations of ₹5 lakh or multiples thereof. CP can be issued either in the form of a promissory note or in a dematerialized form through any of the depositories approved by and registered with SEBI.

GUIDELINES FOR ISSUE OF CP

Following are the guidelines/conditions for issue of CP	1. Corporates and primary dealers (PDs), and the all-India financial institutions (FIs) that have been permitted to raise short-term resources under the limit fixed by Reserve Bank of India are eligible to issue CP.
	2. <u>A corporate would be eligible to issue CP provided:</u> (a) the tangible net worth of the company, as per the latest audited balance sheet, is not less than ₹4 crore; (b) company has been sanctioned working capital limit by bank/s or all-India financial institution/s; and (c) Company shall obtain the credit rating for issuance of Commercial Paper from the Credit Rating Agency.
	3. CP can be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue.
	4. The maturity date of the CP should not go beyond the date up to which the credit rating of the issuer is valid.
	5. Denominations CP can be issued in denominations of ₹5 lakh and multiples thereof. The amount invested by a single investor should not be less than ₹5 lakh (face value).

THE ROLE AND RESPONSIBILITIES OF ISSUER AND CRA IN ISSUANCE OF CP

Following are the role and responsibilities of Issuer and CRA in issuance of CP:-

(a) Issuer :-

With the simplification in the procedures for issuance of CP, issuers would now have greater flexibility. However, they have to ensure that the guidelines and procedures laid down for CP issuance are strictly adhered to.

(b) CRA; -

- (i) The CRA shall be abide by the Code of Conduct prescribed by the SEBI for CRAs
- (ii) The CRAs would henceforth have the discretion to determine the validity period of the rating depending upon its perception about the strength of the issuer.
- (iii) The CRAs would have to closely monitor the rating assigned to issuers vis-à-vis their track record at regular intervals and would be required to make their revision in the ratings public through their publications and website.

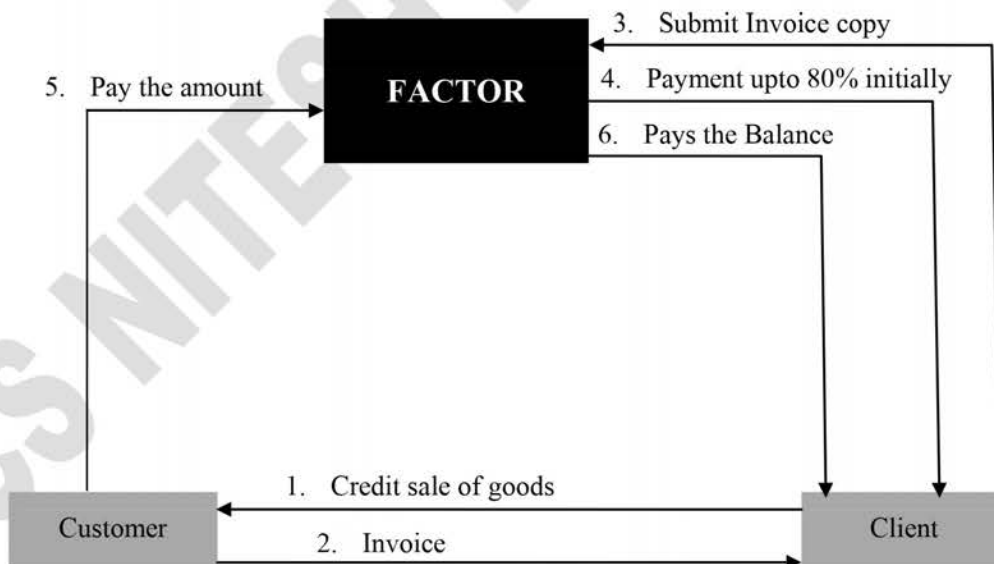
FACTORING

Factoring is a financial transaction where an entity sells its receivables to a third party called a 'factor', at discounted prices. Factoring is a financial option for the management of receivables. In simple definition it is the conversion of credit sales into cash. In factoring, a financial institution (**factor**) **buys the accounts receivable of a company (Client) and pays up to 80% (rarely up to 90%) of the amount immediately** on formation of agreement. Factoring company pays the **remaining amount (Balance 20% -finance cost-operating cost)** to the client when the customer pays the debt.

PARTIES IN FACTORING

The factoring transaction involves three parties:	<ol style="list-style-type: none">1. The Seller, who has produced the goods/services and raised the invoice.2. The Buyer, the consumer of goods/services and the party to pay.3. The Factor, the financial institution that advances the portion of funds to the seller
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FACTORING PROCESS



TYPES OF FACTORING

1. Non-Recourse or Full factoring

Under this type of factoring the bank takes all the risk and bear all the loss in case of debts becoming bad debts.

2. Recourse Factoring

Under this type of factoring the bank purchases the receivables on the condition that any loss arising out or bad debts will be borne by the company which has taken factoring.

3. Maturity Factoring

Under this type of factoring bank does not give any advance to the company rather bank collects it from customers and pays to the company either on the date of collection from the customers or on a guaranteed payment date.

4. Advance Factoring

Under advance factoring arrangement the factor provides an advance against the uncollected and non-due receivables to the firm.

5. Undisclosed Factoring

Under this type of factoring, the customer is not informed of the factoring arrangement. The firm may collect dues from the customer on its own or instruct to make remit once at some other address.

6. Invoice Discounting

Under this type of factoring the bank provide an advance to the company against the account receivables and in turn charges interest rate from the company for the payment which bank has given to the company

BILLS REDISCOUNTING

Bill rediscounting is a money market instrument where the bank buys the bill (i.e. Bill of Exchange or Promissory Note) before it is due and credits the value of the bill after a discount charge to the customer's account. Now, the bank which has discounted the bill may require getting it 'rediscounted' with some other bank to get the fund.

Q. 1. Money market instruments mainly include government securities, securities issued by banking sector and securities issued by private sector. Briefly explain various instruments. [Dec. 2017]

Ans. There are various types of money market instruments as stated below:

Treasury Bill: Treasury Bill are money market instruments issued by TBI at a prefixed date and of a fixed amount to finance the short term requirements of the Government of India. These are discounted securities and thus are issued at a discount to face value. The return to the investor is the difference between the maturity value and issue price.

Certificates of Deposits (CDs) : CD is a negotiable money market instrument and issued in dematerialized form or as Usance Promissory Note, against funds deposited at a bank or other eligible financial institution for a specified time period. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India, as amended from time to time.

Commercial Bills: These are basically negotiable instruments accepted by buyers for goods or services obtained by them on credit. Such bills being of exchange which can be kept upto the due maturity date and encashed by the seller or may be endorsed to a third party in payment of dues owing to the latter. The most common practice is that the seller who gets the accepted bills of exchange discounts it with the Bank or financial institution or a bill discounting house and collects the money (less the interest charged for the discounting).

Commercial Paper (CP): CP is an unsecured money market instrument issued in the form of a promissory note. CP, is issued to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Subsequently, primary dealers (PDs), and all-India financial institutions were also permitted to issue CP to enable them to meet their short-term funding requirements for their operations.

SELF TEST QUESTIONS

FROM PAST CS EXAMS



1. Write a note on
 - (a) 'treasury bills'.
 - (b) auction
2. Distinguish between
 - (a) 'French auction' and 'Dutch auction'.
 - (b) 'Certificate of deposit' and 'inter corporate deposit'
 - (c) 'Commercial bills' and 'commercial papers'
3. Briefly discuss the guidelines for issuance of commercial paper.
4. List out various money market instruments.
5. Reserve Bank of India is the main regulator of money market in India. Comment.
6. Discuss the steps involved in the process of factoring.
7. Treasury bills are effective cash management product'. Comment.
8. Treasury bill is a powerful instrument in the money market. Comment.
9. Why should an investor prefer to invest in government securities? Discuss the benefits.
10. Write note on;- capital market *vis-a-vis* money market.

FROM ICSI MODULE



Answer the Following:

1. "Money market is very important segment of Indian Financial System". Comment and discuss various features of money market.
2. State how yield of Treasury Bill is calculated.
3. Briefly discuss the guidelines for issue of commercial paper.
4. Discuss the role and responsibilities of issuer and credit rating agency in issuance of commercial paper.
5. Discuss various types of factoring.
6. What is Bill- rediscounting?



Answers to be analysed in Classroom

Q. 1.

Answer to Question No. 1:-

CS NITESH KR. JAISWAL



Answers to be analysed in Classroom

Q. 2.

Answer to Question No. 2:-

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