

SECURITIES LAWS AND COMPLIANCES

Time allowed : 3 hours

Maximum marks : 100

PART A

(Answer Question No. 1 which is COMPULSORY
and any three of the rest from this part)

Question 1

- (a) State, with reasons in brief, whether the following statements are true or false :
- (i) Sweat equity shares are allotted to employees of a company as gift for their performance.
 - (ii) Continuing disclosure by listed companies under the SEBI Takeover Code affects the market price of company's shares.
 - (iii) In case of rolling settlement, the delivery of funds and securities is settled on T+2 basis.
 - (iv) The Central Government cannot privately place the government securities with the Reserve Bank of India.
 - (v) Listing of securities with stock exchanges is a matter of great importance.
(2 marks each)
- (b) Choose the most appropriate answer from the given options in respect of the following :
- (i) The responsibility for regulating the securities market is not shared by the —
 - (a) SEBI
 - (b) Reserve Bank of India
 - (c) Stock Exchanges
 - (d) Ministry of Corporate Affairs.
 - (ii) The mechanism for employees to report to the management certain events like, unethical behaviour, suspected fraud or violation of the company's code of conduct is known as —
 - (a) Whistle blower policy
 - (b) Surveillance action
 - (c) Market abuse
 - (d) Snap investigation.
 - (iii) The money market instrument which is issued in the form of a promissory note is called —
 - (a) Commercial bill
 - (b) Commercial paper
 - (c) Treasury bill
 - (d) Unit issued by a 'money market mutual fund' (MMMF).

- (iv) *Before 1992, the authority which used to regulate and deal with the stock market was the —*
- (a) *Reserve Bank of India*
 - (b) *Controller of Capital Issues*
 - (c) *Registrar of Companies*
 - (d) *SEBI.*
- (v) *Stock brokers and sub-brokers are required to be registered with the —*
- (a) *SEBI*
 - (b) *Stock exchanges*
 - (c) *Registrar of Companies*
 - (d) *Both (a) and (b).*
- (1 mark each)*

Answer 1(a)(i)

True : Under Section 79A of The Companies Act 1956, sweat equity share is a instrument permitted to be issued by specified Indian Companies. Sweat equity shares are allotted to all employees of Companies or Directors as may be decided by Board of Directors of that particular issuer Company as a reward for the best services rendered; at a nominal price or a lower discounted price or at free of cost to further encourage them to put their best efforts for providing know how in the nature of intellectual property rights.

Answer 1(a)(ii)

False : In fact Continuing disclosures standards has enabled companies for quicker dissemination of information to investors. It provides the investors reasonable access to the information to judge the performance of the Company.

Answer 1(a)(iii)

True : In case of rolling settlements the delivery of funds and securities is settled on T+2 basis. Transactions are settled on the 2nd day of the day of Transaction. So if transaction takes place on Monday then the settlement will be done on Wednesday.

Answer 1(a)(iv)

False : The Central Government may also privately place government securities with RBI. This is usually done when the ways and means of advance is near the sanctioned limit and market conditions are not conducive to an issue.

Answer 1(a)(v)

True : Listing of securities with stock exchange is a matter of great importance for companies and investors, because this provides the liquidity to the securities in the market, improves its public image, helps in commanding better support such as loans and investment from Banks/Financial Institutions and compels the company management to disclose important information to the investors enabling them to make crucial decisions.

Answer 1(b)

- (i) (d) Ministry of Corporate Affairs
- (ii) (a) Whistle blower policy
- (iii) (b) Commercial Paper
- (iv) (b) Controller of Capital Issues
- (v) (a) SEBI

Question 2

(a) Write short notes on the following :

- (i) Securities lending
- (ii) Fungibility
- (iii) Custodian of securities.

(3 marks each)

(b) Expand the following abbreviations :

- (i) OMO
- (ii) FSO
- (iii) STR.

(1 mark each)

(c) What are the securities which are not available for buy-back ? (3 marks)

Answer 2(a)(i)**Securities Lending**

Securities lending are regulated by SEBI. 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 finalized by him. There will be no direct contracts between the borrower and lender of securities.

Answer 2(a)(ii)**Fungibility**

The Depositories Act, 1996 envisages that all securities held in depository shall be fungible i.e., all certificates of the same security shall become interchangeable in the sense that investor loses the right to obtain the exact certificate he surrenders at the time of entry into depository. It is like withdrawing money from the bank without bothering about the distinctive numbers of the currencies.

Answer 2(a)(iii)**Custodian of Securities**

Custodian of securities means any person who carries on or proposes to carry on the business of providing custodial services. The term “custodial services” in relation to securities means safekeeping of securities of a client and providing services incidental thereto, and includes –

- (i) maintaining accounts of securities of a client;

- (ii) collecting the benefits of rights accruing to the client in respect of securities;
- (iii) keeping the client informed of the actions taken or to be taken by the issuer of securities, having a bearing on the benefits or rights accruing to the client; and
- (iv) maintaining and reconciling records of the services referred to in points (i) to (iii).

Answer 2(b)

- (i) OMO - Open Market Operations
- (ii) FSO – Foreign Structured Obligations
- (iii) STR – Suspicious Transaction Reporting

Answer 2(c)

The following Securities are not available for buy-back :

- (i) *Securities in lock-in period* : Securities in lock-in period as per SEBI guidelines are not available for buyback until the lock-in period expires.
- (ii) *Non-transferable Securities* : Securities which are under lien or are pledged or restricted by Court.
- (iii) *Disputed Securities kept in abeyance* : Securities which are under dispute and have kept in abeyance under section 206A or in respect of which transfer or transmission has not been effected.

Question 3

(a) *Distinguish between any two of the following :*

- (i) *‘Primary market’ and ‘secondary market’.*
- (ii) *‘Close ended schemes’ and ‘open ended schemes’.*
- (iii) *‘Disaster bonds’ and ‘dual convertible bonds’.* (3 marks each)

(b) *“Capital market intermediaries are a vital link between the SEBI and investors in a public issue.” Comment.* (5 marks)

(c) *Explain the following grading scales for healthcare institutions given by CRISIL:*

- (i) *Grade A*
- (ii) *Grade B*
- (iii) *Grade C*
- (iv) *Grade D.* (1 mark each)

Answer 3(a)(i)**‘Primary Market’ and ‘Secondary Market’**

The primary market provides the channel for mobilizing resources. Secondary market deals in securities which were already issued in primary market or which securities have already raised resources from the primary market earlier.

In primary market the issue of securities may be through an IPO, Further issue of Capital, Right issue, offer to public, Bonus issue, offer of securities under reservation, firm allotment basis to foreign collaborators, partners, mutual funds, merchant bankers, employees etc. The Secondary market deals with such securities which have already listed on stock Exchanges of any category subject to lock in conditions. The primary market creates and offers merchandise for secondary market, which secondary market ensures relative safety in trading as the instruments are traded through stock exchange mechanism.

Answer 3(a)(ii)

‘Close Ended Schemes’ and ‘Open Ended Schemes’

<i>Close Ended Schemes</i>	<i>Open Ended Schemes</i>
1. Fixed Corpus : No new units can be offered beyond the limit	Variable corpus due to on going purchase and redemption
2. Listed on stock exchange for buying and selling or dealings	No listing on exchange transactions done directly with the fund
3. Two values are available viz. : NAV and the market trading price	Only NAV is available as one price
4. Mostly liquid	Highly liquid

Answer 3(a)(iii)

‘Disaster Bonds’ and ‘Dual Convertible Bonds’

Disaster Bonds are issued by companies and Institutions to share the risk and expand the capital to link investors return with the size of insurer losses. The bigger the losses the smaller the return and vice-versa. The coupon rate and the principal of the bonds are decided by the occurrence of the casualty of disaster and by the possibility of borrowers defaults.

A dual convertible bond is convertible into either equity shares or fixed interest rate debentures/preference shares at the option of the lender. Depending on the prospectus of the project during the conversion period, the lender may exercise either of the options. The fixed interest rate debenture may have certain additional features including higher rate of interest distinct from the original debt instrument.

Answer 3(b)

Capital market intermediaries are a vital link between the regulator, issuers and investor. Any aberrations in the capital market has presumably direct bearing on the intermediaries their governance process and practices which in turn affect the confidence of market. It is therefore, necessary to ensure good governance practices of the intermediaries and also to have constant monitoring and surveillance on the acts of intermediaries. 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. As per Section 11 of SEBI Act. It is the duty of SEBI to register and regulate the Intermediaries in primary and secondary market. SEBI has also issued Regulation, 2008, to put in place a comprehensive framework which will apply to the intermediaries. The new

regulation provided for all intermediaries to register and regulate, the permanent registration, multiple activities registration form, fit and proper person criteria, suspension and cancellation of certificate of registration.

Answer 3(c)

- (i) **Grade - A** – Reflects very good quality of delivered patient care. A healthcare institutions graded in this category has highest standards in Indian health care.
- (ii) **Grade - B** – Reflects good quality of delivered patient care and have facilities lower to grade A
- (iii) **Grade - C** – Reflects average Quality of delivered patient care and improvement in specific areas would be required for such hospital.
- (iv) **Grade - D** – Reflects poor quality of delivered patient care. Infrastructure of hospital is poor quality and below average standard.

Question 4

- (a) *What are the obligations of a capital market intermediary under the Prevention of Money Laundering Act, 2002 ?* (5 marks)
- (b) *List out any four clauses of listing agreement.* (5 marks)
- (c) *“Depository system is a boon to capital market and investors, both.” Elucidate the statement and bring out the advantages of the dematerialisation of securities.* (5 marks)

Answer 4(a)

Obligations of Intermediaries under Prevention of Money Laundering Act, 2002

Under section 12 of Prevention of Money Laundering Act, 2002, there are certain obligations casted on an intermediary to :

- (i) Maintain a second of all transactions, the nature and value of which may be prescribed whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other and where such series of transactions take place within a month.
- (ii) Furnish information of transaction to the Director within such time as may be prescribed.
- (iii) Verify and maintain records of the identity of all its clients in such a manner as may be prescribed.

All intermediaries are required to ensure that a proper policy framework as per the Guidelines on anti-money laundering measures is put into place. The intermediaries are also required to designate an officer as ‘Principal Officer’ who would be responsible for ensuring compliance of the provisions of the Prevention of Money Laundering Act, 2002.

Answer 4(b)

Clauses of Listing Agreement

- (i) *Clause – 13.* Notification of any attachment or prohibiting orders against transfer of securities

- (ii) *Clause – 16.* Book closure or Record date – At least once in a year the books should be closed. Gap between two book closures and or record dates would be at least 30 days.
- (iii) *Clause – 19.* Convening of Board Meeting for decision on Dividend, Bonus, Rights, convertible debentures, buy-back of securities.
- (iv) *Clause – 31.* Further issue of securities and other documents to be forwarded – To forward the Stock Exchange 6 copies of Annual Reports, notices, resolutions and circulars relating to new issue of capital, including notices under sections 391 or 394 read with section 391 of the Companies Act, 1956. Copies of all proceedings of EGMs/AGMs along with notices and explanatory statements etc.
- (v) *Clause – 32.* Preparation of cash flow statement in accordance with AS-3 of ICAI & related party transactions.
- (vi) *Clause – 35.* Shareholding pattern containing details of promoters' holdings and non-promoter holdings.
- (vii) *Clause – 41.* Preparation and submission of quarterly financial statements.
- (viii) *Clause – 49.* Corporate Governance & its compliances
- (ix) *Clause – 50.* Adoption of Accounting Standards as per norms stipulated by ICAI.
- (x) *Clause – 51. EDIFAR* - to be filed/uploaded on Stock Exchanges/SEBI websites.

NOTE : IMPORTANT CLAUSES HAVE BEEN MENTIONED IN THE ANSWER. STUDENTS ARE REQUIRED TO ANSWER ANY FOUR.

Answer 4(c)

Depository system is a boon to capital market and investors both. 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 aforementioned problems of bad deliveries and long settlement cycles.

The main benefits of a depository is to minimize the paper work involved with the owner, trading and transfer of securities. In the depository system, the ownership and transfer of securities takes place by means of electronic book entries. At the outset, this system rids the capital market of the dangers related to handling of paper through dematerialization which results in advantages :

- (i) Elimination of bad deliveries
- (ii) Elimination of all risks associated with physical certificates.
- (iii) Immediate transfer and registration of securities.
- (iv) Faster disbursement of non-cash corporate benefits like rights, bonus, etc.
- (v) Reduction in brokerage by many brokers for trading in dematerialized securities.

- (vi) Reduction in handling of huge volumes of paper and periodic status reports to investors;
- (vii) Elimination of problems related to change of address of investor transmission etc.

Question 5

- (a) Define 'NAV' and 'offer price'. If Rahul invests Rs.10,000 in a scheme that charges 2% front end load at an NAV of Rs.10 per unit, what shall be the public offer price? (5 marks)
- (b) What are the pre-requisites for 'option trading'? Explain the issues connected with option trading. (5 marks)
- (c) Explain the concept of 'collective investment scheme'. State briefly the obligations of trustees. (5 marks)

Answer 5(a)

Net Asset Value

Net asset value is the value of the assets of each unit of the scheme. Thus if the NAV is the more than the face value of Rs.10/- , there is an appreciation for the investment. If the NAV is less than the face value, it indicates depreciation of the investment. NAV also includes dividends, interest accruals and reduction of liabilities and expenses apart from market value of investments.

Offer Price : Offer Price is the price obtain by dividing Net Asset Value of the scheme by 1 - front and load.

$$\text{Public Offer Price} = \text{Net Asset Value} \div (1 - \text{Front end load})$$

Solution :

$$\text{Public Offer Price} = \text{Net Asset Value} \div (1 - \text{Front end load})$$

$$\text{i.e. } \frac{\text{Rs.10}}{(1 - 0.02)} = \text{Rs.10.20}$$

Answer 5(b)

The most important pre-requisite for option trading is proper infrastructure and writers of options. Institutional infrastructure has to be developed. This will require writers of options, who are speculators willing to take risk for high rewards. The successful functioning of option trading require following pre-requisite.

- standardization of the terms of contract
- careful selection of underlying securities
- appointment of second market maker
- setting up efficient option clearing house
- creation of a central market

There are legislative measures in the USA and European countries to check abuses of option trading without undermining its usefulness. In India sentiment call away the market and the volume could go up to the unsustainable level. As such checks and balances have to be provided to bring the market back to normal.

Answer 5(c)

Collective investment scheme means any scheme or arrangement made or offered by any company under which the contributions or payments made by the investors by whatever name called are pooled and utilized solely for the purposes of the scheme or arrangement.

The obligations of trustee include ensuring that the Collective Investment Management Company has :

- (i) the necessary office infrastructure;
- (ii) appointed all key personnel including managers for the schemes and submitted their bio-data which shall contain the educational qualifications and past experience in the areas relevant for fulfilling the objectives of the schemes;
- (iii) taken adequate steps to ensure that the interest of investors of one scheme are not compromised with the object of promoting the interest of investors of any other scheme.
- (iv) maintained minimum net worth on a continuous basis and has informed SEBI immediately of any shortfall;
- (v) been diligent in empanelling the marketing agents and in monitoring their activities.

The trustees are accountable for and are the custodian of the funds and property of the respective schemes and should hold the same in trust for the benefit of the unit holders in accordance with these regulations and the provisions of trust deed.

The trustee should review on a quarterly basis every year all activities carried out by the Collective Investment Management Company. The trustee should also report to SEBI any breach of these regulations and has had, or is likely to have a materially adverse effect on the interests of unit holders as soon as they become aware of the breach.

PART B

(Answer ANY TWO questions from this part)

Question 6

- (a) What is 'initial public offering' (IPO) grading ? Explain the procedure for IPO grading. (5 marks)
- (b) What is 'green shoe option' ? Explain its significance. (5 marks)
- (c) List out the various approvals required for issuance of 'Global Depository Receipts' (GDRs) and the documentation required therefor. (5 marks)
- (d) Explain the procedure adopted for approval of 'basis of allotment' by the stock exchanges. (5 marks)

Answer 6(a)

IPO (Initial Public Offering) grading is a service aimed at facilitating the assessment of Equity issues offered to public. The grade assigned to any individual issue represents a relative assessment of the fundamental of that issue in relation to the universe of other listed equity securities. In India such grading is assigned on a five point scale with a higher score indicating stronger fundamental. Credit rating agencies registered with SEBI carry out IPO grading. The grading does not have any ongoing validity. The company first appoints grading agencies and mandates it for grading exercise. The agency will follow the process outlined below :

- seek information for grading from the company
- visit company operation for discussions
- prepare analytical assessment report
- present analysis to committee comprising top official of company & grading agency
- communicate the grade to the company with assessment report

Answer 6(b)

Green Shoe Option means an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with SEBI (DIP) Guidelines 2000.

A company making a public offer of equity shares and desirous of availing this option, should in the resolution of the general meeting authorizing the public issue, seek authorization also for the possibility of allotment of further shares to the 'Stabilizing Agent' (SA) at the end of the stabilization period.

The Significance of Green Shoe Option is that it helps in stabilizing post listing price of the shares.

The company should appoint one of the merchant bankers or book runners, amongst the issue management team, as SA, who will be responsible for the price stabilization process, if required. The SA shall enter into an agreement with the issuer company, prior to filing of offer document with SEBI, clearly stating all the terms and conditions relating to this option including fees charged/expenses to be incurred by SA for this purpose.

Answer 6(c)**Various approvals required for issuance of Global Depository Receipts**

- (i) Approval of the Board of Directors
- (ii) Approval of shareholders.
- (iii) Two stage approval of Ministry of Finance—In principle and Final
- (iv) Approval of Ministry of Corporate Affairs
- (v) Approval of Reserve Bank of India.
- (vi) In principle consent of Stock Exchange for listing of underlying shares.
- (vii) In principle consent of Financial Institutions.

Documentation required for issuance of Global Depository Receipts :

- (i) Subscription Agreement
- (ii) Depository Agreement
- (iii) Custodian Agreement
- (iv) Agency Agreement\
- (v) Trust Deed.

Answer 6(d)

In case of public issue of Securities, the Executive Director/Managing Director of the designated Stock Exchange along with post issue lead merchant banker and the Registrar to the issue is responsible to ensure that the basis of allotment is finalized in a fair and proper manner in accordance with guidelines. Chapter XI of SEBI guidelines shall be applicable for book building portion of a book built public issue.

To finalise basis of allotment in case of issues oversubscribed by 'n' number of times, the system of lots is applicable where a public representative of designated stock exchange indicate lot number of successful applicants; which shall be issued by ED/MD of such Exchange as correct in addition to lead merchant banker, Registrar to the issue and the company's authorized Representative. Once allotment is approved, the company should take all necessary formalities for listing including publication of basis of allotment as per listing agreement and comply further formalities within 7 days of finalization of basis of allotment including refund orders and credit of shares to investors account etc.

Question 7

- (a) Explain any three of the following terms relating to debt market in India :
 - (i) Benchmarked instruments
 - (ii) Inflation linked bonds
 - (iii) Pass through certificates
 - (iv) Floating interest rate. (2 marks each)
- (b) What is meant by the following in a public issue :
 - (i) Subscription list
 - (ii) Issue opening date
 - (iii) Mandatory collection centre ? (3 marks each)
- (c) What is the 'investor education and protection fund' (IEPF) ? Briefly explain its activities as stipulated under the IEPF Rules. (5 marks)

Answer 7(a)(i)

Benchmarked Instruments

These are certain debt instruments wherein the fixed income earned is based on a benchmark. For instance the floating interest rate funds are benchmarked to either the LIBOR or MIBOR.

Answer 7(a)(ii)**Inflation Linked Bond**

A bond is considered indexed for inflation if the payment on the instrument is indexed by reference to the change in the value of a general price index over the term of the instrument.

Answer 7(a)(iii)**Pass Through Certificates**

When mortgages are pooled together and undivided interest in the pool are sold, pass through securities certificates are created.

Answer 7(a)(iv)**Floating Interest Rate**

Floating interest rate simply means that the rate of interest is variable. The interest rate payable for the next period is set with reference to a benchmark market rate agreed upon by both the lender and borrower.

Answer 7(b)(i)

Subscription List : It must be kept open for minimum period of 3 working days and not more than 10 working days and the operation of subscription list be disclosed in the prospectus. In case of infrastructures companies it should be kept open for 21 days and for Rights at least 30 days but not more than 60 days. In case of designated financial institutions, subscription list for public issues shall be kept open for a minimum 3 working days and maximum 21 working days which should be disclosed in the offer documents.

Answer 7(b)(ii)

Issue opening date : It means that the issue must open within 3 months from the date of issuance of the observation letter by SEBI, if any, or within 3 months from 22nd day from the date of filing of draft offer document with SEBI, if no observation letter is issued. For a fast track issue or self prospectus this requirement is not applicable.

Answer 7(b)(iii)

Mandatory collection centre : SEBI (DIP) Guidelines, 2000 require a minimum number of collection centers for an issue of capital to be at four metropolitan center Viz. Mumbai, Delhi, Kolkata & Chennai. However, the issuer company is free to appoint as many collection centers as it may deem fit in addition to minimum requirement.

Answer 7(c)

Investor Education and Protection Fund (IEPF) has been established under Section 205C of The Companies Act, 1956. The IEPF stipulate the activities related to investor education awareness and protection for which the financial sanction can be provided under IEPF.

Activities stipulated under IEPF Rules :

- Education Programme through media

- Organizing seminars and symposia
- Proposals for registration of Voluntary Associations or Institution or other organizations engaged in Investor Education and Protection activities
- Proposals for projects for Investors' Education and Protection including research activities and proposals for financing such projects
- Coordinating with institutions engaged in Investor Education, awareness and protection activities.

Question 8

- (a) *What do you understand by 'fast track issues' ? Explain in brief the provisions related to fast track issues.* (6 marks)
- (b) *Write short notes on the following :*
- (i) *Foreign currency convertible bonds (FCCBs)*
 - (ii) *Overseas depository bank*
 - (iii) *Prohibition of certain dealings in securities under the SEBI Regulations.* (3 marks each)
- (c) *What are the requirements for making investment in Indian Depository Receipts (IDRs) ?* (5 marks)

Answer 8(a)

SEBI has decided to enable listed companies satisfying certain specified requirement to make fast track issue. Such companies are not required to file draft offer document with SEBI and stock exchange. Accordingly, the provisions relating to filing of offer documents are not applicable to public issue of securities by a listed issuer company or a rights issue of securities by a listed issuer company where the aggregate value of such securities including premium if any exceed Rs.50 lacs if the condition are satisfied.

Accordingly the provisions relating to filing of offer document are not applicable to public issue of securities by a listed issuer company or a rights issue of securities by a listed issuer company, where the aggregate value of such securities, including premium, if any, exceeds Rs. 50 lacs, if the following conditions are satisfied :

- (i) The shares of the company have been listed on any stock exchange having nationwide terminals for a period of at least three years immediately preceding the reference date.
- (ii) The average market capitalization of public shareholding' of the company is at least Rs.10,000 crores for a period of one year.
- (iii) The annualized trading turnover of the shares of the company during six calendar months immediately preceding the month of the reference date has been at least two per cent of the weighted average number of shares listed during the said six months period.
- (iv) The company has redressed at least 95% of the total shareholder/investor grievances or complaints.
- (v) The company has complied with the listing agreement for a period of at least three years immediately preceding the reference date.

- (vi) The impact of auditors' qualifications if any on the audited accounts of the company in respect of the financial years for which such accounts are disclosed in the offer document does not exceed 5% of the net profit/loss after tax of the company for the respective years.
- (vii) No prosecution proceedings or show cause notices issued by the Board.
- (viii) The entire shareholding of the promoter group is held in dematerialized form as on the reference date.

Answer 8(b)(i)

Foreign Currency Convertible Bonds (FCCBs) means bonds issued in accordance with the FCCB and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 and subscribed by a non resident in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole or in part on the basis of any equity related warrants attached to debt instruments.

Answer 8(b)(ii)

Overseas Depository Bank : It means a bank authorized by the issuing company to issue global depository receipts against issue of Foreign Currency Convertible Bonds or ordinary shares of the issuing company.

Answer 8(b)(iii)

Regulation 3 of SEBI (Prohibition of Fraudulent and Unfair Trade practices relating to Securities Markets) Regulations prohibits certain dealings in securities and provides that no person shall directly or indirectly :

- (a) buy, sell or otherwise deal in securities in a fraudulent manner;
- (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder;
- (c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;
- (d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder.

Answer 8(c)**Requirements for making investment in Indian Depository receipts (IDRs)**

An issuing company cannot raise funds in India by issuing IDRs unless it has obtained prior permission from SEBI at least 90 days prior to the opening date of the issue in the notified manner along with a non-refundable fee of US \$ 10,000.

The issuing company is required to obtain the necessary approvals or exemption

from the appropriate authorities from the country of its incorporation and also has to appoint an overseas custodian bank, a domestic depository and a merchant banker for the purpose of issue of IDRs.

The issuing company has to file through a merchant banker or the domestic depository a due diligence report with the Registrar and also with SEBI.

The issuing company, seeking permission should obtain in-principle listing permission from one or more stock exchanges having nation wide trading terminals in India.
