

SECURITIES LAWS AND REGULATION OF FINANCIAL MARKETS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer SIX questions including Question No. 1 which is **COMPULSORY**.

Question 1

- (a) State, with reasons in brief, whether the following statements are true or false :
- (i) The proceeds of external commercial borrowings (ECB), not brought into India, can be invested abroad by a company.
 - (ii) Appointment of a lead merchant banker is not compulsory for the rights issue by a listed company.
 - (iii) A promoter can transfer his shares during lock-in period, if shares are acquired in a preferential allotment.
 - (iv) A beneficial owner with a depository can claim his loss to be indemnified by the depository.
 - (v) A venture capital fund can get its units listed at a recognised stock exchange in India. (2 marks each)
- (b) Choose the most appropriate answer from the given options in respect of the following :
- (i) Underwriting is the technique used in issue of securities under :
 - (a) Public issue
 - (b) Rights issue
 - (c) Bonus issue
 - (d) All the above.
 - (ii) 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).
 - (iii) In case of an Euro issue, the prospective investors can access to vital information about the issuer company from :
 - (a) Stock research report
 - (b) Offering circular
 - (c) Quarterly results of the issuer company
 - (d) Investor relation programs.

- (iv) *Market capitalisation of a listed company is computed by multiplying number of shares available for trade with :*
- (a) *Face value of a share*
 - (b) *Market price of a share*
 - (c) *Issue price of a share*
 - (d) *Book price of a share.*
- (v) *In case of a public issue, the minimum application value should be in the range of :*
- (a) *Rs. 3,000 – Rs. 5,000*
 - (b) *Rs. 5,000 – Rs. 10,000*
 - (c) *Rs. 7,000 – Rs. 10,000*
 - (d) *Rs. 5,000 – Rs. 7,000.* (1 mark each)
- (c) *Re-write the following sentences after filling-up the blank spaces with the most appropriate word(s)/figure(s) :*
- (i) *Money market instruments are generally financial claims that have _____ risk.*
 - (ii) *Hedge funds are also called _____.*
 - (iii) *Dealing in securities between members outside the official hours of stock exchange is known as _____.*
 - (iv) *Open ended schemes of mutual funds are more _____ than close ended schemes.*
 - (v) *Holders of Global Depository Receipts (GDRs) do not carry _____ rights.* (1 mark each)

Answer 1(a)

- (i) *True :* ECB proceeds parked overseas can be invested in the liquid assets, as given below : (a) deposits or Certificate of Deposit or other products offered by banks rated not less than AA(-) by Standard and Poor/Fitch IBCA or Aa3 by Moody's; (b) deposits with overseas branch of an authorised dealer in India; and (c) Treasury bills and other monetary instruments of one year maturity having minimum rating as indicated above. The funds are required to be invested in such a way that the investments can be liquidated as and when funds are required by the borrower in India.
- (ii) *True :* The body corporate need not appoint a merchant banker if the right issue is made to the existing members and its size is Rs.50 lac or less irrespective of the fact whether the issue is with or without the right of renunciation.
- (iii) *True :* The locked in shares/instruments can not be transferred except to and amongst promoter/promoter group or to a new promoter(s) or person(s) in control of the company subject to the condition that lock in for the transferee(s) shall continue for the remaining period and such transferee shall comply with SEBI (Substantial Acquisition of Shares and Takeover), 1997, if applicable.
- (iv) *False :* The Depository can not indemnify the beneficial owner for all the losses incurred by him. However, if the loss has been caused due to the negligence of

either the Depository or its participant, then such a loss will be indemnified by the Depository.

- (v) *False* : Under SEBI (Venture Capital Fund) Regulations, 1996, the venture capital fund is entitled to get its units listed on any recognized stock exchange after the expiry of three years from the date of issuance of these units.

Answer 1(b)

- (i) Public issue
- (ii) Commercial Paper
- (iii) Offering circular
- (iv) Market price of a share
- (v) Rs. 5000 – Rs. 7,000.

Answer 1(c)

- (i) Default
- (ii) Rich man's mutual funds.
- (iii) Kerb dealing
- (iv) Liquid
- (v) Voting

Question 2

(a) *Write short notes on any four of the following :*

- (i) *Concurrent audit of depository participants*
- (ii) *Asset securitisation*
- (iii) *Demutualisation of stock exchange*
- (iv) *Tracking stocks*
- (v) *Voluntary delisting of securities.*

(3 marks each)

(b) *Expand the following :*

- (i) *OTCEI*
- (ii) *AMC*
- (iii) *FIPB*
- (iv) *IDR.*

(1 mark each)

Answer 2(a)(i)

Concurrent audit of depository participants

National Securities Depository Limited provides for concurrent audit of the Depository Participants. It requires that the process of demat account opening control and verification of Delivery Instruction Slips (DIS) is subject to Concurrent Audit. Depository Participants

have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary(es) 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.

Answer 2(a)(ii)

Asset Securitization

Securitization is the process through which a distinct loan or discrete pool of receivable is separately packaged and sold to investors as securities (Negotiable Instruments) to be serviced by the cash flows of these loans or receivables. Such securities are secured by the underlying assets and have other credit enhancement. This process, in short, transforms illiquid assets on the balance sheet of a lender into marketable instrument.

The principal risk in this form of financing is the uncertainty of cash flows due to assets becoming defaulting on repayments or turning into loss. As such the main factor taken into account for assessing risk of these securities are :

- (i) Overall risk portfolio of the issuer;
- (ii) Quality of assets being securitized,
- (iii) Process of selection of the receivables pool to be securitized.

Answer 2(a)(iii)

Demutualisation of Stock Exchange

Demutualisation refers to the transition process of an exchange from a “mutually owned” association to a company “owned by shareholders”. In other words, transforming the legal structure of an exchange from a mutual form to a business corporation form is referred to as demutualisation. The above, in effect means that after demutualisation, the ownership, the management and the trading rights at the exchange are segregated from one another.

Answer 2(a)(iv)

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 upto mark or satisfactory. The opposite may also be true.

A tracking stock is a special type of stock issued by a publicly held company to track the value of one segment of that company. Tracking stocks are generally issued by a parent company in order to create a financial vehicle that tracks the performance of a particular division or subsidiary.

Answer 2(a)(v)

Voluntary Delisting of Securities

The Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003, issued with the objective to protect the interest of investors in the securities market,

deal with the Voluntary and Compulsory delisting. Eligibility Criteria for Voluntary Delisting include the following :

- (i) The securities of the company have been listed for a minimum of period of three years on any stock exchange.
- (ii) A company, which has a convertible instrument outstanding, shall not be permitted to delist its equity shares, till the exercise of the conversion options.
- (iii) A company may delist one or all of its class of securities. However, if the equity shares of a company are delisted, the fixed income securities may continue to remain listed on the stock exchange.
- (iv) An exit price is required to be determined in accordance with the book building process described in the Delisting Guidelines.

Answer 2(b)

- (i) **OTCEI** : Over the Counter Exchange of India
- (ii) **AMC** : Asset Management Company
- (iii) **FIPB** : Foreign Investment Promotion Board
- (iv) **IDR** : Indian Depository Receipts

Question 3

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

- (i) *'European option' and 'American option'.*
- (ii) *'Buy and hold' and 'buy and trade'.*
- (iii) *'Commercial bills' and 'commercial papers'.* (4 marks each)

(b) *Explain any two of the following investment strategies :*

- (i) *Straddle*
- (ii) *Strip*
- (iii) *Strap.* (2 marks each)

(c) *State the requirements of 'minimum subscription' in respect of the following :*

- (i) *Public issue*
- (ii) *Composite issue.* (2 marks each)

Answer 3(a)(i)

“European Option” and “American Option”

European Options are Options that can be exercised only on the expiration day.

American Options are options contracts that can be exercised at any time upto the expiration date. Since investors have the freedom to exercise their American options at any point during the life of the contract, they are more valuable than European Options which can be exercised at maturity.

Answer 3(a)(ii)**“Buy and Hold” and “Buy and Trade”**

Buy and Hold strategy implies that instruments once purchased shall be held till maturity. This in short is a passive strategy and its salient features are :

- (i) The return is fixed and locked in the day the investment is made;
- (ii) Price variation risk due to in fluctuations in secondary market is avoided.
- (iii) No risk of default on maturity.

Buy and Trade is quite contrary to Buy and Hold Strategy in as much as under this strategy the instruments purchased are actively traded by the portfolio Manager. This is an active strategy and it helps the Portfolio Manager to optimize the yield by actively trading the instruments in the secondary market before maturity.

Answer 3(a)(iii)**"Commercial Bills" and "Commercial Papers"**

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 upto the due date and encashed by the seller or may be endorsed to a third party in payment of dues owing to the latter.

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP, is a privately placed instrument. It enables highly rated corporate borrowers to diversify their sources of short-term borrowings and provides an additional instrument to investors.

Answer 3(b)

- (i) **Straddle** : Combination of put and identical call holder pays premium equal to premium on put and call. He is insured against any movement on either side and has opportunity to gain from up move and down move.
- (ii) **Strip** : Buyer of strip is confident that scrip price will change. He also feels it is more likely to go down and enters into two puts and one call. Here the premium is equal to the sum of the premia on the two put and one call.
- (iii) **Strap** : The strap buyer feels the market may go either way, but is more likely to go up. He therefore enters into two calls and a put. The buyers recovers cost if there is a slight upswing in the market and chances of profit rise.

Answer 3(c)**(i) Public issue**

For Non-underwritten Public Issues : "If the company does not receive the minimum subscription of 90% of the issued amount on the date of closure of the issue, or if the subscription level falls below 90% after the closure of issue on account of cheques having being returned unpaid or withdrawal of applications, the company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days

after the company becomes liable to pay the amount, the company shall pay interest as per Section 73 of the Companies Act, 1956."

For Underwritten Public Issues : "If the company does not receive the minimum subscription of 90% of the net offer to public including devolvement of Underwriters within 60 days from the date of closure of the issue, the company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after the company becomes liable to pay the amount, the company shall pay interest prescribed under Section 73 of the Companies Act, 1956."

(ii) Composite Issue

- (a) The Lead Merchant Banker shall ensure that the requirement of 'minimum subscription' is satisfied both jointly and severally, i.e., independently for both rights and public issues.
- (b) If the issuer company does not receive the minimum subscription in either of the issues the issuer company shall refund the entire subscription received.

Question 4

- (a) *Explain any two of the following terms related to securities market :*
 - (i) *Market abuse*
 - (ii) *Price monitoring*
 - (iii) *On line surveillance.* (2 marks each)
- (b) *"On line trading of corporate securities has originated the depository services in the capital markets." Comment.* (4 marks)
- (c) *Explain the rationality of 'fund of funds' in the Indian financial market.* (4 marks)
- (d) *State the composition of 'remuneration committee' as provided under Clause 49 of the listing agreement.* (4 marks)

Answer 4(a)

- (i) **Market Abuse** : is a broad term which includes abnormal price/volume movement, artificial transactions, false or misleading impressions, insider trading etc. Various actions like imposition of special margin, reduction of circuit filters, trade to trade settlement, suspensions etc. are used to control market abuse.
- (ii) **Price Monitoring** : Price monitoring basically includes following activities :
 - Market surveillance
 - Investigations
 - Rumour verification
 - Pro-active measures.
- (iii) **On line surveillance** : This system was commissioned in 1999 with main objective of detecting potential market abuse at a nascent stage to reduce the volatility of market. It reduces the ability of market participants to unduly influence the price and volumes of scrips traded at the Exchange improve the risk management system, and strengthen the regulatory mechanism at the Exchange.

Answer 4(b)**Depository Services**

The advent of on-line automated trading in securities in India brought with it several associated benefits such as transparency in trading and equal opportunities for market player all over the country. In order to provide safe and efficient system of trading and settlement, Depositories Act, 1996 was enacted. Depositories gave a new dimension and new scope for trading in primary as well as secondary market in a more efficient and effective manner, in a paper less form on an electronic book entry basis.

Answer 4(c)**Fund of Funds**

A Fund of Funds invests in other hedge funds rather than investing in individual securities. Technically any fund that pools capital together, while utilizing two or more sub managers to invest money in equity, commodities, or currencies, is considered a Fund of Funds. Investors are allocating assets to Fund of funds products mainly for diversification amongst the different managers' styles, while keeping an eye on risk exposure. Fund of Funds are structured as limited partnerships, which afford advantages to the investor such as due diligence.

Answer 4(d)**Composition of Remuneration Committee**

The remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors. The Chairman of committee would be an independent director.

Question 5

(a) *As on 1st April, 2008, Cash Rich 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 the interest rate of 8% per annum payable quarterly; and*
- (ii) *to buy treasury bills of the face value of Rs. 100 at Rs. 98.019 with maturity after six months.*

Presuming that the risk involved in both the options is identical, state giving reasons which option should be selected by the company for investing its surplus funds. (6 marks)

(b) *Briefly comment on any three of the following statements :*

- (i) *Mutual fund investments in India are fraught with multiple risks.*
- (ii) *Provision for buy-back of securities/shares has contributed to volatility of stock.*
- (iii) *SEBI has taken a number of steps to improve the working of the stock exchanges.*
- (iv) *Exchange Traded Funds (ETFs) are the new variety of mutual funds.*

(2 marks each)

- (c) *Explain the accounting ratios which are required to be disclosed under the heading 'basis for issue price' in an offer document for an issue under book building process.* (4 marks)

Answer 5(a)

Alternative 1 – invest money in fixed deposits

Rate of interest 8% pa payable quarterly

Quarterly rate of Interest $8/4 = 2\%$

Effective rate of interest for 2 quarters = $[(1.02 \times 1.02) - 1] \times 100 = 4.04\%$

Alternative 2 – Investing money in treasury bills

$$Y \text{ of Treasury Bill} = \frac{(100 - P) \times 365 \times 100}{P \times D}$$

Where

Y = Discounted yield

P = Price of T. Bill = Rs. 98.019

D = Days to maturity = (April - 30 + May - 31 + June - 30 + July - 31 + August - 31 + September - 30) = 183 days

$$\text{Yield} = \frac{(100 - 98.019) \times 365 \times 100}{98.019 \times 183} = 4.03\%$$

Since the effective rate of interest is more than the yield from Treasury Bill, it shall be advantageous to park the money in fixed deposits.

Answer 5(b)(i)

Excessive diversification of portfolio, losing focus on the securities of key segments, Over concentration in investments in high priced blue chip securities, offering less than average returns, Large payments of brokerage and commission due to necessity of effecting high turnover are some of the risks mutual funds in India are confronted with.

Apart from this Mutual Funds also face risk due to Poor planning of investments, unresearched forecast on income, profits and Government policies, failure to identify risks of the scheme *vis-à-vis* the market risk, lack of transparency in functioning. Some Mutual Funds are characterized by secrecy, unwillingness to move towards transparency despite legislation; trades in large block of securities in stock markets leads to volatility and major market movement.

Answer 5(b)(ii)

Buy-back is a process whereby a company purchases its own shares or other specified securities from the holders thereof. A company can resort to buy-back to reduce the number of shares issued and return surplus cash to the shareholders. It is a corporate financial strategy which involves capital restructuring and is prevalent globally with the underlying objectives of increasing earnings per share, averting hostile takeovers, and improving returns to the stakeholders.

Answer 5(b)(iii)

In secondary market, SEBI improved market efficiency, integrity and transparency. Trading infrastructure was modernized in most of the traditional stock exchanges. Mutual funds were reformed drastically so as to provide greater operational flexibility to the fund manager and increase their accountability and supervision. Substantial acquisition of takeover of shares and insider trading was regulated and regulations for foreign institutional investors were liberalized.

Answer 5(b)(iv)

Exchange Traded Funds (ETFs) represent a basket of securities that are traded on an exchange. They are similar to index mutual funds but are traded more like a stock. They are a rapidly growing class of financial product and are typically organized as unit trusts. ETFs can be bought and sold throughout the trading day, allowing for intraday trading—which is rare with mutual funds. Unlike mutual funds, ETFs do not trade necessarily at the net asset values of their underlying holdings, meaning an ETF could potentially trade above or below the value of the underlying portfolios.

Answer 5(c)

The following accounting ratios shall be given under the basis for issue price for each of the accounting periods for which the financial information is given :

1. EPS, pre-issue, for the last three years (as adjusted for changes in capital).
2. P/E pre-issue.
3. Average return on net-worth in the last three years.
4. Net-Asset value per share based on last balance sheet.
5. Comparison of all the accounting ratios of the issuer company as mentioned above with the industry average and with the accounting ratios of the peer group (i.e. companies of comparable size in the same industry. (Indicate the source from which industry average and accounting ratios of the peer group has been taken).

Question 6

- (a) *A unit of Evergrow Equity Fund is redeemed at Rs. 15, the exit load being 2.25%. Calculate the NAV. (4 marks)*
- (b) *Briefly explain the developments in commodity futures market. (4 marks)*
- (c) *Explain 'unique identification number' (UIN) and criteria to determine specified intermediaries, specified listed companies and specified investors. (4 marks)*
- (d) *Discuss briefly the SEBI Guidelines on insider trading. (4 marks)*

Answer 6(a)

NAV = Redemption Price (1 + Exit Load)

NAV = 15 (1 + 0.0225)

NAV = 15.34

Answer 6(b)

A commodity is defined as all kinds of goods, i.e., every kind of movable property other than actionable claims, money and securities. Like a stock exchange, a commodity exchange is an association or a company or any other body corporate organizing futures trading in commodities.

Till 2004, due to certain perceptions about commodities markets concerned people had lost sight of the basic economic function of commodities exchanges, viz., that of price discovery and price risk management. The Government had therefore imposed prolonged prohibition of futures trading in commodity markets. However, afterwards it finally approved futures trading in all commodities through four commodity exchanges leading to national level multi commodity exchange. Having signed WTO agreement and embarked on economic liberalization policies, the government realized the need for futures trading. It was expected to lead to strengthening of competitiveness of India's agricultural products and the commodities trade and industry.

Futures trading is organized in such goods or commodities as are permitted by the Central Government. At present, all goods and products of agriculture (including plantation); mineral and fossil origin are allowed for futures trading under the auspices of commodity exchanges. Commodities futures contracts and the commodity exchanges organizing trading in such contracts are regulated by the Government of India under the Forwards Contracts (Regulation) Act of 1952 [FCRA] and the Rules framed thereunder.

Answer 6(c)**Unique Identification Number**

SEBI (Central Database of Market Participants) Regulations, 2003 requires every specified intermediary, other entity, specified listed company and specified investor to make application for allotment of Unique Identification Number for itself and for its related persons. Unique Identification Number means the Identification Number generated in the Central Database for and allotted to each applicant under the regulations.

Criteria to determine specified intermediaries, specified listed companies and specified investors

For the purposes of specifying the intermediaries, listed companies or investors, SEBI take into consideration the following factors :

- (a) With regard to intermediaries or other entities-their kind and the nature of functions performed by them, their net worth and other similar factors;
- (b) With regard to listed companies or companies which intend to get their securities listed-their paid-up capital, the number of their public shareholders, the volume of trading in their securities, the proposed issue size and other similar factors; and
- (c) With regard to investors—the quantum of investment made by them in the securities of any listed company or their volume of trading in securities in a particular financial year.

Answer 6(d)**SEBI Guidelines on Insider Trading**

SEBI (Insider Trading) Regulations, 1992 govern the conduct of the insiders, connected persons and persons who are deemed to be connected persons on matters relating to Insider Trading.

Directors, officers, designated employees and all connected persons are required to maintain confidentiality of all Price Sensitive Information. They are prohibited from passing on such information to any person directly or indirectly by a recommendation for the purchase or sale of securities of the company.

Every listed company is required to prescribe a threshold limit for dealing in the securities of that company. All directors, officers, designated employees and connected persons would need to obtain pre-clearance from the company for dealing in securities above the threshold limit. Insider Trading Regulations prescribes disclosure of interest or holding to be made by directors, officers and substantial shareholders in case of listed companies. Insider Trading Regulations has prescribed norms to be followed by listed companies, to ensure timely and adequate disclosure of price sensitive information.

Question 7

- (a) *Explain the eligibility criteria for appointment of an 'Ombudsman' under the SEBI Regulations. What are the functions of an Ombudsman ?* (4 marks)
- (b) *Mention the terms and conditions on which non-banking finance companies can accept public deposits under directions issued by the Reserve Bank of India.* (4 marks)
- (c) *List out briefly the general grievances of investors against the companies.* (4 marks)
- (d) *What are the duties of debenture trustees under the SEBI (Debenture Trustees) Regulations, 1993 ?* (4 marks)

Answer 7(a)**Eligibility Criteria for Appointment of an Ombudsman**

In order to be appointed as an Ombudsman, a person is required to be

- (i) a citizen of India;
- (ii) of high moral integrity;
- (iii) not below the age of forty five years; and
- (iv) either a retired District Judge or qualified to be appointed a District Judge, or having at least ten years experience of service in any regulatory body, or having special knowledge and experience in law, finance, corporate matters, economics, management or administration for a period of not less than ten years, or an office bearer of investors' association recognised by the Board having experience in dealing with matters relating to investor protection for a period of not less than 10 years.

However a person is not qualified to hold the office of the Ombudsman if he is an undischarged insolvent; has been convicted of an offence involving moral turpitude; has been found to be of unsound mind and stands so declared by a competent court; has been charge sheeted for any offence including economic offences; or has been a whole-time director in the office of an intermediary or a listed company and a period of at least 3 years has not elapsed.

The Ombudsman has the following functions :

- (i) To receive complaints specified under SEBI (Ombudsman) Regulations against any intermediary or a listed company or both;
- (ii) To consider such complaints and facilitate resolution thereof by amicable settlement;
- (iii) To approve a friendly or amicable settlement of the dispute between the parties;
- (iv) To adjudicate such complaints in the event of failure of settlement thereof by friendly or amicable settlement.

Answer 7(b)

NBFC can accept Public Deposits as per NBFC's Acceptance of Public Deposits (Reserve Bank) Directions, 1998. The conditions stipulated by these guidelines are:

- (i) Net owned fund of the Company should not be less than Rs. 25 lacs.
- (ii) Deposits should be rated at least once a year with minimum investment grade rating and rating certificate to be sent to RBI along with the return on prudential norms.
- (iii) Company shall not accept or renew Public Deposits payable on Demand.
- (iv) Maturity period of deposits should not be less than 12 months or more than 60 months.
- (v) Quantum of Deposits is subject to such Ceilings as may be laid down by RBI for Asset Finance Company, Loan Finance Company and Investment Company.
- (vi) Interest on deposits not to exceed 16% per annum but may be paid or compounded at not less than monthly rests.
- (vii) Brokerage, Commission, incentive for mobilization of Deposits not to exceed 2% of the amount of deposits collected.
- (viii) Interest on over due deposit may be paid if the deposits in full or part thereof is renewed from the date of maturity till some future date.
- (ix) Deposits in joint name may be accepted.
- (x) Premature payment of deposits allowed incase of death.
- (xi) Loan equivalent to 75% of the deposit amount may be allowed after the expiry of three months from the date of deposits and at a rate of 2% above the interest rate payable on deposits.

Answer 7(c)**General Grievances of Investors**

The general grievances the investors have against companies can be listed as under:

- (i) Furnishing inadequate information or making misrepresentation in prospectus, application forms, advertisements and rights offer documents.
- (ii) Delay/non-receipt of refund orders, allotment letters and share certificates/debenture certificates/bonds.
- (iii) Delay/non-receipt of share certificates/debenture certificates after transfer.
- (iv) Delay in listing of securities with stock exchanges.
- (v) Delay/non-receipt of share certificates/bonds/debentures after endorsement of part payment/call money.
- (vi) Delay/non-receipt of share certificates/bonds/debentures after sub-division or consolidation.
- (vii) Delay/non-receipt of letter of offer of rights issue.
- (viii) Delay/non-receipt of bonus shares/right shares.
- (ix) Delay/non-receipt of notices for meetings/annual reports.
- (x) Delay/default in payment of interest and repayment of deposits.

Answer 7(d)

Regulation 15 of SEBI (Debenture Trustee) Regulations, 2003 casts the following duties on the debenture trustees:

- (1) Call for periodical reports from the body corporate;
- (2) Take possession of trust property in accordance with the provisions of the trust deed;
- (3) Enforce security in the interest of the debenture holders;
- (4) Do such acts as necessary in the event the security becomes enforceable;
- (5) Debenture certificates have been despatched to the debenture holders in accordance with provisions of the Companies Act, 1956.
- (6) 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;
- (7) 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;
- (8) 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;
- (9) Inform SEBI immediately of any breach of trust deed or provision of any law;
- (10) Debenture trustee may inspect books of accounts, records, registers of the body corporate and the trust property to the extent necessary for discharging its obligations.

Question 8

- (a) *What is 'margin trading facility' ? State briefly the essential requirements for providing margin trading facility to the members by a stock exchange. (4 marks)*
- (b) *State briefly whether electronic-holding of securities can be converted into physical form. Also state in brief whether instructions for delivery of securities can be given to a depository participant via internet. (4 marks)*
- (c) *Explain the following credit rating symbols :*
 - (i) FA (ii) LAA+
 - (iii) DA1 (iv) PR 5(1 mark each)
- (d) *Define 'persons acting in concert' under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. (4 marks)*

Answer 8(a)**Margin Trading**

Margin trading was introduced by SEBI to curb speculative dealings in shares leading to volatility in the prices of securities. Margin Trading basically means buying stocks without having the money to do so. Margin means the minimum amount 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.

When the balance deposit in the client's margin account falls below the required maintenance margin, the broker shall promptly make margin calls. However, no further exposure can be granted to the client on the basis of any increase in the market value of the securities.

The broker must disclose to the stock exchange details on gross exposure including the name of the client, unique identification number, name of the scrip and if the broker has borrowed funds for the purpose of providing margin trading facilities, name of the lender and amount borrowed, on or before 12 Noon on the following day.

Stock exchanges disclose scripwise gross outstanding in margin accounts with all brokers to the market. Such disclosures regarding margin trading done on any day shall be made available after the trading hours on the following day through the website.

Answer 8(b)

SEBI (Disclosure and investor Protection) Guidelines, 2000 prescribes that no company can make a public or rights issue or an offer for sale unless the company enters into an agreement with a depository for dematerialization of securities already issued or proposed to be issued to the public or existing shareholders and the company gives an option to the subscribers/investors to receive the security certificates or hold securities in dematerialized form with a depository.

Thus dematerialization of securities is compulsory for making the issue of securities. However after getting the shares it is the discretion of the shareholder to either keep it in dematerialized form or rematerialize it in Physical form. If one wishes to get back his securities in the physical form one has to fill in the remat request form and his DP for rematerialisation of the balances in his securities account.

Yes, Both NSDL and CDSL have launched this facility for delivering instructions to your DP over internet called SPEED-e and EASI respectively. The facility can be used by all registered users after paying the applicable charges.

Answer 8(c)

- (i) **FA** : CRISIL rating symbol for Fixed Deposits. Adequate safety—indicates the degree of safety regarding timely payment of interest and principal is satisfactory. Changes in circumstances can affect such issues more than those in the higher rated categories.
- (ii) **LAA+** : Symbol represents long-term funds. This represents High safety. Risk factors are modest and may vary slightly.
- (iii) **DA1** : Excellent : The developer's past track record in executing real estate projects as per specified quality levels and transferring clear title within stipulated time schedule is excellent.
- (iv) **PR 5** : Rating symbol of CARE related to short-term instruments. It provides that the instrument is in default or is likely to be in default on maturity.

Answer 8(d)

SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997 defines person acting in concert' as under :

- (1) Persons who, for a common objective or purpose of substantial acquisition of shares or voting rights or gaining control over the target company, pursuant to an agreement or understanding (formal or informal), directly or indirectly co-operate by acquiring or agreeing to acquire shares or voting rights in the target company or control over the target company.
- (2) Without prejudice to the generality of this definition, the following persons will be deemed to be persons acting in concert with other persons in the same category, unless the contrary is established :
 - (i) A company, its holding company, or subsidiary of such company or company under the same management either individually or together with each other;
 - (ii) A company with any of its directors, or any person entrusted with the management of the funds of the company;
 - (iii) Directors of companies referred to in sub-clause (i) of clause (2) and their associates;
 - (iv) Mutual fund with sponsor or trustee or asset Management Company;
 - (v) foreign institutional investors with sub-account(s);
 - (vi) Merchant bankers with their client(s) as acquirer;
 - (vii) Portfolio managers with their client(s) as acquirer;
 - (viii) Venture capital funds with sponsors;

- (ix) Banks with financial advisers, stock brokers of the acquirer or any company which is a holding company, subsidiary or relative of the acquirer:
 - (x) Any investment company with any person who has an interest as director, fund manager, trustee, or as a shareholder having not less than 2 per cent of the paid-up capital of that company or with any other investment company in which such person or his associate holds not less than 2 per cent of the paid up capital of the latter company.
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