

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 correct or incorrect:

- (i) Reduction in cash reserve ratio (CRR) may improve market liquidity.
- (ii) Preference shares are the same as convertible debentures.
- (iii) Money market and capital market are the same.
- (iv) The Companies Act, 1956 provides recognition to the stock exchanges in India.
- (v) Any investor can trade directly in the recognised stock exchange.

(2 marks each)

(b) Re-write the following sentences after filling-in the blank spaces with appropriate words(s)/figure(s) :

- (i) Financial system covers both _____ and cash transactions.
- (ii) All grants, fees, charges and sums recovered by SEBI are credited to _____.
- (iii) In case of public issue through book-building process, the cap on the price band should not be more than _____ of the floor of the bond.
- (iv) Market borrowings of the Central Government to finance its fiscal deficit are raised by the Reserve Bank of India through issue of _____.
- (v) No NBFC shall accept or renew any public deposit for a period exceeding _____ months from the date of acceptance or renewal thereof.

(1 mark each)

(c) Choose the most appropriate answer from the given options in respect of the following :

- (i) A person aggrieved by the decision of the Securities Appellate Tribunal can file appeal before the —
 - (a) Central Government
 - (b) SEBI
 - (c) Supreme Court
 - (d) Reserve Bank of India.
- (ii) Due diligence of an IPO to be issued by an Indian company is done by —
 - (a) Advisor to the issue
 - (b) Merchant bankers

- (c) *Stock exchange*
- (d) *Banker to the issue.*
- (iii) *Reinstatement of delisted securities is permitted by a stock exchange after a cooling period of —*
 - (a) *Six months*
 - (b) *One year*
 - (c) *One and a half year*
 - (d) *Two years.*
- (iv) *Regulations for carrying out the purpose of the Depositories Act, 1992 are formulated by —*
 - (a) *Depository*
 - (b) *SEBI*
 - (c) *Stock exchange*
 - (d) *Central Government.*
- (v) *Hybrid scheme of mutual funds make investment in —*
 - (a) *Bonds*
 - (b) *Equity*
 - (c) *Convertible*
 - (d) *All the above.*

(1 mark each)

Answer 1(a)(i)

True

CRR reduction provides more funds with the financial institutions which ultimately increases the liquidity of the market.

Answer 1(a)(ii)

False

Preference shares are entitled to a fixed dividend or dividend calculated at a fixed rate but convertible debenture carry fixed rate of interest and is a document evidencing a debt.

Answer 1(a)(iii)

False

The money market refers to the market where borrowers and lenders exchange short-term funds to solve their liquidity needs. The Capital Market is a market for financial investments that are direct or indirect claims to capital.

Answer 1(a)(iv)

False

The Securities Contracts (Regulation) Act, 1956 defines various terms in relation to

securities and provides the detailed procedure for the stock exchanges to get recognition from Government/SEBI.

Answer 1(a)(v)

False

Only member brokers are allowed to trade in the Stock Exchanges directly.

Answer 1(b)

- (i) Financial system covers both **Credit** and cash transactions.
- (ii) All grants, fees, charges and sums recovered by SEBI are credited to **Securities and Exchange Board of India General Fund**.
- (iii) In case of public issue through book-building process, the cap on the price band should not be more than **20%** of the floor of the bond.
- (iv) Market borrowings of the Central Government to finance its fiscal deficit are raised by the Reserve Bank of India through issue of **Dated Securities and treasury bills**.
- (v) No NBFC shall accept or renew any public deposit for a period exceeding **Sixty** months from the date of acceptance or renewal thereof.

Answer 1(c)(i)

- (c) Supreme Court

Answer 1(c)(ii)

- (b) Merchant bankers

Answer 1(c)(iii)

- (d) Two years

Answer 1(c)(iv)

- (b) SEBI

Answer 1(c)(v)

- (d) All the above.

Question 2

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

- (i) *'On-tap issue' and 'fixed coupon issue'*
- (ii) *'Micro-finance companies' and 'nidhi companies'*
- (iii) *'Futures' and 'options'.* (4 marks each)

(b) *Define any four of the following terms related to securities market :*

- (i) *Stock trading*
- (ii) *Kerb trading*
- (iii) *Stock index*

(iv) *Market lot*

(v) *EDIFAR.*

(2 marks each)

Answer 2(a)(i)

On-tap issue

This is a reissue of existing Government securities having pre-determined yields/ prices by Reserve Bank of India. After the initial primary auction of a security, the issue remains open to further subscription by the investors as and when considered appropriate by RBI. The period for which the issue is kept open may be time specific or volume specific. The coupon rate, the interest dates and the date of maturity remain the same as determined in the initial primary auction.

Fixed coupon issue

Government Securities may also be issued for a notified amount at a fixed coupon. Most State Development Loans or State Government Securities are issued on this basis.

Answer 2(a)(ii)

Microfinance Companies and Nidhi Companies

A Microfinance company is a company that obtains finance from banks according to the guidelines issued by the RBI and provides small scale credit and other financial securities to low income households and small informal business.

These companies provide credit not exceeding Rs.50,000 for a Business enterprise and Rs.1,25,000 for meeting the cost of a dwelling unit to any poor person for enabling him to raise his level of income and standard of living; and Licensed under Section 25 of the Companies Act, 1956; and Not Accepting Public Deposits as defined in the RBI directions/Guidelines.

Nidhi company is a company registered under Companies Act, 1956 and notified as a nidhi company by the Central Government under Section 620A of the Companies Act. It is a non-banking finance company doing the business of lending and borrowing with its members or shareholders.

Answer 2(a)(iii)

‘Futures’ and ‘Options’

Futures : A contract obliging one signatory to buy and another to sell a standard quantity of a financial instrument on a pre-determined price. Futures may be commodity futures or security futures.

Options : A contract which gives the holder the right to purchase (call) or sell (put) the underlying futures contract or security at a specified price within a specified period of time. Options may be Put or Call options.

Answer 2(b)(i)

‘Stock Trading’

A stock represents the partial ownership of a company – the smallest part possible. Companies issue stocks to raise capital, and investors who buy stock are actually

buying a portion of the company. Stock trading is done on stock exchanges like the New York Stock Exchange (NYSE) (National Association of Securities Dealers Automated Quotation System).

Answer 2(b)(ii)

Kerb Trading

Transactions are often carried out in the stock exchanges after official trading hours, even though such trading among the members is not strictly legal. Such unauthorized trading carried out outside the official hours is known as kerb trading.

Answer 2(b)(iii)

Stock Index

An index is a number used to represent the changes in a set of values between a based time period and another time period. Stock Market Index are used as an information source. Since the prices of most of the securities tend to travel up and down together, indexes are used to reflect the overall movement of stock prices. These indexes provide the indicator of the economy's trend. Thus, a stock index is a number used to represent the changes in a set of values between a base time and another time.

Answer 2(b)(iv)

Market lot

The lot consisting of a particular quantity or number of securities as minimum to be delivered in the market is called marketable lot. When securities are not in marketable lots, they are known as odd lots.

However, in case of computerized Trading System in demat form, trading lot has lost its relevance.

Answer 2(b)(v)

EDIFAR

EDIFAR is the Electronic Data Information Filing and Retrieval system. This is an automated system for filing, retrieval and dissemination of time sensitive corporate information which till now were being filed physically by the listed companies with the stock exchanges in India.

Question 3

(a) *Elucidate any two of the following intermediaries related to primary market :*

(i) *Registrars*

(ii) *Bankers*

(iii) *Lead managers.*

(4 marks each)

(b) *Give full form of the following abbreviations :*

(i) *SMILE*

(ii) QIB

(iii) DVP

(iv) STP.

(1 mark each)

(c) What are the methods for issuance of government securities ? (4 marks)

Answer 3(a)(i)

Registrars

'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) (a) assisting body corporate or person or group of persons in determining the basis of allotment of the securities in consultation with the stock exchange;
- (b) finalizing the list of person entitled to allotment of securities;
- (c) processing and despatchment of allotment letters, refund orders or certificates and other related documents in respect of the issue. (4 marks)

Answer 3(a)(ii)

Bankers

Banker to an Issue means a scheduled bank carrying on all or any of the following activities in relation to public issue of securities:

1. Acceptance of application and application monies;
2. Acceptance of allotment or call monies;
3. Refund of application monies;
4. Payment of dividend or interest warrants

Answer 3(a)(iii)

Lead Managers

Regulation 18 of SEBI (Merchant Banker) Regulations, 1992 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.

Lead merchant banker, is responsible for due diligence which includes verification of the contents of a prospectus or the letter of offer in respect of an issue and reasonableness of the views expressed therein.

Answer 3(b)(i)

SMILE – Securities Market Infrastructure Leveraging Expert

Answer 3(b)(ii)

QIB – Qualified Institutional Buyer

Answer 3(b)(iii)

DVP- Delivery Versus Payment

Answer 3(b)(iv)

STP – Straight Through Processing

Answer 3(c)

Government securities are issued by various methods, which are as follows:

1. *Auctions* - Auctions for government securities are either yield based or price based. In an yield based auction, the Reserve Bank of India announces the issue size (or notified amount) and the tenor of the paper to be auctioned.
2. *On-tap issue* - This is a reissue of existing Government securities having pre-determined yields/prices by Reserve Bank of India. After the initial primary auction of a security, the issue remains open to further subscription by the investors as and when considered appropriate by RBI.
3. *Fixed coupon issue* - Government Securities may also be issued for a notified amount at a fixed coupon.
4. *Private Placement* - The Central government may also privately place government securities with Reserve Bank of India.
5. *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.

Question 4

- (a) *What is meant by 'custodian of securities' ? Whether a custodian is required to obtain registration before functioning in capital market ?* (4 marks)
- (b) *Explain the following credit rating symbols :*
 - (i) PL-1
 - (ii) P-3
 - (iii) MB+
 - (iv) PR-5. (1 mark each)
- (c) *Discuss the role of recognised stock exchanges in redressing investors' grievances.* (4 marks)
- (d) *State briefly the guidelines for issue of Indian Depository Receipts (IDRs).* (4 marks)

Answer 4(a)

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 or 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 point (i) to (iii)

Regulation 3(1) of SEBI (Custodian of Securities) Regulations, 1996 provides that any person proposing to carry on business of custodian of securities shall make an application to SEBI for grant of a certificate. The custodian is required to obtain registration before functioning in the Capital Market. Any custodian of securities whose application for grant of certificate has been rejected by SEBI shall, on and from the date of the receipt of the communication ceases to carry on any activity as custodian of securities.

Answer 4(b)(i)

PL-1 : Superior capacity for repayment of interest and principal on the loan [CARE Symbol for short term loans]

Answer 4(b)(ii)

P-3 : This rating indicates that the degree of safety regarding timely payment on the instrument is adequate. [CRISIL symbol for short term instruments]

Answer 4(b)(iii)

MB+ : Inadequate Safety – The timely payment of interest and principal are more likely to be affected by future uncertainties. [ICRA Symbol for Medium Term fixed deposits]

Answer 4(b)(iv)

PR-5 : The instrument is in default or is likely to be in default on maturity. [CARE Symbol for short term instruments]

Answer 4(c)

Stock Exchanges have initiated a number of steps for improving the functioning of stock exchanges. The Stock Markets have been made broad based and well integrated. Brokers & Sub-brokers are better regulated to offer prompt services.

Greater transparency has been brought into the trading activities of the brokers and their associates through Bye laws/ Rules/Regulations of Stock Exchanges. Grievance cells have been set up in stock exchanges for expeditious settlements of complaints of investors. These cells are required to monitor and remedy the complaints and also

furnish monthly progress report to the governing bodies of the stock exchanges. The presidents of stock exchanges hold open house session or arrange investor service week periodically with the investors and redress their grievances.

Apart from this the Investor Protection Funds have been set up by various Stock Exchanges to insulate the risk arising from default by its members. Some stock exchanges also organize programmes for investor awareness and education. These all measures ultimately lead to reduced investor grievances and quicker investor grievance redressal.

Answer 4(d)

Chapter VIA of SEBI (DIP) Guidelines, 2000 deals with issue of Indian Depository Receipts.

- (1) No issuer shall make an issue of IDR unless it fulfills the eligibility criteria as specified in rule 4 of the IDR Rules. Also the company should be listed in its home country; has not been prohibited to issue securities by any regulatory body and has good track record with respect to compliance with securities market regulations.
- (2) NRIs and FIIs cannot purchase or possess IDRs unless special permission of the RBI is taken.
- (3) Investments by Indian companies in IDRs should not exceed the prescribed investment limits.
- (4) In every issue of IDR, at least 50 % of the IDRs issued should be subscribed to by QIBs. The balance 50% shall be available for subscription by non-institutional investors.
- (5) The size of an IDR issue should not be less than Rs. 50 crores.
- (6) If the company issuing the IDRs does not receive the minimum subscription of 90 percent of the issued amount on 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 at the rate of 15 percent per annum for the period of delay.

Question 5

- (a) *What are various approvals required by a company to issue Global Depository Receipts (GDRs) ?* (4 marks)
- (b) *A company issues 90 days commercial papers of the face value of Rs. 1,000 at Rs.980. The credit rating expenses are 0.6% of the size of issue, issuing and paying agent charges are 0.25% and stamp duty is to be paid @ 0.20%. You are required to calculate —*
 - (i) *Cost of issuing commercial papers.*
 - (ii) *Interest yield assuming marginal tax rate @ 35%. (4 marks each)*
- (c) *“Diversification of investments reduces the investment risks.” Explain.* (4 marks)

Answer 5(a)

The following approvals are required for issue of Global Depository Receipts (GDRs)

1. A meeting of Board of Directors is required to be held for approving the proposal to raise money from Euro Capital market, through board resolution indicating therein specific purposes for which funds are required, quantum of the issue, country in which issue is to be launched, time of the issue etc.
2. A special resolution under Section 81(1A) of the Companies Act, 1956 is required to be passed at a duly convened general meeting of the shareholders of the company.
3. Approval from Ministry of Finance is required for FCCB issues exceeding stipulated limit.
4. The issuer company has to obtain approvals from Reserve Bank of India under circumstances specified under the guidelines issued by the concerned authorities from time to time.
5. The issuing company has to make a request to the domestic stock exchange for in-principle consent for listing of underlying shares which shall be lying in the custody of domestic custodian.
6. The company is required to obtain in principle consent of Financial Institutions on the broad terms of the proposed issue.

Answer 5(b)(i)**Cost of issue of Commercial Paper**

Credit rating Expenses	=	0.60%
Issuing and Paying Agent Charges	=	0.25%
Stamp duty	=	0.20%
Total Charges	=	1.05%
Face value of CP	=	1000
Amount of charges on Face Value	=	$1000 \times 1.05\% = \text{Rs. } 10.50$
Cost of CP	=	$\{(1000 - 980) + 10.5\} / 980 - 10.50 \times 360/90$
	=	$30.5/969.5 \times 4 = 0.1258 \text{ or } 12.58\%$
Cost of CP	=	12.58%

Answer 5(b)(ii)

Interest Yield	=	$(\text{Face Value} - \text{Sale price}) / \text{Sale price} \times 360/90$
	=	$(1000 - 980) / 980 \times 360/90 = 0.816 \text{ or } 8.16\%$
Interest on CP is tax deductible:		
therefore after tax interest yield	=	$0.0816(1 - 0.35) = 0.0530 \text{ or } 5.30\%$
Interest Yield	=	5.30%

Answer 5(c)

Diversification of investment reduces the risk. Investment is influenced with a category of risks which may be classified into two categories – systematic and unsystematic. The important principle of portfolio management indicates that investors should not hold all their eggs in one basket. They should hold a well-diversified portfolio. In order to diversify risks for the creation of an efficient portfolio one that allows the firm to achieve maximum return for a given level of risk or to minimize risks for a given level of return, the concept of correlation must be understood.

Question 6

(a) *Explain the following terms related to securities market :*

(i) *Permitted securities*

(ii) *Margin trading*

(iii) *Book closure*

(iv) *Settlement system.*

(2 marks each)

(b) *Explain the functioning of option trading.*

(4 marks)

(c) *“A company cannot always buy-back its shares.” Comment on this statement and state the circumstances under which a company can buy-back its shares.*

(4 marks)

Answer 6(a)(i)**Permitted securities**

The securities listed on some of the recognized 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.

Answer 6(a)(ii)**Margin Trading**

In order to enable the investors to take exposure in the market over and above the limit through their own resources, a leveraging mechanism of trading through borrowed funds has been introduced, which is called Margin Trading Facility.

Margin trading was introduced by SEBI to curb speculative dealings in shares leading to volatility in the prices of securities.

Answer 6(a)(iii)**Book closure**

Book closure is the periodic closure of the Register of Members and Transfer Books of the company, to take a record of the shareholders to determine their entitlement to dividends or to bonus or right shares or any other rights pertaining to shares.

Answer 6(a)(iv)**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.

Answer 6(b)**Functioning of Option Trading**

The Option Trading system works like this—there is 'striking price' which represents the price the holder of the buy option must pay to the seller in order to claim the shares. The option has to be exercised before the expiration of the specified period. For instance, an IBM July call would allow an investor to buy 100 shares of the company at US\$60 per share any time before the expiration of the period of 90 days. If IBM rises at US\$70 within the period, the option's intrinsic value will be US\$1000 (market price-strike price). Conversely, if the IBM share fell below US\$60, the investor could opt out of the deal on paying the option charges.

Answer 6(c)

"A company cannot always buy-back its shares". This statement is true. Section 77B of the Companies act, 1956 prohibits a company to buy-back its shares through any subsidiary or investment company and if it is defaulter in the repayment of deposit or interest accrued thereon; or redemption of debentures/ preference shares; or payment of dividend; or repayment of any term loan or interest payable thereon to any financial institution or bank

A company can buy-back its shares under the following circumstances:

- (i) Buy-back is authorized by the article of association of the company.
- (ii) A company by a Board Resolution, buy-back upto 10% of the aggregate of paid-up equity capital and free reserves. This Board Resolution must be passed at a Board meeting only and not by circulation. If the company wants to buy-back more than 10% of the aggregate of paid-up equity capital and free reserves but upto 25% of the aggregate of the paid-up capital (equity and preference) and free reserves, then a special resolution in the general meeting is required.
- (iii) After buy-back the debt equity shall be less than or equal to 2 i.e. the debt should not be more than twice the equity after buy-back.
- (iv) If company is listed then SEBI (Buy-Back of Securities) Regulations, 1998 made by SEBI are complied with; and if the company is not listed then Private Limited Company and Unlisted Public Limited Company (Buy-Back of Securities) Rules, 1999 made by Central Government are complied with.

Question 7

- (a) What is a 'non-banking financial company' (NBFC) ? What are its functions ?
(8 marks)

- (b) *Evaluate the role of SEBI in regulating financial markets in India. (4 marks)*
- (c) *What is the composition of the SEBI Board to be constituted under the SEBI Act, 1992 ? (4 marks)*

Answer 7(a)

Under Section 45-I of the Reserve Bank of India Act, 1934, a Non-banking Financial Company is defined as—

- (i) A financial institution which is a company;
- (ii) A non-banking institution which is a company and which has as its principal business the receiving of deposits under any scheme or arrangement or in any other manner, or lending in any manner;
- (iii) Such other non-banking institution or class of such institutions as the bank may, with the previous approval of the Central Government and by notification in the Official Gazette specify.

The main functions of NBFC are as flows:-

- (i) The financing, whether by way of making loans or advances or otherwise, of any activity other than its own;
- (ii) The acquisition of shares, stocks, bonds, debentures or securities issued by a Government or local authority or other marketable securities of a like nature;
- (iii) Letting or delivering of any goods to a hirer under hire purchase agreement as defined in the Hire Purchase Act, 1972;
- (iv) The carrying on of any class of insurance business;
- (v) Managing, conducting or supervising as foreman, agent or in any other capacity of chits or kuries as defined in any State Law, or any business which is similar thereto;
- (vi) Collecting for any purpose or under any scheme or arrangement monies in lumpsum or otherwise by way of subscriptions or by sale of units or other instruments and awarding prizes or gifts in cash or kind or disbursing monies in any other way to persons from whom monies are collected or to any other person.

Answer 7(b)

According to the preamble of the SEBI Act, the objective of setting up SEBI is to protect the interest of investors in securities and to promote the development and to regulate the securities market.

Since inception, SEBI has sought to balance the two objectives by constantly reviewing and re-appraising its existing policies and programmes, formulating new policies and regulations, to foster developments in these areas and implementing them to ensure growth of the market with efficiency, integrity and protection of interests of investors. All throughout, enforcement and surveillance has been a major priority for SEBI. It introduced several reforms in primary market and acted as a catalyst for modernization

of market infrastructure. It streamlined and simplified the issue procedure, gave flexibility to the issue process and strengthened the criteria for accessing the securities market. In secondary market, it improved market efficiency, integrity and transparency.

Answer 7(c)

Section 4(1) of SEBI Act provides that 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, 1956;
- (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.

Question 8

- (a) *“Corporate governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.” Discuss the statement with special reference to main principles and objectives of corporate governance.* (8 marks)
- (b) *How is price determined for the buy-back of securities ?* (4 marks)
- (c) *Explain briefly the provisions of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 relating to escrow account.* (4 marks)

Answer 8(a)

The statement given in the question is the definition of Corporate Governance given by the Institute of Company Secretaries of India. The definition is true and it implies that adoption of best corporate governance practices distinguishes a company from ordinary companies, which are content merely in complying with prescribed legal requirements. The companies adopting “best corporate governance practices” stand out from others. The adoption of such best practices is purely voluntary and depends on the financial and other capabilities of the company apart from the commitment of the company to values and ethical business.

To subserve the above ends, corporate governance must be based on following principles:

- Transparency in Board processes and independence in the functioning of Boards
- Accountability to stakeholders with a view to serve the stakeholders and account to them at regular intervals for actions taken, through strong communication processes.
- Fairness to all stakeholders; and
- Social, regulatory and environmental concern.

Good governance is integral to the very existence of a company. It seeks to achieve following objectives:

- (i) That a properly structure Board capable of taking independent and objective decisions is in place;
- (ii) That the Board is balanced as regards the representation of adequate number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders;
- (iii) That the Board adopts transparent procedures and practices and arrives at decisions on the strength of adequate information;
- (iv) That the Board has an effective machinery to subserve the concerns of stakeholders;
- (v) That the Board keeps the shareholders informed of relevant developments impacting the company;
- (vi) That the Board effectively and regularly monitors the functioning of the management team, and
- (vii) That the Board remains in effective control of the affairs of the company at all times.

Answer 8(b)

Pricing for buy-back

The Board should either determine or recommend to the shareholders a fair price for buy-back based on all relevant parameters such as:

- (a) Earnings per share;
- (b) Prices of securities quoted on the stock exchange;
- (c) Past performance;
- (d) Book value per share;
- (e) Previous buy-back undertaken, if any
- (f) Net worth of the company
- (g) Post buy-back scenario;
- (h) Industry outlook

Answer 8(c)

Escrow account means an account in which money is held until a specified duty is performed. The Regulations 28 of SEBI Takeover Regulations require cash deposit in an Escrow Account before the public announcement and forfeiture thereof if the acquirer fails to discharge his obligations under the offer. The amount is to be calculated as follows:

- (i) For consideration payable under the public offer – upto and including 100 crores – 25%; exceeding Rs. 100 crore – 25% upto Rs.100 crore and 10% thereafter.

- (ii) For the offers which are subject to minimum level of acceptance and the acquirer does not want to acquire a minimum of 20 per cent, then 50% of the consideration payable under the public offer in cash is required to be deposited in escrow account.

The Escrow Account may consist of cash deposited with a scheduled commercial bank, bank guarantee in favour of merchant banker, deposit of acceptable securities with appropriate margin with the merchant banker and cash deposited with a scheduled commercial bank. The escrow amount deposited with the bank in cash can be released only in the manner provided in the Regulations.
