

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) Merchant bankers can acquire shares of the company in which they have got professional assignment.
- (ii) A company can use different modes for buy-back of its shares in a single offer.
- (iii) Venture capital is invested in equity securities of new companies promoted by technocrats.
- (iv) No mutual fund scheme shall invest more than 10% of NAV in the equity shares or equity related instruments of one company.
- (v) The placement memorandum is issued for public circulation only.

(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 credit transactions.
- (ii) All certificates in depository are interchangeable and known as _____.
- (iii) Re-issue of existing government securities having pre-determined yields by the Reserve Bank of India is known as _____.
- (iv) The circuit breakers bring about a coordinated trading halt in both _____ and derivative markets.
- (v) _____ are investment trusts, syndicates or similar enterprises that are operated for the purpose of trading commodity futures.

(1 mark each)

Answer 1(a)

- (i) **False.** Regulation 26 lays down that no merchant banker or any of its directors, partners or manager or principle officer shall either on their own account or through their associates or relatives enter into any transaction in securities of bodies corporate on the basis of unpublished price sensitive information obtained by them during the course of any professional assignment either from the clients or otherwise.
- (ii) **False.** A company can implement buy-back by any of the prescribed methods but, for a single offer of buy-back, different modes of buy-back cannot be adopted.
- (iii) **True.** Venture capital is the capital that is invested in equity or debt securities

(with equity conversion terms) of young unseasoned companies promoted by technocrats who attempt to break new path.

- (iv) **True.** No mutual fund scheme shall invest more than 10% of its NAV in the equity shares or equity related instruments of any company. However, the limit of 10% shall not be applicable for investments in index fund or sector or industry specific scheme.
- (v) **False.** The placement memorandum is issued for private circulation only.

Answer 1(b)

- (i) Financial Systems covers both **Cash** and credit transactions.
- (ii) All certificates in depository are interchangeable and known as **Fungible**.
- (iii) Re-issue of existing government securities having pre-determined yields by the Reserve bank of India is known as **on tap issue**.
- (iv) The circuit breakers bring about a coordinated trading halt in both **equity** and derivative markets.
- (v) **Commodity pool** are investment trusts, syndicates or similar enterprises that are operated for the purpose of trading commodity futures.

Question 2

(a) *Comment on any three of the following statements :*

- (i) *"A private equity fund is like a hedge fund."*
- (ii) *"Credit rating is a marketing tool for the companies."*
- (iii) *"Depository system works very much like a banking system."*
- (iv) *"Demutualisation of stock exchanges is to convert the traditional stock exchanges into a company."* (3 marks each)

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

- (i) *'Public notice' and 'public announcement'.*
- (ii) *'Disaster bonds' and 'convertible bonds',*
- (iii) *'Book closure' and 'record date'.* (3 marks each)

Answer 2(a)(i)

“A private equity fund is like a hedge fund“

A private equity fund, like a hedge fund, is an unregistered investment vehicle in which investors pool money to invest. Private equity funds concentrate their investments in unregistered (and typically illiquid) securities. The investors in both private equity funds and hedge funds typically include high net worth individuals and families, pension funds, endowments, banks and insurance companies. Private equity funds, however, differ from hedge funds in terms of the manner of contribution to the investment pool made by the investors.

Answer 2(a)(ii)**“Credit rating is a marketing tool for the companies”**

Credit rating benefits industry as a whole in terms of direct mobilisation of savings from individuals. Rating also provide a marketing tool to the company and its investment bankers in placing company's debt obligations with a investor base that is aware of, and comfortable with, the level of risk. Relevant and reliable information helps the investors to arrive at their investment decisions. Intermediaries like brokers and dealers in securities use credit rating as an input for monitoring risk exposures.

Answer 2(a)(iii)**“Depository system works very much like a banking system”**

The Depository System functions very much like the banking system. A bank holds funds in accounts whereas a Depository holds securities in accounts for its clients. A Bank transfers funds between accounts whereas a Depository transfers securities between accounts. In both systems, the transfer of funds or securities happens without the actual handling of funds or securities. Both the Banks and the Depository are accountable for the safe keeping of funds and securities respectively.

Answer 2(a)(iv)**“Demutualisation of stock exchanges is to convert the traditional stock exchanges into a company”**

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(b)(i)**'Public notice' and 'public announcement'**

A listed company after being authorised to buyback its securities but before buyback should make a public announcement in this regard at least in one English national daily, one Hindi national daily and a regional language daily having wide circulation at a place where the registered office of the company is situated.

A company authorised to buyback its securities by way of a board resolution should, before making the public announcement for buyback, give a public notice in atleast one English national daily, one Hindi national daily and a regional language daily having a wide circulation at a place where the registered office of the company is situated.

Answer 2(b)(ii)**'Disaster bonds' and '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 returns 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 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 debentures may have certain additional features including higher rate of interest distinct from the original debt instrument.

Answer 2(b)(iii)

'Book closure' and 'record date'

Book closure is the period for 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 rights share or any other rights pertaining to shares. In accordance with section 154 of the Companies Act, 1956 a company may close the register of members for a maximum of 45 days in a year and for not more than 30 days at any one time. Whereas record date is the date on which the records of a company are closed for the purpose of determining the stock holders to whom dividends, proxies' rights, etc. are to be sent.

Question 3

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

- (i) Foreign institutional investors
- (ii) Portfolio manager
- (iii) Trend line
- (iv) Money market mutual funds.

(3 marks each)

(b) Discuss briefly the various investment strategies adopted in option trading.

(3 marks)

(c) Expand the following abbreviations :

- (i) UCC
- (ii) CFTC
- (iii) SEFT.

(1 mark each)

Answer 3(a)(i)

Foreign Institutional Investors

Foreign Institutional Investors means an institution established or incorporated outside India which proposes to make investment in India in securities. No person can buy, sell or otherwise deal in securities as a Foreign Institutional Investor unless he holds a certificate granted by SEBI under SEBI (Foreign Institutional Investors) Regulations, 1995.

Answer 3(a)(ii)**Portfolio Manager**

Portfolio Manager means any person who pursuant to contract or arrangement with the client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the clients as the case may be. A portfolio manager is a professional with experience and expertise studies the market and adjusts the investment mix for his client on a continuing basis to ensure safety of investment and reasonable returns therefrom.

Answer 3(a)(iii)**Trend Line**

When the price of shares moves in a particular direction which persists for a period of time, a price line is established. When the movement is upward, the trend is called 'BULLISH' and when the movement is downward it is called 'BEARISH'. Bear market is a weak or falling market characterized by the dominance of sellers. Whereas Bull market is a rising market with abundance of buyers and relatively few sellers.

Answer 3(a)(iv)**Money Market Mutual Funds (MMMFs)**

MMMFs invest in short-term debt securities in the money market like certificates of deposits, commercial paper, Government trading bills etc. Owing to their large size, the funds normally get a higher yield on such short-term investments than an individual investor. MMMF schemes are governed by SEBI (Mutual Funds) Regulations, 1996.

Answer 3(b)

The various investment strategies adopted in option trading are as follows:

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 upmove and downmove.

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. The premium is equal to the sum of the premia on the two puts and one call.

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 premium paid is the sum of the premia paid on the two calls and one put.

Answer 3(c)

- (i) UCC – Unique Client Code
- (ii) CFTC – Commodity Futures Trading Commission
- (iii) SEFT – Special Electronic Fund Transfer.

Question 4

- (a) Explain briefly any two of the following terms related to securities market :
- (i) Private placement
 - (ii) Surveillance at BSE
 - (iii) Market making. (2 marks each)
- (b) What is 'collective investment scheme' ? What are the restrictions on their business activities ? (4 marks)
- (c) "A well functioning securities market is conducive to sustained economic growth of a country." Comment and discuss briefly the regulatory framework of securities market in India. (7 marks)

Answer 4(a)(i)**Private placement**

When an issuer makes an issue of securities to a select group of persons not exceeding 49, and which is neither a rights issue nor a public issue, it is called a private placement. Private placement of shares or convertible securities by listed issuer can be either Preferential allotment or Qualified institutions placement (QIP).

Answer 4(a)(ii)**Surveillance at BSE**

Surveillance at BSE promotes market integrity. The surveillance includes monitoring price and volume movements (volatility) as well as by detecting potential market abuses at a nascent stage, with a view to minimizing the ability of the market participants, both in Cash and Derivative market, to influence the price of the scrip/series in the absence of any meaningful information. It also manages default risk by taking necessary timely actions.

Answer 4(a)(iii)**Market making**

Market Making is a process whereby two way quotes are offered for the purpose of facilitating trading in respect of a certain scrip. The chief advantage of market making is that it affords much-needed liquidity to the securities. It also increases the supply of scrips in the market and also triggers demand for the scrips in the market.

Answer 4(b)**Collective Investment Scheme**

Collective Investment Scheme (CIS) under SEBI (Collective Investment Schemes) Regulations, 1999 means any scheme or arrangement made or offered by any company under which :

- (a) the contributions, or payments made by the investors, by whatever name called, are pooled and utilised solely for the purposes of the scheme or arrangement;

- (b) the contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable form such scheme or arrangement.
- (c) The property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors; and
- (d) The investors do not have day-to-day control over the management and operation of the scheme or arrangement.

Restrictions on business activities

The Collective Investment Management Company should not :

- (i) Undertake any activity other than that of managing the scheme;
- (ii) Act as a trustee of any scheme;
- (iii) Launch any scheme for the purpose of investing in securities;
- (iv) Invest in any schemes floated by it.

Answer 4(c)

A well functioning securities market is conducive to sustained economic growth. The securities market fosters economic growth as it (a) augments the quantities of real savings and capital formation from any given level of national income; (b) increases net capital inflow from abroad; (c) raises the productivity of investment by improving allocation of investible funds; and (d) reduces the cost of capital.

Regulatory Framework governing Indian Securities Market

The following are the important statutes, which aim to regulate the Indian Securities market:

- (a) The Securities Contracts (Regulation) Act, 1956
- (b) The Securities & Exchange Board of India Act, 1992
- (c) The Reserve Bank of India Act, 1934
- (d) The Companies Act, 1956
- (e) The Depositories Act, 1996
- (f) The Foreign Exchange Management Act, 1999

The agencies involved in regulation of Securities Market are:

- (a) Ministry of Finance
- (b) Department of Company Affairs
- (c) Department of Economic Affairs
- (d) The Reserve Bank of India
- (e) The Securities & Exchange Board of India
- (f) Stock Exchanges

Question 5

- (a) *Explain the term 'suspicious transaction report' under the Prevention of Money Laundering Act, 2002.* (4 marks)
- (b) *What are the obligations of foreign venture capital investor ?* (4 marks)
- (c) *Discuss briefly the composition, role and responsibilities of an audit committee under clause 49 of the listing agreement.* (7 marks)

Answer 5(a)

Section 12 of the PMLA provide that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities within the intermediary. Intermediaries shall ensure that appropriate steps are taken to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious transactions.

A list of circumstances which may be in the nature of suspicious transactions is provided in the PMLA. Any suspicious transaction shall be immediately notified to the Money Laundering Control Officer or any other designated officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. The intermediaries are required to report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

Answer 5(b)**Obligations of Foreign Venture Capital Investor**

Foreign Venture Capital Investor or a global custodian acting on behalf of the foreign venture capital investor should enter into an agreement with the domestic custodian to act as a custodian of securities for Foreign Venture Capital Investor. Foreign Venture Capital Investor should ensure that domestic custodian takes steps for monitoring of investment of Foreign Venture Capital Investors in India, furnishing of periodic reports to SEBI and furnishing such information as may be called for by SEBI.

Answer 5(c)**Composition of Audit Committee**

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

- (i) Audit Committee shall have minimum three directors as members.
- (ii) 2/3rd of the members of Audit Committee shall be independent directors.
- (iii) All members of Audit Committee shall be financially literate and atleast one member shall have accounting or related financial management expertise.
- (iv) Chairman of the Audit Committee shall be an independent director.

Role and responsibilities of Audit Committee

The role and responsibilities of the audit committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - (a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
 - (b) Changes, if any, in accounting policies and practices and reasons for the same
 - (c) Major accounting entries involving estimates based on the exercise of judgment by management
 - (d) Significant adjustments made in the financial statements arising out of audit findings
 - (e) Compliance with listing and other legal requirements relating to financial statements
 - (f) Disclosure of any related party transactions
 - (g) Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
7. Reviewing, with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.
8. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
9. Discussion with internal auditors any significant findings and follow up there on.

10. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
11. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
12. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
13. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
14. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience & background, etc. of the candidate.
15. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

PART B

*(Answer **ANY TWO** questions from this part.)*

Question 6

- (a) What is 'applications supported by blocked amount' (ASBA) ? Briefly explain ASBA process. (5 marks)
- (b) Discuss the eligibility criteria and conditions for issue of Indian Depository Receipts (IDRs). (5 marks)
- (c) State briefly the requirements for bidding process related to public issue of equity shares. (5 marks)
- (d) What constitutes debt market in India ? Describe the various investors in the debt market. (5 marks)

Answer 6(a)

Applications Supported by Block Amount (ASBA) is an application for subscribing to an issue, containing an authorization to block the application money in a bank account.

ASBA Process : An ASBA investor submits an ASBA physically or electronically through the internet banking facility, to the Self Certified Syndicate Bank (SCSB) with whom the bank account to be blocked, is maintained. The SCSB then blocks the application money in the bank account specified in the ASBA, on the basis of an authorization to this effect given by the account holder in the ASBA. The application money remains blocked in the bank account till finalization of the basis of allotment in the issue or till withdrawal/failure of the issue or till withdrawal/rejection of the application, as the case may be. The application data shall thereafter be uploaded by the SCSB in the electronic bidding system through a web enabled interface provided by the Stock Exchanges. Once the basis of allotment is finalized, the Registrar to the Issue sends an

appropriate request to the SCSB for unblocking the relevant bank accounts and for transferring the requisite amount to the issuer's account. In case of withdrawal/failure of the issue, the amount shall be unblocked by the SCSB on receipt of information from the pre-issue merchant bankers.

Answer 6(b)

Eligibility for issue of IDRs

“Indian Depository Receipt” (IDR) means any instrument in the form of a depository receipt created by Domestic Depository in India against the underlying equity shares of issuing company. Companies (Issue of Indian Depository Receipts) Rules, 2004 provides that an issuing company shall not issue IDR unless it satisfies the following conditions, namely-

- (a) Its pre-issue paid-up capital and free reserves are atleast US \$ 50 million and it has a minimum average market capitalization (during last three years) in its parent country of atleast US \$ 100 million.
- (b) It has a continuous trading record or history on a stock exchange in its parent country for atleast three immediately preceding years.
- (c) It has a track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for atleast three out of immediately preceding five years.
- (d) It fulfils such eligibility criteria as may be laid down by SEBI from time to time in this behalf.

SEBI (ICDR) Regulations, 2009 provides eligibility criteria for issue of IDR-the issuer company should be listed in its home country; has not been prohibited to issue securities by any Regulatory Body and has a good track record with respect to compliance with securities market regulations in its home country.

Answer 6(c)

Various requirements for bidding process related to public issue of equity shares :

- (a) Bidding process shall be only through an electronically linked transparent bidding facility provided by recognised stock exchange (s).
- (b) The lead book runner shall ensure the availability of adequate infrastructure with syndicate members for data entry of the bids in a timely manner.
- (c) The syndicate members shall be present at the bidding centres so that at least one electronically linked computer terminal at all the bidding centres is available for the purpose of bidding.
- (d) During the period the issue is open to the public for bidding, the applicants may approach the stock brokers of the stock exchange/s through which the securities are offered under on-line system or Self Certified Syndicate Banks, as the case may be, to place an order for bidding for the specified securities.
- (e) Every stock broker shall accept orders from all clients/investors who place orders through him and every Self Certified Syndicate Bank shall accept Applications Supported by Blocked Amount from ASBA investors.

- (f) Applicants who are qualified institutional buyers shall place their bids only through the stock brokers who shall have the right to vet the bids;
- (g) The bidding terminals shall contain an online graphical display of demand and bid prices updated at periodic intervals, not exceeding thirty minutes;
- (h) At the end of each day of the bidding period, the demand including allocation made to anchor investors, shall be shown graphically on the bidding terminals of syndicate members and websites of recognised stock exchanges offering electronically linked transparent bidding facility, for information of public;
- (i) The investors may revise their bids;
- (j) The issuer may decide to close the bidding by qualified institutional buyers one day prior to the closure of the issue subject to the following conditions:
 - (i) bidding shall be kept open for a minimum of three days for all categories of applicants;
 - (ii) disclosures are made in the red herring prospectus regarding the issuer's decision to close the bidding by qualified institutional buyers one day prior to closure of issue.
- (k) The qualified institutional buyers shall not withdraw their bids after closure of bidding;
- (l) The identity of qualified institutional buyers making the bidding shall not be made public;
- (m) The stock exchanges shall continue to display on their website, the data pertaining to book built issues in an uniform format, *inter alia* giving category-wise details of bids received, for a period of at least three days after closure of bids.

Answer 6(d)

The debt market in India comprises mainly of two segments viz., the Government securities market consisting of Central and State Governments securities, Zero Coupon Bonds (ZCBs), Floating Rate Bonds (FRBs), T-Bills and the corporate securities market consisting of FI bonds, PSU bonds, and Debentures/Corporate bonds. Government securities form the major part of the market in terms of outstanding issues, market capitalization and trading value.

Investors in debt market

Investors are the entities who invest in fixed income instruments. The investors in such instruments are generally Banks, Financial Institutions, Mutual Funds, Insurance Companies, Provident Funds etc.

Banks : They invest in all instruments ranging from T-Bills, CPs and CDs to GOISECs, private sector debentures etc. Banks lend to corporate sector directly by way of loans and advances and also invest in debentures issued by the private corporate sector and in PSU bonds.

Insurance Companies : The second largest category of investors in the debt market are the insurance companies.

Provident funds : Provident funds are estimated to be the third largest investors in the debt market. Investment guidelines for provident funds are being progressively liberalized and investment in private sector debentures is one step in this direction.

Mutual funds : Mutual funds represent an extremely important category of investors. World over, they have almost surpassed banks as the largest direct collector of primary savings from retail investors and therefore as investors in the wholesale debt market.

Trusts : Trusts include religious and charitable trusts as well as statutory trusts formed by the government and quasi government bodies. Most of the trusts invest in CDs of banks and bonds of financial institutions and units of Unit Trust of India.

Corporate Treasuries : The treasuries of PSUs as well as the governmental bodies are allowed to invest in papers issued by DFIs and banks as well as GOISECs of various maturities.

Foreign Institutional : Each debt FII is allocated a limit every year up to which it can invest in Indian debt securities. They are also free to disinvest any of their holdings, at any point of time, without prior permission.

Retail Investors : Retail investors can submit non-competitive bids at primary auction through any bank or Primary Dealer.

Question 7

- (a) *Elaborate the various steps involved in the issue of rights shares. (5 marks)*
- (b) *What is 'Stipendiary Ombudsman' ? What are his qualifications ? (5 marks)*
- (c) *What is 'offering circular' ? Explain the contents of offering circular for Euro issue. (10 marks)*

Answer 7(a)

The various steps involved for issue of rights share are enumerated below :

- (i) The rights issue should be within the authorized share capital of the company. If not, steps should be taken to increase the authorized share capital.
- (ii) In case of a listed company, notify the stock exchange concerned the date of Board Meeting at which the rights issue is proposed to be considered at least 2 days in advance of the meeting.
- (iii) Rights issue shall be kept open for at least 15 days and not more than 30 days.
- (iv) Convene the Board meeting and place before it the proposal for rights issue.
- (v) The Board should decide on the matters relating to Quantum of issue proportion of rights shares;
- (vi) Immediately after the Board Meeting notify the concerned Stock Exchanges about particulars of Board's decision.
- (vii) Forward 6 sets of letter of offer to concerned Stock Exchanges.
- (viii) Despatch letters of offer to shareholders by registered post.

- (ix) An advertisement is required to be released in at least an English National Daily, one Hindi National Paper and a Regional Language Daily where registered office of the issuer company is situated giving date of completion of dispatch of letter of offer.
- (x) Make arrangement with bankers and self certified syndicate banks for acceptance of share application forms.
- (xi) Prepare a scheme of allotment in consultation with Stock Exchange.
- (xii) Convene Board Meeting and make allotment of shares.
- (xiii) File return of allotment with Registrar of Companies within 30 days of allotment.
- (xiv) Make an application to the Stock Exchange(s) where the company's shares are listed for permission of listing of new shares.

Answer 7(b)

Stipendiary Ombudsman means a person appointed under SEBI (Ombudsman) Regulations, 2003 for the purpose of acting as ombudsman in respect of a specific matter or matters in a specific territorial jurisdiction and for which he may be paid such expenses, honorarium or sitting fees as may be determined by SEBI from time to time.

Qualifications

A person is eligible to be appointed as Stipendiary Ombudsman if he—

- (a) has held a judicial post or an executive office under the Central or State Government for atleast ten years; or
- (b) is having experience of at least ten years in matters relating to consumer or investor protection; or
- (c) has been a legal practitioner in corporate matters for atleast 10 years; or
- (d) has served for a minimum period of ten years in any public financial institution.

Answer 7(c)**Offering Circular**

Offering Circular is a document issued by the issuer company through which the prospective investors can access vital information regarding the company in order to form their investment strategies. It is to be prepared very carefully giving true and complete information regarding the financial strength of the company, its past performance, past and envisaged research and business promotion activities, track record of promoters and the company, ability to trade the securities on Euro capital market.

Offering Circular for Euro Issues offering should typically cover the following contents:

- (i) Background of the company and its promoters including date of incorporation and objects, past performance, production, sales and distribution network, future plans, etc.
- (ii) Capital structure of the company-existing, proposed and consolidated.
- (iii) Deployment of issue proceeds.

- (iv) Financial data indicating track record of consistent profitability of the company.
- (v) Group investments and their performance including subsidiaries, joint venture in India and abroad.
- (vi) Investment considerations.
- (vii) Description of shares.
- (viii) Terms and conditions of global depository receipt and any other instrument issued along with it.
- (ix) Economic and regulatory policies of the Government of India.
- (x) Details of Indian securities market indicating stock exchange, listing requirements, foreign investments in Indian securities.
- (xi) Market price of securities.
- (xii) Dividend and capitalisation.
- (xiii) Securities regulations and exchange control.
- (xiv) Tax aspects indicating analysis of tax consequences under Indian law of acquisition, membership and sale of shares, treatment of capital gains tax, etc.
- (xv) Status of approvals required to be obtained from Government of India.
- (xvi) Summary of significant differences in Indian GAAP, UK GAAP and US GAAP and expert's opinion.
- (xvii) Report of statutory auditor.
- (xviii) Subscription and sale.
- (xix) Transfer restrictions in respect of instruments.
- (xx) Legal matters etc.
- (xxi) Other general information not forming part of any of the above.

Question 8

Write notes on any five of the following :

- (i) *Anchor investor*
 - (ii) *Subscription agreement*
 - (iii) *Compulsory delisting*
 - (iv) *Road show in Euro issues*
 - (v) *External commercial borrowings*
 - (vi) *Employees' Stock Purchase Scheme.*
- (4 marks each)*

Answer 8(i)**Anchor Investor**

“Anchor investor” means a qualified institutional buyer who makes an application for

a value of Rs. 10 crore or more in a public issue made through the book building process in accordance with SEBI (ICDR) Regulations, 2009 :

- (a) Allocation to Anchor Investors is on a discretionary basis and subject to a minimum number of 2 such investors for allocation of upto Rs. 250 crore and 5 such investors for allocation of more than Rs. 250 crore.
- (b) Upto thirty per cent of the portion available for allocation to qualified institutional buyers is available to anchor investor(s) for allocation/ allotment (“anchor investor portion”).
- (c) One-third of the anchor investor portion is reserved for domestic mutual funds.
- (d) The bidding for Anchor Investors opens one day before the issue opening date.

Answer 8(ii)

Subscription Agreement

Subscription agreement provides that Lead Managers and other managers agree, severally and not jointly, with the company, subject to the satisfaction of certain conditions, to subscribe for GDRs at the offering price set forth. It may provide that obligations of managers are subject to contain conditions precedent and also certain additional conditions for issuance of GDRs. Subscription Agreement also provides, an option to be exercisable within certain period after the date of offer circular, to the lead manager and other managers to purchase upto a certain prescribed number of additional GDRs solely to cover over allotments, if any.

Answer 8(iii)

Compulsory Delisting

A recognised stock exchange may by order, delist any equity shares of a company on any ground prescribed in the rules made under Section 21A of the Securities Contracts (Regulation) Act, 1956. Compulsory delisting thus, means permanent removal of securities of a listed company from a stock exchange as a penalizing measure at the behest of the stock exchange for not making submissions / complying with various requirements set out in the Listing agreement within the time frames prescribed.

Answer 8(iv)

Road Show in Euro Issues

Road shows represent meetings of issuers, analysts and potential investors. Details about the company are presented in the road shows and such details usually include the following information about the company making the issue:

- History
- Organizational structure
- Principal objects
- Business lines
- Position of the company in Indian and international market

- Past performance of the company
- Future plans of the company
- Competition - domestic as well as foreign
- Financial results and operating performance
- Valuation of shares
- Review of Indian stock market and economic situations.

Answer 8(v)**External Commercial Borrowings**

External Commercial Borrowing are one of the modes for sourcing of funds for corporates. External Commercial Borrowings (ECB) include commercial bank loans, buyer's credit, suppliers credit, securitized instruments such as floating rate notes and fixed rate bonds. ECB can be accessed under two routes, viz., (i) Automatic Route and (ii) Approval Route. ECB for investment in real sector-industrial sector, infrastructure sector-in India, and specific service sectors are under Automatic Route, i.e. do not require the Reserve Bank / Government of India approval. In case of doubt as regards eligibility to access the Automatic Route, applicants may take recourse to the Approval Route.

Answer 8(vi)**Employees Stock Purchase Scheme (ESPS)**

Employee stock purchase scheme (ESPS) means a scheme under which the company offers shares to employees as part of a public issue or otherwise.

- (i) An employee eligible to participate in the scheme should be:
 - (a) a permanent employee of the company working in India or out of India; or
 - (b) a director of the company, whether a whole time director or not;
 - (c) an employee as defined in sub-clauses (a) or (b) of a subsidiary, in India or out of India, or of a holding company of the company.
 - (ii) The employee should neither be a promoter nor belongs to the promoter group.
 - (iii) A director who either by himself or through his relatives or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the company can not participate, as he is not eligible to participate in the scheme.
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