Overview of Capital Market

Financial System

A F.S. is a set of <u>institutional arrangement</u> through which <u>financial surpluses</u> are <u>mobilized</u> from the units generating surplus income and transferring them <u>to</u> the others, <u>who are in need</u>.

Components

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MARKET REGULATION

It is important to ensure smooth working of capital market, as it is the arena for the players associated with the economic growth of the country. Various laws have been passed from time to time to meet this objective. The financial market in India was highly segmented until the initiation of reforms in 1992-93 on account of a variety of regulations and administered prices including barriers to entry. The reform process was initiated with the establishment of Securities and Exchange Board of India.

The main legislations governing the Capital Market are:

1. The **SEBI Act, 1992** which establishes SEBI to protect investors and develop and regulate securities market.
2. The **Securities Contracts (Regulation) Act, 1956**, SC(R)A which regulates transactions in securities through control over stock exchanges.
3. The **Depositories Act, 1996** which provides for electronic maintenance and transfer of ownership of demat securities.
4. The **Companies Act, 1956**, which sets out the code of conduct for the corporate sector in relation to issue, allotment and transfer of securities and disclosures to be made in public issues.

Evaluation and growth of financial system in India

Near about **1947**, India's FS was as follows,

1. NO organized capital market.
2. Loans with strict terms.
3. Rare cases of public issue.
4. Few FI's and intermediaries

In 1969 Nationalizations of banks Took Place and as a result loans were provided to rural areas on soft terms and hence agriculture and industry got a boost.

SEBI Act 1992 replaced Capital Issues (control) Act 1947, for organizing capital market, after that, nearly 1000 public issues per year were seen in Indian capital market.

At Present

For institutional source of finance, many FI's were established such as IDBI, IFCI, NABARD for agricultural purpose, SIDBI for small industries, EXIM for import –export etc.
Growth in financial Markets:- SEBI , ICDR , Depository , Credit rating, free pricing, 23 SE's , mutual funds, FEMA, access to FII's, ADR, GDR's, FCCB's, other new products such as zero coupon bonds, ASBA, abridged prospectus, lock in for promoter quota, liberalized terms for NRI's, corporate governance, Buy back, Code of conduct for advertisement in public issues, etc.

- **THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)**

The International Organization of Securities Commissions (IOSCO) was created in 1983 with the decision to change from an inter-American regional association (created in 1974) into a global cooperative body. Eleven securities regulatory agencies from North and South America took this decision in April 1983 at a meeting in Quito, Ecuador.
Today IOSCO is recognized as the international standard setter for securities markets. Its membership regulates more than 95% of the world's securities markets and it is the primary international cooperative forum for securities market regulatory agencies
The Securities and Exchange Board of India is also a signatory to IOSCO MMoU.

Capital Market Instruments

- **CLASSIFICATION OF INSTRUMENTS**

Hybrid Instruments

Hybrid instruments are those which are created by combining the features of equity with bond, preference and equity etc. Examples of Hybrid instruments are: Convertible preference shares, Cumulative convertible preference shares, non convertible debentures with equity warrants, partly convertible debentures, partly convertible debentures with Khokha (buy-back arrangement), Optionally convertible debenture, warrants convertible into debentures or shares, secured premium notes with warrants etc.

Pure Instruments

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

Derivatives Instruments

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

- **Important instruments**

1. **Equity shares.**
2. **Equity shares with differential rights**
3. **Sweat equity shares**
4. **PREFERENCE SHARES**
    - Cumulative preference shares
    - Non-cumulative preference shares
    - Convertible preference shares
    - Redeemable preference shares
    - Participating preference share
    - Non participating preference shares

5. **Debentures**
    - Naked or unsecured debentures.
    - Secured debentures.
    - Redeemable debentures.
    - Perpetual debentures.
    - Bearer debentures.
    - Registered debentures

6. **Share warrant**

7. **SECURED PREMIUM NOTES (SPN):**

These instruments are issued with detachable warrants and are redeemable after a notified period say 4 to 7 years. The warrants enable the holder to get equity shares allotted the secured premium notes are fully paid. During the lock in period no interest is paid. The holder has an option to sell back the SPN to the company at par value after the lock in period. If the holder exercises this option, no interest/premium is paid on redemption.
In case the holder keeps it further, he is repaid the principal amount along with the additional interest/premium on redemption in installments as per the terms of issue. The conversion of detachable warrants into equity has to be done within the specified time.

8. **EQUITY SHARES WITH DETACHABLE WARRANTS**

The holder of the warrant is eligible to apply for the specified number of shares on the appointed date at the predetermined price. These warrants are separately registered with the stock exchanges and traded separately. The practice of issuing non convertible debentures with detachable warrants also exists in the Indian market.

9. **DUAL OPTION WARRANTS**

Dual option warrants are designed to provide the buyer with good potential of capital appreciation and limited downside risk. Dual option warrants may be used to sell equity shares in different markets. For example, equity shares or debentures may be issued with two warrants - one warrant giving right to the purchaser to be allotted one equity share at the end of a certain period and another warrant with a debt or preference share option.

10. **DEBT FOR EQUITY SWAP**

These instruments give an offer to the debt holders to exchange the debt for equity shares of the company. The issuers offering debt for equity swaps are interested in increasing equity capital by improving their debt equity ratios and enhancing their debt issuing capacity. They reduce their interest burden and replace it with dividend burden which is payable at the discretion of the issuer. However, the issuer faces the risk of dilution of earnings per share by a sharp rise in the equity. In addition, dividends are not tax deductible.
From the investors� point of view, there is potential gain from rise in the value of the equity shares. The potential rise in price of equity shares may or may not materialize.
Variations of this instrument are mortgage backed securities that split the monthly payment from underlying mortgages into two parts - each receiving a specified portion of the principal payments and a different specified portion of the interest payments.

11. **INDEXED RATE NOTES**

In indexed rate notes, the interest rate fixation is postponed till the actual date of placement, rather than fixing it on the date of the commitment. The interest rate is computed on the date of take down at the then prevailing private placement rates, using a formula based on the index such as the 182 days treasury bill yield rates.

12. **EXTENDABLE NOTES**

Extendable notes are issued for 10 years with flexibility to the issuer **to review the interest rate every two years.** The interest rate is adjusted every two years to reflect the then prevailing market conditions by trying the interest rate to a spread over a bond index such as two years treasury notes.
However, **investors have a put option at par value every two years** i.e. they have the right to sell the bond to the issuer at a fixed rate on the expiry of every two years.

13. **ZERO COUPON CONVERTIBLE NOTES**

These are debt convertible into equity shares of the issuer. **If investors choose to convert, they forgo all the accrued and unpaid interest**. These convertibles are generally issued with put option to the investors. **The advantage to the issuer is the raising of convertible debt without heavy dilution of equity**. Since the investors give up acquired interest by exercise of conversion option, the conversion option may not be exercised by many investors.
The investor gains in the event of appreciation in the value of the equity shares. Even if the appreciation does not materialize, the investor has the benefit of a steady stream of implied income**. If the instrument is issued with put option, the investor can resell the securities to the investor.**

14. **DEEP DISCOUNT BOND**

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

15. **DISASTER BONDS**

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

16. **EASY EXIT BONDS**

This instrument covers both bonds which provide liquidity and an easy exit route to the investor by way of redemption or buy back where investors can get ready encashment in case of need to withdraw before maturity.

17. **PAY IN KIND BONDS**

This refers to bonds wherein interest for the first three to five years is paid through issue of additional bonds, which are called **baby bonds as they are derived from parent bond.**

18. **FLOATING RATE BONDS AND NOTES**

In this case **interest is not fixed and is allowed to float depending upon market conditions**. This instrument is used by the issuers to hedge themselves against the volatility in interest rates. Some of the above instruments have been used selectively by companies and institutions recently to raise funds.

19. CLIP AND STRIP BONDS

Clip and strip bonds **also referred to as coupon notes**, split the principal and coupon portions of a bond issue and two separate coupon instruments are sold to the investors.
In structuring a coupon note issue, a conventional current coupon bond is sold to the investor. The streams of coupon payments are stripped away and the principal amount of bond is sold as a deep discount bond. The gain to the investor is difference between the purchase price and the par value. The coupon streams are sold like zero coupon bonds where the investor pays discount for it and receives the payment at a lower rate.

20. DUAL CONVERTIBLE BONDS

A dual convertible bond is **convertible into either equity shares or fixed interest rate debentures/preference shares at the option of the lender**. Depending on the prospects of the project during the conversion period, the lender may exercise either of the options.

21. STEPPED COUPON BONDS

Under stepped coupon bonds, the **interest rate is stepped up or down during the tenure of the bond.** The main advantage to the investor is the attraction of higher rate of interest in case of general rise in interest rates.

22. INDUSTRIAL REVENUE BONDS

Industrial revenue bonds are **issued by financial institutions in connection with the development or purchase of industrial facilities**. These may become attractive if certain income-tax and wealth-tax concessions are offered.
The bond proceeds could be used to purchase or a construct facilities which are subsequently leased or sold to the company. The institution acts as a conduit of funds between the lenders and the company in order to take advantage of tax benefits enjoyed by the institutions.

23. COMMODITY BONDS

Commodity bonds are bonds issued to share the risk and profitability of future commodity prices with the investor. For example, petro bonds, silver bonds, gold bonds and coal bonds.

24. CARROT AND STICK BOND

A convertible bond that comes with a carrot-and-stick provision.

The carrot

Differently stated, its carrot provision provides for a low conversion premium to allure holders to exercise conversion earlier than usual.

The stick

The stick provision allows the issuer to call the bond at a specified premium if the common stock of the issuer is trading at a certain percentage above the conversion price.
This structure combines both rewards and punishments and it is up to the holder to go either course as its investment policy dictates.

25. **CAPITAL INDEXED BONDS**

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

26. **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

27. **GLOBAL DEPOSITORY RECEIPTS**

It is basically **a negotiable instrument denominated in US dollars**.
It is **traded in Europe or the US or both**.
After getting **approval from the Ministry of Finance** and completing other formalities, a **company issues rupee denominated shares in the name of depository which delivers these shares to its local custodian bank,** the holder on records, thus depository.
The **depository then issues dollar denominated depository receipts (or GDR) against the shares registered with it.** Generally one GDR is equivalent to one or more (rupee denominated) shares. It is traded like any other dollar denominated security in the foreign markets, in addition to equity financing (as GDR represents equity) over debt financing.
GDR issue also possesses merits like less issue formalities, less administrative works as regards dividend payment, information dissemination, annual general meeting etc. as the issuer deal only with a single shareholder, the depository; easy availability of foreign exchange and no foreign exchange risk.
Besides issuing companies, foreign investors especially FIIs also get advantage of investing in the Indian companies without getting registration with SEBI, relief from cumbersome settlement and delivery procedures, adequate liquidity (as GDR is as liquid as the shares of the company in its home market) and generally higher returns. In fact, GDR holders enjoy all economic benefits of the underlying shares but have none of the corporate rights like right to vote.

28. **FOREIGN CURRENCY CONVERTIBLE BONDS (FCCBs)**

A Foreign Currency Convertible Bond (FCCB) is a quasi debt instrument which is issued by any corporate entity, international agency or sovereign state to the investors all over the world. They are denominated in any freely convertible foreign currency.
FCCBs represent equity linked debt security which can be converted into shares or into depository receipts.
The investor also has the option to retain the bond.
The FCCBs by virtue of convertibility offers to issuer a privilege of lower interest cost than that of similar non convertible debt instrument.

By issuing these bonds, a company can also avoid any dilution in earnings per share that a further issue of equity might cause whereas such a security still can be traded on the basis of underlying equity value.
Like GDRs, FCCBs are also freely tradeable and the issuer has no control over the transfer mechanism and cannot be even aware of ultimate beneficiary.

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29. INDIAN DEPOSITORY RECEIPTS

An IDR is an instrument **denominated in Indian Rupee** in the form of a depository receipt created by a domestic depository (Custodian of securities registered with SEBI) against the underlying equity of issuing company to enable foreign companies to raise funds from Indian Securities Markets.
In an IDR, foreign companies would issue shares, to a domestic (Indian) depository, which would in turn issue depository receipts to investors in India. The actual shares underlying the IDRs would be held by an Overseas Custodian, which shall authorize the Indian depository to issue the IDRs. To that extent, IDRs are derivative instruments because they derive their value from the underlying shares.

Benefits to the stakeholders

- **Issuing Companies**: Any foreign company listed in its home country and satisfying the eligibility criteria can issue IDRs. A company which has significant businesses in India can increase its value through IDRs by breaking own market segmentations, reaching trapped pools of liquidity, achieving international shareholder base and improving its brand's presence through global visibility.
- I**nvestors:** IDRs can lead to better portfolio management and diversification for investor by giving them a chance to buy into the stocks of reputed companies abroad.

30. MORTGAGE BACKED SECURITIES

These securities assure a fixed return which is derived from the performance of the specific assets. They are issued with a maturity period of 3 to 10 years and backed by pooled assets like mortgages, credit card receivables, etc. There is a commitment from the loan originator and/or intermediary institution to ensure a minimum yield on maturity.

Advantages of Asset backed Securities to Issuer

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

Advantages of Asset backed Securities to Investor

These instruments have a relatively low credit risk since the securities are backed by good quality collateral a**n**d offer a higher yield than Government securities.

31. Derivatives

Contracts which derive their values from the value of one or more of other assets (known as underlying assets).

32. Future

A contract to buy or sell an underlying financial instrument at a specified future date at a price when the contract is entered

33. Option

Contract conveys the right to buy or sell a specific security or commodity at specified price within a specified period of time.

34. Forward Contract

An agreement for the future delivery of the underlying commodity or security at a specified price at the end of a designated period of time. Unlike a future contract, a forward contract is traded over the counter and its terms are negotiated individually. **There is no clearing house for forward contracts, and the secondary market may be non-existent or thin.**

35. At-the-Money Option

Term used to describe an option or a warrant with an exercise price equal to the current market price f the underlying asset.

36. Hedge

An asset, liability or financial commitment that protects against adverse changes, in the value of or cash flows from another investment or liability. An unhedged investment or liability is called an exposure.

37. Credit rating

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

The main **purpose of credit rating is to communicate to the investors the relative ranking of the default loss probability for a given fixed income investment, in comparison with other rated instruments.**

In India CRISIL (Credit Rating and Information Services (India) Limited) was set up as the first credit rating agency in 1987.

This was followed by ICRA Limited (Investment Information and Credit Rating Agency of India Limited) in 1991 and CARE (Credit Analysis and Research Limited) in 1994, in 1999 Fitch Rating India Pvt. Ltd. now known as India Ratings and Research Pvt. Ltd, Brickwork Ratings Pvt. Ltd. in 2008 and SMERA (SME Rating Agency of India Limited) in 2011. **All these six credit rating agencies are registered with the Securities and Exchange Board of India.**

Credit Rating Agencies are regulated by SEBI(Credit Rating Agencies) Regulations, 1999.

SEBI has also prescribed Transparency and Disclosure Norms (Guidelines) for Credit Rating Agencies. Practising Company Secretaries are authorized to undertake Internal Audit of CRAs. SEBI in consultation with the CRAs and considering the international practices, standardised the Credit Rating Symbols and their definitions for different instruments.

38. Promoter of Credit Rating Agency

SEBI should not consider an application unless the applicant is promoted by a person belonging to any of the following categories, namely:

- a public financial institution;
- a scheduled commercial bank;
- a foreign bank operating in India with the approval of the Reserve Bank of India;
- a foreign credit rating agency recognized under Indian Law and having at least five years experience in rating securities;
- any company or a body corporate, having continuous net worth of minimum rupees 100 crores as per its audited annual accounts for the previous five years in relation to the date on which application to SEBI is made seeking registration.

39. **IPO grading**

Initial Public Offering Grading is a service aimed at facilitating the assessment of equity issues offered to public. IPO grading is mandatory for public issue.

40. **Credit rating agency**

means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue.

41. **Credit Risk**

The risk that a counter party will not settle an obligation for full value, either when due or at anytime thereafter. Credit risk includes pre-settlement risk (replacement cost risk) and settlement risk (principle risk)

- **RATING SYMBOLS AND DEFINITIONS**

SYMBOL for Long Term Debt Instruments		SYMBOL for Short term debt instruments
AAA	highest degree of safety	A1
AA	high degree of safety	-
A	adequate degree of safety	A2
BBB	moderate degree of safety	A3
BB	moderate risk of default	-
B	high risk of default	-
C	very high risk of default	A4
D	expected to be in default	D
Use suffix ‘so’ for Structured Finance Instruments and ‘mfs’ for Mutual Fund Schemes		

Securities Market Intermediaries

42. The capital market intermediaries are vital link between investor, issuer and regulator. The objective of these intermediaries is to smoothen the process of investment and to establish a link between the investors and the users of funds. Corporations and Governments do not market their securities directly to the investors. Instead, they hire the services of the market intermediaries to represent them to the investors.

43. **Merchant Bankers**

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

44. **Registrars and Share Transfer Agents (RTA)**

The name RTA comes out from two names viz. Registrar to an issue and share transfer agent. **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.:

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

Share Transfer Agent means:

- **any person** who on behalf of any body corporate, **maintains the records of holders** of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities;
- **the department or division**, of a body corporate **performing the activities as share transfer agents if** at any time the **total number** of holders of its securities issued **exceed one lakh**.

45. **Underwriters**

Underwriter means a person who engages in the business of underwriting of an issue of securities of a body corporate. Underwriting is an arrangement whereby certain parties assure the issuing company to take up shares, debentures or other securities to a specified extent in case the public subscription does not amount to the expected levels.

46. **Bankers to issue**

Banker to an Issue means a scheduled bank carrying on all or any of the following activities:

- Acceptance of application and application monies;

- Acceptance of allotment or call monies;
- Refund of application monies;
- Payment of dividend or interest warrants

47. **Debenture Trustees**

Means a trustee of a trust deed for securing any issue of debentures of a body corporate. Intermediaries such as Trustees who are generally Banks and Financial Institutions render this service to the investors for a fee payable by the company. The issuing company has to complete the process of finalizing and executing the trust deed or document and get it registered within the prescribed period and file the charge with the Registrar of Companies (ROC) in respect of the security offered.

48. **Portfolio managers**

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.

49. **Syndicate members**

Syndicate Member/Broker is a member of the Stock Exchange to whom the investor has to submit the IPO Bid/ Application form. The Syndicate Member / Broker receives the bid and uploads the same on to the electronic book of the stock exchange. The Syndicate Member/Broker , then submits the bid with cheque to the bankers. In case of online application, the Syndicate Member/Broker generates the electronic application form and submits the same to the registrar with proof of having paid the bid amount.

50. **Foreign Institutional Investor (FII)**

Foreign Institutional Investor 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 these regulations. An application for the grant of certificate should be made to SEBI in the prescribed form.

51. **Stock-brokers and sub-brokers**

    Stock-broker means a member of stock exchange and they are the intermediaries who are allowed to trade in securities on the exchange of which they are members. They buy and sell on their own behalf as well as on behalf of their clients.

    Sub-broker means any person not being a member of stock exchange who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers.

52. **Custodians**

    A custodian is a person who carries on the business of providing custodial services to the client According to the SEBI the roles and responsibilities of the custodians are to:

    - Administrate and protect the assets of the clients.

- Open a separate custody account and deposit account in the name of each client.
- Record assets.
- Conduct registration of securities.

53. **Investment Advisers**

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

54. Stock Exchange Trading Mechanism

Stock exchanges thus represent the market place for buying and selling of securities and ensuring liquidity to them in the interest of the investors. The stock exchanges are virtually the nerve centre of the capital market and reflect the health of the country□s economy as a whole.

55. **Types of Securities**

- **Listed cleared Securities:** The securities admitted for dealing on stock exchange after complying with all the listing requirements and played by the Board on the list of cleared securities are called by this name.
- **Permitted Securities:** The securities listed on some of the recognised stock exchanges, when permitted to be traded by those stock exchanges where they are not listed are called permitted securities.

56. **Margins**

An advance payment of a portion of the value of a stock transaction. The amount of credit a broker or lender extends to a customer for stock purchase.

57. **Margin Trading**

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

58. **Initial margin**

In this context means the minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may advance the balance amount to meet full settlement obligations.

59. **Maintenance margin**

Means the minimum amount, calculated as a percentage of market value of the securities, calculated with respect to last trading day’s closing price, to be maintained by client with the broker.

60. **Trend Line**

When the price of shares moves in a particular direction which persists for a period of time, a price line is regarded as established. When the **movement is upward**, the trend is called **BULLISH** and when the **movement is downward** it is called **BEARISH**.
Secondary **movements that reverse the uptrend temporarily are known as reactions**. The **movements that reverse the down trend temporarily are known as rallies**. When an uptrend breaks in the downward direction, it is called trend reversal.

61. **MARKET MAKING**

The market sentiment was not representative of a wide range of industries or companies, because mostly concentrated on a few scrips. This leads one to conclude that mere listing of securities does not provide liquidity to scrips. A process known as market making was clearly needed to build up liquidity. **Market-making is aimed at infusing liquidity in securities that are not frequently traded on stock exchanges.** A market-maker is responsible for enhancing the demand supply situation in securities such as stocks and futures & options (F&O).

62. **SHORT SELLING AND SECURITIES LENDING AND BORROING**

Securities Lending and Borrowing describes the market practice whereby securities are temporarily transferred by one party (the lender) to another (the borrower) via an approved intermediary. The Borrower is obliged to return them either on demand or at the end of an agreed term and also has an option to early return. Lender may recall securities at any time within normal market settlement cycle.
Short selling shall be defined as selling a stock which the seller does not own at the time of trade.
In order to provide a mechanism for borrowing of securities to enable settlement of securities sold short, the stock exchanges shall put in place, a full fledged securities lending and borrowing(SLB) scheme.

63. **TRADE SETTLEMENT CYCLE**

India is one of the most advanced markets when it comes to settlement of trade. The domestic market follows a T+2 settlement cycle. India is one of the most advanced markets when it comes to settlement of trade.

64. **WHAT IS ROLLING SETTLEMENT?**

In a rolling settlement, each trading day is considered as a trading period and trades executed during the day are settled based on net obligations for the day. In India, trades in rolling settlement are settled on a T+2 basis i.e. on the 2nd working day after a trade.

65. **WHAT IS PAY-IN AND PAY-OUT?**

Pay-in day is the day when the **securities sold are delivered to the exchange** by the sellers and **funds for the securities purchased are made available to the exchange** by the buyers.
Pay-out day is the day the securities purchased are **delivered to the buyers** and the **funds** for the securities sold **are given to the sellers by the exchange**. At present, the pay-in and pay-out happens on the 2nd working day after the trade is executed on the exchange, that is settlement cycle is on T+2 rolling settlement.

66. **WHAT IS NO-DELIVERY PERIOD?**

Whenever a company announces a book closure or record date, the exchange sets up a no-delivery period for that security. During this period only trading is permitted in the security. However, these trades are settled only after the no-delivery period is over. This is done to ensure that investor's entitlement for the corporate benefit is clearly determined.

67. **WHAT IS AN AUCTION?**

On account of non-delivery of securities by the trading member on the pay-in day, securities are put up for auction by the exchange. This ensures that buying trading member receives the securities. The Exchange purchases the requisite quantity in auction market and gives them to the buying trading member.

68. **BOMBAY STOCK EXCHANGE LTD.**

Bombay Stock Exchange Ltd., popularly known as "BSE" was established in 1875 as "The Native Share and Stock Brokers Association". It is the oldest one in Asia, even older than the Tokyo Stock Exchange, which was established in 1878. It is a voluntary non-profit making Association of Persons (AOP) and is currently engaged in the process of converting itself into demutualised and corporate entity. It has evolved over the years into its present status as the premier Stock Exchange in the country. It is the first Stock Exchange in the Country to have obtained permanent recognition in 1956 from the Govt. of India under the Securities Contracts (Regulation) Act, 1956. The Exchange, provides market for trading in securities, debt and derivatives upholds the interests of the investors and ensures redressal of their grievances whether against the companies or its own member-brokers.

69. **BASKET TRADING SYSTEM**

With a view to provide investors the facility of creating Sensex linked portfolios and also to create a linkage of market prices of the underlying securities of Sensex in the Cash Segment and Futures on Sensex, the Exchange has provided to the investors as well its member-brokers, a facility of Basket Trading System on BOLT. In the Basket Trading System, the investors through the member-brokers of the Exchange are able to buy/sell all 30 scrips of Sensex in one go in the proportion of their respective weights in the Sensex.

70. **Price Monitoring**

- The functioning of the Price Monitoring is broadly divided into following activities:
- On-Line Surveillance
- Off-Line Surveillance
- Derivative Market Surveillance
- Investigations
- Surveillance Actions
- Rumour Verification
- Pro-active Measures

71. **NATIONAL STOCK EXCHANGE OF INDIA LTD. (NSEIL)**

Based on Pherwani Committees report submitted in June, 1991, the National Stock Exchange of India Limited (NSEIL) was established to provide an efficient system eliminating all the deficiencies of stock exchanges and is geared to meet the requirements of the large investor population.

The Capital Market (CM) segment of NSEIL provides a fully automated screen based trading system for trading of equity and preference shares, debentures, warrants and coupons. The trading system, known as the National Exchange for Automated Trading (NEAT) system, is an anonymous order-driven system and operates on a strict price/time priority. It enables members from across the country to trade simultaneously with enormous ease and efficiency.

72. **National Securities Clearing Corporation Limited (NSCCL)**

This company incorporated as a wholly owned subsidiary of the National Stock Exchange of India Limited carries out clearing and settlement of the trades executed in the capital market segment of National Stock Exchange.

73. **Clearing**

Clearing is the process of determination of obligations, after which the obligations are discharged by settlement. NSCCL has two categories of clearing members: trading members and custodians. The trading members can pass on its obligation to the custodians if the custodian confirms the same to NSCCL. All the trades whose obligation the trading member proposes to pass on to the custodian are forwarded to the custodian by NSCCL for their confirmation. The custodian is required to confirm these trade on T + 1 days basis.

Once, the above activities are completed, NSCCL starts its function of Clearing. It uses the concept of multilateral netting for determining the obligations of counter parties. Accordingly, a clearing member would have either pay-in or pay-out obligations for funds and securities separately. Thus, members pay-in and pay-out obligations for funds and securities are determined latest by T + 1 day and are forwarded to them so that they can settle their obligations on the settlement day (T+2).

74. **Straight Through Processing (STP)**

It is a mechanism that automates the end to end processing of transactions of financial instruments.

75. **Direct Market Access (DMA)**

It is a facility which allow brokers to offer clients direct access to the exchange trading system through the broker□s infrastructure without manual intervention by the broker. With the increasing trend amongst capital market players of generating orders through automated execution logic called **Algorithmic Trading.**

76. **SME exchange means**

A trading platform of a recognised stock exchange having nationwide trading terminals permitted by SEBI to list the specified securities issued in accordance with SEBI (ICDR) Regulation and includes a stock exchange granted recognition for this purpose but does not include the Main Board.

77. **Bear Market** A weak or falling market characterized by the dominance of sellers.

78. **Bull Market** A rising market with abundance of buyers and relatively few sellers.
79. **Cash Market** A market for sale of security against immediate delivery, as opposed to the futures market.

80. Debt Market

Debt markets are markets for the issuance, trading and settlement in fixed income securities various types and features. Fixed income securities can be issued by almost any legal entity like central and state governments, public bodies, statutory corporations, banks and institutions and corporate bodies.The debt market in India comprise mainly of two segments viz., the Government and Corporate Debentures/Bonds.
Investors in debt market are the entities who invest in such fixed income instruments. The investors in such instruments are generally Banks, Financial Institutions, Mutual Funds, Insurance Companies, Provident Funds, etc.

81. **Fixed Deposit**

Fixed Deposits are sums accepted by most of the NBFCs and banks. The amount of deposits that may be raised by NBFCs is linked to net worth and rating. However, the interest rate that may be offered by a NBFC is regulated.

82. **Benchmarked Instruments**

There are certain debt instruments wherein the fixed income earned is based on a benchmark. For instance, the Floating Interest rate Bonds are bench marked to either the LIBOR, MIBOR, etc.

83. **Regulations applicable for to public issue and listing of convertible (both fully and partly) debt securities**.

General Conditions

- Ensure that the issuer has obtained credit rating from one or more CRA's.
- Ensure that the it has appointed one or more debenture trustees in accordance with the provisions of Section 117B of the Companies Act, 1956 and SEBI (Debenture Trustees) Regulations 1993;
- Ensure that it has created debenture redemption reserve in accordance with the provisions of Section 117C of the Companies Act 1956;
- Ensure that if the issuer proposes to create a charge or security on its assets in respect of secured convertible debt instruments, it shall ensure that;
  - ✓ Such assets are sufficient to discharge the principal amount at all times'
  - ✓ Such assets are free from any encumbrance;
  - ✓ Where security is already created on such assets in favour of financial institutions or banks, the consent of such financial institution, bank for a second or pari passu charge has been obtained and submitted to the debenture trustee before the opening of the issue;
  - ✓ The security/asset cover shall be arrived at after reduction of the liabilities having a first/prior charge, in case the convertible debt instruments are secured by a second or subsequent charge.

84. **Primary dealers** (PDs) act as underwriters in the primary market, and as market makers in the secondary market. PDs underwrite a portion of the issue of government security that is floated for a predetermined amount.

85. **Ways and Means Advances (WMA)** It is a mechanism used by RBI under its credit policy to the State, banking with it to help them to tide over temporary mismatches in the cash flow of their receipts and payment.

86. **Roll over or conversion of Non-convertible portion**

Procedure for purchase of non-convertible portion must be disclosed in prospectus. Roll over of debentures is permitted (roll over means renewal of the debentures). Similarly, option can be given to debenture holder to convert the non-convertible portion into equity at a later stage. Such roll-over or conversion should be at the option of debenture holder and he must give a written positive consent for roll-over or conversion. Further, if the ceiling on conversion rate was fixed in the prospectus, it is not necessary to give option to debenture holder and the conversion can be automatic.

87. Money Market

Money market is a very important segment of the Indian financial system. It is the market for dealing in monetary assets of short-term nature. There are a large number of participants in the money market: commercial banks, mutual funds, investment institutions, financial institutions and the Regulatory Authority.

88. **MONEY MARKET Vs. CAPITAL MARKET**

The money market possesses different operational features as compared to capital market. It deals with raising and deployment of funds for short duration while the capital market deals with long-term funding.

89. The money market operates as a wholesale market and has a number of inter- related sub-markets such as the call market, the bill market, the treasury bill market, the commercial paper market, the certificate of deposits market etc. Money market instruments mainly include Government securities, securities issued by Banking sector and securities issued by private sector.
90. **Treasury Bills** are money market instruments to finance the **short term requirements of the Government of India**.
91. **Certificates of Deposit (CDs)** is a negotiable money market instrument and is issued in dematerialized form or as a Usance Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period.
92. **Commercial bills** are basically negotiable instruments accepted by buyers for goods or services obtained by them on credit.
93. **Commercial Paper (CP)** is an unsecured money market instrument issued in the form of a promissory note. CP, as a privately placed instrument, was introduced in India in 1990 with a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors.

94. **Factoring** is a financed transaction where an entity sells its receivables to a third parties called a factor, at discounted prices.
95. **What is Dutch auction?**

When all the bids accepted are equal to or above the cut off price it is known as Dutch Auction.

96. **What is French Auction?**

When all the bids accepted at the cut off level it is known as French Auction.

Mutual Funds

97. **Mutual Funds,**

Pool their marginal resources, **invest** in securities and distribute the **returns** therefrom among them **on cooperative principles**. As in mature markets, mutual funds in emerging markets have been among the **fastest growing institutional investors**. Mutual funds are **regulated by SEBI** (Mutual Fund) **Regulations**, 1996.

Offer document of mutual funds scheme offering new fund has **two parts**: Scheme Information Document **(SID)** and Statement of Additional Information (**SAI**).

98. **Advantages of investing in a mutual fund**
    - ✓ Professional Management
    - ✓ Diversification
    - ✓ Convenient Administration
    - ✓ Return Potential
    - ✓ Low Costs
    - ✓ Liquidity
    - ✓ Transparency

99. **Distinguish between Open ended and Close ended Schemes**

CLOSE ENDED SCHEMES	***OPEN ENDED SCHEMS***
1. Fixed corpus: no new units can be offered 2. Listed on the stock exchange for buying and selling 3. Two values available namely NAV and the Market Trading Price. 4. Mostly liquid.	1. Variable corpus due to ongoing purchase and beyond the limit redemption. 2. No listing on exchange transactions done directly with the fund. 3. Only one price namely NAV. 4. Highly Liquid

100. **Income Oriented Schemes:**

The **fund primarily offer fixed income** to investors. Naturally enough, the main securities in which investments are made by such funds are the fixed income yielding ones like bonds.

101. **Growth Oriented Schemes:**

These funds offer growth potentialities associated with investment in capital market namely: (i) **high source of income by way of dividend** and (ii) **rapid capital appreciation, both from holding of good quality scrips**. These funds, with a view to satisfying the growth needs of investors, primarily concentrate on the low risk and high yielding spectrum of equity scrips of the corporate sector.

102. **Hybrid Schemes:**

These funds cater to **both the investment** needs of the prospective investors – **namely fixed income as well as growth orientation**. Therefore, investment targets of these mutual funds are judicious mix of both the fixed income securities like bonds and debentures and also sound equity scrips. In fact, these funds utilise the concept of balanced investment management. These funds are, thus, also known as balanced funds.

103. **High Growth Schemes:**

As the nomenclature depicts, these funds primarily **invest in high risk and high return volatile securities in the market and induce the investors with a high degree of capital appreciation**. Aggressive investors willing to take excessive risks are the normal target group of such funds.

104. **Capital Protection Oriented Scheme:**

It is a scheme which protects the capial invested in the mutual fund through suitable orientation of is portfolio structure.

105. **Tax Saving Schemes:**

These schemes offer tax rebates to the investors under tax laws as prescribed from time to time. This is made possible because the Government offers tax incentive for investment in specified avenues. For example, Equity Linked Saving Schemes (ELSS) and pensions schemes.

106. **Special Schemes:**

This category **includes index schemes that attempt to replicate the performance of particular index such as the BSE, Sensex** or the NSE-50 or industry specific schemes (which invest in specific industries) **or sectoral schemes** (which invest exclusively in segment such as 'A' Group or initial public offering). Index fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index. Sectoral fund schemes are ideal for investors who have already decided to invest in particular sector or segment.

107. **Real Estate Funds:**

These are close ended mutual funds which **invest predominantly in real estate** and properties.

108. **Off-shore Funds:**

Such funds **invest in securities of foreign companies** with RBI permission.

109. **Leverage Funds:**

Such funds, **also known as borrowed funds,** increase the size and value of portfolio and offer **benefits to members from out of the excess of gains over cost of borrowed funds**. They tend to indulge in speculative trading and risky investments.

110. **Hedge Funds:**

They **employ their funds for speculative trading**, i.e. for buying shares whose prices are likely to rise and for selling shares whose prices are likely to dip.

111. **Fund of Funds:**

They **invest only in units of other mutual funds**. Such funds do not operate at present in India.

112. **New Direction Funds:**

They **invest in companies engaged in scientific and technological research** such as birth control, anti-pollution, oceanography etc.

113. **Exchange Trade Funds (ETFs)**

Are a new variety of mutual funds that first introduced in 1993. ETFs are **sometimes described as mere 'tax efficient' than traditional equity mutual funds**, since in recent years, some large

ETFs have made smaller distribution of realized and taxable capital gains than most mutual funds.

114. **Money Market Mutual Funds**

These funds **invest in short- term debt securities in the money market** like certificates of deposits, commercial papers, government treasury bills etc. Owing to their large size, the funds normally get a higher yield on such short term investments than an individual investor.

115. **Infrastructure Debt Fund**

They invest primarily in the debt securities or securitized debt investment **of infrastructure companies.**

116. **Bottom up Investing**:

This is an investment strategy which **considers the fundamental factors** driving individual stock performance **before considering the economic prospectus** which affect the industry and within which the company operates.

117. **Top down Investing:**

This is an investment strategy which **first takes a view on the economy** and then looks at the industry scenario to assess the potential performance of a company. This is opposite to Bottom up Technique.

118. **RISKS INVOLVED IN MUTUAL FUNDS**

- ✓ Excessive diversification of portfolio, losing focus on the securities of the key segments.
- ✓ Too much concentration on blue-chip securities which are high priced and which do not offer more than average return.
- ✓ Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and commission.
- ✓ Poor planning of investment with minimum returns.
- ✓ Unresearched forecast on income, profits and Government policies.
- ✓ Fund managers being unaccountable for poor results.
- ✓ Failure to identify clearly the risk of the scheme as distinct from risk of the market.

119. Alternative Investment Fund

SEBI notified the Alternative Investment Fund (AIF) **Regulations to govern unregulated entities** and create a level playing ground for existing venture capital investors. This Regulation has **replaced the existing SEBI (Venture Capital Funds) Regulations**, 1996.

Funds registered under the VCF Regulations shall **continue to be regulated** by the said regulations **till the existing fund or scheme is wound up**.

SEBI has classified AIF into the **three broad categories i.e Category I, Category II, Category III**.

All AIFs are required to be mandatorily registered under any one of the above categories.

Any AIF/scheme **shall not have more than 1,000 investors**.

Alternative Investment Fund **can raise funds through private placement** by issue of information memorandum or placement memorandum, by whatever name called. **Listing** of Alternative Investment Fund units shall be **permitted only after final close** of the fund or scheme. The

records maintained by the Manager/Sponsor are required **to be maintained for** a period of **five years** after the winding up of the fund.

120. Collective Investment Schemes

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

A scheme should be constituted in the form of a trust and the instrument of trust should be in the form of a deed duly registered under the provisions of the Indian Registration Act, 1908 **executed by the Collective Investment Management Company** in favour of the trustees named in such an instrument.

Collective Investment Management Company is regulated by SEBI (Collective Investment Schemes) Regulations, 1999.

SEBI (Collective Investment Schemes) Regulations, 1999 defines **CIMC to mean a company incorporated under the Companies Act, 1956 and registered with SEBI under these regulations, whose object is to organize, operate and manage a collective investment scheme.**

The **trustee have a right to obtain from the CIMC such information as is considered necessary** by the trustee and to inspect the books of accounts and other records relating to the scheme.

The **units of every scheme shall be listed immediately after the date of allotment** of units and **not later than six weeks from the date of closure of the scheme** on each of the stock exchanges as mentioned in the offer document.

A **scheme should be wound up on the expiry of duration** specified in the scheme or on the accomplishment of the purpose of the scheme.

121. **External Commercial Borrowings** (ECB) include commercial bank loans, buyers' credit, suppliers credit, securitised instruments such as floating rate notes and fixed rate bonds.

122. The Securities Contracts (Regulation) Act, 1956

The Act extends to the whole of India and came into force on 28th February, 1957. The Act defines various terms in relation to securities and provides the detailed procedure for the stock exchanges to get recognition from Government/SEBI, procedure for listing of securities of companies and operations of the brokers in relation to purchase and sale of securities on behalf of investors. Following are the important **objectives of SCRA**:

1. To provide for the regulation of the stock exchanges & transaction in securities
2. To regulate the buying and selling of securities outside the limits of stock exchanges.

3. To prevent undesirable speculation in securities
4. To provide for ancillary matters.

123. **Securities**

'Securities' includes:

- Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in any incorporated company or other body corporate.
- Derivative.
- Units or any other instrument issued by any collective investment scheme.
- Government securities.
- Security receipt as defined in SARFAESI Act, 2002.
- Such other instruments as may be declared by the Central Government.
- Rights or interests in securities.
- Units or any other such instrument issued under any mutual fund scheme.
- Any certificate or instrument (by whatever name called), issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt.

124. **Spot Delivery Contract**

Spot Delivery Contract means a contract which provides for –

(a) Actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the next day, the actual period taken for the dispatch of the securities or the remittance of money therefore through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality:

Transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.

125. **Corporatisation & Demutualisation of Stock Exchange**

Corporatisation of Stock Exchange	Demutualisation of Stock Exchange
Corporatisation of Stock Exchange is the **process of converting the organizational structure of the Stock Exchange from a non-corporate structure to a corporate structure**. Traditionally, some of the stock exchanges in India were established as association of person such as Bombay Stock Exchange, Corporatisation of such exchanges is a process of converting them into incorporated companies	Demutualisation refers to transition **process of an Exchange from mutually owned association to a company owned by shareholders.**. The above, in effect, means that after demutualization, the ownership, the management and the trading rights at the Exchange are segregated from one another.

126. **Clearing Corporation**

Clearing corporation means a company incorporated under the Companies Act, 1956, for the purpose of –

(1) The periodical settlement of contracts and differences there under;
(2) The delivery of and payment for, securities;
(3) Any other matter incidental to, or connected with, such transfer.

A recognized stock exchange may transfer the duties and duties and functions of a clearing house to a clearing corporation, However, prior approval of SEBI is required for such purpose. Every clearing corporation shall make bye-laws and submit the same to SEBI for its approval. SEBI may grant approval to the bye-laws submitted to it by the clearing corporation. SEBI shall not grant such approval, unless it is satisfied that such approval is in the interest of the trade and also in the public interest.

127. **Member not to act as Principals [Section 15]**

As per section 15, no member (broker) of a recognized stock exchange shall enter into any contract as a principal with any person other than a member of a recognized stock exchange. However he can enter into a contract as principal in the following cases:

(a) Where the member of the recognized stock exchange secures the **consent of such other person in writing.**

(b) Where the member secures the consent of such other person **otherwise than in writing**, he shall secure **written** confirmation by such person of such **consent within 3 days from** the date of the contract.

(c) A member may, **without obtaining any written consent** of such person, close out any outstanding contract entered into by such person **in accordance with the bye-laws** of the stock exchange,

(d) Where the contract is a **spot delivery contract**.

128. **SECURITIES AND EXCHANGE BOARD OF INDIA ACT 1992**

SEBI is a body corporate having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable and to contract sue and be sued in its own name, SEBI has its Head Office at Mumbai and has powers to establish its offices at other place in India. SEBI presently has offices also in Ahmadabad, Jaipur, Kolkata, Guwahati, Bhubaneswar, New Delhi, Chennai and Bangalore. Following are the main objectives of SEBI,

- **To regulate**, the securities market and for matters connected therewith or incidental thereto.
- **To protect** the interests of investors in securities
- **To promote** the development of, and

129. **MGMT. of SEBI (Sec. 4)**

Board of Members have all the powers, it consists of

Member	Authority	Qualification
Chairman	Appointed By CG	Ability, integrity & standing
5 with 3 whole time	Appointed By CG	
2 from finance ministry	Nominate by CG	----
1 of RBI	Nominated by RBI	----

Termination:- By 3 months Notice

Removal:- On conviction, abuse of position ,insolvent, unsound mind.

130. **POWERS of SEBI**

POWERS of SEBI		
To regulate or prohibit issue of prospectus, offer document **(Sec 11A)** Specifying BY Regulation, Orders, Listing Requirement	Investigation of the affairs of an intermediary etc. **(Sec.11C)**:- By appointing investing Authority{IA} IF, transactions are detrimental for Securities Market or on violation of any provision of the act. IA may <u>keep</u> records and books for max 6 months. But can be demanded again and person producing books can demand certified copies of books. IA may seize the books after taking approval from 1st class magistrate if it has fear of 'FSDMA'. No seizing order on any listed or proposed to be listed co., except in the case of insider trading	To make cease & desist Order (**Sec 11D**) SEBI MAY <u>after inquiry</u> pass a C&D order in case of violation of act & rules. No C&D order on any listed or proposed to be listed co., except in the case of insider trading.

131. **Penalties under SEBI Act 1992**

15A	15B	15C	15D	15E
Any person Fails to :-furnish doc/ rep/ inf/ return or maintaining BOA's/records	Intermediary fails to enter into an agreement with client	Listed co./intmdry. Fails to redress grievances	On MF/CIS if business W/O Reg. etc	On AMC if fails to comply with provisions
1 lac per day or 1 crore whichever is less				

On stock brokers (15F)			**25 crore or 3 times of profit ↑**			**General penalty**
Fails to issue contract notes = Upto 5 times of C.N.	**Fails to make payment/ delivery = 1 lac p.d. or 1 crore ↓**	**Charges excess brokerage = 1 lac or 5 times of excess ↑**	**15G Insider trading**	**15H Non disclosure of takeover & acquisition**	**15HA Fraud & UTP's relating to securities**	**15HB Where no separate penalty is prescribed := Up to 1 crore**

132. **SAT(Securities appellate tribunal)**

Sec 15K Empowered CG - to set up tribunals, For the purpose of making appeals against the order of SEBI/ Adj. officer[15(1)] , hence CG has set up a tribunal at Mumbai, known as SAT.

133. **Consent orders :-**

Resolving disputes ,through negotiation & discussion, instead of lengthy litigation & delays.

134. **COMPOSITION of SAT**

PRESIDING OFFICER	**(Appointed by CG)**	**MEMBERS**
Appointment of judge of SC/HC		**A person of integrity, ability, standing, qualified and experienced**
With consultation of C.J.I		
5 years or age of 68	**(TENURE)**	**5 years or age of 62**
Member of SEBI or ex dir. Of SEBI shall not be appointed during his tenure + 2 year after cease to holds office		

135. **APPEALS to SAT (15T)**

Against	**Order of SEBI/Adj.Officer**
NO appeal	**On Consent orders**
Within 45 days	**from the date of receiving copy of order**
After 45 days	**if sufficient cause**
SAT MAY	**Confirm/ modify/ set aside After giving OBH.**
Send copy to..	**SEBI, AO, Parties**
Appeal against SAT TO SC Within 60 + 60 days(If cause)	

136. **POWERS OF SAT**

Same powers as a Civil Court under CPC 1908 namely,

- **Sum**moning and enforcing attendances
- **Req**uiring the discovery & production of documents
- Dismissing an application for default or deciding it **ex par**te
- **Set**ting aside any order of dismissal of any application for default or any order passed by it ex parte
- Issuing **com**missions for the examination of witnesses or documents
- Receiving evidences on **Affi**davits
- **Revi**ewing its decisions
- Any **Other** matter which may be prescribed.

137. **Depository System**

The Depositories Act, 1996 has introduced the system of depositories in India
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**.
In depository system securities of an investor are held in the electronic form at his request through the medium of a Depository Participant (DP).If the investor wants to utilize the services offered by a Depository, the investor has to open a beneficiary account with the Depositors through a DP. DP is the representative or agent in the depository system and it maintains the investor’s securities account balances and intimates to him the status of his holdings from time to time. The investor can open accounts with one or more DPs. When a person buys any security e.g. shares and debentures already in the depository mode, the buyers will become owner of the said security in the depository within a day of settlement being made / completed. The buyer is not required to apply to the company for registering the security in his name. The investor has to pay charges to the Depository and the DP for opening of account and also for every transaction in the account.

138. **BENEFITS OF DEPOSITORY SYSTEM**

- No stamp duty on transfers.
- Faster delivery and fund settlement.

- No odd lot – trading is possible in any lot.
- Eliminates risks associated with physical deliveries such as loss, theft, forgery etc.
- Eliminates handling of large volumes of paper.
- Facilitates pledge and hypothecation.
- Reduction in brokerage by many brokers for trading in dematerialized securities.

139. **Dematerialization**:

No Physical scrip in existence, only electronic records maintained by depository. This type of system is cost effective and simple and has been **adopted in India**

The procedure for dematerialization is as under:-

- ✓ Submits dematerialisation request form (DRF) along with the share certificates (transferred in the name of the investor).
- ✓ Deface share certificates as "surrendered for dematerialisation".
- ✓ DP electronically transmits DRF to the depository.
- ✓ DP sends the share certificates and physical DRF to the RTA/ Company.
- ✓ Depository electronically transmits the demat request to the request to the RTA/Company.
- ✓ RTA/ Company checks authentically of request and confirm to Depository.
- ✓ Depository confirms dematerialisation request to DP.
- ✓ Investor's account with DP is credited.
- ✓ DP sends Statement of Transaction to the investor.

140. **Fungibility:**

Section 9 The Depositories Act, 1996 envisages that all securities held in depository shall be fungible, i.e., all certificates of the same security shall become interchangeable in the sense that investor loses the right to obtain the exact certificate he surrenders at the time to entry into depository. It is like withdrawing money from the bank without bothering about distinctive numbers of the currencies.

141. **Pledge or hypothecation** :

A beneficial owner may with the previous approval of the depository create a **pledge or hypothecation** in respect of a security owned by him through a depository. Every beneficial owner should give intimation of such pledge or hypothecation to the depository participant and such depository is required to make entries in its records accordingly. Any entry in the records of a depository should be evidence of a pledge or hypothecation.

142. **Basic services demat account**

The 'Basic Services Demat Account' (BSDA) promises to provide limited services at reduced costs to retail investors. All individual who currently have one account or plan to open an demat account where they are the sole first holder will be allowed to open the BSDA, provided that the **value of securities held will not be more than ` 2 lakh** at any given point of time. However, Investors can open only one BSDA across all DPs.

An existing eligible individual who holds a demat account wit`h a DP can convert demat account into BSDA on the date of the next billing cycle based on value of holding of securities as on the last day of previous billing cycle.

143. **Internal Audit of the operations of Depository Participants**

NSDL and CDSL, both the Depositories, have **allowed Company Secretaries in Practice and Chartered Accountants in Practice** to undertake Internal Audit of the operations of Depository Participants on a quarterly basis. However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors.

144. **Listing Agreement**

Listing Agreement is an agreement between the Company and the Stock Exchange with which the Company is listed. Through this agreement, the relationship between the company and the stock exchange is regulated.

145. **Clause 49 of the Listing Agreement (Corporate Governance)**

"Corporate Governance" means set of best practices to do a particular act. Clause 49 of listing agreement for corporate governance was entered on the basis of kumar mangalam birla committee report . Then a Committee, under the Chairmanship of Mr. N. R. Narayanmurthy, recommended number of amendments in it. Presently, Clause 49 of the Listing Agreement contains the provisions of Corporate Governance, based on Narayanmurthy Committee Report.

146. **Mandatory Requirements (Clause 49)**

- ✓ Requirement of **Independent directors** in board of directors.
- ✓ There shall be **at least four Board Meetings** a year. The time between two successive Board Meetings can be a maximum of four months.
- ✓ All listed companies shall constitute a Committee of Directors to be known as '**Audit Committee** of Directors' to look into accounting, financial and Audit aspects of a company.
- ✓ The **remuneration of non-executive** directors shall be decided by the Board of Directors and shall require previous approval of shareholders in General Meeting
- ✓ A report to be known as '**Management Discussion and Analysis Report'** shall form part of the Directors' Report.
- ✓ The **shareholders shall be provided** with the following information
    - A brief **resume of the director**;
    - Nature of **his expertise in** specific functional areas; and
    - Names of the **companies where he is already a director**.
- ✓ There shall be a **separate section on Corporate Governance in the Annual Report** (Director' Report) of a Company.
- ✓ The Company shall arrange to obtain **a certificate**, from the Statutory Auditors of the Company / Practicing CS**, regarding compliance of conditions of clause 49**.
- ✓ a quarterly compliance report, in the prescribed format, to the Stock Exchanges within 15 days from the close of each quarter
- ✓ code of conduct for all Board members and senior management of the company shall be laid down by the Board

- ✓ The CEO and Chief Financial Officer (CFO) shall certify the review of the Balance Sheet and Profit and Loss Account of the company.
- ✓ At least one **Independent Director** on the Board of Director **of the Holding** Company **shall be a director** on the Board of Directors **of a Material Unlisted Indian Subsidiary Company.**

147. **Non-Mandatory Requirements**
    - ✓ Remuneration Committee of Directors' to determine the company's policy on remuneration package of the executive directors of the company.
    - ✓ Training of Board Members
    - ✓ Whistle Blower Policy

148. **If a company fails to comply with the listing agreement, as a consequence, the stock exchange may delist the securities of the company for non compliance under Section 21A of SCRA Act, 1956. A company can also delist its securities when they want to expand or restructure, or is acquired by others.**

149. **Voluntary Delisting:**

It means **delisting** of securities of a body corporate voluntarily by a promoter or an acquirer or any other person, **other than the SE**.

Important Provisions:

- ✓ A company may delist one or all of its securities from one or all Stock Exchanges, provided that the company has been **listed for a minimum period of 3 years** on any SE.
- ✓ However, where a **company has a convertible instrument outstanding**, it shall **not be permitted to delist** its equity shares **till the exercise of the conversion option**.
- ✓ The company shall **give an exit opportunity to the investors**, for the purpose of which '**exit price' shall be determined** in accordance with the Book-building process, as provide in these Guidelines.
- ✓ However, an **exit opportunity need not be given** in case where securities **continue to be listed in a SE having nation-wide trading terminals**.
- ✓ Any **promoter or acquirer** desirous of delisting securities of the company **shall comply with the following** conditions:
    - o Obtain the prior **approval of shareholders** by passing a **SR** in the general meeting;
    - o Make a **public announcement** regarding proposed delisting in the manner provided in these Guidelines;
    - o Make an **application to the Delisting SE** in the prescribed form along **with the copy of the SR**;
    - o Comply with such **other conditions as may be specified** by **Delisting SE**.
- ✓ The payment of **consideration** for delisting of securities shall **be paid in cash**.
- ✓ **Relisting** of securities shall be allowed **only after 2 years** of delisting of the securities.

150. **Compulsory Delisting:** It means **delisting** of securities of a company **by a SE**

Important Provisions:

- ✓ **SE may delist** securities of a company in the following cases :
    - o **Non-compliance of listing agreement** for a minimum **period 6 months**;

- As **per the norms prescribed in Schedule III** to these Guidelines.

✓ **Before delisting**, the Stock Exchange shall **issue a SCN** to the company or adopt the procedure provided under Schedule III to these Guidelines.

✓ The SE shall **provide a time period of 15 days** for making representation before SE by **any aggrieved person**.

✓ **Relisting o**f securities shall be allowed **only after 2 years** of delisting of the securities.

151.

TYPES of ISSUE					
Public Issue		**Right Issue**	**Bonus Issue**	**Private Placement(to max 49 persons)**	
By unlisted co.[IPO]	**By listed co. [FPO]**			**Preferential issue**	**QIP**

152. Public issue of shares (SEBI [ICDR] Regulations, 2009)

Eligibility Conditions			
26(1)			**26(2)**
Unlisted co.	**Conditions**	**Listed Co.**	**If Conditions are not followed (For both) Then, By book building process issue can be made, with at least 75% of NOP being allotted to QIB's.**
✓	**1. NTA of 3 crores in ALL preceding 3 years with min. 50% in non monetary assets.**	NA	
✓	**2. Avg. EBIT min. 15 crores in ANY 3/5 years**	NA	
✓	**3. Net worth min. 1 crore in ALL 3 years.**	NA	
✓	**4. If name changed in last one year, then min 50% of the last years Revenue is earned from the new activity**	✓	
✓	**5. Issue Size ≤ 5 times of pre issue Net Worth.**	✓	

153. **Qualified Institutional Buyers (QIBs) shall mean the following:**

(a) PFIs within the meaning of Section 4A of Companies Act;
(b) SCBs;
(c) MFs;
(d) FIIs;
(e) Multilateral and Bilateral Development Financial Institutions;
(f) State Industrial Development Financial Corporations;
(g) Insurance Companies;
(h) Provident Finds with minimum corpus of Rs.25 crores;
(i) Pension Funds with minimum corpus of Rs.25 crores; and
(j) National Investment Fund;
(k) Insurance Funds set up and managed by army, Navy or Air Force; and
(l) Insurance Funds set up and managed by the Department of posts.

154. Other Conditions for public issue

Filing of Offer Document
Company has to file a draft prospectus with SEBI at least 30 day before filling it with ROC. In these 30 days SEBI can specify any change or issue observations; accordingly the co. shall send the updated draft prospectus with SEBI.
Issue opening Date
If SEBI has issued observations, **then Issue shall open within 12 months of issuance of observation, otherwise within 3 Months of 31st day from the date of filling draft prospectus**. {Issue shall be **opened after 3 days** of filling **RHP** to ROC}
Period of subscription:
3-10 working days (including revision in price band). In case of right issue: - 15- 30 days
Issue of Securities in Dematerialised Form
A company cannot make public or rights issue or an offer for sale of securities, unless the company enters into an agreement with a depository for dematerialisation of securities already issued or proposed to be issued to the public or existing shareholders.
Partly Paid-up Shares:
All existing shares should be fully paid or forfeited.

155. Fast Track Issues (FTIs)

Considering the need **to enable well established** and **compliant listed companies to access** Indian primary market in a **time effective manner through follow-on public offerings and rights issues**, **SEBI decided** to enable listed companies satisfying certain specified requirements to make Fast Track Issues (FTIs).

Accordingly **such listed companies are now able to proceed with** follow-on public offering/rights **issue by filing** a copy of the **Red Herring Prospectus** (in case of book built issue)/**Prospectus** (in case of fixed price issue) registered with the Registrar of Companies or the **letter of offer** filed with Designated Stock Exchange, as the case may be, **with SEBI and stock exchanges.**

Such companies are not required to file draft offer document with SEBI and stock exchanges if the following conditions are satisfied:

(a) The shares of the company have been **listed for at least three prev. years**
(b) The "average **market cap**italisation of public shareholding" of the company is **at least Rs 3000 crore** for a period of **1 year up to the end of the quarter preceding the month in which the proposed issue is approved by the Board of Directors/shareholders of the issuer;**

(c) The annualized **trading turnover** of the shares of the company **during six calendar months** immediately preceding the month of the reference date has been **at least 2%** of the weighted average number of shares listed **during the said 6 months period**;
(d) The company has **redressed at least 95% of the total shareholder/investor grievances** received till the end of the quarter immediately preceding the month of the reference date;
(e) The company has **complied with the listing agreement** for a period of **at least 3 years** immediately preceding the reference date; However**, in case of non-compliance** with the equity listing agreement during the immediately preceding last three years **adequate disclosures are made in the offer document** regarding such non-compliance;
(f) The **impact of auditors' qualifications**, if any, on the audited accounts of the company in respect of the financial years for which such accounts are disclosed in the offer document **does not exceed 5% of the net profit/loss after tax** of the company for the respective years.
(g) **No prosecution** proceedings or **show cause notices** issued by the Board **are pending against the company or its promoters or whole time directors** as on the reference date; and
(h) The **entire shareholding of the promoter group** is held in **dematerialised form** as on the reference date.

156. **Pricing**

<table>
<tr><td>Free pricing</td><td colspan="2">SEBI has no role in price fixation. Co. may with its MB fix the price of its securities. But co. and MB has to disclose the parameters upon which price is fixed. Price is of two types, Fixed/ Floor price.</td></tr>
<tr><td rowspan="2">Differential pricing</td><td>To RII's/ee's/RIS's</td><td>In Composite issue price for right issue may be different</td></tr>
<tr><td>May be offered max 10% discount(In BBI max 10% on floor price dis. Can be given to ee's)</td><td>In Book Built Issue(BBI) price to anchor investor should not be less than others.</td></tr>
</table>

157.

FV of shares	If issue price is more than ₹500 then FV can be less than ₹10 but min ₹1, In other cases FV = ₹10.

158. **Promoter's Contribution**

<table>
<tr><th colspan="2">Promoter's Contribution</th></tr>
<tr><th colspan="2">Min. is required as follows,</th></tr>
<tr><th>Unlisted</th><th>Listed</th></tr>
<tr><td>20% Of Post issue capital (PIC)</td><td>20% Of 'IS' OR such % so as to make it 20% of PIC (NA on right issue, if any)</td></tr>
</table>

PIC : post issue capital, IS: issue size

<table>
<tr><th colspan="5">Additional points for promoter's contribution,</th></tr>
<tr><th colspan="2">Time for bringing Min. promoter's contribution</th><th colspan="3">Lock in for promoter's Contribution</th></tr>
<tr><td>Up to 100 cr</td><td>At least 1 day before opening of issue</td><td>Min. cont.</td><td>For 3 years</td><td rowspan="2">From the date of commencement of prod. OR date of Allotment. {Earlier}</td></tr>
<tr><td>Excess</td><td>Before the calls are made to public</td><td>Excess cont.</td><td>For 1 year</td></tr>
<tr><td colspan="5">IMP. :- Not applicable on company having track record of dividend + Securities traded frequently on a stock exchange</td></tr>
</table>

159.

<table>
<tr><th colspan="4">Reservations</th></tr>
<tr><th colspan="3">In IPO</th><th>In FPO</th></tr>
<tr><td>5% Of PIC to employees(max ₹200000)</td><td>10% of IS to sharhldrs</td><td>5% of IS to associated depositors/ bond holders/ subscribers</td><td rowspan="2">10% of IS , only to Retail individual shareholders {a shareholder who applies for max ₹ 2 lacs}</td></tr>
<tr><td colspan="2">Available In both Fixed price/Book bldg.</td><td>Only in case of book bldg.</td></tr>
</table>

1.No further applications will be accepted in NOP category by the above persons [Except ee's and RIS].

2.Un subscribed portion in any reserved category –>to other reserved category—>further unsubscribed portion will be added to NOP category

3.Under subscription in NOP category-> spill over from the reserved category is permitted.

160. The minimum application value shall be within range of Rs.10,000/- to Rs.15,000/-. The **minimum application value shall be with reference to the issue price of the shares and not with reference to the amount payable on application.** The minimum sum payable on application shall not be less than 25% of the issue price.

161.

<table>
<tr><th colspan="2">Net Offer to Public (NOP)</th></tr>
<tr><th>Unlisted co</th><th>Listed co.</th></tr>
<tr><td>Min 25% Of post issue capital</td><td>Min 25% Of Issue Size (IS)</td></tr>
</table>

162.

Safety net arrangement	An arrangement provided by the issuer under which a person offers to purchase equity shares or convertible securities(max 1000),from the original resident retail individual allottees at the issue price, within a period of 6 months from the last date of dispatch of security certificate or credit of dmat a/c.

163.

Self Certified syndicate Bank	A Bank which offers the facility of applying through the ASBA process. For this purpose a desirous bank has to apply for inclusion of its name in SEBI's list of SCSBs.

164. Book-Building or Price Discovery Method

In **Book-Building or Price Discovery Method**, final **allotment price is discovered through the prospective investors,** which means that prospective investors have a say in the determination of allotment price and hence called the price discovery method. **Book Building means** a process **undertaken to elicit demand and to assess the price** for determination of the quantum or value of specified securities.

165. Anchor Investor

Means a Qualified Institutional Buyer who makes an **application for a value of 10 crore rupees or more in a public issue made through the book-building process** in accordance with SEBI (ICDR) Regulation, 2009.

166. Alternate method of book building

In case of **FPOs**, the issuer may opt for an **alternate method of book building**. Subject to the following provisions: All provisions are same as BBD except following

(1) **If floor price not in RHP:** The issuer shall announce it at least 1 day before opening of the bid in 3 Newspapers
(2) **QIBs** shall **bid at any price above the floor price**.
(3) **Others Bid:** At floor price (Discount @10% allowed).
(4) **Allotments**: **To QIBs on price priority basis & To others (I,e,** RIIs, NIIs, and employees**) proportionately.**

167. Green Shoe Option

An **option for allotting shares in excess (max 15% of IS) of the shares offered in the public issue as a post listing price stabilizing mechanism through a Stabilizing Agent and by passing an OR.**

Available	In Both IPO & FPO whether by FPM or BBM
SA means	A merchant banker who is responsible for this purpose
Agreement	With SA to be given in RHP; disclose name, max limit etc
Valid for	Only 30 days After commencement of trading.
SA's report	On daily basis to SE and final report to SEBI.
Process of price stabiliz-ation	
On completion	A final listing application shall be made to SE. SA shall maintain records regarding GSO for 3 years.

168. **Composite issue**:

Means an issue of securities by a listed company on a public cum rights basis offered through a single offer document where in the allotment for both public and rights components of the issue is proposed to be made simultaneously.

169. RIGHT ISSUE OF SHARES

Some important provisions

- **Applicability:** SEBI (ICDR) Regulations, 2009 shall be applicable only **if the issue size is Rs.50 lacs or more**.
- Issue of securities in **dematerialized** form only
- **No** company shall make a **right issue** of equity shares, **unless all the existing partly-paid up shares have been fully paid or forfeited.**
- **Filing of Letter of Offer:** The company is required to file the **draft Letter of Offer** with the SEBI **at least 30 days prior to the filing** of Letter of Offer **with DSE**.

If SEBI specifies any change in the Letter of Offer within a period of 30 days of the date of filing of the Letter of Offer, the **company shall carry out such changes before filing** the same **with DSE**.

- **Period of Subscription:** at least **15 days and not more than 30 days**.

170. PREFERENTIAL ALLOTMENT OF SHARES

some important provisions

Preferential Allotment means an issue of capital made by a body corporate in pursuance of a resolution passed under sub-section (1A) of Section 81 of the Companies Act, 1956.

- **Conditions for Preferential Issue**

A listed issuer may make a preferential issue of specified securities, if :

(a) A **SR** has been passed by its shareholders;
(b) All the equity shares, are in **dema**t form.
(c) The issuer is in **compliance with the conditions for continuous listing** of equity shares;
(d) The issuer has **obtained the PAN** of the proposed allottees.

- **Pricing for Preferential Issue**

The issue of shares on a preferential basis can be made at a price **not less than the higher of the following**:-

(a) The **average of the weekly high and low** of the of the closing prices of the related shares quoted on the stock exchange **during the 26 weeks** preceding the relevant date;
OR
(b) The **average of the weekly high and low** of the closing prices of the related shares quoted on the stock exchange **during the 2 weeks** preceding the relevant date

171. QUALIFIED INSTITUTIONS PLACEMENT [QIP]

- Under QIP system, a **company listed** on Stock Exchange(s) having nationwide terminals **can issue shares** or convertible securities by **placing them with** QIBs.
- **Conditions**

(1) The company is **listed** on Stock Exchange(s) having nationwide terminals **for** a period of at **least 1 year**;
(2) It must be **complying with** prescribed minimum public shareholding requirement as per **Securities Contracts (Regulation) Rules,** 1957;
(3) The Securities should be **of the same class** as that of which are **already listed** on Stock Exchange.
(4) The **approval of the shareholders** by way of **SR u/s 81(1A**) of the Companies Act, 1956 has been obtained; and
(5) The aggregate of **proposed placement shall not exceed 5 times the net worth** of the issuer as per the last audited Balance Sheet.

172. INSTITUTIONAL PLACEMENT PROGRAMME [IPP]

'IPP' means a **further public offer** of eligible securities by an **eligible seller,** in which the offer, allocation and allotment of such securities is made **only to Qualified Institutional Buyers (QIBs)**. It may be noted that an eligible **issuer may make** a public offer of eligible securities under the **IPP for the purpose of achieving minimum public shareholding** in terms of Rule 19(2) (b) and 19A of the Securities Contracts (Regulation) Rules, 1957.

'Eligible Securities' shall mean equity **shares of same class** listed and trade in the stock exchange(s).

'**Eligible Seller' includes listed issuer, promoter**/promoter group of listed issuer.

An eligible issuer, satisfying the **following conditions**,

(1) The approval of the shareholders by way of **SR u/s 81 (1A**) of the Companies Act.1956 has been obtained;
(2) The issuer shall **not offer partly paid**-up securities; and
(3) The issuer shall **obtain in-principle approval** from the stock exchange(s).

173. BONUS ISSUE OF SHARES

- The **AOA** of the company **must contain the provision**
- **No issuer shall make a bonus issue** of equity shares, **unless it has made reservation** of equity shares of the same class **in favour of the holders of** outstanding compulsorily partly or fully **convertible debt instruments**, if any, **in proportion to the convertible part** thereof.

- The **declaration of bonus issue, in lieu of dividend, is not allowed**
- The bonus issue shall be made **out of free reserves**, or securities premium collected in cash only.
- **Reserves created by revaluation** of fixed assets are **not capitalized**.
- The bonus issue is **not made unless** the **partly-paid** shares, if any existing, are made **fully paid-up.**
- The Company
  - ✓ Has **not defaulted** in repayment of **deposits** or payment of interest thereon or redemption of **debentures** or payments of interest thereon; and
  - ✓ Has **sufficient reason to believe that it has not defaulted** in respect of the payment of statutory **dues of the employees** such as contribution to PF, gratuity, bonus, etc.
- The company shall **implement the proposal** of bonus issue **within 15 days** from the date of the **approval by the BOD** of the issuer in this regard. However**, if the shareholders' approval is required** as per the Articles for capitalization of reserves, the bonus **issue shall be completed within 2 months from the date** of the approval by the **BOD**

174. EMPLOYEES' STOCK OPTIONS [ESOPs]

Employees' Stock Option Scheme provides an opportunity to employees to participate in the growth of the company besides creating long term wealth in their hands. It also helps a company to enter into a strategic and robust relationship with their employees on a voluntary basis and in a gracious manner for their genuine benefit.

Two methods of issuing ESOPs by a company viz., Employee Stock Option Scheme (**ESOS**) and Employee Stock Purchase Scheme **(ESPS).**

ESOS means a scheme under which a **company grants option to employees**.

ESPS means a scheme under which the **company offers shares to employees as part of a public issue or otherwise**.

Imp. Conditions

- ✓ **Shareholder approval: SR**
- ✓ Constitution of Compensation Committee of Directors is **required in case of ESOS**
- ✓ In case of **ESOS,** company is **free to specify any lock – in period**.
- ✓ In case of **ESPS, lock – in period shall be 1 year** from the date of allotment If the ESPS is **part of public issue** and the shares are **issued to employees at the same price as in the public** issue, the shares issued to employee pursuant to ESPS shall **not be subject to any lock-in period.**
- ✓ In case of **ESOS**, **a certificate from the Auditors** is to be placed at each AGM stating **that the scheme has been implemented as in the guidelines and** in accordance with the **SR passed**.
- ✓ **In the case of ESPS, no such certificate is required.**

175.ANTI-MONEY LAUNDERING MEASURES TAKEN UNDER THE SEBI GUIDELINES

- ✓ **Suspicious Transaction Report:**

The **PMLA** 2002 and the Rules notified there under **require every intermediary to furnish details of suspicious transactions** whether or not made in cash.

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

- **Gives rise** to a reasonable **ground of suspicion** that is may **involve the proceeds of crime**; or
- Appears to be made in **circumstances of unusual or unjustified complexity**; or
- Appears to have **no economic rationale or bonafide purpose**; or
- Give rise to a reasonable ground of suspicion **that it may involve financing of the activities relating to terrorism.**

- ✓ It **also requires** all intermediates **to designate** an officer as '**Principal Officer'** who would be **responsible for** ensuring **compliance of the provisions** of the **PMLA 2002**.
- ✓ **It provides that** every **intermediary registered** under section 12 of the **SEBI 1992** should also **adopt written procedures to implement the anti money laundering provisions** as envisaged under the PMLA, 2002.
- ✓ **Cash Transaction Report:**

The **PMLA, 2002** and the Rules there under **requires** every intermediary **to furnish details** of the following cash transactions.

- **All cash transactions** of the value of **more than rupees 10 lakhs** or its equivalent in foreign currency.
- All **series of cash transactions** integrally connected to each other which have been **valued below rupees ten lakhs** or its equivalent in foreign currency **where such series of transactions have taken place within a month.**

- ✓ Such **procedures should include**, inter-alia, the **following three specific parameters** which are related to the overall 'Client Due Diligence Process'.
  - Policy for **acceptanc**e of clients;
  - Procedure for **identifying** the clients; and
  - **Transaction monitoring and reporting** especially Suspicious Transactions.