➢ 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

Financial Markets					**FI's & Intermediaries**	**Financial products**
Capital market {SEBI + MoF}			**Money market {RBI + MoF}**		**1. PFI's 2. BANKS 3. NBFC's 4. Insurance org's**	**ES's, deb's, PS's, public deposits , TB's, CB's , CD's , CP's , GDR's , ADR's , FCCB's , Derivatives , etc.**
Primary (for selling)	**Secondary (for Dealing)**		**organized (RBI, Banks, etc)**	**unorganized (Chit funds, etc)**		
	Spot	**Future**				

➢ 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, 2013**, 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	Pure Instruments	Derivatives Instruments
Created by combining the features of equity with bond, preference and equity etc. Example: Convertible preference shares, Optionally convertible debenture	Issued with their basic characteristics in tact without mixing features of other classes of instruments. Example: Equity shares, preference shares and debentures	Contracts which derive their values from the value of one or more of other assets (known as underlying assets). Example: future, options.

- **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 warrantsenable 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 iton the date of the commitment. The interest rate is computed on the date of take down at the then prevailingprivate 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.**Theinterest rate is adjusted every two years to reflect the then prevailing market conditions by trying the interest rate toa spread over a bond index such as two years treasury notes.
However, **investors have a put option at par valueevery 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 theaccrued and unpaid interest**. These convertibles are generally issued with put option to the investors. **Theadvantage to the issuer is the raising of convertible debt without**

heavy dilution of equity. Since the investors giveup acquired interest by exercise of conversion option, the conversion option may not be exercised by manyinvestors.
The investor gains in the event of appreciation in the value of the equity shares. Even if the appreciation doesnot materialize, the investor has the benefit of a steady stream of implied income**. If the instrument is issued withput 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 bondwith 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 appreciationis charged to tax at capital gains rate which is lower than normal income tax rate. **The deep discount bond isconsidered 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 returnwith the size of insurer losses. **The bigger the losses, the smaller the return and vice-versa.** The coupon rate andthe principal of the bonds are decided by the occurrence of the casualty of disaster and by the possibility ofborrower defaults.

16. **EASY EXIT BONDS**

This instrument covers both bonds which provide liquidity and an easy exit route to the investor by way ofredemption 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 isused 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 andtwo 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 gainto the investor is difference between the purchase price and the par value. The **coupon streams are sold likezero 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/preferenceshares at the option of the lender**. Depending on the prospects of the project during the conversion period, thelender 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 mainadvantage 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 institutionsin connection with the development or purchase ofindustrial 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 tothe company. The institution acts as a conduit of funds between the lenders and the company in order to takeadvantage 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 againstinflation risk. The benefits do extend beyond hedging. Capital index bonds can be used as a market indicator forinflation 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 tradable 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 and 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 aninstrument of a business based on relevant factors indicating ability and willingness to pay obligationsas well as net worth.
The main **purpose of credit rating is to communicate to the investors the relative ranking of the defaultloss 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 creditrating agency in 1987.
This was followed by ICRA Limited (Investment Information and Credit RatingAgency of India Limited) in 1991 and CARE (Credit Analysis and Research Limited) in 1994, in 1999Fitch 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 ratingagencies 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 thefollowing 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 inrating securities;
- any company or a body corporate, having continuous net worth of minimum rupees 100croresas per its audited annual accounts for the previous five years in relation to the date on which applicationto SEBI is made seeking registration.

39. **IPO grading**

Initial Public Offering Grading is a service aimed at facilitating the assessment of equityissues 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 costrisk) 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.

	Capital Market Intermediaries					
	Merchant Banker	**RTA**	**Underwriters**	**Debenture trustee**	**Portfolio manager**	**Custodian**
Meaning	Issue manager	**RTI**: Primary market **STA**: Secondary market If engaged in both then Category I otherwise II	A person engaged in the business of underwriting of an issue of securities of a body corporate	Trustee of a trust deed for securing any issue of debentures	A person who manages total holding of securities of a person for a fees.	Any person carrying on the business of custodian.
Activities	1.**Issue management** - preparation of prospectus -determining the financial. Stat's -tie up with financiers -allotment and refund. **2. Manager, advisor, consultant.** **3. Underwriter** **4. Portfolio manager**	**Registrar to an issue** 1.Collecting applications 2.Keeping records of application money 3.Assisting in -Fixing basis of allotment -Finalising list of allottees -dispatching allotment letters/refunds. **Share transfer Agent** 1.Maintaining records of holders 2. Deal with matter connected with trf. and redemption.	**Underwriting** Agreement to subscribe shares in case of under or no subscription by public or existing shareholders	1.Onlysch banks, PFIs, insurance co., and other body corporate. 2.protecting interest of debenture holders 3.Creating security for the debenture holders.	**Discretionary PM :** Manages fund of his client independently **Non discretionary PM :**Manages fund in accordance with the instruction of the client.	1.Maintaining A/cs of Securities of the client 2.Collecting benefits 3. Keeping the client informed.
Certificate of initial reg. (CIR)	If PC+FR>= 5crores Valid for 5 years	If PC+FR>= 50 lacs (cat I)/25 lacs(Cat II) Valid for 5 years	If PC+FR>= 20lacs Valid for 5 years	If PC+FR>= 2crores Valid for 5 years	If PC+FR>= 2crores Valid for 5 years	If PC+FR>= 50crores Valid for 5 years
Certificate of Permanent reg. (CPR) : Apply at least 3 months before the expiry of CIR (ie 5 years). And from 6th year onwards Renewal after every 3 years.						
Registration	**U/s 12 of SEBI act 1992**					

	Stock broker	Sub broker	FIIs (now FPIs)
Meaning	Member of a SE helps both buyer and seller to enter into a transaction	A person who works along with the broker	A foreign institution proposes to invest in Indian securities. EgMFs,Banks
Eligibility conditions	-Reg from SEBI through SE -Member of a SE -Necessary infrastructure -Past experience -Not been subjected to disciplinary proceedings -Fit and proper person	-Reg from SEBI through boker and SE -Age 21 or above -Passed HSC -Necessary infrastructure -Se recognised Sub broker -Not convicted of any offence of fraud	-SEBI shall ensure Track record, experience, financial soundness ec. -Regulated by proper foreign regulatory authority. -RBI's permission -Fit & Proper person.
Registration	**U/s 12 of SEBI act 1992**		

Inspection by SEBI **To Ensure A B C D**
Obligation/ duties towards Investigating authority **A4**
In case of default **Su, Ca ,Pro, Deba, Deba, War**

Special Points relating to a Merchant Banker

Lead Merchant banker (LMB)

- IF there are more than 1 merchant bankers
- No need if right issue of up to Rs 50 lacs
- Statement of responsibility to be filled with SEBI at least 1 month before opening of Issue.
- Shall not manage if Associated (for all MBs)
- Underwriting of Rs 2500000 or 5% of total underwriting obligation whichever is lower.

Due Diligence Certificate (DDC) by LMB

- At least 2 weeks prior to opening of issue with prospectus/Letter of offer.
- Responsible for contents and views expressed in prospectus/LOO.
- LMB confirms compliance of all legal requirements.
- Disclosures in prospectus/LOO are true & fair and adequate

Along with DDC

- File consent of all intermediaries
- Track record and experience of promoters
- Certificates from CEO, Secretary Etc.

Continuation of LMB

- Until refund or receipt of securities debentures by holders.

Other points

- No transactions based on UPSI (Unpublished price sensitive information)
- Details of other transactions to be submitted to SEBI within 15 days of entering into them.

43. Stock Exchange Trading Mechanism

- SE is a body corporate engaged in the business of assisting and dealing in securities.
- Member of a SE is called as a broker
- All non-members are required to deal only through brokers.

44. **Securities are traded in three ways in SE's**

Spot basis	Cash basis	Settlement basis
Delivery within 48 hours	Not in spot list Traded for delivery Actual delivery on or before settlement date	Which are not on spot/cash basis

45. **Types of securities**

Listed cleared	permitted
Admitted for dealing on SE after complying all the listing requirements	Traded on the SE where they are not listed

46. **Types of delivery**

spot	hand	special
Delivery and payment on same or next day.	D & P on the delivery date fixed by SE	Delivery after the delivery date fixed by SE.

47. **Margins:**An advance payment of a portion of the value of a stock transaction. Margin trading was introduced by SEBI to curb speculation and bring stability.

Initial margin	Maintenance Margin
Minimum amount to be placed by the buyer (before purchase) with the broker (calculated as % of transaction value)	Minimum amount to be maintained by the client with the broker(Calculated as a % of closing price of Last trading day)

- If balance deposit in clients account falls below maintenance margin broker shall call promptly.
- Broker may liquidate the securities if client fails to meet the margin requirements.
- Thus margin trading also acts as a curb on short selling & short buying.

48.

Book closure	Record date
Periodic closure of Register of members and transfer books to take a record of shareholders for determining entitlement of corporate benefits. It is mandatory for divined/ bonus/ right issue.	A date on which records are closed to determine entitlement of corporate benefits.

49. **Trend lines**

Bullish and bearish (reactions and rallies and trend reversals)

(board presentation)

50. **Trading volume:** Confirm whether the rise or fall in prices is in line with the trend.
51. **Market making:** It is a process for building up liquidity in securities that are not frequently traded on SE. a person engaged in this is called market maker.
52. **Securities lending and borrowing :**
    - Introduced in 1957
    - Person with idle securities can lend to needy one
    - There would be no direct contact between the borrower and lender
    - The intermediary guarantees the scheme and assures the lender.
53. **Short sell:** Means selling a stock without being it at the time of trade. For this purpose there shall be a SLB scheme established.

54. **Settlement system**

- The process of netting of transactions and actual delivery / receipt of securities against receipts/ payment of agreed amount.
- All transactions executed during a settlement period are settled at the end of the settlement period.
- Settlement risk or principal risk is the risk that the parties will not fulfill their obligations.

55. **Settlement cycle or period T+2 for rolling settlement:**

Trading	**T**
Clearing (custodial confirmation and delivery generation)	**T+1**
Settlement (pay in / pay out)	**T+2**
Post settlement	
Auction	**T+3**
Bad delivery reporting	**T+4**
Auction settlement	**T+5**
Rectified bad delivery and Pay in Pay out	**T+6**
Re – Bad delivery reporting and pick up	**T+8**
Close out of re- bad delivery and funds pay in / pay out	**T+9**

56.

PAY IN		PAY OUT	
Funds	**Securities**	**Funds**	**Securities**
Buyers – funds to – SE	**Sellers – secs to-- SE**	**SE – funds to -- sellers**	**SE – Secs to--Buyers**

57. **No delivery period: on book closure /record date only trading no delivery.**

Auction: On account of non-delivery of securities on pay in day, SE purchases the requisite quantity in auction market and gives them to buying trading member.

58. **BSE LTD : the oldest SE in ASIA (refer SCRA for more details)**

BOLT: BSE's online trading mechanism.

Trading at BSE

SCRIP GROUPS			
Equity segment	**Fixed income**	**T to T basis**	**Govt. Secs'**
'A' 'B' 'T' 'Z'	**F**	**T**	**G**

Z group :non-compliant companies.

59. **Basket trading system:**

In this system the investors can buy/ sell all the 30 scrips of SENSEX in one go in proportion of their respective weights in SENSEX. The investors can create their own basket by deleting certain scrips. Arbitrageurs can take advantage of price difference between SENSEX underlying and SENSEX futures.

60. **Market Abuses:** It includes, insider trading, misleading impression, artificial transactions etc.
61.

Market surveillance at BSE	
Price monitoring	**Position monitoring**
• On line surveillance • Off line surveillance • Derivative market survey • Investigations • Surveillance actions • Rumor verifications • Proactive measures	• Statement of top 100 purchasers/sellers • Concentrated purchases/ sales • Purchase / sales of scrips having thin trading lines • Trading in B1, B2 and Z group scrips • Verification of institutional trades • Snap investigation • Market intelligence

62. **Surveillance actions include :**

- **Circuit breakers:** A coordinated trading halt in both equity/ derivative market applicable in 3 stages of the index movement either way at 10%/ 15%/ 20%
- **Trade to trade settlement basis:** Means no intraday possible on that scrip.
- **Suspension of scrip, Warning to members, Imposition of penalty.**

63. **NSE of India Ltd.**
Established to provide an efficient system eliminating all the deficiencies of SE
Promoted by major FI's on behalf of Govt. of India.
64. **NEAT: (national exchange for automated trading)**
It is the trading system of NSE. It is an order driven system and operates on price/time priority basis.
65. **NSCCL (National securities clearing corporation ltd.)**
It is WOS of NSE and carries out clearing and settlement of the trades executed in the capital market segment of NSE.
66.

Segments of NSE		
Wholesale debt market	**Capital market**	**Derivatives segment**
From June 94(for TB's, CP's, CD's, ZCB's etc.)	From Nov. 94 (for equity, pref , debentures, etc)	From June 2000 (For futures, options etc)

67. **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 canpass on its obligation to the custodians if the custodian confirms the same to NSCCL. All the trades whoseobligation the trading member proposes to pass on to the custodian are forwarded to the custodian by NSCCLfor 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 multilateralnetting for determining the obligations of counter parties. Accordingly, a clearing member would haveeither pay-in or pay-out obligations for funds and securities separately. Thus, members pay-in and pay-outobligations for funds and securities are determined latest by T + 1 day and are forwarded to them so that theycan settle their obligations on the settlement day (T+2).

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

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

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

It is a facility which allows brokers to offer clients direct access to the exchangetrading 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.**

70. **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.

71. **Bear Market** A weak or falling market characterized by the dominance of sellers.
72. **Bull Market** A rising market with abundance of buyers and relatively few sellers.
73. **Cash Market** A market for sale of security against immediate delivery, as opposed to the futures market.
74. **Closing price and Last traded price (LTP)**:
    The LTP (last traded price) & the closing price are different. The **LTP as name suggests is the last traded price, while the closing price is the average of last 30 minutes of trading period**.Both prices having its own importance, most of the softwares& analysts use the closing prices. Both will be having big differences in less liquid stocks. The analyst who uses data for very short periods uses the LTP.

75. **DEFINITION OF 'MEZZANINE FINANCING'**

A hybrid of debt and equity financing that is typically **used to finance the expansion of existing companies.** Mezzanine financing is **basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company** if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

76. 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.

77. **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.

78. **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.

79. **Regulations applicable for to public issue and listing ofconvertible (both fully and partly) debt securities**.

General Conditions

- Ensure that the issuer has obtained **credit rating** from one or more CRA's.
- Ensure that it has appointed one or more debenture trustees.
- Ensure that it has created debenture redemption reserve.
- 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 favor of financial institutions** or banks, the **consent of such financial institution**, bank for a second or paripassu 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.

80. **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.

81. **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.

82. **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.

83. 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.

84. **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.**

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.

85. **Treasury Bills** are money market instruments to finance the **short term requirements of the Government of India**.

86. **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.

87. **Commercial bills** are basically negotiable instruments accepted by buyers for goods or services obtained by them on credit.

88. **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.

89. **Factoring** is a financed transaction where an entity sells its receivables to third parties called a factor, at discounted prices.

90. **What is French auction?**

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

91. **What is Dutch auction?**

When all the bids accepted at the cut off level it is known as Dutch auction.

Mutual Funds

92. **Mutual Funds,**

Pool their marginal resources, **invest** in securities and distribute the **returns**there from 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**).

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

94. **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

95. **Income Oriented Schemes:**

The **fund primarily offers fixed income** to investors. Naturally enough, themain securities in which investments are made by such funds are the fixed income yielding ones likebonds.

96. **Growth Oriented Schemes:**

These funds offer growth potentialities associated with investment incapital 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 ofinvestors, primarily concentrate on the low risk and high yielding spectrum of equity scrips of thecorporate sector.

97. **Hybrid Schemes:**

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

98. **High Growth Schemes:**

As the nomenclature depicts, these funds primarily **invest in high risk and highreturn 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.

99. **Capital Protection Oriented Scheme:**

It is a scheme which protects the capital invested in the mutualfund through suitable orientation of is portfolio structure.

100. **Tax Saving Schemes:**

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

101. **Special Schemes:**

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

102. **Real Estate Funds:**

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

103. **Off-shore Funds:**

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

104. **Leverage Funds:**

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

105. **Hedge Funds:**

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

106. **Fund of Funds:**

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

107. **New Direction Funds:**

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

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

Are a new variety of mutual funds that first introduced in 1993. ETFsare **sometimes described as mere 'tax efficient' than traditional equity mutual funds**, since in recentyears, some large ETFs have made smaller distribution of realized and taxable capital gains than mostmutual funds.

109. **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.

110. **Infrastructure Debt Fund**

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

111. **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.

112. **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.

113. **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 thanaverage 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.
- ✓ Unsearched 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.

114. **External Commercial Borrowings** (ECB) include commercial bank loans, buyers'credit, supplier's credit, securitized instruments such as floating rate notes and fixed rate bonds.

115.

	MUTUAL FUNDS	**COLLECTIVE INVESTMENT SCHEMES**	**ALTERNATIVE INVEST FUNDS**
Established in form of	Trust	Trust	Trust/co/llp
Assets managed by	AMC	CIMC	AIF
Pooling of funds from	Public(retail/ HNIs/QIBs etc)	Public(retail/HNIs/QIBs etc)	Private (high net worth)
Investment of funds in	Securities	Projects	Securities/projects
Exclusions from meaning	Nothing specified as such	Mutual funds Insurance contracts NBFC deposits Nidhi company Deposits by a company Chit funds Co-op society Pension/provident funds	CIS Mutual funds ESOP trusts Family trusts Employee welfare trusts Securitisation trusts Holding companies Funds/SPVs specifically regulated.
Examples	UTI MF, reliance MF etc	GIFT city	VCFs, PE/Angel funds
Registration with SEBI	Mandatory	Mandatory	Mandatory
Open ended schemes?	Yes	No	Yes (category III only)
Close ended schemes?	Yes	Yes(minimum three years)	Yes (minimum 3 years)
Minimum investment by investors	Not specified	Not specified	Rs 1 crore (Rs 25 lacs from employes)

116.

	INVITs	REITs
Trust for investment in..	Infrastructure projects	Commercial real estate projects
Investment through	SPV or directly	
SPV	A company or LLP	
Holding of trust in SPV	At least 50%	
Holding of assets by SPV	At least 90%	At least 80%
Sponsor's contribution	At least 25% (lock in 3 years)	At least 25% (lock in 3 years but min 15 % locked in for lifetime)
Proposed holdings in assets	At least 500 crores	
Initial offer size	At least 250 crores	
Borrowings	Not more than 49% (credit rating and shareholders' approval required when exceeds 25%)	
Investment In revenue generating projects at least 80%		
Minimum public float	25%	
Minimum application size	10lacs	**2 lacs**
Trading lot	5 lacs	**1 lac**
OTHER COMMON POINTS		
• Distribution of cash flows Minimum 90%		
• NAV valuation on yearly basis		
• NAV updation on half yearly basis		
• Declaration of NAV within 15 days of valuation or updation		
• Investment in other projects – Maximum 20%		
• Investment in under construction projects – Maximum 10% (if >10% then through private placements only)		
• Listing of units – Mandatory in both cases ie publicly or privately placed.		

117. 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.

118. 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.

119. **Spot Delivery Contract**

IN case of physical securities	In case of Dematerialized securities
Actual delivery of securities and the payment either on the same day as the date of the contract or on the next day.	Transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner.

120.

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.

121. **Clearing Corporation**

Clearing corporation means a company incorporated under the Companies Act, 2013/1956, 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.

122. **Member not to act as Principals [Section 15] :**As per section 15, no member (broker) of a RSE shall enter into any contract as a principal with any person other than a member of a RSE. However he can enter into a contract as principal in the following cases:

(a) **Consent of such other person in writing.**
(b) **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) **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) **Spot delivery contract**.

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

A body corporate having perpetual succession, common seal, separate legal entity etc

Object / Principal Functions of SEBI:- {Sec 11}
Regulating,
Protecting the interest of investors of,
Promoting the development of,
the securities market.(SM)

Offices

Head office = **Mumbai**
Other = Delhi, Kolkata,Chennai, Guhwati,Banglore, Ahmedabad

Meetings: - Decision by majority, Casting vote available to chairman in case of equality of votes.

Functions includes following,
1. Regulating the business in SE's.
2. Registration and regulating the work of various intermediaries, depositories, DP's, FII's, CRA's, VCF's, MF's, CIS's, etc.
3. Regulating SAST of companies.
4. Inspection, inquiry, audits of the SE's, MF's, & other person associated with the securities market
5. Promoting investor's educations.
6. Prohibiting insider trading,
Fraudulent practices and UTP's in securities.

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 MoF& MCA	Nominate by CG	----
1 of RBI	Nominated by RBI	----

Termination:- 3 months' Notice Or 3 months' salary
Removal:- On conviction, abuse of position ,insolvent, unsound mind.

124. **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 keep 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 after inquiry 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.

125. Penalties under SEBI Act 1992

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

On stock brokers (15F)			10 lacs to 25 crore or 3 times of profit ↑			General penalty
Fails to issue contract notes = Upto amt of contract note but min 1lac	Fails to make payment/ delivery = same as 15A to E	Charges excess brokerage =upto 5 times of excess charged but min 1 lac	15G Insider trading	15H Non-disclosure of takeover & acquisition	15HA Fraud & UTP's relating to securities	15HB Where no separate penalty is prescribed :=min 1 lac Up to 1 crore

126. 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.

127. Consent orders :-

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

128. COMPOSITION of SAT

PRESIDING OFFICER	(Appointed by CG)	MEMBERS
Appointment of judge of SC/HC With consultation of C.J.I		A person of integrity, ability, standing, qualified and experienced
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		

129. 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)	

130. 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.

131. **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.

132. **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.

133. **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.

134. **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.

135. **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.

136. **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 with 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.

137. **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.

138. **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.

139. CORPORATE GOVERNANCE UNDER SEBI (LODR), 2015

"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 which is further amended because of CA 2013.After **LODRs corporate governance is covered under regulation 16 to 27.**

140. Requirements under regulation 16 to 27

- ✓ Requirement of **Independent directors** in board of directors.
- ✓ The IDs of shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management
- ✓ Requirement of **at least one women director**.
- ✓ There shall be **at least four BoardMeetings** a year. The time between two successive Board Meetings can be a maximum of 120 days.
- ✓ 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.**
- ✓ 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

141. If a company fails to comply with the listing requirements, 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.

142. **Definition of Independent Director**

''Independent director'' shall mean non-executive director of the company other than a nominee director who:
(a) A person of integrity and possesses relevant expertise and experience;
(b) Is or was not a **promoter**,
or**related** to promoter or director,
of company, its holding, subsidiary or associate company(C/H/A/S);

(c) Apart from receiving director's remuneration , has or had **no pecuniary relationship** with the C/H/A/S or their promoters, or directors(CHASPDs), **during the 2 PFYs or during the CFY**;
(d) **None of whose relatives** has or had **pecuniary relationship or transaction** with CHASPDs amounting to,
- i. 2% or more of its gross turnover or
- ii. Total income or
- iii. Rs 50 lakhs

Whichever is lower, during the 2 PFYs or during the CFY.

(e) Who neither himself nor any of his relatives -
- (i) Holds or has held position of a KMP/employee of CHAS in any of the 3PFYs
- (ii) Is or has been an employee / proprietor / partner in any of the 3 PFYs of
  - A. A firm of auditors/PCS/Cost auditors of CHAS
  - B. Any legal or a consulting firm that has or had any transaction with the CHAS amounting to 10% or more of the gross turnover of SUCH FIRM
- (iii) Holds together with his relatives 2% or more of the total voting power of the company.
- (iv) Is a chief executive or director, of a non profit organization,
  - that receives 25% or more of its receipts from the CHASPDs
  - **or** that holds 2% or more of the total voting power of the company
- (v) Is a material supplier, service provider or customer or a lessor or lessee of the company;

(f) Who is not less than 21 years of age.

Limit on no of directorships:
Max 7 listed companies (if serving as WTD in any listed company then max 3 listed companies)

143. **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 instrumentoutstanding**, 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 DelistingSE** 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 **bepaid in cash**.
- ✓ **Relisting** of securities shall be allowed **only after 5 years** of delisting of the securities.

144. **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**;
    - o As **per the norms prescribed in ScheduleIII** 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 of** securities shall be allowed **only after 10 years** of delisting of the securities.

145.

<table>
<tr><th colspan="6">TYPES of ISSUE</th></tr>
<tr><th colspan="2">Public Issue</th><th>Right Issue</th><th>Bonus Issue</th><th colspan="2">Private Placement(to max 199 persons)</th></tr>
<tr><td>By unlisted co.[IPO]</td><td>By listed co. [FPO]</td><td></td><td></td><td>Preferential issue</td><td>QIP</td></tr>
</table>

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

<table>
<tr><th colspan="4">Eligibility Conditions</th></tr>
<tr><th colspan="3">26(1)</th><th>26(2)</th></tr>
<tr><td>Unlisted co.</td><td>Conditions</td><td>Listed Co.</td><td rowspan="6">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.</td></tr>
<tr><td>✓</td><td>1. NTA of ₹ 3 crores in ALL preceding 3 years with min. 50% in non monetary assets.</td><td>NA</td></tr>
<tr><td>✓</td><td>2. Avg. EBIT min. ₹ 15 crores in ANY 3/5 years</td><td>NA</td></tr>
<tr><td>✓</td><td>3. Net worth min. 1 crore in ALL 3 years.</td><td>NA</td></tr>
<tr><td>✓</td><td>4. If name changed in last one year, then min 50% of the last years Revenue is earned from the new activity</td><td>✓</td></tr>
<tr><td>✓</td><td>5. Issue Size ≤ 5 times of pre issue Net Worth.</td><td>✓</td></tr>
</table>

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

<table>
<tr><td rowspan="4">OIB's means :</td><td>1. FII"s</td><td>5. pension fund with min. corpus 25 crores</td><td>9. National investment fund</td></tr>
<tr><td>2. MF's</td><td>6. provident fund with min. corpus 25 crores</td><td>10. Insurance companies</td></tr>
<tr><td>3. PFI's</td><td>7. insurance funds of army/navy/ air force/ dept of posts</td><td>11. SIDFI's</td></tr>
<tr><td>4. SCB's</td><td colspan="2">8. Multilateral and bilateral Development financial institutions.</td></tr>
</table>

148. Fast Track Issues (FTIs)

Means **Issue without filling draft offer document with SEBI and Stock Exchange.**
Company satisfying following conditions can make FTI,

Listed	**For at least 3PYs** from the date of filling offer document with ROC/DSE, or any RSE.
Avg market Cap	**Min.1000Cr (250 cr in case of right issue)**for a period of 1 year up to end of the quarter preceding the month in which proposed issue is passed by BOD/shareholders
Annualized trading T/O	During 6 calendar months immediately preceding the month of the reference date has been at **least 2%** of the weighted average number of shares listed in that period;
Investor grievances	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
listing agreement	The company has complied with the listing agreement **in 3PPYs**; in case of non-compliance adequate disclosures are made in the offer document.
impact of auditors' qualifications	Does not exceed 5% of the net profit/loss after tax.
No litigations pending	No prosecution proceedings or show cause notices are pending against the company or its promoters or whole time directors as on the reference date
Dmat form	entire **shareholding of the promoter group** is held in dematerialised form

149. Other Conditions for public issue

IPO Grading	For IPO, an unlisted co. has to take grade by a CRA for assessment of fundamentals of the issue w.r.t. other listed equity securities in India. It is assigned on a five point scale with higher score for strong fundamentals.
Dmat only	Issue of securities in Dmat form only.
Fully paid	All existing shares should be fully paid or forfeited
Draft prospectus	Co. 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 DP with SEBI.
Issue opening Dt.	If SEBI has issued observations then 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). {by declaring in RHP an issuer may decide to close the bidding by the QIB's 1 day prior to the closure of the issue.}
Application	MIN Size ₹10000-15000. Min sum payable on application = 25% of Issue price.
Underwriting	The issuer has the option to have its public issue underwritten, out of which 5% or 25 lacs ,shall be of LMB.
Minimum subscription	90% of offer through offer document. If min. sub. Not recd. Then all application money shall be refunded within 70 days of closure in case of underwritten issue , otherwise within 15 days of closure of the issue.
Allotment	To be completed within 15 days of date of closure of issue.
Trading permission	The co. shall make an application to at least 1 RSE having nationwide trading terminal , for listing of its specified securities. [DSE shall be chosen in case of more than 1 RSE].
PAN	Mandatory for ALL applicants, in order to follow KYC norms and to identify every participant in market.

150. Pricing

Free pricing	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.	
Differential pricing	To RII's/ee's/RIS's	In Composite issue price for right issue may be different
	May be offered max 10% discount(In BBI max 10% on floor price dis. Can be given to ee's)	In Book Built Issue(BBI) price to anchor investor should not be less than others.

151.

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.

152. **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)
(AIFs can contribute up to 10%)</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>

153.

<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 shareholders</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.

154. 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.

155.

Net Offer to Public (NOP)	
Unlisted co	**Listed co.**
Min 25% Of post issue capital	Min 25% OfIssue Size (IS)

156.

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.

157.

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.

158. **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.

159. **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.

160. **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.**

161. **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	**(board presentation)**
On completion	A final listing application shall be made to SE. SA shall maintain records regarding GSO for 3 years.

162. **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.

163. 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 priorto 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 changesbefore filing** the same **with DSE**.

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

164. 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 Section 62 of the Companies Act, 2013.

- **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 **demat** 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

165.	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** Section 62 of the Companies Act, 2013 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.

166.	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** Section 62 of the Companies Act, 2013 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).

167. BONUS ISSUE OF SHARES

- The **AOA** of the company **must containthe 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 theshareholders' approval is required** as per the Articles for capitalization of reserves, the bonus **issue shall be completed within 2 monthsfrom the date** of the approval by the **BOD**

168. 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.

SEBI has notified the **SEBI (Share Based Employee Benefits) Regulations, 2014** on 28th October, 2014 repealing SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, for regulation of all schemes by companies for the benefit of their employees

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 ofCompensation 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 intermediaryto furnishdetails 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**.
- ✓ **Itprovides that** every **intermediary registered** under section 12 of the **SEBI 1992** should also **adopt written proceduresto 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.

Practical Questions Asked in past examinations:

1. **Jai Ltd. Announced issue of bonus shares in the ratio of 1:3 (i.e. one share for every three shares held). At present the face value share is Rs.10, current market price is Rs.621. In addition, it announced split of shares by reducing the face value from Rs.10 to 2. Calculate the share price if all other things remain constant. What would have been the situation if split would have been done before the issue of bonus shares?**

Answer:

- ❖ Calculation of share price after issue of bonus shares 1:3 (without split):
  - E***xis***ting value/ total shares after bonus ie 3 x 621 ÷ 3 + 1 = Rs 465.75
  - Share price after split from 10 to 2 ie 5 shares for 1 share: 465.75/5 = Rs 93.15

- ❖ If split would have been done before the issue of bonus shares:
  - Market price after split = 621 x 1/5 = Rs124.2
  - Calculation of share price after issue of bonus shares: 3 ×124.2 ÷ 3 + 1 = 93.15.

2. **Prime Ltd. Issue some warrants which allowed the holders to purchase, with one warrant , one equity share at Rs.18.275 per share. The equity share was quoted at Rs.25 per share and the warrant was selling at Rs.9.50 In this case, you are required to compute –**

(i) The minimum price of warrant and

(ii) The warrant premium

Answer:

The benefit an investor gets from warrant is the minimum value of warrant if no benefit then no value. In this case investor gets an equity share of Rs 25 at Rs 18.275 hence benefit of 6.725 is the value of warrant. But warrant is being sold at 9.5 which means at a premium of 2.775 in its price.

Thus,

Vale of warrant = 25 – 18.275 = 6.725

Warrant premium = 9.50 – 6.725 = 2.775

3. **Manish owns 250 preference shares of Amaze Ltd. Which currently sells for Rs.77 per share pays annual dividend of Rs.13 per share –**

(i) What is Manish's expected return?

(ii) If Manish requires 13% return, should he sell or buy more preference at the current price?

Answer:

Expected return on preference shares = D/P *100 = 13/77 X 100 = 16.88%

Required return of Manish is 13%

Since, expected return is more than required return, Manish should buy more shares.

4. **Massive Ltd. Came out whit its IPO in November, 2015 and offered shares of Rs.10 each at Rs.450 charging a premium of Rs.440 Shyam applied for 1000 shares which had been allotted. On the list day the closing share price was Rs.418 and he was very upset about it. He looked at the prospectus of the company and found that company's IPO was not graded. So, he filed a complaint with SEBI stating that the company did not obtain IPO grading which is mandatory and hence, the IPO should be cancelled and the company should be asked to refund the money to investors.**

Assume that you are working with the SEBI, will you suggest that the said issue should be cancelled as there has been has been violation of SEBI rules and regulations. Give your answer with reasons.

Answer:

IPO grading is not mandatory; it is optional and hence contention of Shyam that as Massive Ltd. Not obtained IPO grading its IPO should be cancelled is not correct.

5. **A transaction of dematerialized equity took place on Wednesday the 19th March, 2014 at BSE. According to the compulsory rolling settlement, complete the following table with timeline of the settlement cycle:**

Activity	Day & Date
Rolling settlement trading	?
Custodial information	?
Delivery generation	?
Securities and funds pay-in	?
Securities and funds pay-out	?
Valuation debit	?

Auction	**?**
Auction settlement	**?**

Answer:

Activity	Day	Day & Date
Rolling settlement trading	T	Wednesday i.e. 19th March, 2014
Custodial information	T+1	Thursday i.e. 20th March, 2014
Delivery generation	T+1	Thursday i.e. 20th March, 2014
Securities and funds pay-in	T+2	Friday i.e. 21st March, 2014
Securities and funds pay-out	T+2	Friday i.e. 21st March, 2014
Valuation debit	T+2	Friday i.e. 21st March, 2014
Auction	T+3	Monday i.e. 24th March, 2014
Auction settlement	T+5	Monday i.e. 24th March, 2014

6. **The following information has been collected regarding two share A and share B, trading at BSE on 18th September, 2014:**

Share A			
Date	**Time**	**Price**	**No. of share traded**
18th September, 2014	**14:45:10**	**385.60**	**550**
18th September, 2014	**14:55:35**	**382.78**	**1,570**
18th September, 2014	**15:00:20**	**380.99**	**1,514**
18th September, 2014	**15:01:30**	**381.79**	**1,625**
18th September, 2014	**15:05:40**	**380.38**	**1,025**
18th September, 2014	**15:10:20**	**381.51**	**1,390**
18th September, 2014	**15:20:25**	**381.42**	**800**
18th September, 2014	**15:22:20**	**384.07**	**600**
18th September, 2014	**15:25:55**	**383.74**	**1,200**

Share B			
Date	**Time**	**Price**	**No. of shares traded**
18th September, 2014	**14:07:30**	**50.60**	**250**
18th September, 2014	**14:11:40**	**52.10**	**585**
18th September, 2014	**14:16:20**	**49.85**	**700**
18th September, 2014	**14:26:25**	**51.25**	**425**
18th September, 2014	**14:45:10**	**50.75**	**450**
18th September, 2014	**14:55:35**	**49.95**	**500**

You are required to determine the closing prices and last traded prices for both the shares for 18th September, 2014.

Answer:

Closing price of share A: Since, Share A is continuously traded in last 30 minutes; its closing price will be weighted average price of all trades executed during the last 30 minutes as shown below:

Price (1)	No. of shares traded (2)	Product (3)[(1)x(2)]
380.99	1,514	5,76,818.86
381.79	1,625	6,20,408.75
380.38	1,025	3,89,889.50
381.51	1,390	5,30,298.90
381.42	800	3,05,136.00
384.07	600	2,30,442.00
383.74	1,200	4,60,488.00
Total	8,154	31,13,482.01

Closing Price = 31,13,482.01/8154 = 381.83 (whereas LTP is 383.74)

Closing price of share B: Since, Share is continuously traded in last 30 minutes; its closing price will be last traded price of scrip in the continuous trading session i.e. Rs.49.95

7. Ajay purchases 8.4% Government of India Bond, 2018 of face value of Rs.20 lakh @ Rs.102.50 for every unit of security having face value of Rs.100. The settlement is due on 13th October,2009. What is the amount to be paid by Ajay? (Assume that interest is payable on 13th May and 13th November every year)

Answer:

The security is 8.4% GOI 2018 for which the interest payment dates are 13th may, and 13th November every year. The last interest payment date for the current year is 13th may 2009.

The principal amount payable is Rs.20,00,000 x 102.50% = 20,50,000.

Last interest payment date was 13th May, 2009 and settlement date is 13th October, 2009.

Therefore, the interest has to be paid for 150 days counted as follows: (including 13th May, and excluding 13th October, 2009)

Months	Days
May (30-12)	18
June	30
July	30
August	30
September	30

October	12
	150

Accrued interest = 20,00,000 x 8.4% x 150/360 = Rs.70,000

Total amount payable = 20,50,000 + 70,000 = Rs.21,20,000.

8. **ABC Ltd. wanted to issue commercial papers (CPs) worth Rs.100 Crore during March, 2014. For this obtained eating from three rating agencies and in the month of February, 2014, all threating agencies gave A2 rating. But on 4th March, 2014, one of the agencies revised its rating to A3 before the issue of CPs. As a company Secretary, advise whether the company can issue CPs to raise money for a short period.**

Answer:

Credit rating is mandatory for issue of commercial papers. The minimum credit rating shall be A3. In the given case one of the rating agency has degraded the earlier rating for A2 to A3 before issue of CP. However, still its rating is not below the prescribed rating and hence ABC Ltd. can issue commercial paper.

9. **Asian mutual fund is a mutual fund registered with SEBI. Its asset management company (AMC) conducted business through associated brokers in excess of limits prescribed under Regulation 25(7) of the SEBI (Mutual Funds) Regulations, 1996. SEBI initiated penal proceedings against the Asian Mutual Fund and its AMC for the contravention.**

While responding to charges give in the show cause notice, Asian Mutual Fund and its AMC pleaded that there was no mens rea in the acts of the AMC and, hence, no penal action should be taken by SEBI. Adjudicating officer imposed a penalty of Rs.25 lakh under section 15E of the Securities and Exchange Board of India Act, 1992 for failure to comply with Regulation 25(7). You are required to advise with the help of decided case law whether Asian Mutual Fund should file an appeal against the order passed by the adjudicating officer.

Answer:

Following points were noted by honorable Supreme Court in case of Shriram Mutual Fund & Others

- Mens rea is not an essential ingredient for contravention of the provisions of a Civil Act.
- Penalty is attracted as soon as contravention of the statutory obligation as contemplated by the Act is established, and therefore the intention of the parties committing such violation becomes immaterial.
- Unless the language of the statute indicated the need to establish the element of mens rea, it is generally sufficient to prove that a default in complying with the statute has occurred.
- Once the contravention is established, the penalty has to follow and only the quantum of penalty is discretionary

Thus, contention of Asian mutual fund is not tenable.

10. **XYZ Ltd. issued 12.5% debentures amounting to Rs.150 Crore on private placement basis during the financial year 2013. Later on, it was found that these debentures were issued to 73 persons. A Sessions Court in Mumbai took cognizance of the same and suomotu initiated the proceedings against XYZ Ltd. The company pleaded that the Court has no locus standi in regard and therefore, it cannot initiate any proceedings against it.**

As per the SEBI Act, 1992 and other relevant laws, discuss whether the company's pleading is tenable and whether the Court should drop the proceedings against the company.

Answer:

As per Section 26 of the SEBI Act, 1992 no Court shall take cognizance of any offence punishable under this Act or any rules or regulations made thereunder except on a complaint made by the SRBI.

Thus, action initiated by Sessions Court in Mumbai not valid.

11. **Aishwarya Ltd. proposes to issue 10,00,000 share warrants to its promoters. The share warrants give an option to buy shares at a predetermined price. From the following share price data, identify the price at which share warrants should be issued and the amount payable by the promoters at the time of allotment:**

(i) Closing price in the market on the relevant date: Rs.340

(ii) The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the relevant date: Rs.354

(iii)The average of the weekly high and low of the closing prices of the related share quoted on stock exchange during the weeks preceding the relevant date: Rs.350.

Answer:

As pre SEBI (ICDR) Regulations, 2009 the price of equity shares which have been listed on a stock exchange for 26 weeks or more on the relevant date will be higher of the following two:

(a) The average of weekly high and low of the closing prices during last 26 weeks
(b) The average of the weekly high and low of the closing prices during last 2 weeks.

Thus, price should be Rs.354.

The promoter should be liable to pay at least 25% of the price. Hence, amount to be paid will be Rs.88.50 (354 x 25%).

12. The SEBI noticed a spurt in the volume of trading of the scrip of ABC Ltd., both at NSE and BSE during May, 2013 to July, 2013. Though the scrip was not liquid, it was observed that during the said period, the price of scrip ranged between Rs.25 to Rs.125. it was found on investigation a stock broker of BSE himself got registered as a client with a NSE broker and placed orders in large quantities in the scrip of ABC Ltd. during May, 2013 to July, 2013. On the basis of these facts, examine whether the SEBI can initiate any action against the said BSE broker and if so, under what rules and regulations?

Answer:

SEBI can initiate action against the BSE broker for violation of provisions of the SEBI (Prohibition of Fraudulent & Unfair Trade Practices Relating to Securities Market) Regulations, 2003. (The Facts of the given case are similar to Bishwanath Murlidhar jhunjhunwala vs. SEBI.)

13. There is alleged act of insider trading on the part of Harsh who was the Finance Manager of Master Mind Ltd., a listed company. However, he left the company 100 days prior to the alleged act of insider trading. It is company the in the instant case, Harsh cannot de treated as a 'connected person' as he left the organization price to the act of insider trading. Do you agree? Answer with reasons.

Answer:

As per the SEBI (Prohibition of Insider Trading) Regulations, 2015, the term 'insider' includes a connected person.

The term 'connected person' includes any person, directly or indirectly.

Thus, as per the facts given in case, Harsh is insider as he was connected to the company prior to 6 months of alleged act of in insider trading.

14. Insider trading normally means trading in shares of a company by the persons who are in the management of the company or close to them on the basis of unpublished price sensitive information which they possess but others not. In the of this, state whether the following information is price sensitive:

(i) The CEO of a company mat with an accident and had been hospitalized.
(ii) Intended declaration of right issue in near future.
(iii) RBI has increased repo rate by 25 basis points.
(iv) The company is going to have another plant at Rudrapur, Uttarakhand.
(v) The Chairman of the company has submitted his resignation to the Board under protest for selling a particular brand to another company.

Answer:

Information	Price	Reasons

	sensitive or not	
The CEO of a company met whit an accident and had been hospitalized.	No	Though information relates to the company, it is not relating to security or its or price or any other parameters include in the definition.
Intended declaration of rights issue in near future.	Yes	Information relating to dividend is included in definition of 'unpublished price sensitive information'
RBI has increased repo rate by 25 basis points.	No	This information is not related to company, its security or price of security hence it is not 'unpublished price sensitive information'
The company is going to have another plant at Rudrapur, Uttarakhand.	Yes	Information relating to expansion of business is included in definition of 'unpublished price sensitive information'.
The Chairman of the company has submitted his resignation to the Board under protest for selling particular brand to another company.	Yes	Though this information do not relate to security or its price but relates to company policy and has potential to affect price in the market, hence it is 'unpublished price sensitive information'.

15. On 30th October, 2014, love you Co-operative Bank buys 91- day Treasury bill maturing on 24th December, 2014. The rate quoted by the seller is Rs. 99.25 per Rs. 100 face value. Calculate the yield percentage of the Treasury bill.

Ans. Yield percentage of the Treasury bill

$$YTM = \frac{(100-P)\times 365\times 100}{P\times D}$$

Where P=Price D= Days to Maturity

P= 99.25 D= 55 days

$$YTM = \frac{(100-99.25)\times 365\times 100}{99.25\times 55}$$

$$YTM = \frac{(0.75)\times 365\times 100}{99.25\times 55}$$

$$= \frac{27,375}{5458.75}$$

= 5.01%

16. The unit price of Sulabh Scheme of a mutual fund is Rs. 10. The public offer price (POP) of the unit is Rs. 10.204 and the redemption price is Rs. 9.80. Calculate-

- **Front-end load; and**
- **Back-end load.**

Calculation of front-end Load

Public offer price = Net Assts value / (1-Front-end Load)

Or Rs.10.204= Rs. 10/ (1-Fel)

10.204-10.204fel = 10

-10.204 Fel=10-10.204

Fel = 0.204/10.204

Fel = 1.99% =2%

ii) Calculation of Back-end Load

Redemption price = Net Asset Value / 1+Back End Load

Or Rs. 9.80 =Rs.10/ (1+Bel)

9.80+9.80Bel=10

9.80Bel = 10-9.80

Bel = 0.2/9.80 = 2.04%

17. The redemption price of mutual fund unit is Rs. 10 while the front-end load and back-end load charges are 2% and 3% respectively. You are required to calculate:

- **Net Assets value (NAV) per unit; and**
- **Public offer-price of the unit**

Ans.

Calculation of NAV per unit and public offer price per unit:

Redemption price= Net Asset Value / (1+Back end load)

Net Asset value per unit = ROP X (1+back end load)

= 10 X (1+ .03)

= 10.30

Public offer price = $\frac{\text{Net Assets Value}}{\text{(1-Front end load)}}$

= $\frac{12.36}{(1-0.02)}$ = 10.51

18. Om Mutual fund provides the following information related to one of its scheme:

Size of the scheme: Rs. 4,000 crore.

Face value of the units: Rs. 10 per unit.

Number of outstanding units: 400 crore.

Market value of funds portfolio: Rs. 8,400 crore.

Receivables :Rs. 200 crore

Accrued Income: Rs. 200 crore.

Liabilities: Rs. 300 crore.

Accrued Expenses: Rs. 550 Crore.

You are required to calculate Net Asset Value (NAV) of the scheme & rate of return if a unit holder has purchased units at the NAV of Rs. 15 per unit & received a divided of Rs. 2 per unit during the period.

Ans. Om MUTUAL FUND

Size of the scheme		- Rs. 4000 crore
Face value of the unit		- Rs. 10 per unit
No. of outstanding units		- 4000/10 = RS.400 crore
Market Value of the portfolio		-Rs. 8400 crore
Receivables		-Rs. 200 crore
Accrued Income		- Rs. 200 crore
Total value of the portfolio		
(Rs. 8400 crore+ Rs. 200 crore + Rs. 200 crore)		-Rs. 8800 crore
Less: Liabilities	Rs. 300 crore	
Accrued Expenses	Rs. 550crore	- 850crore
Net value		7950crore

NAV = 7950 crore/400 crore = Rs. 19.875

If the market Value at the time of purchase of units by Mr. Z was Rs. 15 per unit and divided @ 20%.

$$\text{Rate of return} = \frac{(\text{NAV at present} - \text{NAV at purchase}) + \text{Dividend}}{\text{NAV at purchase}} \times 100$$

$$= \frac{(19.875-15)+2}{15} \times 100$$

$$= 45.83\ \%$$

19. Calculate the value of rights, if

- **Number of rights shares offered** **3000**
- **Number of shares held** **1000**
- **Ex-right price** **Rs. 25**
- **Right offer Price** **Rs. 15**
- **Face value of shares** **Rs. 10**

Ans.

Number of Right shares offered (n)	3000
Number of shares held (m)	1000
Ex-rights price (p_{ex})	Rs. 25
Right offer Price (p_{of})	Rs. 15
Face value of shares	Rs. 10

The value of rights shall be as follows:

$V_r = n/m \times (P_{ex} - P_{of}) = 3000/1000 \times (25-15) = \text{Rs. } 30/-$