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PART 1: SECURITIES LAW (70 MARKS)
UNIT 1: SECURITIES CONTRACT REGULATION ACT 1956

SECURITIES CONTRACTS (REGULATION) ACT, 1956	The Securities Contracts (Regulation) Act, 1956 was enacted by Parliament to: (i) Prevent undesirable transactions in securities by regulating the business of dealing therein, and (ii) Provide for certain other matters connected therewith. The Act extends to the whole of India and came into force on 28th February, 1957. However, the provisions of this Act shall not apply to: (i) The Government, the Reserve Bank of India, any local authority or any corporation set up by a special law; (ii) Any convertible bond or share warrant or any option or right in relation thereto.
IMPORTANT DEFINITIONS	➢ Securities: Securities include: (i) Shares, Scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or body corporate. (ii) Derivative and Security Receipt. (iii) Units or any other instrument issued by any collective investment scheme. (iv) Units or any such instrument issued to investors under any mutual fund scheme. (v) Government securities. (vi) Such other instruments as may be declared by Central Government to be securities. (vii) Rights or interest in securities. ➢ Spot Delivery Contracts: A spot delivery contract means a contract which provides for: (i) Actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the next day, the actual period taken for the dispatch of the securities or the remittance of money therefore through the post being excluding from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality; (ii) Transfer of the securities by depository from account of beneficial owner to account of another beneficial owner when such securities are dealt with by a depository. ➢ Contract: Contract means a contract for or relating to the purchase or sale of securities. ➢ Stock Exchange: Stock Exchange means: (i) Anybody of individuals, whether incorporated or not, constituted before corporatization and demutualization under Sections 4A and 4B, or (ii) A body corporate incorporated under the Companies Act, 2013 whether under a scheme of corporatization or otherwise, for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities. ➢ Clearing Corporation: A recognized stock exchange has the power, with the prior approval of SEBI, to transfer the duties and functions of a clearing house to a clearing corporation for the purpose of: (i) The periodical settlement of contracts and differences thereunder; (ii) The delivery of, and payment for, securities; (iii) Any other matter incidental to, or connected with, such transfer.

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	Every clearing corporation shall make bye – laws and submit the same to the SEBI for its approval. SEBI may, on being satisfied that it is in the interest of the trade and also in the public interest to transfer the duties and functions of a clearing house to a clearing corporation, grant approval to the bye – laws submitted to it and approve transfer of the duties and functions of a clearing house to a clearing corporation.
RECOGNIZED STOCK EXCHANGES	Any stock exchange which is desirous of being recognized for the purposes of this Act may make an application in the prescribed manner to the Central Government. Every application shall contain such particulars as may be prescribed, and also a copy of the rules relating in general to the constitution of the stock exchange and in particular to: (i) The governing body of such stock exchange, its institution and powers of management and the manner of transacting the business. (ii) The powers and duties of the office bearers of the stock exchange. (iii) The admission into the stock exchange of various classes of members, the qualifications and other related matters. (iv) The procedure for the registration of partnerships as members of the stock exchanges. If the Central Government is satisfied (power can also be exercised by SEBI) after making such inquiry as may be necessary in this behalf and after obtaining such further information, if any, as it may require: (a) That the rules and bye laws of a stock exchange applying for registration are in conformity with such conditions as may be prescribed with a view to ensure fair dealing and to protect investors; (b) That the stock exchange is willing to comply with any other conditions (including conditions as to the number of members) which the Central Government after consultation with the governing body of the stock exchange and having regard to the area served by the stock exchange and its standing and the nature of the securities dealt with by it, may impose for the purpose of carrying out the objects of this act; and (c) That it would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange; The conditions which the Central Government can prescribe for the grant of recognition to the stock exchanges may include, among other matters, conditions relating to: (i) The qualifications for membership of stock exchange; (ii) The manner in which contracts shall be entered into and enforced as between members; (iii) The representation of the Central Government on each of the stock exchanges by such number of persons not exceeding three as the Central Government may nominate in this behalf; (iv) The maintenance of account of members and their audit by CA whenever such audit is required by CG. Every Grant of recognition of a stock exchange under this section shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of stock exchange is situated, and such recognition shall have effect as from the date of its publication in the Gazette of India. No Application for the grant of recognition shall be refused except after giving an opportunity to the stock exchange concerned to be heard in this matter; and the reasons for such refusal shall be communicated to the stock exchange in writing.

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DEMUTUALISATION OF STOCK EXCHANGES	The process of demutualization is to convert the traditional "not for – profit" stock exchanges into a "for profit" company and this process is to transform the legal structure from a mutual form to a business corporation form. **The Important Features of the Demutualization exercise are as follows:** (a) The board of a stock exchange should consist of 75% public interest/shareholders directors and only 25% broker directors, and (b) 51% shareholding of the stock exchange should be divested to public/investors other than trading member brokers and only 49% of shareholding can remain with the trading member brokers. This will transform our broker – owned stock exchanges into professionally – run corporate stock exchanges. **Options for Divestment/Dilution of Broker's Shareholding in a Stock Exchange are:** (a) Offer for sale (b) Private placement of shares (c) Fresh issue of shares to the public through an IPO. **Purpose of Demutualization:** (a) Stock exchanges owned by members tend to work towards the interest of members alone, which could on occasion be detrimental to rights of other stakeholders. Division of ownership between members and outsiders can lead to a balanced approach, remove conflicts of interest, create greater management accountability. (b) Publicity owned stock exchanges can enter into capital market for expansion of business. (c) Publicity owned stock exchange would be more professionally managed than broker owned. (d) Demutualization enhances the flexibility of management.
SHAREHOLDING IN A RECOGNIZED STOCK EXCHANGE (SECTION 17 of SEBI Stock Exchange and Clearing Corporation Regulations)	(1) Atleast **fifty one per cent**. of the paid up equity share capital of a recognised stock exchange shall be held by **public**. (2) **No personresident in India** shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold **more than five per cent**. of the paid up equity share capital in a recognised stock exchange: Provided that,— (i)a stock exchange; (ii)a depository; (iii)a banking company (iv)an insurance company; and (v)a public financial institution, may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, **upto fifteen per cent. of the paid up equity share capita**l of a recognised stock exchange. (3) **No person resident outside India**, directly or indirectly, either individually or together with persons acting in concert, shall acquire or hold **more than five per cent**. of the paid up equity share capitalin a recognised stock exchange Provided that,- (i) a foreign stock exchange; (ii) a foreign depository; (iii) a foreign banking company; (iv) an foreign insurance company; and (v) a foreign commodity derivatives exchange, may acquire or hold, either directly or indirectly, either individually or together with

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	persons acting in concert, **upto fifteen per cent. of the paid up equity share capital** of a recognised stock exchange. Explanation.—For the purposes of this proviso, the persons referred to in clauses (i) to (v) shall mean persons recognised/ incorporated outside India. (4) Subject to the limits as otherwise prescribed by the Central Government from time to time,thecombined holding of **all persons resident outside India** in the paid up equity share capital of a recognised stock exchange shall not exceed, **at any time**, **forty-nine per cent**. of its total paid up equity share capital; (5) No clearing corporation shall hold any right, stake or interest, of whatsoever nature, in any recognised stock exchange
SHAREHOLDING IN A RECOGNIZED CLEARING CORPORATION (SECTION 18 SEBI Stock Exchange and Clearing Corporation Regulations)	(1) At least fifty one per cent. of the paid up equity share capital of a recognised clearing corporation shall be held by **one or more recognised stock exchange**(s): Provided that no recognised stock exchange shall,directly or indirectly, either individually or together with persons acting in concert, acquire or hold **more than fifteen per cent**. of the paid up equity share capital in more than one recognised clearing corporation. (2) **No person resident in India, except a recognised stock exchange** as permitted in sub-regulation (1), shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold **more than five per cent**. of the paid up equity share capital in a recognised clearing corporation: Provided that,— (i)a depository; (ii)a banking company; (iii)an insurance company; and (iv)a public financial institution, may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, **upto fifteen per cent**. of the paid up equity share capital of a recognised clearing corporation. (3) **No person resident outside India** shall, directly or indirectly, either individually or together with persons acting in concert, acquire or hold **more than five per cent**. of the paid up equity share capital in a recognised clearing corporation. (4) Subject to the limits as otherwise prescribed by the Central Government from time to time,thecombined holding of all persons resident outside India in the paid up equity share capital of a recognisedclearing corporation shall not exceed, at any time, forty-nine per cent. of its total paid up equity share capital.
WITHDRAWAL OF RECOGNITION	If the CG is of Opinion that the recognition granted to a stock exchange should in the interest of trade or in the public interest, be withdrawn, the CG may serve on the governing body of stock exchange a written notice that the CG is considering the withdrawal of the recognition for the reasons stated in the notice and after giving an opportunity to the governing body to be heard in the matter, the CG may withdraw, by notification in the Official Gazette, the recognition granted to the stock exchange. However, the withdrawal shall not affect the validity of any contract entered into or made before the date of the notification, and CG may, after consultation with the stock exchange, make such provision as it deems fit in the notification of withdrawal or in any subsequent notification similarly published for the due performance of any contract outstanding on that date.

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POWER OF RECOGNIZED STOCK EXCHANGES	(i) Any recognized stock exchange may, subject to the previous approval of SEBI, make bye – laws for the regulation and control of contracts. Such bye – laws may provide for; (ii) The opening and closing of markets and the regulation of the hours of trade; (iii) A clearing house for the periodical settlement of contracts and differences; (iv) Submission to SEBI by the clearing house as soon as may be after each periodical settlement of all or any of the following particulars: (a) The total number of each category of security carried over from one settlement period to another; (b) The total number of each category of security, contracts which have been squared up during the course of each settlement period; (c) The total number of each category of security actually delivered at each clearing. (d) The publication by clearing house of all or any of the particulars submitted to SEBI; (e) The regulation or prohibition of blank transfers; (f) The number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house; (g) The determination and declaration of market rates, including the opening, closing, highest and lowest rates for securities; (h) The terms, conditions and incidents of contracts; (i) The regulation of dealings by members for their own account; (j) The separation of the functions of jobbers and brokers; (k) The limitations on the volume of trade done by any individual member in exceptional circumstances.
PUNISHMENTS FOR CONTRAVENTIONS	The contravention of any of the bye – laws shall render the member concerned liable to one or more of the following punishments, namely:- (i) Fine or Expulsion from Membership, (ii) Suspension from Membership for a Specified Period, (iii) Any other penalty of a like nature not involving the Payment of Money.
POWER OF SEBI TO MAKE OR AMEND BYE – LAWS OF RECOGNIZED STOCK EXCHANGES	(i) SEBI has the power to make bye – laws, for all or any of the matters specified in Section 9 or amend any bye – laws made by such stock exchange under that section. (ii) The bye – laws so made or amended shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the recognized stock exchange is situated. (iii) On such publication, the bye – laws so made or amended shall have effect as if they had been made or amended by the recorded stock exchange concerned. (iv) The making or the amendment or revision of any bye – laws shall in all cases be subject to the condition of previous publication.
POWER OF CENTRAL GOVERNMENT TO SUPERSEDE COMPANIES OF STOCK EXCHANGES OR SUSPEND BUSINESS	In case the Central Government is of opinion that the governing body of any recognized stock exchange should be superseded, then, the Central Government may: (i) Serve on the governing body a written notice that the Central Government is considering the supersession of the governing body for the reasons specified in the notice; (ii) Give an opportunity to the governing body to be heard in the matter; (iii) Declare the governing body of such stock exchange to be superseded;

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THEREOF	(iv) Appoint any person or persons to exercise and perform all the powers and duties of the governing body; and (v) Appoint one of such persons to be the chairman and another to be the vice – chairman thereof.
SUSPENSION OR WITHDRAWAL OF ADMISSION TO DEALINGS IN SECURITIES ON STOCK EXCHANGE	(i) A recognized stock exchange has power to suspend or withdraw admission to dealings in the securities of a company or body corporate either for a breach of or non – compliance; (ii) No such action shall be taken by a stock exchange without giving a reasonable opportunity of being heard to the company; (iii) Where a recognized stock exchange has withdrawn admission to dealings in any security, or where suspension of admission to dealings has continued for a period exceeding three months, the company or body corporate concerned may appeal to SEBI.
ADDITIONAL TRADING FLOOR	A stock exchange may establish additional trading floor with prior approval of SEBI in accordance with the terms and conditions stipulated by SEBI. Additional trading floor means a trading ring or trading facility offered by a recognized stock exchange outside its area of operating to enable the investors to buy and sell securities through such trading floor under the regulatory framework of that stock exchange.
CONTRACT IN CERTAIN CASES TO BE VOID	Any Contract entered into in any State or Area specified in the notification under Section 13 which is in contravention of any of the bye laws specified in that behalf under Clause (a) of sub section (3) of Section 9 shall be **Void**. (i) As respect the rights of any member of the recognized stock exchange who has entered into such contract in contravention of any such bye laws, and also (ii) As respects the rights of any other person who has knowingly participated in the transaction entailing such contravention. Nothing in sub section 1 shall be construed to affect the right of any person other than a member of the recognized stock exchange to enforce any such contract or to recover any sum under or in respect of such contract if such person had no knowledge that the transactions was in contravention of any of the bye laws specified in clause (a) of Sub Section (3) of Section 9.

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UNIT 2: SECURITIES & EXCHANGE BOARD OF INDIA

SEBI is a body corporate having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable and to contract, sue and be sued in its own name.

Its Head Office is at Mumbai and is empowered to establish its offices at other placed in India. SEBI presently has offices also in Ahmedabad, Jaipur, Kolkata, Guwahati, Bhubaneswar, New Delhi, Chennai and Bengaluru.

SEBI ACT, 1992

OBJECTIVE	SEBI Act, 1992 was enacted to empower SEBI with statutory powers for: (i) Protecting the interests of investors in securities, (ii) Promoting the development of the securities market, and (iii) Regulating the securities market.
THE SEBI BOARD SHALL CONSIST OF THE FOLLOWING MEMBERS:	(i) A Chairman; (ii) 2 members from Ministry of Central Government dealing with finance & administration of the Companies Act, 2013; (iii) 1 member from the Reserve Bank of India; (iv) 5 other members of whom at least three shall be the whole – time members.
POWERS AND FUNCTIONS OF SEBI	It is the duty of SEBI to take such measures for the protection of the interest of the investors and promoting the development of the securities market. These measures include: (i) Regulating the Business in Stock Exchanges and any other securities market; (ii) Registering and Regulating the work of the Intermediaries; (iii) Registering and Regulating the work of the Depositories, Participants, FIIs and Credit Rating Agencies; (iv) Registering and Regulating the work of the Venture Capital Funds and Collective Investment Schemes; (v) Prohibiting the Unfair and Fraudulent Trade Practices; (vi) Prohibiting the Insider Trading in Securities; (vii) Regulating Substantial Acquisition of Shares and Takeover of Companies; (viii) Calling for any required Information, undertaking Inspections and conducting Inquiries and Audits of the Stock Exchanges; (ix) Levying Fees and other charges for carrying out the purposes of this section; (x) Conducting Research for above purposes; (xi) Performing any other function as may be prescribed.
SEBI HAS BEEN VESTED WITH THE SAME POWERS AS THAT OF A CIVIL COURT	(i) The discovery and production of books of accounts and other documents; (ii) Summoning and enforcing the attendance of persons and examining them on oath; (iii) Inspection of books, registers and other related instruments of intermediaries; (iv) Issuing commissions for the examination of the witnesses or documents.
POWER TO ISSUE DIRECTIONS	The SEBI has the power to prohibit any company from issuing any offer document in the interest of the investors. If SEBI is satisfied after making inquiries that it is necessary. In the interest of the investors: (i) To prevent the activities of any intermediaries; (ii) To secure proper management of such intermediary. It may issue such directions, as may be necessary to: (a) Any person or class of persons; (b) To any company for the matters relating to issue of capital, transfer of securities, etc.

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INVESTIGATIONS	(i) If SEBI has reasonable grounds to believe that a) the transaction in securities are being dealt with in such a way that it is detrimental to the interest of investors; b) any intermediary or any person associated with the securities market has violated any of the provisions of this Act or rules or regulations made or directions issued by the board; it may at any time by order in writing, direct any person specified in the order to investigate the affairs of such intermediary or person associated with the securities market and to report thereon to the board. (ii) It is the duty of any authorized person of the company and every intermediary to produce necessary documents before the investigating authority; (iii) the investigating authority may require any intermediary or any person associated with securities market in any manner to furnish such information to or produce such books or registers or other documents or records before him or any person authorised by it in this behalf as it may consider necessary; (iv) The investigating authority has the right to keep any books, registers, other documents and records for 6 months in this custody. (v) Any person directed to make an Investigation may examine on oath, any manager, Managing Director, Officer and other employee of any Intermediary or any person associated with securities market in any manner, in relation to affairs of his business and may administer on oath accordingly and for that purpose may require any of those person to appear before it personally.
CEASES AND DESIST PROCEEDINGS	If, in the opinion of the Board, any person has violated or is likely to violate any of the provisions, rules or regulations of the Act, it may pass an order requiring such person to cease and desist from committing such action.
CONSENT ORDERS	It means an order setting administrative or civil proceedings between the regulator and a person who may be found to have violated securities laws. It provides flexibility of wider array of enforcement and remedial actions which will achieve the twin goals of: (i) Appropriate sanctions; (ii) Remedies & deterrence without resorting to litigation, lengthy proceedings and delays.
REGISTRATION OF INTERMEDIARIES	No stock – broker, sub – broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, investment adviser and such other intermediary who may be associated with securities market shall buy, sell or deal in securities except in accordance with the conditions of a certificate of registration obtained from SEBI. If such intermediary associated with securities market before the establishment of SEBI for which no registration certificate was necessary prior to such establishment, may continue to do so for a period of three months from such establishment or, if he has made an application for such registration within the period of 3 months, till the disposal of such application. Also no depository, participant, custodian of securities, foreign institutional investor, credit rating agency or any other intermediary associated with the securities market as SEBI may by notification in this behalf specify, shall buy or sell or deal in securities except under and in accordance with the conditions of a certificate of registration obtained from SEBI in accordance with the regulations

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	made under this Act. No person shall sponsor or cause to be sponsored or carry on or cause to be carried on any venture capital funds or collective investment schemes including mutual funds, unless he obtains a certificate of registration from SEBI. Every application for registration would in such manner and on payment of such fees as may be determined by regulations. The Board may, by order, suspend or cancel a certificate of registration. However, no such order shall be made unless the person concerned has been given a reasonable opportunity of being heard.
PROHIBITION OF MANIPULATIVE AND DECEPTIVE DEVICES, INSIDER TRADING, ETC	Section 12A of the Act provides that no person shall directly or indirectly: (a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to belisted on a recognized stock exchange, any manipulative or deceptive device or contrivance incontravention of the provisions of this Act or the rules or the regulations made thereunder; (b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities whichare listed or proposed to be listed on a recognized stock exchange; (c) engage in any act, practice, course of business which operates or would operate as fraud or deceitupon any person, in connection with the issue, dealing in securities which are listed or proposed to belisted on a recognized stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder; (d) engage in insider trading; (e) deal in securities while in possession of material or non-public information or communicate such materialor non-public information to any other person, in a manner which is in contravention of the provisions ofthis Act or the rules or the regulations made thereunder; (f) acquire control of any company or securities more than the percentage of equity share capital of acompany whose securities are listed or proposed to be listed on a recognized stock exchange incontravention of the regulations made under this Act.
FINANCE, ACCOUNTS AND AUDIT OF SEBI	(i) The Central Government grants such sum of money as it may think fit for the purpose of conducting finance, accounts and audit of SEBI; (ii) A fund named Securities and Exchange Board of India General Fund shall be created for crediting all the grants, fees and charges received by the SEBI under the Act; (iii) The fund has to be applied for meeting the salaries, allowance and other remuneration of members and employees of SEBI; (iv) It is the duty of SEBI to maintain proper accounts and other relevant records.
PENALTIES FOR FAILURES	<u>Failure to Furnish any Document, Return or Report to the Board</u>: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. <u>Failure to File any Return</u>: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. <u>Failure to Maintain Books of Accounts or Records</u>: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less.

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	Failure to obtain a Certificate of Registration from SEBI: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. Failure to Comply with the Terms and Conditions of the Certificate for Registration: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. Failure to make an Application for Listing of the Schemes: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. Failure by Collective Investment Schemes to dispatch unit Certificate of any Schemes: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. Failure to Refund Application Monies of Investors of a Collective Investment Schemes: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. Failure to invest the Money Collected by the Collective Investment Schemes: Penalty of Rs.1 lakh for each day of failure or 1 crore, whichever is less. Penalty for Insider Trading: Penalty of Rs.25 crore or 3 times profit made out of insider trading, whichever is higher. Penalty for Non – Disclosure of Acquisition of Shares and Takeovers: Penalty of Rs.25 crore or 3 times profit made out of insider trading, whichever is higher. Penalty for Contravention: It is liable to a penalty which may extend to 1 crore.
ADJUDICATION	The SEBI has the power to adjudicate the offences committed. While adjudging the amount of penalty, the adjudicating officer shall look into the following factors:- (i) The amount of the unfair advantage; (ii) The amount of loss caused to an investor or group of investors; (iii) The repetitive nature of default.
SECURITIES APPELLATE TRIBUNAL (SAT)	To consider the appeals against SEBI orders, the Act provides for the establishment of Securities Appellate Tribunal by the Central Government. The Securities Appellate Tribunal consists of a Presiding Officer and two other members. The person to be appointed as the Presiding Officer shall be a sitting or retired judge of the Supreme Court. Presiding Officer and every other member shall hold office for a term of 5 years up to 68 years of age and is eligible for appointment. **Filling up of Vacancies** Any vacancy occurred in the office of the Presiding Officer or any other member shall be filled by the Government in accordance with the provisions of the Act. **Resignation and Removal** (i) A Notice in Writing is to be served to the Central Government by the Presiding Officer or any other member for the purpose of Resignation." (ii) The Presiding Officer or any other member shall not be removed except by the

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Order of CG after proper enquiry and proved misbehavior or incapacity only.

(iii) The Central Government has the power to lay down the procedures for any investigations.

(iv) The Presiding Officer and every other member shall be given an opportunity of being heard before making any judgment.

Procedure of Securities Appellate Tribunal

The SAT has all the powers to regulate their own procedure including the places at which they shall have their sittings.

Requirement for Appeal to the Tribunal

(i) Appeal is to be filed in Securities Appellate Tribunal having the jurisdiction in the matter;
(ii) No appeal shall lie from an order made by SEBI or an Adjudicating Officer with the consent of the parties;
(iii) Every appeal shall be filed within a period of 45 days from the date of copy of the order;
(iv) After the receipt of the appeal, the Securities Appellate Tribunal may, after giving the parties to the appeal an opportunity of being heard, pass such order thereon as it thinks fit, confirming, modifying or setting aside the order appealed against;
(v) The decision on every filed shall be made within a period of 6 months.

Powers of the Securities Appellate Tribunal as a Civil Court

SAT has been vested with the same powers as that of a civil court:
(i) The discovery and production of books of accounts and other documents;
(ii) Summoning and enforcing the attendance of persons and examining them on oath;
(iii) Inspection of books, registers and other related instruments of intermediaries;
(iv) Inspection of books, registers and other related instruments of any listed company or a public company intending to get itself listed;
(v) Issuing commission for the examination of the witnesses or documents.

Legal Representation

The Appellant has the power to appear in person or authorize one or more practicing Company Secretaries, Chartered Accountants or legal practitioners to present his or its case before the SAT.

Limitation

The provisions of the Limitation Act, 1963 will apply to an appeal made to the SAT.

Public servants

The Presiding Officer and other employees of the SAT shall be the public servants as per the Indian Penal Code.

Jurisdiction of Civil Court

No civil court has any power to entertain any suit or proceedings in respect of any matter in the Act, for which the jurisdiction has been given to the Adjudicating Officer.

Appeal to Supreme Court

Any person aggrieved by an order of the SAT shall file an appeal to the Supreme Court within a period of 60 days.

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Powers of Central Government

To Issue Directions:

The Central Government has the power to issue directions in writing to SEBI on question of policy as it may deem fit from time to time.

To Supersede the Board:

The Central Government has the power to supersede the Board for such period, not more than 6 months, as may be notified, after the satisfaction of necessary conditions.

Effects of Notification

(i) All the members shall vacate the office;
(ii) All the powers and functions discharged by SEBI will be now discharged by the persons appointed in this behalf by the Central Government;
(iii) All the property owned and controlled by SEBI shall vest in the Central Government.

Appeal to the Central Government

Any person aggrieved by the order of SEBI shall prefer an appeal to the Central Government within such time made under prescribed form and manner.

Offences and Punishments

Contravention of any of the Provisions, Rules and Regulations of the Act:

It shall be punishable with imprisonment for a term which may extend to 10 years or with fine which may expend to Rs.25 crore or with both.

Failure to Pay any Penalty Imposed by the Adjudicating Officer:

It shall be punishable with imprisonment for a term which may extend to 10 years or with fine which may expend to Rs.25 crore or with both.

Power to Grant Immunity

(i) The CG has the power to grant immunity in certain cases from prosecution for any offence under this Act with respect to the alleged violation;
(ii) No court shall take cognizance of any offence punishable under this Act;
(iii) No court inferior to that of a Court of Session shall try any offence punishable.

Power to make Rules and Regulations

The CG has the power to make rules for all or any of the following matters:-
(i) Term of office and condition of service of Chairman or any other officer;
(ii) Additional functions to be performed by the SEBI;
(iii) The manner of maintaining the accounts by SEBI;
(iv) The manner of enquiry by the Adjudicating Officer;
(v) The salaries and allowances;
(vi) The procedure for investigation of misbehavior and incapacity;
(vii) The form in which appeal may be filed;
(viii) The form and manner in which the reports and returns are to be made.

The SEBI has the power to make regulations in respect of the following matters:-
(a) The timings and places of meetings of SEBI;
(b) Term of office and condition of service of Chairman or any other officer of SEBI;
(c) The matters relating to issue of capital, transfer of securities;
(d) The conditions subject to which certificate of registration is to be issued.

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UNIT 3: DEPOSITORIES ACT, 1996

INTRODUCTION

In order to provide a safe and efficient system of trading and settlement problems and in order to provide the regulatory framework for the depositories, the Depositories Act, 1996 was enacted.

There are two depositories functioning in India i. e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). A depository is like a Central Bank where the securities of a shareholder are held in the electronic form at the request of the shareholders.

*As per Depositories Act, 1996, "**Depository** means a company formed and registered under the Companies Act, 2013 and which has been granted a certificate of registration under Section 12(1A) of the Securities and Exchange Board of India Act, 1992".*

It is an organization which is responsible to maintain investor's securities in the electronic form is called the depository. In India, there are two such organizations viz. NSDL and CDSL. The depository concept is similar to the Banking system with the exception that banks handle funds whereas a depository handles securities of the investors. An investor wishing to utilize the services offered by a depository has to open an account with the depository through a Depository Participant.

In short, a depository can be treated as a "Bank" for securities.

DIFFERENCE BETWEEN DEPOSITORY AND CUSTODIAN

	Depository	Custodian
Function	It is responsible for "safe keeping" of securities but also transfers beneficial ownership to the real owner.	It is responsible for "safe keeping" of securities but does not transfer beneficial ownership to the real owner.
Act	There is a separate Act i. e. Depositories Act, 1996, apart from SEBI (Depositories and Participant) Reg., 1996	There is no separate Act and it is regulated by SEBI (Custodian of Securities) Reg., 1996

DEPOSITORY SYSTEM VS. BANKING

It is like the banking system. A depository holds securities in accounts for its clients and transfers securities from one account to another. Earlier, the investors were using the share certificate which has many risks like risk of losing share certificate and risk of bad deliveries. In depository system, above risks have been phased out and it is as safe like your bank account.

BENEFITS OF DEPOSITORY SYSTEM

(a) Elimination of **bad deliveries**.
(b) Elimination of **all risks** associated with the physical certificates.
(c) It facilitates the **immediate transfer** and registration of the securities.
(d) It facilitates **faster disbursement** of non – cash corporate benefits like rights, bonus, etc.
(e) It **reduces the brokerage** for trading in dematerialized securities.
(f) Elimination of **paper work** and recording of transactions like transfer of shares.
(g) Elimination of problems related to **change** of the address of investor, transmission, etc.
(h) Elimination of problems related to selling securities on behalf of **minor**.

MODELS OF DEPOSITORY

Dematerialization: It is a process of conversion of physical share certificate into electronic form. So, when a shareholder uses the dematerialization facility, a company takes back the shares, through depository system and equal number of

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	shares is credited in his De – mat account in electronic form. The investors can dematerialize only those shares certificate that are already registered in their name and belong to the list of securities admitted for dematerialized at the depositories. This method is cost effective and simple and has been adopted in India. An Investor will have to first open an account with a Depository Participant and then request for Dematerialization of his share certificate through the Depository Participant so that the dematerialized holdings can be credited into that account. This is very similar to opening a bank account. Dematerialization of shares is optional and an investor can still hold shares in physical form. However, he/ she has to Demat the shares if he/she wishes to sell the same through stock exchanges. Similarly, if an Investor purchases shares from stock exchange, he/she will get the delivery of shares in Demat form. **Immobilization**: Where physical share certificates are kept in vaults with the depository for safe custody. All subsequent transactions in these securities take place in book entry form. The actual owner has the right to withdraw his physical securities as and when desired. The immobilization of fresh issue may be achieved by issuing a jumbo certificate representing the entire issue in the name of depository, as nominee of the beneficial owners.
DEPOSITORY PARTICIPANT	• A Depository Participant (DP) is the **representative** of the investor in the depository system providing link between the Company and investors through depositories. • An investor opens its Demat Account with a Depository Participants for keeping its securities in electronic form. • As per SEBI regulations, DP could be organizations involved in the business of providing financial services like banks, brokers, custodians and financial institutions. • In short, it is a market intermediary through whom the depository services can be availed by the investors is called a Depository Participant (DP). **Functions of the Depository Participant in connection with Dematerialization:** (a) Acts as the agent of Depository; (b) Customer interface of Depository; (c) Account Opening; (d) Facilitates dematerialization; (e) Instant transfer on payout; (f) Credits to investor on IPO, rights and bonus; (g) Settles trades in the electronic segment. **Functions of the Registrar/Issuer in connection with Demat Account:** (a) Dematerialization; (b) Confirmation of Beneficiary Holdings; (c) Corporate actions – Rights, Bonus, etc.; (d) Reconciliation of Depository Holdings; (e) Dematerialization
LEGAL FRAMEWORK	The Depository business in India is regulated by: (i) The Depositories Act, 1996 (ii) SEBI (Depositories and Participants) Regulations, 1996 (iii) By Laws of Depositories (iv) Business Rules of Depository

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	Apart from the above, Depositories are also governed by certain provisions of: (i) Companies Act, 2013 (ii) Income Tax Act, 1961 (iii) SEBI Act, 1992 (iv) Securities Contract Regulations Act, 1956
THE DEPOSITORIES ACT, 1996	**Objectives:** (a) It acts as a legal basis for establishment of depositories; (b) Dematerialization of securities in the depositories mode becomes possible; (c) Making the securities fungible; (d) Making the shares, debentures and any interest thereon of a public limited company freely transferable; (e) Exempting all transfers of shares from the stamp duty. **Eligibility for depository system:** Any company or institution must: (a) Be formed and registered as a company under the Act; (b) Be registered with SEBI as a depository; (c) Have framed bye – laws with the previous approval of SEBI; (d) Have one or more participants; (e) Have adequate systems and safeguards to prevent manipulation of the records; (f) Comply with the Depositories Act, 1996 & SEBI (Depositories & Participants) Regulations, 1996; (g) Meet all the eligibility criteria. **Eligible securities required to be in Depository mode:**The Act gives the option to the investors to receive securities in physical form or in depository mode. It is not necessary that all eligible securities must be in the depository mode. In the scheme of the depository's legislation, the investor has been given supremacy. The investor has the choice of holding physical securities or opt for a depository based ownership record. However, in case of fresh issue of securities, all securities have to be in dematerialized form. However, after that investor will also have the freedom to switch from depository mode to non-depository mode and vice versa. The decision would be entirely with the investor. **Fungibility:** Fungibility means interchangeable or exchangeability. 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 of entry into depository. It is like withdrawing money from the bank without bothering about the distinctive numbers of the currencies. In short, if a security or commodity is fungible if it is perfectly interchangeable with any other of the same type and class securities or commodities. Most financial securities are fungible a share in a particular company is exactly the same as another share in the same company. Fungibility is the property of a good or a commodity whose individual units are capable of mutual substitution. **Rights of Depositor and the Beneficial Owner:** The depository becomes the registered owner for the purpose of transferring ownership of securities on behalf of the beneficial owner. The beneficial owner possesses all the rights and benefits and is subjected to all the liabilities in respect of securities held by a depository. **Register of Beneficial Owner**: Every depository is required to maintain a register and an index of beneficial owners in the manner provided in the companies act.

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Pledge or Hypothecation of Securities held in a Depository: A beneficial owner may with the previous approval of depository create a Pledge or Hypothecation in respect of security owned by him through a depository. Every beneficial owner should give intimation of such pledge or hypothecation to the DP 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.

Option to opt out in respect of any security: If a beneficial owner seeks to opt out of a depository in respect of any security he should inform the depository accordingly. Every issuer may, within 30 days of the receipt of intimation from the depository and on fulfillment of such conditions and on payment of such fees, issue the certificate of securities to the beneficial owner.

Depositories to Indemnify Loss in certain cases: Any loss caused to the beneficial owner due to the negligence of the depository or the participant, would be indemnified by the depository to such beneficial owner. Where the loss due to the negligence of the participant is indemnified by the depository, the depository has the right to recover the same from such participant.

Powers of SEBI:
1) SEBI in the public interest or in the interest of investors may by order in writing call upon any issuer, depository, participant or beneficial owner to furnish in writing such information relating to the securities held in a depository as it may required;
Or
Authorise any person to make an enquiry or Inspection in relation to the affairs of the issuer, beneficial owner, depository or participant, who shall submit a report of such enquiry or inspection to it within such period as may be specified in the order.

2) Every director, manager, partner, secretary, officer or employee of the depository or issuer or the participant or beneficial owner shall on demand produce before the person making the enquiry or inspection all information or such records and other documents in his custody having a bearing on the subject matter of such enquiry or inspection.

3) if after making enquiry or inspection, SEBI is satisfied that it is necessary in the interest of investors, or orderly development of securities market or to prevent the affairs of any depository or participant being conducted in the manner detrimental to the interest of investors or securities market, SEBI may issue **such directions** to any depository or participant or any other person associated with the securities market, or to any issuer as may be appropriate in the interest of investors or securities market.

Power of the Board to give Directions: SEBI may after proper investigations and enquiry, issue such directions to any depository or participant or any person associated with the securities market or to any issuer which may be in the interest of investors or the securities market or to prevent the affairs of any depository or participant being conducted in the manner detrimental to the interest of investor or securities market.

Penalties under the Act:
1. Penalty for failure to furnish information/ Return/ Documents/ Report to the board; Maintain books of accounts or records.
2. Penalty for failure to enter into Agreement.
3. Penalty for failure to redress investor's Grievances
4. Penalty for delay in dematerialization or Issue of Certificate of Securities

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5. Penalty for failure to reconcile records.

One Lakh rupees for each day during which such failure continues or One Crore; Whichever is Less.

Penalty for contravention where no separate penalty has been provided:
Which may extend to one crore rupees.

Appeal to Securities Appellate Tribunal:
Any person aggrieved by an order of SEBI or by an adjudicating officer under this act may prefer an appeal to a SAT having jurisdiction in the matter. However, No appeal shall lie to SAT from an order made by SEBI with the consent of the parties. Every appeal shall be filed within a period of 45 days from the date on which a copy of the order made by SEBI is received by the person and it shall be in such form and be accompanied by such fees as may be prescribed.

Provided that the SAT may entertain an appeal after the expiry of the said period of 45 days if it is satisfied that there was sufficient cause for not filing it within that period.

On receipt of an appeal, SAT may pass such order as it thinks fit, confirming, modifying or setting aside the order appealed against after giving opportunity of being heard.

SAT shall send a copy of every order made by it to SEBI and parties to the appeal. The appeal filed before SAT shall be dealt with by it as expeditiously as possible and Endeavour shall be made by it to dispose of appeal finally within 6 months from the date of receipt of the appeal.

Appeal to Supreme Court:
Any person aggrieved by any decision or order of SAT may file an appeal to Supreme Court within 60 days from the date of communication of decision or order of SAT to him on any question of law arising out of such order.

Provided that Supreme Court may, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow within a further period not exceeding 60 days.

Power of SEBI to make Regulations:
- The requirements to be complied with by a person for seeking registration as a Depository with SEBI
- The requirements for registration of a person as a Participant under SEBI act;
- The requirements for grant of certificate of commencement of business by depositories and the form in which the certificate of commencement of business has to be issued.
- The manner in which the certificate of security shall be surrendered to the issuer by any investor who is desirous of availing depository services.
- The manner in which the issuer has to cancel the certificates of securities received by it for cancellation and its intimation to the depository.
- The eligibility criteria for admission of securities into the depository
- The rights and obligation of depositories, participants and the issuers whose securities are dealt with by a depository.
- The requirements to be complied with by a beneficial owner for creating with the previous approval of depository, pledge or hypothecation in respect of a security owned by him through depository.
- The conditions and fees payable with respect to the issuer of certificate of securities to the beneficial owner where the beneficial owner seeks to opt out

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	of the depository.
SECURITIES AND EXCHANGE BOARD OF INDIA(DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 2018 w.e.f 3rd October 2018	
APPLICATION FOR GRANT OF CERTIFICATE OF REGISTRATION (REGULATION 3)	(1)No person shall establish a Depository unless he has obtained registration from the Board in accordance with the Act, the Depositories Act, 1996 and these regulations. (2) An application for the grant of a certificate of registration as a depository shall be made to the Board by an applicant in Form A of the First Schedule, shall be accompanied by the fee specified in Part A of the Second Schedule and be paid in the manner specified in Part B thereof. (3) The application shall be accompanied by draft bye-laws of the depository that is proposed to be set-up.
APPLICATION TO CONFORM TO THE REQUIREMENTS (REGULATION 4)	• An application in Form A of the First Schedule which is not complete in all respects and **does not conform** to the instructions specified therein **shall be rejected**: • Provided that before rejecting any such application, the applicant shall be given in writing an opportunity **to remove**, within thirty days of the date of communication in this regard, **the objections** indicated by the Board: • Provided further that the Board may, on being satisfied that it is necessary to **extend the period** specified in the first proviso, extend such period by such further time as it thinks necessary in order to enable the applicant to remove the objections indicated by the Board.
FURNISHING OF INFORMATION, CLARIFICATION AND PERSONAL REPRESENTATION (REGULATION 5)	(1) The Board may require the applicant to furnish such further information or clarification regarding matters relevant to the activity of the depository for the purpose of consideration of the application. (2) The applicant or his authorised representative shall, if so required, appear before the Board for personal representation, in connection with the grant of certificate of registration.
CONSIDERATION OF APPLICATION (REGULATION 6)	(1) The Board shall not consider an application under regulation 3, unless the applicant belongs to the category of shareholders eligible to hold upto 15% share capital of the depository in terms of sub-regulation (1) and (2) of regulation 21. (2) The Board shall not consider an application under regulation 3, unless the applicant is **a fit and proper person as** described in sub-regulation 2 of regulation 23.
GRANT OF CERTIFICATE OF REGISTRATION (REGULATION 7)	After considering the application under regulation 3, with reference to the qualifications specified in regulation 6, if the Board is satisfied that the company established by the applicant is eligible to act as depository, it may grant a certificate of registration in Form B of the First Schedule to the depository subject to the following, namely :— (a)the depository **shall pay the registration fee** specified in Part A of the Second Schedule in the manner specified in Part B thereof, within **fifteen days** of receipt of intimation from the Board; (b)the depository shall comply with the provisions of the Act, the Depositories Act, the bye-laws, agreements and these regulations;

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	(c)the depository shall not carry on any activity whether involving deployment of funds or otherwise without prior approval of the Board: Provided that prior approval of the Board shall not be required in case of treasury investments if such investments are as per the investment policy approved by the governing board of depository. Provided further that a depository may carry out such activity not incidental to its activities as a depository, whether involving deployment of funds or otherwise, as may be assigned to the depository by the Central Government or by a regulator in the financial sector, through the establishment of Strategic Business Unit(s) specific to each activity with the prior approval of the Board and subject to such conditions as may be prescribed by the Board, including transfer of such activity to a separate company within such time as may be specified by the Board having regard to the matters which are relevant to the efficient and orderly function of the Depository as mentioned in regulation 14. Explanation: For the purposes of this clause, a Strategic Business Unit shall be an organizational unit of a company with its own mission, objectives and business strategy that is given the responsibility to serve the particular demands of one business area with appropriate technological, financial and other segregations. (d) the shareholding of the applicant in the depository shall be locked-in for a period of five years from the date of grant of registration by the Board. (e) the depository complies with the shareholding and governance structure requirements specified in these regulations; (f)if any information previously submitted by the depository or the applicant to the Board is found to be false or misleading in any material particular, or if there is any change in such information, the depository shall forthwith inform the Board in writing; (g)the depository shall redress the grievances of the participants and the beneficial owners within thirty days of the date of receipt of any complaint from a participant or a beneficial owner and keep the Board informed about the number and the nature of redressals; (h)the depository shall make an application for commencement of business under regulation 11within one year from the date of grant of certificate of registration under this regulation; and (i)the depository shall amend its bye-laws from time to time as may be directed by the Board; (j) any other condition as the Board may deem fit in the interest of securities market.
ELIGIBILITY REQUIREMENT (REGULATION 14)	(1) The Board shall take into account for considering grant of certificate of commencement of business, all matters which are relevant to the efficient and orderly functioning of the depository and in particular, the following, namely, whether— (a) the depository has a ***net worth*** of not less than rupees one hundred crores;

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	(b) the ***bye-laws*** of the depository have been approved by the Board; (c) the ***automatic data processing systems*** of the depository have been ***protected*** against unauthorised access, alteration, destruction, disclosure or dissemination of records and data; (d) the ***network*** through which continuous electronic means of communications ***are established*** between the depository, participants, issuers and issuers' agents is secure against unauthorised entry or access; (e) the depository has established ***standard transmission and encryption*** formats for electronic communications of data between the depository, participants, issuers and issuers' agents; (f) the ***physical or electronic access*** to the premises, facilities, automatic data processing systems, data storage sites and facilities including back up sites and facilities and to the electronic data communication network connecting the depository, participants, issuers and issuers' agents ***is controlled, monitored and recorded***; (g) the depository has a ***detailed operations manual*** explaining all aspects of its functioning, including the interface and method of transmission of information between the depository, issuers, issuers' agents, participants and beneficial owners; (h) the depository has established ***adequate procedures and facilities*** to ensure that its records are protected against loss or destruction and arrangements have been made for maintaining back up facilities at a location different from that of the depository; (i) the depository has made ***adequate arrangements*** including insurance for indemnifying the beneficial owners for any loss that may be caused to such beneficial owners by the wrongful act, negligence or default of the depository or its participants or of any employee of the depository or participant; and (j) the grant of certificate of commencement of business is in the interest of ***investors in the securities market***. (2) The Board shall, before granting a certificate of commencement of business under this Chapter make a ***physical verification of the infrastructure facilities and systems*** established by the depository.
NETWORTH CERTIFICATE (REGULATION 15)	(1) Every depository shall ***maintain networth*** as specified under regulation 14 (1) (a) at all times and ***submit an audited networth certificate*** from the statutory auditor on a yearly basis, by the thirtieth day of September of every year for the preceding financial year. Explanation: For the purposes of this regulation, 'networth of a depository' means the aggregate value of paid up equity share capital and free reserves (excluding statutory funds, benefit funds and reserves created out of revaluation) reduced by the investments in businesses, whether related or unrelated, aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off. (2) Every depository shall within one month of the date of the holding of its annual general meeting, furnish to the Board a copy of its audited balance-sheet and profit and loss account for the preceding financial year.

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SHAREHOLDING IN A DEPOSITORY (REGULATION 21)	(1) No person ***resident in India*** shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than ***five percent of the paid up equity share capital*** in a Depository: Provided that,— (i) a stock exchange; (ii) a depository; (iii) a banking company; (iv) an insurance company; and (v) a public financial institution, may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, ***upto fifteen percent of the paid up equity share capital*** of a Depository. (2) No person ***resident outside India***, directly or indirectly, either individually or together with persons acting in concert, shall acquire or hold more than ***five percent of the paid up equity share capital*** in a Depository: Provided further that,- (i) a foreign stock exchange; (ii) a foreign depository; (iii) a foreign banking company; (iv) a foreign insurance company; (v) a foreign commodity derivatives exchange; and (vi) a bilateral or multilateral financial institution approved by the Central Government, may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, ***upto fifteen percent of the paid up equity share capital*** of a Depository. Explanation: For the purposes of proviso to sub-regulation (2), the persons referred to in clauses (i) to (vi) shall mean persons recognised/ incorporated outside India. (3) Subject to the limits as otherwise prescribed by the Central Government from time to time, the combined holding of ***all persons resident outside India*** in the paid up equity share capital of a depository shall not exceed, at any time, ***forty-nine percent of its total paid up equity share capital***. (Overall Limit for persons resident outside India)
RECORDS TO BE MAINTAINED (REGULATION 54)	(1) Every depository shall maintain the following records and documents, namely :— (a) records of securities dematerialised and rematerialised; (b) the names of the transferor, transferee, and the dates of transfer of securities; (c) a register and an index of beneficial owners; (d) details of the holding of the securities of beneficial owners as at the end of each day; (e) records of instructions received from and sent to participants, issuers, issuers' agents and beneficial owners; (f) records of approval, notice, entry and cancellation of pledge or hypothecation, as the case may be; (g) details of participants; (h) details of securities declared to be eligible for dematerialisation in the depository; and (i) such other records as may be specified by the Board for carrying on the

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	activities as a depository. (2) Every depository ***shall intimate the Board the place*** where the records and documents are maintained. (3) Subject to the provisions of any other law the depository shall preserve records and documents for a ***minimum period of eight years***.
AUDIT (REGULATION 76)	(1) Every issuer shall ***submit audit report on a quarterly basis***, starting from September 30, 2003, to the ***concerned stock exchanges*** audited by a ***qualified Chartered Accountant or a practicing Company Secretary***, for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital. (2) The audit report under sub-regulation (1) shall also give the ***updated status*** of the register of members of the issuer and confirm that securities have been dematerialized as per requests within twenty one days from the date of receipt of requests by the issuer and where the dematerialization has not been effected within the said stipulated period, the report shall disclose the reasons for such delay. (3) The issuer shall immediately bring to the notice of the depositories and the stock exchanges, any difference observed in its issued, listed, and the capital held by depositories in dematerialised form.
MANNER OF CREATION OF PLEDGE OR HYPOTHECATION (REGULATION 79)	(1) If a beneficial owner intends to create a pledge on a security owned by him he shall ***make an application*** to the depository ***through the participant*** who has his account in respect of such securities. (2) The participant after satisfaction that the securities are available for pledge ***shall make a note*** in its records of the notice of pledge and forward the application to the depository. (3) ***Within fifteen days*** of receipt of the application, the depository shall after concurrence of the pledgee through its participant, ***create and record the pledge*** and send an intimation of the same to the participants of the pledger and the pledgee. (4) On receipt of the intimation under sub-regulation (3) the participants of both the pledger and the pledgee ***shall inform*** the pledger and the pledgee respectively of the entry of creation of the pledge. (5) If the depository does not create the pledge, it shall send along with the reasons and intimation to the participants of the pledger and the pledgee. (6) The entry of pledge made under sub-regulation (3) ***may be cancelled*** by the depository if pledger or the pledgee makes an application to the depository through its participant: Provided that no entry of pledge shall be cancelled by the depository ***without prior concurrence of the pledgee***. (7) The depository on the cancellation of the entry of pledge shall inform the participant of the pledger.

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	(8) Subject to the provisions of the pledge document, the pledgee may ***invoke the pledge*** and on such invocation, the depository shall ***register the pledgee as beneficial owner*** of such securities and amend its records accordingly. (9) After amending its records under sub-regulation (8) the depository shall ***immediately inform the participants*** of the pledger and pledgee of the change who in turn shall make the necessary changes in their records and inform the pledger and pledgee respectively. (10) If a beneficial owner intends to create a hypothecation on a security owned by him he may do so in accordance with the provisions of sub-regulations (1) to (9). (*Same procedure for Pledge & Hypothecation*) (11) The provisions of sub-regulations (1) to (9) shall mutatis mutandis apply in such cases of hypothecation: Provided that the depository before registering the hypothecatee as a beneficial owner shall obtain the prior concurrence of the hypothecator. (12) No transfer of security in respect of which a notice or entry of pledge or hypothecation is in force shall be effected by a participant without the concurrence of the pledgee or the hypothecatee, as the case may be. (*Restriction on Transfer of Pledged Securities*)
LISTING (REGULATION 83)	(1) Subject to the provisions of applicable laws in force, a depository may apply for listing of its securities on a recognised stock exchange if,— (a) it is ***compliant with the provisions*** of these regulations particularly those relating to ownership and governance; (b) it has ***completed three years*** of continuous depository operations immediately preceding the date of application of listing; and (c) it has ***obtained approval*** of the Board. (2) The Board may specify such conditions as it may deem fit in the interest of the securities market including those in relation to transfer of shares held by any person. (3) A depository or its associates shall not list its securities on a recognized stock exchange that is an associate of the depository.
ELIGIBILITY REQUIREMENT FOR DEPOSITORY PARTICIPANT REGISTRATION (REGULATION 35)	(a) the applicant belongs to one of the following categories,— (i) a ***public financial institution*** as defined in section 2(72) of the Companies Act, 2013; (ii) a ***bank*** included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934; (iii) a ***foreign bank*** operating in India with the approval of the Reserve Bank of India; (iv) a ***State Financial Corporation*** established under the provisions of section 3 of the State Financial Corporations Act, 1951 (63 of 1951); (v) an institution engaged in providing ***financial services***, promoted by any of the institutions mentioned in sub-clauses (i), (ii), (iii) and (iv), jointly or severally;

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	(vi) a ***custodian*** of securities who has been granted a certificate of registration by the Board under sub-section (1A) of section 12 of the Act; (vii) a ***clearing corporation*** or a clearing house of a stock exchange; (viii) a ***stock broker*** who has been granted a certificate of registration by the Board under sub-section (1) of section 12 of the Act : Provided that the stock broker shall have a minimum net worth of rupees ***fifty lakhs*** and the aggregate value of portfolio of securities of the beneficial owners held in dematerialised form in a depository through him, shall not exceed hundred times of the net worth of the stock broker: Provided further that if the stock broker seeks to act as a participant in more than one depository, he shall comply with the criteria specified in the first proviso separately for each such depository: Provided also that where the stock broker has a minimum net worth of rupees ten crore, the limits on the aggregate value of the portfolio of securities of the beneficial owners held in dematerialized form in a depository through him shall not be applicable; (ix) a ***non-banking finance company***, having a net worth of not less than rupees fifty lakhs: Provided that such company shall act as a participant only on behalf of itself and not on behalf of any other person: Provided further that a non-banking finance company may act as a participant on behalf of any other person, if it has a net worth of rupees fifty crore in addition to the net worth specified by any other authority; (x) a ***registrar to an issue or share transfer agent*** who has a minimum net worth of rupees ten crores and who has been granted a certificate of registration by the Board under sub-section (1) of section 12 of the Act; (b) the applicant is eligible to be admitted as a participant of the depository through which it has made the application to the Board; (c) the applicant has adequate infrastructure, systems, safeguards and trained staff to carry on activity as a participant; (d) the applicant is a fit and proper person; and (e) the grant of certificate of registration is in the interests of investors in the securities market.
ACTING AS PARTICIPANT IN MORE THAN ONE DEPOSITORY (REGULATION 38)	(1) A participant who has been granted a certificate of registration ***may act*** as a participant of another depository ***without obtaining separate certificate*** of registration subject to approval by such other depository. (2) Such a participant who desires to act as a participant of another depository shall apply to such other depository for approval in the manner as specified by the Board. (3) On receipt of an application under sub-regulation (2), the depository shall, on being satisfied with the compliance of the provisions of these regulations and

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	other relevant eligibility requirements specified by the Board, grant approval to act as its participant subject to payment of registration fees specified in Part A of Second Schedule in the manner specified in Part B thereof, by the participant ***within fifteen days*** of the receipt of intimation from the depository. (4) The depository shall ***inform the Board*** about the approval granted under sub-regulation (5) A participant who has been granted approval under sub-regulation (3) shall pay annual fees separately for each depository. (6) To keep the registration in force, a participant who has been granted approval under sub-regulation (3) shall pay registration fees for every five years from the sixth year of the date of grant of approval by the depository.
COMPOSITION OF GOVERNING BOARD (REGULATION 24)	(1) The governing board of every depository shall include: (a) shareholder directors; (b) public interest directors; and, (c) managing director. (2) Subject to prior approval of the Board, the chairperson shall be elected by the governing board from amongst the ***public interest directors***. (3) The number of public interest directors shall not be less than the number of shareholder directors on the governing board of a Depository. (4) The number of public interest directors shall not be less than the number of shareholder directors to constitute the quorum for the meeting of the governing board. (5) The voting on a resolution in the meeting of the governing board shall be valid only when the number of public interest directors that have cast their vote on such resolution is equal to or more than the number of shareholder directors who have cast their vote on such resolution. (6) The casting vote in the meetings of the governing board of the depository shall be with the chairperson of the governing board. (7) The managing director shall be included in the category of shareholder directors. (8) Any employee of a depository may be appointed on the governing board in addition to the managing director, and such director shall be deemed to be a shareholder director: (9) No depository participant or their associates and agents, irrespective of the depository of which they are members, shall be on the governing board of a depository. (10) A person who is a director in an entity, that itself is a depository participant or has associate(s) as depository participant, he/she will be deemed to be a depository participant: Provided a person shall not be deemed to be Depository Participant or their associate for the purpose of sub-regulation 10, if he/she is on the board of a Public Financial Institution or Bank which is in public sector, or which has no identifiable ultimate promoter, or the ultimate promoter is in public sector or has

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	well diversified shareholding, and such Public Financial Institution or Bank or its associate is a Depository Participant: Provided further that the independent directors of associates of Public Financial Institution or Bank in public sector, who is a Depository Participant and where the majority shareholding is that of such Public Financial Institution or Bank in public sector, shall not be deemed to be Depository Participant for the purpose of sub-regulation 10. (11) The appointment of director shall be subject to fulfillment of other requirements and satisfaction of the Board. (12) Depository shall monitor and ensure the compliance of sub-regulation 9 on continuous basis, to ensure that directors appointed, on their governing board, do not get associated with Depository Participant after approval and appointment. (13) No foreign portfolio investor shall have any representation in the governing board of a depository.
CONDITIONS OF APPOINTMENT OF DIRECTORS (REGULATION 25)	(1) The appointment and re-appointment of all shareholder directors on the governing board of every depository shall be with the ***prior approval of the Board***. (2) The ***public interest directors*** on the governing board of a depository shall be ***nominated by the Board***. (3) Public interest directors shall be nominated for a ***term of three years***, extendable by another term of three years, subject to performance review in the manner as may be specified by the Board: Provided that post the expiry of term(s) at a depository, a public interest director may be nominated for a term of three years in other depository or recognized stock exchange or a recognized clearing corporation, ***only after a cooling-off period of one year***. Provided further that a person shall be nominated as a public interest director for a ***maximum of three terms*** across a depository / a recognized stock exchange / a recognized clearing corporation, subject to a ***maximum age limit of seventy five years***. (4) A public interest director on the board of a depository shall not act simultaneously as director on the board of its subsidiary or on the board of any other depository or recognized stock exchange or recognized clearing corporation or on the board of subsidiary of such other depository or recognized stock exchange or recognized clearing corporation. (5) A public interest director on the board of a depository shall not act simultaneously as member on more than five committees of that depository. (6) A public interest director on the board of a depository shall keep its governing board apprised of any conflict of interest, which may arise as a result of the public interest director providing services, either directly or indirectly, to depository participants or their associates and agents. (7) No public interest director shall become a shareholder director unless there is a cooling-off period of three years after ceasing to be a public interest director

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	(8) No public interest director on the governing board of a depository shall become a director on the board of subsidiary of that depository unless there is a cooling-off period of three years after ceasing to be a public interest director. (9) Public interest directors shall be remunerated only by way of payment of sitting fees as admissible to independent directors in the Companies Act, 2013.
APPOINTMENT OF MANAGING DIRECTOR	(1) The appointment, renewal of appointment and termination of service of the managing director of a depository shall be subject to ***prior approval of the Board***. (2) Every depository shall, subject to the guidelines issued by the Board from time to time, determine the qualification, manner of appointment, terms and conditions of appointment and other procedural formalities relating to the selection/ appointment of the managing director. (3) The appointment of the managing director shall be for a ***term not exceeding five years***: Provided that post the completion of first term as Managing Director, the depository shall conduct the appointment process afresh: Provided further that a person may be appointed as Managing Director by the depository for a ***maximum of two terms not exceeding five years each subject to a maximum age limit of sixty five years***. (4) The managing director of a depository shall not— (a) be a shareholder or an associate of a shareholder of a depository or shareholder of an associate of a depository; (b) be a depository participant, or his associate and agent, or shareholder of a depository participant or shareholder of an associate and agent of a depository participant; or (c) hold any position concurrently in the subsidiary of a depository or in any other entity associated with a depository: Provided that the managing director of a depository may be appointed on the governing board, but not as managing director, of the subsidiary or associate of a depository. (5) The managing director shall be ***liable for removal*** or termination of services by the governing board of the depository with the prior approval of the Board ***for failure to give effect to the directions, guidelines and other orders issued by the Board***, or the rules, instructions, the articles of association and bye-laws of the depository. (6) The Board ***may suomotu remove*** or terminate the appointment of the managing director if deemed fit in the interest of securities market: Provided that no managing director shall be removed unless he has been given a reasonable opportunity of being heard.

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UNIT 4: SEBI(ISSUE OF CAPITAL & DISCLOSURE REQUIREMENTS) REGULATIONS, 2018

Chapter I	**Preliminary**
Chapter II	**Initial Public Offer on Main Board**
Chapter III	**Right Issue**
Chapter IV	**Further Public Offer**
Chapter V	**Preferential Issue**
Chapter VI	**Qualified Institutional Placement**
Chapter VII	**IPO of Indian Depository Receipts**
Chapter VIII	**Right Issue of Indian Depository Receipts**
Chapter IX	**IPO of Small & Medium Enterprises**
Chapter X	**Innovator's Growth Platform (Institutional Trading Platform)**
Chapter XI	**Bonus Issue**
Chapter XII	**Miscellaneous**

APPLICABILITY:
These regulations shall apply to the following:
(a) an initial public offer by an unlisted issuer;
(b) a rights issue by a listed issuer; where the aggregate value of the issue is ***ten crore rupees or more***;
(c) a further public offer by a listed issuer;
(d) a preferential issue by a listed issuer;
(e) a qualified institutions placement by a listed issuer;
(f) an initial public offer of Indian depository receipts;
(g) a rights issue of Indian depository receipts;
(h) an initial public offer by a small and medium enterprise;
(i) a listing on the **Innovator's Growth Platform** through an issue or without an issue; and
(j) a bonus issue by a listed issuer.

Provided that in case of rights issue of size less than ten crore rupees, the issuer shall prepare the letter of offer in accordance with requirements as specified in these regulations and file the same with the Board for information and dissemination on the Board's website.

Provided further that these regulations shall not apply to issue of securities under clause (b), (d) and (e) of sub-regulation (1) of regulation 9 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

IMPORTANT CONCEPTS

BOOK BUILDING	Book – building is **mechanism to discover price** for a public issue via bidding process. In this method, the issuer company sets a **base price (floor price) and a price band** within which the investor is allowed to bid for shares. The book – building process in India is **very transparent**. All investors including small investors can see on an hourly basis where the book is being built before applying. According to this method, share prices are determined on the basis of real demand for the shares at various price levels in the market. **IMPORTANT PROVISIONS FOR BOOK BUILDING** (i) An issuer company may make an issue of securities to the public through a prospectus through **100% of the net offer** to the public through book building process. (ii) The issuer company is required to **enter into an agreement** with one or more of the Stock Exchange(s) which have the requisite system of on – line offer of securities. (iii) The Lead Merchant Banker shall act as the **Lead Book Runner**. In case the

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	issuer company appoints more than one merchant banker, the names of all such merchant bankers who have submitted the due diligence certificate to SEBI, may be mentioned on the front cover page of the prospectus. (iv) The lead book runner/issuer may designate, in any manner, the other Merchant Bankers if the **inter – se allocation of responsibilities** amongst the merchant bankers is disclosed in the prospectus on the page giving the details of the issue management team and a co – ordinator has been appointed amongst the lead book runners, for the purpose of co – ordination with SEBI. (v) The **primary responsibility** of building the book is of the **Lead Book Runner**. The Book Runner(s) may appoint those intermediaries who are registered with SEBI and who are permitted to carry on activity as an Underwriter as syndicate members. (vi) The brokers, and self-certified syndicate banks accepting applications and application monies, are considered as bidding/collection centres. (vii) The draft prospectus containing all the disclosures **except that of price and the number of securities** to be offered to the public shall be filed by the Lead Merchant Banker with SEBI. The total size of the issue shall be mentioned in the draft prospectus. (Red Herring Prospectus) (viii) The red herring prospectus shall disclose **either the floor price** of the securities offered through it **or a price band** along with the range within which the price can move, it any. (ix) Where the issuer decides to opt for price band instead of floor price, the lead book runner shall ensure that the **cap of the price band should not be more than 20% of the floor of the band**; i. e. cap of the price band shall be less than or equal to 120% of the floor of the price band. (x) The issuer company shall **circulate the application forms** to the Brokers. (xi) The pre – issue obligations and disclosure requirements shall be applicable to issue of securities through book building unless stated otherwise in these regulations. (xii) The Lead Book Runner(s) and the issuer company shall determine the issue price based on the bids received through the syndicate members and self-certified syndicate banks. (xiii) **Retail individual investors may bid at "cut off"** price instead of their writing the specific bid prices in the bid forms. (xiv) On determination of the price, the number of securities to be offered shall be determined i. e. issue size divided by the price which has been determined. (xv) Once the final price (cut – off price) is determined all those bidders whose bids have been found to be successful shall become entitled for allotment of securities. (xvi) The broker may collect an amount **to the extent of 100% of the application money as margin money** from the clients/investors before he places an order on their behalf. The margin collected from categories other than Qualified Institutional Buyers shall be uniform across the book runner(s)/syndicate members/self-certified syndicate banks, for each such category.

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	(xvii) The broker/syndicate members shall collect an amount of: ⇨ **not less than ten percent** of the application money as margin money in respect of bids placed by qualified institutional buyers and ⇨ **not less than twenty – five percent** of the application money from the Anchor Investors shall be taken as margin money. (xviii) The lead book runner **may reject** a bid placed by a qualified institutional buyer for reasons to be recorded in writing provided that such rejection shall be made at the time of acceptance of the bid and the reasons therefor shall be disclosed to the bidders. Necessary disclosures in this regard shall also be made in the offer document. (xix) On determination of the entitlement, the information regarding the same i. e. the number of securities which the investor becomes entitled shall be intimated immediately to the investors. (xx) The **final prospectus** containing all disclosures as per these Guidelines **including the price and the number of securities** proposed to be issued shall be filed with the Registrar of Companies. (xxi) Arrangement shall be made by the issuer for collection of the applications by **appointing mandatory collection centres** as per these Regulations. (xxii) The bidding terminals shall contain **an online graphical display of demand and bid prices updated at periodic intervals not exceeding 30 minutes**. The book running lead manager shall ensure the availability of adequate infrastructure with syndicate members for data entry of the bids in a timely manner. (xxiii) The investors who had not participated in the biding process or have not received intimation of entitlement of securities may also make an application.
ANCHOR INVESTORS	*"anchor investor" means a qualified institutional buyer who makes an application for a value of ten crore rupees or more in a public issue made through the book building process in accordance with these regulations.* ⇨ The anchor investor invests in an IPO **before** the offer opens to the public. ⇨ These investors fall under the category of **Qualified Institutional Buyers**. QIBs like mutual funds, foreign institutional investors (FII), banks, venture capitals, provident funds, pension funds etc. ⇨ The investors are got attracted to public offers before they hit the market to infuse a measure of confidence. The volume and value of the anchor subscriptions may serve as an **indicator of the company's reputation and soundness of the offer**. ⇨ Anchor investor means a qualified institutional buyer who makes an **application for a value of Rs.10 crores or more** in a public issue made through the book building process subject to the following regulations:- (i) Allocation to Anchor Investors shall be on a discretionary basis and subject to the following: (a) Maximum of 2 such investors shall be permitted for allocation up to 10 crore; (b) Minimum of 2 and maximum of 15 such investors shall be permitted for

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	allocation above Rs.10 crore and up to Rs.250 crore, subject to minimum allotment of Rs.5 crore per such investor; (c) Minimum of 5 and maximum of 25 such investors shall be permitted for allocation above Rs.250 crore, subject to minimum allotment of Rs.5 crore per such investor. (ii) Up to 60% of the portion available for allocation to QIB shall be available to anchor investor(s) for allocation/allotment. (iii) One – third of the anchor investor portion shall be reserved for domestic mutual funds. (iv) The bidding for Anchor Investors shall **open one day before** the issue opening date. (v) Anchor Investors shall **pay on application the same margin** which is payable by other categories of investors, the balance to be paid within two days of the date of closure of the issue. (vi) Allocation to Anchor Investors shall be completed on the day of bidding by Anchor Investors. (vii) There shall be a **lock – in of 30 days on the shares allotted to the Anchor Investor** from the date of allotment in the public issue. (viii) If the price fixed as a result of book – building is higher than the price at which the allocation is made to Anchor Investor, the Anchor Investor shall bring in the additional amount. However, if the price fixed as a result of book – building is lower than the price at which the allocation is made to Anchor Investor, the excess amount shall not be refunded to the Anchor Investor and the Anchor Investor shall take allotment at the price at which allocation was made to it. (ix) Number of shares allocated to Anchor Investors & price at which the allocation is made, shall be made available in public domain by merchant banker before opening of issue. (x) Neither the merchant bankers nor any person related to promoter/merchant bankers in the concerned public issue can apply under Anchor Investor category. The parameters for selection of Anchor Investor shall be clearly identified by the merchant banker and shall be available as part of records of the merchant banker for inspection by SEBI. (xi) Applications made by qualified institutional buyers under Anchor Investor category and under the Non Anchor Investor category may not be considered as multiple applications.
APPLICATION SUPPORTED BY BLOCKED AMOUNT (ASBA)	ASBA means "Application Supported by Blocked Amount". ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an issue. If an investor is applying through ASBA, his application money shall be debited from the bank account only if the application is selected for allotment after the basis of allotment is finalized. In other words, ASBA is a process for subscribing to a public issue. An investor authorities a Bank (SCSB) for blocking a specific amount in his account for the purpose of subscribing in a public Issue. The ASBA process is available in all public issues made through the book building route.

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Self-Certified Syndicate Bank (SCSB): (JUNE 2011) SCSB is a bank which is recognized by SEBI as a bank capable of providing ASBA services to its customers. SCSB offers the facility of applying through the ASBA process.

A bank desirous of offering ASBA facility shall submit a certificate to SEBI as per the prescribed format for inclusion of its name in SEBI's list of SCSBs. A SCSB shall also identify its Designated Branches (DBs) at which an ASBA investor shall submit ASBA application and shall also identify the Controlling Brach (CB) which shall act as a coordinating branch for the Registrar of the Issue, Stock Exchanges and Merchant Bankers.
The SCSB, its DBs and CB shall continue to act as such, for all issues to which ASBA process is applicable. The SCSB may identify new DBs for the purpose of ASBA process and intimate details of the same to SEBI, after which SEBI will add the DB to the list of SCSBs maintained by it. The SCSB shall communicate the following details to Stock Exchanges for making it available on their respective websites.

***Eligibility of Investors under ASBA Process*:**
An investor is eligible to apply through ASBA process, if he/she:
(i) Is a Resident Retail Individual Investor;
(ii) Is bidding at cut – off, with single option as to the number of shares bid for;
(iii) Is applying through blocking of funds in a bank account with the SCSB;
(iv) Has agreed not to revise his/her bid;
(v) Is not bidding under any of the reserved categories.

ASBA PROCESS
(i) An ASBA investor submits an application (physically/electronically) to the SCSB with whom the bank is maintained.
(ii) Thereafter, SCSB blocks the application money in the bank account as specified in the ASBA application.
(iii) The SCSB will inform to the company/Registrar to issue regarding such ASBA application.
(iv) Once SCSB blocks the application money the entire amount shall remain in the bank account till finalization of the basis of allotment by the issuer company.
(v) Once the basis of allotment finalized, the Registrar to Issue sends a request to the SCSB for transferring the blocked amount to the ESCROW account of the company.
(vi) Shares will be allotted or remitted to the Demat account of the investors/subscribers.

Note: In case of failure of the issue, the amount shall be unblocked by the SCSB on receipt of information from the merchant bankers. The amount shall be blocked till finalization of the basis of Allotment.

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BASIS	IPO	FPO	RIGHT ISSUE
Eligibility Requirements	An Issuer can make an initial public offering (IPO) of equity shares, only if it fulfils the following conditions:- <u>The Company has</u>: (i) Net tangible assets of at least Rs.3 crore in each of the preceding 3 full financial years (12 months each), of which not more than 50% is held in monetary assets. *However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has made firm commitments to utilize such excess monetary assets in its business or project. Further, the limit of 50% on monetary assets shall not be applicable in case the public offer is made entirely through offer for sale.* (ii) The company has a minimum average pre-tax operating profit of Rs. 15 Crores, calculated on a restated and consolidated basis, in each of these preceding three years; (iii) The Company has a Net worth of at least Rs.1 crore in each of the preceding 3 full years, calculated on a restated and consolidated basis; (iv) In case of change of name of the Company within the last one year, at least 50% of the revenue, calculated on restated & consolidated basis, for the preceding 1 full year is being earned by the company from the activity suggested by the new name **<u>ALTERNATIVE ELIGIBILITY NORMS FOR PUBLIC ISSUE</u>**: If a company does not satisfy the above conditions, it has to comply with the following conditions:- (a) If the public issue is made through the book – building process and the issuer undertakes to allot, at least 75% of the net offer to public, to qualified institutional buyers and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.	a) An Issuer may make an FPO, if it has changed its name within the last one year, at least 50% of the revenue, calculated on restated & consolidated basis, for the preceding 1 full year is being earned by the company from the activity suggested by the new name; b) If above condition not satisfied then, If the public issue is made through the book – building process and the issuer undertakes to allot, at least 75% of the net offer to public, to qualified institutional buyers and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.	No corresponding regulation
Pricing	**FACE VALUE OF EQUITY SHARES**	Same as IPO.	(1) The **issuer shall**

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	(Regulation 27): The disclosure about the face value of equity shares shall be made in the draft offer document, offer document, advertisements and application forms, along with the price band or the issue price in identical font size. **PRICING (Regulation 28):** **FREE PRICING:** A company may freely price its public issue of equity shares and in case of convertible securities, the Coupon Rate and Conversion Price, in consultation with Lead Manager or Book Building, as the case may be. The issuer shall undertake the book building process in the manner specified in Schedule XIII. **PRICE AND PRICE BAND (Regulation 29):** ➢ For Book Building Process: The issuer company has to announce price band in place of fixed price for the issue of securities. The price band shall be included in the red herring prospectus of the Company. ➢ For Other than Book Building Process: The issuer company has to fix price of issue of securities before submitting prospectus with the Registrar of Companies. (1) The issuer company can mention a price in the draft prospectus (in case of a fixed price issue) and floor price or price bank in the red herring prospectus (in case of a fixed built issue) and determine the price at a later date before registering the prospectus with the Registrar of Companies. However, The Final prospectus registered with the Registrar of Companies should contain only one price. (2) The cap on the price band shall be less than or equal to 120% of the floor price. (3) The floor price or the final price	In Regulation 29(4), there should be 1 working day instead of 2 working days	**decide** the issue price, in consultation with the lead manager(s), before determining the record date, which shall be determined in consultation with the designated stock exchange. (2) The issue price *shall not be less than the face value* of the specified securities. (that means it cannot be issued at discount) (3) The issuer shall **disclose the issue price** in the letter of offer filed with the Board and the stock exchange(s). (Almost Same, but narrow scope)

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	should not be less than the face value of the securities. (4) If the floor price or price band is not mentioned in the red herring prospectus, the issuer company should announce the floor price or price band in all the newspapers in which the pre – issue advertisement was released at least 2 working days before the opening of the bid. (5) The announcement referred to in sub-regulation (4) shall contain relevant financial ratios computed for both upper and lower end of the price band and also a statement drawing attention of the investors to the section titled "basis of issue price" of the offer document. (7) The announcement referred to in sub-regulation (4) and the relevant financial ratios referred to in sub-regulation (5) shall be disclosed on the websites of the stock exchange(s) and shall also be pre-filled in the application forms to be made available on the websites of the stock exchange(s).		
Differential Pricing	An issuer company can offer securities subject to the following provisions:- (i) It will only be offered to retail individual investors/employees. (ii) The value for making an application under this category shall not be more than Rs.2 lacs. (iii) The difference shall not be more than 10% of the price at which specified securities are offered to other categories of applicants excluding Anchor Investors; (iv) If the issuer company opts for alternate method of book building, the issuer company can offer securities to its employees at a price, lower than floor price and the difference between such price and floor price shall not be more than 10%. *Discount, if any, shall be expressed in rupee terms in the offer document.*	Same as IPO; One Clause Extra, as below: In case of composite issue, the price of the specified securities offered in the public issue may be different form the price offered in rights issue and justification for such price difference shall be given in the offer document.	No Corresponding regulation

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Period of Subscription	(1) Except as otherwise provided in these regulations, an initial public offer shall be kept open for at least three working days and not more than ten working days. (2) In case of a revision in the price band, the issuer shall extend the bidding (issue) period disclosed in the red herring prospectus, for a minimum period of three working days, subject to the provisions of sub-regulation (1). (3) In case of force majeure, banking strike or similar circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of three working days, subject to the provisions of sub-regulation (1).	Same as IPO	The rights issue shall be kept open for subscription for a minimum period of fifteen days and for a maximum period of thirty days.
Minimum Subscription	(1) The minimum subscription to be received in the issue shall be **at least ninety per cent**. of the offer through the offer document, except in case of an offer for sale of specified securities: Provided that the minimum subscription to be received shall be subject to the allotment of minimum number of specified securities, as prescribed under the Securities Contracts (Regulation) Rules, 1957. (2) In the event of non-receipt of minimum subscription referred to in sub-regulation (1), all application monies received shall be refunded to the applicants forthwith, but **not later than fifteen days** from the closure of the issue.	Same as IPO	Same as IPO
Opening of Issue	(1) Subject to the compliance with the provisions of the Companies Act, 2013, a public issue may be opened **within twelve months** from the date of issuance of the observations by the Board under regulation 25; (2) An issue shall be opened after **at**	(1) Subject to the compliance with the provisions of the Companies Act, 2013, a public issue may be opened **within twelve months** from the date of issuance of the	Subject to the compliance with the provisions of the Companies Act, 2013, a Right issue may be opened **within twelve months** from the

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	least three working days from the date of registering, the red herring prospectus, in case of a book built issue and the prospectus, in case of a fixed price issue, with the Registrar of Companies.	observations by the Board under regulation 123(4); Provided that in case of a Fast track issue, the issue shall open within the period specifically stipulated under Companies Act, 2013; (2) In case of Shelf Prospectus, the first issue may be opened within three months of issuance of observations by the Board; (3) An issue shall be opened after **at least three working days** from the date of registering, the red herring prospectus, in case of a book built issue and the prospectus, in case of a fixed price issue, with the Registrar of Companies.	date of issuance of the observations by the Board under regulation 71; Provided that in case of a Fast track issue, the issue shall open within twelve months from the record date;
Application Money & Minimum Application Value	(1) A person shall not make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to the public. Provided that the maximum application by non-institutional investors shall not exceed total number of specified securities offered in the issue less total number of specified securities offered in the issue to qualified institutional buyers. (2) The issuer shall stipulate in the offer document the minimum application size in terms of number of specified securities which shall fall within the range of **minimum application value of Rs. 10,000 to Rs. 15,000.** (3) The issuer shall invite	Same as IPO	**PAYMENT OPTIONS (REGULATION 88)** The issuer shall give one of the following payment options to all the shareholders for each type of instrument: a) part payment on application with balance money to be paid in calls; or b) full payment on application: Provided that the part payment, if any, on application shall not be less than ***twenty five per cent. of the issue price*** and such issuer shall obtain the necessary regulatory approvals

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	applications in multiples of the minimum application value, an illustration whereof is given in Part B of Schedule XIV. (4) The minimum sum payable on application per specified security shall be **at least 25% of the issue price**: Provided that in case of an offer for sale, the full issue price for each specified security shall be payable at the time of application. Explanation: For the purpose of this regulation, "minimum application value" shall be with reference to the issue price of the specified securities and not with reference to the amount payable on application.		to facilitate the same.
Manner of Calls	If the issuer proposes to receive subscription monies in calls, it shall ensure that the outstanding subscription money is called **within twelve months** from the date of allotment in the issue and if any applicant fails to pay the call money within the said twelve months, the equity shares on which there are calls in arrears along with the subscription money already paid on such shares **shall be forfeited**: Provided that it shall not be necessary to call the outstanding subscription money within twelve months, if the issuer has appointed a monitoring agency in terms of regulation 41.	Same as IPO	Same as IPO
Allotment Procedure & Basis of Allotment	(1) The issuer shall not make an allotment pursuant to a public issue if the number of prospective allottees is less than one thousand. *So, There must be minimum 1000 Prospective Allottees.* (2) The issuer shall not make any allotment in excess of the specified securities offered through the offer document ***except*** in case of oversubscription *for the purpose of rounding off* to make allotment, in consultation with the designated stock exchange.	Same as IPO	(1) The issuer shall not make any allotment in excess of the specified securities offered through the letter of offer. (2) Allotment shall be made in the following manner: a) Full allotment to those eligible shareholders who have applied for their rights

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	Provided that in case of oversubscription, an allotment of ***not more than one per cent***. of the net offer to public may be made for the purpose of making allotment in minimum lots. (3) The allotment of specified securities to applicants other than to the retail individual investors and anchor investors shall be on a proportionate basis within the respective investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document: Provided that the value of specified securities allotted to any person, except in case of employees, in pursuance of reservation made under clause (a) of sub-regulation (1) or clause (a) of sub- regulation (2) of regulation 33, shall not exceed two lakhs rupees for retail investors or up to five lakhs rupees for eligible employees. (4) The allotment of specified securities to each retail individual investor shall not be less than the minimum bid lot, subject to the availability of shares in retail individual investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis. (5) The authorised employees of the designated stock exchange, along with the lead manager(s) and registrars to the issue, shall ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the procedure as specified in Part A of Schedule XIV.		entitlement either in full or in part and also to the renouncee(s), who has/have applied for the specified securities renounced in their favour, in full or in part, as adjusted for fractional entitlement b) Allotment to eligible shareholders who having applied for the specified securities in full to the extent of their rights entitlement and have also applied for additional specified securities, shall be made as far as possible on an equitable basis having due regard to the number of specified securities held by them on the record date, provided there is an under-subscribed portion after making allotment in (a) above. c) Allotment to the renouncees, who having applied for the specified securities renounced in their favour and also applied for additional specified securities, provided there is an under-subscribed portion after making full allotment specified in (a) and (b) above. The allotment of such additional specified securities may be made on a proportionate basis.

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			(3) The authorised employees of the designated stock exchange along with the lead manager(s) and registrars to the issue shall ensure that the basis of allotment is finalised in a fair and proper manner as may be prescribed by the Board.
Allotment, Refund and Payment of Interest	(1) The issuer and lead manager(s) shall ensure that the specified securities are allotted and/or application monies are refunded or unblocked within such period as may be specified by the Board. (2) The lead manager(s) shall ensure that the allotment, credit of dematerialised securities and refund or unblocking of application monies, as may be applicable, are done electronically. (3) Where the specified securities are not allotted and/or application monies are not refunded or unblocked within the period stipulated in sub-regulation (1) above, the issuer shall undertake to pay interest at the rate of fifteen per cent. per annum to the investors and within such time as disclosed in the offer document and the lead manager(s) shall ensure the same.	Same as IPO	Same as IPO
Release of Subscription Money	(1) The lead manager(s) shall confirm to the bankers to the issue by way of copies of listing and trading approvals that all formalities in connection with the issue have been completed and that the banker is free to release the money to the issuer or release the money for refund in case of failure of the issue. (2) In case the issuer fails to obtain listing or trading permission from the stock exchanges where the specified securities were to be listed, it shall refund through verifiable means the entire monies received within seven days of receipt of intimation from stock exchanges	Same as IPO	Same as IPO

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	rejecting the application for listing of specified securities, and if any such money is not repaid within eight days after the issuer becomes liable to repay it, the issuer and every director of the company who is an officer in default shall, on and from the expiry of the eighth day, be jointly and severally liable to repay that money with interest at the rate of fifteen per cent. per annum. (3) The lead manager(s) shall ensure that the monies received in respect of the issue are released to the issuer in compliance with the provisions of Section 40 (3) of the Companies Act, 2013, as applicable.		
IPO Grading	The issuer **may obtain** grading for its initial public offer from one or more credit rating agencies registered with the Board. (*Its Optional*)	No Corresponding Regulation	No Corresponding Regulation
Underwriting	(1) If the issuer making an initial public offer, other than through the book building process, desires to have the issue underwritten, it shall appoint underwriters in accordance with the Securities and Exchange Board of India (Underwriters) Regulations, 1993. (2) If the issuer makes a public issue through the book building process, a) the issue shall be underwritten by lead manager(s) and syndicate member(s): Provided that at least seventy five per cent. of the net offer proposed to be compulsorily allotted to qualified institutional buyers for the purpose of compliance of the eligibility conditions specified in sub-regulation (2) of regulation 6, cannot be underwritten. b) the issuer shall, prior to filing the prospectus, enter into underwriting agreement with the lead manager(s) and syndicate member(s), indicating therein the number of specified securities which they shall subscribe to at the predetermined price in the event of under-subscription in the issue.	Same as IPO	• If the issuer desires to have the issue underwritten, it shall appoint underwriters in accordance with the Securities and Exchange Board of India (Underwriters) Regulations, 1993. • The issue can be underwritten only to the extent of entitlement of shareholders other than the promoters and promoter group. • In case of every underwritten issue, the lead manager(s) shall undertake minimum underwriting obligations as specified in the Securities and Exchange Board

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	c) if the syndicate member(s) fail to fulfil their underwriting obligations, the lead manager(s) shall fulfil the underwriting obligations. d) the lead manager(s) and syndicate member(s) shall not subscribe to the issue in any manner except for fulfilling their underwriting obligations. e) in case of every underwritten issue, the lead manager(s) shall undertake minimum underwriting obligations as specified in the Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992. f) where the issue is required to be underwritten, the underwriting obligations should at least to the extent of minimum subscription.		of India (Merchant Bankers) Regulations, 1992.
Minimum Promoters Contribution	(1) The promoters of the issuer shall hold at least twenty per cent. of the post-issue capital: *Provided that in case the post-issue shareholding of the promoters is less than twenty per cent., alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of ten per cent. of the post-issue capital without being identified as promoter(s).* *Provided further that the requirement of minimum promoters' contribution shall not apply in case an issuer does not have any identifiable promoter.* (2) The minimum promoters' contribution shall be as follows: a) the promoters shall contribute twenty per cent. as stipulated in sub-regulation (1), as the case may be, either by way of equity shares or by way of subscription to convertible securities:	(1) The promoters shall contribute in the public issue as follows: a) either to the extent of twenty percent of proposed issue size or to the extent of twenty percent of post issue capital; b) In case of a Composite Issue (FPO cum Right Issue), either to the extent twenty percent of proposed issue size or to the extent of twenty percent of post issue capital excluding rights issue component; (2) In case of a Public Issue or Composite Issue of Convertible Securities, The minimum promoters' contribution shall be as follows: a) the promoters shall contribute twenty per cent. as stipulated in	No Corresponding Regulation

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	Provided that if the price of the equity shares allotted pursuant to conversion is not pre-determined and not disclosed in the offer document, the promoters shall contribute only by way of subscription to the convertible securities being issued in the public issue and shall undertake in writing to subscribe to the equity shares pursuant to conversion of such securities. b) in case of any issue of convertible securities which are convertible or exchangeable on different dates and if the promoters' contribution is by way of equity shares (conversion price being pre-determined), such contribution shall not be at a price lower than the weighted average price of the equity share capital arising out of conversion of such securities. c) subject to the provisions of clause (a) and (b) above, in case of an initial public offer of convertible debt instruments without a prior public issue of equity shares, the promoters shall bring in a contribution of at least twenty per cent. of the project cost in the form of equity shares, subject to contributing at least twenty per cent. of the issue size from their own funds in the form of equity shares: Provided that if the project is to be implemented in stages, the promoters' contribution shall be with respect to total equity participation till the respective stage vis-à-vis the debt raised or proposed to be raised through the public issue. (3) The promoters shall satisfy the requirements of this regulation at least ***one day prior*** to the date of opening of the issue. (4) In case the promoters have to subscribe to equity shares or convertible securities towards minimum promoters' contribution, the amount of promoters' contribution shall be kept in an escrow account with a scheduled	sub-regulation (1), as the case may be, either by way of equity shares or by way of subscription to convertible securities: Provided that if the price of the equity shares allotted pursuant to conversion is not pre-determined and not disclosed in the offer document, the promoters shall contribute only by way of subscription to the convertible securities being issued in the public issue and shall undertake in writing to subscribe to the equity shares pursuant to conversion of such securities. b) in case of any issue of convertible securities which are convertible or exchangeable on different dates and if the promoters' contribution is by way of equity shares (conversion price being pre-determined), such contribution shall not be at a price lower than the weighted average price of the equity share capital arising out of conversion of such securities. (3) In case of a FPO or Composite Issue, where the promoters contribute more than the stipulated minimum promoters contribution, the allotment with respect	

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	commercial bank, which shall be released to the issuer along with the release of the issue proceeds: Provided that where the promoters' contribution has already been brought in and utilised, the issuer ***shall give the cash flow statement*** disclosing the use of such funds in the offer document; Provided further that where the minimum promoters' contribution is ***more than one hundred crore rupees*** and the initial public offer is for partly paid shares, the promoters shall bring in at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on a pro-rata basis before the calls are made to the public. Explanation: For the purpose of this regulation: (I) Promoters' contribution shall be computed on the basis of the post-issue expanded capital: (a) assuming full proposed conversion of convertible securities into equity shares; (b) assuming exercise of all vested options, where any employee stock options are outstanding at the time of initial public offer in terms of proviso (a) to sub-regulation (2) of regulation 5. (II) For computation of "weighted average price": (a) "weight" means the number of equity shares arising out of conversion of such specified securities into equity shares at various stages; (b) "price" means the price of equity shares on conversion arrived at after taking into account the predetermined conversion price at various stages.	to excess contribution shall be made at a price determined in terms of provisions of regulation 164 or the issue price, whichever is higher; (4) In case the promoters have to subscribe to equity shares or convertible securities towards minimum promoters' contribution, the amount of promoters' contribution shall be kept in an escrow account with a scheduled commercial bank, which shall be released to the issuer along with the release of the issue proceeds: Provided further that where the minimum promoters' contribution is ***more than one hundred crore rupees*** and the initial public offer is for partly paid shares, the promoters shall bring in at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on a pro-rata basis before the calls are made to the public. Explanation: For the purpose of this regulation: (I) Promoters' contribution shall be computed on the basis of the post-issue expanded capital: (a) assuming full proposed conversion of convertible securities into equity shares;	

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		(b) assuming exercise of all vested options, where any employee stock options are outstanding at the time of initial public offer in terms of proviso (a) to sub-regulation (2) of regulation 5. (II) For computation of "weighted average price": (a) "weight" means the number of equity shares arising out of conversion of such specified securities into equity shares at various stages; (b) "price" means the price of equity shares on conversion arrived at after taking into account the predetermined conversion price at various stages.	
Securities Ineligible for minimum promoters contribution	(1) For the computation of minimum promoters' contribution, the following specified securities shall not be eligible: (a) specified securities acquired during the preceding three years, if these are: (i) acquired for consideration other than cash and revaluation of assets or capitalisation of intangible assets is involved in such transaction; or (ii) resulting from a bonus issue by utilisation of revaluation reserves or unrealised profits of the issuer or from bonus issue against equity shares which are ineligible for minimum promoters' contribution; (b) specified securities acquired by the promoters and alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India, during the preceding one year at a price lower than the price at which	(1) For the computation of minimum promoters' contribution, the following specified securities shall not be eligible: (a) specified securities acquired during the preceding three years, if these are: (i) acquired for consideration other than cash and revaluation of assets or capitalisation of intangible assets is involved in such transaction; or (ii) resulting from a bonus issue by utilisation of revaluation reserves or unrealised profits of the issuer or from bonus issue against equity shares which are ineligible for	No Corresponding Regulation

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	specified securities are being offered to the public in the initial public offer: Provided that nothing contained in this clause shall apply: (i) if the promoters and alternative investment funds, as applicable, pay to the issuer the difference between the price at which the specified securities are offered in the initial public offer and the price at which the specified securities had been acquired; (ii) if such specified securities are acquired in terms of the scheme under sections 391 to 394 of the Companies Act, 1956 or sections 230 to 234 of the Companies Act, 2013, as approved by a High Court or a tribunal or the Central Government, as applicable, by the promoters in lieu of business and invested capital that had been in existence for a period of more than one year prior to such approval; (iii) to an initial public offer by a government company, statutory authority or corporation or any special purpose vehicle set up by any of them, which is engaged in the infrastructure sector; (c) specified securities allotted to the promoters and alternative investment funds during the preceding one year at a price less than the issue price, against funds brought in by them during that period, in case of an issuer formed by conversion of one or more partnership firms or limited liability partnerships, where the partners of the erstwhile partnership firms or limited liability partnerships are the promoters of the issuer and there is no change in the management: Provided that specified securities, allotted to the promoters against the capital existing in such firms for a period of more than one year on a continuous basis, shall be eligible; (d) specified securities pledged with any creditor. (2) Specified securities referred to in	minimum promoters' contribution; (b) specified securities pledged with any creditor. (2) Specified securities referred to in clauses (a) and (c) of sub-regulation (1) shall be eligible for the computation of promoters' contribution if such securities are acquired pursuant to a scheme which has been approved by a High Court under the sections 391 to 394 of the Companies Act, 1956 or approved by a tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013.	

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	clauses (a) and (c) of sub-regulation (1) shall be eligible for the computation of promoters' contribution if such securities are acquired pursuant to a scheme which has been approved by a High Court under the sections 391 to 394 of the Companies Act, 1956 or approved by a tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013.		
General Condition	An issuer making an initial public offer shall ensure that: a) it has made an application to one or more stock exchanges to seek an in-principle approval for listing of its specified securities on such stock exchanges and *has chosen one of them as the designated stock exchange*, in terms of Schedule XIX; b) it has *entered into an agreement with a depository* for dematerialization of the specified securities already issued and proposed to be issued; c) all its specified securities held by the *promoters are in dematerialised* form prior to filing of the offer document; d) all its existing partly paid-up equity shares have either been *fully paid-up* or have been forfeited; e) it has made firm arrangements of finance through verifiable means towards seventy five per cent. of the stated means of finance for a specific project proposed to be funded from the issue proceeds, excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals. (2) The amount for *general corporate purposes*, as mentioned in objects of the issue in the draft offer document and the offer document shall *not exceed twenty five per cent*. of the amount being raised by the issuer.	Same as IPO	Same as IPO
Disclosures in Draft Offer Document and	(1) Prior to making an initial public offer, the ***issuer shall file three copies*** of the draft offer document		

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Offer Document	with the ***concerned regional office of the Board*** under the jurisdiction of which the registered office of the issuer company is located through the lead manager(s). (2) The lead manager(s) shall ***submit the following*** to the Board along with the draft offer document: a) a ***certificate***, confirming that an agreement has been entered into between the issuer and the lead manager(s); b) a ***due diligence certificate*** as per Form A of Schedule V; c) in case of an issue of convertible debt instruments, a due diligence certificate from the debenture trustee as per Form B of Schedule V; (3) The issuer shall also ***file the draft offer document with the stock exchange***(s) where the specified securities are proposed to be listed, and submit to the stock exchange(s), the Permanent Account Number, bank account number and passport number of its promoters where they are individuals, and Permanent Account Number, bank account number, company registration number or equivalent and the address of the Registrar of Companies with which the promoter is registered, where the promoter is a body corporate. (4) The ***Board may specify changes or issue observations***, if any, on the draft offer document within thirty days from the later of the following dates: a) the date of receipt of the draft offer document under sub-regulation (1); or b) the date of receipt of satisfactory reply from the lead manager(s), where the Board has sought any clarification or additional information from them; or c) the date of receipt of clarification or information from any regulator or agency, where the Board has sought any clarification or information from such regulator or agency; or d) the date of receipt of a copy of in-principle approval letter issued by the stock exchange(s).		

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	(5) If the Board ***specifies any changes*** or issues observations on the draft offer document, the ***issuer and lead manager(s) shall carry out such changes*** in the draft offer document and shall submit to the Board an updated draft offer document complying with the observations issued by the Board and ***highlighting all changes made*** in the draft offer document and before registering or filing the offer documents with the Registrar of Companies or an appropriate authority, as applicable. (6) If there are any changes in the draft offer document in relation to the matters specified in Schedule XVI, an updated offer document or a fresh draft offer document, as the case may be, shall be filed with the Board along with fees specified in Schedule III. (7) Copy of the offer documents shall also be filed with the Board and the stock exchange(s) through the lead manager(s) promptly after registering the offer documents with Registrar of Companies. (8) The draft offer document and the offer document shall also be furnished to the Board in a soft copy. (9) The lead manager(s) shall ***submit the following documents*** to the Board ***after issuance*** of observations by the Board or after expiry of the period stipulated in sub-regulation (4) of regulation 25 if the Board has not issued observations: a) a ***statement*** certifying that all changes, suggestions and observations made by the Board have been incorporated in the offer document; b) a ***due diligence certificate*** as per Form C of Schedule V, at the time of registering of the offer document; c) a ***copy of the resolution*** passed by the board of directors of the issuer for allotting specified securities to promoter(s) towards		

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	amount received against promoters' contribution, before opening of the issue; d) a ***certificate from a statutory auditor***, before opening of the issue, certifying that promoters' contribution has been received in accordance with these regulations, accompanying therewith the names and addresses of the promoters who have contributed to the promoters' contribution and the amount paid and credited to the issuer's bank account by each of them towards such contribution; e) a ***due diligence certificate*** as per Form D of Schedule V, in the event the issuer has made a disclosure of any material development by issuing a public notice pursuant to para 4 of Schedule IX.		
Draft Offer Document & Offer Document to be made Public	(1) The draft offer document filed with the Board shall be ***made public for comments***, if any, ***for a period of at least twenty one days*** from the date of filing, by hosting it on the websites of the Board, stock exchanges where specified securities are proposed to be listed and lead manager(s) associated with the issue. (2) The issuer shall, ***within two days of filing*** the draft offer document with the Board, ***make a public announcement*** in one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated, disclosing the fact of filing of the draft offer document with the Board and inviting the public to provide their comments to the Board, the issuer or the lead manager(s) in respect of the disclosures made in the draft offer document. (3) The lead manager(s) shall, after expiry of the period stipulated in sub-regulation (1), ***file with the Board, details of the comments received*** by them or the issuer from the public, on the draft offer document, during that period and		

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	the consequential changes, if any, that are required to be made in the draft offer document. (4) The issuer and the lead manager(s) shall ensure that the offer documents are ***hosted on the websites*** as required under these regulations and its contents are the same as the versions as filed with the Registrar of Companies, Board and the stock exchanges, as applicable. (5) The lead manager(s) and the stock exchanges shall ***provide copies of the offer document*** to the public as and when requested and may charge a reasonable sum for providing a copy of the same.		
Security Deposit	(1) The issuer shall, before the opening of the subscription list, deposit with the designated stock exchange, an amount calculated at the rate of ***one per cent. of the issue size*** available for subscription to the public in the manner specified by Board and/or stock exchange(s). (2) The amount specified in sub-regulation (1) shall be refundable or forfeitable in the manner specified by the Board.	Same as IPO	Same as IPO
Monitoring Agency	(1) If the issue size, excluding the size of offer for sale by selling shareholders, exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by a public financial institution or by a scheduled commercial bank named in the offer document as bankers of the issuer: Provided that nothing contained in this clause shall apply to an issue of specified securities made by a bank or public financial institution or an insurance company. (2) The monitoring agency shall submit its report to the issuer in the format specified in Schedule XI on a quarterly basis, till at least ninety five per cent. of the proceeds of the issue, excluding the proceeds raised for general corporate purposes, have	Same as IPO	Same as IPO

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	been utilised. (3) The board of directors and the management of the issuer shall provide their comments on the findings of the monitoring agency as specified in Schedule XI. (4) The issuer shall, within forty five days from the end of each quarter, publicly disseminate the report of the monitoring agency by uploading the same on its website as well as submitting the same to the stock exchange(s) on which its equity shares are listed.		
Issue related Advertisement	(1) Subject to the provisions of the Companies Act, 2013, the issuer shall, **after registering the red herring prospectus** (in case of a book built issue) or prospectus (in case of fixed price issue) with the Registrar of Companies, make a pre-issue advertisement in one English national daily newspaper with wide circulation, Hindi national daily newspaper with wide circulation and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated. (2) The **pre-issue advertisement** shall be in the format and shall contain the disclosures specified in Part A of Schedule X. Provided that the disclosures in relation to price band or floor price and financial ratios contained therein shall only be applicable where the issuer opts to announce the price band or floor price along with the pre-issue advertisement pursuant to sub-regulation (4) of regulation 29. (3) The issuer **may** release advertisements for issue opening and issue closing, which shall be in the formats specified in Parts B and C of Schedule X. (4) During the period the issue is open for subscription, no advertisement shall be released giving an impression that the issue		

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	has been fully subscribed or oversubscribed or indicating investors' response to the issue.		
Post Issue Advertisement	(1) The lead manager(s) shall ensure that an advertisement giving details relating to: • Subscription, • basis of allotment, • number, value and percentage of all applications including ASBA, • number, value and percentage of successful allottees for all applications including ASBA, • date of completion of despatch of refund orders, as applicable, or instructions to self-certified syndicate banks by the registrar, • date of credit of specified securities and • date of filing of listing application, etc. is released within ten days from the date of completion of the various activities in at least: • one English national daily newspaper with wide circulation, • one Hindi national daily newspaper with wide circulation and • one regional language daily newspaper with wide circulation at the place where registered office of the issuer is situated. (2) Details specified in sub regulation (1) shall also be placed on the websites of the stock exchange(s).	Same as IPO	Same as IPO
Post Issue responsibilities of Lead Manager	(1) The responsibility of the lead manager(s) shall continue until completion of the issue process and for any issue related matter thereafter. (2) The lead manager(s) shall regularly monitor redressal of investor grievances arising from any issue related activities. (3) The lead manager(s) shall continue to be responsible for post-issue activities till the applicants have received the securities certificates, credit to their demat account or refund of application	Same as IPO	Same as IPO

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	monies and the listing agreement is entered into by the issuer with the stock exchange and listing or trading permission is obtained. (4) The lead manager(s) shall be responsible for and co-ordinate with the registrars to the issue and with various intermediaries at regular intervals after the closure of the issue to monitor the flow of applications from syndicate member(s) or collecting bank branches and/ or self-certified syndicate banks, processing of the applications including application form for ASBA and other matters till the basis of allotment is finalised, credit of the specified securities to the demat accounts of the allottees and unblocking of ASBA accounts/ despatch of refund orders are completed and securities are listed, as applicable. (5) Any act of omission or commission on the part of any of the intermediaries noticed by the lead manager(s) shall be duly reported by them to the Board. (6) In case there is a devolvement on the underwriters, the lead manager(s) shall ensure that the notice for devolvement containing the obligation of the underwriters is issued within ten days from the date of closure of the issue. (7) In the case of undersubscribed issues that are underwritten, the lead manager(s) shall furnish information in respect of underwriters who have failed to meet their underwriting devolvement to the Board, in the format specified in Schedule XVIII.		
Prohibition on payment of Incentives	Any person connected with the issue shall not offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person for making an application in the initial public offer, except for fees or commission for services rendered in relation to the issue.	Same as IPO	Same as IPO

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Abridged Prospectus/ Letter of Offer	(1) The abridged prospectus shall contain the disclosures as specified in Part E of Schedule VI and shall not contain any matter extraneous to the contents of the offer document. (2) Every application form distributed by the issuer or any other person in relation to an issue shall be accompanied by a copy of the abridged prospectus.	Same as IPO	Same as IPO Name "Abridged Letter of Offer"
Reporting of Transactions of Promoters & Promoter Group	The issuer shall ensure that all transactions in securities by the promoter and promoter group between: • The date of filing of the draft offer document or offer document, as the case may be, and • The date of closure of the issue Shall be reported to the stock exchange(s), within twenty four hours of such transactions.	Same as IPO	Same as IPO

GREEN SHOE OPTION:

CONCEPT & BACKGROUND:

Green Shoe Company, an American company was the first company which was allowed to use this option; therefore, this option is known as Green Shoe Option. A green shoe option (GSO) provides the option of allotting equity shares in excess of the equity shares offered in the public issue as a post – listing price stabilizing mechanism.

In other words, Green Shoe Option means an option of allocating shares in excess of the shares included in the public issue and operating a post – listing price stabilizing mechanism for a period not exceeding 30 days, which is granted to a company to be exercised through a Stabilizing Agent.

In short, it is a mechanism for stabilizing prices of securities in the stock market through stabilizing agent.

Example: In India, ICICI bank has used Green Shoe Option in the first time in case of its public issue through book building mechanism in India.

Case Study: ABC Ltd. is planning to issue 2,00,000 shares, but in order to utilize the green shoe option, it actually issues 2,30,000 shares, in which case the over – allotment would be 30,000 shares. The company does not issue any new shares for the over – allotment.

The 30,000 shares used for the over – allotment are actually borrowed from the promoters with whom the stabilizing agent enters into a separate agreement. The company is required to be kept money received from the over – allotment in a separate bank account.

The Job of the stabilizing agent begins only after commencement of trading of share:
(i) In case the shares are trading at a price lower than the offer price, the stabilizing agent starts buying the shares by using the money lying in the separate bank account. In this manner, by buying the shares when others are selling, the stabilizing agent tries to put the brakes on falling prices. The shares so bought from the market are handed over to the promoters from whom they were borrowed.

(ii) In case the newly listed shares start trading at a price higher than the offer price, the stabilizing agent does not buy any shares. At this point, the company by exercising the green shoe option issues

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new shares to the stabilizing agent, which are in turn handed over to the promoters from whom the shares were borrowed.

PRICE STABILIZATION FUND:

- The fund created to cause stabilization of share price of an entity specially after the public issue of securities is known as Price Stabilization Fund.
- The aim of the fun is to protect the share price from falling below the issue price. For the purpose of operating a price stabilization mechanism post listing the issuer company appoints a stabilization agent.
- The prime responsibility of SA shall be to stabilize post listing price of shares.
- To this end, SA shall determine the timing of buying the shares, the quantity to be bought, the price at which the shares are to be bought, etc.

The promoters or promoters' group shall not lend in excess of 15% of the total issue size. The details of the agreement between the company & stabilizing agent and the promoter & stabilizing agent must be disclosed in the draft prospectus, the draft Red Herring Prospectus, Red Herring Prospectus and the final prospectus.

REGULATION 57:

(1) Conditions & Process to be complied with:

a) **Authority**: the issuer has been authorized, by a resolution passed in the general meeting of shareholders approving the public issue, to allot specified securities to the stabilizing agent, if required, on the expiry of the stabilization period;

b) **Stabilizing Agent (SA)**: the issuer has appointed a lead manager as a stabilizing agent, who shall be responsible for the price stabilization process;

c) **Agreement between Company & SA**: prior to filing the draft offer document, the issuer and the stabilizing agent have entered into an agreement, stating all the terms and conditions relating to the green shoe option including fees charged and expenses to be incurred by the stabilizing agent for discharging its responsibilities;

d) **Agreement between SA & Promoters**: prior to filing the offer document, the stabilizing agent has entered into an agreement with the promoters or pre-issue shareholders or both for borrowing specified securities from them in accordance with clause (g) of this sub-regulation, specifying therein the maximum number of specified securities that may be borrowed for the purpose of allotment or allocation of specified securities in excess of the issue size (hereinafter referred to as the "over-allotment"), which shall not be in excess of fifteen per cent. of the issue size;

e) **Quantum of Over Allotment**: subject to clause (d), the lead manager, in consultation with the stabilizing agent, shall determine the amount of specified securities to be over-allotted in the public issue;

f) **Disclosures**: the draft offer document and offer document shall contain all material disclosures about the green shoe option specified in this regard in Part A of Schedule VI;

g) **Who can Lend Securities**: in case of an initial public offer pre-issue shareholders and promoters and in case of a further public offer pre-issue shareholders holding more than five per cent.specified securities and promoters, may lend specified securities to the extent of the proposed over-allotment;

h) **How Securities should be borrowed**: the specified securities borrowed shall be in dematerialised form and allocation of these securities shall be made pro-rata to all successful applicants.

i) **Time involved in the process**: The stabilization mechanism should be available for the period disclosed by the company in the prospectus, which shall not exceed 30 days from the date when trading permission was given by the exchange(s).

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j) **Special Bank Account**: The stabilizing agent shall open a special account, distinct from the issue account, with a bank for crediting the monies received from the applicants against the over-allotment and a special account with a depository participant for crediting specified securities to be bought from the market during the stabilization period out of the monies credited in the special bank account.

k) **Return of Securities borrowed from Promoters:**
if SA bought securities from market: The specified securities bought from the market and credited in the special account with the depository participant shall be returned to the promoters or pre-issue shareholders immediately, in any case *not later than two working days after the end of the stabilization period*.

If SA not able to buy securities from market: On expiry of the stabilisation period, if the stabilising agent has not been able to buy specified securities from the market to the extent of such securities over-allotted, the issuer shall allot specified securities at issue price in dematerialised form to the extent of the shortfall to the special account with the depository participant, *within five days of the closure of the stabilisation period* and such specified securities shall be returned to the promoters or pre-issue shareholders by the stabilising agent in lieu of the specified securities borrowed from them and the account with the depository participant shall be closed thereafter.

l) **Listing Application**: The issuer shall make a listing application in respect of the further specified securities allotted under sub-regulation (6), to all the stock exchanges where the specified securities allotted in the public issue are listed and the provisions of Chapter VII shall not be applicable to such allotment.

PREFERENTIAL ISSUE: (CHAPTER V)

CONDITIONS FOR PREFERENTIAL ISSUE (REGULATION 160A)	A listed issuer making a preferential issue of specified securities shall ensure that: a) all equity shares allotted by way of preferential issue shall be made ***fully paid up*** at the time of the allotment; b) a ***special resolution*** has been passed by its shareholders; c) ***all*** equity shares held by the proposed allottees in the issuer are in ***dematerialised form***; d) the issuer is in ***compliance with the conditions*** for continuous listing of equity shares as specified in the listing agreement with the stock exchange where the equity shares of the issuer are listed and the SEBI (LODR), 2015, as amended, and any circular or notification issued by the Board thereunder; e) the issuer has ***obtained the PAN of the proposed allottees***, except those allottees which may be exempt from specifying their Permanent Account Number for transacting in the securities market by the Board.
TENURE OF CONVERTIBLE SECURITIES (REGULATION 162)	The tenure of the convertible securities of the issuer shall not exceed eighteen months from the date of their allotment.
DISCLOSURE TO SHAREHOLDERS (REGULATION 163)	The issuer shall, ***in addition to the disclosures required under the Companies Act, 2013 or any other applicable law***, disclose the following in the explanatory statement to the notice for the general meeting proposed for passing the special resolution: a) ***objects*** of the preferential issue; b) ***maximum number*** of specified securities to be issued; c) ***intent*** of the promoters, directors or key managerial personnel of the issuer to

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	subscribe to the offer; d) ***shareholding pattern*** of the issuer before and after the preferential issue; e) ***time frame*** within which the preferential issue shall be completed; f) ***identity*** of the natural persons who are the ultimate beneficial owners of the shares proposed to be allotted and/or who ultimately control the proposed allottees, the percentage of post preferential issue capital that may be held by them and change in control, if any, in the issuer consequent to the preferential issue: g) ***undertaking*** that the issuer shall re-compute the price of the specified securities in terms of the provision of these regulations where it is required to do so; h) ***undertaking*** that if the amount payable on account of the re-computation of price is not paid within the time stipulated in these regulations, the specified securities shall continue to be locked- in till the time such amount is paid by the allottees. i) ***disclosures*** specified in Schedule VI, if the issuer or any of its promoters or directors is a ***wilful defaulter***. (2) The issuer shall place a ***copy of the certificate of its statutory auditors*** before the general meeting of the shareholders considering the proposed preferential issue, certifying that the issue is being made in accordance with the requirements of these regulations. (3) Where the specified securities are issued on a preferential basis for ***consideration other than cash***, the valuation of the assets in consideration for which the equity shares are issued shall be done by an independent valuer, which shall be submitted to the stock exchanges where the equity shares of the issuer are listed: Provided that if the stock exchange(s) is not satisfied with the appropriateness of the valuation, it may get the valuation done by any other valuer and for this purpose it may seek any information, as deemed necessary, from the issuer. (4) The special resolution shall ***specify the relevant date*** on the basis of which price of the equity shares to be allotted on conversion or exchange of convertible securities shall be calculated.
PRICING OF INFREQUENTLY TRADED SHARES (REGULATION 165)	Where the shares of an issuer ***are not frequently traded***, the price determined by the issuer shall take into account the valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies: Provided that the issuer shall submit a certificate stating that the issuer is in compliance of this regulation, obtained from an independent valuer to the stock exchange where the equity shares of the issuer are listed.

IPO BY SMALL & MEDIUM ENTERPRISES (CHAPTER IX)

ENTITIES NOT ELIGIBLE TO MAKE IPO	An issuer shall not be eligible to make an initial public offer: (a) if the issuer, any of its promoters, promoter group or directors or selling shareholders are ***debarred from accessing the capital market*** by the Board; (b) if any of the promoters or directors of the issuer is a promoter or director of ***any***

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	other company which is debarred from accessing the capital market by the Board; (c) if the issuer or any of its promoters or directors is a ***wilful defaulter***. (d) if any of its promoters or directors is a ***fugitive economic offender***. Explanation: The restrictions under clauses (a) and (b) shall not apply to the persons or entities mentioned therein, who were debarred in the past by the Board and the period of debarment is already over as on the date of filing of the draft offer document with the SME Exchange.
ELIGIBILITY REQUIREMENTS	(1) An issuer shall be eligible to make an initial public offer only if its ***post-issue paid-up capital is less than or equal to ten crore rupees***. (2) An issuer, whose post issue face value capital is more than ten crore rupees and upto twenty five crore rupees, ***may also issue specified securities*** in accordance with provisions of this Chapter. (3) An issuer may make an initial public offer, if it ***satisfies track record and/or other eligibility conditions of the SME Exchange***(s) on which the specified securities are proposed to be listed. Provided that In case of an issuer which had been a partnership firm or a limited liability partnership, the track record of operating profit of the partnership firm or the limited liability partnership shall be considered only if the financial statements of the partnership business for the period during which the issuer was a partnership firm or a limited liability partnership, ***conform to and are revised in the format prescribed for companies under the Companies Act, 2013*** and also comply with the following: a) ***adequate disclosures*** are made in the financial statements as required to be made by the issuer as per Schedule III of the Companies Act, 2013; b) the ***financial statements are duly certified by auditors***, who have subjected themselves to the peer review process of the Institute of Chartered Accountants of India (ICAI) and hold a valid certificate issued by the Peer Review Board' of the ICAI, stating that: (i) the accounts and the disclosures made are in accordance with the provisions of Schedule III of the Companies Act, 2013; (ii) the accounting standards prescribed under the Companies Act, 2013 have been followed; (iii) the financial statements present a true and fair view of the firm's accounts; Provided further that in case of an issuer formed out of merger or a division of an existing company, the track record of the resulting issuer shall be considered only if the requirements regarding financial statements as specified above in the first proviso are complied with.
ALLOCATION IN NET OFFER	The allocation in the net offer category shall be as follows: (***Book Building***) a) not less than thirty five per cent. to retail individual investors; b) not less than fifteen per cent. to non-institutional investors; c) not more than fifty per cent. to qualified institutional buyers, five per cent. of which shall be allocated to mutual funds: Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in any other category: Provided further that in addition to five per cent. allocation available in terms of

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	clause (c), ***mutual funds*** shall be eligible for allocation under the balance available for qualified institutional buyers. In an issue made ***other than through the book building process***, the allocation in the net offer category shall be made as follows: (a) minimum fifty per cent. to retail individual investors; and (b) remaining to: (i) individual applicants other than retail individual investors; and (ii) other investors including corporate bodies or institutions, irrespective of the number of specified securities applied for; Provided that the unsubscribed portion in either of the categories specified in clauses (a) or (b) may be allocated to applicants in the other category. Explanation. - For the purpose of sub-regulation (2), if the retail individual investor category is entitled to more than fifty per cent. of the issue size on a proportionate basis, the retail individual investors shall be allocated that higher percentage.
APPLICATION & MINIMUM APPLICATION VALUE	The minimum application size shall be ***one lakh rupees per application & in Multiples thereof;*** The minimum sum payable on application per specified security shall at least be ***twenty five per cent. of the issue price***: Provided that in case of an offer for sale, the ***full issue price*** for each specified security shall be payable on application.
ALLOTMENT PROCEDURE & BASIS OF ALLOTMENT	(1) The issuer shall ***not make an allotment*** pursuant to a public issue if the number of allottees in an initial public offer ***is less than fifty.*** (2) The issuer shall not make any allotment in excess of the specified securities offered through the offer document ***except*** in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the designated stock exchange. Provided that in case of oversubscription, an allotment of ***not more than ten per cent***. of the net offer to public may be made for the purpose of making allotment in minimum lots. (3) The allotment of specified securities to applicants other than retail individual investors and anchor investors shall be on proportionate basis within the specified investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document: Provided that the value of specified securities allotted to any person, ***except*** in case of employees, ***in pursuance of reservation*** made under clause (a) of sub-regulation (1) or clause (a) of sub-regulation (2) of regulation 254, shall ***not exceed two lakhs rupees***.
MIGRATION OF SME EXCHANGE	A listed issuer whose post-issue face value capital is ***less than twenty five crore rupees*** may migrate its specified securities to SME exchange ***if its shareholders approve*** such migration by passing a special resolution through postal ballot to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the SME exchange:

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	Provided that the special resolution shall be acted upon if and only if the votes cast by shareholders ***other than promoters*** in favour of the proposal amount to ***at least two times*** the number of votes cast by shareholders other than promoter shareholders against the proposal. (*Different meaning given to Special Resolution*)
MIGRATION TO MAIN BOARD	An issuer, whose specified securities are listed on a SME Exchange and whose post-issue face value capital is ***more than ten crore rupees*** and ***up to twenty five crore rupees***, may migrate its specified securities to the main board of the stock exchanges ***if its shareholders approve*** such a migration by passing a special resolution through postal ballot to this effect and if such issuer fulfils the eligibility criteria for listing laid down by the Main Board: Provided that the special resolution shall be acted upon if and only if the votes cast by shareholders ***other than promoters*** in favour of the proposal amount to at least two times the number of votes cast by shareholders other than promoter shareholders against the proposal. (*Different meaning given to Special Resolution*)

INNOVATOR's GROWTH PLATFORM (CHAPTER X)

APPLICABILITY	• The provisions of this Chapter shall apply to issuers seeking listing of their specified securities pursuant to an initial public offer or ***for only trading*** on a stock exchange of their specified securities ***without making a public offer***. • The Innovator's Growth platform shall be accessible only to institutional investors and non-institutional investors and ***not to retail individual investors***.
ELIGIBILITY	(1) An issuer which is intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology to provide products, services or business platforms with substantial value addition shall be eligible for listing on the innovators growth platform, provided that as on the date of filing of draft information document or draft offer document with the Board, as the case may be, twenty five per cent of the pre-issue capital of the Issuer Company for at least a period of two years, should have been held by: I. Qualified Institutional Buyers; II. Family trust with net-worth of more than five hundred crore rupees, as per the last audited financial statements; III. Accredited Investors for the purpose of Innovators Growth Platform; IV. The following regulated entities: a. Category III Foreign Portfolio Investor; b. An entity meeting all the following criteria: i. It is a pooled investment fund with minimum assets under management of one hundred and fifty million USD; ii. It is registered with a financial sector regulator in the jurisdiction of which it is a resident; iii. It is resident of a country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to Bilateral Memorandum of Understanding with the Board; iv. It is not resident in a country identified in the public statement of Financial

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	Action Task Force as: a)a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or b)a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies. Explanation:(a)The following entities shall be eligible to be considered as accredited investors for the purpose of innovators growth platform: (i)any individual with total gross income of fifty lakhs rupees annually and who has minimum liquid net worth of five crore rupees; or(ii)any body corporate with net worth of twenty five crore rupees.(b)Not more than ten per cent of the pre-issue capital may be held by Accredited Investors.(c)For the purpose of accreditation: The persons /corporate bodies who wish to get accreditation for the purpose of innovators growth platform, shall approach the stock exchanges or depositories and follow the procedures prescribed by the Board and / or such stock exchange or depository for the purpose of accreditation as an Accredited Investor, from time to time. (2) An issuer shall be eligible for listing on the institutional trading platform if none of the promoters or directors of the issuer company is a fugitive economic offender.
LISTING WITHOUT A PUBLIC ISSUE	(1) An issuer seeking listing of its specified securities without making a public offer, shall ***file a draft information document*** along with the necessary documents with the Board in accordance with these regulations along with the fee as specified in Schedule III of these regulations. (2) The draft information document ***shall contain disclosures*** as specified for the draft offer documents in these regulations as specified in Part A of Schedule VI. (3) The regulations relating to the following as stated under the Chapter of Initial Public Offer on Main Board shall not be applicable: a) allotment; b) issue opening or closing; c) advertisements; d) underwriting; e) sub-regulation (2) of regulation 5; f) pricing; g) dispatch of issue material; and h) other such provisions related to offer of specified securities to the public. • The Issuer shall obtain an ***In-Principle approval from the stock exchanges*** on which it proposes to get its specified securities listed; • The issuer ***shall List its Securities*** on the Recognized Stock Exchange(s) ***within 30 days***: a) From the date of issuance of observations by Board or b) From the expiry of the period stipulated in sub-regulation (4) of regulation 25, if the Board has not issued any such observations. • Provisions relating to minimum public shareholding shall not be applicable. • The draft and final information document shall be approved by the board of directors of the issuer and shall be signed by all directors, the Chief Executive Officer, i.e., the Managing Director or Manager within the meaning of the

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	Companies Act, 2013 and the Chief Financial Officer, i.e., the Whole-time Finance Director or any other person heading the finance function and discharging that function. • The signatories shall also certify that all disclosures made in the information document are ***true and correct***. • In case of mis-statement in the information document or any omission therein, any person who has authorized the issue of information document shall be liable in accordance with the provisions of the Act and regulations made thereunder.
MINIMUM PUBLIC SHARHOLDING & MINIMUM OFFER SIZE (REGULATION 285A)	(1) The issuer shall be in compliance with minimum public shareholding requirements specified in the Securities Contracts (Regulation) Rules, 1957. (2) The minimum offer size shall be ten crore rupees; **inserted w.e.f. 05.04.2019**
MINIMUM APPLICATION VALUE	The minimum application size shall be ***Twolakh rupees***.
ALLOTMENT & ALLOCATION IN CASE OF IPO	(1) The number of allottees in the initial public offer shall at least be ***Fifty.*** (2) The allotment to institutional investors as well as non-institutional investors shall be on a proportionate basis. ~~(3) The allotment to institutional investors may be on a discretionary or a proportionate basis whereas the allotment to non-institutional investors shall be on a proportionate basis.~~ (Omitted) ~~(4) The mode of allotment to institutional investors, i.e., whether discretionary or proportionate, shall be disclosed prior to or at the time of filing of the offer document.~~ (Omitted) ~~(5) In case of discretionary allotment to institutional investors, no institutional investor shall be allotted more than ten per cent. of the issue size.~~ (Omitted) (3) Any under-subscription in the non-institutional investor category shall be available for subscription under the institutional investors' category.

BONUS ISSUE (CHAPTER XI)

Bonus shares mean shares issued by the company to its existing shareholders at free of cost. A Company may capitalize its profits by issuing fully – paid bonus shares provided the company has provisions in this regard.

When a company is prospectus and accumulates large distributable profits, it converts these accumulated profits into capital and divides the capital among the existing members in proportion to their entitlements.

Advantages

(a) Fund flow is not affected adversely.
(b) Market value of the Company's shares comes down to their nominal value by issue of bonus shares.

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(c) Market value of the members' shareholdings increases with the increase in number of shares in the company.
(d) Bonus shares are not an income. Hence it is not a taxable income.
(e) Paid – up share capital increases with the issue of bonus shares.

Sources:
A company may issue fully paid – up bonus shares to its members by utilizing the following sources:-
(a) Free reserves;
(b) The securities premium account; or
(c) The capital redemption reserve account.
Note: No bonus shares shall be issued by capitalizing reserves created by the revaluation of fixed assets.

Conditions:
No company shall capitalize its profits or reserves for the purpose of issuing fully paid – up bonus shares, unless –
(a) It is authorized by its articles;
(b) It has, on the recommendation of the Board, been authorised in the general meeting of the company;
(c) It has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
(d) It has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
(e) The partly paid – up shares, it any outstanding on the date of allotment, are made fully paid – up.

Note: Issue of Bonus shares in lieu of dividend is prohibited. As per the Companies (Share Capital and Debentures) Rules, 2014, the company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

SEBI (ICDR) Regulations, 2018 for Bonus Issue
Conditions of Issue
(i) Issue of bonus must be authorized by the articles of the company.

If there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for Capitalisation of reserve;

(ii) The Company should not have defaulted in the payment of any interest or principal in respect of its fixed deposits, debt securities issued by it.

(iii) The company should not have defaulted in the payment of its statutory dues to the employees such as contribution to provident fund, gratuity and bonus.

(iv) If there are any partly paid – up shares outstanding on the date of allotment, these shares should be made fully paid – up before the bonus issue is made.

(v) any of its promoters or directors is not a Fugitive Economic Offender.

Restrictions on a Bonus Issue (Regulation 294)
(1) An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof. (*that means Bonus Shares shall also be issued to holders of outstanding compulsorily convertible debt instruments*)

(2)The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or warrants *at the time of conversion* of such convertible debt instruments, optionally convertible instruments, warrants, as the case may be, on the same terms or same proportion at which the bonus shares were issued.

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(3) **Sources of Bonus Issue**: A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalised for this purpose.

(4) Without prejudice to the provisions of sub-regulation (3), bonus shares shall not be issued in lieu of dividends. (*that means company cannot say that they have made bonus issue and now they are not liable to pay dividends. Both are different.*)

Completion of a Bonus Issue (Regulation 295)

(1) An issuer, announcing a bonus issue after approval by its board of directors and not requiring shareholders' approval for capitalisation of profits or reserves for making the bonus issue, shall implement the bonus issue *within fifteen days* from the date of approval of the issue by its board of directors:

Provided that where the issuer is required to seek shareholders' approval for capitalisation of profits or reserves for making the bonus issue, the bonus issue shall be implemented *within two months* from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.

Explanation: For the purpose of a bonus issue to be considered as 'implemented' the date of commencement of trading shall be considered.

(2) A bonus issue, once announced, *shall not be withdrawn*.

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UNIT 5: SEBI(LISTING OBLIGATION & DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

LISTING OF SECURITIES	Only public companies are allowed to list their securities in the stock exchange. Private Limited companiescannot get listing facility. They should first convert themselves into public limited companies and their Articles ofAssociation should also contain prohibitions as laid down in the SEBI (Listing Obligations and DisclosureRequirements) Regulations, 2015 ('LODR Regulations') and as applicable to public limited companies.
TYPES OF LISTING	Listing of securities falls under 5 groups – ***Initial Listing*** If the shares or securities are to be listed for the first time by a company on a stock exchange is called initiallisting. ***Listing for Public Issue*** When a company whose shares are listed on a stock exchange comes out with a public issue of securities, ithas to list such issue with the stock exchange. ***Listing for Rights Issue*** When companies whose securities are listed on the stock exchange issue securities to existing shareholders onrights basis, it has to list such rights issues on the concerned stock exchange. ***Listing of Bonus Shares*** Shares issued as a result of capitalisation of profit through bonus issue shall list such issues also on the concernedstock exchange. ***Listing for merger or amalgamation*** When new shares are issued by an amalgamated company to the shareholders of the amalgamating company,such shares are also required to be listed on the concerned stock exchange.
BENEFITS OF LISTING	The following benefits are available when securities are listed by a company in the stock exchange– (1) Public image of the company is enhanced. (2) The liquidity of the security is ensured making it easy to buy and sell the securities in the stock exchange. (3) Tax concessions are made available both to the investors and the companies. (4) Listing procedure compels company management to disclose important information to the investors enabling them to make crucial decisions with regard to keeping or disposing of such securities. (5) Listed companies command better support such as loans and investments from Banks and FIs.
LISTING PROVISIONS	Listing of Securities on Indian Stock Exchanges is governed by the provisions in the SEBI (Listing Obligationsand Disclosure Requirments) Regulations, 2015, Companies Act, 2013, the Securities Contracts (Regulation)Act, 1956, the Securities Contracts (Regulation) Rules, 1957, Rules, bye laws, regulations of concerned stockexchange and circulars/guidelines issued by the Central Government and SEBI.

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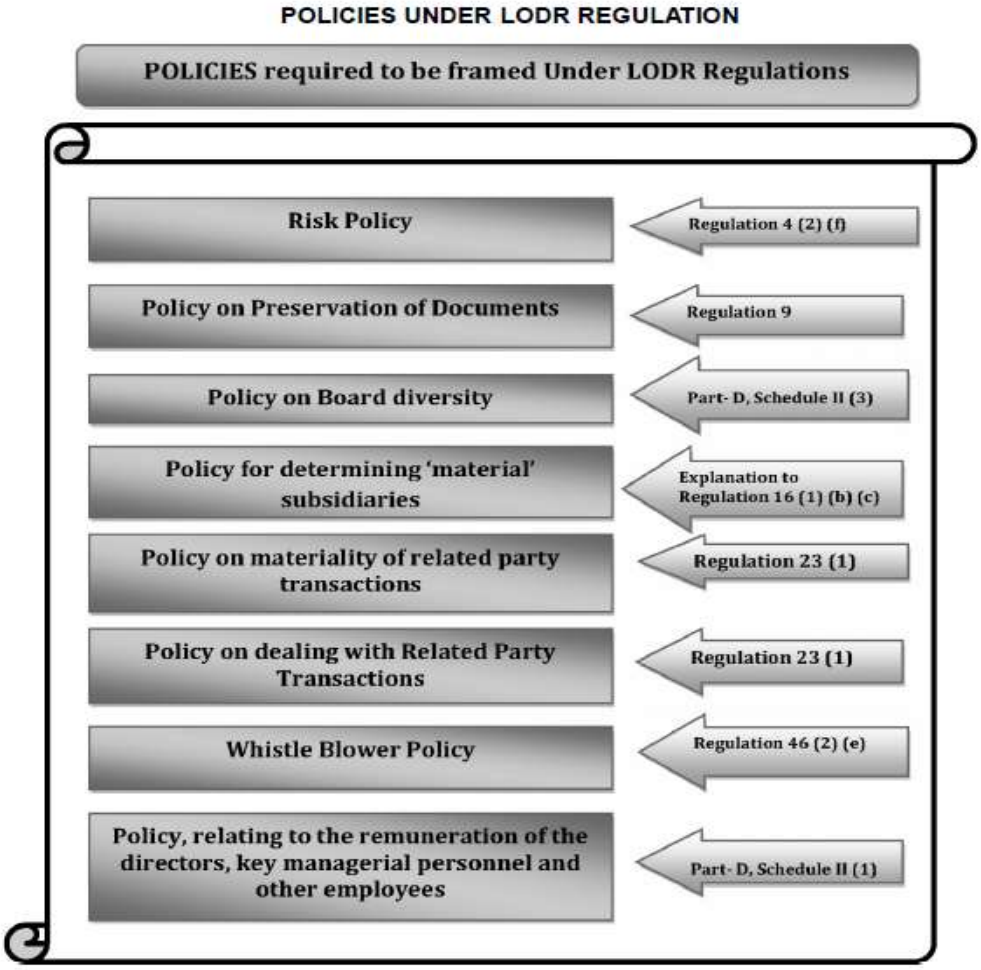
POLICIES TO BE FRAMED UNDER LODR **(IMPORTANT)**	
WHISTLE BLOWER POLICY	Whistle blower policy means a policy framed by the company for reporting unethical behavior or any concern and investigation in it as well as protection of the whistle blower. Every Listing Company is required to frame a Whistle Blower Policy as per SEBI LODR 2015. *The listed entity shall devise an effective whistle blower mechanism enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices.*

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DEFINITIONS	"fugitive economic offender" shall mean an individual who is declared a fugitive economic offender under section 12 of the Fugitive Economic Offenders Act, 2018 (Inserted w.e.f. 16.11.2018) "security receipts" shall have the meaning assigned to it under the Securities and Exchange Board of India (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008; (Inserted w.e.f. 06.09.2018)
APPLICABILITY (3) (Important)	Unless otherwise provided, these regulations shall apply to the listed entity who has listed any of the following designated securities on recognized stock exchange(s): (a) specified securities listed on main board or SME Exchange or Innovators Growth platform; (b) non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares; (c) Indian depository receipts; (d) securitized debt instruments; (da) Security Receipts; (e) units issued by mutual funds; (f) any other securities as may be specified by the Board. (Inserted w.e.f. 06.09.2018)
CHAPTER III: COMMON OBLIGATIONS OF LISTED ENTITES	
COMPLIANCE OFFICER AND HIS OBLIGATIONS (6) (Important)	(1) A listed entity shall appoint a **qualified company secretary** as the compliance officer. (2) The compliance officer of the listed entity shall be **responsible for**- (a) Ensuring **conformity with the regulatory provisions** applicable to the listed entity in letter and spirit. (b) **co-ordination with and reporting to the Board**, recognized stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in manner as specified from time to time. (c) Ensuring that the **correct procedures have been followed** that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity under these regulations. (d) monitoring email address of **grievance redressal division** as designated by the listed entity for the purpose of registering complaints by investors: Provided that the requirements of this regulation shall not be applicable in the case of units issued by mutual funds which are listed on recognized stock exchange(s) but shall be governed by the provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.
SHARE TRANSFER AGENT (7)	(1) The listed entity shall appoint a share transfer agent or manage the share transfer facility in-house: Provided that, in the case of in-house share transfer facility, as and when the

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(Important)	total number of holders of securities of the listed entity **exceeds one lakh**, the listed entity shall either register with the Board as a Category II share transfer agent or appoint Registrar to an issue and share transfer agent registered with the Board. (2) The listed entity shall ensure that all activities in relation to both physical and electronic share transfer facility are maintained either in house or by Registrar to an issue and share transfer agent registered with the Board. (3) The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorized representative of the share transfer agent, wherever applicable, within one month of end of each half of the financial year, certifying compliance with the requirements of sub- regulation (2). (4) In case of any change or appointment of a new share transfer agent, the listed entity shall enter into a tripartite agreement between the existing share transfer agent, the new share transfer agent and the listed entity, in the manner as specified by the Board from time to time: Provided that in case the existing share transfer facility is managed in-house, the agreement referred above shall be entered into between the listed entity and the new share transfer agent. (5) The listed entity shall intimate such appointment, referred to in sub-regulation (4), to the stock exchange(s) within seven days of entering into the agreement. (6) The agreement referred to in sub-regulation (4) shall be placed in the subsequent meeting of the board of directors: Provided that the requirements of this regulation shall not be applicable to the units issued by mutual funds that are listed on recognized stock exchange(s).
CO-OPERATION WITH INTERMEDIARIES REGISTERED WITH BOARD (8)	The listed entity, wherever applicable, shall co-operate with and submit correct and adequate information to the intermediaries registered with the Board such as credit rating agencies, registrar to an issue and share transfer agents, debenture trustees etc., within timelines and procedures specified under the Act, regulations and circulars issued there under: Provided that requirements of this regulation shall not be applicable to the units issued by mutual funds listed on a recognized stock exchange(s) for which the provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 shall be applicable.
PRESERVATION OF DOCUMENTS (9) (Important)	The listed entity shall have a policy for preservation of documents, approved by its board of directors, classifying them in at least two categories as follows- (a) documents whose preservation shall be permanent in nature ; (b) documents with preservation period of not less than eight years after completion of the relevant transactions: Provided that the listed entity may keep documents specified in clauses (a) and (b) in electronic mode.
FILING OF INFORMATION	(1) The listed entity shall file the reports, statements, documents, filings and any other information with the recognized stock exchange(s) on the electronic

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(10)	platform as specified by the Board or the recognized stock exchange(s). (2) The listed entity shall put in place infrastructure as required for compliance with sub-regulation (1).
SCHEME OF ARRANGEMENT (11)	The listed entity shall ensure that any scheme of arrangement /amalgamation /merger /reconstruction /reduction of capital etc. to be presented to any Court or Tribunal does not in any way violate, override or limit the provisions of securities laws or requirements of the stock exchange(s): Provided that this regulation shall not be applicable for the units issued by Mutual Fund which are listed on a recognized stock exchange(s).
PAYMENT OF DIVIDEND OR INTEREST OR REDEMPTION OR REPAYMENT (12)	The listed entity shall use any of the electronic mode of payment facility approved by the Reserve Bank of India, in the manner specified in Schedule I, for the payment of the following: (a) dividends; (b) interest; (c) redemption or repayment amounts: Provided that where it is not possible to use electronic mode of payment, payable-at-par' warrants or cheque may be issued: Provided further that where the amount payable as dividend exceeds one thousand and five hundred rupees, the _payable-at-par'warrants or cheque shall be sent by speed post.
GRIEVANCE REDRESSAL MECHANISM (13) (Important)	(1)The listed entity shall ensure that adequate steps are taken for expeditious redressal of investor complaints. (2) The listed entity shall ensure that it is registered on the SCORES platform or such other electronic platform or system of the Board as shall be mandated from time to time, in order to handle investor complaints electronically in the manner specified by the Board. (3) The listed entity shall file with the recognized stock exchange(s) on a quarterly basis, within twenty one days from the end of each quarter, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter. (4) The statement as specified in sub-regulation (3) shall be placed, on quarterly basis, before the board of directors of the listed entity.
CHAPTER IV: OBLIGATIONS OF LISTED ENTITES WHICH HAS LISTED ITS SPECIFIED SECURITIES	
DEFINITIONS (16)	"material subsidiary" shall mean a subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year. *Explanation*: The listed entity shall formulate a policy for determining 'material' subsidiary.
APPLICABILITY (15)	(1) The provisions of this chapter shall apply to a listed entity which has listed its specified securities on any recognised stock exchange(s) either on the main board or on SME Exchangeor on Innovators Growth platform.

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	(2) The Corporate Governance Compliance as specified in 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27 and clause b to I of sub regulation 2 of regulation 46 and Para C, D and E of Schedule V shall not apply to: (a) the listed entity having paid up equity share capital not exceeding rupees ten crore **and** net worth not exceeding rupees twenty five crore, as on the last day of the previous financial year: (b) the listed entity which has listed its specified securities on the SME Exchange; (2A) The provisions as specified in regulation 17 shall not be applicable during the insolvency resolution process period in respect of a listed entity which is undergoing corporate insolvency resolution process under the Insolvency Code;*(Inserted w.e.f. 31.05.2018)* (2B) The provisions as specified in regulations 18, 19, 20 and 21 shall not be applicable during the insolvency resolution process period in respect of a listed entity which is undergoing corporate insolvency resolution process under the Insolvency Code;*(Inserted w.e.f. 31.05.2018)*
BOARD OF DIRECTORS (17))	(1) The composition of board of directors of the listed entity shall be as follows: (a)board of directors shall have an **optimum combination** of executive and non-executive directors with at least one woman director and not less than fifty percent. of the board of directors shall comprise of non-executive directors; Provided that the Board of directors of the top 500 listed entities shall have at least one independent woman director by April 1, 2019 and the Board of directors of the top1000 listed entities shall have at least one independent woman director by April 1, 2020; Explanation: The top 500 and 1000 entities shall be determined on the basis of market Capitalisation, as at the end of the immediate previous financial year. (Inserted w.e.f 01.04.2019) (b)where the **chairperson of the board** of directors is a non-executive director, at least one-third of the board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the board of directors shall comprise of independent directors: Provided that where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors. Explanation.-For the purpose of this clause, the expression "related to any promoter" shall have the following meaning: (i) if the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it; (ii) if the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it.

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c) The board of directors of the top 1000 listed entities (with effect from April 1, 2019) and the top 2000 listed entities (with effect from April 1, 2020) shall comprise of not less than six directors.

Explanation: The top 1000 and 2000 entities shall be determined on the basis of market capitalisation as at the end of the immediate previous financial year.

(1A)No listed entity shall appoint a person or continue the directorship of any person as a non-executive director who has attained the age of seventy five years unless a special resolution is passed to that effect, in which case the explanatory statementannexed to the notice for such motion shall indicate the justification for appointing such a person. (Inserted w.e.f 01.04.2019)

(1B). With effect from April 1, 2020, the top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall –

(a) be a non-executive director;

(b) not be related to the Managing Director or the Chief Executive Officer as per the definition of the term "relative" defined under the Companies Act, 2013: Provided that this sub-regulation shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges.

Explanation -The top 500 entities shall be determined on the basis of market Capitalisation, as at the end of the immediate previous financial year. (Inserted w.e.f 01.04.2020)

(2)The board of directors shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings.

(2A) The quorum for every meeting of the board of directors of the top 1000 listed entities with effect from April 1, 2019 and of the top 2000 listed entities with effect from April 1, 2020 shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

Explanation I –For removal of doubts, it is clarified that the participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum.

Explanation II -The top 1000 and 2000 entities shall be determined on the basis ofmarket Capitalisation, as at the end of the immediate previous financial year.

(3)The board of directors shall periodically review compliance reports pertaining to all laws applicable to the listed entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances.

(4)The board of directors of the listed entity shall satisfy itself that plans are in place for orderly succession for appointment to the board of directors and senior management.

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	(5)(a) The board of directors shall lay down a code of conduct for all members of board of directors and senior management of the listed entity.(b)The code of conduct shall suitably incorporate the duties of independent directors as laid down in the Companies Act, 2013. (6)(a) The board of directors shall recommend all fees or compensation, if any, paid to non-executive directors, including independent directors and shall require approval of shareholders in general meeting. (b)The requirement of obtaining approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government (c)The approval of shareholders mentioned in clause (a),shall specify the limits for the maximum number of stock options that may be granted to non-executive directors, in any financial year and in aggregate. (ca) The approval of shareholders by special resolution shall be obtained every year, in which the annual remuneration payable to a single non-executive director exceeds fifty per cent of the total annual remuneration payable to all non-executive directors, giving details of the remuneration thereof. (Inserted w.e.f 01.04.2019) (d)Independent directors shall not be entitled to any stock option. (e) The fees or compensation payable to executive directors who are promoters or members of the promoter group, shall be subject to the approval of the shareholders by special resolution in general meeting, if- (i) the annual remuneration payable to such executive director exceeds rupees 5 crore or 2.5 per cent of the net profits of the listed entity, whichever is higher; or (ii) where there is more than one such director, the aggregate annual remuneration to such directors exceeds 5 per cent of the net profits of the listed entity: Provided that the approval of the shareholders under this provision shall be valid only till the expiry of the term of such director. Explanation: For the purposes of this clause, net profits shall be calculated as per section 198 of the Companies Act, 2013. (Inserted w.e.f 01.04.2019) (7)The minimum information to be placed before the board of directors is specified in Part A of Schedule II. (8)The chief executive officer and the chief financial officer shall provide the compliance certificate to the board of directors as specified in Part B of Schedule II. (9)(a) The listed entity shall lay down procedures to inform members of board of directors about risk assessment and minimization procedures.

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	(b)The board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity. (10) The evaluation of independent directors shall be done by the entire board of directors which shall include – (a) performanceof the directors; and (b) fulfillment of the independence criteria as specified in these regulations and their independence from the management: Provided that in the above evaluation, the directors who are subject to evaluation shall not participate. (Substituted w.e.f 01.04.2019) (11). The statement to be annexed to the notice as referred to in sub-section (1) of section 102 of the Companies Act, 2013 for each item of special business to be transacted at a general meeting shall also set forth clearly the recommendation of the board to the shareholders on each of the specific items. (Inserted w.e.f 01.04.2019)
MAXIMUM NUMBER OF DIRECTORSHIPS (17A) W.E.F 01.04.2019	The directors of listed entities shall comply with the following conditions with respect to the maximum number of directorships, including any alternate directorships that can be held by them at any point of time: (1) A person shall not be a director inmore than eight listed entities with effect from April 1, 2019 and in not more than seven listed entities with effect from April 1, 2020: Provided that a person shall not serve as an independent director in more than seven listed entities. (2) Notwithstanding the above, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities. For the purpose of this sub-regulation, the count for the number of listed entities on which a person is a director / independent director shall be only those whose equity shares are listed on a stock exchange
AUDIT COMMITTEE (18)	1) Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following: (a)The audit committee shall have minimum three directors as members. (b)Two-thirds of the members of audit committee shall be independent directors. (c)All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise. Explanation (1). For the purpose of this regulation, "financially literate" shall mean the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows. Explanation (2).-For the purpose of this regulation , a member shall be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial

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	officer or other senior officer with financial oversight responsibilities. (d)The chairperson of the audit committee shall be an independent director and he shall be present at Annual general meeting to answer shareholder queries. (e)The Company Secretary shall act as the secretary to the audit committee. (f)The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee: Provided that occasionally the audit committee may meet without the presence of any executives of the listed entity. (2)The listed entity shall conduct the meetings of the audit committee in the following manner: (a)The audit committee shall meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings. (b)The quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors. (c)The audit committee shall have powers to investigate any activity within its terms of reference, seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary. (3)The role of theaudit committee and the information to be reviewed by the audit committee shall be as specified in PartC of ScheduleII.
NOMINATION & REMUNERATION COMMITTEE (19)	(1) The board of directors shall constitute the nomination and remuneration committee as follows: (a)the committee shall comprise of atleast three directors ; (b)all directors of the committee shall be non-executive directors; and (c)atleast fifty percent of the directors shall be independent directors. (2)The Chairperson of the nomination and remuneration committee shall be an independent director: Provided that the chairperson of the listed entity,whether executive or non-executive, maybe appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee. (2A) Thequorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including atleast one independent director in attendance. (Inserted w.e.f 01.04.2019) (3)The Chairperson of the nomination and remuneration committee may be present at the annual general meeting, to answer the shareholders'

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	queries;however, it shall be up to the chairperson to decide who shall answer the queries. (3A) The nomination and remuneration committee shall meet at least once in a year. (Inserted w.e.f 01.04.2019) (4)The role of the nomination and remuneration committee shallbe as specified as in Part Dof the Schedule II.
STAKEHOLDERS RELATIONSHIP COMMITTEE (20)	(1) The listed entity shall constitute a Stakeholders Relationship Committee to specifically look into various aspects of interest of shareholders, debenture holders and other security holders. (2)The chairperson of this committee shall be a non-executive director. (2A) At least three directors, with at least one being an independent director, shall be members of the Committee. (Inserted w.e.f 01.04.2019) (3) The Chairperson of the Stakeholders Relationship Committee shall be present at the annual general meetings to answer queries of the security holders. (Substituted w.e.f 01.04.2019) (3A)The stakeholders relationship committee shall meet at least once in a year.(Inserted w.e.f 01.04.2019) (4)The role of the Stakeholders Relationship Committee shall be as specified as in Part D of the Schedule II.
RISK MANAGEMENT COMMITTEE (21)	(1)The board of directors shall constitute a Risk Management Committee. (2)The majority of members of Risk Management Committee shall consist of members of the board of directors. (3)The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee. (3A) The risk management committee shall meet at least once in a year. (Inserted w.e.f 01.04.2019) (4)The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit. such function shall specifically cover cyber security. (5)The provisions of this regulation shall be applicable to top 100 listed entities, determined on the basis of market capitalization, as at the end of the immediate previous financial year.
VIGIL MECHANISM (22)	(1) The listed entity shall formulate a vigil mechanism for directors and employees to report genuine concerns. (2) The vigil mechanism shall provide for adequate safeguards against

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	victimization of director(s) or employee(s) or any other person who avail the mechanism and also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.
RELATED PARTY TRANSACTIONS (23)	(1)The listedentity shall formulate a policy on materiality of related partytransactions and on dealing with related party transactionsincluding clear threshold limits duly approved by the board of directors and such policy shall be reviewed by the board of directors at least once every three years and updated accordingly: (Inserted w.e.f 01.04.2019) Explanation. -Atransaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the listedentity as per the last audited financial statements of the listed entity. (1A) Notwithstanding the above, with effect from July 01, 2019 a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed two percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity. (Inserted w.e.f 01.04.2019) (2)All related party transactions shall require prior approval of the audit committee. (3)Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions, namely- (a)the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature; (b)the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity; (c)the omnibus approval shall specify: (i)the name(s) of the related party, nature oftransaction, period of transaction, maximum amount of transactions that shall be entered into, (ii)the indicative base price / current contracted price and the formula for variation in the price if any; and (iii)such other conditions as the audit committee may deem fit: Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction. (d)the audit committee shall review, atleast on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.

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	(e)Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year: (4)All material related party transactions shall require approval of the shareholders through resolution and no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not: Provided that the requirements specified under this sub-regulation shall not apply in respect of a resolution plan approved under section 31 of the Insolvency Code, subject to the event being disclosed to the recognized stock exchanges within one day of the resolution plan being approved; (5)The provisions of sub-regulations(2), (3) and (4) shall not be applicable in the following cases: (a)transactions entered into between two government companies; (b)transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval. Explanation. -For the purpose of clause (a), "government company(ies)" means Government company as defined in sub-section (45) of section 2 of the Companies Act, 2013. (6)Theprovisions of this regulation shall be applicable to all prospective transactions. (7)For the purpose of this regulation, all entities falling under the definition of related parties shall not vote to approve the relevant transaction irrespective of whether the entity is a party to the particular transaction or not. (8)All existing material related party contracts or arrangements entered into prior to the date of notification of these regulations and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to notification of these regulations. (9) The listed entity shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website. (Inserted w.e.f 01.04.2019)
CORPORATE GOVERNANCE REQUIREMENTS WITH RESPECT TO SUBSIDIARY OF LISTED ENTITY (24)	(1) At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not. Explanation-For the purposes of this provision, notwithstanding anything to the contrary contained in regulation 16, the term “material subsidiary” shall mean a subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year. (Substituted w.e.f 01.04.2019)

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	(2)The audit committee of the listed entity shall also review the financial statements, in particular, the investments made by the unlisted subsidiary. (3)The minutes of the meetings of the board of directors of the unlisted subsidiary shall be placed at the meeting of the board of directors of the listed entity. (4)The management of the unlisted subsidiary shall periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary. Explanation.-For the purpose of this regulation, the term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed ten percent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year. (5)A listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than fifty percent or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved. (Inserted w.e.f 31.05.2018) (6)Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under ascheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved. (Inserted w.e.f 31.05.2018) (7)Where a listed entity has a listed subsidiary, which is itself a holding company, the provisions of this regulation shall apply to the listed subsidiaryin so far as its subsidiaries are concerned.
SECRETARIAL AUDIT (24A)	Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in such form as may be specified with effect from the year ended March 31, 2019.
OBLIGATION WITH RESPECT TO INDEPENDENT DIRECTORS (25)	(1) No person shall be appointed or continue as an alternate director for an independent director of a listed entity with effect from October 1, 2018. (2)The maximum tenure of independent directors shall be in accordance with the Companies Act, 2013 and rules made thereunder, in this regard, from time to time.

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	(3)The independent directors of the listed entity shall hold at least one meeting in a year, withoutthe presence of non-independent directors and members of the management and all the independent directors shall strive to be present at such meeting. (4)The independent directors in the meeting referred in sub-regulation (3) shall, interalia- (a)review the performance of non-independent directors and the board of directors as a whole; (b)review the performance of the chairperson of the listed entity, taking into account the views of executive directors and non-executive directors; (c)assess the quality, quantity and timeliness of flow of information between the management of the listed entity and the board of directors that is necessary for the board of directors to effectively and reasonably perform their duties. (5)An independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through processes of board of directors, and with his consent or connivance or where he had not acted diligently with respect to the provisions contained in these regulations. (6)An independent director who resigns or is removed from the board of directors of the listed entity shall be replaced by a new independent director by listed entity at the earliest but not later than the immediate next meeting of the board of directors or three months from the date of such vacancy, whichever is later: Provided that where the listed entity fulfils the requirement of independent directors in its board of directors withoutfilling the vacancy created by such resignation or removal, the requirement of replacement by a new independent director shall not apply. (7)The listed entity shall familiarise the independent directors through various programmes about the listed entity,including the following: (a)nature of the industry in which the listed entity operates; (b)business model of the listed entity; (c)roles, rights, responsibilities of independent directors; and (d)any other relevant information. (8) Every independent director shall, at the first meeting of the board in which he participates as a director and thereafter at the first meeting of the board in every financial year or whenever there is any change in the circumstances which may affect his status as an independent director, submit a declaration that he meets the criteria of independence as provided in clause (b) of sub-regulation (1) of regulation 16 and that he is not aware of any circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact his ability to discharge his duties with an objective independent judgment and without any external influence. (9) The board of directors of the listed entity shall take on record the declaration and confirmation submittedby the independent director under sub-regulation (8) after undertaking due assessment of the veracity of the same. (10) With effect from October 1, 2018, the top 500 listed entities by

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	market capitalization calculated as on March 31 of the precedingfinancial year, shall undertake Directors and Officers insurance ('D and O insurance') for all their independent directors of such quantum and for such risks as may be determined by its board of directors.
IN PRINCIPAL APPROVAL OF RSE (28)	(1) The listed entity, before issuing securities, shall obtain an _in-principle' approval from recognized stock exchange(s) in the following manner: (a) where the securities are listed only on recognized stock exchange(s) having nationwide trading terminals, from all such stock exchange(s); (b) where the securities are not listed on any recognized stock exchange having nationwide trading terminals, from all the stock exchange(s) in which the securities of the issuer are proposed to be listed; (c) where the securities are listed on recognized stock exchange(s) having nationwide trading terminals as well as on the recognized stock exchange(s) not having nationwide trading terminals, from all recognized stock exchange(s) having nationwide trading terminals: (2) The requirement of obtaining in-principle approval from recognized stock exchange(s), shall not be applicable for securities issued pursuant to the scheme of arrangement for which the listed entity has already obtained No-Objection Letter from recognized stock exchange(s) in accordance with regulation 37.
PRIOR INTIMATIONS (29)	(1) The listed entity shall give prior intimation to stock exchange about the meeting of the board of directors in which any of the following proposals is due to be considered: (a) financial results viz. quarterly, half yearly, or annual, as the case may be; (b) proposal for buyback of securities; (c) proposal for voluntary delisting by the listed entity from the stock exchange(s); (d) fund raising by way of further public offer, rights issue, American Depository Receipts/Global Depository Receipts/Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue or any other method and for determination of issue price: Provided that intimation shall also be given in case of any annual general meeting or extraordinary general meeting or postal ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance. (e) declaration/recommendation of dividend, issue of convertible securities including convertible debentures or of debentures carrying a right to subscribe to equity shares or the passing over of dividend. (f) the proposal for declaration of bonus securities where such proposal is communicated to the board of directors of the listed entity as part of the agenda papers: ~~Provided that in case the declaration of bonus by the listed entity is not on the agenda of the meeting of board of directors, prior intimation is not required to be given to the stock exchange(s).~~ (Omitted w.e.f. 01.10.2018)

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	(2) The intimation required under sub-regulation (1), shall be given at least two working days in advance, excluding the date of the intimation and date of the meeting: Provided that intimation regarding item specified in clause (a) of sub-regulation (1), to be discussed at the meeting of board of directors shall be given at least five days in advance (excluding the date of the intimation and date of the meeting), and such intimation shall include the date of such meeting of board of directors. (3) The listed entity shall give intimation to the stock exchange(s) at least eleven working days before any of the following proposal is placed before the board of directors - (a) Any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof. (b) Any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.
HOLDING OF SPECIFIED SECURITIES & SHAREHOLDING PATTERN (31)	(1) The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities, in the format specified by the Board from time to time within the following timelines - (a) one day prior to listing of its securities on the stock exchange(s); (b) on a quarterly basis, within twenty one days from the end of each quarter; and, (c) within ten days of any capital restructuring of the listed entity resulting in a change exceeding two per cent of the total paid-up share capital: Provided that in case of listed entities which have listed their specified securities on SME Exchange, the above statements shall be submitted on a half yearly basis within twenty one days from the end of each half year. (2) The listed entity shall ensure that hundred percent of shareholding of promoter(s) and promoter group is in dematerialized form and the same is maintained on a continuous basis in the manner as specified by the Board. (3) The listed entity shall comply with circulars or directions issued by the Board from time to time with respect to maintenance of shareholding in dematerialized form. (4) All entities falling under promoter and promoter group shall be disclosed separately in the shareholding pattern appearing on the website of all stock exchanges having nationwide trading terminals where the specified securities of the entity are listed, in accordance with the formats specified by the Board. (Inserted w.e.f. 16.11.2018)
STATEMENT OF DEVIATIONS/ VARIATIONS (32)	(1) The listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc. (a) indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;

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	(b) Indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilization of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilization of funds. (2) The statement(s) specified in sub-regulation (1), shall be continued to be given till such time the issue proceeds have been fully utilized or the purpose for which these proceeds were raised has been achieved. Wherean entity has raised funds through preferential allotment or qualified institutions placement, the listed entity shall disclose every year, the utilization of such funds during that year in its Annual Reportuntil such funds are fully utilized.
FINANCIAL RESULTS (33)	• The listed entity or its subsidiaries shall submit quarterly and year-to-date standalone financial results to the stock exchange ***within 45 days of end of each quarter***, other than the last quarter. • Unaudited financial result shall be accompanied by Limited Review Report. Audited financial results accompanied by audit report. • FR shall be signed by the chairperson or managing director, or a whole time director or in the absence of all of them; it shall be signed by any other director of the listed entity who is duly authorized by the BOD to sign the FR. • The listed entity shall submit with stock exchange ***within 60 days from the end of the financial year,*** annual audited standalone financial results for the financial year along with the audit report or in case entity having subsidiaries it shall, while submitting annual audited standalone financial results also submit annual audited consolidated financial results along with the audit report and Statement on Impact of Audit Qualifications, applicable only for audit report with modified opinion and the listed entity shall also submit the audited financial results in respect of the last quarter along-with the results for the entire financial year. • The listed entity shall also submit as part of its standalone or consolidated financial results for the half year, by way of a note, a statement of assets and liabilities as at the end of the half-year. • The listed entity shall also submit as part of its standalone and consolidated financial results for the half year, by way of a note, statement of cash flows for the half-year. • The statutory auditor of a listed entity shall undertake a limited review of the audit of all the entities/ companies whose accounts are to be consolidated with the listed entity as per AS 21 in accordance with guidelines issued by the Board on this matter.
ANNUAL REPORT (34)	1) The listed entity shall submit to the stock exchange and publish on its website- (a)a copy of the annual report sent to the shareholders along with the notice of the annual general meeting not later than the day of commencement of dispatch to its shareholders; (b)in the event of any changes to the annual report, the revised copy along with the details of and explanation for the changes shall be sent

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	not later than 48 hours after the annual general meeting. (2) The annual report shall contain the following: (a) audited financial statements i.e. balance sheets, profit and loss accounts etc (b) consolidated financial statements audited by its statutory auditors; (c) cash flow statement presented only under the indirect method as prescribed in Accounting Standard-3 or Indian Accounting Standard 7, as applicable, specified in Section 133 of the Companies Act, 2013 read with relevant rules framed thereunder or as specified by the Institute of Chartered Accountants of India, whichever is applicable; (d) directors report; (e) management discussion and analysis report - either as a part of directors report or addition thereto; (f) for the top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year),business responsibility report describing the initiatives taken by them from an environmental, social and governance perspective, in the format as specified by the Board from time to time: Provided that listed entities other than top five hundred listed companies based on market capitalization and listed entities which have listed their specified securities on SME Exchange, may include these business responsibility reports on a voluntary basis in the format as specified. (3) The annual report shall contain any other disclosures specified in Companies Act, 2013 along with other requirements as specified in Schedule V of these regulations.
DOCUMENTS & INFORMATION TO SHAREHOLDERS (36)	(1) The listed entity shall send the annual report in the following manner to the shareholders: (a) Soft copies of full annual report to all those shareholder(s) who have registered their email address(es) either with the listed entity or with any depository; (b) Hard copy of statement containing the salient features of all the documents, as prescribed in Section 136 of Companies Act, 2013 or rules made thereunder to those shareholder(s) who have not so registered; (c) Hard copies of full annual reports to those shareholders, who request for the same. (2) The listed entity shall send annual report referred to in sub-regulation (1), to the holders of securities, not less than twenty-one days before the annual general meeting. (3) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information: (a) a brief resume of the director; (b) nature of his expertise in specific functional areas; (c) disclosure of relationships between directors inter-se; (d) names of listed entities in which the person also holds the directorship and the membership of Committees of the board; and (e) Shareholding of non-executive directors. (4) The disclosures made by the listed entity with immediate effect from date of notification of these amendments-(a) to the stock exchanges shall be in XBRLformat in accordance with the guidelines specified by the stock exchanges from time to time; and(b) to the stock exchanges and on its

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	website, shall be in a format that allows users to find relevant information easily through a searching tool: Provided that the requirement to make disclosures in searchable formats shall not apply in case there is a statutory requirement to make such disclosures in formats which may not be searchable, such as copies of scanned documents. (5) The notice being sent to shareholders for an annual general meeting, where the statutory auditor(s) is/are proposed to be appointed/re-appointed shall include the following disclosures as a part of the explanatory statement to the notice: (a)Proposed fees payable to the statutory auditor(s) along with terms of appointment and in case of a new auditor, any material change in the fee payable to such auditor from that paid to the outgoing auditor along with the rationale for such change; (b)Basis of recommendation for appointment including the details in relation to and credentials of the statutory auditor(s) proposed to be appointed. (Inserted w.e.f 01.04.2019)
MINIMUM PUBLIC SHAREHOLDING (38)	The listed entity shall comply with the minimum public shareholding requirements specified in Rule 19(2) and Rule 19A of the Securities Contracts (Regulation) Rules, 1957 in the manner as specified by SEBI from time to time. However, the provisions of this regulation shall not apply to entities listed on Innovators Growth platform without making a public issue.
TRANSFER OR TRANSMISSION OR TRANSPOSITION (40) (Important)	The Board of directors may delegate the power of transfer of securities to a committee or to a compliance officer or to the share transfer agent. Such delegated authority shall attend to share transfer formalities once in a fortnight and shall report on the same to the Board of director. **Transfer of securities** • On receipt of proper documentation, the listed entity shall register transfers of its securities in the name of the transferee(s) and issue certificates or receipts or advices, as applicable, of transfers; or issue any valid objection or intimation to the transferee or transferor, as the case may be, ***within a period of 15 days from the date of such receipt of request for transfer***. **Transmission of securities** • The listed entity shall ensure that transmission requests are processed for securities held in dematerialized mode and physical mode ***within 7 days and 21 days respectively***, after receipt of the specified documents.
DIVIDEND DISTRIBUTION POLICY (43A) (AMENDMENT 08.07.2016)	(1) The top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) shall formulate a dividend distribution policy which shall be disclosed in their annual reports and on their websites. (2) The dividend distribution policy shall include the following parameters: (a)the circumstances under which the shareholders of the listed entities may or may not expect dividend; (b)the financial parameters that shall be considered while declaring dividend;

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	(c)internal and external factors that shall be considered for declaration of dividend; (d)policy as to how the retained earnings shall be utilized; and (e)parameters that shall be adopted with regard to various classes of shares: Provided that if the listed entity proposes to declare dividend on the basis of parameters in addition to clauses (a) to (e) or proposes to change such additional parameters or the dividend distribution policy contained in any of the parameters, it shall disclose such changes along with the rationale for the same in its annual report and on its website. (3) The listed entities other than top five hundred listed entities based on market capitalization may disclose their dividend distribution policies on a voluntary basis in their annual reports and on their websites
MEETINGS OF SHAREHOLDERS & VOTING	(1) The listed entity shall provide the facility of remote e-voting facility to its shareholders, in respect of all shareholders' resolutions. (2)The e-voting facility to be provided to shareholders in terms of sub-regulation (1),shall be provided in compliance with the conditions specified under the Companies (Management and Administration) Rules, 2014,or amendments made thereto. (3)The listed entity shall submit to the stock exchange, within forty eight hours of conclusion of its General Meeting, details regarding the voting results in the format specified by the Board. (4)The listed entity shall send proxy forms to holders of securities in all cases mentioning that a holder may vote either for or against each resolution. (5) The top 100 listed entities by market capitalization, determined as on March 31st of every financial year, shall hold their annual general meetings within a period of five months from the date of closing of the financial year. (6) The top 100 listed entities shall provide one-way live webcast of the proceedings of the annual general meetings. Explanation: The top 100 entities shall be determined on the basis of market Capitalisation, as at the end of the immediate previous financial year.
CHANGE IN NAME OF ENTITY (45)	(1) The listed entity shall be allowed to change its name subject to compliance with the following conditions: (a) a time period of at least one year has elapsed from the last name change; (b) at least fifty percent. of the total revenue in the preceding one year period has been accounted for by the new activity suggested by the new name; or (c) the amount invested in the new activity/project is at least fifty percent. of the assets of the listed entity: Provided that if any listed entity has changed its activities which are not reflected in its name, it shall change its name in line with its activities within a period of six months from the change of activities in compliance of provisions as applicable to change of name prescribed under Companies Act, 2013

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	(2) On satisfaction of conditions at sub-regulation (1), the listed entity shall file an application for name availability with Registrar of Companies. (3) On receipt of confirmation regarding name availability from Registrar of Companies, before filing the request for change of name with the Registrar of Companies in terms of provisions laid down in Companies Act, 2013 and rules made thereunder, the listed entity shall seek approval from Stock Exchange by submitting a certificate from chartered accountant stating compliance with conditions at sub-regulation (1).
WEBSITE (46)	The listed entity shall disseminate the following information under a separate section on its website: (a) details of its business; (b) terms and conditions of appointment of independent directors; (c) composition of various committees of board of directors; (d) code of conduct of board of directors and senior management personnel; (e) details of establishment of vigil mechanism/ Whistle Blower policy; (f) criteria of making payments to non-executive directors , if the same has not been disclosed in annual report; (g) policy on dealing with related party transactions; (h) policy for determining _material' subsidiaries; (i) details of familiarization programs imparted to independent directors including the following details:- (i) number of programs attended by independent directors (during the year and on a cumulative basis till date), (ii) number of hours spent by independent directors in such programs (during the year and on cumulative basis till date), and (iii) other relevant details (j) the email address for grievance redressal and other relevant details; (k) contact information of the designated officials of the listed entity who are responsible for assisting and handling investor grievances; (l) financial information including: (i) notice of meeting of the board of directors where financial results shall be discussed; (ii) financial results, on conclusion of the meeting of the board of directors where the financial results were approved; (iii) complete copy of the annual report including balance sheet, profit and loss account, directors report, corporate governance report etc; (m) shareholding pattern; (n) details of agreements entered into with the media companies and/or their associates, etc; (o) schedule of analyst or institutional investor meet and presentations made by the listed entity to analysts or institutional investors simultaneously with submission to stock exchange; (p) new name and the old name of the listed entity for a continuous period of one year, from the date of the last name change; (q) Items as prescribed in Regulation 47(1); (r) With effect from October 1, 2018, all credit ratings obtained by the entity for all its outstanding instruments, updated immediately as and when there is any revision in any of the ratings. (s) separate audited financial statements of each subsidiary of the listed entity in respect of a relevant financial year, uploaded at least 21 days prior to the date of the annual general meeting which has been called to inter alia consider accounts of that financial year.

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ADVERTISEMENT IN NEWSPAPER (47)	(1) The listed entity shall publish the following information in the newspaper: (a) notice of meeting of the board of directors where financial results shall be discussed (b) financial results, as specified in regulation 33, along-with the modified opinion(s) or reservation(s), if any, expressed by the auditor: Provided that if the listed entity has submitted both standalone and consolidated financial results, the listed entity shall publish consolidated financial results along-with (1) Turnover, (2) Profit before tax and (3) Profit after tax, on a stand-alone basis, as a foot note; and a referenceto the places, such as the website of listed entity and stock exchange(s), where the standalone results of the listed entity are available. (c) statements of deviation(s) or variation(s) as specified in sub-regulation (1) of regulation 32 on quarterly basis, after review by audit committee and its explanation in directors report in annual report; (d) notices given to shareholders by advertisement. (2) The listed entity shall give a reference in the newspaper publication, in sub-regulation (1), to link of the website of listed entity and stock exchange(s), where further details are available. (3) The listed entity shall publish the information specified in sub-regulation (1) in the newspaper simultaneously with the submission of the same to the stock exchange(s). Provided that financial results at clause (b) of sub-regulation (1), shall be published within 48 hours of conclusion of the meeting of board of directors at which the financial results were approved. (4) The information at sub-regulation (1) shall be published in at least one English language national daily newspaper circulating in the whole or substantially the whole of India and in one daily newspaper published in the language of the region, where the registered office of the listed entity is situated: Provided that the requirements of this regulation shall not be applicable in case of listed entities which have listed their specified securities on SME Exchange.

SUMMARY OF COMPLIANCE UNDER SEBI LODR

The Listed entity shall comply with the following compliances under the Listing Regulations :-
– One Time Compliances
– Quarterly Compliances
– Half yearly Compliances
– Yearly Compliances
– Event based Compliances

ONE-TIME COMPLIANCES

The following are the one time compliances:-

Regulation	Compliance Particulars
6(1)	A listed entity shall appoint a Company Secretary as the Compliance Officer
7(1)	The listed entity shall appoint a share transfer agent or the listed entity register with SEBI as Category II share transfer agent in case of share transfer facility in house.
9	The listed entity shall have a policy for preservation of documents, approved by its Board of Directors. Constitution of Committees

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	– Audit Committee (Regulation 18) – Nomination and Remuneration Committee (Regulation 19) – Stakeholders Relationship Committee (Regulation 20) – Risk Management Committee (Regulation 21) – Vigil Mechanism (Regulation 22)

QUARTERLY COMPLIANCES

13(3)	The listed entity shall file with the recognised stock exchange, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter	within 21 days from end of quarter
27	The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by SEBI from time to time to the recognized stock exchange(s)	within 15 days from end of quarter
31(1)(B)	The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities, in the format specified by SEBI from time to time	within 21 days from end of quarter
32(1)	The listed entity shall submit to the stock exchange a statement of deviation or variation	-
33(3)	The listed entity shall submit quarterly and year-to-date financial results to the stock exchange	within forty-five days of end of each quarter, other than the last quarter

HALF YEARLY COMPLIANCES:

7(3)	The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorised representative of the share transfer agent	Within one month of end of each half of the financial year.
40(9)	The listed entity shall ensure that the share transfer agent and/or the in-house share transfer facility, as the case may be, produces a certificate from a practising company secretary	within one month of the end of each half of the financial year

YEARLY COMPLIANCES

14	The listed entity shall pay all such fees or charges, as applicable, to the recognised stock exchange(s), in the manner specified by SEBI or the recognised stock Exchange (s).	within 30 days of the end of financial year
33(3)	The listed entity shall submit annual audited standalone financial results with audit report and Statement on Impact of Audit Qualifications applicable only for audit report with modified opinion to the stock exchange	within 60 days from the end of the financial year
34	The listed entity shall submit the annual report to the stock exchange	within twenty one working days of it being approved and adopted in the annual general meeting

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EVENT BASED COMPLIANCES:

7(5)	The listed entity shall intimate the appointment of Share Transfer Agent, to the stock exchange(s)	Within 7 days of Agreement with RTA
28(1)	The listed entity shall obtain In-principle approval from recognised stock exchange	Prior to issuance of Security
29(1)(a) read with 29(2)	Prior Intimations of Board Meeting for financial Result viz. quarterly, half yearly or annual, to the stock exchange(s)	At least 5 clear days in advance (excluding the date of the intimation and the date of the meeting)
29(1)(b) to (f) read with 29(2)	Prior Intimations of Board Meeting for Buyback, Voluntary delisting , Fund raising by way of FPO, Rights Issue, ADR, GDR, QIP, FCCB, Preferential issue, debt issue or any other method, Declaration/ recommendation of dividend, issue of convertible securities carrying a right to subscribe to equity shares or the passing over of dividend, proposal for declaration of Bonus securities etc., to the stock exchange(s)	At least 2 working days in advance
29(3)	Prior Intimations of Board Meeting for alteration in nature of Securities, alteration in the date on which interest on debentures/bonds/redemption amount, etc. shall be payable to the stock exchange(s)	At least 11 clear working days in Advance
30(6)	Disclosure of Price Sensitive Information to the stock exchange(s)	Not later than twenty four hours as per Part A of Schedule III
31(1)(a)	The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities prior to listing of securities	One day prior to listing of Securities
31(1)(c)	The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities in case of Capital Restructuring	One day prior to listing of Securities
37(2)	The listed entity shall file draft Scheme of Arrangement to the stock exchange(s)	Prior approval before filing with Court
42(2)	The listed entity shall intimate the record date or date of closure of transfer books to all the stock exchange(s)	At least 7 clear working days in advance
42(3)	The listed entity shall give notice to stock exchange(s) of Record date for declaring dividend and/or cash bonus	At least 5 clear working days in advance
44(3)	The listed entity shall submit to the stock exchange details regarding voting results by Shareholders	Within 48 Hours of conclusion of its General Meeting
45(3)	The listed entity shall allowed to change its name	Prior approval from Stock Exchange(s)

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UNIT 6: SEBI (SUBSTANTIAL ACQUISITION OF SHARES & TAKEOVER) REGULATIONS, 2011

INTRODUCTION	SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 aims at protecting interest of the investors in securities of a listed company providing amongst others, an opportunity for the public shareholders to exit where there is a substantial acquisition of shares or voting rights or control over a listed company, consolidation of holdings by existing shareholders and related disclosures and penalties for non – compliance etc. SAST requires an acquirer to make an offer to shareholders of the target company on acquiring shares exceeding stipulated thresholds. It also contains provisions relating to open offer size and price; time bound process for making an open offer, exemption from making an open offer etc. Provided that these regulations shall not apply to direct and indirect acquisition of shares or voting rights in, or control over a company listed without making a public issue, on the Innovators Growth platform of a recognised stock exchange.
SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 2011	
IMPORTANT DEFINITIONS	❖ **ACQUIRER**means any person who, directly or indirectly, acquires or agrees to acquire whether by himself, or through, or with persons acting in concert with him, shares or voting rights in, or control over a target company. ❖ **ACQUISITION**means, directly or indirectly, acquiring or agreeing to acquire shares or voting rights in, or control over, a target company. ❖ **CONTROL**includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner. PROVIDED that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position. • **ENTERPRISE VALUE**means the value calculated as market capitalization of a company plus debt, minority interest and preferred shares, minus total cash and cash equivalents. ***Enterprise Value = Market capitalization + Debt + Minority Interest and Preferred Shares – Total Cash and Cash Equivalents*** • **PERSONS ACTING IN CONCERT**means: (1) Persons who, with a common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or indirectly co – operate for acquisition of shares or voting rights in, or exercise of control over the target company. (2) Without prejudice to the generally of the foregoing, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons within the same category, unless the contrary is established:- (i) A company, its holding company, subsidiary company and any company under the same management or control;

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	(ii) A company, its directors, and any person entrusted with the management of company; (iii) Directors of companies referred to in terms (i) and (ii) of this sub – clause and associates of such directors; (iv) Promoters and members of the promoter group; (v) Immediate relatives; (vi) Mutual fund, sponsor, trustees, trustee company, and asset management company; (vii) A collective investment scheme and its collective investment management company, trustees and trustee company; (viii) A venture capital fund and its sponsor, trustees, trustee company and asset management company; (viiia) an Alternate Investment fund and its Sponsor, Trustee, Trustee Company & Asset Management Company; (ix) ~~A foreign institutional investor and its sub – accounts;~~ (Deleted) (x) A merchant banker and its client, who is an acquirer; (xi) A portfolio manager and its client, who is an acquirer; (xii) Banks, financial advisors and stock brokers of the acquirer, or of any company which is a holding company or subsidiary of the acquirer, and where the acquirer is an individual, of the immediate relative of such individual. PROVIDED that this sub – clause shall not apply to a bank whose sole role is that of providing normal commercial banking services or activities in relation to an open offer. (xiii) An investment company or fund and any person who has an interest in such investment company or fund as a shareholder or unit holder having not less than 10% of the paid – up capital of the investment company or unit capital of the fund, and any other investment company or fund in which such person or his associate holds not less than 10% of the paid – up capital of that investment company or unit capital of that fund: PROVIDED that nothing contained in this sub – clause shall apply to holding of units of mutual funds registered with SEB. • **TARGET COMPANY**means a company and includes a body corporate or corporation established under a Central legislation, State legislation or Provincial legislation for the time being in force, whose shares are listed on a stock exchange. • **WILFUL DEFAULTER:** wilful defaulter means any person who is categorized as a wilful defaulter by any bank or financial institution or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India and includes any person whose director, promoter or partner is categorized as such; • **"FUGITIVE ECONOMIC OFFENDER"** shall mean an individual who is declared a fugitive economic offender under section 12 of the Fugitive Economic Offenders Act, 2018;
TAKEOVER - CONCEPT	In this chapter, we focus takeover of those companies which are listed in a recognized stock exchange and where there are possibilities of hostile takeover of such company. Considering possibility of hostile takeover, SEBI has introduced a Takeover Regulations, 2011 which prohibits on hostile takeover and puts certain restrictions on acquirer.

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	Here, takeover means acquisition of shares or voting rights in a listed company for the objective to have control over such company. The person who acquires shares or voting rights is known as acquirer and the listed company whose shares are being acquired is known as Target Company. As per the Takeover Code, 2011, an acquirer is required to give mandatory and/or voluntary open offer to the shareholders of the Target Company before increasing its shareholding more than triggering point (i. e. equal to or more than 25% of shares or voting rights). The process of such open offer is more or less like buy – back process of a company and difference between these two are: in takeover, the acquirer acquires shares and makes payment to the existing shareholders of the Target Company whereas in buy – back, the company itself pays money to its shareholders.
TRIGGER POINT	**25% shares or voting rights:** An acquirer, along with Persons acting in concert (PAC), if any, who intends to acquire shares which along with his existing shareholding would entitle him to exercise 25% or more voting rights, can acquire such additional shares only after making a Public Announcement (PA) to acquirer minimum 26% shares of the Target Company from the shareholders through an Open Offer. (a) The trigger point of an open offer, if a person acquires 25% or more shares or voting rights of a listed target company. **Example:** If a person, individually or through PACs (persons acting on concept) have 24.99% shares and wishes to acquire additional shares or voting rights in a company. The person has to acquire at least additional 26% shares of the target company via an open offer. It will trigger an open offer. Thereafter, if the acquirer or the PAC acquires more than 25% of the shares, then the acquirer(s) needs to purchase a minimum of 26% of additional stakes in the target company (also known as triggering point for an open offer). (b) No triggering point, if the acquirer or the PAC acquires 25% or less shares or voting rights. **Example:** If a person, individually or through PAC's (persons acting on concept) acquires 24.99% of the shares or voting rights in a listed company, it will not trigger an open offer. • **Creeping acquisition limit:** These provisions apply to those existing shareholders who hold more than 25% of the shares or voting rights. For such acquires to increase their stake, they are allowed to acquire shares or voting rights to the extent of 5% in any financial year up to the maximum permissible non – public shareholding limit (i. e. 75%). This setting is termed as **'Creeping Acquisition'.** Acquisition of shares or voting rights in excess of the said limit (i. e. 5%) would trigger an open offer. In other words, if an acquirer who holds 25% or more but less than maximum permissible non – public shareholding (i. e. 75%) of the Target Company, can acquire such additional shares as would entitle him to exercise more than 5% of the voting rights in any financial year ending March 31 only after making a Public Announcement to acquire minimum 26% shares of Target Company from the shareholders through an Open

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	Offer. Nothing contained in this regulation shall apply to acquisition of shares or voting rights of a company by the promoters or shareholders in control, in terms of the provisions of Chapter VI- A of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 **Chapter VI A relates to Conditions & Manner of providing Exit Opportunity to Dissenting Shareholders. So, Company is acquiring shares as a part of providing Exit Opportunity as per ICDR guidelines, then SAST regulations shall not apply to such transaction. That means, no need to give open offer as per SAST.**
MANDATORY OPEN OFFER	SEBI Takeover Regulations, 2011 provide certain trigger events wherein the Acquirer is required to give Open Offer to the shareholders of the Target Company to provide them exit opportunity. **MANDATORY OPEN OFFER** (**Regulation 3** of the SEBI Takeover Regulations, 2011): The regulations provide that whenever an acquirer acquires the shares in excess of the threshold limit (i. e. 25%), then the acquirer is required to make a public announcement of offer to the shareholders of the Target Company. The Acquirer to give an open offer to the shareholders of Target Company on the acquisition of shares or voting rights entitling the Acquirer along with the persons acting in concert with him to exercise 25% or more voting rights in the Target Company. Further, any acquirer who holds shares between 25% - 75%, together with PACs can acquire further 5% shares as creeping acquisition without giving an Open Offer to the shareholders of the Target Company up to a maximum of 75%. The quantum of acquisition of additional voting rights shall be calculated after considering the following:- ➢ No Netting off allowed: For the purpose of determining the quantum of acquisition of additional voting right, the gross acquisitions without considering the disposal of shares or dilution of voting rights owing to fresh issue of shares by the target company shall be taken into account. ➢ Incremental voting rights in case of fresh issue: In the case of acquisition of shares by way of issue of new shares by the target company, the difference between the pre – allotment and the post – allotment percentage voting rights shall be regarded as the quantum of additional acquisition. ➢ Public Announcement (Regulation 4 of the SEBI Takeover Regulations, 2011): If any acquirer including PAC acquires control over the Target Company irrespective of the fact whether there has been any acquisition of shares or not, then he has to give public announcement to acquire shares from shareholders of the Target Company. Provided further that, acquisition pursuant to a resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016 [No. 31 of 2016] shall be exempt from the obligation under the proviso to the sub-regulation (2) of regulation 3. **(Inserted w.e.f. 31.05.2018)**
VOLUNTARY OPEN OFFER	• **VOLUNTARY OPEN OFFER** (**Regulation 6** of the SEBI Takeover Regulations, 2011): Voluntary Open Offer means the Open Offer given by the Acquirer voluntarily without triggering the mandatory Open Offer obligations as envisaged under the

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	regulations. Voluntary Offers are an important means for substantial shareholders to consolidate their stake and therefore recognized the need to introduce a specific framework for such Open Offers. **Limits and Conditions for Voluntary Open Offer:** Threshold limits and conditions for making the Voluntary Open Offer which are detailed below:- ➢ Eligibility: Prior holding of at least 25% Shares: To be eligible for making a Voluntary Open Offer, the regulations mandate the prior holding of at least 25% stake in the Target Company by the Acquirer along with the PACs. ➢ Acquisition of shares prior to the Voluntary Open Offer: The Acquirer shall become ineligible to make a Voluntary Open Offer if during the preceding 52 weeks, the Acquirer or PACs with him has acquired shares of the Target Company without attracting the obligation to make a Public Announcement of an Open Offer. ➢ Shareholding of the Acquirer and PACs post completion of Open Offer: Post completion of the Open Offer, the shareholding of the Acquirer along with PACs shall not exceed the maximum permissible non – public shareholding. ➢ Prohibition on the acquisition of shares during the Offer Period: SEBI Takeover Regulations, 2011 prohibit the acquirer who has made a Voluntary Open Offer from further acquiring the shares during the Offer Period otherwise than under the Open Offer. ➢ Restriction of the acquisition of shares post completion of Voluntary Open Offer: An acquirer and PACs who have made a Voluntary Open Offer shall not be entitled to further acquire shares for a period of 6 months after completion of the Open Offer except pursuant: (i) To another Voluntary Open Offer. (ii) To Completing Open Offer to the Open Offer made by any other person for acquiring shares of the Target Company. ➢ Offer Size: The Voluntary Open Offer shall be made for the acquisition of at least 10% of the voting rights in the Target Company and shall not exceed such number of shares as would result in the post-acquisition holding of the acquirer and PACs with him exceeding the maximum permissible non – public shareholding (i. e. 75%) applicable to such Target Company.
DELISTING OFFER (REGULATION 5A)	(1) Notwithstanding anything contained in these regulations, in the event the acquirer makes a public announcement of an open offer for acquiring shares of a target company in terms of regulations 3, 4 or 5, **he may delist the company** in accordance with provisions of the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009: Provided that the acquirer shall have declared upfront his intention to so delist at the time of making the detailed public statement and a subsequent declaration of delisting for the purpose of the offer proposed to be made under sub regulation (1) will not suffice. (**Inserted w.e.f 11.09.2018**) (2) Where an offer made under sub-regulation (1) **is not successful**,- (i) on account of non–receipt of prior approval of shareholders in terms of clause (b) of sub-regulation (1) of regulation 8 of Securities and Exchange

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	Board of India (Delisting of Equity Shares) Regulations, 2009; or (ii) in terms of regulation 17 of Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; or (iii) on account of the acquirer rejecting the discovered price determined by the book building process in terms of sub-regulation (1) of regulation 16 of Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009, **the acquirer shall make an announcement within two working** days in respect of such failure in all the newspapers in which the detailed public statement was made and shall comply with all applicable provisions of these regulations. (3) In the event of failure of the delisting offer made under sub-regulation (1), the open offer obligations shall be fulfilled by the acquirer in the following manner: (i) the acquirer, through the manager to the open offer, shall **within five working days** from the date of the announcement under sub-regulation (2), file with the Board, **a draft of the letter of offer** as specified in sub-regulation (1) of regulation 16; and (ii) shall comply with all other applicable provisions of these regulations. Provided that the offer price shall stand enhanced by an amount equal to a sum determined at the rate of ten per cent per annum for the period between the scheduled date of payment of consideration to the shareholders and the actual date of payment of consideration to the shareholders. Explanation: For the purpose of this sub-regulation, scheduled date shall be the date on which the payment of consideration ought to have been made to the shareholders in terms of the timelines in these regulations. (**Substituted w.e.f. 11.09.2018**) (4) Where a competing offer is made in terms of sub-regulation (1) of regulation 20,- (a) the acquirer shall not be entitled to delist the company; (b) the acquirer shall not be liable to pay interest to the shareholders on account of delay due to competing offer; (c) the acquirer shall comply with all the applicable provisions of these regulations and make an announcement in this regard, within two working days from the date of public announcement made in terms of sub-regulation (1) of regulation 20, in all the newspapers in which the detailed public statement was made. (5) Shareholders who have tendered shares in acceptance of the offer made under sub-regulation (1), shall be entitled to withdraw such shares tendered, within 10 working days from the date of the announcement under sub-regulation(2) (6) Shareholders who have not tendered their shares in acceptance of the offer made under sub-regulation (1) shall be entitled to tender their shares in acceptance of the offer made under these regulations

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WITHDRAWAL OF OPEN OFFER (REGULATION 23)	1) An open offer for acquiring shares once made shall not be withdrawn except under any of the following circumstances,— (a)statutory approvals required for the open offer or for effecting the acquisitions attracting the obligation to make an open offer under these regulations having been finally refused, subject to such requirements for approval having been specifically disclosed in the detailed public statement and the letter of offer; (b)the acquirer, being a natural person, has died; (c)any condition stipulated in the agreement for acquisition attracting the obligation to make the open offer is not met for reasons outside the reasonable control of the acquirer, and such agreement is rescinded, subject to such conditions having been specifically disclosed in the detailed public statement and the letter of offer; or (d)such circumstances as in the opinion of the Board, merit withdrawal. **Explanation**.—For the purposes of clause (d) of sub-regulation (1), the Board shall pass a reasoned order permitting withdrawal, and such order shall be hosted by the Board on its official website. Provided that an acquirer shall not withdraw an open offer pursuant to a public announcement made under clause (g) of sub-regulation (2) of regulation 13, even if the proposed acquisition through the preferential issue is not successful.
PUBLIC ANNOUNCEMENT	Irrespective of acquisition or holding of shares or voting rights in a target company, no acquirer shall acquire, directly or indirectly, control over such target company unless the acquirer makes a public announcement of an open offer for acquiring shares of such target company in accordance with these regulations. (Regulation 4) Regulation 14 of the SEBI Takeover Regulations, 2011 prescribe the manner of public announcements in connection with mandatory and voluntary open offer: • ***Short Public Announcement***: Short public announcement shall be made on the same day or as prescribed as on the date of transaction which triggered the Open Offer to all the stock exchanges where the shares of the Target Company are listed for the purpose of dissemination of the information to the public. Further, a copy of the public announcement shall be sent to SEBI and to the Target Company at its registered office within 1 working day of the date of short public announcement. • ***Detailed Public Announcement***: After the short Public Announcement, a detailed Public Announcement shall be made by the Acquirer within 5 working days from the date of short Public Announcement. Such public announcement is required to be published in all editions of any one English national daily with wide circulation, any one Hindi national daily with wide circulation, and any one regional language daily with wide circulation at the place where the registered office of the Target Company is situated and one regional language daily at the place of the stock exchange where the maximum volume of trading in the shares of the Target Company are recorded during the sixty trading days preceding the date of the public announcement. Simultaneously, a copy of the publication shall be sent to SEBI, Stock

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	Exchanges where the shares of the Target Company are listed and to the Target Company at its registered office. • **Offer Size/Minimum Price:** Offer size is the price at which the acquirer announces to acquire shares from the public shareholders under the open offer. The offer price shall not be less than the price as calculated under regulation 8 of the SAST Regulations, 2011 for frequently or infrequently traded shares. If the target company's shares are frequently traded then the open offer price for acquisition of shares under the minimum open offer shall be highest of the following:- ➢ Highest negotiated price per share under the share purchase agreement ("SPA"); ➢ Volume weighted average price of shares acquired by the acquirer during 52 weeks preceding the public announcement ("PA"); ➢ Highest price paid for any acquisition by the acquirer during 26 weeks immediately preceding the PA; ➢ Volume weighted average market price for sixty trading days preceding the PA; If the target company's shares are infrequently traded then the open offer price for acquisition of shares under the minimum open offer shall be highest of the following:- ➢ Highest negotiated price per share under the share purchase agreement triggering the offer; ➢ Volume weighted average price of shares acquired by the acquirer during 52 weeks preceding the public announcement ("PA"); ➢ Highest price paid for any acquisition by the acquirer during 26 weeks immediately preceding the PA; ➢ The price determined by the acquirer and the manager to the open offer after taking into account valuation parameters including book value, comparable trading multiples, and such other parameters that are customary for valuation of shares of such companies. If may be noted that the Board may at the expense of the acquirer, require valuation of shares by an independent merchant banker other than the manager to the offer or any independent chartered accountant in practice having a minimum experience of 10 years. The shares of the target company will be deemed to be frequently traded if the traded turnover on any stock exchange during the 12 calendar months preceding the calendar month, in which the PA is made, is at least 10% of the total number of shares of the target company. If the said turnover is less than 10%, it will be deemed to be infrequently traded.
WILFUL DEFAULTER (REGULATION 6A)	Notwithstanding anything contained in these regulations, **no person** who is a wilful defaulter **shall make a public announcement** of an open offer for acquiring shares or **enter into any transaction** that would attract the obligation to make a public announcement of an open offer for acquiring shares under these regulations: Provided that this regulation shall not prohibit the wilful defaulter from making a **competing offer** in accordance with regulation 20 of these regulations upon any other person making an open offer for acquiring shares of the target company.

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FUGITIVE ECONOMIC OFFENDER (REGULATION 6B)	Notwithstanding anything contained in these regulations, no person who is a fugitive economic offender shall make a public announcement of an open offer or make a competing offer for acquiring shares or enter into any transaction, either directly or indirectly, for acquiring any shares or voting rights or control of a target company. (Inserted w.e.f 11.09.2018)
SUBMISSION OF DRAFT LETTER OF OFFER	The Acquirer shall submit a draft letter of offer to SEBI within 5 working days from the date of detailed public announcement along with a non – refundable fee as applicable. Simultaneously, a copy of the draft letter of offer shall be sent to the Target Company at its registered office and to all the Stock Exchanges where the shares of the Company are listed.
DISPATCH OF LETTER OF OFFER	The Acquirer shall ensure that the letter of offer is dispatched to the shareholders whose names appear on the register of members of the Target Company as of the identified date, and to the custodian of shares underlying depository receipts, it any, of the Company, within maximum 7 working days from the date of receipt of communication of comments from SEBI or where no comments are offered by SEBI, within 7 working days from the expiry of 15 working days from the date of receipt of draft letter of offer by SEBI. However, it is provided that where a shareholder holding less than 5% of the voting rights of the Target Company is resident outside India and local laws or regulations of such jurisdiction may expose the acquirer or the target company to material risk of civil, regulatory or criminal liabilities in the event the letter of offer in its final form were to be sent without material amendments of modifications into such jurisdiction, then the acquirer may refrain from dispatch of the letter of offer into such jurisdiction. Explanation: (i)Letter of offer may also be dispatched through electronic mode in accordance with the provisions of Companies Act, 2013. (ii)On receipt of a request from any shareholder to receive a copy of the letter of offer in physical format, the same shall be provided. (iii)The aforesaid shall be disclosed in the letter of offer;
OPENING OF THE OFFER	The tendering period shall start within ***maximum 12 working days*** from date of receipt of comments from the Board and shall remain open **for 10 working days**.
COMPLETION OF REQUIREMENTS	***Within 10 working days*** from the last date of the tendering period, the acquirer shall complete all requirements as prescribed under these regulations and other applicable law relating to the Open Offer including payment of consideration to the shareholders who have accepted the open offer.
RESTRICTION ON ACQUISITION	If the acquirer or person acting in concert with him acquires shares of the target company during the period of 26 weeks after the tendering period at a price higher than the offer price, then the acquirer shall pay the difference between the highest acquisition price and the offer price, to all the shareholders whose shares were accepted in the open offer, within 60 days from the date of such acquisition. However, such revision shall not be applicable if the acquisition is made through another open offer, Delisting of shares or open market purchase in the ordinary course on the stock exchange.

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PROVISION OF ESCROW

Not later than two working days prior to the date of the detailed public statement of the open offer for acquiring shares, the acquirer shall create an escrow account towards security for performance of his obligations under these regulations, and deposit in escrow account such aggregate amount as per the following scale:

	Consideration payable under Open Offer	Escrow Amount
1	On the first 500 crores rupees	An amount equal to 25% of the consideration
2	On the balance consideration	An additional amount equal to 10% of the balance consideration

However, where an open offer is made conditional upon minimum level of acceptance, 100% of the consideration payable in respect of minimum level of acceptance or 50% of the consideration payable under the open offer, whichever is higher, shall be deposited in cash in escrow account.

The escrow account may be in the form of:
(a) Cash deposited with any scheduled commercial bank;
(b) Bank guarantee issued in favor of the manager to the open offer by any scheduled commercial bank; or
(c) Deposit of frequently traded and freely transferable equity shares or other freely transferable securities with appropriate margin.

Explanation: The cash component of the escrow account as referred to in clause (a) above may be maintained in an interest bearing account, subject to the merchant banker ensuring that the funds are available at the time of making payment to the shareholders;

MODE OF PAYMENT

The offer price may be paid:
(i) In cash,
(ii) by issue of shares,
(iii) by exchange of shares or
(iv) by transfer of shares,
(v) Convertible debentures and
(vi) Combination of all above.

(2) For the purposes of clause (b), clause (d)and clause (e) of sub-regulation (1),the shares sought to be issued or exchanged or transferred or the shares to be issued upon conversion of other securities, towards payment of the offer price, shall conform to the following requirements, —

(a)such class of shares are listed on a stock exchange and frequently traded at the time of the public announcement;

(b)such class of shares have been listed for a period of at least two years preceding the date of the public announcement;

(c) the issuer of such class of shares has redressed at least ninety five per cent. of the complaints received from investors by the end of the calendar quarter immediately preceding the calendar month in which the public announcement is made;

(d)the issuer of such class of shares has been in material compliance with the listing regulations for a period of at least two years immediately preceding the date of the public announcement:

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Provided that in case where the Board is of the view that a company has not been materially compliant with the provisions of the listing regulations, the offer price shall be paid in cash only;

(e)the impact of auditors' qualifications, if any, on the audited accounts of the issuer of such shares for three immediately preceding financial years does not exceed five per cent. of the net profit or loss after tax of such issuer for the respective years; and

(f)the Board has not issued any direction against the issuer of such shares not to access the capital market or to issue fresh shares.

(3) Where the shareholders have been provided with options to accept payment in cash or by way of securities, or a combination thereof, the pricing for the open offer may be different for each option subject to compliance with minimum offer price requirements under regulation 8:

Provided that the detailed public statement and the letter of offer shall contain justification for such differential pricing.

(4) In the event the offer price consists of consideration to be paid by issuance of securities, which requires compliance with any applicable law, the acquirer shall ensure that such compliance is completed not later than the commencement of the tendering period:

Provided that in case the requisite compliance is not made by such date, the acquirer shall pay the entire consideration in cash.

(5) Where listed securities are offered as consideration, the value of such securities shall be higher of:

(a) the average of the weekly high and low of the closing prices of such securities quoted on the stock exchange during the six months preceding the relevant date;

(b) the average of the weekly high and low of the closing prices of such securities quoted on the stock exchange during the two weeks preceding the relevant date; and

(c)the volume-weighted average market price for a period of sixty trading days preceding the date of the public announcement, as traded on the stock exchange where the maximum volume of trading in the shares of the company whose securities are being offered as consideration, are recorded during the six-month period prior to relevant date and the ratio of exchange of shares shall be duly certified by an independent merchant banker (other than the manager to the open offer) or an independent chartered accountant having a minimum experience of ten years.

Explanation.—For the purposes of this sub-regulation, the "relevant date" shall be the thirtieth day prior to the date on which the meeting of shareholders is held to consider the proposed issue of shares under sub-section (1A) of Section 81 of the Companies Act, 2013;

DISCLOSURE

The acquirer should do the following disclosures to the target company and concerned stock exchanges which such target company is listed:-

Regulation	Triggering Point	To and by whom	Time Period

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(a) EVENT BASED DISCLOSURES			
29(1)	Acquisition of 5% or more shares or voting rights	To the Target Company and Stock Exchange by the Acquirer	Within 2 working days of: (a) Receipt of intimation of allotment of shares; or (b) Acquisition of shares or voting rights
29(2)	Acquirer already holding 5% or more shares or voting rights, On acquisition/disposal of 2% or more shares or voting rights	To the Target Company and Stock Exchange by the Acquirer/Seller	Within 2 working days of such acquisition/disposal
(b) CONTINUAL DISCLOSURES			
30 (1)	Any person holding 25% or more shares or voting rights	Target Company & Stock Exchange by such person	Within 7 working days from the end of each financial year
30(2)	Promoter/Person having control over the Target Company	Target Company & Stock Exchange by Promoter	Within 7 working days from the end of each financial year
(c) DISCLOSURE OF PLEDGED/ENCUMBERED SHARES			
31(1)	On the encumbrance of shares by the promoter or person acting in concert with him	Target Company & Stock Exchange by the promoter	Within 7 working days from the date of creation of encumbrance
31(2)	On the invocation of or release of such encumbrance by the promoter	Target Company & Stock Exchange by the promoter	Within 7 working days from the date of invocation of encumbrance

For the purposes of this regulation, shares taken by way of encumbrance shall be treated as an acquisition, shares given upon release of encumbrance shall be treated as a disposal, and disclosures shall be made by such person accordingly in such form as may be specified:

Provided that such requirement shall not apply to a scheduled commercial bank or public financial institution or as pledgee in connection with a pledge of shares for securing indebtedness in the ordinary course of business.

EXEMPTIONS: Regulation 10 of the SEBI Takeover Regulations, 2011 provides the Acquirer automatic exemptions from the applicability of making Open Offer to the shareholders of the Target Company in respect of certain acquisitions subject to the compliance of certain conditions specified therein.

Further Regulation 11 of SEBI Takeover Regulations, 2011 provides the provisions whereby the acquirer can apply to SEBI for availing the exemption from the Open obligations and the Target Company can apply for relaxation from strict compliance with any procedural requirement relating to Open Offer as provided under Chapters III and IV of the Regulations.

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REGULATION 11: EXEMPTION BY SEBI	Regulation 11 provides that on an application being made by the acquirer in writing giving the details of the proposed acquisition and grounds on which the exemption is sought along with duly sworn affidavit, SEBI may grant exemption to the acquirer from the Open Offer obligations subject to the compliance with such conditions as it deems fits. For instance, in case where the exemptions is sought from the Open Offer obligations which has been triggered pursuant to the issue of shares by way preferential allotment, SEBI may require that the approval of shareholders should be obtained by way of postal ballot. Further, along with the application, the acquirer is also required to pay a non-refundable fee of Rs. 5,00,000 by way of direct credit in the bank account through NEFT/RTGS/IMPS or any other mode allowed by RBI or by way of bankers cheque or demand draft in payable in favour of Mumbai. However, it is to be noted that the Acquirer is not exempted from making other compliances related to the disclosure requirements as provided under regulation 29, 30 and 31 of the SEBI Takeover Regulations, 2011.

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UNIT 7: SEBI (BUY BACK OF SECURITIES) REGULATIONS, 2018

w.e.f 11th September 2018

INTRODUCTION	• Buy Back of shares means purchase of its own shares by the company. In short, buy back is a process when a company makes an offer to buy back its own issued shares. • Buy-back of securities is a corporate financial strategy which involves repurchase of its outstanding shares by a company. • Companies generally buyback shares in order to reorganise its capital structure, return cash to shareholders and enhance overall shareholders' value. • Buyback leads to reduction in outstanding number of equity shares, which may lead to improvement in earnings per equity share and enhance return on net worth and create long term value for continuing shareholders.
OBJECTIVE OF BUY BACK	❖ to improve earnings per share; ❖ to improve return on capital, return on net worth and to enhance the long-term shareholder value; ❖ to provide an additional exit route to shareholders when shares are undervalued or are thinly traded; ❖ to enhance consolidation of stake in the company; ❖ to prevent unwelcome takeover bids; ❖ to return surplus cash to shareholders; ❖ to achieve optimum capital structure; ❖ to support share price during periods of sluggish market conditions; and ❖ to service the equity more efficient. The decision to buy-back is also influenced by various other factors relating to the company, such as growth opportunities, capital structure, sourcing of funds, cost of capital and optimum allocation of funds generated.
AUTHORISATION & APPROVALS	(a) ***Authorization in AOA:*** Buy Back must be authorized by the articles of association of the company. In Case, there is no such provision, the company has to first alter the articles of association to authorize buy back. Buy Back can be made with the approval of Board of Directors or Shareholders by passing SR in GM, depending on the quantum of buy back. (b) ***Approval by Board of Directors:*** The Board of Directors can buy back upto 10% of total paid up Equity Share Capital and Free Reserves of the company by passing Board Resolution.The aforesaid limit is to be applied not to the number of securities to be bought back but to the amount required for buy-back of such securities. Copy of this board resolution is to be filed with SEBI and Stock exchanges where such securities are listed, within 2 working days of passing board resolution. The resolution authorizing buy-back should be passed at a meeting of the Board. Such a resolution should not be passed by circulation or at a meeting of a committee of the Board. (c) ***Approval of Shareholders:*** The shareholders can buy back upto 25% of the total paid up Equity Share Capital and Free Reserves of the company by passing SR in GM.In case of a listed company, approval of shareholders shall be obtained only by postal ballot. Copy of this Special Resolution is to be filed with SEBI and Stock exchanges where such securities are listed, within 7 working days of passing the

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resolution.

For the purposes of passing a special resolution the explanatory statement to be annexed to the notice for the general meeting shall contain disclosures as specified in Schedule II Part A to the Regulations.

EXPLANATORY STATEMENT

The notice of the meeting at which the special resolution is proposed to be passed shall be accompanied by an explanatory statement stating –
(a) a full and complete disclosure of all material facts;
(b) the necessity for the buy-back;
(c) the class of shares or securities intended to be purchased under the buy-back;
(d) the amount to be invested under the buy-back; and
(e) the time-limit for completion of buy-back.

DISCLOSURES UNDER SCHEDULE II PART A

An explanatory statement containing full and complete disclosure of all the material facts and the followingdisclosures prescribed in Schedule II Part A of the Regulations should be annexed to the notice where the buy-back is pursuant to shareholders' approval:

(i) Date of the Board meeting at which the proposal for buy back was approved by the Board of Directors of the company;

(ii) Necessity for the buy back;

(iii) Maximum amount required under the buy back and its percentage of the total paid up capital and free reserves;

(iv) Maximum price at which the shares or other specified securities are proposed be bought back and the basis of arriving at the buyback price;

(v) Maximum number of securities that the company proposes to buy back;

(vi) Method to be adopted for buy-back as referred under these regulations;

(vii) (a) the aggregate shareholding of the promoter and of the directors of the promoters, where the promoter is a company and of persons who are in control of the company as on the date of the notice convening the General Meeting or the Meeting of the Board of Directors;

(b)aggregate number of shares or other specified securities purchased or sold by persons including persons mentioned in (a) above from a period of six months preceding the date of the Board Meeting at which the buyback was approved till the date of notice convening the general meeting;

(c) the maximum and minimum price at which purchases and sales referred to in (b) above were made along with the relevant dates;

(viii) Intention of the promoters and persons in control of the company to tender shares or other specified securities for buy-back indicating the number of shares or other specified securities ,details of acquisition with dates and price;

(ix) A confirmation that there are no defaults subsisting in repayment of deposits, redemption of debentures or preference shares or repayment of term loans to any financial institutions or banks;

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	(x) A confirmation that the Board of Directors has made a full enquiry into the affairs and prospects of the company and that they have formed the opinion: (a) that immediately following the date on which the General Meeting or the meeting of the Board of Directors is convened there will be no grounds on which the company could be found unable to pay its debts; (b) as regards its prospects for the year immediately following that date that, having regard to their intentions with respect to the management of the company's business during that year and to the amount and character of the financial resources which will in their view be available to the company during that year, the company will be able to meet its liabilities as and when they fall due and will not be rendered insolvent within a period of one year from that date; and (c) informing their opinion for the above purposes, the directors shall take into account the liabilities as if the company were being wound up under the provisions of the Companies Act, 2013 (including prospective and contingent liabilities); (xi) A report addressed to the Board of Directors by the company's auditors stating that- (i) they have inquired into the company's state of affairs; (ii) the amount of the permissible capital payment for the securities in question is in their view properly determined; and (iii) the Board of Directors have formed the opinion as specified in clause (x) on reasonable grounds and that the company will not, having regard to its state of affairs, will not be rendered insolvent within a period of one year from that date.
DEFINITIONS	"small shareholder" means a shareholder of a company, who holds shares or other specified securities whose market value, on the basis of closing price of shares or other specified securities, on the recognised stock exchange in which highest trading volume in respect of such securities, as on record date is not more than two lakh rupee; 'Buyback period' means the period between the date of board of directors resolution or date of declaration of results of the postal ballot for special resolution, as the case may be, to authorize buyback of shares of the company and the date on which the payment of consideration to shareholders who have accepted the buyback offer is made
METHODS OF BUY BACK	❖ From Existing Holders on a Proportionate Basis; ❖ From Open Market (Either through Book Building or Stock Exchange); ❖ From Odd Lot Holders; **Provided that no offer of buy-back for 15% or more of the paid up capital and free reserves of the company shall be made from the open market.**
BUY-BACK FROM EXISTING SECURITY-HOLDERS THROUGH TENDER	❖ A company may buy back its securities from its existing security-holders on a proportionate basis in accordance with the provisions of the Regulations. ❖ It may be noted that 15% of the number of securities which the company proposes to buy back or number of securities entitled as per their

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OFFER	shareholding, whichever is higher, shall be reserved for small shareholders. **ADDITIONAL DISCLOSURES** In addition to disclosure required under Schedule II Part A, the following disclosures are require to be made to the explanatory statement: (a) the maximum price at which the buy-back of shares or other specified securities shall be made and whether the Board of Directors of the company are being authorised at the general meeting to determine subsequently the specific price at which the buy-back may be made at the appropriate time; (b) if the promoter intends to offer their shares or other specified securities, (i) the quantum of shares or other specified securities proposed to be tendered, and (ii) the details of their transactions and their holdings for the last six months prior to the passing of the special resolution for buy-back including information of number of shares or other specified securities acquired, the price and the date of acquisition. ❖ **PUBLIC ANNOUNCEMENT AND FILING OF OFFER DOCUMENTS** The company which has been authorised by a special resolution or a resolution passed by the Board of Directors at its meeting **shall make a public announcement within two working days** from the date of resolution in at least one English National Daily, one Hindi National Daily and a Regional language daily all with wide circulation at the place where the Registered office of the company is situated and shall contain all the material information as specified in Schedule II, Part A. A **copy** of the public announcement along with the soft copy, shall also be **submitted to SEBI** simultaneously through a merchant banker. The company shall within five working days of the public announcement **file with SEBI a draft-letter of offer**, along with soft copy containing disclosures as specified in Schedule III through a merchant banker who is not associated with the company. **SEBI may give its comments** on the draft letter of offer not later than seven working days of the receipt of the draft letter of offer. In the event SEBI has sought clarifications or additional information from the merchant banker to the buyback offer, the period of issuance of comments shall be extended to the seventh working day from the date of receipt of satisfactory reply to the clarification or additional information sought. In the event, SEBI specifies any changes, the merchant banker to the buyback offer and the **company shall carryout such changes** in the letter of offer before it is dispatched to the shareholders. The **company shall file** along with the draft letter of offer, **a declaration of solvency** in the prescribed form and in a manner prescribed in the Companies Act, 2013. **OFFER PROCEDURE** (1) A company making a buy-back offer shall **announce a record date** for the purpose of determining the entitlement and the names of the security holders, who are eligible to participate in the proposed buy-back offer. (2) The **letter of offer** along with the tender form **shall be dispatched** to the security holders who are eligible to participate in the buy-back offer, not later

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than five working days from the receipt of communication of comments from SEBI.

(3) The date of the opening of the offer shall be not later than five working days from the date of dispatch of letter of offer.

(3A) The acquirer or promoter shall facilitate tendering of shares by the shareholders and settlement of the same, through the stock exchange mechanism as specified by SEBI.

(4) The **offer** for buy back shall remain open for a period of ten working days.

(5) The company shall accept shares or other specified securities from the security holders on the basis of their entitlement as on record date.

(6) The shares proposed to be bought back shall be divided into two categories;
(a) **reserved category** for small shareholders and
(b) the**general category** for other shareholders, and the entitlement of a shareholder in each category shall be calculated accordingly.

(7) After accepting the shares or other specified securities tendered on the basis of entitlement, shares or other specified securities left to be bought back, if any in one category shall first be accepted, in proportion to the shares or other specified securities tendered over and above their entitlement in the offer by security holders in that category and thereafter from security holders who have tendered over and above their entitlement in other category.

❖ **ESCROW ACCOUNT**

1. The company should as and by way of **security for performance** of its obligations under the Regulations, on or before the opening of the offer, **deposit in an escrow account** the sum as specified under these regulation.

2. The escrow amount is payable in the following manner:
(i) if the consideration payable does not exceed Rs 100 crores – 25 per cent of the consideration payable;
(ii) if the consideration payable exceeds Rs 100 crores – 25 per cent upto Rs 100 crores and 10 per cent thereafter;

3. The escrow account referred to above shall consist of:
(a) cash deposited with a scheduled commercial bank, or
(b) bank guarantee in favour of the merchant banker, or
(c) deposit of acceptable securities with appropriate margin, with the merchant banker, or
(d) a combination of (a), (b) and (c) above;

4. Where the escrow account consists of deposit with a scheduled commercial bank, the company while opening the account, should empower the merchant banker to instruct the bank to issue a banker'scheque or demand draft for the amount lying to the credit of the escrow account, as provided in the Regulations;

5. Where the escrow account consists of bank guarantee, such bank guarantee shall be in favour of the merchant banker and valid until thirty days after the closure of the offer;

6. Where the escrow account consists of securities, the company should empower the merchant banker to realise the value of such escrow account by sale or otherwise. If there is any deficit on realisation of the value of the

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securities, the merchant banker shall be liable to make good any such deficit;

7. In case the escrow account consists of bank guarantee or approved securities, these shall not be returned by the merchant banker till the completion of all obligations under the Regulations;

8. Where the escrow account consists of bank guarantee or deposit of approved securities, the company is also required to deposit with the bank in cash, a sum of at least one per cent of the total consideration payable, as and by way of security for fulfilment of the obligations under these Regulations by the company;

9. On payment of consideration to all the security-holders who have accepted the offer and after completion of all the formalities of buy-back, the amount, guarantee and securities in the escrow, if any, should be released to the company;

10. SEBI, in the interest of the security-holders, may, in case of non-fulfillment of obligations under the Regulations by the company forfeit the escrow account either in full or in part;

11. The amount so forfeited may be distributed pro rata amongst the security-holders who accepted the offer and the balance, if any, shall be utilised for investor protection.

❖ **PAYMENT TO THE SECURITY HOLDERS**

1. The company shall immediately after the date of closure of the offer, **open a special account with a SEBI registered banker to an issue** and deposit therein, such sum as would, together with the amount lying in the escrow account make up the entire sum due and payable as consideration for the buy-back and for this purpose, may transfer the funds from the escrow account.

2. The company shall complete the verifications of offers received and **make payment of consideration** to those security holders whose offer has been accepted **or return the shares** or other specified securities to the security holders within seven working days of the closure of the offer.

❖ **EXTINGUISHING OF BOUGHT-BACK SECURITIES**

The company shall extinguish and physically destroy the security certificates so bought back **in the presence of a Registrar to issue or the Merchant Banker and the Statutory Auditor** within **fifteen days** of the date of acceptance of the shares or other specified securities. The company shall also ensure that all the securities bought-back are extinguished within seven days of the last date of completion of buy–back.

The shares or other specified securities offered for buy-back if already dematerialised shall be extinguished and destroyed in the manner specified under SEBI (Depositories and Participants) Regulations, 1996, and the bye-laws framed thereunder.

The company shall, **furnish a certificate to SEBI** certifying compliance as specified above and duly certified and verified by -
(i) the registrar and whenever there is no registrar by the merchant banker;
(ii) two directors of the company one of whom shall be a managing director where there is one;
(iii) the statutory auditor of the company,

The certificate shall be furnished to SEBI on a monthly basis by the seventh

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	day of the month succeeding the month in which the securities certificates are extinguished and destroyed. The company shall furnish, the particulars of the security certificates extinguished and destroyed, to the stock exchanges where the shares of the company are listed on a monthly basis by the seventh day of the month succeeding the month in which the securities certificates are extinguished and destroyed. The company shall also maintain a record of security certificates which have been cancelled and destroyed as prescribed in the Companies Act.
ODD-LOT BUY-BACK	The provisions pertaining to buy-back through tender offer as specified in above shall be applicable mutatis mutandis to buy-back of odd-lot shares or other specified securities.
BUY-BACK FROM OPEN MARKET	Regulation 14 of the Regulations lays down that a buy-back of shares or other specified securities from the open market may be in any one of the following methods: (i) Through stock exchange. (ii) Book-building process. The company shall ensure that atleast 50% of the amount earmarked for buy back, as specified in resolutions (Board/special resolution) is utilized for buying back shares and other specified securities. ❖ **BUY-BACK THROUGH THE STOCK EXCHANGE** A company should buy-back its specified securities through the stock exchange as provided hereunder: • The special resolution/ board resolution, should specify the maximum price at which the buy-back will be made; • The buy-back of securities should not be from the promoters or persons in control of the company; • The company should appoint a merchant banker and make a public announcement within seven days from the date of passing the resolution; • The public announcement shall be made within 7 working days from the date of passing special resolution; • Simultaneously with the issue of such public announcement, the company shall file a copy of the public announcement with SEBI. • The company shall submit the information regarding the shares or other specified securities bought back, to the stock exchange on a daily basis in such form as may be specified by SEBI and the stock exchange shall upload the same on its official website immediately; • The company shall upload the information regarding the shares or other specified securities bought back on its website on a daily basis; • The buy-back offer shall open not later than seven working days from the date of public announcement and shall close within six months from the date of opening of the offer;

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• The buy-back should be made only on stock exchanges having Nationwide Trading Terminal facility and only through the order matching mechanism except 'all or none' order matching system;

• The company shall submit information regarding the shares or other specified securities bought back, to the stock exchange on daily basis in such form as may be specified by SEBI;

• The identity of the company as a purchaser would appear on the electronic screen when the order is placed.

• The company shall upload the information regarding the shares or other specified securities bought back, on its website on daily basis.

❖ **BUY–BACK OF PHYSICAL SHARES OR OTHER SPECIFIED SECURITIES**

A company shall buy-back its shares or other specified securities in physical form through open market method as provided hereunder:
(a) a separate window shall be created by the stock exchange, which shall remain open during the buy-back period, for buy-back of shares or other specified securities in physical form.

(b) the company shall buy-back shares or other specified securities from eligible shareholders holding physical shares through the separate windows, only after verification of the identity proof and address proof by the broker.

(c) the price at which the shares or other specified securities are bought back shall be the volume weighted average price of the shares or other specified securities bought-back, other than in the physical form, during the calendar week in which such shares or other specified securities were received by the broker.

However, the price of shares or other specified securities tendered during the first calendar week of the buy-back shall be the volume weighted average market price of the shares or other specified securities of the company during the preceding calendar week.

❖ **ESCROW ACCOUNT**

(1) The Company shall, **before** opening of the offer, **create** an escrow account.

(2) Where part of the escrow account is in the form of a **bank guarantee**, the company shall deposit with a scheduled commercial bank, in cash, a sum of at least 2.5 per cent of the total amount earmarked for buyback as specified in the resolutions as and by way of security for fulfillment of the obligations by the company.

(3) The escrow amount may be released for making payment to the shareholders subject to atleast 2.5% of the amount earmarked for buy-back as specified in the resolutions remaining in the escrow account at all points of time.

(4) On fulfilling the obligation, the amount and the guarantee remaining in the escrow account, if any, shall be released to the company.

(5) In the event of non-compliance, except in cases where,-
(a) volume weighted average market price (VWAMP) of the shares or other specified securities of the company during the buy-back period was higher than the buy-back price as certified by the Merchant banker based on the inputs provided by the Stock Exchanges.

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(b) inadequate sell orders despite the buy orders placed by the company as certified by the Merchant banker based on the inputs provided by the Stock Exchanges.

(c) such circumstances which were beyond the control of the company and in the opinion of SEBI merit consideration, SEBI may direct the merchant banker to forfeit the escrow account, subject to a maximum of 2.5 per cent of the amount earmarked for buy-back as specified in the resolutions.

(6) In the event of forfeiture for non-fulfillment of obligations as specified under these regulations, the amount forfeited shall be deposited in the Investor Protection and Education Fund of SEBI.

❖ **EXTINGUISHMENT OF CERTIFICATES**

Subject to the provisions of sub-regulation (2) and sub regulation (3), the provisions of regulation 12 pertaining to extinguishment of certificates shall be applicable mutatis mutandis.

The company shall complete the verification of acceptances within fifteen days of the payout.

The company shall extinguish and physically destroy the security certificates so bought back during the month in the presence of a Merchant Banker and the Statutory Auditor, on or before the fifteenth day of the succeeding month:

However, the company shall ensure that all the securities bought-back are extinguished within seven days of the last date of completion of buyback.

❖ **BUY-BACK THROUGH BOOK-BUILDING**

A company can buy-back its securities through the book-building process as provided hereunder:

1. (a) The special resolution, should specify the maximum price at which the buy-back will be made.
(b)The company should appoint a merchant banker.

(c)A public announcement shall be made at least seven days prior to the commencement of the buy-back.

(d)Subject to the provisions of Sub-clauses (i) and (ii), the provisions of Regulation 10 regarding escrow account are applicable:
(i) The deposit in the escrow account should be made before the date of the public announcement.
(ii) The amount to be deposited in the escrow account should be determined with reference to the maximum price as specified in the public announcement containing detailed methodology of the book-building process, manner of acceptance, format of acceptance to be sent by the security-holders pursuant to public announcement and details of bidding centres.

(e)A copy of the public announcement must be filed with SEBI within two days of the announcement along with the fees as specified. The Public announcement shall also contain the detailed methodology of the book building process, the manner of acceptance, the format of acceptance to be sent by the security holders pursuant to the public announcement and the details of bidding centres.

(f)The book-building process should be made through an electronically linked

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	transparent facility. (g)The number of bidding centres should not be less than thirty and there should be at least one electronically linked computer terminal at all the bidding centres. (h)The offer for buy-back should be kept open to the security-holders for a period of not less than fifteen days and not exceeding thirty days. (i)The merchant banker and the company should determine the buy-back price based on the acceptances received and the final buy-back price, which should be the highest price accepted should be paid to all holders whose securities have been accepted for the buy-back. (2) The provisions of sub-regulation (2) of regulation 11, pertaining to verification of acceptances and the provisions of regulation 11 pertaining to opening of special account and payment of consideration shall be applicable mutatis mutandis. ❖ **EXTINGUISHMENT OF CERTIFICATES** The provisions of regulation 12 pertaining to extinguishment of certificates shall be applicable mutatis mutandis.
OBLIGATIONS OF THE COMPANY	The company shall ensure that: (a) the letter of offer, the public announcement of the offer or any other advertisement, circular, brochure, publicity material contains true, factual and material information and does not contain any misleading information and must state that the directors of the company accept the responsibility for the information contained in such documents; (b) the company shall not issue any specified securities including by way of bonus till the date of closure of the offer is made under these Regulations; (c) the company shall pay consideration only by cash; (d) the company shall not withdraw the offer to buy-back after the draft letter of offer is filed with the SEBI or public announcement of the offer to buy-back is made; (e) the promoter or the person shall not deal in the specified securities of the company in the stock exchange or off market, including inter-se transfer of shares among the promoters during the period "from the date of passing the resolution till the closing of the offer. (f) the company shall not raise further capital for a period of one year from the closure of buy-back offer, except in discharge of its subsisting obligations. No public announcement of buy-back shall be made during the pendency of any scheme of amalgamation or compromise or arrangement pursuant to the provisions of the Companies Act, 2013. The company should nominate a compliance officer and investors service centre for compliance with the buy-back regulations and to redress the grievances of the investors. The particulars of the said security certificates extinguished and destroyed should be furnished by the company to the stock exchanges where the

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	securities of the company are listed, within seven days of extinguishment and destruction of the certificates. The company should not buy-back the locked-in securities and non-transferable securities till the pendency of the lock-in or till the securities become transferable. The company should issue, within two days of the completion of buy-back, a public advertisement in a national daily, inter alia, disclosing the following: (i) number of securities bought; (ii) price at which the securities were bought; (iii) total amount invested in the buy-back; (iv) details of the security-holders from whom securities exceeding one per cent of the total securities were bought-back; and (v) the consequent changes in the capital structure and the shareholding pattern after and before the buy-back.
OBLIGATIONS OF THE MERCHANT BANKER	The merchant banker should ensure that: (a) the company is able to implement the offer; (b) the provision relating to escrow account has been made; (c) firm arrangements for monies for payment to fulfill the obligations under the offer are in place; (d) the public announcement of buy-back is made and the letter of offer has been filed in terms of the Regulations; (e) the merchant banker should furnish to SEBI, a due diligence certificate which should accompany the draft letter of offer; (f) the merchant banker should ensure that the contents of the public announcement of offer as well as the letter of offer are true, fair and adequate and quoting the source wherever necessary. (g) the merchant banker should ensure compliance of Section 68 and Section 70 of the Companies Act, 2013 and any other applicable laws or rules in this regard; (h) upon fulfillment of all obligations by the company under the Regulations, the merchant banker should inform the bank with whom the escrow or special amount has been deposited to release the balance amount to the company and send a final report to SEBI in the specified form, within 15 days from the date of closure of the buy-back offer.

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UNIT 8: DELISTING OF EQUITY SHARES, 2009

DELISTING OF SECURITIES **SEBI (DELISTING OF EQUITY SHARES) REGULATIONS, 2009**	Delisting of securities means permanent removal of securities of a listed company from a stock exchange. As a consequence of delisting, the securities of delisted company would no longer be traded at stock exchanges. A company may delist its shares due to the various reasons like – Merger, Amalgamation and voluntary delisting. After delisting of securities of any company, the trading of such delisted securities shall be held as private selling or buying of shares.
DEFINITIONS	"Public Shareholders" mean the holders of equity shares, other than the following: (a)promoters, promoter group and persons acting in concert with them; (b)acquirer(s) and persons acting in concert with such acquirer(s); and (c)holders of depository receipts issued overseas against equity shares held with a custodian and such custodian holding the equity shares.
APPLICABILITY (Regulation 3)	These regulations shall apply to delisting of equity shares of a company from all or any of the recognised stock exchanges where such shares are listed. Provided that these regulations shall not apply to securities listed without making a public issue, on the Innovators Growth platform of a recognised stock exchange. Nothing in these regulations shall apply to any delisting made pursuant to a scheme sanctioned by the Board for Industrial and Financial Reconstruction under the Sick Industrial Companies (Special Provisions) Act, 1985 or by the National Company Law Tribunal under section 424D of the Companies Act, 1956, if such scheme – (a) lays down any specific procedure to complete the delisting; or (b) provides an exit option to the existing public shareholders at a specified rate.
CIRCUMSTANCES IN WHICH DELISTING ARE NOT PERMISSIBLE (Regulation 4):	Stock Exchange will not permit for delisting of shares of a company on following grounds:- (i) Buy – back of equity shares by the company; or (ii) Preferential allotment made by the company; or (iii) The period of listing of should not be less than 3 years; or (iv) Instruments which are convertible into the same class of equity shares that are sought to be delisted are outstanding. (v) Delisting of convertible securities. (vi) No Acquirer or Promoter or Promoter Group or persons acting in concert or their related parties shall: (a) Engage in any transaction or practice that operates as a fraud or deceit upon any shareholder or other person; (b) Engage in any act or practice that is fraudulent, deceptive or manipulative in connection with such delisting. (c) Employ any device, scheme or artifice to defraud any shareholder or other person; (vii) No promoter or promoter group shall propose delisting of equity shares of a company, if any entity belonging to the promoter or promoter group has sold equity shares of the company during a period of six months prior to the date of the board meeting in which the delisting proposal was approved in terms of sub-regulation (1B) of regulation 8;
TYPES OF DELISTING	
VOLUNTARY DELISTING CHAPTER III	Voluntary delisting is a wish of a company for permanent removal of trading of its shares from the stock market. We can further divide voluntary delisting into three parts:

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(i) Delisting from all stock exchanges
(ii) Delisting from few stock exchanges
(iii) Delisting of small companies

- **Delisting from all Stock Exchanges: (Regulation 5)**

If a company wishes to delist its shares from all the Stock Exchanges in India, such company is supposed to comply with SEBI (Delisting of Equity Shares) Regulations, 2009. The promoters of such company shall acquire at least 90% of total issued share capital or 50% of the offer size, whichever is higher.

The provisions of SEBI Delisting Regulations, 2009 are not applicable on a scheme sanctioned by the Board for Industrial and Financial Reconstruction under the Sick Industrial Companies (Special Provisions) Act, 1985 or by the NCLT.

PROCEDURE FOR DELISTING IN CASE OF EXIT OPPORTUNITY (Regulation 8)

(i) **Step 1:** The Company shall obtain approval from the Board of Directors with regard to delisting of equity shares.

(ii) **Step 2:** Afterwards, the company shall obtain approval from the shareholders in the form of special resolution passed only through postal ballot.

(iii) **Step 3:** Subsequently the company shall make an application to the concerned recognized stock exchange for in – principle approval of the proposed delisting along with by an audit report covering a period of six months prior to the date of the application.

(iv) **Step 4:** The concerned stock exchange shall dispose the application within 5 working days from the date of receipt of complete application.

(v) **Step 5:** The company shall satisfy the stock exchange in respect of:
(a) Compliance with SEBI regulations;
(b) The resolution of investor grievances by the company;
(c) Payment of listing fees to that recognized stock exchange;
(d) Compliance with the requirements of listing agreement.

(vi) **Step 6**: Within 1 year of passing the special resolution, the company shall make the final application to the concerned recognized stock exchange along with the proof of having given the exit opportunity to the existing shareholders.

Responsibilities of Board of Directors: (Sub Regulation 1A)

Prior to granting approval under clause (a) of sub-regulation (1), the board of directors of the company shall,-

(i) make a disclosure to the recognized stock exchanges on which the equity shares of the company are listed that the promoters/acquirers have proposed to delist the company;

(ii) appoint a merchant banker to carry out due-diligence and make a disclosure to this effect to the recognized stock exchanges on which the equity shares of the company are listed;

(iii) obtain details of trading in shares of the company for a period of two years prior to the date of board meeting by top twenty five shareholders as on the date of the board meeting convened to consider the proposal for delisting, from the stock exchanges and details of off-market transactions of such shareholders for a period of two years and furnish the information to the merchant banker for carrying out due-diligence;

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(iv) obtain further details in terms of sub-regulation (1D) of regulation 8 and furnish the information to the merchant banker;

Certification by Board of Directors (Sub Regulation 1B & 1C)
The board of directors of the company while approving the proposal for delisting shall certify that :
(i) the company is in compliance with the applicable provisions of securities laws;

(ii) the acquirer or promoter or promoter group or their related entities, are in compliance with sub-regulation (5) of regulation 4;

(iii) the delisting is in the interest of the shareholders

For certification in respect of matters referred to in sub-regulation (1B), the board of directors of the company shall take into account the report of the merchant banker as specified in sub-regulation (1E) of regulation 8. (Sub Regulation 1C)

Due Diligence by Merchant Banker: (Sub Regulation 1D & 1E)
The merchant banker appointed by the board of directors of the company under clause (ii) of sub-regulation (1A) *shall carry out due-diligence* upon obtaining details from the board of directors of the company in terms of clause (iii) of sub-regulation (1A) of regulation 8Provided that if the merchant banker is of the opinion that details referred to in clause (iii) of sub-regulation (1A) of regulation 8 are not sufficient for certification in terms of sub-regulation (1E) of regulation 8, he shall obtain additional details from the board of directors of the company for such longer period as he may deem fit.

Upon carrying out due-diligence as specified in terms of sub-regulation (1D) of regulation 8, the *merchant banker shall submit a report to the board of directors* of the company certifying the following:
(a) the trading carried out by any of the acquirer or promoter or promoter group entity or their related entities was in compliance or not, with the applicable provisions of the securities laws; and
(b) any of the acquirer or promoter or promoter group entity or persons acting in concert or their related entities have carried out or not any transaction to facilitate the success of the delisting offer which is in contravention of the provisions of sub-regulation (5) of regulation 4;

- **Public Announcement**: within one working day from the date of receipt of in – principle approval from stock exchanges, the Acquirers or promoters shall make a public announcement in at least one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language newspaper of the region where the concerned recognized stock exchange is located.

  The public announcement contains all material information including and shall not contain any false or misleading statement. Before making the public announcement, the promoter shall appoint a merchant banker and such other intermediaries to ensure compliance with SEBI Regulations.

  The public announcement shall also specify a date, being a day **not later thanOne working day** from the date of the public announcement, which shall be the „specified date" for determining the names of shareholders to whom the letter of offer shall be sent.

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Before making the public announcement, the acquirer or promoter shall appoint a merchant banker registered with the Board and such other intermediaries as are considered necessary.

Explanation. -The merchant banker conducting due diligence on behalf of the company may also act as the manager to the delisting offer;

No acquirer/promoter shall appoint any person as a merchant banker under sub-regulation (4) if such a person is an associate of the acquirer/promoter.

No entity belonging to the acquirer, promoter and promoter group of the company shall sell shares of the company during the period from the date of the board meeting in which the delisting proposal was approved till the completion of the delisting process.

- **Escrow Account**: The Acquirer or promoter shall open an escrow account with a **scheduled bank** and deposit therein the **total estimated amount of consideration** to be paid to the equity shareholders. The escrow account shall consist of either:
  - Cash deposited with a scheduled commercial bank, or
  - a bank guarantee in favor of the merchant banker, or
  - a combination of both.

Explanation. -The cash component of the escrow account may be maintained in an interest bearing account, provided that the merchant banker ensures that the funds are available at the time of making payment to shareholders.

On determination of final price and making of public announcement accepting the final price, the acquirer or promoter shall forthwith deposit in the escrow account such **additional sum** as may be sufficient to make up the entire sum due and payable as consideration in respect of equity shares outstanding with public shareholders.

- **Letter of Offer**: The Acquirer or promoter shall dispatch the letter of offer to the equity shareholders, not later than 2 working days from the date of the public announcement, so as to reach them at least five working days before the opening of the bidding period.

The letter of offer shall be sent to all public shareholders whose names appear on the register of the company or depository as on the date specified in the public announcement.

The letter of offer shall contain all the disclosures made in the public announcement and such other disclosures as may be necessary for the shareholders to take an informed decision.

The letter of offer shall be accompanied with a bidding form for use of public shareholders and a form to be used by them for tendering shares.

Explanation. -An eligible public shareholder may participate in the delisting offer and make bids even if he does not receive the bidding form or the tender offer/offer form and such shareholder may tender shares in the manner specified by the Board in this regard

- **Bidding Period**: The date of opening of the offer shall not be later than 7 working days from the date of the public announcement. The offer shall

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remain open for a period of 5 working days.

- **Right of Shareholder:** All public shareholders of the equity shares which are sought to be delisted shall be entitled to participate in the book building process.

  Acquirer or promoter or a person acting in a concert with any of the promoters shall not make a bid in the offer.

  Any holder of depository receipts issued on the basis of underlying shares held by a custodian and any such custodian shall not be entitled to participate in the offer:

  Provided that any holder of depository receipts shall be allowed to participate in the book building process under sub-regulation (1) after exchanging such depository receipts with the shares of the class that are proposed to be delisted;

- **Office Price**: The offer price shall be determined through book building process after fixation of floor price and disclosure of the same in the public announcement and the letter of offer.

  The floor price shall be determined in terms of regulation 8 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, as may be applicable.

  Explanation: The reference date for computing the floor price would be the date on which the recognized stock exchange/s were required to be notified of the board meeting in which the delisting proposal would be considered;

- **Right of Promoter to either make a Counter offer or reject the offer**: The Acquirer or promoter is not bound to accept the equity shares at the offer price determined by the book – building process.

  If the price discovered in terms of regulation 15 is not acceptable to the acquirer or the promoter, the acquirer or the promoter may make a counter offer to the public shareholders within two working days of the price discovered under regulation 15, in the manner specified by the Board from time to time:
  Provided that the counter offer price shall not be less than the book value of the company as certified by the merchant banker;

  If the acquirer or promoter decides not to accept the offer price so determined:
  (i) The acquirer or promoter shall release all shares to the holders within 10 working days of closure of the bidding;
  (ii) The company shall not stop the final application for delisting;
  (iii) The acquirer or promoter may close the escrow account.

- **Minimum Number of Equity Shares to be acquired**:
  If a Counter offer has not been made by the acquirer or promoter in accordance with regulation 16 (1A) above, An offer made under chapter III shall be deemed to be successful only if,-
  (a) the post offer promoter shareholding (along with the persons acting in concert with the promoter) taken together with the shares accepted through eligible bids at the final price determined as per Schedule II, **reaches ninety per cent. of the total issued shares of that class***excluding the shares which are held by a custodian and against which depository*

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receipts have been issued overseas; and

(b) **at least twenty five per cent of the public shareholders** holding shares in the demat mode as on date of the board meeting referred to in sub-regulation (1B) of regulation 8 had participated in the Book Building Process:

Provided that requirement under clause (b) shall not be applicable to cases where the acquirer and the merchant banker demonstrate to the stock exchanges that they have delivered the letter of offer to all the public shareholders either through registered post or speed post or courier or hand delivery with proof of delivery or through email as a text or as an attachment to email or as a notification providing electronic link or Uniform Resource Locator including a read receipt.

Explanation I.
a. If the acquirer or the merchant banker send the letters of offer to all the shareholders by registered post or speed post through India Post and is able to provide a detailed account regarding the status of delivery of the letters of offer (whether delivered or not) sent through India Post, the same would be considered as a deemed compliance with the proviso.

b. If the acquirer or the merchant banker is unable to deliver the letter of offer to certain shareholders by modes other than speed post or registered post of India Post, efforts should be made to deliver the letters of offer to them by speed post or registered post through India Post. In that case, a detailed account regarding the status of delivery of letter of offer (whether delivered or not) provided from India Post would also be considered as deemed compliance with the proviso;

Explanation II.
In case the delisting offer has been made in terms of regulation 5A of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the threshold limit of ninety per cent. for successful delisting offer shall be calculated taking into account the post offer shareholding of the acquirer taken together with the existing shareholding, shares to be acquired which attracted the obligation to make an open offer and shares accepted through eligible bids at the final price determined as per Schedule II;

If a counter offer has been made by the acquirer or promoter in accordance with regulation 16(1A), an offer made under chapter III shall be deemed to be successful only if the post offer promoter shareholding (along with the persons acting in concert with the promoter) taken together with the shares accepted at the counter offer price reaches ninety per cent. of the total issued shares of that class excluding the shares which are held by a custodian and against which depository receipts have been issued overseas;

- **Procedure after Closure of Offer (Regulation 18):**

Within five working days of the closure of the offer, the promoter/acquirer and the merchant banker shall make a public announcement in the same newspapers in which the public announcement under sub-regulation(1) of regulation 10 was made regarding:-
(i) the success of the offer in terms of regulation 17 Along with the final price accepted by the acquirer; or
(ii) the failure of the offer in terms of regulation 19; or
~~(iii) rejection under regulation 16 of the final price discovered under Schedule II, by the promoters;~~ (Deleted)

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- **Failure of offer (Regulation 19)**

  (1) Where the offer is rejected under regulation 16 or is not successful as per regulation 17, the offer shall be deemed to have failed and no equity shares shall be acquired pursuant to such offer.

  (2) Where the offer fails –

  (a) the equity shares deposited or pledged by a shareholder under paragraphs 7 or 9 of Schedule II shall be returned or released to him within ten working days from the end of the bidding period;

  Provided that the acquirer shall not be required to return the shares if the offer is made pursuant to regulation 5A of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

  (b) no final application shall be made to the exchange for delisting of the equity shares; and

  (c) the escrow account opened under regulation 11 shall be closed.

- **Payment of Consideration**: upon the success of the offer, the promoter shall immediately transfer the entire amount due and payable as consideration towards the equity shares tendered in the offer within 10 working days from the closure of the offer.

- **Right of remaining Shareholders to Tender Shares:**

  (1) Where, pursuant to acceptance of equity shares tendered in terms of these regulations, the equity shares are delisted, any remaining public shareholder holding such equity shares may tender his shares to the promoter upto a period of minimum one year from the date of delisting and, in such a case, **the promoter shall accept the shares tendered at the same final price at which the earlier acceptance of shares was made**.

  (2) The payment of consideration for shares accepted under sub-regulation (1) shall be made out of the balance amount lying in the escrow account.

  (3) The amount in the escrow account or the bank guarantee shall not be released to the promoter unless all payments are made in respect of shares tendered under sub-regulation (1)

DELISTING FROM ONLY SOME OF THE RECOGNIZED STOCK EXCHANGES: (Regulation 6 & 7)

A company may delist its equity shares from one or more stock exchanges where they are listed and continue their listing on other stock exchanges, if after the proposed delisting the equity shares would:

(i) Remain listed on any recognized stock exchange which has nationwide trading terminals, no exit opportunity needs to be given to the public shareholders; and
(ii) Not remain listed on any recognized stock exchange having nationwide trading terminals, exit opportunity shall be given to all the public shareholders holding the equity shares sought to be delisted.

- **Procedure for Delisting**:

(i) **Step 1:** The company shall obtain approval from the Board of Directors with regard to delisting of equity shares from one or more stock exchanges.

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	(ii) **Step 2:** Thereafter, the company shall give a public notice of the proposed delisting in at least one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language newspaper of the region where the concerned stock exchanges are located. (iii) **Step 3:** The company shall make an application to the stock exchange for delisting of shares. **Note:** The fact of delisting shall be disclosed in the first annual report of the company prepared after the delisting. Concerned Stock Exchange shall dispose the application within 30 working days from the date of receipt of complete application. ❖ **DELISTING OF SMALL COMPANIES:** (Chapter VII) (Regulation 27) Equity shares of a company may be delisted from all the recognised stock exchanges where they are listed, without following the procedure in Chapter IV, if: (i) If a company has paid – up capital not exceeding Rs.10 crores and Net Worth not exceeding 25 Crores as on the last date of preceding year and (ii) the number of equity shares of the company traded on each such recognised stock exchange during the twelve calendar months immediately preceding the date of board meeting referred to in sub-regulation (1B) of regulation 8 is **less than ten per cent** of the total number of shares of such company: Provided that where the share capital of a particular class of shares of the company is not identical throughout such period, the weighted average of the shares of such class shall represent the total number of shares of such class of shares of the company; and]c)the company has not been suspended by any of the recognised stock exchanges having nation-wide trading terminals for any non-compliance in the preceding one year; (iii) at least ninety per cent. of such public shareholders give their positive consent in writing to the proposal for delisting, and have consented either to sell their equity shares at the price offered by the promoter or to remain holders of the equity shares even if they are delisted. (iv) the promoter writes individually to all public shareholders in the company informing them of his intention to get the equity shares delisted, indicating the exit price together with then justification therefore and seeking their consent for the proposal for delisting; (v) the promoter completes the process of inviting the positive consent and finalization of the proposal for delisting of equity shares within seventy five working days of the first communication made under clause (iv); (vi) the promoter makes payment of consideration in cash within fifteen working days from the date of expiry of seventy five working days stipulated in clause (v)
COMPULSORY DELISTING (Regulation 24)	Compulsory Delisting means permanent removal of securities of a listed company from a stock exchange as a penalizing measure at the behest of the stock exchange for not making submission/complying with various requirements set out in the Listing agreement.

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	A Stock Exchange may pass an order for delisting any equity shares of a company on any ground as prescribed in the Securities Contracts (Regulation) Act, 1956 and its rules. The decision on delisting shall be taken by a panel to be constituted by the stock exchange. The panel consists of: (i) Two directors of the stock exchange; (ii) One representative of the investors; (iii) One representative of the MCA or ROC; and (iv) The Executive Director or Secretary of the recognized stock exchanges. Before passing an order, a notice in this regard shall be published in one English national daily with wide circulation and one regional language newspaper of the region where the concerned recognized stock exchange is located.
POWER TO RELAX STRICT ENFORCEMENT OF REGULATIONS (REGULATION 25A)	(1) The Board may for reasons recorded in writing, grant relaxation from strict enforcement of any of the requirements of these regulations, if the Board is satisfied that the relaxation is in the interests of investors in securities and the securities market. (2) For seeking exemption under sub-regulation (1), the promoter or the acquirer or the company shall file an application with the Board, supported by a duly sworn affidavit, giving details for seeking such exemption and the grounds on which the exemption has been sought. (3) The promoter or the acquirer or the company, as the case may be, shall along with the application referred to under sub-regulation(2) pay an on-refundable fee of rupees fifty thousand, by way of direct credit in the bank account through NEFT/RTGS/IMPS or any other mode allowed by RBI or by way of a bankers cheque or demand draft payable in Mumbai in favour of the Board. (4) The Board may after affording reasonable opportunity of being heard to the applicant and after considering all the relevant facts and circumstances, pass a reasoned order either granting or rejecting the exemption or relaxation sought as expeditiously as possible.

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UNIT 9: SEBI (SHARE BASED EMPLOYEE BENEFITS) REGULATIONS, 2014

INTRODUCTION	The SEBI (Share Based Employee Benefits) Regulations, provides for regulation of all schemes by companies for the benefit of their employees involving dealing in shares, directly or indirectly, with a view to facilitate smooth operation of such schemes while preventing any possible manipulation and matters connected therewith or incidental thereto. SEBI (Share Based Employee Benefits) Regulations, 2014 comprises of four chapters. Chapter I deal mainly with the preliminary and definition used in regulation. Chapter II provides for implementation and process of scheme. Chapter III deals with administration of specific schemes. Chapter IV deals with miscellaneous provisions.
APPLICABILITY	❖ Employee Stock Option Scheme ❖ Employee Stock Purchase Scheme ❖ Stock Appreciation Rights Scheme ❖ General Employee Benefits Scheme ❖ Retirement Benefits Schemes
COMPANIES COVERED BY THESE REGULATIONS	The provisions of these regulations shall apply to any company whose shares are listed on a recognised stock exchange in India, and has a scheme: (i) for direct or indirect benefit of employees; (ii) involving dealing in or subscribing to or purchasing securities of the company, directly or indirectly and (iii) satisfying, directly or indirectly, any one of the following conditions: (a) the scheme is set up by the company or any other company in its group; (b) the scheme is funded or guaranteed by the company or any other company in its group; (c) the scheme is controlled or managed by the company or any other company in its group.
NON-APPLICABILITY	❖ Shares issued to employees in compliance with the provisions pertaining to **preferential allotment** as specified in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. ❖ The provisions pertaining to preferential allotment as specified in SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 shall not be applicable in case of a company issuing new shares in pursuance and compliance of these regulations.
SCHEMES - IMPLEMENTATION AND PROCESS	A company may implement schemes either :- a) directly or b) by setting up an irrevocable trust(s).
IMPLEMENTATION OF SCHEMES THROUGH TRUST	1. If a company has implemented the scheme through a trust and the same has to be decided upfront at the time of taking approval of the shareholders for setting up the schemes. However,if the scheme involves secondary acquisition or gift or both, then it is mandatory for the company to implement such scheme(s) through a trust(s). 2. A company may implement several schemes as permitted under these regulations through a single trust. However, such single trust shall keep and maintain- – proper books of account,

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	– records and documents, Foreach such scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of each scheme. 3. SEBI may specify the minimum provisions to be included in the trust deed under which the trust is formed, and such trust deed and any modifications thereto shall be mandatorily filed with the stock exchange in India where the shares of the company are listed. 4. A person shall not be appointed as a trustee, if he- (i) is a director, key managerial personnel or promoter of the company or its holding, subsidiary or associate company or any relative of such director, key managerial personnel or promoter; or (ii) beneficially holds ten percent or more of the paid-up share capital of the company; However, where individuals or 'one person companies' as defined under the Companies Act, 2013 are appointed as trustees, there shall be a minimum of two such trustees, and in case a corporate entity is appointed as a trustee, then it may be the sole trustee. 5. The trustees of a trust, which is governed under these regulations, shall not vote in respect of the shares held by such trust, so as to avoid any misuse arising out of exercising such voting rights. 6. The trustee should ensure that appropriate approval from the shareholders has been obtained by the company in order to enable the trust to implement the scheme(s) and undertake secondary acquisition for the purposes of the scheme(s). 7. The trust shall not deal in derivatives, and shall undertake only delivery based transactions for the purposes of secondary acquisition as permitted by these regulations. 8. The company may lend monies to the trust on appropriate terms and conditions to acquire the shares either through new issue or secondary acquisition, for the purposes of implementation of the scheme(s). 9. For the purposes of disclosures to the stock exchange, the shareholding of the trust shall be shown as 'non-promoter and non-public' shareholding. Explanation: Shares held by the trust shall not form part of the public shareholding which needs to be maintained at a minimum of twenty five percent as prescribed under Securities Contracts (Regulations) Rules, 1957 10. Secondary acquisition in a financial year by the trust shall not exceed two percent of the paid up equity capital as at the end of the previous financial year. 11. The total number of shares under secondary acquisition held by the trust shall at no time exceed the below mentioned prescribed limits as a percentage of the paid up equity capital as at the end of the financial year immediately prior to the year in which the shareholder approval is obtained for such secondary acquisition. 12. The un-appropriated inventory of shares which are not backed by grants, acquired through secondary acquisition by the trust under Part A, Part B or Part C of these regulations, shall be appropriated within a reasonable period which shall not extend beyond the end of the subsequent financial year.

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	13. The trust shall be required to hold the shares acquired through secondary acquisition for a minimum period of six months except where they are required to be transferred in the circumstances enumerated in this regulation, whether off market or on the platform of stock exchange. 14. The trust shall be permitted to undertake off-market transfer of shares only under the following circumstances: a) transfer to the employees pursuant to scheme(s); b) when participating in open offer under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, or when participating in buy-back, delisting or any other exit offered by the company generally to its shareholders. 15. The trust shall not become a mechanism for trading in shares and hence shall not sell the shares in secondary market except under the following circumstances: a) cashless exercise of options under the scheme as prescribed in these regulations; b) on vesting or exercise, as the case may be, of SAR under the scheme as prescribed in these regulations; c) in case of emergency for implementing the schemes covered under Part D and Part E of Chapter III of these regulations, and for this purpose - (i) the trustee shall record the reasons for such sale; and (ii) money so realised on sale of shares shall be utilised within a definite time period as stipulated under the scheme or trust deed. d) participation in buy-back or open offers or delisting offers or any other exit offered by the company generally to its shareholders, if required; e) for repaying the loan, if the un-appropriated inventory of shares held by the trust is not appropriated within the timeline as provided above. f) winding up of the scheme(s); and g) based on approval granted by SEBI to an applicant, for the reasons recorded in writing in respect of the schemes covered in these regulations, upon payment of a non-refundable fee of rupees one lakh along with the application by way of a banker's cheque or demand draft payable at Mumbai in favour of SEBI. 16. The trust shall be required to make disclosures and comply with the other requirements applicable to insiders or promoters under the SEBI (Prohibition of Insider Trading) Regulations, 2015 or any modification or re-enactment thereto.
ELIGIBILITY CRITERIA	An employee shall be eligible to participate in the schemes of the company as determined by the compensation committee.
COMPENSATION COMMITTEE	• A company shall constitute a compensation committee for **administration and superintendence** of the schemes. However, the company **may designate such of its other committees** as compensation committee if they fulfil the criteria as prescribed in these regulations. Further that where the scheme is being implemented through a trust the compensation committee shall delegate the administration of such scheme(s) to the trust.

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	• The compensation committee shall be a committee of such members of the board of directors of the company as provided under section 178 of the Companies Act, 2013, as amended or modified from time to time. • The compensation committee shall, inter alia, **formulate the detailed terms and conditions** of the schemes which shall include the provisions as specified by SEBI in this regard. • The compensation committee **shall frame suitable policies and procedures** to ensure that there is no violation of securities laws, as amended from time to time, including SEBI (Prohibition of Insider Trading) Regulations, 2015 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003 by the trust, the company and its employees, as applicable.
SHAREHOLDERS APPROVAL	• A Scheme shall not be offered to employees of a company unless the shareholders of the company approve it by **passing a special resolution** in the general meeting. • The **explanatory statement** to the notice and the resolution proposed to be passed by shareholders for the schemes shall include the information as specified by SEBI in this regard. • Approval of shareholders by way of separate resolution in the general meeting shall be obtained by the company in case of: a) Secondary acquisition for implementation of the schemes. Such approval shall mention the percentage of secondary acquisition (subject to limits specified under these regulations) that could be undertaken; b) Secondary acquisition by the trust in case the share capital expands due to capital expansion undertaken by the company including preferential allotment of shares or qualified institutions placement, to maintain the five percent cap as prescribed in these regulations of such increased capital of the company; c) Grant of option, SAR, shares or other benefits, as the case may be, to employees of subsidiary or holding company; d) Grant of option, SAR, shares or benefits, as the case may be, to identified employees, during any one year, equal to or exceeding one percent of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant of option, SAR, shares or incentive, as the case may be.
VARIATION OF TERMS OF THE SCHEMES	• The company **shall not vary** the terms of the schemes in any manner, which may be **detrimental to the interests of the employees**. However, the company shall be entitled to vary the terms of the schemes **to meet any regulatory requirements**. • The company may **by special resolution** in a general meeting vary the terms of the schemes offered pursuant to an earlier resolution of the general body but not yet exercised by the employee provided such variation is not prejudicial to the interests of the employees. • The provisions of shareholders' approval shall apply to such variation of terms as they apply to the original grant of option, SAR, shares or other benefits, as the case may be.

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	• The notice for passing special resolution for variation of terms of the schemes shall disclose: ❖ full details of the variation, ❖ the rationale therefore, and ❖ the details of the employees who are beneficiaries of such variation. • A company **may reprice** the options, SAR or shares, as the case may be which are not exercised, whether or not they have been vested if the schemes were rendered unattractive due to fall in the price of the shares in the stock market. However, the company ensures that such repricing shall not be detrimental to the interest of the employees and approval of the shareholders in general meeting has been obtained for such repricing.
WINDING UP OF THE SCHEMES	In case of winding up of the schemes being implemented by a company through trust, the excess monies or shares remaining with the trust after meeting all the obligations, if any, shall be utilised for repayment of loan or by way of distribution to employees as recommended by the compensation committee.
NON-TRANSFERABILITY	• Option, SAR or any other benefit granted to an employee under the regulations shall not be transferable to any person. • No person other than the employee to whom the option, SAR or other benefit is granted shall be entitled to the benefit arising out of such option, SAR, benefit etc. However, in case of ESOS or SAR, under cashless exercise, the company may itself fund or permit the empanelled stock brokers to fund the payment of exercise price which shall be adjusted against the sale proceeds of some or all the shares, subject to the provisions of the applicable law or regulations. • The option, SAR, or any other benefit granted to the employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner. • In the event of death of the employee while in employment, all the options, SAR or any other benefit granted to him under a scheme till such date shall vest in the legal heirs or nominees of the deceased employee. • In case the employee suffers a permanent incapacity while in employment, all the options, SAR or any other benefit granted to him under a scheme as on the date of permanent incapacitation, shall vest in him on that day. • In the event of resignation or termination of the employee, all the options, SAR, or any other benefit which are granted and yet not vested as on that day shall expire. However, an employee shall, subject to the terms and conditions formulated by the compensation committee, be entitled to retain all the vested options, SAR, or any other benefit covered by these regulations. • In the event that an employee who has been granted benefits under a scheme is transferred or deputed to an associate company prior to vesting or exercise, the vesting and exercise as per the terms of grant shall continue in case of such transferred or deputed employee even after the transfer or deputation.
LISTING	In case new issue of shares is made under any scheme, shares so issued shall be

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	listed immediately in any recognised stock exchange.
SCHEMES IMPLEMENTED BY UNLISTED COMPANIES	The shares arising after the initial public offering ("IPO") of an unlisted company, out of options or SAR granted under any scheme prior to its IPO to the employees shall be listed immediately upon exercise in all the recognised stock exchanges where the shares of the company are listed subject to compliance with SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. **COMPLIANCES AND CONDITIONS** ❖ The company shall not make any fresh grant which involves allotment or transfer of shares to its employees under any schemes formulated prior to its IPO and prior to the listing of its equity shares ('pre-IPO scheme') unless: - Such pre-IPO scheme is in conformity with these regulations; and - Such pre-IPO scheme is ratified by its shareholders subsequent to the IPO. ❖ No change shall be made in the terms of options or shares or SAR issued under such pre- IPO schemes, whether by repricing, change in vesting period or maturity or otherwise unless prior approval of the shareholders is taken for such a change, except for any adjustments for corporate actions made in accordance with these regulations. ❖ For listing of shares issued pursuant to ESOS, ESPS or SAR, the company shall obtain the in-principle approval of the stock exchanges where it proposes to list the said shares. **CERTIFICATE FROM AUDITORS** In case of company which has passed a resolution for the schemes under these regulations, the board of directors shall at each annual general meeting place before the shareholders a certificate from the auditors of the company that the scheme(s) has been implemented in accordance with these regulations and in accordance with the resolution of the company in the general meeting. **DISCLOSURES** In addition to the information that a company is required to disclose, in relation to employee benefits under the Companies Act, 2013, the board of directors of such a company shall also disclose the details of the scheme(s) being implemented, as specified by SEBI in this regard. **ACCOUNTING POLICIES** Any company implementing any of the share based schemes shall follow the requirements of the 'Guidance Note on Accounting for employee share-based Payments' (Guidance Note)or Accounting Standards as may be prescribed by the Institute of Chartered Accountants of India (ICAI) from time to time, including the disclosure requirements prescribed therein. Where the existing Guidance Note or Accounting Standard do not prescribe accounting treatment or disclosure requirements for any of the schemes covered under these regulations, then the company shall comply with the relevant Accounting Standard as may be prescribed by the ICAI from time to time.
ADMINISTRATION OF SPECIFIC SCHEMES	**EMPLOYEE STOCK OPTION SCHEME (ESOS)** **Administration and Implementation** The ESOS shall contain the details of the manner in which the scheme will be implemented and operated. ESOS shall not be offered unless the disclosures, as specified by SEBI in this regard, are made by the company to the prospective option grantees. **Pricing**

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The company granting option to its employees pursuant to ESOS will have the freedom to determine the exercise price subject to conforming to the accounting policies as specified in these regulation.

Vesting Period

There shall be a minimum vesting period of one year in case of ESOS. However, in case where options are granted by a company under an ESOS in lieu of options held by a person under an ESOS in another company which has merged or amalgamated with that company, the period during which the options granted by the transfer or company were held by him shall be adjusted against the minimum vesting period required under this sub-regulation.

The company may specify the lock-in period for the shares issued pursuant to exercise of option.

Rights of the option holder

The employee shall not have right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to him, till shares are issued upon exercise of option.

Consequence of failure to exercise option

The amount payable by the employee, if any, at the time of grant of option, -

a) may be forfeited by the company if the option is not exercised by the employee within the exercise period; or

b) may be refunded to the employee if the options are not vested due to non-fulfilment of conditions relating to vesting of option as per the ESOS.

EMPLOYEE STOCK PURCHASE SCHEME (ESPS)

Administration and Implementation

The ESPS scheme shall contain the details of the manner in which the scheme will be implemented and operated.

Pricing and Lock-In

The company may determine the price of shares to be issued under an ESPS, provided they conform to the provisions of accounting policies under these regulation. Shares issued under an ESPS shall be locked-in for a minimum period of one year from the date of allotment.

However, in case where shares are allotted by a company under an ESPS in lieu of shares acquired by the same person under an ESPS in another company which has merged or amalgamated with the first mentioned company, the lock-in period already undergone in respect of shares of the transferor company shall be adjusted against the lock-in period.

If ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employees pursuant to ESPS shall not be subject to lock-in.

STOCK APPRECIATION RIGHTS SCHEME (SARS)

Administration and Implementation

The SAR scheme shall contain the details of the manner in which the scheme will be implemented and operated. The company shall have the freedom to implement cash settled or equity settled SAR scheme. However, in case of equity settled SAR scheme, if the settlement results in fractional shares, then the consideration for fractional shares should be settled in cash.

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	SAR shall not be offered unless the disclosures, as specified by SEBI in this regard, are made by the company to the prospective SAR grantees. **Vesting** There shall be a minimum vesting period of one year in case of SAR scheme. However, in a case where SAR is granted by a company under a SAR scheme in lieu of SAR held by the same person under a SAR scheme in another company which has merged or amalgamated with the first mentioned company, the period during which the SAR granted by the transferor company were held by the employee shall be adjusted against the minimum vesting period. **Rights of the SAR Holder** The employee shall not have right to receive dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of SAR granted to him. **GENERAL EMPLOYEE BENEFITS SCHEME (GEBS)** **Administration and Implementation** GEBS shall contain the details of the scheme and the manner in which the scheme shall be implemented and operated. At no point in time, the shares of the company or shares of its listed holding company shall exceed ten percent of the book value or market value or fair value of the total assets of the scheme, whichever is lower, as appearing in its latest balance sheet for the purposes of GEBS. **RETIREMENT BENEFIT SCHEME (RBS)** **Administration and Implementation** Retirement benefit scheme may be implemented by a company provided it is incompliance with these regulations, and provisions of any other law in force in relation to retirement benefits. The retirement benefit scheme shall contain the details of the benefits under the scheme and the manner in which the scheme shall be implemented and operated. At no point in time, the shares of the company or shares of its listed holding company shall exceed ten per cent of the book value or market value or fair value of the total assets of the scheme, whichever is lower, as appearing in its latest balance sheet for the purposes of RBS.
ROLE OF COMPANY SECRETARY	For listing of equity shares issued pursuant to exercise of options granted under ESPS/ESOS/SARS/GEBS/RBS basis- Post issue • A Certificate from Company Secretary for receipt of money. • A quarterly certificate from the Practising Company Secretary specifically certifying that the company has received the application/allotment monies from the applicants of these shares.

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UNIT 10: SEBI (ISSUE OF SWEAT EQUITY) REGULATIONS, 2012

INTRODUCTION	SEBI (Issue of Sweat Equity) Regulations, 2002 has been notified on 24th September, 2002 in order to streamlinethe process of issue of sweat equity shares. These regulations are divided into Four Chapters and a Schedule. Chapter I deals with Preliminary & Important Definitions, Chapter II deals with Issue of Sweat Equity by a Listed Company, Chapter III deals General Obligations of the company and Chapter IV deal with Penalties and Procedure.
APPLICABILITY	Listed companies which are issuing sweat equity shares are required to comply with SEBI (Issue of Sweat Equity) Regulations, 2002. *These regulations shall not apply to an unlisted company. However, unlisted company coming out with initial public offering and seeking listing of its securities on the stock exchange, pursuant to issue of sweat equity shares, shall comply with the SEBI (ICDR) Regulations, 2009.*
SPECIAL RESOLUTION	For the purposes of passing a special resolution under clause (a) of sub section (1) of Section 54 of the Companies Act, 2013, the Board of Directors at the time of sending notice to the shareholders shall send additional information for approving the issuance of sweat equity shall, inter alia, contain the following information: a) The total number of shares to be issued as sweat equity. b) The current market price of the shares of the company. c) The value of the intellectual property rights or technical know how or other value addition to be received from the employee or director along with the valuation report / basis of valuation. d) The names of the employees or directors or promoters to whom the sweat equity shares shall be issued and their relationship with the company. e) The consideration to be paid for the sweat equity. f) The price at which the sweat equity shares shall be issued. g) Ceiling on managerial remuneration, if any, which will be affected by issuance of such sweat equity. h) A statement to the effect that the company shall conform to the accounting policies as specified by SEBI. i) Diluted Earning Per Share pursuant to the issue of securities to be calculated in accordance with International Accounting Standards / standards specified by the Institute of Chartered Accountants of India.
ISSUE OF SWEAT EQUITY SHARES TO PROMOTERS	In case of Issue of sweat equity shares to promoters, the same shall also be approved by **simple majority** of the shareholders in General Meeting. Further, the promoters to whom such Sweat Equity Shares are proposed to be issued **shall not participate in such resolution** and separate resolution shall be passed for each transaction of issue of Sweat Equity. Such resolution shall be valid for a period of not more than twelve months from the date of passing of the resolution. For the purposes of passing the resolution, the explanatory statement shall contain the disclosures as specified in the Schedule.
PRICING OF SWEAT EQUITY SHARES	Theprice of sweat equity shares shall not be less than the higher of the following: (a) The average of the weekly high and low of the closing prices of the related equity shares during last six months preceding the relevant date; or (b) The average of the weekly high and low of the closing prices of the related equity shares during the two weeks preceding the relevant date. If the shares are listed on more than one stock exchange, but quoted only on one stock exchange on given date, then the priceon the stock exchange shall be considered.

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	If the share price is quoted on more than one stock exchange, then the stock exchange where there is highest trading volume during that date shall be considered. If the shares are not quoted on the given date, then the share price on the next trading day shall be considered. "Relevant date" for this purpose means the date which is thirty days prior to the date on which the meeting of the General Body of the shareholders is convened, in terms ofclause (a) of sub section (1) of section 54 of the Companies Act, 2013.
VALUATION OF INTELLECTUAL PROPERTY	• The valuation of the intellectual property rights or of the know how provided or other value addition mentioned in Explanation II of sub-rule (1) of Rule (8) of Companies (Share Capital and Debentures) Rules, 2014 shall be carried out by a merchant banker. • The merchant banker may consult such experts and valuers, as he may deem fit having regard to the nature of the industry and the nature of the property or other value addition. • The merchant banker shall obtain a certificate from an independent Chartered Accountant that the valuation of the intellectual property or other value addition is in accordance with the relevant accounting standards.
ACCOUNTING TREATMENT	Where the sweat equity shares are issued for a non-cash consideration, such non cash consideration shall be treated in the following manner in the books of account of the company:- 1. where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the relevant accounting standards; or 2. where the above clause is not applicable, it shall be expensed as provided in the relevant accounting standards.
PLACING OF AUDITORS BEFORE ANNUAL GENERAL MEETING	In the General meeting subsequent to the issue of sweat equity, the Board of Directors shall place before the shareholders, a certificate from the auditors of the company that the issue of sweat equity shares has been made in accordance with the Regulations and in accordance with the resolution passed by the company authorizing the issue of such Sweat Equity Shares.
CEILING ON MANAGERIAL REMUNERATION	The amount of Sweat Equity shares issued shall be treated as part of managerial remuneration for the purpose of sections 197 of the Companies Act, 2013, if the following conditions are fulfilled: (i) the Sweat Equity shares are issued to any director or manager; and (ii) they are issued for non-cash consideration, which does not take the form of an asset which can be carried to the balance sheet of the company in accordance with the relevant accounting standards.
LOCK-IN	The Sweat Equity shares shall be locked in for a period of **three years** from the date of allotment. SEBI (ICDR) Regulations, 2009 on public issue in terms of lock-in and computation of promoters' contribution shall apply if a company makes a public issue after it has issued sweat equity.
LISTING	The Sweat Equity issued by a listed company shall be eligible for listing only if such issues are in accordance with these regulations.
APPLICABILITY OF TAKEOVER	Any acquisition of Sweat Equity Shares shall be subject to the provision of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

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UNIT 11: SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015

INTRODUCTION	The concept of Insider Trading in India started fermenting in the 80's and 90's and came to be known and observed extensively in the Indian Securities market. The rapidly advancing Indian Securities market needed a more comprehensive legislation to regulate the practice of Insider Trading, thus resulting in the formulation of the SEBI (Insider Trading) Regulations in the year 1992, which were amended in the year 2002 after the discrepancies observed in the 1992 regulations and thereafter, a New Insider Trading Regulation in the year 2015 [i. e. The SEBI (Prohibition of Insider Trading) Regulation, 2015] enforced by SEBI w. e. f. 15th May, 2015.
SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015	
IMPORTANT DEFINITIONS	**Insider trading means**: (a) An act of subscribing, buying, selling, dealing or agreeing to subscribe, buy, sell or deal in any securities, by any director or key managerial personnel or any other officer of a company either as principal or agent if such director or key managerial personnel or any other officer of the company is reasonably expected to have access to any non – public price sensitive information in respect of securities of company; or (b) An act of counseling about procuring or communicating directly or indirectly any non – public price – sensitive information to any person; **Insider** means any person who is: (a) A connected person; or (b) In possession of or having access to unpublished price sensitive information; **Connected Person** "Connected person" means, - (i) Any person who is or has during the **6 months** prior to the concerned act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company whether temporary or permanent, that allows such person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access. ***Person is Deemed to be a Connected Person***: (ii) Without prejudice to the generally of the foregoing, the persons falling within the following categories shall be deemed to be connected person unless the contrary is established, - (a) An immediate relative of connected persons specified in clause (i); or (b) A holding company or associate company or subsidiary company; or (c) An intermediary as specified in section 12 of the Act or an employee or director thereof; or (d) An investment company, trustee company, asset management company or an employee of director thereof; or (e) An official of a stock exchange or of clearing house or corporation; or (f) A member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or (g) A member of the board of directors or an employee, of a public financial

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institution as defined in section 2(72) of the Companies Act, 2013; or
(h) An official or an employee of a self – regulatory organization recognized or authorized by the Board; or
(i) A banker of the company; or
(j) A concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than 10% of the holding or interest.

PRICE SENSITIVE INFORMATION:
Means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of securities of company. The following shall be deemed to be price sensitive information:-
(a) Periodically financial results of the company;
(b) Intended declaration of dividends (both interim and final);
(c) Issue of securities or buy – back of securities;
(d) Any major expansion plans or execution of new projects;
(e) Amalgamation, mergers or takeovers;
(f) Disposal of the whole or substantial part of the undertaking;
(g) Any significant changes in policies, plans or operations of the company.

UNPUBLISHED PRICE SENSITIVE INFORMATION: Means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following:-

(i) Financial results; (ii) Dividends; (iii) Change in capital structure; (iv) Mergers, de – mergers, acquisitions, delisting, disposals and expansion of business and such other transactions; (v) Changes in key managerial personnel; ~~and (vi) Material events in accordance with the listing agreement~~. (DELETED)

In short, till the time price sensitive information is not intimated to general public via newspaper, stock exchange, media or websites of a listed Company, such information is known as **unpublished price sensitive information.**

Information	Whether PS or not?	Reason
CEO of a company died in an Air Crash	Yes	Change in KMP
RBI has increased its statutory liquidity ratio by 25 basis points	No	This information is available to all people on uniform basis
The company is setting up another plant in Gujarat	Yes	It is expansion of business of company
The company is negotiating with a foreign company to sell its stake in Star Ltd	Yes	It is disposal or disinvestment of the company's investment.
CEO of a company met with an accident and had been hospitalized	No	No change in KMP
Intended declaration of rights issue in near future	Yes	Issue of securities is a PSI
Chairman of company has submitted his resignation to the board under protest for selling a	Yes	There is a policy issue in the company

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	particular brand to another company		

CHINESE WALL POLICY IN AREAS OF PRICE SENSITIVE INFORMATION: (JUNE 2011)

- Price sensitive information is required to be disseminated to the stock exchange on continuous basis. To prevent the misuse of confidential information the organisation adopt the Chinese Wall Policy which separates those area of organisation which routinely have access to confidential information, considered inside areas from those areas which deal with:
  (a) Sales
  (b) Marketing
  (c) Investment Advice
  (d) Other Department providing support services, which are considered as public areas.
- The Code of Conduct to prevent insider trading regulation must contain norms for appropriate Chinese wall procedures, and processes for permitting any designated person to cross the wall.

"proposed to be listed" shall include securities of an unlisted company:
(i) if such unlisted company has filed offer documents or other documents, as the case may be, with the Board, stock exchange(s) or registrar of companies in connection with the listing; or
(ii) if such unlisted company is getting listed pursuant to any merger or amalgamation and has filed a copy of such scheme of merger or amalgamation under the Companies Act,2013;
(Inserted w.e.f 01.04.2019)

PROHIBITION ON COMMUNICATION ON MATTERS RELATING TO INSIDER TRADING (REGULATION 3)

(1) **No Communication of UPSI except official communication**: Reg. 3(1): No insider shall communicate, provide, or allow access to any unpublished price sensitive information, relating to a company or securities listed or proposed to be listed, to any person including other insiders except where such communication is in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

(2) **No Communication of UPSI to persons related the company**: Reg. 3(2): No person shall procure from or cause the communication by any insider of unpublished price sensitive information, relating to a company or securities listed or proposed to be listed, except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

(2A) The board of directors of a listed company shall make a policy for determination of "legitimate purposes" as a part of "Codes of Fair Disclosure and Conduct" formulated under regulation 8.

Explanation –For the purpose of illustration, the term "legitimate purpose" shall include sharing of unpublished price sensitive information in the ordinary course of business by an insider with partners, collaborators, lenders, customers, suppliers, merchant bankers, legal advisors, auditors, insolvency professionals or other advisors or consultants, provided that such sharing has not been carried out to evade or circumvent the prohibitions of these regulations.

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	(2B) Any person in receipt of unpublished price sensitive information pursuant to a "legitimate purpose" shall be considered an "insider" for purposes of these regulations and due notice shall be given to such persons to maintain confidentiality of such unpublished price sensitive information in compliance with these regulations. (Inserted w.e.f 01.04.2019) (3) **Exception to the above provisions**: Reg. 3(3): An UPSI may be communicated, provided, allowed access to or procured, in connection with a transaction that would:- **For Open Offer**: Entail an obligation to make an open offer under the takeover regulations where the board of directors of the Listed company is of informed opinion that Sharing of such information is in the best interests of the company. **Other than open offer**: Not attract the obligation to make an open offer under the takeover regulations but where the board of directors of the Listed company is of informed opinion that sharing of such information is in the best interests of the company and the information that constitute unpublished price sensitive information is disseminated to be made generally available at least two trading days prior to the proposed transaction being effected in such form as the board of directors may determine to be adequate and fair to cover all relevant & material facts. (4) **Execution of a confidentiality and non – disclosure agreement**: The board of directors shall require the parties to execute agreements to contract confidentiality and non – disclosure obligations, on the part of such parties and such parties shall keep information so received confidential, except for the purpose of sub – regulation (3), and shall not otherwise trade in securities of the company when in possession of unpublished price sensitive information. (5) The board of directors shall ensure that a structured digital database is maintained containing the names of such persons or entities as the case may be with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available. Such databases shall be maintained with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database. (Inserted w.e.f 01.04.2019)
TRADING WHEN IN POSSESSION OF UPSI (REGULATION 4)	(1) No insider shall trade in securities that are listed or proposed to be listed on a stock exchange when in possession of unpublished price sensitive information. Explanation –When a person who has traded in securities has been in possession of unpublished price sensitive information, his trades would be presumed to have been motivated by the knowledge and awareness of such information in his possession. (Inserted w.e.f 01.04.2019) Provided that the insider may prove his innocence by demonstrating the circumstances including the following: – (i) the transaction is an off-market inter-se transfer between insiders who were in possession of the same unpublished price sensitive information

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	without being in breach of regulation 3 and both parties had made a conscious and informed trade decision. Provided that such unpublished price sensitive information was not obtained under sub-regulation (3) of regulation 3 of these regulations. Provided further that such off-market trades shall be reported by the insiders to the company within two working days. Every company shall notify the particulars of such trades to the stock exchange on which the securities are listed within two trading days from receipt of the disclosure or from becoming aware of such information. (Inserted w.e.f 01.04.2019) (ii) the transaction was carried out through the block deal window mechanism between persons who were in possession of the unpublished price sensitive information without being in breach of regulation 3 and both parties had made a conscious and informed trade decision; Provided that such unpublished price sensitive information was not obtained by either person under sub-regulation (3) of regulation 3 of these regulations. (iii) the transaction in question was carried out pursuant to a statutory or regulatory obligation to carry out a bona fide transaction. (iv) the transaction in question was undertaken pursuant to the exercise of stock options in respect of which the exercise price was pre-determined in compliance with applicable regulations. (v)in the case of non-individual insiders: – (a) the individuals who were in possession of such unpublished price sensitive information were different from the individuals taking trading decisions and such decision-making individuals were not in possession of such unpublished price sensitive information when they took the decision to trade; and (b)appropriate and adequate arrangements were in place to ensure that these regulations are not violated and no unpublished price sensitive information was communicated by the individuals possessing the information to the individuals taking trading decisions and there is no evidence of such arrangements having been breached; (vi)the trades were pursuant to a trading plan set up in accordance with regulation 5. (2) In the case of connected persons the onus of establishing, that they were not in possession of unpublished price sensitive information, shall be on such connected persons and in other cases, the onus would be on the Board. (3)The Board may specify such standards and requirements, from time to time, as it may deem necessary for the purpose of these regulations.
TRADING PLANS: (REGULATION 5)	(a) ***Approval of Trading Plan***: Reg. 5(1): An insider shall be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure pursuant to which trades may be carried out on his behalf in accordance with such plan.

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	(b) Reg. 5(2): Such trading plan shall: o Not entail commencement of trading on behalf of the insider earlier than six months from the public disclosure of the plan; o Not entail trading for the period between the twentieth trading day prior to the last day of any financial period for which results are required to be announced by the issuer of the securities and the second trading day after the disclosure of such financial results; o Entail trading for a period of not less than 12 months; o Not entail overlap of any period for which another trading plan is already in existence; o Set out either the value of trades to be effected or the number of securities to be traded along with the nature of the trade and the intervals at, or dates on which such trades shall be effected; and o Not entail trading in securities for market abuse. (c) **Review of Trading Plan**: Reg. 5(3): The compliance officer shall review the trading plan to assess whether the plan would have any potential for violation of these regulations and shall be entitled to seek such express undertakings as may be necessary to enable such assessment and to approve and monitor the implementation of the plan. Provided that pre-clearance of trades shall not be required for a trade executed as per an approved trading plan. Provided further that trading window norms and restrictions on contra trade shall not be applicable for trades carried out in accordance with an approved trading plan. (d) **Irrevocable approved trading plan**: Reg. 5(4): The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either deviate from it or to execute any trade in the securities outside the scope of the trading plan. (e) **Notice to Stock Exchange**: Reg. 5(5): Upon approval of the trading plan, the compliance officer shall notify the plan to the stock exchanges on which the securities are listed.
DISCLOSURES OF TRADING BY INSIDERS (Regulation 6: General Disclosure)	(a) **Specific form for disclosure**: Reg. 6(1): Every public disclosure shall be made in a specified form. (b) **Disclosure by any person**: Reg. 6(2): The disclosures to be made by any person shall include those relating to trading by such person's immediate relatives, and by any other person for whom such person takes trading decisions. (c) **Disclosure includes derivatives**: Reg. 6(3): The disclosures of trading in securities shall also include trading in derivatives of securities and the traded value of the derivatives shall be taken into account. (d) **Maintenance of Record**: Reg. 6(4): The disclosures made shall be maintained by the company, for a minimum period of 5 years, in the specified form.
DISCLOSURES OF TRADING BY INSIDER (Regulation 7: Specific Disclosure)	***1. Initial Disclosures:*** **(a)** Every promoter, KMP and director of every company whose securities are listed on any recognized stock exchange shall disclose his holding of securities of the company as on the date of these regulations taking effect, to the company within 30 days of these regulations taking effect.

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	(b) Every person on appointment as a KMP or a director of the company or upon becoming a promoter shall disclose his holding of securities of the company as on the date of appointment or becoming a promoter, to the company within 7 days of such appointment or becoming a promoter. ***2. Continual Disclosures:*** **(a)** Every promoter, employee and director of every company shall disclose to the company the number of such securities acquired or disposed of within 2 trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of 10 lakh rupees or such other value as may be specified. **(b)** Every company shall notify the particulars of such trading to the stock exchange on which the securities are listed within 2 trading days of receipt of the disclosure or from becoming aware of such information. ***3. Disclosures by other connected persons***: Any company whose securities are listed on a stock exchange may, at its discretion require any other connected person or class of connected persons to make disclosures of holdings and trading in securities of the company in such form and at such frequency as may be determined by the company in order to monitor compliance with these regulations.
CODE OF FAIR DISCLOSURE AND CONDUCT	***Code of Fair Disclosure***: Regulation 8(1): The board of directors of every company, whose securities are listed on a stock exchange, shall formulate and publish on its official website, a code of practices and procedures for fair disclosure of unpublished price sensitive information that it would follow in order to adhere to each of the principles set out in Schedule A to these Regulations, without diluting the provisions of these regulations in any manner. (2) Every such 'code of practices and procedures for fair disclosure of unpublished price sensitive information and every amendment thereto shall be promptly intimated to the stock exchanges where the securities are listed. ***Code of Conduct***: Regulation 9(1): The board of directors of every listed company and the board of directors or heads of the organisation of every intermediary shall ensure that the Chief Executive Officer or Managing Director shall formulate a code of conduct with their approvalto regulate, monitor and report trading by its designated persons and immediate relatives of designated persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule B in case of listed company & Schedule C in case of intermediary to these Regulations, without diluting the provisions of these regulations in any manner. Explanation –For the avoidance of doubt it is clarified that intermediaries, which are listed, would be required to formulate a code of conduct to regulate, monitor and report trading by their designated persons, by adopting the minimum standards set out in Schedule B with respect to trading in their own securities and in Schedule C with respect to trading in other securities (2) The Board of Directors or heads of organisation of every other person who is required to handle unpublished price sensitive information in the course of business operations shall formulate a code of conduct to regulate, monitor and

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	report trading by designated persons & immediate relative of designated persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule C to these Regulations, without diluting the provisions of these regulations in any manner. Explanation -Professional firms such as auditors, accountancy firms, law firms, analysts, insolvency professional entities, consultants, banks etc., assisting or advising listed companies shall be collectively referred to as fiduciaries for the purpose of these regulations. (3) Every listed company, ~~market~~ intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations. (4) For the purpose of sub regulation (1) and (2), the board of directors or such other analogous authority shall in consultation with the compliance officer specify the designated persons to be covered by the code of conduct on the basis of their role and function in the organisation and the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation and shall include:- (i) Employees of such listed company, intermediary or fiduciary designated on the basis of their functional role or access to unpublished price sensitive information in the organization by their board of directors or analogous body; (ii) Employees of material subsidiaries of such listed companies designated on the basis of their functional role or access to unpublished price sensitive information in the organization by their board of directors; (iii) All promoters of listed companies and promoters who are individuals or investment companies for intermediaries or fiduciaries. (iv) Chief Executive Officer and employees upto two levels below Chief Executive Officer of such listed company, intermediary, fiduciary and its material subsidiaries irrespective of their functional role in the company or ability to have access to unpublished price sensitive information; (v) Any support staff of listed company, intermediary or fiduciary such as IT staff or secretarial staff who have access to unpublished price sensitive information. **(Inserted w.e.f 01.04.2019)**
INSTITUTIONAL MECHANISM FOR PREVENTION OF INSIDER TRADING (REGULATION 9A) **(Inserted w.e.f 01.04.2019)**	(1) The Chief Executive Officer, Managing Director or such other analogous person of a listed company, intermediary or fiduciary shall put in place adequate and effective system of internal controls to ensure compliance with the requirements given in these regulations to prevent insider trading. (2) The internal controls shall include the following: (a).all employees who have access to unpublished price sensitive information are identified as designated employee; (b).all the unpublished price sensitive information shall be identified and its confidentiality shall be maintained as per the requirements of these regulations; (c).adequate restrictions shall be placed on communication or procurement of unpublished price sensitive information as required by these regulations; (d).lists of all employees and other persons with whom unpublished

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	price sensitive information is shared shall be maintained and confidentiality agreements shall be signed or notice shall be served to all such employees and persons; (e).all other relevant requirements specified under these regulations shall be complied with; (f).periodic process review to evaluate effectiveness of such internal controls. (3) The board of directors of every listed company and the board of directors or head(s) of the organisation of intermediaries and fiduciaries shall ensure that the Chief Executive Officer or the Managing Director or such other analogous person ensures compliance with regulation 9 and sub-regulations (1) and (2) of this regulation. (4) The Audit Committee of a listed company or other analogous body for intermediary or fiduciary shall review compliance with the provisions of these regulations at least once in a financial year and shall verify that the systems for internal control are adequate and are operating effectively. (5) Every listed company shall formulate written policies and procedures for inquiry in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, which shall be approved by board of directors of the company and accordingly initiate appropriate inquiries on becoming aware of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information and inform the Board promptly of such leaks, inquiries and results of such inquiries. (6) The listed company shall have a whistle-blower policy and make employees aware of such policy to enable employees to report instances of leak of unpublished price sensitive information. (7) If an inquiry has been initiated by a listed company in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, the relevant intermediaries and fiduciaries shall co-operate with the listed company in connection with such inquiry conducted by listed company.
SANCTION FOR VIOLATIONS	**Regulation 10:** Any contravention of these regulations shall be dealt with by the Board (SEBI) in accordance with the Act. **Regulation 11:** In order to remove any difficulties in the interpretation or application of the provisions of these regulations, the Board (SEBI) shall have the power to issue directions through guidance notes or circulars.
PENALTIES FOR INSIDER TRADING UNDER SECTION 15G OF SEBI ACT	The penalty for insider trading is: ❖ Minimum 10 Lakhs and which may extent to ***Rs.25 crores or*** ❖ ***3 times*** of the amount of profits made out of insider trading, whichever is higher.

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UNIT 12: MUTUAL FUNDS

INTRODUCTION	Mutual fund is a process of pooling resources from the investors and investing funds in securities. The process of pooling the resources together and issuing units to the investors and then investing funds in securities is known as the scheme of **"Mutual Funds".** In other words, it works like a trust which pools the savings of investors and invests these in capital and money market instruments. Mutual funds offer good investment opportunities to the investors. Like all investments, they also carry certain risks.
ADVANTAGES OF MUTUAL FUNDS	• **Professional Management:** The funds of Asset Management Company (AMC) are managed by the experience and high caliber professionals who are backed by the dedicated research team. The research team analyses the performance & prospectus of the Companies for purpose of investments of funds. • **Diversified Investment:** The AMC diversifies the total funds into different sectors or industry for reducing the risk. In short, diversification of funds reduces the risk of investment. • **Return Potential:** Mutual funds provide higher returns as they invest in a diversified basket of selected securities. • **Low Cost:** If we compare this form of investment with the other forms, the mutual funds are less expensive. • **Transparency:** It provides regular information to the investors about the value of their investment. • **Liquidity:** The open ended mutual funds are very liquid and it can be easily encashed by the investors. • **Tax Benefits:** Many mutual funds are tax exempt under section 80C of the Income Tax Act. • **Protection to the Interest of Investors:** Being regulated by the SEBI, mutual funds have to comply with the strict rules and regulations designed to protect the interest of the Investors.
RISKS INVOLVED IN MUTUAL FUNDS	Like all investments, Mutual Fund also carries certain risks. The risks involved in mutual fund are as follows;- (i) Excessive diversification of portfolio, **losing focus**on the securities of the key segments. (ii) **Too much concentration** on blue-chip securities which are high priced and which do not offer more than average return. (iii) Necessity to effect high turnover through liquidation of portfolio resulting in **large payments of brokerage and commission**. (iv) Poor planning of investment with minimum returns. (v) Unresearched forecast on income, profits and Government policies. (vi) Fund managers being **unaccountable** for poor results. (vii) Failure to identify clearly the risk of the scheme as distinct from risk of the market.

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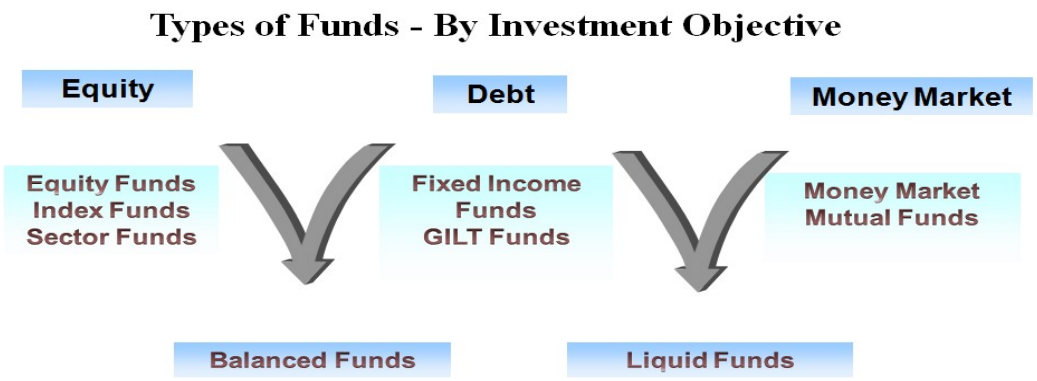
TYPES OF MUTUAL FUND



BASIC CLASSIFICATION OF MUTUAL FUNDS (MF)

OPEN – ENDED MUTUAL FUNDS:

It is a mutual fund scheme where investors invest and redeem their investment throughout the year. It gives flexibility to an investor to purchase and redeem the units of mutual funds at any time at a fixed NAV during the life time of funds.

Key features of such scheme are liquidity and its free entry and exit from the fund. It is a never ending fund and can be used it as systematic investment platform. The listing of open ended mutual fund is not required and the corpus of this fund is flexible and always varies.

CLOSE – ENDED MUTUAL FUNDS:

It is a fund which opens for limited period for subscription. The investors can invest directly in the fund at the time of initial offer. After initial offer, an investor can buy units of this type of mutual funds from the market like equity shares of any company. The listing of Close – ended mutual funds is mandatory on the recognized stock exchanges (i. e. BSE & NSE or others).

In other words, a close – ended scheme has fixed corpus and stipulated maturity period ranging between 2 and 5 years.

DIFFERENCE BETWEEN OPEN – ENDED & CLOSE – ENDED MUTUAL FUNDS:

Heading	Open – ended Mutual Funds	Close – ended Mutual Funds
Fixed Corpus	Variable corpus (total fund)	Fixed corpus (total fund)
Listing	Not required	Listing is mandatory
Liquidity	Always liquid	After expiry of the maturity period
NAV	Disclosed at the end of day.	Market Trading Price
Opening	Always open	Only for limited period

MUTUAL FUND SCHEMES BASED ON INVESTMENT OBJECTIVE

Income Oriented Mutual Fund: These funds offer a fixed income to investors and it has lower risk as compared to growth funds. Under this scheme, the Asset Management Company invests funds income oriented schemes like Bonds, Debentures, Government Bonds & securities and commercial papers.

- Features:

(i) These schemes are generally have lesser risk as compared to Growth schemes.
(ii) These schemes give fixed income.

Growth oriented Mutual Fund: These funds offer capital appreciation over a period. Under this scheme, the Asset Management Company invests funds in the equity shares which have significant growth potential. Despite good return under this mutual fund scheme, there is no assurance or guarantee of return. In other words, it is a scheme which has high risk and high return.

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	➢ Features: (i) High risk and High Return. (ii) No Guarantee or assurance for return. (iii) The objective of this fund to get High capital appreciation. **Hybrid Mutual Funds/Balanced Mutual Funds:** These funds have features of income oriented funds and growth oriented funds. **Example:** HDFC Prudence, an equity oriented hybrid fund under this scheme, the Asset Management Company invests the entries funds in types of securities: (i) Equity shares, and (ii) Bonds & Fixed income oriented instruments. **High Growth Schemes:** These funds primarily invest in high risk and high return volatile securities in the market and induce the investors with a high degree of capital appreciation. **Capital Protection Oriented Scheme:** It is a scheme which protects the capital invested in the mutual fund through suitable orientation of portfolio structure.
INVESTMENT STRATEGIES	• **Income /Debt Fund**: If a particular scheme has been made for the purpose to invest only in debt instruments like bonds & deposits, it is known as Income/Debt Fund. These are considered as conservative funds since the investor wants the regular income and cannot wait for more than short to medium term. • **Equity Fund**: If a particular scheme has been made for the purpose to invest only in equity shares, it is known as Equity Fund. This fund is considered as an aggressive fund in nature and the investors should have the long – term horizon for investment. • **Balanced/Hybrid Funds**: It is a mix of equity and debt fund and it can be further divided into Equity Oriented Fund and Debt Oriented Fund. These are the types of moderate funds which seek growth and stability but only taking the moderate risk. • **Bottom – up Investing**: This strategy considers only the fundamental factors of a company before considering the economic prospects. In this strategy a bottom – up investor neglects the broad macroeconomics analysis and focuses on a specific stock based on its individual qualities. • **Top – down Investing**: This is an investment strategy. In this strategy, the investor begins with analysis of domestic and global economy and considers the factors like GDP, Interest Rate, inflation and exchange rate. Subsequently, the investor identifies the most promising companies in the economy. In short, it 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. • **Sector Funds**: Sector funds invest only in shares of companies belonging to a specific industry. These funds perform well so long as the industry or the sector is in the upswing, but the risk could be high, if the industry or the sector goes down. • **Money Market Funds**: Money market funds are regarded as high liquidity oriented as investors attach more value for safety and liquidity.

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OVERSEAS INVESTMENT BY MUTUAL FUNDS	Mutual Funds Companies are permitted to make investment in: (a) ADRs/GDRs issued by Indian or foreign companies. (b) Equity shares of companies listed on overseas stock exchanges. (c) Initial (IPO) and follow on public offerings (FPO) for listing at overseas stock exchanges. (d) Foreign debt securities in the countries with fully convertible currencies. (e) Money market instruments rated not below investment grade. (f) Government securities where the countries are rated not below investment grade. (g) Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities. **Case Study on Transaction in excess of permissible limits** **SEBI v. Shriram Mutual Fund & Others** **Facts:** A penalty of Rs.2 lakh was imposed by Adjudicating Officer (AO) on Shriram Mutual Fund (SME) as it has repeatedly exceeded the permissible limits of transactions through its associate broker. On an appeal by SME, SAT vide its final judgment and ordered to set aside AO's order inter – alia on the ground that the limit was not exceeded intentionally. SEBI filed an appeal under Section 15Z of the SEBI Act in the Hon'ble Supreme Court. **Judgment of the Hon'ble Supreme Court:** The Supreme Court set aside the judgment of SAT on the following grounds:- (a) ***Mensrea*** is not an essential ingredient for contravention of the provisions of a Civil Act. (b) Penalty is attracted as soon as contravention of the statutory obligation has been made, and therefore the intention of the parties committing such violation becomes immaterial. (c) Unless the language of the statute indicates the need to establish the element of ***Mensrea***, it is generally sufficient to prove that a default in complying with the statute has occurred. (d) Once the contravention is established, the penalty has to follow and only the quantum of penalty is discretionary.
Calculation of NAV	Mutual funds raise money by selling their shares to public and redeeming them at current net asset value. Net asset value is the value of the assets of each unit of the scheme. Thus if the NAV is more than the face value of, there is an appreciation for the investment. If the NAV is less than the face value, it indicates depreciation of the investment. Every mutual fund shall compute the NAV of each scheme by dividing the net asset of the scheme by the number of units of that scheme outstanding on the date of valuation and public the same at least in two daily newspapers at intervals not exceeding one week. However, the net asset value of any scheme for special target segment or any monthly scheme which are not mandatorily required to be listed in the stock exchange may publish the NAV at monthly or quarterly intervals as permitted by SEBI. Net Asset Value = $\frac{Market\ Value + Current\ Assets - Current\ Liabilities}{No.of\ units\ Outstanding}$
MUTUAL FUNDS COSTS	The mutual funds costs are of two types:- • **Opening Expenses:** It includes advisory fees, custodial fees, audit fees, Transfer agent fees, Trustees fees, Agent commission.

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	• **Sales Charges:** It includes commissions to the agents and expenses for distribution and marketing.
ROLL OVER OF A SCHEME	A mutual fund company can roll over a close ended scheme on or before the redemption of the scheme after giving an option to investors to redeem their units at NAV based price. The roll over scheme may include a fresh extension of period or continue under the same terms of the original scheme with or without modifications.
SWITCH OVER ONE SCHEME TO ANOTHER	A mutual fund company may use its discretion to permit switching over of the investment in units from one to another of its schemes, to help the investor shift, from a high risk scheme to a low risk one or vice – versa.
ANNUALIZED RETURNS	Investors buy and sell mutual fund shares/units during a short period and make profits. Percentage of profits in such short periods cannot be a reliable measure. The proper method is to calculate returns on an annualized basis at the compounded average rate over a year.
ASSET MANAGEMENT COMPANY	Asset Management Company (AMC) manages the funds by investing in various securities as per the offer document. It acts as the investment manager under the supervision and directions of the trustee. In short, Asset Management Company means a company formed & registered under the Companies Act, 2013 and under previous Companies Acts and also registered with SEBI. The AMC must be registered with SEBI before collecting and investing the fund in the securities market. The AMC should be governed under the SEBI (Mutual Fund) Regulations, 1996. • **AMC should be formed with the following objectives:** (i) Raising money against units. (ii) Investing the funds in securities. (iii) Distribution of income to the shareholders.
SEBI (MUTUAL FUND) REGULATIONS, 1996	
CONSTITUTION AND MANAGEMENT OF MUTUAL FUNDS AND OPERATION OF TRUSTEES	(i) A mutual fund shall be constituted in the form of a trust and the instrument shall be in the form of a deed duly registered under the Act. (ii) The trust deed shall not contain any clause which has the effect of limiting or extinguishing the obligations and liabilities of the trusts.
REGISTRATION OF MUTUAL FUNDS	The criteria for registration of mutual funds include: (i) There should be **sound track record** and **general reputation** of the sponsor; [for the purpose of this clause "Sound Track Record" means the Sponsor should: (a) be carrying on the business in financial services for a period of not less than 5 years; and (b) the Networth is positive in all the immediately preceding 5 years; and (c) The Networth in the immediately preceding year is more than the capital contribution of the sponsor in AMC; and (d) the sponsor has profits after providing for depreciation, interest and tax in three out of immediately preceding five years, including the fifth year; And applicant is a fit and proper person]

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	(ii) The fund should be in the **form of the trust** which must be approved by SEBI; (iii) The sponsor should contribute at least **40% to the net worth** of the asset management company; (iv) The sponsor or any of the directors or principle officer of AMC: i) Should not be guilty of any **fraud** or ii) has not been convicted of an **offence** involving moral turpitude or iii) has not been found guilty of any **economic offence**; (v) The **trustees** must be appointed in accordance with the provisions of the Act; (vi) The **asset management company** must be appointed in accordance with the provisions of the Act; (vii) The **custodians** must be appointed in accordance with the provisions of the Act in order to keep custody of gold and gold related instruments or other assets of mutual fund;
NORMS FOR SHAREHOLDING & GOVERNANCE IN MUTUAL FUNDS	(1) No sponsor of a mutual fund, its associate or group company including the asset management company of the fund, through the schemes of the mutual fund or otherwise, individuallyor collectively, directly or indirectly, have – (a)10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or (b)representation on the board of the asset management company or the trustee company of any other mutual fund. (2)Any shareholder holding 10% or more of the share-holding or voting rights in the asset management company or the trustee company of a mutual fund, shall not have, directly or indirectly, - (a)10% or more of the share-holding or voting rights in the asset managementcompany or the trustee companyof any other mutual fund; or (b)representation on the board of the asset management company or the trustee companyof any other mutual fund. (3) Any person not in conformity with the sub-regulations (1) and (2) of this regulation, as on the date of the coming into force of this regulation shall comply with sub-regulations (1) and (2) within a period of one year from the date of the coming into force of this regulation. Provided that in the event of a merger, acquisition, scheme of arrangement or any other arrangement involving the sponsors of the mutual funds, shareholders of the asset management companies or trustee companies, their associates or group companies which results in the incidental acquisition of shares, voting rights or representation on the board of the asset management companies or trustee companies, this regulation shall be complied with within a period of one year of coming into force of such an arrangement. (**Inserted w.e.f. 06.12.2018**)
ELIGIBILITY CRITERIA FOR APPOINTMENT OF AMC	The Applicant has to fulfill the following: (i) In case the AMC is an existing AMC, it has a sound track record, general reputation and fairness in transactions; (ii) The directors of AMC are persons having adequate professional experience in finance and financial services related field and

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	⇨ not found guilty of moral turpitude or ⇨ convicted of any economic offence or ⇨ violation of any securities laws; (iii) The Key Personnel of AMC: ⇨ have not been found guilty of moral turpitude or ⇨ Convicted of economic offence or ⇨ Violation of securities laws or ⇨ Worked for any AMC or MF or any intermediary during the period when its registration has been suspended or cancelled at any time by the Board; (iv) The BOD of such AMC has at least 50% directors, who are not associate of, or associated in any manner with, the sponsor or any of its subsidiary or the trustees; (v) The Chairman of AMC is not a trustee of mutual fund; (vi) The AMC has a Net worth of not less than 50 Crores; [Networth means aggregate of paid up capital and free reserves of AMC after deducting therefrom Miscellaneous Expenditure not written off or Deferred revenue expenditure, Intangible Assets and Accumulated Losses] **Provided** that an AMC already granted approval under Old guidelines, shall within a period of 3 years from the date of notification of SEBI (MF) (Amendment) Regulations, 2014 increase its Net worth to 50 Crores; **Provided further** that an AMC eligible to launch only Infrastructure debt fund schemes, shall have a Net worth of not less than 10 Crores; **Provided further** that in cases where Board is satisfied that an AMC is taking steps to meet the Net worth requirement within the specified time, the AMC may be allowed to launch upto two new schemes per year;
TRUST DEED TO BE REGISTERED UNDER REGISTRATION ACT	A mutual fund shall be constituted in the form of a Trust and the instrument of trust shall be in the form of a Deed, Duly registered under the provisions of Indian Registration Act, 1908 executed by Sponsor in favor of the trustees named in such an instrument.
CONTENTS OF TRUST DEED	(i) Minimum number of trustees must be mentioned in the trust deed (ii) The trust deed shall provide that it would be the duty of the trustees: ⇨ To act in the interest of the unit holders. ⇨ To provide or cause to provide information to unit holders and board ⇨ To take reasonable care to ensure that the funds under the schemes floated by and managed by the AMC are in accordance with Trust deed and Regulations. (iii) The trust deed shall provide that the auditor for the mutual fund shall be different from the Auditor of AMC; (iv) Broad Policies regarding allocation of payments to capital or income must be indicated in the trust deed. (v) The trust deed shall forbid the MF to make or guarantee loans or take up any activity not in contravention of Regulations (vi) Trusteeship fees, if any payable to trustees shall be provided in the Trust

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	deed. (vii) The trust deed shall provide that no amendment in the trust deed shall be carried out without the prior approval of Board and Unit Holders is obtained; (viii) The removal of trustee in all cases would require the prior approval of the board; (ix) The trust deed shall specify the quorum for a meeting of the trustees; (x) The trust deed shall state that the minimum number of trustee shall be **four**.
RIGHTS AND OBLIGATIONS OF TRUSTEES	(i) The trustees and the AMC shall with the prior approval of the SEBI enter into an Investment Management Agreement (IMA); (ii) The IMA shall contain such clauses mentioned in the Fourth Schedule and such other clauses as are necessary for the purpose of making investments; (iii) The trustee shall have a right to obtain from the AMC such information as is considered necessary by the trustees; (iv) The Trustees shall ensure before the launch of any scheme that the AMC has: i) Systems in place for its back office, dealing room and accounting; ii) appointed Auditors to audit its accounts; iii) appointed all KMP including Fund Managers for the schemes and submitted their bio data which shall contain education qualifications, past experience in the securities market with the trustees, within 15 days of their appointment; iv) appointed Compliance officer who shall be responsible for monitoring the compliance of the Act, Rules and Regulations, Notification, Guidelines, Instructions, etc issued by SEBI or CG and for Redressal of investors grievances; v) appointed Registrar and laid down parameters for their supervision; vi) prepared a compliance manual and designed internal control mechanisms including internal audit systems; vii) specified norms for empanelment of brokers and marketing agents; viii) obtained, wherever required, prior in principle approval for RSE where units are proposed to be listed. (v) The compliance officer has the duty to report any of the non – compliances to the Board; (vi) The trustees shall ensure that AMC has been diligent in empanelling the brokers and in monitoring the securities transactions with brokers and avoiding undue concentration of business with any broker; (vii) The Trustees shall ensure that AMC has not given any undue or unfair advantage to any associates or dealt with any of the associates of AMC in any manner detrimental to interest of unit holders; (viii) The trustee shall ensure that transactions entered into by AMC are in accordance with these regulations and scheme; (ix) Where the trustees have reason to believe that the conduct of business of mutual fund is not in accordance with these regulations and scheme they shall forthwith take such remedial steps as are necessary by them and shall immediately inform the Board of the violation and action taken by them; (x) Each trustee shall file the details of his transactions of dealings in securities

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	with the mutual fund on a quarterly basis. (xi) The trustees shall be accountable for, and be the custodian of, the funds and property of respective schemes and shall hold the same for the benefit of the unit holders in accordance with these regulations and trust deed. (xii) The trustees shall be responsible for the calculation of any income due to be paid to the mutual fund and also of any income received in mutual fund for the holder of any scheme in accordance with these regulations and trust deed. (xiii) The trustees shall obtain the consent of the unit holders: a) whenever required to do so by Board in the interest of unit holders; or b) whenever required to do so on the requisition made by three fourth of the unit holders of any scheme; or c) when the majority of the trustees decide to wind up or prematurely redeem the units. (xiv) The trustees shall quarterly review all transactions carried out between mutual fund, AMC and its associates. (xv) The trustees shall quarterly review the networth of AMC and in case of any shortfall ensure that the AMC make up for the shortfall as per these regulations; (xvi) The trustees shall periodically review all service contracts such as custody arrangements, transfer agency of securities and satisfy itself that such contracts are executed in the interest of unit holders; (xvii) The trustee shall periodically review the investor complaints received and the Redressal of the same by AMC; (xviii) The trustees shall abide by the Code of Conduct;
APPOINTMENT OF CUSTODIAN	(i) The mutual fund shall appoint a Custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the board within 15 days of appointment of custodian; Provided that in case of a gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in custody of a bank which is registered as a custodian with the Board. Provided further that in case of a real estate mutual fund scheme, the title deed of real estate assets held by it may be kept in the custody of a custodian registered with the Board. Provided also that mutual fund schemes investing in exchange traded commodity derivatives may appoint a custodian to have custody of the underlying goods in case of physical settlement of such contracts. (Inserted w.e.f 26.04.2019) (ii) No custodian in which: ⇨ Sponsor or its associates hold 50% or more of voting rights of Share Capital of Custodian or ⇨ where 50% of more of the directors of custodian represent the interest of sponsor or its associates; ⇨ shall act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company;

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	Provided that where the sponsor or its associates hold 50% or more of Voting rights of custodian, such custodian may act as custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary company if: a) The sponsor has a Networth of at least 20,000 crore rupees at all point of time; b) 50% or more of directors of custodian are those who do not represent the interest of sponsor or its associates; c) the custodian and AMC of MF are not subsidiary of each other; d) No person is a director of both the custodian and AMC; and e) The custodian and AMC sign an undertaking that they will act independently of each other in their dealings with the scheme;
CODE OF CONDUCT OF MUTUAL FUNDS	(i) The schemes should not be organized, operated and managed in the interest of sponsors or the directors of AMC or special class of unit holders; (ii) It shall ensure the adequate dissemination of adequate, fair, accurate and timely information of all the stake holders; (iii) The excessive concentration of business with the broking firm should be avoided; (iv) The scheme – wise segregation of bank accounts and securities accounts must be ensured; (v) The investment should be made in accordance with the investment strategies stated on the offer documents; (vi) The high standards of integrity and fairness in all the dealings should be maintained by the trustees and AMCs; (vii) The AMCs shall not make any exaggerated statements; (viii) A half yearly report on the activity of the mutual funds shall be submitted to SEBI by the trustees.
ADVERTISEMENT CODE	(i) Advertisement shall be accurate, true, fair, clear, complete, unambiguous and concise. (ii) Advertisement shall not contain statement which are false, misleading, biased or deceptive, based on assumptions and shall not contain any testimonials or any ranking based on any criteria. (iii) No celebrities shall form part of advertisement. (iv) No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons. (v) Advertisements shall be accompanied by a standard warning in legible fonts which states **"Mutual fund investments are subject to market risks, read all schemes related document carefully."** No addition or deletion of words shall be made to the standard warning. (vi) In audio visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner. For example, in standard warning both the visual and the voice over reiteration containing 14 words running for at least 5 seconds may be considered as clear and understandable. (vii) Advertisement shall not be so designed as likely to be misunderstood or

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	likely to be disguise the significance of any statement.
GENERAL DUE DILIGENCE AND SPECIFIC DUE DILIGENCE BY TRUSTEES	The trustees shall exercise due diligence as under:- **GENERAL DUE DILIGENCE:** (i) The trustees shall be discerning in the appointment of the directors on SEBI of the asset management company. (ii) Trustees shall review the desirability of continuance of the asset management company if substantial irregularities are observed in any of the schemes and shall not allow the asset management company to float new schemes. (iii) The trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons. (iv) The trustee shall ensure that all service providers are holding appropriate registrations from SEBI or concerned regulatory authority. (v) The trustees shall arrange for test checks of service contracts. (vi) Trustees shall immediately report to SEBI of any special developments in the mutual fund. **SPECIFIC DUE DILIGENCE:** The trustees shall: (i) Obtain internal audit report at regular intervals from independent auditors appointed by the trustees; (ii) Obtain compliance certificate at regular intervals from the asset management company; (iii) Hold meeting of trustee more frequently; (iv) Consider the reports of the independent auditor and compliance reports of asset management company at the meetings of trustees for appropriate action; (v) Maintain records of the decisions of the trustees at their meetings and of the minutes of the meetings; (vi) Prescribe and adhere to a code of ethics by the trustees, asset management company and its personnel; (vii) Communicate in writing to the asset management company of the deficiencies and checking on the rectification of deficiencies.
CAPITAL PROTECTION ORIENTED SCHEMES	Regulation 38A of the Regulations provides that a capital protection oriented scheme may be launched, subject to the following:- (i) The units of the scheme are rated by a registered credit rating agency from the viewpoint of the ability of its portfolio structure to attain protection of the capital invested therein; (ii) The scheme is close ended; and (iii) There is compliance with such other requirements as may be specified by SEBI.
RESTRICTION ON INVESTMENTS BY MUTUAL FUNDS (SEVENTH SCHEDULE OF REGULATIONS)	(i) The schemes shall not invest more than 10% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by a CRA; However, such limit can be increased to 12% of its NAV with prior approval of Board of Trustee and Board of Directors of AMC; (ii) A mutual fund scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and total investments shall not exceed 25% of NAV of scheme. All such investments made shall be with prior approval of Board of Trustees and Board of Directors of AMC. (iii) Mutual fund shall not own more than 10% of company's paid – up capital carrying rights; (iv) The transfer of investments from one scheme to another shall be done only at the prevailing market price & the securities so transferred shall be in conformity

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	with the investment objective of the scheme to which such transfer has been made; (v) The aggregate investments made by all schemes under the same management shall not exceed 5% of the NAV of the mutual fund; (this shall not apply to funds of funds scheme) (vi) The buy & purchase by all the mutual funds shall be made on the basis of the deliveries; (vii) All securities shall be purchase or transferred in the name of the mutual fund scheme; (viii) No mutual fund shall make any investment in: (a) any unlisted security of an Associate or Group Company of the Sponsor; (b) any security issued by way of private placement by an associate or group company of the sponsor; (c) the listed securities of group companies of the sponsor which is in excess of 25 per cent of the net assets; (ix) No mutual fund shall make any investment in the funds of fund scheme; (x) No mutual fund shall invest more than 10% of its NAV in the equity shares or equity related instruments of any company; (xi) A mutual fund scheme shall not invest more than 5% of its NAV in the unlisted equity shares or equity related instruments in case of open ended scheme and 10% of its NAV in case of close ended scheme; (xii) A fund of funds scheme shall be subject to the following investment restrictions: (a)A fund of funds scheme shall not invest in any other fund of funds scheme; (b)A fund of funds scheme shall not invest its assets other than in schemes of mutual funds, except to the extent of funds required for meeting the liquidity requirements for the purpose of repurchases or redemptions, as disclosed in the offer document of fund of funds scheme; (xiii) A mutual fund may invest in the units of REITs and InvITs subject to the following: (a)No mutual fund under all its schemes shall own more than 10% of units issued by a single issuer of REIT and InvIT; and (xiv) A mutual fund scheme may invest in exchange traded commodity derivatives subject to such investment restrictions as may be specified by the Board from time to time. (Inserted w.e.f 26.04.2019) (b)A mutual fund scheme shall not invest – i. more than 10% of its NAV in the units of REIT and InvIT; and ii. more than 5% of its NAV in the units of REIT and InvIT issued by a single issuer. Provided that the limits mentioned in sub-clauses (i) and (ii) above shall not be applicable for investments in case of index fund or sector or industry specific scheme pertaining to REITand InvIT. **MUTUAL FUNDS ARE PERMITTED TO MAKE INVESTMENT IN:** (i) ADRs and GDRs; (ii) Equity of overseas company;

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	(iii) Initial or follow on public investments; (iv) Foreign debt securities; (v) Money market instruments; (vi) Repos in the form of investment; (vii) Government securities; (viii) Derivative; (ix) Short – term deposits; (x) Units issued by overseas mutual funds.
PRICING OF UNITS	(1) The price at which the units may be subscribed or sold and the price at which such units may at any time be repurchased by the mutual fund shall be made available to the investorsin the manner specified by the Board. (2) The mutual fund shall provide the methodology of calculating the sale and repurchase price of units in the manner specified by the Board. (3) While determining the prices of the units, the mutual fund shall ensure that the repurchase price is not lower than 93 per cent of the Net Asset Value and the sale price is not higher than 107 per cent of the Net Asset Value. (4) Provided furtherthat the difference between the repurchase price and the sale price of the unit shall not exceed 7 per cent calculated on the sale price.
INFRASTRUCTURE DEBT FUND SCHEMES	"Infrastructure debt fund scheme" means a mutual fund scheme that invests primarily (**minimum 90% of scheme assets**) in the: ⇨ Debt securities or ⇨ Securitized Debt Instrument of infrastructure companies or ⇨ Infrastructure capital companies or ⇨ Infrastructure projects or ⇨ Special purpose vehicles Which are created for the purpose of facilitating or promoting investment in infrastructure, and other permissible assets in accordance with these regulations or bank loans in respect of completed and revenue generating projects of infrastructure companies or projects or special purpose vehicles. **"Strategic Investor**" means; (i) an Infrastructure Finance Company registered with RBI as NBFC. (ii) a Scheduled Commercial Bank; (iii) International Multilateral Financial Institution. **Eligibility criteria for launching infrastructure debt fund scheme:** (i) An existing mutual fund may launch an infrastructure debt fund schemes if it has an **adequate number** of key personnel having adequate experience in infrastructure sector. (ii) A certificate of registration may be granted to an applicant proposing to launch only Infrastructure debt fund scheme if the **sponsor** or **Parent Company** of the sponsor: (a) has been carrying on activities or business in infrastructure financing sector for a period of not less than 5 years; (b) it must be a fit and proper person [Specified in Schedule II of SEBI (intermediaries) Regulations 2008] (Parent Company of Sponsor shall mean a company which holds at least 75% of paid up equity share capital of sponsor.)

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	Conditions for Infrastructure debt fund schemes: (i) An infrastructure debt fund scheme shall be launched either as **close ended scheme** maturing after more than 5 years or interval scheme with lock in of 5 years and interval period not longer than one month as may be specified in the scheme information document. The tenure of the scheme would be allowed to be extended upto 2 years beyond the original tenure with the consent of 2/3rd of its investors by value. (ii) Units of Infrastructure debt fund schemes shall be listed on a RSE, provided such units shall be listed only after being fully paid up. (iii) An infrastructure debt fund scheme shall have **minimum five investors** and no single investor shall hold more than **50% of net assets** of the scheme. (iv) No infrastructure debt fund scheme shall accept any investment from any investor which is less than Rs. 1 crore. (v) The **minimum size of the unit** shall be Rs. 10 Lakhs. (vi) Each scheme launched as infrastructure debt fund scheme shall have firm commitment from the **Strategic investors** for contribution of an amount of at least Rs. 25 Crores before the allotment of units of the scheme are marketed to other potential investors. (vii) An Infrastructure debt scheme shall not invest more than 30% of the net assetsof the scheme in debt instruments or assets of any single infrastructure companyor project or special purpose vehicles which are created for the purpose offacilitating or promoting investment in infrastructure or bank loans in respect ofcompleted and revenue generating projects of any single infrastructure companyor project or special purpose vehicle, which are rated below investment grade orunrated. Such Investment limit may be extended upto 50% of the net assets ofthe scheme with the prior approval of the Board of Trustees and AMC Board. (viii) No Infrastructure Debt Fund schemes shall invest in – (i) Any unlisted security of the sponsor or its associate or group company; (ii) Any listed security issued by way of preferential allotment by the sponsor orits associate or group company; (iii) Any listed security of the sponsor or its associate or group company or bankloan in respect of completed and revenue generating projects of infrastructurecompanies or SPVs, in excess of twenty five per cent of the net assets of thescheme, subject to approval of trustees and full disclosures to investors forinvestments made within the aforesaid limits. (iv) Any asset or securities owned by the sponsor or Asset ManagementCompany or its associates in excess of 20% of the net assets of the schemenot below investment grade, subject to approval of trustees and fulldisclosures to investors for investments made within the aforesaid limits
GOLD EXCHANGE TRADED FUNDS (GETF):	In India, Mutual Fund Schemes based on Gold or Gold related instruments were introduced in 2006. Gold Exchange Traded Fund Schemes are permitted to invest primarily in: (a) Gold;

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	(b) Gold related instruments. Gold related instrument means any instrument having gold as underlying assets as specified by the SEBI. The Net Asset Value of this mutual fund is based on the domestic price of Gold or its related instruments. In other words, it is a listed securities backed by allocated gold held in the custody of a Bank for and on behalf of Investors. This fund allows investors to invest their funds in the bullion market without taking physical delivery of Gold. ➢ Features: (i) Cheapest form of pure physical gold with no premium. (ii) No issues wastage like physical gold in the form of Jewellery. (iii) No tax on it like VAT & Wealth Tax. (iv) No Storage or insurance cost.
REAL ESTATE MUTUAL FUND SCHEME	Real estate mutual fund scheme means a mutual fund scheme that invests directly or indirectly in real estate assets or other permissible assets. Under this scheme, the Asset Management Company raises funds from individual investors for the purpose to invest in real estate assets. Real Estate Mutual Fund (REMF) allows retail investor to participate in this fund without taking physical possession of any asset. **FEATURES:** (i) The existing mutual funds are eligible to launch such schemes; (ii) New sponsors seeking to set up new mutual funds shall be carrying on the business of real estate for at least 5 years; (iii) It shall always be a close – ended scheme; (iv) NAV of the scheme shall be declared daily; (v) At least 35% of the net assets of the scheme shall be invested directly in the real estates; (vi) Each asset shall be valued by at least two valuer's who are accredited by a CRA; (vii) No mutual funds shall transfer real estate assets amongst its schemes; (viii) Such schemes shall not undertake any lending or housing finance activities; (ix) Accounting and valuation norms pertaining to REMF schemes have also been specified.
MONEY MARKET MUTUAL FUNDS (MMMFs)	**Meaning:** MMMFs means funds those are invested in short term debt securities in the money market like: (a) Certificate of deposits (b) Commercial Papers (c) Govt T-Bills They are normally in Large Quantity **Significance:** As MMMFs are in Large Size, hence they get a higher yield on such short term instruments in comparison to individual investors. These schemes are ideal for corporate and individual investors as a means to park their surplus funds for short periods. **Features:** MMMFs are exclusively governed by SEBI(MF) Regulations, 1996. Return in the schemes of such funds may fluctuate, depending upon the interest rate prevailing in the market.

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UNIT 13: COLLECTIVE INVESTMENT SCHEMES

BACKGROUND	A collective investment scheme is a trust based scheme that comprises a pool of assets that is managed by a collective investment scheme manager and is governed by the Collective Investment Schemes Regulations given by SEBI. The sums of money that are exchanged on the Stock Exchange and in the money markets make them too pricy for most people. With a CIS, the money or funds form a group of investors are pooled or collected together to form a CIS portfolio.
COLLECTIVE INVESTMENTS SCHEME	Any scheme or arrangement made or offered by any company under which the contributions, or payments made by the investors, are pooled and utilized with a view to receive profits, income, produce or property, and is managed on behalf of the investors is a CIS. Investors do not have day to day control over the management and operation of such scheme or arrangement. Section 11AA of the SEBI Act, 1992 defines it as any Scheme or Arrangement made or offered by any Company under which: (a) The contributions, or payments made by the investors, by whatever name called, are pooled and utilized solely for the purposes of the scheme or arrangement; (b) The contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable from such scheme or arrangement; (c) The property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors; and (d) The investors do not have day to day control over the management and operation of the scheme or arrangement. On the backdrop or Sahara/Sharada scams, in 2013, SEBI modified the definition of Collective Investment Scheme and include any scheme/arrangement floated by any person (instead of a company as was defined earlier) and any such scheme with corpus of more than Rs.100 Crore shall also be deemed to be a CIS by SEBI. The Securities Laws (Amendment) Act, 2014 defines it "Any pooling of funds under any scheme or arrangement, which is not registered with SEBI, involving a corpus amount of Rs.100 crore or more shall be deemed to be a collective investment scheme". In short, A Collective Investment Scheme (CIS), as its name suggests, is an investment scheme wherein several individuals come together to pool their money for investing in a particular asset(s) and for sharing the returns arising from that investment as per the agreement reached between them prior to pooling in the money. **The CIS, however, does not include any Scheme or Arrangement:** (i) Made or offered by a co – operative society, (ii) Under which deposits are accepted by non – banking financial companies, (iii) Being a contract of insurance, (iv) Providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, (v) Under which deposits are accepted under section 74 of the Companies Act, 2013, (vi) Under which deposits are accepted by a company declared as Nidhi or a

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	mutual benefit society under section 406 of the Companies Act, 2013, (vii) Falling within the meaning of Chit business as defined in clause (d) of section 2 of Chit Fund Act, 1982, and (viii) Under which contributions made are in the nature of subscription to a mutual fund.
SEBI (CIS) REGULATIONS, 1999	**CONDITIONS FOR ELIGIBILTY:** The applicant is set up and registered as a **Company** under Companies Act, 2013 (i) The applicant has specified the managing of collective investment scheme as one of its **main objects** in its MOA; (ii) The Applicant has a **Net worth of not less than 5 Crores**. However, at the time of making the application, the applicant shall have a minimum net worth of 3 Crores which has to be increased to 5 Crores within the time of 3 years from date of grant of registration; (iii) The applicant is a fit and proper person; (iv) The applicant has adequate infrastructure to operate collective investment scheme in accordance with provisions of these regulation; (v) The directors or KMP of applicant should consist of person of honesty and integrity having adequate professional experience in related field and have not been convicted for an offence involving moral turpitude or for any economic offence or for the violation of any securities laws; (vi) At least **50% of directors** of CIS shall consist of **Independent directors** and are not directly or indirectly associated with the persons who have control over CIS; (vii) No person, directly or indirectly connected with the applicant has in the past been refused registration by SEBI; (viii) At least one of the directors on the board who is not subject to retirement, is a representative of the trustee; (ix) The CIS company is not a trust of any CIS Scheme; **GRANT OF CERTIFICATE** SEBI shall grant certificate of registration to the applicant, in case the following is fulfilled:- (i) An application without deficiencies has been received, (ii) Applicant has complied with specified requirements, (iii) Registration fees has been called upon by SEBI and duly paid by the applicant. **TERMS AND CONDITIONS** The certificate granted should be subject to following conditions:- (i) Any director of the CIMC should not be a director in any other CIMC unless such person is an independent director and approval of SEBI and that of CIMC in which such person is an independent director, has been obtained; (ii) The CIMC should forthwith inform SEBI of any material change in the information or particulars previously furnished, which have a bearing on the certificate granted by it; (iii) Appointment of a director of a CIMC should be made with the prior approval of the trustee; (iv) The CIMC should comply with provisions of the Act and these regulations; (v) No change in the controlling interest of the CIMC shall be made without obtaining prior approval of SEBI, the trustee and the unit holders holding at – least one – half of the nominal value of the unit capital of the scheme; (vi) CIMC should take adequate steps to redress the grievances of the investors within one month from the date of receipt of the complaint from the aggrieved investor.

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RESTRICTIONS ON BUSINESS ACTIVITIES:

Collective Investment Management Company should not:
(i) Undertake any activity other than that of managing the scheme;
(ii) Act as a trustee of any scheme;
(iii) Launch any scheme for the purpose of investing in securities;
(iv) Invest in any schemes floated by it.

However, it has been provided that a CIMC may invest in its own scheme, if it makes a disclosure of its intention to invest in the offer document of the scheme, and does not charge any fees on its investment in that scheme.

OBLIGATIONS OF COLLECTIVE INVESTMENT MANAGEMENT COMPANY

Every Collective Investment Management Company should:
(i) Be responsible for managing funds or properties of scheme on behalf of the unit holders;
(ii) Exercise due diligence and care in managing assets and funds of the scheme;
(iii) Also be responsible for the acts of commissions and omissions by its employees or the persons whose services have been availed by it;
(iv) Appoint registrar and share transfer agents and should also abide by their respective Code of Conducts as specified by SEBI;
(v) Give monthly receipts for all monies received and report of receipts & payments to SEBI;
(vi) Hold a meeting of Board of Directors to consider the affairs of scheme, at least twice in every 3 months and also ensure that its officers or employees do not make improper use of their position or information to gain an advantage for themselves or for any other person or to cause detriment to the scheme;
(vii) Obtain adequate insurance against the properties of the schemes & comply with such guidelines, directives, circulars and instructions as may be issue by SEBI.

OBLIGATION OF TRUSTEES:

(i) Ensuring that CIMC has necessary office infrastructure and has appointed all Key personnel including managers for scheme
(ii) Taking remedial steps and informing SEBI when the conduct of business of scheme is not carried on as per the requirements of the regulations.
(iii) Convening a meeting of unit holders in their interest effecting any change in the features of units.
(iv) Reviewing the activities carried out by the CIMC.

PROCEDURE FOR LAUNCHING OF SCHEMES

No scheme should be launched by the Collective Investment Management Company unless such scheme is approved by the Trustee and rated by a registered credit rating agency and appraised by an appraising agency.

DISCLOSURE IN THE OFFER DOCUMENT

The Collective Investment Management Company before launching any scheme should file a copy of the offer document of the scheme with SEBI and pay filing fees as specified.

The offer document should contain such information as specified. The offer document should also contain true and fair view of the scheme and adequate disclosures to enable the investors to make informed decision.

SEBI may in the interest of investors require the CIMC to carry out such modifications in the offer document as it deems it.

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	In case no modifications are suggested by SEBI in the offer document within 21 days from the date of filing, the Collective Investment Management Company may issue the offer document to public. **ALLOTMENT OF UNITS AND REFUNDS OF MONEY** The Collective Investment Management Company should specify in the offer document the minimum and the maximum subscription amount it seeks to raise under the scheme; and in case of over – subscription, the process of allotment of the amount over – subscribed. The CIMC should refund the application money to the applicants, if the scheme fails to receive the minimum subscription amount. Any amount refundable should be refunded within a period of six weeks from the date of closure of subscription list, by Registered A. D. and by cheque or demand draft. In the event of failure to refund the amounts within the period specified, the CIMC has to pay interest to the applications at a rate of 15% per annum on the expiry of six weeks from the date of closure of the subscription list. **Listing of schemes:** The units of every scheme shall be listed immediately after the date of allotment of units and not later than six weeks from the date of closure of the scheme on each of the stock exchanges as mentioned in the offer document.

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UNIT 14: SEBI(OMBUDSMAN) REGULATIONS, 2003

INTRODUCTION

Capital market plays an extremely important role in promoting and sustaining the growth of an economy. It plays an important role in mobilizing savings for investment in productive assets, with a view to enhancing a country's long – term growth prospects, and thus acts as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena.

It is also imperative to note that not only mobilization of funds is important but also it is required to protect the Interest of Investors. In this regard, the Govt. of India has taken several measures to protect of interest of Investors.

TO WHOM AN INVESTOR CAN FILE A COMPLAINT AGAINST THE BROKERS/ DEPOSITORY/ REGISTRAR TO ISSUE/ ISSUER COMPANY?

GRIEVANCES	REGULATOR
Complain in connection with Banks Deposits and Banks including Non – Banking Financial Company (NBFC)	Reserve Bank of India (RBI) Website – www.rbi.org.in
Any matter in connection with the Companies registered under the Companies Act, 2013 whether listed or unlisted.	Ministry of Corporate Affairs (MCA) Website – www.mca.gov.in
Insurance companies	Insurance Regulatory and Development Autho (IDRA) Website – www.irdaindia.org
Commodities market	Forward Markets Commission Website – www.fmc.gov.in
Pension Fund	Pension Fund Regulatory and Developn Authority (PFRDA) Website – www.pfrda.org.in
Anti – competitive activities	Competition Commission of India (CCI) Website – www.cci.gov.in
Housing Finance Companies	National Housing Bank (NHB) Website – www.nhb.org.in

RIGHTS AND RESPONSIBITIES OF INVESTORS

The Rights of Investor as a Shareholder

(i) To receive Share Certificate, on allotment or transfer
(ii) To receive notice for calling General meetings
(iii) Receive copies of Annual Report containing Balance Sheet, P & L A/C & Auditor's Report
(iv) To participate and vote in general meetings either personally or through proxy
(v) To receive dividends in due time once approved in general meetings
(vi) To apply to Company Law Board (CLB) to call or direct the calling of an AGM
(vii) To inspect the minute books of the general meetings and to receive copies thereof
(viii) To proceed against the company by way of civil or criminal proceedings
(ix) To apply for the winding up of the company

Rights of Investors as a Debenture Holder

(i) To receive interest on redemption of debentures in due time
(ii) To receive a copy of the trust deed on request
(iii) To apply for winding up of the company if the company fails to pay its debt
(iv) To approach the Debentures Trustee with your grievance

Responsibilities of an Investor as a Security Holder

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 Video Lectures of CL, CMA & SLCM available at www.amittaldaclasses.com/

	(i) To remain informed (ii) To be vigilant (iii) To participate and vote in genera meetings (iv) To exercise your rights on your own or as a group
LEGAL FRAMEWORK FOR INVESTOR PROTECTION IN INDIA	In order to provide adequate protection to the investors, the Govt. of India has enacted many legislations and regulatory bodies like Companies Act, 2013 & SEBI Act, 1992 and MCA, SEBI and RBI etc. Moreover, the several Ministries of Govt. of India issue additional guidelines, circulars and press notes from time to time. **The following Acts have been incorporated to Regulate Legal Framework:** ➢ Companies Act, 2013 • Acceptance of deposits • Mis – statement in prospectus • Non – payment of dividend • Transfer and transmission of securities • Failure to send financial statement ➢ SEBI Act, 1992 ➢ Securities Contracts (Regulation) Act, 1956 ➢ Reserve Bank of India Act, 1934 ➢ Indian Penal Code: Any matter which is connected with cheating, forgery and misappropriation of funds in connection with investment is being dealt with by Economic Offence Wings of Police Departments ➢ The Consumer Protection Act, 1986 ➢ The Depositories Act, 1996
INVESTOR EDUCATION AND PROTECTION FUND	Investor Education and Protection Fund (IEPF) has been established under Section 125 of the Companies Act, 2013 for promotion of investor's awareness and protection of the interests of investors. **Activities stipulated under Rules** (i) Education programme through Media (ii) Organizing Seminars and Symposia (iii) Proposals for registration of Voluntary Associations or other organizations engaged in Investor Education and Protection activities (iv) Proposals for projects for IEP including research activities and proposals for financing such projects (v) Coordinating with institutions engaged in Investor Education, awareness and protection activities. **Activities undertaken by IEPF** (i) Educating and creating awareness among investors through Voluntary Associations registered under IEPF. 65 associations have been registered so far. (ii) Educating investors through Media Telecast of TV Video spots on DD & private channels, print advertisement in national as well as regional newspapers. All these programmes have been undertaken in Hindi, English and regional languages. (iii) Organizing seminars and workshops through associations registered under IEPF. (iv) Financing research projects pertaining to investor education, awareness. (v) Coordinating with institutions engaged in investor education, awareness. Indian Institute of Capital Markets (IICM) has been engaged for conducting

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	research/study an unclaimed dividend, interest etc. and also conducting Trading of Trainers programme.
SEBI (INVESTOR PROTECTION AND EDUCATION FUND) REGULATIONS, 2009	SEBI in exercise of the powers conferred by section 30 of SEBI Act, 1992, SEBI made the SEBI (Investor Protection and Education Fund) Regulations, 2009. ***Regulation 4 provides for the Amounts to be Credited to the Fund which are:*** (i) Contribution grants and donations given to the Fund (ii) Security deposits held by stock exchanges in respect of public issues and rights issues, in the event of de – recognition of such stock exchanges (iii) Amounts in the Investor Protection Fund and Investor Services Fund of a stock exchange, in the event of de – recognition of such stock exchange (iv) Interest or other income received out of any investments made from the Fund (v) grants and donations given to the fund by CG, SG or any other entity approved by SEBI for this purpose; ***Utilization of Fund*** The fund shall be utilized for the purpose of protection of investors and promotion of investor education and awareness in accordance with these regulations. The fund may be used for the following purposes, namely:- (i) Educational activities including seminars, training, research and publications, aimed at investors; (ii) Awareness programmes including through media – print, electronic, aimed at investors; (iii) Funding investor education and awareness activities of Investors' Associations recognized by SEBI; (iv) Aiding investors' associations recognized by SEBI to undertake legal proceedings in the interest of investors in securities that are listed or proposed to be listed; (v) Refund of the security deposits which are held by stock exchanges and transferred to the Fund consequent on de – recognition of the stock exchanges, in case the concerned companies apply to SEBI and fulfill the conditions for release of the deposit; (vi) Expenses on travel of members of the Committee, who are not officials of the Board, and special investees to the meetings of the Committee, in connection with its work; (vii) Salary, allowances and other expenses of office of Ombudsman. ***Condition for Aid*** The aid shall be given by SEBI to investors' associations, in accordance with the guidelines made but it and subject to the following conditions:- (i) Aid shall not exceed seventy – five per cent, of the total expenditure on legal proceedings; (ii) Such aid shall not be considered for more than 1 legal proceeding in a particular matter; (iii) If more than one investors' association applies for seeking legal aid, the investors' association whose application is received first, shall be considered for such aid. ***Constitution of the Committee*** SEBI shall constitute an advisory committee for recommending activities that may be undertaken directly by the Board or through any other agency, for utilization of the Fund for the purposes referred in these regulations.

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	The Committee shall consist of the following members, namely:- (i) The Executive Director of SEBI in charge of Office of IAE who shall be the Convener of the Committee (ii) 2 other officials of SEBI (iii) 5 other members who have expertise about the securities market and experience in matters of investor grievance Redressal or investor education The term of office of members shall be 2 years, which may be extended for a further period of 2 years. Any vacancy arising out of resignation, retirement or death of a member or for any other reason shall be filled by the Board for the remaining period of the term of such member. SEBI may dissolve and reconstitute the Committee if SEBI is of the opinion that the Committee is unable to discharge the functions and duties imposed on it by or under these regulations.
OMBUDSMAN	Ombudsman, in is literal sense, is an independent person appointed to hear and act upon citizen's complaints about Government Services. In this regard, SEBI has issued SEBI (Ombudsman) Regulations, 2003. As per this, Ombudsman means any person appointed under the aforesaid regulations and also includes stipendiary ombudsman. Stipendiary Ombudsman means a person appointed for the purpose of acting as Ombudsman in respect of a specific matter and for which he may be paid such expenses, honorarium and sitting fees as may be determined by SEBI from time to time. **A Person is Eligible to be Appointed as Stipendiary Ombudsman if he** (i) Has held a judicial post or an executive offer under the Central or State Government for at least 10 years; (ii) Is having experience of at least 10 years in matter relating to investor protection; (iii) Has been a legal practitioner in corporate matters for at least 10 years; or (iv) Has served for a minimum period of 10 years in any public financial institution. **Following are the Important Powers and Functions of Ombudsman:** (i) To receive complaints against any intermediary or a listed company; (ii) To consider such complaints and facilitate resolution thereof by amicable settlement; (iii) To approve amicable settlement of the dispute between the parties; and (iv) To adjudicate such complaints in the event of failure of amicable settlement.
INVESTOR FINANCIAL EDUCATION (IMPORTANT)	An increased need for financial education is felt in both developed and developing countries. In developed countries, the increasing number of financial products, its complexity, importance of retirement savings, increased growth of secondary market has made the imparting of financial education imperative for all age groups, including students so that individuals are educated about financial matters as early as possible in their lives. In the developing countries, the growing number of investors, technically advanced financial markets, liberalized economy etc. necessitates imparting of financial education for better operation of markets and economy and in the interest of investor. Further imparting of financial education is international concern due to growth of international transactions, international financial instruments like ADR, GDR etc., mobility of individuals from one country to another etc.

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	Initiatives taken so far on Financial Literacy in India Investor education forms an important part of SEBI's efforts to protect the interest of the investors in securities markets. A series of information brochures and pamphlets have been issued in the past for the benefit of the investors. These publications indicate the various risks associated with capital market investment, the rights of the investors, the responsibilities and details of the grievance redressal machinery available to them and the remedy/relief to be obtained from different agencies like SEBI Ministry of Company Affairs, Stock Exchanges, Reserve Bank of India and Registrars to the Issue, apart from seeking relief through Consumers Disputes Redressal Forums, Company Law Board and Court of Law. The investors' associations registered with SEBI, the stock exchanges and professional bodies also conduct investors' education programmes from time to time to appraise the investors of the changes in the law and regulations and the methods of protecting themselves against malpractices and delays cropping up in the market. This is further supplemented by the journals and magazines in the field of corporate investment as well as newspaper articles which highlight the newly emerging problems, pitfalls and the methods to protect. **Securities Market Awareness Campaign** SEBI has also launched a comprehensive securities market awareness campaign for educating investors through workshops, audio – visual clippings, distribution of educative investor materials/booklets, dedicated investor website etc. It has also recognized certain investor associations through which the investor is educated. **Financial Literacy – cum – Counselling Centre** RBI has advised State Level Bankers' Committee convenor banks to set up, on a pilot basis, a financial literacy – cum – counseling centre in any one district, and based on the experience gained, to ask the concerned lead banks to set up such centres in other districts. It has also undertaken a project on financial literacy by asking banks to introduce comic books explaining terms like inflation, how to open an account, interest rates, etc.
INITIATIVES TAKEN SO FAR ON FINANCIAL LITERACY IN INDIA (IMPORTANT)	**RBI's Initiatives** RBI has undertaken a project titled "Project Financial Literacy". The objective of this project is to disseminate information regarding the central bank and general banking concepts to various target groups like school and college students, women, rural and urban poor, defense personnel and senior citizens. This project has been implemented in two modules, one module focusing on the economy, RBI and its activities, and the other module on general banking. The material is created in English and other vernacular languages. **SEBI's Initiatives** SEBI has started a nationwide financial education campaign to impart financial education to various target groups like school and college student, working executives, home makers, retired personnel, self help group etc. Investor education programmes are conducted by SEBI through investor associations all over the country. Regional seminars are conducted by SEBI through various stakeholders viz. Stock Exchanges, Depositories, Mutual Funds Association of Merchant Bankers etc. **Ministry of Corporate Affairs (MCA) Initiatives** Ministry of Corporate Affairs (MCA) has a dedicated approach for empowering

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	investors through education and awareness building. MCA on 27th September, 2007 launched a website www.iepf.gov.in. It provides information about IEPF and the various activities that have been undertaken/funded by it. This website provides information on various aspects such as role of capital market, IPO investing, Mutual Fund Investing, Stock Investing, Stock Trading, Depository Account, Debt Market, Derivatives, Indices, Indices (comic strip), Index Fund, Investor Grievance & Arbitration (Stock Exchanges), Investor Rights & Obligations, Do's and Don'ts etc. Ministry of Corporate Affairs has taken various initiatives to educate investors, particularly, since 2001, the Investor Education and Protection Fund (IEPF) has been working for educating the investors and for creating greater awareness about investments in the corporate sector. The Institute of Company Secretaries of India (ICSI) is organizing Investor Awareness Programmes under IEPF since 2005 and has organized more than 1700 Investor Awareness Programmes.
INVESTOR GRIEVANCE REDRESSAL MECHANISM AT SEBI	***Investor Grievance*** There will be occasions when an investor has a complaint against a listed company or an intermediary registered with SEBI. In the event of such complaint, the investor should first approach the concerned company/intermediary against whom there is a complaint. Sometimes the response received may not be satisfactory. Therefore, investors should know as to which authority they should approach, to get their complaints redressed. ***GENERAL GRIEVANCES OF INVESTORS:*** ✓ Delay/default in payment of interest and repayment of deposits. ✓ Delay in listing of securities with Stock Exchanges ✓ Delay/Non receipt of refund orders, allotment letters and share certificates/Debenture certificates/ bonds ✓ Furnishing inadequate information or making misrepresentation in prospectus, application form, advertisements and rights offer documents. ✓ Delay/ Non receipt of Bonus Shares/ Rights Shares ✓ Non receipt of Notices for meetings ✓ Non Receipt of Annual Reports ***SCORES (SEBI Complaints Redress System):***SCORES is a web based centralized grievance redress system of SEBI (www.scores.gov.in). SCORES enables investors to lodge and follow up their complaints and track the status of redressal of such complaints from anywhere. This enables the market intermediaries and listed companies to receive the complaints online from investors, redress such complaints and report redressal online. All the activities starting from lodging of a complaint till its closure by SEBI would be online in an automated environment and the complainant can view the status of his complaint online. ***Features:*** (i) SCORES is web enabled and provides online access 24 × 7; (ii) Complaints and reminders thereon can be lodged online at anytime from anywhere; (iii) An e – mail is generated instantly acknowledging the receipt of complaint and allotting a unique complaint number to the complainant for future reference and

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tracking;
(iv) The complaint forwarded online to the entity concerned for its redressal;
(v) The entity concerned uploads an Action Take Report (ATR) on the complaint;
(vi) SEBI peruses the ATR and closes the complaint if it is satisfied that the complaint has been redressed adequately;
(vii) The concerned investor can view the status of the complaint online from the above website by logging in the unique complaint registration number;
(viii) The entity concerned and the concerned investor can seek and provide clarification on his complaint online to each other;
(ix) Every complaint has an audit trial; and
(x) All the complaints are saved in a central database which generates relevant MIS reports to enable SEBI to take appropriate policy decisions and/or remedial actions, if any.

How to file a complaint on Scores?

- To register a complaint online on SCORES Portal (http://scores.giv.in) click on Complaint Registration under Investor Corner.
- The complaint registration form contains personal details and complaint details.
- There are certain mandatory fields in the form. These fields includes name, Address for correspondence, state, email address.
- After filling the personal details, select the complaint category, entity name, nature of compliant related to, complaint details in brief (upto 1000 characters)
- A PDF document (upto 1MB of size for each nature of complaint) can also be attached along with the complaint as the supporting documents.

What are the limitations in dealing with complaints?

Sometimes a complaint is successfully resolved and the entity is advised to send reply to complainant. But in certain cases, the entity or company denies wrongdoing, and it remains unclear as to who is wrong or whether any wrongdoing occurred at all. If this happens, SEBI cannot act as a judge or an arbitrator and force the entity or company to resolve the complaint. Further, SEBI cannot act as personal representative or attorney of the complainant. Securities laws and other laws provide important legal rights and remedies if an investor has suffered wrongdoing. On their own, investors can also seek to resolve their complaint through the courts, consumer courts, or arbitration.

When can a case be referred for arbitration?

If the grievance is not resolved by the Stock Exchange/Depository due to disputes, an investor can file arbitration subject to the Bye-laws, Rules and Regulations of the exchange / Depository. All claims, differences or disputes between the investors and stock brokers/depository participants can be filed for arbitration. To obtain information about when and how to file an arbitration claim.

Simplified arbitration can be a less costly alternative to legal recourse before the courts of law. If the investor has an account with the broker or a depository participant (DP), he/she can choose arbitration to settle disputes. The investor generally cannot pursue an issue through arbitration if it is barred by limitation prescribed. When deciding whether to arbitrate, the investor has to bear in mind that if the broker or DP goes out of business or declares bankruptcy, he/she might not be able to recover money even if the arbitrator or court rules in his/her favor. However, with certain restriction to the nature of transactions, Stock Exchanges may settle on case to case basis the claim of an investor up to a limit prescribed in the "Investor protection fund" guidelines of the respective Stock

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	Exchange. The claimant is required to carefully review the rules governing simplified arbitration before filing a claim and should also weigh the costs of arbitrating against the likelihood of being able to collect any award in favor. An investor, who has a claim / counter claim upto ₹10 lakh and files arbitration reference for the same within six months, need not make any deposit for filing arbitration. **When can SEBI take action for non-resolution of the complaint?** While the entity is directly responsible for redressal of the complaint, SEBI initiates action against recalcitrant entities on the grounds of their unsatisfactory redressal of large number of investor complaints as a whole. **Which are the matters that are not considered as complaints by SEBI?** – Complaints that are incomplete or not specific – Allegations without supporting documents – Offering suggestions or seeking guidance/explanation – Seeking explanation for non-trading of shares or illiquidity of shares – Not satisfied with trading price of the shares of the companies – Non-listing of shares of private offer – Disputes arise out of private agreement with companies/intermediaries.
SEBI (INFORMAL GUIDANCE) SCHEME, 2003	In the interests of better regulation of and orderly development of the Securities market, SEBI has issued SEBI(Informal Guidance) Scheme 2003. The following persons may make a request for informal Guidance under thescheme: (a) any intermediary registered with the SEBI. (b) any listed company. (c) any company which intends to get any of its securities listed and which has filed either a listing applicationwith any stock exchange or a draft offer document with the Board or the Central Listing authority. (d) any mutual fund trustee company or asset management company. (e) any acquirer or prospective acquirer under the SEBI (Substantial Acquisition of Shares & Takeovers)Regulations, 2011. The Guidance Scheme, further deals with various aspects such as the nature of request, fees to be accompaniedalongwith request letter, disposal of requests, SEBI's discretion not to respond certain types of requests andconfidentiality of requests etc. The informal guidance may be sought for and given in two forms: – **No action letters**: SEBI indicates that the Department would or would not recommend any action underany Act, Rules, Regulations, Guidelines, Circulars or other legal provisions administered by SEBI to theBoard if the proposed transaction described in a request made under para 6 is consummated. – **Interpretive letters**: SEBI provides an interpretation of a specific provision of any Act, Rules, Regulations,Guidelines, Circulars or other legal provision being administered by SEBI in the context of a proposedtransaction in securities or a specific factual situation. The request seeking informal guidance should state that it is being made under this scheme and also statewhether it is a request for a no action letter or an interpretive letter and should be accompanied with a fee of ₹25,000/- and addressed to the concerned Department of SEBI. It should also describe the request, disclose andanalyse all material facts and circumstances involved and mention all applicable legal provisions. SEBI maydispose off the request as early as possible and in any case not later than 60 days after the receipt of therequest. The Department may give a hearing or conduct an interview if it feels necessary

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to do so. The requestorshall be entitled only to the reply. The internal records or views of SEBI shall be confidential.

SEBI may not respond to the following types of requests:

(a) those which are general and those which do not completely and sufficiently describe the factual situation;
(b) those which involve hypothetical situations;
(c) those requests in which the requestor has no direct or proximate interest;
(d) where the applicable legal provisions are not cited;
(e) where a no action or interpretive letter has already been issued by that or any other Department on asubstantially similar question involving substantially similar facts, as that to which the request relates;
(f) those cases in which investigation, enquiry or other enforcement action has already been initiated;
(g) those cases where connected issues are pending before any Tribunal or Court and on issues which aresubjudice; and,
(h) those cases where policy concerns require that the Department does not respond.

Where a request is rejected for non-compliance, the fee if any paid by the requestor shall be refunded to himafter deducting therefrom a sum of ₹5,000/- towards processing charges. However SEBI is not be under anyobligation to respond to a request for guidance made under this scheme, and shall not be liable to disclose thereasons for declining to reply the request.

Confidentiality of Request

- Any person submitting a letter or written communication under this scheme may request that it receive confidential treatment for a specified period of time not exceeding 90 days from the date of the Department's response.
- The request shall include a statement of the basis for confidential treatment.
- If the Department determines to grant the request, the letter or written communication will not be available to the public until the expiration of the specified period.
- If it appears to the Department that the request for confidential treatment should be denied, the requestor will be so advised and such person may withdraw the letter or written communication within 30 days of receipt of the advise, in which case the fee, if any, paid by him would be refunded to him.
- In case a request has been withdrawn under clause (c), no response will be given and the letter or written communication will remain with the SEBI but will not be made available to the public.
- If the letter or written communication is not withdrawn, it shall be available to the public together with any written staff response.
- A no action letter or an interpretive letter issued by a Department constitutes the view of the Department but will not be binding on SEBI, though the SEBI may generally act in accordance with such a letter.
- The letter issued by a Department under this scheme should not be construed as a conclusive decision or determination of any question of law or fact by SEBI. Such a letter cannot be construed as an order of SEBI under Section 15T of the Act and shall not be appealable.
- Where a no action letter is issued by a Department affirmatively, it means that the Department will not recommend enforcement action to the Board, subject to other provisions of this scheme.

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PART 2: CAPITAL MARKETS (30 MARKS)
UNIT 15: STRUCTURE OF CAPITAL MARKETS
PART A: CM INVESTMENT INSTITUTIONS

INTRODUCTION	In any economy, financial Institutions play an important role because all the financial dealings and matters are handled and monitored by such Institutions. The major components of financial Institutions are banks, insurance companies, investment companies, consumer finance companies, and other specialized financial institutes. These institutions provide a variety of financial products and services to fulfil the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium scale enterprises as well as industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development.
NATIONAL LEVEL INSTITUTIONS	**1. ALL-INDIA DEVELOPMENT BANKS (AIDBS):-** Includes those development banks which provide institutional credit not only to large and medium scale enterprises but also help in promotion and development of small scale industrial units. Following are the banks which caters to the need for the growth of different sectors on India : **– Industrial Development Bank of India (IDBI)**:- It was established in July 1964 as an apex financial institution for industrial development in the country. It caters to the diversified needs of medium and large scale industries in the form of financial assistance, both directly and indirectly. **– Industrial Finance Corporation of India (IFCI):-** It was the first development finance institution set up under the IFCI Act 1948. in order to pioneer long-term institutional credit to medium and large scale enterprises. **– Small Industries Development Bank of India (SIDBI):-** It was set up by the Government of India in April 1990, as a wholly owned subsidiary of IDBI. It is the principal financial institution for promotion, financing and development of small scale industries in the economy. It aims to empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development. **– Industrial Investment Bank of India Ltd (IIBI):-** It was set up in 1985 under the Industrial reconstruction Bank of India Act, 1984, as the principal credit and reconstruction agency for sick industrial units. It was converted into IIBI on March 17, 1997, as a full-fledged development financial institution. **2. SPECIALISED FINANCIAL INSTITUTIONS (SFIS):-**These are the institutions which have been set up to serve the increasing financial needs of trade and commerce in the area of venture capital, credit rating and leasing, etc. Following institutions are considered as SFIs in our country: **– IFCI Venture Capital Funds Ltd (IVCF):-** IVCF formerly known as Risk Capital & Technology Finance Corporation Ltd (RCTC), is a subsidiary of IFCI Ltd. It was promoted with the objective of broadening entrepreneurial base in the country by facilitating funding to ventures involving innovative product/ process/technology.

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	– ICICI Venture Funds Ltd:- Formerly known as Technology Development & Information Company of India Limited (TDICI), it was founded in 1988 as a joint venture with the Unit Trust of India. Subsequently, it became a fully owned subsidiary of ICICI. **– Tourism Finance Corporation of India Ltd. (TFCI):-** It is a specialised financial institution set up by the Government of India for promotion and growth of tourist industry in the country. Apart from conventional tourism projects, it provides financial assistance for non-conventional tourism projects like amusement parks, ropeways, car rental services, ferries for inland water transport, etc. **3. INVESTMENT INSTITUTIONS:-**These are the most popular form of financial intermediaries, which particularly catering to the needs of small savers and investors. They deploy their assets largely in marketable securities. Following are the Investment Institutions established by the Government : **– Life Insurance Corporation of India (LIC):-** It was established in 1956 as a wholly-owned corporation of the Government of India. It was formed by the Life Insurance Corporation Act, 1956, with the objective of spreading life insurance much more widely and in particular to the rural area. **– Unit Trust of India (UTI):-** It was set up as a body corporate under the UTI Act, 1963, with a view to encourage savings and investment. It mobilises savings of small investors through sale of units and channelises them into corporate investments mainly by way of secondary capital market operations. **– General Insurance Corporation of India (GIC):-** It was formed by the enactment of the General Insurance Business (Nationalisation) Act, 1972(GIBNA), for the purpose of superintending, controlling and carrying on the business of general insurance or non-life insurance. Initially, GIC had four subsidiary branches, namely, National Insurance Company Ltd ,The New India Assurance Company Ltd , The Oriental Insurance Company Ltd and United India Insurance Company Ltd . But these branches were delinked from GIC in 2000 to form an association known as 'GIPSA' (General Insurance Public Sector Association).
STATE LEVEL INSTITUTIONS	**State Financial Corporations (SFCs):-** These are the State-level financial institutions which play a crucial role in the development of small and medium enterprises in the concerned States. They provide financial assistance in the form of term loans, direct subscription to equity/debentures, guarantees, discounting of bills of exchange and seed/ special capital, etc. **State Industrial Development Corporations (SIDCs):-** These corporations have been established under the erstwhile Companies Act, 1956, as wholly-owned undertakings of State Governments. They have been set up with the objectives of promoting industrial development in the respective States and providing financial assistance to small entrepreneurs.
QUALIFIED INSTITUTIONAL BUYERS	• QIBs are investment institutions who buy the shares of a company on a large scale. • Qualified Institutional Buyers are those Institutional investors who are generally perceived to possess expertise and the financial proficiency to evaluate and to invest in the Capital Markets. • The institution is usually a collective group of people in which a large number of investors repose faith and the institution collects a whopping

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	investible sum from various investors to invest in the market. • When investing through the institution, investors usually have limited control on their investments in comparison to the individualinvestment as they hand over the amount for investment to the institution and they, in turn, keep experts to have a vigil on the market. Accordingly, experts recommend the investments to be made and thus the institutions in the spree invest in that market. **QUALIFIED INSTITUTIONAL BUYER** means: (i) Mutual fund, venture capital fund investor registered with the Board; (ii) A foreign institutional investor and sub – account (other than a sub – account which is a foreign corporate or foreign individual), registered with the Board; (iii) A public financial institution as defined in section 2 (72) of the Companies Act, 2013; (iv) A scheduled commercial bank; (v) A multilateral and bilateral development financial institution; (vi) A State industrial development corporation; (vii) Insurance company registered with the Insurance Regulatory & Development Authority; (viii) A provident fund with minimum corpus of Rs.25 crore; (ix) A pension fund with minimum corpus of Rs.25 crore; (x) National Investment Fund set up by resolution of the GOI published in the Gazette; (xi) Insurance funds set up and managed by army, navy or air force of the Union of India; (xii) Insurance funds set up and managed by the Department of Posts, India. (xiii) Systematically Important NBFC; • SEBI has laid down certain criteria in SEBI (ICDR) Regulations, 2009, under which a QIB is entitled to get the shares upto 50%of the issue if the issue is in accordance with regulation 26(1) with SEBI (ICDR) Regulation 2009 or at least 75% of the issue if the issue is in accordance with regulation 26(2) of SEBI (ICDR) Regulation 2009. QIBs are allocated shares in proportionate basis. QIBs can also act as an anchor investor in Initial Public Offers of the companies.

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FOREIGN PORTFOLIO INVESTORS	"***Foreign Portfolio Investor***" means a person who satisfies the eligibility criteria and has been registered under FPI Regulations, which shall be deemed to be an intermediary. However, any foreign institutional investor or qualified foreign investor who holds a valid certificate of registration shall be deemed to be a foreign portfolio investor till the expiry of the block of three years for which fees have been paid as per the SEBI (Foreign Institutional Investors) Regulations, 1995. **CATEGORIES OF FPI:** An applicant shall seek registration as a foreign portfolio investor in one of the categories mentioned hereunder or any other category as may be specified by SEBI from time to time: **Category I FPI includes:** ✓ Government and Government-related investors such as central banks, Governmental agencies, sovereign wealth funds and ✓ International or multilateral organizations or agencies. Explanation: A "government agency" shall mean an entity in which more than 75% of ownership or control is held by the Government of a foreign country. **Category II FPIs includes:** ✓ appropriately regulated broad based funds such as mutual funds, investment trusts, insurance/reinsurance companies; ✓ appropriately regulated persons such as banks, AMCs, investment managers/advisors, portfolio managers, Broker Dealers & Swap Dealers; ✓ broad based funds that are not appropriately regulated but whose investment manager is appropriately regulated. ✓ university funds and pension funds; and ✓ university-related endowments already registered with SEBI as FIIs or subaccounts. **Category III FPIs include:** • all others not eligible under Category I and II FPIs such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts,individuals and family offices.
ALTERNATE INVESTMENT FUNDS	An alternative investment is an investment in an asset other than traditional stocks and bonds. It is an alternative scheme of investment in tangible assets like precious metals, art, antiques, coins, or stamps and some financial assets such as commodities, private equity, distressed securities, hedge funds, carbon credits etc. As per the SEBI (Alternate Investment Funds) Regulations, 2012: **AIF** means any fund established in India in the form of a trust, company, limited liability partnership or a body corporate which: (i) Is a privately pooled investment vehicle that collects funds from investors, whether Indian or foreign, for investing it in a defined investment policy for the benefit of investors; and (ii) Is not covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of SEBI, which aims to regulate fund management activities. **Excluded from AIF:**

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	(i) Family Trusts; (ii) ESOP Trusts; (iii) Employee Welfare Trusts; (iv) Holding Companies within the meaning of the Companies Act, 2013; (v) Other Special Purpose Vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework; (vi) Funds managed by registered securitization company or reconstruction company; and (vii) Any such pool of funds which is directly regulated by any other Indian regulator.
ANGEL FUNDS	An angel investor or angel (also known as a business angel, informal investor, private investor) is: ➢ A wealthy individual ➢ who provides capital ➢ for a business start – up, ➢ usually in exchange for convertible debt or ownership equity. ➢ Angel investors create a fund for investing his capital for start – ups business, such fund is known as **Angel Fund.** It is a sub – category of Alternate Investment Funds. The effective Angels help entrepreneurs to shape, business models, create business plans and connect to resources - but without stepping into a controlling or operating role. Often Angels are entrepreneurs who have successfully built companies, or have spent a part of their career in coaching young companies. As per SEBI (Alternative Investment Fund) Regulations, 2012, angel fund is a sub-category of venture capital. Procurement of funds from angel investors of their further investment has to be conducted as per these regulations.
HIGH NETWORTH INDIVIDULAS	• HNIs or high net worth individuals is a class of individuals who are distinguished from other retail segment based on their net wealth, assets and investible surplus. • While there is no standard put forth for the classification, the definition of HNIs varies with the geographical area as well as financial markets and institutions. • Though there is no specific definition, generally in the Indian context, individuals with over Rs. 2 crore investible surplus may be considered to be HNIs while those with investible wealth in the range of Rs. 25 lac - Rs. 2 crore may be deemed as Emerging HNIs. • If you are applying for a IPO of equity shares in an Indian company, generally, if you apply for amounts in excess of Rs. 2 lakhs, you fall under the HNI category. On the other hand, if you apply for amounts under Rs. 2 lakhs, you are considered as a retail investor. • There may be so many ways in which HNIs are categorized and defined, there is no single bracket that could put them under. • SEBI has laid down certain criteria in SEBI (ICDR) Regulations, 2009, under which a HNIs is entitled to get the shares not less than 15% of the issue, if the issue is in accordance with regulation 26(1) with SEBI (ICDR) Regulation 2009 or not more than 15% of the issue if the issue is in accordance with regulation 26(2) of SEBI (ICDR) Regulation 2009. QIBs are allocated shares in proportionate basis. QIBs can also act as an anchor investor in Initial Public Offers of the companies.
VENTURE CAPITAL	**venture capital fund**means an Alternative Investment Fund which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business

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	model and shall include an angel fund as defined under Chapter III-A. Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability. In India, software sector has been attracting a lot of venture finance. Besides media, health and pharmaceuticals, agri-business and retailing are the other areas that are favoured by a lot of venture companies.
PENSION FUND	• Pension Fund means a fund established by an employer to facilitate and organize the investment of employees' retirement funds which is contributed by the employer and employees. • The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement. • Pension funds are commonly run by some sort of financial intermediary for the company and its employees like N.P.S. scheme is managed by UTIAMC (Retirement Solutions), although some larger corporations operate their pension funds in-house. Pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations. • Pension funds play a huge role in development of the economy and it play active role in the Indian equity market. This pension fund ensures a change in their investment attitudes and in the regulatory climate, encouraging them to increase their investment levels in equities and would have a massive impact on capital market and onthe economy as a whole. • Pensions broadly divided into two sector: A-Formal sector Pensions B-Informal sector Pensions

PART B – CAPITAL MARKET INSTRUMENTS

INTRODUCTION

Capital market is a market for buying and selling of debt or capital based securities. In other words, whatever we are buying or selling in the capital market is known as Capital Market Instruments. Capital Market Instruments like equity shares, preference shares, debentures, bonds & derivatives etc.

These instruments are being issued by the corporate sector to raise funds on the basis of:
(i) Investors Preference, and
(ii) The Regulatory Framework

Factors effecting the preferences for choosing any instruments:

For Issuer	For Investor
Cost	Return
Post tax cost of capital	Tax on return received
Servicing	Yield
Debt Equity Ratio & Debt Service capabilities	Risk Reward Ratio
Ceding the control in case of equity	Gaining the control in case of equity
Company Law, SEBI regulations	Marketable & Liquidity

EQUITY SHARES

The equity shares represent the fractional ownership of a shareholder in the Company which has issued equity shares. The holder of equity shares is the member of the company and has the voting rights. Equity capital and further issues of equity capital by a company are generally based on the condition that they will rank pari – passu along with the earlier issued share capital in all respects.

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Section 43 of Companies Act, 2013 "equity share capital", with reference to any company limited by shares, means all share capital which is not preference share capital.

Equity share capital can be issued (i) with voting rights, or (ii) with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed.

Characteristics of Equity Shares

(a) The Equity shareholders have voting rights at all the general meetings of the company.
(b) The Equity shareholders have the right to share the profits of the company in the form of dividend and Bonus Shares.
(c) In case of liquidation, the payment to the equity shareholders is made after satisfying all the claims of the other parties.

Note: The Equity shareholders cannot demand declaration of dividend by the company which is left to the discretion of the Board of Directors.

Rights of the Equity Shareholders (The Companies Act, 2013)

(a) The right to vote on every resolution placed before the company.
(b) The rights to subscribe to shares at the time of rights issue by the company (i. e. Pre- emptive Right).
(c) Right to appoint proxy to attend and vote at the meeting on his behalf.
(d) Right to receive copy of annual accounts of the Company.
(e) Right to receive notice of the meeting of members.
(f) Right of inspection of various statutory registers maintained by the company.
(g) Right of requisition extraordinary general meeting of the company.

SHARES WITH DIFFERENTIAL VOTING RIGHTS

Section 43 of the Companies Act, 2013 & Rule 4 of Companies (Share Capital and Debentures) Rules, 2014.

No company (whether unlisted or listed public company) shall issue equity shares with differential rights as to dividend, voting or otherwise, unless it complies with the following conditions:-

(a) **Authorization in AOA**: The articles of association (AOA) of the company authorize the issue of shares with DVR;

(b) **Special Resolution**: The issue of equity shares with DVR is authorized by a special resolution.

Note: In case of a listed company, the issue of equity shares with DVR shall be approved by the shareholders via postal ballot (including e – voting) or a poll at a general meeting.

(c) **Issue of Maximum Number of Equity shares with DVR**: A Company shall not issue more than 26% of the total post – issue paid – up equity share capital including equity shares with differential rights issued at any point of time.

(d) Distributable Profits: The Company having consistent track record of distributable profit for the last 3 years.

(e) **No default of Annual Compliances**: The Company has not defaulted in filling financial statements and annual returns for 3 financial years immediately preceding the financial year in which it has decided to issue such shares.

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	(f) **No default in payment of dividend & deposits**: The Company has not defaulted in the payment of a declared dividend or repayment of its matured deposits or redemption of its preference shares or debentures. (g) **No default in transfer of unpaid fund** to IEPF or Statutory dues i. e. payment towards employee statutory dues in Provident Fund, Bonus, Gratuity & Employee State Insurance. The company has also not defaulted in transfer of unpaid dividends or Interest to crediting the amount in Investors Education and Protection Fund of CG. *However, a company may issue equity shares with differential rights upon expiry of five years from the end of the financial year in which such default was made good.* (h) **No Offence**: The Company has not been penalized by Court or Tribunal during the last 3 years of any offence under the RBI Act, 1934, SEBI Act, 1992, SCRA Act, 1956, the FEMA Act, 1999 or any other special Act.
ISSUE OF SWEAT EQUITY SHARES	**SEBI (ISSUE OF SWEAT EQUITY) REGULATIONS, 2002** for all listed Companies: Who shall be eligible for Sweat Equity Shares? Employee means: (a) Permanent Employees: A permanent employee of the company; or (b) Directors: A director of the company whether a whole time director or not; or (c) Employees of Holding & Subsidiary Companies: An employee or a director of a subsidiary or of a holding company of the company whether in India or outside India. **Explanatory Statement to the Special Resolution**: As mentioned above, special resolution shall be passed for the purpose of issue of sweat equity share, the explanatory statement to be annexed to the Notice of the general meeting, shall contain the following details:- (a) The date of the Board meeting wherein the sweat equity shares' proposal was approved. (b) Reasons/Justification for the issue of sweat equity shares. (c) Total numbers of shares to be issued as sweat equity including the class of shares are intended to be issued. (d) Class of directors or employees to whom such equity shares are to be issued. (e) Principal terms and conditions on which sweat equity shares are to be issued. (f) Time period of association of Directors or Employees with the company. (g) The price at which the sweat equity shares are proposed to be issued. (h) The consideration including consideration other than cash. (i) Ceiling on managerial remuneration, if any. (j) A statement to the effect that the company shall conform to the applicable accounting standards; and diluted Earning per Share pursuant to the issue of sweat equity securities, calculated in accordance with the applicable accounting standards. **Validity**: The Special Resolution shall be valid for making the allotment for not more than 12 months from the date of its passing. **Limit for Issue Sweat Equity**: The Company shall not issue sweat equity shares more than 15% of paid – up equity share capital in a year or value of shares of Rs.5 crores, whichever is higher. **Note**: The issuance of sweat equity shares in the Company shall not exceed 25% of

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	the paid – up equity capital at any time. **Lock – in period**: Sweat equity shares shall be non – transferable for three years from the date of allotment. **Valuation**: The sweat equity shares to be issued shall be valued at a price determined by a registered valuer as the fair price giving justification for such valuation. A copy of the valuation report obtained in both the above cases shall be sent to the shareholders with the notice of the general meeting. **Part of managerial remuneration**: The amount of sweat equity shares issued shall be treated as part of managerial remuneration subject to the fulfillment of the following conditions:- (a) The sweat equity shares are issued to the director or manager; and (b) They are issued for consideration other than cash. **Note:** The sweat equity shares issued during an accounting period, the accounting value of sweat equity shares shall be treated as a form of compensation to the employee or the director in the financial statements of the company. **Disclosure in Directors' Report**: The Board of Directors shall disclose the following details in Directors' Report with regard to issue of sweat equity shares:- (a) Class of director/employee to whom sweat equity shares were issued; (b) Class of shares issued as Sweat Equity Shares; (c) The number of sweat equity shares issued to the directors, key managerial personnel (KMP) or other employees showing separately the number of such shares issued to them, if any, for consideration other than cash and the individual names of allottees holding one percent or more of the issued share capital; (d) The reasons/justification for the issue; (e) Principal terms and conditions for issue of sweat equity shares, including pricing formula; (f) Total number of shares arising as a result of issue of sweat equity shares; (g) Percentage of the sweat equity shares of the total post issued and paid – up share capital; (h) Consideration including consideration other than cash received; (i) Diluted Earnings per Share (EPS) pursuant to issuance of sweat equity shares.
PREFERENCE SHARES (EXPLANATION TO SECTION 55 OF THE COMPANIES ACT, 2013)	Preference Share Capital means a share capital which has preferences over equity shares in respect of dividend and capital. Preference shareholder has two types of preference over equity shares: (i) Payment of Dividend (ii) Payment OF Capital at the time of Liquidation In other words, preference share means a part of issued share capital which has preferential rights in respect of dividends and capital in case of winding – up. **Note:** No Company shall issue preference shares which are irredeemable. **KINDS OF PREFERENCE SHARES:** Cumulative Preference Shares: Preference shares shall be treated as cumulative or non – cumulative with regard to the payment of dividends. A cumulative preference share confers a right on its

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	holder to claim fixed dividend of the past years, current years and also on future year's profits. The dividend keeps on accumulating until it is fully paid. Non – Cumulative Preference shares: A non – cumulative preference share gives right to its holder to receive dividend out of the current financial year profits. If no profits are available in current financial year, the preference shareholders get nothing and they cannot claim unpaid dividend in subsequent year. Convertible Preference Shares: The preference shares which carry with it the right to be converted into the equity shares after the expiry of a period is called convertible preference shares. Redeemable Preference Shares (Section 55 of the Companies Act, 2013): If the articles of association of a company provide, the redeemable preference shares can be issued subject to the following conditions:- (i) These preference shares are redeemable after a specific period and money is returned to shareholders. (ii) A Company cannot issue preference shares which are irredeemable. (iii) The Company can issue preference shares which are redeemable not later than 20 years. **Note:** A Company engaged in infrastructure projects can issue shares redeemable exceeding 20 years. **Special Note:** In case a company engaged in the setting up and dealing with infrastructural projects may issue preference shares for a period exceeding 20 years but not exceeding 30 years. Subject to the redemption of a minimum 10% of such preference shares per year from the 21st year onwards or earlier, on proportionate basis, at the option of the preference shareholders. Irredeemable Preference Shares: The kinds of shares which are not redeemable except on the happening of certain events such as winding up etc are known as irredeemable preference shares. **Note:** The Companies are prohibited to issue irredeemable preference shares and in case of redeemable preference shares, the issuer company must redeem the preference shares within 20 years from the date of its issue. Participating Preference Shares: The kinds of preference shares which have the right to participate in the profits left after all the dues are paid to others are called as participating preference shares. Non – Participating Preference Shares: The kinds of preference shares who have no other right in addition to the fixed dividends are called as non – participating preference shares.
DEBENTURES	Section 2 (30) of the Companies Act, 2013: Debenture includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not. In other words, it is an instrument which is evidencing as a debt. **Features:** (a) It is a certificate of indebtedness. (b) It usually indicates the date of redemption.

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(c) It usually creates a charge on the undertaking or the assets of the company.
(d) Debentures holder does not have any voting rights even in case of default in the payment of principal & interest amount by a company.
(e) Compulsory payment of interest.
(f) The interest on debenture is payable irrespective of whether there are profits made or not.

Types of Debentures:
(a) Naked and Unsecured Debentures:
The debentures which do not carry any charge on the asset of the company are called naked or unsecured debentures.

(b) Secured Debentures:
The debentures which carry a charge on the asset of the company are called as secured debentures.

(c) Redeemable Debentures:
The debentures which are redeemable at the end of a fixed tenure are known as redeemable debentures.

Redemption period: Secured debentures can be issued subject to the maximum redemption period i. e. not exceeding 10 years from the date of issue. A company engaged in the setting up of infrastructure projects may issue secured debentures for a period exceeding 10 years but not exceeding 30 years.

(d) Perpetual Debentures:
The debentures which are issued on the condition of redemption on the happening of certain even which is not going to happen in the near future, it is known as perpetual debentures.

(e) Bearer Debentures:
The debentures which are payable only to the bearer and are transferable by mere delivery is known as bearer debenture.

(f) Registered Debentures:
The debentures which are payable to the registered holders only whose name appears on the debenture certificate are known as registered debentures.

Classification on the basis of Convertibility:
Fully Convertible Debentures:
The kinds of debentures which are fully convertible into equity shares on the expiry of specified period or periods are known as fully convertible debentures.

Non – Convertible Debentures:
The kinds of debentures which cannot be converted into the equity shares and are redeemed on the expiry of the specified period are known as non – convertible debentures.

Partly Convertible Debentures:
These types of debentures consist of two parts one of which can be converted into the equity shares while the other cannot.

Features of Convertible Debentures:
(i) They are issued for cash at par;
(ii) They are of convertible nature. So, they can be converted into equity shares;
(iii) They may be fully or partly convertible;
(iv) The conversion may take place in one or more stages;
(v) In case, a part of debenture is convertible after 18 months, the credit rating

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should be obtained by the company.
(vi) The convertible debentures issued by a public company are listed on the stock exchange to assure liquidity.

Advantages of Convertible Debentures:
Advantages to the Company:
(i) Capitalization of interest cost is possible;
(ii) They carry lower rate of interest in comparison with Banks and Financial institutions;
(iii) The convertible part of debentures is treated as equity by financial institutional;
(iv) The equity capital gets increased after each conversion;
(v) Tax benefits are higher;
(vi) It is a popular form of financing as interest rates are lower;
(vii) There is a greater degree of autonomy for the companies available with these kinds of debentures.

Advantages to the Investors:
(i) A fixed return by the way of interest is ensured;
(ii) The investor tends to get value appreciation on his investment;
(iii) Due to presence of charge on investors, there is prompt payment of principal & interest;
(iv) It is highly liquid form of investment.

Characteristics	Partly convertible debentures	Fully convertible debentures
Suitability	Better suited for companies with established track record	Better suited for companies without established track record
Capital base	Relatively lower equity capital on conversion of debentures	Higher equity capital on conversion of debentures
Flexibility	Favourable debt equity ratio	Highly favourable debt equity ratio
Popularity	Not so popular with investor	Highly popular with investors
Servicing of equity	Relatively lesser burden of equity servicing	Higher burden of servicing of equity
Classification for debt equity ratio computation	Convertible portion classified as Equity and non-convertible portion as debt	Classified as equity for debt equity ratio.

BONDS

Bond is a negotiable instrument evidencing indebtedness. It is like unsecured debt Bonds which are generally issued by the Government or its agency (RBI) or the Company.

Process for Bonds:

(a) A Bond issuer takes money from the Bond Investors.
(b) In exchange of such money, the issuer issues a certificate in favour of Investor and promises to pay loan amount on maturity date.
(c) The Certificate that is known as Bond carries fixed rate of interest.

In other words, Bond means a debt instrument in which an investor loans money to the Corporate/Govt. that borrows the funds for a defined period of time at a fixed interest rate.

DEEP

❖ DDB means a financial instrument which is issued to the investors at

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DISCOUNT BOND (DDB)	significant discount. ❖ The DDB is considered as a safe, solid and long – term investment. Before issuing DDB, the issuer company must take credit rating for such instruments. ❖ **Example:** IDBI and SIDBI had issued Deep Discount Bonds. In year 1998, DDB was offered by the IDBI @ Rs.2700/- and investors would get Rs.1,00,000/- at the time of maturity. The maturity period was fixed for Rs.25 years from the date of issue of DDB. ❖ In this example, an investor can buy a deep discount bonds @ 2700/- which has the face value of such bond is Rs.1,00,000/-. Thus, if the face value of the bond is Rs.1,00,000/- and it is issued at Rs.2700, it is a deep discount. ❖ On maturity, when the bond is redeemed after 25 years, the bond issuer only pays the investors the face value of the bond. Therefore, no interest is payable to investors. ❖ The capital appreciation in case of deep discount bonds is chargeable to tax at capital gains rate.
DISASTER BONDS	❖ Disaster Bonds means a bond which is linked with **natural calamities** like earthquakes, tsunami Hurricane, Katrina and other natural disasters. ❖ It is being offered by the insurance company to the investors who would like to invest in a speculative fund. ❖ These are issued by companies and institutions to share the risk and expand the capital to link investors return with the size of insurer losses. ❖ The coupon (Interest) rate and the principal of the bonds are decided by the occurrence of disasters. ❖ However, these bonds haven't yet been issued by any insurance company in India. ❖ These instruments offer high returns if insurance claims are low, but when more claims filed due to disaster, the return of an investor will be low. In other words, the bigger the losses, the smaller the return and the smaller losses or no losses, the bigger the return.
OPTION BONDS	❖ Option bonds are like option contracts in which the underlying asset is a bond. ❖ A bond option allows investors the ability to hedge the risk of their bond portfolios or speculate on the direction of bond prices with limited risk. ❖ Those cumulative and non – cumulative bonds are covered by these instruments where the interest is payable on maturity or periodically and redemption premium is offered.
EASY EXIST BOND	These instruments cover the bonds which provide liquidity as well as an easy exit route to the investors by the way of redemption or buy – back. Additional bonds are payable in place of Interest.
PAY IN KIND BONDS	The bond where the interest for the first three to five years is paid through the issue of additional bonds is known as pay in kind bonds. In other words, it is a bond in which interest payments come in form of more bonds, rather than cash and it resolves the liquidity issues of a company.
FLOATING RATE BONDS AND NOTES	❖ Floating rate Bonds are bonds that have variable interest rate and the rate of interest is subject to change as per the market conditions. ❖ The floating rate bonds take reference from money market like MIBOR & LIBOR. ❖ This kind of instrument does not give fixed rate of interest and is allowed to float the rate subject to the market conditions. ❖ This instrument is used by the issuers to hedge themselves against the volatility in interest rates.

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COMMODITY BOND	❖ Commodity bonds are bonds issued to share the risk and profitability of future commodity prices with the investor. ❖ It is a bond which protects the capital of investors from the future inflation of any commodity. ❖ **Example:** Petro bonds, silver bonds, gold bonds & coal bonds. Petro bond may carry fixed rate of interest with part of face value of bonds denominated in barrels of oil. ❖ However, the commodity bond does carry more potential to generate a higher return than a fixed rate bond there is also more risk involved. ❖ While it is unusual, there is always the possibility that the underlying commodities will not perform as anticipated and the return will be less than originally projected. ❖ In general, a commodity – backed bond tends to carry less volatility than many stock issues.
TRACKING STOCKS	It is a type of common stock which depends upon the financial performance of a specific business unit or an operating division. If the unit or division or subsidiary company performs well, the value of the stock increases and vice – versa. It is issued by a publicly held company to track the value of one segment of the company. **Example:** ABD Ltd. is publicly held company and has 10 divisions at different locations and each division is producing separate products. One division which produces FMCG products, the company had issued tracking stocks for such division. **Important points for above example:** (i) If such FMCG division earns profit, the tracking stock holders would get dividend. (ii) If such FMCG is in loss, the tracking stock holders would not get dividend even if the ABC Ltd. is having profits. (iii) The tracking stock holders have a financial interest only in that FMCG division. (iv) The tracking stock holders usually have no voting rights. Tracking stock does not represent or require any change (de – merger or spin off) in business structure. Holders of tracking stock are considered to hold equity in the parent company and not the specific entity represented by the tracking stock. Tracking stock in often set up by companies that have several diverse divisions, both so that investors can take a share in a division of their interest, and so that the performance of these divisions can be tracked in terms of shareholder interest. A company will sometimes issue a tracking stock when it has a very successful division that it feels is under – appreciated by the market and not fully reflected in the company's stock price. In this example, ABC Ltd. issued shares of BCD Ltd. (subsidiary of ABC Ltd.) which makes huge profit year to year. The shares of BCD Ltd. will be treated as tracking stock since the holding company allows investors to invest in a particular stock of one of its subsidiary company. **Case Study:** Liberty Media had tracking stocks for Liberty Interactive and Liberty Capital listed on NASDAQ. **Features and advantages of tracking stock**: (i) The company can keep control over its subsidiary; (ii) A lower cost can be obtained by getting a better credit rating; (iii) The marketing and administrative functions of the business are shares;

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	(iv) Acquisitions are possible by the parent company.
MORTGAGE BACKED SECURITIES	Mortgage – backed securities (MBS) are bonds secured by home and other real estate loans. They are created when a number of these loans, usually with similar characteristics, are pooled together. 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. **Example:** A bank offering home loan might round up Rs.20 crore worth of such loans. That pool is then sold to a Government Agency or a government sponsored – enterprise (GSE), or to others to be used as the collateral for the new MBS. **Features of assets to be securitized**: The assets to be securitized shall have the following features:- (a) The cash flows generated from the assets should be received periodically in accordance with a Pre – determined schedule. (b) The actual cash flows generated from the assets should be predictable. (c) The assets should be large in number and total value to be issued in securitized form. (d) The assets should be sufficiently similar in nature to enable pooling of their cash flows. (e) The assets should be marketable. **Advantages to Issuer**: (a) The issuer can generate cash from the assets immediately enabling funds to be redeployed in other projects. (b) 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 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.

Derivatives

The term "derivatives" indicates that it has no independent value i. E. Its value is entirely derived from the value of the underlying assets. The underlying assets can be securities, commodities, bullion, currency, livestock or anything else.

In other words, derivatives means a forward, future and option or any other hybrid contract of pre-determined fixed duration, linked for the purpose of contract fulfillment to the value of a specified real or financial asset or to an index of securities. In india, the govt. Of india had introduced the concept of "derivatives" in year 1999 by amending securities contract (regulation) act, 1956.

A derivative includes:
(i) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of securities.

(ii) contract which derives its value from the prices, or index of prices, of underlying securities.

FUTURE CONTRACT	❖ Future contract means a legally binding agreement to buy or sell the underlying assets on a future date. ❖ Future contract are the organized/standardized contracts in terms of quantity, quality, delivery time and place for settlement on any date in future. ❖ The contract expires on a pre – specified date which is called as expiry date of

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	contract. On expiry, futures can be settled by the delivery of underlying assets to one party or receipt of cash by another party. ❖ Cash settlement enables the settlement of obligations arising out of the future/option contract in cash.
OPTION CONTRACT	❖ It is a contract which gives the buyer/holder of the contract the right to buy/sell the underlying asset at a pre – determined price within or at the end of the specified period. It is not an obligation on the option holder. ❖ The buyer/holder of the option purchases the right from the seller/writer for a consideration which is called as premium. The seller/writer of an option is obliged as per the terms of the contract when the buyer/holder exercises his rights. There are two types of Option Contracts: **Call Option**: A Call option is an option to buy an underlying asset at a specific price on or before expiry date of the contract. In this way, Call options are like advance money for purchase of any land and building. **Example:** If you want to sell your one flat which located in Dwarka, New Delhi to Mr. Raman. You have asked Mr. Raman to pay Rs.10 lacs as an advance for selling of your flat. As per the terms and conditions of an agreement to sale, Mr. Raman will pay Rs.10 lacs as advance and balance amount in one month. Mr. Raman has the right to buy within one month and no other liability. When you buy a Call option, the price you pay for it, called the option premium, secures your right to buy that certain stock at a specified price, called the strike price. If you decide not to use the option to buy the stock, and you are not obligated to, your only cost is the option premium. **Put Option**: Put options are options to sell a stock at a specific price on or before a certain date. In this way, Put options are like insurance policies.
FORWARD CONTRACT	It is an agreement to buy or sell an asset(commodities/foreign exchange) at a certain future time for a certain price. It is different than a spot contract, which is an agreement to buy or sell an asset today. **Example:** Suppose on January 1, 2016, an Indian textile exporter receives an order to supply his product to a big retail chain in the US. Spot price of INR/US exchange rate is Rs.62/dollar. After six months, the exporter will receive $1 million (Rs.6.5 crore) for his products. Since all his expenditure is in rupee term therefore he is exposed to currency risk. Let's assume that his cost of production is Rs.5 crore. To avoid uncertainty, the exporter enters into a six – month forward contract with a bank (with some fees) at Rs.65 to a dollar. So the exporter is hedged completely. If exchange rate appreciates to Rs.55 after six months, then the exporter will receive Rs.5.5 crore after converting his $1 million and the rest Rs.1 crore will be provided by the bank. If exchange rate depreciates to Rs.70 per dollar then the exporter will receive Rs.7 crore after conversion, but has to pay Rs.0.50 crore to the bank. So no matter what the situation, the exporter will end up with Rs.6.5 crore. In other words, 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 is known as forward contract.

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Hedge funds

Hedge means fence, barrier & hurdle (other meaning – protection & security). In other words, it is a process of reducing and controlling future risk by taking some steps in advance.

Hedge fund refers to an alternative investment vehicle that is designed to protect investment portfolios from market uncertainty, while generating positive returns in both up and down markets. Hedge funds are unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments (including securities, non – securities and derivatives) to provide certain periodic and standardized pricing and valuation information to investors.

In short, it is an alternative investment that is designed to protect the capital (investment amount) of an investor from market uncertainty and generate positive returns from the market fluctuations.

What is hedging concept?

Case study: steel industry

Facts: an automobile manufacturer purchases huge quantities of steel as raw material for automobile production. The automobile manufacturer enters into a contractual agreement to export automobiles in three months to automobiles dealers in the european market.

This presupposes that the contractual obligation has been fixed at the time of signing the contractual agreement for exports. The automobile manufacturer is now exposed to risk in the form of increasing steel prices. In order to hedge against increasing price risk, the automobile manufacture can buy steel future contracts, which would mature after three months hence. In case of increasing steel prices, the automobile manufacturer is protected.

Hedging: it is a risk management strategy used in limiting the probable loses from market fluctuations in respect of the prices of commodities, currencies, or securities. In this case, automobile manufacturer protected his risk by buying future contracts in advance. It means automobile manufacturer hedged his position against the probable risk of price increase.

Accordingly, a hedge fund's purpose is to maximize investor returns and eliminate risk. Hence, the word hedge or hedge fund came into being because the aim of these vehicles was to make money regardless of the market conditions "climbed higher or declined".

Benefits (advantages) of hedge funds include:

(a) investment strategies that have the ability to generate positive returns in both rising and falling equity and bond markets.
(b) hedge funds in a balanced portfolio can reduce overall portfolio risk and volatility and increase returns.
(c) a huge variety of hedge fund investment styles – provide investors the ability to precisely customize investment strategy.

Risk factors (disadvantages) in hedge funds include:

(a) concentrated investment strategy exposes hedge funds to potentially huge losses.
(b) hedge funds typically require investors to lock up money for a period of years.
(c) use of leverage, or borrowed money, can turn what would have been a minor loss into a significant loss.

DOMESTIC HEDGE FUNDS	❖ Hedge funds are organized as corporations in countries like USA as limited partnerships to accommodate investors that are subject to taxation policies of the United States. ❖ This type of hedge fund may use the business form of Limited Liability Companies (LLC), Limited Liability Partnership (LLP) or Business Trusts. ❖ In these types of business forms, LLC & LLP and business trusts are not liable to tax whereas the individual investors are liable to tax. This type of concept is

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	very popular in USA.
OFFSHORE HEDGE FUNDS	❖ Offshore means a place situated at sea some distance from the shore or outside the jurisdiction of a Country. ❖ It means any investments through an organized corporation/company from foreign country. ❖ Generally, these funds are targeting those countries which have tax – free regime. These hedge funds are typically organized as corporations in certain countries like Cayman Islands, British Virgin Islands, the Bahamas or Bermuda. They attract investments of US tax – exempt entities.
EXCHANGE TRADED FUNDS (ETFS)	ETFs are new varieties of mutual funds which were introduced in 1993. Exchange Traded Fund is a security that tracks an index, a commodity or a sector like an index fund or a sectoral fund but trades like a stock on an exchange. It is similar to close – ended mutual fund listed on stock exchanges. In other words, ETFs are baskets of securities that are traded, like individual stocks, on an exchange. In the simplest terms, Exchange Traded Funds (ETFs) are funds that track indices like the NIFTY Index, SENSEX etc. ETFs can be bought and sold exactly like a stock of an individual company during the entire trading day. Furthermore, they can be bought on margin, sold short or bought at limit prices. Exchange traded funds can help investors build a diversified portfolio that's easy to track. In short, they are similar to index mutual funds but are traded like securities. As their name implies, Exchange Traded Funds represent a basket of securities that are traded on an exchange. **Advantages of ETFs** (i) They can be bought and sold throughout the trading day. (ii) They have the ability to short or buy ETFs on margin. (iii) Low annual expenses are incurred. (iv) Tax efficiency is insured. **Disadvantages of ETFs** (i) An extra cost in the form of commissions is present. (ii) Only large institutions and wealthy persons can deal in ETFs. (iii) ETFs don't trade at the Net Asset Value.
FUND OF FUNDS (FOFS) (IMPORTANT)	It is a mutual fund scheme which invests in the schemes of same or other mutual funds present in the market instead of investing in securities. **These funds can be broadly classified into**: ➢ Sector Specific Funds: These funds invest in the various sectors of the economy and protect themselves by not investing the whole amount in only one sector. ➢ Asset Allocation Funds: They diversify the investments by holding several different kinds of assets at the same time. They are also known as life cycle funds. **Benefits of FOFs are:** 1. Diversified investments: as a fund of funds invests in the schemes of other funds, it provides a greater degree of diversification. 2. Uncomplicated scheme: instead of investing in different stocks and keeping track record of all of them, it will be much easier to invest in and track only one

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	fund, which in turn invests in other mutual funds. 3. Cheap: while entering into the capital markets it is difficult to diversify because of limited funds. Fund of funds provide an opportunity to go for diversification with comparatively limited amounts. 4. Risk to the extent possible is eliminated. 5. Expertise of various managers proves to be beneficial. **The Disadvantages of FOFs are:** 1. Additional fees: the more amount of diversification increases the cost in terms of increase in fees. 2. Various management(every manager has a different style of working), operational (possibility of non-compliance and fraud) and Qualitative risks (Organisational structure, infrastructure, investment process, etc) are involved.
WARRANTS	*Warrant means an option issued by a company whereby the buyer is granted the right to purchase a number of shares (usually one) of its equity share capital at a given exercise price during a given period.* The holder of a warrant has the right but not the obligation to convert them into equity shares. Thus in the true sense, a warrant signifies optional conversion. In case the investor benefits by conversion of warrant, then he will convert the warrants, else he may simply let the warrant lapse. The companies listed on the Exchange can issue warrants in accordance with SEBI (ICDR) Regulation 2009 on rights issue, preferential issue, Qualified Institutional placement, etc. *For example* if the conversion price of the warrant is Rs. 70/-and the current market price is Rs.110/-, then the investor will convert the warrant and enjoy the capital gain of Rs.40/-. In case the conversion is at Rs.70/- and the current market price is Rs.40/-, then the investor will simply let the warrant lapse without conversion.

PART C: ASPECTS OF PRIMARY MARKET

BOOK BUILDING	Covered in Unit 4
ANCHOR INVESTORS	Covered in Unit 4
APPLICATION SUPPORTED BY BLOCK AMOUNTS (ASBA)	Covered in Unit 4
GREEN SHOE OPTION	Covered in Unit 4

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INTRODUCTION	There are many recognized stock exchanges in India whereas only few stock exchanges are functional like National Stock Exchange & Bombay Stock Exchange. The stock exchanges are managed by Board of Directors or Council of Management consisting of elected brokers and representatives of Government and Public appointed by SEBI. This market provides facilities of trading after listing of any securities. The Boards of stock exchanges are empowered to make and enforced rules, bye – laws and regulations with jurisdiction over all its members. The stock exchange is a key institution which facilitates the issue & sale of various types of securities. It is a pivot around which every activity of capital market revolves. In the absence of the stock exchange, the people with savings would hardly invest in corporate securities for which there would be no liquidity. Before understanding the entire concept of Stock Market, we have to understand the meaning of the following terms: (a) Stock Exchanges: A Market (a place of buying/selling) where any person can buy or sale any securities of a listed company. (b) Listed Company: A company whose securities (i. e. shares, debentures & bonds etc.) are registered (listed) for purpose of trading with any recognized stock exchange. (c) Listing Agreement: It is an agreement between a proposed listed company and the stock exchange before giving permission to company with regard to trading of securities. After execution of this agreement, the company shall be treated as listed company and under obligation to comply with requirement of the listing agreement.
STOCK EXCHANGE TRADING MECHANISM	Stock Exchange is a market place for buying and selling of listed securities. Securities are traded in three different ways in stock exchanges, namely (a) Settlement Basis, (b) Spot Basis, and (c) Cash Basis etc. **TYPES OF SECURITIES**: Securities traded in the stock exchanges can be classified as under:- (i) Listed cleared Securities: These securities are admitted for trading on a stock exchange after fulfillment of all listing requirements and almost all types of listed securities are under this. (ii) Permitted Securities: These securities are listed on some of the recognized stock exchanges and when permitted to be traded by those stock exchanges where they are not listed is called permitted securities. In other words, to facilitate the market participants to trade in securities of such companies, which are actively traded at other stock exchanges but are not listed on another stock exchange, trading in such securities is facilitated as "Permitted Securities". **TYPES OF DELIVERY**: Types of delivery in the stock exchanges are: (i) Spot Delivery: The delivery is said to be spot delivery, if the delivery and payment are to be made on the same day or next day. (ii) Hand Delivery: The delivery is said to be hand delivery, if the delivery and payment are to be made on the delivery date fixed by the stock exchange authorities.

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(iii) Special Delivery: A special delivery is one where the delivery is to be made after the delivery period fixed by the stock exchange authorities.

BASIC TERMINOLOGIES USED IN STOCK MARKETS

(a) **SENSEX/ BASIS OF SENSEX**

- SENSEX refers to "**Sens**itivity Ind**ex**" which is associated with the stock market indices.
- An index is basically an indicator. It gives an idea about movement of stock market whether most of the securities have gone up or most of the securities have gone down listed in BSE.
- **In India,** SENSEX is popularly known as Index of Bombay Stock Exchange –the barometer of Indian Capital Market.
- Now, BSE SENSEX is also known as S & P BSE SENSEX. This S & P BSE SENSEX comprises of 30 companies.
- The SENSEX was 1st compiled in 1986, was calculated on a "Market Capitalization – Weighted" methodology of 30 component stocks representing large, well – established and financially sound companies across key sectors.
- Since September 1, 2003, S & P BSE SENSEX is being calculated on a free – float market capitalization methodology.

Steps to calculate Sensex:

• The market capitalization is taken into account. This is done by multiplying all the shares issued by the company with the price of its stock.
• BSE determines a Free-float factor that is a multiple of the market capitalization of the company. This helps in determining the free-float market capitalization based on the details submitted by the company.
• Ratio and Proportion are used based on the base index of 100. This helps to determine the Sensex.

BSE On-Line Trading:

⇨ BOLT is the modern trading practice introduced by BSE.
⇨ Under this arrangement, trading can be carried out by member brokers and their authorized assistants from their workstations.
⇨ It provides for a search based trading mechanism whereby two way quotes are accepted from Jobbers and Market Makers and from brokers on the basis of orders received from investors.
⇨ The System matches them according to logic specified in BOLT.

(b) **NIFTY:**

- The NIFTY 50 is an index of National Stock Exchange of India. It gives an idea about movement of stock market whether most of the securities have gone up or most of the securities have gone down listed in NSE.
- The NIFTY 50 covers 22 sections of the Indian economy and offers investment managers exposure to the Indian market in one portfolio.
- The NIFTY 50 index is a free float market capitalization weighted index.
- The index was initially calculated on full market capitalization methodology. From June 26, 2009, the computation was changed to free float methodology.
- The base period for the CNX Nifty index is November 3, 1995, which marked the completion of one year of operations of National Stock Exchange Equity Market Segment.
- The base value of the index has been set at 1000.

(c) **SETTLEMENT:** After you have bought or sold securities through your broker, the trade has to be settled. It means the buyer has to receive his shares and the seller has to receive his money. This process settles the claims of both parties, is

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	known as settlement in connection with stock market. In other words, settlement is just the process whereby payment is made by all those who have made purchases and shares are delivered by all those who have made sales. Presently, settlement period is T + 2 (previous it was T + 3) and T stands for Trading Day and 2 more trading days. (d) **TREND LINE**: • In case, the price of shares moves in a particular direction which persists for a longer period i. e. is known as Trend. • When the movement is upward, the trend is called BULLISH.Bull market is a rising market with abundance of buyers and relatively few sellers. • When the movement is downward it is called BEARISH.Bear market is a weak or falling market characterized by the dominance of sellers. • Secondary movements that reverse the uptrend temporarily are known as Reactions. • The movements that reverse the down trend temporarily are known as Rallies. • When an uptrend breaks in the downward direction, it is called Trend Reversal.
MARGINS	*"The amount of credit a broker or lender extends to a customer for purchase of securities is known as margin."* It was introduced by SEBI to restrain speculative dealings in shares leading to volatility in the prices of securities. **INITIAL MARGIN**: The minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may take advance the balance amount to meet full settlement obligations. This amount is to be kept in the client accounts at the time of actual purchase. An Initial Margin Requirement refers to the percentage of equity required when an investor opens a position. **Example:** If an Investor has Rs.5,000 and would like to purchase equity shares of Reliance Industries Ltd. which has a 50% initial margin requirement, the amount of equity shares of Reliance Industries Ltd. The Investor is eligible to buy on margin is calculated as follows:- Buying power 50% is less than or equal to Rs.5,000/- >> Buying power >> is less than or equal to Rs.5,000/50% = Rs.10,000/- >> The investor can purchase equity shares of Reliance Industries Ltd. up to Rs.10,000 using the margin buying power. **MAINTENANCE MARGIN**: Minimum amount, calculated as a percentage of market value of the securities calculated with respect to last trading day's closing price, to be maintained by client with the broker. If the balance deposit in the client's margin account falls below the required maintenance margin, the broker shall promptly make margin calls. The broker may liquidate the securities if the client fails to meet the margin calls made by the broker. Margin trading acts as a check on the tendency of clients to manipulate markets by placing orders on brokers without having adequate money or securities to backup the transaction. Margin trading also acts as a curb on short selling and short buying.
BOOK CLOSURE & RECORD DATE	Book Closure (Section 91 of the Companies Act, 2013) is the periodic closure of the Registrar of Members and Transfer Books of the company to take a record of

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	the shareholders to determine their entitlement to dividends or to bonus or right shares or any other rights pertaining to shares. A company may close the register of members for a maximum of 45 days in a year and for not more than 30 days at any one time. The listed company should close their book at least once in a year. The listed company should give notice of book closure in a newspaper at least 7 days before the commencement of the book closure. The members whose names appear in the register of members on the last date of book closure are entitled to receive the benefits of dividend, right shares or bonus shares, as the case may be. Record date (Clause 16 of the listing agreement) is the date on which the records of a company are closed for the purpose of determining the stock holders to whom dividends, proxy's rights etc. are to be sent. In case of fixation of record date, a company fixes a date for determining the corporate benefits like dividends rights, bonus shares rights and rights issue. The listed company should give notice or record date in a newspaper at least 7 days before the fixation of the record date.
BLOCK DEAL	The SEBI vide letter MRD/DoP/SE/Cir - 19/05 dated September 02, 2005 and CIR/MRD/DP/118/2017 dated October 26, 2017 guidelines outlining a facility of allowing Stock Exchanges to provide separate trading window to facilitate execution of large trades. The Exchanges have introduced new block window mechanism for the block trades from January 01, 2018. • **Session Timings:** a) *Morning Block Deal Window*: This window shall operate between 08:45 AM to 09:00 AM. b) *Afternoon Block Deal Window*: This window shall operate between 02:05 PM to 2:20 PM. • In the block deal, the minimum order size for execution of trades in the Block deal window shall be **Rs.10 Crore**. • The orders placed shall be within ±1% of the applicable reference price in the respective windows as stated above. • The stock exchanges disseminates the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc to the general public on the same day, after the market hours.
BULK DEAL	Bulk deal is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company. Bulk deal can be transacted by the normal trading window provided by brokers throughout the trading hours in a day. Bulk deals are market driven and take place throughout the trading day. The stock broker, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis. Bulk orders are visible to everyone. If the bulk deal happens through a single trade, it should be notified to the exchange immediately upon the execution of the order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading.

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SETTLEMENT SYSTEM

Settlement means actual delivery/receipts of securities and payment of agreed amount. Settlement date is the date specified for delivery of securities between securities firms. It is necessary to make settlement to know net effect of series of transactions during given period. All transactions executed during settlement period are settled at the end of the settlement period.

It is necessary to settle all transactions of stock exchange because of risk of payment default and transfer of securities.

Settlement risk or principal risk is the risk that the seller of a security or funds delivers its obligation but does not receive payment or that the buyer of a security of funds makes payment but does not receive delivery. In Indian Stock Market, T + 2 settlements are prevailing.

WHAT IS ROLLING SETTLEMENT?

Rolling settlement is a system of settlement transaction in a fixed number of days after the date of Trade. Earlier rolling settlement was based on T + 3 and now it is T + 2 settlement system. T stands for trading day.

Note: For calculating settlement date, all intervening holidays shall be excluded like Sundays, Saturdays and stock exchange holidays.

Example: If trade of securities happened on Wednesday, then such transaction must be settled by Friday i. e. Wednesday and 2 more working days.

SETTLEMENT CYCLE FOR ROLLING SETTLEMENT

	Activity	Day
Trading	Rolling settlement	T (Trading day)
Clearing	Custodial confirmation and delivery generation	T + 1 working days
Settlement	Securities and funds pay – in and pay – out	T + 2 working days
Post settlement	Auction	T + 3 working days
	Bad delivery reporting	T + 4 working days
	Auction settlement	T + 5 working days
	Rectified bad delivery pay – in and pay – out	T + 6 working days
	Re – bad delivery reporting and pick up	T + 8 working days
	Close out of re – bad delivery and funds pay – in and pay – out	

WHAT IS PAY – IN AND PAY – OUT?

Pay – in day is the day when the sold securities are delivered to the stock exchange by the seller and funds for securities purchased are made available to the stock exchange by the buyers.

Pay – out day is the day when the purchased securities are delivered to the buyer and the funds for the securities sold are given to the seller. At present, the pay – in and pay – out happens on the 2nd working day after the trade is executed on the exchange, which is settlement cycle i. e. T + 2 rolling settlement.

FUNDS PAY – IN

Once the reconciliation of securities is completed by the Clearing House, the bank accounts of member – brokers maintained with the ten clearing banks are directly debited through computerized posting for their funds settlement obligations.

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Once the pay – in of securities and funds is complete, the Clearing House arranges for the pay – out of securities and funds.

In case of those members, whose funds pay – in obligations are returned by their clearing banks on account of insufficient funds in their bank accounts at the time of pay – in, their BOLT TWSs are now immediately de – activated during the trading hours itself, on receipt of such intimation from the clearing banks as against the earlier practice of de – activating their BOLT TWSs at the end of trading on that day. BOLT (BSE online terminal) TWSs of such members remain de – activated till the pay – in obligations are cleared by them.

SECURITIES PAY – OUT

In case of dematsecurities, the same are credited by the Clearing House in the Pool/Principal Accounts of the member – brokers. The Exchange has also provided a facility to the member – broker for transfer of pay – out securities directly to the client's beneficiary owner accounts without routing the same through their Pool/Principal accounts in NSDL/CDSL.

For this, the concerned member – brokers are required to give a client wise break up file which is uploaded by the member – brokers from their offices to the Clearing House. Based on the break up given by the member brokers, the Clearing House instructs depositories, viz., CDSL & NSDL to credit the securities to the Beneficiary Owners (BO) Accounts of the clients.

In case delivery of securities received from one depository is to be credited to an account in the other depository, the Clearing House does an inter depository transfer to give effect to such transfers.

In case of physical securities, the Receiving Members are required to collect the same from the Clearing House on the pay – out day. This process of passing on delivery of securities purchased by the member – brokers to them by the Clearing House is called pay – out of securities.

COMPLETE SETTLEMENT PROCESS

It is obligation on clearing corporation to settle all transactions between buyer and seller in T + 2. Here, settlement means money in the account of seller and shares in the demat account of buyer within T + 2.

WHAT IS NO – DELIVERY PERIOD?

Whenever a company announces a book closure and record date, the exchange sets up a no – delivery period for that security. During this period, only trading is permitted in the securities but no settlement.

It provides a market for trading in securities, debt and derivatives. It also resolves investor's grievances whether against the companies or its own member – broker. It also strives to educate and enlighten the investors by conducting investor education programmes and making available to them necessary information inputs.

TRADING AT BSE

- The scrips traded on BSE have been classified into 'A', 'B', 'T' and 'Z' groups on certain qualitative and quantitative parameters.
- F Group represents the Fixed Income Securities.
- T Group represents scrips which are settled on a trade – to – trade basis as a surveillance measure.
- Trading in Government Securities by the retail investors is done under the G group.

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	• Z group scrips include companies which have failed to comply with the listing agreements and/or also failed to resolve investors compliant and/or have not made the required agreement with both depositories i. e. CDSL & NDSL for dematerialization of shares.
SURVEILLANCE	**Market surveillance** plays a vital role in ensuring market integrity which is the core objective of regulators. Market integrity is achieved through combination of surveillance, inspection, investigation and enforcement of relevant laws and rules. Globally market surveillance is either conducted by the Regulators or Exchanges or both. In India, the primary responsibility of market surveillance has been entrusted to **Stock exchanges** and is being closely monitored by **SEBI**. Millions of Orders are transmitted electronically every minute and therefore surveillance mechanisms to detect any irregularities must also be equally developed. Exchanges adopt automated surveillance tools that analyse trading patterns and are installed with a comprehensive alerts management system. Market Surveillance is broadly categorised in 2 parts viz, Preventive Surveillance and Post trade Surveillance **A. PREVENTIVE SURVEILLANCE –** • *Stringent On boarding norms for Trading Members* - Stringent net worth, back ground, viability etc. checks while on boarding Trading Members. • *Index circuit filters* - It brings coordinated trading halt in all equity and equity derivative markets at 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value. • *Trade Execution Range* - Orders are matched and trades take place only if the trade price is within the reference price and execution range. • *Order Value Limitation* - Maximum Order Value limit allowed per order. • *Cancel on logout* - All outstanding orders are cancelled, if the enabled user logs out. • *Kill switch* - All outstanding orders of that trading member are cancelled if trading member executes kill switch. • *Risk reduction mode* - Limits beyond which orders level risk management shall be initiated instead of trade level. • *Compulsory close out* - Incoming order, if it results in member crossing the margins available with the exchange, such order will be partially or fully cancelled, as the case may be, and further disallow the trading member to create fresh positions. • *Capital adequacy check* - Refers to monitoring of trading member's performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached • *Fixed Price Band / Dynamic Price band* - Limits applied within which securities shall move; so that volatility is curbed orderliness is bought about. For non-derivative securities price band is 5%, 10% & 20%. For Derivative products an operating range of 10% is set and subsequently flexed based on market

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conditions.

• *Trade for Trade Settlement* - The settlement of scrip's available in this segment is done on a trade for trade basis and no netting off is allowed.

• *Periodic call auction* - Shifting the security form continuous to call auction method

• *Rumour Verification* - Any unannounced news about listed companies is tracked on online basis and letter seeking clarification is sent to the companies and the reply received is disseminated

B. POST TRADE SURVEILLANCE -

• *End of day alert* – Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally form its past behaviour

• *Pattern recognition model* – Models designed using high end tools and trading patterns which itself identifies suspects involving in unfair trading practise.

• *Transaction alerts for member* - As part of surveillance obligation of members the alerts are downloaded to members under 14 different heads.

Preventive approach adapted by Exchange / SEBI has been fruitful. However, they are fully aware that the suite of measure in force have to be upgraded, expanded and added to be able to successful in this preventive approach.

SEBI has introduced various market surveillance measure like price band, circuit filter, trade for trade segment.

SURVEILLANCE ACTION:

(i) **SPECIAL MARGINS:**

Special margin may be imposed by BSE from time to time on certain Securities as a surveillance measure and informed to the Members through notices.

Special margins are imposed on stocks which witness abnormal movement in price or volume. It is a surveillance measure intended to check speculative activity in particular scrip. At the BSE, the margin is levied at 25% or 50%.

This largely depends on the sharpness in the movement of share price or volumes, client wise net outstanding purchase or sale position or on both sides.

(ii)**CONCEPT OF CIRCUIT AND CIRCUIT BREAKERS:**

Stock prices of companies listed on the stock exchanges are influenced by several factors like company financials, investor's perception of the company's growth, industry trends, government regulations and market speculation etc.

Some factors are predictable and can be studied and analyzed using statistical tools like graphs and techniques like ratio analysis, trend analysis, theory of probability etc. Certain other factors and their influence on prices of a particular stock of the market in general and the degree of their impact are completely unpredictable.

Since market sentiments cannot be predicted accurately and their impact on stock prices is difficult to judge, sometimes the movement of stock prices can beat all logic and move tremendously in any direction.

Circuit Breaker is a surveillance system to maintain the unnecessary volatility in the stock market. For example, the BSE Sensex moved up by 2110.79 points on

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May 18, 2009 after the Parliament's election results were announced. The trading had to be halted since the market became extremely volatile and moved beyond reasoning.

WHAT IS A CIRCUIT?

Circuits are of two types – circuit for an index and for a stock. So, if an index or the price of a stock increases or declines beyond a specified threshold it is said to have entered into a circuit. SEBI specifies this threshold as a percentage of the prior day's closing figures.

WHAT IS A CIRCUIT BREAKER?

Factors like market speculations force stock prices or indices to enter into a circuit. Such a condition is beyond the control of regulatory authorities. Hence they use the circuit breaker to curb such market situations. Circuit breaker, simply put, is a set of rules formed and issued by SEBI in order to bring back normalcy in the stock markets in the event an index or stock enters into a circuit. SEBI has different circuit breakers for indices and for stocks.

CIRCUIT BREAKER FOR AN INDEX

Circuit breakers are applied only on equity and equity derivative markets. Whenever the major stock indices like BSE Sensex and Nifty cross the threshold level, SEBI rules require that the trading at the stock exchange be stopped for a certain period of time beginning from half an hour to even an entire day. The idea is to allow the market to cool down and resume trading at normal levels. The following threshold limits are implemented at different stages:-

Movement in Indices	Time	Close period
10%	Before 1.00 pm	1 hour
	1.00 pm to 2.30 pm	½ hour
	After 2.30 pm	Does not close
15%	Before 1.00 pm	2 hour
	1.00 pm to 2.30 pm	1 hour
	After 2.30 pm	Close for the rest of the day
20%	Any time	Close for the rest of the day

CIRCUIT BREAKER FOR A STOCK

A price range for a stock to move without any interference from regulatory authorities. Only when the stock prices move beyond the range, it is considered as entering into a circuit and circuit breakers are applied. Daily price bands of 2%, 5% and 10% are applicable to different equity stocks. Price bands of 20% are applicable to all remaining scrip like preference shares or debentures.

Example: For a stock with a price band of 5% that closes at Rs.100 on the previous day, the price band will be between Rs.105 and Rs.95.

WHAT ARE AN UPPER CIRCUIT AND LOWER CIRCUIT?

Stock prices can either move up or down and hence circuit breakers are required for movements in both directions. An upward movement over the threshold will cause a stock to enter into an upper circuit. Similarly a downward movement in stock price beyond the threshold will cause a stock to enter into a lower circuit.

Reduction of Circuit Filters: The circuit filters are reduced in case of illiquid Securities or as a price containment measures. The circuit filters are reduced to 10% or 5% or 2%, as the case may be, based on the criteria decided by the Surveillance Department of the Stock Exchanges. No circuit filters are applicable

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	on Securities on which derivative products are available. (iii) **Trade to trade:** Trade – to – trade (T2T) or T segment on BSE is segment in which no intra – day trading is allowed. It means in this category, securities can only be bought on delivery basis. Transactions placed in this segment have to be mandatorily settled on gross basis i. e. by taking or giving delivery even if you have bought and sold the shares during the same settlement cycle. **Example:** If you buy shares, you must pay the money and take delivery. If you sell shares, you must give the delivery of shares and you will get money. If you buy today and sell today and don't have delivery, then the sell position will go into auction and you will have to pay heavy penalty. (iv**) Suspension of Scrip:** It is a method to stop the trading of shares of listed companies for temporary period for the violation of rules & regulations of Stock Exchanges. (v) **Warning to Members (Broker):** Stock exchanges may also take action against its members who are indulged in the activities of artificial speculation.' (vi) **Imposition of penalties/deactivation of terminals of members:** Rumor Verification: Steps Involved in Rumor Verification: (i) Surveillance Department liaises with Companies Officers of companies to obtain comments of the company on various price sensitive corporate news items appearing in the selected New Papers. (ii) Comments received from the companies are disseminated to the Market by way of BOLT Ticker and/or Notices in the Bulletin. (iii) Show cause notices are issued to companies which do not reply promptly to the Exchange. Pro – active Measure: The Department compiled and disseminated a list of companies who have changed their names to suggest that their business interest is in the software Industry. Position Monitoring: (i) Statement of top 100 purchasers/dealers (ii) Concentrated Purchase/sales (iii) Purchases/sales of scrips having thin trading (iv) Pay – in liabilities above a threshold limit (v) Verification of Institutional Trades (vi) Snap investigation (vii) Market intelligence
RISK MANAGEMENT IN SECONDARY MARKET	• The performance of secondary market has a vital bearing on the performance of primary market. • A number of measures were taken to modernise the stock exchanges in the country. These measures focussed on infrastructure development, transparency, efficiency and enhanced investor protection. Risk management was further strengthened during the year by implementing a comprehensive system of margins, exposure limits and improving the efficiency of clearing and settlement systems through the introduction of settlement guarantee funds. • With a view to enhancing market safety, SEBI fixed intra-day trading and

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	gross exposure limits for brokers.SEBI continued to maintain a constant interface with the stock exchanges on various issues concerning investor protection, automated market infrastructure and overall improvement in quality of intermediation. SEBI also directed its efforts towards encouraging the stock exchanges to become effective as self-regulatory institutions. • Automated screen based trading which was introduced in the country through the setting up of the OTCEI and NSE and subsequently introduced by the BSE had brought about a qualitative improvement in the market and its transparency. • Transaction costs and time were also significantly reduced. • During the year several of the smaller exchanges also introduced on-line screen based trading. • The key risk management measures initiated by SEBI include:- ❖ Categorization of securities into groups 1, 2 and 3 for imposition of margins based on their liquidity and volatility. ❖ VaR based margining system. ❖ Specification of mark to Market margins. ❖ Specification of Intra-day trading limits and Gross Exposure Limits. ❖ Real time monitoring of the Intra-day trading limits and Gross Exposure Limits by the Stock Exchanges. ❖ Specification of time limits of payment of margins. ❖ Collection of margins on upfront basis. ❖ Index based market wide circuit breakers. ❖ Automatic de-activation of trading terminals in case of breach of exposure limits. ❖ VaR based margining system has been put in place based on the categorization of stocks based on the liquidity of stocks depending on its impact cost and volatility. It addresses 99% of the risks in the market. ❖ Additional margins have also been specified to address the balance 1% cases. ❖ Collection of margins from institutional clients on T+1 basis

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UNIT 16: SECURITIES MARKET INTERMEDIARIES

INTRODUCTION	The Securities market intermediaries are an important link between investor, Issuer Company and the regulator. In other words, we cannot imagine any transaction in the capital market without Capital Market Intermediaries. They simply connect an investor with the user of funds in pursuance of SEBI regulations. Market intermediaries help investors to select investments by providing investment consultancy, market analysis and credit rating of investment instruments. The following are the Securities Market Intermediaries:- (a) Merchant Bankers (MB) (b) Registrars and Share Transfer Agents (RTA) (c) Underwriters (d) Bankers to issue (e) Debenture Trustees (f) Portfolio Manager (g) Foreign Institutional Investor (FII) (h) Stock – brokers and sub – brokers (i) Custodian (j) Investment Advisor (k) Credit Rating Agencies and Depository Participant
ROLE & FUNCTIONS OF SECURITIES MARKET INTERMEDIARIES (IN A PUBLIC ISSUE)	
MERCHANT BANKER	Merchant Banker means: ⇨ A person who manages; ⇨ the business of issue of securities ⇨ by making arrangements for selling, buying or subscribing to securities. It is **obligatory** on the part of Issuer Company to appoint a merchant banker in relation to any public issue like IPO, Right Issue, Buy Back & Delisting. A person who undertakes any assignment of merchant bankers shall first get it registered with SEBI under the provisions of SEBI (Merchant Banker) Regulations, 1992. Under clause 2 (cb) of SEBI (Merchant Banker) Regulations, 1992, **Merchant Banker** means any person who is engaged in the business of **issue management** either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management. **Example:** SBI Capital Markets Ltd., ICICI Securities Ltd., Reliance Securities Ltd. and Karvy Investor Services Limited The Merchant banker undertakes the following activities including preparation of prospectus, advisory on projects, determining financial structure, due diligence, tie – up with financiers, allotment of shares and refunds:- (a) Managing of public issue of securities; (b) Preparation of prospectus/letter of offer; (c) Final allotment of shares and refund of application money; (d) Underwriting connected with the aforesaid public issue management business; (e) Managing/Advising on international offerings of debt/equity i. e. GDR, ADR, EDBs, FCCBs, FCEBs and bonds; (f) Private placement of securities; (g) Primary or satellite dealership of government securities; (h) Corporate advisory services with regard to takeovers, acquisition and disinvestment.

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 Video Lectures of CL, CMA & SLCM available at www.amittaldaclasses.com/

	CAPITAL ADEQUACY: The Capital Adequacy requirement shall be a Networth of not less than **5 CRORES**. *"Net Worth" means the sum of paid up capital and free reserves of the applicant at the time of making application.* **RESPONSIBILITIES OF LEAD MANAGERS:** • No Lead Manager shall agree to manage or be associated with any issue *unless* • His responsibilities relating to the issue mainly those of disclosures, allotment and refund are clearly defined, allocated and determined and • A statement specifying such responsibilities is furnished to SEBI at least 1 month before the opening of the issue for subscription • But where there are more than 1 Lead Merchant Banker to the issue the responsibility of each such LMB shall clearly be demarcated and the statement specifying such responsibilities shall be furnished to SEBI at least 1 month before the opening of issue for subscription.
REGISTRAR AND TRANSFER AGENT (RTA)	RTA means a person who works like a Registrar to an issue and transfer agent. A RTA is governed under the provisions of the SEBI (Registrar to an Issue and Share Transfer Agents) Regulations, 1993. **Example:** Karvy Computershare Pvt. Ltd. &Intime Spectrum Registry Ltd. **Registrar to an Issue**: Registrar to an issue means: ⇨ a person who finalizes the list of eligible allottees for a public issue. ⇨ He is responsible for rejecting the invalid applications and ⇨ also ensures crediting shares to the Demat accounts of the successful applicants. ⇨ He dispatches the refund orders to those applicants in whose favor no share has been allotted. **Functions/Activities of Registrar to an Issue**: (a) Collecting application from investors in respect of an issue; (b) Keeping proper record of applications and monies received from investors; (c) Determining the basis of allotment in consultation with the stock exchange; (d) Finalizing the list of allottees; (e) Processing and dispatching the allotment letters, refund orders or certificates etc. **Share Transfer Agent**: ⇨ Share Transfer Agent means a person who **keeps records**of holders of the securities in connection with transfer and redemption of securities. ⇨ In India, it is **obligatory to all listed companies**to outsource the activities in relation to registration and transfer of securities. The Registrars to an Issue and Share Transfer Agents constitute an important category of intermediaries in the primary market. They render very useful services in mobilizing new capital and facilitating proper records of the details of the investors, so that the basis for allotment could be decided and allotment ensured as per SEBI Regulations. **CRITERIA FOR REGISTRATION:** It shall assess whether the applicant: i) has any past experience in the activities; Capital Adequacy Requirement for Category I is Rs. 50,00,000/- and Category II is Rs. 25,00,000/-
UNDERWRITER	Underwriter means a person who engages in the business of underwriting of an

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	issue of securities of a company. An underwriter assures the issuing company to take up shares or securities to a certain limit in case the company fails to collect minimum subscription from the General Public to the expected level. For this arrangement, the underwriter will enter into an agreement with the issuing company and the assuring party such as a financial institution, banks, merchant banker, or broker. Underwriting is mandatory for a public issue. It is necessary for a public company which invites public subscription for its securities to ensure that its issue is fully subscribed. In case of any short – fall, it has to be made good by underwriting arrangements made in advance of the opening of the public issue. **APPLICATION FOR REGISTRATION:** i) the applicant shall shave necessary infrastructure like adequate office space, equipments and manpower and past experience in underwriting, employing at least two persons with such experience. No person directly or indirectly connected with the applicant should have been granted registration by SEBI. SEBI shall take into account whether a previous application for a certificate of any person directly or indirectly connected with the applicant has been rejected by SEBI or any disciplinary action has been taken against such person under Act or rules or regulations; ii) The applicant should be a fit and proper person, fulfilling the capital adequacy requirement (at least Rs. 20,00,000/-) and no director, partner or principal officer should have been at any time convicted for an offence involving moral turpitude or found guilty of any economic offence.
BANKER TO AN ISSUE	Banker to an Issue means a scheduled bank which carries out the activities like: • Acceptance of application and application monies; • Acceptance of allotment or call monies; • Refund of application monies; • Payment of dividend or interest warrant during & after issue of securities. It also opens Escrow account for collection and utilization of public issue proceeds. The banks are expected to furnish prompt information and records to the issuer company and to the lead manager for monitoring and progressing the issue work. For this purpose, the company has to enter into an agreement with different banks specifying the conditions, terms and remuneration for services to be rendered by each such bank.
DEBENTURE TRUSTEE	Debenture Trustee (DT) means a trustee of a trust deed for **securing any issue** of debentures of a Company. DT protects the interest of debenture holders in case the company fails to pay the principal as well as interest amount to the debenture holders. It is necessary that the company makes proper arrangements to extend assurances and comply with legal requirements in favour of the investors who are entitled to this type of security. The issuing company has to complete the process of finalizing and executing the trust deed or document and get it registered within the prescribed period and file the charge with the Registrar of Companies (ROC) in respect of the security offered. **ROLE AND FUNCTIONS:** (i) Call for periodical reports from the Company, i. e., issuer of debentures. (ii) Take possession of trust property in accordance with the provisions of the trust deed. (iii) Enforce security in the interest of the debenture holders. (iv) Ensure that the property charged to the debenture is available and adequate at

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	all times to discharge the interest and principal amount payable in respect of the debentures and such property is free from any other encumbrances. (v) Exercise due diligence to ensure compliance by the Company with the provisions of the Companies Act and the listing agreement or the trust deed. (vi) To take appropriate measures for protecting interest of the debentures holders in case of any breach comes to notice. (vii) To ascertain that the debentures have been converted or redeemed as per law. (viii) Appoint a nominee director on the board of the Company, if required. **APPLICATION FOR REGISTRATION:** (i) has in employment at least one person who possesses the professional qualification in law from an institute recognized by Government; (ii) fulfills the capital adequacy requirements as may be specified; (**not less than Rs. 1 Crore**) **The Applicant shall be a schedule bank carrying on commercial activity, a public financial institution, an insurance company or a body corporate.**
PORTFOLIO MANAGER	Any person who pursuant to contract or arrangement with the client, advises or directs or undertakes on behalf of the client, the management or administration of a portfolio of securities or the funds of the clients, as the case may be. A portfolio manager plays an important role in deciding the best investment plan for an individual as per his income, age as well as ability to undertake risks. A portfolio manager is responsible for making an individual aware of the various investment tools available in the market and benefits associated with each plan. Make an individual realize why he actually needs to invest and which plan would be the best for him. A portfolio manager is responsible for designing customized investment solutions for the clients according to their financial needs. **CAPITAL ADQUACY REQUIREMENT:** Portfolio manager must have capital adequacy requirement of not less than Networth of two crores rupees. However, the portfolio manager shall fulfill capital adequacy requirement under these regulations, separately and independently of capital adequacy requirements if any for each activity undertaken by it under the relevant regulations. *Networth means aggregate value of paid up equity capital plus free reserves (excluding reserves created out of revaluation) reduced by the aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.*
SYNDICATE MEMBER	Syndicate Member is an intermediary registered with SEBI and who is permitted to carry on the activity as an underwriter or as a broker. The Book Runner (Merchant Bankers) may appoint those intermediaries who are registered with the SEBI and who are permitted to carry on activity as an 'Underwriter' as syndicate members. The syndicate members are mainly appointed to collect the entire bid forms in a book built issue. He is a member of the Stock Exchange to whom the investor has to submit the IPO Bid/Application form who receives the bid and upload the same on to the electronic book of the stock exchange. He then submits the bid with cheque to the bankers. In case of online application, the Syndicate Member/Broker generates the electronic application form and submits the same to the Registrar with proof of having paid the bid amount.

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	FUNCTIONS AND ROLES: (a) A Syndicate Member (Broker) is a member of the Stock Exchange to whom the investor has to submit the IPO Bid/Application form. (b) The Syndicate Member receives the bid and uploads the same on to the electronic book of the stock exchange. Bids which are not uploaded into the electronic book are not considered for the purpose of allotment. (c) The Syndicate Member then submits the bid with cheque to the bankers. In case of online submits the same to the Registrar with proof of having paid the bid amount.
FOREIGN INSTITUTIONAL INVESTOR (FII)	FII means an institution established outside India which proposes to make investment in India in securities. FII must register itself with SEBI for accessing Indian Stock Market. In simple words, FIIs are those institutional investors which invest in the assets belonging to a different country other than that where these organizations are based. Functions and Role: After registration with SEBI, FIIs can invest in the securities available in the Indian primary and secondary markets including the investments in equity/debentures/warrants/other securities/instruments of listed or unlisted companies. FII plays a very important role in any economy. There are no restrictions on the volume of investment in terms of minimum or maximum for the purpose of entry of FIIs and these investments are not subject to lock – in period. These are the big companies such as investment banks, mutual funds etc, who invest considerable amount of money in the Indian markets. With the buying of securities by these big players, markets tend to move upward and vice – versa. They have strong influence on the total inflows coming into the economy.
STOCK – BROKER	Stock Banker is a member of stock exchange and they are intermediaries who are allowed to trade in securities on the exchange. They buy and sell on their own behalf as well as on behalf of their clients. A stock broker plays an important role in the secondary market helping both the seller and the buyer of the securities to enter into a transaction. When executing an order the stock broker may on behalf of his client buy or sell securities from his own account i. e. as principal acts, as an agent. **APPLICATION FOR REGISTRATION:** ❖ An Application by a stock broker for grant of registration of a certificate of registration shall be made through the stock exchange of which he is admitted as a member. ❖ The stock exchange shall forward the application form to SEBI as early as possible but not later than 30 days from the date of its receipt. ❖ SEBI may require the applicant to furnish such further information or clarifications regarding the dealings in securities and related matters to consider the application for granting a certificate of registration. ❖ The applicant or its principal officer shall, if so required, appear before SEBI for personal representation. SEBI shall take into account following aspects: (i) Whether the applicant is eligible to be admitted as a member of a stock exchange; (ii) Whether he has any past experience in the business of buying, selling or dealing in securities;

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	(iii) Whether he was subjected to disciplinary proceedings under rules, regulations and bye laws of a stock exchange with respect to his business as a stock broker involving either himself or any of its partner, directors or employees; ❖ SEBI on being satisfied that the stock broker is eligible, shall grant a certificate of registration to him and send an intimation to that effect to the stock exchange. The stock broker holding a certificate shall at all times abide by code of conduct.
SUB – BROKER	Sub – broker means any person not being a member of stock exchange who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers. A sub – broker is one who works along with the main broker and is not directly registered with the stock exchange as a member. He acts on behalf of the stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers.
CUSTODIAN	A custodian is a person who carries on the business of providing custodial services to the client. The custodian keeps the custody of the client. The custodian also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities. Every custodian should have adequate facilities, sufficient capital and financial strength to manage the custodial services. **ROLES AND RESPONSIBILITIES**: (i) Administrate and protect the assets of the clients. (ii) Open a separate custody account and deposit account in the name of each client. (iii) Record assets. (iv) Conduct registration of securities. (v) Custodial services refer to the safeguarding of securities of a client. The activities relating to custodial services involve collecting the rights benefiting the client in respect of securities, maintaining the securities' account of the client, informing the clients about the actions taken or to be taken, and maintaining records of the services.
INVESTMENT ADVISER	Investment Adviser means any person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever name called. The globalization of the capital markets, the proliferation of asset classes and the bewildering variety of risks that the average institutional investor is confirmed which have increased the need for the specialized expertise that investment advisers provide. Investment advisers serve as facilitators, making sure that al clients have many opportunities to express their financial concerns and issues. Basically Investment advisers give advice and provide services related to the investment management process. In order to add value, the investment adviser is called upon to apply specialized knowledge, experience and analytical resources to create and deliver focused advice to client and works to increase the investment knowledge of clients and thereby

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<table>
<tr><td></td><td>support the fiduciary obligations clients face in the management of their plan.</td></tr>
<tr><td>RESEARCH ANALYST</td><td>“Research analyst” means a person who is primarily responsible for,-
i. preparation or publication of the content of the research report; or
ii. providing research report; or
iii. making ‘buy/sell/hold’ recommendation; or
iv. giving price target; or
v. offering an opinion concerning public offer,
with respect to securities that are listed or to be listed in a stock exchange, whether or not any such person hasthe job title of ‘research analyst’ and includes any other entities engaged in issuance of research report orresearch analysis.

There are basically three broad types of analysts, viz. sell-sideanalysts, buy-side analysts and independent analysts.

– Sell-side Analysts- They typically publish research reports on the securities of companies or industriesthat they cover. These Research reports carry specific recommendations, such as recommendation to
buy, hold, or sell the subject security. It also includes the analyst’s expectation of the future priceperformance of the security (“price target”).

– Buy-side Analysts-They generally work for money managers like mutual funds, hedge funds,pension funds, or portfolio managers that purchase and sell securities for their own investment accounts
or on behalf of others. Research reports of these analysts are generally circulated among the topmanagement of the employer firms as these reports contain advice about which securities to buy, holdor sell.

– Independent Analysts- They work for research originators or boutique firms that are legal entitiesseparate from full-service investment firms and sell their research to others on a subscription or otherbasis.

The activities of Research Analyst in India are governed by the SEBI (Research Analysts) Regulations,2014.</td></tr>
<tr><td>CREDIT RATING AGENCY</td><td>Already discussed</td></tr>
<tr><td>DEPOSITORY PARTICIPANT</td><td>Already discussed</td></tr>
<tr><td>SUMMARY OF NET WORTH REQUIREMENTS:</td><td>
<table>
<tr><td>Custodian</td><td>50 Crores</td></tr>
<tr><td>Credit Rating Agency</td><td>25 Crores</td></tr>
<tr><td>Promoter of CRA</td><td>100 Crores</td></tr>
<tr><td>Collective Investment Scheme</td><td>5 Crores</td></tr>
<tr><td>Investment Adviser</td><td>Body Corporate: 25 Lakhs
Individual or Partnership: 1 Lakh</td></tr>
<tr><td>Merchant Banker</td><td>5 Crores</td></tr>
<tr><td>Registrar & Share Transfer Agents</td><td>Category 1: Rs. 50 Lacs
Category 2: Rs. 25 Lacs</td></tr>
<tr><td>Underwriters</td><td>Rs. 20 Lacs</td></tr>
<tr><td>Debenture Trustee</td><td>Rs. 10 Crores</td></tr>
<tr><td>Portfolio Managers</td><td>Rs. 2 Crores</td></tr>
</table>
</td></tr>
</table>

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COMMON POINTS ON **POINTS TO BE CONSIDERED IN APPLICATION FOR REGISTRATION** **(FOR ALL INTERMEDIARIES, RATING AGENCY, MUTUAL FUND, CIS, AIF, ETC)**	• The applicant has **NECESSARY INFRASTRUCTURE** like adequate office space, equipment's and manpower to effectively discharge the activities of a _____; • The applicant has in its employment minimum two person who, between them, have at least five years' experience as _____or _____or _____; • Any **PREVIOUS APPLICATION** for grant of certificate made by any person directly or indirectly connected with the applicant has been **REJECTED BY SEBI**; • **ANY DISCIPLINARY ACTION** has been taken by board against a person directly or indirectly connected with the applicant; (person connected means any person being an associate, subsidiary, inter-connected company or company under same management or in same group) • The applicant fulfills the **CAPITAL ADEQUACY** requirements; • The applicant, its director, principal officer or employee is involved in **ANY LITIGATION CONNECTED WITH THE SECURITIES MARKET** which has an adverse bearing on business of the applicant; • The applicant, its director, principal officer or the employee has at any time been convicted for any **OFFENCE INVOLVING MORAL TURPITUDE OR HAS BEEN FOUND GUILTY OF ANY ECONOMIC OFFENCE**; • The applicant is a **FIT AND PROPER PERSON**; • Grant of certificate to the applicant is in the **INTEREST OF INVESTORS**;
COMMON POINT ON CODE OF CONDUCT ALL INTERMEDIARIES	Every _____ is required to abide by the Code of Conduct as per SEBI Regulations: ❖ _____and its key personnel shall **observe high standards of integrity, fairness and professionalism** in all dealings in the Indian securities market with intermediaries, regulatory and other government authorities. ❖ _____shall, at all times, **render high standards of service, exercise due diligence and independent professional judgment**. ❖ _____shall ensure and maintain **confidentiality** in respect of trades done on its own behalf and/or on behalf of its clients. ❖ _____shall ensure the **clear segregation** of its own money/securities and its client's money/securities and arm's length relationship between its business of fund management/investment and its other business. ❖ _____shall maintain an **appropriate level of knowledge and competency** and abide by the provisions of the Act, regulations made thereunder and the circulars and guidelines, which may be applicable and relevant to the activities carried on by it. ❖ _____**shall not make any untrue statement** or suppress any material fact in any documents, reports or information to be furnished to

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	the designated depository participant and/or SEBI. ❖ _____shall ensure that **good corporate policies** and corporate governance are observed by it. ❖ _____shall ensure that it does not engage in **fraudulent and manipulative transactions** in the securities listed in any stock exchange in India. ❖ _____or any of its directors or managers shall not, either through its/his own account or through any associate or family members, relatives or friends indulge in any insider trading. ❖ _____shall not be a party to or instrumental for o **creation of false market in securities** listed or proposed to be listed in any stock exchange in India; o **price rigging** or manipulation of prices of securities listed or proposed to be listed in any stock exchange in India; o passing of **price sensitive information** to any person or intermediary in the securities market.

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FORMULA SHEET

Yield to Maturity (YTM)	$\frac{(100-P)*365*100}{P * D}$ P= Price (Generally less than face value) D= Days to Maturity
Net Assets Value (NAV)	$\frac{\text{Market Value of Investments + receivables + Accrued Income – Current liability – Accrued Expenses}}{\text{Number of Outstanding Units}}$
Public Offer Price of Mutual Fund Unit	$\frac{\text{NAV.}}{1 - \text{Frond End Load}}$
Redemption Price of Mutual Fund Unit	$\frac{\text{NAV.}}{1 + \text{Back end Load}}$
Value of Rights	$V_r = \frac{N\ (P^{ex} - P_{of})}{M}$ N= No. of Right Shares offered M= No. of Original Shares held P^{ex}=Ex Right Price P^{of}= Rights offer price
Rate of Return (mutual fund)	$\frac{(\text{NAV at Sale – NAV at Purchase}) + \text{Dividend}}{\text{NAV at purchase}} * 100$
Minimum Warrant Price	A warrant's minimum value is the difference between its exercise price and the current traded price of its underlying stock.
Warrant Premium	A warrant premium is a difference between the current traded price of a warrant and its minimum value.
Conversion Value of Debenture	Market Price of one Equity Shares × Conversion Ratio
Market Conversion Price	$\frac{Market\ Price\ of\ Convertible\ Debenture}{Conversion\ Ratio}$
Conversion Premium per share	Market Conversion Price – Market Price of Equity Share
Ratio of Conversion Premium	$\frac{Conversion\ premium\ per\ share}{Market\ Price\ of\ Equity\ Share}$
Premium over Straight Value of Debenture	$\frac{Market\ Price\ of\ Convertible\ Bond}{Straight\ Value\ of\ Bond}$
Favorable income differential per share	$\frac{Coupon\ Interest\ from\ Debenture - Conversion\ Ratio\ \times Dividend\ Per\ Share}{Conversion\ Ratio}$
Premium pay back period	$\frac{Conversion\ premium\ per\ share}{Favourable\ Income\ Differential\ Per\ Share}$
Conversion Value of Debenture/Bond (Growth Model)	$CV = C\ (1+g)^n \times R$ Where: C = Current Market Price g = Growth Rate of Price R = Conversion Ratio

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	n = No. of years
Holding Period Return of Mutual Fund Units	$\frac{(No.of\ units\ at\ end\ of\ Period\ \times Ending\ Price) - (No.of\ units\ at\ beginnig\ of\ Perio}{No.of\ units\ at\ beginning\ of\ Period\ \times Initial\ Price}$
Earnings Per Share	$EPS = \frac{PAT - Preference\ Dividend}{No.of\ shares}$
Market Price of Equity Share (Gordon formula)	$D_1 / (K_e - g)$ Where, D1 = Dividend for Next Year from Current Year Earnings Ke = Cost of Equity or Required Rate of Return G = Growth Rate

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