11. Market Design

This section discusses the market design of primary market, collective investment vehicles (such as mutual funds and alternate investment funds), equity market, debt market (government securities market, corporate bonds, and so on), commodities market, derivatives market (equity and currency), and foreign investors (foreign portfolio investors, qualified foreign investors and foreign venture capital investors)[1].

11.1 Primary Market

The Indian securities primary market is governed by the provisions of the Companies Act, 2013, which deals with the listing and allotment of securities. Additionally, the Securities and Exchange Board of India (SEBI) prescribes the eligibility and disclosure norms through the Issue of Capital and Disclosure Requirements (ICDR) Regulations, 2018 that the issuer and the promoter need to comply with for accessing the market. Here, we discuss the market design related to public issue, offer for sale, preferential issue, qualified institutions placement and rights issue by companies, as per the ICDR prescribed by the SEBI.

The Issue of Capital and Disclosure Requirements (ICDR) Regulations 2018[2]

The ICDR Regulation is issued in 2018 by replacing the old ICDR Regulations, 2009. The ICDR Regulations, 2018 is applicable for public issue, rights issue, preferential issue, qualified institutional placement, bonus shares issue by a listed issuer, issue of Specified Securities by small and medium enterprises, and issue of Indian Depository Receipts. It was last amended on December 31, 2018.

General Conditions

An issuer cannot make an initial public offer or rights issue of equity shares and convertible securities under the following conditions:

- if the issuer, any of its promoters, promoter group or directors or selling shareholders are debarred from accessing the capital market by the Board;
- if any of the promoters or directors of the issuer is a promoter or director of any other company which is debarred from accessing the capital market under any order or directions made by the Board;
- if the issuer or any of its promoters or directors are wilful defaulters;
- if any of its promoters or directors are fugitive economic offenders
- unless it has made an application to one or more recognised stock exchanges to seek an in-principle approval for listing of specified securities on such stock exchanges and has chosen one of them as the designated stock exchange;
- unless it has entered into an agreement with a depository for dematerialisation of specified securities already issued or proposed to be issued;
- unless all its specified securities held by the promoters are in dematerialised form prior to filing of the offer document;

[1] The market design section was compiled from the websites of the exchanges and the regulators as well as various regulations issued by them. The content published in this section should not be construed as a substitute for the relevant regulations.

[2] where the aggregate value of specified securities offered is Rs 10 crore or more.

- unless all existing partly paid-up equity shares of the issuer have either been fully paid up or forfeited;
- unless firm arrangements of finance through verifiable means towards 75% 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 rights issue or through existing identifiable internal accruals.

Eligibility Requirements – IPO Main Board

An issuer making a public issue should satisfy the following conditions as on the date of filing draft offer document with the Board and also as on the date of registering the offer document with the Registrar of Companies:

- The issuer has net tangible assets of at least Rupees Three crore, calculated on a restated and consolidated basis, in each of the preceding three full years (of twelve months each), of which not more than 50% are held in monetary assets. However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has to show that it has made firm commitments to utilise such excess monetary assets in its business or project;
- The issuer has an average operating profit of Rupees Fifteen crore, calculated on a restated and consolidated basis, during the three years (of twelve months each) with operating profit in each of these preceding three years;
- The issuer has a net worth of at least Rupees One crore in each of the preceding three full years (of twelve months each), calculated on a restated and consolidated basis;
- If the issuer has changed its name within the last one year, at least 50% of the total revenue for the preceding one full year has been earned by it from the activity indicated by the new name.

An issuer not satisfying the above conditions may make an initial public offer, only if the issue is made through the book-building process and the issuer undertakes to allot at least 75% of the net offer to qualified institutional buyers and refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.

An Issuer shall not be eligible to make an initial public offer if there are any outstanding convertible securities or any other right which would entitle any person with any option to receive equity shares of the issuer. However, these provisions shall not apply to:

- outstanding options granted to employees, whether currently an employee or not, pursuant to an employee stock option scheme in compliance with the Companies Act, 2013, the relevant Guidance Note or accounting standards, if any, issued by the Institute of Chartered Accountants of India or pursuant to the Companies Act, 2013, in this regard;
- fully paid-up outstanding securities which are required to be converted on or before the date of filing of the red herring prospectus (in case of book built issues) or the prospectus (in case of fixed price issues), as the case may be.

Face Value of Equity Shares

- 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 of Public Issues

- An issuer may determine the price of specified securities, the coupon rate and conversion price of convertible debt instruments in consultation with the lead merchant banker or through the book building process.

Differential Pricing

An issuer may offer specified securities at different prices, subject to the following;

- retail individual investors or retail individual shareholders or employees entitled for reservation made under the regulation making an application for specified securities of value not more than 2 lakhs rupees, may be offered specified securities at a price lower than the price at which net offer is made to other categories of applicants. Such difference shall not be more than 10% of the price at which specified securities are offered to other categories of applicants. Discount, if any, shall be expressed in rupee terms in the offer document;
- in case of a book built issue, the price of the specified securities offered to an anchor investor should not be lower than the price offered to other applicants;
- in case of a composite issue, the price of the specified securities offered in the public issue may be different from the price offered in rights issue and justification for such price difference shall be given in the offer document.
- In case the issuer opts for the alternate method of book building, the issuer may offer specified securities to its employees at a price lower than the floor price. But the difference between the floor price and the price at which specified securities are offered to employees should not be more than 10% of the floor price.

Price and Price Band

- The issuer may mention a price or price band in the draft prospectus (in case of a fixed price issue) and floor price or price band in the red herring prospectus (in case of a book built issue) and determine the price at a later date before registering the prospectus with the Registrar of Companies. The prospectus registered with the Registrar of Companies shall contain only one price or the specific coupon rate, as the case may be.
- The issuer has to announce the floor price or price band at least two working days before the opening of the issue (in case of an initial public offer) and at least one working day before the opening of the bid (in case of a further public offer), in all the newspapers in which the pre issue advertisement was released.
- The announcement referred to in sub-regulation 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' in the prospectus.
- The announcement and the relevant financial ratios should be disclosed on the websites of those stock exchanges where the securities are proposed to be listed and shall also be pre-filled in the application forms available on the websites of the stock exchanges.

Contribution of Promoters and Lock-in Period

The promoters of the issuer should contribute in the public issue as follows:

- in case of an initial public offer, not less than 20% of the post issue capital.
- in case the post issue shareholding of the promoters is less than 20%, 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 for the purpose of meeting the shortfall in minimum contribution as specified for promoters, subject to a maximum of 10% of the post issue capital without being identified as promoter(s).
- in case of a further public offer, either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital;
- in case of a composite issue, either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital excluding the rights issue component.

In case of a public issue or composite issue of convertible securities, minimum promoters‘ contribution should be as follows:

- the promoters should contribute 20% of total public issue, either by way of equity shares or by way of subscription to the convertible securities. If the price of the equity shares allotted pursuant to conversion is not predetermined 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.
- in case of issue of convertible securities which are convertible or exchangeable on different dates and have promoters‘ contribution 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.

The promoters shall satisfy the requirements of this regulation at least one day prior to the date of opening of the issue and the amount of promoters' contribution shall be kept in an escrow account with a scheduled commercial bank and shall be released to the issuer along with the release of the issue proceeds. If 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. Further, if the minimum promoters‘ contribution is more than Rupees One hundred crore, the promoters shall bring in at least Rupees One hundred crore before the date of opening of the issue and the remaining amount may be brought on pro-rata basis before the calls are made to public.

Securities Ineligible for Minimum Promoters‘ Contribution

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 they 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 promoters and alternative investment funds during the preceding one year at a price lower than the price at which specified securities are being offered to public in the initial public offer. This condition is not applicable (i) if the promoters/alternative investment funds, as applicable pay the issuer, the difference between the price at which 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 230 to 232 of the Companies Act, 1956, as approved by a High Court, by 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 infrastructure sector;

(c) specified securities allotted to 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, where the partners of the erstwhile partnership firms are the promoters of the issuer and there is no change in the management. However, the specified securities allotted to promoters against 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.

Pre-Issue Obligations

The lead merchant banker has to exercise due diligence and satisfy himself/herself about all aspects of the issue including the offering, veracity, and adequacy of disclosures in the offer document. The liability of the merchant banker will continue even after the completion of the issue process.

The lead merchant banker has to file draft offer document filed with the SEBI.

Each company issuing securities through public or rights issue has to enter into a memorandum of understanding (MOU) with the lead merchant banker, which specifies their mutual rights, liabilities, and obligations.

The lead merchant banker responsible for drafting the offer documents has to submit to the SEBI the copy of the MOU entered into with the issuer company and the draft of the offer document.

In case a public or rights issue is managed by more than one merchant banker, the rights, obligations, and responsibilities of each merchant banker should be demarcated as specified in the relevant regulations.

In the case of under-subscription of an issue, the lead merchant banker responsible for the underwriting arrangements should invoke the underwriting obligations and ensure that the notice for devolvement containing the obligations of the underwriters is issued as specified in the relevant regulations.

The lead merchant banker should furnish to the SEBI a due diligence certificate in the prescribed format along with the draft offer document.

Post-Issue Obligations

Subsequent to the issue, the lead merchant banker shall ensure that the post-issue monitoring reports are submitted, irrespective of the level of subscription. Additionally, the merchant banker shall be associated with the allotment, refund, and despatch, and shall also monitor the redressing of investor grievances arising from them.

In a public issue, the Executive Director/Managing Director of the designated stock exchange along with the post-issue lead merchant banker and the registrars to the issue are responsible for the finalisation of the allotment in a fair and proper manner as specified in Schedule XIV of the ICDR Regulations.

The lead merchant banker and issuer shall ensure that the securities of the company issued pursuant to the IPO are listed on the Exchange within 6 working days from closure of the issue.

Credit Rating

Credit rating agencies (CRAs) can be promoted by public financial institutions, scheduled commercial banks, foreign banks operating in India, or by any corporate body having a continuous minimum net worth of Rs 100 crore for the previous five years. Further, foreign CRAs that are recognised by/under any law in force in the country of its incorporation and have at least five years' experience in rating securities can also operate in the country. The SEBI (Credit Rating Agencies) Regulations, 1999 cover the rating of the securities listed, but not of fixed deposits, foreign exchange, country ratings, and real estate. No company can make a public issue or rights issue of debt instruments (whether convertible or not), unless credit rating is obtained from at least one CRA registered with the board and this rating is disclosed in the offer document. Where ratings are obtained from more than one CRA, all the ratings, including the unaccepted ratings shall be disclosed in the offer document.

Merchant Banking

The merchant banking activity in India is governed by the SEBI (Merchant Bankers) Regulations, 1992. Consequently, all merchant bankers have to be registered with the SEBI. The details about them are presented below:

Category of Merchant Banker	Permitted Activity
Category I	To carry on activities related to issue management, to act as advisor, consultant, manager, underwriter, portfolio manager
Category II	To act as advisor, consultant, co-manager, underwriter, portfolio manager
Category III	To act as underwriter, advisor, consultant to an issue
Category IV	To act only as advisor or consultant to an issue

Only a corporate body other than a non-banking financial company with the necessary infrastructure and at least two experienced employees can apply for registration as a merchant banker. The capital adequacy requirement should be a net worth of minimum Rs 50 million. The merchant banking regulations cover the code of conduct to be followed by merchant bankers, the responsibilities of the lead managers, the payments of fees, and the disclosures to the SEBI.
Demat Issues The SEBI has mandated that all new IPOs should be compulsorily traded in dematerialised form only. Further, Section 29 of the Companies Act, 2013 requires that every listed public company making an IPO of any security should issue the same only in dematerialised form.

11.2 Collective Investment Vehicles

This section discusses, the market design of mutual funds, index funds, exchange-traded funds (ETFs), and alternative investment funds (AIFs).

11.2.1 Mutual Funds

A mutual fund (MF) is a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investment in securities, including money market instruments, gold-related instruments, or real estate assets.

Structure of Mutual Funds

A typical MF in India has the following constituents:

Fund Sponsor: A fund sponsor is a persons, who acting alone or in combination with another corporate body, establishes a MF. The sponsor should have a sound financial track record of over five years, a positive net worth in all the immediately preceding five years, and integrity in all his/her business transactions. In the case of an existing MF, for funds that are in the form of a trust and the trust deed has been approved by the SEBI, the sponsor should contribute at least 40% of the net worth of the asset management company (provided that any person who holds 40% or more of the net worth of an asset management company should be deemed to be a sponsor and would be required to fulfil the eligibility criteria specified in the SEBI Regulations).

Trustees: Trustees could mean the board of trustees or the trustee company that holds the property of the mutual fund in trust for the benefit of the unit holders. The trustees are appointed with the approval of the SEBI. Two-thirds of the trustees should be independent individuals who are not associated with the sponsors in any manner whatsoever. Since the trustees are the primary guardians of the unit holders' funds and assets, they have to be individuals of high repute and integrity. The trustees, however, do not directly manage the portfolio of an MF. It is managed by the asset management company as per the defined objectives, in accordance with the trust deed and the SEBI (MF) Regulations.

Asset Management Company: The asset management company (AMC), which is appointed by the sponsor or the trustees and is approved by the SEBI, acts as the investment manager of the trust. The AMC should have a net worth of not less than Rs 50 crore. It functions under the supervision of its board of directors, trustees, and the SEBI. In the name of the trust, the AMC floats and manages different investment "schemes" as per the SEBI Regulations and the Investment Management Agreement signed with the trustees. The Regulations require a non-interfering relationship involving the fund sponsors, trustees, custodians, and the AMC. The AMC is required to obtain prior in-principle approval from the recognised stock exchange(s) where the units are proposed to be listed.

Custodian: A custodian is appointed for safekeeping the securities, gold-related instruments, or other assets and for participating in the clearing system through the approved depository. The custodian also records information on stock splits and other corporate actions. No custodian in which the sponsor or its associate holds 50% or more of the voting rights of the share capital of the custodian or where 50% or more of the directors of the custodian represents the interests of the sponsor or its associates should act as the custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary companies.

Registrar and Transfer Agent: The registrar and transfer agent maintains the records of the unit holders' accounts. A fund may choose to hire an independent party registered with the SEBI to provide such services or may carry out these activities in-house. If the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme. The registrar and transfer agent forms the most vital interface between the unit holder and the mutual fund. Most of the communication between these two parties takes place through the registrar and transfer agent.

Distributors/Agents: To send their products across the length and breadth of the country, mutual funds use the services of distributors/agents. Distributors consist of banks, non-banking financial companies, and other distribution companies.

Types of MFs/Schemes

A wide variety of MFs/schemes caters to the different preferences of the investors based on their financial position, risk tolerance, and return expectations. The MF schemes can be broadly categorised under three headings:

a. funds by structure (e.g., open-ended and close-ended schemes);
b. funds by investment objective (e.g., growth schemes, income schemes, balanced schemes, and money market schemes); and
c. other schemes (e.g., tax saving schemes, index schemes, and sector-specific schemes).

Open-ended and Close-ended Schemes

An open-ended scheme means any scheme of a mutual fund that offers units for sale without specifying any duration for redemption. A close-ended scheme means any scheme of a mutual fund in which the period of maturity of the scheme is specified. Every close-ended scheme other than an equity-linked savings scheme is required to be listed on a stock exchange within such time period, and is subject to the conditions specified by the SEBI.

Listing of Close-ended Schemes

Other than equity-linked saving schemes, all close-ended schemes are required to be listed on a recognised stock exchange within such time period and are subject to such conditions as specified by the SEBI. The listing of close-ended schemes launched prior to the commencement of the SEBI (Mutual Funds) (Amendment) Regulations, 2009 is not mandatory. The listing of close-ended schemes is not mandatory if the said scheme provides a periodic repurchase facility to all the unit holders with restrictions (if any) on the extent of such repurchase; or if the said scheme provides for monthly income; or if it caters to special classes of people such as senior citizens, women, children, widows, or physically handicapped; or if it provides any special class of people the facility for repurchase of units at regular intervals; or if the details of such repurchase facility are clearly disclosed in the offer document; or if the said scheme opens for repurchase within a period of six months from the closure of subscription; or if the said scheme is a capital protection oriented scheme.

Repurchase of Close-ended Schemes

The units of a close-ended scheme (other than equity-linked saving schemes) launched on or after the commencement of the SEBI (Mutual Funds) (Amendment) Regulations, 2009 shall not be repurchased before the end of the maturity period of the scheme. The units of a close-ended scheme may be open for sale or redemption at fixed pre-determined intervals if the maximum and minimum amounts of sale or redemption of the units and the periodicity of such sales or redemptions have been disclosed

in the offer document. The units of a close-ended scheme can be converted into those of an open-ended scheme if the offer document of the scheme discloses the option and the period of such conversion, or if the unit holders are provided with an option to redeem their units in full and the initial issue expenses of the scheme have been amortised fully in accordance with the Tenth Schedule of the SEBI Mutual Fund Regulations, 1996.
Regulation of Funds Mutual funds are regulated under the SEBI (MF) Regulations, 1996. All MFs have to be registered with the SEBI. The Regulations specify a detailed procedure for the launching of schemes, disclosures in the offer document, advertisements, listing and repurchase of close-ended schemes, offer period, transfer of units, and investments, among others. In addition, the Reserve Bank of India (RBI) also supervises the operations of bank-owned MFs. While the SEBI regulates all the market-related and investor-related activities of the bank/FI-owned funds, any issues concerning the ownership of the AMCs by banks fall under the regulatory ambit of the RBI. Further, as the MFs, AMCs, and corporate trustees are registered as companies under the Companies Act (1956), they have to comply with the provisions of the Companies Act. Many close-ended schemes of MFs are listed on one or more stock exchanges. Such schemes are, therefore, subject to the regulations of the concerned stock exchange(s) through the Listing Agreement between the fund and the stock exchange. Since MFs are public trusts, they are governed by the Indian Trust Act, 1882 and are accountable to the office of the public trustee, which in turn reports to the Charity Commissioner, which enforces the provisions of the Indian Trusts Act.
Advertisements Code by Mutual funds As per the MF regulations, advertisements should be truthful, fair, unambiguous, and concise. Advertisements shall not contain statements that are false, misleading, biased, or deceptive based on assumption/projections, and shall not contain any testimonials or any ranking based on any criteria. No celebrities shall form part of the advertisement. Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details that may detract the investors should be avoided. The details of the advertisement code are mentioned in the Sixth Schedule of the MF Regulations, 1996.
Investment Restrictions A mutual fund scheme should not invest more than 15% of its net asset value (NAV) in debt instruments issued by a single issuer that are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. This investment limit may be extended to 20% of the NAV of the scheme with the prior approval of the board of trustees and the board of the AMC, provided that: • Such limit is not applicable to investments in government securities. • No mutual fund is allowed to invest more that 30% of its net assets in the money market instruments of an issuer (this is not applicable to investments in G-secs, T-bills, collateralised borrowing, and lending obligations). • Further, that investment within such limit can be made in mortgage-backed securitised debts that are rated not below investment grade by a credit rating agency registered with the SEBI. A mutual fund scheme should not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer, and the total investment in such instruments should not exceed 25% of the NAV of the scheme. All such investments should be made with the prior approval of the board of trustees and the board of the AMC. No mutual fund under all its schemes should own more than 10% of any company's paid up capital carrying voting rights.

The transfer of investments from one scheme to another scheme in the same mutual fund should be allowed only if: • Such transfers are done at the prevailing market price for quoted instruments on a spot basis. “Spot basis” has the same meaning as specified by a stock exchange for spot transactions. • The securities so transferred should be in conformity with the investment objective of the scheme to which such a transfer has been made. Details about the restrictions on investment are mentioned in the SEBI (Mutual Fund) Regulations, 1996.
Valuation of Investments Every mutual fund is required to ensure that the AMC computes and carries out a valuation of the investments made by its schemes in accordance with the investment valuation norms specified in the Eighth Schedule of the SEBI (Mutual Funds) Regulations, 1996.
Computation of Net Asset Value Every mutual fund is required to compute the net asset value (NAV) of each scheme by dividing the net asset of the scheme by the number of units outstanding on the valuation date. The NAV of the scheme shall be calculated on a daily basis and published in at least two daily newspapers that have circulation all over India.
NMF II for Mutual Fund Distributors & Investors Securities and Exchange Board of India has allowed mutual fund distributors to use the Exchange infrastructure for facilitating mutual fund transactions for their clients. In order to allow distributors and members of the Exchange access to the infrastructure for executing mutual fund transactions, NSE has developed an online platform NMF II which facilitates transactions in mutual fund by distributors. This is an online platform which facilitates subscription, redemption, Systematic Investment Plan (SIP), Systematic Withdrawal Plan (SWP), Systematic Transfer Plan (STP), Switch and other transactions of mutual fund units. NMF II is a web application and it can be accessed online from anywhere using a standard internet connection. **NMF II for Trading Members & Investors (formerly known as Mutual Fund Service System)** The Mutual Fund Service System (MFSS) is an online order collection system provided by the NSE to its eligible members for placing subscription or redemption orders for open-ended schemes on the MFSS based on orders received from the investors. Hitherto, an investor interested in subscribing to a mutual fund had to identify a distributor of the mutual fund and submit all documents along with the payment instrument (where applicable) to the distributor or directly to MF/AMC/RTA. The subscription/redemption request would thereafter get processed and the investor would know about the status of the request only in the form of direct communication from the MF/AMC/RTA. In the MFSS, the investor deals with the SEBI-registered NSE member who is eligible to participate in the MFSS for subscription/redemption of units. Members enter the order into the MFSS. By the end of the day, the investor gets to know about the validity of his/her order and the value at which the units would get credited/redeemed to his/her account through the trading members. MFSS is integrated with NMF II w.e.f September 21, 2018 to centralize transactions in Mutual Funds and streamline operational activities.

11.2.2 Index Funds

Index funds replicate the portfolio of a particular index such as NIFTY50. This is done by investing in all the stocks that are part of the index in proportions equal to the weightage given to those stocks in the index. The value of the fund is linked to the chosen index, so that if the index rises, the value of the fund will also rise. Conversely, if the index falls, so will the value of the fund.

Unlike a typical MF, index funds do not actively trade stocks throughout the year. Index funds are considered appropriate for conservative long-term investors who are looking at moderate risks and moderate returns arising out of a well-diversified portfolio. Since index funds are passively managed, the bias of the fund managers in stock selection is reduced, and yet they provide returns at par with the index.

11.2.3 Exchange-Traded Funds

An exchange-traded fund (ETF) refers to a diversified basket of securities that is traded in real time like an individual stock on an exchange. Unlike regular open-ended mutual funds, ETFs can be bought and sold throughout the trading day like any other stock. An ETF is similar to an index fund. A gold ETF (GETF) unit is like a mutual fund unit whose underlying asset is gold and is held in demat form. It is typically an exchange-traded mutual fund unit that is listed and traded on a stock exchange. Every gold ETF unit is representative of a definite quantum of pure gold and the traded price of the gold unit moves in tandem with the price of the actual metal. The GETF aims at providing returns that closely correspond to the returns provided by gold.

11.2.4 Collective Investment Schemes

A collective investment scheme (CIS) is any scheme or arrangement made or offered by any company that pools the contributions or payments made by the investors and deploys the same. Despite the similarity between a CIS and an MF regarding the pooling of savings and issuing of securities, they differ in their investment objectives. While an MF invests exclusively in securities, a CIS confines its investments to plantations and real estate. Any entity proposing to operate as a collective investment management company (CIMC) has to apply for registration with the SEBI. The regulations governing CIS are called the SEBI Collective Investment Schemes Regulations, 1999.

11.2.5 Alternative Investment Funds

An alternative investment fund (AIF) is any fund established or incorporated in India in the form of a trust, a company, a limited liability partnership, or a body corporate that:

(i) is a privately pooled investment vehicle, which collects funds from investors, whether Indian or foreign, for investing the funds in accordance with a defined investment policy for the benefit of its investors; and

(ii) is not covered under the SEBI (Mutual Funds) Regulations, 1996, the SEBI (Collective Investment Schemes) Regulations, 1999, or any other regulations of the SEBI that regulate fund management activities.

Registration of AIFs An AIF has to obtain a certificate of registration from the SEBI. Funds registered as venture capital fund under the SEBI (Venture Capital Funds) Regulations, 1996 shall continue to be regulated by said Regulations until the existing fund or scheme managed by the fund is wound up and such funds shall not launch any new scheme after the notification of the AIF Regulations. Further, the existing fund or scheme shall not increase the targeted corpus of the fund or scheme after notification of AIF Regulations. However, VCFs may seek re-registration under these regulations subject to approval of two-thirds of their investors by value of their investment.
Registration Categories of AIFs **Category I AIFs** invest in start-up or early-stage ventures, social ventures, small and medium enterprises (SMEs), or infrastructure or other sectors/areas that the government or the regulators consider as socially or economically desirable and shall include venture capital funds, SME funds, social venture funds, infrastructure funds, and such other AIFs as may be specified. Those AIFs that are generally perceived to have positive spill over effects on the economy and for which the SEBI, the Government of India, or the other regulators in India might consider providing incentives or

concessions shall be included; such funds that are formed as trusts or companies shall be construed as venture capital companies or venture capital funds as specified under Sub-section (23FB) of Section 10 of the Income Tax Act, 1961.

Category II AIFs are those AIFs that do not fall in Category I or III and that do not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in these Regulations. The AIFs such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other regulator shall be included.

Category III AIFs employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. The AIFs such as hedge funds, or funds that trade with a view to making short-term returns, or such other funds that are open-ended and for which no specific incentives or concessions are given by the government or any other regulator shall be included.

Eligibility Criteria

The eligibility criteria for AIFs are laid down by the SEBI (Alternative Investment Funds) Regulations, 2012.

Investment Conditions

An AIF may raise funds from any investor whether Indian, foreign, or non-resident Indians by way of the issue of units.

Each scheme of the AIF shall have corpus of at least Rs20crore

An AIF shall not accept from an investor any investment of value less than Rs 1 crore. In case of investors who are employees or directors of the AIF, or employees or directors of the fund manager, the minimum value of investment shall be Rs 25 lakh.

The fund manager or sponsor shall have a continuing interest in the AIF of not less than 2.5% of the corpus or Rs 5 crore (whichever is lower) in the form of investments in the AIF; such interest shall not be through the waiver of the management fees. However, for Category III AIFs, the continuing interest shall be not less than 5% of the corpus or Rs10crore (whichever is lower).

The manager or sponsor shall disclose their investment in the AIF to the investors of the AIF.

No scheme of the AIF shall have more than 1000 investors.

The fund shall not solicit or collect funds except by way of private placement.

Tenure of AIFs

Category I AIFs and Category II AIFs shall be close-ended; the tenure of the fund or scheme shall be determined at the time of application, subject to the relevant Regulations.

Category I and Category II AIFs or the schemes launched by such funds shall have a minimum tenure of three years.

Category III AIFs may be open-ended or close-ended.

The extension of the tenure of close-ended AIFs may be permitted for up to two years, subject to the approval of two-thirds of the unit holders by value of their investment in the AIF.

In the absence of the consent of unit holders, the AIF shall fully liquidate within one year following the expiration of the fund tenure or extended tenure

Listing of AIF

Units of close-ended AIFs may be listed on the stock exchange(s) subject to a minimum tradable lot of Rs1crore.

Listing of AIF units shall be permitted only after the final close of the fund or scheme.

Valuation

The AIF shall provide to its investors a description of its valuation procedure and the methodology for valuing assets.

Category I and Category II AIFs shall undertake a valuation of their investments at least once every six months by an independent valuer appointed by the AIF. This period may be enhanced to one year subject to the approval of at least 75% of the investors by value of their investment in the AIF.

Category III AIFs shall ensure that the calculation of the NAV is independent from the fund management function of the AIF and such NAV shall be disclosed to the investors at intervals not longer than a quarter for close-ended funds and at intervals not longer than a month for open-ended funds.

11.3 Equity Market[3]

11.3.1 Stock Exchanges

The stock exchanges need to be recognised under the Securities Contracts (Regulation) Act, 1956. Since its inception, the NSE has adopted a demutualised structure, and its model of demutualisation compares well with the international models of demutualised stock exchanges. Some important features of the NSE structure are:

- It is a for-profit company owned by shareholders that are financial institutions, which also have broking firms as subsidiaries.
- Ownership, trading rights, and management rights are segregated.

Membership of Stock Exchanges

The trading platform of a stock exchange is accessible only to its trading members. They play a significant role in the secondary market by bringing together the buyers and the sellers. The brokers give buy/sell orders either on their own account or on behalf of clients. As these buy and sell orders match, the trades are executed. An exchange can admit a broker as its member only on the basis of the terms specified in the Securities Contracts (Regulation) Act, 1956, the SEBI Act 1992, and the various rules, circulars, notifications, and guidelines, as well as the bye-laws, rules, and regulations of the exchange concerned. No stockbroker or sub-broker is allowed to buy, sell, or deal in securities unless he/she holds a certificate of registration from the SEBI. The detailed eligibility criteria for membership to the different segments of the NSE are provided below.

Membership: Corporates

A. Eligibility Criteria for Corporates

A Company as defined in the Companies Act, 1956 (1 of 1956), shall be eligible to be admitted as a member of a Stock Exchange provided:

- such company is formed in compliance with the provisions of Section 12 of the said Act;
- it undertakes to comply with such other financial requirements and norms as may be specified by the Securities and Exchange Board of India for the registration of such company under sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- The directors of such company are not disqualified for being members of a stock exchange under clause (1) of rule 8 [except sub-clauses (b) and (f) thereof] or clause (3) of rule 8 [except sub-clauses (a) and (f) thereof] of the Securities Contracts (Regulation) Rules, 1957 and the directors of the company had not held the offices of the directors in any company which had been a member of the stock exchange and had been declared defaulter or expelled by the stock exchange.

[3] While an attempt has been made to present the market design for the entire Indian securities market, the trading mechanism and other such exchange-specific elements have been explained based on the model adopted by the NSE.

CRITERIA	
Status	Corporate registered under The Companies Act, 1956 (Indian)
Minimum Paid up Equity Capital	Rs30lakhs
Designated Directors	Identification of at least two directors as designated directors who would be managing the day to day trading operations
Age	Minimum age of designated director(s) : 21 years
Education	Each of the Designated Directors should be at least HSC or equivalent qualification
Designated Directors Experience	Should have a minimum of 2 years' experience in securities market.
Dominant Promoter Norms	Identify dominant group as per Exchange DPG norms

Institutions such as scheduled commercial banks, primary dealers, pension funds, provident funds, insurance companies, mutual funds and any other investors as may be specified by sectoral regulators from time to time, can trade on the Debt segment either as clients of registered trading members or directly as trading member on proprietary basis only (i.e own-account trades only). Such institutions desirous of trading on own account only shall be given trading membership under SEBI (Stock Broker and Sub-Broker) Regulations, 1992 as proprietary trading member.

The following persons are eligible to become PCMs of NSCCL provided they fulfil the prescribed criteria:

- SEBI Registered Custodians; or
- Banks recognised by NSEIL/NSCCL for issuance of bank guarantees

B. Deposit & Net worth Requirement for Corporates:

Deposit & Net worth Requirement (Rs lakhs)							
Segment	**Type of Membership**	**Cash NSE**	**Non-Cash NSE**	**Cash NSE Clearing**	**Non-Cash NSE Clearing**	**Total**	**Net Worth**
Capital Market	Trading Member	85	-	-	-	85	75
	Trading & Self Clearing Membership	85	-	15	25	125	100
	Trading & Clearing Membership	85	-	15	25	125	300
	Professional Clearing Membership	85	-	15	25	125	300
Futures & Options	Trading Member	25	-	-	-	25	100
	Trading & Self Clearing Membership	25	-	25	25	75	100
	Trading & Clearing Membership	25	-	25	25	75	300
	Professional Clearing Membership	-	-	25	25	50	300

Deposit & Net worth Requirement (Rs lakhs)								
Segment	**Type of Membership**		**Cash NSE**	**Non-Cash NSE**	**Cash NSE Clearing**	**Non-Cash NSE Clearing**	**Total**	**Net Worth**
Currency Derivatives Segment	Existing member	Trading Member	2	8	-	-	10	100
		Trading & Self Clearing Membership	2	8	25	25	60	500
		Trading & Clearing Membership	2	8	25	25	60	1000
	New members	Trading Member	2	13	-	-	15	100
		Trading & Self Clearing Membership	2	18	25	25	70	500
		Trading & Clearing Membership	2	18	25	25	70	1000
	Professional Clearing Membership		-	-	25	25	50	1000
Debt segment	Existing member	Trading Member	*BMC	-	-	-	*BMC	50
		Trading & Self Clearing Membership	*BMC	-	1	-	*BMC +1	100
		Trading & Clearing Membership	*BMC	-	1	-	*BMC +1	300
	Professional Clearing Membership		-	-	1	-	1	300
	New members	Trading Member	*BMC	-	-	-	*BMC	50
		Trading & Self Clearing Membership	*BMC	-	10	-	*BMC +10	100
		Trading & Clearing Membership	*BMC	-	10	-	*BMC +10	300
	Professional Clearing Membership		-	-	10	-	10	300

NSE

Deposit & Net worth Requirement (Rs lakhs)								
Segment	Type of Membership	Cash NSE	Non-Cash NSE	Cash NSE Clearing	Non-Cash NSE Clearing	Total	Net Worth
Commodity Derivatives Segment	Trading Member	-	5	-	-	5	50
	Trading & Self Clearing Membership	-	5	25	25	55	100
	Trading & Clearing Membership	-	5	25	25	55	300
	Professional Clearing Membership	-	-	25	25	50	500

*BMC ~ Base Minimum Capital requirement as per Exchange circular no-827 (Download Ref No-NSE/MEM/23082) dated March 28, 2013, regarding "Requirement of Base Minimum Capital"

Notes:

1. In case the member is opting for multiple segments, the applicable net worth will be the highest of the minimum net worth required for those segments.
2. Annual subscription charges:

Charges	Amount (Rs)
*Annual Subscription charges for Professional Clearing Members in Cash segment	2,50,000/- per annum

3. The professional clearing member (PCM) is required to bring in an IFSD of Rs2lakh and a CSD of Rs8lakh per trading member whose trades he/she undertakes to clear in the F&O segment.

Membership: Individuals/Partnership Firms

A. Eligibility Criteria for Individuals

Criteria	
Status	Indian Citizen
Age	Minimum age : 21 years
Education	At least HSC or equivalent qualification
Experience	Should have a minimum of 2 years' experience in securities market.

B. Eligibility Criteria for Partnership Firms

Criteria	
Status	Registered Partnership firm under Indian Partnership Act, 1932
Age	Minimum age of designated partner(s) : 21 years
Designated Partners Education	Designated Partners should be at least HSC or equivalent qualification
Designated Partners	Identify at least two partners as designated partners who would be taking care of the day to day management of the partnership firm.
Designated Partners Experience	Should have a minimum of 2 years' experience in securities market.
Dominant Promoter Norms	Identify partner's sharing interest as per Exchange DPG norms

C. Deposit & Net worth Requirement:

Deposit & Net worth Requirement (Rs lakhs)								
Segment	**Type of Membership**		**Cash NSE**	**Non-Cash NSE**	**Cash NSE Clearing**	**Non-Cash NSE Clearing**	**Total**	**Net Worth**
Capital Market	Trading Member		26.5	-	-	-	26.5	75
	Trading & Self Clearing Membership		26.5	-	6	17.5	50	100
	Trading & Clearing Membership		26.5	-	10	17.5	54	300
Futures & Options	Trading Member		25	-	-	-	25	75
	Trading & Self Clearing Membership		25	-	25	25	75	100
	Trading & Clearing Membership		25	-	25	25	75	300
Currency Derivatives Segment	Existing member	Trading Member	2	8	-	-	10	100
		Trading & Self Clearing Membership	2	8	25	25	60	500
		Trading & Clearing Membership	2	8	25	25	60	1000
	New members	Trading Member	2	13	-	-	15	100
		Trading & Self Clearing Membership	2	18	25	25	70	500
		Trading & Clearing Membership	2	18	25	25	70	1000
Debt segment	Existing member	Trading Member	BMC*	-	-	-	*BMC	50
		Trading & Self Clearing Membership	BMC*	-	1	-	*BMC +1	100
		Trading & Clearing Membership	BMC*	-	1	-	*BMC +1	300

<table>
<tr><th colspan="9">Deposit & Net worth Requirement (Rs lakhs)</th></tr>
<tr><th>Segment</th><th colspan="2">Type of Membership</th><th>Cash NSE</th><th>Non-Cash NSE</th><th>Cash NSE Clearing</th><th>Non-Cash NSE Clearing</th><th>Total</th><th>Net Worth</th></tr>
<tr><td rowspan="3"></td><td rowspan="3">New members</td><td>Trading Member</td><td>BMC*</td><td>-</td><td>-</td><td>-</td><td>*BMC</td><td>50</td></tr>
<tr><td>Trading & Self Clearing Membership</td><td>BMC*</td><td>-</td><td>10</td><td>-</td><td>*BMC +10</td><td>100</td></tr>
<tr><td>Trading & Clearing Membership</td><td>BMC*</td><td>-</td><td>10</td><td>-</td><td>*BMC +10</td><td>300</td></tr>
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<tr><td rowspan="4">Commodity Derivatives Segment</td><td colspan="2">Trading Member</td><td>-</td><td>5</td><td>-</td><td>-</td><td>5</td><td>50</td></tr>
<tr><td colspan="2">Trading & Self Clearing Membership</td><td>-</td><td>5</td><td>25</td><td>25</td><td>55</td><td>100</td></tr>
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<tr><td colspan="2">Professional Clearing Membership</td><td>-</td><td>-</td><td>25</td><td>25</td><td>50</td><td>500</td></tr>
</table>

*BMC ~ Base Minimum Capital requirement as per Exchange circular no-827 (Download Ref No-NSE/MEM/23082) dated March 28, 2013, regarding "Requirement of Base Minimum Capital"

Notes:

1. In case the member is opting for multiple segments, the applicable net worth will be the highest of the minimum net worth required for those segments.

Membership: Banks

Banks authorized by the Reserve Bank of India under section 10 of the Foreign Exchange Management Act, 1999 as 'AD Category - I bank' are permitted to become trading and clearing members of the currency derivatives segment, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:

- Minimum net worth of Rs500crore.
- Minimum CRAR of 10 percent.
- Net NPA should not exceed 3 percent.
- Made net profit for last 3 years.

The AD Category - I banks which fulfill the prudential requirements are required to lay down detailed guidelines with the approval of their Boards for trading and clearing of currency derivatives contracts and management of risks.

AD Category - I banks which do not meet the above minimum prudential requirements and AD Category - I banks which are Urban Co-operative banks or State Co-operative banks can participate in the currency derivatives market only as clients, subject to approval therefore from the respective regulatory Departments of the Reserve Bank.

Deposit Requirement:

Deposit Requirement (Rs lakhs)						
Segment	**Type of Membership**	**Cash NSE**	**Non-Cash NSE**	**Cash NSE Clearing**	**Non-cash NSE Clearing**	**Total**
Currency Derivatives Segment	Trading Member	2	13	-	-	15
	Trading & Self Clearing Membership	2	18	25	25	70
	Trading & Clearing Membership	2	18	25	25	70
	Professional Clearing Membership	-	-	25	25	50

Notes:

1. Minimum Transaction charges of Rs 50,000 per annum + Applicable taxes will be applicable. The charges will be adjusted towards actual transaction charges.
2. Banks can trade on the Debt segment either as clients of registered trading members or directly as trading member on proprietary basis only (i.e own-account trades only). Such institutions desirous of trading on own account only shall be given trading membership under SEBI (Stock Broker and Sub-Broker) Regulations, 1992 as proprietary trading member. For obtaining membership in Debt segment, the requirements as mentioned above for corporate entities may be referred.

Fees/Eligibility Criteria

The stock exchanges are free to stipulate stricter requirements than those stipulated by the SEBI. The minimum standards stipulated by the NSE are in excess of those laid down by the SEBI. The admission of trading members is based on various criteria such as capital adequacy, track record, education, and experience (as discussed above).

Corporatisation of Brokers and Sub-Brokers

The authorities have been encouraging the corporatisation of the broking industry. As a result, a number of broker-proprietor firms and partnership firms have converted themselves into corporates.

Listing of Securities

Listing means the formal admission of a security to the trading platform of a stock exchange. The listing of securities on the domestic stock exchanges is governed by the provisions in the Companies Act, 2013, the Securities Contracts (Regulation) Act, 1956 (SC(R)A), the Securities Contracts (Regulation) Rules (SC(R)R), 1957, and the circulars/guidelines issued by the central government and the SEBI, as well as the rules, bye-laws, and regulations of the particular stock exchange, and the Listing Agreement entered into by the issuer and the stock exchange.

A number of requirements under the SC(R)R, the bye-laws, and the Listing Agreement have to be continuously complied with by the issuers in order to ensure the continuous listing of their securities. The Listing Agreement also stipulates the disclosures that have to be made by the companies. In addition, the corporate governance practices enumerated in the Agreement have to be followed. The exchange is required to monitor compliance with the requirements. In case a company fails to comply with the requirements, the trading of its security would be suspended for a specified period or would be withdrawn/delisted, and a penalty would be imposed as prescribed in the SC(R)A.

Listing Fees in the CM Segment

The stock exchanges levy listing fees on the companies whose securities are listed with them. The listing fee has two components—an initial fee and an annual fee.

A. Listing Fee Structure based on Paid up Capital:

Listing Fees		Amount (Rs)
Initial Listing Fees		50,000
Annual Listing Fees (based on paid-up share, bond, and/or debenture, and/or debt capital, etc.)	Up to Rs100crore	2,90,000
	Above Rs100crore and up to Rs200crore	3,80,000
	Above Rs200crore and up to Rs300crore	4,90,000
	Above Rs300crore and up to Rs400crore	5,95,000
	Above Rs400crore and up to Rs500crore	7,30,000

Companies which have a paid up capital, bond and/or debenture and/or debt capital, etc, of more than Rs500crore will pay minimum fees of 7,35,000/- and an additional listing fees of 4,800/- for every increase of 5 crore or part thereof in the paid up share, bond and/or debenture and/or debt capital, etc.

Companies which have a paid up share, bond and /or debenture and/or debt capital etc. of more than Rs1,000crore will pay minimum fees of 12,20,000/- and an additional listing fees of 5,125/- for every increase of Rs5crore or part thereof in the paid up share, bond and/debenture and/or debt capital, etc.

And

B. Fee structure Based on Market Capitalisation

1) Incremental Fee shall be levied for listed companies with market capitalization above Rs2,500crores as follows - Rs4,000 per Rs1,000crores
2) The incremental fee due to market capitalization is capped at Rs15lakh (excluding the component towards paid up capital)
3) For the purpose of this computation, Market Capitalization shall be deduced as follows:
    a.) Monthly average market capitalization = Average of Highest market capitalization during the month and Lowest market capitalization during the month
    b.) Average of the above for the twelve months period preceding the invoicing date i.e. from April 1, XXXX to March 31, XXXX.

Trading Mechanism

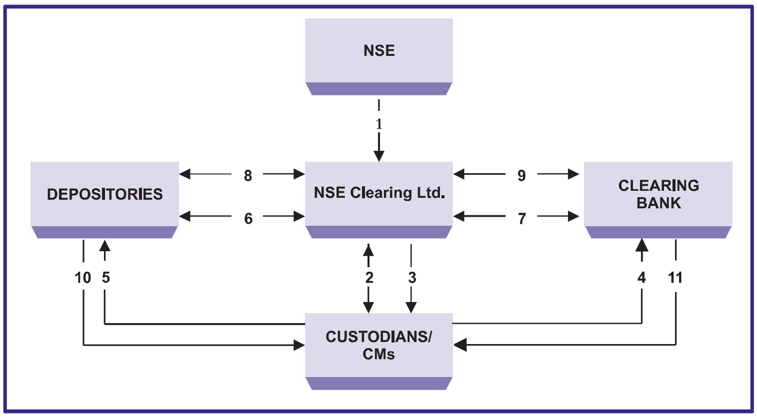
The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nation-wide, anonymous, order-driven, screen-based trading system. In this system, a member can enter the quantities of securities and the prices at which he/she would like to transact, and the transaction is executed as soon as it finds a matching sale for the buy order for a counterparty.

Internet Trading

The SEBI has allowed the use of the Internet as an order routing system for communicating the investors' orders to the exchanges through the registered brokers. These brokers should obtain permission from their respective stock exchanges. In February 2000, the NSE became the first exchange in the country to provide web-based access to investors to trade directly on the exchange, followed by the BSE in March 2001. The orders originating from the PCs of investors are routed through the Internet to the trading terminals of the designated brokers with whom they have relations, and then to the exchange. After these orders are matched, the transaction is executed and the investors get the confirmation directly on their PCs.

Clearing and Settlement Process

The clearing process involves the determination of what the counterparties owe and which counterparties are due to receive on the settlement date, following which the obligations are discharged by settlement. The clearing and settlement process involves three main activities—clearing, settlement, and risk management. The chart below explains the clearing and settlement process at the NSE.



1. Trade details are sent from the exchange to the NSE Clearing Ltd. (real-time and end-of-day trade file).
2. The NSE Clearing Ltd. notifies the consummated trade details to clearing members/custodians, who affirm back. Based on the affirmation, the NSE Clearing Ltd. applies multilateral netting and determines obligations.
3. Download of obligation and pay-in advice of funds/securities.
4. Instructions to clearing banks to make funds available by pay-in time.
5. Instructions to depositories to make securities available by pay-in-time.
6. Pay-in of securities (the NSE Clearing Ltd. advises the depository to debit the pool account of the custodians/CMs and credit its account, and the depository does so).
7. Pay-in of funds (the NSE Clearing Ltd. advises the clearing banks to debit the account(s) of the custodians/CMs and credit its account, and the clearing banks do so).
8. Pay-out of securities (the NSE Clearing Ltd. advises the depository to credit the pool account of the custodians/CMs and debit its account, and the depository does so).
9. Pay-out of funds (the NSE Clearing Ltd. advises the clearing banks to credit the account(s) of the custodians/CMs and debit its account, and the clearing banks do so).
10. Depository informs the custodians/CMs through DPs.
11. Clearing banks inform the custodians/CMs.

NSE

Settlement Cycle in the Cash Market Segment

The NSE Clearing Ltd. clears and settles trades as per the well-defined settlement cycle as shown in the table below. All the securities are traded and settled under the T+2 rolling settlement

	Activity	T+2 Rolling Settlement
Trading	Rolling Settlement Trading	T
Clearing	Custodial Confirmation	T+1
	Delivery Generation	T+1
Settlement	Securities and Funds Pay-in	T+2
	Securities and Funds Pay-out	T+2
	Valuation Debit	T+2.
Post Settlement	Auction	T+2
	Auction Settlement	T+3
	Bad Delivery Reporting	T+4
	Rectified Bad Delivery Pay-in/Pay-out	T+6
	Re-bad Delivery Reporting and pickup	T+8
	Close Out of Re-bad Delivery and funds pay-in & pay-out	T+9

Source: NSE

Note: T+n means n working days after the trade day (T). For instance, T+1 means one working day after the trade day, T+2 means two working days after the trade day, and so on.

Trading Regulations

Insider Trading: Insider trading is considered an offence and is prohibited as per the SEBI (Prohibition of Insider Trading) Regulations, 2015. The Regulations prohibits an insider from dealing (on his/her behalf or on behalf of any other person) in the securities of a company listed on any stock exchange when he/she is in possession of any unpublished price-sensitive information. Further, it also prohibits any insider from communicating, providing or allowing access (directly or indirectly) to any unpublished price-sensitive information to any person including any insider. Price-sensitive information means any information that is related directly or indirectly to a company, and which if published, is likely to materially affect the price of the securities of a company. It includes information such as the periodical financial results of the company; the intended declaration of dividends (both interim as well as final); the issue of securities or the buy-back of securities; any major expansion plans or the execution of new projects, amalgamation, mergers, or takeovers; the disposal of the whole or a substantial part of the undertaking; and significant changes in the policies, plans, or operations of the company. The SEBI is empowered to investigate any complaint received from investors, intermediaries, or any other individuals on any matter having a bearing on allegations of insider trading.

Unfair Trade Practices: The SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003, enabled the SEBI to investigate cases of market manipulation as well as fraudulent and unfair trade practices. The Regulations specifically prohibit fraudulent dealings, market manipulations, misleading statements to induce the sale or purchase of securities, and unfair trade practices relating to securities. When the SEBI has reasonable grounds to believe that the transaction in securities are being dealt with in a manner detrimental to the investor or the securities market in violation of these Regulations, and when any intermediary has violated the rules and regulations under the Act, it can order an investigation into the affairs of such intermediary or persons associated with the securities market. Based on the report of the investigating officer, the SEBI can initiate the suspension or cancellation of the registration of such an intermediary.

Takeovers: The restructuring of companies through takeovers is governed by the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011. These Regulations were formulated so that the process of acquisition and takeovers is carried out in a well-defined and orderly manner with fairness and transparency.

Some of the salient features of these Regulations include:

Acquirer to make public announcement to acquire at least 26% additional shares of the total shares of the target company from other shareholders. The following are the triggers for open offer:

A. Shares or voting rights acquisition

- Acquisition of 25% or more,
- when the acquirer already holds between 25% and 75% or 90%, as the case may be acquired more than 5% in a financial year

B. Acquisition of control - Acquisition of control irrespective of acquisition or holding of shares or voting rights

C. Indirect acquisition of shares or control

Buy Back

Buy back is done by the company with the purpose of improving liquidity in its shares and enhancing the shareholders' wealth. Under the SEBI (Buy Back of Securities) Regulations, 1998, a company is permitted to buy back its shares or other specified securities through any of the following methods:

- From the existing security holders on a proportionate basis through a tender offer.
- From the open market through (i) the book-building process and (ii) stock exchanges.
- From odd-lot holders.

The company has to disclose the pre- and post-buy back holding of the promoters. To ensure the speedy completion of the buyback process, the Regulations have stipulated a time limit for each step. For example, in the case of purchases through tender offers, an offer for buy back shall remain open for a period of ten working days. The company should complete the verification of the offers received within 7 days of the closure of the offer and shares, or other specified securities. The payment for the accepted securities has to be made within seven days of the completion of verification and bought back shares have to be extinguished and physically destroyed within seven days of the date of the payment. Further, the company making an offer for buy back will have to open an escrow account on the same lines as provided in the Takeover Regulations.

Circuit Breakers

Volatility in stock prices is a cause for concern for both policy makers as well as investors. To curb excessive volatility, The Exchange has implemented index-based market-wide circuit breakers with effect from July 02, 2001 based on SEBI Circular. The circuit breakers bring about a nation-wide coordinated halt in trading on all the equity and equity derivatives markets. An index-based, market-wide circuit breaker system applies at three stages of the index movement either way, at 10%, 15%, and 20%. The breakers are triggered by the movement of either the Nifty 50 or the SENSEX, whichever is breached earlier. The market shall re-open, after index based market-wide circuit filter breach, with a pre-open call auction session. As an additional measure of safety, individual scrip-wise price bands have been fixed as presented below:

- Daily price bands of 5% (either way) on a set of specified securities
- Daily price bands of 10% (either way) on a set of specified securities
- Daily price bands of 20% (either way) on a set of specified securities

No price bands are applicable to scrips on which derivative products are available or scrips included in indices on which derivative products are available (unless otherwise specified). In order to prevent members from entering orders at non-genuine prices in such securities, the exchange has fixed an operating range of 10%.

Depository and Demat Trading

A depository holds securities in dematerialised (demat) form. It maintains the ownership records of the securities in a book entry form and also effects the transfer of ownership through a book entry.

NSE Capital Market Transaction Charges

Total Traded Value in a Month	Revised Transaction Charges (per Lakh of Traded Value)
Up to the first Rs1,250 crore	Rs 3.25 each side
More than Rs1,250crore up to Rs2,500crore (on incremental volume)	Rs 3.20 each side
More than Rs2,500crore up to Rs5,000crore (on incremental volume)	Rs 3.15 each side
More than Rs5,000crore up to Rs10,000crore (on incremental volume)	Rs 3.10 each side
More than Rs10,000crore up to Rs15,000crore (on incremental volume)	Rs 3.05 each side
Exceeding Rs15,000crore (on incremental volume)	Rs 3.00 each side

Securities Transaction Tax (STT)

Taxable Securities Transaction	Rate (percent)	Payable by
Purchase of an equity share in a company or a unit of an equity-oriented fund, where: (a) the transaction of such purchase is entered into in a recognised stock exchange; and (b) the contract for the purchase of such share or unit is settled by the actual delivery or transfer of such share or unit.	**0.1**	Purchaser
Sale of an equity share in a company or a unit of an equity-oriented fund, where: (a) the transaction of such a sale is entered into in a recognised stock exchange; and (b) the contract for the sale of such share or unit is settled by the actual delivery or transfer of such share or unit.	**0.1**	Seller
Sale of an equity share in a company or a unit of an equity-oriented fund, where: (a) the transaction of such a sale is entered into in a recognised stock exchange; and (b) the contract for the sale of such share or unit is settled otherwise than by the actual delivery or transfer of such share or unit.	**0.025**	Seller

11.4 Government Securities

A government security (G-Sec) is a tradable instrument issued by the central government or the state government. It acknowledges the government's debt obligation. Such securities are short-term (usually called treasury bills, with original maturities of less than one year) or long-term (usually called government bonds or dated securities, with original maturity of one year or more).

Types of Securities
Treasury Bills: Treasury bills (T-bills) are money market instruments, i.e., short-term debt instruments issued by the Government of India. T-bills are issued in three tenors—91 days, 182 days, and 364 days. T-bills are zero coupon securities and pay no interest. They are issued at a discount and are redeemed at face value on maturity. **Cash Management Bills:** Cash management bills (CMBs)have the generic characteristics of T-bills but are issued for a maturity period less than 91 days[4]. Like T-bills, they are also issued at a discount and are redeemed at face value on maturity. The tenure, notified amount, and date of issue of the CMBs depend on the temporary cash requirement of the government. The announcement of their auction is made by the RBI through a press release that is typically issued one day prior to the date of auction. The settlement of the auction is on a T+1 basis. **Dated Government Securities:** Dated government securities are long-term securities that carry a fixed or floating coupon (interest rate), which is paid on the face value and is payable at fixed time periods (usually half-yearly). The tenor of dated securities can be up to 5 years to 30 years. **State Development Loans:** State governments also raise loans from the market. State development loans (SDLs) are dated securities issued through an auction similar to the auctions conducted for the dated securities issued by the central government. Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date.
Types of Dated Government Securities
Fixed Rate Bonds: These are bonds on which the coupon rate is fixed for the entire life of the bond. Most government bonds are issued as fixed rate bonds. **Floating Rate Bonds:** Floating rate bonds are securities that do not have a fixed coupon rate. The coupon is re-set at pre-announced intervals (say, every 6 months, or 1 year) by adding a spread over a base rate. In the case of most floating rate bonds issued by the Government of India so far, the base rate is the weighted average cut-off yield of the last three 364-day T-bill auctions preceding the coupon re-set date; the spread is decided through the auction. Floating rate bonds were first issued in India in September 1995. **Zero Coupon Bonds:** Zero coupon bonds are bonds with no coupon payments. Like T-Bills, they are issued at a discount on the face value and redeemed at face value on maturity. The Government of India issued such securities in the 1990s; it has not issued zero coupon bonds after that. **Bonds with Call/Put Options:** Bonds can also be issued with features of optionality, wherein the issuer can have the option to buy back (call option) or the investor can have the option to sell the bond (put option) to the issuer during the currency of the bond. **Special Securities:** In addition to T-Bills and dated securities issued by the Government of India under the market borrowing program, the government also issues special securities from time to time, to entities such as oil marketing companies, fertiliser companies, the Food Corporation of India (FCI), and so on as compensation to these companies in lieu of cash subsidies. **Separate Trading of Registered Interest and Principal of Securities (STRIPS):** STRIPS are instruments in which each cash flow of the fixed coupon security is converted into a separate tradable zero coupon bond and traded.[5] These cash flows are traded separately as independent securities in the secondary market. STRIPS allow investors to hold and trade the individual interest and principal

[4] The Government of India, in consultation with the RBI, decided to issue a new short-term instrument known as Cash Management Bills (CMBs) to meet the temporary mismatches in the cash flow of the government. (Source: RBI Press Release, dated August 10, 2009).

[5] For example, when Rs 100 of the 8.24% GS2018 is stripped, each cash flow of the coupon (Rs 4.12 each half year) will become a coupon STRIP and the principal payment (Rs 100 at maturity) will become a principal STRIP.

components of eligible government securities as separate securities of varying tenure. They are popular with investors who want to receive a known payment on a specific future date and want to hold securities of desired maturity. **Sovereign Gold Bond (SGB):** SGBs are government securities denominated in grams of gold. The prices of SGBs are linked to the price of gold. The tenor of these securities is 8 years with exit option from 5th year to be exercised on the interest payment dates. The sale of SGBs is restricted to resident Indian entities including individuals, HUFs, trusts, Universities, charitable institutions. The price of the bond at the time of issue and redemption is fixed in Indian Rupees on the basis of the previous week's (Monday–Friday) simple average of closing price of gold of 999 purity published by the India Bullion and Jewellers Association Ltd. (IBJA). The bond bears an interest at the rate of 2.50% (fixed rate) per annum, payable semi-annually, on the nominal value.
Issuers of Securities In India, the central government issues T-bills and bonds or dated securities, while the state governments issue only bonds or dated securities that are called state development loans (SDLs). Government securities carry practically no risk of default, and hence, are called risk-free gilt-edged instruments. The Government of India also issues savings instruments such as savings bonds, National Saving Certificates (NSCs), and special securities (oil bonds, Food Corporation of India bonds, fertiliser bonds, power bonds, and so on).
Issuance of Government Securities Government securities are issued through auctions conducted by the RBI. The auctions are conducted on an electronic platform called the E-Kuber, the Core Banking Solution (CBS) platform of RBI. Commercial banks, scheduled urban co-operative banks, primary dealers, insurance companies, and provident funds that maintain a funds account (current account) and securities account (SGL account) with the RBI are members of this electronic platform. All the members of the PDO-NDS (Public Debt Offices – Negotiated Dealing System) can place their bids in the auction through this electronic platform. All non-E-Kuber members (including non-scheduled urban co-operative banks) can participate in the primary auction through scheduled commercial banks or primary dealers. For this purpose, the urban co-operative banks need to open a securities account with a bank/primary dealer; such an account is called a gilt account. A gilt account is a dematerialised account maintained by a scheduled commercial bank or primary dealer for its constituent (e.g., a non-scheduled urban co-operative bank). The RBI, in consultation with the Government of India, issues an indicative half-yearly auction calendar for GOI dated securities and quarterly calendar for TBills that contains information about the amount of borrowing, the tenor of the security, and the likely period during which auctions will be held. A notification and a press communiqué giving the exact details of the securities, including the name, amount, type of issue, and the procedure of auction are issued by the Government of India about a week prior to the actual date of the auction. (For G-Secs-about a week prior to the auction. Auction for dated securities is conducted on Friday for settlement on T+1 basis (i.e. securities are issued on next working day i.e. Monday). The Reserve Bank of India conducts auctions usually every Wednesday to issue T-bills of 91day, 182 day and 364 day tenors. Settlement for the T-bills auctioned is made on T+1 day i.e. on the working day following the trade day. The Reserve Bank releases a quarterly calendar of T-bill issuances for the upcoming quarter in the last week of the preceding quarter. e.g. calendar for April-June period is notified in the last week of March. The Reserve Bank of India announces the issue details of T-bills through a press release on its website every week. The RBI places the notification and the Press Release on its website (www.rbi.org.in) and also issues an advertisement in leading English and Hindi newspapers. Information about auctions is also available at select branches of public and private sector banks and the primary dealers.

Different Types of Auctions Used for the Issue of Securities

Prior to the introduction of auctions as the method of issuance, the interest rates were administratively fixed by the government. With the introduction of auctions, the rate of interest (coupon rate) gets fixed through a market-based price discovery process.

An auction may be either yield-based or price-based.

Yield-Based Auction: A yield-based auction is generally conducted when a new government security is issued. Investors bid in yield terms up to two decimal places (for example, 8.19%, 8.20%, and so on). The bids are arranged in ascending order and the cut-off yield is the one corresponding to the notified amount of the auction. The cut-off yield is taken as the coupon rate for the security. Successful bidders are those who have bid at or below the cut-off yield. Bids that are higher than the cut-off yield are rejected.

Price-Based Auction: A price-based auction is conducted when the Government of India re-issues securities that had been issued earlier. The bidders quote in terms of price per Rs 100 of the face value of the security (e.g., Rs 102.00, Rs 101.00, Rs 100.00, Rs 99.00, etc. per Rs 100). The bids are arranged in descending order. Successful bidders are those who have bid at or above the cut-off price. Bids that are below the cut-off price are rejected.

Depending upon the method of allocation to successful bidders, auctions could be classified as uniform price-based and multiple price-based auctions. In a uniform price auction, all the successful bidders are required to pay for the allotted quantity of securities at the same rate (i.e., at the auction cut-off rate), irrespective of the rate quoted by them. On the other hand, in a multiple price auction, the successful bidders are required to pay for the allotted quantity of securities at the respective price/yield at which they have bid.

Listing of G-Secs on Stock Exchanges

All government securities and T-bills are deemed to be listed automatically as and when they are issued.

Trading in Government Securities

There is an active secondary market in government securities. These securities can be bought/sold in the secondary market (i) negotiated dealing system-order matching (NDS-OM) (anonymous online trading), (ii) over the counter (OTC) and reported on NDS-OM, (iii) NDS-OM-Web.

(i) Negotiated Dealing System-Order Matching (NDS-OM)

In August 2005, the RBI introduced an anonymous, screen-based, order-matching module on the NDS, called the negotiated dealing system-order matching (NDS-OM). This is an order-driven electronic system where the participants can trade anonymously by placing their orders on the system or accepting the orders already placed by other participants. The NDS-OM is operated by the Clearing Corporation of India Ltd (CCIL) on behalf of the RBI. Direct access to the NDS-OM system is currently available only to select financial institutions such as commercial banks, primary dealers, insurance companies, and mutual funds. Other participants can access this system through their custodians, i.e., those with whom they maintain gilt accounts. The custodians place the orders on behalf of their customers (such as urban co-operative banks). The advantages of the NDS-OM are price transparency and better price discovery.

Gilt account holders have been given indirect access to the NDS through custodian institutions. A member (who has direct access) can report on the NDS the transaction of a gilt account holder in government securities. Similarly, gilt account holders have also been given indirect access to the NDS-OM through the custodians. However, two gilt account holders of the same custodian are currently not permitted to undertake repo transactions between themselves.

(ii) Over–the-Counter/Telephone Market

In this market, a participant who wants to buy or sell a government security, may contact a bank/primary dealer/financial institution directly or through a broker registered with the SEBI, and negotiate for a certain amount of a particular security at a certain price. Such negotiations are usually done over the telephone and a deal may be struck if both the parties agree on the amount and the rate. In the case of a buyer such as an urban co-operative bank wishing to buy a security, the bank's dealer (who is authorised by the bank to undertake transactions in government securities) may get in touch with other market participants over the telephone and obtain quotes. All trades undertaken in the over-the-counter (OTC) market are reported on the secondary market module of the negotiated dealing system (NDS-OM).

(iii) NDS-OM-Web

RBI launched NDS-OM-Web on June 29, 2012 for facilitating direct participation of Gilt Account Holders (GAH) on NDS-OM through their primary members (PM). The GAH have access to the same order book of NDS-OM as the PM. GAH are in a better position to control their orders and have access to real time live quotes in the market. Since notifications of orders executed as well as various queries are available online to the GAH, they are better placed to manage their positions. A web based interface that leverages on the gilt accounts already maintained with the custodian Banks/PDs provides an operationally efficient system to retail participants

Stock Exchanges

Trading in government securities is also available on the stock exchanges (NSE, BSE), which caters to the needs of retail investors. The NSE's New debt market (NDM) segment offers a fully automated, screen-based trading platform. The trades on the NDM segment can be executed in the continuous or negotiated market. In the continuous market, orders entered by the trading members are matched by the trading system. For each order entering the trading system, the system scans for a probable match in the order books. On finding a match, a trade takes place. In case the order does not find a suitable counter order in the order books, it is added to the order books and is called a passive order. This could later match with any future order entering the order book and result in a trade. This future order that results in the matching of an existing order is called the active order. In the negotiated market, deals are negotiated outside the exchange between the two counterparties and are reported on the trading system for approval.

Major Players in the Government Securities Market

The major players in the government securities market include commercial banks and primary dealers, in addition to institutional investors such as insurance companies. Primary dealers play an important role as market makers in the government securities market. Other participants include co-operative banks, regional rural banks, mutual funds, and provident and pension funds. Foreign institutional investors (FIIs) are allowed to participate in the government securities market within the quantitative limits prescribed from time to time. Corporates also buy/sell government securities to manage their overall portfolio risk.

Settlement of Government Securities

Primary Market

Once the allotment process in the primary auction is finalised, the successful participants are advised of the consideration amounts that they need to pay to the government on the settlement day. The settlement cycle for dated security auctions is T+1, whereas that for T-bill auctions is T+2. On the settlement date, the fund accounts of the participants are debited by their respective consideration amounts and their securities accounts (SGL accounts) are credited with the amount of securities that they were allotted.

Secondary Market

The transactions relating to government securities are settled through the member's securities/ current accounts maintained with the RBI, with the delivery of securities and the payment of funds done on a net basis. The Clearing Corporation of India Ltd (CCIL) guarantees the settlement of trades on the settlement date by becoming a central counterparty to every trade through the process of novation, i.e., it becomes the seller to the buyer and the buyer to the seller. All outright secondary market transactions in government securities are settled on a T+1 basis. However, in the case of repo transactions in government securities, the market participants will have the choice of settling the first leg on either a T+0 basis or a T+1 basis, as per their requirement.

Clearing Corporation of India Limited (CCIL)

The CCIL is the clearing agency for government securities. It acts as a Central Counterparty (CCP) for all transactions in government securities by interposing itself between two counterparties. In effect, during settlement, the CCP becomes the seller to the buyer and the buyer to the seller of the actual transaction. All outright trades undertaken in the OTC market and on the NDS-OM platform are cleared through the CCIL. Once the CCIL receives the trade information, it works out the participant-wise net obligations on both the securities as well as the funds legs.

Further, CCIL is also responsible for guaranteeing settlement of all trades in government securities. In simple terms, if any participant fails to provide funds/ securities, during the settlement process, CCIL will make the same available from its own means. For this purpose, CCIL collects margins from all participants and maintains a 'Settlement Guarantee Fund'.

11.5 Corporate Bond Market

An issuer may make a public issue of corporate bonds in accordance with the regulations as specified by SEBI or make a private placement of corporate bonds as per the Companies Act and rules thereunder. Corporate bonds issued publicly are required to be mandatorily listed on one or more stock exchanges. In case of private placement, if the issuer has disclosed its intention to seek listing of corporate bonds at the time of issue, the issuer shall make an application for listing on one or more stock exchanges.

Issuers of Corporate Bonds: Private corporate sector and public sector units including public financial institutions, Real Estate Investment Trusts and Infrastructure Investment Trust registered with SEBI.

General Conditions for Public Issuance of Corporate Bonds

No issuer can make any public issue of corporate bonds if (as on the date of filing of the draft offer document and the final offer document):

(a) the issuer, or the person in control of the issuer, or its promoter, or its director has been restrained or prohibited or debarred by the SEBI from accessing the securities market or dealing in securities.

(b) the issuer or any of its promoters or directors is a wilful defaulter or is in default of payment of interest or repayment of principal amount in respect of debt securities issued by it to the public, if any, for a period of more than six months

No issuer can make a public issue of debt securities unless the following conditions are satisfied (on the date of filing the draft offer document and the final offer document):

(c) The issuer has to apply to one or more recognised stock exchanges for the listing of such securities. If the application is made to more than one recognised stock exchange, the issuer should choose one of them as the designated stock exchange (having nation-wide trading terminals). However, for any subsequent public issue, the issuer may choose a different stock exchange as the designated stock exchange, subject to the requirements of the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

(d) The issuer has to obtain in-principle approval for the listing of its debt securities on the recognised stock exchange(s) where the application for listing has been made.

(e) Credit rating has to be obtained from at least one credit rating agency registered with the SEBI and the rating has to be disclosed in the offer document.[6]

(f) The issuer has to enter into an arrangement with a depository registered with the SEBI for the dematerialisation of the debt securities that are proposed to be issued to the public in accordance with the Depositories Act, 1996 and other relevant regulations.

(g) The issuer is required to appoint one or more merchant bankers registered with the SEBI, at least one of whom has to be a lead merchant banker.

(h) The issuer is required to appoint one or more debenture trustees in accordance with the provisions of Section 117B of the Companies Act, 2013 and the SEBI (Debenture Trustees) Regulations, 1993.

(i) The issuer is not allowed to issue debt securities for either providing loans to or acquiring the shares of any person who is part of the same group or who is under the same management.

Price Discovery through Book Building in Case of Public Issue

The issuer may determine the price of the debt securities in consultation with the lead merchant banker; the issue may be at a fixed price or the price may be determined through the book-building process in accordance with the procedures specified by the SEBI.

Private Placement of Debt Securities

NSE's Electronic Debt Bidding platform (NSE-EBP) was launched on 1 July 2016 for issuance of debt securities on private placement basis and was aimed to bring efficiency and transparency in the price discovery mechanism and to reduce the time and cost of these issuances.

The current implementation of Electronic Book Platform replicates the broad OTC market operation by taking the entire system online and making all issuances directly accessible to the Qualified Institutional Buyers (QIBs). Apart from these QIBs, the arrangers, sub-arrangers and institutional non-QIB investors can directly access the NSE-EBP platform to place their respective bids. At present there are over 40 top arrangers and 200+ investors registered on the platform making NSE-EBP the biggest platform in the market.

Key benefits of the EBP platform include:

- The electronic platform can help the issuer to reach out to a wider array of potential investors and arrangers as required
- Usage of the EBP for price discovery increases the probability of getting a better pricing as compared to the traditional arranger driven approach due to the wider participation
- Placement of bonds via the EBP is system driven and it minimizes the chances of discretionary choices thus enhancing the reliability and integrity of the process
- EBP provides a direct access to the institutional investors (default access to registered QIBs and select access to institutional non-QIBs), thus bringing in a more efficient pricing mechanism
- During the entire process of the bond issuance the identities of the bidders are not disclosed to the issuer or to the other bidders participating in the particular issue thus minimizing the risk of i) manipulation by the issuer to push the prices down or ii) cartelization between the bidders to push the prices up
- Further the wider investor base with varied holding capabilities will bring in much required liquidity in the secondary market for these debt securities

[6] If credit rating has been obtained from more than one credit rating agency, the credit ratings (including the unaccepted ratings) must be disclosed in the offer document.

To further streamline the procedure of private placement of debt securities, SEBI has issued a revised EBP framework (effective from 1 October 2018) and has also allowed private placement of other classes of securities like Commercial Papers, Certificate of Deposits, Municipal Bonds and Non-Convertible Redeemable Preference Shares.
Minimum Subscription The issuer can decide the amount of minimum subscriptions that it seeks to raise by the issue of debt securities and disclose the same in the offer document. In the event of non-receipt of the minimum subscription amount, all the application money received in the public issue has to be refunded to the applicants.
Debenture Redemption Reserve For the redemption of the debt securities issued by a company, the issuer has to create a debenture redemption reserve in accordance with the provisions of the Companies Act, 2013 and the Circulars issued by the central government in this regard. Where the issuer has defaulted in the payment of interest on debt securities, or the redemption thereof, or in the creation of security as per the terms of the issue of debt securities, any distribution of dividend would require the approval of the debenture trustees.
Listing of Debt Securities **Mandatory Listing** An issuer wanting to make an offer of debt securities to the public has to apply for listing to one or more recognised stock exchanges according to the terms of the Companies Act, 2013. The issuer has to comply with the conditions of listing of debt securities as specified in the Listing Agreement with the stock exchange where such debt securities are sought to be listed. **Conditions for Listing of Debt Securities Issued on Private Placement Basis** An issuer may list its debt securities issued on a private placement basis on a recognised stock exchange subject to the following conditions: (a) The issuer has issued such debt securities in compliance with the provisions of the Companies Act, 2013, the rules prescribed in it, and other applicable laws. (b) Credit rating has been obtained in respect of such debt securities from at least one credit rating agency registered with the SEBI. (c) The debt securities proposed to be listed are in dematerialised form. (d) The prescribed disclosures have been made. (e) In the event of application being made to more than one recognised stock exchange, the issuer should choose one of them as the designated stock exchange. The issuer has to comply with the conditions of listing of such debt securities as specified in the Listing Agreement with the stock exchanges where such debt securities are sought to be listed. For continuous listing, various conditions have to be followed as prescribed by the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.
Trading of Debt Securities (1) The debt securities issued to the public or on a private placement basis that are listed in recognised stock exchanges are traded, cleared, and settled in recognised stock exchanges, subject to the conditions specified by the SEBI. (2) In the case of trades of debt securities that have been made over the counter, such trades are required to be reported on a recognised stock exchange having a nation-wide trading terminal or another such platform as may be specified by the SEBI.

Clearing and Settlement The corporate bonds are cleared and settled by the clearing corporations of stock exchanges, i.e., the Indian Clearing Corporation Limited (ICCL) and the NSE Clearing Limited (NSE Clearing). All trades in corporate bonds available in demat form that are reported on any of the specified platforms (including the FIMMDA, the NSE-NDM, and the CBRICS) are eligible for settlement through the NSE Clearing. In order to facilitate the settlement of corporate bond trades through the NSE Clearing, both buy as well as sell participants are required to explicitly express their intention to settle the corporate bond trades through the NSE Clearing. The trades will be settled at the participant level on a DvP I basis, i.e., on a gross basis for securities and funds. The settlements shall be carried out through the bank/DP accounts specified by the participants. On the settlement date, during the pay-in, the participants are required to transfer the securities to the depository account specified by the NSE Clearing and to transfer the funds to the bank account specified by the NSE Clearing within the stipulated cut-off time. On successful completion of the pay-in of securities and funds, the securities/funds shall be transferred by the NSE Clearing to the depository/bank account of the counterparty.
Tri-party Repo Platform Tri-party repo is a type of repo contract where a third entity (apart from the borrower and lender), called a Tri-Party Agent, acts as an intermediary between the two parties to the repo to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction. Tri-party Repo Market (TRM) Platform in Debt Segment is an online web based, anonymous, order matching & multilateral trading platform for tri-repo on eligible corporates debt securities. Under the tri-party repo mechanism participants would place borrow and lend orders on the platform provided by the Exchange. Before placing an order, participants desirous of borrowing would provide eligible collateral and participants desirous of lending would provide margins. Both borrowing and lending orders would be validated against the collateral limits and margins available in the respective borrowers and lenders account. The RBI has notified the introduction of tri-party repo in India in its April 11, 2017, Draft Directions. The aim to introduce Tri-party repo was that it would contribute to better liquidity in the corporate bond repo market, thereby providing markets an alternate repo instrument to Government securities repo. Tri-Party repos are transacted through a Tri-Party agent in terms of Tri-Party Repo (Reserve Bank) Directions dated August 10, 2017.

11.6 Securitised Debt Instruments

The Securities and Exchange Board of India (Issue and Listing of Securitised Debt Instruments) Regulations, 2008 includes under the definition of securities any certificate or instrument (by whatever name it is called) issued to an investor by any issuer who is a special purpose distinct entity possessing any debt or receivable (including mortgage debt assigned to such entity) and acknowledging the beneficial interest of the investor in such debt or receivable (including mortgage debt), as the case maybe.[7]

Securitisation means acquisition of debt or receivables by any special purpose distinct entity from any originator or originators for the purpose of issuance of securitised debt instruments to investors based on such debt or receivables and such issuance.

[7] For the trustees of a special purpose distinct entity

Asset Pool, in relation to a scheme of a special purpose distinct entity, means the total debt or receivables, assigned to such entity and in which investors of such scheme have beneficial interest;

Regulatory Framework Securitised debt instruments are regulated by the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, the SEBI (Issue and Listing of Securitised Debt Instruments) Regulations, 2008 for listing on stock exchanges, and the Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003.
Eligibility Criteria for Trustees[8] According to the SEBI (Issue and Listing of Securitised Debt Instruments) Regulations, 2008, no person can make a public offer of securitised debt instruments or seek listing for such securitised debt instruments unless (a) it is constituted as a special purpose distinct entity; (b) all its trustees are registered with the SEBI under the SEBI (Issue and Listing of Securitised Debt Instruments) Regulations, 2008; and (c) it complies with all the applicable provisions of these Regulations and the Act. The requirement of obtaining registration is not applicable to the following persons, who may act as trustees of special purpose distinct entities: (a) any person registered as a debenture trustee with the SEBI; (b) any person registered as a securitisation company or a reconstruction company with the RBI under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002); (c) the National Housing Bank established by the National Housing Bank Act, 1987 (53 of 1987); (d) the National Bank for Agriculture and Rural Development (NABARD) established by the National Bank for Agriculture and Rural Development Act, 1981 (61 of 1981); (e) any scheduled commercial bank other than a regional rural bank; (f) any public financial institution as defined under clause (72) of section 2 of the Companies Act, 2013; (g) any other person as may be specified by SEBI. However, these persons and special purpose distinct entities of which they are trustees are required to comply with all the other provisions of the SEBI (Issue and Listing of Securitised Debt Instruments) Regulations, 2008. However, these Regulations are not applicable to the National Housing Bank and the National Bank for Agriculture and Rural Development, to the extent of inconsistency with the provisions of their respective Acts.
Launching of Schemes (1) A special purpose distinct entity may raise funds by making an offer of securitised debt instruments by formulating schemes in accordance with the SEBI (Issue and Listing of Securitised Debt Instruments) Regulations, 2008. (2) Where there are multiple schemes, the special purpose distinct entity is required to maintain separate and distinct accounts for each such scheme; it should not combine the asset pools or the realisations of a scheme with those of the other schemes. (3) A special purpose distinct entity and the trustees should ensure that the realisations of debts and receivables are held and correctly applied towards the redemption of the securitised debt instruments issued under the respective schemes, or towards the payment of the returns on such instruments, or towards other permissible expenditures of the scheme.

[8] These are the eligibility criteria for the trustees of a special purpose distinct entity.

(4) The terms of issuance of the securitised debt instruments may provide for the exercise of a clean-up call option by the special purpose distinct entity, subject to adequate disclosures.
(5) No expenses should be charged to the scheme in excess of the allowable expenses as may be specified in the scheme; any such expenditure, if incurred, should be borne by the trustees.

Mandatory Listing

A special purpose distinct entity desirous of making an offer of securitised debt instruments to the public shall make an application for listing to one or more recognised stock exchanges in terms of Sub-section (2) of Section 17A of the Securities Contracts (Regulation) Act, 1956 (42 of 1956).

Minimum Public Offering for Listing

(1) For the public offers of securitised debt instruments, the special purpose distinct entity or trustee(s) should satisfy the recognised stock exchange(s) (to which a listing application is made) that each scheme of securitised debt instruments was offered to the public for subscription through advertisements in newspapers for a period of not less than two days, and that the applications received in pursuance of the offer were allotted in accordance with these regulations and the disclosures made in the offer document.
(2) In the case of a private placement of securitised debt instruments, the special purpose distinct entity should ensure that it has obtained credit rating from a registered credit rating agency for its securitised debt instruments.
(3) In the case of a private placement of securitised debt instruments, the special purpose distinct entity should file the listing particulars with the recognised stock exchange(s) along with the application containing such information as may be necessary for any investor in the secondary market to make an informed investment decision related to its securitised debt instruments.
(4) All the credit ratings obtained, including the unaccepted ratings (if any), should be disclosed in the listing particulars filed with the recognised stock exchange(s).

Continuous Listing Conditions

The special purpose distinct entity or its trustee should provide information (including financial information relating to the schemes) to the stock exchanges and investors, and comply with such other continuing obligations as may be stipulated in the Listing Agreement.

Trading of Securitised Debt Instruments

The securitised debt instruments issued to the public or on a private placement basis that are listed in recognised stock exchanges shall be traded; such trades shall be cleared and settled in the recognised stock exchanges, subject to the conditions specified by the SEBI.

11.7 Commodities Market

Commodity market which may be in form of a spot or a derivatives market facilitates trading in specified commodities, including agricultural commodities, metals and bullion. . In spot market, commodities are bought and sold for ready delivery, whereas in derivatives market, various financial instruments which are not ready delivery in nature and whose value is derived from prices of underlying commodities are traded.

Changing Regulatory Landscape

In the 2015-16 Union Budget speech Hon'ble Union Finance Minister had proposed to merge the Forwards Markets Commission (FMC) with SEBI to strengthen the regulation of Commodity Forward Markets. Enabling legislation, amending the Securities Contracts Regulation Act (SCRA) 1956 and FCRA 1952 were proposed in the Finance Act, 2015.

Consequently, the Forward Contracts Regulation Act (FCRA) 1952 was repealed and Regulation of Commodity Derivatives market shifted to SEBI under the Securities Contracts Regulation Act (SCRA) 1956 with effect from 28th September, 2015.

Further amendments in SCRR and SEBI Stock Broker Regulation notified in July 2017, removed restriction on stock brokers dealing in securities (other than commodity derivatives) to deal in commodity derivatives. Similarly, restriction on stock brokers dealing in commodity derivatives to deal in other securities has also been done away with. This enables stock broker to deal in commodity derivatives and other securities under a single entity.

In the 2017-18 Union Budget speech Hon'ble Union Finance Minister announced that the commodities and securities derivative markets will be further integrated by integrating participants, brokers and operational frameworks. In fulfilment of this policy initiative, SEBI Board in December 2017 approved integration of commodity derivatives with other segments of securities market at the exchange level. Proposed amendments to SECC Regulations effective October 01, 2018 shall enable NSE to launch commodity derivatives contract subject to regulatory approvals.

List of Commodities Notified under SCRA

The Central Government in consultation with SEBI on September 27, 2016 has notified list of underlying goods on which commodity contracts may be launched. This list of 91 commodities is classified as under:

1. Cereals and Pulses
2. Oilseeds, Oilcakes and Oils
3. Spices
4. Metals
5. Precious Metals
6. Gems and Stones
7. Fibres
8. Energy
9. Sweeteners
10. Plantation
11. Dry Fruits
12. Others

SEBI vide circular CIR/MRD/DSA/41/2016 dated March 17, 2016 specified that 'commodity derivatives' shall be eligible as securities for trading and the stock exchanges operating in the International Financial Services Centre (IFSC) may permit dealing in commodity derivatives. Accordingly, NSE's international exchange, NSE IFSC launched futures contracts in Precious Metals i.e. Gold and Silver in June 2017. The US Dollar denominated Gold and Silver futures contracts at NSE IFSC settle on LBMA's Gold and Silver prices respectively.

SEBI in its Board meeting on December 28, 2017 approved the proposal of trading of commodity derivatives and other segments of securities market on single exchange with effect from October 1, 2018. The National Stock Exchange of India Limited (NSE) commenced trading in Commodity Derivatives with the launch of bullion futures on October 12, 2018. Commodity Derivatives segment of NSE provides trading in Bullion and Energy Futures.

Contract Specification for Bullion Futures

Product Parameters	Gold Futures	Gold Mini Futures	Silver Futures
Underlying	Gold	Gold	Silver
Instrument Type	Futures Contract	Futures Contract	Futures Contract
Underlying Symbol	GOLD	GOLDM	SILVER
Description	GOLDYYMMM	GOLDMYYMMM	SILVERYYMMM
Contract Listing	Bimonthly contracts. Details as per the launch calendar	Monthly contracts. Details as per the launch calendar	Bimonthly/trimonthly contracts. Details as per the attached launch calendar
Contract Commencement Day	6th day of contract launch month. If 6th day is a holiday then the following working day. (Expiry Day + 1)		
Last Trading Day (Contract Expiry)	5th day of contract expiry month. If 5th day is a holiday then preceding working day. On the day of expiry, the trading shall be allowed up to 11:30 pm/11:55 pm* **based on US daylight saving time period*		
Trading:			
Trading Period	Mondays to Fridays		
Trading Session	Monday – Friday 10:00 am to 11:30 pm/11:55 pm* *based on US daylight saving time period		
Trading Unit	1 kg	100 grams	30 kg
Quotation/Base Value	Rs Per 10 grams	Rs Per 10 grams	Rs Per 1 Kg
Price Quote	Ex-Ahmedabad (inclusive of all taxes and levies relating to import duty, customs but excluding all taxes and levies relating to GST, any other additional tax or surcharge on GST)		
Maximum Order Size	10 Kg	10 Kg	600 Kg
Tick Size (Minimum Price Steps)	Rs 1.00	Rs 1.00	Rs 1.00
Daily Price Limits[1]	The base price limit shall be 3%. Whenever the base daily price limit is breached, the relaxation shall be allowed upto 6% without any cooling off period in the trade. In case the daily price limit of 6% is also breached, then after a cooling off period of 15 minutes, the daily price limit will be relaxed upto 9%. In case price movement in international markets is more than the maximum daily price limit (currently 9%), the same may be further relaxed in steps of 3% beyond the maximum permitted limit, and informed to the Regulator immediately.		The base price limit shall be 4%. Whenever the base daily price limit is breached, the relaxation shall be allowed upto 6% without any cooling off period in the trade. In case the daily price limit of 6% is also breached, then after a cooling off period of 15 minutes, the daily price limit will be relaxed upto 9%. In case price movement in international markets is more than the maximum daily price limit (currently 9%), the same may be further relaxed in steps of 3% beyond the maximum permitted limit, and informed to the Regulator immediately.
Initial Margin[2]	Min. 4 % or based on SPAN whichever is higher		

Product Parameters	Gold Futures	Gold Mini Futures	Silver Futures
Extreme Loss Margin[3]	1%		
Additional and/ or Special Margin	In case of additional volatility, an additional margin (on both buy & sale position) and/ or special margin (on either buy or sale position) at such percentage, as deemed fit; will be imposed in respect of all outstanding positions.		
Maximum Allowable Open Position[4]	For a member collectively for all clients: 50 MT or 20% of the market wide open position whichever is higher, for all Gold contracts combined together. For individual client: 5 MT for all Gold contracts combined together or 5% of the market wide open position whichever is higher, for all Gold contracts combined together.		For a member collectively for all clients: 1000 MT or 20% of the market wide open position whichever is higher, for all Silver contracts combined together. For individual client: 100 MT or 5% of the market wide open position whichever is higher for all Silver contracts combined together.
Delivery:			
Delivery Unit	1 kg	100 grams	30 kg
Delivery Period Margin[5]	Delivery period margins shall be higher of: a. 3% + 5 day 99% VaR of spot price volatility **Or** b. 20%		
Delivery Centre(s)	Designated clearinghouse facilities at Ahmedabad		
Additional Delivery Centre(s)	NIL		
Quality Specifications	995 purity. It should be serially numbered Gold bars supplied by LBMA approved suppliers or other suppliers as may be approved by the exchange to be submitted alongwith supplier's quality certificate.		Grade: 999 and Fineness: 999 (as per IS 2112: 1981) • No negative tolerance on the minimum fineness shall be permitted. • If it is below 999 purity it is rejected. It should be serially numbered silver bars supplied by LBMA approved suppliers or other suppliers as may be approved by the exchange.
If the Seller offers delivery of 999 purity	Seller will get a proportionate premium and sale proceeds will be calculated as under: Rate of delivery* 999/ 995 If the quality is less than 995, it is rejected.		NA

NSE

<table>
<tr><th>Product Parameters</th><th>Gold Futures</th><th>Gold Mini Futures</th><th>Silver Futures</th></tr>
<tr><td>Due Date Rate (Final Settlement Price)[6]</td><td colspan="3">For contracts where Final Settlement Price (FSP) is determined by polling, unless specifically approved otherwise, the FSP shall be arrived at by taking the simple average of the last polled spot prices of the last three trading days viz.,E0 (expiry day), E-1 and E-2. In the event the spot price for any one or both of E-1 and E-2 is not available; the simple average of the last polled spot price of E0, E-1, E-2 and E-3, whichever available, shall be taken as FSP. Thus, the FSP under various scenarios of non-availability of polled spot prices shall be as under:
<table>
<tr><th rowspan="2">Scenario</th><th colspan="4">Polled spot price availability on</th><th rowspan="2">FSP shall be simple average of last polled spot prices on</th></tr>
<tr><th>E0</th><th>E-1</th><th>E-2</th><th>E-3</th></tr>
<tr><td>1</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes/No</td><td>E0, E-1, E-2</td></tr>
<tr><td>2</td><td>Yes</td><td>Yes</td><td>No</td><td>Yes</td><td>E0, E-1, E-3</td></tr>
<tr><td>3</td><td>Yes</td><td>No</td><td>Yes</td><td>Yes</td><td>E0, E-2, E-3</td></tr>
<tr><td>4</td><td>Yes</td><td>No</td><td>No</td><td>Yes</td><td>E0, E-3</td></tr>
<tr><td>5</td><td>Yes</td><td>Yes</td><td>No</td><td>No</td><td>E0, E-1</td></tr>
<tr><td>6</td><td>Yes</td><td>No</td><td>Yes</td><td>No</td><td>E0, E-2</td></tr>
<tr><td>7</td><td>Yes</td><td>No</td><td>No</td><td>No</td><td>E0</td></tr>
</table>
In case of non-availability of polled spot price on expiry day (E0) due to sudden closure of physical market under any emergency situations noticed at the basis Centre, Exchange shall decide further course of action for determining FSP in consultation with SEBI.</td></tr>
<tr><td>Delivery Logic</td><td colspan="3">Compulsory delivery</td></tr>
<tr><td>Settlement of Contract</td><td colspan="3">On expiry all the open positions shall be marked for delivery. Delivery pay-in will be on E + 1 basis by 11.00 a.m. except Saturdays, Sundays and Trading Holidays.</td></tr>
</table>

*w.e.f October 12, 2018

Note:

1. As per SEBI/HO/CDMRD/DMP/CIR/P/2016/83 dated September 07, 2016
2. The provisions of Risk Management in terms of the SEBI Circulars No. CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 and SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated September 01, 2016 and / or any amendments thereto from time to time shall be applicable.
3. As per SEBI Circular no CIR/CDMRD/DRMP/01/2015 dated October 1, 2015
4. As per SEBI circular SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016
5. As per SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated September 01, 2016
6. As per SEBI Circular no SEBI/HO/CDMRD/DRMP/CIR/P/2016/90 dated Sep 21, 2016

Contract Specifications for Energy Futures

Product Parameters	Brent Crude Oil (100 Barrel)	Brent Crude Oil Mini (10 Barrel)
Underlying	Brent Crude Oil (100 Barrel)	Brent Crude Oil Mini (10 Barrel)
Instrument Type	Futures Contract (FUTENR)	Futures Contract (FUTENR)
Product	Brent Crude Oil Futures	Brent Crude Oil Mini Futures
Symbol	BRCRUDE	BRCRUDEM
Description	BRCRUDEYYMMM	BRCRUDEMYYMMM
Contract Listing	Monthly contracts. Details as per the launch calendar	Monthly contracts. Details as per the launch calendar
Contract Start Day	Business day immediately following the last trading day. (Expiry Day + 1)	
Last Trading Day (Contract Expiry)	Last Day of Trading at the exchange shall the Last Business Day of the contract expiry month. In case the last business day is a holiday in the International market / NSE, then the preceding business day shall be the last trading day for the contract. Details as per the attached launch calendar (refer table below) On the day of expiry, the trading shall be allowed up to 11:30 pm/11:55 pm* *based on US daylight saving time period.	
Trading:		
Trading Period	Mondays to Fridays	
Trading Session	Monday – Friday 9:00 am to 11:30 pm/11:55 pm* *based on US daylight saving time period	
Trading Unit	100 Barrel	10 Barrel
Quotation/Base Value	Rs Per 1 Barrel	Rs Per 1 Barrel
Max. Order Size	10,000 Barrel	10,000 Barrel
Tick Size (Minimum Price Movement)	Re. 1	Re. 1
Daily Price Limits[1]	The base price limit shall be 4%. Whenever the base daily price limit is breached, the relaxation shall be allowed upto 6% without any cooling off period in the trade. In case the daily price limit of 6% is also breached, then after a cooling off period of 15 minutes, the daily price limit will be relaxed upto 9%. In case price movement in international markets is more than the maximum daily price limit (currently 9%), the same may be further relaxed in steps of 3% beyond the maximum permitted limit, and informed to the Regulator immediately.	
Initial Margin[2]	Min. 4 % or based on SPAN whichever is higher	
Extreme Loss Margin[3]	1%	
Additional and/ or Special Margin	In case of additional volatility, an additional margin (on both buy & sale position) and/ or special margin (on either buy or sale position) at such percentage, as deemed fit; will be imposed in respect of all outstanding positions.	

Product Parameters	Brent Crude Oil (100 Barrel)	Brent Crude Oil Mini (10 Barrel)
Maximum Allowable Open Position[4]	For a member collectively for all clients: 40,00,000 Barrels or 20% of the market wide open position whichever is higher, for all Crude Oil contracts combined together. For individual client: 4,00,000 Barrels or 5% of the market wide open position whichever is higher for all Crude Oil contracts combined together.	
Quality Specification	Brent Blend confirming to the following quality: Brent Blend confirming to the following qual Brent Blend confirming to th	
Due Date Rate (Final Settlement Price)	Due date rate (FSP) shall be the settlement price, in Indian rupees, as arrived at from the average of the five intra--month cash BFOE (Brent-Forties-Oseberg-Ekofisk) assessments' as made by ICIS on the last trading day of the NSE Brent Crude Oil Contract. The last available RBI USDINR reference rate will be used for the conversion. The price so arrived will be rounded off to the nearest tick. For example, on the day of expiry, if the ICIS average price is $70.75 and the last available RBI USDINR reference rate is 72.1500, then DDR for NSE Brent Crude oil contract would be Rs 5,105 per barrel (i.e. $70.75 * 72.1500 and rounded off to the nearest tick).	
Settlement Mechanism	The contract would be settled in cash	

Settlement Procedure: Energy Futures - Brent Crude Oil

Product Parameters	Brent Crude Oil (100 Barrel)	Brent Crude Oil Mini (10 Barrel)
MTM Pay-in & Pay-out	T+1 working day by 09.00 a.m. ('T' stands for Trade day)	T+1 working day by 09.00 a.m. ('T' stands for Trade day)
Funds Pay-in	E+l working day by 11.00 a.m. ("E" stands for Expiry day)	E+l working day by 11.00 a.m. ("E" stands for Expiry day)
Funds Pay-out	E+l working day by 02.00 p.m.	E+l working day by 02.00 p.m.
Penal Provision	Penalties as applicable for Fund shortages shall be levied.	Penalties as applicable for Fund shortages shall be levied.
Close Out of Outstanding Positions	All outstanding positions on the expiry of contract, will be settled as per the Final Settlement Price (FSP).	All outstanding positions on the expiry of contract, will be settled as per the Final Settlement Price (FSP).

Note:

1. As per SEBI/HO/CDMRD/DMP/CIR/P/2016/83 dated September 07, 2016
2. The provisions of Risk Management in terms of the SEBI Circulars No. CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 and SEBI/HO/CDMRD/DRMP/CIR/P/2016/77 dated September 01, 2016 and / or any amendments thereto from time to time shall be applicable. The Margin Period of Risk (MPOR) shall be 2 days in accordance with SEBI Circular and accordingly, the initial margin shall be scaled up by root 2
3. As per SEBI Circular no CIR/CDMRD/DRMP/01/2015 dated October 1, 2015
4. As per SEBI circular SEBI/HO/CDMRD/DMP/CIR/P/2016/96 dated September 27, 2016

11.8 Derivatives Market

Derivatives trading in India began in 2000 when both the NSE as well as the BSE commenced trading in equity derivatives. In June 2000, index futures became the first type of derivative instruments to be launched in the Indian markets, followed by index options in June 2001, options in individual stocks in July 2001, and futures on single stocks derivatives in November 2001. Since then, equity derivatives have come a long way.[9]

Equity Derivatives

Trading Mechanism

The futures & options (F&O) trading system of the NSE is called the NEAT-F&O trading system. It provides fully automated, screen-based trading for index futures & options and stock futures & options on a nation-wide basis as well as an online monitoring and surveillance mechanism. It supports an order-driven market and provides complete transparency of trading operations.

Products Available

- Index futures
- Stock futures
- Index options
- Stock options

Charges

The transaction charges payable to the exchange by the trading member for the trades executed by him/her on the F&O segment are fixed at Rs 2 per lakh of turnover (0.002%), subject to a minimum of Rs 1,00,000 per year. For the transactions in the options sub-segment, however, the transaction charges are levied on the premium value at the rate of Rs 50 per lakh of premium value.

Total Traded Value in a Month	Revised Transaction Charges (per Lakh of Traded Value)
Up to first Rs2,500crore	Rs 1.90 each side
More than Rs2,500crore and up to Rs7,500crore (on incremental volume)	Rs 1.85 each side
More than Rs7,500crore and up to Rs15,000 crore (on incremental volume)	Rs 1.80 each side
Exceeding Rs15,000crore (on incremental volume)	Rs 1.75 each side

Securities Transaction Tax

Taxable Securities Transactions	Rate (percent)	Taxable Value	Payable by
Sale of an option in securities	0.05	Option premium	Seller
Sale of an option in securities, where option is exercised	0.125		
Settlement price	Purchaser		
Sale of a futures in securities	0.01	Price at which such futures are traded	Seller

[9] The market design for derivatives is explained using the trading mechanism and other exchange-specific elements based on the model adopted by the NSE.

Clearing and Settlement The National Securities Clearing Corporation Limited (NSE CLEARING) undertakes the clearing and settlement of all trades executed on the futures and options (F&O) segment of the NSE. Index as well as stock options and futures are cash settled (i.e., through the exchange of cash).
Eligibility Criteria for Stocks for F&O Trading • The stock is chosen from amongst the top 500 stocks in terms of average daily market capitalisation and average daily traded value in the previous six months on a rolling basis. • The stock's median quarter-sigma order size over the last six months should be not less than Rs 25 lakh. For this purpose, a stock's quarter-sigma order size should mean the order size (in value terms) required to cause a change in the stock price equal to one-quarter of a standard deviation. • The market-wide position limit in the stock should not be less than Rs 500 crore. The market-wide position limit (number of shares) is valued taking the closing prices of stocks in the underlying cash market on the date of expiry of the contract in the month. The market-wide position limit of open position (in terms of the number of underlying stock) on futures and option contracts on a particular underlying stock shall be 20% of the number of shares held by non-promoters in the relevant underlying security (i.e., free-float holding). • The Average daily delivery value in cash market shall not be less than Rs 10 crores in the previous six months on a rolling basis. The Average Daily Deliverable Value shall be computed taking Deliverable quantity as per client level as computed by NSE Clearing on a daily basis and close price of the trade date. • Above criteria are to be met for a continuous period of six months. All the existing F&O stocks which meets the eligibility criteria shall continue to be cash settled (Till further notification from SEBI), however such F&O stocks, if fail to satisfy any of the eligibility criteria for a continuous period of three months, shall move from cash settlement to physical settlement for a period of one year. After moving to physical settlement, the continued eligibility criteria is that market wide position limit in the stock shall not be less than Rs 200 crores and stock's median quarter-sigma order size over the last six months shall not be less than Rs 5 lakhs. Additionally, the stock's average monthly turnover in derivative segment over last three months shall not be less than Rs 100 crores. If an existing security fails to meet aforesaid continued eligibility criteria for three months consecutively, then no fresh month contract shall be issued on that security. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contract months. Futures and options contracts may be introduced on new securities that meet these eligibility criteria, subject to approval by the SEBI. Further, once the stock is excluded from the F&O list, it shall not be considered for re-inclusion for a period of one year.
Eligibility Criteria for Indices for F&O Trading The exchange may consider introducing derivative contracts on an index if the stocks contributing to 80% weightage of the index are individually eligible for derivative trading. However, no single ineligible stocks in the index should have a weightage of more than 5% in the index. This criteria is applied every month. If the index fails to meet the eligibility criteria for three months consecutively, then no fresh month contract would be issued on that index, However, the existing unexpired contacts shall be permitted to trade till expiry and new strikes may also be introduced in the existing contracts.

Risk Management Framework

The NSE CLEARING has developed a comprehensive risk containment mechanism for the F&O segment. The salient features of the risk containment mechanism for the F&O segment are:

- The financial soundness of the members is key to risk management. Therefore, the requirements for membership in terms of capital adequacy (net worth, security deposits, and so on) are quite stringent.
- The NSE CLEARING charges an upfront initial margin for all the open positions of a clearing member (CM). It specifies the initial margin requirements for each futures/options contract on a daily basis. It follows a value-at-risk (VaR) based margining computed through SPAN. The CM in turn collects the initial margin from the trading members (TMs) and their respective clients.
- The open positions of the members are marked to market based on the contract settlement price for each contract at the end of the day. The difference is settled in cash on T+1 basis.
- The NSE CLEARING's online position monitoring system monitors a CM's open position on a real-time basis. Limits are set for each CM based on his/her effective deposits. The online position monitoring system generates alert messages whenever a CM reaches 70%, 80%, and 90%; it generates a disablement message at 100% of the limit. The NSE CLEARING monitors the CMs for initial margin violation and exposure margin violation, while the TMs are monitored for initial margin violation and position limit violation.
- The CMs are provided with a trading terminal for monitoring the open positions of all the TMs clearing and settling through him/her. A CM may set the limits for the TMs clearing and settling through him/her. The NSE CLEARING assists the CMs in monitoring the intra-day limits set up by a CM; whenever a TM exceeds the limits, it stops that particular TM from further trading.
- A member is alerted of his/her position to enable him/her to adjust his/her exposure or to bring in additional capital. Margin violations result in the disablement of the trading facility for all TMs of a CM in the case of a violation by the CM.

A separate settlement guarantee fund for this segment has been created based on the norms provided user SEBI circular. The most critical component of the risk containment mechanism for the F&O segment is the margining system and the online position monitoring system. The actual position monitoring and margining is carried out online through the Parallel Risk Management System (PRISM); PRISM uses the Standard Portfolio Analysis of Risk (SPAN®).[10] The SPAN® system is used for the computation of online margins based on the parameters defined by the SEBI.

Margining System

Initial Margin: The initial margin in the F&O segment is computed by the NSE Clearing up to the client level for open positions of CMs/TMs. These are required to be paid upfront on gross basis at the individual client level for client positions and on net basis for proprietary positions.

The NSE Clearing collects initial margin for all the open positions of a CM based on the margins computed by NSE-SPAN®. A CM is required to ensure the collection of adequate initial margin from his/her TMs and his/her respective clients. The TM is required to collect adequate initial margins upfront from his/her clients.

Premium Margin: In addition to the initial margin, a premium margin is charged at the client level. This margin is required to be paid by a buyer of an option till the premium settlement is complete.

Intra-day Crystallised Losses: ICMTM is computed for all trades which are executed and results into closing out of open positions based on weighted average prices of trades/positions. ICMTM is computed only for futures contracts and adjusted against the liquid assets of clearing member on a real time basis

Assignment Margin: An assignment margin is levied in addition to the initial margin and the premium margin. It is required to be paid on the assigned positions of CMs towards the exercise settlement

10 SPAN® is a registered trademark of the Chicago Mercantile Exchange (CME), and is used here under license.

obligations for option contracts, till such obligations are fulfilled. The margin is charged on the net exercise settlement value payable by a CM.
The NSE Clearing has developed a comprehensive risk containment mechanism for the futures & options segment. The most critical component of a risk containment mechanism is the online position monitoring and margining system. The actual margining and position monitoring is done online, on an intra-day basis using PRISM, which is the real-time position monitoring and risk management system. The risk of each trading and clearing member is monitored on a real-time basis and alerts/disablement messages are generated if the member crosses the set limits.

Contract Specifications for Equity Derivatives (As of December 2018)

Equity Derivatives					
Parameter	**Index Futures**	**Index Options**	**Futures on Individual Securities**	**Options on Individual Securities**	**Long-Term Index Options**
Underlying	NIFTY 50 NIFTY BANK NIFTY IT		200 securities		Nifty 50
Security Descriptor					
Instrument	FUTIDX	OPTIDX	FUTSTK	OPTSTK	OPTIDX
Option Type	-	Call European/ Put European	-	Call European/Put European	Call European/Put European
Trading Cycle	3-month trading cycle—the near month (one), the next month (two), and the far month (three) *				3 quarterly expiries (March, June, September, and December cycle) and next 8 half-yearly expiries (June and December cycle)
Expiry Day	Last Thursday of the expiry month. If the last Thursday is a trading holiday, then the expiry day is the previous trading day.				
Strike Price Intervals	-	Depending on underlying price	-	Depending on underlying volatility *	Depending on underlying price
Permitted Lot Size	Underlying specific	Underlying specific	Underlying specific	Underlying specific	Underlying specific
Price Steps	Rs 0.05**	Rs 0.05	Rs 0.05	Rs 0.05	Rs 0.05
Price Bands	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	A contract specific price range based on its delta value is computed and updated on a daily basis

*-Additionally 7 Weekly expiry option contracts for NIFTY BANK and NIFTY CPSE
**-Re 1 for NIFTY IT

Currency Derivatives

The currency derivatives segment at the NSE commenced operations on August 29, 2008 with the launch of currency futures trading in US Dollar–India Rupee (USD–INR). Other currency pairs such as Euro–Indian Rupee (EUR–INR), Pound Sterling–Indian Rupee (GBP-INR), and Japanese Yen–Indian Rupee (JPY–INR) were made available for trading on February 1, 2010. In the same segment, interest rate futures were introduced for trading on August 31, 2009. Currency options trading in USD–INR was started on October 29, 2010. Further, currency options trading in EUR-INR, GBP-INR and JPY-INR and cross currency futures and options contracts, such as EUR-USD, GBP-USD and USD-JPY, were introduced on February 27, 2018.The contract specifications for currency futures, currency options, and interest rate futures are discussed below.

Contract Specifications for Currency Futures

Symbol	USDINR	EURINR	GBPINR	JPYINR
Market Type	Normal	Normal	Normal	Normal
Instrument Type	FUTCUR	FUTCUR	FUTCUR	FUTCUR
Unit of Trading	1-1 unit denotes 1000 US Dollars	1-1 unit denotes 1000 Euro	1-1 unit denotes 1000 Pound Sterling	1-1 unit denotes 100000 Japanese Yen
Underlying/Order Quotation	The exchange rate in Indian Rupees for US Dollars	The exchange rate in Indian Rupees for Euro	The exchange rate in Indian Rupees for Pound Sterling	The exchange rate in Indian Rupees for 100 Japanese Yen
Tick size	0.25 paise or Rs 0.0025			
Trading Hours	Monday to Friday, 9:00 a.m. to 5:00 p.m.			
Contract Trading Cycle	12-month trading cycle			
Last Trading Day	Two working days prior to the last business day of the expiry month at 12.30p.m			
Final Settlement Day	Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for interbank settlements in Mumbai.			
Quantity Freeze	10,001 or greater			
Base Price	Theoretical price on the first day of the contract; on all other days, daily settlement price (DSP) of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract
Price Operating Range — **Tenure up to 6 months**	+/- 3% of base price			
Price Operating Range — **Tenure greater than 6 months**	+/- 5% of base price			

Symbol		USDINR	EURINR	GBPINR	JPYINR
Position Limits	**Clients**	Higher of 6% of the total open interest or USD 10 million	Higher of 6% of the total open interest or Euro 5 million	Higher of 6% of the total open interest or GBP 5 million	Higher of 6% of the total open interest or JPY 200 million
	Trading Members	Higher of 15% of the total open interest or USD 50 million	Higher of 15% of the total open interest or Euro 25 million	Higher of 15% of the total open interest or GBP 25 million	Higher of 15% of the total open interest or JPY 1000 million
	Banks	Higher of 15% of the total open interest or USD 100 million	Higher of 15% of the total open interest or Euro 50 million	Higher of 15% of the total open interest or GBP 50 million	Higher of 15% of the total open interest or JPY 2000 million
Initial Margin		SPAN-based margin			
Extreme Loss Margin		1% of MTM value of the gross open position	0.3% of MTM value of the gross open position	0.5% of MTM value of the gross open position	0.7% of MTM value of the gross open position
Calendar Spreads		Rs 400 for spread of 1 month	Rs 700 for spread of 1 month	Rs 1500 for spread of 1 month	Rs 600 for spread of 1 month
		Rs 500 for spread of 2 months	Rs 1000 for spread of 2 months	Rs 1800 for spread of 2 months	Rs 1000 for spread of 2 months
		Rs 800 for spread of 3 months	Rs 1500 for spread of 3 months and more	Rs 2000 for spread of 3 months and more	Rs 1500 for spread of 3 months and more
		Rs 1000 for spread of 4 months and more			
Settlement		**Daily settlement**: T+1 **Final settlement**: T+2			
Mode of Settlement		Cash settled in Indian Rupees			
Daily Settlement Price (DSP)		Calculated on the basis of the last half an hour weighted average price			
Final Settlement Price (FSP)		RBI reference rate	RBI reference rate	Exchange rate published by the RBI in its Press Release captioned “RBI reference Rate for US$ and Euro”	Exchange rate published by the RBI in its Press Release captioned “RBI reference Rate for US$ and Euro”

Contract Specifications for Currency Options

Symbol	EURINR	GBPINR	JPYINR
Market Type	N	N	N
Instrument Type	OPTCUR	OPTCUR	OPTCUR
Option Type	Premium style: European ,Call & Put Options (CE / PE)		
Premium	Premium quoted in INR.		
Unit of Trading	1 contract unit denotes EUR 1000	1 contract unit denotes GBP 1000	1 contract unit denotes JPY 100000
Underlying / Order Quotation	The exchange rate in Indian Rupees for Euro	The exchange rate in Indian Rupees for Pound Sterling	The exchange rate in Indian Rupees for 100 Japanese Yen
Tick Size	0.25 paise i.e. INR 0.0025		
Trading Hours	Monday to Friday **9:00 a.m. to 5:00 p.m.**		
Contract Trading Cycle	3 serial monthly contracts followed by 3 quarterly contracts of the cycle March/June/September/December		
No. of Strikes	Minimum 12 In-the-money, Minimum 12 Out-of-the-money and 1 Near-the-money. (25 CE and 25 PE)		
Strike Price Intervals	INR 0.25		
Price Range	Contract specific price range based on the delta of the option contract		
Quantity Freeze	10,001 or greater		
Base Price	Theoretical price on the 1st day of the contract. On all other days, Daily Settlement Price (DSP) of the contract.		
Expiry/Last Trading Day	The last trading day for the contracts shall be two working days prior to the last working day of the expiry month at 12.30 pm. If last trading day is a trading holiday, then the last trading day shall be the previous trading day.		
Mode of Settlement	Cash settled in Indian Rupees		

Symbol	USDINR	EURINR	GBPINR	JPYINR
Market Type	Normal	Normal	Normal	Normal
Instrument Type	OPTCUR	OPTCUR	OPTCUR	OPTCUR
Option Type	Premium style European Call & Put Options			
Premium	Premium quoted in INR			
Unit of trading	1 contract unit denotes USD 1000	1 contract unit denotes EUR 1000	1 contract unit denotes GBP 1000	1 contract unit denotes JPY 100000
Underlying / Order Quotation	The exchange rate in Indian Rupees for US Dollars	The exchange rate in Indian Rupees for Euro	The exchange rate in Indian Rupees for Pound Sterling	The exchange rate in Indian Rupees for 100 Japanese Yen

Symbol	USDINR	EURINR	GBPINR	JPYINR
Tick Size	0.25 paise i.e. INR 0.0025			
Trading Hours	Monday to Friday **9:00 a.m. to 5:00 p.m. IST**			
Contract Trading Cycle	3 serial monthly contracts followed by 3 quarterly contracts of the cycle March/June/September/December For Weekly USDINR Options- 11 serial weekly contracts expiring on Friday, excluding expiry week wherein monthly contracts expires on a Friday. New serial weekly options contracts shall be introduced after expiry of the respective week's contract.			
No. of Strikes	Minimum 12 In-the-money, Minimum 12 Out-of-the-money and 1 Near-the-money. (25 CE and 25 PE)			
Strike Price Intervals	INR 0.25	INR 0.25	INR 0.25	INR 0.25
Price Operating Range	A contract specific price range based on its delta value is computed and updated on a daily basis			
Quantity Freeze	10,001 or greater			
Base Price	Theoretical price on the 1st day of the contract. On all other days, DSP of the contract.			
Initial Margin	SPAN Based Margin			
Extreme Loss Margin	1.5% of Notional Value of open short position			
Settlement of Premium	Premium to be paid by the buyer in cash on T+1 day			
Settlement	Daily settlement: T + 1 Final settlement: T + 2			
Expiry/Last Trading Day	Two working days prior to the last business day of the expiry month at 12:30 pm. For Weekly USDINR Options -Every Friday of the week. In case the Friday is a trading holiday, the previous trading day shall be the expiry/last trading day. All contracts shall expire at the 12:30 pm. on the expiry day.			
Final Settlement Day	Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for Interbank Settlements in Mumbai.			
Position Limits	Position Limits for CDS Segment			
Mode of Settlement	Cash settled in Indian Rupees			
Final Settlement Price (FSP)	RBI reference rate on the date of the expiry of the contact			

Contract Specifications for Cross Currency Futures

Symbol	EURUSD	GBPUSD	USDJPY
Market Type	N	N	N
Instrument Type	FUTCUR	FUTCUR	FUTCUR
Unit of Trading	1 - 1 unit denotes 1000 EUR	1 - 1 unit denotes 1000 GBP	1 - 1 unit denotes 1000 USD
Underlying / Order Quotation	The contract would be quoted in USD terms. The outstanding positions would be in EURO terms	The contract would be quoted in USD terms. The outstanding positions would be in GBP terms.	The contract would be quoted in JPY terms. The outstanding positions would be in USD terms.
Tick Size	0.0001	0.0001	0.01
Calendar Spreads*	Spread Combinations available for trading would be M1 – M2, M1 – M3, M1 – M4, M2 – M3, M2 – M4, M3 – M4 All spread orders shall be placed in terms of price difference only.		
Trading Hours	Monday to Friday (9:00 a.m. to 7:30 p.m.)		
Contract Trading Cycle	12 serial monthly contracts		
Expiry Date /Last Trading Day	The last trading day for the contracts shall be two working days prior to the last working day of the expiry month at 12.30 pm. If last trading day is a trading holiday, then the last trading day shall be the previous trading day.		
Quantity Freeze	10,001 or greater		
Price Operating Range	Tenure up to 6 months	+/-3 % of base price	
	Tenure greater than 6 months	+/- 5% of base price	
Base Price	Theoretical price on the 1st day of the contract. On all other days, Daily settlement price (DSP) of the contract.		
Mode of Settlement	Cash settled in Indian Rupees		

Contract Specifications for - NSE Bond Futures II

Instrument Type	Interest Rate Futures							
Symbol	768GS2023	772GS2025	788GS2030	761GS2030	679GS2027	668GS2031	717GS2028	726GS2029
	The symbol shall denote coupon, type of bond and Maturity Year.							
	The symbol shall denote coupon, type of bond and Maturity Year. For example 7.68% Central Government Security having maturity on December 15, 2023 shall be denoted as 768GS2023	The symbol shall denote coupon, type of bond and Maturity Year. For example 7.72% Central Government Security having maturity on May 25, 2025 shall be denoted as 772GS2025	The symbol shall denote coupon, type of bond and Maturity Year. For example 7.88% Central Government Security having maturity on Mar 19, 2030 shall be denoted as 788GS2030	The symbol shall denote coupon, type of bond and Maturity Year. For example 7.61% Central Government Security having maturity on May 09, 2030 shall be denoted as 761GS2030	The symbol shall denote coupon, type of bond and Maturity Year. For example 6.79% Central Government Security having maturity on May 15, 2027 shall be denoted as 679GS2027	The symbol shall denote coupon, type of bond and Maturity Year. For example 6.68% Central Government Security having maturity on September 17, 2031 shall be denoted as 668GS2031	The symbol shall denote coupon, type of bond and Maturity Year. For example 7.17% Central Government Security having maturity on January 08, 2028 shall be denoted as 717GS2028	The symbol shall denote coupon, type of bond and Maturity Year. For example 7.26% Central Government Security having maturity on January 14, 2029 shall be denoted as 726GS2029

NSE

<table>
<tr><th>Instrument Type</th><th colspan="8">Interest Rate Futures</th></tr>
<tr><td>Underlying</td><td>Futures contracts based on 7.68% Central Government Security having maturity on December 15, 2023</td><td>Futures contracts based on 7.72% Central Government Security having maturity on May 25, 2025</td><td>Futures contracts based on 7.88% Central Government Security having maturity on Mar 19, 2030</td><td>Futures contracts based on 7.61% Central Government Security having maturity on May 09, 2030</td><td>Futures contracts based on 6.79% Central Government Security having maturity on May 15, 2027</td><td>Futures contracts based on 6.68% Central Government Security having maturity on September 17, 2031</td><td>Futures contracts based on 7.17% Central Government Security having maturity on January 08, 2028</td><td>Futures contracts based on 7.26% Central Government Security having maturity on January 14, 2029</td></tr>
<tr><td>Market Type</td><td colspan="8">N</td></tr>
<tr><td>Unit of Trading</td><td colspan="8">Rs 2 lakhs face value of GOI securities equivalent to 2000 units. Members shall place orders in terms of number of lots.</td></tr>
<tr><td>Quotation</td><td colspan="8">Similar to the quoted price of GOI security</td></tr>
<tr><td>Contract Value</td><td colspan="8">Quoted price * 2000</td></tr>
<tr><td>Tick Size</td><td colspan="8">Rs 0.0025</td></tr>
<tr><td>Trading Hours</td><td colspan="8">Monday to Friday
9:00 a.m. to 5:00 p.m.</td></tr>
<tr><td>Contract Trading Cycle</td><td colspan="8">Three Serial monthly contracts followed by three quarterly contracts of the cycle March/June/September/December</td></tr>
<tr><td>Spread Contract</td><td colspan="8">Near-Mid, Near-Far & Mid-Far
All spread orders shall be placed in terms of price difference only.</td></tr>
<tr><td>Last Trading Day</td><td colspan="8">Last Thursday of the month. In case the last Thursday is a trading holiday, the previous trading day shall be the expiry/last trading day</td></tr>
<tr><td>Quantity Freeze</td><td colspan="8">1251 lots or greater i.e. orders having quantity up to 1250 lots shall be allowed.</td></tr>
<tr><td>Base Price</td><td colspan="8">Theoretical future price of the 1st day of the contract.
On all other days, daily settlement price of the contract</td></tr>
<tr><td>Price Operating Range</td><td colspan="8">+/-3 % of the base price
(Whenever a trade in any contract is executed at the highest/lowest price of the band, Exchange may expand the price band for that contract by 0.5% in that direction after 30 minutes after taking into account market trend. Price band may be relaxed only 2 times during the day)</td></tr>
<tr><td>Daily Settlement</td><td colspan="8">Daily MTM settlement on T+1 in cash based on daily settlement price</td></tr>
<tr><td>Final Settlement</td><td colspan="8">Final settlement on T+1 day in cash based on final settlement price</td></tr>
<tr><td>Daily Settlement Price</td><td colspan="8">Volume Weighted Average Futures Price of last half an hour or Theoretical price</td></tr>
<tr><td>Final Settlement Price</td><td colspan="8">Weighted average price of the underlying bond based on the prices during the last two hours of the trading on NDS-OM. If less than 5 trades are executed in the underlying bond during the last two hours of trading, then FIMMDA price shall be used for final settlement</td></tr>
</table>

Contract Specifications for Interest Rate Futures (91-day T-bill)

<table>
<tr><th>Symbol</th><th colspan="2">91DTB</th></tr>
<tr><td>Market Type</td><td colspan="2">Normal</td></tr>
<tr><td>Instrument Type</td><td colspan="2">FUTIRT</td></tr>
<tr><td>Unit of Trading</td><td colspan="2">One contract denotes 2000 units (face value: Rs 2 lakh)</td></tr>
<tr><td>Underlying</td><td colspan="2">91-day Government of India (GoI) Treasury Bill</td></tr>
<tr><td>Tick Size</td><td colspan="2">0.25 paise (i.e. INR 0.0025)</td></tr>
<tr><td>Trading Hours</td><td colspan="2">Monday to Friday, 9:00 a.m. to 5:00 p.m.</td></tr>
<tr><td>Contract Trading Cycle</td><td colspan="2">3 serial monthly contracts followed by 1 quarterly contracts of the cycle March-June-September-December</td></tr>
<tr><td>Last Trading Day</td><td colspan="2">Last Wednesday of the expiry month at 1:00 pm. In case the last Wednesday of the month is a designated holiday, the expiry day would be the previous working day.</td></tr>
<tr><td>Price Quotation</td><td colspan="2">100 minus futures discount yield
e.g. for a futures discount yield of 5% p.a., the quote shall be 100 - 5 = 95</td></tr>
<tr><td>Contract Value</td><td colspan="2">2000 * (100 - 0.25 * y), where y is the futures discount yield
e.g. for a futures discount yield of 5% p.a. the contract value shall be 2000 * (100 - 0.25 * 5) = Rs 1,97,500)</td></tr>
<tr><td>Quantity Freeze</td><td colspan="2">7001 lots or greater</td></tr>
<tr><td>Base Price</td><td colspan="2">Theoretical price of the first day of the contract on all other days, the quote price corresponding to the daily settlement price of the contracts</td></tr>
<tr><td>Price Operating Range</td><td colspan="2">+/- 1% of the base price</td></tr>
<tr><td rowspan="2">Position Limits</td><td>Clients</td><td>6% of total open interest or Rs 300 crore, whichever is higher</td></tr>
<tr><td>Trading members</td><td>15% of the total open interest or Rs 1000 crore whichever is higher</td></tr>
<tr><td>Initial Margin</td><td colspan="2">SPAN® (Standard Portfolio Analysis of Risk) based subject to a minimum of 0.1% of the notional value of the contract on the first day and 0.05% of the notional value of the contract thereafter.</td></tr>
<tr><td>Extreme Loss Margin</td><td colspan="2">0.03% of the notional value of the contract for all gross open positions</td></tr>
<tr><td>Settlement</td><td colspan="2">Daily settlement MTM: T+1 in cash
Delivery settlement: Last business day of the expiry month</td></tr>
<tr><td>Daily Settlement Price & Value</td><td colspan="2">Rs (100 - 0.25 * yw), where yw is the weighted average futures yield of the trades during the time limit as prescribed by the NSE Clearing. In the absence of trading in the prescribed time limit, theoretical futures yield shall be considered.</td></tr>
<tr><td>Daily Contract Settlement Value</td><td colspan="2">2000 * daily settlement price</td></tr>
<tr><td>Final Contract Settlement Value</td><td colspan="2">2000 * (100 - 0.25 * yf) where yf is the weighted average discount yield obtained from weekly auction of 91-day T-Bills conducted by the RBI on the day of expiry</td></tr>
<tr><td>Mode of Settlement</td><td colspan="2">Settled in cash in Indian Rupees</td></tr>
</table>

Contract Specifications for Interest Rate Futures (91-day T-bill)

Instrument Name	Futures Based on Overnight Call Rate (MIBOR)
Underlying	Average daily FBIL overnight MIBOR for the contract month
Symbol	ONMIBOR
Market Type	N
Instrument Type	FUTIRC
Unit of Trading	Interest on notional principal of Rs 5 crores for one month calculated on 30/365 day basis at a rate equal to average daily FBIL overnight MIBOR for the contract month. Members shall place orders in terms of number of contracts.
Quoting	Interest Rate
Contract Value	Quoted Rate * 100 * 411 [Value for 1 basis point : Rs 411 = (Rs 5 Crs * 0.01% * 30/365]
Tick Size	Quarter basis point (0.25 basis point i.e. 0.0025)
Tick Value	Rs 102.75 = (Rs 411/4)
Contract Cycle	3 serial monthly contracts i.e., 1-month (near-month), 2-month (mid-month) and 3-month (far-month). and additionally 3 quarterly contracts of the cycle March/June/September/December
Trading Hours	9.00 am to 5.00 pm (Monday to Friday)
Price Operating Range	+/-5 % of the base rate. (Whenever a trade in any contract is executed at the highest/lowest price of the band, Exchange may expand the price band for that contract by 5% in that direction after taking into account market trend or as may be decided by relevant authority)
Quantity Freeze	Quantity Freeze for FUTIRC contracts shall be 41 lots or greater i.e. orders having quantity up to 40 lots shall be allowed.
Base Rate	MIBOR OIS rate for the corresponding tenure will be considered to compute base rate on the first day of the contract. On all other days, daily settlement rate will be considered for base rate of the contract
Last Trading Day	Last working day of the month. In case the last working day is a trading holiday, the previous trading day shall be the last trading day. For Expiring futures contract - The market timing on last trading day will be 9:00 am to 10:00 am and trade modification end time will be till 10:30 am
Daily Settlement Rate Price	Volume weighted average rate of trades -In last 30 minutes of trading, subject to min 5 trades else -In last 60 minutes of trading, subject to min 5 trades else theoretical rate would be made applicable.
Final Settlement Rate	Average daily FBIL Overnight MIBOR rate, up to 4 decimals, applicable for the contract month
Daily Settlement	Daily MTM settlement on T+1 day in cash, based on daily settlement rate
Final Settlement	Final settlement on T+1 day in cash, based on final settlement rate

11.9 Foreign Portfolio Investors

The Securities and Exchange Board of India has introduced a new class of foreign investors in India known as the Foreign Portfolio Investors ("FPIs"). This class has been formed by merging the following existing classes of investors- Foreign Institutional Investors ("FIIs"), Qualified Foreign Investors ("QFIs") and sub-accounts of the FIIs. Consequently, the SEBI (Foreign Institutional Investors) Regulations, 1995 and the various amendments to it as also the SEBI circulars dated August 09, 2011 and January 13, 2012 governing QFIs have been replaced by the SEBI (Foreign Portfolio Investors) Regulations, 2014. SEBI has, thus, intended to simplify the overall operation of foreigners investing in the country.

Eligibility Criteria of Foreign Portfolio Investors

No person will be allowed to buy, sell or otherwise deal in securities as a foreign portfolio investor unless it has obtained a certificate from the Designated Depository Participant (DDP) on behalf of SEBI. The DDP should not consider an application for grant of certificate of registration as a FPI unless the applicant satisfies the following conditions:

i) The applicant is a person not a resident of India;

ii) The applicant resides in a country whose securities market regulator is a signatory to International organisation of Securities Commission's Multilateral Memorandum of Understanding or a signatory to Bilateral Memorandum of Understanding with SEBI;

iii) The applicant, being a bank, is a resident of a country whose central bank is a member of Bank for International Settlements;

iv) The applicant is not resident of a country which is identified in the public statement of Financial 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 either 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.

v) The applicant is not a non-resident Indian;[11]

vi) The applicant is legally permitted to invest in securities outside the country of its incorporation or establishment or place of business;

vii) The applicant is authorised by its Memorandum of Association and Articles of Association or equivalent documents to invest on its own behalf or on behalf of its clients;

viii) The applicant has sufficient experience, good track record, is professionally competent, financially sound and has a generally good reputation of fairness and integrity;

ix) The applicant is a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008; and

x) Any other criteria specified by the SEBI from time to time.

Categories of Foreign Portfolio Investor

An applicant should register as a foreign portfolio investor in one of the below mentioned categories.

i) "Category I foreign portfolio investor" which will include government and government related investors such as central banks, government agencies, sovereign wealth funds and international or multilateral organisations.

ii) "Category II foreign portfolio investor" which will include

   - Appropriately regulated broad based funds such as mutual funds, investment trusts, insurance/ reinsurance companies.

[11] where non-resident Indians or overseas citizens of India or resident Indians are constituents of the applicant or an existing foreign portfolio investor -

(i) The contribution of a single non-resident Indian or overseas citizen of India or resident Indian shall be below twenty-five percent. of the total contribution in the corpus of the applicant or the existing foreign portfolio investor;

(ii) the aggregate contribution of non-resident Indians, overseas citizens of India and resident Indians shall be below fifty percent. of the total contribution in the corpus of the applicant or the existing foreign portfolio investor;

(iii) the non-resident Indians, overseas citizens of India and resident Indians shall not be in control of the applicant or of the existing foreign portfolio investor.

- Appropriately regulated persons such as banks, asset management companies, investment managers/advisors, portfolio managers.
- Broad based funds that are not appropriately regulated but whose investment manager is appropriately regulated, provided that the investment manager of such broad based fund is itself registered as Category II FPI. Broad based fund will mean a fund, established or incorporated outside India, having at least 20 investors, with no investor holding greater than 49% of the shares or units of the fund. If the fund has an institutional investor who holds more than 49% of the shares or units of the fund, then such an institutional investor must itself be a broad based fund.

iii) "Category III foreign portfolio investor" which will include all others not eligible under categories I and II of FPIs such as endowments, charitable trusts, foundations, corporate bodies, individuals and family offices.

Know Your Client Norms -FPI					
	Document Type	**Category -I**	**Category -II**	**Category -III**	**Erstwhile KYC requirement**
Entity Level	Constitutive Docs	Required	Required	Required	Required
	Proof of Address	Power of Attorney mentioning address is acceptable	Power of Attorney mentioning address is acceptable	Power of Attorney mentioning address is acceptable	Required
	PAN Card	Required	Required	Required	Required
	Financials	*Exempt	*Exempt	Risk Based- Financial data sufficient	Required (Exempt for SWFs)
	Board Resolution to invest in india	*Exempt	Required	Required	Not Required
	Uniform Know Your Client (KYC) Form	Required	Required	Required	Required
Senior Management (Whole Time Directors/ Partners/Trustees/ etc)	List of personnel	Required	Required	Required	Required
	Proof of identity	*Exempt	*Exempt	Entity declares on letterhead -Full name, nationality and Date of Birth or Proof of Identity	Required
	Proof of Address	*Exempt	*Exempt	Declaration on Letter Head	Required
	Photographs	*Exempt	*Exempt	*Exempt	Required

Know Your Client Norms -FPI					
	Document Type	**Category -I**	**Category -II**	**Category -III**	**Erstwhile KYC requirement**
Authorized Signatories	List & Signatures	Required	Required	Required	Required
	Proof of identity	*Exempt	*Exempt	Required	Not Required
	Proof of Address	*Exempt	*Exempt	Declaration on Letter Head	Not Required
	Photographs	*Exempt	*Exempt	*Exempt	Only photograph of signer on the KYC form is required in page 1
Ultimate Beneficial Owner (UBO)	List	*Exempt	Required (Can declare no UBO over 25%)	Required	Required (Exempt for SWFs)
	Proof of identity	*Exempt	*Exempt	Required	Not Required
	Proof of Address	*Exempt	*Exempt	Declaration on Letter Head	Not Required
	Photographs	*Exempt	*Exempt	*Exempt	Not Required

Permitted Investments for FPIs: A foreign portfolio investor is allowed to invest only in the following securities, namely

i) Securities in the primary and secondary markets including shares, debentures and warrants of companies which are listed or to be listed on a recognized Indian stock exchange.

ii) Units of schemes floated by listed or unlisted domestic mutual funds.

iii) Units of schemes floated by a collective investment scheme.

iv) Derivatives traded on a recognized stock exchange.

v) Treasury bills and dated government securities. (FPIs not allowed to invest in any fixed income securities with residual maturity of less than three years)

vi) Commercial papers issued by an Indian company.

vii) Rupee denominated credit enhanced bonds.

viii) Security receipts issued by asset reconstruction companies

ix) Perpetual debt instruments and debt capital instruments, as specified by the RBI from time to time.

x) Listed and unlisted non-convertible debentures or bonds issued by an Indian company in the infrastructure sector.

xi) Non-convertible debentures or bonds issued by Non-banking Financial Companies categorized as 'Infrastructure Finance Companies' (IFCs) by RBI.

xii) Rupee denominated bonds or units issued by infrastructure debt funds

xiii) Indian Depository Receipts.

1) Where a FII or a sub account, prior to commencement of these regulations, holds equity shares in a company whose shares are not listed on a recognized stock exchange, and continues to hold such shares after initial public offering and listing thereof, such shares will be subject to lock-in for the same period, if any, as is applicable to shares held by a FDI placed in a similar position.
2) In respect of investments in the secondary market, a FPI shall hold, deliver or cause to be delivered securities only in dematerialized form. Provided that any shares held in non-dematerialized form before the commencement of these regulations, can continue to be held in that form, if such shares cannot be dematerialized.
3) The purchase of equity shares of each company by a single FPI or an investor group shall be below 10% of the total issued capital of the company.
4) A FPI can lend or borrow securities according to the framework specified by SEBI in this regard.

Conditions for Issuance of Offshore Derivative Instruments

1) No FPI can issue, subscribe to or otherwise deal in offshore derivative instruments, directly or indirectly, unless the following conditions are satisfied.
    a) Such offshore derivative instruments are issued only to persons who are regulated by an appropriate foreign regulatory authority.
    b) Such offshore derivative instruments are issued after ensuring compliance with 'know your client' norms.

    Provided that those unregulated broad based funds which are classified as Category-II FPIs by virtue of their investment manager being appropriately regulated will not deal in offshore derivative instruments directly or indirectly. Further, it is required that no Category III FPI will deal in offshore derivative instruments directly or indirectly.
2) A FPI should ensure that further issue or transfer of any offshore derivative instruments issued by or on behalf of it is made only to persons who are regulated by an appropriate foreign regulatory authority and prior consent of the foreign portfolio investor is obtained for such transfer.
3) FPIs should fully disclose to SEBI any information regarding the terms of and parties to offshore derivative instruments such as participatory notes, equity linked notes etc.

General Obligations and Responsibilities

Certain general obligations and responsibilities of FPIs relating to the engagement of Designated Depository Participant, appointment of custodian of securities, designated bank and compliance officer, investment advice in publicly accessible media and maintenance of proper books of account and records have been laid down as part of the SEBI (FPI) Regulations, 2014.

Payment of Fees

A FII or sub account who has been granted registration by SEBI prior to the commencement of these regulations will be required to pay conversion fees of USD 1,000 to SEBI on or before the expiry of its registration as a FII or sub account, in order to buy, sell or otherwise deal in securities. However, no fee should be payable by the applicant which is an international/multilateral agency, established outside India for providing aid, which have been granted privileges and immunities from payment of tax and duties by the Central Government. Category I FPIs will be exempted from the payment of registration fees. However, Category II and Category III FPIs should pay registration fees of USD 3,000 and USD 300 respectively to SEBI (can be amended from time to time) for every 3 year period till the validity of its registration.

11.10 Foreign Venture Capital Investor

A foreign venture capital investor (FVCI) is an investor incorporated/established outside India who is registered under the SEBI (Foreign Venture Capital Investor) Regulations, 2000.

Investment Conditions and Restrictions

An FVCI has to abide by the following conditions pertaining to investments made by it:

i. It has to disclose the investment strategy to the SEBI.

ii. It can invest its total funds committed in one venture capital fund or alternative investment fund.

iii. An FVCI should make investments as enumerated below:

a) At least 66.67% of the investible funds should be invested in unlisted equity shares or equity-linked instruments of venture capital undertakings or the investee company as defined in the SEBI Alternative Investment Funds Regulations (AIF), 2012.

b) Not more than 33.33% of the investible funds may be invested by way of:

- Subscription to an Initial Public Offer (IPO) of a venture capital undertaking (VCU) or investee company as defined in the SEBI AIF Regulations, 2012, whose shares are proposed to be listed.
- Debt or debt instruments of a VCU or investee company as defined in the SEBI AIF Regulations, 2012, in which the FVCI has already made an investment by way of equity.
- Preferential allotment of equity shares of a listed company subject to lock-in period of one year. This condition should be achieved by the FVCI by the end of the life cycle. An FVCI should disclose the duration of the life cycle of the fund
- Special purpose vehicles (SPVs) are created by a venture capital fund for the purpose of facilitating or promoting investment in accordance with the SEBI (FVCI) Regulations, 2000.

General Obligations and Responsibilities

Certain general obligations and responsibilities relating to the maintenance of books and records, the power to call for information by the SEBI, the appointment of designated bank, and so on have been laid down on FVCIs by the SEBI (Foreign Venture Capital Investor) Regulations, 2000.

Risk Management

AD Category-I banks can offer forward cover to FVCIs to the extent of the total inward remittance. In case the FVCI has made any remittance by liquidating some investments, the original cost of the investments has to be deducted from the eligible cover to arrive at the actual cover that can be offered.