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Indian Securities Market, A Review (ISMR)

A Review

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This publication reviews the developments in the securities market in India.

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Indian Securities Market
A Review

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FOREWORD

After a stellar performance in 2017, global economic growth has started to weaken since the second half of 2018. This trend has emerged from the overhang arising from trade war tensions between US and China, sluggish performance by large economies in Europe and Asia (Germany, Italy and China) and the overall tightening of financial market conditions, dampening market sentiments. The IMF's latest World Economic Outlook (April 2019) accordingly lowers global growth forecasts for 2019 to 3.3% (from 3.5% in January, and 3.7% in October 2018), with downward revisions seen for the following years as well.

India's growth momentum has also declined from an impressive 8.2% in FY17 to 7% in FY19 with an overall slowdown in both domestic and deteriorating global environment. Apart from the declining economic activity, other major concerns for India's growth prospects emerge from the financial sector's asset quality issues and continued slowdown in private corporate capital expenditure. FY19 has seen a marginal fiscal slippage, and a burgeoning trade deficit has become a rising concern due to slow export growth and increase in crude oil price.

In contrast, Indian securities market outperformed major peers in 2018 on several parameters such as returns and major index volatility. During Apr-Mar'19, both S&P BSE Sensex and NSE Nifty 50 moved up by 17% and 15%, whereas MSCI emerging market indices declined by 10% and MSCI World increased by merely 2%. Volatility in the Indian equity market (12.1% for the NIFTY 50) is among the lowest compared to major developed and emerging markets like UK (12.5% for the FTSE 100), US (19.4% for the NASDAQ Composite), China (20.4% for the Shanghai Se Composite), Japan (17.3% for the NIKKEI 225), South Korea (13.2% for the KOSPI), Hong Kong (17.8% for the Hang Seng) and Brazil (22.2% for the Brazil IBOVESPA). Currently, India's two major stock exchanges, *viz.*, the NSE and BSE are amongst the top 10 exchanges out of all WFE member exchanges in terms of domestic market capitalisation.

Recent data also shows continued interest in the India's securities markets from foreign and domestic institutional investors. While capital inflows averaged US$7.66bn, investments from SIPs (Systematic Investment Plans) continued to average US$21.41bn over Jan-Mar'19. And long-term prospects for the exchange-traded market environment in India remain positive, given the low equity penetration levels, low free float across companies, and a primarily bank-funded ecosystem. It therefore becomes important to understand major aspects of securities market in India, *inter alia*, (i) major sources of funds for corporates and governments; (ii) trends in secondary, derivatives and debt market; (iii) overall performance of different collective investment vehicles; (iv) recent policy developments; and (v) trends in foreign portfolio investments.

In this regard, the NSE has been making continuous efforts to disseminate information and analyse recent developments in the Indian securities market through its annual publication, the *Indian Securities Market Review (ISMR)* since 1999. Its primary objective is to facilitate all stakeholders, *viz.,* investors, intermediaries, institutions and researchers to get a better perspective about ongoing trends. The report also explains in detail the overall market structure, particularly in the NSE.

I believe the report will be useful for policy-makers, institutions, market participants, academicians, researchers and all others interested in the development of the Indian securities market. We welcome feedback and suggestions for further improvement.

Dr. Tirthankar Patnaik
Chief Economist

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ABBREVIATIONS

ADB	Asian Development Bank
ADRs	American Depository Receipts
AI	Anchor Investor
AIF	Alternative Investment Fund
AIFIs	All India Financial Institutions
AMC	Asset Management Company
AMFI	Association of Mutual Funds in India
ARN	AMFI Registration Number
ASBA	Application Supported by Blocked Amount
ASC	Accounting Standards Committee
ASE	Ahmedabad Stock Exchange
AUM	Assets Under Management
ATM	At-The-Money
ATSs	Alternative Trading system
B2B	Business-to-Business
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlement
BMC	Base Minimum Capital
BRIC	Brazil, Russia. India, China
BSE	Bombay Stock Exchange
CBDT	Central Board of Direct Taxes
CC	Clearing Corporation
CCP	Central Counterparty
CCIL	Clearing Corporation of India Limited
CDs	Certificate of Deposits
C&D	Corporatisation and Demutualisation
CDSL	Central Depository Services (India) Limited
CH	Clearing House
CMBs	Cash Management Bills
CAD	Current Account Deficit
CD	Certificate of Deposit

CNX	CRISIL NSE Indices
CIMC	Collective Investment Management Company
CISs	Collective Investment Schemes
CIVs	Collective Investment Vehicles
CLA	Central Listing Authority
CLF	Collateralised Lending Facility
CM	Clearing Member
CM Segment	Capital Market Segment of NSE
CMIE	Centre for Monitoring Indian Economy
CP	Custodial Participant
CPs	Commercial Papers
CRAs	Credit Rating Agencies
CRISIL	Credit Rating Information Services of India Limited
CRR	Cash Reserve Ratio
CSD	Collateral Security Deposit
CSE	Calcutta Stock Exchange
DCA	Department of Company Affairs
DDBs	Deep Discount Bonds
DEA	Department of Economic Affairs
DFIs	Development Financial Institutions
DJIA	Dow Jones Industrial Average
DSE	Designated Stock Exchange
DSP	Daily Settlement Price
DPs	Depository Participants
DRs	Depository Receipts
DRR	Debenture Redemption Reserve
DRS	Disaster Recovery Settlement
DSCE	Debt Securities Convertible into Equity
DvP	Delivery versus Payment
ECNS	Electronic communication Networks
EDGAR	Electronic Data Gathering, Analysis and Retrieval
EDIFAR	Electronic Data Information Filing and Retrieval
EFT	Electronic Fund Transfer
ELN	Equity Linked Notes

ELSS	Equity Linked Saving Schemes
EMEs	Emerging Market Economies
EMPEA	Emerging markets Private Equity Association
EPS	Earning Per Share
ETFs	Exchange Traded Funds
EUR-INR	Euro-Indian Rupee
FIA	Futures Industry Association
F&O	Futures and Options
FCCBs	Foreign Currency Convertible Bonds
FCDs	Fully Convertible Debentures
FDI	Foreign Direct Investment
FDRs	Foreign Deposit Receipts
FDs	Fixed Deposits
FEMA	Foreign Exchange Management Act
FII	Foreign Institutional Investment
FIIs	Foreign Institutional Investors
FIMMDA	Fixed Income Money Markets and Derivatives Association
FIs	Financial Institutions
FMCG	Fast Moving Consumer Goods
FMPs	Fixed Maturity Plans
FoFs	Fund of Funds
FPOs	Further Public Offerings
FRAs	Forward Rate Agreements
FVCIs	Foreign Venture Capital Investors
GBP-INR	Great Britain Pound-Indian Rupee
GDP	Gross Domestic Product
GDRs	Global Deposit Receipts
GDS	Gross Domestic Savings
GETF	Gold Exchange Traded Funds
GIC	General Insurance Corporation of India
GNP	Gross National Product
GOI	Government of India
G-Sec	Government Securities
GSO	Green Shoe Option

i-BEX	ICICI Securities Bond Index
ICAI	Institute of Chartered Accountants of India
ICICI	Industrial Credit and Investment Corporation of India Limited.
ICSE	Inter-Connected Stock Exchange of India Limited
IBRD	International Bank for Reconstruction and Development
ICCL	Indian Clearing Corporation Limited
IDBI	Industrial Development Bank of India
IDRs	Indian Depository Receipts
IEPF	Investors Education and Protection Fund
IFC	International Finance Corporation
IFSD	Interest Free Security Deposit
IIM	Indian Institute of Management
IISL	India Index Services and Products Limited
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commission
IDFC	Infrastructure Development Finance Corporation
IDRs	Indian Depository Receipts
IIP	Index of Industrial Production
IPP	Institutional Placement Programme
IP	Internet Protocol
IFCs	Infrastructure Finance Company
IPF	Investor Protection Fund
IPOs	Initial Public Offers
IRDA	Insurance Regulatory and Development Authority
IRS	Interest Rate Swap
ISIN	International Securities Identification Number
ISSA	International Securities Services Association
IT	Information Technology
ITM	In-The-Money
ICDR	Initial Capital Disclosure Requirement
JPC	Joint Parliamentary Committee
JPY-INR	Japanese Yen- Indian Rupee
LA	Listing Agreement
LAF	Liquidity Adjustment Facility

LEC	Liquidity Enhancement Scheme
LIC	Life Insurance Corporation of India Limited
LLC	Limited Liability Company
LLP	Limited Liability Partnership
M	Month
MCA	Ministry of Company Affairs
MCFS	Modified Carry Forward System
MFs	Mutual Funds
MFSS	Mutual Fund Service System
MIBID	Mumbai Inter-bank Bid Rate
MIBOR	Mumbai Inter-bank Offer Rate
MMMF	Money Market Mutual Fund
MNCs	Multi National Companies
MOU	Memorandum of Understanding
MoF	Ministry of Finance
MTM	Mark-To-Market
NASDAQ	National Association of Securities Dealers Automated Quotation System
NAV	Net Asset Value
NBFCs	Non-Banking Financial Companies
NCDs	Non-convertible Debentures
NCDS	Non-convertible Debt Securities
NCFM	NSE's Certification in Financial Markets
NDS	Negotiatied Dealing System
NEAT	National Exchange for Automated Trading
NGOs	Non-Government Organisations
NIBIS	NSE's Internet-based Information System
NPAs	Non Performing Assets
NRIs	Non Resident Indians
NSCs	National Saving Certificates
NSCCL	National Securities Clearing Corporation of India Limited
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
NDS-OM	Negotiated Dealing System-Order Matching
OCBs	Overseas Corporate Bodies

ODIs	Offshore Derivative Instruments
OECLOB	Open Electronic Consolidated Limit Order Book
OFS	Offer for Sales
OLTL	On-line Trade Loading
OPMS	On-line Position Monitoring System
ORS	Order Routing System
OSL	Open Strata Link
OTC	Over the Counter
OTCEI	Over the Counter Exchange of India Limited
OTM	Out-of the-Money
P/E	Price Earning Ratio
PAN	Permanent Account Number
PCDs	Partly Convertible Debentures
PCM	Professional Clearing Member
PDAI	Primary Dealers Association of India
PNs	Participatory Notes
PDO	Public Debt Office
PDs	Primary Dealers
PE	Private Equity
PFI	Public Finance Institution
PFRDA	Pension Fund Regulatory Development Authority
PIPE	Private Investment in Public equity
PIS	Portfolio Investment Scheme
PRI	Principal Return Index
PRISM	Parallel Risk Management System
PSUs	Public Sector Undertakings
PV	Present Value
QIBs	Qualified Institutional Buyers
QIP	Qualified Institutional Placement
QFIs	Qualified Foreign Investors
RBI	Reserve Bank of India
ROCs	Registrar of Companies
RTA	Registrar Transfer Agent
RTGS	Real Time Gross Settlement

SA	Stabilising Agent
SAST	Substantial Acquisition of Shares & Takeover
SAT	Securities Appellate Tribunal
SBTS	Screen Based Trading System
SCMRD	Society for Capital Market Research and Development
S&P	Standard and Poor's
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SAT	Securities Appellate Tribunal
SC(R)A	Securities Contracts (Regulation) Act, 1956
SC(R)R	Securities Contracts (Regulation) Rules, 1957
SCBs	Scheduled Commercial Banks
SDs	Satellite Dealers
SEBI	Securities and Exchange Board of India
SEC	Securities Exchange Commission
SECC	Stock Exchanges and Clearing Corporations
SGF	Settlement Guarantee Fund
SGL	Subsidiary General Ledger
SGX-DT	The Singapore Exchange Derivatives Trading Limited
SID	Scheme Information Document
SIPC	Securities Investor Protection Corporation
SLB	Securities Lending and Borrowing
SLR	Statutory Liquidity Ratio
SPAN	Standard Portfolio Analysis of Risks
SDL	State Development Loans
SOQ	Special Opening Quotation
SPICE	Sensex Prudential ICICI Exchange Traded Fund
SPV	Special Purpose Vehicle
SROs	Self Regulatory Organisations
SSS	Securities Settlement System
STA	Share Transfer Agent
STP	Straight Through Processing
STRIPS	Separate Trading of Registered Interest and Principal of Securities
SUS 99	Special Unit Scheme 99

T-Bills	Treasury Bills
TDS	Tax Deducted at Source
TFT	Trade for Trade
TM	Trading Member
TM-CM	Trading and Clearing Member
TM-SCM	Trading and Self Clearing Member
TRI	Total Return Index
UIN	Unique Identification Number
USD-INR	United States Dollar – Indian Rupee
UTI	Unit Trust of India
VaR	Value at Risk
VCFs	Venture Capital Funds
VCUs	Venture Capital Undertakings
VSAT	Very Small Aperture Terminal
WAN	Wide Area Network
WAP	Wireless Application Protocol
WDM	Wholesale Debt Market Segment of NSE
WFE	World Federation of Exchanges
WTO	World Trade Organization
YTM	Yield to Maturity
ZCYC	Zero Coupon Yield Curve

1. Introduction

1.1 Global Macroeconomic Developments

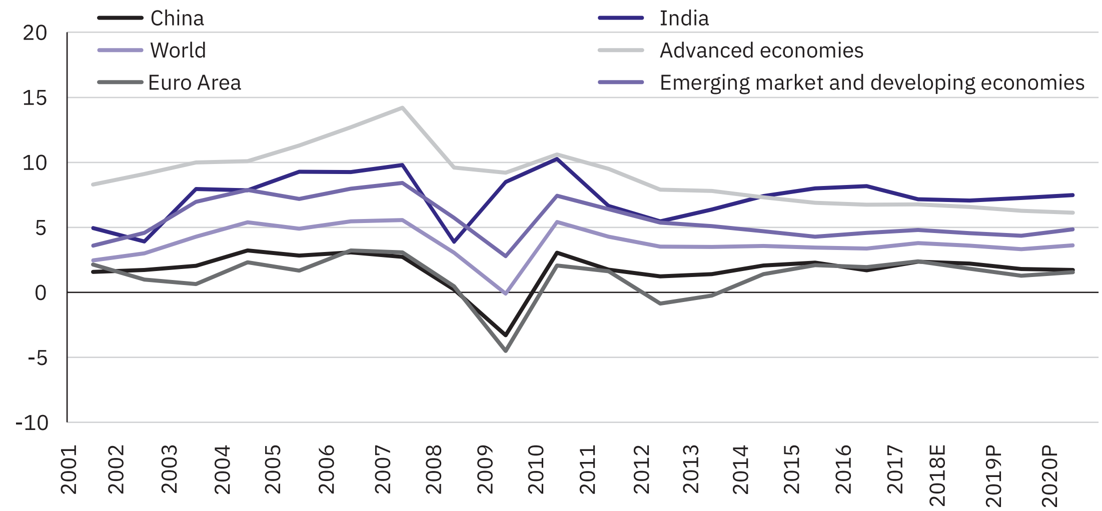
1.1.1 Output Growth

Global economic activity has begun to weaken towards the second half of 2018, after a stellar 2017. This trend has emerged from the overhang arising from trade war tensions between US and China, sluggish performance by large economies in Europe and Asia (Germany, Italy and China) and the overall weakening of financial market sentiments. Accordingly, in the latest IMF's World Economic Outlook April 2019, global growth forecasts have been lowered to 3.6% (from 3.7% earlier) for 2018, with downward revisions seen for the following years as well (see Chart 1.1).

Advanced economies have been one of the main drivers of this decline in global growth. The Euro Area, for example, is expected to have grown at 1.8% in 2018 from 2.4% in 2017 on account of a slowdown in Germany (weak industrial production following the introduction of revised auto emission standards), Italy (weak domestic demand and higher borrowing costs as sovereign yields remain elevated) and France (negative impact of street protests and industrial action). The UK as well remains in a state of policy uncertainty (Brexit outcome still awaited) that has lowered its growth to 1.4% in 2018 from 1.8% in the previous year. Japan is expected to witness a setback in 2018 with growth forecasted at 0.9% from 1.9% in 2017 weighed down by natural disasters that hit spending and disrupted exports. The US, although the only major developed economy expected to grow in 2018 to 2.9% from 2.2% in 2017, has already seen the pace of growth slowing in the second half of the year on account of indecisive trade policy action, tightening of interest rates, and an inverted yield curve that usually signals an impending economic recession.

Emerging and developing economies, on the other hand, are expected to decline only temporarily reflecting the contractions in Argentina and Turkey, and the impact of trade war uncertainty on China and other Asian countries. The slowdown in China has already commenced with growth expected at 6.6% in 2018 from 6.9% in 2017, as financial, regulatory tightening and trade war tensions offset the positive impact of a fiscal stimulus. Meanwhile growth in emerging and developing Europe also witnessed a sharp downtrend to 3.6% in 2018 from 6.0% in 2017, amid the currency and debt crisis that triggered a plunge in bank lending and slump in business confidence and consumer spending. The Middle East, North Africa, Afghanistan and Pakistan region's growth also dropped in 2018 to 1.8% from 2.2% in 2017 led by slower oil-GDP growth, ongoing macroeconomic adjustment challenges, the re-imposition of US sanctions on Iran and geopolitical tensions. And lastly, India is poised to grow further in 2018 (=FY19) to 7.1% from 6.7% in 2017, benefiting from lower oil prices, slower pace of monetary tightening and easing inflationary pressures.

Chart 1.1: GDP Growth of Major Global Economies (%YoY)

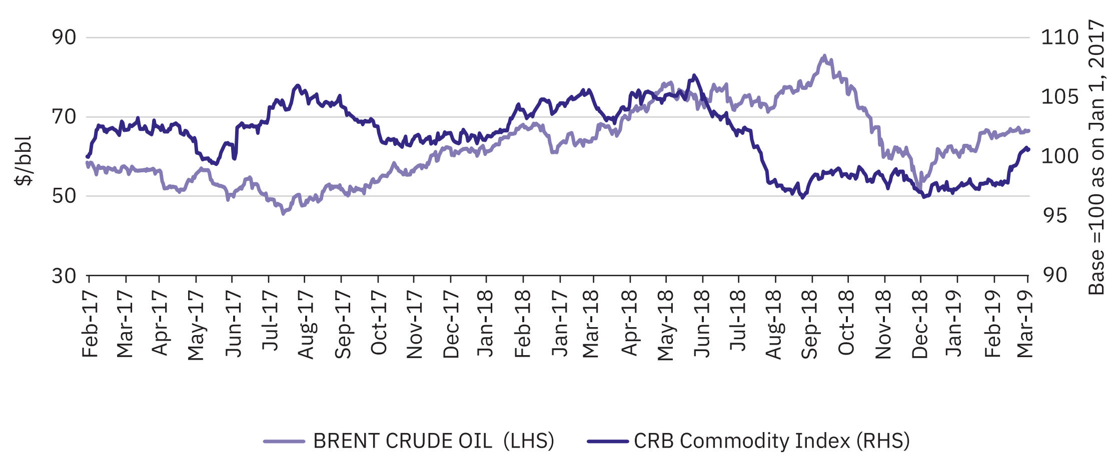


Source: World Economic Outlook, April 2019.
Note: E=Estimate, P=Projection.

1.1.2 Commodities, Inflation and Policy

Beyond growth prospects, a major factor that influenced the global macro environment in 2018 was volatile commodity prices. Crude oil price touched a high of US$85/bbl in October 2018 – the highest level since November 2014 – reflecting the collapse in Venezuela's production, unexpected outages in Canada and Libya, and expectations of lower Iranian exports following US sanctions. In December, oil price dropped to US$52/bbl following a decision by OPEC and non-OPEC oil exporters to increase production and has been volatile since then, reflecting supply influences and fears of softening global demand. Prices of metal and agricultural commodities have also softened slightly since August due to subdued demand from China.

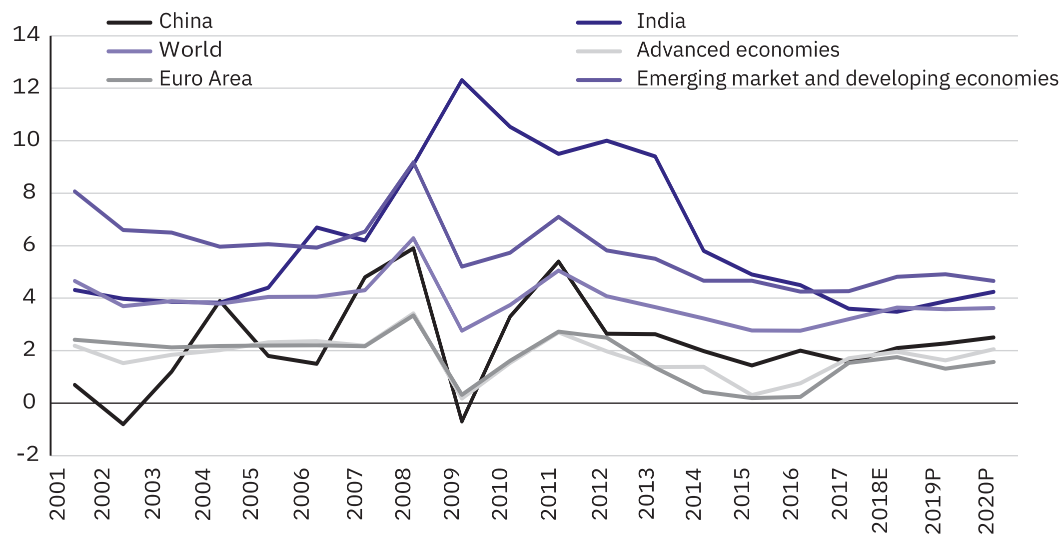
Chart 1.2: Movement of Brent Crude Oil Price and CRB Commodity Index since 2017



Source: Thomson Reuters.

Headline inflation—percentage change in consumer price index (CPI) on y-o-y basis—declined remarkably in EMDEs from 9.2% in 2008 to about 4.2% in 2016 before a gradual increase towards 5% in 2018 (Chart 1.3). The trend has somewhat coincided with an even sharper decline in advanced economies towards 0.3% in 2015, which has since then started increasing gradually to reach 2% in 2018. As a result, headline inflation increased globally to 3.6% in 2018, and is expected to remain at a similar level in 2019.

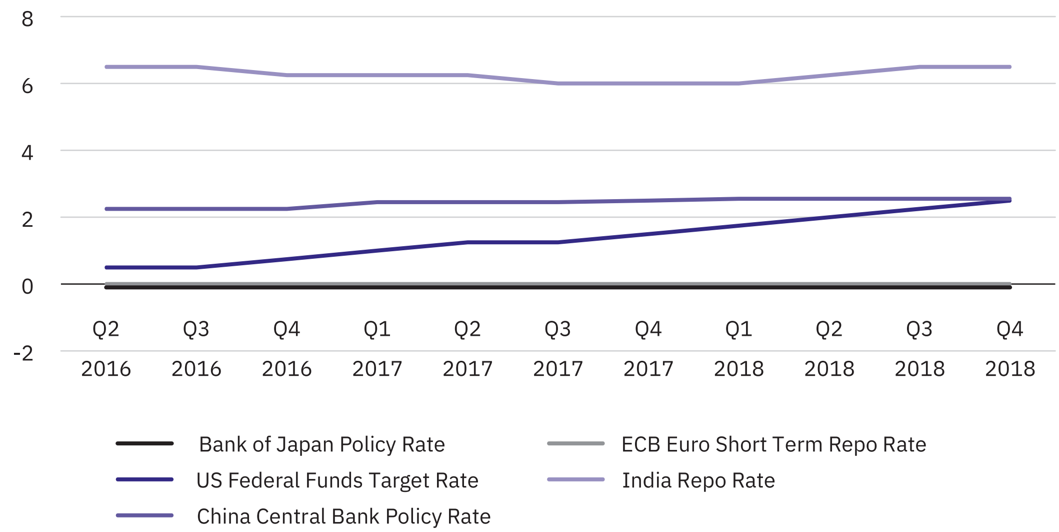
Chart 1.3: Consumer Price Inflation across Major Regions (%)



Source: World Economic Outlook, April 2019.
Note: E= Estimate, P=Projection.

Most central banks in emerging markets (Indonesia, Thailand, Russia, South Africa, Mexico, Philippines) have raised policy rates on rising inflationary pressures from the higher oil price, closing output gaps or pass-through from currency depreciation. The Chinese central bank, on the other hand, maintained policy rates on hold and chose to ease domestic funding conditions by lowering reserve requirements for banks and providing liquidity to NBFCs respectively. The Reserve Bank of India also kept its policy rate low till June 2018 to provide cheap funds in the market. Policy decisions for advanced economies have been largely data dependent, as seen in Euro Area and Japan, where the central banks chose to keep monetary policy accommodative amid a slower-than-expected pick-up in inflation and the overall economy, while US monetary policy tightened as inflationary pressures emerged amid solid growth and historically low unemployment. With global growth fears rising, a volatile domestic stock market and a prolonged government shutdown, the Fed too, recently decided to postpone rate hikes for now.

Chart 1.4: Major Policy Rates of US, China, India, ECB, Japan (%)



Source: Thomson Reuters.

1.1.3 Trade

Global trade has slowed to well below 2017 averages as world trade volumes have lowered to 4.0% in 2018 from 5.3% in 2017 (see Chart 1.5a and 1.5b). This trend has been evident for both advanced economies and emerging economies. The true underlying momentum, however, could be weaker than the data suggests as import front-loading ahead of tariff hikes, and a large uptick in tech exports on launch of new products could make headline figures appear better than the true picture. This is also supported by the Purchasing Manager's Index (PMI) for new orders, which points to less buoyant expectations of future activity. In addition, trade tensions, an increase in the probability of a no-deal Brexit and overall decline in global demand have affected business sentiment, disrupted supply chains and slowed productivity levels.

Chart 1.5a: Growth of Export Volume (Goods & Services) (%YoY)

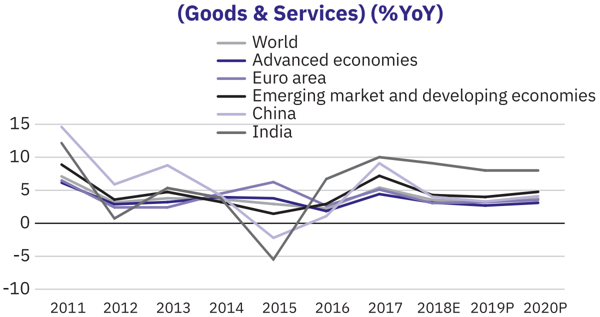
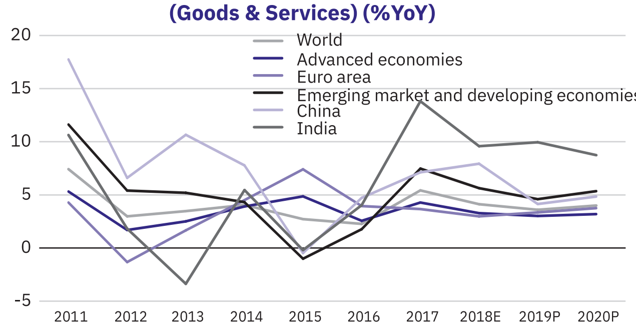


Chart 1.5b: Growth of Import Volume (Goods & Services) (%YoY)



Source: World Economic Outlook, April 2019
Note: E= Estimate, P=Projection

Box 1.1: Major Developments in the World Economy

1. *US-China Trade War*: China and the US have been threatening to and actually raising tariff barriers on bilateral trade, given their divergent policy objectives, and have been embroiled in a *trade-war* since mid-2018. On July 6, US imposed a 25% tariff on $34bn of imports from China, which Beijing promptly matched with tariffs of its own, including agricultural products, automobiles and aquatic products. Later, in August and September, more tariffs were imposed by both the countries, but then on December 1, 2018, a 90-days "truce" was called on tariff increases, post which negotiations continue till date.
2. *No-deal Brexit*: The UK parliament strongly opposed to a no-deal Brexit but unable to reach a consensus on an agreement with EU. The parliament has rejected the Brexit proposal which is formulated under the leadership of the UK Prime Minister Theresa May. Hence, there is a risk that the Brexit negotiations could end without a deal with negative cross-border spill-overs and increased euro-scepticism affecting European parliamentary election outcomes.
3. *Rising US Fed rates*: The US Fed has tightened its monetary policy and increased Fed fund rates from 1.25-1.5% in December 2017 to 2.25-2.5% in December 2018.
4. *US-Mexico-Canada free trade agreement (USMCA) replaced NAFTA*: Under Trump administration, US has reached an agreement with Mexico and Canada in re-negotiation of the North American Free Trade Agreement (NAFTA). It is argued that, new USMCA will benefit North American workers, farmers and businesses.
5. *Dollar appreciation*: Investors gained confidence in the US market as DXY was up ~4% in 2018, which measures the US currency's performance against a basket of 16 others.
6. *Volatile crude oil prices*: Crude oil prices have been volatile since June 2018, reflecting supply influences, including US policy on Iranian oil exports, and fears of softening global demand.
7. *Expansionary policy by ECB*: In March 2019, ECB declared that it will extend the time to maintain a pause on interest rates (current rate = 0%) and continue to provide cheap funding to banks through the year. The central bank also said it would launch a series of targeted, long-term refinancing operations (TLTROs) in September 2019 which will run until March 2021 to help banks roll over €720bn of ECB loans and to ease out credit squeeze that could deepen economic slowdown.
8. *Downturn in emerging markets:* The US-China trade dispute, volatile financial markets, supply chain constraints, depreciating currency and slower global demand have together deeply impacted emerging markets that are now on a declining growth trend.

1.2 Macroeconomic Developments in India

1.2.1 Economic Growth

India's GDP growth has been accelerating for several years from 5.2% in 2011-12 to 8.2% in 2016-17 due to strong macro fundamentals. Thereafter, growth started to decline to 7.2% in FY18 and 7.0% in FY19 (CSO advance estimate) (see Table 1.1). Apart from the declining economic activity, other concerns for India's growth prospects emerge from the financial sector's asset quality issues, continued slowdown in private corporate capex and the deteriorating global environment.

So far, India has largely been a consumption driven economy. This is evident with the high share of private consumption (~60% of GDP), while investments continued to remain lacklustre (sub-30% of GDP). The trend, however, is shifting with consumption expected to moderate in FY19, for both private and government spending, on account of an overall slowdown in both domestic and global demand, while investment growth appears to be strengthening, particularly private investments, and with public investments still remaining muted, there is huge potential for investments to pick-up going forward.

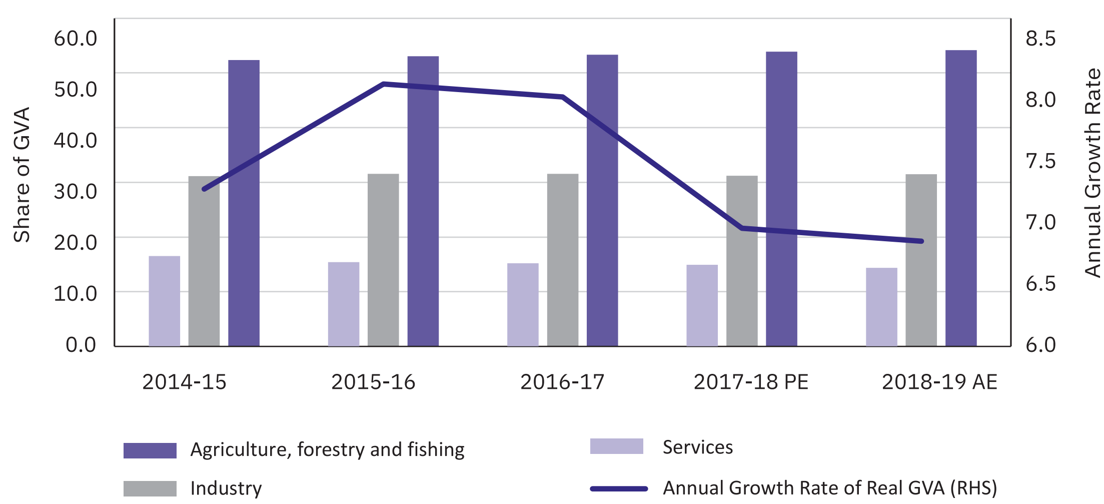
On a sectoral level, agricultural growth witnessed a sharp setback from 5% growth in FY18 to 2.8% in FY19, on account of erratic weather conditions and lower crop production. (see Table 1.1). Services growth also moderated due to subdued activity in trade, hotels, transport, communication and other services. And even though industrial growth accelerated during this period, it was not sufficient to offset the negative impact of agriculture and services. Overall, GVA growth decelerated to 6.8% in FY19 from 6.9% in the previous financial year.

Table 1.1: Annual Growth of Real GVA, Sectoral GVA and GDP (%YoY)

Indicators	2014-15	2015-16	2016-17	2017-18 RE	2018-19 AE
Real GVA at basic prices	7.2	8.0	7.9	6.9	6.8
Agriculture, forestry and fishing	-0.2	0.7	6.3	5.0	2.8
Industry	7.0	9.6	7.7	6.0	7.7
Services	9.8	9.4	8.4	8.1	7.4
Real GDP	7.4	8.0	8.2	7.2	7.0

Source: CSO, RBI.
Note: RE= Revised Estimates and AE=Second Advance Estimates.

Chart 1.6: Annual Growth Rate & Composition of Real GVA (At 2011 - 12 Prices)



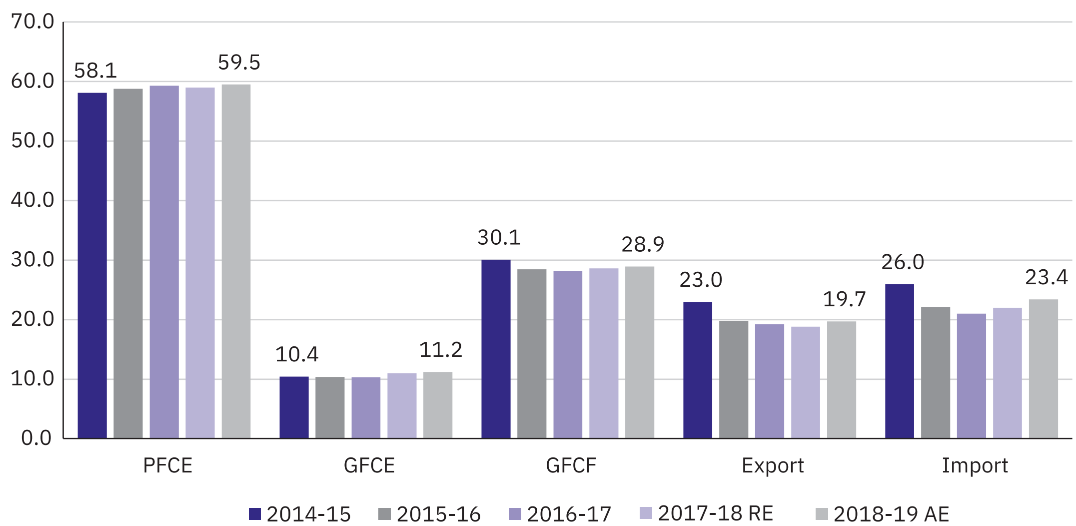
Source: CSO, RBI.
Note: RE= Revised Estimates and AE=Second Advance Estimates.

Table 1.2: Components of GDP by Expenditure

Indicators	Annual Growth Rate (Constant prices at 2011- 12 Prices)				
	2014-15	2015-16	2016-17	2017-18 RE	2018-19 AE
PFCE	6.4	7.9	8.2	7.4	8.3
GFCE	7.6	7.5	5.9	15.0	8.9
GFCF	2.6	5.2	10.1	9.3	10.0
Export	1.8	-5.6	5.1	4.7	13.5
Import	0.9	-5.9	4.4	17.6	15.7
GDP	7.4	8.0	8.2	7.2	7.0

Source: CSO, RBI.
Note: RE= Revised Estimates and AE=Second Advance Estimates.
PFCE=Private Final Consumption Expenditure, GFCE=Government Final Consumption Expenditure,
GFCF=Gross fixed capital formation.

Chart 1.7: Different Components of GDP by Expenditure (% of GDP at Current Prices)

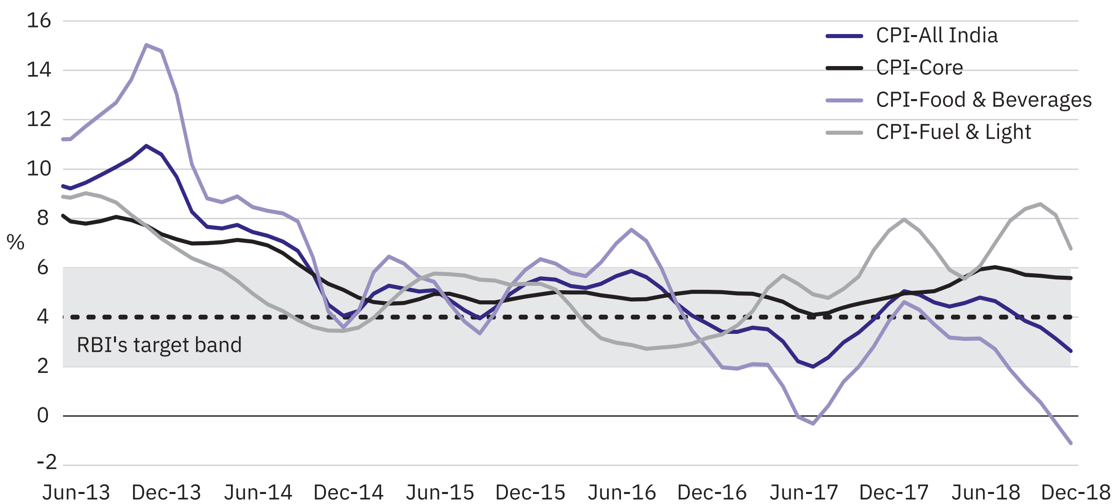


Source: CSO, RBI.
Note: RE= Revised Estimates and AE=Second Advance Estimates.

1.2.2 Inflation

Inflationary pressures in India have eased considerably in the past year. Retail inflation (CPI) has been on a downward trajectory since June 2018, dropping below 2% levels in January 2019 – for the first time in 19 months. For most part of FY19, CPI inflation has been towards the lower range of RBI's target band of 2-6%, providing comfort to the RBI to cut policy rates by 50bps in the last six months. The continuous deflation in food prices (~45% of inflation basket), especially pulses, sugar and vegetables, has been one of the main reasons for the decline in headline inflation, and the crude oil price volatility has also contributed with fuel inflation recording all-time lows in recent months. Excluding the volatile components of the inflation basket – food and fuel inflation – core inflation has remained sticky close to 6% in FY19, signalling that the underlying inflationary trend still remains high, which could become a major concern for the economy going forward.

Chart 1.8: CPI Inflation - Base Year 2012 (3 Month Moving Average)



Source: CMIE.

1.2.3 Fiscal Slippage

On the fiscal front, performance of both Central and State Governments have improved in FY19 compared to the previous financial year, as gross fiscal deficit (GFD) as a share of GDP for the General Government (centre and state) stood at 6% of GDP in FY19 compared to 6.6% in FY18 (Table 1.3). Revenue deficit as a share of GDP also improved, given an increase in tax revenue after demonetisation and implementation of GST, however, overall collections are still expected to be a miss this year (from the target), especially indirect tax collections, which means the Government would curtail spending in order to contain the deficit target for the year.

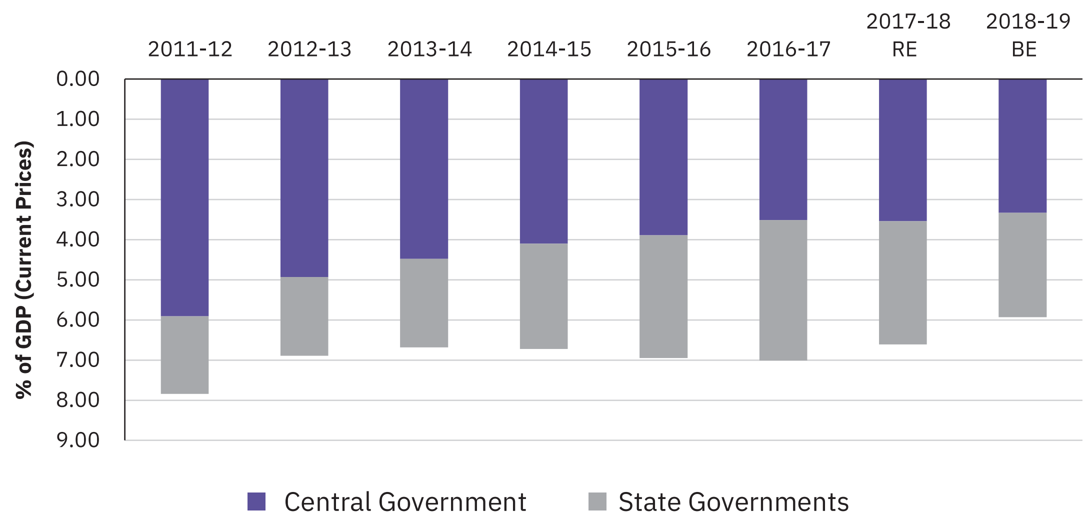
Table 1.3: Key Fiscal Indicators of the Centre and States (Percent to GDP)

Year	Central Government		State Governments	
	Gross Fiscal Deficit	Revenue Deficit	Gross Fiscal Deficit	Revenue Deficit
2011-12	5.91	4.51	1.93	-0.27
2012-13	4.93	3.66	1.96	-0.2
2013-14	4.48	3.18	2.20	0.09
2014-15	4.10	2.94	2.62	0.37
2015-16	3.89	2.51	3.06	0.04
2016-17	3.51	2.07	3.50	0.27
2017-18	3.54	2.62	3.07	0.36
2018-19	3.40	2.20	2.60	-0.16

Source: RBI, Budget documents of the Central and State Governments.

Notes: Data for 2017-18 relate to Revised Estimates while 2018-19 are Budget Estimates for State Governments and revised estimates for Central Government.
Data relates to 29 State Governments.
Negative (-) sign indicates surplus in deficit indicators.

Chart 1.9: General Government Gross Fiscal Deficit (Percent of GDP)



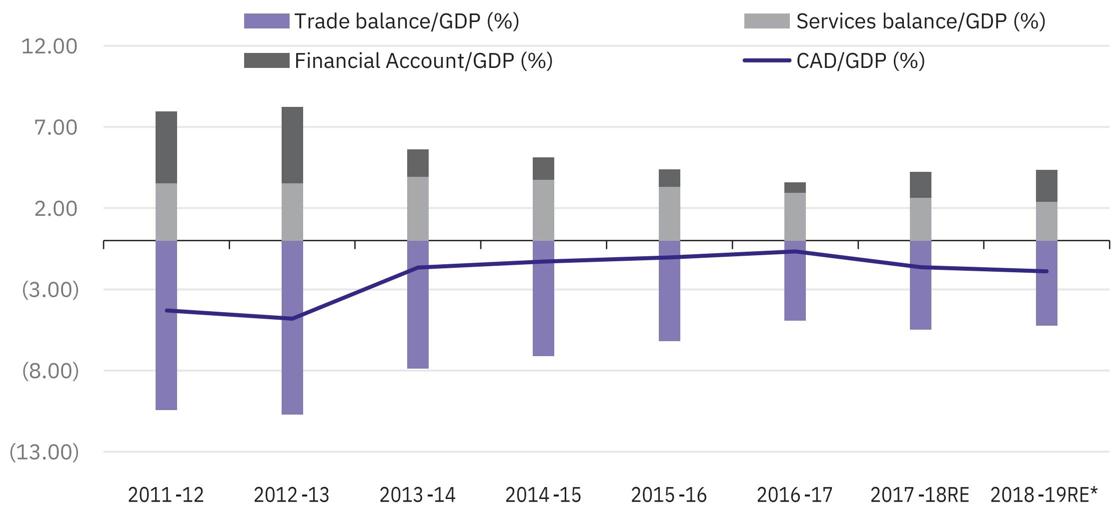
Source: RBI, Budget documents of the Central and State Governments.
Note: Data for FY18 relate to Revised Estimates while FY19 are Budget Estimates.

In the Union Budget 2019-20, the Indian economy has witnessed a marginal fiscal slippage for the second consecutive year as the fiscal deficit estimate for 2018-19 is revised to 3.4% of GDP (from budgeted figure of 3.3% of GDP). This was mainly due to the additional Rs200bn that would be given to support farm incomes in 2018-19, excluding which the Finance Minister stated that the fiscal deficit would have been lower than 3.3% of GDP. Further, the fiscal deficit for 2019-20 is projected at 3.4% of GDP, indicating a deviation from the fiscal consolidation path that was set under the Fiscal Responsibility and Budget Management (FRBM) Act for the Centre to reach a fiscal deficit of 3% of GDP by FY20.

1.2.4 External Sector

India's external account has been relatively stable over the last few years with current account deficit (CAD) at sub-2% of GDP from FY14-FY18. In the first three quarters of FY19, however, burgeoning trade deficit became a rising concern, with CAD averaging almost 2.6% of GDP. Trade deficit rose to US$145.3bn during this period from US$118.4 in the corresponding period last year. Towards the second half of the fiscal, however, crude oil price fell sharply and market sentiments improved towards emerging markets amid the pause in Fed rate hikes and the truce in US-China trade dispute. This is likely to have helped ease India's external balances on account of a lower trade deficit, and a stabilization and subsequent recovery in portfolio flows, which had dropped sharply in the first half of FY19. The recovery was particularly notable in early 2019 as investors increased allocations to emerging market bond and equity funds.

Chart 1.10: Break-up of Balance of Payments as a Percent of GDP



Source: CMIE, Reserve Bank of India.
Note: RE= Revised Estimates, *till December 2018.

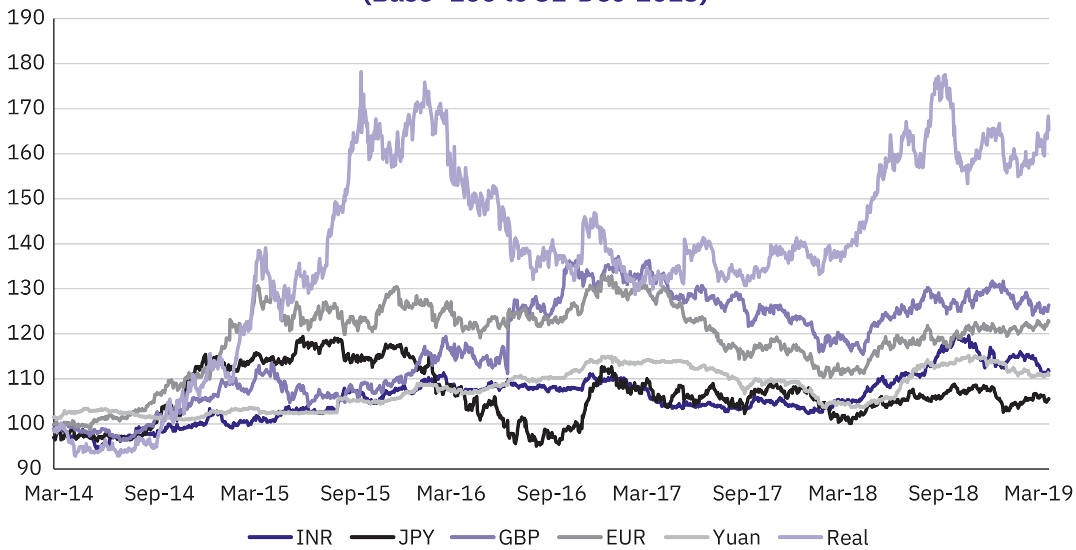
Table 1.4: India's Key External Debt Indicators

Year	External Debt (US$ billion)	Ratio of External Debt to GDP (%)	External Commercial Borrowing to Total Debt (%)	Ratio of Long-term Debt to Total Debt (%)	Ratio of Short-term Debt to Total Debt (%)	Ratio of Short-term Debt to Foreign Exchange Reserves (%)	Ratio of Foreign Exchange Reserves to Total Debt (%)
2011	317.9	18.2	27.8	79.6	20.4	21.3	95.9
2012	360.8	21.1	29.0	78.3	21.7	26.6	81.6
2013	409.4	22.4	33.2	76.4	23.6	33.1	71.3
2014	446.2	23.9	33.5	79.5	20.5	30.1	68.2
2015	474.7	23.9	38.0	82	18	25	72
2016	484.8	23.4	37.2	82.8	17.2	23.2	74.3
2017 PR	471.3	20	36.6	81.3	18.7	23.8	78.5
2018 PR	529.7	20.5	38.2	80.7	19.3	24.1	80.2
Till September 2018 P	510.4	20.8	37.1	79.6	20.4	26.1	78.5

Source: Reserve Bank of India.
Note: PR=Partially Revised, P=Provisional.

Further, the rupee had also remained stable for most part of FY14-FY18 on account of a stable external account (see Chart 1.11). The situation, however, reversed in 2018 when rupee became more volatile, and depreciated to as low as Rs74.4/$ on Octobser 9, 2018 from 63.9 on December 31, 2017 partly driven by an increase in net outflows of FPIs. The turning point came in late-2018s when the dollar appreciation reversed following a shift in market expectations about the pace and extent of monetary policy tightening in the US, which led to most emerging market currencies strengthening, with the Indian rupee no exception.

Chart 1.11: The Rupee Remains Stable Relative to Other Major Currencies (Base=100 to 31-Dec-2013)



Source: Bank of International Settlement, Daily data.

1.2.5 Banking Sector

The health of India's banking sector has been deteriorating over past few years and particularly sharply since 2015-16, as reflected in the sudden surge of non-performing assets (NPAs). Gross NPAs of all scheduled commercial banks (SCBs) as a percentage of total advances has been rising since 2012-13 from 3.2% to as high as 11.2% in FY18 (See Chart 1.12). Notably, there was a sharp rise in GNPA ratio in 2015-16 due to the Asset Quality Review (AQR) conducted by RBI in Aug-Nov'15, forcing banks to clean up their books. The deeper issue was that bad loans had been accumulating over the years through aggressive lending practices, inadequate monitoring, loan frauds and a general downturn in the economy. The problem worsened over the next few years, especially for public sector banks (PSBs), as GNPA ratio rose to 14.6% of total advances for PSBs, given their large share of the overall loan book; private sector banks (PVBs) and foreign banks (FBs) were better placed, with NPAs at 4.6% and 3.8% respectively.

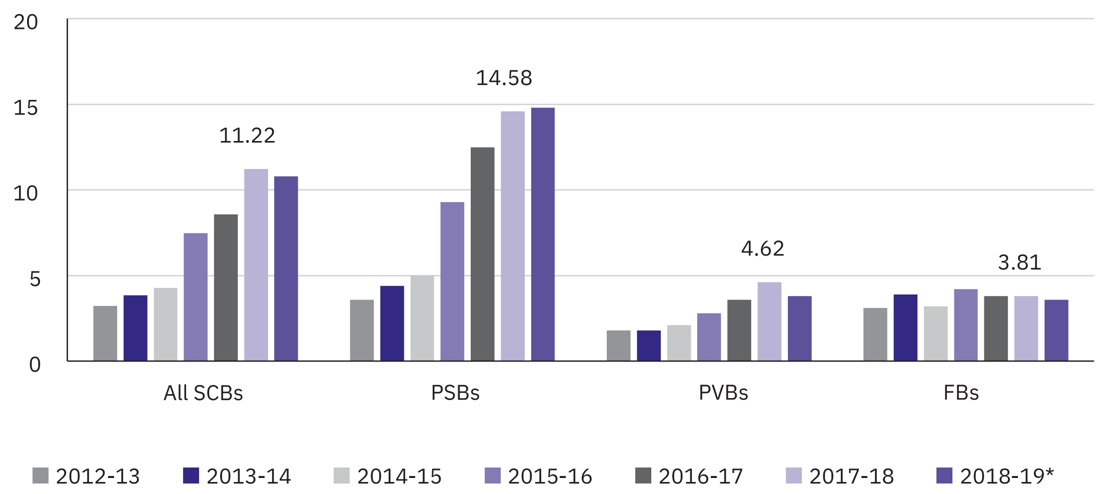
Recent data, however, shows early signs of improvement in the performance of banks as NPA ratios have begun to decline for the first time since the NPA crisis began in early 2015. Gross NPAs for SCBs declined from 11.5% in Mar'18 to 10.8% in Sep'18 (Financial Stability Report, December 2018). This indicates that asset quality issues might have topped out for the banking space in India.

SCBs' credit growth on a y-o-y basis improved across all bank groups in FY18 compared to the previous year, and the stellar performance continued in March and September 2018 as well (Chart 1.13a). And not surprisingly, growth was the highest in PSBs at 22.5% at the end of September 2018 quarter.

Overall deposit growth showed a markedly different trend during this period. After a sharp rise towards the end of FY17 post demonetisation on 8th November 2016, largely in public sector banks where deposit growth increased from 4.3% in FY16 to 9.8% in FY17 (Chart 1.13b), deposit growth eased off considerably in the following year, on a high base, before stabilising at ~6.9% levels in FY19.

Overall, the banking stability indicator (BSI) shows that the asset quality of banks has improved due to several factors including (1) recapitalisation of weak PSBs, (2) implementation of Insolvency and Bankruptcy Code (IBC) and (3) substantive reforms in corporate governance.

Chart 1.12: Gross NPAs to Total Advances (%)



Source: Reserve Bank of India.
Note: PSBs=Public sector banks, PVBs=Private sector banks and FBs=Foreign banks.
*till September 2018.

Chart 1.13a: Credit Growth (%YoY)

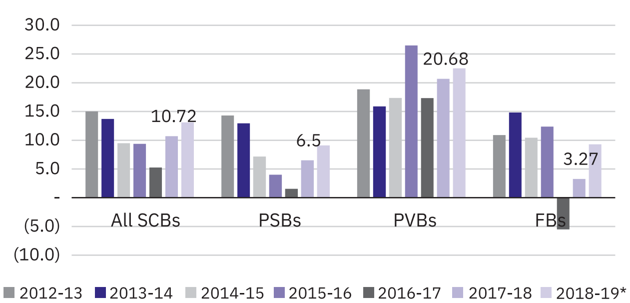
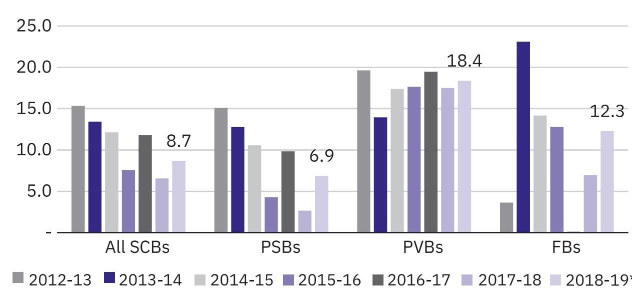


Chart 1.13b: Deposit Growth (%YoY)



Source: RBI Financial Stability Report, CMIE.
Note: PSBs=Public sector banks, PVBs=Private sector banks and FBs=Foreign banks.
*till September 2018.

1.2.6 Ease of Doing Business

The Government of India took a carefully designed approach to reform business regulatory environment over last few years. It focused on streamlining business processes through several measures such as:

a) The Value Added Tax (VAT) got replaced with a nation-wide Goods and Services Tax (GST), in which registration process is faster.

b) Under the National Trade Facilitation Action Plan 2017-20, the government implemented several initiatives that improved efficiency of cross-border trade by reducing border and documentary compliance time for both exports and imports.

c) India also invested in port equipment, strengthened management and improved electronic document flow by implementing Single Window Clearance System in Delhi and Online Building Permit Approval System in Mumbai during second half of 2017.

d) India continued to streamline and centralize its construction permitting process.

e) Under newly-adopted regulations of the Delhi Electricity Regulatory Commission, the government changed the process under which new electricity connections can be provided within 15 days of application.

As a result, India's global ranking in terms of 'ease-of-doing-business' improved remarkably from 100 in 2018 to 77 in 2019 out of 190 countries (World Bank's report on 'Doing Business', 2019). India also demonstrated considerable improvement in terms of global competitiveness index and ranked 58 out of 140 countries in 2018 up 5 notches from the previous year (The Global Competitiveness Report, 2018).

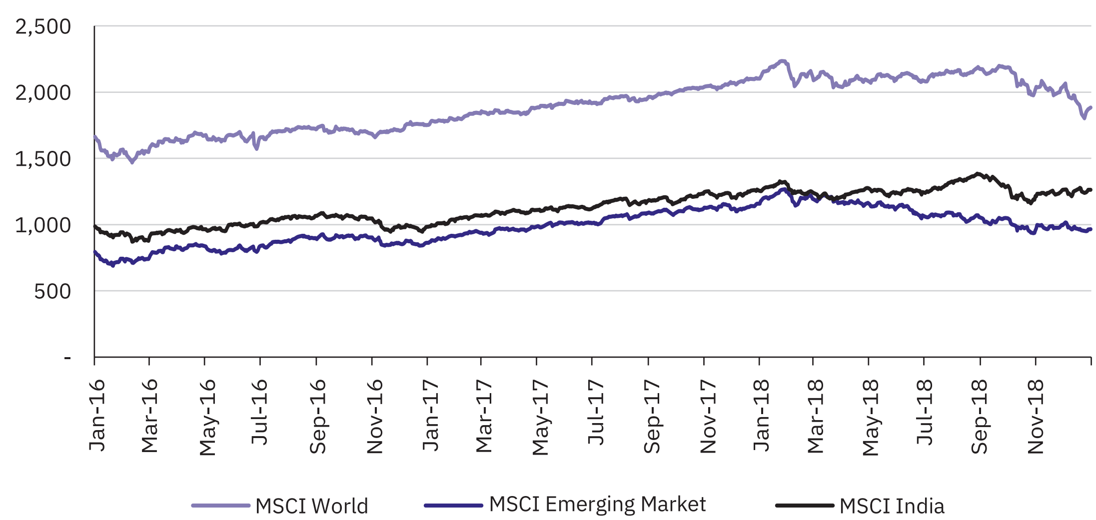
1.3 Trends in Securities Market –International Scenario

Escalating trade tensions, a global slowdown, elevated debt burdens in major economies and a US government shutdown led to a decline in equity prices globally during the second half of 2018 (IMF WEO, January 2019). As a result, investor sentiment deteriorated and near-term risks to financial stability started to rise (Global Financial Stability Report, October 2018). The medium-term risks continued to remain high, driven by high non-financial sector leverage in advanced economies and rising external borrowing in emerging market economies.

Consequently, overall return in securities market ended negative in 2018, with 10.4% decline in MSCI world index (Chart 1.14). In US, the S&P500 dropped by 4.4%, the Dow Jones Industrial Average index fell by 6% and the Nasdaq composite index fell by 4%. Among other developed markets, UK's FTSE 100 Index fell by 12.5% and Germany's DAX index fell by 18%, while South Korea's Kospi Index (17%), Hong Kong's Hang Seng index (14%) and Japan's Nikkei 225 (12%) rose for the year.

MSCI Emerging Market fell by 17% during the same time period mainly due to sharp outflows from the Chinese markets, as Shanghai Se Composite declined by 25% for the year. In contrast, securities market in India stayed stable during this period with a marginal (about 1%) uptick in MSCI India. Brazil's IBOVESPA index performed remarkably well during this time period with an increase by 15%.

Chart 1.14: Movement in MSCI World and Emerging Market Index



Source: Bloomberg.

According to the International Investment Funds Association, net assets in regulated open-end funds declined by about 5% on y-o-y basis to Rs46.7trn at the end of Q4 2018, excluding funds of funds (Table 1.5). Among all regulated open end fund categories, equity and bond contributed around 64% of all funds as on Q4 2018 which is marginally lower than that seen in Q4 2017 (65%). Notably, net assets in equity funds declined by 9% whereas net assets in bond funds declined merely by 2% during same time period.

Table 1.5: Net Assets of Worldwide Regulated Open End Funds (US$bn; End of Period)

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3**	Q4**
All funds* (USD billion)	38,875	39,329	41,048	40,554	42,982	44,992	47,390	49,300	50,017	49,450	50,147	46,700
Long-term	33,722	34,240	35,899	35,420	37,826	39,662	41,669	43,401	43,915	43,489	44,168	40,623
Equity	16,294	16,433	17,303	17,326	18,766	19,585	20,626	21,826	21,935	22,113	22,747	19,922
Bond	8,368	8,680	9,071	8,796	9,313	9,740	10,183	10,370	10,549	10,249	10,263	10,136
Balanced/Mixed	5,227	5,294	5,458	5,323	5,667	5,932	6,231	6,414	6,474	6,275	6,291	5,844
Guaranteed	73	69	68	66	69	71	70	67	65	59	56	55
Real Estate	572	593	610	607	630	671	709	747	787	780	792	805
Other	3,188	3,171	3,388	3,302	3,381	3,662	3,851	3,978	4,105	4,014	4,019	3,861
Money market	5,152	5,088	5,149	5,135	5,156	5,330	5,720	5,900	6,101	5,961	5,979	6,076
Memo items included above:												
ETFs	2,815	2,877	3,183	3,315	3,751	4,001	4,281	4,642	4,749	4,821	5,091	4,673
Institutional	3,404	3,554	3,720	3,560	3,799	4,002	4,238	4,378	4,586	4,371	4,409	4,425

Source: International Investment Funds Association[1].

Note: Regulated open-end funds include mutual funds, exchange-traded funds and institutional funds.
*Excludes funds of funds where possible.

1.3.1 Cash Market

Total domestic market capitalisation of member countries of the World Federation of Exchanges (WFE) dropped to US$74.4trn at the end of 2018 (Chart 1.15a) from a record high of US$87.1trn seen in 2017. This trend was similar across all regions. Total domestic market capitalisation in Asia Pacific region declined by 24% followed by EMEA countries (16%) and Americas (6%).

There were 51,582 listed companies at the end of 2018, up by 3% compare to previous year (Chart 1.15d). In secondary market, total value and volume of trades in equity shares increased by 16% and 12% respectively in 2018 (Chart 1.15b and Chart 1.15c).

1 https://www.iifa.ca/industry_statistics/index.html

Chart 1.15a: Domestic Market Capitalisation (US$trn)

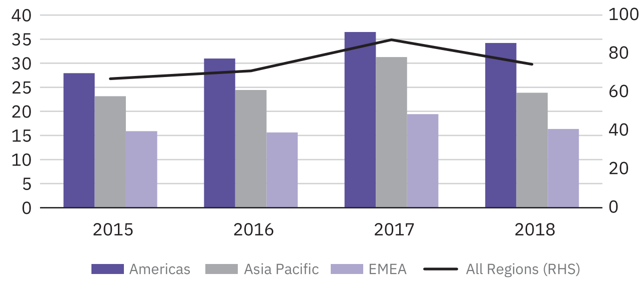


Chart 1.15b: Value of Share Trading (US$trn)

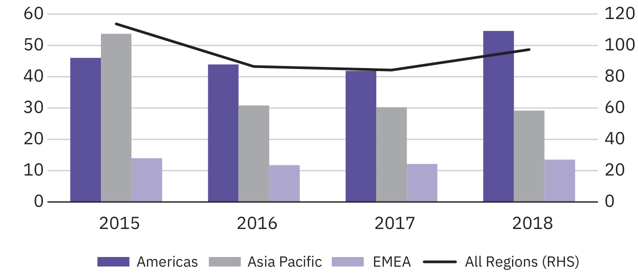


Chart 1.15c: Number of trades (bn of trades)

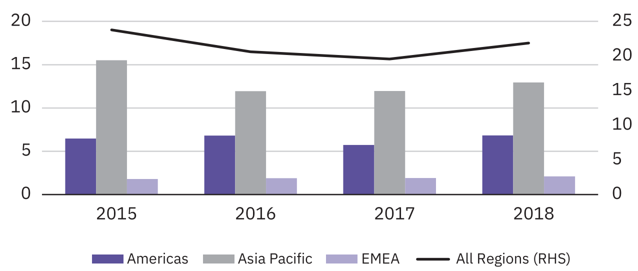
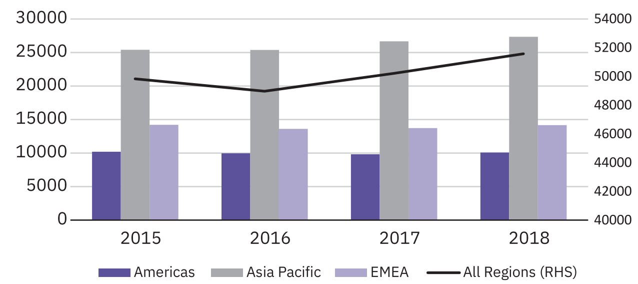


Chart 1.15d: Number of listed companies



Source: World Federation of Exchanges, 2018- Full year market highlights based on data from World Federation of Exchanges members, affiliates, correspondents and non-members.

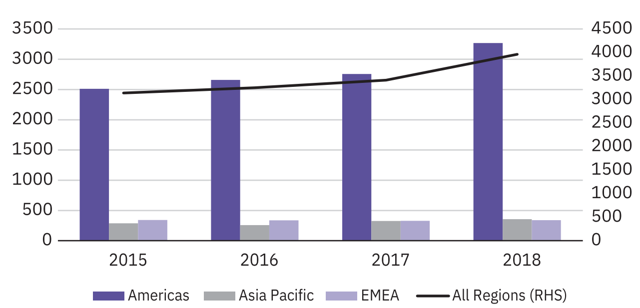
Note: Bats Chi-X Europe is included in the data for Value of share trading and Number of trades, but not in the data for Domestic Market capitalisation. Data is based on those exchanges which are reported by members of WFE. Excluding investment funds, Including Alternative and SME Markets.

1.3.2 Derivatives Market

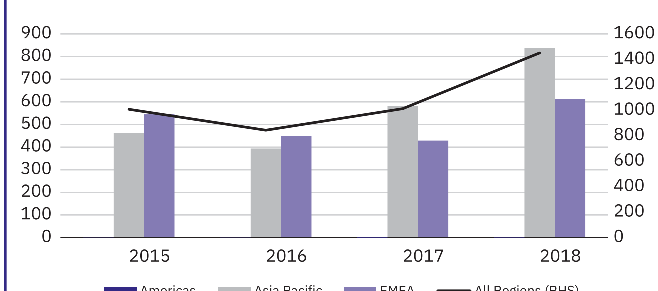
In 2018, total volume of the derivatives market was up significantly across all product types except commodity and interest rate derivatives (Chart 1.16). Despite an environment of monetary policy uncertainty and high volatility in equity and currency markets, volumes of single stock, stock index and currency derivatives were higher in 2018 than the previous year. Total volume of single stock futures increased by 43% in 2018 followed by stock index futures (38%), stock index options (34%) and currency derivatives (31%). In contrast, total volume of interest rate derivatives dropped by 49% as Americas and Asia Pacific regions recorded 75% decline in their total volume. Globally, total volume of commodity derivatives fell by 0.2% in 2018 while EMEA region reported 1.2% increase.

Chart 1.16: Number of Trades of Exchange Traded Derivatives (mn of Contracts Traded)

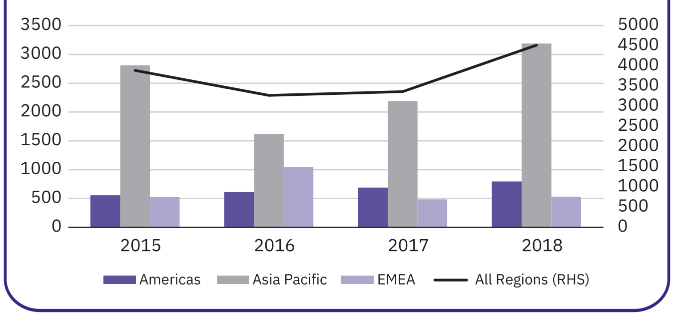
Single Stock Options



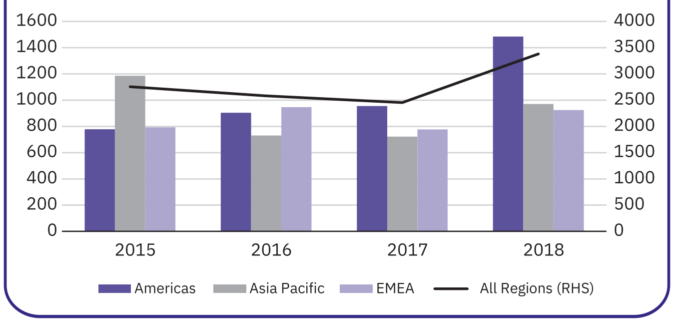
Single Stock Futures



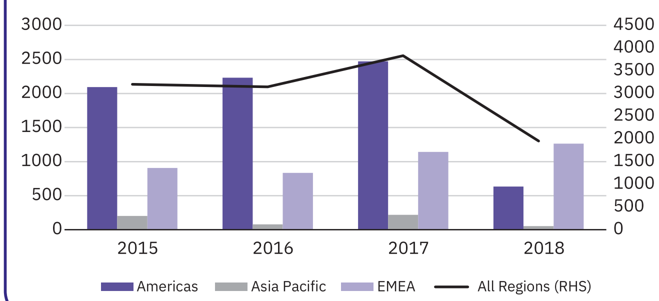
Stock Index Options



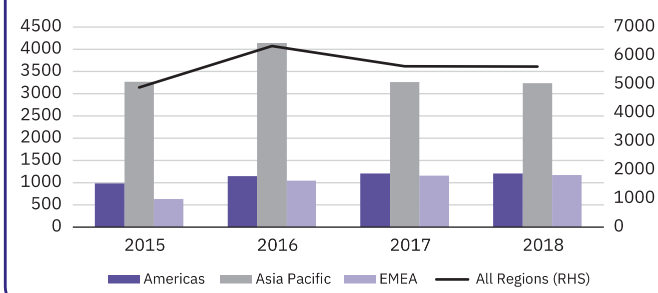
Stock Index Futures



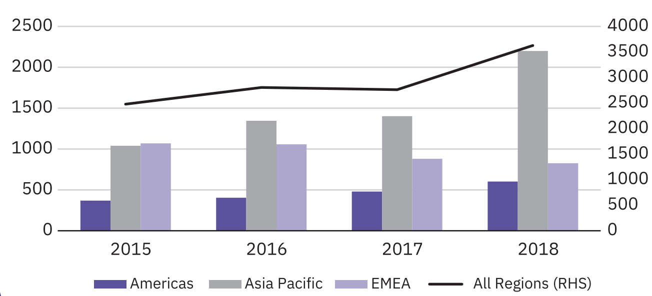
Interest Rate Derivatives



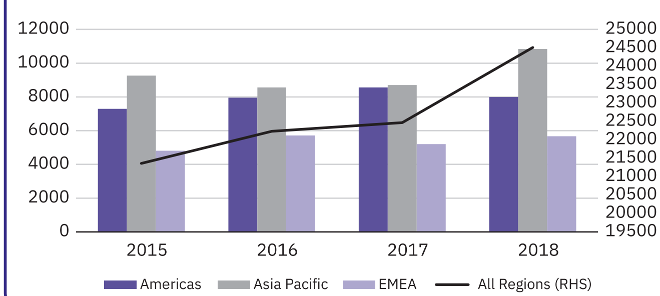
Commodity Derivatives



Currency Derivatives



All Derivatives



Source: World Federation of Exchanges, 2018- Full year market highlights.

1.3.3 Other Markets

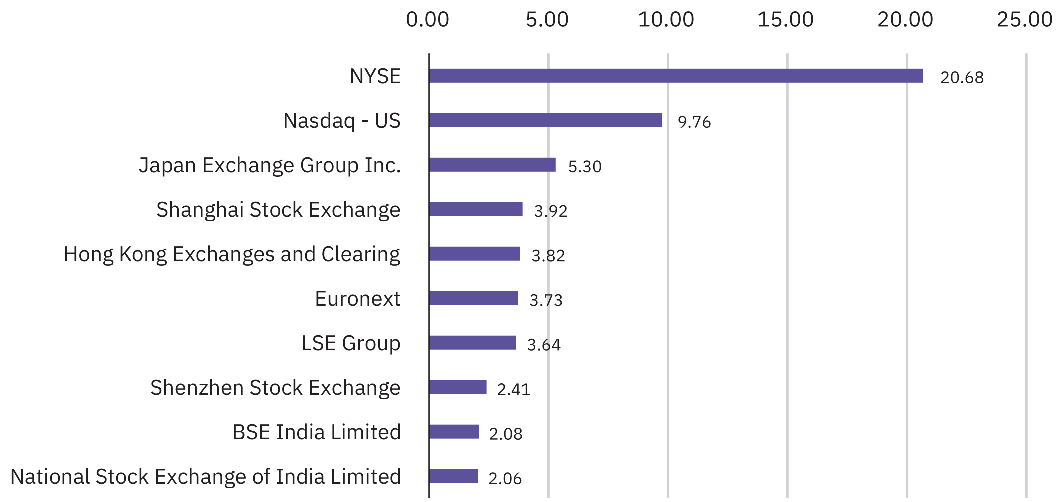
According to the WFE data, a total of 11,945 ETFs were listed at the end of 2018, an increase of 10.8% over the year. Total value traded in ETFs increased by 33.4% to reach US$24.12tn in 2018. Total turnover increased in both Americas and Asia Pacific regions by 36% and 48% respectively, which accounted for almost 97% of total volume in ETF segment. In contrast, traded value of ETFs declined by 29% in EMEA region although there was an increase in total number of ETFs listed in 2018.

1.4 Market Trends in Indian Securities Market

In 2018, Indian securities market outperformed other major emerging markets, particularly China, in terms of several parameters such as returns and volatility of major indices. During Apr-Dec'18, both S&P BSE Sensex and NSE Nifty 50 moved up by 8% and 6% (Chart 1.18), whereas MSCI World and MSCI emerging market indices declined by 10% and 17% respectively. Volatility in Indian equity market (12%) is among the lowest compare to major developed and emerging markets like UK (13%), US (18%), China (19%), Japan (19%), South Korea (14%), Hong Kong (19%) and Brazil (22%) (SEBI Bulletin, February 2019).

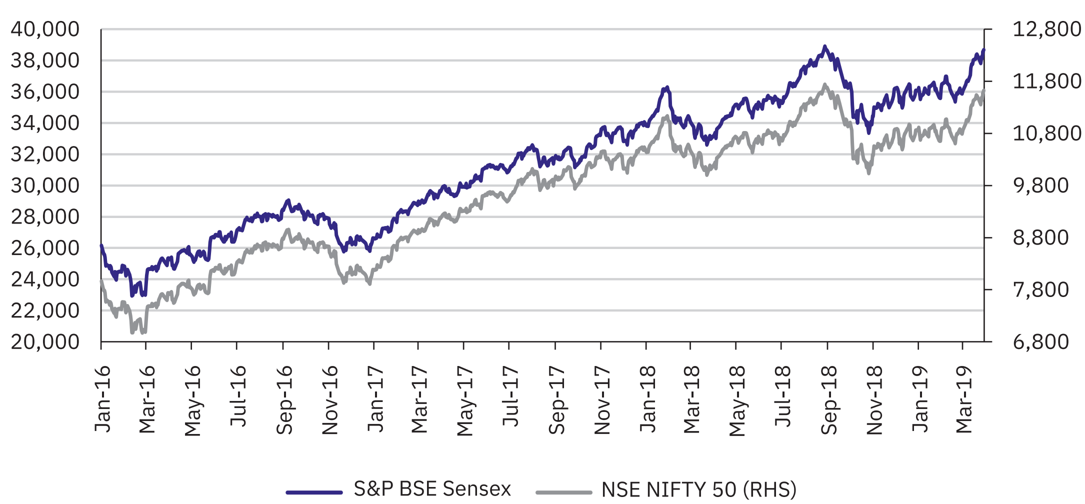
Two stock exchanges from India retained their position within top 10 exchanges out of all WFE member exchanges in terms of domestic market capitalisation at the end of December 2018 (Chart 1.17). BSE ranked 9th and NSE ranked 10th with domestic market capitalisation $2.08tn and $2.06tn respectively at the end of 2018.

Chart 1.17: Domestic Market Capitalisation (US$tn)



Source: WFE, Monthly Statistics, December 2018.
Note: Ranking is based on data from 80 stock exchanges across world and is in terms of domestic market capitalisation at the end of December 2018.

Chart 1.18: Movement of S&P BSE Sensex and NSE Nifty 50



Source: NSE and BSE.

1.4.1 Primary Market

Unlike the performance of major indices in India, there was a decline in total resource mobilisation through primary market. During Apr-Dec'18, only 124 companies accessed primary market through public and rights issues to raise Rs444bn compared to Rs728bn raised through 153 issues during same period in 2017, showing 40% decline in resource mobilisation. Out of these, 93 companies raised Rs15.8bn through public and rights issues in SME platform during Apr-Dec'18.

Though resource mobilisation through private placements declined by 26% during Apr-Dec'18 compared to the previous year, it continues to dominate in primary market with Rs3.4tn raised through 1,671 issues. Resources mobilised through public debt issues during Apr-Dec'18 increased by 600% to Rs286bn on a y-o-y basis. Additionally, companies raised Rs70bn through 11 QIPs during Apr-Dec'18.

1.4.2 Secondary Market

In NSE, average daily turnover of cash market was Rs294bn during FY18, which marked a significant increase of 44% compare to Rs204bn in FY17. The trend continued in Apr-Dec'18 as well, where average daily turnover increased to Rs320bn. In BSE, it increased from Rs40bn in FY17 to Rs44bn in FY18, which declined to Rs31bn during Apr-Dec'18. Consequently, NSE maintained its position as the market leader with 91% share of total turnover in India.

Moreover, in 2018, NSE ranked second among all WFE member exchanges in terms of total number of trades with 2.8bn trades (Shenzhen Stock Exchange ranked first), and ranked 14^{th} in terms of value of shares traded for the same period.

1.4.3 Derivatives Market

India's tryst with derivatives began in 2000 when both NSE and BSE commenced trading in equity derivatives. In June 2000, index futures derivatives launched in India, followed by index options in June 2001, options in individual stocks in July 2001, and futures in single stock derivatives in November 2001. Since then, equity derivatives have come a long way. For instance, NSE and BSE launched weekly options on Bank Nifty in 2016 and 2018 respectively. They launched weekly options in currency derivatives segment on USD-INR currency pair and weekly options contracts on NIFTY 50 Index in 2018.

Equity Derivatives: The response of Indian investors to equity derivatives segment has been extremely positive. In FY18, total turnover of derivatives in NSE reached Rs1,649trn maintaining a continuous upward trend. Notably, it increased by 75% in FY18 over previous financial year due to several factors, such as lower transaction cost in derivatives market than cash market and shift in investors' preference towards derivatives from cash market. Thereafter, growth in derivatives segment decelerated in Apr-Dec'18 perhaps due to increase in market risks both domestically and globally.

Currency Derivatives: Total turnover in currency derivatives segment at NSE increased by 4% to Rs50.3tn in FY18 compare to Rs48.6tn in FY17. The growth accelerated in FY19 due to a policy change that involved significant relaxation on limits of domestic investors and FPIs in currency derivatives. Total trading value during Apr-Dec'18 was Rs62.7trn which is about 92% higher than total turnover during the same period previous year.

Interest Rate Futures: Exchange traded interest rate futures (IRF) on NSE are standardized contracts based on 6 year, 10 year and 13 year Government of India Security (NBF II) and 91-day Government of India Treasury Bill (91DTB). All future contracts available for trading on NSE and BSE are cash settled. Total turnover of IRF at NSE increased by 4% to Rs3.2tn in FY18 from Rs3.1tn in FY17. In BSE, total turnover increased tremendously by 75% from Rs1,280bn in 2016-17 to Rs2,239bn in 2017-18. Total traded volume has declined tremendously in both NSE and BSE in Apr-Dec'18 compare to the same period previous year.

Commodity Derivatives: On October 1, 2018, SEBI allowed any single exchange to operate in various asset classes, such as equity, equity derivatives, commodity derivatives, debt, interest rate futures, and currency derivatives. In response, both NSE and BSE applied for and received SEBI approval to enter into commodity derivatives segment. BSE launched its commodity segment with gold and silver futures contracts, while NSE started with the same commodities from October 12, 2018. BSE and NSE floated 4 and 2 contracts respectively in commodity segment till December 2018, while other commodity exchanges viz. NCDEX, MCX and ICEX floated 24, 22 and 13 contracts respectively.

1.4.4 Other Markets

Exchange-traded funds (ETFs) have gained wide acceptance as financial instruments whose unique advantages over mutual funds have caught the eye of many investors. ETFs are baskets of securities that are traded, like individual stocks, on an exchange. Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading day like any stock. These instruments are beneficial for investors who find it difficult to understand, analyse and pick stocks. Various mutual funds provide ETF products that attempt to replicate indices on NSE (e.g. Nifty50) so as to provide returns that closely correspond to total returns of securities represented in the index. Most ETFs charge lower annual expenses than index mutual funds. There are different types of ETFs available in NSE, viz. Equity ETF, Debt ETF, Gold ETF and International Indices ETF.

As on March 31, 2018, there were 68 ETFs (compared to 63 the previous year), of which 12 were gold ETFs and 56 were other ETFs. Total asset under management of ETF schemes rose by 55.7% to Rs776.9bn during FY18 compared to previous year.

Box 1.2: Major Reform Initiatives Introduced in Securities Market During March 2017 - December 2018

1. SEBI accepted several recommendations made by the Committee on Corporate Governance under the Chairmanship of Shri Uday Kotak to improve corporate governance of listed companies, such as:
   a. Continuation of a director will depend on their attendance in meetings held in last two financial years,
   b. Expertise/Skills of Directors shall be disclosed in the annual report,
   c. For continuation/appointment of non-executive directors over 75 years, special resolution of shareholders to be required,
   d. Reduction in the maximum number of listed entity directorships from 10 to 8 by April 01, 2019 and to 7 by April 1, 2020,
   e. Expanding the eligibility criteria for independent directors,
   f. Enhanced role of the Audit Committee, Nomination and Remuneration Committee and Risk Management Committee,
   g. Strengthening periodical financial disclosures, etc.
2. SEBI revised minimum haircuts applicable to Central Government securities (G-Sec) deposited by clearing members as following:
   a. 2% haircut for Treasury Bills, and Liquid G-Sec having residual maturity of less than 3 years,
   b. 5% for liquid G-Sec having residual maturity of more than 3 years, and
   c. 10% for other semi-liquid and illiquid G-Sec.

3. SEBI decided to move from cash settlement to physical settlement of all stock derivatives in phased manner based on daily average market capitalization for the month of December 2018 (on ascending order).
4. SEBI issued norms for interoperability among clearing corporations to reduce trading costs in securities market.
5. SEBI decided to permit foreign entities having actual exposure to Indian commodity markets, to participate in commodity derivative segment of recognized stock exchanges for hedging their exposure. However, they are not allowed to trade for those contracts having underlying commodity defined as 'sensitive commodity'.
6. Several measures were taken by SEBI to strengthen Algorithmic Trading and Co-location / Proximity Hosting framework. In order to facilitate small and medium sized Members, who otherwise find it difficult to avail colocation facility due to various reasons including high cost, lack of expertise in maintenance and troubleshooting to avail co-location facility, stock exchanges can introduce 'Managed Co-location Services'. Stock exchanges can also provide a simulated market environment for testing of software including algorithms.
7. As per the Amendments in Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012, there would be no separate category of 'Commodity Derivatives Exchanges' with effect from October 1, 2018. As a result, commodity derivatives came under the purview of SEBI along with other derivatives like equity, currency and interest rates, and all exchanges were allowed to introduce derivatives in all segments with a prior approval from SEBI.

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Appendix

1A.1 Basic Market Structure

The securities market has essentially three categories of participants: (a) issuers of securities, (b) investors in securities (in both primary and secondary markets), and (c) intermediaries. The issuers are borrowers or deficit savers, who issue securities to raise funds. The investors in primary markets, who are surplus savers, deploy their savings by subscribing to these securities. The investors in secondary markets buy and sell securities from each other to adjust their holdings of securities depending on their changing needs. The intermediaries are the agents who match the needs of the users and the suppliers of funds in the primary market for a commission to help both the issuers and the investors to achieve their respective goals; besides, they play a variety of roles in the secondary market as well. There are a large variety of intermediaries providing various services in the Indian securities market (Table 1A.1).

Table 1A.1: Market Participants in Securities Market

Market Participants	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019$
Securities Appellate Tribunal (SAT)	1	1	1	1	1	1
Regulators*	4	4	4	4	4	4
Depositories	2	2	2	2	2	2
Stock Exchanges						
Cash Market	20	18	18	5	5	5
Equity Derivatives Market	3	3	3	3	3	3
Currency Derivatives Market	4	3	3	3	3	3
Commodity Derivatives Segment	NA	NA	12	10	6	5
Brokers (Cash Segment)**	9,411	3,744	3,219	3,192	6	5
Corporate Brokers (Cash Segment)	4,917	3,290	2,820	2,775	3,038	2,734
Brokers (Equity Derivatives)	3,051	2,990	2,760	2,651	2,549	2,566
Brokers (Currency Derivatives)	2,395	2,406	2,205	1,985	2,245	2,187
Sub-brokers (Cash Segment)	51,885	42,351	35,246	30,610	25,579	-
Foreign Portfolio Investors	-	8,214	8,717	7,807	9,227	9,351
Portfolio Managers	212	188	202	218	270	307
Custodians	19	19	19	19	19	20
Registrars to an issue & Share Transfer Agents	71	72	71	73	73	73
Merchant Bankers	197	197	189	189	195	203
Bankers to an Issue	59	60	62	64	66	66
Debenture Trustees	31	32	31	32	32	32
Underwriters	3	2	2	2	1	2
Venture Capital Funds	207	201	200	198	195	195
Foreign Venture Capital Investors	192	204	215	218	232	253
Mutual Funds	50	47	48	45	45	47
KYC Registration Agency (KRA)	5	5	5	5	5	5

Source: SEBI Bulletin.

Note: *DCA, DEA, RBI & SEBI, **Including brokers on Mangalore SE (58), HSE (303), Magadh SE (197), SKSE (399), $ indicates as on December 31, 2018.

The securities market has two interdependent and inseparable segments, namely, the primary market and the secondary market. The primary market provides the channel for the creation and sale of new securities, while the secondary market deals with the securities that were issued previously. The securities issued in the primary market are issued by public limited companies or by government agencies. The resources in this kind of market are mobilised either through a public issue or through a private placement route. If any member of the public can subscribe to the issue, it is called a public issue; if the issue is made available only to a select group of people, it is known as private placement. There are two major types of issuers of securities—corporate entities, who issue mainly debt and equity instruments, and the government (Central as well as State), which issues only debt securities (dated securities and treasury bills).

The secondary market enables the participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they can be traded in the secondary market. The secondary market operates through two mediums, namely, the over-the-counter (OTC) market and the exchange-traded market. The OTC markets are markets where trades are negotiated. Most of the trades in government securities take place in the OTC market. All the spot trades where securities are traded for immediate delivery and payment occur in the OTC market. The other option is to trade using the infrastructure provided by the stock exchanges. The exchanges in India follow a systematic settlement period. All the trades taking place over a trading cycle (trading day = T) are settled together after a certain time (T + 2 days). The trades executed on the exchanges are cleared and settled by a clearing corporation. The clearing corporation acts as a counterparty and guarantees settlement. One component of the secondary market is the forward market, where securities are traded for future delivery and payment. A variant of the forward market is the futures and options (F&O) market. Currently, trading in futures and options in equity occurs mainly on the National Stock Exchange of India Ltd. (NSE).

The process of mobilising resources is carried out under the supervision and overview of the regulators. The regulators regulate the conduct of the issuers of securities and the intermediaries and attempt to ensure fair market practices, so as to protect the interests of the investors. The regulators are also responsible for ensuring supply of quality securities as well as high service standards of the intermediaries. The regulator's aim is to ensure that the market participants behave in such a manner so that the securities markets continue to be a secure and important source of finance for the corporate sector and the government, while protecting the interests of investors. In India, the responsibility for regulating the securities market is shared by the Department of Economic Affairs (DEA), the Ministry of Corporate Affairs (MCA), the Reserve Bank of India (RBI), and Securities and Exchange Board of India (SEBI). The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal (SAT).

The Ministry of Finance regulates through the Capital Markets Division of the Department of Economic Affairs. - The Division is responsible for institutional reforms in the securities markets, building regulatory and market institutions, strengthening investor protection mechanism, and providing efficient legislative framework for securities markets. The Division administers legislations and rules made under the Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Securities and Exchange Board of India Act, 1992. The Investor Education and Protection Fund (IEPF) has been set-up under Section 205C of the Companies Act, 1956 by way of the Companies (Amendment) Act, 1999 under the chairmanship of the Secretary of the Ministry of Corporate Affairs (MCA).

The Reserve Bank of India (RBI) derives statutory powers to regulate market segments from specific provisions of the RBI Act, 1934. The prudential guidelines issued to eligible market participants form the broad regulatory framework for government securities, money market and interest rate derivatives. All the secondary market transactions in Government Securities are settled through a central counterparty mechanism under Delivery Versus Payment mode. Multilateral netting is achieved with a single funds settlement obligation for each member for a particular settlement date. The settlement is achieved in the RTGS (Real Time Gross Settlement) Settlement/Current Account maintained by the member in the RBI. The RBI formulates detailed guidelines on each segment of the money market (collaterised borrowing, uncollaterised call money market, Commercial Paper issuances by corporates, Primary Dealers and financial institutions and Certificates of Deposit) under the section Master Circulars for financial markets. In the foreign exchange market, the Foreign Exchange Management Act, 1999 (Act 42 of 1999), better known as FEMA, 1999, provides the statutory framework for the regulation of Foreign Exchange derivatives contracts. The powers in respect of the contracts for the sale and purchase of securities, gold-related securities, money market securities and securities derived from these securities, and ready forward contracts in debt securities are exercised concurrently by the RBI.

The SEBI is the regulatory authority established under the SEBI Act 1992 and is the principal regulator for stock exchanges in India. SEBI's primary functions include protecting investor interests and promoting and regulating the Indian securities markets. Foreign Portfolio Investors are required to register with Designated Depository Participants (DDPs) in order to participate in the Indian securities markets. Most of the powers under the Securities Contracts (Regulation) Act, 1956 (SCRA) can be exercised by the DEA while a few others can be exercised by SEBI. The powers of the DEA under the SCRA are also concurrently exercised by SEBI. Besides, the Depositories Act is administered by SEBI. The rules under the securities laws are framed by the government and the regulations are framed by SEBI.

2. Primary Market

2.1 Introduction

The primary market is an important part of capital market where a company floats securities for subscription by the public and receives cash proceeds from the sale. This enables corporates, public sector institutions as well as the government to raise capital which are then used to fund operations or expand the business. In addition, the primary market also provides an exit opportunity to private equity and venture capitalists by allowing them to off-load their stake to the public. When a security is offered for sale for the first time, it is known as Initial Public Offering (IPO). It is only after an IPO that a security becomes listed and available for trading in the secondary market of the stock exchange platform. The securities can be issued either through public issues or through private placement (which involves issuance of securities to a relatively small number of select investors). The price at which the security is issued is decided through the book building mechanism; in the case of oversubscription, the shares are allotted on a pro-rata basis.

In addition to conduct an IPO, the company has other options to raise capital:

- When securities are offered exclusively to the existing shareholders of a company, as opposed to the general public, it is known as Rights Issue.
- A listed company can issue equity shares (as well as fully and partially convertible debentures, which can later be converted into equity shares) to a Qualified Institutional Buyer (QIB). This is termed as Qualified Institutional Placement.
- Companies can also raise capital in the international market through the issuance of American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and also by way of External Commercial Borrowings (ECBs).

2.2 Primary Market Issuances (2017-18)

Table 2.1 provides statistics on the resources mobilized by corporates and the government from domestic as well as international markets. It can be noted from the table that, total resources mobilized through issuance of securities by corporates and the government in 2017–18 increased merely by 2 percent y-o-y to Rs19,114bn (US$297bn).

2.2.1 Corporate Securities

Resource mobilization by corporates in the primary market decreased by 2% from Rs7,634bn (US$117bn) in 2016-17 to Rs7,446bn (US$116bn) in 2017-18. Capital raising via public issues witnessed strong growth by 52 percent to Rs889bn (US$14bn) whereas capital raised through the private placement route decreased by 7 percent to Rs6,557bn (US $102bn) (Table 2.1).

Table 2.1: Resource Mobilization by Government and Corporate Sector

Issues	2015-16 (Rsbn)	2016-17 (Rsbn)	2017-18 (Rsbn)	2015-16 (US$bn)	2016-17 (US$bn)	2017-18 (US$bn)	Growth in 2016-17	Growth in 2017-18
Corporate Securities	**5,428**	**7,634**	**7,446**	**83**	**117**	116	**41%**	**-2%**
Domestic Issues	5,428	7,634	7,446	83	117	116	41%	-2%
Public Issues	489	584	889	7	9	14	19%	52%
Private Placement	4,939	7,050	6,557	76	105	102	43%	-7%
Government Securities	**10,336**	**11,065**	**11,668**	**158**	**170**	**181**	**7%**	**5%**
Central Government	7,390	7,245	7,477	113	111	116	-2%	3%
State Governments	2,946	3,820	4,191	45	59	65	30%	10%
Total	**15,764**	**18,699**	**19,114**	**241**	**286**	**297**	**19%**	**2%**

Source: RBI, SEBI, Prime Database.

2.2.2 Public and Rights Issues

In 2017-18, resources mobilized via public issue increased significantly in comparison to the previous year. In particular, the capital raised from public and rights issues in equities increased by 78% to Rs1,103bn (US$17.1bn). IPOs witnessed phenomenal growth of 188% from Rs291bn (US$4.5bn) in 2016-17 to Rs837bn (US$13bn) in 2017-18. Also, total number of IPOs saw a significant rise in 2017-18 as compared to the preceding year; public issues (IPOs) surged from 105 in 2016-17 to 201 in 2017-18 (Table 2.2a).

In contrast, the number of public issues in the debt segment declined from 15 in 2016-17 to 8 in 2017-18. Thus, the associated amount of resources mobilized witnessed a sharp decline by 82% in 2017-18 from Rs293bn in 2016-17 to Rs52bn in 2017-18.

On the contrary, mobilization of resources through right issues recorded a massive increase of 475% from Rs37bn (US$0.6bn) in 2016-17 to Rs214bn (US$3.3bn) in 2017-18. In 2017-18, total number of companies used the rights route to raise capital was 21 (as against 13 in the previous year).

Table 2.2a: Resource Mobilisation from Public and Rights Issues

Public and Rights Issues	2015-16			2016-17			2017-18		
	Number	Amount (Rsbn)	Amount (US$bn)	Number	Amount (Rsbn)	Amount (US$bn)	Number	Amount (Rsbn)	Amount (US$bn)
1. Public Issues (i) +(ii)	**95**	**489**	**7.4**	**121**	**584**	**8.9**	**210**	**889**	**13.8**
i. Public Issues	74	148	2.2	106	291	4.5	202	837	13.0
Public Issues (IPO)	74	148	2.2	105	291	4.5	201	837	13.0
Public Issues (FPO)	0	0	-	1	0	0	1	0	0.0
ii. Public Issues (Bond/ NCD)	21	341	5.1	15	293	4.5	8	52	0.8
2. Rights Issues	**13**	**92**	**1.4**	**13**	**37**	**0.6**	**21**	**214**	**3.3**
Total (1+2)	**108**	**581**	**8.8**	**134**	**621**	**9.5**	**231**	**1,103**	**17.1**

Source: SEBI- Annual Report.

Table 2.2b: Resource Mobilisation from Public and Rights Issues

Public and Rights Issues	Apr-Dec'17			Apr-Dec'18		
	Number	Amount (Rsbn)	Amount (US$bn)	Number	Amount (Rsbn)	Amount (US$bn)
1. Public Issues (i) +(ii)	139	682.7	10.3	118	425.1	6.6
i. Public Issues	134	641.4	9.7	103	139.5	2.2
Public Issues (IPO)	133	641.3	9.7	103	139.5	2.2
Public Issues (FPO)	1	0.1	0.0	-	-	-
ii. Public Issues (Bond/NCD)	5	41.2	0.6	15	285.7	4.4
2. Rights Issues	14	45.2	0.7	6	18.4	0.3
Total (1+2)	153	727.9	11.0	124	443.6	6.9

Source: SEBI- Bulletin.

2.2.3 Sector-wise Resource Mobilisation

During 2017-18, the private issuers raised Rs741bn through public and rights issues which is about 22% rise over the previous year. They issued 222 public/right issues in 2017-18 as compared to 133 issues in the previous year. The public sector witnessed a sharp increase in resource mobilization from merely Rs11bn in 2016-17 to Rs362bn in 2017-18. They issued only 7 public/right issue in 2017-18 as opposed to 1 in the preceding year. As a result, total resource mobilization registered a growth of 78% from Rs620.7bn in 2016-17 to Rs1,103.6bn in 2017-18 (Table 2.3).

Table 2.3: Sector-wise Distribution of Resources Mobilised

Sector	2015-16		2016-17		2017-18	
	Number	Amount (Rsmn)	Number	Amount (Rsmn)	Number	Amount (Rsmn)
Private	97	267,680	133	609,430	222	741,181
Public	11	310,980	1	11,240	7	362,416
Total	**108**	**578,660**	**134**	**620,670**	**229**	**1,103,597**

Source: SEBI Annual Report.
Note: This table includes public issues and rights issues.

2.2.4 Resource Mobilization - Industry-wise and Size-wise Distribution

The share of banking and financial sector in total resource mobilization was 65.3% in 2016-17 which has decreased significantly to 28.6% in 2017-18. This sector has mobilized resources through 20 issues in 2017-18 and raised Rs314.6bn as compared to Rs405.1bn in previous year – recording a significant decline by 22%. Healthcare, cement & construction, Food processing and engineering industries raised Rs54.9bn, Rs26.4bn, Rs19.5bn, Rs16.8bn respectively in 2017-18. These industries have contributed around 5%, 2.4%, 1.8% and 1.5%, respectively in total resource mobilization. Notably, telecom, electronics, cement & construction and healthcare industries recorded phenomenal growth in resource mobilization in 2017-18 compare to previous year, whereas resource mobilization in chemical and textile industries declined significantly (Table 2.4).

Table 2.4: Industry-wise Distribution of Resources Mobilised

Industry	2015-16			2016-17			2017-18		
	Number	Amount (Rsmn)	Percentage Share	Number	Amount (Rsmn)	Percentage Share	Number	Amount (Rsmn)	Percentage Share
Banking/FIs/Finance	23	189,850	33	26	405,070	65	20	314,631	29
Cement & Construction	4	1,720	0	10	3,280	1	18	26,419	2
Chemical	3	11,790	2	9	5,040	1	5	813	0
Electronics	1	590	0	2	280	0	1	5,993	1
Engineering	2	3,730	1	4	9,020	1	16	16,824	2
Entertainment	2	210	0	2	4,910	1	3	5,141	0
Food Processing	2	7,000	1	6	19,380	3	12	19,538	2
Healthcare	7	37,930	7	6	18,660	3	15	54,885	5
Information Technology	6	9,210	2	4	12,660	2	17	15,318	1
Power	4	21,060	0	1	40	0	2	185	0
Telecom	0	0	0	1	110	0	2	7,967	1
Textile	5	160	0	16	9,420	2	13	2,386	0
Others	48	295,410	51	47	132,800	21	104	631,302	57
Total	**107**	**578,660**	**100**	**134**	**620,670**	**100**	**228**	**1,101,401**	**100**

Source: SEBI.

Table 2.5 presents the size-wise distribution of public and rights issues in 2017-18. Although total resources mobilized in the primary market rose by 77% in 2017-18, there was not much change in the distribution pattern of issue sizes. About 91.3% of the resource mobilization was through public issues of issue size above Rs5bn. In terms of number of issues, however, there were only 41 issues out of 231 that were above Rs5bn. Notably, 162 issues (70%) were below Rs0.5bn.

Table 2.5: Size-wise Distribution of Resources Mobilized

Issue Size	2015-16			2016-17			2017-18		
	Number	Amount (Rsmn)	Percentage Share	Number	Amount (Rsmn)	Percentage Share	Number	Amount (Rsmn)	Percentage Share
< Rs50mn	29	800	0.14	27	880	0.14	30	1150	0.10
≥ Rs50mn & < Rs100mn	13	820	0.14	24	1630	0.26	41	2770	0.25
≥ Rs100mn & < Rs500mn	9	1,660	0.29	33	6980	1.12	91	18,340	1.66
≥ Rs500mn & < Rs1bn	7	4,870	0.84	4	2640	0.42	7	4810	0.44
≥ Rs1bn & < Rs5bn	24	75,550	13.06	17	49,900	8.03	21	69,220	6.28
≥ Rs5bn	25	494,950	85.54	29	559,320	90.02	41	1,006,400	91.27
Total	**107**	**578,650**	**100.00**	**134**	**621,350**	**100.00**	**231**	**1,102,690**	**100.00**

Source: SEBI Annual Report.

2.3 Performance of Initial Public Offerings (IPOs) Listed on NSE

In 2017–18, 128 IPOs (including SMEs) were listed on NSE, as against only 57 in 2016-17 (Table 2.6). The sudden surge in the IPOs might have been driven by a positive investor sentiment in the country, which was motivated by regulatory policies of the government. Among the various IPOs issued in 2017-18 (excluding SMEs), Shankara Building Products Ltd., Apex Frozen Foods Ltd. and Salasar Techno Engineering Ltd. achieved listing gains to the tune of 281%, 247% and 208% respectively, over their respective issue prices (Table 2.6). In case of SMEs, Shrenik Ltd., Focus Lighting & Fixtures Ltd. And Innovana Thinklabs Ltd. achieved listing gains of 1,569.5%, 244.4% and 237.1% respectively as of 31 March 2018.

In 2018-19 as of 31st December 2018, 74 IPOs (including SMEs) have been listed on the NSE. In the mainboard, Fine Organic Industries Ltd. gained 51.7 as of December 31, 2018 over its offer price (Table 2.7).

Table 2.6: Performance of IPOs listed on NSE in 2017-18

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price On Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.03.2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.03.2018 (%)
Main Board IPOs											
1	SHANKARA	Shankara Building Products Ltd.	3/22/2017	3,450.01	4/5/2017	460.00	555.05	632.45	1,752.80	37.49	281.04
2	SCHAND	S.Chand & Co.Ltd.	4/26/2017	7,285.57	5/9/2017	670.00	700.00	676.00	410.55	0.90	-38.72
3	HUDCO	Housing & Urban Development Corp.Ltd.	5/8/2017	12,097.77	5/19/2017	60.00	73.00	72.55	66.30	20.92	10.50
4	PSPPROJECT	Psp Projects Ltd.	5/17/2017	2,116.80	5/29/2017	210.00	190.00	199.50	450.00	-5.00	114.29
5	TEJASNET	Tejas Networks Ltd.	6/14/2017	7,766.88	6/27/2017	257.00	257.00	263.50	365.65	2.53	42.28
6	ERIS	Eris Lifesciences Ltd.	6/16/2017	17,404.86	6/29/2017	603.00	611.00	601.50	799.75	-0.25	32.63
7	CDSL	Central Depository Services (India) Ltd.	6/19/2017	5,239.91	6/30/2017	149.00	250.00	261.60	282.65	75.57	89.70
8	GTPL	Gtpl Hathway Ltd.	6/21/2017	4,848.00	7/4/2017	170.00	170.00	171.65	139.00	0.97	-18.24
9	AUBANK	Au Small Finance Bank Ltd.	6/28/2017	19,125.14	7/10/2017	358.00	530.00	541.65	618.05	51.30	72.64
10	SALASAR	Salasar Techno Engineering Ltd.	7/12/2017	359.53	7/25/2017	108.00	250.00	262.50	332.30	143.06	207.69
11	SIS	Security & Intelligence Services (India) Ltd.	7/31/2017	7,795.80	8/10/2017	815.00	879.80	757.05	1,121.85	-7.11	37.65
12	COCHINSHIP	Cochin Shipyard Ltd.	8/1/2017	14,429.30	8/11/2017	432.00	440.15	528.15	502.35	22.26	16.28
13	APEX	Apex Frozen Foods Ltd.	8/22/2017	1,522.50	9/4/2017	175.00	202.00	212.10	608.00	21.20	247.43
14	BRNL	Bharat Road Network Ltd.	9/6/2017	6,006.50	9/18/2017	205.00	205.00	208.45	193.20	1.68	-5.76
15	DIXON	Dixon Technologies (India) Ltd.	9/6/2017	5,992.79	9/18/2017	1,766.00	2,725.00	2,891.55	3,291.05	63.73	86.36
16	MATRIMONY	Matrimony.Com Ltd.	9/11/2017	4,968.77	9/21/2017	985.00	985.00	904.65	752.70	-8.16	-23.58
17	CAPACITE	Capacit'e Infraprojects Ltd.	9/13/2017	4,000.00	9/25/2017	250.00	399.00	342.55	302.55	37.02	21.02
18	ICICIGI	Icici Lombard General Insurance Co.Ltd.	9/15/2017	57,009.39	9/27/2017	661.00	651.10	681.20	793.85	3.06	20.10
19	SBILIFE	Sbi Life Insurance Co.Ltd.	9/20/2017	83,887.29	10/3/2017	700.00	735.00	707.55	678.25	1.08	-3.11

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price On Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.03. 2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.03.2018 (%)
20	DIAMONDYD	Prataap Snacks Ltd.	9/22/2017	4,815.98	10/5/2017	938.00	1,270.00	1,180.65	1,301.85	25.87	38.79
21	GODREJAGRO	Godrej Agrovet Ltd.	10/4/2017	11,573.12	10/16/2017	460.00	615.60	595.65	637.80	29.49	38.65
22	MASFIN	Mas Financial Services Ltd.	10/6/2017	4,600.42	10/18/2017	459.00	660.00	654.40	593.05	42.57	29.20
23	IEX	Indian Energy Exchange Ltd.	10/9/2017	10,007.27	10/23/2017	1,650.00	1,500.00	1,629.15	1,602.90	-1.26	-2.85
24	GICRE	General Insurance Corp.Of India	10/11/2017	112,568.31	10/25/2017	912.00	850.00	874.30	734.10	-4.13	-19.51
25	RNAM	Reliance Nippon Life Asset Management Ltd.	10/25/2017	15,422.40	11/6/2017	252.00	295.90	284.40	247.45	12.86	-1.81
26	MAHLOG	Mahindra Logistics Ltd.	10/31/2017	8,288.84	11/10/2017	429.00	429.00	429.50	484.80	0.12	13.01
27	NIACL	New India Assurance Co.Ltd.,The	11/1/2017	95,858.23	11/13/2017	800.00	750.00	727.10	712.85	-9.11	-10.89
28	KHADIM	Khadim India Ltd.	11/2/2017	5,430.57	11/14/2017	750.00	730.00	688.85	730.70	-8.15	-2.57
29	HDFCLIFE	Hdfc Standard Life Insurance Co.Ltd.	11/7/2017	86,950.07	11/17/2017	290.00	310.00	344.60	454.45	18.83	56.71
30	SHALBY	Shalby Ltd.	12/5/2017	5,048.00	12/15/2017	248.00	239.70	239.60	206.90	-3.39	-16.57
31	FSC	Future Supply Chain Solu-tions Ltd.	12/6/2017	6,496.95	12/18/2017	664.00	664.00	686.35	667.25	3.37	0.49
32	ASTRON	Astron Paper & Board Mill Ltd.	12/15/2017	698.25	12/29/2017	50.00	115.00	120.75	106.70	141.50	113.40
33	APOLLO	Apollo Micro Systems Ltd.	1/10/2018	1,560.00	1/22/2018	275.00	465.00	441.75	245.10	60.64	-10.87
34	NEWGEN	Newgen Software Technolo-gies Ltd.	1/16/2018	4,246.21	1/29/2018	245.00	254.10	252.40	231.80	3.02	-5.39
35	AMBER	Amber Enterprises India Ltd.	1/17/2018	5,996.00	1/30/2018	859.00	1,175.00	1,245.25	1,069.40	44.97	24.49
36	GALAXYSURF	Galaxy Surfactants Ltd.	1/29/2018	9,370.88	2/8/2018	1,480.00	1,525.00	1,700.45	1,499.75	14.90	1.33
37	ASTERDM	Aster Dm Healthcare Ltd.	2/12/2018	9,801.37	2/26/2018	190.00	183.00	181.55	169.80	-4.45	-10.63
38	HGINFRA	H.G.Infra Engineering Ltd.	2/26/2018	4,620.00	3/9/2018	270.00	270.00	267.75	300.50	-0.83	11.30
39	BDL	Bharat Dynamics Ltd.	3/13/2018	9,522.55	3/23/2018	428.00	370.00	386.20	396.65	-9.77	-7.32
40	BANDHANBNK	Bandhan Bank Ltd.	3/15/2018	44,730.19	3/27/2018	375.00	499.00	476.85	469.05	27.16	25.08
41	HAL	Hindustan Aeronautics Ltd.	3/16/2018	40,633.09	3/28/2018	1,215.00	1,152.00	1,132.85	1,132.85	-6.76	-6.76

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price On Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.03.2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.03.2018 (%)
SME IPOs											
1	BOHRA	Bohra Industries Ltd.	3/23/2017	238.48	4/5/2017	55.00	56.20	57.85	31.95	5.18	-41.91
2	CREATIVE	Creative Peripherals & Distribution Ltd.	3/29/2017	127.92	4/12/2017	75.00	75.75	83.25	139.80	11.00	86.40
3	FOCUS	Focus Lighting & Fixtures Ltd.	3/30/2017	38.34	4/13/2017	45.00	54.00	54.00	155.00	20.00	244.44
4	DEVIT	Dev Information Technology Ltd.	3/31/2017	58.46	4/17/2017	42.00	50.40	50.40	74.50	20.00	77.38
5	ASLIND	ASL Industries Ltd.	3/31/2017	92.96	4/18/2017	35.00	33.10	35.05	28.20	0.14	-19.43
6	MKPL	M.K.Proteins Ltd.	3/31/2017	97.16	4/18/2017	70.00	72.00	72.00	80.35	2.86	14.79
7	SIKKO	Sikko Industries Ltd.	4/5/2017	48.64	4/18/2017	32.00	34.40	35.20	39.00	10.00	21.88
8	PANACHE	Panache Digilife Ltd.	4/11/2017	138.28	4/25/2017	81.00	84.00	85.75	99.00	5.86	22.22
9	INFOBEAN	Infobeans Technologies Ltd.	4/18/2017	349.39	5/2/2017	58.00	69.60	69.60	73.70	20.00	27.07
10	CKPPRODUCT	Ckp Products Ltd.	4/26/2017	59.10	5/9/2017	50.00	50.00	50.15	113.00	0.30	126.00
11	ZOTA	Zota Health Care Ltd.	4/27/2017	555.25	5/10/2017	125.00	140.40	125.60	214.90	0.48	71.92
12	JALAN	Jalan Transolutions (India) Ltd.	5/18/2017	168.08	5/31/2017	46.00	42.25	41.95	47.70	-8.80	3.70
13	VSCL	Vadivarhe Speciality Chemicals Ltd.	5/22/2017	137.09	6/2/2017	42.00	50.40	50.40	84.65	20.00	101.55
14	SRIRAM	Shri Ram Switchgears Ltd.	5/25/2017	48.11	6/7/2017	19.00	22.80	22.80	16.70	20.00	-12.11
15	GLOBE	Globe Textiles (India) Ltd.	6/12/2017	129.74	6/23/2017	51.00	50.00	50.15	45.00	-1.67	-11.76
16	ACCORD	Accord Synergy Ltd.	6/22/2017	52.56	7/6/2017	60.00	72.00	72.00	48.00	20.00	-20.00
17	PUSHPREALM	Pushpanjali Realms & Infratech Ltd.	6/27/2017	138.16	7/10/2017	55.00	55.00	55.45	60.00	0.82	9.09
18	BANSAL	Bansal Multiflex Ltd.	6/30/2017	58.78	7/12/2017	31.00	34.00	35.70	94.50	15.16	204.84
19	TRANSWIND	Transwind Infrastructures Ltd.	6/30/2017	69.12	7/12/2017	27.00	30.85	32.40	32.00	20.00	18.52
20	ACEINTEG	Ace Integrated Solutions Ltd.	6/29/2017	68.40	7/13/2017	40.00	38.90	39.55	45.00	-1.13	12.50
21	SHRENIK	Shrenik Ltd.	7/6/2017	204.48	7/18/2017	40.00	41.90	48.00	667.80	20.00	1,569.50

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price On Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.03. 2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.03.2018 (%)
22	UNIVASTU	Univastu India Ltd.	7/14/2017	56.88	7/27/2017	40.00	48.00	40.20	75.10	0.50	87.75
23	SHANTI	Shanti Overseas (India) Ltd.	7/21/2017	93.30	8/3/2017	50.00	60.00	42.90	39.00	-14.20	-22.00
24	KEERTI	Keerti Knowledge & Skills Ltd.	7/24/2017	38.48	8/7/2017	52.00	51.00	51.25	40.00	-1.44	-23.08
25	TOTAL	Total Transport Systems Ltd.	7/25/2017	161.46	8/7/2017	45.00	54.00	54.00	46.50	20.00	3.33
26	SUREVIN	Surevin Bpo Services Ltd.	7/28/2017	34.56	8/9/2017	40.00	48.00	40.20	76.00	0.50	90.00
27	VAISHALI	Vaishali Pharma Ltd.	8/7/2017	134.78	8/22/2017	72.00	71.90	70.35	61.15	-2.29	-15.07
28	LEXUS	Lexus Granito (India) Ltd.	8/9/2017	245.70	8/23/2017	45.00	53.00	54.00	86.00	20.00	91.11
29	GEEKAYWIRE	Geekay Wires Ltd.	8/9/2017	104.28	8/24/2017	33.00	33.35	33.25	36.00	0.76	9.09
30	SERVOTECH	Servotech Power Systems Ltd.	8/9/2017	141.98	8/24/2017	31.00	30.70	31.85	38.05	2.74	22.74
31	PASHUPATI	Pashupati Cotspin Ltd.	8/28/2017	193.44	9/8/2017	75.00	77.00	75.00	67.00	-	-10.67
32	MANAV	Manav Infra Projects Ltd.	9/4/2017	52.32	9/18/2017	30.00	32.00	24.00	12.65	-20.00	-57.83
33	SKML	Sri Krishna Metcom Ltd.	9/14/2017	182.60	9/26/2017	55.00	53.95	49.00	65.00	-10.91	18.18
34	WORTH	Worth Peripherals Ltd.	9/15/2017	173.38	9/27/2017	43.00	51.60	51.60	96.90	20.00	125.35
35	MPTODAY	Madhya Pradesh Today Media Ltd.	9/19/2017	134.54	9/29/2017	66.00	70.00	79.20	126.30	20.00	91.36
36	RMDRIP	R M Drip & Sprinklers Sys-tems Ltd.	9/19/2017	108.30	10/4/2017	57.00	57.10	58.80	56.50	3.16	-0.88
37	CADSYS	Cadsys (India) Ltd.	9/21/2017	139.44	10/4/2017	70.00	84.00	84.00	91.00	20.00	30.00
38	AARVI	Aarvi Encon Ltd.	9/21/2017	201.74	10/5/2017	54.00	56.00	54.50	73.40	0.93	35.93
39	TIRUPATI	Shree Tirupati Balajee Fibc Ltd.	9/21/2017	102.24	10/5/2017	40.00	45.00	43.05	55.00	7.62	37.50
40	DPWIRES	D.P.Wires Ltd.	9/21/2017	255.12	10/5/2017	75.00	78.00	75.00	73.00	-	-2.67
41	INNOVATIVE	Innovative Tyres & Tubes Ltd.	9/22/2017	268.65	10/5/2017	45.00	54.00	47.15	38.50	4.78	-14.44
42	AIROLAM	Airo Lam Ltd.	9/25/2017	144.10	10/6/2017	38.00	45.60	45.60	46.50	20.00	22.37
43	RKEC	Rkec Projects Ltd.	9/25/2017	272.43	10/9/2017	45.00	54.00	54.00	129.00	20.00	186.67
44	GOLDSTAR	Goldstar Power Ltd.	9/27/2017	68.70	10/10/2017	25.00	27.30	26.30	34.85	5.20	39.40

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price On Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.03.2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.03.2018 (%)
45	RELIABLE	Reliable Data Services Ltd.	9/27/2017	140.22	10/11/2017	57.00	68.40	68.40	52.90	20.00	-7.19
46	JASH	Jash Engineering Ltd.	9/28/2017	456.05	10/11/2017	120.00	144.00	144.00	145.35	20.00	21.13
47	TIRUPATIFL	Tirupati Forge Ltd.	9/29/2017	49.53	10/12/2017	29.00	34.80	34.10	52.05	17.59	79.48
48	BETA	Beta Drugs Ltd.	9/29/2017	184.14	10/12/2017	85.00	102.00	101.95	126.00	19.94	48.24
49	CMMIPL	Cmm Infraprojects Ltd.	9/29/2017	172.68	10/12/2017	40.00	46.50	42.25	57.55	5.63	43.88
50	OMFURN	Omfurn India Ltd.	9/29/2017	39.47	10/13/2017	23.00	27.60	22.85	18.50	-0.65	-19.57
51	MILTON	Milton Industries Ltd.	9/29/2017	135.46	10/16/2017	34.00	40.80	34.35	23.95	1.03	-29.56
52	DPABHUSHAN	D.P.Abhushan Ltd.	10/9/2017	157.70	10/23/2017	28.00	33.60	33.60	71.35	20.00	154.82
53	SECURCRED	Secur Credentials Ltd.	11/1/2017	285.36	11/13/2017	205.00	208.00	198.60	164.30	-3.12	-19.85
54	AISL	Ani Integrated Services Ltd.	11/8/2017	243.12	11/20/2017	100.00	120.00	120.00	101.00	20.00	1.00
55	VERTOZ	Vertoz Advertising Ltd.	11/14/2017	162.52	11/24/2017	108.00	113.00	129.60	179.10	20.00	65.83
56	PULZ	Pulz Electronics Ltd.	11/14/2017	37.15	11/24/2017	54.00	64.80	64.05	36.10	18.61	-33.15
57	SILVERTUC	Silver Touch Technologies Ltd.	11/20/2017	381.15	12/1/2017	121.00	120.00	122.00	121.05	0.83	0.04
58	FELIX	Felix Industries Ltd.	11/23/2017	45.36	12/5/2017	35.00	35.50	35.80	28.00	2.29	-20.00
59	ZODIAC	Zodiac Energy Ltd.	11/23/2017	96.30	12/5/2017	52.00	62.40	51.10	27.00	-1.73	-48.08
60	ICEMAKE	Ice Make Refrigeration Ltd.	11/28/2017	225.26	12/8/2017	57.00	68.40	68.40	90.20	20.00	58.25
61	SHRADHA	Shradha Infraprojects (Nagpur) Ltd.	11/27/2017	179.20	12/11/2017	70.00	69.80	70.25	51.00	0.36	-27.14
62	INNOVANA	Innovana Thinklabs Ltd.	11/29/2017	72.80	12/12/2017	70.00	77.00	83.60	236.00	19.43	237.14
63	TOUCHWOOD	Touchwood Entertainment Ltd.	12/11/2017	39.96	12/21/2017	40.00	43.50	48.00	33.60	20.00	-16.00
64	SMVD	Smvd Poly Pack Ltd.	12/13/2017	85.58	12/26/2017	55.00	58.00	53.60	27.05	-2.55	-50.82
65	ONEPOINT	One Point One Solutions Ltd.	12/13/2017	421.03	12/26/2017	67.00	80.40	80.40	69.00	20.00	2.99
66	AJOONI	Ajooni Biotech Ltd.	12/20/2017	62.52	1/2/2018	30.00	36.00	36.00	32.20	20.00	7.33
67	MOKSH	Moksh Ornaments Ltd.	12/21/2017	104.56	1/3/2018	37.00	44.40	44.40	31.50	20.00	-14.86
68	BCONCEPTS	Brand Concepts Ltd.	12/29/2017	119.61	1/10/2018	45.00	54.00	54.00	49.75	20.00	10.56

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price On Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.03. 2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.03.2018 (%)
69	SILLYMONKS	Silly Monks Entertainment Ltd.	1/5/2018	142.56	1/18/2018	120.00	144.00	144.00	118.50	20.00	-1.25
70	SKSTEXTILE	S.K.S.Textiles Ltd.	1/9/2018	126.00	1/19/2018	150.00	149.90	133.35	58.25	-11.10	-61.17
71	SOLEX	Solex Energy Ltd.	1/22/2018	68.02	2/5/2018	52.00	43.50	51.20	47.00	-1.54	-9.62
72	SRPL	Shree Ram Proteins Ltd.	1/23/2018	188.98	2/5/2018	31.00	28.95	32.55	30.55	5.00	-1.45
73	VASA	Vasa Retail & Overseas Ltd.	1/24/2018	45.36	2/6/2018	30.00	36.00	36.00	60.20	20.00	100.67
74	AMJUMBO	A&M Jumbo Bags Ltd.	1/29/2018	37.96	2/12/2018	65.00	70.50	66.55	65.55	2.38	0.85
75	SINTERCOM	Sintercom India Ltd.	2/5/2018	403.78	2/15/2018	65.00	78.00	78.00	75.20	20.00	15.69
76	MHHL	Mohini Health & Hygiene Ltd.	2/5/2018	196.69	2/16/2018	42.00	50.40	50.40	68.70	20.00	63.57
77	SOUTHWEST	South West Pinnacle Exploration Ltd.	2/6/2018	340.21	2/19/2018	78.00	93.60	88.30	79.95	13.21	2.50
78	ARVEE	Arvee Laboratories (India) Ltd.	2/9/2018	84.42	2/22/2018	61.00	60.95	62.50	60.90	2.46	-0.16
79	BANKA	Banka Bioloo Ltd.	2/5/2018	119.51	2/27/2018	115.00	114.00	115.00	106.00	-	-7.83
80	CKPLEISURE	Ckp Leisure Ltd.	2/21/2018	109.44	3/6/2018	30.00	27.00	29.90	28.00	-0.33	-6.67
81	HINDCON	Hindcon Chemicals Ltd.	2/26/2018	73.25	3/9/2018	28.00	33.60	29.30	26.90	4.64	-3.93
82	UNIINFO	Uniinfo Telecom Services Ltd.	3/5/2018	148.06	3/15/2018	55.00	56.00	55.75	54.00	1.36	-1.82
83	SARVESHWAR	Sarveshwar Foods Ltd.	3/5/2018	522.10	3/15/2018	85.00	83.00	70.55	59.10	-17.00	-30.47
84	MACPOWER	Macpower Cnc Machines Ltd.	3/12/2018	344.68	3/22/2018	140.00	149.00	162.05	150.00	15.75	7.14
85	TARACHAND	Tara Chand Logistic Solutions Ltd.	3/13/2018	194.04	3/23/2018	55.00	49.00	49.05	49.50	-10.82	-10.00
86	MDL	Marvel Decor Ltd.	3/12/2018	249.42	3/23/2018	57.00	57.75	57.85	56.55	1.49	-0.79
87	URAVI	Uravi T & Wedge Lamps Ltd.	3/16/2018	142.08	3/28/2018	100.00	102.50	102.15	102.15	2.15	2.15

Source: PRIME Database.

Table 2.7: Performance of IPOs listed on NSE in Apr-Dec'18

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price on Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.12. 2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.12.2018 (%)
Main Board IPOs											
1	KARDA	Karda Constructions Ltd.	3/16/2018	774.00	4/2/2018	180.00	136.00	142.80	197.00	-20.67	9.44
2	SANDHAR	Sandhar Technologies Ltd.	3/19/2018	5,124.80	4/2/2018	332.00	346.10	322.15	319.30	-2.97	-3.83
3	MIDHANI	Mishra Dhatu Nigam Ltd.	3/21/2018	4,350.18	4/4/2018	90.00	87.00	90.05	133.60	0.06	48.44
4	ISEC	ICICI Securities Ltd.	3/22/2018	34,801.16	4/4/2018	520.00	435.00	445.10	259.80	-14.40	-50.04
5	LEMONTREE	Lemon Tree Hotels Ltd.	3/26/2018	10,386.85	4/9/2018	56.00	61.60	71.65	73.60	27.95	31.43
6	INDOSTAR	Indostar Capital Finance Ltd.	5/9/2018	18,440.00	5/21/2018	572.00	600.00	586.10	346.70	2.47	-39.39
7	RITES	Rites Ltd.	6/20/2018	4,605.14	7/2/2018	185.00	190.00	213.30	274.00	15.30	48.11
8	FINEORG	Fine Organic Industries Ltd.	6/20/2018	6,001.69	7/2/2018	783.00	815.00	822.80	1,188.00	5.08	51.72
9	VARROC	Varroc Engineering Ltd.	6/26/2018	19,551.76	7/6/2018	967.00	1,015.00	1,037.35	726.15	7.28	-24.91
10	TCNSBRANDS	TCNS Clothing Co.Ltd.	7/18/2018	11,251.25	7/30/2018	716.00	716.00	659.15	675.00	-7.94	-5.73
11	HDFCAMC	HDFC Asset Management Co.Ltd.	7/25/2018	28,003.31	8/6/2018	1,100.00	1,726.25	1,815.95	1,504.95	65.09	36.81
12	CREDITACC	Creditaccess Grameen Ltd.	8/8/2018	11,311.88	8/23/2018	422.00	390.00	422.05	383.25	0.01	-9.18
13	IRCON	IRCON International Ltd.	9/17/2018	4,669.35	9/28/2018	475.00	412.00	415.30	445.55	-12.57	-6.20
14	AAVAS	AAVAS Financiers Ltd.	9/25/2018	16,403.17	10/8/2018	821.00	750.00	774.35	857.50	-5.68	4.45
15	GRSE	Garden Reach Shipbuilders & Engineers Ltd.	9/24/2018	3,435.89	10/10/2018	118.00	102.50	103.30	92.75	-12.46	-21.40
SME IPOs											
1	MITTAL	Mittal Life Style Ltd.	3/19/2018	41.58	4/2/2018	21.00	21.00	21.00	48.00	-	128.57
2	KAPSTON	Kapston Facilities Management Ltd.	3/21/2018	201.15	4/4/2018	92.00	92.50	92.55	92.10	0.60	0.11
3	CONTI	Continental Seeds & Chemicals Ltd.	3/21/2018	39.94	4/4/2018	26.00	26.00	25.75	13.65	-0.96	-47.50
4	AVG	Avg Logistics Ltd.	3/28/2018	314.07	4/11/2018	107.00	113.00	118.55	74.20	10.79	-30.65
5	MMP	Mmp Industries Ltd.	3/28/2018	803.70	4/12/2018	188.00	190.00	199.50	196.45	6.12	4.49
6	SONISOYA	Soni Soya Products Ltd.	3/28/2018	42.60	4/12/2018	25.00	26.00	25.50	23.80	2.00	-4.80
7	VERA	Vera Synthetic Ltd.	3/28/2018	50.64	4/12/2018	40.00	45.00	42.75	41.70	6.88	4.25

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8	SSINFRA	S.S.Infrastructure Development Consultants Ltd.	3/28/2018	162.24	4/12/2018	40.00	42.95	43.10	17.00	7.75	-57.50
9	GIRIRAJ	Giriraj Civil Developers Ltd.	3/19/2018	85.20	4/18/2018	100.00	100.50	100.50	46.70	0.50	-53.30
10	NARMADA	Narmada Agrobase Ltd.	3/28/2018	70.91	4/19/2018	32.00	31.45	32.40	20.00	1.25	-37.50
11	PIGL	Power & Instrumentation (Gujarat) Ltd.	4/11/2018	58.34	4/23/2018	33.00	35.00	34.90	11.60	5.76	-64.85
12	PENTAGOLD	Penta Gold Ltd.	3/23/2018	126.54	4/25/2018	37.00	37.00	37.00	31.00	-	-16.22
13	BSHSL	Bombay Super Hybrid Seeds Ltd.	4/12/2018	98.64	4/25/2018	60.00	60.00	63.00	128.00	5.00	113.33
14	MAHICKRA	Mahickra Chemicals Ltd.	4/16/2018	49.80	4/26/2018	25.00	35.00	36.75	42.50	47.00	70.00
15	AAKASH	Aakash Exploration Services Ltd.	4/17/2018	95.76	4/27/2018	56.00	55.75	57.00	25.00	1.79	-55.36
16	GODHA	Godha Cabcon & Insulation Ltd.	4/27/2018	93.85	5/11/2018	33.00	31.90	33.05	29.95	0.15	-9.24
17	SOFTTECH	Softtech Engineers Ltd.	4/27/2018	216.58	5/11/2018	80.00	88.00	92.40	42.50	15.50	-46.88
18	E2E	E2e Networks Ltd.	5/3/2018	208.85	5/15/2018	57.00	85.00	89.00	45.00	56.14	-21.05
19	FIVECORE	Five Core Electronics Ltd.	5/9/2018	442.96	5/21/2018	140.00	140.90	145.50	120.00	3.93	-14.29
20	SIRCA	Sirca Paints India Ltd.	5/16/2018	740.10	5/30/2018	160.00	162.00	164.80	244.00	3.00	52.50
21	SVLL	Shree Vasu Logistics Ltd.	5/23/2018	88.02	6/4/2018	45.00	48.00	48.50	67.95	7.78	51.00
22	SUULD	Suumaya Lifestyle Ltd.	5/22/2018	131.33	6/4/2018	18.00	18.00	17.85	26.00	-0.83	44.44
23	LATTEYS	Latteys Industries Ltd.	5/23/2018	76.56	6/5/2018	66.00	68.00	66.20	57.50	0.30	-12.88
24	DSML	Debock Sales & Marketing Ltd.	5/24/2018	42.00	6/5/2018	20.00	20.95	20.35	16.25	1.75	-18.75
25	SONAMCLOCK	Sonam Clock Ltd.	6/1/2018	95.90	6/14/2018	36.00	37.00	36.95	38.25	2.64	6.25
26	OSWALSEEDS	Shreeoswal Seeds & Chemicals Ltd.	6/7/2018	112.94	6/20/2018	26.00	27.85	27.00	26.50	3.85	1.92
27	PRITI	Priti International Ltd.	6/11/2018	49.92	6/21/2018	75.00	81.00	81.25	96.00	8.33	28.00
28	ACCURACY	Accuracy Shipping Ltd.	6/11/2018	339.36	6/22/2018	84.00	88.00	86.10	64.45	2.50	-23.27
29	BRIGHT	Bright Solar Ltd.	6/26/2018	184.68	7/9/2018	36.00	36.60	36.95	33.40	2.64	-7.22
30	JAKHARIA	Jakharia Fabric Ltd.	6/29/2018	185.76	7/11/2018	180.00	181.35	181.50	180.30	0.83	0.17
31	GANGAFORGE	Ganga Forging Ltd.	6/29/2018	47.38	7/11/2018	21.00	21.10	21.20	26.00	0.95	23.81
32	REPL	Rudrabhishek Enterprises Ltd.	6/29/2018	177.86	7/13/2018	41.00	41.25	41.70	45.50	1.71	10.98
33	AMBANIORG	Ambani Organics Ltd.	7/6/2018	85.54	7/18/2018	66.00	66.65	66.65	68.00	0.98	3.03
34	AVONMPL	Avon Moldplast Ltd.	7/12/2018	42.74	7/26/2018	51.00	52.00	52.25	46.60	2.45	-8.63

Sr. No.	NSE Symbol	Company	Opening Date	Issue Amount (Rsmn)	Listing Date	Offer Price (Rs)	Open Price on Listing Date (Rs)	Close Price on Listing Date (Rs)	Market Price (As on 31.12. 2018)	Gains / Loss Offer Price V/S Close Price On Listing (%)	Gains / Loss Offer Price V/S Market Price of 31.12.2018 (%)
35	UCL	Ushanti Colour Chem Ltd.	7/23/2018	109.68	8/2/2018	60.00	64.20	67.40	57.00	12.33	-5.00
36	SAKETH	Saketh Exim Ltd.	8/1/2018	89.42	8/13/2018	69.00	69.30	69.40	69.00	0.58	-
37	POWERFUL	Powerful Technologies Ltd.	8/9/2018	128.62	8/28/2018	51.00	48.00	45.60	22.65	-10.59	-55.59
38	AARON	Aaron Industries Ltd.	8/20/2018	45.37	9/3/2018	38.00	36.10	38.70	44.25	1.84	16.45
39	DANGEE	Dangee Dums Ltd.	8/20/2018	190.62	9/3/2018	74.00	89.90	94.35	203.00	27.50	174.32
40	SUPREMEENG	Supreme Engineering Ltd.	8/24/2018	168.80	9/6/2018	27.00	26.50	28.10	25.95	4.07	-3.89
41	MARSHALL	Marshall Machines Ltd.	8/28/2018	154.22	9/7/2018	42.00	37.45	39.30	33.00	-6.43	-21.43
42	SUMIT	Sumit Woods Ltd.	8/29/2018	172.53	9/10/2018	45.00	47.00	47.95	52.25	6.56	16.11
43	LAGNAM	Lagnam Spintex Ltd.	9/4/2018	233.70	9/18/2018	41.00	41.00	38.95	15.70	-5.00	-61.71
44	RPPL	Rajshree Polypack Ltd.	9/10/2018	337.44	9/24/2018	120.00	111.05	116.60	109.90	-2.83	-8.42
45	AKG	Akg Exim Ltd.	9/10/2018	52.33	9/25/2018	31.00	32.25	32.00	32.30	3.23	4.19
46	AHLADA	Ahlada Engineers Ltd.	9/11/2018	485.10	9/27/2018	150.00	141.00	145.05	142.00	-3.30	-5.33
47	SPECTRUM	Spectrum Electrical Industries Ltd.	9/17/2018	245.70	10/1/2018	65.00	66.50	65.50	69.00	0.77	6.15
48	KSHITIJPOL	Kshitij Polyline Ltd.	9/21/2018	82.88	10/8/2018	35.00	35.50	35.00	30.00	-	-14.29
49	RAJMET	Rajnandini Metal Ltd.	9/24/2018	40.56	10/8/2018	26.00	35.00	33.25	25.30	27.88	-2.69
50	PARIN	Parin Furniture Ltd.	9/26/2018	178.92	10/9/2018	63.00	64.00	64.90	66.70	3.02	5.87
51	KRITIKA	Kritika Wires Ltd.	9/26/2018	145.92	10/10/2018	32.00	34.10	33.70	41.00	5.31	28.13
52	SILGO	Silgo Retail Ltd.	9/27/2018	46.22	10/10/2018	36.00	36.45	36.25	36.00	0.69	-
53	MARINE	Marine Electricals (India) Ltd.	9/28/2018	406.56	10/11/2018	66.00	66.60	66.60	79.50	0.91	20.45
54	VINNY	Vinny Overseas Ltd.	9/28/2018	98.40	10/11/2018	40.00	40.50	42.40	45.00	6.00	12.50
55	BBTCL	B&B Triplewall Containers Ltd.	9/28/2018	189.86	10/15/2018	36.00	37.80	38.10	49.50	5.83	37.50
56	IRISDOREME	Iris Clothings Ltd.	10/10/2018	105.12	10/23/2018	90.00	92.00	90.00	92.50	-	2.78
57	UWCSL	Ultra Wiring Connectivity Systems Ltd.	10/12/2018	45.64	10/26/2018	35.00	33.10	33.20	21.00	-5.14	-40.00
58	SHUBHLAXMI	Shubhlaxmi Jewel Art Ltd.	11/22/2018	61.78	12/4/2018	26.00	27.10	27.20	35.25	4.62	35.58
59	DRSDILIP	Drs Dilip Roadlines Ltd.	11/27/2018	298.08	12/10/2018	75.00	75.15	75.15	75.05	0.20	0.07

Source: PRIME Database.

2.4 Debt Issues

The government and the corporate sector collectively raised a total of Rs18,277bn (US$284bn) from the primary debt market in 2017–18. Corporates continued their preference to raise capital through private placement as compared to public issues. In 2017-18, private placement accounted for 99% of total resources raised by corporates from the debt market, as against 96% in 2016-17. However, the share of private placement in total resources mobilized reduced from 38% in 2016-17 to 36% in 2017-18 (Table 2.8). The resources raised by corporates from debt market in the form of public issues and private placement witnessed a significant decline by 10% in 2017-18 as compared to 39% growth in previous year. Total resource mobilization declined by 82% through public issues and 7% through private placement. In contrast, total resources raised by government from debt markets increased by 5% in 2017-18. Total resources raised from debt markets were still dominated by government issues (accounting for 64% of the total resources).

Table 2.8: Resources Raised from Debt Markets

Issuer	2015-16 (Rsbn)	2016-17 (Rsbn)	2017-18 (Rsbn)	2015-16 (US$bn)	2016-17 (US$bn)	2017-18 (US$bn)
Corporate	**5,280**	**7,343**	**6,609**	**80**	**111**	**103**
Public Issues	341	293	52	5	**4**	**1**
Private Placement*	4,939	7,050	6,557	75	105	102
Government	**10,336**	**11,065**	**11,668**	**156**	**167**	**181**
Central	7,390	7,245	7,477	111	109	116
State	2,946	3,820	4,191	44	58	65
Total	**15,616**	**18,408**	**18,277**	**235**	**278**	**284**

Source: Prime Database (for Private placement) SEBI for Public issues (bonds / NCDs) & RBI Annual Report (for Government debt).
Note: *Only debt placements with a tenor and put / call option of 1 year or more.

2.4.1 Private Placement of Debt

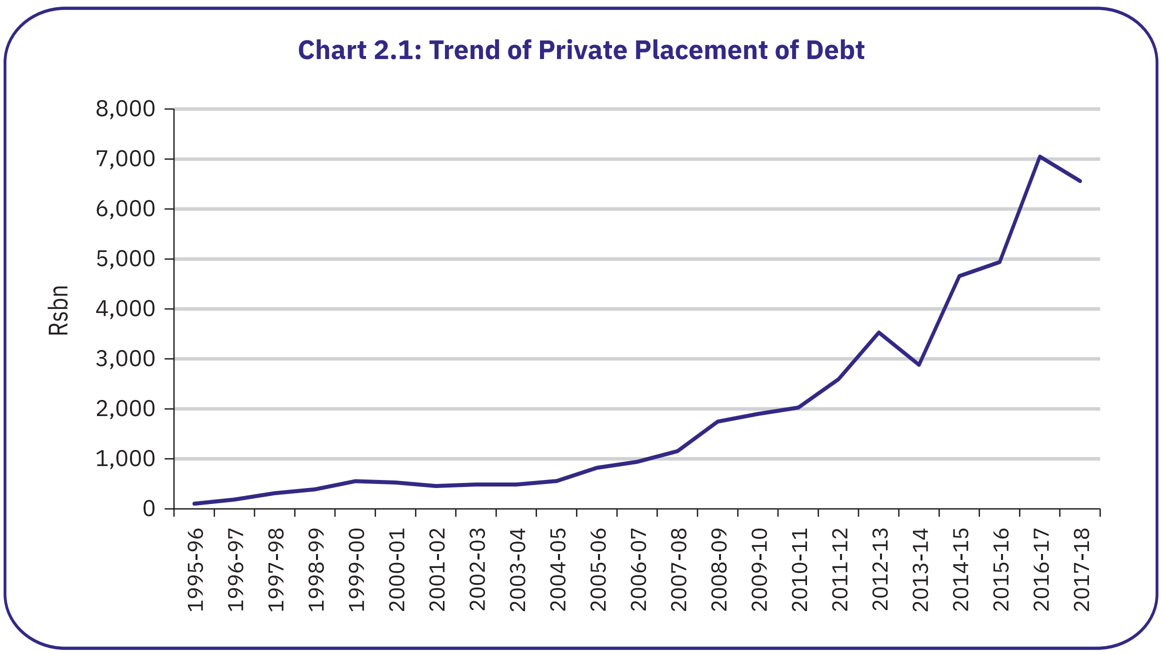
According to the Prime Database, a total of 711 issuers (institutional and corporate) raised Rs6,557bn (US$102bn) through 2,432 privately placed issues in 2017–18 (Table 2.9). Overall, there is a positive trend in total amount raised through private placement till 2016-17, barring 2013-14 (Chart 2.1). Total resources mobilized raised through private placement declined by 7% in 2017-18 compared to the preceding year.

Table 2.9: Private Placement—Institutional and Corporate Debt

Year	No. of issuers	No. of Privately Placed issues	Resource Mobilisation through Private Placement of Debt (Rsbn)	Resource Mobilisation through Private Placement of Debt (US$bn)
1995-96	47	72	100	3
1996-97	159	192	184	5
1997-98	151	250	310	8
1998-99	204	443	386	9
1999-00	229	711	551	13
2000-01	214	603	525	11
2001-02	214	557	454	10
2002-03	171	485	484	10
2003-04	140	364	484	11
2004-05	116	321	554	12

Year	No. of issuers	No. of Privately Placed issues	Resource Mobilisation through Private Placement of Debt (Rsbn)	Resource Mobilisation through Private Placement of Debt (US$bn)
2005-06	99	366	818	18
2006-07	98	506	939	21
2007-08	104	612	1,154	29
2008-09	167	800	1,743	37
2009-10	243	812	1,898	40
2010-11	225	862	2,026	44
2011-12	179	1,430	2,592	54
2012-13	278	1,888	3,528	65
2013-14	254	1,683	2,879	46
2014-15	506	2,221	4,657	76
2015-16	589	2,682	4,939	74
2016-17	663	2,835	7,050	105
2017-18	711	2,432	6,557	102

Source: Prime Database.



Source: Prime Database.

The issuer wise distribution indicates that during 2017-18, the private sector accounted for 47.8% of total resources mobilized through the private placement of debt, followed by all India financial institutions and banks that mobilized around 43.7% of total amount (Table 2.10).

Table 2.10: Issuer-wise Distribution of Private Placement of Debt

Issuer	Issue Amount (Rsmn)			Issue Amount (US$mn)			% of Issue Amount			Issue Amount (Rsmn)		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	Apr-Dec'16	Apr-Dec'17	Apr-Dec'18
All India Financial Institutions/ Banks	2,035,917	2,904,672	2,867,563	31,004	43,483	44,421	41.2	41.2	43.7	1,922,992	1,983,423	1,446,788
State Financial Institutions	-	2,751	2,500	-	41	38	0.0	0.0	0.0	2,751	-	-
Public Sector Undertakings	322,671	671,762	447,724	4,958	10,014	6,948	6.5	9.5	6.8	497,312	424,974	69,454
State Level Undertakings	238,479	204,889	103,892	3,590	3,068	1,607	4.8	2.9	1.6	101,168	46,982	25,899
Private Sector	2,342,046	3,265,472	3,134,978	35,939	48,790	48,593	47.4	46.3	47.8	2,271,673	2,266,384	1,849,071
Total	**4,939,112**	**7,049,545**	**6,556,658**	**75,490**	**105,396**	**101,608**	**100.0**	**100.0**	**100.0**	**4,795,895**	**4,721,764**	**3,391,212**

Source: Prime Database.

The sectoral distribution shows that Banking and Financial Services continued to dominate the private placement market, accounting for 71% in 2017–18. Among others, power sector contributed to 7.6% of total private placement in 2017–18 (Table 2.11).

Table 2.11: Sectoral Distribution of Resources Mobilized Private Placement (%)

Sector	2015-16	2016-17	2017-18	Apr-Dec'16	Apr-Dec'17	Apr-Dec'18
Banking	28.4	28.7	29.7	26.5	27.3	27.1
Financial Services	36.2	36.7	41.6	39.0	42.9	44.7
Power	11.9	10.7	7.6	11.5	8.5	3.5
Housing/ Civil Construction/ Real Estate	6.1	5.0	4.1	5.1	3.8	7.5
Travel/Transportation	0.8	1.0	0.6	1.0	0.8	0.9
Others	16.7	17.9	16.4	16.9	16.7	16.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Prime Database.

2.4.2 Corporate Sector

There was a preference for raising resources in the primary market through debt instruments, and the private placement of debt emerged as the major route for raising resources.

In 2017–18, total resources raised by the corporate sector declined marginally to Rs7,660bn, compared to gross mobilization of Rs7,671bn in 2016–17. The public equity route was used to raise 10.9% of total resources in 2017-18, which is significantly higher than 3.8 % in 2016-17. The share of rights issues was 0.5% in 2016-17 which had increased to 2.8% in 2017-18. The resources raised through the debt issues (debt public issues and debt private placements) accounted for about 86.3%, which reflects the preference of corporates for debt capital over equity capital. Among the debt issues, the share of debt public issues declined from 3.8% in 2016-17 to 0.7% in 2017-18. Similarly, the share of debt private placements decreased from 91.9% in 2016-17 to 85.6% in 2017-18.

Table 2.12: Resources Raised by Corporate Sector

Year	Public Equity Issues (mn)	Rights Issues (Rsmn)	Debt Public Issues (Rsmn)	Debt Private Placements (Rsmn)	Total Resource Mobilisation (Rsmn)	Total Resource Mobilisation (US$mn)	Percentage Share in the Total Resource Mobilisation			
							Public Equity issues	Rights Issue	Debt Public Issues	Debt Private Placements
2009-10	469,410	83,211	25,000	1,898,299	2,475,920	54,850	19.0	3.4	1.0	76.7
2010-11	461,820	95,937	94,310	2,025,899	2,677,966	59,977	17.2	3.6	3.5	75.7
2011-12	104,710	23,750	356,110	2,592,290	3,076,860	60,146	3.4	0.8	11.6	84.3
2012-13	64,970	89,447	169,820	3,527,590	3,851,827	70,851	1.7	2.3	4.4	91.6
2013-14	86,610	45,733	423,830	2,878,929	3,435,102	57,311	2.5	1.3	12.3	83.8
2014-15	30,190	67,501	97,130	4,657,131	4,851,952	79,358	0.6	1.4	2.0	96.0
2015-16	148,150	92,390	338,120	4,939,112	5,517,772	83,183	2.7	1.7	6.1	89.5
2016-17	290,880	37,200	293,280	7,049,545	7,670,905	117,815	3.8	0.5	3.8	91.9
2017-18	836,960	214,000	51,730	6,557,000	7,659,690	118,847	10.9	2.8	0.7	85.6

Source: Prime Database (for Private placement), SEBI (for Public issues and Right issues).
Notes: Only debt placements with a tenor and put / call option of 1 year or more.

3. Collective Investment Vehicles

3.1 Introduction

A collective investment vehicle (CIV) allows many investors to pool their money and invest. The pooled capital is invested by a professional (e.g. fund manager) in contrast with individuals directly buying securities thus resulting in financial intermediation. The most common types of CIVs are mutual funds (MFs) and exchange-traded funds (ETFs). CIVs are well established in many jurisdictions, and serve as investment vehicles for a wide range of investment opportunities globally.

The different categories of CIVs in operation in India are mutual funds (MFs), index funds, exchange-traded funds (ETFs), alternate investment funds (comprising private equity funds, venture capital funds, private investment in public equity (PIPE) funds, debt funds, infrastructure funds, real estate funds, social venture funds, small and medium enterprises funds, and strategy funds). These CIVs mobilise resources from the market for investment purposes. This chapter discusses the growth and performance of MFs, ETFs, and index funds.

3.2 Growth and Performance of CIVs (2017-18)

3.2.1 Mutual Funds

Mutual Funds are popular among investors who are wary of directly investing in the securities market. Some of the major benefits of investing in MFs include the option of investing in various schemes, diversification, professional management, liquidity, effective regulations, transparency, tax benefits and affordability.

3.2.1.1 History of MFs in India

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI), an initiative of the Government of India and the Reserve Bank of India (RBI). UTI was established in 1963 by an Act of Parliament. Initially, it functioned under the regulatory and administrative control of RBI. In 1978, UTI was de-linked from RBI, Industrial Development Bank of India (IDBI) took over the regulatory and administrative control from RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988, UTI had Rs67bn of assets under management (AUM).

In 1987, other mutual funds were set up by public sector banks, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987, followed by Canbank Mutual Fund in December 1987, Punjab National Bank Mutual Fund in August 1989, LIC Mutual Fund in June 1989, Indian Bank Mutual Fund in November 1989, Bank of India Mutual Fund in June 1990, GIC Mutual Fund in December 1990 and Bank of Baroda Mutual Fund in October 1992.

In 1993, a new era began in the Indian mutual fund industry with the entry of private sector funds, giving Indian investors a wider choice of fund families. Simultaneously, Mutual Fund Regulations were introduced under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. At the end of 1993, the mutual fund industry had AUM of Rs470bn.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The Mutual Fund industry now functions under the SEBI (Mutual

Fund) Regulations 1996. The number of mutual fund houses has kept on increasing, with many foreign mutual funds setting up funds in India and the industry witnessing several mergers and acquisitions. At the end of January 2003, there were 33 mutual funds with total assets of Rs1,218bn. The Unit Trust of India with Rs445bn of AUM was way ahead of other mutual funds. In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India which is functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations. The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations.

3.2.1.2 Resource Mobilization

Mutual Funds play an important role in mobilising the household savings for investment in the capital market. The popularity of MFs is clearly visible from the data presented in Table 3.1. MFs in India have primarily been sponsored by the government, banks, and foreign investors (FIs).

The MF schemes of the commercial banks and the insurance companies that entered the market in 1987 were well received by investors. The boom continued into the early 1990s, with liberalisation evoking positive responses from investors. The net resource mobilisation (inflows less outflows) by MFs remained steady during 1992–95, with an annual average net resource mobilisation of nearly Rs120bn per annum during the period. However, the MFs were severely hit by the bearish sentiments that prevailed in the secondary market since October 1994. The years 1995–96 and 1996–97 witnessed net outflows of funds from MFs. The MF industry managed to mobilise modest sums during the next two financial years. It was in the late 1990s and the first few years of the next decade that the MF industry witnessed a sharp turnaround. The tax sops announced in the Union Budget 1999–00 and the emergence of bullish trends in the secondary market fuelled the recovery. The year 2000–01 witnessed a slowdown once again, with the net resource mobilisation by all the MFs aggregating Rs111bn, which could be attributed to a slump in the secondary market and the increase in the tax on income distributed by debt-oriented MFs. In 2002–03, the resource mobilisation by all the MFs aggregated to a further low of Rs46bn, with UTI having a net outflow of Rs94bn. The fiscal year 2003–04 witnessed a sharp rise in the net resources mobilised compared to that in the previous year, aggregating Rs479bn; however, the net resources mobilised reduced to Rs28bn in 2004–05. An upward trend was seen in the fiscal year 2005–06; the net resources mobilised were Rs525bn, which marked a multifold increase in the resource mobilisation of the MFs. The performance of the private sector MFs in 2005–06 remained consistent compared to that in the previous year; they mobilised Rs416bn.

The highest resource mobilisation was witnessed in 2007–08: net resources worth Rs1,587bn were mobilised from the MF industry, compared to Rs941bn attracted by the industry in 2006–07. Because of the global crisis, the resources mobilised by the industry were quite volatile for the last couple of years. The fiscal year 2008–09 witnessed a sharp drop in the net resources mobilised compared to the previous year's numbers, aggregating Rs-242bn, as private sector MFs witnessed a net outflow of Rs305bn. The trend was reversed in 2009–10; the net resources mobilised totalled Rs785bn. The year 2010–11 witnessed a slowdown once again, with the net resource mobilisation by all the MFs aggregating Rs-486bn. The MF industry continued to witness a decline in 2011–12; the net resources mobilised during this year were Rs-454bn. Encouragingly, the trend reversed once again in 2012–13, with the net resource mobilisation by all the MFs aggregating Rs788bn. The year 2013–14 continued to record positive net resource mobilisation (Rs546bn) by the MF industry, albeit at a slower pace compared to that in the preceding year. In 2014–15, there was a sudden trend reversal in the resource mobilisation pattern of the MF industry. There was a net outflow of funds from UTI MFs, bank-sponsored MFs, and FI-sponsored MFs, but the private sector MFs recorded a manifold increase in the resources mobilised. The net resources mobilised by the MF industry registered a 100% increase in the total resources mobilised, which was driven solely by the increase in resource mobilisation by the private sector MFs. This trend was in sharp contrast to the pattern observed in the previous years, where a rise in the resource mobilisation by the MF industry corresponded to a general increase in the resources mobilised by all the key players. The net resources mobilised by the MF industry in 2014–15 totalled Rs1,094bn, compared to Rs546bn in 2013–14.

In 2015-16, the net resources mobilised by the MF industry increased further to Rs1,318bn, the highest it has been since 2007-08. The industry witnessed across-the-board growth with all the sub-sectors - UTI MFs, bank-sponsored MFs, FI-sponsored MFs, and private sector MFs - registering a net inflow of funds. In 2016-17, net resources mobilised by the MF industry increased substantially by 161% to a record level of Rs3,434bn. Notably, net investment in public sector MFs has increased from Rs875bn to Rs2,743bn which is quite remarkable. In 2017-18, net investment by MFs declined by 15% to Rs2,343bn. All segments witnessed similar trend in the period. Notably, there were net outflows of funds by Rs13bn for UTI MFs and Rs27bn for FI-sponsored MFs.

Table 3.1: Net Resources Mobilised by Mutual Funds

Year	UTI	Bank Sponsored Mutual Funds	FI-sponsored mutual funds	Private Sector mutal funds	Total	Total
	(Rsbn)					(US$bn)
2000-01	3.22	2.49	12.73	92.92	111.36	2.39
2001-02	-72.84	8.63	4.06	161.34	101.19	2.07
2002-03	-94.34	10.33	8.61	121.22	45.82	0.96
2003-04	10.50	45.26	7.87	416.00	479.63	11.05
2004-05	-24.67	7.06	-33.84	79.33	27.88	0.64
2005-06	34.24	53.65	21.12	415.81	524.82	11.76
2006-07	73.26	30.33	42.26	794.77	940.62	21.58
2007-08	106.78	75.97	21.78	1,382.00	1,586.53	39.69
2008-09	-41.00	44.89	59.54	-305.00	-241.57	-4.74
2009-10	156.53	98.55	48.71	480.00	783.79	17.36
2010-11	-166.36	13.04	-169.88	-163.00	-486.20	-10.89
2011-12	-31.79	4.00	-30.98	-395.00	-453.77	-8.87
2012-13	46.00	67.00	22.00	653.00	788.00	14.49
2013-14	4.01	48.44	25.72	467.90	546.07	9.11
2014-15	-12.78	-11.48	-9.94	1,063.00	1,028.80	16.83
2015-16	154.16	274.21	13.88	875.33	1,317.58	19.86
2016-17	**201.46**	**425.77**	**64.06**	**2,742.89**	**3,434.18**	**51.77**
2017-18	**-12.61**	**418.90**	**-26.75**	**2,342.71**	**2,722.25**	**42.24**

Source: RBI.

3.2.1.3 Sales, Purchases and AUM of MFs

As on March 31, 2018, the number of MFs registered with the SEBI was 45, out of which only 7 are in public sector (including UTI). There were 2,281 mutual fund schemes as on March 31, 2017 which declined to 1,998 mutual fund schemes as on March 31, 2018. Of these, 1,357 were income oriented schemes, 514 were equity-oriented schemes, and 31 were balanced schemes. 52 MFs were liquid/ money market oriented, 38 were GILT and 72 were ELSS-Equity schemes. In addition, there were 12 gold exchange-traded funds, 56 other ETFs and 28 schemes operating as fund of funds investing overseas. During 2017-18, the aggregate sales of all the schemes amounted to Rs210tn, and purchases during the year equaled Rs207tn (Table 3.2).

3.2.1.4 Institution-wise Resource Mobilization

The resource mobilization through the route of mutual funds is conducted by three categories: banks, private sector, and institutions. The structure of the institution-wise resource mobilization is depicted in Table 3.2 and Table 3.3, which gives the details of the sales, purchases (redemptions), and assets under management.

Private sector MFs accounted for 80 % of the resource mobilization (sales) by the MF industry in 2017-18. The private sector MFs witnessed a net inflow of Rs2,321bn (US$36bn) in 2017-18, registered a decline by 15% over the previous year.

In 2017-18, bank-sponsored MFs mobilized resources worth Rs38tn, which was 6% lower than the resource mobilization in 2016-17. The bank-sponsored schemes accounted for 18% of gross resource mobilization in 2017–18. In net terms, the bank-sponsored MFs witnessed an inflow of Rs441bn (US$6.8bn) in 2017–18, as compared to an inflow of Rs650bn during the previous year.

3.2.1.5 Resource Mobilization as per Maturity Period/Tenor

The share of open-ended schemes in total sales of mutual funds in 2017–18 continued to remain close to 100%. The share of open-ended schemes in the total sales of mutual funds was 99.6% in 2017–18 as compared to 99.8% in previous year. Close-ended schemes and interval funds together accounted for a meagre 0.4% of total MF sales in 2017–18. Both close-ended schemes and interval funds schemes witnessed a sharp increase in sales in 2017–18 over previous fiscal year. The details of the sales and redemptions of the mutual funds based on their tenor for 2016-17 and 2017-18 are presented in Table 3.2.

Table 3.2: Resource Mobilisation by Mutual Funds- based on the Tenor of the Scheme

Scheme	2016-17				2017-18			
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase
	(Rsbn)		(US$bn)		(Rsbn)		(US$bn)	
Open-ended	175,872	172,294	2,701	2,646	209,224	206,523	3,246	3,204
Close-ended	280	391	4	6	740	719	11	11
Interval fund	3	40	0	1	23	27	0	0
Total	176,155	172,725	2,706	2,653	209,987	207,269	3,258	3,216

Source: AMFI Updates.

Table 3.3: Accretion of Funds with Mutual Funds

Category		2016-17				2017-18				Average Assets Under Management#			
		Sale (Rsbn)	Purchase (Rsbn)	Net Sales (Rsbn)	Net Sales (US$bn)	Sale (Rsbn)	Purchase (Rsbn)	Net Sales (Rsbn)	Net Sales (US$bn)	Jan-Mar'17 (Rsbn)	Jan-Mar'17 (US$bn)	Jan-Mar'18 (Rsbn)	Jan-Mar '18 (US$bn)
A	**Bank Sponsored**	**36,188**	**35,538**	**650**	**10**	**38,437**	**37,996**	**441**	**7**	**3,288**	**50**	**4,190**	**65**
i.	Joint Ventures - Predominantly Indian	13,943	13,514	429	6	15,067	14,649	418	6	1,705	26	2,359	37
ii.	Joint Ventures-Foreign	2,512	2,498	13	0	2,274	2,265	10	0	103	2	130	2
iii.	Others	19,733	19,526	208	3	21,095	21,082	13	0	1,479	22	1,700	26
B	**Institutions**	**3,729**	**3,665**	**64**	**1**	**4,439**	**4,484**	**-45**	**-1**	**219**	**3**	**208**	**3**
C	**Private Sector (i+ii+iii+iv)**	**136,239**	**133,523**	**2,716**	**41**	**167,111**	**164,789**	**2,322**	**36**	**14,789**	**223**	**18,655**	**289**
i.	Indian	27,961	27,454	507	8	42,935	42,207	728	11	2,516	38	4,088	63
ii.	Joint Ventures-Predominantly Indian	97,046	95,040	2,006	30	110,084	108,646	1,438	22	10,686	161	12,624	196
iii.	Joint Ventures - Predominantly Foreign	1,301	1,301	1	0	2,906	2,888	18	0	142	2	175	3
iv	Foreign	5,468	5,288	180	3	7,713	7,536	177	3	1,185	18	1,533	24
v	Joint Ventures - Others	4,462	4,439	23	0	3,474	3,513	-38	-1	261	4	236	4
Grand Total (A+B+C)		**176,155**	**172,725**	**3,430**	**52**	**209,987**	**207,269**	**2,718**	**42**	**18,296**	**276**	**23,052**	**358**

Source: AMFI Updates.
Note: #Average assets under management for the quarter Jan-Mar.

Table 3.4: Accretion of Funds with Mutual Funds (Comparison for the period Apr-Dec)

Category		Apr-Dec'17				Apr-Dec'18				Average Assets Under Management			
		Sale (Rsbn)	Purchase (Rsbn)	Net Sales (Rsbn)	Net Sales (US$bn)	Sale (Rsbn)	Purchase (Rsbn)	Net Sales (Rsbn)	Net Sales (US$bn)	Oct-Dec'17 (Rsbn)	Oct- Dec'17 (US$bn)	Oct-Dec'18 (Rsbn)	Oct- Dec'18 (US$bn)
A	**Bank Sponsored**	**28,555**	**28,158**	**397**	**6**	**34,445**	**33,941**	**504**	**8**	**4,018**	**61**	**4,648**	**72**
i.	Joint Ventures - Predominantly Indian	10,914	10,617	297	4	16,409	15,999	410	6	2,228	34	2,864	44
ii.	Others	17,641	17,541	100	2	18,036	17,942	93	1	1,790	27	1,784	28
B	**Institutions**	**3,244**	**3,294**	**-51**	**-1**	**3,531**	**3,573**	**-43**	**-1**	**228**	**3**	**140**	**2**
C	**Private Sector (i+ii+iii+iv)**	**122,161**	**120,464**	**1,697**	**26**	**141,161**	**140,755**	**406**	**6**	**18,121**	**273**	**18,832**	**292**
i.	Indian	31,410	30,853	557	8	44,139	44,059	80	1	3,990	60	4,901	76
ii.	Joint Ventures-Predominantly Indian	80,902	79,866	1,036	16	84,894	84,594	299	5	12,268	185	12,029	187
iii.	Joint Ventures - Predominantly Foreign	2,039	2,016	23	0	1,952	1,939	13	0	179	3	107	2
iv	Foreign	5,330	5,221	109	2	7,518	7,382	136	2	1,449	22	1,688	26
v	Joint Ventures - Others	2,481	2,508	-28	0	2,659	2,781	-122	-2	235	4	108	2
Grand Total (A+B+C)		**153,959**	**151,916**	**2,043**	**31**	**179,137**	**178,270**	**867**	**13**	**22,367**	**337**	**23,620**	**366**

Source: AMFI Updates.

3.2.1.6 Resource Mobilization as per Investment Objective

The liquid/money market schemes have become very popular among investors. The share of these schemes in the total sales was reported to be 92.9% of the gross resource mobilization in 2017–18. Further, the schemes also recorded a net outflow of Rs29bn, as against an inflow of Rs958bn. However, in terms of net inflow of funds, it was the equity-oriented schemes that registered the maximum net inflow of Rs1,568bn. The scheme-wise resource mobilization by MFs for 2016–17 and 2017-18 is depicted in Table 3.5.

Table 3.5: Scheme-wise Resource Mobilisation by Mutual Funds

Scheme	2016-17				2017-18			
	Sale	Purchase	Net Inflow/ (Outflow)#	Net Inflow/ (Outflow)	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)
	(Rsbn)			(US$bn)	(Rsbn)			(US$bn)
Income	8,684	7,477	1,206	18.2	9,091	9,149	-59	-0.9
Equity	2,049	1,447	603	9.1	3,782	2,214	1,568	24.3
Balanced	506	140	366	5.5	1,193	296	898	13.9
Liquid/ Money Market	164,233	163,274	958	14.4	195,029	195,059	-29	-0.5
Gilt	120	153	-33	-0.5	80	113	-33	-0.5
ELSS-Equity	146	45	101	1.5	223	80	143	2.2
GOLD ETFs	1	9	-8	-0.1	0	9	-8	-0.1
Other ETFs*	413	173	241	3.6	583	344	240	3.7
Funds of Funds Investing Overseas	3	7	-4	-0.1	2	6	-4	-0.1
Total**	**176,155**	**172,716**	**3,430**	**51.7**	**209,987**	**207,269**	**2,718**	**42.2**

Source: AMFI Updates.
Note: *This scheme was earlier classified as growth Funds and included in that category.
#There can be mismatch due to rounding off.
**Total may not match as 'Infrastructure Debt Fund' is not included in the table.

3.2.1.7 Assets under Management

As on March 31, 2018, the MFs have managed assets totaling Rs21.4tn (Table 3.6). The open-ended schemes and the close-ended schemes accounted for 91% and 9%, respectively, of the total assets under management of MFs (Chart 3.1) as on March 31, 2018.

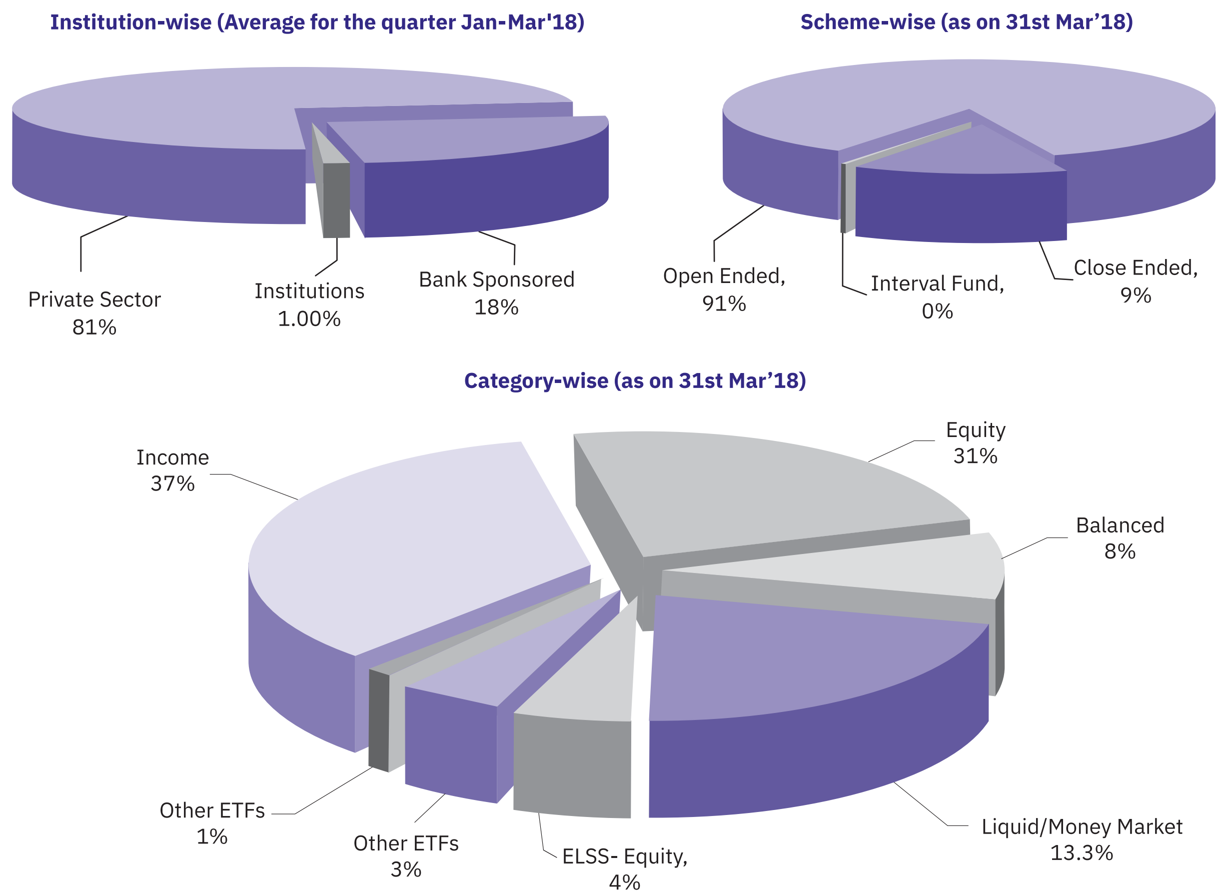
The income-oriented schemes accounted for 37% of the total assets under management at the end of March 2018, followed by the equity schemes with 31%. The liquid/money market schemes accounted for 16% of the assets under management of MFs (Chart 3.1).

Table 3.6: Assets under Management

Scheme	As on March 31, 2017						As on March 31, 2018					
	Open Ended	Close Ended	Interval Fund	Total	Total	Percent to total	Open Ended	Close Ended	Interval Fund	Total	Total	Percent to total
	(Rsbn)				(US$bn)		(Rsbn)				(US$bn)	
Income	5,902	1,490	46	7,438	112.1	42.4	6,312	1,499	44	7,856	121.9	37.0
Equity	4,600	222	0	4,821	72.7	27.5	6,392	300	0	6,692	103.8	31.0
Balanced	848	0	0	848	12.8	4.8	1,722	0	0	1,722	26.7	8.0
Liquid/Money Market	3,141	0	0	3,141	47.3	17.9	3,355	0	0	3,355	52.1	16.0
Gilt	149	0	0	149	2.2	0.8	114	0	0	114	1.8	1.0
ELSS	577	37	0	614	9.3	3.5	756	50	0	806	12.5	4.0
Gold ETF	55	0	0	55	0.8	0.3	48	0	0	48	0.7	0.2
Other ETFs*	444	0	0	444	6.7	2.5	729	0	0	729	11.3	3.0
Funds of Funds Investing Overseas	17	0	0	17	0.3	0.1	15	0	0	15	0.2	0.1
Total**	15,733	1,767	46	17,546	264.5	100.0	19,442	1,874	44	21,360	331.4	100.3

Source: AMFI Updates.
Note: *This scheme was earlier classified as growth funds and included in that category.
**Total includes 'Infrastructure Debt Fund' as well.

Chart 3.1: Assets Under Management of Mutual Funds (%)



Source: AMFI.

3.2.1.8 NMFII –Trade Member Portal [formerly known as Mutual Fund Service System (MFSS)]

In November 2009, SEBI allowed transactions in mutual fund schemes through the stock exchange infrastructure. Consequent to this market development, NSE launched India's first Mutual Fund Service System (MFSS) on November 30, 2009 through which an investor can subscribe or redeem the units of a mutual fund scheme.

As many as 41 fund houses have joined the NSE MFSS platform as on December 31, 2018. During 2017-18, there were 6.3mn orders placed for subscriptions worth Rs224bn and 1.4mn orders worth Rs140bn were redeemed. The trend moved upwards in the April–December period of 2018–19, when 7.1mn orders were placed for subscriptions worth Rs192bn, and 1.6mn orders worth Rs106bn were redeemed (Table 3.7).

Table 3.7: MFSS Trade Statistics

Date	Subscription		Redemption		Total orders (thousand)
	No of orders (thousand)	Total subscription amount (Rsbn)	No of orders (thousand)	Total redemption amount (Rsbn)	
2011-12	109.8	4.9	10.7	3.4	120.5
2012-13	179.6	8.1	27.0	7.0	206.6
2013-14	200.2	15.0	34.7	12.0	234.9
2014-15	329.0	19.2	47.2	15.2	376.2
2015-16	693.7	44.3	76.2	31.9	769.9
2016-17	2,275.8	100.3	401.4	66.2	2,677.2
2017-18	6,252.9	224.0	1,354.2	140.3	7,607.1
April - Dec' 18	7,069.3	191.7	1,569.7	105.6	8,639.0

Source: NSE.

3.2.1.9 NMF II for Mutual Fund Distributors & investors

After SEBI allowed mutual fund distributors to use exchange infrastructure for facilitating mutual fund transactions for their clients, to allow distributors and members to access exchange infrastructure for executing mutual fund transactions, NSE developed an online platform NMF II. 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. At present, MFSS is integrated with NMF II. All the key features of MFSS are made available in NMF II. NMF II is a web application and it can be accessed online from anywhere using a standard internet connection.

3.2.1.10 Unit Holding Pattern of Mutual Funds

The unit holding pattern of MFs depicted in Table 3.8 shows that individual investors accounted for 97% of the total number of investor accounts at the end of March 2018. This category was followed by NRIs/OCBs and corporates/institutions, which constituted a meagre 2% and 1% of the total number of investor accounts, respectively. The “individuals” accounted for 51% of the net assets of the MF industry in 2017–18, followed by, corporates/institutions category which accounted for 45% of the net assets. The individuals saw the highest increase in net assets among the four categories, with a year-on-year improvement of 41% in 2017–18. Net assets holding by NRIs/OCBs has increased significantly by 34% in 2017-18. FPIs and corporates/institutions increased by 4% and 5% respectively in 2017–18 over the previous year.

Table 3.9 segregates the unit holding pattern of public sector-sponsored MFs and private sector-sponsored MFs. Individuals accounted for 96.9% of the total portfolios under the private sector-sponsored MFs compared to 98.3% holdings in the public sector-sponsored MFs. However, the opposite pattern of holdings was observed for NRIs/OCBs, for whom the holdings in total portfolios under private and public sector-sponsored MFs are 2.1% and 1.1%, respectively. The net asset value (NAV) of both private and public sector-sponsored MFs witnessed an increase of 22% in 2017–18 over the previous year.

Table 3.8: Unit Holding Pattern of Mutual Funds

Category	No. of Folios (thousand)	Percentage to Total Folios	AUM (Rsbn)	Percentage to Total Net Assets	No. of Folios (thousand)	Percentage to Total Folios	AUM (Rsbn)	Percentage to Total Net Assets
	2016-17				2017-18			
Individuals	53,662.4	96.9	7,717.6	44.0	69,410.4	97.3	10,855.0	50.8
NRIs/OCBs	969.2	1.7	581.7	3.3	1,290.2	1.8	778.5	3.6
FPIs	0.2	0.0	96.2	0.5	0.2	0.0	100.4	0.5
Corporates/Institutions/Others	767.8	1.4	9,150.6	52.2	646.5	0.9	9,626.6	45.1
Total	55,399.6	100.0	17,546.2	100.0	71,347.3	100.0	21,360.4	100.0

Source: SEBI.

Table 3.9: Unit Holding Pattern of Private Sector and Public Sector mutual funds

Category	No. of Folios (thousand)	Percentage to Total Folios under Private Sector	AUM (Rsbn)	Percentage to Total Net Assets under Private Sector	No. of Folios (thousand)	Percentage to Total Folios under Public Sector	AUM (Rsbn)	Percentage to Total Net Assets under Public Sector	No. of Folios (thousand)	Percentage to Total Folios under Private Sector	AUM (Rsbn)	Percentage to Total Net Assets under Private Sector	No. of Folios (thousand)	Percentage to Total Folios under Public Sector	AUM (Rsbn)	Percentage to Total Net Assets under Public Sector
	Private Sector Sponsored Mutual Funds				Public Sector Sponsored Mutual Funds				Private Sector Sponsored Mutual Funds				Public Sector Sponsored Mutual Funds			
	2016-17								2017-18							
Individuals	36,263.8	96.2	6,391.2	44.1	17,398.6	98.4	1,326.4	43.6	49,733.7	96.9	9,059.3	51.3	19,676.7	98.3	1,795.6	48.5
NRIs/OCBs	793.0	2.1	511.3	3.5	176.2	1.0	70.5	2.3	1,072.8	2.1	686.7	3.9	217.4	1.1	91.8	2.5
FPIs	0.1	0.0	95.3	0.7	0.0	0.0	0.9	0.0	0.2	0.0	99.5	0.6	0.0	0.0	0.9	0.0
Corporates/ Institutions/Others	658.4	1.7	7,505.5	51.8	109.4	0.6	1,645.1	54.1	531.2	1.0	7,811.9	44.2	115.4	0.6	1,814.6	49.0
Total	37,715.4	100.0	14,503.2	100.0	17,684.3	100.0	3,043.0	100.0	51,337.8	100.0	17,657.4	100.0	20,009.5	100.0	3,703.0	100.0

Source: SEBI.

3.2.2 Exchange-Traded Funds

Exchange-traded funds (ETFs) have gained wide acceptance as financial instruments whose unique advantages over mutual funds have caught the eye of many investors. ETFs are baskets of securities that are traded, like individual stocks, on an exchange. Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading day like any stock. These instruments are beneficial for investors who find it difficult to understand, analyse and pick stocks. Various mutual funds provide ETF products that attempt to replicate the indices on NSE (e.g. Nifty50) so as to provide returns that closely correspond to the total returns of the securities represented in the index. Most ETFs charge lower annual expenses than index mutual funds. However, as with stocks, one must pay a brokerage to buy and sell ETF units, which can be a significant drawback for those who trade frequently or invest regular sums of money. There are different types of ETFs available in NSE, viz. Equity ETF, Debt ETF, Gold ETF and International Indices ETF. The list of all NSE listed ETFs are given in Table 3.10.

Table 3.10: List of NSE listed ETFs

Issuer Name	Name	Symbol	Underlying	Launch Date
List of Equity ETFs listed on NSE				
Edelweiss AMC	Edelweiss Exchange Traded Scheme - NIFTY	NIFTYEES	NIFTY 50 Index	08-May-15
ICICI Prudential AMC	ICICI Prudential NIFTY ETF	INIFTY	NIFTY 50 Index	20-Mar-13
Kotak AMC	Kotak NIFTY ETF	KOTAKNIFTY	NIFTY 50 Index	02-Feb-10
Motilal Oswal AMC	MOSt Shares M50	M50	NIFTY 50 Index	28-Jul-10
Quantum AMC	Quantum Index Fund - Growth	QNIFTY	NIFTY 50 Index	10-Jul-08
Religare AMC	Religare Invesco NIFTY ETF	RELGRNIFTY	NIFTY 50 Index	13-Jun-11
SBI AMC	SBI ETF NIFTY	SETFNIFTY	NIFTY 50 Index	23-Jul-15
UTI AMC	UTI NIFTY ETF	UTINIFTETF	NIFTY 50 Index	03-Sep-15
Birla Sun Life AMC	Birla Sun Life NIFTY ETF	BSLNIFTY	NIFTY 50 Index	21-Jul-11
ICICI Prudential AMC	ICICI Prudential CNX 100 ETF	ICNX100	NIFTY 100	20-Aug-13
Kotak AMC	Kotak Banking ETF	KOTAKBKETF	NIFTY Bank	04-Dec-14
SBI AMC	SBI ETF Banking	SETFBANK	NIFTY Bank	20-Mar-15
Motilal Oswal AMC	MOSt Shares M100	M100	NIFTY Midcap 100	31-Jan-11
SBI AMC	SBI ETF NIFTY Junior	SETFNIFJR	NIFTY Next 50	20-Mar-15
Kotak AMC	Kotak PSU Bank ETF	KOTAKPSUBK	NIFTY PSU BANK	08-Nov-07
ICICI Prudential AMC	ICICI SENSEX Prudential Exchange Traded Fund	ISENSEX	S&P BSE Sensex	10-Jan-03
UTI AMC	UTI Sensex ETF	UTISENSETF	S&P BSE Sensex	03-Sep-15
Reliance Nippon Life Asset Management Limited	Reliance ETF NIFTY BeES	NIFTYBEES	NIFTY 50 Index	28-Dec-01
Reliance Nippon Life Asset Management Limited	Reliance ETF NIFTY 100	RELCNX100	NIFTY 100	22-Mar-13
Reliance Nippon Life Asset Management Limited	Reliance ETF Bank BeES	BANKBEES	NIFTY Bank	27-May-04
Reliance Nippon Life Asset Management Limited	CPSE ETF	CPSEETF	NIFTY CPSE Index	28-Mar-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Dividend Opportunities	RELDIVOPP	NIFTY Dividend Opportunities 50	15-Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Consumption	RELCONS	NIFTY India Consumption	03-Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Infra BeES	INFRABEES	NIFTY Infrastructure	29-Sep-10
Reliance Nippon Life Asset Management Limited	Reliance ETF Junior BeES	JUNIORBEES	NIFTY Next 50	21-Feb-03
Reliance Nippon Life Asset Management Limited	Reliance ETF PSU Bank BeES	PSUBNKBEES	NIFTY PSU BANK	25-Oct-07

Issuer Name	Name	Symbol	Underlying	Launch Date
ICICI Prudential AMC	BHARAT 22 ETF	BHARATIWIN	S&P BSE BHARAT 22 index	28-Nov-17
List of Gold ETFs listed on NSE				
Axis Mutual Fund	Axis Gold ETF	AXISGOLD	Gold	Nov-10
Birla Sun Life Mutual Fund	Birla Sun Life Gold ETF	BSLGOLDETF	Gold	May-11
Canara Robeco MF	Canara Robeco Gold ETF	CANGOLD	Gold	Mar-12
HDFC Mutual Fund	HDFC Gold Exchange Traded Fund	HDFCMFGETF	Gold	Aug-10
ICICI Prudential Mutual Fund	ICICI Prudential Gold Exchange Traded Fund	IPGETF	Gold	Aug-10
IDBI AMC	IDBI Gold ETF	IDBIGOLD	Gold	Nov-11
Kotak Mutal Fund	Kotak Gold Exchange Traded Fund	KOTAKGOLD	Gold	Jul-07
Quantum Mutual Fund	Quantum Gold Fund (an ETF)	QGOLDHALF	Gold	Feb-08
Reliance Mutual Fund	Reliance Gold Exchange Traded Fund	RELGOLD	Gold	Nov-07
Religare Mutual Fund	Religare Gold Exchange Traded Fund	RELIGAREGO	Gold	Mar-10
SBI Mutual Fund	SBI Gold Exchange Traded Scheme	SBIGETS	Gold	Apr-09
UTI Mutual Fund	UTI GOLD Exchange Traded Fund	GOLDSHARE	Gold	Mar-07
Reliance Nippon Life Asset Management Limited	Reliance ETF Nifty BeES	NIFTYBEES	NIFTY 50 Index	Dec-01
Reliance Nippon Life Asset Management Limited	Reliance ETF Nifty 100	RELCNX100	NIFTY 100	Mar-13
Reliance Nippon Life Asset Management Limited	Reliance ETF Bank BeES	BANKBEES	NIFTY Bank	May-04
Reliance Nippon Life Asset Management Limited	CPSE ETF	CPSEETF	NIFTY CPSE Index	Mar-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Dividend Opportunities	RELDIVOPP	NIFTY Dividend Opportunities 50	Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Consumption	RELCONS	NIFTY India Consumption	Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Infra BeES	INFRABEES	NIFTY Infrastructure	Sep-10
Reliance Nippon Life Asset Management Limited	Reliance ETF Junior BeES	JUNIORBEES	NIFTY Next 50	Feb-03
Reliance Nippon Life Asset Management Limited	Reliance ETF PSU Bank BeES	PSUBNKBEES	NIFTY PSU BANK	Oct-07
Reliance Nippon Life Asset Management Limited	Reliance ETF Shariah BeES	SHARIABEES	NIFTY50 Shariah Index	Mar-09
Reliance Nippon Life Asset Management Limited	Reliance ETF NV20	RELNV20	NIFTY50 Value 20 Index	Jun-15
Reliance Nippon Life Asset Management Limited	Reliance ETF Hang Seng BeES	HNGSNGBEES	HangSeng	Mar-10
Reliance Nippon Life Asset Management Limited	Reliance ETF Liquid BeES	LIQUIDBEES	NIFTY 1 D rate Index	Jul-03
Reliance Nippon Life Asset Management Limited	Reliance ETF Long Term Gilt	RRSLGETF	NIFTY 4-8 yr G-Sec Index	Jul-16
Reliance Nippon Life Asset Management Limited	Reliance ETF Gold BeES	GOLDBEES	Gold	Mar-07
World Indices				
Motilal Oswal AMC	MOSt Shares NASDAQ 100	N100	Nasdaq 100	29-Mar-11
Reliance Nippon Life Asset Management Limited	Reliance ETF Nifty BeES	NIFTYBEES	NIFTY 50 Index	Dec-01
Reliance Nippon Life Asset Management Limited	Reliance ETF Nifty 100	RELCNX100	NIFTY 100	Mar-13
Reliance Nippon Life Asset Management Limited	Reliance ETF Bank BeES	BANKBEES	NIFTY Bank	May-04
Reliance Nippon Life Asset Management Limited	CPSE ETF	CPSEETF	NIFTY CPSE Index	Mar-14

Issuer Name	Name	Symbol	Underlying	Launch Date
Reliance Nippon Life Asset Management Limited	Reliance ETF Dividend Opportunities	RELDIVOPP	NIFTY Dividend Opportunities 50	Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Consumption	RELCONS	NIFTY India Consumption	Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Infra BeES	INFRABEES	NIFTY Infrastructure	Sep-10
Reliance Nippon Life Asset Management Limited	Reliance ETF Junior BeES	JUNIORBEES	NIFTY Next 50	Feb-03
Reliance Nippon Life Asset Management Limited	Reliance ETF PSU Bank BeES	PSUBNKBEES	NIFTY PSU BANK	Oct-07
Reliance Nippon Life Asset Management Limited	Reliance ETF Shariah BeES	SHARIABEES	NIFTY50 Shariah Index	Mar-09
Reliance Nippon Life Asset Management Limited	Reliance ETF NV20	RELNV20	NIFTY50 Value 20 Index	Jun-15
Reliance Nippon Life Asset Management Limited	Reliance ETF Hang Seng BeES	HNGSNGBEES	HangSeng	Mar-10
Reliance Nippon Life Asset Management Limited	Reliance ETF Liquid BeES	LIQUIDBEES	NIFTY 1 D rate Index	Jul-03
Reliance Nippon Life Asset Management Limited	Reliance ETF Long Term Gilt	RRSLGETF	NIFTY 4-8 yr G-Sec Index	Jul-16
Reliance Nippon Life Asset Management Limited	Reliance ETF Gold BeES	GOLDBEES	Gold	Mar-07
List of Debt ETFs listed on NSE				
LIC Nomura AMC	LIC Nomura MF G-Sec Long Term ETF - Reg - Growth	LICNMFET	Nifty 8-13 yr G-Sec Index	26-Dec-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Nifty BeES	NIFTYBEES	NIFTY 50 Index	Dec-01
Reliance Nippon Life Asset Management Limited	Reliance ETF Nifty 100	RELCNX100	NIFTY 100	Mar-13
Reliance Nippon Life Asset Management Limited	Reliance ETF Bank BeES	BANKBEES	NIFTY Bank	May-04
Reliance Nippon Life Asset Management Limited	CPSE ETF	CPSEETF	NIFTY CPSE Index	Mar-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Dividend Opportunities	RELDIVOPP	NIFTY Dividend Opportunities 50	Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Consumption	RELCONS	NIFTY India Consumption	Apr-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Infra BeES	INFRABEES	NIFTY Infrastructure	Sep-10
Reliance Nippon Life Asset Management Limited	Reliance ETF Junior BeES	JUNIORBEES	NIFTY Next 50	Feb-03
Reliance Nippon Life Asset Management Limited	Reliance ETF PSU Bank BeES	PSUBNKBEES	NIFTY PSU BANK	Oct-07
Reliance Nippon Life Asset Management Limited	Reliance ETF Shariah BeES	SHARIABEES	NIFTY50 Shariah Index	Mar-09
Reliance Nippon Life Asset Management Limited	Reliance ETF NV20	RELNV20	NIFTY50 Value 20 Index	Jun-15
Reliance Nippon Life Asset Management Limited	Reliance ETF Hang Seng BeES	HNGSNGBEES	HangSeng	Mar-10
Reliance Nippon Life Asset Management Limited	Reliance ETF Liquid BeES	LIQUIDBEES	NIFTY 1 D rate Index	Jul-03
Reliance Nippon Life Asset Management Limited	Reliance ETF Long Term Gilt	RRSLGETF	NIFTY 4-8 yr G-Sec Index	Jul-16
Reliance Nippon Life Asset Management Limited	Reliance ETF Gold BeES	GOLDBEES	Gold	Mar-07

Source: NSE Website, as on 26 Feb 2019.

4. Secondary Market

4.1 Introduction

The secondary market is where securities are traded after they are initially offered to the public in the primary market and/or are listed on the stock exchange. Stock exchanges, along with a host of other intermediaries, provide the platform for trading in the secondary market, and also for clearing and settlement. Securities are traded, cleared, and settled within the regulatory framework prescribed by the exchanges and the regulator SEBI. NSE has laid down rules and guidelines for various intermediaries with regard to the admission and fee structure for trading members, listing criteria, and the listing fees for companies. With the increased adoption of information technology, the trading platforms of stock exchanges are accessible from anywhere in the country through their trading terminals. In a vast country like India, this has significantly expanded the reach of the stock exchanges. The secondary market is composed of equity markets and debt markets. This chapter focuses on equity markets and Chapter 5 deals with debt markets.

4.2 Turnover and Market Capitalisation: Growth

Table 4.1 depicts the capital market turnover for various stock exchanges in India. Evidently, NSE and BSE are the only stock exchanges that registered significant trading volumes in 2017-18. Moreover, NSE positioned itself as the market leader by contributing 87% of total turnover in India in 2017–18. The share of total turnover on NSE increased further in Apr-Dec'18 to 91%. Since its inception in 1994, NSE has emerged as the favoured exchange among trading members.

Table 4.1: Capital Market Market Turnover on Stock Exchanges in India

Stock Exchanges		Capital Market Turnover						Share in Turnover		
		2016-17		2017-18		2018-19*		2016-17	2017-18	2018-19*
		(Rsbn)	(US$bn)	(Rsbn)	(US$bn)	(Rsbn)	(US$bn)	(percent)		
1	NSE	50,559	776	72,348	1,123	59,466	923	83.5	87.0	91.1
2	BSE	9,983	153	10,830	168	5,826	90	16.5	13.0	8.9
4	MSEI	2	0	2	0	0	0	0.0	0.0	0.0
	Total	60,544	929	83,180	1,291	65,293	1,013	100.0	100.0	100.0

Source: BSE, NSE, SEBI.
Note: *till December 2018.

The trends in total turnover, average daily turnover and market capitalisation on NSE and BSE from 2014–15 to Apr-Dec'18 have been illustrated in Table 4.2. Total turnover on NSE has persistently increased during the period except in 2015-16, albeit not a very sharp one. In 2017-18, average daily turnover on NSE stood at Rs294.1bn, which marked a significant increase of 44% compared to Rs203.9bn in 2016–17. The trend is continued in Apr-Dec'18 as well; average daily turnover on NSE increased further to Rs 319.7bn. The average daily turnover on BSE increased from Rs40bn in 2016-17 to Rs44bn in 2017-18. Then, it declined to Rs31bn during Apr-Dec'18 due to investors' preference towards NSE compare to BSE.

Table 4.2: Stock Market Indicators--Monthly trends in the turnover of NSE and BSE

Month	Turnover				Average Daily Turnover				Market Capitalisation (end of period)			
	NSE		BSE		NSE		BSE		NSE		BSE	
	(Rsbn)	(US$bn)	(Rsbn)	(US$bn)	(Rsbn)	(US$bn)	(Rsbn)	(US$bn)	(Rsbn)	(US$bn)	(Rsbn)	(US$bn)
2014-15	43,297	703.3	8,548	138.9	178	2.9	35	0.6	99,301	1,613	101,493	1,649
2015-16	42,370	648.1	7,401	113.2	172	2.6	30	0.0	93,105	1,404	94,753	1,428
2016-17	**50,559**	**775.1**	**9,983**	**153.3**	**204**	**3.1**	**40**	**0.6**	**119,784**	**1,836**	**121,545**	**1,867**
Apr-17	4,721	72.4	751	11.5	262	4.0	42	0.6	123,039	1,886	124,850	1,918
May-17	5,885	90.2	911	14.0	268	4.1	41	0.6	124,168	1,904	125,801	1,932
Jun-17	4,863	74.6	859	13.2	232	3.6	41	0.6	124,301	1,906	125,968	1,935
Jul-17	5,439	83.4	884	13.6	259	4.0	42	0.6	131,214	2,012	132,622	2,037
Aug-17	5,538	84.9	791	12.1	264	4.0	38	0.6	130,552	2,001	131,898	2,026
Sep-17	6,001	92.0	843	13.0	286	4.4	40	0.6	130,457	2,000	131,814	2,024
Oct-17	6,075	94.3	780	12.1	304	4.7	39	0.6	142,086	2,205	143,915	2,233
Nov-17	7,352	114.1	1,227	19.0	334	5.2	56	0.9	143,925	2,233	145,967	2,265
Dec-17	5,980	92.8	957	14.8	299	4.6	48	0.7	149,823	2,325	151,739	2,354
Jan-18	8,148	126.4	1,225	19.0	370	5.7	56	0.9	151,405	2,349	153,210	2,377
Feb-18	6,397	99.3	818	12.7	337	5.2	43	0.7	145,641	2,260	147,656	2,291
Mar-18	5,949	92.3	784	12.2	313	4.9	41	0.6	140,442	2,179	142,250	2,207
2017-18	**72,348**	**1,122.5**	**10,830**	**168.0**	**294**	**4.6**	**44**	**0.7**	**140,442**	**2,179**	**142,250**	**2,207**
Apr-18	6,414	99.5	716	11.1	305	4.7	34	0.5	150,920	2,342	152,795	2,371
May-18	7,000	108.6	754	11.7	318	4.9	34	0.5	146,933	2,280	148,697	2,307
Jun-18	5,917	91.8	642	10.0	282	4.4	31	0.5	143,291	2,223	145,019	2,250
Jul-18	6,629	102.8	652	10.1	301	4.7	30	0.5	151,284	2,347	153,146	2,376
Aug-18	7,059	109.5	679	10.5	336	5.2	32	0.5	157,309	2,441	159,347	2,472
Sep-18	6,883	106.8	625	9.7	382	5.9	35	0.5	142,923	2,218	144,864	2,248
Oct-18	7,456	115.7	664	10.3	355	5.5	32	0.5	136,938	2,125	138,451	2,148
Nov-18	6,109	94.8	591	9.2	305	4.7	30	0.5	141,225	2,191	142,888	2,217
Dec-18	5,999	93.1	505	7.8	300	4.7	25	0.4	142,791	2,216	144,485	2,242
Apr-Dec'18	**59,466**	**922.7**	**5,826**	**90.4**	**320**	**5.0**	**31**	**0.5**	**142,791**	**2,216**	**144,485**	**2,242**

Source: BSE, NSE, SEBI.

NSE has been successful in creating a niche for itself not only in the national arena but also in international markets. According to the statistics of the World Federation of Exchanges (WFE), NSE ranked first in terms of number of trades in the equity segment with 1,449.2mn trades at the end of December 2013. NSE retained its top position in the first half of 2014 as well, with 1,298.3mn trades in January–September 2014. However, as of end September 2015, NSE had slipped by two notches to the third position in terms of trades in equity shares. NSE again improved to second spot in December 2018, marginally below Shenzhen Stock Exchange. The trade details of the top-ranked stock exchanges in terms of total number of trades in 2018 are presented in Table 4.3.

Table 4.3: Total Number of Trades in Equity Shares - Electronic order book trades (mn)

Exchange	2016	2017	2018
Shenzhen Stock Exchange	3,624	3,067	3,045
National Stock Exchange of India Limited	1,925	2,312	2,829
BATS Global Markets	2,608	2,172	2,492
Korea Exchange	1,846	1,959	2,400
Shanghai Stock Exchange	2,396	2,402	2,243

Source: WFE Reports.

4.3 Market Movements

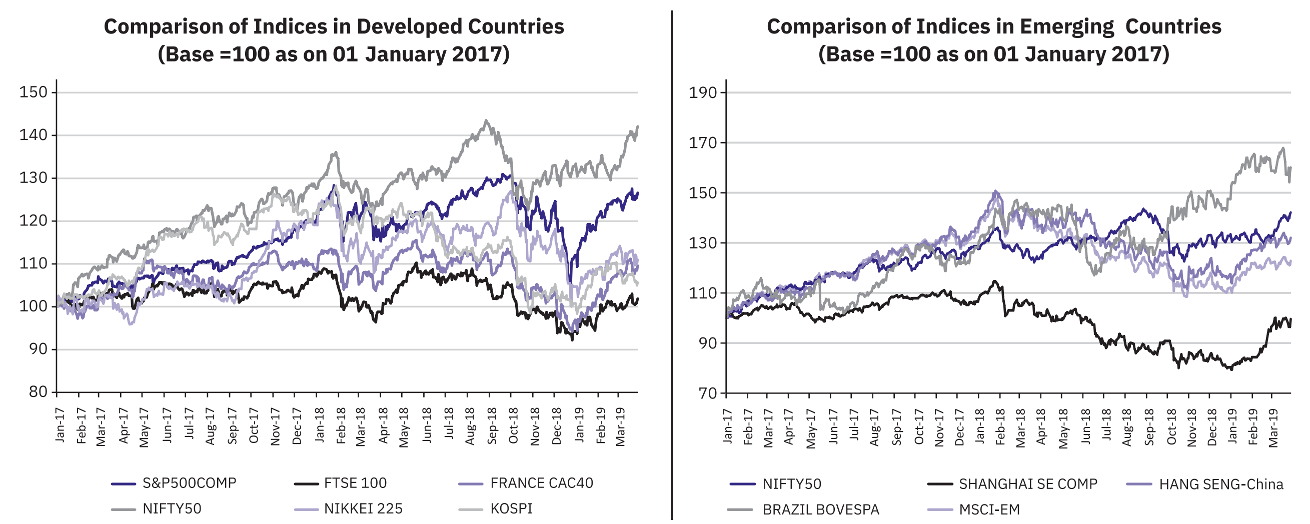
Table 4.4 shows the trends of selected indices witnessed in the Indian and foreign stock markets during 2016-18. In 2017–18, all these major indices except DAX- Germany witnessed positive growth rates on y-o-y basis. Notably, Hang Seng- Hong Kong (China) Index increased remarkably by 37.5% during the period followed by Nasdaq Composite (29.5%), Nifty 50 (29.2%) and BSE Sensex (28.9%). However, the return has deteriorated in 2018–19 (as on December 2018) across all regions given the turmoil in the global economy. For instance, Shanghai SE Composite declined by 20% between March 2018 and December 2018 partly due to the ongoing trade dispute between China and the US. In Germany, DAX Index dropped by 12.7% partly due to downward revision in the growth forecast. On the positive side, Nasdaq Composite and S&P 500 are still experiencing positive growth during Mar-Dec'18.

Table 4.4: Movement of Select Indices in Indian & Foreign Markets

Region	Index - Country	End March 2016	End March 2017	End March 2018	End Dec 2018	Change during 2015-16 (%)	Change during 2016-17 (%)	Change during 2017-18 (%)	Change during Apr-Dec'18 (%)
Americas	S&P 500	1,922	2,269	2,751	2,880	-6.0	18.0	21.3	4.7
	Dow Jones	17,685	20,663	24,103	23,327	-0.5	16.8	16.6	-3.2
	Nasdaq Composite	4,644	5,532	7,164	7,738	-1.3	19.1	29.5	8.0
Europe	FTSE 100- UK	5,912	7,238	7,731	7,238	-9.1	22.4	6.8	-6.4
	DAX- Germany	9,966	12,313	12,097	10,559	-16.7	23.6	-1.8	-12.7
	CAC 40 - France	4,334	4,888	5,524	5,319	3.7	12.8	13.0	-3.7
Asia Pacific	Nifty 50	7,601	8,236	10,637	10,301	-8.2	8.3	29.2	-3.2
	BSE Sensex- India	24,934	26,727	34,443	34,299	-9.2	7.2	28.9	-0.4
	Shanghai SE Composite	3,186	3,171	3,414	2,721	-3.0	-0.5	7.7	-20.3
	Hang Seng- Hong Kong (China)	20,454	22,559	31,011	26,173	-14.5	10.3	37.5	-15.6
	Nikkei 225- Japan	17,698	19,454	23,850	23,469	2.9	9.9	22.6	-1.6

Source: Thomson Reuters.

Chart 4.1: Movement of NIFTY and Other Major Indices (Base =100 as of Jan 2017)



Source: Thomson Reuters.

Table 4.5: Stock Market Index, Volatility and P/E Ratio: April '16 to Dec '18

Month/Year	Nifty 50			Sensex		
	Index*	Volatility (%)**	P/E Ratio*	Index*	Volatility (%)**	P/E Ratio*
Apr-16	7,850	1.0	21.2	25,607	1.0	19.3
May-16	8,160	0.9	22.6	26,668	1.0	19.0
Jun-16	8,288	0.8	22.8	27,000	0.8	19.5
Jul-16	8,639	0.6	23.6	28,052	0.6	20.3
Aug-16	8,786	0.7	24.1	28,452	0.7	20.6
Sep-16	8,611	0.8	23.4	27,866	0.8	21.2
Oct-16	8,626	0.6	23.3	27,930	0.7	21.1
Nov-16	8,225	1.1	21.6	26,653	1.1	20.6
Dec-16	8,186	0.8	21.9	26,626	0.8	20.6
Jan-17	8,561	0.6	22.9	27,656	0.6	21.2
Feb-17	8,880	0.4	23.1	28,743	0.5	21.9
Mar-17	9,174	0.6	23.8	29,621	0.6	22.4
Apr-17	9,304	0.5	23.6	29,918	0.6	22.6
May-17	9,621	0.6	24.4	31,146	0.6	22.7
Jun-17	9,521	0.3	24.2	30,922	0.3	22.7
Jul-17	10,077	0.4	25.7	32,515	0.5	23.4
Aug-17	9,918	0.7	25.6	31,730	0.7	23.8
Sep-17	9,789	0.6	25.4	31,284	0.6	23.8
Oct-17	10,335	0.5	26.4	33,213	0.5	24.2
Nov-17	10,227	0.5	26.2	33,149	0.6	24.6
Dec-17	10,531	0.5	26.9	34,057	0.6	24.7

Month/Year	Nifty 50			Sensex		
	Index*	Volatility (%)**	P/E Ratio*	Index*	Volatility (%)**	P/E Ratio*
Jan-18	11,028	0.5	27.5	35,965	0.5	25.7
Feb-18	10,493	0.9	25.7	34,184	0.9	24.0
Mar-18	10,114	0.9	24.7	32,969	0.9	23.0
Apr-18	10,739	0.6	26.7	35,160	0.5	23.4
May-18	10,736	0.6	27.2	35,322	0.6	23.4
Jun-18	10,714	0.6	25.9	35,423	0.6	22.9
Jul-18	11,357	0.5	28.2	37,607	0.4	23.1
Aug-18	11,681	0.5	28.4	38,645	0.6	24.5
Sep-18	10,930	0.8	26.4	36,227	0.8	24.1
Oct-18	10,387	1.4	25.0	34,442	1.4	22.2
Nov-18	10,877	0.7	26.3	36,194	0.7	23.0
Dec-18	10,863	0.9	26.2	36,068	1.0	23.5

Source: BSE, NSE and SEBI.
Note: *As on the last trading day of the month.
**Volatility is calculated as the standard deviation of the natural log of daily returns in indices for the respective period.

4.4 Returns in Indian Markets

The performance of Nifty 50 and various other indices for last 1 month to 10 years (as at the end of March 2018 and December 2018) is presented in Table 4.6. All the indices, viz. Nifty 50, Nifty Next 50, Nifty Midcap 100, Nifty Smallcap 100 and Nifty 500, showed positive returns over last 6-months to 10-years horizon for the period ending March 2018. But in the short term the scenario is quite different. In previous 1-month and 3-month horizon, returns were negative as of March 2018 for all major indices. At the end of March 2019, returns turned positive over 1-month to 10 year horizon across all segments except 1-year horizon. The overall trend shows, long term investors were able to maintain higher returns compare to the short term investors.

Table 4.6: Performance of Select Indices - NSE

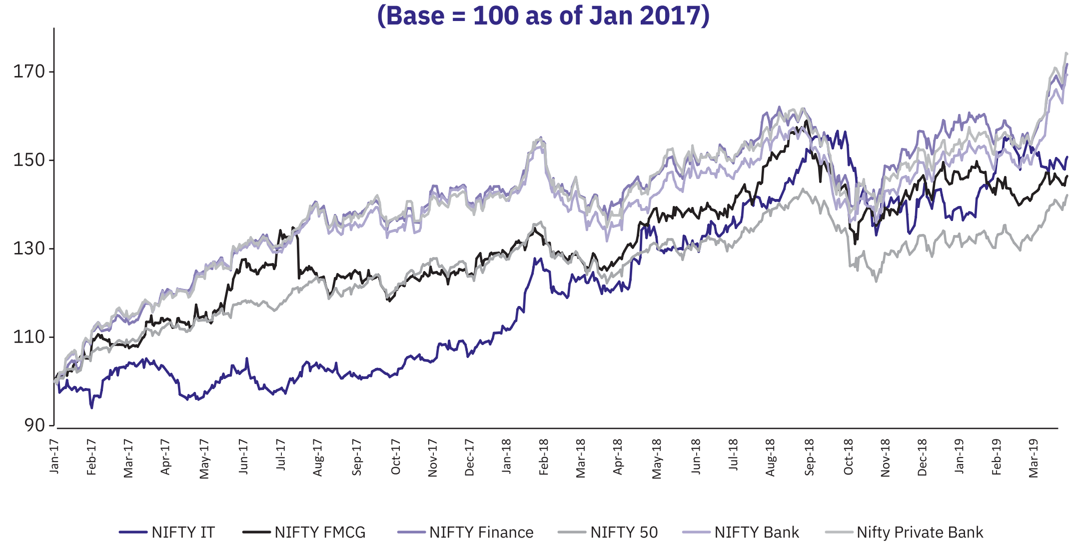
End of March-2018 (%)							
	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Nifty 50	-3.61	-3.96	3.32	10.25	6.00	12.22	7.89
Nifty Next 50	-2.92	-7.81	3.58	13.64	13.66	20.53	13.60
NIFTY Midcap 100	-4.62	-11.25	3.58	9.07	13.00	20.44	11.63
NIFTY Smallcap 100 Index	-6.76	-14.31	2.74	11.56	11.49	19.98	7.53
Nifty 500	-3.78	-6.10	3.63	11.47	8.50	14.96	8.82
End of December-2018 (%)							
	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Nifty 50	-0.13	-0.62	1.38	3.15	10.98	11.50	13.89
Nifty Next 50	2.12	3.27	-0.4	-9.00	12.15	16.85	19.99
NIFTY Midcap 100	2.12	4.20	-1.68	-15.42	10.09	17.24	16.95
NIFTY Smallcap 100 Index	3.75	4.85	-10.15	-29.08	4.49	13.64	14.37
Nifty 500	0.67	0.59	0.08	-3.38	10.89	13.28	14.85

End of March-2019 (%)							
	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Nifty 50	7.70	7.01	6.34	14.93	14.52	11.64	14.42
Nifty Next 50	6.67	0.37	3.65	-0.92	14.67	15.99	20.63
NIFTY Midcap 100	9.19	2.14	6.44	-2.66	12.71	16.22	18.28
NIFTY Smallcap 100 Index	12.44	3.46	8.48	-14.37	10.95	12.56	15.51
Nifty 500	7.90	5.38	6.01	8.43	14.41	13.09	15.46

Source: NSE.

The comparative performance of five major sectoral indices—Nifty Financial Services, Nifty Bank, Nifty Private Bank, Nifty IT and Nifty FMCG—with NIFTY 50 Index for period April 2017–March 2019 is depicted in Chart 4.2. As of March 2019, Nifty Private Bank registered highest return with 26.5% growth on y-o-y basis, followed by Nifty Bank with 25.4% and Nifty IT with 24.9% y-o-y growth (Table 4.7). The volatility across different sectoral indices for the period April 2017–March 2019 varied widely, as shown in Table 4.7.

Chart 4.2: Movement of Nifty 50 and Top 5 Sectoral Indices (Base = 100 as of Jan 2017)



Source: NSE.

Table 4.7: Performance of Top 5 Sectoral Indices of NSE (Based on Market Capitalisation at the end of Mar 2019)

Month/ Year	YOY Growth (%)						Average Daily Volatility (%)					
	Nifty 50	Nifty Financial Services	Nifty Bank	Nifty Private Bank	Nifty IT	Nifty FMCG	Nifty 50	Nifty Financial Services	Nifty Bank	Nifty Private Bank	Nifty IT	Nifty FMCG
Jan-17	13.19	21.66	25.72	24.12	-12.35	14.11	0.60	1.01	0.92	0.95	1.14	0.77
Feb-17	27.09	41.92	47.76	45.66	3.92	21.86	0.53	0.78	0.60	0.66	1.06	0.87
Mar-17	18.55	32.75	32.85	29.89	-5.36	19.12	0.57	0.76	0.72	0.73	0.72	0.91
Apr-17	18.53	34.82	33.12	29.49	-11.19	19.95	0.51	0.62	0.57	0.59	0.83	1.02
May-17	17.91	32.21	32.94	30.11	-7.43	25.92	0.57	0.74	0.86	0.88	0.83	1.23
Jun-17	14.88	29.69	29.42	28.09	-8.68	23.80	0.34	0.51	0.54	0.51	0.92	0.82
Jul-17	16.65	31.02	32.45	29.97	-1.44	15.82	0.45	0.47	0.44	0.43	0.98	1.87
Aug-17	12.88	24.07	22.90	22.75	0.12	14.27	0.71	0.82	0.80	0.76	0.77	0.82
Sep-17	13.67	24.98	24.72	26.32	1.78	13.64	0.62	0.65	0.72	0.75	0.42	0.73
Oct-17	19.82	27.26	28.15	26.26	7.49	19.58	0.47	0.64	0.99	0.71	0.53	0.58
Nov-17	24.34	36.01	35.99	35.34	10.19	26.03	0.57	0.79	0.64	0.56	0.82	0.67
Dec-17	28.65	41.42	40.50	40.79	12.18	29.38	0.61	0.66	0.63	0.64	0.72	0.77
Jan-18	28.81	42.24	40.30	41.52	31.86	24.25	0.48	0.73	0.56	0.64	1.14	0.65
Feb-18	18.17	25.97	21.84	24.42	19.92	18.69	0.87	1.15	1.12	1.20	1.06	0.66
Mar-18	10.25	16.87	13.15	15.97	16.89	10.98	0.88	1.08	1.09	1.02	0.90	0.87
Apr-18	15.43	17.76	14.19	18.56	40.65	21.53	0.55	0.79	0.88	0.91	1.52	0.64
May-18	11.59	17.05	15.08	17.04	29.55	11.50	0.63	0.80	0.85	0.86	0.90	0.81
Jun-18	12.53	15.93	13.58	15.17	37.76	8.28	0.59	0.71	0.60	0.57	0.94	0.76
Jul-18	12.70	13.57	10.60	12.11	35.63	20.44	0.45	0.63	0.60	0.59	0.81	0.87
Aug-18	17.77	16.05	15.39	16.84	49.75	27.39	0.53	0.78	0.76	0.77	0.74	0.64
Sep-18	11.67	6.42	4.44	4.29	51.19	21.56	0.81	1.27	1.10	1.21	0.99	1.40
Oct-18	0.50	3.95	0.54	2.88	37.85	11.13	1.44	1.65	1.39	1.47	2.00	1.39
Nov-18	6.36	10.79	6.04	8.81	31.69	16.68	0.70	0.77	0.75	0.77	1.49	0.94
Dec-18	3.15	10.60	6.35	8.15	23.78	13.65	0.95	1.04	0.93	1.05	1.09	1.01
Jan-19	-1.78	1.72	-0.31	1.21	19.35	9.85	0.70	0.78	0.75	0.80	0.84	0.69
Feb-19	2.86	7.55	6.70	7.61	22.82	10.37	0.61	0.62	0.55	0.56	1.04	0.61
Mar-19	14.93	22.89	25.40	26.50	24.91	16.05	0.61	0.76	0.85	0.89	0.85	0.68

Source: NSE.

4.5 Liquidity

There is a gradual increase in the percentage of companies traded to all listed companies in the NSE platform. In April 2016 only 86% NSE listed companies were traded which has increased significantly to 96.5% in December 2018 (Table 4.8). But liquidity—number of trading days in a particular financial year—is getting concentrated for fewer companies over time. The share of companies that traded for more than 100 days declined from 91.0% in 2016-17 to 88.5% in 2017-18 (Table 4.9). Notably, of the total 1,954 stocks that were traded on the NSE platform in 2017-18, 7.2% witnessed trading for less than 51 days, which is significantly greater than 6.3% reported in previous financial year.

Table 4.8: Trading Frequency on NSE

Month/Year	NSE		
	No. of Companies Listed	Companies Traded	Percent of Traded to Listed
Apr-16	1,806	1,561	86.4
May-16	1,811	1,566	86.5
Jun-16	1,822	1,575	86.4
Jul-16	1,839	1,592	86.6
Aug-16	1,831	1,598	87.3
Sep-16	1,822	1,608	88.3
Oct-16	1,836	1,621	88.3
Nov-16	1,833	1,621	88.4
Dec-16	1,840	1,629	88.5
Jan-17	1,847	1,641	88.8
Feb-17	1,850	1,648	89.1
Mar-17	1,817	1,665	91.6
Apr-17	1,831	1,668	91.1
May-17	1,814	1,669	92.0
Jun-17	1,820	1,666	91.5
Jul-17	1,837	1,685	91.7
Aug-17	1,848	1,692	91.6
Sep-17	1,851	1,690	91.3
Oct-17	1,873	1,712	91.4
Nov-17	1,885	1,731	91.8
Dec-17	1,897	1,750	92.3
Jan-18	1,906	1,772	93.0
Feb-18	1,916	1,781	93.0
Mar-18	1,931	1,788	92.6
Apr-18	1,952	1,817	93.1
May-18	1,941	1,820	93.8
Jun-18	1,951	1,833	94.0
Jul-18	1,938	1,840	94.9
Aug-18	1,916	1,841	96.1
Sep-18	1,912	1,847	96.6
Oct-18	1,921	1,854	96.5
Nov-18	1,922	1,850	96.3
Dec-18	1,923	1,856	96.5

Source: SEBI.

Table 4.9: Trading Frequency of Listed Stocks

Trading Frequency (Range of Days)	2015-16		2016-17		2017-18	
	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total
Above 100	1,554	91.20	1,634	90.98	1,730	88.54
91-100	9	0.53	9	0.50	22	1.13
71-80	15	0.88	11	0.61	10	0.51
61-70	6	0.35	14	0.78	20	1.02
51-60	6	0.35	6	0.33	14	0.72
41-50	9	0.53	14	0.78	16	0.82
31-40	10	0.59	11	0.61	17	0.87
21-30	8	0.47	11	0.61	21	1.07
11-20	14	0.82	14	0.78	21	1.07
1-10	61	3.58	63	3.51	65	3.33
Total	1,703	100.0	1,796	100.0	1,954	100.0

Source: NSE.

4.6 Takeovers

In 2017–18, there were 50 takeovers under the open category, involving Rs17.7bn (US$0.3bn), compared to 52 takeovers involving Rs59.3bn (US$0.9bn) in the preceding year (2016–17) (Table 4.10). The trend has reversed in 2018-19 with 58 takeovers involving Rs90.4bn (US$1.4bn) as of December 2018.

Table 4.10: Substantial Acquisition of Shares and Takeovers

Year	Open Offers								
	Objectives						Total		
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition				
	Number	Value (Rsmn)	Number	Value (Rsmn)	Number	Value (Rsmn)	Number	Value (Rsmn)	Value (US$mn)
2011-12	57	187,260	8	2,860	6	2,940	71	193,060	3,774
2012-13	14	8,360	38	84,190	27	29,040	79	121,590	2,237
2013-14	59	77,210	10	376,440	6	460	75	454,110	7,576
2014-15	51	54,418	1	114,489	8	3,503	60	172,410	2,819
2015-16	61	68,684	6	28,473	6	20,503	73	117,660	1,774
2016-17	**43**	**53,400**	**6**	**2,190**	**3**	**3,660**	**52**	**59,250**	**910**
2017-18	**43**	**15,101**	**3**	**383**	**4**	**2,209**	**50**	**17,692**	**275**
Apr-18	13	8,729	1	71	1	9,346	15	18,146	282
May-18	7	4,607	-	-	1	28	8	4,635	72
Jun-18	7	324	2	9,272	-	-	9	9,597	149
Jul-18	6	122	1	37,020	-	-	7	37,142	576
Aug-18	-	-	-	-	1	22	1	22	0
Sep-18	3	13,189	-	-	-	-	3	13,189	205
Oct-18	2	706	-	-	-	-	2	706	11
Nov-18	4	6,510	-	-	-	-	4	6,510	101
Dec-18	9	434	-	-	-	-	9	434	7
Apr-Dec '18	**51**	**34,621**	**4**	**46,363**	**3**	**9,396**	**58**	**90,380**	**1,402**

Source: SEBI.

Appendix

Table 4a.1: Business Growth of Cash Market Segment of NSE

Month/Year	No. of Trading Days	No. of Companies Traded	No. of Trades (mn)	Traded Quantity (bn)	Average Daily Turnover (Rsbn)	Demat Turnover (Rsbn)	Market Capitalisation (Rsbn)*
2011-12	249	1,551	1,438	162	113	28,109	60,965
Apr-12	20	1,529	100	12	99	1,983	60,593
2012-13	250	1,542	1,361	166	108	27,083	62,390
2013-14	251	1,586	1,443	153	112	28,085	72,777
2014-15	243	1,514	1,833	236	178	43,297	99,301
2015-16	247	1,613	1,852	220	172	42,370	93,105
2016-17	**248**	**1,698**	**1,976**	**262**	**204**	**50,559**	**119,784**
Apr-17	18	1,668	167	25	262	4,721	123,039
May-17	22	1,669	209	30	268	5,885	124,168
Jun-17	21	1,666	180	25	232	4,863	124,301
Jul-17	21	1,685	184	32	259	5,439	131,214
Aug-17	21	1,692	191	28	264	5,538	130,552
Sep-17	21	1,690	207	30	286	6,001	130,457
Oct-17	20	1,712	201	29	304	6,075	142,086
Nov-17	22	1,731	250	36	334	7,352	143,925
Dec-17	20	1,750	210	35	299	5,980	149,823
Jan-18	22	1,772	269	47	370	8,148	151,405
Feb-18	19	1,781	220	30	337	6,397	145,641
Mar-18	19	1,788	202	31	313	5,949	140,442
2017-18	**246**	**1,820**	**2,491**	**377**	**294**	**72,348**	**140,442**
Apr-18	21	1,817	218	30	305	6,414	150,920
May-18	22	1,820	247	34	318	7,000	146,933
Jun-18	21	1,833	223	28	282	5,917	143,291
Jul-18	22	1,840	235	31	301	6,629	151,284
Aug-18	21	1,841	241	33	336	7,059	157,309
Sep-18	18	1,847	241	30	382	6,883	142,923
Oct-18	21	1,854	289	33	355	7,456	136,938
Nov-18	20	1,850	230	28	305	6,109	141,225
Dec-18	20	1,856	220	29	300	5,999	142,791
Apr-Dec '18	**186**	**1,905**	**2,143**	**277**	**320**	**59,466**	**142,791**

Source: SEBI Bulletin.
Note: *At the end of the period.

5. Debt Market

5.1 Introduction[1]

The debt market in India consists of mainly two categories—the corporate bond market and the government securities (G-sec) market comprising central government and state government securities. Financial institutions (FI), public sector units (PSU) and the non-financial private sector raise debt capital in the corporate bond market (also known as the non-G-sec market) by issuing bonds/debentures. In order to finance its fiscal deficit, the government floats fixed income instruments and borrows money by issuing G-secs, which are sovereign securities issued by the Reserve Bank of India (RBI) on behalf of the Government of India.

The G-sec market forms the major part of debt market in terms of outstanding issues, market capitalisation and trading value. It sets a benchmark for the rest of the market. The market for debt derivatives have not yet developed appreciably, although a market for over-the-counter (OTC) derivatives in interest rate products exist.

It has been well recognized that a well-developed corporate bond market complements a sound banking system in providing an alternative source of finance to the real sector for its long-term investment needs. An active corporate bond market also helps in the diversification of risks in the financial system. In order to enable public and private sector firms to borrow for longer maturity periods in local currency to meet their investment needs and avoid balance sheet mismatches and foreign currency exposures, there is a need to accelerate the development of local currency bond market. An active corporate bond market could also provide institutional investors such as insurance companies and provident and pension funds with quality long term financial assets, helping them in matching their assets and liabilities (Report of the Working Group on Development of Corporate Bond Market in India, August 2016).[2]

5.2 Resource Mobilisation

In 2017–18, the government and the corporate sector collectively mobilised Rs19.1tn (US$288bn) from the primary debt market, year-on-year increase of 2% (Table 5.1). Also, there was an increase in the share of government borrowings out of the total borrowings. About 61% of the resources were raised by the government (the central and the state governments), while the balance was mobilised by the corporate sector through public and private placement issues. The corporate sector witnessed a decrease of 2% in primary market borrowings. The turnover in the secondary debt market in 2017–18 aggregated Rs222tn (US$3.3tn) which is around 17% lower than the previous year.

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1 This chapter discusses the market design and outcomes in the government securities market, in both the primary and secondary segments. The data available for the secondary market for corporate debt securities is limited. Wherever possible, the developments in the secondary market for corporate debt are also covered in this chapter. The developments in the primary corporate debt market are discussed in Chapter 2.

2 https://www.sebi.gov.in/sebi_data/attachdocs/1471519221779.pdf

Table 5.1: Debt Market: Selected Indicators

Issuer / Securities	Amount raised from Primary Market* (Rsbn)			Turnover in Secondary Market (Rsbn)			Amount raised form Primary Market (US$bn)			Turnover in Secondary Market (US$bn)		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Government	10,336	11,065	11,668	151,681	251,988	204,037	156	167	176	2,287	3,799	3,076
Corporate/Non Government	5,428	7,634	7,446	10,224	14,707	17,977	82	115	112	154	222	271
Total	**15,764**	**18,699**	**19,114**	**161,905**	**266,695**	**222,014**	**238**	**282**	**288**	**2,441**	**4,021**	**3,347**

Source: BSE, Primedatabase, RBI and NSE.
Note: *Amount Raised from primary market for corporate sector includes public issues and private placement issues.

5.2.1 Government

The net borrowings of the central and the state governments rose by 9%, from Rs7.4tn in 2016–17 to Rs8.1tn in 2017–18. While there was a 1% decline in the net borrowings of the state government, 17% increase in the net borrowing of the central governments was sufficient to offset the decline.

Table 5.2: Net Market Borrowing of Central and State Governments

Type of Government	2014-15 (Rsbn)	2014-15 (US$bn)	2015-16 (Rsbn)	2015-16 (US$bn)	2016-17 (Rsbn)	2016-17 (US$bn)	2017-18 (Rsbn)	2017-18 (US$bn)
Central	4,654	70	4,455	67	3,967	60	4,656	72
State	2,075	31	2,594	39	3,427	52	3,403	53
Total	6,729	101	7,049	106	7,393	111	8,059	125

Source: RBI.

5.2.2 Corporates

Private placement mechanism dominates the resource mobilisation through corporate bonds. The trend of resource mobilisation through private placement is shown in Table 5.3. Resource mobilisation through the private placement and public issues decreased by 6% and 82% in 2017–18 as compared to the previous year (Table 5.3a).

Table 5.3a: Private Placement of Corporate Bonds

Year/ Month	NSE		BSE		Common		Total	
	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)
2012-13	1,295	2,061.9	1,094	724.7	100	828.0	2,489	3,614.6
2013-14	837	1,407.1	997	788.1	90	565.4	1,924	2,760.5
2014-15	1,094	1,697.3	1,386	1,179.5	131	1,164.6	2,611	4,041.4
2015-16	1,198	2,066.8	1,619	1,522.8	158	991.2	2,975	4,580.7
2016-17	1,023	2,197.2	2,177	2,542.1	177	1,667.8	3,377	6,407.2
2017-18	721	1,708.3	1,809	2,346.1	173	1,937.0	2,706	5,991.5
Apr-18	42	185.2	214	314.4	16	161.9	272	661.4
May-18	15	19.2	104	71.1	3	15.0	122	105.4
Jun-18	33	110.3	92	78.4	9	48.6	134	237.3
Jul-18	48	115.6	161	190.8	12	13.2	221	13.2

Year/ Month	NSE		BSE		Common		Total	
	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)	No. of Issues	Amount (Rsbn)
Aug-18	48	113.8	159	177.2	13	78.1	220	369.2
Sep-18	45	108.2	152	195.4	7	14.3	204	318.0
Oct-18	31	111.5	116	55.9	8	151.6	155	318.9
Nov-18	34	168.1	104	183.7	20	200.3	158	552.1
Dec-18	52	283.3	109	256.6	24	309.3	185	849.3
Apr-Dec 18	348	1,215.3	1211	1,523.5	112	992.4	1,671	3,424.8

Source: SEBI.

Table 5.3b: Public Issues of Corporate Bonds

Year/ Month	Total	
	No. of Issues	Final Issue Size (Rsbn)
2012-13	20	169.8
2013-14	35	423.8
2014-15	25	97.1
2015-16	20	338.1
2016-17	15	293.3
2017-18	8	51.7
Apr-Dec 18	15	285.7

Source: SEBI.

5.3 Secondary Market

Most of the activity in secondary market is dominated by a very liquid government securities market. The corporate bond market has witnessed growth over the years but is still small as compared to trading in government securities.

5.3.1 Settlement of Trades in Government Securities

There is a gradual increase in total settlement of repo trades as can be seen in Table 5.4a. In 2017-18, total settlement of repo trades has increased by 8% due to increase in both Treasury bills and SGD. But Central govt dates securities witnessed a decline in the same period. In case of outright trades, total settlement has declined by 32% in 2017-18 (Table 5.4b). Although trends of settlement are similar across all instruments, total settlement declined mostly due to 35% decline of central govt. dated securities.

Table 5.4a : Instrumentwise Settlement of Repo Trades

Settlement Period	Cen. Govt. Dated		Treasury Bills		State Govt Development		Total (Rsbn)
	Value (Rsbn)	% Share	Value (Rsbn)	% Share	Value (Rsbn)	% Share	
2012-13	29,183	54.0	24,131	44.7	713	1.3	54,028
2013-14	33,641	46.5	38,325	53.0	316	0.4	72,281
2014-15	44,719	56.8	32,590	41.4	1,443	1.8	78,752
2015-16	62,307	72.3	22,482	26.1	1,428	1.7	86,217
2016-17	94,998	80.3	18,028	15.2	5,324	4.5	118,350
2017-18	91,318	71.5	26,849	21.0	9,636	7.5	127,803
Apr-18	7,487	79.2	1,040	11.0	928	9.8	9,455
May-18	8,866	77.6	1,208	10.6	1,359	11.9	11,433
Jun-18	8,617	72.0	1,785	14.9	1,562	13.1	11,965
Jul-18	7,975	68.6	1,862	16.0	1,788	15.4	11,625
Aug-18	6,847	60.1	2,950	25.9	1,598	14.0	11,395
Sep-18	7,735	66.5	2,677	23.0	1,214	10.4	11,626
Oct-18	10,387	66.2	3,882	24.7	1,433	9.1	15,701
Nov-18	7,058	62.8	2,622	23.3	1,559	13.9	11,239
Dec-18	6,725	62.1	2,102	19.4	2,011	18.6	10,838
Apr-Dec 18	71,697	68.1	20,129	19.1	13,451	12.8	105,277

Source: CCIL.

Table 5.4b: Instrumentwise Settlement of Outright Trades

Settlement Period	Cen. Govt. Dated		Treasury Bills		State Govt Development		Total (Rsbn)
	Value (Rsbn)	% Share	Value (Rsbn)	% Share	Value (Rsbn)	% Share	
2012-13	59,209	89.82	5,529	8.39	1,182	1.79	65,920
2013-14	79,687	88.97	8,332	9.3	1,548	1.73	89,567
2014-15	91,496	90.09	8,235	8.11	1,831	1.8	101,562
2015-16	85,577	87.96	8,544	8.78	3,165	3.25	97,285
2016-17	151,985	90.07	10,735	6.36	6,022	3.57	168,741
2017-18	98,301	86.23	10,061	8.83	5,637	4.94	113,999
Apr-18	7,814	88.5	561	6.36	454	5.14	8,829
May-18	5,229	86.5	466	7.71	350	5.79	6,046
Jun-18	5,559	83.33	813	12.18	300	4.49	6,671
Jul-18	5,618	84.41	720	10.81	318	4.77	6,655
Aug-18	6,075	83.4	881	12.1	328	4.5	7,285
Sep-18	6,660	88.1	594	7.86	306	4.05	7,560
Oct-18	6,574	85.36	800	10.38	328	4.26	7,702
Nov-18	6,179	83.75	750	10.16	449	6.09	7,378
Dec-18	9,449	83.05	1,304	11.46	625	5.49	11,378
Apr-Dec 18	59,157	85.11	6,888	9.91	3,457	4.97	69,503

Source: CCIL.

The market share of top five members in settlement of government securities is given in Table 5.5 across different categories.

Table 5.5: Market Share of Top Five Categories in Settlement of Government Securities (%)

Categories	Cooperative Bank	Foreign Bank	Public Sector Bank	Private Bank	Mutual Fund	Primary Dealer
2012-13	55.5	77.32	48.92	83.43	65.36	82.08
2013-14	55.31	81.15	45.68	86.53	65.08	85.35
2014-15	58.68	82.14	47.58	80.35	66.19	87.29
2015-16	60.56	86.1	50.22	83.16	63.9	89.18
2016-17	56.83	87.23	45.98	79.16	62.48	93.18
2017-18	58.9	80.4	59.4	80.72	56.8	91.62
Apr-18	66.83	75.41	55.53	84.45	55.08	91.97
May-18	66.83	76.28	55.25	81.86	59.5	86.81
Jun-18	63.85	79.73	59.88	87.87	55.36	90.41
Jul-18	56.87	75.03	56.12	88.47	58.56	93.08
Aug-18	58.47	76.36	62.46	87.3	60.37	92.92
Sep-18	74.69	70.99	62.57	85.44	61.34	92.49
Oct-18	60.32	71.08	55	85.04	59.41	91.68
Nov-18	51.39	70.8	63.6	86.37	63.79	93.55
Dec-18	56.83	71.94	65.58	84.98	59.93	94.88
Apr-Dec 18	62.48	74.08	60.48	85.72	59.05	92.25

Source: CCIL.

5.3.2 Trading in Corporate Bonds

The data on corporate bond trading (Table 5.6) at NSE and BSE includes trades at the exchanges as well as in the OTC market. The value of the trades on the NSE increased by 12% to Rs13.2tn (US$205bn) in 2017–2018 from Rs11.8tn (US$177bn) in the previous fiscal year. The BSE turnover in corporate bonds increased by 63% to Rs4.8tn (US$74bn) in 2017–18. Even though NSE's share in total corporate bond trades decreased from 80 per cent in 2016-17 to 74 per cent in 2017-18, it still remains the largest reporting platform in the corporate bond market.

Table 5.6: Secondary Market Corporate Bond Trades at the Exchanges and OTC

Year	BSE			NSE		
	No. of trades	Amount (Rsbn)	Amount (US$bn)	No. of trades	Amount (Rsbn)	Amount (US$bn)
2010-11	4,465	395.8	8.9	8,006	1,559.5	34.9
2011-12	6,424	498.4	9.7	11,973	1,934.4	37.8
2012-13	8,639	516.2	9.5	21,141	2,421.1	44.5
2013-14	10,187	1,030.3	17.2	20,809	2,757.0	46.0
2014-15	17,710	2,045.1	33.5	58,073	8,867.9	145.1
2015-16	16,900	2,076.5	31.3	53,223	8,147.6	122.8
2016-17	24,372	2,921.5	44.0	64,123	11,785.1	177.7
2017-18	29,198	4,760.0	73.9	62,215	13,217.4	205.1

Source: SEBI.
Note: The data on corporate bonds at NSE and BSE includes the trades on the respective trading systems as well as the reporting of trades carried out at OTC.

5.3.3 Settlement of Trades in Corporate Bonds

In 2017–18, 73,331 trades in corporate bonds amounting to Rs13.7tn (US$213bn) were settled by the NSCCL and the ICCL (Table 5.7). NSCCL accounted for 85% of total trading volume settled for the year 2017-18.

Table 5.7: Settlement Statistics of Corporate Bonds

Month	NSCCL			ICCL			Total		
	Total No. of Trades Settled	Settled Value (Rsbn)	Settled Value (US$bn)	Total No. of Trades Settled	Settled Value (Rsbn)	Settled Value (US$bn)	Total No. of Trades Settled	Settled Value (Rsbn)	Settled Value (US$bn)
2015-16	44,629	6,557	98.9	9,227	579	8.7	53,856	7,136	107.6
2016-17	54,814	9,685	98.9	16,630	1,160	17.5	71,444	10,845	116.3
2017-18	55,930	11,613	180.2	17,401	2,106	32.7	73,331	13,719	212.9

Source: SEBI.
Note: *At MCX-SX, trading in corporate bonds started in July 2013.

Appendix

Table 5a.1: Historical Summary of Corporate Bond Trading (Rsbn)

Period	Total		Average	
	Trades	Value	Trades	Value
2008-09	-	1,458.3	-	6.2
2009-10	-	4,021.6	-	16.9
2010-11	438.0	5,986.0	1.8	24.2
2011-12	514.4	5,919.8	2.2	24.9
2012-13	661.8	7,363.5	2.8	30.6
2013-14	695.2	9,721.6	2.9	40.2
2014-15	723.6	10,135.0	3.1	42.8
2015-16	637.0	9,053.3	2.6	37.6
2016-17	**724.2**	**11,249.9**	**3.0**	**46.7**
2017-18	**506.3**	**13,500.3**	**2.1**	**56.0**
Apr-18	40.8	1,165.4	2.2	61.3
May-18	26.9	750.4	1.2	34.1
Jun-18	28.5	827.9	1.4	39.4
Jul-18	27.8	783.0	1.3	35.6
Aug-18	27.0	773.9	1.4	38.7
Sep-18	28.6	762.5	1.6	42.4
Oct-18	25.9	730.6	1.2	34.8
Nov-18	25.0	862.4	1.4	47.9
Dec-18	36.5	1,039.9	1.8	52.0
Apr-Dec 18	**267.0**	**7,696.1**	**1.5**	**42.5**

Source: CCIL.
Note: Since April 1, 2014 all Corporate Bond deals are being reported only on the exchanges.

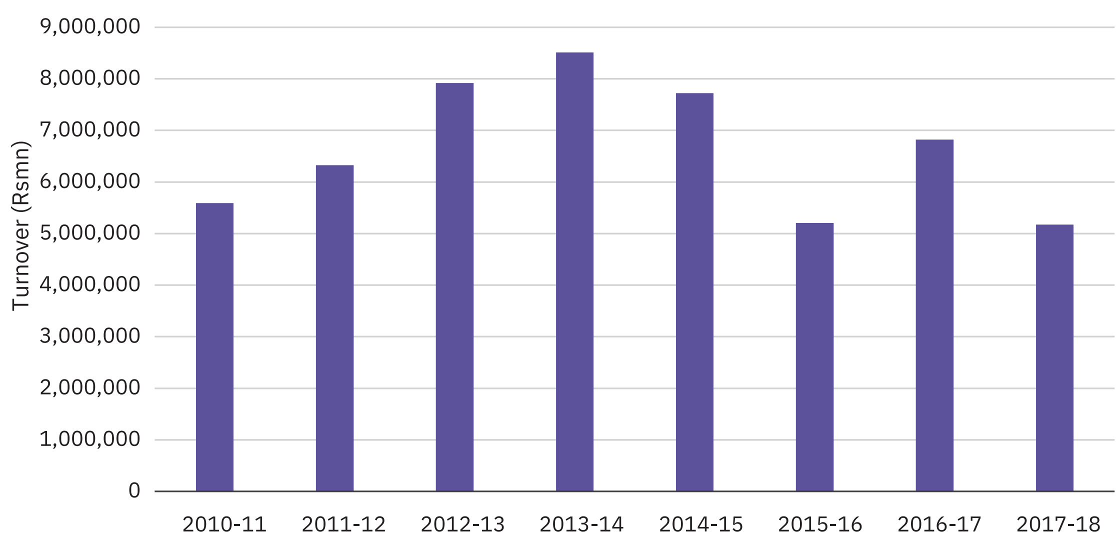
NSE

Table 5a.2: Category-wise Corporate Bond Trading (Rsbn)

Year	Categories					
	Finance	Infrastructure	Manufacturing	Oil	Others	Total
2008-09	1,026.4	175.4	74.7	49.5	132.2	1,458.3
2009-10	2,326.7	505.5	257.4	181.9	750.2	4,021.6
2010-11	3,948.9	756.6	265.4	169.2	846.0	5,986.0
2011-12	3,447.4	999.5	87.8	139.5	1,245.6	5,919.8
2012-13	3,348.7	1,314.2	380.7	76.1	2,243.7	7,363.5
2013-14	5,802.7	1,882.1	425.9	179.5	1,431.4	9,721.6
2014-15	5,365.5	2,480.0	410.3	156.1	1,723.2	10,135.0
2015-16	5,486.2	2,599.1	416.9	41.8	509.3	9,053.3
2016-17	7,194.1	2,560.0	391.2	75.2	1,029.5	11,249.9
2017-18	9,167.5	2,738.8	766.0	31.4	796.6	13,500.3
Apr-18	757.8	244.5	43.9	4.4	114.8	1,165.4
May-18	480.6	125.3	35.7	0.8	108.1	750.4
Jun-18	560.3	147.2	47.5	1.2	71.8	827.9
Jul-18	500.1	134.2	42.9	2.2	103.6	783.0
Aug-18	571.1	145.4	19.5	1.7	36.2	773.9
Sep-18	515.0	158.5	15.4	0.1	73.5	762.5
Oct-18	510.9	142.2	52.5	-	25.0	730.6
Nov-18	589.4	148.8	97.4	2.2	24.6	862.4
Dec-18	691.2	198.5	64.8	5.0	80.5	1,039.9
Apr-Dec 18	5,176.5	1,444.6	419.6	17.3	638.0	7,696.1

Source: CCIL.

Chart 5a.1: Business Growth of Debt Segment (NSE)



Source: NSE.

6. Derivatives Market

6.1 Introduction

The emergence and growth of the market for derivative instruments can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. Let us consider an example of how buying put options of a stock minimizes downside risk. Suppose, an investor bought 1000 shares of a company a year ago and the company's stock has increased from Rs100 to Rs150 over the last year. The investor likes to hold on to the stock but is concerned about price correction that could accompany such a strong upmove. The investor can meet his or her objective by buying put options of the stock. If the investor buys the put option with an exercise price of Rs150 and an expiry day six months into the future, he or she will be able to guarantee a sale price of Rs150 irrespective of the stock price performance over the next six months. To get this insurance from downside risk, the investor pays the option premium (Box 1). Thus use of put option limits downside risk while the investor continues to gain if the stock price rises further.

Derivatives are meant to facilitate the hedging of price risks of inventory holdings or a financial/commercial transaction over a certain period. By locking in asset prices, derivative products minimize the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors, and thereby, serve as instruments of risk management. Also, now with global markets for trade and finance becoming ever more integrated, derivatives have strengthened important market linkages between geographies and have facilitated the flow of trade and finance. As an example, suppose that an Indian exporter sells its product to an American company for US$10,000, with the payment to be made in USD by the US company to the Indian exporter at the end of three months. Suppose the current exchange rate is Rs65/USD. Thus, if the Indian exporter is paid immediately, it would receive Rs6,50,000. However, payment is due after three months and thus the Indian exporter faces the risk that the Indian rupee appreciates (for example, becomes Rs63/USD). The Indian exporter can protect its Rupee revenue from possible exchange rate appreciation while still benefiting if the exchange rate depreciates (for example, becomes Rs66/USD) by buying a put option on the USD today. Similarly, importers who need to make payments in USD in the future, can buy call options on the USD today to lock-in the exchange rate.

Besides, investors can use index derivatives as a tool to minimize systemic risks associated with their investment portfolio of stocks. It has been seen earlier that share prices of large companies move in same direction when a large adverse move happens in the economy or financial market. Then, diversifying total portfolio in different stocks of large companies may not help to reduce total risk associated with those stocks. In such scenario, investors can buy index derivatives to mitigate their risks and have a fruitful return in the future.

Box 1: Different Types of Derivatives

There are different types of derivatives which can be used to mitigate total risk associated with an investment in the financial market.

a. *Forwards and futures*: Investors can purchase forward and future contracts that obligate them to purchase an asset at a pre-agreed price on a specified future date. Forward derivatives are more flexible contracts as both the parties can customize the underlying assets, price, date and other obligations according to their requirement, whereas future derivatives are standardized that are traded in exchanges.

b. *Options*: These financial instruments provide the buyer the rights but not the obligations to purchase or sell the underlying assets at a predetermined price on/before a specified date. In return for granting the option, the seller collects a payment from the other party. This payment collected is called the "premium" or price of the option. There are two types of options, (a) European options, where the buyer can exercise the option only on the maturity date, and (b) American options, where the buyer can exercise the option on or before the maturity date.

c. *Swaps*: These derivative contracts allow two parties to swap their cash flows. These parties usually swap fixed cash flow with flexible cash flows. Interest rate swaps, commodity swaps and currency swaps are most popular among all. In an interest rate swap, each counterparty agrees to pay either a fixed or floating rate denominated in a particular currency to the other counterparty at regular intervals (say six months) over a defined period of time (say five years). The fixed or floating rate is multiplied by a notional principal amount (say, Rs1 crore). This notional amount of Rs1 crore is generally not exchanged between counterparties, but is used only for calculating the size of cash flows to be exchanged.

6.2 History

Financial derivatives first gained prominence in 70s, but in recent years, the market for financial derivatives has grown in terms of the variety of instruments available, as well as their complexity and turnover. They have changed the world of finance through the creation of innovative ways to comprehend, measure and manage risks.

India's tryst with derivatives began in 2000 when both NSE and BSE commenced trading in equity derivatives. In June 2000, index futures became the first type of derivative to be launched in the Indian market, followed by index options in June 2001, options in individual stocks in July 2001, and futures in single stock derivatives in November 2001. Since then, equity derivatives have come a long way, and the response of Indian investors to this segment has been extremely positive. The turnover of derivatives on NSE increased from Rs24bn in 2000–01 to Rs292tn in 2010-11, the first decade, and have only risen further since, to Rs648tn by 2015-16, and Rs2,376tn in 2018-19. During this financial year, total turnover of futures and options segment of NSE increased by 75% over previous financial year.

New products, rising volumes and the best risk management framework for exchange-traded derivatives have been the hallmark of the journey of equity derivatives in India so far. For instance, NSE and BSE launched weekly options on Bank Nifty in 2016 and 2018 respectively. They also launched weekly options in the currency derivatives segment on the USD-INR currency pair and weekly options contracts on NIFTY 50 Index in 2018.

India is one of the most successful developing countries in terms of a vibrant market for exchange-traded derivatives. This reiterates the strengths of the modern development in India's securities markets, which are based on nationwide market access, anonymous electronic trading, and a predominantly retail market. There is an increasing sense that the equity derivatives market plays a major role in shaping price discovery.

The various kinds of equity derivative contracts that are traded on NSE indices other than individual stocks are shown in Table 6.1 including the derivatives on global indices such as Dow Jones, S&P 500 and FTSE 100.

Table 6.1: Benchmark Indices-Contracts and Volume in Futures and Options Segment of NSE in 2017-18 and first half of 2018-19

Indices	No. of Contracts Traded (thousand)	Traded Value (Rsbn)	Traded Value (US$bn)	Percent-age of Contracts to total contracts (%)	No. of Contracts Traded (thousand)	Traded Value (Rsbn)	Traded Value (US$bn)	Percent-age of Contracts to total contracts (%)
	2017-2018				Apr-Dec 2018			
Index Futures								
NIFTY 50	37,324.8	28,235.8	438.1	2.37	29,836.5	24,157.5	374.8	1.64
BANKNIFTY	20,178.7	19,756.7	306.5	1.28	21,044.1	18,270.3	283.5	1.16
NIFTYIT	79.5	44.9	0.7	0.01	82.3	59.3	0.9	0.00
NIFTYMID50	23.9	25.1	0.4	0.00	86.9	53.6	0.8	0.00
S&P500	44.8	27.3	0.4	0.00	0.0	0.0	0.0	0.00
DJIA	22.8	14.7	0.2	0.00	0.0	0.0	0.0	0.00
Index Options								
BANKNIFTY	894,080.8	1,823.0	28.3	56.85	1,330,424	2,500	39	73.24
NIFTY 50	620,948.9	2,783.4	43.2	39.48	434,965	2,303	36	23.95
NIFTYMID50	3.2	0.1	0.0	0.00	0	0	0	0.00
NIFTYCPSE	1.3	0.0	0.0	0.00	0	0	0	0.00
Total of all Indices	**1,572,708.8**	**52,711.1**	817.9	100.00	**1,816,439**	**47,344**	735	100.00
Total of Nifty Index Futures and Options	658,273.8	31,019.2	481.3		464,801	26,461	411	

Source: NSE.
Note: India VIX is not incuded. Traded Value is the premium value.

6.3 Global Derivative Markets

As per the WFE IOMA 2018 derivatives report, total volume of futures and options traded on exchanges around the world increased by 21% year-on-year in 2018 after an overall decrease by 0.9% in the previous year (Table 6.2). Total trading in all major segments have increased. Total volume in equity segment 34%, followed by currency segment (33%). ETF segment and interest rate derivatives increased by 17% and 16% (YoY) respectively in 2018. Among all, total trading of stock index futures increased tremendously by 42% from 2,383 mn in 2017 to 3,379 mn contracts in 2018.

NSE

Table 6.2: Number of Exchange Traded Derivatives Traded Worldwide (mn of contracts)

Sl. No.	Category	2015	2016	2017	2018	Change (2015-16)	Change (2016-17)	Change (2017-18)
1.	**Total Equity**	**10,994**	**9,705**	**10,192**	**13,641**	**-11.7%**	**5.0%**	**33.8%**
1.1	Single Stock Options	3,499	3,353	3,485	4,452	-4.2%	3.9%	27.7%
1.2	Single Stock Futures	1,001	1,016	1,138	1,455	1.5%	12.0%	27.9%
1.3	Stock Index Options	3,741	2,771	3,186	4,355	-25.9%	15.0%	36.7%
1.4	Stock Index Futures	2,753	2,565	2,383	3,379	-6.8%	-7.1%	41.8%
2	**Total ETF**	**1,559**	**1,673**	**1,613**	**1,891**	**7.3%**	**-3.6%**	**17.2%**
1.5	ETF Options	1,557	1,671	1,611	1,889	7.3%	-3.6%	17.3%
1.6	ETF Futures	2	2	2	2	15.0%	-17.4%	7.7%
3	**Total Interest Rates**	**3,267**	**3,503**	**3,962**	**4,579**	**7.2%**	**13.1%**	**15.6%**
3.1	STIR Options	341	425	520	545	24.6%	22.4%	4.8%
3.2	STIR Futures	1,339	1,390	1,566	1,754	3.8%	12.7%	12.0%
3.3	LTIR Options	227	207	263	330	-8.8%	27.1%	25.5%
3.4	LTIR Futures	1,361	1,481	1,645	1,950	8.8%	11.1%	18.5%
4	**Total Currency**	**2,581**	**2,855**	**2,763**	**3,673**	**10.6%**	**-3.2%**	**32.9%**
4.1	Currency Options	467	650	814	1,155	39.2%	25.2%	41.9%
4.2	Currency Futures	2,115	2,205	1,949	2,518	4.3%	-11.6%	29.2%
5	**Total Commodity**	**5,392**	**6,881**	**5,884**	**5,920**	**27.6%**	**-14.5%**	**0.6%**
5.1	Commodity Options	238	256	261	280	7.6%	2.0%	7.3%
5.2	Commodity Futures	5,154	6,626	5,624	5,640	28.6%	-15.1%	0.3%
6	**Total 'other'**	**627**	**452**	**433**	**374**	**-27.9%**	**-4.2%**	**-13.6%**
6.1	Other Options	157	158	197	182	0.6%	24.7%	-7.6%
6.2	Other Futures	470	295	236	192	-37.2%	-20.0%	-18.6%
	Grand Total	**24,420**	**25,070**	**24,847**	**30,078**	**2.7%**	**-0.9%**	**21.1%**

Source: WFE IOMA 2018 derivatives report.
Note: Based on the number of contracts traded and/or cleared at 47 exchanges worldwide who have responded to this year's survey.

In terms of number of trades in derivatives segments in the year 2018, NSE performed well among all large exchanges globally for several products (Table 6.3). Notably, NSE registered highest number of trades among all global exchanges in currency derivatives and stock index options. NSE ranked 2nd after Korea Exchange in case of single stock futures and 8th in single stock options in terms of number of trades. Though NSE did not rank below 10 in other derivatives segments, total volumes increased tremendously in recent years as can be seen in the following sections.

Table 6.3: Rank of NSE Globally in Different Derivatives Segments (2018)

Segment	Rank
Single stock options	8
Single stock futures	2
Stock Index Options	1
Long-term interest rate options and futures	8
Currency options and futures contracts	1

Source: 2018 IOMA Derivatives Market Survey.
Note: Only WFE member exchanges are considered while ranking the exchanges.
The ranking is done based on total number of contracts traded in the exchange.

6.4 Indian Equity Derivative Markets

6.4.1 Turnover

Total turnover in equity derivatives at NSE and BSE increased by 75% from Rs944tn in 2016-17 to Rs1,650tn in 2017-18 (Table 6.4). The growth was entirely contributed by NSE where total turnover increased by 75%. In contrast, BSE experienced a sharp decline in total turnover during the same time period. Interestingly, total 1,913mn contracts with a turnover of Rs1,649tn were traded at NSE, while at BSE merely 44,701 contracts were traded with trading value of Rs32.6bn. Hence, almost 100% of total contracts were traded at NSE in 2017-18. Additionally, investors prefer derivatives market over cash market in the equity segment, as can be seen in Table 6.5. Since 2010-11, total turnover in derivatives market is about three times of total turnover in cash market for the equity segment except in 2012-13.

Table 6.4: Trade Details of Equity Derivatives Market

Month/ Year	NSE			BSE			TOTAL		
	No. of Contracts Traded (mn)	Turnover (Rsbn)	Turnover (US$bn)	No. of Contracts Traded (mn)	Turnover (Rsbn)	Turnover (US$bn)	No. of Contracts Traded (mn)	Turnover (Rsbn)	Turnover (US$bn)
2010-11	1,034	292,482	6,551	0.0	1.5	0.0	1,034	292,484	6,551
2011-12	1,205	313,497	6,269	32.2	8,084.8	158.9	1,237	321,582	6,428
2012-13	1,131	315,330	5,800	262.4	71,635.2	1,317.7	1,394	386,965	7,118
2013-14	1,284	382,114	6,375	285.6	92,194.3	1,538.2	1,570	474,308	7,913
2014-15	1,837	556,065	9,095	505.5	203,627.4	3,330.5	2,343	759,692	12,425
2015-16	2,099	648,258	9,773	106.2	44,750.1	674.6	2,205	693,008	10,447
2016-17	**1,400**	**943,703**	**14,494**	**0.1**	**69.4**	**1.1**	**1,400**	**943,772**	**14,495**
2017-18	**1,914**	**1,649,849**	**25,599**	**0.0**	**32.6**	**0.5**	**1,914**	**1,649,881**	**25,599**
Apr-18	176	156,202	2,424	0.0	0.0	0.0	176	156,202	2,424
May-18	211	193,421	3,001	0.0	0.0	0.0	211	193,421	3,001
Jun-18	200	186,106	2,888	0.0	0.3	0.0	200	186,106	2,888
Jul-18	197	186,571	2,895	0.0	0.0	0.0	197	186,571	2,895
Aug-18	201	200,461	3,110	0.0	0.0	0.0	201	200,461	3,110
Sep-18	234	224,586	3,485	0.0	0.0	0.0	234	224,586	3,485
Oct-18	273	224,333	3,481	0.0	0.0	0.0	273	224,333	3,481
Nov-18	326	184,145	2,857	0.0	0.0	0.0	326	184,145	2,857
Dec-18	328	191,838	2,977	0.0	0.0	0.0	328	191,838	2,977
Apr-Dec '18	**2,145**	**1,747,663**	**27,117**	**0.0**	**0.4**	**0.0**	**2,145**	**1,747,664**	**27,117**

Source: BSE, NSE.

Table 6.5: Derivatives to Cash Ratio in Equity Segment

Year	Futures Turnover & Option Premium (Rsbn)	Cash Turnover (Rsbn)	Derivatives to Cash Ratio*
2010-11	100,656	35,774	2.8
2011-12	79,254	28,109	2.8
2012-13	69,697	27,083	2.6
2013-14	83,251	28,085	3.0
2014-15	127,283	43,297	2.9
2015-16	127,981	42,370	3.0
2016-17	**159,111**	**50,559**	**3.1**
2017-18	**210,168**	**72,348**	**2.9**
2018-19	**225,700**	**79,490**	**2.8**

Source: NSE.
Note: *(Equity futures turnover+Equity option premium)/Cash market turnover.

6.4.2 Product-wise Turnover

The index options segment continued to remain the clear leader in the product-wise turnover of the futures and options segment of NSE in 2017–18 (Table 6.7). The notional turnover in the index options category was 81.78% of total turnover in the F&O segment of NSE. There was a gradual decline in the percentage share of index futures and stock futures in 2017-18. During April-Dec'18, index options constituted around 85% of the total turnover in F&O segment, whereas the turnover of index futures and stock future have further declined to 2.43% and 7.16% of total turnover respectively.

6.4.3 Open Interest

Open interest is the total number of unsettled derivative contracts on a security; i.e. the number of futures or options that have not been exercised, expired or fulfilled by delivery. Increasing open interest means that fresh positions are being taken on the security, while declining open interest means that more positions are being squared off. Open interest in the equity derivatives segment at the end of the year 2017-18 at NSE was 3.8mn in terms of number of contracts as compared to 3.5mn in 2016-17. In terms of value, the figure stood at Rs2,749bn at the end of 2017-18 as compared to Rs2,495bn in the previous year end (Table 6.6).

Table 6.6: Open Interest in Various Derivatives Segments at NSE (Year-end)

Segment	No. of Contracts (thousand)			Value (Rsbn)		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Equity Derivatives	2,908	3,542	3,800	1,544	2,495	2,749
Index Futures	334	423	324	188	302	255
Stock Futures	1,086	1,362	1,682	510	943	1,103
Index Options	1,394	1,559	1,655	802	1,108	1,299
Stock Options	95	199	140	45	142	93

Source: SEBI Annual Report.

6.4.4 Settlement

In 2017–18, total settlement of index/stocks derivatives increased to Rs1,398bn as compared to Rs901bn in 2016-17. During Apr-Dec'18, total settlement amounted to Rs1,286bn. The details of the settlement statistics in the F&O segment are presented in Table 6.8.

Table 6.7: Product-wise Turnover in Derivatives Segment of NSE

Year	Index Futures			Stock Futures			Index Options				Stock Options				Total		Average Daily Turnover (Rsbn)
	No. of contracts (mn)	Turnover (Rsbn)	Percent-age share in total Turnover	No. of contracts (mn)	Turnover (Rsbn)	Percent-age share in total Turnover	No. of contracts (mn)	Premium Turnover (Rsbn)	Notional Turnover (Rsbn)	Percentage share in total Turnover	No. of contracts (mn)	Premium Turnover (Rsbn)	Notional Turnover (Rsbn)	Percentage share in total Turnover	No. of contracts (mn)	Turnover (Rsbn)	
2014-15	129.3	41,072	7.39	237.6	82,918	14.91	1,379	2,653	399,227	71.80	91.5	617.3	32,826	5.90	1,837	556,065	2,288
2015-16	140.5	45,571	7.03	234.2	78,286	12.08	1,624	3,512	489,519	75.51	100.3	611.2	34,882	5.38	2,099	648,258	2,625
2016-17	**66.5**	**43,359**	**4.59**	**173.9**	**111,296**	**11.79**	**1,067**	**3,500**	**727,973**	**77.14**	**92.1**	**955.7**	**61,075**	**6.47**	**1,400**	**943,703**	**3,805**
2017-18	**57.7**	**48,105**	**2.92**	**214.8**	**155,975**	**9.45**	**1,515**	**4,607**	**1,349,219**	**81.78**	**126.4**	**1,482.2**	**96,550**	**5.85**	**1,914**	**1,649,849**	**6,707**
Apr-18	5.0	4,337	2.78	20.0	14,320	9.17	138	436	127,408	81.57	13.5	148.8	10,138	6.49	176	156,202	7,438
May-18	5.0	4,467	2.31	21.8	14,305	7.40	169	472	164,192	84.89	15.1	162.1	10,456	5.41	211	193,421	8,792
Jun-18	5.2	4,686	2.52	20.0	13,174	7.08	161	499	158,871	85.37	13.2	133.6	9,375	5.04	200	186,106	8,862
Jul-18	4.7	4,295	2.30	21.8	14,769	7.92	154	443	155,013	83.09	16.8	193.4	12,495	6.70	197	186,571	8,480
Aug-18	4.1	3,942	1.97	21.6	15,450	7.71	158	414	168,114	83.86	16.6	195.5	12,955	6.46	201	200,461	9,546
Sep-18	5.8	5,400	2.40	21.6	14,644	6.52	191	644	193,378	86.10	14.9	178.1	11,164	4.97	234	224,586	12,477
Oct-18	8.2	6,673	2.97	24.9	14,881	6.63	224	808	192,631	85.87	15.1	207.4	10,149	4.52	273	224,333	10,683
Nov-18	6.7	4,419	2.40	21.3	11,872	6.45	283	493	159,190	86.49	15.2	147.7	8,665	4.71	326	184,048	9,202
Dec-18	6.3	4,322	2.25	20.5	11,708	6.10	286	593	167,230	87.17	14.4	141.2	8,578	4.47	330	191,838	9,592
Apr-Dec' 18	**51.0**	**42,541**	**2.43**	**193.6**	**125,121**	**7.16**	**1,765**	**4,803**	**1,486,026**	**85.03**	**134.7**	**1,507.8**	**93,975**	**5.38**	**2,145**	**1,747,663**	**9,396**

Source: NSE.

SEBI is currently in the process of enforcing physical settlement for all stock derivatives in a phased manner. The primary objective is to encourage investors to participate in derivative market primarily for hedging and discourage investors from indulging in speculative trades. In this regard, NSE released a list of 46 stock futures to enforce physical settlement based on certain eligibility criteria specified by SEBI in April 2018. In the coming months, NSE will implement physical settlement for other stock futures as well. Table 6.8 shows there is no significant change in the pattern of settlement post implementing physical settlement of 46 shares. It would be interesting to see how the pattern changes overtime.

Table 6.8: Settlement Statistics in F&O Segment

Month/Year	Index/Stock Futures		Index/Stock Options		Total Settlement (Rsbn)	Total Settlement (US$bn)
	MTM Settlement	Final Settlement	Premium Settlement	Exercise Settlement		
	(Rsbn)					
2010-11	672.9	15.9	127.0	21.2	837.0	18.7
2011-12	566.6	12.7	128.0	15.6	723.0	14.1
2012-13	419.3	12.2	119.1	17.0	567.6	10.4
2013-14	422.9	14.3	132.6	21.6	591.3	9.9
2014-15	687.7	15.4	133.1	25.0	861.2	13.0
2015-16	855.8	14.2	159.2	28.0	1,057.3	15.9
2016-17	**704.4**	**20.5**	**150.2**	**25.8**	**900.9**	**13.9**
2017-18	**1,154.6**	**22.1**	**189.4**	**32.1**	**1,398.2**	**21.7**
Apr-18	94.3	1.6	14.5	1.4	111.9	1.7
May-18	124.2	3.7	12.8	2.1	142.8	2.2
Jun-18	112.4	3.0	16.5	3.9	135.8	2.1
Jul-18	123.9	1.6	13.2	1.2	140.0	2.2
Aug-18	90.0	1.1	11.9	1.3	104.3	1.6
Sep-18	166.4	3.5	18.6	2.6	191.1	3.0
Oct-18	192.8	3.6	24.6	2.7	223.7	3.5
Nov-18	85.4	3.0	12.0	1.6	101.9	1.6
Dec-18	109.4	0.9	20.4	3.8	134.5	2.1
Apr-Dec 18	**1,098.8**	**22.0**	**144.4**	**20.8**	**1,286.0**	**20.0**

Source: NSE.

6.5 Currency Derivatives in India

The currency derivatives turnover on NSE increased by 4% from Rs48.6tn in 2016-17 to Rs50.3tn in 2017-18. The growth has accelerated in 2018-19. The trading value for the period April-Dec'18 was Rs62.7tn which is about 25% higher than total turnover in 2017-18. Table 6.9 presents the business growth in the currency derivatives segment (volumes) on NSE while Table Table 6.10a and 6.10b presents the number of contracts and turnover for all products in the segment.

Total currency futures and options traded on NSE during 2017-18 stood at 765mn contracts with a traded value of Rs50.3tn, a 4% increase as compared to 2016-17. Among all products in the segment, total turnover of USD-INR currency option contracts was about 48% of total turnover in all currency derivatives in 2017-18 followed by USD-INR Futures with 43% of total turnover. In the same time period, number of USD-INR currency option and future contracts traded stood at 374mn and 337mn with a traded value of Rs24.3tn and Rs21.8tn respectively. Many currency derivatives based on different currency pairs were launched in 2017-18. Only few of them could gather momentum in the current financial year. Notably, 4.8mn GBP-USD Future contracts were traded with a traded value Rs390bn during April-Dec'18 and 3mn EUR-USD Future contracts traded with a value of Rs280bn during same time period.

Table 6.9: Business Growth of Currency Futures and Options segment at NSE

Month/Year	Currency Futures		Currency Options		Total	
	No. of contracts	Turnover	No. of contracts	Notional Turnover	No. of contracts	Turnover*
	(mn)	(Rsbn)	(mn)	(Rsbn)	(mn)	(Rsbn)
2010-2011	712	32,790	37	1,708	750	34,498
2011-2012	701	33,785	272	12,965	973	46,750
2012-2013	684	37,651	275	15,094	959	52,745
2013-2014	478	29,409	182	10,716	660	40,125
2014-2015	356	22,480	125	7,759	481	30,239
2015-2016	410	27,493	264	17,526	674	45,019
2016-2017	**363**	**24,898**	**350**	**23,673**	**712**	**48,571**
2017-2018	**390**	**25,957**	**375**	**24,328**	**765**	**50,285**
Apr-18	44	2,974	31	2,053	75	5,027
May-18	58	4,034	42	2,861	100	6,895
Jun-18	52	3,602	37	2,522	89	6,124
Jul-18	45	3,197	35	2,391	80	5,589
Aug-18	57	4,039	49	3,450	106	7,489
Sep-18	71	5,174	61	4,425	132	9,599
Oct-18	64	4,811	40	2,964	105	7,775
Nov-18	47	3,459	46	3,358	94	6,817
Dec-18	53	3,831	50	3,587	104	7,418
Apr-Dec 18	**491**	**35,121**	**392**	**27,611**	**883**	**62,732**

Source: NSE.
Note: *In case of Option Contracts "Turnover" represents "Notional Turnover".

In BSE, currency derivatives turnover had increased by 15% in 2016-17 which accelerated further by 40% to reach Rs44.4tn in 2017-18. In contrast, total turnover in MSEI started declining since 2014-15. In 2017-18, total turnover declined significantly by 61% to reach Rs1,157bn and overall trend continues in 2018-19 as well.

6.6 Interest Rate Futures Market in India

An interest rate futures (IRF) contract is "an agreement to buy or sell a debt instrument at a specified future date at a price that is fixed today." The underlying security for Interest Rate Futures is either Government Bond or T-Bill. Exchange traded Interest Rate Futures on NSE are standardized contracts based on 6 year, 10 year and 13 year Government of India Security (NBF II) and 91-day Government of India Treasury Bill (91DTB). All futures contracts available for trading on NSE and BSE are cash settled.

Table 6.10a: Business Growth of Selected Currency Futures and Options (Currency Pairs) at NSE

Month/Year	USD INR Options		USD INR Future		EUR INR Future		EUR INR Options		EUR USD Future		JPY INR Future	
	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)
2016-17	**349,836**	**23,673**	**317,987**	**21,406**	**13,411**	**992**	**-**	**-**	**-**	**-**	**10,524**	**663**
2017-18	**374,383**	**24,317**	**337,292**	**21,810**	**21,071**	**1,607**	**115.6**	**9.3**	**891.0**	**71.5**	**7,897**	**462**
Apr-18	30,946	2,041	38,364	2,532	1,750	142	85.7	6.9	365.9	29.5	629	38
May-18	42,118	2,853	51,097	3,463	2,305	184	65.1	5.3	1,371.1	109.4	650	40
Jun-18	36,960	2,518	44,762	3,049	2,219	176	33.7	2.7	992.5	78.6	893	55
Jul-18	34,620	2,388	38,862	2,676	2,075	167	14.4	1.2	520.9	41.9	917	57
Aug-18	49,257	3,446	50,634	3,542	2,200	178	16.6	1.4	480.7	38.7	1,026	65
Sep-18	61,175	4,424	65,291	4,729	1,883	159	9.4	0.8	380.6	32.2	876	57
Oct-18	40,163	2,964	59,481	4,391	1,837	156	4.3	0.4	367.3	31.0	757	50
Nov-18	46,354	3,357	43,152	3,102	1,426	117	0.7	0.1	179.8	14.6	553	35
Dec-18	50,434	3,586	49,321	3,494	1,425	115	1.8	0.2	175.7	14.2	649	41
April - Dec 18	**392,027**	**27,577**	**440,964**	**30,978**	**17,121**	**1,395**	**231.7**	**18.8**	**4,834.4**	**390.1**	**6,952**	**438**

Table 6.10b: Business Growth of Currency Futures and Options (Currency Pairs) at NSE

Month/Year	USD JPY Future		GBP INR Future		GBP USD Future		Total	
	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)	No. of contracts (thousand)	Traded Value (Rsbn)
2016-17	-	-	**20,694**	**1,837**	-	-	**712,451**	**48,571**
2017-18	**59.2**	**3.8**	**22,575**	**1,944**	**647.1**	**58.8**	**764,964**	**50,285**
Apr-18	37.4	2.5	2,122	197	345.9	32.0	74,707	5,027
May-18	30.7	2.1	2,194	200	385.9	35.1	100,246	6,895
Jun-18	27.8	1.9	2,222	201	440.1	39.7	88,566	6,124
Jul-18	27.3	1.9	2,296	208	496.0	44.9	79,857	5,589
Aug-18	18.1	1.3	1,987	179	401.6	35.9	106,045	7,489
Sep-18	7.0	0.5	1,729	164	349.3	33.0	131,707	9,599
Oct-18	3.7	0.3	1,660	160	250.4	24.0	104,528	7,775
Nov-18	4.2	0.3	1,822	169	230.6	21.4	93,727	6,817
Dec-18	5.5	0.4	1,693	152	155.2	13.9	103,867	7,418
April - Dec 18	**161.5**	**11.0**	**17,725**	**1,630**	**3,054.9**	**280.0**	**883,249**	**62,732**

Source: NSE.

Note: Currency Futures on GBP-INR and JPY-INR were introduced w.e.f. February 01, 2010.
Exchange traded Cross Currency Derivatives Contracts were introduced from Feb 22, 2018.
For Options, Notional Value has been considered.

Table 6.11: Business Growth of Currency Futures and Options segment at BSE and MSEI

Month/Year	BSE						MSEI					
	Currency Futures		Currency Options		Total		Currency Futures		Currency Options		Total	
	No. of contracts (thousand)	Turnover (Rsbn)	No. of contracts (thousand)	Notional Turnover (Rsbn)	No. of contracts (thousand)	Turnover* (Rsbn)	No. of contracts (thousand)	Turnover (Rsbn)	No. of contracts (thousand)	Notional Turnover (Rsbn)	No. of contracts (thousand)	Turnover* (Rsbn)
2013-2014	34,007	2,118	5,150	325	39,157	2,443	347,017	21,246	51,568	2,978	398,585	24,224
2014-2015	212,435	13,071	96,742	6,015	309,176	19,085	100,105	6,316	2,963	183	103,068	6,499
2015-2016	280,636	18,504	139,591	9,136	420,227	27,639	45,627	3,034	3,232	212	48,858	3,246
2016-2017	**268,340**	**18,078**	**202,086**	**13,638**	**470,425**	**31,716**	**42,224**	**2,855**	**1,833**	**125**	**44,056**	**2,979**
2017-2018	**307,657**	**19,933**	**382,577**	**24,431**	**690,234**	**44,364**	**15,393**	**997**	**2,457**	**160**	**17,850**	**1,157**
Apr-18	30,952	2,048	46,508	3,052	77,460	5,100	802	53	190	13	992	66
May-18	42,674	2,896	65,135	4,389	107,809	7,285	969	66	97	7	1,066	72
Jun-18	45,979	3,130	59,114	4,007	105,093	7,137	704	48	60	4	764	53
Jul-18	37,208	2,564	57,099	3,888	94,307	6,452	1,143	79	70	5	1,213	84
Aug-18	41,814	2,918	59,987	4,164	101,802	7,082	475	33	60	4	536	38
Sep-18	45,790	3,315	48,959	3,485	94,749	6,800	451	33	96	7	547	40
Oct-18	41,294	3,049	45,931	3,364	87,226	6,413	215	16	174	13	388	29
Nov-18	34,950	2,513	44,516	3,225	79,466	5,737	128	9	153	11	281	21
Dec-18	38,918	2,760	33,800	2,397	72,718	5,157	93	7	86	6	179	13
Apr-Dec 18	**359,580**	**25,191**	**461,049**	**31,971**	**820,629**	**57,162**	**4,980**	**345**	**987**	**70**	**5,967**	**415**

Source: SEBI.
Note: *In case of Option Contracts "Turnover" represents "Notional Turnover".

Total turnover of interest rate futures at NSE increased by 4% to Rs3.2tn in 2017-18 from Rs3.1tn in 2016-17. Opposite trend is seen in terms of open interest during the same time period. Total value of open interests at the end of 2017-18 declined by almost 70% compared to the previous financial year. In BSE, total turnover increased tremendously by 75% from Rs1.3tn in 2017-18 to Rs2.2tn in 2017-18.

Table 6.12: Trading Statistics of Interest Rate Futures at NSE and BSE

Year/ Month	NSE					BSE			
	No. of Trading Days	Interest Rate Futures		Open Interest at the end of		Interest Rate Futures		Open Interest at the end of	
		No. of Contracts (thousand)	Traded Value (Rsbn)	No. of Contracts (thousand)	Value (Rsbn)	No. of Contracts (thousand)	Traded Value (Rsbn)	No. of Contracts (thousand)	Value (Rsbn)
2013-14	251	1,502.1	301.7	55.7	11.1	128.5	25.8	9.8	2.0
2014-15	238	20,587.0	4,215.6	338.4	70.7	2,033.3	419.1	80.1	16.7
2015-16	242	26,056.5	5,264.3	2,524.8	509.8	5,687.7	1,141.2	5.6	1.1
2016-17	242	14,807.0	3,078.1	120.4	24.8	6,185.3	1,279.8	18.0	3.8
2017-18	**242**	**16,186.7**	**3,212.1**	**41.0**	**7.8**	**11,345.2**	**2,238.8**	**0.3**	**0.1**
Apr-18	19	1,435.5	270.4	63.8	11.9	477.4	89.8	0.5	0.1
May-18	22	648.0	120.9	46.9	8.7	426.5	79.4	4.4	0.8
Jun-18	21	459.6	86.2	40.0	7.5	353.5	65.6	8.2	1.5
Jul-18	22	729.0	139.4	78.9	15.1	588.9	110.6	9.6	1.8
Aug-18	20	964.1	184.2	93.1	17.7	565.2	105.9	10.0	1.8
Sep-18	18	1,028.6	193.5	51.5	9.7	403.4	74.9	1.9	0.4
Oct-18	21	1,190.1	226.0	71.7	13.7	489.6	92.2	12.8	2.5
Nov-18	19	1,052.3	202.9	69.1	13.4	324.6	61.6	8.6	1.7
Dec-18	20	1,986.7	391.4	79.6	15.7	219.8	42.5	24.6	4.8
Apr-Dec'18	**182**	**9,493.9**	**1,814.9**	**79.6**	**15.7**	**3,848.9**	**722.5**	**24.6**	**4.8**

Source: SEBI.

6.7 Commodity Derivatives Market in India

The commodities exchange space is expected to grow at a faster rate after the integration of commodities and securities market, which has been accomplished over the last four years. The Forward Markets Commission, the then regulator of the commodities market, was merged with SEBI, the main regulator of the securities market, on September 28, 2015 “to strengthen regulation of commodity forward markets and reduce wild speculation” (Union Budget, 2015-16). Then, the Forward Contracts Regulation Act (FCRA) was repealed and the commodity derivatives market regulations came under the purview of SEBI under the Securities Contracts Regulation Act, 1957. SEBI enabled integration of securities brokers and commodities brokers with effect from September 21, 2017. Finally, SEBI has allowed a single exchange to operate in the various asset classes, such as equity, equity derivatives, commodity derivatives, debt, interest rate futures, currency derivatives with effect from October 1, 2018. In response, both NSE and BSE applied for and received SEBI approval to enter into the commodity derivatives segment with effect from October 1, 2018. BSE has launched its commodity segment with gold and silver futures contracts on October 1, 2018, while NSE has started with same commodities from October 12, 2018.

As of December 2018, there are five exchanges in the commodity segment, viz. National Commodity and Derivatives Exchange (NCDEX), Multi Commodity Exchange (MCX), Indian Commodity Exchange Ltd (ICEX), BSE and NSE. Among them, NCDEX, MCX and ICEX floated 24, 22 and 13 contracts respectively in futures and options for different commodities, whereas BSE and NSE floated 4 and 2 contracts till December 2018 (Table 6.13). In the bullion market, MCX is the major competitor of BSE and NSE where each of them floated 2 contracts in gold and silver each. Besides, BSE has floated one contract in metals other than bullion while MCX and ICEX have already floated 6 and 1 contracts. Table 6.14 shows the trend of total turnover in bullion futures remains similar during April-December 2018 to that of MCX. Surprisingly, there is no significant impact on total turnover after the introduction of bullion futures at BSE and NSE till December 2018.

Table 6.13: Number of Commodities Permitted and Traded at Exchanges

Exchanges	Particulars	Futures					Options			
		Agriculture	Metals other than bullion	Bullion	Energy	Gems and Stones	Agriculture	Metals other than bullion	Bullion	Energy
NCDEX	Permitted for trading	19	2	1	1	0	5	0	0	0
	Contracts floated	19	0	0	0	0	5	0	0	0
	Traded	15	0	0	0	0	5	0	0	0
MCX	Permitted for trading	9	6	3	2	0	0	2	2	1
	Contracts floated	8	6	2	2	0	0	1	2	1
	Traded	4	5	2	2	0	0	1	2	1
ICEX	Permitted for trading	11	1	0	0	1	0	0	0	0
	Contracts floated	11	1	0	0	1	0	0	0	0
	Traded	1	1	0	0	1	0	0	0	0
BSE	Permitted for trading	0	1	2	1	0	0	0	0	0
	Contracts floated	0	1	2	1	0	0	0	0	0
	Traded	0	0	2	0	0	0	0	0	0
NSE	Permitted for trading	0	1	2	1	0	0	0	0	0
	Contracts floated	0	0	2	0	0	0	0	0	0
	Traded	0	0	2	0	0	0	0	0	0

Source: SEBI.

NSE

Table 6.14: Trends in Commodity Derivatives

Year/ Month	MCX		NCDEX		ICEX		BSE		NSE	
	No. of contracts traded (thousand)	Turnover (Rsbn)	No. of contracts traded (thousand)	Turnover (Rsbn)	No. of contracts traded (thousand)	Turnover (Rsbn)	No. of contracts traded (thousand)	Turnover (Rsbn)	No. of contracts traded (thousand)	Turnover (Rsbn)
2017-18	**205,960**	**53,934**	**15,194**	**5,898**	**9,016**	**367**	**-**	**-**	**-**	**-**
2018-19$	**175,828**	**50,131**	**11,172**	**4,282**	**22,819**	**239**	**68**	**180**	**9**	**21**
Apr-18	20,349	5,645	1,081	396	1,944	36	-	-	-	-
May-18	17,785	5,398	1,125	418	1,419	35	-	-	-	-
Jun-18	17,349	5,146	1,185	419	1,129	27	-	-	-	-
Jul-18	17,827	5,389	1,566	613	1,609	29	-	-	-	-
Aug-18	18,150	5,221	1,432	584	1,111	20	-	-	-	-
Sep-18	18,500	5,942	923	383	1,059	21	-	-	-	-
Oct-18	20,453	6,260	1,420	541	2,702	17	28	70	3	7
Nov-18	21,678	5,786	1,479	574	5,158	24	27	72	3	8
Dec-18	23,735	5,344	961	355	6,688	30	14	38	3	5

Source: SEBI.

Table 6.15: Trends in Bullion Futures

Year/ Month	MCX		BSE		NSE		Total	
	No. of contracts traded (thousand)	Turnover (Rsbn)	No. of contracts traded (thousand)	Turnover (Rsbn)	No. of contracts traded (thousand)	Turnover (Rsbn)	No. of contracts traded (thousand)	Turnover (Rsbn)
2017-18	**27,840**	**13,637**	**-**	**-**	**-**	**-**	**27,840**	**13,637**
2018-19$	**21,579**	**10,860**	**68**	**180**	**9**	**2**	**21,657**	**11,061**
Apr-18	2,673	1,258	-	-	-	-	2,673	1,258
May-18	2,253	1,226	-	-	-	-	2,253	1,226
Jun-18	2,358	1,103	-	-	-	-	2,358	1,103
Jul-18	1,963	996	-	-	-	-	1,963	996
Aug-18	2,451	1,159	-	-	-	-	2,451	1,159
Sep-18	2,506	1,342	-	-	-	-	2,506	1,342
Oct-18	2,716	1,375	28	70	3	7	2,747	1,452
Nov-18	2,405	1,222	27	72	3	8	2,435	1,303
Dec-18	2,255	1,179	14	38	3	5	2,273	1,222

Source: SEBI.

7. Foreign Investments in India

7.1 Introduction

Since 1990-91, the Government of India has undertaken several structural changes in its policies including liberalization, privatization and globalization with a view of bringing a rapid and substantial economic growth in the economy. As a part of the policy reform, the Government has allowed Foreign Institutional Investors (FIIs) to invest in all traded securities on the primary and secondary markets, including shares, debentures and warrants issued by companies listed or to be listed on the major stock exchanges of India and in schemes floated by domestic mutual funds in 1992 through Portfolio Investment Scheme (PIS).

In the budget speech of 2011-12, the Government announced that Qualified Foreign Investors (QFIs), who met the "Know Your Customer" (KYC) norms would be allowed to directly invest in Indian equity and debt mutual fund (MF) schemes. This was the first time that QFIs were allowed to directly participate in the Indian capital market. In January 2012, the Government issued a press note stating that QFIs would now be allowed to invest in the equity shares of Indian companies. Later on, in the budget speech of 2012-13, the Government announced its intention to permit QFIs to invest in corporate bonds in India. When implemented, the QFI framework is extended to all three important segments of the Indian Capital markets, i.e., Mutual Funds, Equity Market and Corporate Bond Market.

SEBI introduced a new class of foreign investors in India known as the Foreign Portfolio Investors (FPIs) effective from June 2014. It was formed by merging the following existing classes of investors, namely, FIIs, QFIs, and sub-accounts of FIIs.

Under the SEBI (Foreign Portfolio Investors) Regulations, 2014, it is mandated that the purchase of equity shares of each company by a single FPI or an investor group should be below ten percent of the total issued capital of the company. Further, the regulations require that in case the same set of ultimate beneficial owner(s) invest through multiple entities, such entities are treated as part of same investor group and the investment limits of all such entities should be clubbed at the investment limit as applicable to a single foreign portfolio investor.

SEBI has been revising its guidelines from time to time to tighten regulations regarding issuance and subscription of Offshore Derivative Instruments (ODIs), and at the same time encouraging investment through direct access route by easing FPI registration norms. In the Circular dated 7th July, 2017, SEBI has disallowed ODIs with derivatives as underlying except those derivative positions that are taken for hedging the equity shares held by the FPI.[1]

Further, SEBI issued a circular on April 10, 2018 that mandates all FPIs to disclose KYCs of all investors. In case of companies/ trusts represented by service providers like lawyers/ accountants, FPIs has to provide information of the real owners/ effective controllers of those companies / trusts.

[1] The FPIs issuing ODIs should fulfil the following conditions for issuance of ODIs with derivatives as underlying:

- The FPIs cannot issue ODIs with derivative as underlying, with the exception of those derivative positions that are taken by the FPI for hedging the equity shares held by it, on a one to one basis.
- The FPI has to liquidate its existing ODIs with derivatives as underlying in excess of those held for hedging purpose before the date of maturity of the ODI instruments or by 31st December, 2020, whichever is earlier.
- For any fresh ODI issuance with derivatives as underlying, the compliance officer of the FPI has to certify that the derivative position on which the ODI is being issued is only for hedging purpose on one to one basis.

On the other hand, Reserve Bank of India, in its Statement on Developmental and Regulatory Policies, released on August 02, 2017, proposed to allocate a separate limit of Rs50bn to Foreign Portfolio Investors (FPIs) for taking long position in Interest Rate Futures (IRFs) in order to facilitate future market development and to ensure that FPIs' access to bond futures remains uninterrupted during the phase when FPI limits on Government securities are under auction. Besides, SEBI in its circular on June 15, 2018 has relaxed several criteria in debt market to encourage more FPIs in that segment. It has been decided to withdraw minimum residual maturity restriction of three years for investment by FPIs in G-Secs and SDLs. The investments and purchases of FPIs in both equity and debt segments have been further discussed below.

7.2 FPI investments in India

FPIs hold a significant share of Indian equity shares (about 28.9% in 2018-19), as developing economies like India provide a high growth potential compared to developed economies. Thanks to the high growth trajectory and potential, net capital inflows remained positive over the period 2011-15. However, inflows turned negative in 2015-16 as the Indian economy started dipping from the third quarter of 2015. Global rate normalization, especially in the developed markets, also contributed to the drag on inflows. This was the third time since FPIs entered Indian markets that they became net sellers for the year. The first time was seen in 1998-99 during the Asian crisis (Rs-16bn), while the second time was during the Global Financial Crisis in 2008-09 (Rs-458bn). In 2016-17 and 2017-18, FPIs had been net buyers as seen below, whereas FPIs became net sellers in Apr-Dec'18 due to several macroeconomic factors including increase in the US Fed rate, decline in world economic growth, ongoing US-China trade war and rise in the probability of no-deal Brexit.

Table 7.1: Trends in FPI Investment

Period	Purchases (Rsbn)	Sales (Rsbn)	Net Investment (Rsbn)	Net Investment (US$bn)
2010-11	9,926	8,462	1,464.4	32.2
2011-12	9,213	8,276	937.3	18.9
2012-13	9,048	7,365	1,683.7	31.0
2013-14	9,029	9,694	450.1	8.9
2014-15	15,213	12,439	2,774.6	45.7
2015-16	13,244	13,426	-181.8	-2.6
2016-17	**15,070**	**14,586**	**484.1**	**7.6**
2017-18	**17,287**	**15,837**	**1,450.7**	**22.5**
Apr-18	1,347	1,503	-155.6	-2.4
May-18	1,275	1,573	-297.8	-4.4
Jun-18	1,451	1,609	-157.9	-2.3
Jul-18	1,286	1,263	22.6	0.3
Aug-18	1,195	1,144	51.5	0.8
Sep-18	1,311	1,521	-210.3	-2.9
Oct-18	1,345	1,734	-389.1	-5.3
Nov-18	1,282	1,166	116.0	1.6
Dec-18	1,295	1,216	78.9	1.1
Apr-Dec 2018	**11,788**	**12,730**	**-941.8**	**-13.4**

Source: SEBI Bulletin.

7.2.1 Category-wise: Equity and Debt investments

In 2017-18, FPI inflows were largely dominated by debt segment at Rs1,190bn vs. equity segment of Rs256bn (Table 7.2). However, this trend has reversed in the current fiscal year with FPI outflows equally in both debt and equity segments (Rs470bl). The global turmoil has deeply impacted foreign investors' sentiments, especially for emerging markets. Moreover, higher bond yields in US economy and depreciating Indian rupee have negative impacts towards FPI investments in the bond market in India.

Table 7.2: Net Investments by FPIs in Equity and Debt in Equity and Debt

Year	Net Investment in Equity (Rsmn)	Net Investment in Debt (Rsmn)	Net Investment in Equity (US$mn)	Net Investment in Debt (US$mn)
2015-16	-141,690	-40,030	-2,131	-602
Apr-16	84,160	64,180	1,266	965
May-16	25,430	-44,090	380	-659
Jun-16	37,130	-62,200	552	-924
Jul-16	126,120	68,450	1,877	1,019
Aug-16	90,710	-26,250	1,393	-403
Sep-16	104,430	97,890	1,604	1,503
Oct-16	-43,060	-60,000	-661	-922
Nov-16	-182,440	-211,520	-2,802	-3,249
Dec-16	-81,760	-189,350	-1,256	-2,908
Jan-17	-11,770	-23,190	-181	-356
Feb-17	99,020	59,600	1,521	915
Mar-17	309,060	253,550	4,747	3,894
2016-17	**557,030**	**-72,930**	**8,555**	**-1,120**
Apr-17	23,940	203,640	368	3,128
May-17	77,110	191,550	1,184	2,942
Jun-17	36,170	256,850	556	3,945
Jul-17	51,610	188,670	793	2,898
Aug-17	-127,700	154,470	-1,961	2,372
Sep-17	-113,920	13,490	-1,750	207
Oct-17	30,550	160,640	474	2,492
Nov-17	197,280	5,310	3,061	82
Dec-17	-58,830	23,500	-913	365
Jan-18	137,810	85,230	2,138	1,322
Feb-18	-114,230	-2,540	-1,772	-39
Mar-18	116,540	-90,440	1,808	-1,403
2017-18	**256,350**	**1,190,360**	**3,978**	**18,470**
Apr-18	-55,520	-100,360	-861	-1,557
May-18	-100,600	-196,540	-1,561	-3,049
Jun-18	-48,310	-109,700	-750	-1,702

Year	Net Investment in Equity (Rsmn)	Net Investment in Debt (Rsmn)	Net Investment in Equity (US$mn)	Net Investment in Debt (US$mn)
Jul-18	22,640	430	351	7
Aug-18	17,750	34,140	275	530
Sep-18	-108,250	-101,980	-1,680	-1,582
Oct-18	-289,210	-99,780	-4,487	-1,548
Nov-18	59,810	56,100	928	870
Dec-18	31,430	47,490	488	737
Apr-Dec 2018	**-470,260**	**-470,200**	**-7,297**	**-7,296**

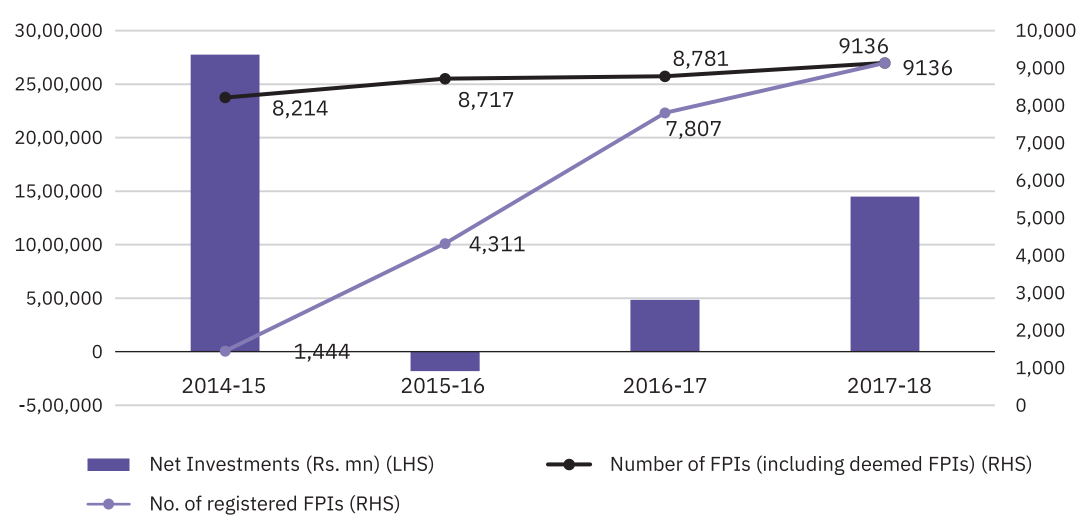
Source: NSDL, FPI Monitor.

7.2.2 Number of FPIs

The FPIs investing in India have increasingly been from diverse locations, with an increase in the number of FPIs registered in India. During 2015-17, a large number of deemed FPIs and sub-accounts were registered under SEBI. As a results, total number of SEBI-registered FPIs increased significantly from 7,807 in 2016-17 to 9,136 in 2017-18 (Chart 7.1).

On the basis of their sources of incorporation, portfolio investments in India were from 56 different countries, as on March 31, 2018 (SEBI Annual Report, 2017-18). There were 18 registered custodians of securities as well as 18 SEBI approved designated depository participants (DDPs) as on March 31, 2018. 3,191 FPIs are registered from US, followed by Luxembourg (1,050), Canada (652) and Mauritius (597).

Chart 7.1: Number of FPIs and Net Investment



Source: SEBI.

FPIs registered from US have the assets under custody (AUC) in the equity segment for the year 2018, while FPIs in Singapore have the highest amount of AUC in debt and hybrid categories. At the end of 2018, US-based entities have 33% of total AUC, followed by Mauritius (14%), Luxembourg (10%) and Singapore (9%).

Table 7.3: Assets under Custody 2017: Top 10 Countries as of December 2018

Sr. No.	Country	AUC (Rsmn)			
		Equity	Debt	Hybrid	Total
1	USA	9,658	610	1.72	10,269
2	Mauritius	4,086	332	1.31	4,419
3	Luxembourg	2,481	683	0.2	3,165
4	Singapore	1,867	1,026	7.26	2,900
5	UK	1,444	36	1.69	1,482
6	Japan	917	206	0	1,123
7	Ireland	992	39	2.65	1,033
8	Canada	886	122	0	1,008
9	Netherlands	507	233	0	740
10	Norway	546	131	0	677
11	Others	3,892	670	5.8	4,567
	Total	27,275	4,086	21	31,382

Source: NSDL.

7.3 Turnover of FPIs

7.3.1 Equity, Debt and Hybrid

In 2018, the gross turnover of FPIs in the equity market segment on major Indian stock exchanges (NSE and BSE) was Rs27.1tn, with an increase of 2% from the previous year (Table 7.4). Besides, gross turnover in the debt segment increased by 5% to Rs6.1tn in 2018. FPIs started investing in Hybrid segment as well from 2017 with Rs361mn gross turnover. It has grown tremendously to reach Rs14bn in 2018.

Table 7.4: Gross Turnover of FPIs in Equity, Debt and Hybrid Segments

Year	Buy Value (Rsbn)	Buy Value (US$bn)	Sell Value (Rsbn)	Sell Value (US$bn)	Gross Turnover of FPIs (Rsbn)	Gross Turnover of FPIs (US$bn)
Equity						
2015	11,609.6	189.9	11,431.6	187.0	23,041.2	376.9
2016	11,074.5	167.0	10,868.8	163.9	21,943.3	330.8
2017	13,505.9	207.4	12,993.3	199.6	26,499.2	407.0
2018	13,405.9	208.0	13,736.0	213.1	27,141.9	421.1
Debt						
2015	2,619.3	40.6	2,160.8	33.5	4,780.1	74.2
2016	2,789.1	43.3	3,225.5	50.0	6,014.6	93.3
2017	3,636.0	56.4	2,147.9	33.3	5,783.9	89.7
2018	2,807.1	43.6	3,285.1	51.0	6,092.2	94.5

Year	Buy Value (Rsbn)	Buy Value (US$bn)	Sell Value (Rsbn)	Sell Value (US$bn)	Gross Turnover of FPIs (Rsbn)	Gross Turnover of FPIs (US$bn)
Hybrid						
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	0.1	0.0	0.2	0.0	0.4	0.0
2018	6.5	0.1	7.6	0.1	14.0	0.2

Source: NSDL FPI Monitor.
Note: Data combine both NSE and BSE turnover.

7.3.2 Derivatives Market

On the other hand, total turnover for FPI in derivatives segment rose sharply by 80% on y-o-y basis to Rs575.4tn in 2018 (Table 7.5).

Table 7.5: FPI turnover in FO market segment of Stock Exchanges

Year	Buy Side			Sell side			Gross No. of Contracts traded (mn)	Gross Turnover of FPIs	
	No. of Contracts (mn)	Amount (Rsbn)	Amount (US$bn)	No. of Contracts (mn)	Amount (Rsbn)	Amount (US$bn)		Amount (Rsbn)	Amount (US$bn)
2015	237	65,468	1,071	231	64,165	1,049	468	129,633	2,120
2016	208	124,789	1,881	207	123,789	1,866	415	248,579	3,747
2017	210	160,021	2,458	208	158,891	2,440	418	318,912	4,898
2018	368	288,790	4,481	366	286,596	4,447	734	575,385	8,928

Source: NSDL FPI Monitor.
Note: F&O includes index futures and options, stock futures and options and interest rate futures.

7.3.3 Offshore Derivative Instruments (ODIs)

Offshore derivative instruments include participatory notes (P-Notes), equity-linked notes, capped return notes, investment notes, and similar instruments issued by FPIs/sub-accounts outside India against their underlying investments in India, which are listed or are proposed to be listed on a stock exchange in India.

P-Notes are the most common type of ODIs. These are financial instruments used by investors that are not registered with SEBI to invest in the Indian stock market. P-Notes have Indian shares or derivatives as underlying assets and, the holders of P-Notes are entitled to the income or capital appreciation from such investment. P-Notes are issued by brokers and FPIs registered with SEBI. The investment is made on behalf of the foreign investors by the already registered brokers and FPIs in India. Any dividends or capital gains arising from the underlying securities accrue to the foreign investors. The foreign investor pays the P-Note issuer a certain basis point(s) of the value of P-Notes traded by him (her) as cost(s).

While popular during initial phase, ODIs have lost their charm over time. The share of ODIs in the assets under custody of FPIs has witnessed a continuous fall after reaching a peak in June 2007, as tightening of regulations by SEBI has made it difficult to use these instruments. In a recent move, SEBI has banned P-notes on derivatives with the exception that the P-note would be used for hedging purpose and underlying shares are held by FPIs. Where the said underlying derivatives position are not for purpose of hedging the equity shares held by it, the ODI issuing FPI has to liquidate such ODIs latest by the date of maturity of the ODI instrument or by December 31, 2020. In the case of issuance of fresh ODIs with derivatives as underlying, a certificate has to be issued by the compliance officer (or equivalent) of the ODI issuing FPI, certifying that the derivatives position, on which the ODI is being issued, is only for hedging the equity shares held by it, on a one to one basis.

As of December 2018, total value of ODIs with underlying Indian securities as a percentage of AUC of FPIs has declined to 2.5 percent from 11.5 percent in March 2015 (Table 7.6).

Table 7.6: Total Value of ODIs Compared to Assets Under Management of FPIs

Year/ Month	Notional value of ODIs on Equity, Debt & Derivatives (Rsbn)	Notional value of ODIs on Equity & Debt excluding Derivatives (Rsbn)	Assets Under Custody of FPIs/Deemed FPIs (Rsbn)	Notional value of ODIs on Equity, Debt & Derivatives as % of Assets Under Custody of FPIs/Deemed FPIs	Notional value of ODIs on Equity & Debt excluding Derivatives as % of Assets Under Custody of FPIs/ Deemed FPIs
2014-15	2,721	2,116	24,118	11.3	8.8
2015-16	2,231	1,695	22,245	10.0	7.6
2016-17	**1,784**	**1,243**	**27,057**	**6.6**	**4.6**
2017-18	**1,064**	**1,027**	**31,483**	**3.4**	**3.3**
Apr-18	1,002	996	33,192	3.0	3.0
May-18	935	900	31,777	2.9	2.8
Jun-18	837	803	31,883	2.6	2.5
Jul-18	803	768	33,345	2.4	2.3
Aug-18	846	809	34,315	2.5	2.4
Sep-18	795	756	31,383	2.5	2.4
Oct-18	666	651	29,823	2.2	2.2
Nov-18	792	780	31,089	2.5	2.5
Dec-18	795	786	31,382	2.5	2.5

Source: SEBI.

Note: Figures are compiled based on reports submitted by FPIs/deemed FPIs issuing ODIs.
Column 4 Figures are compiled on the basis of reports submitted by custodians & does not includes positions taken by FPIs/deemed FPIs in derivatives.
The total value of ODIs excludes the unhedged positions & portfolio hedging positions taken by the FPIs/deemed FPIs issuing ODIs.

8. Policy Developments

Regulation in India is constrained to meet multiple objectives, some of which are investor protection, fair, transparent and efficient markets, and systemic risk minimization. Apart from these there are longer terms goals like encouraging small investors, attracting new players, new products and enhancing operational efficiencies. The landscape went through a number of changes last year, driven by the Ministry of Finance, the Securities and Exchange Board of India (SEBI), and the Reserve Bank of India (RBI).

Policies and programmes initiated by the regulators for the period January 2018–December 2018 are discussed in this section under five major heads: *Issuer related reforms, investor related reforms, stock exchange related reforms, International Financial Services Centre (IFSC) related reforms and foreign institutional investor related reforms.* Changes are typically made through circulars issued by different regulatory agencies, and we highlight some of them below.

8.1 Issuer Related Circulars

Review of Offer for Sale of Shares through Stock Exchange Mechanism (SEBI: December 28, 2018)

SEBI has issued comprehensive guidelines on Offer for Sale of Shares (OFS) through stock exchange mechanism vide circular dated July 18, 2012.

Considering that the OFS mechanism has been successfully used to divest stake by promoters and large shareholders of top 200 companies by market capitalization, market representations indicated that the OFS mechanism may be extended to a wider set of companies. Further, market feedback also indicated that clarity is required in conditions relating to the cancellation of OFS in light of modifications to framework carried out vide circular dated February 15, 2016.

Accordingly, the OFS framework has been modified as under:

i. OFS mechanism shall be available to companies with market capitalization of Rs10bn and above, with the threshold of market capitalization computed as the average daily market capitalization for a period of six months prior to the month in which the OFS opens.

ii. If the seller fails to get sufficient demand from non-retail investors at or above the floor price on T day, then the seller may choose to cancel the offer post bidding, in full (both retail and non-retail) on T day and not proceed with offer to retail investors on T+1 day.

Fund Raising by Issuance of Debt Securities by Large Entities (SEBI: November 26, 2018)

With a view to operationalising the Union Budget announcement for 2018-19, which, *inter-alia*, stated that "SEBI will also consider mandating, beginning with large entities, to meet about one-fourth of their financing needs from the debt market", SEBI came out with a discussion paper on July 20, 2018.

Based on feedback received on the discussion paper and wider consultation with market participants including entities, the detailed guidelines for operationalising the above budget announcement are given below:

i. For entities following April-March/January-December as their financial year, the framework shall come into effect from April 01, 2019/January 01, 2020 respectively.

ii. The framework shall be applicable for all listed entities (except for Scheduled Commercial Banks), which as on last day of the FY (i.e. March 31 or December 31):

  a. Shall have specified securities or debt securities or non-convertible redeemable preference shares listed on a recognised stock exchange

  b. Have an outstanding long term borrowing of Rs1bn or above

  c. Have a credit rating of 'AA' and above

iii. A listed entity, fulfilling the criteria as specified above shall be considered as a “Large Corporate” (LC) and such an LC shall raise not less than 25% of its incremental borrowings, during the financial year subsequent to the financial year in which it is identified as an LC, by way of issuance of debt securities.

iv. Further, disclosure requirements for these LCs are provided in the Annexure of the circular.

v. The responsibilities of the stock exchange include:

  a. Collate the information about the LC, disclosed on their platform, and submit the same to the Board within 14 days of the last date of submission of annual financial results.

  b. In the event of a short fall in the requisite borrowing, the Stock Exchanges shall collect the fine (details in the circular). Such fines collected shall be remitted by the stock exchanges to SEBI IPEF fund within 10 days from the end of the month in which the fine was collected.

Disclosures regarding Commodity Risks by Listed Entities (SEBI: November 15, 2018)

Regulation 34(3) read with clause 9(n) of Part C of Schedule V of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”) mandates listed entities to make disclosures regarding commodity price risk and hedging activities in the Corporate Governance Report section of the Annual Report of a listed entity.

In order to benefit the shareholders and to bring further clarity in disclosures to be made in the annual reports by listed entities, the Corporate Governance Committee formed under the Chairmanship of Shri Uday Kotak has recommended in its report dated October 5, 2017, the following:

i. The listed entities should disclose their risk management activities during the year, including their commodity hedging positions in a more transparent, detailed and uniform manner for easy understanding and appreciation by the shareholders.

ii. For the consistent implementation of the requirements of the SEBI LODR Regulations regarding disclosure of commodity risks and other hedging activities across listed companies, a detailed format along with the periodicity of the disclosures may be outlined by SEBI which would depict the commodity risks they face, how these are managed and also the policy for hedging commodity risk, etc. followed by the company for the purpose of disclosures in the annual report.

These recommendation of the Committee was accepted by the SEBI Board in its meeting held on March 28, 2018 and it was decided to implement the same through a circular.

Accordingly, all listed entities shall make the disclosures in the format as placed at the Annexure as part of the Corporate Governance Report in the Annual Report under clause 9(n) of Part C of Schedule V.

Streamlining the Process of Public Issue of Equity Shares and Convertibles (November 1, 2018)[1]

In order to provide an efficient mechanism for raising funds, SEBI has been continuously striving to streamline the process and methodologies associated with raising fund through public issues of equity shares and convertibles. As part of this effort, SEBI has introduced Unified Payments Interface (UPI) as a payment mechanism with Application Supported by Block Amount (ASBA) for applications in public issues by retail individual investors through intermediaries (Syndicate members, Registered Stock Brokers, Registrar and Transfer agents and Depository Participants). The proposed process is expected to increase efficiency by eliminating the need for manual intervention at various stages and free up investors' locked funds by reducing the time duration from the issue closure to listing by up to three working days.

To ensure complete and smooth transition to UPI payment mechanism, the proposed alternate payment mechanism and consequent reduction in timelines is proposed to be introduced in a phased manner:

Phase I: The UPI mechanism for retail individual investors through intermediaries will be made effective from January 1, 2019 along with the existing process and existing timeline of T+6 days for a period of three months or floating of five main board public issues, whichever is later.

Phase II: The existing process of submitting bid forms physically (through intermediaries) to Self-Certified Syndicate Banks (SCSBs) for blocking of funds shall be discontinued and UPI mechanism will continue or a period of three months or floating of five main board public issues, whichever is later.

Phase III: The final reduced timeline will be made effective using the UPI mechanism.

Guidelines for Preferential Issue of Units by Infrastructure Investment Trusts (InvITs) (SEBI: June 5, 2018)[2]

Regulation 14(4)(b) read with Regulation 2(1)(zo) of SEBI (Infrastructure Investment Trusts) Regulations, 2014 ("InvIT Regulations") provides for any subsequent issue of units after an initial offer in a manner specified by Board from time to time. Accordingly, the detailed guidelines for preferential issue by an InvIT are provided herein:

i. *Conditions for preferential issue:* The conditions for issuing preferential shares have been listed in the circular such as completing allotment within 12 days, allotment to a minimum of two investors and a maximum of 1000 investors in a financial year, units to be used in a dematerialized form only, among others.

ii. *Placement Document:*

   a. The InvIT may appoint one or more SEBI registered intermediaries to carry out the obligations relating to the issue.

   b. The preferential issue of units by an InvIT shall be done on the basis of a placement document, which shall contain disclosures as specified in Annexure I of the circular.

   c. The placement document shall be serially numbered and copies shall be circulated only to select investors subject to compliance with clause 2.7 of the circular.

[1] https://www.sebi.gov.in/legal/circulars/nov-2018/streamlining-the-process-of-public-issue-of-equity-shares-and-convertibles_40923.html
[2] https://www.sebi.gov.in/legal/circulars/jun-2018/guidelines-for-preferential-issue-of-units-by-infrastructure-investment-trusts-invits-_39178.html

d. The InvIT shall, while seeking in-principle approval from the recognised stock exchange, furnish a copy of the placement document, a certificate issued by its merchant banker or statutory auditor confirming compliance with the provisions of these Guidelines and any other documents as required by the stock exchange.

e. The placement document shall also be placed on the website of the concerned stock exchange and the InvIT with a disclaimer to the effect that it is in connection with a preferential issue and that no offer is being made to the public or to any other investor.

iii. *Pricing:*

a. The preferential issue shall be made at a price not less than the average of the weekly high and low of the closing prices of the units quoted on the stock exchange during the two weeks preceding the relevant date.

b. The InvIT shall not allot partly paid-up units.

c. The prices determined for preferential issue shall be subject to appropriate adjustments

iv. *Restriction on allotment:*

a. No allotment shall be made, either directly or indirectly, to any party to the InvIT or their related parties except to the sponsor only to the extent that is required to ensure compliance with regulation 12 (3) of the InvIT Regulations.

b. The applicants in preferential issue shall not withdraw their bids after the closure of the issue.

v. *Transferability of Units:* The units allotted under preferential issue shall not be sold by the allottee for a period of one year from the date of allotment, except on a recognised stock exchange.

Circular for Implementation of Certain Recommendations of the Committee on Corporate Governance under the Chairmanship of Shri Uday Kotak (SEBI: May 10, 2018)[3]

The Committee on Corporate Governance under the Chairmanship of Shri Uday Kotak made several recommendations in the report submitted to SEBI on October 5, 2017. Most of the amendments necessary to implement these recommendations have been made in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 vide notification dated May 9, 2018. There are a few recommendations as accepted by the Board, which are to be implemented through issue of a circular.

Accordingly, the following provisions shall apply to entities whose equity shares are listed on a recognized stock exchange:

1. Disclosures on board evaluation: The listed entity may consider the following as a part of its disclosures on board evaluation:

   o Observations of board evaluation carried out for the year

   o Previous year's observations and actions taken

   o Proposed actions based on current year observations.

[3] https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/attachdocs/may-2018/1525953384071.pdf#page=1&zoom=auto,-23,800

2. Group Governance Unit: Where the listed entity has a large number of unlisted subsidiaries:
   - o The listed entity may monitor their governance through a dedicated group governance unit or Governance Committee comprising the members of its board of directors.
   - o A strong and effective group governance policy may be established by the entity.
   - o The decision of setting up of such a unit/committee or having such a policy shall lie with the board of directors of the listed entity.
3. Medium-term and long-term strategy: The listed entity may consider the following with respect to disclosure of medium-term and long-term strategy of the entity:
   - o It may disclose, under the Management Discussion and Analysis section of the Annual report, within the limits set by its competitive position, its medium-term and long-term strategy based on a time frame as determined by its board of directors
   - o The listed entity may articulate a clear set of long-term metrics specific to the company's long term strategy to allow for appropriate measurement of progress.

Guidelines for Issuance of Debt Securities by Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) (SEBI: April 13, 2018)

SEBI Regulations for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvIT) have been amended in the December 15, 2017 circular. REITs and InvITs are now allowed to issue debt securities. For issuance of these securities, the following provisions need to be followed:

- REITs/InvITs shall follow provisions of SEBI (Issue and Listing of Debt Securities Regulations), 2008 ("ILDS Regulations") in the following manner:
  - o Regulation 4 (5) and Regulation 16 (1) of SEBI ILDS Regulations, 2008 shall not be applicable for issuance of debt securities by REITs/InvITs.
  - o The compliances required to be made with respect to Companies Act, 2013 or any filing to be made to Registrar of Companies in terms of the ILDS Regulations, shall not be applicable
  - o All other provisions of ILDS Regulations shall apply subject to no conflict with REIT Regulations and/or InvIT Regulations. In case of conflict, the REIT/InvIT Regulations would prevail.
- REITs/InvITs shall appoint one or more debenture trustees registered with SEBI under (Debenture Trustees) Regulations, 1993.
- Any secured debt securities issued by REITs/InvITs shall be secured by the creation of a charge on the assets of the REIT/InvIT or holding company or SPV, having a value which is sufficient for the repayment of the amount of such debt securities and interest thereon
- In addition to the disclosures and compliances prescribed, REITs/InvITs which have issued debt securities shall be required to comply with following continuous disclosure requirements:-
  - o Comply with all applicable provisions of the LODR
  - o Additional financial disclosures include debt related ratios, quarterly statements of any material deviation and audit reports having a bearing on the interest payment/ redemption / principal repayment capacity of the REITs/InvITs

Manner of Achieving Minimum Public Shareholding (SEBI: February 22, 2018)

In an earlier circular dated November 30. 2015, SEBI outlined various methods that may be used by a listed entity to achieve compliance with the minimum public shareholding requirements mandated in the LODR (i.e. a minimum public holding of 25%). In addition to the methods mentioned in the November circular, SEBI has provided two additional methods to raise the public holding:

1. Open Market Sale: Sale of shares held by the promoters/promoter group up to 2% of the total paid-up equity share capital of the listed entity in the open market, subject to five times average monthly trading volume of the shares of the listed entity.
2. Qualified Institutions Placement: Allotment of eligible securities through Qualified Institutions Placement (QIP) in terms of Chapter VIII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

If a listed entity is using the first method, i.e., open market sale, then it needs to do so on the following conditions:

a. Disclose the following details to the exchange, at least one day prior to the proposed sale:
    - the intention of the promoter/promoter group to sell and the purpose of sale;
    - the details of promoter(s)/promoter group, who propose to divest their shareholding;
    - total number of shares and percentage of shareholding proposed to be divested; and
    - the period within which the entire divestment process will be completed

b. The listed entity shall also give an undertaking to the recognized stock exchange(s) that the promoter(s) would not buy any shares from the open market sale.

c. The listed entity, its promoter(s) and promoter group shall ensure compliance with all applicable legal provisions.

8.2 Investor Related Circulars

Standardised Norms for Transfer of Securities in Physical Mode (SEBI: November 6, 2018)

SEBI has prescribed requirements for transfer of securities in physical mode vide Regulation 40 and Schedule VII of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR").

SEBI had received representations, highlighting difficulties faced by transferees in providing various documents sought by RTAs for transfer of securities. SEBI also had meetings with Registrars Association of India (RAIN) and Depositories in this regard. Pursuant to the meetings, RAIN had submitted a proposal of standardised procedure for transfer of securities in physical mode. SEBI examined the proposal and modified the documentation/procedure for transfer of physical securities as under:

i. Transfer deeds executed prior to notification of LODR (i.e. December 1, 2015) may be registered with or without the PAN of the transferor as per the requirement of quoting PAN under the applicable Income Tax Rules.

ii. In case of mismatch of name in PAN card vis-à-vis share certificate/transfer deed, transfer shall be registered on submission of any of the four additional documents explaining the difference in names: Passport, Legally recognised Marriage Certificate, Gazette notification regarding name change or Aadhar card.

iii. In case of non-availability or major mismatch in transferor's signature the transferor is required to update his/ her signature as per the procedures laid down in the LODR.

Participation of Eligible Foreign Entities (EFEs) in the Commodities Derivatives Market (SEBI: October 09, 2018)

Foreign entities that import/export various commodities from/to India, by virtue of their actual exposure to the various commodities in Indian market, are valuable stakeholders in the value chain of such commodities and are also exposed to price uncertainty of Indian commodity markets. Therefore, these foreign entities should be allowed to hedge their price risk in the Indian commodity derivatives market. Prior to this circular, such foreign entities were not permitted to directly participate in the Indian commodity derivatives market.

Taking cognizance of the fact that participation by such foreign participants would be conducive for the overall development of the commodity derivatives market in India, SEBI published a consultation paper on May 18, 2018 to discuss the suitable framework for allowing foreign participants to hedge their commodity exposure. Pursuant to feedback received from the market participants during the consultative process, it has been decided to permit foreign entities having actual exposure to Indian commodity markets, to participate in the commodity derivative segment of recognized stock exchanges for hedging their exposure. Such foreign entities shall be known as "Eligible Foreign Entities" (EFEs). The detailed regulatory framework for participation by the EFEs have been outlined in the Annexure to the circular.

Investor Grievance Redress Mechanism – new policy measures (SEBI: March 28, 2018)

In an earlier circular dated December 18, 2014, SEBI had consolidated all the provisions of the SEBI Complaints Redress System (SCORES) platform, which allowed investors to register any grievances pertaining to the securities market (listed companies and registered intermediaries) through this electronic mode. The SCORES platform would be easily accessible 24x7 and would enhance the turnaround time and speed of redressal of a compliant.

After receiving feedback from listed companies and intermediaries that investor grievances can be resolved faster if the grievance is taken up directly with the entity at the first instance, SEBI has introduced new policy measures. Effective from August 01, 2018, following procedure shall be followed for filing and redressal of investor grievances using SCORES:

Investors who wish to lodge a complaint on SCORES would register themselves on www.scores.gov.in and provide details such as Name of the investor, PAN, Contact details, Email id, Aadhaar card number (optional), CKYC ID (optional) etc. for effective communication and speedy redressal of the grievances.

a. An investor shall use login credentials for lodging complaint on SCORES

b. The complainant may use SCORES to submit the grievance directly to companies/intermediaries and the complaint shall be forwarded to the entity for resolution. The entity is required to redress the grievance within 30 days, failing which the complaint shall be registered in SCORES.

c. Presently, the limitation period for filing an arbitration reference with stock exchanges is three year. In line with the same and in order to enhance ease, speed and accuracy in redressal of investor grievance, the investor may lodge a complaint on SCORES within three years from the date of cause of complaint, where;

   i. Investor's compliant was rejected by the concerned party

   ii. Investor does not receive any communication regarding his compliant

iii. Investor is not satisfied with the reply given for his complaint

Compensation to Retail Individual Investors (RIIs) in an IPO (SEBI: February 15, 2018)

Although the process of Applications Supported By Block Amount (ASBA) has resulted in almost complete elimination of complaints pertaining to refunds, there have been instances where the applicants in an Initial Public Offering (IPO) have failed to get allotment of specified securities and in the process may have suffered an opportunity loss due to factors such as:

i. Failure on part of the Self Certified Syndicate Banks (SCSBs) to make bids in the concerned Exchange system even after the amount has been blocked in the investors' bank account with such SCSB.

ii. Failure on part of the SCSBs to process the ASBA applications even when they have been submitted within time.

iii. Any other failures on part of SCSBs, which have resulted in the rejection of the application form.

Therefore, SEBI has formulated a uniform policy for calculation of minimum compensation payable to investors in scenarios mentioned above. The following factors have been taken into account to calculate the minimum compensation amount:

i. the opportunity loss suffered by the investor due to non-allotment of shares;
ii. the number of times the issue was oversubscribed in the relevant category;
iii. the probability of allotment; and
iv. the listing gains if any on the day of listing.

The proposed formula for calculation of minimum fair compensation is as follows:

Compensation = (Listing Price – Issue Price)*	x	*No. of shares that would have been allotted if bid was successful*	x	*Probability of allotment of shares determined on the basis* of allotment

**Listing price shall be taken as the highest of the opening prices on the day of listing across the Recognized Stock Exchanges.*

In case of issues which are subscribed between 90-100%, i.e. non-oversubscribed issues, the applicants shall be compensated for all the shares, which they would have been allotted.

No compensation shall be payable to the applicant in case the listing price is below the issue price.

Any applicant, whose application has not been considered for allotment due to failure on the part of the SCSB, shall have the option to seek redressal of the same within three months of the listing date with the concerned SCSB. On receipt of such application/s, the SCSB are required to resolve the same within 15 days, failing which it would have to pay interest at the rate of 15% per annum for any delay beyond the said period of 15days. SEBI may also initiate additional action as deemed fit.

8.3 Exchange Related Circulars

Physical Settlement of Stock Derivatives (SEBI: December 31, 2018)

In reference to SEBI, vide circular dated April 11, 2018, captioned 'Review of Framework for Stocks in Derivatives Segment', it had decided that physical settlement shall be made mandatory for all stock derivatives in a phased manner.

As per the April 11 circular, a new stock, on which option and future contracts are to be introduced shall conform to the following broad eligibility criteria:

i. The stock shall be chosen from amongst the top 500 stocks in terms of average daily market capitalization and average daily traded value in the previous six months on a rolling basis.

ii. The stock's median quarter-sigma order size over the last six months, on a rolling basis, shall not be less than Rs25Lakh.

iii. The market wide position limit in the stock shall not be less than Rs5bn on a rolling basis, and

iv. Average daily delivery value in the cash market shall not be less than Rs100mn in the previous six months on a rolling basis.

The abovementioned criteria are to be met for a continuous period of six months.

The circular also mentioned that the derivatives on stocks (new/existing) which meet the above mentioned enhanced eligibility criteria shall be cash settled. However, if these stocks failed to satisfy any of the enhanced eligibility criteria for a continuous period of three months, they shall be moved from cash settlement to physical settlement. After moving to physical settlement, if such stocks did not meet any of the eligibility criteria (specified vide SEBI circular dated July 23, 2012) for a continuous period of three months, the stocks shall be removed from derivatives segment.

The circular specified that stocks which are in the derivatives segment and meet the eligibility criteria (specified vide circular dated July 23, 2012) but do not meet the enhanced criteria shall be physically settled.

The circular also specified that only those stocks which met the enhanced eligibility criteria shall remain in derivatives segment after a period of one year.

According to the December 31 circular, stock derivatives which are presently being cash settled shall move to physical settlement in the following manner:

i. Stocks which are being cash settled shall be ranked in descending order based on daily market capitalization averaged for the month of December 2018.

ii. Based on the ranking arrived in the point above, the bottom 50 stocks shall move to physical settlement from April 2019 expiry, the next 50 stocks from the bottom shall move to physical settlement from July 2019 expiry, and the remaining stocks shall move to physical settlement from October 2019 expiry.

iii. Derivatives introduced on new stocks, meeting the enhanced eligibility criteria (specified vide SEBI circular dated April 11, 2018) after the date of this circular, shall also be physically settled.

iv. All other conditions specified in the SEBI circular dated April 11, 2018, shall continue to remain in force.

Early Warning Mechanism to Prevent Diversion of Client Securities (SEBI: December 17, 2018)

There have been instances where stock brokers had diverted clients' securities received as collaterals towards margin obligations and/or settlement obligations, for raising loan against shares on their own account and/or for meeting securities shortages in settlement obligations on his/her own account.

Therefore, SEBI has mandated to put in place an Early Warning Mechanism and sharing of information between Stock Exchanges, Depositories and Clearing Corporations with effect from February 1, 2019.

The mechanism will help detect such diversion of client's securities by the stock broker at an early stage so that appropriate preventive measures can be taken. The threshold for such early warning signals shall be decided by the Stock Exchanges, Depositories and Clearing Corporations with mutual consultation.

1. Early warning signals for prevention of diversion of clients' securities may include the following:
   i. Deterioration in financial health of the stock broker/ depository participant based on the parameters mentioned in the circular.
   ii. Information related to certain securities pledging transactions (defined in the circular) by the stock brokers that depositories are required to share with the stock exchanges.
   iii. Increase in number of investor complaints against the stock broker/depository participant alleging unauthorized trading/unauthorized delivery instructions being processed, non-receipt of funds and securities and non-resolution of the same.
   iv. Alerts generated from the monthly/weekly submissions made by stock broker under Risk Based Supervision (RBS) or Enhanced Supervision to the Stock Exchanges.
   v. Disabling of stock brokers' terminals for certain number of days in any segment/Stock Exchange in the previous quarter.
2. Stock Exchanges and Depositories shall frame an internal policy/guidelines regarding the time period and the type of documents critical for closing the inspection of stock brokers and depository participants.
3. Stock Exchanges/Clearing Corporations/ Depositories shall devise a mechanism to detect diversion of clients' securities and share the information among themselves.
4. Alerts with respect to a stock broker/depository participant triggered at one Stock Exchange/ Clearing Corporation/Depository through the early warning mechanism shall be immediately shared with other Stock Exchanges/Depositories.
5. If it is established, based on the data from the early warning mechanism, that the stock broker's financial health has deteriorated and/or he has made unauthorized transfer of fund /securities of the client, the Stock Exchanges/Depositories shall jointly take preventive actions on the stock broker as mentioned in the circular.

Review of Risk Management Framework for Equity Derivatives Segment (SEBI: December 17, 2018)

The Principles for Financial Market Infrastructures (PFMI) *inter alia* prescribe that a central counterparty (CCP) should identify and consider a number of elements, including Margin Period of Risk (MPOR) or close-out period, when constructing an appropriate margin system to address risks that arise from the products cleared. The assumed MPOR or close-out period should incorporate the market depth and characteristics of the products cleared. ACCP should consider multiple MPOR assumptions or seek to ensure that a single MPOR assumption is appropriate for all cleared products in case it clears products with different market characteristics.

Based on the recommendation made by Risk Management Review Committee (RMRC) and in consultation with the Clearing Corporations, it has been decided that Exchanges/Clearing Corporations shall:

i. Estimate the appropriate MPOR, subject to a minimum of two days, for each equity derivative product based on liquidity therein and scale up the initial margins and exposure margins accordingly.

ii. For initial margins, the revised MPOR shall be given effect by way of scaling up the Price Scan Range (PSR) used for computing the Worst Scenario Loss.

iii. It has further been decided to stipulate PSR for computation of initial margins across index options and index futures contracts as three standard deviations (3σ) or 5% of the underlying value, whichever is higher.

iv. The Short Option Minimum Charge (SOMC) for index option contracts stands revised to 5%.

v. In order to make risk management framework more robust, the payment of MTM shall now mandatorily be made by all the members on T+0 basis i.e. before start of trading on the next day.

This provisions of this circular shall come into effect from January 21, 2019.

Noncompliance with Provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and Standard Operating Procedure for Suspension and Revocation of Trading of Specified Securities (SEBI: May 3, 2018)[4]

SEBI had issued a circular, bearing reference number CIR/CFD/CMD/12/2015 dated November 30, 2015, specifying the uniform structure for imposing fines as a first resort for non-compliance with certain provisions of the Listing Regulations and the standard operating procedure for suspension of trading in case the non-compliance is continuing and/or repetitive.

Thereafter, SEBI had issued another circular bearing reference number SEBI/HO/CFD/CIR/P/2016/116 dated October 26, 2016 specifying the manner of freezing of holdings of the promoter and promoter group of a listed entity that failed to pay fines levied by the stock exchange(s).

In order to streamline the process and adopt a uniform approach in levying fines for non-compliance as mentioned above, SEBI has issued this circular in supersession of the above circulars. With effect from September 30, 2018, stock exchanges shall:

i. take action in case of non-compliance with the Listing Regulations as specified in Annexure I of the circular, and

ii. follow the Standard Operating Procedure ("SOP") for suspension and revocation of suspension of trading of specified securities as specified in Annexure II of the circular.

Stock Exchanges may deviate from the above, if found necessary, only after recording reasons in writing.

The depositories, on receipt of intimation from the concerned recognized stock exchange, shall freeze or unfreeze (as the case may be) the entire shareholding of the promoter and promoter group in such non-compliant listed entity as well as all other securities held in the demat account of the promoter and promoter group. Further, if a non-compliant entity is listed on more than one recognized stock exchange, the concerned exchanges shall take uniform action (under this circular) in consultation with each other.

The recognized stock exchanges shall disclose on their website the action(s) taken against the listed entities; including the details of the respective requirement, amount of fine levied, the period of suspension, details regarding the freezing of shares, etc.

[4] https://www.sebi.gov.in/legal/circulars/may-2018/non-compliance-with-provisions-of-sebi-listing-obligations-and-disclosure-requirements-regulations-2015-and-standard-operating-procedure-for-suspension-and-revocation-of-trading-of-specified-securi-_38841.html

Additional Risk Management Measures for Derivatives Segment (SEBI: May 02, 2018)

Based on the feedback received from the Clearing Corporations and the recommendations of the Risk Management Review Committee (RMRC) of SEBI, the following additional risk management measures are required to be complied with and implemented by the stock exchanges/clearing corporations for derivatives segment:

i. Margin Collection Requirement: For the Equity Derivatives segment, the client margins which are required to be compulsorily collected and reported to the Exchange/Clearing Corporation, as the case may be, by the Clearing members/ Trading members shall include initial margin, exposure margin/extreme loss margin, calendar spread margin and mark to market settlements.

ii. Margin Enforcement Requirement: With reference to SEBI circular CIR/DNPD/7/2011 dated August 10, 2011 captioned "Short-collection/Non-collection of client margins (Derivatives segments)", it is clarified that the 'margins', for both Equity Derivatives Segment and Currency Derivatives Segment, shall include margins as specified in Para 2 of this circular, mark to market settlements or any other margin as prescribed by the Exchange/Clearing Corporation to be collected by Clearing Members from their clients (i.e. Custodial Participants and Trading Members -for their proprietary positions) and by Trading Members from their clients.

iii. Computation of Liquid Net worth: Further to SEBI circular IES/DC/Cir-4-99 dated 28th July, 1999, it is clarified that for the equity derivatives segment, the liquid net worth shall be arrived at by deducting initial margin and the exposure margin/extreme loss margin from the liquid assets of the clearing member

This circular has come into effect from June 1, 2018.

Measures to Strengthen Algorithmic Trading and Co-location/Proximity Hosting Framework (SEBI: April 09, 2018)[5]

In order to address the concerns relating to algorithmic trading and co-location/proximity hosting facility offered by stock exchanges and to provide a level playing field between Algorithmic/ Co-located trading and manual trading, SEBI had issued a discussion paper on August 5, 2016 requesting market participants to provide their views on the efficacy and need to introduce further mechanisms to address the aforementioned concerns. In light of the public comments received and in consultation with Technical Advisory Committee (TAC) of SEBI and Secondary Market Advisory Committee (SMAC) of SEBI, it has been decided to introduce the following measures in connection with algorithmic trading and co-location /proximity hosting framework facility offered by stock exchanges.

i. In order to facilitate small and medium sized Members, who otherwise find it difficult to avail colocation facility, exchanges are required to allocate a space/rack in a co-location facility to eligible vendors along with provision for receiving market data for further dissemination of the same to their client trading members and the facility to place orders (algorithmic / non-algorithmic) by the client trading members from such facility.

ii. The vendors shall provide the technical know how, hardware, software and other associated expertise as services to the client trading members and shall be responsible for upkeep and maintenance of all infrastructure in the racks provided to them.

iii. Stock exchanges shall supervise and monitor such facilities on a continuous basis.

[5] https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/attachdocs/apr-2018/1523271816354.pdf#page=1&zoom=auto,-23,792

iv. Further, in order to have fair competition, stock exchanges are advised to ensure that multiple vendors are permitted for providing Managed Co-location Services at their co-location facility.

Role of the Independent Oversight Committee for Product Design (SEBI: January 22, 2018)

In an earlier circular dated November 26, 2015, SEBI had provided the timelines for compliance with various provisions of securities law by commodity derivatives exchanges. Among these guidelines, it was noted that commodity derivatives exchanges shall constitute an oversight committee for 'Product design', chaired by a Public Interest Director, within three months.

However, it is observed that exchanges have been adopting varied approaches in complying with this requirement both in the constitution and the functioning of the oversight committee. In order to bring uniformity with respect to the role of the oversight committee, SEBI has laid out the functions of the committee as follows:

i. To oversee matters related to product design such as introduction of new products/contracts, modifications of existing product/contract designs etc. and review the design of the already approved and running contracts.

ii. To oversee SEBI inspection observation on Product Design related issues.

iii. To estimate the adequacy of resources dedicated to Product design related function.

The heads of departments handling the above matters would be required to report to the committee and the Managing Director of the company. This rule would be applicable to all exchanges operating in IFSC as well. The provisions would be in effect from 30 days from the date of the circular. The exchanges would be required to make all relevant amendments in the bye-laws, rules and regulations for the implementation of the same, and also inform all members the provisions in this circular and disseminate the same on their website.

8.4 Circulars Related IFSC

Operating Guidelines for Alternative Investment Funds in International Financial Services Centres (IFSC) (SEBI: November 26, 2018)

Based on the deliberations in Alternative Investment Policy Advisory Committee (AIPAC) and consultations with other stakeholders, SEBI has put in place ‘Operating Guidelines for Alternatives Investment Funds in IFSC’.

Some of the important provisions of the circular are:

i. Any fund established or incorporated in IFSC in the form of a trust or a company or a limited liability partnership or a body corporate, can seek registration as Alternative Investment Funds (AIFs) for operating in IFSC, under the provisions of SEBI (Alternative Investment Funds) Regulations, 2012(‘AIF Regulations’) under the categories mentioned therein.

ii. AIFs were earlier permitted to invest in India only through the Foreign Portfolio Investment route in terms of SEBI circular dated May 23, 2017 governing permissible investments by AIFs operating in IFSC. Such AIFs shall now be allowed to invest in India through the Foreign Venture Capital Investor or Foreign Direct Investment (FDI) route also, in accordance with applicable FDI policy/guidelines issued by Government of India and RBI in this regard.

iii. Each scheme of an AIF shall have corpus of at least US$3mn.

iv. An AIF shall accept a minimum investment value of US$150,000 from an investor. For investors are employees or directors of an AIF or employees or directors of the Manager, the minimum value of investment shall be US$40,000.

v. The Manager or Sponsor of an AIF shall have a continuing interest in the AIF of not less than 2.5% of the corpus or US$750,000, whichever is lower, in the form of investment and such interest shall not be through the waiver of management fees. In case of Category III AIF, the continuing interest shall be not less than 5% of the corpus or US$1.5mn, whichever is lower.

Provisions for Angel Funds in IFSC:

i. An angel fund shall have a minimum corpus of US$750,000.

ii. An "angel investor" shall satisfy the following financial criteria :

   a. An individual investor shall have net tangible assets of at least US$300,000 excluding value of his principal residence,

   b. A body corporate shall have a net worth of at least US$1.5mn.

iii. Investment by Angel Fund

   a. Angel funds shall invest in venture capital undertakings (VCU) in India in accordance with DIPP Guidelines as referred to in regulation 19(F)(1) (a) of AIF regulations.

   b. Angel funds shall invest in VCUs, which have a turnover of less than US$3.75mn.

   c. Angel funds shall invest in VCU which are not promoted or sponsored by or related to an industrial group, whose group turnover exceeds US$45mn.

   d. Investment by an angel fund in any VCU shall not be less than US$40,000 and shall not exceed US$1.5mn.

iv. The Manager or Sponsor of an Angel Fund shall have a continuing interest of not less than 2.5% of the corpus or US$80,000, whichever is lower and such interest shall not be through the waiver of management fees.

Segregated Nominee Account Structure in International Financial Service Centre (IFSC) (SEBI: May 24, 2018)

With a view to further facilitate ease of market access for foreign investors in IFSC, SEBI has permitted Segregated Nominee Account Structure (hereinafter referred to as 'Providers') in IFSC wherein orders of foreign investors may be routed through eligible Segregated Nominee Account Providers for trading on stock exchanges in IFSC while adhering to regulatory requirements, *inter alia*, relating to identification of end-client, Unique Client Code, order placement at client level, client level margining and position limits.

The broad features of the Segregated Nominee Account Structure are given in Annexure of the circular.

Stock exchanges, brokers and 'Providers' shall furnish to SEBI information relating to trades originated by/through 'Providers', including KYC details of their end-clients, as and when requested.

Stock exchanges in IFSC shall ensure that the provisions of Prevention of Money Laundering Act, 2002 (PMLA) are adhered to by 'Providers' for their end-clients.

Investment of Own Funds (excluding funds lying in Core Settlement Guarantee Fund) by Clearing Corporations in International Financial Services Centre (IFSC) (SEBI: May 21, 2018)

SEBI vide circular SEBI/HO/MRD/DRMNP/CIR/P/2016/54 dated May 04, 2016, has specified Investment policy of a clearing corporation. Currently, the clearing corporations are permitted to invest their own funds as well as funds lying in Core Settlement Guarantee Fund in Fixed Deposits/ Central Government Securities and Liquid schemes of Debt Mutual Funds.

Upon review of investment instruments/avenues available for Clearing Corporations in IFSC and based on the feedback received, it has been decided to permit the Clearing Corporations in IFSC to invest their own funds in AAA rated Foreign Sovereign Securities. However, the investment in such AAA rated Foreign Sovereign Securities shall not exceed a limit of 10% of the total investible resources, excluding funds lying in Core Settlement Guarantee Fund of the Clearing Corporation.

Acceptance of Bank Guarantees by Clearing Corporations in International Financial Services Centre (IFSC) (SEBI: February 20, 2018)

As per the circular, Clearing corporations in IFSC shall be permitted to accept bank guarantees issued by bank branches located in IFSC in addition to cash and cash equivalents (which shall include major foreign currencies as may be decided by the clearing corporation from time to time and term deposit receipts), Indian securities held with foreign depositories, foreign securities including units of liquid mutual funds and gold, as eligible collateral for trades in all product categories. However, cash and cash equivalents shall form at least 50% of the total liquid assets at all times.

8.5 Circulars Related Foreign Portfolio Investors (FPIs)

Clarification on Clubbing of Investment Limits of Foreign Portfolio Investors ("FPIs") (SEBI: December 13, 2018)

In its circular dated April 10, 2018 (No. SEBI/HO/IMD/FPIC/CIR/P/2018/66), SEBI had provided clarifications regarding clubbing of investment limits of foreign Government/ foreign Government related entities. After taking into account the recommendations of the SEBI Working Group under the chairmanship of Shri H R Khan (hereinafter referred as HR Khan group), SEBI has decided the following, which supersedes the directions of the April 10 circular:

i. Clubbing of investment limit for FPIs shall be on the basis of common ownership of more than 50% or based on common control. However, clubbing of investment limit of FPIs having common control shall not be done in case of:

   a. FPIs which are appropriately regulated public retail funds; or

   b. FPIs which are public retail funds with majority ownership by appropriately regulated public retail funds on look through basis; or

   c. FPIs which are public retail funds and investment managers (IMs) of such FPIs are appropriately regulated.

ii. If two or more FPIs including foreign Governments/their related entities are having direct or indirect common ownership of more than 50% or control, all such FPIs will be treated as forming part of an investor group and the investment limits of all such entities shall be clubbed as applicable to a single foreign portfolio investor.

iii. In cases where Government of India enters into agreements or treaties with other sovereign Governments and where such agreements or treaties specifically recognize certain entities to be distinct and separate, SEBI may, during the validity of such agreements or treaties, recognize such entities as distinct and separate, subject to conditions as may be specified by it.

iv. The investment by foreign Government agencies shall be clubbed with the investment by the foreign Government/ its related entities for the purpose of calculation of 10% limit for FPI investments in a single company, if they form part of an investor group.

v. The investment by foreign Government/its related entities from provinces/states of countries with federal structure shall not be clubbed if the said foreign entities have different ownership and control.

vi. In respect of any breach of the investment limit mentioned above, the FPI's shall have the following two options:

   a. FPI in breach shall have to divest its holding within five trading days from the date of settlement of the trades to bring its shareholding below 10% of the paid up capital of the company, or

   b. The said investments shall be treated as Foreign Direct Investment from the date of breach.

Know Your Client (KYC) Requirements and Eligibility Conditions for Foreign Portfolio Investors (FPIs) (SEBI: September 21, 2018)

SEBI Board in its meeting held on September 18, 2018 has after considering the interim recommendations of SEBI Working Group under the chairmanship of Shri H.R.Khan in relation to the circular dated April 10, 2018 on Know Your Client (KYC) requirements for Foreign Portfolio Investors (FPIs) and comments received from public, decided that:

i. Beneficial ownership criteria in Prevention of Money-laundering (Maintenance of Records) Rules, 2005 (hereinafter referred as PMLA Rules) should be made applicable for purpose of KYC and not for determining eligibility of FPIs.

ii. The clubbing of investment limit for FPIs should not be done on the basis of beneficial owner (BO) as per PMLA Rules.

iii. Accordingly, there will be a separate set of norms for determining conditions where Non Resident Indians (NRIs) and Overseas Citizens of India (OCIs) and Resident Indians (RIs) are constituents.

The Board broadly accepted the recommendations of HR Khan group, and decided to put in place the following eligibility norms. The Amendments in SEBI (FPI) Regulations, 2014, wherever necessary, will be notified separately.

1. NRIs and OCIs shall have the same meaning as assigned to them under regulation 2 of the Foreign Exchange Management (Transfer or issue of security by a Person Resident outside India) Regulations, 2017.
2. NRIs/OCIs/Resident Indians shall be allowed to be constituents of FPIs based on certain conditions
3. FPIs can be controlled by investment managers (IMs) which are controlled and /or owned by NRI/ OCI/ RI based on certain conditions
4. A non-investing FPI may be directly or indirectly fully owned and/or controlled by a NRI/ OCI/ RI.
5. The restriction that NRI/OCI/RI should not be in control of FPI shall also not apply to FPIs, which are 'offshore funds' for which no-objection certificate has been provided by the Board in terms of SEBI (Mutual Funds) Regulations, 1996.
6. The restrictions in point 2 above will not be applicable to FPIs investing only in mutual funds in India.

7. Existing FPIs and new applicants shall be given a time period of two years from the date of coming into force of the amended regulations or from the date of registration, whichever is later in order to satisfy these eligibility conditions.

8. In case of temporary breach a time period of 90 days will be given to ensure compliance with above conditions.

Further, FPIs shall comply with the following Know Your Client (KYC) requirements:

1. Identifications and verification of Beneficial Owners (BOs)

    i. FPIs are required to provide a list of BOs as per Annexure A of the circular. BOs of FPIs having General Partner/Limited Partnership structure shall be identified on ownership or entitlement basis and control basis.

    ii. In respect of FPIs coming from "high risk jurisdictions" (as referred in SEBI Master circular No. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/2018/ 104 dated July 04, 2018) the intermediaries may apply lower materiality threshold of 10% of the Assets under Management (AuM) for identification of BO.

    iii. If the controlling ownership interest in the FPI is held by another entity (intermediate entity), the materiality threshold to identify the beneficial owner should be first applied at the level of FPI and next look through basis shall be applied to identify the beneficial owner of the intermediate shareholder/owner entity. For intermediate material shareholder/ owner entity/ ies, name and percentage holding shall also be disclosed as per Annexure B of the circular.

    iv. If no BO can be identified using the materiality threshold criteria for ownership and control, then a senior managing official (SMO) of the FPI is the designated BO. An SMO is an official who holds senior management position and makes key decisions. BO should not be a nominee of another person.

    v. No foreign company shall be entitled to exemption under Rule 9(3)(f) of PMLA Rules.

    vi. In case of companies/trusts represented by service providers like lawyers/ accountants, FPIs should provide information of the real owners/ effective controllers of those companies/trusts. If the BO exercises controls through means like voting rights, agreements, arrangement etc., that should be specified by the FPI. It is clarified that BO should not be a nominee of another person and real BO should be identified.

    vii. Offshore Derivative Instrument (ODI) issuing FPIs shall also identify and verify the BOs in the subscriber entities, as per these guidelines.

2. Periodic KYC Review

    The KYC review (including change in BOs / their holdings) should be done based on risk categorization of FPIs.

    i. In case of Category II and Category III FPIs from high risk jurisdictions, KYC review should be done on yearly basis.

    ii. In case of all other clients, the KYC review should be conducted at the time of continuance of FPI registration.

    iii. In the event of non-submission of KYC documents, if any, no further purchase transactions shall be permitted to such clients.

3. KYC documentation for Category III FPIs

   SEBI has prescribed that submission of financial data is mandatory for Category III FPIs.

   i. In this regard, it is clarified that audited Annual financial statement or a certificate from auditor certifying networth may be obtained from Category III FPIs.

   ii. In case of new funds/ companies/ family offices, the audited financial statement of promoter person may be obtained.

   iii. Prospectus and information memorandum are acceptable in lieu of an official constitutive document.

4. Exempted documents to be provided during investigations/ enquiry

   i. In respect of exempted documents, FPIs concerned should submit an undertaking to DDP/ Custodians that the relevant documents would be provided upon demand by Regulators/ Law Enforcement Agencies.

   ii. Category III FPIs shall provide addresses of the BOs, Senior Management and Authorised Signatories on the letter head.

5. Data Security

   The KYC Registration Agencies (KRAs) shall lock personal information with regard to beneficial owner including SMO of FPI. Such information should be made available to intermediaries only on 'need to know basis' using an authentication method.

6. Period for maintenance of records

   i. The Custodian should maintain the KYC records in original for a minimum period of five years from the date of cessation of the transactions with the said FPI.

   ii. In case of any pending litigation, these records should be maintained till the completion of the proceedings.

7. Timelines for compliance

   i. Category II and III FPIs registered prior to this circular (existing FPIs) should provide the list of BOs (as per Annexure A) and applicable KYC documentation within six months from the date of this circular.

   ii. If an existing FPI fails to comply with the applicable KYC requirements by the given deadline, the concerned Custodian shall not allow such FPI to make fresh purchases till the time KYC documentation requirements are complied with. However, such an FPI shall be allowed to continue to sell the securities already purchased by it within 180 days from the expiry of the above deadline. In case the FPI remains non-compliant with this requirement even after 180 days from the said deadline, its FPI registration will no longer be valid and it would need to disinvest its holdings immediately.

Investment by Foreign Portfolio Investors (FPIs) through Primary Market Issuances (SEBI: July 13, 2018)

Regulation 21(7) of SEBI (Foreign Portfolio Investors) Regulations, 2014 mandates that the purchase of equity shares of each company by a single foreign portfolio investor or an investor group shall be below

10% of the total issued capital of the company. Further, the regulations require that in case the same set of ultimate beneficial owner(s) invest through multiple entities, such entities shall be treated as part of same investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single FPI.

For the purpose of identifying the investor group:

i. The Designated Depository Participant (DDP) shall obtain the details provided by the FPI under clause 2.2 of the FPI Application form (Form A) specified in First Schedule of FPI Regulations.

ii. The monitoring of investment limits at the level of investor group shall be performed by the depositories based on the information provided by DDPs.

To ensure compliance of the above, at the time of finalization of basis of allotment during primary market issuances, Registrar and Transfer Agents ('RTAs') shall:

a. Use Permanent Account Number (PAN) issued by Income Tax Department of India for checking compliance for a single FPI; and

b. Obtain validation from Depositories for the FPIs who have invested in the particular primary market issuance to ensure there is no breach of investment limit within the timelines for issue procedure, as prescribed by SEBI from time to time.

The depositories shall put in place the necessary systems for sharing of information with RTAs within the timelines for issue procedure, as prescribed by SEBI from time to time.

Review of Investment by Foreign Portfolio Investors (FPI) in Debt (RBI/SEBI: June 15, 2018)

In accordance with RBI circular A.P. (DIR Series) Circular No. 31 dated June 15, 2018, the changes to operational aspects of FPI investment in debt are set forth below:

i. It has been decided to withdraw minimum residual maturity restriction of three years for investment by FPIs in G-Secs and SDLs. Further, the auction process being carried out by BSE/ NSE shall be discontinued from the date of this circular.

ii. Till date, depositories were monitoring the G-Sec/ SDLs utilisation limits and reporting to SEBI. Henceforth, the overall monitoring of G-Sec/ SDLs will be done by Clearing Corporation of India Ltd.(CCIL)

iii. Thus, any circular(s) previously issued by SEBI for monitoring of G-Sec and SDLs stands withdrawn and hence, shall not be applicable to FPIs for investments in G-Secs and SDLs from June 1, 2018. However, FPIs may be guided by RBI circular dated June 15, 2018 referred above for the requirements of G-Secs and SDLs.

iv. Further, revised requirements for FPIs investments in corporate debt securities are placed as Annexure (see circular link for details).

v. It is clarified that the primary responsibility of complying with monitoring the corporate debt investment limits is with the FPIs on whose behalf depositories will monitor the investment limits. As the depositories are maintaining the data on investor group level, depositories shall monitor the investments at the investor group level. Custodians shall be responsible for monitoring their own clients.

vi. At the time of monitoring the corporate debt investment limits, depositories shall identify the FPIs in breach and inform to their respective custodians who in turn shall advise their FPI clients for the needful. For the monitoring of G-Secs/ SDLs utilisation limits by CCIL, depositories shall share the investor group data with RBI and CCIL on a monthly basis.

vii. The stock exchanges and depositories shall put in place the necessary systems for the online monitoring of the investment limits.

Separate Limit of Interest Rate Futures (IRFs) for Foreign Portfolio Investors (FPIs) (SEBI: March 8, 2018)

Reserve Bank of India, in its Statement on Developmental and Regulatory Policies, released on August 02, 2017, proposed to allocate a separate limit of Rs50bn to Foreign Portfolio Investors (FPIs) for taking long position in Interest Rate Futures (IRFs) in order to facilitate further market development and to ensure that FPIs' access to bond futures remains uninterrupted during the phase when FPI limits on Government securities (GSec) are under auction. The limits prescribed for investment by FPIs in Government Securities (currently Rs3,015bn) are exclusively available for investment in GSec only.

The limit of Rs50bn separately allocated to FPIs for taking long position in IRFs would be calculated as follows:

i. For each interest rate futures instrument, position of FPIs with a net long position will be aggregated. FPIs with a net short position in the instrument will not be reckoned.

ii. No FPI can acquire net long position in excess of Rs18bn at any point of time

For monitoring the limit, Stock Exchanges, after consulting amongst themselves, have to adhere to the following mechanism:

a. Put in place necessary mechanism for monitoring and enforcing limits of FPIs in IRFs.

b. Aggregate net long position in IRF of all FPIs taken together at end of the day and shall jointly publish/ disseminate the same on their website on daily basis.

c. Once 90% of the limit is utilized, Stock Exchanges shall put in place necessary mechanism to get alerts and publish on their websites the available limit, on a daily basis.

d. In case, there is any breach of the threshold limit, the FPI/s whose investment caused the breach shall square off their excess position/s within five trading days or by expiry of contract, whichever is earlier.

This circular comes into effect immediately.

8.6 Circulars Related Other Stakeholders

Creation of Segregated Portfolios in Mutual Fund Schemes (SEBI: December 28, 2018)[6]

SEBI has permitted creation of segregated portfolio of debt and money market instruments by mutual funds schemes to deal with liquidity risks and to ensure fair treatment to all investors in case of a credit event.

The circular defines segregated portfolio as a portfolio comprising of debt or money market instrument affected by a credit event, which has been segregated in a mutual fund scheme.

An Asset Management Company (AMC) may create segregated portfolio in a mutual fund scheme subject to the following:

[6] https://www.sebi.gov.in/legal/circulars/dec-2018/creation-of-segregated-portfolio-in-mutual-fund-schemes_41462.html

i. Segregated portfolio may be created in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA).

ii. The most conservative rating shall be considered in case of difference in rating by multiple CRAs.

iii. Creation of segregated portfolio shall be optional and at the discretion of the AMC. It shall be created only if the Scheme Information Document (SID) of the scheme has provisions for segregated portfolio with adequate disclosures.

iv. AMCs shall have a detailed written down policy on creation of segregated portfolio and the same shall be approved by the trustees.

v. Once an AMC decides to segregate portfolio, it shall:

  a. Seek approval of trustees prior to creation of the segregated portfolio.

  b. Issue a press release disclosing its intention to segregate such debt and money market instruments and its impact on the investors.

  c. Ensure that till the time trustee approval is received, which in no case shall exceed 1 business day from the day of credit event, the subscription and redemption in the scheme shall be suspended for processing.

vi. Once the trustee approval is received:

  a. Segregated portfolio shall be effective from the day of credit event.

  b. AMC shall issue a press release to that effect immediately with all relevant information pertaining to the segregated portfolio. The AMC shall also submit the details to SEBI.

  c. An e-mail or SMS to that effect shall be sent to all unit holders of the concerned scheme.

  d. The NAVs of segregated and main portfolio shall be disclosed from the day of the credit event.

  e. All existing investors in the scheme as on the day of the credit event shall be allotted equal number of units in the segregated portfolio as held in the main portfolio.

  f. No redemption and subscription shall be allowed in the segregated portfolio. However, in order to facilitate exit to the unit holders in a segregated portfolio, the AMC shall enable listing of the units of segregated portfolio on a recognized stock exchange within 10 working days of creation of the segregated portfolio and also enable transfer of such units on receipt of transfer requests.

  If the trustees do not approve the proposal to segregate portfolio, AMC shall issue a press release immediately to that effect.

vii. Valuation and processing of subscriptions and redemptions:

  a. Notwithstanding the decision to segregate the debt and money market instruments, the valuation should take into account the credit event and the portfolio shall be valued based on the principles of fair valuation (i.e. realizable value of the assets) in terms of the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and Circular(s) issued thereunder.

  b. All subscription and redemption requests for which NAV of the day of credit event or subsequent day is applicables will be processed as under:

    - Upon trustees' approval to create a segregated portfolio:

- o Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
- o Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.

- If the trustees do not approve the proposal of segregated portfolio, the subscription and redemption applications will be processed based on the NAV of the total portfolio.

viii. Total Expense Ratio (TER) for the Segregated Portfolio:

a. AMC shall not charge investment and advisory fees on the segregated portfolio. However, TER (excluding the investment and advisory fees) can be charged on a pro-rata basis only upon recovery of the investments in segregated portfolio.

b. The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence.

c. The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.

d. The costs related to segregated portfolio shall in no case be charged to the main portfolio.

ix. In order to enable the existing as well as the prospective investors to take informed decisions, the circular has also laid down various disclosure requirements for AMCs.

x. In order to ensure timely recovery of investments of the segregated portfolio and avoid its misuse, trustees shall monitor the workings of the AMCs as per the guidelines laid down in this circular.

xi. The existence of the provisions for segregated portfolio should not encourage the AMCs to take undue credit risk in the scheme portfolio. Any misuse of the provisions of segregated portfolio would be considered serious and stringent action may be taken.

Interoperability among Clearing Corporations (SEBI: November 27, 2018)

Interoperability of clearing corporations (CCs) is linking of multiple clearing corporations, which allows market participants to consolidate their clearing and settlement functions at a single clearing corporation of their choice.

SEBI issued a circular on November 27, 2018 providing a framework for Interoperability of Clearing Corporations. The interoperability framework shall be applicable to all the recognised clearing corporations excluding those operating in International Financial Service Centre (IFSC).

i. All the products available for trading on the stock exchanges excluding commodity derivatives which shall be made available at a later date under the interoperability framework.

ii. To achieve interoperability, a link is established between the two clearing corporations. A link may be set up either as a participant link or peer-to-peer link.

iii. The collateral posted by one CC with another CC shall be maintained in a separate account, which can be clearly identified in the name of the CC providing the collateral and shall not be included in the Core SGF of the CC receiving the collateral.

iv. The CCs shall undertake multilateral netting to create inter-CC net obligations and settle funds and securities on a net basis.

v. In order to mitigate any risk arising out of latency in real time flow of information between stock exchange and CC, stock brokers shall be mandatorily subject to risk reduction mode of 85% of their collateral available for adjustments against margins.

vi. In case of default by a CC, the collateral provided by the defaulting CC shall be utilised to cover losses arising from such default, as per the guideline provided in SEBI circular dated August 27, 2014.

vii. The transaction charges levied by CC shall be made known to the market participants upfront.

The Stock Exchanges and the Clearing Corporations shall take all necessary steps to operationalize interoperability at the earliest but not later than June 01, 2019.

Guidelines for Enhanced Disclosures by Credit Rating Agencies (CRAs) (SEBI: November 13, 2018)

SEBI, vide Circular dated November 01, 2016, had prescribed the standard format for press release regarding rating action by CRAs. While CRAs are required to monitor and analyse the relevant factors that affect the creditworthiness of an issuer and discuss the same in the rating notes considered by the rating committee for assignment of ratings, such relevant factors may also be suitably incorporated in the press release regarding the rating action. Accordingly, in order to enable investors to understand the underlying rating drivers better and make more informed investment decisions, CRAs shall make the following specific disclosures in the section on "Analytical Approach" in the Press Release:

i. When a rating factors in support from a Parent/ Group/ Government, with an expectation of infusion of funds towards timely debt servicing, the names of such entities, along with the rationale for such expectation, may be provided

ii. When subsidiaries or group companies are consolidated to arrive at a rating, list of all such companies, along with the extent (e.g. full, proportionate or moderate) and rationale of consolidation, may be provided.

iii. The Press Release shall also include a specific section on "Liquidity", which shall highlight parameters like liquid investments or cash balances, access to unutilised credit lines, liquidity coverage ratio, adequacy of cash flows for servicing maturing debt obligation, etc. CRAs shall also disclose any linkage to external support for meeting near term maturing obligations

Role of Sub-Broker (SB) vis-à-vis Authorizer Person (AP) (SEBI: August 03, 2018)

Under the current regulatory framework, Sub-Brokers ("SB") need to seek registration from SEBI under SEBI (Stock Broker and Sub-Broker) Regulations, 1992, and Authorized Persons ('AP') need to seek registration from the concerned Exchange. There is no difference in the operative role of a Sub-Broker and that of an Authorized Person.

In its board meeting held on June 21, 2018, SEBI has decided to discontinue with Sub-Broker as an intermediary to be registered with SEBI. The current SBs will have two options till March 31, 2019:

1. Migrate to act as an Authorized person (AP) and/or Trading Member (TM), or
2. Surrender their Sub-Broker registration

Further, the following procedure will be followed by SEBI from the date of this circular:

i. SEBI will not accept any fresh registrations for Sub-Brokers, and any pending applications with SEBI shall be returned to the concerned Stock Exchanges for onward transmission to the applicant.

ii. Consequent to migration/ deemed surrender, the certificate of registration granted by SEBI to the Sub-Brokers will be withdrawn.

The migration path for existing registered Sub-Brokers, shall be as under:

i. A registered Sub-Broker who is already approved to act as an AP in Derivatives Segment of the Exchanges, shall be registered with the Exchange to continue activities of Sub-Broker as an AP in Cash Segment.

ii. A registered Sub-Broker who is not approved by Stock Exchanges to act as an AP in Derivatives Segment, exchanges shall register him/her as an AP in Cash Segment, to continue their operations without disruption.

iii. The existing Sub-Broker has an option to become a Trading Member, if the Sub-Broker meets the eligibility criteria prescribed under Stock Exchange Bye-laws and SEBI Regulations and by complying with these Regulations.

All the existing Sub-Brokers shall be required to pay renewal fees to SEBI upto FY19; and renewal fees paid by Sub-Broker for the financial years beyond 2018-19 shall be refunded on receipt of recommendation from respective Stock Exchange. The Stock Exchanges shall put in place appropriate process for surrender or migration of Sub-Broker to AP/ TM.

Discontinuation of Acceptance of Cash by Stock Brokers (July 12, 2018)

In view of the various modes of payment through electronic means available today, SEBI has directed that Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of the stock broker. The SEBI circular dated August 27, 2003 (regarding Mode of Payment and Delivery) has been modified accordingly. All other conditions specified in the SEBI circular dated August 27, 2003 shall continue to remain in force.

Participation by Strategic Investors in InvITs and REITs (SEBI: January 18, 2018)

SEBI has allowed strategic investors to participate in InvITs (Infrastructure Investment Trusts) or REITs (Real Estate Investment Trusts) as per the respective Regulations. In this regard, if a strategic investor wants to invest in InvITs or REITs, then the following procedure needs to be followed:

i. The strategic investor(s) shall, either jointly or severally, invest not less than 5% and not more than 25% of the total offer size.

ii. The investment manager or manager on behalf of the InvIT/REIT, shall enter into a binding unit subscription agreement with the strategic investor(s), which propose(s) to invest in the public issue of InvIT/REIT.

iii. Subscription price per unit payable by the strategic investor(s) shall be set out in the unit subscription agreement and the entire subscription price shall be deposited in a special escrow account prior to opening of the public issue.

iv. The price at which the strategic investor has agreed to buy units of the InvIT/REIT shall not be less than the issue price determined in the public issue.

v. The draft offer document or offer document, as applicable shall disclose details of the unit subscription agreement including name of each strategic investor, the number of units proposed to be subscribed by it or the investment amount, proposed subscription price per unit, etc.

vi. The unit subscription agreement shall not be terminated except in the event the issue fails to collect minimum subscription.

Lastly, the units subscribed by strategic investors, pursuant to the unit subscription agreement, will be locked-in for a period of 180 days from the date of listing in the public issue.

Enhancing Fund Governance for Mutual Funds (SEBI: February 7, 2018)

In November 2017, SEBI released a circular related to corporate governance norms for Mutual Funds. After receiving feedback from the Mutual Fund industry, SEBI has made a few amendments to the provisions as stated below:

i. Independent trustees and independent directors, who have held office for 9 years or more (as on November 30, 2017) were permitted to continue in their respective position for a maximum of one additional year. However, it is now being altered to allow IDs to comply with this provision in a phased manner, within a period of 2 years.

ii. The earlier provision stated that auditors who have conducted audit of the Mutual Fund for nine years or more (as on date of issuance of this circular) may continue for a maximum of one year from date of issuance of this circular. However, this has now been extended, allowing auditors to continue till the end of FY19.

iii. All other provisions of the November 2017 circular remain unchanged.

The following changes have been made to ensure a smooth transition to the norms mentioned in the November 2017 circular that would enhance the governance structure of Mutual Funds in India.

Margin Provisions for Intra-day Crystallised Losses (SEBI: January 8, 2018)

Previously, the margining system of Clearing Corporations levied margins based on net buy value (Buy –Sales value of underlying) of unsettled trades in the cash segment and based on the net open positions (Open Interest) in the derivatives segments. The risk of crystallised obligations (Profit/Loss on trade) incurred due to intra-day trades did not get fully captured in the margining system and consequently in the clearing corporation's risk management system.

Based on the recommendations of SEBI's Risk Management Review Committee, the following has been decided to mitigate such risks with effect from three months from the date of the circular:

i. The intra-day crystallised losses shall be monitored and blocked by Clearing Corporations from the free collateral on a real-time basis only for those transactions which are subject to upfront margining. For this purpose, crystallised losses can be offset against crystallised profits at a client level, if any.

ii. If crystallised losses exceed the free collateral available with the Clearing Corporation, then the entity shall be put into risk reduction mode as specified in circular dated December 13, 2012.

iii. Crystallised losses shall be calculated based on weighted average prices of trades executed.

iv. Adjustment of intraday crystallised losses shall not be done from exposure free liquid networth of the clearing member.

9. Corporate Governance in India: Developments and Policies

9.1 Importance of Corporate Governance in the Capital Market

Corporate governance (CG) may be defined as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company" (SEBI consultation paper, 2013). Essentially, CG represents "the set of checks and balances within the corporate structure that helps create long-term value enhancement for stakeholders in a company." (Varottil, 2009) The corporate scandals at Enron and WorldCom and collapse of financial giants such as Bear Stearns, AIG and Lehman Brothers have underscored the significance of corporate governance to the economy and have focused the attention of the policy makers the world over on the CG standards in their respective countries.

But why is corporate governance so pivotal to a country? Two significant reasons may be cited in this regard. Firstly, an orderly and transparent business environment inspires confidence on the part of domestic and international investors. While making investment decision, investors consider governance risk, which arises from the potential lack of transparency, accountability and enforceability in the marketplace, as one of the critical factors. Research suggests that foreign investors shy away from countries characterized by weak shareholder protection and related legal institutions since investors' information and monitoring costs could be overly taxing. Secondly, weak governance systems often lead to serious problems; the 1997 East Asian crisis, for example, could partly be attributed to the weak institutions. The total indebtedness of countries affected by the crisis exceeded one hundred billion dollars. Similarly, the failure of a large corporate can cost an economy dearly; for example, the first year cost to the US economy caused by the failure of Enron in terms of only stock price erosion has been estimated at US$35bn.

In India, the focus on corporate governance reforms came with the liberalization of the economy in early 1990s, motivated by the first reason stated above rather than the second. The initial impetus for CG reforms in India was provided by the industry, rather than the government. In 1998, a voluntary Code of Corporate Governance was published (by Competition Commission of India), which was followed by the establishment of the Kumar Mangalam Birla Committee on Corporate Governance by the Securities and Exchange Board of India (SEBI). Over the past one and half decades, India made significant strides in CG reforms, thereby improving public trust in the market. These reforms have been well received by investors, including foreign portfolio investors (FPIs). Foreign direct investment (net) in India rose from US$0.3bn in FY 1996 to US$30bn in 2017-18 (RBI, Handbook of Statistics on Indian Economy, 2018). The governance reforms in India and the globalisation of the capital markets have been mutually reinforcing. While continuing governance reforms have led to rising foreign investment, the globalisation of the capital markets has provided an impetus towards a more stringent CG regime.

But, how did capital market globalization improve corporate governance regime? To market securities to foreign investors, Indian companies making public offerings in India had to comply with the CG norms with which investors in the developed world were familiar. Further, Indian companies listing abroad to raise capital were subject to the strict CG requirements that were applicable to companies listed on those exchanges. However, such practices have remained confined to a few large companies and have not percolated to the majority of Indian companies.

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9.2 International Comparison

The Doing Business report is an annual publication of the World Bank, which offers a detailed analysis of global regulatory systems, the efficacy of bureaucracy, and the nature of business governance worldwide. The report presents data for 190 economies and aggregates information from 11 areas of business regulation, namely:

- Starting a business
- Dealing with construction permits
- Getting electricity
- Registering property
- Getting credit
- Protecting minority investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Resolving insolvency
- Labour market regulations

According to the Doing Business report 2019, India has jumped 23 positions higher, achieving a rank of 77 among 190 countries in 2018. With seven reforms making it easier to do business in 2017/18, India was the only economy in South Asia to join the list of the top 10 improvers. India's relative ranking in all the above stated components for last three years is given below:

Table 9.1: India's Rank across Ease of Doing Business and its Components

Sr. No	Indicator	2017	2018	2019
1	Ease of doing business	130	100	77
2	Starting a business	155	156	137
3	Dealing with construction permits	185	181	52
4	Getting electricity	26	29	24
5	Registering property	138	154	166
6	Getting credit	44	29	22
7	Protecting minority investors	13	4	7
8	Paying taxes	172	119	121
9	Trading across borders	143	146	80
10	Enforcing contracts	172	164	163
11	Resolving insolvency	136	103	108

Source: World Bank's Doing Business 2019.

The improvements made across different areas of ease of doing business include:

- **Starting a business:** India made starting a business easier by fully integrating multiple application forms into a general incorporation form. India also replaced the value added tax with the GST (Goods and Services Tax) for which the registration process is faster in both Delhi and Mumbai, the two cities measured by the 'Doing Business' report. At the same time, Mumbai abolished the practice of site inspections for registering companies under the Shops and Establishments Act.

- **Dealing with construction permits:** India streamlined the process of obtaining a building permit and made it faster and less expensive to obtain a construction permit. It also improved building quality control by introducing decennial liability and insurance.
- **Getting electricity:** The Delhi Electricity Regulatory Commission reduced charges for low voltage connections. Getting electricity was also made easier in Delhi through a reduction in the time for the utility to carry out the external connection works.
- **Getting credit**: India strengthened access to credit by amending its insolvency law. Secured creditors are now given absolute priority over other claims within insolvency proceedings.
- **Paying taxes**: India made paying taxes easier by replacing many indirect taxes with a single indirect tax, the GST, for the entire country. India also made paying taxes less costly by reducing the corporate income tax rate for micro, small and medium enterprises (who have reported turnover up to Rs2.5bn) and the employees' provident funds scheme rate paid by the employer.
- **Trading across borders**: India reduced the time and cost to export and import through various initiatives, including the implementation of electronic sealing of containers, the upgrading of port infrastructure and allowing electronic submission of supporting documents with digital signatures.
- **Labour market regulation**: India changed regulations pertaining to weekly holiday work, overtime hours and paid annual leave.

Notably, India's ranking has improved mainly due to improvements in three indicators; viz., starting a business, dealing with construction and trading across borders. Table 9.2 shows that in terms of "dealing with construction permits", India is far better than the BRICS countries except Russia and other developed countries like USA and UK.

Table 9.2: India's Comparison with Selected Advanced Countries, 2019

Parameters (Rank)	India	Brazil	Russia	China	South Africa	USA	UK
Starting a business	137	140	32	28	134	53	19
Dealing with construction permits	52	175	48	121	96	26	17
Trading across borders	80	106	99	65	143	36	30

Source: World Bank's Doing Business 2019.

9.3 Reforms in CG Framework for Listed Companies

Some of the important developments and policy changes in the CG framework in India are summarised as follows.

9.3.1 The Companies (Amendment) Bill, 2018

The enactment of the Companies Act, 2013 was one of the most significant legal reforms in India, aimed at bringing Indian companies law in line with the global standards. The Act introduced significant changes in the company's law in India, especially in relation to accountability, disclosures, investor protection and corporate governance.

In order to review the existing framework dealing with offences and related matters under the Act and make recommendations to promote better corporate compliance, the Government of India constituted a Committee in July, 2018. The said committee submitted its report in August 2018, which was published by the Ministry of Corporate Affairs. As the Parliament was not in session and immediate action was required to be taken the Companies (Amendment) Ordinance, 2018 was promulgated by the President of India on November 2, 2018. The Ordinance that came into force on the same date, has made over thirty amendments to the Companies Act. The Ordinance puts into effect several recommendations made in the aforesaid committee report. It introduced changes to improve compliance and corporate governance, and modified penalties leviable for various offences. One of the objectives is to reduce the burden of routine matters before National Company Law Tribunals (NCLT), and strengthen enforcement against serious offences. The Government introduced the Companies (Amendment) Bill 2018, which replaces the aforesaid ordinance, in the Lok Sabha on December 20, 2018. The bill was passed by the Lok Sabha on January 4, 2019; it was pending before Rajya Sabha.

Key features of the Bill are as follows:

i. *Recategorisation of offences:* The Companies Act 2013 contains 81 compoundable offences that are heard by the courts and punishable with fine or imprisonment or both. The Bill re-categorizes 16 of these offences as civil defaults, where adjudicating officers (appointed by the central government) may now levy penalties instead. Some of these offences include issuance of shares at a discount, failure to file annual return, etc.

ii. *Issuance of shares at a discount:* The Act prohibits a company from issuing shares at a discount, except in certain cases. In the event of non-compliance, the company is liable to pay a fine between one lakh rupees and five lakh rupees and every officer in default may be punished with imprisonment up to six months or fine between one lakh rupees and five lakh rupees. The Bill proposes to remove imprisonment for officers as a punishment. Further, the company and every officer in default will be liable to pay a penalty equal to the amount raised by the issue of shares at a discount or five lakh rupees, whichever is lower. The company will also be liable to refund the money received with interest at 12% per annum from the date of issue of the shares.

iii. *Commencement of business:* A company incorporated after the commencement of the Companies (Amendment) Act, 2018 and having a share capital shall not commence any business or exercise any borrowing powers unless (a) a declaration is filed by a director within a period of 180 days of the date of incorporation of the company in such form and verified in such manner as may be prescribed, with the Registrar that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him/her on the date of making of such declaration; and (b) the company has filed a verification of its registered office address with the Registrar of Companies within 30 days of the date of incorporation. In the event of non-compliance of these provisions, the name of the Company may be removed from the Register of Companies.

iv. *Physical verification of registered office*: The registrar has the power to conduct physical verification of the registered office and initiate action for the removal of the name of the company from the register of companies if there is reasonable cause to believe that the company is not conducting any business or operations.

v. *Change in approving authority:* The Act provides that change in period of financial year for a company associated with a foreign company has to be approved by the NCLT. Similarly, any alteration in the incorporation document of a public company which has the effect of converting it to a private company, has to be approved by the Tribunal. Under the Bill, these powers have been transferred to central government.

vi. *Registration charges:* The Act provides companies to register charges (such as mortgages) on their property within 30 days of creation of charge. The Registrar may permit the registration within 300 days of creation. If the registration is not completed within 300 days, the company is required to seek extension of time from the central government. The bill amends this provision to permit registration of charges (i) within 300 days if the charge is created before the date of the

Bill, or (ii) within 60 days if the charge is created after the date of the Bill. If the charge under the first category is not registered within 300 days, it must be completed within six months from the date of the Bill, on payment of such additional fees as may be prescribed for different classes of companies. If the charge under the second category is not registered within 60 days, the Registrar may grant another 60 days for registration after payment of ad valorem fees. If any person wilfully furnishes false or incorrect information or knowingly suppresses material information, which is required to be registered under this provision, he will be liable for fraud under the Act.

9.3.2 SEBI (Listing Obligations and Disclosure Requirements) Regulations

On September 2, 2015, SEBI issued the SEBI (Listing Obligations and Disclosure Requirements), 2015 with the objective of consolidating and streamlining the provisions of the existing listing agreements for various segments of the capital market. The Regulations which came into effect from December 1, 2015, also consists of corporate governance provisions, specified in regulations 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27 and clauses (b) to (i) of sub-regulation (2) of regulation 46 and para C , D and E of Schedule V of the Agreement.

The provisions of the Listing regulations applied to every listed entity that listed its specified securities on any recognised stock exchange(s) on the main board and with some exceptions to the Companies listed on SME Exchange or on institutional trading platform.

The provisions did not apply to listed entities having paid up equity share capital not exceeding Rs100mn and net worth not exceeding Rs250mn, as on the last day of the previous financial year. If the provisions became applicable to a listed entity on a later date, then the entity would have to comply with the requirements within six months from the date on which the provisions became applicable to the listed entity.

Since then, SEBI has amended the LODR Regulations multiple times over the years. Some of the key amendments are highlighted below:

i. According to the amendment on December 22, 2015, the top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) were to include in its annual report the business responsibility report describing the initiatives taken by them from an environmental, social and governance perspective, in the format as specified by the Board from time to time. For companies that were not in the top five hundred listed companies based on market capitalization and companies that were listed on the SME Exchange, it was made voluntary to include the business responsibility report in the format as specified.

ii. According to the Amendment on July 8, 2016, Dividend Distribution Policy was inserted in the Regulations. The top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) were to formulate a dividend distribution policy that was to be disclosed in their annual reports and on their websites. The dividend distribution policy had to include the following parameters:

   a. the circumstances under which the shareholders of the listed entities may or may not expect dividend;

   b. the financial parameters that shall be considered while declaring dividend;

   c. internal and external factors that shall be considered for declaration of dividend;

   d. policy as to how the retained earnings shall be utilized;

   e. parameters that shall be adopted with regard to various classes of shares.

   If a listed entity proposed to declare dividend on the basis of parameters in addition to clauses

(a) to (e) or proposed to change such additional parameters or the dividend distribution policy contained in any of the parameters, it was to disclose such changes along with the rationale for the same in its annual report and on its website. It was made voluntary for listed entities other than top five hundred listed entities based on market capitalization to disclose their dividend distribution policies in their annual reports and on their websites.

iii. On January 4, 2017, the title of regulation 26 "Obligations with respect to directors and senior management" was substituted by "Obligations with respect to employees including senior management, key managerial persons, directors and promoters". According to the amendment, a new sub-regulation was included namely, no employee including key managerial personnel or director or promoter of a listed entity was allowed to enter into any agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of such listed entity. The same was permitted if a prior approval was obtained from the Board of Directors as well as public shareholders by way of an ordinary resolution, with some exceptions.

iv. On May 9, 2018, the SEBI issued amendments to the LODR consequent to the decisions taken at the SEBI board meeting, wherein it had accepted a number of recommendations of the Committee on Corporate Governance chaired by Mr. Uday Kotak. The SEBI has accepted most of the recommendations of the Kotak committee without modification and a few others with modifications.

The recommendations of the Kotak Committee accepted by the SEBI without any modifications include the following:

a. Reduction in the maximum number of listed entity directorships from 10 to 8 by April 01, 2019 and to 7 by April 1, 2020.

b. Eligibility criteria to be an independent director effective from October 1, 2018 shall:

    1. Specifically exclude persons who constitute 'promoter group' of a listed entity

    2. Exclude "board inter-locks" arising due to common non-independent directors on boards of listed entities (i.e. a non-independent director of a company, on the board of which any non-independent director of a listed entity is an independent director, cannot be an independent director on the board of the listed entity)

c. The audit committee shall review the utilisation of loans and/or advances from/investment by the holding company in the subsidiary exceeding Rs1bn or 10% of the asset-size of the subsidiary, whichever is lower. The thresholds shall include existing loans/advances/investments as on April 1, 2019, which is also the date on which this provision shall come into force.

d. The Nomination and Remuneration Committee (NRC) shall recommend the remuneration payable to the senior management. The definition of 'senior management' has been amended. As per the amendment, the persons in senior management shall include all members of the management one level below the CEO / MD / whole-time director/manager (including CEO/manager, in case CEO/manager is not part of the board) and shall specifically include the Company Secretary and the Chief Financial Officer.

e. The Stakeholder Relationship Committee (SRC) shall consist of three directors as members, with at least one being the independent director. The scope and responsibilities of Stakeholder Relationship Committee (SRC) has been enhanced, which shall also include (1) proactively communicate and engage with stockholders including engaging with the institutional shareholders at least once a year along with members of the Committee/Board/KMPs, (2) review of measures taken for effective exercise of voting rights by shareholders, (3) review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent and (4) review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices.

f. The constitution of Risk Management Committee shall be applicable to top 500 listed companies and its role would specifically include cyber security.

g. The NRC, SRC and RMC shall be required to meet at least once in a year.

h. The quorum for a meeting of the NRC and SRC shall be either two members or one-third of the members of the committee, whichever is greater, with at least one independent director.

i. The corporate governance report shall include (effective from 31st March 2019) the list of core skills/expertise/competence of the board of directors as required in the context of its business and sectors for it to function effectively and those available with the board. The report shall include, effective from 31st March 2020, names of the directors who possess such skills.

j. Secretarial audit shall be mandatory for listed entities and their material unlisted subsidiaries incorporated in India. This is in line with the theme of strengthening group oversight and improving compliance at a group level. The secretarial audit report shall be annexed with the annual report.

k. Where a listed entity has large number of unlisted subsidiaries, the listed entity may monitor their governance through a dedicated group governance unit or governance committee comprising the members of the board of the listed entity. The decision of setting up of such a unit/committee or having such a group governance policy would rest with the board of the listed entity.

l. Clear threshold limits, as considered appropriate by the BoD, for determining materiality of Related Party Transactions (RPTs), to be disclosed in the materiality policy effective from April 1, 2019. Such materiality policy shall be reviewed by the BoD at least once in three years.

m. The definition of 'related party' is amended to include all promoters/promoter group entities that hold 20% or above in a listed entity.

n. Effective from April 1, 2019, all material RPTs shall be approved by shareholders through a resolution and a related party would not vote to approve such resolutions whether the entity is a related party to the particular transaction or not. Additionally, all entities falling under the definition of related parties shall not vote to approve the relevant transaction irrespective of whether the entity is a related party to the particular transaction or not.

o. RPTs on a consolidated basis to be disclosed, as per the accounting standards format, on the website of the listed entity on half-yearly basis effective from March 31, 2019. Additionally, disclosure of transactions with promoters/promoter group entities (even if not classified as related parties in the annual report) that hold 10% or more shareholding to be made annually.

The recommendations of the Kotak Committee accepted by the SEBI with modifications include the following:

a. A minimum 6 directors on the board in the top 1000 listed entities by market capitalization by April 1, 2019 and in the top 2000 listed entities, by April 1, 2020.

b. At least one woman independent director on the board of directors in the top 500 listed entities by market capitalization by April 1, 2019 and in the top 1000 listed entities, by April 1, 2020.

c. Separation of roles of non-executive chairperson and MD/CEO to be initially made applicable to the top 500 listed entities by market capitalization w.e.f. April 1, 2020.

d. Quorum for Board meetings (one-third of the size of the Board or 3 members, whichever is higher) in the top 1000 listed entities by market capitalization by April 1, 2019 and in the top 2000 listed entities, by April 1, 2020.

e. Top 100 listed entities would be required to hold AGMs by 31st August each year (beginning from FY2018-19) i.e. within 5 months from the end of the next financial year. Live one-way webcast of AGMs would be required for top 100 listed entities from FY 2018-19.

f. Shareholder approval (majority of minority) shall be required, effective from April 1, 2019, for Royalty/brand payments to related party exceeding 2% of consolidated turnover. The sub-limit of 2% shall be considered within the overall 10% limit to determine material RPTs.

9.4 CAG Audit Report on Central Public Sector Enterprises (CPSE):[1]

The Comptroller and Auditor General (CAG) of India is an authority established by the Constitution, which audits all receipts and expenditure of the central and state governments, including those of bodies and authorities substantially financed by the government. The CAG audit report on CPSE contains significant comments arising out of supplementary audit conducted by CAG and important qualifications made by Statutory Auditors and the impact thereof on profit & loss account and balance sheet. The report also enumerates the status of adherence of CPSEs' to the provisions of the Companies Act, 2013; guidelines issued by SEBI and Department of Public Enterprises (DPE) on Corporate Governance and Corporate Social Responsibility and analysis of the Memoranda of Understanding between Administrative Ministries and CPSEs.

There are 636 CPSEs under the audit jurisdiction of CAG of India as on 31st March 2017. These include 438 government companies, 192 government controlled other companies and 6 statutory corporations. The report dealt with 554 CPSEs comprising 400 government companies, 173 government controlled other companies and 6 statutory corporations.

Fifty seven CPSEs including 19 government controlled other companies were not covered in this report, as accounts of these companies were in arrears for three years or more or were defunct/under liquidation or first accounts were not received/due.

Out of the 406 government companies and corporations whose data has been analysed in this report, 212 government companies and corporations earned profits of Rs1,584bn during FY17, of which, 74.69 percent (Rs1,183bn) was contributed by 49 government companies and corporations in three sectors viz., petroleum, power and coal & lignite. Return on Equity (ROE) in these 212 CPSEs was 13.78 per cent in FY17 as compared to 14.83 per cent in 203 CPSEs in FY16. Out of the companies that earned a profit, 111 companies declared a dividend in FY17 amounting to Rs Rs825bn Out of this, Rs472bn was paid to the government of India, which represented 14.57 percent return on the total investment by the government of India (Rs3,243bn) in all government companies and corporations. Sixteen government companies under the Ministry of Petroleum and Natural Gas contributed Rs349bn representing 42.33 percent of the total dividend declared by all government companies. Non-compliance with government's directive in the declaration of dividend by 20 government companies resulted in a shortfall of Rs546bn in the payment of dividend to Government of India for FY17.

Equity investment in 71 government companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these government companies had become negative to the extent of Rs719bn as on March 31, 2017.

[1] http://www.cag.gov.in/sites/default/files/audit_report_files/Report_6_of_2017_compliance_audit_Union_Government_General_Purpose_Financial_Reports_of_Central_Public_Sector_Enterprises.pdf

The review of Corporate Governance covered 52 listed CPSEs (49 listed CPSEs and 3 CPSEs whose bonds were listed) under the administrative control of various Ministries. Provisions of the Companies Act, 2013 and guidelines of Department of Public Enterprises /Securities and Exchange Board of India on Corporate Governance, though mandatory, were not being complied with by some of the CPSEs listed on the Stock Exchanges. Following significant departures from the prescribed guidelines were noticed:

a. Representation of Independent Directors in 37 CPSEs was not adequate. There was no Independent Director on the Board of Directors of 4 CPSEs. There was no woman director on the Board of Directors of 9 CPSEs.

b. In 23 CPSEs the post of Independent Directors and in 16 CPSEs the post of Functional Directors were not filled in time.

c. There was no whistle blower mechanism in 3 CPSEs. In 7 CPSEs the Audit committee did not review the whistle blower mechanism.

d. The independent directors did not attend Board meeting/Board committee meeting in 29 CPSEs, and the independent directors did not attend General meeting in 18 CPSEs.

9.5 Corporate Governance Initiatives Undertaken by NSE

9.5.1 NSE-IGIDR Conference on Corporate Governance

The NSE-IGIDR Conference on Corporate Governance was held on June 21-22, 2018 in Mumbai, in collaboration with IGIDR, one of the leading academic institutes of India. NSE organises the conference annually with an objective to bring together academics, practitioners and policy makers to debate on the existing and emerging corporate governance issues and generate useful insights. Each conference includes a panel discussion on a topical issue. The topic chosen for panel discussion in this year's conference was 'Indian Stewardship Code: Imperatives and Challenges' - a topic of increasing interest among policy makers. The discussion revolved around the challenges that a country could experience in the process of formulation of the code and its implementation. The panel also explored the scope of having a single code in India across all sectors. The panellists were from diverse backgrounds and included Mr. Amarjeet Singh (Executive Director, SEBI), Mr. Chris Hodge (Director, Governance Perspectives, UK), Mr. Leo Puri (Former Managing Director, UTI Asset Management Co. Ltd.), Mr. Nawshir Mirza (Professional Independent Director), Mr. Sumit Rai (Managing Director and Chief Executive Officer, Edelweiss Tokio Life Insurance Co. Ltd.). The panel discussion was moderated by Mr. Suneet Weling (Managing Director, BNP Paribas).

The other highlight of the conference was the keynote speech, which was delivered by Prof. Jayant Kale, Professor of Finance, D'Amore-McKim School of Business at Northeastern University, Boston. Prof. Kale delivered his speech on the topic 'Corporate Boards: Loyal to whom?' On the second day of the conference (June 22), key findings of some of the selected research papers related to corporate governance were presented and reviewed.

9.5.2 NSE-CFA Roundtable on 'Shares with Differential Voting Rights'

The NSE-CFA Roundtable on 'Shares with Differential Voting Rights' took place on November 22, 2018 at the NSE premises. This was the first collaboration between NSE and the CFA Institute. The CFA Institute is the global association of investment professionals that sets the standards for professional excellence. The NSE-CFA event focused on the advantages and disadvantages of shares with differential voting rights in the context of Indian securities market.

9.5.3 Quarterly Briefings under the Aegis of the NSE Centre for Excellence in Corporate Governance (NSE CECG)

In recognition of the important role that stock exchanges play in enhancing the CG standards, NSE had established a Centre for Excellence in Corporate Governance (NSE CECG) in 2012. This is an independent expert advisory body comprising eminent domain experts, academics and practitioners. The Committee meets from time to time to discuss CG issues and developments. The 'Quarterly Briefing', a note that offers an analysis of one emerging or existing CG issue, is a product emerging from these discussions. In 2018, the Centre has brought out four issues of the 'Quarterly Briefing' on the following topics:

a) The Stakeholder Responsibility of Corporate Boards,

b) Statutory CSR under Companies Act - Stylized Facts and Way Forward,

c) Nomination and Remuneration Committee (NRC) - A Modest Proposal to Improve its Effectiveness,

d) Global Asset Managers and the Rise of Long Term Sustainable Value.

All the issues of 'Quarterly Briefing' can be accessed on the following link in the NSE website: http://www.nseindia.com/research/content/res_NSE_CECG.htm.

9.5.4 'Boards That Lead' Study by Korn Ferry in Partnership with NSE

Korn Ferry in partnership with NSE had organized a discussion with eminent experts on board practices in Indian companies during an event on December 17, 2018. The discussion was held in the backdrop of launch of a recent study by Korn Ferry titled 'Boards That Lead'. The study was based on an online survey related to the practices followed by the Boards of NSE listed companies in two specific governance-related matters—CEO Succession Planning and Selection of Independent Directors, under the principal theme of ways to improve board effectiveness.

10. EMERGE: SME Platform

10. 1 Introduction

The micro, small, and medium enterprises (MSME) sector has emerged as a vibrant and dynamic sector of the Indian economy over the last five decades. Small and medium enterprises (SMEs) play a vital role in developing the local economy, as it provides employment opportunities at relatively lower cost and also industrialisation of rural and backward areas, thereby reducing regional imbalances and increasing equitable income distribution. Because of their small size and entrepreneurial spirit, they are able to adapt to changes quickly. They use innovation as a key competitive strategy, and have high growth prospects. The latest data from CII shows that India's MSME sector has been able to provide employment to over 80 million people through over 51.1 million enterprises producing over 6000 products. The sector contributed about 8% to India's GDP, 45% of the manufacturing output and 40% of the overall exports from India.

Until two decades ago, Indian SMEs were concentrated in the traditional brick and mortar sectors; they were focused more on the local markets, driven by the protection provided through the reservation of sectors. However, over the last decade, there has been a paradigm shift in the profile of Indian SMEs. Today, they are much more diversified in terms of sectors, stage, and geographic locations. They operate in sectors ranging from those that are very traditional to those that are most modern and cutting-edge. Sectors such as IT, IT-enabled services, organised retail, education, entertainment, and media represent the new and modern face of Indian SMEs.

To further advance the development of the MSME segment, the central bank and government have taken various steps to enhance credit flow to the sector. For example, the central bank has set up a Trade Receivables Discounting System (TReDS), an institutional mechanism for facilitating the financing of the trade receivables of MSMEs from corporate buyers, reducing delay in payments. Further, major exchanges, NSE and BSE, have set up a separate trading platform for SME companies, providing higher visibility and reputation, and the opportunity to get better price discovery and fair valuation.

10.2 Regulatory Framework

The SME platform is a regulated platform under the purview of the Securities and Exchange Board of India (SEBI). A new chapter (XB) was added to the Issue of Capital and Disclosure Requirements (ICDR) regulations to define the regulations applicable to the SME platform. According to the SEBI regulations, companies with post-issue paid up capital (face value) up to Rs250mn can raise funds and list on EMERGE, which is NSE's platform for SME listing. Companies with post-issue paid up capital (face value) between Rs100mn and Rs250mn have the option of migrating to the main board.

The listing requirements are simpler on the SME platform. The exchanges' admission and diligence process are intended to help in addressing investor expectations. Post-listing compliance is similar to that for the main board, with certain exemptions in the reporting requirements for SMEs.

10.3 NSE SME Platform: EMERGE

NSE launched its SME platform, EMERGE, in September 2012. Since its launch, there have been 192 listings on the EMERGE platform till December 2018, of which 4 have migrated to the main board, with an approximate fund raising of Rs30bn NSE believes that EMERGE has an important role to play in facilitating the raising of capital by SMEs. There has been enthusiasm for and comprehension of the platform among stakeholders, from entrepreneurs to intermediaries and investors.

There is a promising pipeline of companies that are in the process of coming on board, and the momentum is expected to sustain and strengthen. As the overall trends in the capital markets improve, EMERGE is expected to attract more entrepreneurs and investors.

NSE's EMERGE is a segment within NSE, and it enjoys the benefits of a well-established exchange. The trading terminals of the main exchange, its risk management and surveillance systems, and the existing infrastructure are all available to the SME platform. The members and other intermediaries continue to be the same as those of the main board. In addition to the criteria specified by the SEBI for the eligibility of a company to list on an SME Platform, NSE has specified the following criteria for listing on EMERGE:

- The company should have a track record of at least 3 years.
- The company should have positive cash accruals (earnings before depreciation and tax) from operations for at least two financial years preceding the application.
- The company's net worth should be positive.

10.4 Performance

The average number of trades (monthly) carried out on the platform during the period November 2017 to December 2018 is 21,085. Further, the average daily turnover over the same period is Rs245mn. Table 10.1 presents the details of the trades conducted on the EMERGE platform during the period November 2017 – December 2018, while Table 10.2 gives details of each of the company's performance over the said period.

Table 10.1: Trading Trends in NSE's EMERGE Platform

Month-Year	No. of Companies Traded	Total No. of Trades	Total Traded Quantity (Lakh)	Total Traded Value (Rsmn)	No. of Trading Days	Average Market Cap (Rsbn)	Average Trade Size (Rsmn)
Nov-17	97	32,679	804	8,340	22	78	0.26
Dec-17	107	31,381	753	7,565	20	95	0.24
Jan-18	112	29,494	802	8,776	22	108	0.3
Feb-18	116	20,716	574	4,835	19	104	0.23
Mar-18	126	22,503	752	5,988	19	106	0.27
Apr-18	140	24,423	515	5,790	21	120	0.24
May-18	143	22,631	461	5,527	22	125	0.24
Jun-18	155	19,344	492	4,906	21	125	0.25
Jul-18	156	20,068	547	5,882	22	127	0.29
Aug-18	159	16,807	386	3,869	21	130	0.23
Sep-18	166	17,446	439	3,098	18	122	0.18
Oct-18	178	16,425	496	2,859	21	117	0.17
Nov-18	174	9,739	267	1,614	20	123	0.17
Dec-18	180	11,534	321	2,166	20	125	0.19

Source: NSE.

Table 10.2: Company-wise Trading Details in NSE's EMERGE Platform during Nov 2017 - Dec 2018

Company Name	Total Traded Quantity (Lakh)	Total Traded Value (Rsmn)	Market Cap (Rsmn) (as on Dec 31, 2018)
AAKASH	10	51	169
AARON	9	34	212
AARVI	26	217	615
ACCORD	9	44	94
ACCURACY	23	194	970
ACEINTEG	10	40	180
AGROPHOS	337	1,192	1,014
AHIMSA	1	2	126
AHLADA	17	240	1,835
AIRAN	36	600	3,751
AIROLAM	63	296	521
AISL	86	1,292	649
AJOONI	72	315	133
AKASH	40	336	663
AKG	6	18	194
AMBANIORG	10	66	345
AMJUMBO	18	125	89
ARTNIRMAN	2	5	129
ARVEE	16	98	284
ASLIND	19	50	260
AURDIS	12	35	258
AVG	30	336	764
AVONMPL	2	13	152
AVSL	1	4	196
BANKA	4	44	409
BANSAL	113	1,214	204
BBTCL	26	105	1,015
BCONCEPTS	63	392	381
BETA	53	716	662
BOHRA	59	176	461
BRIGHT	108	464	681
BSHSL	39	352	840
CADSYS	20	190	413
CKPLEISURE	59	171	57
CKPPRODUCT	17	132	134
CMMIPL	124	824	194
CONTI	15	38	82
CREATIVE	8	108	612
CROWN	1	11	87
DANGEE	50	688	2,084
DEVIT	16	124	410

Company Name	Total Traded Quantity (Lakh)	Total Traded Value (Rsmn)	Market Cap (Rsmn) (as on Dec 31, 2018)
DPABHUSHAN	140	781	1,019
DPWIRES	16	126	1,018
DRL	6	13	65
DRSDILIP	26	199	1,130
DSML	27	44	134
E2E	73	572	641
EIFFL	36	477	2,941
EMKAYTOOLS	2	116	2,230
FELIX	31	103	92
FIVECORE	25	332	1,515
FOCUS	5	78	536
FOURTHDIM	105	1,545	1,086
GANGAFORGE	26	56	207
GEEKAYWIRE	21	73	275
GICL	4	10	200
GIRIRAJ	34	370	152
GLOBAL	4	75	372
GLOBE	4	19	371
GODHA	20	61	333
GOLDSTAR	20	66	305
GRETEX	17	24	46
HECPROJECT	2	22	288
HINDCON	45	126	200
HITECH*	46	1,655	2,341
HUSYSLTD	3	11	73
ICEMAKE	180	1,796	1,134
INFOBEAN	50	369	1,657
INNOVANA	27	445	1,398
INNOVATIVE	161	858	449
IRISDOREME	1	9	431
JAKHARIA	11	194	733
JALAN	44	214	313
JASH	48	801	1,212
JETFREIGHT	7	60	262
JETKNIT	11	120	217
KAPSTON	40	379	801
KEERTI	17	98	173
KKVAPOW	0	17	171
KRISHANA	34	129	1,351
KRITIKA	12	42	728
KSHITIJPOL	17	59	261
LAGNAM	33	91	277
LATTEYS	7	47	265

Company Name	Total Traded Quantity (Lakh)	Total Traded Value (Rsmn)	Market Cap (Rsmn) (as on Dec 31, 2018)
LAXMICOT	32	50	223
LEXUS	63	588	454
LIBAS	23	218	656
MACPOWER	77	1,560	1,520
MAHESHWARI	83	1,470	2,832
MAHICKRA	45	200	308
MANAV	13	20	43
MARINE	63	446	1,950
MARSHALL	27	114	480
MBAPL	24	124	1,092
MCL	5	139	893
MDL	29	163	682
MHHL	118	694	447
MILTON	78	190	243
MITCON	18	109	629
MITTAL	55	135	338
MKPL	36	271	313
MMP	51	1,079	3,327
MOKSH	108	515	246
MOMAI**	192	2,823	613
MPTODAY	57	658	171
NANDANI	12	86	93
NARMADA	30	86	151
NITIRAJ	6	40	402
OMFURN	10	21	104
ONEPOINT	219	1,777	898
OPAL	0	1	353
OSWALSEEDS	75	205	404
PANACHE	7	86	540
PANSARI	5	11	360
PARIN	17	107	742
PASHUPATI	17	118	555
PENTAGOLD	37	137	395
PERFECT	17	37	121
PIGL	18	51	82
POWERFUL	18	49	227
PRITI	13	116	249
PROLIFE	3	11	117
PULZ	22	119	101
PUSHPREALM	24	162	250
RAJMET	6	15	155
RELIABLE	50	306	464

Company Name	Total Traded Quantity (Lakh)	Total Traded Value (Rsmn)	Market Cap (Rsmn) (as on Dec 31, 2018)
REPL	31	127	789
RKEC	79	1,046	1,438
RMDRIP	37	231	269
RPPL	14	158	1,235
SAGARDEEP	11	60	876
SAKAR	64	424	890
SAKETH	13	91	347
SANGINITA	26	211	888
SARVESHWAR	57	367	693
SECURCRED	52	1,088	513
SERVOTECH	21	73	419
SHAIVAL	2	5	266
SHANTI	29	115	237
SHRADHA	35	221	608
SHRENIK	445	14,631	11,159
SHUBHLAXMI	27	77	293
SIIL	21	118	261
SIKKO	16	60	193
SILGO	15	53	182
SILLYMONKS	35	485	332
SILVERTUC	91	1,125	1,574
SINTERCOM	133	993	1,501
SIRCA	71	1,281	4,458
SKML	3	16	848
SKSTEXTILE	25	256	134
SMVD	43	194	90
SOFTTECH	37	271	401
SOLEX	19	93	148
SONAMCLOCK	32	119	383
SONISOYA	18	45	123
SOUTHWEST	56	437	603
SPECTRUM	32	207	1,043
SRIRAM	24	42	151
SRPL	72	235	557
SSINFRA	51	180	241
STEELCITY	47	420	973
SUMIT	49	222	799
SUPREMEENG	34	93	649
SUREVIN	12	92	320
SUULD	173	385	624
SVLL	13	71	519
TARACHAND	54	244	409

Company Name	Total Traded Quantity (Lakh)	Total Traded Value (Rsmn)	Market Cap (Rsmn) (as on Dec 31, 2018)
THEJO	1	84	2,033
TIRUPATI	25	129	465
TIRUPATIFL	30	157	252
TOTAL	57	299	413
TOUCHWOOD	35	193	253
TRANSWIND	33	104	139
UCL	16	111	416
UNIINFO	27	134	265
UNITEDPOLY	20	54	159
UNIVASTU	6	40	477
URAVI	16	160	534
UWCSL	5	16	109
VAISHALI	13	73	337
VASA	36	196	154
VERA	9	38	206
VERTOZ	68	1,257	1,089
VINNY	15	63	414
VSCL	55	498	588
WEALTH	3	41	895
WORTH	64	579	1,181
ZODIAC	53	260	168
ZOTA	39	935	4,421
Grand Total	7,608	71,213	1,26,396

Source: NSE.

Note: *The company has migrated to NSE main board on May 7, 2018.

**The company has migrated to NSE main board on December 19, 2017.

10.5 Conclusion

India has the right demographic contours for a young and energetic entrepreneurial community, and there is increasing activity in the start-up space. Today, the success and survival of knowledge-intensive organisations depend on creativity, innovation, and discovery. The market is rapidly changing, and to cope with these changes, there is a rapid increase in the creation of new knowledge, idea generation, and global diffusion. For any organisation to survive and grow, creativity and innovation play a significant role in this changing environment.

NSE is committed to create a credible and vibrant market place to provide an alternate viable option for smaller companies to raise risk capital from informed investors who are looking for opportunities to invest early in promising companies. NSE is continuously engaged in spreading awareness about the platform among investor communities and in generating interest in the platform. NSE has also aligned its admission process to meet the expectations of sophisticated investors to gain their confidence and draw them towards the SME platform.

With continued support from the regulators, the EMERGE platform has the potential to revolutionise the way companies gain access to public equity at an early stage of their development.

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

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

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**
	New members	Trading Member	BMC*	-	-	-	*BMC	50
		Trading & Self Clearing Membership	BMC*	-	10	-	*BMC +10	100
		Trading & Clearing Membership	BMC*	-	10	-	*BMC +10	300
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.

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

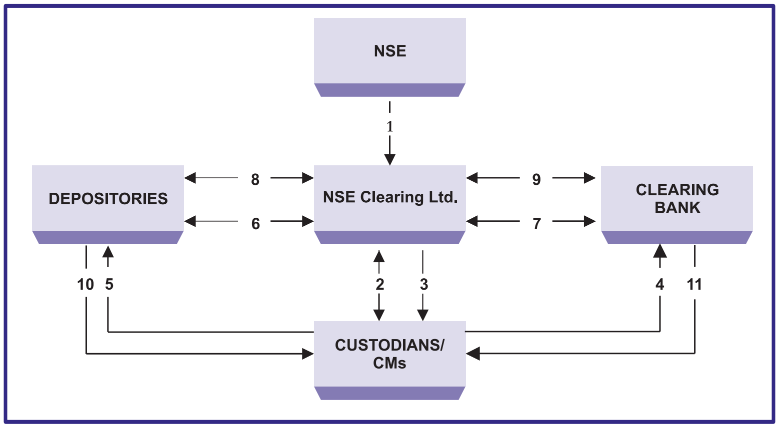
The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nation-wide, anonymous, order-driven, screen-based trading system. In this system, a member can enter the quantities of securities and the prices at which he/she would 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.

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

<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			
	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

Instrument Type	Interest Rate Futures							
Underlying	Futures contracts based on 7.68% Central Government Security having maturity on December 15, 2023	Futures contracts based on 7.72% Central Government Security having maturity on May 25, 2025	Futures contracts based on 7.88% Central Government Security having maturity on Mar 19, 2030	Futures contracts based on 7.61% Central Government Security having maturity on May 09, 2030	Futures contracts based on 6.79% Central Government Security having maturity on May 15, 2027	Futures contracts based on 6.68% Central Government Security having maturity on September 17, 2031	Futures contracts based on 7.17% Central Government Security having maturity on January 08, 2028	Futures contracts based on 7.26% Central Government Security having maturity on January 14, 2029
Market Type	N							
Unit of Trading	Rs 2 lakhs face value of GOI securities equivalent to 2000 units. Members shall place orders in terms of number of lots.							
Quotation	Similar to the quoted price of GOI security							
Contract Value	Quoted price * 2000							
Tick Size	Rs 0.0025							
Trading Hours	Monday to Friday 9:00 a.m. to 5:00 p.m.							
Contract Trading Cycle	Three Serial monthly contracts followed by three quarterly contracts of the cycle March/June/September/December							
Spread Contract	Near-Mid, Near-Far & Mid-Far All spread orders shall be placed in terms of price difference only.							
Last Trading Day	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							
Quantity Freeze	1251 lots or greater i.e. orders having quantity up to 1250 lots shall be allowed.							
Base Price	Theoretical future price of the 1st day of the contract. On all other days, daily settlement price of the contract							
Price Operating Range	+/-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)							
Daily Settlement	Daily MTM settlement on T+1 in cash based on daily settlement price							
Final Settlement	Final settlement on T+1 day in cash based on final settlement price							
Daily Settlement Price	Volume Weighted Average Futures Price of last half an hour or Theoretical price							
Final Settlement Price	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							

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.

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[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.

May prosperity always bloom

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